

***Rural Development and Pre-accession Preparation
in Hungary***

Official and 'side effects' of the SAPARD Programme

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<i>Introduction</i>	2
<i>The context of rural development and pre-accession in Hungary</i>	3
The ‘official SAPARD Programme’ in the Hungarian rural development system	4
Drawing up the SAPARD plan – the ‘official’ programme	4
The ‘side programmes’	7
Consultations, context and programming	9
Environmental issues and rural development	10
Biodiversity and landscape	10
The implementation of environmental directives	11
Water pollution	11
Air pollution	12
Solid waste	12
<i>Analysis and evaluation of the Hungarian National SAPARD Plan</i>	13
Priorities and objectives of the Plan	13
Objectives, eligibility criteria indicators and financing of the measures	14
Agri-environmental concerns	16
Qualitative analysis of the National SAPARD Plan	17
<i>Institutes for implementation and monitoring</i>	20
The ‘official version’	20
Establishing the SAPARD Agency	20
Implementation and the set-up of the Agency	23
Some comments and evaluation	23
<i>Conclusions –evaluation of the effects of EU pre-accession strategy</i>	26
<i>References</i>	30
<i>Diagrams</i>	31
The Institutional System of SAPARD (Diagram 1.)	31
Centralization and decentralization in Hungarian rural development (Diagram 2.)	31

Introduction

The task of this study is to give an analysis of the implementation and effects of the EU's rural development pre-accession instrument SAPARD¹ in Hungary. This task can be simple or rather complicated, depending on our approach. Since the programme has not started yet and no EU resources have been channelled, strictly speaking, SAPARD has had hardly any direct effects on Hungarian rural development. Notable effects are limited to some legislation and a small segment of Hungarian public administration, most importantly to the establishment of a Paying Agency, complying with EU requirements. These effects – we could call them ‘official effects’ - originate from the *acquis communautaire*. They were required by the EU and have been closely overseen by the European Commission. On the other hand, as a result of the preparatory work for SAPARD and for EU accession in general, many other changes and developments can be encountered in Hungarian rurality. They can be observed in the physical environment, various levels of administration, the participation of civil society, the recent boom of local development activities and the perception of rurality and rural problems in general. These effects – we could call them ‘side effects’ - largely originate from the EU's rhetoric on sustainable and endogenous development. However, they were not specifically intended by the EU pre-accession policies and have rather been counteracted than helped or encouraged by the European Commission. Taking a simple approach for this study would mean analysing only the ‘official effects’ of SAPARD. Though, to be able to give a comprehensive and clear picture of the effects of the pre-accession procedure on Hungarian rurality, we take the more complicated approach, exploring and analysing ‘official and side effects’ in parallel.

The research, forming the basis of this study, was commissioned by WWF International and Great Britain's conservation, countryside and environment agencies, under the framework of the second phase of the international collaborative research project: ‘The Nature of Rural Development’. The methodology of the research was fundamentally qualitative, using in-depth interviews, structured conversations and document analysis. In Hungary, some 30 interviews were undertaken with government officials, local authorities, experts and representatives of NGOs and various interest groups. Hungarian and EU legislation, other relevant policy documents and declarations of NGOs and interest groups were also analysed. Concerning some details of the structure of Hungarian rural development, we strongly rely upon and frequently refer to the study written in the first phase of this research (referred as ‘the previous study’ - Nemes 2001).

In the first section we explore some of the background and the context of pre-accession preparation; the drawing up of the Hungarian SAPARD Plan and its lower level counterparts, and place SAPARD in the Hungarian rural development structure. We show the emerging conflicts, official and side effects of the planning procedure. The second section evaluates the Hungarian SAPARD Plan itself, with special regard to its recent modifications. The third section will examine the implementation and the institution building, focusing on the difficulties of setting up the SAPARD Agency. The fourth

¹ SAPARD - Special Instrument for the Preparation of Agriculture and Rural Development.

section offers a qualitative evaluation of the pre-accession rural development process in Hungary, drawing on the content of the previous chapters. Finally, we try to make some suggestions about possibilities for improvement of the SAPARD programme.

The context of rural development and pre-accession in Hungary

According to the conclusions of our previous NORD study (Nemes 2001) some main points of the context of rural development and European accession in Hungary could be described as follows:

Agriculture, rural economy and rural society in general have been the main losers of political and economic restructuring since 1989. Economic and social inequalities have been growing between urban and rural areas, and this tendency is likely to be reinforced by europeanisation. At the same time, Hungary has excellent resources (natural, human, cultural and social) for various types of rural development. In addition, this field is expected to receive significant financial aid after European accession. Therefore, rural development in general, and the preparation for relevant EU policies, is vital for Hungary.

EU declarations and pre-accession strategy communicate rather contradictory messages. While the general rhetoric is based on decentralisation, sustainability and an integrated rural development approach, the requirements, raised by the *acquis* and the pre-accession programmes call for centralisation, economic growth and a more sectoral approach. The main aim of the pre-accession programmes is to increase the accessibility of Central and Eastern Europe, in a physical, economic and administrative-legal sense. The strategy appears to lack a bottom-up approach and tries to smooth the enlargement process for current Member States, rather than for Candidate Countries.

Hungarian rural policy making is outward looking; lacks a well thought out strategy, and is driven by political and budgetary concerns, with special regard to expectations about external resources. The main political influence and most resources are controlled by the Ministry of Agriculture and Rural Development (MARD). The MARD, together with most agricultural producers and other stakeholders mainly support a traditional 'agricultural restructuring-type' of rural development, which complies with requirements of the *acquis*. Integrated rural development has its basis in a small unit of MARD, the Rural Development Unit; the countrywide system of local development associations; and various activities of the civil society. Regional development public administration, though institutionally it is part of MARD, acts as a separate entity and hardly enters into rural development activities. Environmental interests have a rather weak political and social basis in Hungary. However, there is a good network of environmental NGOs with a large accumulation of technical knowledge (a complete plan for an agri-environmental system, for example) and growing political influence. Local authorities and the system of diverse level development councils should also be considered as important actors for rural development.

The ‘official SAPARD Programme’ in the Hungarian rural development system

For Hungary, the maximum amount of SAPARD aid cannot exceed Euro 38 million (appr. HUF 10 billion) annually². In various comparisons, this appears to be a relatively small amount. Compared to other pre-accession programmes, SAPARD stands for approximately 17% of the annual pre-accession aid. It amounts to less than half the value of each of the other two main pre-accession instruments, ISPA³ and PHARE. Therefore, at least in financial terms, there is not a dominating emphasis on agriculture and rural development in the pre-accession strategy for Hungary. Comparing SAPARD to earlier EU aid shows that there has not been a significant increase in the resources, provided for rural development. The annual SAPARD budget is some 30% of the 1990-1994 annual Phare budget, for example. Concerning domestic policies, SAPARD amounts to some 4.5% of the overall annual budget of MARD, which includes funds for agricultural production in addition to regional and rural development. There are four funds in the Hungarian rural development system, especially designed to help some designated, backward rural areas. The aggregate budget of these three small funds amount to more than three times as much as the maximum annual budget available for SAPARD. Within this, the Targeted Support for Rural Development (VFC)⁴, which is planned and implemented simulating the ‘rural development type’ measures of SAPARD, has a budget of 50% of the proposed SAPARD Programme⁵. Similarly, the experimental Hungarian Agri-Environmental Programme (launched in 2002) in itself has almost a quarter of the budget of the whole SAPARD programme. Consequently SAPARD, even if it were implemented, would not carry significant financial resources for Hungarian rural development.

Though, concerning the institutional and implementation system, SAPARD is significantly different from previous programmes and from the other pre-accession programmes (ISPA and PHARE). It uses the concept of subsidiarity, thus financial resources have to be administered domestically. For this, a paying agency, complying with EAGGF Guarantee rules, had to be established in Hungary. From former domestic programmes SAPARD differs in its complexity. Although it does not bring completely new objectives into the policy arena, it manages various sectors (agricultural, rural development and agri-environmental measures, for example) in a common framework of programming and implementation. In the domestic arena, different sectors have separate programmes, managed by different departments or units.

Drawing up the SAPARD plan – the ‘official’ programme

The Hungarian government was first informed about the SAPARD Programme by the EU in early 1998. In that spring we had general elections and changed the government

² This amount is only in case of full spending, providing that during implementation we can fulfill all the requirements. This rarely happens with EU programmes, even in experienced Member States.

³ Instrument for Structural Pre-accession Aid

⁴ In Hungarian: Vidékfejlesztési Céltámogatás VFC

⁵ This programme was designed similarly to the rural development section of SAPARD and in 2002 it already has more budget than SAPARD would have had for the rural development measures.

consequently, the first Hungarian reaction was delayed by almost a year. The Ministry of Agriculture incorporated the former Regional Development Department. In December, the Rural Development Unit (RDU) was set up within MARD. Its first task was to co-ordinate the writing of the National SAPARD Plan (NSP). The commission to do the work was given to an independent research institute VÁTI (the Urban Planning Institute), where a small unit was set up to fulfil this task in January 1999. With the contribution of experts from various universities and research institutes a first draft was delivered within four months. Initially the programme writers somewhat misunderstood the message of the EU. They started to prepare the NSP according to the Leader approach. Consequently, the first draft essentially focused on 'Article 33 type' measures⁶ and even intended to further decentralise EU resources. The right of money allocation, new administrative capacities and institutions would have been given to the regional level. The Plan was based on experts' knowledge and the first results of an earlier, county- and regional level programming procedure⁷. Through the latter, economic interest groups, local authorities, credit unions and some NGOs could have some indirect effects on the content of the Plan. However, the lack of time strongly limited this possibility.

This first draft was heavily criticised by various interests. At first, the 'agricultural lobby' was alerted. The Economic Department⁸ of MARD opposed the RDU and commissioned another research body, the Agricultural Research and Information Institute (ARII), to write an alternative NSP. The new plan heavily focused on agricultural restructuring, and dismissed 'rural development measures' completely. It intended to run the programme from the centre, using the traditional county level institutional system of MARD. The Plan was criticised, amongst others for being too centralised; simply channelling EU resources into domestic schemes; and for favouring large and rich agricultural businesses and co-operatives to small producers in need. After several months of internal lobbying and bargaining a compromise was reached in October 1999. The Plan finally included both agricultural and rural development measures, giving more than 60% of the available resources to agriculture at the start, and reducing its share to 40% towards the end of the programme (although, this only occurs if the agri-environmental measure is counted under the rural development section). According to declarations and our interviews, none of the domestic stakeholders were fully satisfied with this result.

The other opposer of the 'first draft' was the European Commission. In November 1999, at a screening meeting, representatives of the RDU presented their views on a rural

⁶ In the Hungarian plan these are: Economic diversification, rural infrastructure, vocational training and the renewal of villages. In the following we refer to these as 'rural development measures', to differentiate them from the 'agricultural measures' which are: agricultural investment, marketing and processing industry and support for producers' groups.

⁷ In late 1998, MARD launched a planning programme, providing EURO 24.000 to each of the 19 counties and the 7 regions, as a support to write their rural development programmes. Theoretically it was an open bid, where consortiums of research institutes, local authorities and financial companies could compete for the commission. However, as the advertisement for the bid was published on a Friday, with the deadline set for the next Thursday, clearly, the commissions were decided by the Ministry, rather than the competition. The quality of programming was quite diverse. Though, in the case of some regions and counties (e.g. South-tranadubia) it was based on wide consultation with economic and social partners and NGOs and finally provided valuable information for the National Sapard Plan.

⁸ Within MARD this unit deals with production subsidies and with the financial side of strategic planning.

development direction, which is programme based and would highly decentralise SAPARD in Hungary. The EU officials informed them that they misinterpreted the concept of the programme. They stated that SAPARD has to be project based, more agriculture orientated and controlled by the Central Government. There were also some disagreements over the agri-environmental component of SAPARD. By the time of the programming procedure, Hungary already had a national agri-environmental programme, accepted by the government and the Parliament. However, in several subsequent years, this programme was dismissed from the national budget at the last minute. At some point in the above-described intra-ministerial argument, the agri-environmental lobby entered the bargaining, and for a while seemed to have a chance to grasp a significant share of the SAPARD resources for agri-environmental aims. However, this was not realistic under the domestic political conditions, and the European Commission also expressed its disagreement with such an allocation of the resources, since SAPARD was intended for 'pilot' agri-environmental measures only.

Before the submission of the Plan a range of consultations with other ministerial departments, interest groups and some NGOs was organised by MARD. In the case of agricultural measures, mainly various networks and institutions of MARD and economic interest groups (such as the National Association of Food-processors) were involved. Concerning environmental aspects, various authorities (Soil Protection Authority, Environmental Protection Authority) were consulted. An inter-ministerial meeting was also organised, where other ministries could reflect on the Plan, though it was rather close to the end of the programming period. Nevertheless, after this meeting, as a result of an initiative of the Ministry of Environment, the 'Impact on the environment' was included within the criteria for assessment. According to interviews, environmental NGOs and civil organisations were less involved or not consulted at all. An exception is the agri-environmental measure itself. This was heavily based on the Hungarian Agri-environmental Programme (HAEP), which was prepared before SAPARD through a wide partnership and consultation with NGOs and experts. In fact, the SAPARD measure aimed to introduce some of the special schemes of the HAEP in pilot areas. The long preparation of HAEP and the involvement of environmental NGOs can be considered as the lead up this part of SAPARD, however, in connection with the final set up of this measure (the choice of pilot areas, or the implemented measures), there was no further consultation with NGOs.

Rural development NGOs were consulted through an umbrella organisation, the Hungarian Rural Parliament, but this consultation was also very limited, occurred at the last minute and did not have much effect on the final product⁹.

⁹ According to an interview, undertaken with the chair of the Hungarian Rural Parliament, they received the Draft Plan on 8 December 1999 (a couple of weeks before its submission to the EU), and were allowed only 4 days to discuss the Plan with their 400+ member organisations. Also, the text of the plan was already being translated into English by MARD at the time. Nevertheless, the Rural Parliament gathered many comments and presented a 20 page document with detailed criticisms and suggestions relating to the Plan. According to their opinion, these comments were mainly ignored at that time. However, when the EU sent its request for amendments in April, it contained very similar criticisms. The Rural Parliament did not receive further information, and though it offered its contribution and special expertise for further work, it was not consulted again about later versions of NSP.

At the end of 1999, the Plan was submitted to the EU. It was formally accepted, although amendments were required by the EU, especially for: environmental data; motivation; the situation of disadvantaged groups; and the coherence of the whole programme. After two more versions, in November 2000, the Star Committee finally accepted the Hungarian SAPARD Plan.

The ‘side programmes’

In Hungary, besides the ‘official SAPARD’ Plan and Programme, a range of other domestic policies and plans exist. These will never receive financial support from SAPARD. Nevertheless, they are, or at least used to be called, ‘SAPARD’ and they are still somewhat connected to it in the mind of most rural development actors in Hungary. Contrary to the ‘real SAPARD’, these programmes have had significant effects on Hungarian rurality, channelled and mobilised resources and brought new issues and interests into the rural development arena. They also popularised an integrated approach to rural development and prospective elements of the rhetoric of EU rural policies.

The Rural Development Unit of MARD originally intended to base SAPARD on local participation and integrated, multi level programming. The basic component of this plan was a system of local development associations (LDAs), similar to Local Action Groups in Leader, covering least developed rural areas. For this, LDAs and some local institutions had to be set up or reinforced and assisted in developing their integrated programmes. To catalyse this process, in April 1999, RDU launched a programme for voluntary rural micro-regions¹⁰, with a budget of some 1 million EURO (Mohácsi 2001). Each micro-region could receive altogether some 10 to 20 thousand Euros for successively undertaking a SWOT analysis, then formulating a strategy and finally an operative local development programme¹¹. Although the application form was complicated¹² and had an extremely short deadline (a few weeks only), it generated a large interest and expectations in Hungarian rurality, and probably became the most influential programme for rural development. More than 200 associations applied for the programme, covering 2500 settlements and almost the entire area of the country. Associations of local authorities as legal entities were eligible for support. Some of these had existed for years, others were freshly set up for this programme. In the end, all applicants received the resources, though, they were ranked into three groups, according to the quality of their partnership and application. Representatives of each micro-region

¹⁰ In Hungary there is a centrally organised system of ‘statistical micro-regions’, based on the historical structure of public administration. This system has been used as the basis for data collection, domestic policies and all sorts of designation. The ‘voluntary micro-regions’, or ‘SAPARD micro-regions’, are usually smaller and often have significantly different boundaries. There is frequent confusion between these two categories, even in domestic debates.

¹¹ Today the RDU denies that their intention was to raise expectations of a ‘bottom-up SAPARD programme (Loncsár 2001). However, initially they were called ‘micro-regional SAPARD programmes’ by all relevant actors, including officials of MARD. It was stated in 1999 at a public forum that those villages which do not participate in the micro-regional planning are likely to be left out of the whole SAPARD programme.

¹² The application form and procedure was set up by academics, rather than bureaucrats. They required a large amount of information about the prospective micro-regions, much of which was not readily available even for local authorities.

participated in a standardised rural development training programme, organised by RDU and VÁTI. During the following two years most strategic and operative programmes were prepared. Micro-regions were encouraged to create wide partnerships; and write ambitious, long term, integrated development programmes, based on local resources and external aid, sustainability and local participation.

Besides training and planning support, two other influential programmes have been implemented by the RDU. The first provides the wages and some expenses for a rural development manager in every micro-region. This programme was launched in 2000 and has had a positive effect, ensuring at least one, trained, full-time employee working on development issues in 200 rural localities. The other programme became well known as the 'pre-SAPARD' programme. The 'real SAPARD' was late, though the Hungarian share was already designated in the national budget in 2000. The domestic share for the three rural development measures in SAPARD amounted to some 5.6 million Euros. From these resources the RDU launched an experimental programme, implementing the rural development section of the National SAPARD Plan. Despite a limited budget, 343 projects (an average of 1.5 projects/micro-region) were supported throughout the country. The programme could neither stand for all rural needs, nor for the overdue SAPARD. However, it facilitated the testing of the Plan and the Hungarian SAPARD institutions; and kept the interest of rural actors awake. The pre-SAPARD has been repeated in the following two years, with similar conditions, but with a growing budget¹³.

The RDU's policies have been criticised by DG Agri of the European Commission and various domestic interests. As it soon appeared, SAPARD, even if implemented, could only have covered a small fraction of the financial resources needed by the micro-regional programmes. One of the main criticisms made by the Commission and by domestic agricultural interests was that the programme for the 'development of micro-regional plans' made unfeasible promises and raised too high expectations. At the same time, the MARD and RDU failed to work out sufficient strategies to fulfil aspirations and avoid the disillusionment of local rural development actors, since pre-SAPARD was only a 'drop in the ocean'. Another criticism was that the 'voluntary village associations' due to the tight deadline, had to be set up too quickly at the beginning. The resulting regions are not always the most appropriate for development purposes, nevertheless, as a consequence of long term planning and common projects, it is hard to quit or join an association. The quality of the policy documents; evaluation and monitoring of applications; and trainings provided by the RDU were also criticised by some experts. Another criticism was that these local payments could have been open to political abuse, channelling resources according to political preferences, rather than rural needs.

Even so, the described policies have had a huge influence. Similarly to the Leader Programme, the 'micro-regional SAPARD' generated a lot of enthusiasm, mobilised human capital and local resources and raised high expectations in rural Hungary. People started to think and talk about their local problems and possible solutions. Networks and partnerships were set up, local actors learned to deal with 'EU type' vocabulary and procedures. Everything started to move, as it hardly had happened before in Hungarian

¹³ The budget was HUF 4.5 and 5.5 billion subsequently, which means that in 2002 the budget was more than half of the expected EU support.

rurality. The reasons for this were manifold, with expectations of significant external (EU) resources being presumably one of the most important ones. Most of the 'SAPARD micro-regions' have had their integrated development programmes ready for a year or two now, each with worked out project proposals. They have invested much time and enthusiasm and their own resources on this. Nevertheless, for most of them, only a couple of their projects are likely to have been supported so far. This situation could have serious consequences for the future. For many actors, these RDU policies were the first occasion to meet EU-type rules and rhetoric, or to engage in partnerships and local development activities. If resources do not arrive and expectations remain unfulfilled, these people might become disillusioned and be less ready to participate in future domestic or EU programmes.

Besides the 'micro-regional programmes', MARD continued to run the earlier county and regional level programming. Old plans were updated and reformed according to the requirements of SAPARD and made some input to the later versions of the National Plan.

Consultations, context and programming

In connection with drawing up the National SAPARD Plan, we could conclude the following:

There was a wide range of consultations with professional agricultural organisations. At the same time, other ministerial departments could only comment on a rather advanced draft of the Plan. Various environmental authorities were consulted, though civil organisations and NGOs, with special regard to environmental ones, were less involved or left out of the preparation of the Plan. Political and budgetary fights, especially in year 1999, were rather disadvantageous for co-operation and the preparation of the plan, causing delays and inconsistencies in the result. On the regional and micro-regional level, SAPARD Plans were usually based on broad consultation with economic and social partners, though these had rather limited and indirect effects on the National Plan. Traditional agricultural interests were the most influential, though the EU and the 'rural development lobby' also had significant effects on the result. Nevertheless, none of these actors were completely happy about the process or the end product. Environmental concerns and actors received little attention, though relevant environmental legislation (such as the Nitrates Directive and the Hungarian National Environmental Legislation) must be applied during the programme. Concerning agricultural measures, the main concern was competitiveness. Relevant interest groups and institutions were consulted. However, critiques maintain that the interests of small producers were mainly overlooked, and most support is likely to go to large producers and the processing industry.

The main domestic fights during the preparation of the Plan occurred over the division of the budget between agricultural and rural development measures. The agricultural lobby finally came out on top. However, through the 'pre-SAPARD programme' though, based on domestic rather than EU resources, SAPARD until now has become far more influential in the field of rural development than in agricultural restructuring.

Main conflicts with the EU were about accountability and transparency; and about whether SAPARD should be a project based, more sectoral policy, concentrating on the building of central institutions and procedures, accountability and transparency; or if it

should take a more decentralised and integrated approach, concentrating on local participation and building capacities not only at the central but also at lower levels. The European Commission won the battle. The best feature of the programming process was that it represented a strong force for a much-needed reform of the Hungarian administration. Various departments had to co-operate with each other and become aware of EU requirements. The worst feature of programming was that political and budgetary interests tended to overrule professional arguments and the acute needs of Hungarian rurality.

Environmental issues and rural development

Environmental issues can be considered as constraints as well as resources for rural development, depending on the approach taken. For a development philosophy, building on intensive, industrial agricultural production and processing industry, national parks or environmental rules that protect natural assets are obstacles in the way of making profit. For a sustainable, or integrated development approach they can even be the main resources for a particular area. This section considers the main facets of environmental protection from this perspective. It focuses on the main opportunities they offer for rural development, as well as the constraints they pose.

Biodiversity and landscape

According to environmental experts, the most important asset that Hungary can offer to the EU is in our outstanding natural values, flora, fauna and landscapes. In most of the current EU countries the modification of natural systems started earlier and has caused more profound changes than in the Central Eastern European region. It resulted in the drastic reduction of biodiversity. A country in which these negative effects are not so advanced can enrich the EU. Hungary, which is situated in the Carpathian basin, is a region under various climatic influences. Apart from the Atlantic effects from the North, the Mediterranean ones from the South and the Continental effects from the East, there is a micro-climatic influence from the Carpathian Mountains and the Alps. These have all contributed to the evolution of an extraordinarily rich mosaic of fauna and flora. Another factor of this mosaic-like feature and of the rich biodiversity is that during the last glacial period this area was at the edge of the ice sheet. The natural processes as well as the several thousand years of human activities have formed the present state of Hungary's nature. There is an outstanding natural wealth here, compared to much of Europe. Approximately 42 thousand animal species and 2200 higher plant species are native to Hungary. Hungary can boast several species and communities that are not native outside the country, as well as some others that are found in neighbouring countries, but not in the region of the present EU. Many of our outstanding natural values are connected to the unique open grasslands of the Great Hungarian Plain and other plains of the country.

It is predicted, that the cultivation of approximately 1-1.5 million hectares of low quality arable land, which is 11-16 % of the total area of the country, will be discontinued during the next few years. Since the introduction of flood-control and water regulatory projects of Hungary, dating back to the 19th century, this will be the largest change in the land-use and the landscape of the country. Its effect on nature and the ecosystem of Hungary will be huge. This has to be taken into consideration by rural development policy as well as accession negotiations with the EU. Another issue is that, many environmental

regulations in Hungary (concerning the use of wetlands, for example) are stricter than EU rules. We should keep these rules after accession, to protect our natural habitats. Hungary has a range of landscapes and natural elements, which can only be found here. These treasures are to become common values of the Union and they are a primary resource for sustainable rural development, if we can preserve them for the future.

Threats to biodiversity - pollution, air, water, and solid waste - can be classified according to whether its source is domestic, or comes from outside of the country. Hungary is a small country, but has seven neighbours, some of which are rather poor, and have under-developed environmental protection systems and policy. As a result, we have many environmental problems connected to our neighbours. The wars of the last decade in the Balkans, besides causing economic and political problems for the countries, also had some bad environmental impacts.

The implementation of environmental directives

Concerning the Birds and Habitats Directives, in Hungary they will only come into force at the time of accession (currently proposed for 2004). At that time the government will have to present a prospective list of Sites of Community Interest (SCI). A consortium¹⁴, supported by Phare, and commissioned by the Nature Conservation Authority (NCA) has prepared a first version of this list in 2000-2001. This list was circulated amongst national parks by NCA. Nevertheless, it was made confidential, to prevent disadvantageous 'last minute exploitation' of these areas by financial institutions. As a consequence, NGOs (apart from the one that participated in the consortium) have not been consulted or even informed about this topic at all.

Water pollution

'The most severe problems arise from water pollution. Some 95% of our surface water comes from outside Hungary. There are frequent problems of pollution originating from upstream mines and industrial plants, mostly from Romania, but also Ukraine. Most of the pollution spills are diluted and have no visible impact. Two significant cases, the extreme cyanide and heavy metal discharges in January and March 2000 in Romania, showed that unsafe technology can cause serious transboundary damage to Hungary's ecosystem. In the Tisza River over 120,000 tons of fish died. Initially, scientists were shocked and thought that the river damage was irreversible, and a negative mood was broadcast by the media. Luckily the river is still living, due mainly to the fact that the pollution happened in January, in the most inactive period of the year. Cyanide causes rapid and serious damage but as it is highly soluble in water, it goes away with the river flow and is diluted. The heavy metals discharged in March in Baia Borsa, Romania, did not have an acute impact, but heavy metal ions make long-lasting chelates with the mud of the riverbed. Due to bio-accumulation, the damage done to plants and animals will appear years later. The Tisza River gave the impression of a healthy, rich river in the spring and summer of 2000. However, estimating the time of ecosystem recovery, there are three unknowns. First, what species will occupy the ecological niche left by the dead fish? Second, what will be the impacts of bio-accumulation of heavy metals? Third, what will be the impact of secondary effects, such as increases in insect populations in 2000?

¹⁴ This consortium includes a research institute, a NGO and a business.

The pollution of the river caused economic, social and cultural problems for the backward and very rural area of the Tisza valley. The important traditional fishing sector was severely damaged and the marketability of fish decreased. Also, the last couple of decades have seen a great development of sustainable tourism in this area. Hundreds of thousands of people came every year from all over Europe, to see the wildlife, enjoy water sports and the culture, food and hospitality of the region. This rural tourism provided thousands of local people with a livelihood. After the pollution the number of tourists significantly decreased in year 2000, and only partially recovered in 2001.

Some 80% of domestic pollution of our surface waters comes from municipal sewage. The reason for this is that 40% of the municipal sewage goes untreated to the rivers. The second largest polluter is manufacturing, that account for 19% of the pollutant pressure on the rivers. The third is the energy sector and water supply with 0.6%, and agriculture is only the fourth, being responsible for 0.5% of all river pollution. The treatment of municipal sewage has to be solved as an EU requirement. The EU, through the ISPA offered some resources for this. However, this money can only be spent on large sewage treatment plants, which is disadvantageous for rural areas with a scattered settlement system, for environmental as well as for economic reasons¹⁵. From a sustainable rural development perspective, the building of small local plants, preferably using environmental friendly technology, would be much more advantageous, and also much cheaper.

Air pollution

During the last decades, air pollution has been reduced considerably in Hungary. There are a range of reasons for this: the starting of a nuclear power station, which provides 40-50% of the national electric power supply; a decrease in coal use; new technologies in the field of mineral oil processing; decreasing industrial energy use as a result of an economic recession and structural changes in the 1990s; and the introduction and spread of unleaded petrol and cars with catalytic converters. Hungary's air quality is still unsatisfactory in several respects. From the total area of the country 3.9 % is regarded as 'polluted', and 9.3 % as 'moderately polluted'. Almost half of the country's population lives in these areas, which barely comprise more than 13 % (12 264 sq. km) of the terrain. However, these areas count as the most urbanised in the country, with the exception of the North-Transdanubian industrial area. Therefore, air pollution does not currently loom large among issues considered as constraints upon rural development.

Solid waste

Beside municipal sewage, *municipal waste* is the other large unsolved problem in Hungary. The proportion of solid waste has increased considerably during the last decades. Only 30 % of the 2700 communal landfills more or less meet the environmental standards. According to estimates the capacity of existing landfills at our disposal is suitable for some 5 years. Especially in rural areas a lot of the rubbish is simply taken and

¹⁵ If these areas want to participate in these programmes, apart from the treatment plants, large networks of sewage pipes also have to be built, which is not only time consuming and costly, but can also cause serious environmental damages.

thrown away in forests, rivers or on open fields. This means a significant constraint for rural tourism and for rural development in general. *Agriculture* produces some 25-28 million t/year of biomass, which can be potentially utilisable in agriculture and forestry. The food industry produces an additional 5-6 million t/year of partly utilisable wastes. Another unsolved problem is getting rid of carcasses, especially from the small-scale family farms. The former system that used to solve this problem disappeared with the state run co-operatives. The successor is very expensive and not very effective. Therefore, masses of dead animals are disposed of at landfill sites, rivers or in forests, causing not only aesthetic and environmental, but also public health problems. The amount of *industrial waste* has decreased since 1992. The majority of waste - about 10.1 million t/year - is not hazardous waste. Some 0.7 million t/year of this is utilised within plants and 7.2 million tons is handed over to businesses for disposal. The rest is stored by the producers. In this way some 106 million tons has been accumulated, of which 38 million tons could be utilised. Some areas of the abandoned industrial and mining activities, and former polluting and toxic waste producing areas are still not resolved. An additional problem is that these areas are often amongst the most poor and least developed ones. There are also 300 surface mines, whose rehabilitation has not yet been resolved. These problems carry significant constraints for the sustainable rural development of the areas concerned.

Analysis and evaluation of the Hungarian National SAPARD Plan

There are various confusions about what to call ‘the SAPARD Plan’ in Hungary. As a result of the above described programming procedure, apart from the National Plan, there are seven regional, 19 county level and over 200 micro-regional rural development plans, all titled as some sort of SAPARD Plan. However, the latter ones have little or no relevance for the EU pre-accession programme itself. Therefore, in this section we only examine the National SAPARD Plan (NSP). On the other hand, the accredited NSP contains nine measures altogether, which is eight development measures and the compulsory ‘technical assistance’. Nevertheless, as a result of the difficulties of setting up the required institutional system, the Hungarian government is only trying to accredit the Paying Agency for three development measures at present (see details in the next section). The implementation of the remaining five development measures is rather ambiguous. They would have to wait for at least another year or more from now before they can be launched. Considering the approaching date of accession, there might be too little time for the implementation of these (or at least some of these) measures. In this section, we examine the full programme, though, in detail we concentrate only on those measures, which are more likely to be implemented.

Priorities and objectives of the Plan

According to the NSP, the three main strategic priorities are:

- Increasing the competitiveness of the agriculture and processing industries;
- Focusing on environmental protection aspects;
- Enhancing the adaptation capabilities of rural areas.

Seven specific objectives are also listed¹⁶. Four of these are directly related to the competitiveness of the agri-food industry; one to environmental protection; and only two of them can benefit both farmers and the non-agricultural rural population. Job creation in rural areas is also considered to be important. Through the implementation of the measures of the SAPARD plan, 25,000 jobs are expected to be stabilised (maintained and created) in agriculture and the food industry. Alternative employment possibilities are not quantified. In general, the main emphasis of the plan is on the agricultural sector, specifically focusing on the production of pork, poultry, beef and animal fodder. Other objectives, such as rural diversification or environmental protection seem to have secondary importance. This complies with the practical approach, taken by DG Agri and the EU SAPARD Regulation¹⁷, though, it is somewhat in contradiction with the objectives of the NSP and the overall philosophy and rhetoric of EU rural development. Agricultural measures do not have geographical limitations; all areas are eligible. Rural development measures are limited to those settlements, which have a population density of or below 120 capita/km². These settlements cover some 84% of the surface and 38% of the population of the country, embracing the least developed rural areas.

Objectives, eligibility criteria indicators and financing of the measures

The measures and their share of the funds (concerning the whole six year period) is as follows:

¹⁶ The special objectives are:

- increasing the market efficiency of agricultural production;
- establishment of the conditions of food safety, hygiene, environmental protection, animal welfare;
- increase of the proportion of products complying with the requirements for higher quality and increase the rate of products with higher level of processing;
- reduce the burden on the environment;
- setting up producer groups, which help the producers to enter the market under better conditions;
- job preservation and creation in rural areas;
- enhancing the capabilities of rural areas to retain their population.

¹⁷ Objective b. of the SAPARD regulation is: solving priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the Candidate Countries." (EC 1999/2, Article 1).

Table 1. Measures of the Hungarian National Sapard Plan

Sectoral classification of measures	Codification number of measures	Title of measures	Share of measure within budget	All resources of measure 1000 EUR	EU funding %	National public funding %
Agricultural measures						
	111	Investments in agricultural holdings	28,46 %	100.809	75	25
	113	Improvement of vocational training	1.79 %	6.330	75	25
	114	Improvement of the processing and marketing of agricultural and fishery products	20.53 %	72.722	75	25
	116	Agri-environment	4.27 %	15.106	75	25
	117	Setting up of producer groups	7.35 %	26.040	75	25
Agriculture (total)			62.40 %	221.007		
Measures in rural development						
	1305	Renovation of villages	9.06 %	32.093	75	25
	1307	Economic activities providing alternative income	15.46 %	54.769	75	25
	1308	Improvement of the rural infrastructure	11,98 %	42.438	75	25
Rural development (total)			36.5 %			
Technical assistance			1.10 %	3.847	75	25
Grand total			100.0 %			

According to this table, almost 60% of the resources serve agricultural restructuring, one third is devoted to other sectors of the rural economy and less than 5% is for agri-environment. This reflects the relative importance of the various objectives of the Plan, as we described above. The EU co-financing rate is 75% for all measures, though the ratio of public expenditure and the beneficiaries' own share varies considerably between and even within measures. Agri-environment and producer groups receive 100% support;

rural infrastructure and renewal receives 75%; investment in the processing industry gets 40%; and investment in agricultural buildings or machinery receive only 40% and 30% respectively¹⁸. As a result, the EU support in proportion to the total eligible cost amounts to only 37.8%. The upper limit of support for a single project or a single beneficiary also varies greatly between different measures. Agricultural investments of a particular company or producer, for example, can be supported by up to EUR 1 million altogether, from which a single project can receive a maximum of EUR 160,000. In contrast, for investment in the field of rural development (diversification, or creation of local markets, for example) the upper limit of eligible support is only some EUR 20,000. For public rural investments (building of roads and other infrastructure, renewal of public buildings, etc.) the upper limit for a single project is also EUR 160,000.

The justification and main objectives of each measures, similarly to the preamble of the NSP, emphasise the importance of the creation of jobs; diversification; support for young people; maintenance of the rural population and improvement of the environment. Nevertheless, details imply a somewhat different picture. The most important indicators for the evaluation of the applicants, especially for agricultural measures, are usually: economic viability; growth of competitiveness; the rate of the investment's return and the number of jobs created. They concentrate on competitiveness, supporting first of all already competitive companies, or those which can easily become competitive. Agricultural measures, again, do not support synergic effects and the applicants' connections with other SAPARD measures or domestic rural policies¹⁹. Rural development measures are somewhat different in this sense. They all strongly support the applicants' connections with other measures, rural policies, local- and regional development programmes. There are also some important qualifications and restrictions amongst the eligibility criteria of various measures. For example, under the EU rules the processing industry measure 'retail level production' is not eligible for support.

Agri-environmental concerns

The words 'environment' and 'environmental' appear 239 times in the document. Environmental protection is also one of the main objectives of the Plan. Despite this, the Plan's commitment towards environmental issues does not seem to be very strong. The Plan contains a five-page description of environmental issues affecting rural areas. It is part of the chapter of the SWOT analysis, but is, however, rather separate from the chapter and the rest of the document. It lists and shortly describes (but does not analyse) the main issues (problems and opportunities) concerning soil, water, flora and fauna. Erosion, acidification and shrinking of natural habitats are mentioned as the most relevant threats, which is comparable to our analysis in the previous chapter. Nevertheless, one of the greatest environmental threats, land abandonment is hardly mentioned in the document. On the other hand, in the SWOT analysis of rural areas, the first weakness to

¹⁸ In the case of the latter two the Hungarian Plan goes to 10 and 20% below the EU offer respectively, giving less support to the farmers than would be allowed by the SAPARD Regulation. However, according to interviews, this low level of support was an 'unofficial requirement' from the Commission, necessary for accreditation of the national plans.

¹⁹ An exception is some support for connection with the agri-environmental programmes.

be mentioned is that the 10% of the land area has been 'withdrawn from cultivation due to protection' (MARD 2000, pp. 40.). This is typical for the whole document. With the exception of the agri-environmental measure, environmental protection is generally treated as an important EU requirement, which is rather an obstacle for agricultural production than a potential advantage for rural development.

Correspondence with adequate domestic environmental legislation (which is mainly in compliance with EU rules) is compulsory for all projects. In addition, environmental protection, environment-friendly practices or compliance with EU rules in this field appear among the objectives of most measures. Nevertheless, examining the assessment criteria, besides the agri-environmental one, only two more measures (agricultural investment and processing industry) have a direct positive connection with the environment²⁰. Under the agricultural investment measure, compliance with the EU Nitrates Directive is also a specific requirement. Also, in the measure for the processing industry, the compliance with a range of EU environmental and food safety regulations is specifically required. However, environmental assessment is not a criteria for any of the measures. Based on all these, an obvious contradiction between the objectives and the expected results of the programme can be anticipated.

The agri-environmental measure itself is strongly based on the Hungarian Agri-environmental Programme (which had been only a proposal until this year). This measure has far the longest description and justification within the NSP²¹. Objectives, various work packages and indicators are described and justified in a very detailed and precise way. Objectives, eligibility criteria, monitoring and the whole measure complies with EU rules and practices. However, offered incentives do not seem to be very generous (28-166 EUR/ha/year). This measure is supposed to be a pilot scheme, implemented on selected farms in 15 small rural localities²², having only 4.2% of the SAPARD budget. Consequently, it could not address significant environmental and agri-environmental problems²³, but would remain a small experiment, even if fully implemented.

Qualitative analysis of the National SAPARD Plan

Analysing the NSP, one could say that MARD learned the lesson from DG Agri. The original intention of the makers was to write a territorial, programme based, synergic plan; concentrating on sustainability, human resource development and local participation. In contrast, the final NSP is a rather sectoral, project based document; focusing on classical, intensive and competitive agriculture; mostly lacking social aspects; and providing little support to other sectors of the rural economy. It misses the

²⁰ In practice this means having some connection with the Hungarian Agri-environmental Programme or the agri-environmental measure of SAPARD, which is worth 5-10% during the evaluation of the project proposal.

²¹ This measure has 17 pages in the plan; the rest of the measures have 7 pages on an average.

²² The localities were chosen by experts, from the list of Hungarian Environmentally Sensitive Areas. The choice was based on connections and human resources. In general, those localities were chosen where the programme organisers had connections with local people.

²³ Together with the domestic share the measure only had 10% of the yearly amount which would have been required to launch the Hungarian Agri-environmental Programme at that time.

chance of combining various rural policy areas under the framework of a single programme, and reaching positive synergic effects in certain rural localities. Instead, most of the plan handles different measures, even different projects completely separately. It does not build on already accomplished achievements, such as micro-regional programmes, existing partnerships, or the experience of local and regional level officials.

The three rural development measures work somewhat differently. They show much more coherence amongst each other, although they are almost completely separate from the rest of the Plan. On the other hand they have very limited resources altogether, and cannot be expected to have a great effect on Hungarian rurality. Concerning economic activities, alternatives to the agri-food sector are especially poorly supported. Comparing this to expectations raised in rural localities by SAPARD at the beginning, the programme is likely to cause disappointment to local actors. Civil society and rural development NGOs heavily criticised the NSP for a variety of reasons. The most important were for: being too agricultural; lacking social aspects; and repeating out-dated EU agricultural policies, instead of joining the new and progressive rural development direction. These criticisms seem to be valid, and they question the basic content and philosophy of the Plan, which had been strongly influenced by the EU.

Nevertheless, the Plan can also be criticised from the inside, without questioning its basic principles. The main effect of SAPARD implementation is likely to be capacity building in various sectors and at various levels, preparing the institutional system and the people for working with EU rules and absorbing more significant aid after accession²⁴. However, if it is not fully implemented, then it cannot fulfil even this purpose. The sectors that are the most likely to be left out (agri-environment, rural diversification, etc.), are those with the least developed institutional and procedural systems and the least experience of central policies, and those therefore, that would need the most preparation.

Those three measures, which are likely to be implemented in the near future²⁵, do not bring much innovation into the Hungarian rural development arena. They will duplicate (or in some cases complement) similar domestic schemes. At the same time, domestic policies are easier to approach and sometimes even pay better than their counterpart would under SAPARD. A telling example could be the investment in agricultural machinery that is described below.

Box 1 Limitations of the investment in agricultural holdings measure

Beyond fulfilling all eligibility criteria, producers have to bind themselves to the same activity (continuously fulfilling all EU requirements) for at least five years. If they fail to fulfil any EU criteria during this time (they cannot maintain created jobs, for example) then the support, plus interests and a fine, can be withdrawn from them at any time. They have to demonstrate that their business is viable and is at least close to being competitive. At the same time, they have to prove that they could not do without EU support. SAPARD only pays subsequent to the completion of the project, therefore they have to have the cash for buying the required machinery or equipment. On top of this, SAPARD

²⁴ This seems to be the main objective from the EU's side.

²⁵ These are: agricultural investment; processing industry; rural infrastructure.

cannot be combined with any other public support, therefore they cannot have an advanced payment from another source. To obtain a sufficient bank loan is also difficult for several reasons. Short-term interest rates are still rather high in Hungary (well over 10%), so a loan would be expensive, further reducing the value of the support. On the other hand, banks require some security. For most disadvantaged rural producers the only sufficient security is their homes. However, when they apply for the SAPARD support, the Paying Agency also requires a safety deposit, and puts a mortgage on the applicant's property. Moreover, this has to be a mortgage on the first right, according to the financial rules of SAPARD. Under Hungarian circumstances, a bank would rarely give a significant commercial loan, having only a second-right claim to the applicant's property. On the top of everything, SAPARD support is not even very high, only 30% of the whole investment, and machines have to be obtained according to the strict purchasing rules of EAGGF²⁶.

A vicious circle seems to be closing in relation to the measure described above. If one does not have money, it will be extremely difficult to approach the SAPARD support²⁷. In contrast, under the domestic support scheme, 20-25% of any investment in machinery can be applied for, without going through complicated procedures, accepting future obligations or putting a mortgage on one's property. Moreover, this money can be combined with other public support (regional development schemes, for example). These together can go well over the 30% provided by SAPARD. As a consequence, small producers without significant financial and bureaucratic capital are most likely to stick to the domestic schemes. According to interviewees, most resources under this SAPARD measure are likely to go to large, intensive and competitive agricultural companies and entrepreneurs. This direction is also supported by the very high upper limit of EU resources, which can be given to a single company²⁸. Similar results can be expected under the measure for the 'improvement of the processing and marketing of agricultural and fishery products'. First of all, this measure, contrary to its name, only supports investment and not marketing activities in Hungary. This means that, for example, the development of a common marketing strategy for special local or regional products, which could benefit all the producers of a locality, will not be eligible for support. The eligibility for investment support is also rather restricted, since 'retail level industry' will not be eligible at all. According to this, and to the strategy of MARD, most of the resources of this measure will go to a few large processing companies, having county-wide importance. Its main purpose will be to make the necessary investment for the compliance with hygiene and food-safety requirements of the acquis.

²⁶ Above a certain value anything can only be purchased only through an open tender, giving equal chance to all EU companies. This means more costs, time and possibilities to fail.

²⁷ An other angle of the same problem: according to the opinion of a county level official of MARD, who has been working on domestic investment schemes for years, if all rules of the Plan will be applied, it will be impossible to spend the money at all. According to the eligibility criteria and the indicators (which favour young farmers, less favoured areas, small companies etc.) in his county there are less than 10 producers who could apply and hope to get a good score during the evaluation procedure. Nevertheless, these producers would not have the required own share for buying any expensive piece of machinery.

²⁸ This limit, EUR 1 million, is by far the highest amongst all measures, and in the Hungarian circumstances it is a very significant amount of money for any agricultural company.

These two agricultural measures cover some 50% of all SAPARD resources, and even more, some 80% of those resources, which are likely to be spent in the near future²⁹. As a consequence, according to the above argument, most SAPARD resources will be received by large producers of the agri-food industry. Apparently, the main explanation for choosing these measures for accreditation in the first round was because money can be spent here more easily and quickly than under other measures. Reasons for this are: there is much experience of investment support in the Hungarian system; and it is easier and more transparent to administer a few large projects than many small ones.

Institutes for implementation and monitoring

As the SAPARD Programme has not yet been launched in Hungary, we can only explore the plans for implementation, the process of institution building and the difficulties surrounding it.

The ‘official version’

According to the NSP, the implementation of the programme will be carried out through the following institutions.

The tasks of the *Competent Authority* will be performed by the *National Fund*. The *Managing Authority* is the *Ministry of Agriculture and Regional Development (MARD)*, which is responsible for the contents of the measures, the call for tenders and decisions taken on the basis of the evaluation of the tender documents. The *SAPARD Secretariat (managing authority)*, established at the Department of European Integration within MARD, does the overall management of the Program. The MARD also hosts the *Central SAPARD Agency* with its seven regional bodies. The tasks of the *Certifying Body* will be performed by the *State Audit Office*. The State Audit Office will certify the SAPARD Agency. The Competent Authority and The National Authorising Officer, who is the collaborator of the Ministry of Finance will inform the Agricultural Directorate of the European Commission on the result of the pre-accreditation procedure and certification. The *National Authorising Officer* supervises the *National Fund*, which is at the State Treasury that belongs to the Ministry of Finance. The National Fund receives the SAPARD aid from Brussels, similarly to other pre-accession support such as PHARE and ISPA, and registers it as a separate account. The following diagram (1) describes the connections between different institutions of the system.

Establishing the SAPARD Agency

The proposed institutional system is quite complicated. However, most institutions already existed in the Hungarian system and only had to be slightly modify to fulfil EU

²⁹ This percentage can even be higher, since 12% of the resources, used under a specific measure, can be transferred from the unspent resources, originally allocated for other measures. In case of a large measure this can be a significant amount. According to MARD’s position, all unspent amounts will be added to the measure on agricultural investment.

requirements. The most difficult task was to establish the SAPARD Paying Agency (the Agency hereafter), which had to be created from scratch.

After the submission of the first version of the Plan, MARD started to establish the Agency. The original plan was to build it on the base of the Agricultural Intervention Centre (AIC), which was the paying agency for traditional Hungarian agricultural policies³⁰. For the accounting procedures of the whole NSP and the implementation of the agricultural measures of the Plan, 15 people were employed in the central office in Budapest, and four people in each of the 19 county offices of MARD. The management and implementation of the rural development measures was the task of the Rural Development Unit of MARD. To fulfil this task they also established seven regional offices (three employees each), called Regional Rural Development Offices (RRDOs). This means that some 110 people received training and started to develop the required procedures at a reasonably early time (well before the acceptance of the final version of NSP), which was welcomed by the EU. However, in late summer 2000 the whole process was stopped and started again from the beginning.

This was the consequence of high political lobbies within MARD realising the future importance of the Agency. SAPARD has small resources and a small administrative capacity, compared to MARD. However, after accession the Paying Agency is likely to evolve into the National Paying Agency for the CAP, which is one of the largest and most influential administrative bodies in most Member States. When political leaders in MARD became aware of this, they did not wish to allow the development of such an institution outside the Ministry³¹. As the next step, they wanted to fully integrate the Paying Agency into the ministry, making it simply another unit within the bureaucratic system. However, this contradicted the relevant EU requirements and was impossible due to internal disagreements. Finally, the 'new Agency' was established in September 2000, as a special unit of MARD. It is part of the ministry, but not part of the hierarchy, being subordinated directly to the minister.

The new start caused significant delay of the development³². The 'new central office' employed 26 people, who had to be trained again (only three came over from the 'old agency'). County offices were also terminated and seven regional offices appointed, each employing 11 people, most of whom were also new employees. The new system intended to cover all activities connected to the SAPARD implementation, therefore the role of RDU and its regional offices within the Programme became rather questionable. By that time MARD hoped to accredit the Agency in the following spring. However, next May an EU audit-monitoring group found a very low level of preparedness (they estimated it to be 5%) of the Hungarian institutional system. Main objections were:

An insufficient number of employees in the Agency (particularly in internal audit), and lack level of independence from MARD;

³⁰ This is a governmental body, though, it is independent from MARD or any other ministries.

³¹ A full-size national paying agency would employ several thousand people and disposes of billions of Euros. In other words, finally it could have become a very significant competition for MARD.

³² An EU audit group in November 2000 evaluated Hungary to be the least prepared for SAPARD amongst the Candidate Countries. This was quite a change, since a year earlier Hungary was said to be the best prepared.

An unclear relation with the regional offices;

Too many measures needing to be accredited.

The low level of staffing was the consequence of limited resources, already noted by the EU and the chair of the Agency several times. The second problem was a special case. The regional offices were organised within the respective county offices of MARD. The employees got their salary from the county office, but their tasks came from the Paying Agency. This resulted in many conflicts and very low efficiency. The EU communicated that in its current form the Agency did not have any chance to be accredited, therefore changes had to be made to the whole system. Changes were also urgent, because of the possible loss of the 2000 SAPARD budget³³.

The Agency and the SAPARD Secretary, with the help of an EU twinning expert, prepared several suggestions for the solution of the problem. The final decision was based on spending the most money, in the shortest possible time, with the lowest administrative costs. For this, those measures were chosen which were likely to include larger, quickly implemented projects. Since SAPARD only pays after the completion of the projects, the three investment measures seemed to be the most appropriate to be chosen (see above). The number of employees in the central office was more than doubled, while the number of staff of the regional offices was raised by 50%. At the same time, the status of the regional officers was cleared up; they became subordinated only to the central Agency. Regional Rural Development Offices were, for a while, planned to be integrated into the agricultural offices, but this was finally successfully resisted by the RDU³⁴. At the same time, they lost their role in the SAPARD programme. During the summer the minister and the chair of the SAPARD Agency were both changed, causing only a short disruption of the work this time.

In December 2001 an EU auditing group came again, found much development, and evaluated the Agency to be nearly ready for accreditation. Another 3-4 month preparation was suggested before the start of the accreditation procedure. Nevertheless, they found serious problems at the National Authorising Office (it is structurally 'too far' from the Agency and does not have an acceptable internal audit system). Several auditing visits followed, the last one being on the first week of September 2002. The Agency was found to be ready for accreditation, though the NAO was still not prepared. According to our last interview, the applications will be launched before the accreditation of the whole institutional system. Like this applications can be made and the selection procedure can be started this Autumn. The final accreditation of the national institutions is expected in mid-November, and the first amounts to the beneficiaries should be paid in January 2003. In the case of further delay, Hungary could lose the whole SAPARD budget for 2000-2001. The rest of the measures, according to official declarations could be accredited early next year. As every 'first deadlines' in this story were exceeded by at least a year. There is no indication that this will be an exception.

³³ At the time all 2000 money would have had to be spent before the end of 2002. Later this date was postponed to 2003, which is the current deadline for spending the 2000-2001 budget.

³⁴ These regional offices were needed for the domestic VFC programmes, which were already implemented at that time.

Implementation and the set-up of the Agency

The following diagram (2) shows the current structure of the Agency. It has 166 employees, 104 of which work in the regional offices. For 2003 this number is planned to be raised to 335 altogether, 231 of which will be at regional level. The measure for 'processing industry' has a somewhat separate implementation. Since here only a few specialised, large, county-wide projects are expected, this measure will not be administered regionally at all. Instead, for this measure a central office, having similar structure to the regional offices, was set up in Budapest within the Paying Agency.

According to the officials' opinion, once the system is ready and accredited, there is 'not much else to do'. Regional offices will accept the applications, check them for eligibility, put data on the computer and send everything to Budapest. The central office has two main departments. One is responsible for the implementation, the other for accounting. Besides these, two other important units should be mentioned. The Co-ordination Unit keeps contact with the regional offices and the applicants. The Internal Audit Unit is responsible for transparency and accountability. The applicant's data, coming from regional offices, is fed into the computer based indicator system, which ranks it and gives the results straight away. This should be followed by contracting and after the completion of the projects and on-the-spot monitoring (done mainly by the regional offices) payments can be transferred. However, second and third on-the-spot checks can follow during the subsequent five years. Larger investments can claim their costs back twice a year.

Some comments and evaluation

The SAPARD Regulation seems to be a subsidiary and decentralised programme at first sight. As opposed to previous EU aid schemes, it decentralises resources from the EU level to the Candidate Countries, letting them chose from a menu of rural development measures and both design and implement their own programmes. Nevertheless, the implementation of the programme turned out rather differently to this notion. Several 'check-points' were built into the system, which allowed the European Commission to keep much of the control. Three of these can be identified: the accreditation of the National SAPARD Plans (has been completed by all applicants more than two years ago); the accreditation of the Paying and Implementing Agencies (not fully realised by any countries, though partly accomplished by most of them); EU monitoring and evaluation of the programmes (still to come for all Candidate Countries).

For the *programming period*, the EU applied the rules and the general approach of the EAGGF Guidance section, however, with considerable restrictions. In Hungary (as well as in some other countries) this period and its consequences brought the most (and mainly positive) effects for rural areas. As we described above, partnerships were created, collective thinking about the future began and a change of perception of rural problems and their possible solutions was initiated at various levels. Nevertheless, the whole process was controlled by the Commission, having both positive and negative effects, from the viewpoint of integrated rural development. Strong EU support for agri-environmental and rural development measures and forcing partnership and co-operation upon bureaucratic organisations could be mentioned as main positive effects of EU

control. Strong limitations on subsidiarity and decentralisation could be mentioned as negative effects on the other hand. Even though SAPARD was a decentralised programme, subsidiarity had to end at the stage of central government, keeping extremely tight control on lower (regional, local) levels, and depriving them from any sort of decision making power concerning the Programme³⁵.

The first 'check point' was already difficult to pass. However, the second proved to be even harder. Concerning the building of central institutions and detailed procedures, the general attitude of the Commission changed from the approach of the Guidance to the Guarantee section of EAGGF. Everything grew more bureaucratic; requirements became more detailed and difficult to fulfil. The whole process was less transparent for the Candidate Countries. Since the rules had not been written down beforehand, they could change and be bent according to the wishes of the auditors. With the words of a Hungarian official speaking, about the SAPARD Agency: '...they [the EU] did not want offices with people working in them. They intended to eliminate human decisions in the process, wanted to have a huge living computer, made up of people, buildings and machines.' Under SAPARD, CEE countries have to apply the rules of the Guarantee section of the EAGGF (transparency, accountability) in a programme, which is otherwise rooted in the Guidance section (multi-annual programming, partnership, etc.).

To fulfil the requirements of such a mule-like programme caused great difficulties for the Candidate Countries, which none of them has been able to fully overcome so far. Although most countries have now accredited their paying agencies, rural development has had to pay a large price, as all countries reduced their programmes to 3-4 measures, keeping the larger and simpler agricultural measures and missing out most of the rural development ones³⁶. The agri-environmental component of SAPARD, for example, is not likely to be implemented in any countries in the near future. This means losing the notion of integration and bringing little or no innovation to the field of rural development. Candidate Countries also have serious problems with implementation, spending the money and reaching members of the rural population other than large agricultural producers and food-processors. More innovative measures, which are more difficult to implement progress even more slowly or have been left out completely. SAPARD had a strong focus on central institutions according to the EU regulation. This emphasis was reinforced during building these institutions and procedures for implementation. As a consequence, a great proportion of the features of the programme, coming from the Guidance section (diversity, programming etc.) was sacrificed in order to fulfil the

³⁵ One could say that the EU simply did not want to pour money into what was thought to be the 'black hole' of CEE rurality. Consequently, on the financial side, tight bureaucratic control and built in safeguards were kept by the Commission to avoid any risk of losing resources.

³⁶ For example Bulgaria, which was first to accredit its agency, had to reduce the number of its measures from twelve to three, keeping 'investment in agricultural holdings'; 'marketing and processing industry'; and 'rural diversification'. Two of these are traditional agricultural measures, complementing or substituting domestic policies, rather than bringing new perspectives into the rural development arena, and the third is almost impossible to implement. On the other hand, according to a Bulgarian official, with the current rules it is almost impossible to reach the small and medium size enterprises (SMEs), under the 'agricultural investment measure', for example. During the first eight months of the programme they ran 64 projects under this measure, only four of which concerned SMEs, the rest being large agricultural producers.

bureaucratic transparency and accountability requirements of the Guarantee section. Therefore, though many agencies were partly accredited, none of the CEE countries could fulfil the rules completely and pass this 'check point' successfully. It is possible that the expectations of the European Commission were unrealistic in this respect.

The Hungarian bureaucracy was one of the least efficient amongst all Candidate Countries at accrediting the Agency. This was partly due to the EU influence, and partly to political fights, partly to bureaucratic incompetence. Many problems which later occurred in connection with the Paying Agency, the low number of employees for example, was already well known in autumn 1999. The Agency should have been developed in parallel with the evolution of NSP to be able to start the programme in time, or with only a small delay. Nevertheless, at the beginning, political leadership did not realise the importance of the programme and institution building, therefore did not provide significant financial resources. Later, when these issues came to the centre of attention and became important, political fights hindered the process. Even last year's developments can be credited to political considerations and were probably the result of trying to 'clear up' before the next elections.

An important question is: what will be the use of all this. The main product of the programme is most likely to be the SAPARD Paying Agency and other related administrative capacities. The bill for all this, which is comparable to the SAPARD budget, has to be paid by Hungary. Costs of the establishment and running of the SAPARD institutions, already amount to millions of Euros, before receiving a single Cent from the EU budget. However, it will be worth it if it prepares the Hungarian system for future EU aids. However, there are some doubts even about this. According to the current proposals, CEECs, including Hungary, will become Objective 1 areas after EU accession. This implies several consequences. Firstly, most EU aid will be delivered by the Structural Funds, instead of the CAP. Secondly, in the current EU system, in Objective 1 areas, most of the Rural Development Regulation is subsidised from the Guidance section anyway. If these rules remain in force, a paying agency, based on Guarantee rules, will not have much task in Hungary as a new Member State. On the other hand, if rural development will be implemented through Guarantee rules (or the current rules for SAPARD), then it will put further limitations and restrictions on the development of backward rural areas in CEE, even in comparison to less developed areas of the current EU³⁷.

In its current form the SAPARD programme fails to tackle the significant socio-economic problems of rural areas or to maintain cultural and natural diversity. Its main objective and most likely effect is the creation of a strong central bureaucratic institution (the SAPARD Paying Agency), which complies with EU rules and will be able to manage EU funds in the future. It will create access (administrative-legal, physical and economic) for policies, capital and goods expected to arrive from the European Union, to Hungary and other CEE Countries. SAPARD seems to have maintained the objectives, structure and procedures of the current CAP in a top-down, centralised manner, without quality changes of the system. Pre-accession Policies are likely to reduce the shock of the

³⁷ Rural development measures in Objective 1 areas remained implemented under Guidance rules, because the need for more flexibility, advanced payments and a generally more integrated approach in these areas was recognised by policy makers.

coming eastern enlargement for the current Member States, rather than for the new applicants of the European Union.

Conclusions –evaluation of the effects of EU pre-accession strategy

The EU communicates two rather different - one could say contradictory - messages through the pre-accession policies. One of them is centralisation and the other is decentralisation (see figure 3). These, together with congruent domestic forces result in parallel processes of centralisation and decentralisation in Hungarian rural development.

The EU force for *centralisation* can best be captured through the requirements of the *acquis communautaire* and conditions of the pre-accession policies. These are most concerned with such principles as transparency and accountability, which are general assumptions of those EU policies traditionally funded by the Guarantee section of the EAGGF. To fulfil these requirements Hungary, amongst other Candidate Countries, has had to Europeanise its rural development system, building new legislations and institutions, principally at the central level. External pressure however, corresponds with *domestic* forces also acting for centralisation. In Hungary, political centralisation has had strong traditions way back in history and has been seen as an answer in recent years too. Our politicians are willing to accept nearly any conditions for financial aid and they can also use EU requirements to legitimate domestic reforms, centralisation, and the development of central bureaucracy. Bureaucratic institutions, especially under instable political circumstances, can also have a strong will for centralisation themselves.

As a result of domestic and international forces, a strong Europeanisation of rural development policies can be observed in Hungary. This means European-type legislation, the development of strong central bureaucratic institutions and a fundamentally top-down style of rural policies in general. In today's Hungary, politics, economy and to a certain extent almost every area of life is preoccupied with issues related to the accession of the country to the EU. Various actors try to adapt to the sometimes impossible or meaningless requirements, hoping to stay in competition for the limited resources offered from above. The main concern and driving force is usually therefore, the money. At the national level this means the resources offered by the EU pre-accession measures. This has two important consequences. One is the lack of a well thought out, integrated development strategy. The reason for this is quite logical. The money is given by the EU and distributed according to a somewhat ambiguous strategy. The EU offers the 'sustainability ideology' (decentralisation) and growth oriented programmes³⁸ (centralisation) together. This means two sets of values and two different policy directions, reinforcing the chaos in the young transitional democracies. These are trying to adapt their economy and society to an ambiguous European model, though the requirements of EU programmes are often inconsistent with domestic needs and an overall strategy. This can result in ad hoc decisions, driven by external forces, rather than

³⁸The resources of current and prospected programmes are significantly reduced compared to the existing CAP. The reason is that CEE countries will not receive 'compensation payments' of the CAP that presently account the majority of the EU budget.

a coherent inner logic³⁹. The other consequence is the predominance of competition, instead of co-operation in the development arena. If the main driving force is to access the money, then the actors of each different level (countries, micro-regions, single enterprises) and different sectors are all in competition with each other for those limited resources, offered by central programmes. This makes co-operation, which is a crucial factor for sustainable development, much more difficult, if not impossible.

The other message carried by the pre-accession strategy, however, reinforces *decentralisation*. This is communicated by political declarations, the general rhetoric and some examples, such as the LEADER Programme. This builds on a different selection of EU principles, such as integration, subsidiarity, local participation and sustainability, traditionally more characteristic of the Guidance rather than the Guarantee section of the EAGGF. Some of the requirements (such as partnerships, pre- and post evaluations, programming, etc.) and the EU rhetoric on sustainability and endogenous development (CARP) had significant effects in Hungary. Positive examples, especially the Leader Programme, also had a great influence. Initially our politicians and bureaucrats tended to misunderstand the message of the EU, and took the rhetoric of the programmes seriously (in the case of the national SAPARD Plan, for instance). Consequently, central policies sometime became more endogenous-oriented than they were intended or expected by the EU.

On the other hand, civil society found much support in the pre-accession process. The EU rhetoric on sustainability and participation and the positive examples of Leader, provided a 'ready made' ideology for local development activities and a greater involvement of non-governmental actors in development matters. The Hungarian civil society used this opportunity and today represents probably the strongest *domestic* force for the decentralisation of power and resources in the development arena. Many NGOs gain increasing power and influence on national, regional and local level. Local development associations and their umbrella organisations have gained high level political representation. Apart from the civil society, another internal force for decentralisation is its necessity. The complexity and the extent of current and expected rural problems of the country does not allow for the waste of local resources or for the sole application of central policies. There clearly is great demand for a sustainable rural development approach, which can utilise Hungary's rich natural, cultural and social resources in order to solve social, economic and environmental problems in the countryside.

As a consequence, ideas of sustainable rural development are spreading amongst Hungarian politicians, bureaucrats, organisations and the public. This process results in the reinforcement of an endogenous approach and the *decentralisation* of some of the power, resources and competencies in different arenas or rural development. Within MARD, there is a section, although a small one with certain limitations, which is responsible for rural development and supports the ideas of sustainability. Partnerships

³⁹ Although, there are also some counter-examples: originally Hungary wanted to use ISPA funding for the reconstruction of the country's motorway system. However, ISPA funding, as every EU aid, was threatened with long delays, because of the bureaucratic requirements and strong financial control. Therefore, in order to carry out urgent road developments without delays, the government changed its strategy. It financed road building primarily from domestic resources and used ISPA funding for railway reconstructing, which was considered to be less urgent for the country.

were set up and a range of strategic planning documents has been prepared all over the country. No doubt, many of these plans were produced first of all to fulfil EU requirements, and the different level of planning often did not build on each other. However, the need for planning and co-operation has been realised and a lot of work has been done on this field. The National Agri-environmental Plan, though it is not yet implemented represents a great improvement in policy development and a great possibility for environmental/nature protection and agricultural restructuring in the near future. People's perception of environmental issues is also changing gradually, in favour of a sustainable approach. The recently developed system of micro-regions, although characterised with some ambiguities, together with the rural parliament and their international connections possibly represents the most progressive element of sustainable rural development.

Centralisation and decentralisation are, therefore, parallel processes in current Hungarian rural development, originating from international and domestic forces and circumstances. These two processes are both needed. In fact, they should be co-ordinated and should complement each other. Without central planning and implementation it would be impossible to build a large-scale infrastructure (motorways, sewage systems, etc.) that is considered to be one of the main requirements for catching up with Western economic development⁴⁰. Without central institutions and bureaucracy, it is impossible to approach the greatly required development aids and programmes expected from the EU. Therefore, the construction of the *central system of rural development* (institutions, networks, procedures, etc.), which is strongly supported by SAPARD, is obviously essential, as it has been recognised by the EU as well as domestic actors. However, the construction of a *local system of rural development* (again, institutions, networks, procedures but of a different kind) is not less important. According to worldwide experience, infrastructure, capital investment or economic development in itself can rarely solve socio-economic or environmental problems. Moreover, 'development' and 'globalisation' can easily be the primary sources of these problems. Channelling of resources into the areas of highest need and utilisation of endogenous resources are necessary to solve these problems. These can only be achieved through an endogenous development approach. For this approach local networks, trust, mutual relationships, local development institutions, associations, and the empowerment of local actors are essential. These cannot be created centrally, but they can be greatly helped with the provision of financial resources, technical assistance and a generally supportive environment. The SAPARD fails to recognise these needs.

Observing EU pre-accession policies and core domestic policies, one could note that their intention is to concentrate almost solely on building the central components of the rural development system. Central institutions were regarded as more important or urgent to develop. EU rhetoric and requirements and some domestic circumstances contributed to the construction of local components of the system, but their systematic and centrally supported development was postponed and regarded as less important. This was despite the fact that local institutions cannot be expected to be easier or quicker to develop than central ones. Therefore, instead of co-operation, central and local elements of the rural

⁴⁰ Though, according to environmentalists and alternative economists, this type of development if uncontrolled, poses a threat for our environment, economy and society.

development system currently seem to be in strong competition for the limited resources in current Hungary. In other words, exogenous and endogenous elements of the system are not sufficiently co-ordinated; therefore, they cannot form an effective integrated rural development system.

The future of Hungarian rural development depends on how co-operation might be improved between the two approaches. This, similarly to the current situation, is likely to be influenced by domestic and international circumstances. If the co-operation does not improve and core policies remain ultimately of a top-down, exogenous nature in the long term, the realisation of the 'CAP scenario' (see above) can be expected. This would mean following the way of current Member States, intensifying our agricultural production, and reproducing many mistakes of previous and current CAP regimes. Sustainable rural development would have rather limited resources, since many endogenous resources would remain un-utilised, and exogenous ones could not be delivered efficiently enough. In the end, Hungary would remain a lagging follower of Western European countries at least concerning its rural sector. If an integrated approach to rural development is applied, and the resources could be delivered through a complete system of central and local development institutions; a very different scenario (see 'CARP scenario' above) could be realised. In this way Hungary, amongst other CEECs, could become a testing ground for the principles of sustainable, integrated rural development. The rural economy could be diversified, endogenous resources utilised and central (EU and domestic) aid delivered more efficiently. Hungary would not repeat previous mistakes of the CAP and could make a shortcut, aiming at the philosophy and objectives of the CARP. This outcome, giving a legitimate basis for a European-wide spread of these policies, would be likely to turn out to be advantageous for all the rural areas of an enlarged EU.

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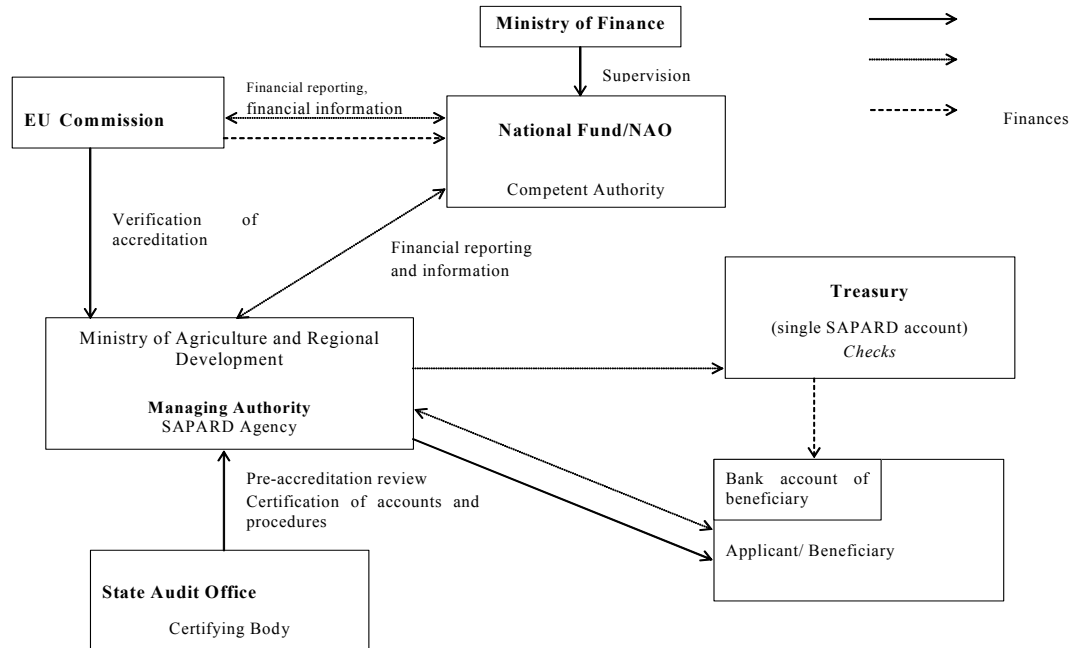
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Diagrams

The Institutional System of SAPARD (Diagram 1.)



Centralization and decentralization in Hungarian rural development (Diagram 2.)

