REVIEW

POSSIBILITIES FOR RURAL DEVELOPMENT IN HUNGARY BETWEEN 2007 AND 2013

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SUMMARY FINDINGS, CONCLUSIONS, RECOMMENDATIONS

Hungary can benefit from the resources of the European Union's Structural Funds, inter alia the European Agricultural Guidance and Guarantee Fund (EAGGF) from 1st January 2004. However the preparation has started much earlier, in 2000. Nowadays, the use of the Structural Funds within the field of rural development is progressing well, and simultaneously the phasing-in for the next budgetary period has already been started.

Substantial changes will be made to the financial mechanism of rural development in the 2007-2013 period. This field will receive much greater emphasis due to its separation from the structural funds and the creation of its own financing mechanism: the European Agricultural Fund for Rural Development (EAFRD). This single fund will resolve the problem of the previous periods, namely the fragmented system of providing support to rural development. The newly established EAFRD also implies some challenges to be faced by Member States, including Hungary. These challenges mainly derive from the current regulation of rural development, which is based on the Structural Funds. The challenges affect the following fields: strategic planning, establishment of the institutional background, and the operation of the monitoring system. National systems related to EAFRD need to be established with the fewest possible changes in comparison to the Structural Funds.

As part of the preparations for the EAFRD the national strategy of financing rural development, i.e. the National Agricultural and Rural Development Strategy for 2007-2013 has been developed and published for partnership consultation. This strategy in its present form serves as a good basis for starting cooperation in the planning phase, however, it also raises many questions that need to be discussed.

The dual objective of the present study is, firstly, to highlight the challenges Hungary has to face during the introduction of the new financial mechanism for rural development and to provide alternative solutions for the questions raised. Secondly it seeks to point out the weaknesses of the national strategy for rural development by analysing the document from the viewpoints of sustainability, harmonisation with other financing instruments, confusion of indicators, and supporting institutional infrastructure.

INTRODUCTION

Rural development was first highlighted in 1996 in Cork (Ireland) on the occasion of the first European Rural Development Conference, where for the first time emphasis was placed on rural development becoming an integral part of the Common Agricultural Policy, and on the tools of multi-disciplinary rural development being increasingly highlighted. By the introduction of the Agenda 2000 programme, rural development had become the second pillar of the Common Agricultural Policy and a genuine single common rural development policy was born.

The financing mechanism of rural development was formulated parallel to its historic development. It has been part of the European Agricultural Guidance and Guarantee Fund since 1964. Changes introduced in 1974 and then by Agenda 2000 created the basis for the financing structure currently in force. This is still a strongly fragmented structure that will however, be transformed in the 2007-2013 budgetary period by the establishment of a unified financial mechanism and fund: the European Agricultural Fund for Rural Development.

Hungary became a Member State of the European Union on 1st May 2004. This event of great political and economic importance had the greatest impact on the agricultural sector and the living conditions of rural inhabitants, similarly to most other new Member States. The EU's agricultural and rural development financing mechanism will have a decisive impact on the development policy of these countries in the following decade (1).

The main objective of the present study is to introduce the new financing mechanism for the next budgetary period of rural development and to point out the challenges to be faced in comparison to the present systems and structures on the one hand and during the preparatory phase of the planning and programming period on the other.

1. THE NEW FINANCING MECHANISM FOR RURAL DEVELOPMENT (2007-2013)

At the same time as the reform of the Common Agriculture Policy, the European Union has established a new financial tool for the next budgetary period, by Council Regulation 1290/2005 (2): the European Agricultural Fund for Rural Development (EAFRD). Council Regulation 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (3) is laying down the principles and rules for support to be provided for rural development.

This regulation points out that the overall objective of EAFRD is to finance sustainable rural development in order to complement the cohesion policy of the European Union, meaning that rural development does not fall within the cohesion policy and the Structural Funds of the Union any more, but forms a new unified common policy with a single financing mechanism.

Prior to the implementation, each of the Member States should accomplish a two-tier programming procedure. According to the regulation each beneficiary country shall develop a national strategy plan indicating the priorities of the action of EAFRD and the country concerned, but also taking into account the Community's strategic guidelines and the specific objectives of those, furthermore the contribution of EAFRD and additional financial resources. The national strategy serves as a reference for the preparation for EAFRD programming. This will be implemented through rural development programmes. These programmes will be implemented through measures grouped according to the four axes defined as follows:

Axis 1:	**IMPROVING THE COMPETITIVENESS OF THE AGRICULTURAL AND FORESTRY SECTOR** The resources devoted to Axis 1 should contribute to the establishment of a strong and dynamic European agri-food sector by concentrating on the priorities of know-how transfer and innovation in the food chain, furthermore concentrating on the sectors promoting investments in human capital.
Axis 2:	**IMPROVING THE ENVIRONMENT AND THE COUNTRYSIDE** To protect and enhance the European Union's natural resources and landscapes in rural areas, measures should contribute to 3 EU-level priority areas: preservation of biodiversity and of high nature value agricultural and forestry systems; water; climate change.
Axis 3:	**THE QUALITY OF LIFE IN RURAL AREAS AND DIVERSIFICATION OF THE RURAL ECONOMY** The resources under this axis should promote the top priority of creating new employment opportunities by the establishment of diversification of rural economy and improving the quality of rural life.
Axis 4:	**LEADER** In the framework of local development strategies based upon local needs and strengths, this axis provides opportunity for combining the previous three objectives by implementing the following actions: - capacity building of local partnerships; - enhancing public-private partnerships at local level; - promoting co-operation and innovation; - improving local governance.

Rural development programmes can be developed either for the whole territory of the Member State or can be submitted as a set of regional programmes. Rural development programmes should contain the following: situational analysis, measures proposed for the axes including objectives and indicators, a detailed financial plan, designation and description of the authorities involved in the management and control structure, and a description of the monitoring and evaluation systems. The Rural Development Committee must approve each rural development programme.

The preparatory phase also includes the establishment of the necessary and efficient managerial and control systems. The regulation foresees a simplified institutional system compared to the Structural Funds, since only three institutions are to be designated: a Managing Authority, a payment agency and a certifying body.

All these points related to the newly established financing instrument for rural development are not purely information, but requirements to be met by Member States and tasks to be carried out.

2. EAFRD CHALLENGES AND POSSIBLE ALTERNATIVES FOR HUNGARY

Although this is a historic moment for rural development policy, the newly established EAFRD also implies some dangers and challenges to be faced by

Member States, including Hungary. These dangers and challenges mainly derive from the situation created by the rules and regulations currently in force with respect to the system of financing rural development. All mechanisms, institutions and procedures in Hungary are currently based on the system of Structural Funds, however they are not going to be in compliance with EAFRD. According to the above, the main challenges set by EAFRD for Hungary will be as follows:

1. The assistance available in the framework of the EAFRD is going to lag behind the support of the Structural Funds and the Cohesion Fund, on the other hand the independent and at the same time entirely separate legal framework and institutional background may result in the threat of regional development policy being *crowded out of the mainstream national development policy* in institutional terms as well as in respect to actual amount and policy formulation.

2. Strategic planning, programming, implementation and monitoring of EAFRD also means an increased responsibility. The pressure of this responsibility can only be coped with by *utilising and applying the experiences gained under the Structural Funds* in the previous budgetary period (2004-2006), and even at the planning stage work should be carried out in this way, collaboratively yet separately.

3. The Community Strategic Guidelines for Rural Development (4) emphasise that the synergy between structural, employment and development policies must be ensured together with *complementarities and coherence between measures* financed by the European Regional Development Fund, European Social Fund, Cohesion Fund, European Fisheries Fund and the EAFRD. The main principle of how this will be achieved should be indicated in both of the planning documents: a clear demarcation line should be indicated on what will be financed within each of the programmes. On the other hand, national monitoring systems and fora should have the role of safeguarding the coherence of EU support and for this purpose should also have the task of revising and if necessary modifying any of the measures. Therefore national authorities have the responsibility of establishing a nationwide monitoring forum arcing over all the EU and national development programmes.

4. The absolute sine qua non of benefiting from the EAFRD is to establish *a well functioning institutional system* for the management of funds. The same approach has to be applied in this case as concerning the planning and programming, i.e. previous experiences – positive as well as negative – should be taken into account. It is a great relief that the institutional system prescribed in the regulation is to a large extent similar to that of the Structural Funds, however its simplification also causes uncertainty in so far as there is no mention of the possibility of eventual delegation of the Managing Authority's tasks to any Intermediate Body. If the Managing Authority is to function as the sole implementer, it should have all the tasks and responsibilities that are now shared by and between the Ministry of Agriculture and Rural Development ad the Agricultural and Rural Development Agency.

5. Regulation 1698/2005 (3) foresees *strategic monitoring* of the Community and national strategies. The basis for reporting on progress will be the common framework for monitoring and evaluation to be established in collaboration with the Member States.

At present a special management and monitoring software, the Unified Moni-

toring Information System is supporting the monitoring and reporting tasks within the Structural Funds. A system with similar functions will be needed to co-ordinate the flow of information between the institutions taking part in implementation and the final beneficiaries, however the present information system is not appropriate for these functions, therefore there are three alternatives for solving this problem:

- The first and most obvious is *to establish and develop a new information system for the purposes of EAFRD*. Apart from the fact that this is the most expensive solution, it would also mean the duplication of many functions and would therefore not comply with the requirements of co-ordinating financing mechanisms at EU and national level. Furthermore a separate information system would never be suitable for comparative analysis or for supporting the national statistics that demonstrate the achievements of EU assistance.
- The second option is *to connect the EAFRD information system with the one that will be available for Structural Funds*, which would provide the opportunity to co-ordinate the two mechanisms and also to present the synergic effects of both.
- The third and most logical option is *to establish the information system of EAFRD on the basis of an already existing information system for similar purposes, i.e. on the basis of the Integrated Administration and Control System (IACS)* that has already been developed and is functioning. IACS could be modified with a specific module for EAFRD, and this would create a single and separate information system for the whole agricultural and rural development sector in Hungary.

6. The greatest problem of all seems to be the *preparation of final beneficiaries for applying for support under EAFRD*.

The final beneficiaries of rural development programmes suffer the most under the changing legal and financing environment of the EU programmes. Therefore institutions should strive towards establishing a national system of EAFRD with the least possible changes in comparison to that of the Structural Funds.

3. ASSESSMENT OF THE NATIONAL AGRICULTURAL AND RURAL DEVELOPMENT STRATEGY FOR 2007-2013

Based on the new regulation on financing the Common Agricultural and Rural Development Policy (2, 3, 4), the Hungarian Ministry of Agriculture and Rural Development has developed the National Agricultural and Rural Development Strategy for the budgetary period of 2007-2013 (5). This strategy will form the basis for rural development assistance in the given period. (The draft of the National Agricultural and Rural Development Strategy was published for partnership consultation on the website of the ministry in December 2005. This version is the basis for further assessments.)

The strategy can be considered as an *organic continuation of the SAPARD Plan and the Agriculture and Rural Development Operative Programme for the Structural Funds* and is complementary to the measures and financial resources of those. The ‘new’ objectives were formulated according to the above as follows:

1. Sustainable and competitive food processing
2. Environmentally friendly development of agriculture and forestry by land use rationalisation and protection of natural resources

3. Improving the living conditions and employment of rural inhabitants

4. Enhancing the sustainable and innovative use of internal resources and the improvement of living conditions in rural areas through local initiatives by implementing integrated local rural development strategies and broad-based partnerships

Compared to previous programmes an essential shift has occurred between planned measures. *Sustainability, long-term planning and quality instead of quantity have been given a substantially more emphasised role*: more training and innovative elements are appearing at the level of measures. Nevertheless, there are still elements in the situational analysis related to weaknesses that have no counterparts among the measures (e.g. fragmented land structure).

Within the strategy, its *connections to the National Strategic Reference Framework* (the actual second National Development Plan) are clearly highlighted. However, at the level of measures we can already identify at this early stage of planning and programming possible future overlaps (e.g. encouraging tourism activities, renewal and development of villages). The strategy highlights as an important task the avoidance of overlaps by means of clear limitations within the measures, but there is no explanation as to how this will take place. Therefore, it seems that these measures will remain in the strategy and their harmonisation will be a task for the implementing institutional system.

According to Regulation 1698/2005 the framework for strategic monitoring will provide a limited number of common indicators and a common methodology. These should be supplemented by programme specific indicators to reflect the characteristics of each programme area. A common set of indicators will allow aggregation of outputs, results and impacts at EU-level and assist in the assessment of progress in achieving Community priorities. Baseline indicators defined at the start of the programming period will allow for an assessment of the initial situation and form the basis for the development of the programme strategy.

Therefore, already at this early stage *indicators* are presented in the strategy that will create the basis for measuring the effectiveness of each of the measures and also the programme as a whole. The system of indicators cannot as yet be considered as unified and certainly not as final. Indicators relating to different levels of the hierarchy of interventions are mixed together: and we can also find output and impact indicators as well. The 2003 data given as the comparative baseline for individual indicators might be acceptable, however it would be advisable during the planning procedure to replace this with 2005 data in order to filter out, as far as possible, the impact of the previous period's interventions. However, the intention of the planners is difficult to understand with regard to the indicators under the second axis, whereby the comparative baseline data given is for the period 1997-2001. This data is obviously too outdated to measure the impact of any intervention starting, at the earliest, in 2007. A further and major shortcoming of the indicator structure is that is does not give any target position to be achieved through the programme.

Technical assistance can be used to build up European and national networks for rural development as a platform for the exchange of best practices and expertise on all aspects of policy design, management and implementation between stakeholders. Indeed, further to the development measures the strategy places great emphasis on rural development in-

stitution building: the most important aim of technical assistance is to establish a *national rural development network*. This network will integrate all the rural development actors, and co-ordinate their activities. However, it is not clarified in the strategy whether this should be a completely new institutional network or should be built on any of the existing ones at micro-region level.

As a summary of the above, the National Agricultural and Rural Development Strategy in its present form could serve as a good basis for programming the next budgetary period, however it still raises more questions than it is able to answer.

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