



**HUNGARY'S ANNUAL REPORT FOR 2006 AND FINAL  
REPORT  
ON THE IMPLEMENTATION OF THE SAPARD  
PROGRAMME  
2000-2006**

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# 1. EXECUTIVE SUMMARY

This Final Report and at the same time the Annual Report of the SAPARD Programme for 2006 was prepared in line with the provisions of Article 8 of Annex B of the Multi-Annual Financing Agreement (MAFA) between Hungary and the EU Commission concluded on 1 March 2001, and complies with the relevant requirements therein.

In the preparation of the report, the Department of Agricultural and Rural Development of the Ministry of Agriculture and Rural Development acting as the SAPARD Managing Authority (MA), the Agricultural and Rural Development Agency (ARDA, former SAPARD Agency), the Research and Information Institute of Agricultural Economics (RIIAE) and the Hungarian Central Statistical Office (HCSO) have had the following contributions:

- SAPARD MA: coordination and elaboration of the report, its setting into a uniform structure and translation thereof,
- ARDA: the provision of operative information towards the attendance of executive tasks, preparation of certain professional parts of the report,
- RIIAE: collection, processing and provisions of agro-economic data,
- HCSO: collection, processing and provision of data about the national economy, and in particular the agricultural sector.

This Final and Annual Report embraces the implementation of Hungary's SAPARD Programme in 2006, as well as its full life cycle from 2000 through 2006, detailing the changes having occurred in the course of the implementation, the efficiency of execution, financial implementation, monitoring, as well as the comparison of the achievements of the Programme with the original objectives.

The quantified information of the Final Report are presented and analysed in a systematized manner for the status as of 31 December 2006.

In the framework of the SAPARD Programme, **throughout the entire period of the Programme** altogether 8,828 applications in a total project value of HUF 414.02 billion were submitted until the closing deadline of 30 April 2004 with the corresponding support demand being HUF 216.95 billion. With regards to the submitted applications, until 30 September 2004, which was the deadline for contracting, 2,774 applications in a total project value of HUF 138.04 billion were made subject to decision-making on supports and contracting in a total support value of HUF 65.25 billion. The support resources backing these contracts have been made up of the SAPARD funds specified in the SAPARD Multi-Annual Financial Agreements, as well as the Annual Financial Agreements for 2000, 2001–2002 and 2003, the interest accrued in the SAPARD accounts alongside with the financial resources regrouped from the funds of the National Rural Development Plan (NRDP), and the national surplus financial commitment in order to facilitate the full-scale draw-down of the SAPARD resources. As of 31 December 2006, contracts were made with 2640 applicants taking into account the failed applications too. The total project value of the effective contracts was HUF 131.96 billion with their total support amounting to HUF 62.51 billion.

Regarding projects with existing contracts, a total amount of HUF 53.73 billion support has been paid in 3,693 cases from the original SAPARD funds and the interests accrued on the SAPARD accounts. From the resources regrouped from the NRDP, HUF 5.16 billion have

been disbursed in 312 cases. In total, until 31 December 2006, payments were made in 4.005 cases in a total support value of HUF 58.89 billion.

With respect to the fact that in Hungary the application management and contracting phase of the SAPARD Programme was closed in 2004 due to the country's accession to the EU, on 1 May 2004 the implementation of the applications with existing contracts continued in 2006, and during that year, payments were disbursed to 609 applications in a total support value of HUF 12.82 billion. During 2006, institutional tasks were also considerably modified, as the emphasis shifted to controls, monitoring and the realization of final payments.

## **2. INTRODUCTION – BASIC INFORMATION ON THE PROGRAMME**

### **2.1. Objectives of the SAPARD Programme**

Hungary prepared her SAPARD Programme in line with Council Regulation 1268/1999/EC, and put forward to the European Commission, which in turn approved the Programme in October 2000 by way of its Resolution no. C(2000)2738.

The objectives of the SAPARD Programme can be summed up as follow:

- to increase the competitiveness of the Hungarian agricultural economy,
- to reduce harmful environmental impacts originating from agricultural activities,
- to promote the adaptation capabilities of rural regions,
- to create and retain job opportunities,
- to prepare candidate countries for the reception of the so-called Structural Funds.

In the planning phase of the Programme, a new focus of debates emerged around the different approaches represented by the traditionally strong Hungarian agricultural profession on the one hand , and the relatively new field of rural development on the other, yet the following common issues also surfaced:

- agriculture should be a sustainable and multi-functional sector that is not only responsible for the sector itself, but for a broader social layer,
- through the rationalization and support of production, the objective is the establishment of an export oriented agro-economy,
- the actual achievements of environmental protection, animal welfare, healthy and high-quality raw-material and food production, as well as the rural regions offering appropriate life conditions should be preserved and improved,
- there is need for a transparent, safe, foreseeable and consistent support system, as well as the continuity of this system.

When compiling the SAPARD Plan, the following documents have been taken into account: the Programme of the Hungarian Government; the Agricultural, Regional and Rural Development Strategy; the Comprehensive Development Strategy of the Hungarian Economy; the Preliminary National Development Plan and the National Agro-Environmental Programme.

In the course of programming, the principle of partnership was followed, since apart from the experts delegated by the European Commission and the Hungarian Government, local governments, a number of non-governmental organizations and social partners were also involved.

From the 15 agricultural and rural development fields that were defined by the Commission as eligible for SAPARD funding, Hungary selected 10 areas upon which its programme was built:

1. Towards the improvement of the market efficiency of the agricultural sector:
  - investments in agricultural holdings

- processing and marketing of agricultural and fishery products
  - operation of producer groups
  - agricultural production methods designed to protect the environment and maintain the countryside
  -
2. Towards the promotion of the adaptation and development of rural areas:
    - renovation and development of villages, protection and conservation of rural heritage
    - development and diversification of economic activities, providing for multiple activities and alternative income
    - development and improvement of rural infrastructure
  3. Measures horizontally linked with several elements of the programme:
    - Improvement of vocational training
    - technical assistance

The resources allocated to the selected measures showed parallels to the average of the programmes submitted by the other 9 candidate countries acting as the beneficiaries of SAPARD, except for technical assistance where to Hungary allocated the smallest funds.

Contrary to the original SAPARD plan, applications were not invited to three measures. The call for the application of the measure entitled “Improvement of vocational training” was not announced due to the appropriate level of agricultural education, as well as the actual knowledge of the consultants, and therefore such activities came to be supported in the subsequent support period, i.e. from 2004 to 2006 from ARDOP financed from the Orientation Section of the EAGGF.

In the case of the measure entitled “Agricultural production methods designed to protect the environment and maintain the countryside”, a national agro-environmental target programme was implemented back in 2000, and the disbursement of major resources were anticipated within the NRDP financed from the Guarantee Section of the EAGGF in the period of 2004–2006.

The start-up of the measure entitled “Operation of producer groups” was hindered by organizational deficiencies on the part of the applicants and regulatory difficulties occurring on institutional level, yet this measure came to be introduced in the period of 2004 to 2006 within the NRDP financed from the Guarantee Section of the EAGGF.

## **2.2. Geographical scope of application**

The reception of support applications in association with the measures which served the restructuring of agriculture had no geographical limits, everyone could submit applications irrespective of their places of residence or premises.

The three measures of rural development were available only in so-called rural areas. The concept of rural areas was unambiguously defined in the SAPARD Plan: areas with the population density under 120 persons/km<sup>2</sup>.

### **2.3. Implementation period that this Report is related to**

This Report is deemed to be a final implementation report that has been compiled in line with Section 5 of Article 8 of Annex B of MAFA pertaining to the SAPARD Programme, and includes the annual implementation report of the SAPARD Programme for 2006.

### **3. OPERATIVE INFORMATION**

#### **3.1. Description of trends in the socio-economic factors in the course of the implementation of the Programme, as well as in the political and legal background**

In Hungary, the agricultural environment of the SAPARD Programme was strongly determined by the sectoral restructuring started after the change of the political regime. The disintegration of the existing land structure due to the re-distribution of lands, the shrinking number and decline of large production units called for the targeting of the competitiveness of small holdings upon the launching of SAPARD. In spite of the disintegrated land structure, the product structure of agriculture did not seem to follow an analogous transformation, i.e. the small holdings continued to produce the same, environmentally (and “historically”) determined products (e.g. cereals). The smaller agricultural businesses were unable to replace the profitably operated and highly productive large holdings and agricultural cooperatives with the use of the available physical conditions (technologies, machinery). Hereby demand occurred for prioritising technological developments.

Increasing, but at least maintaining the actual level of productivity, the efforts towards adequate competitiveness turned out to be essential for survivor both on the domestic and foreign markets. As the Hungarian market of agricultural products was also opening up, the country’s positive agricultural foreign trade balance was melting. The traditional price-sensitiveness of domestic consumers shifted consumption towards the cheaper import products, and therefore the agricultural sector was increasingly locked up in between the pincers of import trade and the domestic price-sensitive consumption.

In Hungary, the initial framework of rural development was shaped at the time of the start-up of the SAPARD Programme. As rural development was a relatively new field of development with yet a smaller weight, it was to fight for a firm, though justified place in the support programme. However, this process was supported by the European Community, the positive experience of EU members states gained in relation to the multisectoral influences of rural development. The process was also catalysed by the recognition of rural development within the Community as not being separate from or subordinate to agricultural development, but rather a concept that almost embraced all the aspects of agricultural development, and targeted the comprehensive development of rural areas. SAPARD had the function to disseminate this approach of rural development in Hungary, as well as to bridge the gap being present due to the lack of systematic rural development that was in fact required by the Community.

Upon the start-up of SAPARD, such domestic support programmes (procurement of machinery) existed, which concentrated on the management of the above problems, the tackling of the associated tasks. With the launching of SAPARD, however, they were cut back as they would have substituted community resources. On the other hand, the funds of domestic supports were very limited owing to the rather poor potentials of the domestic budget.

The SAPARD, and concurrently the ISPA and the PHARE programmes were announced as learning programmes in the candidate countries. The allocated resources therein were not sufficient to trigger in-depth changes, yet their targets were not to achieve such transformation. Agriculture needed the re-adoption of long-term, complex and integrative planning in the light of the above-mentioned, changed internal environment. One precondition was the establishment of a suitable planning–implementation institutional system alongside with the training of a set of experts. Without the SAPARD Programme, the Hungarian experts of agriculture and rural development, the potential beneficiaries and even the system public administration (e.g. legislative bodies) would not have been able to adapt flawlessly to the environment and requirements arising with the country’s accession to the EU.

## 3.2. General economical trends

### External environment

2006 showed a significant acceleration of the **European Union’s** growth with a nearly 3% rate. The key national economies of the European Union, in particular the German economy, gained a new impetus. Such growth was achieved without the increase in productivity, and the main drive behind the positive tendencies was export (9.2% increase) as its growth exceeded that of import volumes. Across the EU-25, the growth of all the components of GDP went beyond the corresponding levels in the previous year. In the financial markets, the financial conditions deteriorated, short- and long-term interest rates tended to rise in spite of the relatively stable prices.

**Table 1 – Key economic indicators of the European Union (change in %, year/year)\***

Indicator	2004	2005	2006
<i>GDP and its main components</i>			
GDP	2.4	1.7	2.9
Final consumption	2	1.6	2.1
Domestic demand	2.4	1.8	2.7
Final governmental consumption	1.6	1.7	2.1
Gross fixed-asset accumulation	3.1	3.0	5.2
Export	7.1	5.1	9.2
Import	7.3	5.7	8.8
<i>Financing conditions</i>			
EUR-zone three-monthly interest rate, annual average	2.11	2.19	3.08
EUR-zone ten-yearly returns of governmental securities, annual average	4.12	3.42	3.84
<i>Prices</i>			
Harmonized consumer price index	2.1	2.2	2.2

Source: EUROSTAT.

\*Unless indicated otherwise, the data shown are for EU–25.

### Internal processes

Relying on the intensifying prosperity of the foreign markets, in 2006 the Hungarian economy grew by 3.9%. The drive behind such growth was clearly export, consumption hardly changed, while investments dropped by 2%. In spite of the reduction of governmental consumption, the deficit of the central budget and the national debt climbed up to heights last perceived in the years of the transition to market economy. The labour market witnessed favourable processes both in terms of the activity rate and the employment rate. The outcomes of the measures aimed at the restoration of the balance of the central budget first surfaced in the last quarter of 2006.

**Table 2 – Hungary’s general socio-economic indicators**

Indicator	2004	2005	2006
<i>GDP and its main components (change in %, year/year)</i>			
GDP	4.9	4.2	3.9
Final consumption	2.8	3.4	0.4
Domestic demand	4.2	0.6	-0.6
Final governmental consumption	1.9	1.9	-2.6
Gross fixed-asset accumulation	7.7	5.6	-1.8
Export	15.7	11.6	18.0
Import	14.1	6.8	12.6
<i>Labour market (data on the 15–74 age group)</i>			
Activity rate	53.8	54.5	55.0
Unemployment rate	6.1	7.2	7.5
Employment rate	50.5	50.5	50.9
Labour productivity per person (EU-25=100)	69.8	71.3	*72.6
Real income index (corresponding period last year = 100)	99.0	106.3	103.5
<i>Prices (previous year = 100)</i>			
Industrial producer prices		104.3	106.5
Agricultural producer prices		100.7	110.6
Harmonized consumer price index	106.8	103.5	104.0
<i>Central budget</i>			
Balance of the governmental sector in % of GDP	-6.5	-7.8	-10.1
Debt of the governmental sector in % of GDP	59.4	61.7	68.5

Source: HCSO, EUROSTAT, Ministry of Finance

\*Forecast

## Economic growth

In 2006, the **gross domestic product** (GDP) increased by 3.9% at the previous year’s prices, which is considerably lower than the corresponding indicator of the other Central and Eastern European countries. The growth rate slowed down in the last quarter of the year, which was attributable to trends in both the consumption of households and the investments. Such deceleration could not be counter-balanced even by foreign trade being in a favourable course.

The drive behind such growth was clearly export, domestic demands and investments were declining. The underlying reasons were the government’s measures of economic policy to narrow demands, the decelerating of rate of increase of real wages, as well as the cutback of public welfare expenditure by the government. In comparison to the previous year, final consumption by the government decreased by 6.2%.

In **foreign trade**, the dynamics of export significantly exceeded that of import in spite of the continuous and considerable deterioration of the terms of trade. The deficit of the balance of foreign trade totalled to HUF 2 billion in 2006, i.e. HUF 940 million less than in 2005.

## Labour market

The number of the economically active population increased by HUF 42,000 in comparison to the corresponding value in the previous year: such an increase in the active headcount was mostly (69%) due to the growing employment rate, and to a smaller extent (31%) to the strengthening intensity of job hunting. The employment rate altogether rose by 0.4%.

The presence of the **age group of 15–24 years** in the labour market was 26.8% in 2005. This low rate for the young generation was still justified by the prolonged time spent in education, training. While in the previous years, the employment rate of the young had reflected a dropping tendency, 2006 showed stagnation.

Although to a small extent, the number of employed people grew in 2006. According to the yearly average 3906 thousand people were registered as employed, which meant an increase of 27,4 thousand people, therefore the rate of employment reached 57,3 % in the 15-64 age group. This increase was primarily contributed by a 3,6 % growth in the 55-64 age group, whereas the labour-market indicators of the 15-24 age group deteriorated significantly.

The main explanation behind the relatively low Hungarian employment rate is the very high level of inactivity of those with only basic level of education. This is true for both genders and also to the middle age groups, which are considered to be the most active on the labour market. Among the forms of employment, which are considered to be atypical, the weight of part-time employment didn't change. In 2006, less than 4% of all the employed worked part-time, mainly older women, who as already being pensioners decided to take on this form of employment.

The **regional inequalities** of the labour market still remained considerable. While in Central Hungary being in a rather favourable situation, the rate of employment was 56.2% with 5.1% unemployment rate, Northern Hungary features the worst indicators, as the rate of employment is 10 percentile under this level, whereas the unemployment rate is the double of the said value.

On the level of the national economy, the **demand for labour** was 4.5% higher in Q1 of 2006 than a year before, in Q2 and Q3 it remained under the corresponding values by 0.5% and 1.5% respectively, while in Q4 it significantly, by 15.6% exceeded the historical level. Compared to 2005, the increase in the number of vacant jobs in the national economy was primarily induced by the demands for labour in business enterprises.

## Prices

The rate of increase of the **consumer price index** accelerated in the last quarter of the year, and for the entire year a 4% increase could be finalized. The largest rate of increase occurred for food (7.7%) and energy for household use (6.4%).

**Industrial producer prices** rose at a pace being slightly larger than in the previous year (4.3% vs. 6.5%), while agricultural producer prices witnessed a rather considerable aggregate increase (10.6%).

## Central budget

In 2006, the balance of the central budget broke up to an extent that recalled the years of transition to the market economy in the early 1990s. In 2006, the **deficit of the governmental sector** arrived at 10.1% of the GDP with the **national debts** creeping up to almost 70%.

## Changes in the legal background

The most important legal change affecting the SAPARD Programme was Decree no. 35/2004 (31/03) by MARD pertaining to the modification of Decree no. 53/2001 (17/08) by

MARD on the announcement of “Hungary’s SAPARD Programme for 2000–2006”. The key changes in the Decree were as follow:

- Apart from power and other machinery, the measure entitled “Investments in agricultural holdings” covers the promotion of investments into other farm machinery and equipment, as well as the storage of fuels (tanks) and the machinery and equipment of fuel delivery.
- The scope of beneficiaries have been broadened with vegetable and fruit producer groups, sales organizations and other producer groups (production and sales, as well as procurement and sales partnerships).
- The measure entitled “4.2. Processing and marketing of agricultural and fishery products” covers the processing of the following products as well: cereals, forages, spices, biological vinegar, honey.
- In the case of measure 4.2, eligibility criteria have been amended in the fields of the manufacturing of milling-industry products, the manufacturing of livestock feeds, processing of grapes and wine-making.

The financial arrangement of the SAPARD Programme has been affected by the modification of Act LXXIV of 1992 on value-added tax coming to effect on 1 January 2003, as the VAT exemption of the products procured with the use of supports that were financed from the SAPARD pre-accession funds ceased. The uncertainties induced by the changes of the Act on VAT caused some disturbances both to the management and settlement of grant applications. The 2004 Act on VAT failed to clearly define the option of VAT reimbursement on support amounts and partly cancelled this opportunity for the applicants. As a result, some of the applicants may withdraw from their investments and applications, since they have been deprived of their VAT incomes.

On 1 May 2004, Hungary became a member state of the European Union. The Act on public procurement (Act CXXIX of 2003, hereinafter referred to as Kbt.) harmonized with the public procurement directives of the European Union came to effect on 1 May 2004, and these regulations did affect the relevant chapters of the Operational Manual governing the procurements under the Programme, as they were modified in the light of the regulatory changes.

### **3.3. Situation of agriculture and rural areas**

#### Weight of agriculture in national economy

According to the related figures provided by NCSO, in 2004 agriculture had a 4.8% share from the gross domestic product, which reflects some improvement in comparison to 2000. In 2005, this indicator showed a downward trend (4.3%), yet this unfavourable direction was reversed in 2006. In comparison to the corresponding level in 2000, the proportion of agricultural investments was also declining.

<b>Weight of agriculture in national economy</b>				
	<b>2000</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Share of agriculture from GDP	5,4	4,8	4,3	4,3
Share of food industry from total exports of national economy (%)	8,0	6,9	6,6	6,3
Income from export of agricultural and food industry products (billion HUF)	637,0	778,9	825,4	966,2
Value of import of agriculture and food industry products (billion HUF)	286,7	503,1	597,6	701,6
Export surplus of foreign trade of agricultural and food industry products	350,4	275,8	227,9	264,5
Employees in the forestry and fishery sector (thousand persons)	255,5	204,9	194,0	190,7
Employees in the national economy (thousand persons)	3856,2	3900,4	3901,5	3930,1
Accumulation of agricultural fixed-assets	4,09%	3,77%	3,96%	3,71%

From the total export of the national economy, the information collection of NCSO indicates a dropping share for food production, while on the other hand incomes from the export of the products of agriculture and food industry have been on the rise since 2000, and reached HUF 1,000 billion in 2006. After a period of decline in 2005, the export surplus of the foreign trade turnover of products from agriculture and food industry was increasing once again.

In comparison to the corresponding data in the Community, the output of the Hungarian food industry is in the 16<sup>th</sup> position, and more concentrated than the average of the EU-25. Food industry exports a steady one-quarter share of its products with at least half of these products delivered to EU member states, yet recent years have witnessed a continuously diminishing positive balance of foreign trade turnover.

### Crop farming

Hungary's total area is 9.3 million hectares with almost 70% being agricultural land (2000: 86.3%). Today, the actual farmlands of the country cover 5.8 million hectares (2000: 6.2 million hectares), which with respect to its share is uniquely large in Europe. 77% of this area is made up of arable lands, grasslands cover 18%, while the total proportion of vegetable gardens, orchards and vineyards is 5% – these internal shares have not changed significantly. In relation to the total area, the size of lands being involved in agricultural cultivation did not change significantly by 2006 (62.53%), yet remained 25% under the size of lands that could potentially be utilized as agricultural lands. The proportion of areas withdrawn from cultivation exceeded 17.35%, and it is expected to increase in the oncoming years (due to the support provided to the cutting of vineyards, as well as the gradual termination of sugar and cereal intervention).

<b>Plant breeding</b>				
	<b>2000</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Area harvested - cereals (1000 ha)	2763	3002	2934	2837
Crop harvested - cereals (1000 tonnes)	10036	16779	16212	14601

The gross output of crop farming and horticulture decreased by almost 17% in the SAPARD period from 2000 through 2006. Performance seemed to be flagging the most significantly in the potato, vegetable and fruit sectors, and to the least extent in the cereal sector that makes up more than 29% of the total agricultural output (due to the outstanding performance of cereal

production in 2004–2005: in 2003, the volume of harvested crops was 8.7 million tons, while in 2005 nearly a double volume was produced with 16.7 million tons). With a view to the respective agricultural areas, it is still cereals that far outpaces the other cultivated crops (65%) with almost 90% of this volume produced by individual farms.

The primary reason of the decline of crop production was the capital shortage witnessed by the producers alongside with the low technical standards having surfaced in the past decade and unfavourable weather conditions.

From another point of view, however, the role of crop production has strengthened in the past decade: in 2006, nearly three-thirds of business entities were involved exclusively in crop production. The favourable weather conditions in the period of 2004–2005 brought about remarkable results, which on the other hand highlighted the bottlenecks in storage capacities.

### Animal husbandry

In animal husbandry, basically negative processes could be seen during the implementation of the SAPARD Programme. The total stock of cattle dropped from 805,000 in 2000 to 708,000 in 2005, and further declined in 2006 down to 702,000. As concerning pig livestock, 2005 proved to be significant, as the pig stock of the country dropped to a level that had not been witnessed for decades; hopefully, the slight increase in 2006 could be the forerunner of some positive tendencies in the future. Poultry stocks could also be characterized by negative tendencies.

Livestock					
Name	2004	2005	2006	Degree of change 2004=100%	
				2005	2006
Livestock on 1 December (thousand animals)					
Livestock	723	708	702	97,9	97,1
from this: cow	345	334	322	96,8	93,3
Pork	4059	3853	3987	94,9	98,2
from this: sow	296	277	290	93,6	98,0
Sheep	1397	1405	1298	100,6	92,9
from this: ewe	1 088	1082	1030	99,4	94,7
Poultry	32814	31902	30303	97,2	92,3

### Prices

The producer price level of agricultural products has been gradually increasing, yet at the same time it can be established that the same rising tendency has been seen for feeds, fertilizers, the purchases prices of agricultural machinery and the investment costs of agricultural facilities.

Price indexes			
	2004	2005	2006
Producer price of agricultural products	94,6	100,7	110,6
Producer prices of plant breeding and horticulture products	86,2	99,4	118
Producer prices of animal products	103,9	101,8	104
Price level of agricultural expenditures	108	100	105,7
Price level of chemical fertilizers	111,9	87,3	104,7
Price of chemical fertilizers	105	103,6	114,6
Price of pesticides	102,5	102,2	100,5
Initial cost of agricultural machinery	105,8	105,5	106,1
Investment costs of buildings of agricultural purposes	106,5	103,4	107,2

## Labour market, forms of farming in agriculture

In the light of the indicators of the labour market, it can be stated that in the implementation period of the SAPARD Programme the slow and gradual decrease of the number of the population in their active age was paralleled by the number of the employed coming to a halt and the number of the unemployed increasing faster.

In this respect, an unfortunate tendency is that in 2006 the number of people working in agriculture, forestry and fishery was just 4.9 percent (190,700 people) of the total headcount of the people employed in the national economy, reflecting a decrease in comparison to the previous year – concurrently, the proportion of women was 45.6% –, which would not reverse the declining trend of the number of people employed in agriculture, forestry and fishery.

The employment opportunities in agriculture are seasonally restricted, and gradually decreasing: mechanization is spreading to the disadvantage of live labour, except for labour-intensive employment for the manufacture of high-quality products. As a result, rural regions can be characterized by higher rates of unemployment, moderate densities of businesses, as well as the general shortage of capital and expertise. The presence of the service sector is rather weak and the activity rate is poor.

Nevertheless, the increased incomes still have not narrowed the negative gap of personal incomes: even in the SAPARD period, the gross average income of those employed in agriculture did not exceed two-thirds of the average income in the national economy (2000: HUF 67,173, 2006: HUF 111,978).

Within national economy as a whole, in terms of the different forms of farming, Hungarian agriculture can be regarded as the most varied sector owing to its production structure differing from most of the structures prevailing in the member states of the European Union: all the potential forms of enterprises are used.

The bipolar economic structure comprising large holdings and smaller production units is a real specialty. The weight of medium-sized production units started to increase after the change of the political regime, and a large number of cooperatives and individual farms also exist. Although the number of this latter type has declined in recent years, yet their very existence proves that almost one-third or one-fourth of the Hungarian households are more or less active in agriculture; that is source of its determinant social function.

As an outcome of agricultural policy encouraging cooperative efforts, producer organizations have an increasing role; there are several types of such organizations, yet their function in the protection and representation of their own interests is still to be reinforced.

The number of people employed in agriculture, forestry and fishery dropped from 255,000 in 2000 to 190,700 in 2006. One-fourth of them are still women, while the incomes of the Roma population living in rural areas are also largely dependent on seasonal job opportunities offered by the sector.

## Weather

The weather in recent years can be characterized by variability. The period from 2001 to 2003 were rather hot, and dry or averaging in terms of rain (the national average temperature climbed up to 11.4°C in 2002, which proved to be third hottest year in the past 30 years). The high temperature tendency was then broken by the year of 2005, when the annual average temperature came to be 9.7°C, and in the same year the monthly volumes of rainfall reflected exceptional variability with sometimes extreme precipitation. In 2006, the hot and dry weather returned.

The average number of sunny hours was around 1.900, except for the especially sunny year of 2003, when the number of sunny hours exceeded 2.200. In view to the amount of precipitation, in the years from 2000 through 2006 there was an average annual quantity of 570–600 mm rain, except for 2004 and 2005 (2004: 686 mm, 2005: 748 mm), which largely contributed to the outstanding cereal yield.

## Environmental protection

The increase in the amount of environmentally harmful emissions was not significant, as since 1992 the emission of greenhouse gases has not increased according to the index calculated on the basis of the associated Kyoto Convention. The energy intensity of the economy has been decreasing continuously, and the corresponding value is indeed favourable among the newly acceding countries. On the other hand, Hungary has some shortfalls in the utilization of renewable energy resources; such deficiencies are foreseen to be considerably made up by the rural development supports disbursed for the programming period of 2007–2013.

Environmental protection						
	2000	2001	2002	2003	2006	Target value
Emission of greenhouse-gases in percentage of the reference year according to the Kyoto Protocol (%)	68,0	69,6	67,8	70,7	–	94,0
Domestic energy consumption on one unit of GDP (kgOE/1000 EUR)	600,5	588,6	579,6	582	309 <sup>(1)</sup>	-
Electricity produced with renewable energy on total energy production	0,7	0,8	0,7	0,9	4,4 <sup>(2)</sup>	3,62

(1) GDP calculated on current prices 2006

(2) share of renewable energy (renewable + half of waste) from gross electricity production (%)

### 3.4. Influence of the national, regional and sectoral policies on the implementation of the Programme

The national, regional and sectoral policies have not induced changes in the utilization of the SAPARD supports, while on the other hand there are a few fields of activities that can have potential impacts on agricultural and rural development at the present situation and in the future. These fields of activities are as follow:

- Towards the moderation of regional differentiation, there have been changes in the regional policy of the Government in relation to the decentralization of decision-

making levels, as well as the harmonized developments of micro-regional organizations.

- The employment policy of the Government (National Employment Action Plan) heads for the attainment of convertible vocational knowledge and qualifications, and thereby the diversification of activities and the preservation of workplaces.
- To create a firm foundation for the development policy strategy, the National Development Policy Concept (NDPC) was completed in 2005 with the aim to make Hungary one of the most dynamically developing countries by 2020, a country where people experience rising life standards, improving life quality, that is where there are more (and better) jobs, higher wages and salaries, safe, clean and high-quality environment, more healthy and all-round life prospects.
- As the basis of the spatial planning and regional development strategy, the National Regional Development Concept (NRDC) was also compiled in 2005. This document sets out the objectives, principles and priorities of the national regional development policy in order to ensure the harmonized and efficient operation of the regions, as well as the balanced and sustainable development of the country.

In the course of the planning and implementation of the SAPARD Programme, the sectoral policy aimed at enhancing the rate of mechanization in the Hungarian agricultural sector, and towards this end certain resources were regrouped for the benefit of agricultural machinery investments, and moreover half of the resources taken over from NRDP were allocated to this submeasure. At the same time, the amounts expended on village development were also outstanding, and therefore SAPARD could well contribute to the development of typically abundant, yet somewhat deteriorated rural areas. The above-mentioned characteristics of the sectoral policy were taken over to the rural development programmes of the 2004–2006 period. (ARDOP, NRDP).

The continuously increasing output of crop production brings about the decrease of prices, while the diminishing level of the product of animal products tends to rise prices, which on the whole leads to the moderation of the consolidated price level. As a consequence, the agricultural spread has been further opening in the period after the country's accession to the EU.

Resulting from the various processes, the adaptiveness of the actors in the sector, as well as their financial positions have improved: by 2005, losses dropped, while the profitability of the production units were on the rise. The transition to the follow-up financing support system caused some liquidity problems in the first years, but in 2005 the difficulties did not re-emerge. The crediting structure in the sector radically changed with long-term credits becoming predominant.

The fear that due to the European integration consumer price levels would increase fast did not come true: the actual trends in the consumer price levels of food products did not deviate from the average movement of prices.

Among production sectors, agriculture was again the only sector that had a positive foreign-trade balance. (By and large, the positive result corresponded to the country's energy import.)

Coherence with the national agricultural and rural development policies, programmes

Under Act CXIV of 1997 on the development of agriculture, the following main objectives are to be accomplished:

- Improvement of the competitiveness of agricultural production;
- Establishment of equal opportunities;

- Proportionate capital and labour incomes;
- Provision of financial resources and the improvement of conditions for the sustainable development of agriculture via production activities, the harmonization of the interests of the environment and nature conservation;
- Exploitation of the comparative advantages of agricultural production in order to increase profitability and food export;
- Encouragement of rural employment opportunities and the generation of alternative incomes;
- Enhancement of the population retaining capacities of rural areas;
- Development of the human resource capacities of the economy;
- Promotion of the spread of agricultural innovation.

Governmental Decree no. 2253/1999 (07/10) on the National Agro-Environmental Programme and the related measures of enforcement. The system of the Hungarian agricultural supports describes constituents that are similar to the rural development measures specified in Council Regulation 1257/1999/EC, including the supports to the following fields of activities:

- Agricultural investments
- Food processing
- Young farmers
- Investments in melioration and irrigation developments
- Afforestation, sustainable forest management, forest development
- IT in agriculture, farming and other professional practices
- Protection of soil quality, utilization of agricultural land
- Conversion to ecological production
- Professional advisory services
- Establishment of new types of cooperatives (partnerships)

## **4. Implementation, operation of the SAPARD Programme, Program management**

### **4.1. Summary of the activities by the SAPARD Monitoring Committee, major decisions**

The SAPARD Monitoring Committee (SMC) was set up pursuant to Council Regulation 1268/99/EC and 1260/99/EC. The Committee is responsible for the supervision of the quality and efficiency of the implementation of the SAPARD Programme. The duties of Chair are performed by the Department of EU Coordination and International Relations (formerly Department of EU Coordination) of the Ministry of Agriculture and Rural Development, while the duties of the secretariat are performed by the MARD Department of Agricultural and Rural Development (formerly Department of Managing Authority).

#### **4.1.1. SMC meetings**

2001

The SAPARD Monitoring Committee held its first meeting on **2 May 2001**. At the meeting, SMC's rules of procedures were discussed and approved; the monitoring indicators of the SAPARD Programme were discussed alongside with the eligibility and evaluation criteria in relation to the measures, as well as the strategy of technical assistance.

2002

The SAPARD Monitoring Committee held its meeting on **8 October 2002**, and at the meeting the rules of procedures were amended, and in addition, the modifications of the SAPARD Plan were approved in the following topics and chapters – they were consented by the meeting of the STAR Committee on 20 November 2002:

- measure 4.1 (the topic of economically viable production units), measure 4.2 (formal modifications), measure 4.8, measure 4.9, chapter 5, 6 and 8;
- modification of the financial tables;
- Modification of the strategy on technical assistance.

2003

The SAPARD Monitoring Committee held a meeting on **21 May 2003**, and the proposed and approved amendments to the SAPARD Plan were consented by the STAR Committee convened for 25 June 2003. In the course of the modification of the SAPARD Plan, the project value limits of certain projects were increased together with the support rate of agricultural enterprises from 30–40% to 40–50%, and a decision was also passed on the repeated modification of the financial table.

Following the approval of the modification pertaining to the SAPARD Programme by the STAR Committee (25 June 2003), the third call for applications of the SAPARD Programme was announced in August 2003.

At the meeting of the SAPARD Monitoring Committee on **27 November 2003**, a decision was made on the modification of the SAPARD Plan, as well as on operative issues connected to the execution of the Plan with the key elements of such resolutions being as follow:

- new elements were incorporated into the calls for applications (cereals, feeds, biological vinegar, spices, herbs, processing of honey products),
- the scope of beneficiaries was broadened with vegetable and fruit producer groups, sales organizations and other producer groups (production and sales, as well as procurement and sales partnerships)
- allocation of interests accrued on the SAPARD EUR-based account to the measure entitled rural infrastructure.

The modifications proposed by the SMC meeting held on 27 November were approved by the STAR Committee at its meeting on 18 February 2004.

2004

The first meeting was held on **18 July**, while the second meeting was convened for **04 November**. The most important decisions, commitments and proposals made at these meetings were as follow:

SMC meeting on **18 June 2004**:

- approval of the Annual Implementation Report for 2003 as a draft version, and the inclusion of certain modification until 30 June,
- there were plenty of applications received for machinery procurements, and therefore SMC accepted a proposal allowing ARDA to ignore the FIFO (first in first out) principle in the course of the processing of the applications for this sub measure,
- with simple majority vote, the Committee decided on the 50–50% division of EUR 20 million that could be regrouped from the National Rural Development Plan – from the Guarantee Section of EAGGF – to the SAPARD Programme between the measures entitled “Support to the investments of agricultural enterprises and village development and renewal, protection and conservation of rural heritage”,
- the Committee voted for the regrouping of the entire fund initially allocated to the support of vocational training to the benefits of the village development measures, and from the fund of the measure entitled “Diversification of activities” an additional amount of HUF 1 billion was re-allocated to village development,
- approval of the report of the Certifying Body,
- approval of the report on sensitive sectors.

SMC meeting on **4 November 2004**:

- approval of the ARDA report for Q2 and Q3 in connection with the implementation, the controls executed, the list of accepted and rejected SAPARD applications, as well as the indicator tables,

- approval of the report on sensitive sectors,
- a decision was passed that the Monitoring Committee was to continue its operations until the closing of the Programme,
- a proposal was made that for the subsequent meeting a material for discussion under the title of “Experience and proposals from the SAPARD Programme” should be compiled.

2005

In **2005**, the Monitoring Committee was summoned only once, for **13 June 2005**. This meeting did not make any decision that would significantly influence the implementation of the Programme. SMC was informed on the progress of the Programme, as well as on the main focal points of the report of the Certification Body, and approved the implementation report on the previous year.

2006

In 2006, Monitoring Committee meetings were held on **1 June** and **30 October**. At the meeting on 1 June, the SAPARD Monitoring Committee approved the Annual Implementation Report of the SAPARD Programme for 2005, and passed a decision on the authorization of 10% excess utilization of the amounts indicated under the heading of “measures total” – except for the assistance defined in Section (4) of Article 7 of Regulation 1268/199/EC – as depending on the actual Community contributions set forth in the annual financing agreements for the period from 2000 through 2006. The European Commission acknowledged the decision of the Monitoring Committee.

In the course of the meeting of the Monitoring Committee held on 30 October 2006 with visits to successful SAPARD projects, the members travelled to the sites of three successful SAPARD projects.

In conformance with the related request of the Monitoring Committee, after the closing of the Programme, the SMC will be provided with information on the implementation of the projects in the period of maintenance in order to conduct follow-up monitoring on the outcomes, and the SMC may also meet based on advance indication.

#### 4.1.2. Written procedures

1 September 2004

SMC decided on the regrouping of resources among certain measures by means of written votes: from the fund of the measure entitled “Diversification of activities” and the fund of Technical assistance to the “Support to the investments of agricultural enterprises “and “Village development” in equal proportions.

28 September 2004

SMC decided on the regrouping of resources among certain measures by means of written votes: from the funds of the measures entitled “Agricultural investments”,

“Processing of fishery products” and the “Diversification of activities” and “Rural infrastructure” to “Village development”.

Within the framework of the same written procedures, the SMC decided that an EUR 375,759.33 amount corresponding to EUR 281,848 allocated to cover the costs of the Committee under Council Regulation 1419/2004 as added with the amount of the associated domestic co-financing should be regrouped to the measures “Agricultural machinery procurement” and “Village development” in equal proportions.

18 October 2006

In the framework of a written procedure, after the closing of the deadline of contracting for SAPARD supports (30 September 2004), the SMC decided on the utilization of the interests accrued on the SAPARD accounts for the payments of the measure entitled “Village development” in an amount of EUR 79,670.7 (national co-financing: EUR 106,227.6).

## **4.2. Summary of the modifications of the financial table, lists of priorities, measures and regrouping transactions among the respective years, as well as of the decision by the Committee, an overview of the effective (last) financial table**

### **4.2.1. SAPARD funds**

The European Commission approved Hungary’s SAPARD Plan and the financial table containing the annual – 2000–2006 – resource allocations of the individual measures on **18 October 2000** by means of its Resolution no. C(2000) 2738; thereby, the Commission placed an EU contribution in a total amount of EUR 270,988,389 in relation to the period from 2000 through 2006 for the implementation of the measures of the SAPARD Plan, which at the same time meant the provision of EUR 38,712,627 European Union co-financing on an annual basis.

The **first modification** of the financial table of the SAPARD Plan was approved by SMC on 8 October 2002, and then it was also consented by the STAR meeting of the Committee on **20 November 2002**. Under the modification, the EU contribution allocated to the period of 2000–2006 was increased to EUR 281,273,946, thus raising the EU co-financing resources of all the SAPARD measures, and cancelling the limits of utilizable resources for 2000 and 2001 as specified in Section (4) of Article 7 of Regulation 1268/1999/EC by the Commission. In addition, the annual breakdown of the EU resources allocated to the implementation of the individual measures within the SAPARD Plan was also modified, and thereby a decision was made on the availability of EUR 38,705,309 for 2000, EUR 39,492,002 for 2001 and EUR 40,615,327 for each year of the period of 2002–2006.

The **second modification** of the financial table of the SAPARD Plan was approved by SMC on 21 May 2003, and then it was also consented by the STAR meeting of the Committee on **25 June 2003**. Under the modification, the EU contribution allocated to

the period of 2000–2006 was increased to EUR 283,871,864, thus raising the EU co-financing resources of all the SAPARD measures, and cancelling the limits of utilizable resources for 2002 as specified in Section (4) of Article 7 of Regulation 1268/2002/EC by the Commission. In addition, the annual breakdown of the EU resources allocated to the implementation of the individual measures within the SAPARD Plan was also modified, and thereby the EU resources allocated to 2002 was increased to EUR 40,578,737, while the amount of annual allocations for the respective years in the period of 2002–2006 were risen to EUR 41,273,954.

The **third modification** of the financial table of the SAPARD Plan was effectuated by means of **Regulation no. 1419/2004 by the Commission** stating that for Hungary the resources allocated to 2003 should be increased to EUR 41,263,079 by means of regrouping the utilizable, yet unutilized resources described in Section (4) of Article 7 of Regulation 1268/1999/EC for SAPARD measures. On **28 September 2004 by way of written votes**, SMC decided on the division of the resources being available for use in relation to the SAPARD measures on the basis of the above-mentioned Regulation by the Commission, and thus an amount of EUR 281,848, adding up to EUR 375,797.33 with the associated domestic co-financing, was ruled to be divided between the measure on “Agricultural machinery” procurements (HUF 47,917,160; at an exchange rate of 255 HUF/EUR) and the measure on “Village development” (HUF 47,917,160; at an exchange rate of 255 HUF/EUR) in equal proportions.

The financial tables modified in the framework of the following SMC decisions were adopted by way of Resolution no. **B(2005) 3625 on 19 September 2005** by the Committee.

SMC meeting on **18 June 2004**:

- regrouping of the fund for “Vocational training” (EU and domestic on the aggregate: EUR 1,131,385, HUF 288,503,260, exchange rate 255 HUF/EUR) to “Village development”
- regrouping of an amount of HUF 1 billion from the fund for the “Diversification of activities” (EU and domestic on the aggregate: EUR 3,921,568, exchange rate 255 HUF/EUR) to “Village development”

SMC written procedure on **01 June 2004**:

- regrouping of HUF 546 M (EU and domestic on the aggregate: EUR 2,141,176, exchange rate: 255 HUF/EUR) from the fund of the “Diversification of activities” and HUF 36,472,220 (EU and domestic on the aggregate: EUR 143,028, exchange rate: 255 HUF/EUR) from the fund of “Technical assistance” to “Investments of agricultural enterprises” and “Village development” in equal proportions

SMC written procedure on **28 June 2004**:

- regrouping of an amount of HUF 46.857 M (EU and domestic on the aggregate: EUR 183,753, exchange rate: 255 HUF/EUR) from the fund of “Agricultural investments”; an amount of HUF 21.648 M (EU and domestic on the aggregate: EUR 84,894, exchange rate: 255 HUF/EUR) from the fund of the “Processing of fishery products”; an amount of 0.321 M (EU and domestic on the aggregate: EUR 1,259, exchange rate: 255 HUF/EUR) from the fund of the “Diversification of activities”; an amount of EUR 5.242 M (EU and domestic on the aggregate: EUR 20,557, exchange rate: 255 HUF/EUR) from the fund of “Rural infrastructure” to “Village development”, i.e. an aggregate amount of HUF 74.068 M (EU and domestic on the aggregate: EUR 290,463, exchange rate: 255 HUF/EUR)

SAPARD financial table in effect												
Measure	2000			2001			2002			2003		
	EU	national	Total									
I. Investments in agricultural holdings	12 083 438	4 027 813	16 111 251	13 283 411	4 427 804	17 711 215	12 650 991	4 216 997	16 867 988	21 625 290	7 208 430	28 833 720
II. Processing and marketing of agricultural and fisheries products	12 023 436	4 007 812	16 031 248	17 405 745	5 801 915	23 207 660	12 867 750	4 289 250	17 157 000	9 733 766	3 244 589	12 978 355
III. Vocational training	0	0	0	0	0	0	0	0	0	0	0	0
IV. Dissemination of production methods serving agri-environmental protection and land sustainability	0	0	0	0	0	0	0	0	0	0	0	0
V. Establishment and administrative operation of producer groups	0	0	0	0	0	0	0	0	0	0	0	0
VI. Village development and renewal, protection and conservation of rural heritage	0	0	0	0	0	0	7 845 078	2 615 026	10 460 104	140 924	46 975	187 899
VII. Diversification of activities, development of business activities ensuring alternative income opportunities	0	0	0	0	0	0	1 362 408	454 136	1 816 544	0	0	0
VIII. Development and improvement of rural infrastructure	14 598 435	4 866 145	19 464 580	8 571 154	2 857 051	11 428 205	5 852 510	1 950 837	7 803 347	9 763 099	3 254 366	13 017 465
IX. Technical assistance	0	0	0	231 692	57 923	289 615	0	0	0	0	0	0
<b>Measures total</b>	<b>38 705 309</b>	<b>12 901 770</b>	<b>51 607 079</b>	<b>39 492 002</b>	<b>13 144 693</b>	<b>52 636 695</b>	<b>40 578 737</b>	<b>13 526 246</b>	<b>54 104 983</b>	<b>41 263 079</b>	<b>13 754 360</b>	<b>55 017 439</b>
255,00												
EU-national co-financing relation 75-25%, except for TA 80-20%												
Support provided pursuant to paragraph 4 Article 7 of Regulation EC/1268/1999:-												

#### 4.2.2. Interests earned on SAPARD accounts

The **default interests** received in relation to the individual measures increased the available resources for the respective measures.

The following SMC **decisions** were passed on the **interests earned on the SAPARD accounts**.

##### **SMC meeting on 27 November 2003**

Interests earned on the EUR-based account should be allocated to the measure entitled “Rural infrastructure” (EUR 185,226.67, a total of EUR 246,968.89 as added with the associated amount of domestic co-financing)

##### **SMC written procedure on 18 October 2006:**

After the closing of the deadline of contracting for SAPARD supports (30 September 2004) the interests earned on the SAPARD accounts could be utilized for the payments of the measure entitled “Village development” in an amount of EUR 79,670.7 (national co-financing: EUR 106,227.6). The SMC decision was based on MAFA provisions (Section A. Article 10. ponit 3.) which established that all interests earned on SAPARD accounts must be used for the implementation of the Programme. The decision was a technical financial management decision with no effect to the changing of the rules of procedures for the financial implementation of the Programme.

#### 4.2.3. SAPARD – supplementary resources

The Commission Regulation (EC) no 447/2004 provides the possibility to Hungary to finance projects contracted under Commission Regulation (EC) no 1268/1999, in respect of expenditures incurred beyond 31 December 2006, from EAGGF Guarantee Section under Commission Regulation (EC) no 1257/1999 in case where appropriations under Commission Regulation (EC) no 1268/1999 are exhausted or insufficient. Based on the Commission Regulation (EC) no 447/2004 the initial financial allocation of the SAPARD Plan was increased by the resources reallocated from NRDP (EAGGF Guarantee Section – Resolution no. K(2004) 3235 by the Commission), and in case of project payments for which appropriations under Regulation (EC) No 1268/1999 were exhausted or insufficient were financed from EAGGF Guarantee Section.

SMC on 18 June 2004 decides on the use of NRDP sources as follows: 50–50% division of HUF 5.1 billion (EUR 20 M) amounts between the measures entitled “Support to the investments of agricultural enterprises” and “Village development and renewal, protection and conservation of rural heritage”.

As financial management tool for the full use of the SAPARD funds Hungary gives 10% national surplus commitment resources (HUF 5.940 M) by the Governmental Resolution no. 2212/2004 (27/08) (written decision procedure adopted by SMC on 01 September 2004) to be used as follow:

- Investments in agricultural holdings: HUF 2,296,418,000
- Processing and marketing of agricultural and fishery products: HUF 1,804,929,000

- Renovation and development of villages, protection and conservation of rural heritage: HUF 494,316,000
- Development and improvement of rural infrastructure: HUF 1,344,337,000.

### **4.3. Description of Programme management and changes in the monitoring system during the implementation of the Programme**

#### **4.3.1. Programme modifications**

The European Commission accepted Hungary's SAPARD Plan by way of its Resolution no. C(2000)2738. on 18 October 2000. Hungary promulgated the entire text as accepted by the European Commission in the form of an Annex to Decree 53/2001 (17/08) by the Ministry of Agriculture and Rural Development.

A summary of the modifications of the SAPARD Programme:

- **2002:** At its meeting held on 20 November 2002, the STAR Committee approved the proposal of Hungarian authorities on the modification of the SAPARD Programme. Such modifications concerned the four measures accredited in September 2002 (111. „Investments in agricultural holdings”, 114. „Processing and marketing of agricultural and fishery products”, 1308 „Development and improvement of rural infrastructure, 41. Technical assistance), Chapter 5 on the national regulations as applicable during the implementation of the Hungarian SAPARD Programme, Chapter 6 on the eligibility criteria of Community supports, Chapter 8, as well as Chapter 7 and the related tables on the financial plan, support ratios and the proportion of Community supports.
- **2003:** At its meeting held on 25 June 2003, the STAR Committee consented the proposal on the modification of the SAPARD Programme that had been approved by the SAPARD Monitoring Committee at its meeting in May. From among the measures having already been accredited, the 2003 modifications concerned 111. “Investments in agricultural holdings” and 114. “Processing and marketing of agricultural and fishery products”, as well as two additional measures: 4.3 “Improvement of vocational training” and 1305. “Renovation and development of villages, protection and conservation of rural heritage”. Moreover, the financial tables of the Programme were also modified. In the framework of these modifications, the project value limits of certain projects were increased together with the support rate of agricultural enterprises from 30–40% to 40–50%. As a new element, it was agreed that instead of the formally applied, fixed-amount profit expectation the data of the test production system were to be taken into account for the examination of economical viability.
- **2004:** The modifications proposed by the SMC meeting held in November 2003 were approved by the STAR Committee at its meeting on 18 February

2004. These modifications focused on measures 111. “Investments in agricultural holdings” and 114. “Processing and marketing of agricultural and fishery products”, as well as Chapter 8.2.9 of the SAPARD Plan (Prevention and identification of irregularities, reduction, suspension and termination of aids, reimbursement of amounts having been paid on unjustified grounds).

In addition to the foregoing, 2004 saw the accreditation of two new measures: 1305 “Renovation and development of villages, protection and conservation of rural heritage” and 1306 “Development and diversification of economic activities, providing for multiple activities and alternative income”. The calls for applications were published on 14 January 2004.

**Regulation no. 1419/2004** by the Commission modified the resources allocated to 2003 for Hungary to EUR 41,263,079 by means of regrouping the utilizable, yet unutilized resources described in Section (4) of Article 7 of Regulation 1268/1999/EC for SAPARD measures. By way of **written votes** on **28 September 2004**, SMC decided on the basis of the above regulation by the Commission to divide the resources being utilizable for the SAPARD measures between certain measures, and thus such resources could then be used for the measure “Procurement of agricultural machinery” and “Village development” in equal proportions.

- **2005**: on 13 June, Hungary submitted a request to the European Commission to ask that interest incomes accrued on the EUR-based accounts of SAPARD could be expended on measure 1308. “Development and improvement of rural infrastructure”, and that the European Commission should approve the decisions of the Monitoring Committee on the regrouping of resources among certain measures as depending on the support demands of the applications submitted in connection with the SAPARD measures.

## 4.3.2. Institutional framework

### 4.3.2.1. The SAPARD Agency

In 2002, the SAPARD Agency (SA) applied for the accreditation of the institution in a way that it could act for the management of applications and payments independently, not delegating any task or function to external organizations.

On 20 September 2002, the SAPARD Agency was granted with accreditation in relation to 3+1 measures, and thus the “National Accreditation Resolution” issued on the act of accreditation and Commission Resolution no. 2002/927/EC by the European Commission dated as of 26 November 2002 on the transfer of the management of supports, as well as the accreditation resolution no. 2004/385/EC dated as of 27 April 2004 regulated the tasks accordingly.

The tasks of the SAPARD Agency are carried out by the Agricultural and Rural Development Agency (ARDA). Since 1 July 2003, ARDA has been acting as the general legal successor of the SAPARD Agency. As the legal successor of the SA, ARDA acted for the management of applications and payments in 2003, 2004, 2005 and 2006 in accordance with the said accreditation independently. With regards to the tasks to be carried out in connection with the SAPARD Programme, it does not have any other organization executing delegated tasks.

From 1 July 2003 to 1 April 2004, the divisions being responsible for the implementation tasks in relation to the SAPARD Programme were the Directorate of Rural Development (SAPARD) and Economic Directorate of ARDA.

The Director of Rural Development (SAPARD) was in control of the following bodies:

- SAPARD Regional offices involved in the management (implementation) of applications (with their main function being the preparation and implementation of decisions)
- Central Department of the Management of Applications
- Department of Applications of Food Industry

The departments being responsible for the process of payments were under the control of the Director of Finance:

- Department of Financial Control
- Department of Payments
- Department of Financial Records and Booking
- Department of Onsite Audits

A new directorate involved in the implementation of the SAPARD Programme was the IT Department – under the direct control of the Chair –, whose newly established subdivisions were the Division of Human Resources, the Division of Coordination with the Chair, and the Legal Division.

Directly subordinated to the Chair of the Office, the Division of Internal Audit was established by merging the former Internal Audit Department of the SAPARD Agency and the former Internal Audit Department of the Agricultural Intervention Center.

**The organization of the Agricultural and Rural Development Agency was subject to major changes in 2004, in association with the country's accession to the European Union.**

In 2004, the set of tasks related to rural development supports was attended by the Directorate of Rural Development Supports, and in association with the SAPARD Programme these tasks involved the management of applications and financial authorization. Within his scope of powers, the Director could provide professional instructions and guidance to the departments of the management of applications and the departments of accounts of the regional county offices.

In 2004, the majority of the work and tasks to be executed by the Directorate comprised the closing of the application management phase of the Programme, as well as the completion of contracting operations.

With the termination of the central application management tasks in relation to SAPARD at the Directorate of Rural Development and the office-level centralization of monitoring activities, the Department of Rural Development and Local Government Applications, the Department of Application Management for Agricultural and Food-Industry Enterprises, the Department of Evaluation and Analysis and the Department of Rural Development Summary Reports ceased to exist.

In order to develop the institutional framework required for the utilization of development facilities that were opened with the country's accession to the European Union, early in 2004 ARDA established the ARDOP Development Department, wherein from 1 September 2004 two teams were operated under the direct control of the Director of Rural Development: the ARDOP Managing Team and the SAPARD Managing Team. It was on 1 December 2004

when the ARDOP and SAPARD Coordination and Monitoring Department emerged from this latter department to carry out development, coordination and monitoring tasks.

In view to professional control aspects, the Department of Financial Authorization was transferred to the Economic Directorate to the Directorate of Rural Development Supports.

In the course of the restructuring of the organization, the Department of Financial Records and Booking entrusted with tasks related to payments and maintenance of support records associated with the SAPARD Programme, as well as the Payment Department of ARDOP–SAPARD were transferred from the Economic Directorate to the Directorate of Finance.

On **7 May 2005**, the organizational structure of ARDA was subjected to still another change.

The Regional Directorate and the Directorate of Rural Development Support were transferred from the direct control of the Chair to the direct control of the Deputy Chair.

Onsite audits and the associated monitoring activities in relation to the SAPARD Programme were taken over by the Department of Control of Rural Development Support.

The Payment Department of the Directorate of Finance became a separate body, while SAPARD payments were now entrusted to the ARDOP–SAPARD Payment Department.

In **2006**, two new Organizational and Operational Regulations (OORs) were issued at ARDA to reflect the changes having occurred in the organizational set-up of the Agency.

The OORs coming to effect on 1 March 2006 affected the Department of Financial Records and Booking of the Directorate of Finance in connection with the oncoming SAPARD processes, as booking tasks related to SAPARD processes were taken over by the ARDOP–SAPARD Booking Department.

On 29 September 2006, new OORs were adopted at ARDA to induce new organizational changes for 2006. The Directorate of Finance and Legal Division belonging to the Chair, as well as the Directorate of Rural Development Support belonging to the Deputy Chair was transferred to the General Deputy Chair. The Regional Control Division belonging to the Chair was transferred to the Deputy Chair. From the Secretariat of the Chair, a Secretariat Division was established that now incorporated the Department of the Preparation of Decision of Second Instance formerly operated under the control of the Chair.

At the regional county agencies, in 2006 four departments were involved in carrying out SAPARD tasks: the Legal Department, the Department of Application Management, the Department of Onsite Audits and the Department of Account Management.

As of 31 December 2006, ARDA had a total headcount of 1,220, including 61 associates working on the SAPARD Programme.

The headcount involved in the SAPARD activities continuously decreased throughout the years, as application management tasks basically ceased to exist. Similarly, the volume of account management and onsite auditing tasks gradually diminished, and thus in 2006 the emphasis principally shifted to follow-up supervisions and monitoring. Accordingly, monitoring associates were appointed at the county agencies to monitor the projects during the maintenance periods of the SAPARD projects.

### **4.3.2.2. SAPARD Managing Authority**

Activities of the SAPARD MA:

- programme management and coordination,
- in the field of monitoring:
  - establishment, operation of the monitoring system, supervision of such operations,
  - analysis and evaluation of the monitoring information collected into standard indicator tables by the Agricultural and Rural Development Agency (ARDA) acting as a SAPARD Cooperating Organization,
  - sending of monitoring information to the Monitoring Committee and the European Commission,
  - preparation of the annual implementation reports and final reports, as well as the sending of the same to the European Commission,
  - inclusion of the comments of the European Commission in the annual implementation reports and final reports, as well as the finalization of these reports,
- acting as the secretariat of the Monitoring Committee:
  - organization, conduct of the meetings of the MC,
  - preparation of background materials and documentations,
  - preparation of the memoranda of MC meetings,
- monitoring of financial fulfillments,
- provision of national resources required for the financing of the Programme,
- establishment of the scope of eligible costs.

#### **Organization of the SAPARD MA, changes**

Upon the start-up of the SAPARD Programme, it was the Department of International Relations (DIR) of the Ministry of Agriculture and rural Development that was appointed as the division to attend the tasks of the managing authority.

Tasks in relation to the Programme were executed by 4 full-time associates.

Notwithstanding the institutional changes occurring in the meantime, the manager of the SAPARD Managing Authority (MA) was acting as the head of this division all through the entire life cycle of the Programme (actually it was the same person).

At the same time, the manager of the SAPARD MA held the office of the Chair of the Monitoring Committee (MC).

Shortly before Hungary's accession to the European Union (1 May 2004), the Department of the Preparations for Structural Funds (DPSF) was established, and it took over the tasks of the SAPARD MA from the DIR.

DPSF was organized with 2 departments:

- DPSF Programme Management Department
- DPSF Finance and Monitoring Department

DPSF had 15 associates, and the following person worked in specialized jobs:

- 1 jurist
- 2 monitoring administrators and MC secretary
- 1 finance administrator
- 1 administrator being responsible for information activities

The person and the organizational position of the head of the SAPARD MA did not change.

After Hungary's accession to the European Union (1 May 2004), within the Ministry of Agriculture and Rural Development the Department of Authority (DA) was established to act as the legal successor of DPSF, and attend tasks in relation to the launching of the Agricultural and Rural Development Operative Programme (ARDOP) and operations of SAPARD MA.

Following the start-up of ARDOP, in December 2004 the Department of Managing Authority (DMA) was set up by means of enlarging the DA in order to handle the increasing volume of tasks and then – apart from the execution of the tasks of ARDOP MA – it took over the tasks of SAPARD MA, as well.

Since the closing of SAPARD, i.e. 31 December 2006, the SAPARD MA has been involved in the follow-up monitoring of the Programme with 1 monitoring and 1 financial associate within the Agricultural and Rural Development Department (ARDD), which was established in August 2006 within the Ministry of Agriculture and Rural Development.

#### 4.3.3. Changes in the SAPARD Operational Manual in the respective years of the implementation of the Programme

##### **2003**

In 2003, the SAPARD Plan was modified on two occasions, and the associated changes in the rules of procedures had to be executed, as well.

At its meeting in May 2003, the SAPARD Monitoring Committee approved the proposed modifications of the SAPARD Plan, and then they were consented by the STAR Committee convened for 25 June 2003. In the course of the modification of the SAPARD Plan, the project value limits of certain projects were increased together with the support rate of agricultural enterprises from 30–40% to 40–50%. As a new element, it was agreed that instead of the formally applied, fixed-amount profit expectation, the data of the test production system were to be taken into account for the examination of economical viability.

Among a series of decision made, the SAPARD Monitoring Committee resolved on the repeated modification of the SAPARD Plan at its meeting held on 27 November 2003, and as a result new elements were included in the calls for applications (cereals, feeds, biological vinegar, spices, herbs, processing of honey products). The scope of beneficiaries was broadened with vegetable and fruit producer groups, sales organizations and other producer groups (production and sales, as well as procurement and sales partnerships) An opportunity was opened for the financing of the procurement of other farm machinery and equipment, and clarifications, amendments were added to the parts pertaining to the manufacturing of milling-industry products, the manufacturing of livestock feeds, grape processing and wine-making. The modifications proposed by the SMC meeting held on 27 November were approved by the STAR Committee at its meeting on 18 February 2004.

##### **2004**

Besides the four measures having already been accredited, 2004 saw the accreditation of two additional measures (“Village development” and “Diversification of activities”), therefore the preparative, implementation tasks, as well as the establishment of the specific rules of

procedures were to be executed similarly to the process of the accreditation of the Agency. After the successful closing of supervision by the State Audit Office, the Agency submitted the accreditation package to the National Programme Authorizer to serve as the basis of the National Accreditation Resolution that was finally issued in November 2003. The EU accreditation pertaining to the two new measures was successfully closed at the end of April 2004. The new measures were conditionally announced on 14 January 2004, and in spite of the brevity of time the number of applications submitted was beyond expectations.

Due to the accession of the Republic of Hungary to the EU, as well as the start-up of the application phase of Structural Funds, the commitment period of the Programme had to be closed in 2004. In the light of the considerably increasing volume of contracting tasks, the emergence of problems in relation to headcount shortages and excessive workloads the right to execute contracts and contract modifications was transferred from the Center to the legal departments of the regional offices . These organizational changes had to be included in the effective manual, as well.

In 2003–2004, the implementation of the Programme called for major organizational changes, including the establishment of ARDA in 2003, as well as the most significant organizational change on 1 April 2004 that also required accreditation. Changes in the regulatory background, which affected that implementation of the SAPARD Programme necessitated the inclusion of additional modifications.

All the above-referenced changes were included in the SAPARD Operational Manual in a consistent manner, as involving all the related details and without the infringement of the accreditation criteria.

## **2005**

In 2005, the Operating Manual of SAPARD was modified on two occasions.

Such modifications concerned *account management* and *financial authorization*, and in association with these field the *legal and contracting activities*, while the rationale behind these modifications was the intent to accelerate payments to the beneficiaries. In account management and financial authorization, certain processes and documents were simplified, while the definition of the period being open for the acceptance of the support applications packages by the beneficiaries was clarified. As for legal matters, the task to certify the fulfillments of the eligibility criteria of supports was now entrusted to the regional offices . In the field of on-the spot controls, the repeated on the spot controls were replaced by authority supervision.

In Chapter B of the Operational Manual, a new (no. 14) directive was adopted to reinforce the proper practices of the separation of the different scopes of activities by considering the fulfillment of this requirement also in the course of relocation within the Agency or in the event of any change in the given job.

The other modification affected the routines of on-the spot controls. As proposed by the SAPARD Certifying Body (SCB), the authority supervision procedure included in the Operational Manual under version number 2005.02.28 was cancelled, and instead the process of a repeated onsite control accepted by SCB was introduced to ensure that upon the repeated

on-the spot controls, the persons involved in the process could inspect the conditions prevailing at the time of the original control.

Under the proposal of the European Court of Auditors, a process was introduced wherein during any on-the spot controls, the auditors could ensure that the term of the rental contract for any piece of land covered the entire period of the project.

## 2006

Version no. 2006.11.30. of the Operational Manual came to effect on 13 March 2007.

The associated changes concerned legal and contracting activities (Chapter D2A) and account management (Chapter D3).

The modification of the legal procedures in relation to contracting was necessitated by the intent to accelerate certain authorization procedures that were still applied in the given phase of the implementation of the SAPARD Programme.

According to the rules of procedures being applicable at that time, the cancellation of mortgage rights established for the benefit of the Agency, the withdrawal of the letters of authorization, the additional encumbrance of mortgaged properties, the authorization of modifications in relation to the registered mortgages, the lease-out or alienation of the assets, facilities purchased or implemented in the framework of supports were all subject to the prior approval of the Chair of ARDA. With the modification introduced, the Chair of ARDA assigned the rights to sign such actions to the manager of the Legal Department.

Changes were to be made in connection with the sampling procedure conducted prior to the financial authorization of support demands, because in that closing phase of the implementation of the SAPARD Programme, the volume of folders containing application claims received on a weekly basis started to drop drastically. Therefore, towards the proper taking of 10% samples, the basis of sampling had to be widened, and therefore – as deviating from the former sampling routines of the regional offices – samples were randomized from the application claim folders received from all the seven regional offices.

### 4.3.4. Capacity and other human-resource problems influencing the implementation of the Programme

The final submission deadline tuned for to the country's accession to the EU (30 April 2004) and the preceding, highly intensive campaign generated a number of new applications, which corresponded to the amount of applications received in the previous two years on the aggregate. This fact and the execution of additional tasks put considerable workload on the office system that had been designed for a smaller number of applications. In the first half of 2004, the number of applications to be processed by a single application manager increased by 300%.

Another problem was that **the majority of applications** showed some **deficiencies to be made up**, or supplementary data and information had to be requested. It is obvious that such a workload on the Agency could have been avoided if the applicants and professionals involved in the preparation of applications had been provided with more thorough training.

In the regional county offices, onsite supervisions were conducted in parallel with the management of accounts, which led to peak workloads, and thus **the number of** on-the-spot controls **proved to be insufficient**.

The different **regional county offices handle varied amounts of applications**. The workload to be handled by the regional offices , which received applications from the Eastern regions and the Western Trans-Danubian Region was exceptionally high: Csongrád County, Szabolcs-Szatmár-Bereg County, Borsod-Abaúj-Zemplén County and Zala County. The handling of applications in the Somogy County and Veszprém County regional offices remained average, whereas the regional agency for Budapest and Pest County did not even reach the average.

Similarly to 2004, with respect to the capacity and human resource factors influencing implementation, the majority of the problems were imposed by insufficient resources in the light of peak workload.

In 2005, personnel conditions became gradually more favorable in view to the increasing volume of actual payments. According to the corresponding figures for 2004, the workload to be handled by the account managers of the regional offices (RA) as well as the Department of Financial Control and the Department of Payments, in fact doubled. The 100% increase in payments meant extra tasks to the on-the-spot controllers, the legal experts of the regional offices and the associates of the Legal and Contracting Department.

With regards to payments, the first half of 2005 brought about the peak in workload – on the level of account managers, auditors and legal personnel, as well as the Center and the regional offices –, as the total amount of payments authorized in the course of these 6 months reached to the aggregate of SAPARD supports having been disbursed in 2003 and 2004. To execute this volume of tasks that remained over the available capacities for a longer period, working on the weekends also became necessary, similarly to the situation at the end of 2004. Considerable delays occurred in connection with the processing of financial statements received. Thus, the simplifying modification of account management and financial authorization activities described in the SAPARD Operational Manual did mean some assistance.

On the other hand, the situation was eased by the fact that the number of SAPARD claim submitted tended to decrease as it was foreseeable in that late phase of the Programme.

Nevertheless, a substantial proportion of the financial claim submitted repeatedly called for the making up of deficiencies, which caused a material volume of extra work and delays in the processing time. The time demand of working processes attended between the submission of the financial statements and their submission to the decision-making bodies considerably exceeded the time limits, which had been set for the execution of the individual working processes.

The progress of the projects and the control of statements also called for significant on-the-spot control capacities, while the related personnel and material conditions remained insufficient due to the peaks in workload. The management of ARDA tried to ease the problem with the regrouping and redistribution of human resources.

The effectuation of project monitoring tasks also meant growing problems to the regional offices, which they tackled with the internal regrouping of the personnel. The regional offices initiated the setting up of independent monitoring teams.

Eventually, it was the year of 2006 that offered an opportunity to cope with the accumulated delays, as the peaking workload in 2004 and 2005 – in terms of application management, contracting, modifications, supervisions and payments – was followed in 2006 only by the submission of the claims of the contracts still being in progress, and therefore the volume of work at the county offices considerably moderated. After the submission of the final statements, the emphasis is basically shifted to follow-up activities.

#### 4.3.5. Programme monitoring, operation of the information service system

##### 4.3.5.1. ARDA's monitoring activities

**ARDA's monitoring activities** are two-way. It is involved in both project (implementation, operation) and programme monitoring activities.

The attendance of project monitoring activities is required by MAFA in Section 1/f) and 2/f) of Article 5 and Section 2.11 of Article 14 of Annex "A". Chapter D/4 of the Operational Manual regulating the execution of these tasks in line with the relevant requirements of MAFA. The specification of the programme monitoring tasks are included in Article 6 of Annex "B" of MAFA, as well as in Chapter D/9 of the ARDA SAPARD Operational Manual.

Under the said regulations, it is required to

- conduct on-the spot controls for the ascertainment of eligibility before and after the authorization of the project,
- take appropriate measures to ensure the proper progress of the project in process,
- supervise beneficiaries after the payment of the supports towards the continuous fulfillments of eligibility and other criteria,
- to introduce adequate systems towards the preparation of reports on the basis of the pre-specified indicators as pertaining to the status of the implementation of the individual projects and measures.

Pursuant to the relevant requirements of the Operational Manual, the application management experts at the regional offices are responsible for the continuous monitoring of the approved projects to be implemented by the beneficiaries throughout the period of implementation.

#### 2004

In 2003 and early 2004, the application managers were executing project monitoring activities within the limits of the available capacities. The mass submission of applications at the end of April 2004, as well as the up-to-date information demand of the tasks associated with the closing of the SAPARD Programme clearly highlighted the weak points of the system.

Due to the doubling of the number of applications, data entering tasks "peaked" at the units involved in the registration of data, and the responsible persons tried to execute these tasks in addition to the increased workload in other activities. The basic data of the submitted applications (ID, name, project value, requested support, date of receipt) were registered and reconciled, yet due to the large volume of data to be registered the updating of the data sets suffered some delay, and therefore the full uploading of the database took place only as late as

at the beginning of 2005. In spite of the tense work pace and the continuous data uploading activities of the regional associates, the findings of the supervisions (e.g. control SCB data request by the State Audit Office) did not evaluate positively the quality of information service, yet they invariably acknowledged and emphasized the lack of adequate personnel conditions.

In the light of their experience, the staff of the Agency made a summary of the problems occurring in the database and the processes of data updating, and consulted with the staff of the IT Directorate on the potentials of IT developments.

## **2005**

ARDA programme monitoring activities were performed by the staff of the Rural Development Coordination and Monitoring Department who on a quarterly and annual basis prepared reports, analyses from manually collected data.

Thereafter, in the second half of 2005 the Rural Development Coordination and Monitoring Department commenced a comprehensive review on monitoring activities. The objective was the proper attendance of monitoring supervisions by the assignment of the available personnel and material conditions to the respective tasks, and the provision of such conditions as required.

In order to make programme monitoring more transparent, simpler and faster, a proposal was made to set up a centralized Monitoring Department, as well as to increase the number of staff involved in monitoring at the regional offices . Under the proposal of the deputy under-secretary of the Ministry of Agriculture and Rural Development, in November 2005 a work team was established with a detailed plan of tasks; this team belonged to the direct professional control of MA, and was entrusted with the reinforcement and strengthening of the entire scope of monitoring activities on the level of ARDA.

## **2006**

In the second half of 2005 the Rural Development Coordination and Monitoring Department (RDCMD) commenced a comprehensive review on monitoring activities. The objective was the proper performance of monitoring visits by the assignment of the available personnel and material conditions – as relocated from other areas – to the respective tasks, and the provision of such conditions as required. In 2006, the outcomes of the activities by the Department surfaced in the establishment of monitoring teams, as well as the well-organized, scheduled and high-standard effectuation of project monitoring.

In October 2006, in the form of a professional implementation plan RDCMD proposed the establishment of SAPARD–ARDOP monitoring teams within the onsite supervision departments of the regional offices , and then December 2006 saw the setting up of monitoring teams in each regional agency.

### **4.3.5.2. Programme monitoring**

On a quarterly basis, the data collected by ARDA on the project level are consolidated on the programme level in the form of the indicator tables required by the Commission. These data are put forward to the MC, and then sent to the Commission.

### **4.3.5.3. MA's monitoring activities**

Activities of the SAPARD MA:

- establishment, operation of the monitoring system, supervision of such operations,
- analysis and evaluation of the monitoring information collected into standard indicator tables by the Agricultural and Rural Development Agency (ARDA) acting as the SAPARD Intermediate Body ,
- sending of programme monitoring information to the Monitoring Committee and the European Commission,
- preparation of the annual implementation reports and final reports, as well as the sending of the same to the European Commission,
- inclusion of the comments of the European Commission in the annual implementation reports and final reports, as well as the finalization of these reports,

### **4.3.5.4. Development of the IT registration system and database**

With respect to the delayed start-up of the Programme back in 2002, the rules of procedures of the SAPARD Agency was accredited on a paper-based process in order to select the least time-demanding procedure.

The paper-based techniques of the collection and registration of data were amended in parallel with the increase in the number of applications received, and certain tables were also deployed to facilitate retrieval and summary tasks.

In order to follow-up the processing of applications, the proper establishment of the data contents of reports, as well as informing the management of the Agency, a database based on Microsoft Access was prepared. The tables of the database were updated by the regional agencies and the central units being responsible for uploads on a weekly basis. Due to the weekly uploads, this data repository could reliably follow the actual processes with two-weekly delays. Owing to the manual operations, erroneous data registration occurred quite frequently, the correction of these errors proved to be difficult, because the majority of control operations could only be carried out by means of comparison with paper-based documents, and moreover the methods and regularity of follow-up reconciliation with other records were not properly defined.

Until 2006, monitoring data for the operating period were submitted and evaluated manually.

In a public procurement procedure in 2006, ARDA commissioned a company called "DATEN-Kontor Számítástechnikai Fejlesztő és Szolgáltató Kft." to structure the IT programme of the SAPARD monitoring system.

The IT system, which has been operating since July 2006 did not replace the execution of tasks and activities accredited on a paper based system as set out in the SAPARD rules of procedures. The new IT system did not replace the previously accredited financial and accounting system. The new IT system supported the execution of computational and summing tasks, which were routine tasks and were part of the daily round of business. The IT system gave support in the preparation of the progress report on project level according to the specified indicators of the SAPARD measure. Since the IT system did not replace the SAPARD Operational Manual accredited as a paper-based system, the accreditation of the IT

system according to the Multi-Annual Financing Agreement (MAFA) was therefore not necessary.

The IT system meets the criteria set forth in Section 2.2.1 of Article 14 of Annex “A” of MAFA and Section 1.g) of Article “A” of Annex “A” of MAFA, as it provides the data sets containing information, which is required for the evaluation of the applications, and implements the IT support of the reports pertaining to the progress of the measures in process and in line with the specific indicators.

Following the test runs, the programme has been operating since the middle of July 2006. The associates of the various functional departments, data owners and administrators have been trained about the application of the new IT system.

At present, there is a concept about the development of the IT system, the establishment of a uniform rural development monitoring information system and database, so that the support details of future funds could be integrated into a single system.

#### **4.4. The analysis of the TA funds used for programme management; information activities**

TA funds used for programme management and monitoring

Technical Assistance (TA) is the measure of the SAPARD Plan which ensures the implementation of the other measures of the Programme.

At its meeting of 8 October 2002, the SAPARD Monitoring Committee approved the comprehensive strategy of TA, which includes the monitoring plan of the Programme, the tasks of evaluation, and the communication plan.

Hungary mainly supported information activities in the framework of the Technical Assistance measure, while the management costs of the programme were provided from the national budget. The TA fund was mainly used for the organisation and implementation of meetings of the Monitoring Committee, as well as evaluation activities, as shown below:

Activity implemented by the Managing Authority (MA)	Cost of project
Meetings of the SAPARD Monitoring Committee (21 May 2003 and 27 November 2003)	HUF 242,836 HUF 384,725
Intermediate-term (interim) evaluation of SAPARD Programme	HUF 25,294,887
Meeting of the SAPARD Monitoring Committee (18 June 2004)	HUF 328,125

Steps taken for the more comprehensive involvement of local entities in the implementation of the SAPARD programme

Partnership was used in the planning and the provision of opinions, but mainly in the framework of the activities of the Monitoring Committee (SMC). The members of the SMC included the economic and social partners – including employers’ and employees’ representatives, the professional/sectoral chamber and the chamber of commerce, and the regional development councils - as well as representatives of the private sector and NGOs.

## Information and diffusion of knowledge

Technical Assistance (TA) is the measure of the SAPARD which ensures the implementation of all other measures of the Programme. At its meeting of 8 October 2002, the SAPARD Monitoring Committee approved the comprehensive strategy of TA, which includes the monitoring plan of the Programme, the tasks of evaluation, and the **communication plan**.

The financial framework of the Technical Assistance measure was mainly used for the financing of the information and diffusion of knowledge activities related to the MA SAPARD programme, as follows:

<b>Activity implemented by the Managing Authority (MA)</b>	<b>Cost of project</b>
8 <sup>th</sup> St. György Day Agricultural Exhibition and Fair, Pápa	HUF 102,750
Participation at the Gödöllő Farmers' Day	HUF 618,000
Participation at Bábolna International Farmers' Day	HUF 437,488
Participation at the Pannon Animal Husbandry Days in Kaposvár	HUF 295,000
Preparatory training for the two new measures of the Programme ("Village development and renewal, protection of the material and spiritual heritage of the countryside" and "Diversification of activities, development of income-generating economic activities") in 19 counties	HUF 20,000,000
Preparation of wall calendar for Year 2004 (2000 copies)	HUF 300,000
Comprehensive, national closing information programme	HUF 25,000,000
Participation at the 9 <sup>th</sup> St. György Day Agricultural Exhibition and Fair, Pápa	HUF 110,625
Updating of the publication "20 questions on the SAPARD programme" with the title "20 questions on the SAPARD Programme and its continuation in ARDOP" (8000 copies)	HUF 737,500

In view of the fact that the financial resources available in the framework of the SAPARD Programme, the Technical Assistance measure became available for use later, than the time, when the MA had to start popularising the Programme, several information activities were carried out with funding from the national budget.

The first step raising consciousness of the SAPARD Programme was the creation of the own, official logo of the Programme in 2002, which was followed by the preparation of advertising/gift items showing the SAPARD logo (5000 pens and 5000 card calendars), which were distributed at agricultural trade fairs and conferences, and was also sent to the SAPARD Agency and its Regional offices, the National Fund, and the State Audit Office.

After the official opening of the Regional offices of the SAPARD Agency, they started their customer service and information activities from 2002, in the interest of the success of which a strategy was drawn up. This strategy was aimed at information activities in several steps, building one upon the other, along with the principle of gradual reinforcement. The information campaign was tied to the progress of the accreditation process, the final stage of which was to target the mobilisation of the potential applicants. The provision of information and then the mobilisation activity was built on local, regional and national levels. In the framework of its information activities, the SAPARD Agency held more than 700 presentations in 2002, and participated in agro-expos on 42 occasions, which provided opportunities for establishing contacts with potential applicants. In some of the regions, special information days were designated, lectures, consultations, presentations and

information events were held, in the course of which a regularly recurring topic was the implementation of the programme. Participants were mainly interested in the topics of accounting and operation.

In the interest of communication reaching the broadest possible circle, the SAPARD Agency contacted local representation bodies and public boards by mail, in order to provide direct information to their members. In the mobilisation stage, which started following the coming out of the call for applications, the customer service journal kept in the regional offices proved to be very useful, as on the basis of entries in the journal, the intention to participate could be reinforced by contacting interested parties. The effect of the media mix (printed press, radio and television coverage) used in the final stage of the application process was praised by the press itself.

Also in 2002, a SAPARD link was made available from the homepage of the MARD. This link provided access to general information about the Programme, the basic documents and related provisions of law, as well as documents related to the SAPARD Monitoring Committee and its meetings. The list of successful applications was published in the official gazette and on the website of the Ministry.

The MA prepared a **questionnaire in order to survey the effectiveness of information on the SAPARD Programme**. In various locations across the country, including trade fairs, exhibitions, EU information days, including the SAPARD information days organised by the SAPARD Agency, and especially on village agronomist trainings a large number of questionnaires were filled in by interested persons. **The updated questionnaires in 2003 and 2004 were received by applicants together with the application package** at the Regional offices of the Agricultural and Rural Development Agency (ARDA - the legal successor of the SAPARD Agency).

On the basis of the evaluated questionnaires, people interested in agriculture, rural issues and the Programme most frequently listen to Kossuth Radio, for which reason social-purpose advertisements were broadcast on several occasions over several days about the different measures available under the SAPARD Programme, which was funded from the resources of the MARD.

In 2002, the MA prepared its publication titled “20 questions on the SAPARD Programme”, which was available at various events related to the Programme, as well as at the regional offices of the ARDA. In 2004, the publication was updated and supplemented with the current issues related to the SAPARD-ARDOP transition. The publication was printed in 8000 copies with the title “20 questions on the SAPARD Programme and its continuation in ARDOP”, of which 6000 was delivered to ARDA, which was in direct contract with potential applicants.

On the commission of the Department of Education, Research and Development of MARD, the Training and Special Consultancy Institute of the Ministry of Agriculture and Rural Development (MARD TSCI) asked the colleagues of the Managing Authority to prepare a training material introducing the SAPARD Programme. The book was published in 2003 with the title “Textbook on the operation of the SAPARD Programme in Hungary”. The book was made available free of charge to concerned parties by MARD TSCI, ARDA and its agencies and the MA. MARD TSCI organised a two-day training programme based on the two-volume publication in each of the counties, with the participation of the Regional Special Consultancy Centres, from the SAPARD TA funds. A copy of the training material was also sent by the MA to all members of the SAPARD Monitoring Committee.

The communication activity in 2004 was already focused on the discussion of the achievements of the Programme.

The MA organised (in all 19 counties) a nationwide preparatory training/training between 19 February and 30 March 2004 with respect to the measures titled “*Renovation and development of villages and protection and conservation of the rural heritage*” and “*Diversification of economic activities, providing for multiple activities and alternative income*”, which was attended by a total of 700 participants. The training provided an opportunity in all counties to become familiar with the two new measures and to get answers to any questions raised. The participants found the methodological help with the drawing up of the applications particularly useful.

The regional offices of ARDA kept regular contact with the local media, and they discussed the achievement, the implementation and the effects of the Programme on the agricultural sector of the region and the count at professional information and other events and in the press.

On the occasion of the closing of the SAPARD Programme, in March and April 2004, with the help of a company chosen by way of a public procurement procedure, a nationwide, comprehensive, multi-channel information activity was carried out by the MA in order to inform the widest possible target group on the fact that applications for the non-refundable SAPARD grants financed by the European Union can only be submitted until 30 April 2004.

In the framework of the project, a total of 53 printed advertisements were published in national and county circulation daily newspapers, monthly magazines and trade journals; there were 55 broadcasts of 30-second spots on 2 radio stations; 100 billboards were installed on the approach road sections of national highways leading to county seats (except Budapest), and 1500 B/1 size posters and 1500 handbills were also printed.

The staff of the MA and the ARDA took every opportunity to introduce the current issues, news, results and achievements related to the implementation of the SAPARD programme at professional and social forums and in the media.

The implementation of the totality of the information and knowledge dissemination activities related to the SAPARD Programme took place in harmony with the overall strategy of the TA, and can be regarded successful, since owing to the properly and efficiently used information activities, the number of applications submitted to the SAPARD Agency was above expectations and also exceeded the figures of the other candidate countries.

#### **4.5. Cooperation with other Community funds and bilateral funds; evidencing that the Community sources did not replace already existing sources**

Similarly to the other candidate countries, apart from the SAPARD programme, several projects were under preparation in the ISPA and in the implementation phase under the PHARE programmes.

The preparation of the programmes and the definition of the aims were coordinated on the level of the government in order to ensure that the development realised are properly harmonised.

The application management system of the SAPARD programme was established in such a way, so it excludes the reception of funds from other Pre-Accession Funds or from other national budgetary funds (with the exception of co-financing) for any measure of the

SAPARD programme. The National Grant Monitoring System (NGMS) operated by the Hungarian State Treasury (HST) was in place to ensure the above.

ARDA, in view of Article 1 of Annex C of the MAFA and in order to protect the financial interests of the EU, considered the prevention of repeated or parallel supporting of projects of identical objective and content, or the accounting of the same expense twice, as a priority task. With respect to the above, the SAPARD Operational Manual of ARDA contained detailed mandatory regulations, along with the definition of responsibilities related to the procedure.

In order to prevent overlaps, contracts for the ARDOP measures could only be concluded following the closing of the SAPARD contracts.

The following summary shows the different types of national support systems and resources that were available prior to Hungary's accession to the EU and demonstrates, that community resources did not replace existing national funds.

Prior to Hungary's accession to the EU in 2004, expenditure for investment-type developments increased significantly. Around half of the support given for such developments was spent on machinery procurements, the other half was spent on construction-type investments and the plantation of crops.

In the financial year of 2002, the Hungarian Finances Act appropriated HUF 64,7 billion for investment-type support in connection with basic agricultural activities. The actual paid support in 2002 was HUF 66,1 billion, which was 18% higher than the amount paid in the previous year.

In the financial year of 2003, HUF 51 billion was paid for investment-type support linking to basic agricultural activities. The SAPARD Programme provided support of some HUF 14 billion for agricultural-investments, however due to the late start of the Programme, support was paid only for certain types of investment.

In the financial year of 2004, the original financial appropriation available for development-type support was HUF 23,28 billion. This amount consisted of the resources available for the purchase of new machinery, construction, plantation of crops, melioration and other technological developments.

If we analyse the different measures, the following results were achieved:

#### Construction-type investments:

In 2002, HUF 12,2 billion worth of support was paid to the beneficiaries. Certain sectors of the food-processing industry were altogether provided HUF 1,6 billion in order to assist the industry's investment-type developments. The greatest proportion of this support was given to meat and fish-processing, and to the production of mill-industry produce.

In 2003, HUF 10,1 billion worth of support was committed. Preferential support was given to the vegetable-and fruit producer groups, since following Hungary's accession to the EU, the fruit and vegetable sector could only be granted support through the so called producer groups.

### Machinery procurement, modernization of technology

In 2002, with the regrouping of funds, the Hungarian Ministry of Agriculture spent HUF 32,3 billion in order to meet the financial needs of those applications, which were aimed at purchasing new machines. The regrouping of funds significantly contributed to the modernization of the machine stock, and also helped the financial endowment and the technological development of the sector.

In 2003, HUF 28,2 billion was used for the support of the purchase of new agricultural machinery, which was complemented by the financial assistance available through the SAPARD Programme.

### Plantation of crops

In 2002, HUF 11,5 billion was committed for the plantation of crops. In 2003, HUF 9,1 billion was used for this type of investment.

Owing to the available resources, grapes specific to a certain region were re-planted, and new fruit varieties were also planted. Great interest was shown in the plantation of walnuts, elderflower, pears, plums and cherries. The proportion of the apple plantation increased compared to the previous years.

## **4.6. Equal opportunities and environmental sustainability**

With respect to the announced measures of the SAPARD programme, undertaking compliance with the minimal environmental and nature conservation requirements, as well as documenting the same with permits of specialised authorities if necessary, was a criterion of entitlement under all investment- type support measures. Environmental sustainability also appears as an aim in case of the individual measures, and is one of the selection criteria.

The principles of equal opportunity and environmental sustainability were enforced in the measures of the SAPARD programme as well as their implementation in all cases.

### *111 - Investments in agricultural holdings*

The measure also contributed to the protection of the environment by way of raising the level of efficiency of the production with the upgraded equipment and machinery, and by way of **reducing energy use**. The wider use of **environmentally sound procedures** in animal husbandry, the **environmentally friendly manure handling** and use also contributes to the implementation of the Nitrate Directive (676/1991/EU). As a result of the developments, the outdated technologies were replaced by **environmentally sound and efficient technologies**.

Applicants were required to submit the specialist opinion of the regionally competent environmental authority on the project, and to provide information on the potential environmental effects of the project (e.g. noise level, use of chemicals, air, water and soil polluting substances, hazardous wastes), as well as on methods for eliminating and managing the above, especially in environmentally sensitive areas. **Projects with an overall negative effect on the environment were not eligible for funding.**

Animal farming investment projects were only eligible for funding if the applicant was able to demonstrate that he would store and use the organic manure generated on the farm in a way that the limit value set forth in the Nitrate Directive is not exceeded.

Favourable evaluation was used in case of projects related to agricultural-environmental target programmes.

In case of sub-measures 1113 and 1114, those applicants received favourable evaluation, whose projects could reduce the environmentally damaging effects of operations and storage losses significantly (by at least 30%). Favourable treatment was also given to investment projects supporting environmental and animal welfare conditions in the pig and poultry sectors.

In the course of the measure, the proportion of plants managed by women been monitored.

#### *114 - Processing and marketing of agricultural and fishery products:*

In the framework of the measure support can be given for the production, processing and sale of products in compliance with the relevant food safety, hygiene, environmental and animal protection requirements. The objective was to **reduce environmental loads** caused in the course of the processing of the products and improve the overall level of technological standards. By way of enforcing the requirements for the protection of the environments, pollution was reduced.

The applicants were required to enclose the specialist opinions of the animal health and environmental protection authorities of regional competence on the project.

Favourable treatment was given to applications where the effect of the development on the environment was positive. This meant the realisation of environmentally conscious management, significant reduction of environmental loads, compliance with the conditions in the relevant EU legislations as a result of the development.

#### *1305 - Renovation and development of villages and protection and conservation of the rural heritage*

By way of improving living conditions, this measure **contributed to the creation of equal opportunity** for especially disadvantaged regions and their residents, and to the starting of the process of catching up economically. The creation, maintenance and use of high quality built and broader living environment is an important element of the protection of the environment as well.

#### *1306 - Diversification of economic activities, providing for multiple activities and alternative income*

Favourable treatment was given to applications where the effect of the development on the environment was positive.

#### *1308 - Development of rural infrastructure*

The investment projects supported in the framework of the measure (alternative energy sources, innovative wastewater management procedures, etc.) served the purpose of helping rural settlements catch up and become competitive by way of using cost-efficient solution that also gave consideration to sustainability and the protection of the environment.

From among projects related to alternative wastewater management, positive treatment was given to those, where the **use of by-products** and **ecological efficiency** were at a high level.

From among projects aimed at the development of energy supply for enterprises, positive treatment was considered for those applications, where **innovative technologies using alternative energy sources** were used.

## 4.7. Public procurement procedures

### 4.7.1. Public procurement procedures until Hungary's accession to the EU

According to Annex “A” of the MAFA, Article 14, Section 2.6, beneficiaries that qualify as public organisations shall be required to conduct public procurement procedures.

The purpose of public procurement procedures is to ensure the most efficient use of the sources available for the implementation of projects with community support, where the control function of the owner is not enforced directly, meaning beneficiaries, whose annual operating and investment sources wholly or to a significant extent come from the central budget.

According to Chapter D/7 I. of the Operational Manual of the SAPARD Agency, the following beneficiaries are qualified as public organisations:

the state, the central budgetary organs, and with respect to the implementation of the Technical assistance measure, also the Managing Authority of MARD;

regional and local municipalities;

organisations under the scope of public law<sup>1</sup>;

as well as economic associations and other partnerships formed by the organisations listed under 1-3 above.

In case of public organisations, the supply, service or construction contracts for the use of the available development sources can only be concluded with a bidder selected in the course of a application procedure conducted in accordance with precise and uniform rules.

In the procedure, the circle of potential suppliers, who needed to be informed of the application opportunity expanded as a subject of the total amount of investment (direct commission, simplified procedure, local open tender, international open tender).

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<sup>1</sup> Organisations falling under the scope of public law, which

- were formed for the provision of tasks in public interests, and who pursue activities other than production or trade; *and*
- have a legal personality; *and*
- finance their operation mainly from the sources of organisations falling under state, local government or public law regulation, or whose control is under the control of such organisations or bodies, more than half of the members of which are appointed by the state, or the regional or municipal governments.
-

It was the responsibility of the beneficiary public organisations to enforce the procedural order set forth in the Handbook of Regulations accepted by the Commission on 10 November 1999.

The task of ARDA in the procedure was to monitor (check) the public procurement procedures of the public organisations, as well as compliance with the Handbook of Regulations and the Guidelines. The checked public procurement procedures were carried out by ARDA in accordance with the current Operational Manual and MAFA, Annex "A", Article 14, Section 2.6. On the basis of the document examined, all procedures were found in order.

#### 4.7.2. The application of Act CXXIX of 2003 in the order of procedures of SAPARD

On 1 May 2004, Hungary became a member of the European Union. The public procurement act harmonised with the public procurement directives of the European Union (Act CXXIX of 2003, hereinafter referred to as the PPA) came into effect on 1 May 2004.

For procurements commenced after 1 May 2004 and for related payments – according to the Multi-Annual Financial Agreement (MAFA), Annex "A", Article 14, Section 2.6, 2.7 and Annex "F", Section 8 - the provisions in effect for public procurements are applicable, the essence of which is that after the accession of Hungary to the EU, there is more opportunity for enterprises and business of other EU member states also to submit their bids for investment projects to be realised in Hungary.

It is the official position of the Ministry of Justice that the provisions of the new PPA, which came into effect on 1 May 2004, cannot be used in case of the already closed SAPARD programme, because the application phase of the Programme was closed on 30 April 2004.

In connection with regulatory and other changes, ARDA modified the Operational Manual on 9 April 2004, and the proper rules of procedure for public procurements were incorporated into this new version.

In the course of the checking of the public procurement procedures used, the SAPARD Certifying Body (SCB) found that ARDA monitored the public procurement procedures of the entities required to conduct public procurement procedures in accordance with the requirements of the Operational Manual. In case of deficiencies identified, ARDA ensured that order is restored according to the regulations.

### 4.8. Competition regulation

In Article 62 of the European Agreement signed by the Hungarian Republic and the European Communities and its Member States in December 1991, Hungary undertook an obligation to observe the relevant rules of the Communities when providing state aid aimed at enterprises. According to Section 48 (r) of Act XXXVIII of 1993 on the state budget, the Minister of finance is responsible for the fulfilment of this undertaking, who carries out this task by way of the **Aid Supervision Bureau** (Hungarian abbreviation TVI). Pursuant to Article 62, Section 4 (b) of the European Agreement, ASB prepares a report annually to the Commission of the European Union on the amount, form (non-refundable, interest-supports, provision of

guarantee, etc.) and purpose (research and development, regional development, environmental protection, SMEs, etc.) of the support provided to the competition (private) sector.

The support measures of the SAPARD Programme have been reported to the State Aid Monitoring Office.

The Office maintains active contacts with the General Directorate of Competition of the European Commission on the basis of Article 62 of the European Agreement, either party is obliged to inform each about any specific support case upon request.

#### **4.9. Common Agricultural Policy**

The SAPARD programme **does not support developments resulting in any excess of the prescribed quotas** in case of products subjected to quotas in relation with any national level production extension. With regards to the related measures (investments in livestock keeping sites), one of the criteria of entitlement was that the investments cannot result in an expansion of capacities on county level. Records of the capacities were kept by the county animal health and food inspection stations under the measure „Processing and marketing of agricultural and fishery products”.

Projects for the expansion of capacities of liquid milk-processing, powdered milk, casein and butter production, or pig, cattle and poultry slaughtering facilities were only eligible for aids if the processing capacity on the national level was not extended thereby.

No support could be awarded to the extension of grape processing capacities either.

The report for sensitive sectors was on the agenda of all SMC meetings, and it can be stated that in the course of the implementation of the programme, the SAPARD support did not result in an increase of capacities in these sensitive sectors.

## 5. Auditing and control activities of the SAPARD Programme

SAPARD is the first pre-accession instrument, where the EU dispensed with the preliminary (ex-ante) auditing of the expenses by the European Commission, allowing candidate countries to audit and manage the supports themselves.

The auditing system of the Programme was constructed to contain the following elements:

- ✓ Performance of independent internal auditing tasks
- ✓ Performance of project-related audits in various phases of the implementation (before decision, in connection with payments and in the stage of operation)
- ✓ External Audits (Certification Body, EU Commission, EU Court of Auditors)

In addition:

- ✓ ARDA prepares quarterly reports to the Managing Authority on the experiences of the implementation of the SAPARD Programme, in which the experiences of the ex-ante, mid-term and ex-post on-the-spot controls, as well as the financial controls of the partial and final accountings are also summarised.
- ✓ ARDA reports orally and in writing to the SAPARD Monitoring Committee at the meetings of the latter, on the progress of the Programme and on current issues.

According to the Multi Annual Financial Agreement Annex “A”, Article 14, Section 2.5, ARDA is to operate independent internal auditing within its organisation. During the existence of the SAPARD Agency and its legal successor, ARDA, the internal audit tasks are carried out by an independent department, the Department of Internal Audit of Rural Development Supports, within the Division of Internal Audit (DIA). The independence of DIA is provided by Order of ARDA’s President No. 35/2004. (VIII. 23.), as amended by Order of ARDA’s President No. 46/2004. (XI. 29.).

DIA is performing its work under the direct supervision of the president of ARDA, and it is obliged to submit its reports to the president. The Department must operate in compliance with the relevant provisions of national and community law, other legal means of state administration, the Order of the ARDA’s President, the Internal Audit Operational Manual, and the international auditing standards and recommendations.

The Agricultural and Rural Development Agency is responsible for the following auditing and controlling tasks in connection with the SAPARD pre-accession programme:

- ✓ **checking of payment claims** (financial control), authorising and executing payments;
- ✓ **on-the-spot controls** (on-the-spot / fiscal control) in order to determine eligibility prior to the approval of the project (ex ante) and following the implementation of the project (ex post);
- ✓ **ex-post monitoring** (monitoring visit) in order to ensure and assist the progress of projects being implemented and operation.

The on-the-spot controls are carried out by the On-the-spot Control Departments of the County Offices of regional competence of the Agency, while the professional coordination

and the repeated control tasks are performed by the Department of Control of Rural Development Supports of the Regional Control Division of the Agency.

The financial controlling tasks are carried out by the Account Management Departments of the County Offices of regional competence of the Agency (central physical control unit), while the professional coordination and the repeated control tasks are performed by the Department of Financial Authorisations of the Directorate of Rural Development Supports.

The monitoring and data collection tasks are carried out by the On-the-spot Control Departments of the County Offices of regional competence of the Agency, while the professional coordination with respect to project monitoring is provided by the Department of Control of Rural Development Supports of the Regional Control Division of the Agency, with the professional guidance of the Director of Rural Development Supports.

In the course of the drawing up and the implementation of the rules of procedures and other documents, the four-eye-principle, as well as the supervisory control built into the process were used throughout.

## **5.1. The internal auditing activity of the SAPARD Agency**

As a result of the organisational restructuring that took place on 1 July 2003, a Division of Internal Audit (DIA) was set up on the basis of the former Department of Internal Audit. The DIA created its Statutes and Operational Manual in connection with the organisational changes. The Operational Manual of DIA contains the structure of the organisation, the basic principles of the performance of the audit tasks, the steps of audit planning, the methods and process of auditing and the staff issues of the Division. The audit plans set forth in the Operational Manual of DIA in a yearly breakdown are suitable for the performance of the auditing tasks, and ensure that each area is audited at least every 3 years. The Division is working on the basis of the International Auditing standards. The results of its activities are documented in working papers, and on the basis of the audits carried out, it prepares reports and recommendations for the top management of ARDA.

The audit report of the Department of Internal Audit examined the activity of the application management of the SAPARD Agency. The report was prepared about the processing of the applications, the method of adapting decisions on supports, the conclusion of support contracts, and the controlling of the activities related to financial authorisation. The report summarised the comments related to the procedures and documents of the Operational Manual, and made proposals and recommendations.

The Re-performance report of the Department of Internal Audit contains a full-scale evaluation of the operations of the SAPARD Agency; the report stated that Department of Internal Audit carried out its audits in accordance with internationally accepted auditing standards.

The Department of Internal Audit also audits the operation of the County Offices of regional competence of the SAPARD Agency in the field of application management, account management and on-the-spot control.. The interim control reports prepared of the individual regions contain the description of the risk management and sample taking, a protocol on the summary of the applications and the sampling, the result of the sampling, the findings of the audit, and the general experiences of the control. The reports provide a comprehensive view of the work and operation of the individual regions.

## **5.2. The performed audits and their experiences in connection with the implementation of the Programme**

### **2003**

In the course of 2003, the auditing of SAPARD application management took place at the 7 regional offices and at the Department of Food Processing Industry Applications. Within the frame of the audit, 768 applications were inspected.

In the course of the audit of account management of SAPARD, 53 accountings were inspected at the 7 regional SAPARD offices..

The summary reports on the application management activity of SAPARD Programme and on the accounting management and on-the-spot control activity stated, that the work processes were in compliance with the regulations and rules of procedures, and that the knowledge of the specialist staff enabled them to carry out the tasks as required. The applied documents provided a transparent and controllable overview of the tasks, procedures and data in connection with the evaluation of the applications and the controlling of the support applications.

At the initiative of internal audit, action plans were also drawn up, which serve the purpose of implementing the findings of internal audit. Although the action plans were prepared over a long period of time and with several modifications, the recommendations of internal audit were implemented into practice in time, and the Division of Internal Audit was eventually notified of the steps taken.

### **2004**

In the course of 2004, the auditing of the SAPARD tasks carried out by the regional offices, the auditing of the central organisational units responsible for SAPARD application management, the audit of the processes and operation of application management, and the auditing of the application management activity took place with respect to measures 1305 and 1306. (Organisational units at the time: Department of Agricultural and Food Processing Industry Entreprises Support Applications, Department of Rural Development and Self Governments Application Management.)

Following the auditing of the application management procedure of ARDA, internal audit did not recommend subsequent changes with respect to the central application management.

Also in 2004, the audit of the processing of support demands submitted in 2003 and 2004, the account management, the on-the-spot control and the evaluation of the accounting at the regional offices took place. In the course of the internal audits, there was an isolated case in which a problem was exposed, as a consequence of which the Agency initiated an irregularity management procedure, and then cancelled the support contract, and therefore, no unauthorised support was paid.

The following audits were also carried out in 2004:

- ✓ the comprehensive audit of the Legal and Contracting Department and the audit of the contracting process of the applications submitted between 2002 and April 2004 for the SAPARD Programme and recommended for support;
- ✓ the comprehensive audit of the Financial Authorisation Department;

- ✓ the comprehensive audit of the applications received in the first three months after the announcement of the SAPARD Programme (first-round applications);
- ✓ the comprehensive audit of the activities of the Payments Department;
- ✓ the comprehensive audit of the Financial Records and Accounting Department.

The audit found that it proved to be difficult to observe the deadlines set forth by the Operational Manual. This is proved by the fact that in case of one-third of the items inspected, the deadlines had to be extended.

According to the SAPARD Multi-Annual Financial Agreement, Annex A, Article 8, Section 6, "the SAPARD Agency shall ensure a timely evaluation of the payment claims submitted by the beneficiaries." The audit stated that observance of the deadline was of utmost importance, and made a recommendation about staff development in the fields of account management and on-the-spot control.

The comprehensive audit of the SAPARD support payment processes of the ARDOP-SAPARD Payments Department stated that the beneficiaries received the amounts of the support in full, and the ARDOP-SAPARD Payments Department did withhold any payments.

## **2005**

One of the prioritised tasks of 2005 was the audit of the SAPARD account management and on-the-spot-check activities at the offices located in the regional centres. A summary report was also prepared on the findings of the audit. The summary report was sent to the management for use.

The central application management of SAPARD was also audited in 2005. This examination was the final examination of the SAPARD application management activity.

In accordance with the plan, the areas dealing with the implementation of the SAPARD Projects, including the Legal and Contracting Department, the Financial Authorisation Department, the Payments Department, the Territory Control Department, and the Financial Records and Accounting Department were all audited.

## **2006**

In 2006, the comprehensive audit of the processes carried out by the Financial Records and Accounting Department was completed (continued from 2005).

The audit showed that the interest accrued and credited was not managed in compliance with the requirements set forth in the Operational Manual. The credited interest was not added to the amount of the funds available for support. (The decision on using the credited interest for increasing the available fund was in the competence of the SAPARD Monitoring Committee (SMC), and so the Managing Authority initiated the adoption of the relevant decision on 18 October 2006.)

The audit of the SAPARD irregularity management activity at the Legal and Contracting Department (continued from 2005) was also completed. It was found that the Operational Manual regulates the procedures to be followed properly. On the basis of the audit of the sample, it can be stated that the rapporteurs perform their work in accordance with the requirements and in observance of the deadlines. If there is no need for the involvement of the beneficiary, experts or other specialised departments to adjudicate the irregularity, the

procedure is closed in a few days. Otherwise, often the processing time can be significantly longer.

One of the audit tasks for 2006 was to examine the procedures related to the appeals and complaints submitted in the course of the implementation of the SAPARD programme.

The audit found that the procedures for the handling of complaints – with the exception of a few cases – took place in accordance with the relevant provisions of the SAPARD Decree and the requirements of the Operational Manual. The structure, the personnel and material conditions of complaint management at the Agency changed continuously.

The ex post audit of the internal audit on the project monitoring activity of the SAPARD programme is currently under way.

In the course of the examination of the supervisory activity related to the on-the-spot control of the project, in connection with the checking of the samples, it can be stated that the on-the-spot controllers worked in accordance with the rules of procedures, and carried out their tasks with responsibility, expertise and due care.

The processing of the support demands and the performance of the on-the-spot controls was also affected by the fact that during the processing of the SAPARD support demands, the Rules of Organisations and Operation, the rules of procedure (SAPARD Operational Manual), and the sphere of the forms to be used also changed. In spite of the changes, the necessary on-the-spot controls were carried out in a planned and professional manner.

In addition to SAPARD, internal audit also examined the various areas of ARDOP, and the audits related to rural development were carried out together for the two types of application systems.

In 2006, the audit of 7 supervisory activities was completed, and each of them was closed with a confirmed action plan. Two ex post audits were started in the examined period, and both of them would continue in the year 2007.

Summing up it can be established, that in the course of the internal audits, the cooperation between the organisational units of the Agency was appropriate, and the audits provided help for the improvement of the processes and rules of procedures and for implementation in line with the regulations. The minor, low-risk administrative deficiencies exposed by internal audit have been eliminated following the audit by the organisational units concerned; for the medium and high-risk problems, action plans have been drawn up, its implementation was audited in the course of the following or ex post audits.

### **5.3. Audits related to the projects**

#### **5.3.1. Modifications of the auditing system for the period 2000 - 2006**

##### **2003**

The modification of the sampling procedure of the SAPARD Agency, the Department of Financial Audit also had an effect on the on-the-spot control tasks. From October 2003, with

the approval of the management, the sample for the 5% repeated on-the-spot control was not longer taken by regions, but from the applications received from all of the regions on the given week. With the new procedure, the number of applications selected for repeated on-the-spot controls was significantly decreased, and certain regional offices were left out from the sample. This procedure significantly increased the risk of omitting the second-level audit of all regional offices and that of measures/sub-measures, and therefore, at the recommendation of the SAPARD Certifying Body, ARDA eliminated the modified sample taking method from March 2004. According to the procedure, the samples for the documentary audit and the 5% repeated on-the-spot control were once again taken by the regional offices.

## 2004

The number of ex-ante on-the-spot controls carried out by the application management staff members of the regional offices significantly decreased with the progress of time, since the obligatory visitation was cancelled in case of applications for machinery purchase in the 2<sup>nd</sup> quarter.

The elaboration of the regulatory and implementing procedures for the two new measures (Renovation and development of villages, protection and conservation of rural heritage and the Development and diversification of economic activities, providing for multiple activities and alternative income), and the processing of the high number of submitted application forms put a great work load on those colleagues, who were in charge of the implementation of the SAPARD Programme.

In order to solve this problem, a Presidential Circular of the SAPARD Agency was issued in April 2004. According to the Presidential Circular, the preliminary on the spot controls were not necessary to be carried out before the reception of the applications regarding the measure *1111- Agricultural machinery procurement*. The SAPARD Operational Manual No. 2004.02.02. issued in April 2004 contained the same instruction as above of the President of the SAPARD Agency for the measure *1111- Agricultural machinery procurement*. The SAPARD Certifying Body in its report ( No. V-06-014/2006) for the year 2006 accepted those professional reasons of the Agricultural and Rural Development Agency (ARDA), which were to help the speeding up of the application handling process, without the risk factors having increased.

**(Antecedent and developments:** Based on the relating documents and declarations, the SAPARD Certifying Body in its report for the year 2004 notified the European Commission, that the Presidential Circular No. 5/2004 of the Agricultural and Rural Development Agency (ARDA) had instructed those colleagues, who were in charge of application handling, that in the case of the applications submitted for the measure *111- Agricultural machinery procurement*, preliminary on the spot visitations must be abandoned as stated in the SAPARD Operational Manual having been accredited by the European Commission.

Based on this report, during its audit carried out between 10-17 October 2005, the European Commission asked for a declaration from the Directorate for Rural Development Support of the ARDA. According to this declaration, the relating Operational Manual was modified as of 9 April 2004. )

## 2005

Early in the year, in order to accelerate payments and for reasons of quality assurance, the Department of Audit of Rural Development Supports (DARDS) carried out supervisory audits instead of repeated on-the-spot controls. An objection was raised by the State Audit Office-SAPARD Certifying Body (SCB), and so the repeated on-the-spot controls were started from June 2005, but in accordance with the supervisory function set forth in the Rules of Organisation and Operations that came at in the meantime, DARDS also continued the supervisory audits.

## **2006**

No changes of importance were made in the on-the-spot control procedure in 2006.

### **5.3.2. Experiences of the on-the-spot controls**

On-the-spot (physical) checks and financial audits were carried out by a separate organisational unit, on the basis of the principle of the separation of competence. The ex ante and ex post on-the-spot controls are not preceded by financial audits, however interim audits were connected to payments in all cases.

The physical checking of projects was performed on the level of both the Regional Offices and the ARDA. From the preliminary on-the-spot visitations prior to the submission of the applications for decision-making through the on-the-spot check prior to payment, to the audits throughout the implementation stage of the project and for 5 years after the physical closing, the applications are tracked in each stage of the project. The Regional Offices kept project-level records of the applications, projects and accounting, from which data is provided for the reports on the implementation of the SAPARD Programme including the application process, the contracting, the management of the projects, the payments, the management of irregularities and the collection of the receivables.

### **5.3.3. Preliminary on-the-spot visitations – ex ante monitoring visit**

In the application management stage, after the receipt of the applications, the application management rapporteur ascertained the existence of the applicant and the coverage of reality of the application, and also examined the conditions of the feasibility of the application. The preliminary on-the-spot controls took place in the stage of the undertaking of obligations, i.e. from early 2003 to the summer of 2004.

The most frequent deficiency found at these visitations was that the documents of the applicants certifying the availability of own resources, as well as other accounting documents, bank certificates, certificates, permits were missing or there were formal problems with them. Most of these and similar minor deficiencies of technical nature could be corrected or supplemented. In some cases the experiences of the visitations did not comply with the business plan. In practice, in very few cases (1-2%) the applications were rejected on the basis of the findings of the visitation, for reason that the applicant already started the investment.

It can be stated that the on-the-spot controls took place effectively and smoothly, since the deficiencies of the application could by that time be corrected by submitting additional documents or making changes. The quality (coverage of reality) of the applications improved significantly with the progress of time. The visitations went on smoothly, the minor

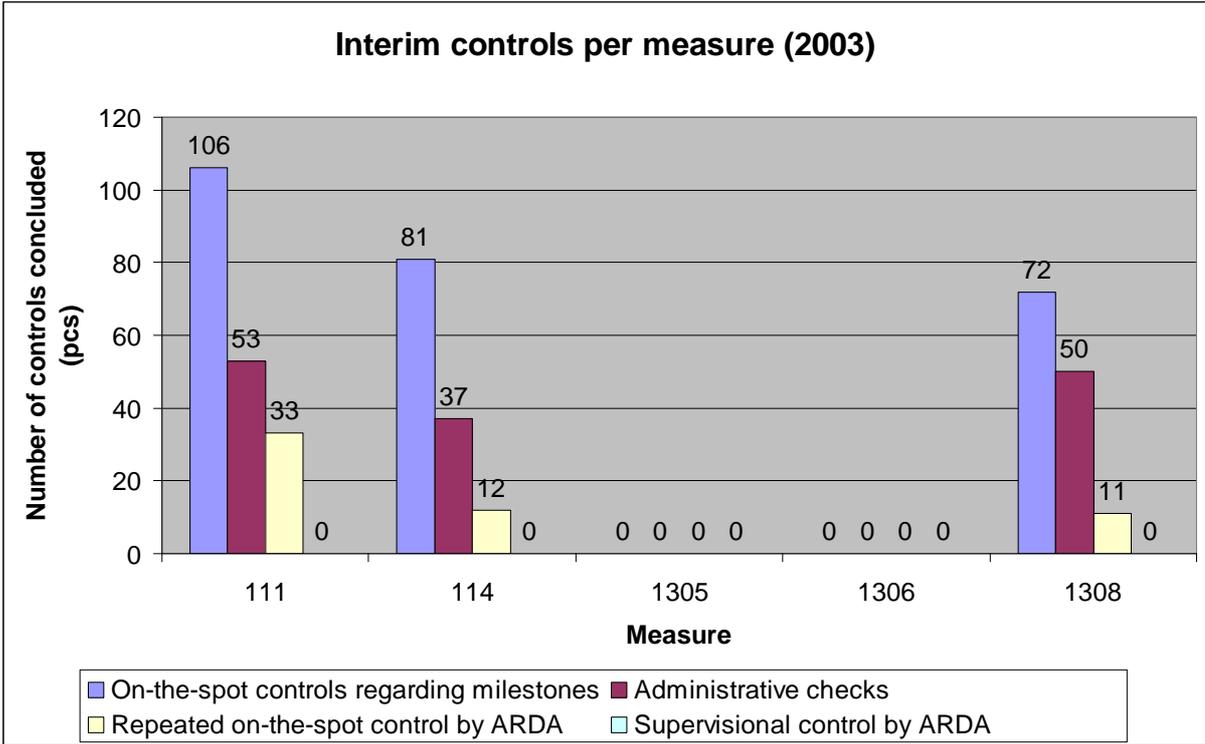
deficiencies and differences in data were harmonised and corrected, and the processing of the applications went on without problems.

5.3.4. Interim control – physical control related to payment

2003

In the course of the on-the-spot controls carried out in the implementation phase of the project, it was found that the documentation submitted may require the submission of further documents, which slowed down the process of the support payments. A further problem was caused by the fact that due to the protraction of the contracting, the beneficiaries were not able to keep the planned schedule and initiated a modification of the contract, which further slowed down the realisation of the projects.

- In the course of the controls, the following types of irregularities were the most common:
- Invoicing for unauthorised items, when the beneficiary submitted an invoice for goods or works that cannot be clearly identified in the course of the on-the-spot controls .
  - Equipment used or installed by the beneficiary were not originating from EU or candidate countries.
  - Realisation was different from the way described in the application.

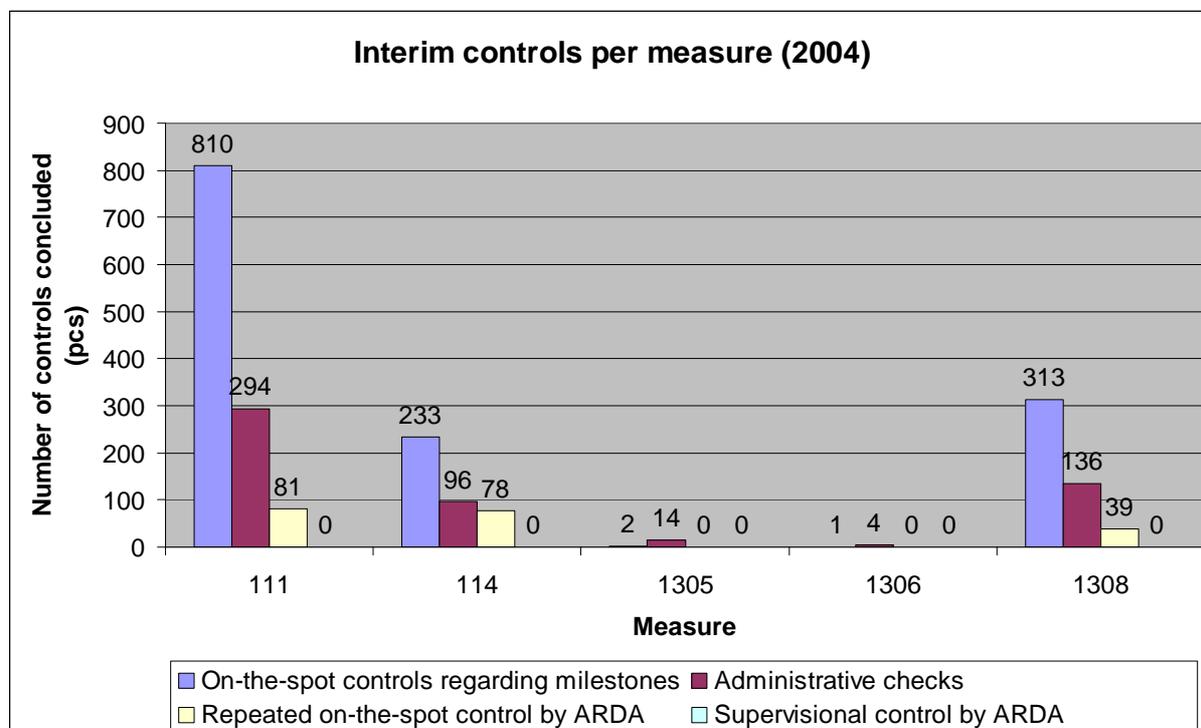


2004

During the on-the-spot controls carried out in the implementation phase of the project, few irregularity procedures were conducted. The typical problems could be corrected or in a few cases the reduction of the amount of the support was recommended. The most typical irregularities were the following:

- the accounting submitted included items not approved in advance;

- the invoice contained activities for which the issuer had no registration at the Court of Registry;
- differences from the technical specifications set forth in the application material;
- the implementation differs from the plan;
- not acceptable quality certificates or the lack of other documents;
- ignoring environmental regulations.



## 2005

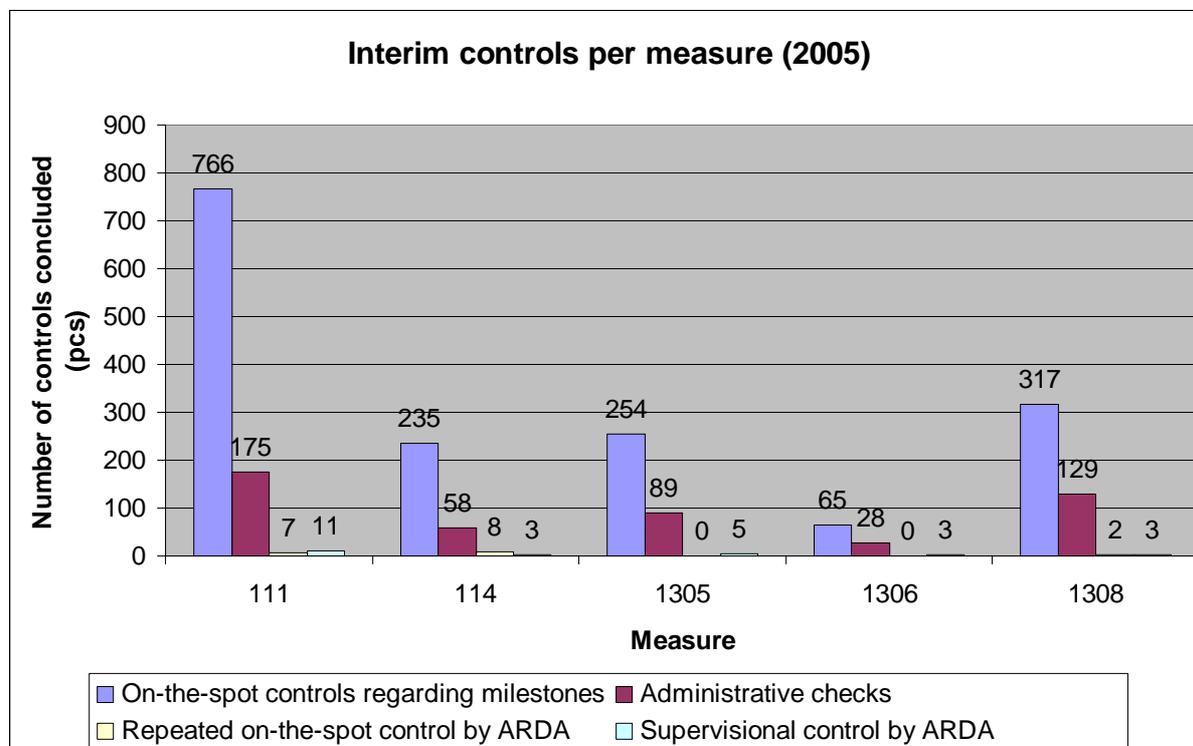
In this year, in the course of the interim controls, the implementation of most projects was found in order. Procedures for irregularities were commenced only in a few cases: these emerged in connection with the following irregularities:

- miscalculations in the support claims submitted by the beneficiaries;
- making use of the supported facility by renting;
- claiming reimbursement for investments not serving public benefit.

On the basis of the general experiences of the interim on-the-spot controls, the quality of the accountings improved and there were fewer instances when additional documents had to be submitted; at the same time, problems were caused by the following:

- inaccurately filled-in documents;
- deficiencies of technical management and technical control of investments
- deficiencies of the construction logs;
- deficiencies of the material quality certificates attached to the invoices;
- the serial number or factory number of the purchased machine was missing ;
- quantitative deviation from the breakdown of invoices;
- failure to fulfil reporting or data supply obligations;
- claiming reimbursement on illegible expenditure (the item on the invoice had not been built in or was not present at the premises);

- the beneficiaries did not execute the construction according to the support contract or to the price quotations and breakdown of invoices forming the attachment thereof (in the case of construction investments);
- the accounting records of certain groups of beneficiaries (primary producers, family farmers) were incomplete, inaccurate.

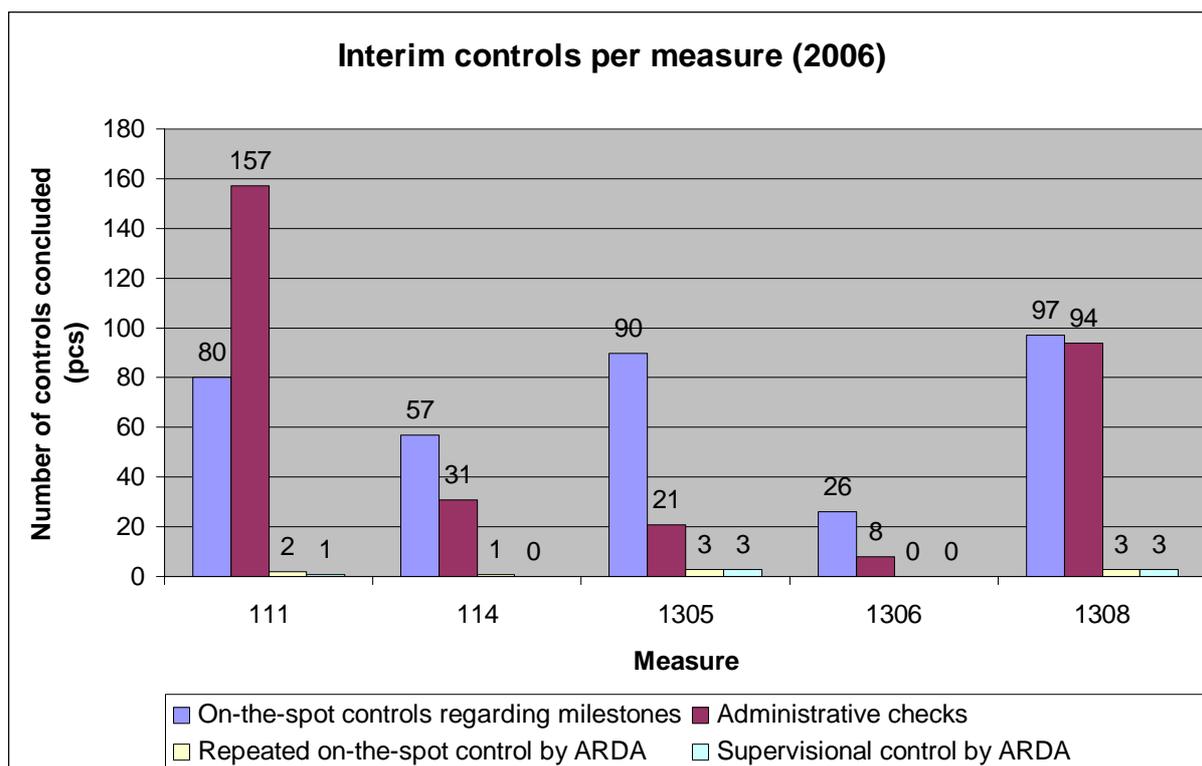


## 2006

By the end of the implementation stage of the Programme, the number of controls related to the requests for support claim decreased, and the Beneficiaries were realising the supported investments in a proper way. The deficiencies exposed in the course of the controls were not significant, and the items deducted did not have a major influence on the feasibility of the projects.

The most frequent types of irregularities:

- inaccurately filled-in documents;
- deficiencies of technical management and technical control of investments;
- deficiencies of the construction logs;
- deficiencies of the material quality certificates attached to the invoices;
- transfer of ownership title, change in project aim;
- downgrading of technical content.



### 5.3.5. Ex-post controls – ex post monitoring visits

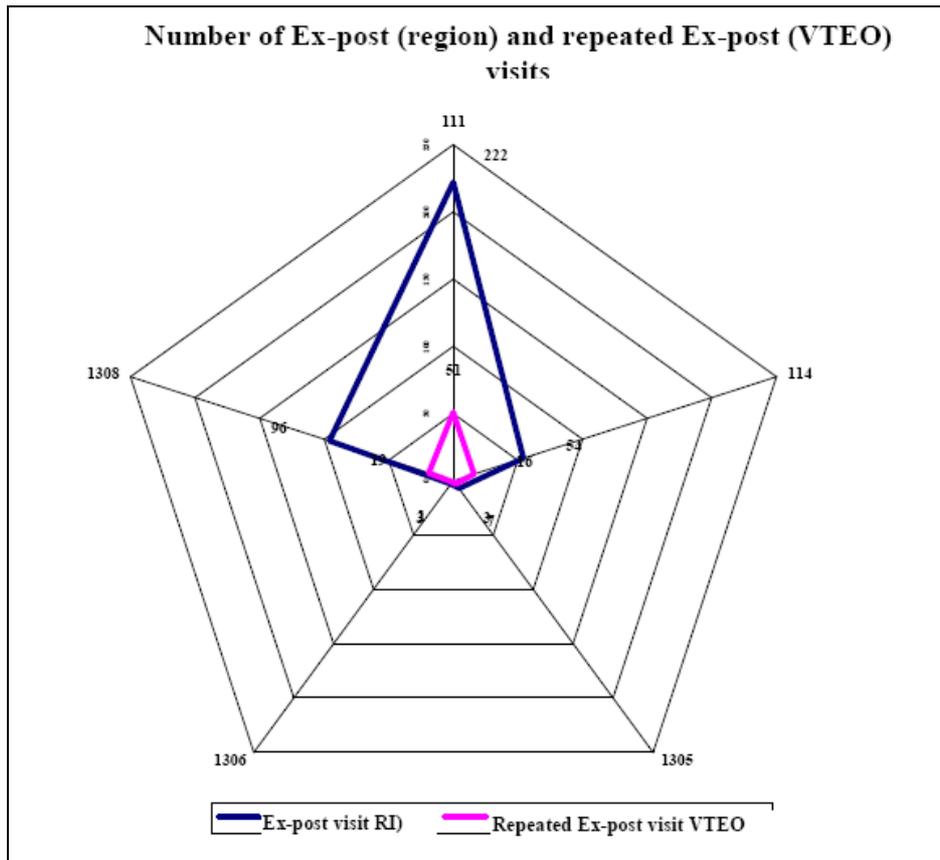
The majority of the ex post monitoring visits carried out subsequently following the implementation of the project, i.e. in the phase of operation, were commenced by most regional offices and the central Territorial Auditing Department in August 2004. In the course of these visits, there were few irregularities identified.

The general experience of the controls was that the equipment and facilities constituting the subject of the investment were found in the beneficiary's possession in good condition and properly maintained, in line with the requirements set forth in the contract. In some cases the logo sticker or plaque was damaged, which was ordered to be replaced. In addition, the documents to be preserved were found in proper, verifiable condition.

In the course of the checking of the physically closed projects it was found that:

- ✓ the farmers were using the facilities in accordance with their intended purpose;
- ✓ the supported investments are in compliance with the objectives and expectations of the SAPARD Programme;
- ✓ no irregularities or abuses were found in the course of the operation of the supported projects;
- ✓ no beneficiary was obliged to repay the amount of the support.

In a few cases, the suspicion of irregularity was raised for the use of IT investment for private purposes and for the neglect and lack of maintenance of agricultural road. In several cases, it was also found that the beneficiaries fell behind the level of employment undertaken in their applications and did not fulfil the increase of the employment as indicated in the application. Another frequent problem was the failure to submit the annual reports, while less frequently it also happened that changes concerning the on-site authorisation criteria were not reported.



The period of ex post monitoring after the implementation of the projects is continuous in the 5-year period of operation. The largest number of visits concerned short-term (machine purchase) projects, while the ex post monitoring phase of projects implemented in 2004 under the two new measures, which usually require a longer term of realisation, only commenced in 2006.

### 5.3.6. Financial controls

In the first stage of the partial controls, the regional offices carried out a financial control in case of each accounting.

The second step of the financial control was the central financial authorisation, where the sphere of accountings included in the repeated control was defined on the basis of the sampling. The accountings, which were not included in the sample also went through a so-called administrative control, where the Department of Financial Authorisation only examined compliance with the most important criteria.

**The phase of financial control was followed by an on-the-spot control**, which was carried out by a separate organisational unit, on the basis of the principle of the separation of powers.

### 5.3.7. Financial control of the partial accountings

2003

The most frequent problem in the course of the checking of the invoices was that some of the invoices did not comply with the relevant requirements in terms of form and content, and also, the other certifying documents were submitted deficiently or were not submitted at all.

Irregularities were found in connection with the following:

- ✓ The beneficiary purchased a different machine type, or implemented the investment with a different technical content than undertaken.
- ✓ The beneficiary did not purchase the assets set forth in the application.

2004

In the course of the financial controls it was necessary to submit additional documentation in most of the cases, and only a fraction of the accountings could be accepted as of the day of submission.

The most frequent types of irregularities:

- ✓ The invoice did not comply with the relevant regulations in terms of accountancy, form or content;
- ✓ Certain compulsory documents were not attached to the application.

In the majority of cases, these problems could be corrected by requesting the beneficiary to submit additional documents.

2005

The unsolved capacity problems on the level of the account management of the regional offices, the large volume of the accountings submitted, as well as the provision of the additional ARDOP tasks had the combined result that there was significant backlog in the field of processing. The time need of the work processes to be performed between the submission and forwarding of the accountings significantly exceeded the time limits set forth for the fulfilment of the different work processes.

In case of the majority of the accountings submitted it was necessary to request supplemental documents (on several occasions), which caused significant additional work and a longer processing time. The most typical deficiencies and errors in the accountings submitted were the following:

- ✓ lack of invoicing discipline;
- ✓ inaccurately filled-in documents;
- ✓ no accordance between the invoices and attachments to invoices, contracts and attachments to contracts, certification documents;
- ✓ absence of required documents.

In case a significant proportion of the accountings submitted to the Authorisation of Payment Department, the existence of the necessary securities that were set as preconditions of the

payments to be made was not certified: in case of these accountings, the three-month payment deadline could not be kept.

2006

It can be observed that the number of accountings submitted by the regional offices with the recommendation for payment decreased compared to the the previous year, the reason for this was the decrease in the number of SAPARD accountings submitted as the Programme was phasing out, and also the fact that the capacity of the organisational units performing the account management and financial authorisation activities were divided between the financial control tasks of SAPARD and of other programmes.

In case of the accountings managed by the regional offices, an additional problem was the time required for the issuing of the certificates of public procurement procedure and the contract modification, and for conducting large number of irregularity procedures.

Although only in case of a small proportion of the accountings received by the regional offices, it was still a problem that the existence of the securities set as conditions of payment were not properly certified, as a result of which the observance of the three-month payment deadline was not always possible to keep.

In order to speed up the payment and authorization process, Presidential Circular No. 28/2006 of the Agricultural and Rural Development Agency (ARDA) was issued, which established the schedule for the payments to be realized in 2006 regarding the SAPARD accounts. Annex 1 of the Presidential Circular contained an action plan, which set out the tasks and also appointed those people, who were responsible for the execution of the payment accounts regarding the different measures. The Presidential Circular stated, that the Directorate for Rural Development Support of ARDA must monitor and check on a weekly basis, whether the tasks of each unit set out in the action plan had been executed. The Presidential Circular and its Annex came to force on the date of its announcement.

### 5.3.8. Financial control of final accountings

There was no remarkable difference between the final accounting and partial accounting of the projects, since the fund monitoring ensured both in case of the partial and the final accountings, that only the amount of the support set forth in the contract would be authorised.

The processing of the final accountings took place at the regional offices, with the use of the control steps defined for the interim accountings. The typical problems were similar in case of the partial and final accountings, though fewer deficiencies were characteristic concerning the final accountings in comparison with the partial accountings. The most frequent problem was that the beneficiaries failed to attach the permits of the relevant authorities, certificates, documents of putting in operation, etc. These were usually supplemented within the specified deadline.

It happened less frequently in course of central controls that the accounting did not include the relevant permits.

As a final step of the financial controls, the conditions of payment were checked. No signs of fraud were found in any of the cases, and the lowering of the amount disbursed was necessary due to modifications without notification, especially in cases, where a difference in technical

content was found in the course of the on-the-spot control, or the amount demanded in the course of the contract amendments did not comply with the contract amount.

#### **5.4. Handling of irregularities**

During the handling of irregularities, the Agricultural and Rural Development Agency (hereinafter: the Agency) examines the observed irregularity, fraud, or other act violating or threatening the financial interests of the European Communities or Hungary (hereinafter collectively: irregularity), examines the cogency of observed irregularity, and then applies the appropriate legal consequence or measure.

ARDA in conformity with the accredited rules of procedures on quarter early bases conciliate the list of debtors. This activity was examined by the State Audit Office with regards to the completeness of the debtor's register and no remark has been received on this respect. The irregularities were properly and timely recorded in debtors' ledger and recovered according to Community requirements. All irregularities were reported in conformity with the accredited rules of procedures.

Procedures for handling of irregularities are commenced in case of acts or defaults of the Applicant/Beneficiary, whereby the latter breaches Community or national laws, regulations, requirements or the provisions of the support contract, and thereby violates or may violate the general budget of the EU, or any other budget managed by the EU, or the national budget.

In the course of procedures for handling of irregularities, the following substantive decisions may be taken:

- a) the termination of the procedure without applying any sanction;
- b) the application of sanctions;
- c) the application of measures.

The procedure shall be terminated without sanctions, if there was no irregularity, or the act of the Beneficiary did not qualify as an irregularity, or the irregularity was remedied by the Beneficiary, or it was insignificant in comparison with the entirety of the project.

If it is found in the course of the procedure for the handling of the irregularity that an irregularity indeed took place and the procedure cannot be terminated without sanctions, then the following sanctions may be applied:

- a) reclassification of the application or the investment in a higher risk category (meaning that the Agency would use stricter control and procedural rules for the Beneficiary thereafter);
- b) no payment for unauthorised items;
- c) termination (the cessation of the is retroactive to the date of its conclusion, and the Beneficiary is required to repay the amount received with interests and other accessories).

The sanctions under items a) and b) can also be combined.

If it is found in the course of a procedure for handling of irregularities that a sanction against the Beneficiary cannot be applied or would not be expedient, however the legal relationship between the parties is to be amended, then the following measures may be applied:

- a) amendment of the contract in the framework of an irregularity procedure;

- b) conclusion of a supplementary agreement.

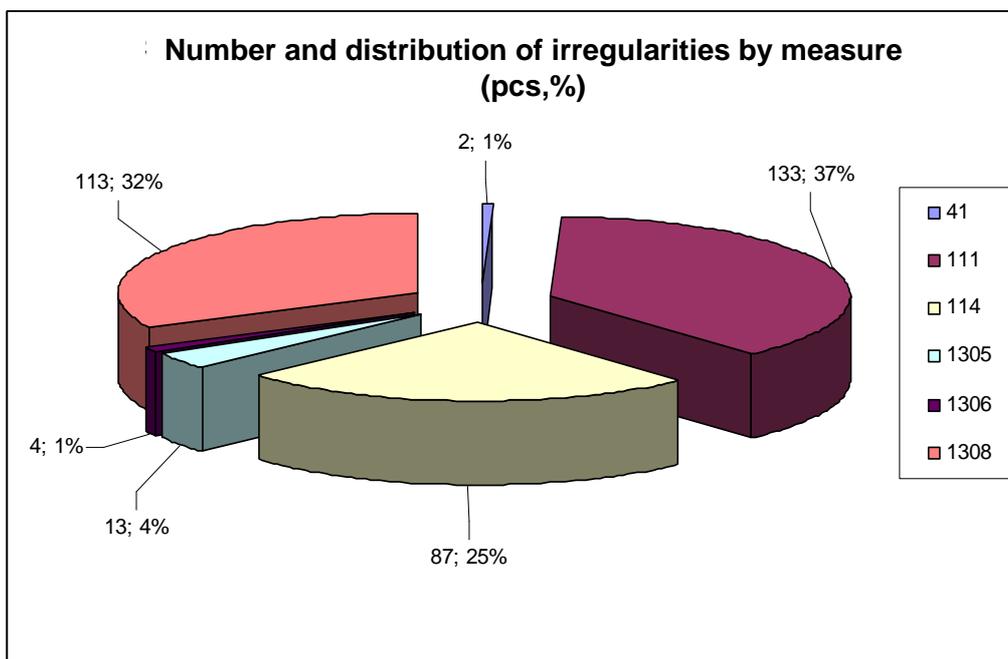
If it is found in the course of the procedure that no irregularity took place, but it is necessary to amend the support contract, then the Agency terminates the irregularity procedure and takes steps for the amendment of the contract.

A team acting on a case-by-case basis, consisting of ad-hoc members and in charge of the task of preparing decisions, making recommendations and preparing drafts is formed for the purpose of the irregularity procedures.

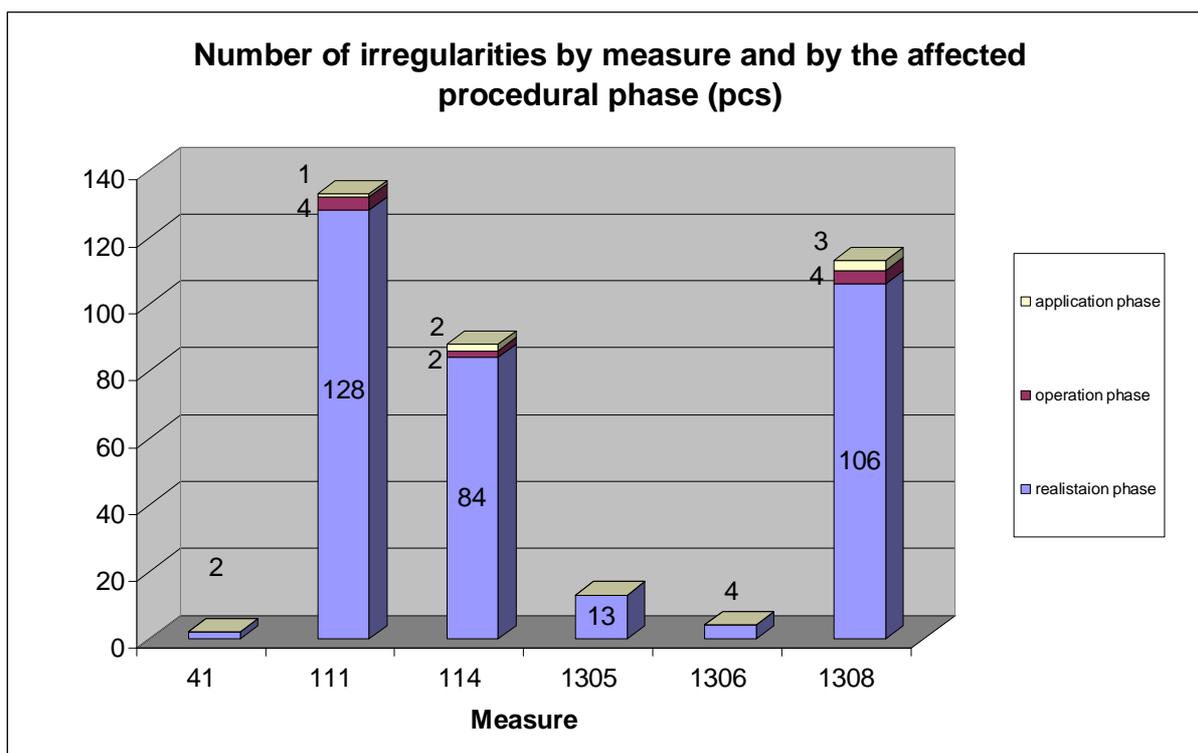
#### 5.4.1. The distribution of irregularities observed by the Agency and the outcome of irregularity procedures in a breakdown by years and measures

According to the records of the Legal and Contracting Department, ARDA started 352 irregularity procedures by 31 December 2006. Most of these were linked to three measures: the largest number of procedures (133 procedures, or 37%) concerned measure No. 111 – Investments in agricultural holdings, which was followed by measure 1308 Development and improvement of rural infrastructure (113 procedures, or 32 percent), and then by measure 114 Processing and marketing of agricultural and fishery products (87 procedures, or 25%). The number of irregularity procedures related to the other measures was very few.

The reason for the above proportions is that these three measures involved the broadest sphere of applicants, i.e. the largest number of support applications were received for these measures.



The next figure shows that the majority of the irregularities, over 90 percent, emerged in case of each of the measures in the implementation phase. Only 5 irregularity procedures were started by the Agency in the application stage, and 9 more in the operation phase. The latter number may still increase, since the projects have already been implemented, and so any future irregularities may only concern the operating phase.



### Types of irregularities

The table below shows the types of irregularities that occurred during the implementation of the SAPARD Programme.

The most common irregularity which occurred was the incompliance with the contract (146 cases, 41%), followed by the problems regarding legality ( 92 cases, 26%) and the issue of securities (42 cases, 12%). Insignificant factor was the lack of permits (11 cases, 3%), incompliance with the project (11 cases, 3%), the issue of origin (4 cases, 1%). There were some cases (less than 1%), where the reporting obligations were not met. Problems arose regarding the competence of the technical controller and the forging of private and public documents.

Type of irregularity	Measure 41 (case, %)	Measure 111 (case, %)	Measure 114 (case, %)	Measure 1305 (case, %)	Measure 1306 (case, %)	Measure 1308 (case, %)	Total (case, %)
Issue of securities	n/a	19 (14%)	11 (13%)	n/a	n/a	12 (11%)	<b>42 (12%)</b>
Incompliance with the calls for application	n/a	12 (9%)	2 (2%)	1 (8%)	1 (25%)	2 (2%)	<b>18 (5%)</b>
Incompliance with the project	n/a	3 (2%)	1 (1%)	n/a	n/a	7 (6%)	<b>11 (3%)</b>
Incompliance with the contract	1 (50%)	548 (36%)	33 (38%)	7 (54%)	2 (50%)	55 (49%)	<b>146 (41%)</b>
Lack of permit	n/a	5 (4%)	5 (6%)	n/a	n/a	1 (1%)	<b>11 (3%)</b>
Not meeting the criteria of disbursement	n/a	8 (6%)	9 (10%)	n/a	n/a	3 (3%)	<b>20 (6%)</b>
Not meeting	n/a	n/a	n/a	n/a	n/a	1 (1%)	<b>1 (1%)</b>

the reporting obligation							
Question of legality	1 (50%)	34 (26%)	24 (28%)	5 (38%)	1 (25%)	27 (24%)	<b>92 (26)</b>
Competence of the technical controller	n/a	n/a	1 (1%)	n/a	n/a	n/a	<b>1 (1%)</b>
Issue of origin	n/a	1 (1%)	n/a	n/a	n/a	3 (3%)	<b>4 (1%)</b>
Forging of private documents	n/a	n/a	n/a	n/a	n/a	1 (1%)	<b>1 (1%)</b>
Forging of public documents	n/a	n/a	n/a	n/a	n/a	1 (1%)	<b>1 (1%)</b>
Other	n/a	3 (2%)	1 (1%)	n/a	n/a	n/a	<b>4 (1%)</b>
<b>Total</b>	<b>2 (100%)</b>	<b>133 (100%)</b>	<b>87 (100%)</b>	<b>13 (100%)</b>	<b>4 (100%)</b>	<b>113 (100%)</b>	<b>352 (100%)</b>

If we look at the types of irregularities per measure, the following conclusions can be drawn.:

**Measure 111: Agricultural investments:** the most typical problem was the incompliance with the contract (48 cases, 36%), followed by the issue of legality (34 cases, 26%) and securities (19 cases, 14%). This was followed by the discrepancy with the calls for application (12 cases, 9%). The lack of permits (5 cases, 4%), incompliance with the project (3 cases, 2%) and the issue of origin (1 case, 1%) occurred only to a small extent.

**Measure 114: Processing and marketing of agricultural and fishery products:** the most frequent type of irregularity was the incompliance with the contract (33 cases, 38%), followed by the question of legality (24 cases, 28%), the issue of securities (11 cases, 13%). In a small number of cases there was incompliance with the project (1 case, 1%), question arose regarding the competence of the technical controller (1 case, 1%) and discrepancy with the calls for application (2 cases, 2%).

**Measure 1305: Renovation and development of villages, protection and conservation of rural heritage:** three types of irregularities occurred which were the following: incompliance with the contract (7 cases, 54%), the question of legality (5 cases, 38%) and discrepancy with the calls for application (1 case).

**Measure 1306: Development and diversification of economic activities, providing for multiple activities and alternative income:** four irregularity procedures were started, which similarly to other measures were the following: incompliance with the contract (2 cases, 50%), discrepancy with the calls for application (1 case, 25%), and the question of legality (1 case, 25%)

**Measure 1308: Development and improvement of rural infrastructure:** The most frequently occurring problem was the incompliance with the contract (55 cases, 49%) followed by the question of legality (27 cases, 24%) and the issue of securities (12 cases, 11%). The lack of permits, not meeting the reporting obligations and the forging of private and public documents were detected in 1% of the cases.

**Measure 41: Technical Assistance:** two cases were registered. One type of irregularity was the incompliance with the contract and the other was the question of legality.

According to the rules of procedure, irregularity procedures may conclude with three kinds of decisions: termination of the procedure without a sanction, the application of a sanction, or the application of a measure. Irregularity procedures may be closed without a sanction in three cases: false observation, negligible irregularity, or when the Beneficiary remedied the irregularity subsequently.

As an analysis of the irregularity procedures according to the sanction applied, it can be stated that one-third of the procedures started against the beneficiaries in connection with each of the measures were closed with the finding of false observation or negligible irregularity, and in a similar proportion of the procedures the Beneficiaries subsequently remedied the problems encountered, such as problems related to securities, lack of permits, non-performance of disbursement conditions or deviation from the contract. This means that two-thirds of the irregularity procedures were closed without the application of sanctions.

In cases when sanctions has to be used in the course of an irregularity procedure, the following three options are available:

- reclassification of the application or the investment in a higher risk category;
- no payment for unauthorised items;
- termination of the contract.

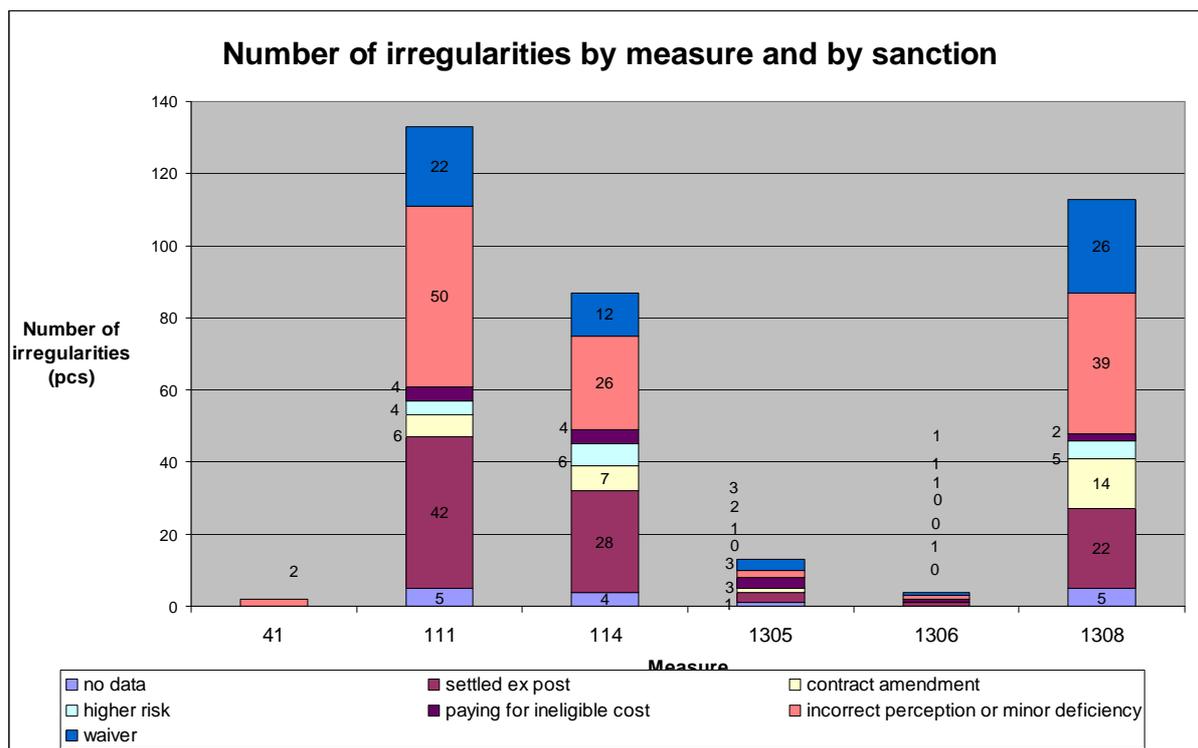
As an analysis of the distribution of the sanctions applied, it can be seen that reclassification into a higher risk or refusal of payment for unauthorised items took place in 3-4 percent of the cases in each of the measures, with the exception of measure No. 1308 – Development and improvement of rural infrastructure, where the non-payment of unauthorised items only happened in 2 percent of the cases.

The most serious sanction for irregularities is the termination of the contract. This happened most frequently in measure 1308 Development and improvement of rural infrastructure with 26 cases (23 percent), followed by 111 “Investments in agricultural holdings”, where 22 contracts were terminated (16 percent). Also a relatively high number of termination had to be used within measure 114 Processing and marketing of agricultural and fishery products (12 cases, 13 percent). Very few cases of the termination of the contract were registered in connection with measures 1305 “Renovation and development of villages and the protection and conservation of rural heritage” and 1306 “Development and diversification of economic activities, providing for multiple activities and alternative income”, with 3 and 1 cases, respectively.

If it is found during the handling of irregularities that a sanction against the Beneficiary cannot be applied or would not be expedient, however the legal relationship between the parties is to be amended, the following measures may be applied:

- a) amendment of the contract in the framework of a procedure for handling of irregularities;
- b) conclusion of a supplementary agreement.

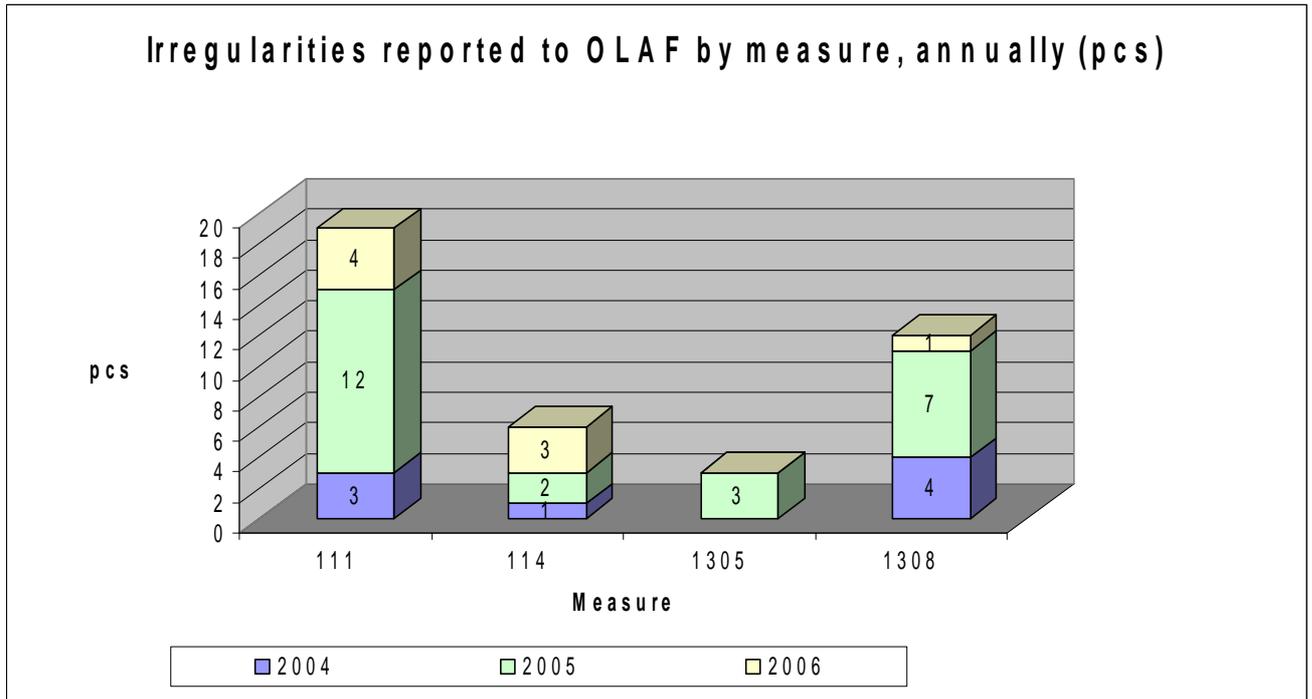
According to the statistics, amendment of the contract was used most frequently (14 cases, 12 percent) in connection with measure No. 1308 “Development and improvement of rural infrastructure”. In case of measures 111 “Investments in agricultural holdings” and 114 “Processing and marketing of agricultural and fishery products”, the irregularity procedure was closed with an amendment of the contract in a lower proportion, in 5 and 8 percent (6 and 7 cases), respectively.



#### 5.4.2. Irregularities discovered and reported to OLAF

In accordance with Sections 7.3 and 7.5 in Annex “F” of the Multi-Annual Financial Agreement, the Republic of Hungary shall report to the Commission all irregularities that constitute the subject of procedures of authorities or courts in their initial phase. On the basis of the records of the Legal and Contracting Department of ARDA, 40 terminations were reported to OLAF, most of these related to measure 111 “Investments in agricultural holdings” (19 cases), further 1308 – “Development and improvement of rural infrastructure” (12 cases). Fewer terminations were connected with measures No. 114 (6 cases) and 1305 (3 cases).

If we consider the distribution by year, it can be seen that the highest number of irregularities reported occurred in 2005. In 2004, 4 irregularities were reported for measure 1308 and 3 irregularities for measure no. 111. In 2005, 12 irregularities were reported for measure No. 111, 7 irregularities for measure 1308, and 2 respectively 3 for measure 114 and 1305. According to the records of the Legal and Contracting Department, a total of 8 irregularities were reported by the Agency to OLAF in 2006.



If the support contract was terminated by the Agency, the latter sends a notice of termination to the Beneficiary, and then takes measures for the collection of the amount of the support and interests and other accessories paid. The organisational unit in charge of maintaining debtor records and managing claims is the Department of Security and Claim Management at the Financial Directorate of the Agency.

Methods applied for the collection of the claim:

- ✓ Enforcement of prompt collection order;
- ✓ Enforcement of securities;
- ✓ Enforcement of mortgage right;
- ✓ Initiation of Tax Office execution procedure.

## 5.5. External audits

### 5.5.1. Audits carried out by the State Audit Office as the SAPARD Certification Body

Its letter dated 15 January 2003, NAO commissioned the State Audit Office (SAO) to commence work as the certification body. Since its commission, the SAPARD Certifying Department of the SAO has been continuously operating in its function as certifying body.

Under the agreement in force between the SAO and NAO, audits by the SAPARD certifying body (SCB) are carried out continuously during the year from 1 January to 31 December, and an interim report is submitted by 15 September on the first half of the year, and then by 15

April of the following year in the second half of the year to NAO, which forwards those reports to the EU Commission.

The recommendations of the SCB and the implementation of these recommendations by the Agency can be tracked and is documented in the reports continuously, from one year to the next.

One of the prioritised recommendations of the report of 2006 concerned the drawing up and introduction of unified guidelines of evaluation and analysis for projects managed in connection with rural development supports, which was commenced by the Agency in early 2007.

### 5.5.2. Experiences of the EU SAPARD audit, tracking of the implementation of the recommendations

The implementation of the SAPARD Programme has so far been examined within the framework of three EU audits. 2004. On 3-7 May 2007 the DG AGRI J, between 17 and 30 September 2004 the European Court of Auditors, and then on 17-21 October 2005 once again DG AGRI J held audits. ARDA gave comments and introduced measures in response to the findings of the audits, as a result of which these audits were closed without recommendations for corrective measures.

The audits devoted special attention to the following areas of the rules of procedure established for the implementation of the SAPARD programme in Hungary:

- ✓ Checking the compliance with the Community's environmental, hygiene and animal welfare regulations, checking the certification of compliance and observation of provisions, as well as the efficiency of the controllers.
- ✓ The practice and efficiency of on-the-spot controls.
- ✓ Definition of the eligible costs of projects selected for support, with attention to criteria of efficiency and cost-effectiveness.
- ✓ Examination and evaluation of price quotations in case of private investment projects.
- ✓ Information provided to potential beneficiaries.

The audit findings called the attention of the Agency to some weaknesses in the implementation of the SAPARD programme, the correction of which became possible in the course of drawing up the rules of procedure for the implementation of ARDOP.

By conclusion we can state that the rules of procedure and means of control of the Operational Manual drawn up for the implementation of the SAPARD Programme, together with the well trained and prepared staff of the Agency also proved in practice that they can be guarantees of the operation of a legitimate and safe support system.

In the course of 2006, the implementation of the SAPARD Programme in Hungary was neither audited by the European Court of Auditors, nor the European Commission.

### 5.5.3. Audit visit of the European Court of Auditors in 2004 in Hungary

The European Court of Auditors carried out an on-the-spot controls in Hungary between 17 and 30 November 2004, where compliance with the rules applicable for the implementation of

the SAPARD Programme was audited. The audit took place in the framework of the preparation of the so-called “Statement of Assurance” for the 2004 financial year of the EU. The European Court of Auditors conducted its audits in the headquarters of ARDA, at the regional offices in charge of the applications selected for auditing, and at the premises of the applicants, and also consulted with the SCB.

On 25 January 2005, the European Court of Auditors sent the State Audit Office a list of problems on the basis of the findings of its audits in Hungary, which was forwarded by the SAO to ARDA, the Managing Authority and the Competent Authority, in order to enable them to respond to the problems listed by the European Court of Auditors. In connection with the list of problems sent by the European Court of Auditors to ARDA, the Department of Internal Audit carried out ex-post audits at the regional offices, and the regional offices did the same at the applicants concerned. In the basis of the findings of the ex-post audits, ARDA, the Managing Authority, the Competent Authority, and SCB prepared comments in response to the list of problems sent by the European Court of Auditors. ARDA drew up an action plan for the correction of the problems identified by the European Court of Auditors, which concerned avoiding cash payments, and the checking of the entitlements related to land ownership and leasehold in the project monitoring phase. The implementation of this action plan was checked by the SCB during its audit in 2005.

In 2006, no Community DAS audit (déclaration d’assurance – Statement of Assurance) took place .

## **6. Implementation of the SAPARD Programme**

### **6.1. Financial implementation<sup>2</sup>**

By 31 December 2005, contracts had been concluded for 2640 applications, the total costs of the projects amounted to HUF 131.9 billion, while their total support need was HUF 62.5 billion.

With respect to the SAPARD payments it can be established that in the case of the contracted applications, payments from SAPARD sources were effected in 3686 cases, in a total amount of HUF 53.5 billion (EUR 209.9 million), of which HUF 40.1 billion (EUR 157.4 million) was covered by Community contribution.

On the other hand, in further 7 cases payments were effected from the interests on SAPARD accounts and late payment interests paid by applicants, in a total amount of HUF 69.6 million (EUR 0.37 million), of which HUF 52.2 million (EUR 0.28 million) was covered by Community contribution.

With respect to the SAPARD sources reallocated from the National Rural Development Plan (hereinafter: NRDP) – based on Commission Regulation (EC) no 447/2004 -, by 31 December 2006, payments had been made in 312 cases, in a total amount of HUF 5.1 billion (EUR 20 million).

On the whole, it can be stated that – as regards SAPARD projects - payments were effected in 4005 cases, in a total amount of HUF 58.9 billion (EUR 230.9 million), of which HUF 44.2 billion (EUR 173.2 million) was covered by Community contribution.

#### **6.1.1. SAPARD funds**

Total payments from the effective financial frames of the original SAPARD budget and SAPARD accounts' interests are presented by the table below (HUF and EUR as follows).

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<sup>2</sup> Payments occurred always in HUF, which have been declared to the European Commission on HUF/EUR exchange rates valid on the day of the declaration. Considering that all payments and available financial frameworks displayed in the Report are exchanged on an official 255 HUF/EUR rate (to ease comparison) the euro-sums of declarations to the European Commission may differ from the uniform rate of 255 HUF/EUR. Chapter 6.1.5. contains all exact euro-sums declared to the European Commission exchanged using the official exchange rates

Year	Measure	Sub-measure	National contribution (HUF)	Community contribution (HUF)	Community contribution (EUR)	National contribution (EUR)	Number of payments
2003	41	4130	144 150	576 600	2 273	568	2
	<b>Total 41</b>		<b>144 150</b>	<b>576 600</b>	<b>2 273</b>	<b>568</b>	<b>2</b>
	111	1111	32 579 700	97 739 097	377 461	125 820	20
		1113	37 089 112	111 267 329	427 444	142 481	26
		1114	36 291 613	108 874 842	420 799	140 266	24
	<b>Total 111</b>		<b>105 960 425</b>	<b>317 881 268</b>	<b>1 225 704</b>	<b>408 568</b>	<b>70</b>
	114	1141	20 669 378	62 008 133	235 325	78 442	6
		1142	287 598	862 794	3 368	1 123	1
		1143	9 983 901	29 951 702	114 041	38 014	3
		1145	31 974 053	95 922 158	365 255	121 752	18
		1146	26 619 974	79 859 920	304 522	101 507	9
	<b>Total 114</b>		<b>89 534 904</b>	<b>268 604 707</b>	<b>1 022 510</b>	<b>340 837</b>	<b>37</b>
	1308	1308	173 534 551	520 603 643	1 994 868	664 956	32
	<b>Total 1308</b>		<b>173 534 551</b>	<b>520 603 643</b>	<b>1 994 868</b>	<b>664 956</b>	<b>32</b>
<b>Total 2003</b>			<b>369 174 030</b>	<b>1 107 666 218</b>	<b>4 245 355</b>	<b>1 414 929</b>	<b>141</b>
2004	41	4110	191 137	764 549	3 015	754	3
		4130	5 376 123	21 504 490	86 965	21 741	6
		4180	5 058 977	20 235 910	79 741	19 935	1
	<b>Total 41</b>		<b>10 626 237</b>	<b>42 504 949</b>	<b>169 721</b>	<b>42 430</b>	<b>10</b>
	111	1111	1 035 261 186	3 105 783 530	12 556 358	4 185 453	435
		1113	375 088 111	1 125 264 293	4 498 422	1 499 474	123
		1114	203 113 451	609 340 315	2 418 929	806 310	64
	<b>Total 111</b>		<b>1 613 462 748</b>	<b>4 840 388 138</b>	<b>19 473 708</b>	<b>6 491 236</b>	<b>622</b>
	114	1141	524 371 199	1 573 113 574	6 296 757	2 098 919	102
		1142	90 105 906	270 317 710	1 089 695	363 232	10
		1143	76 726 828	230 180 478	907 764	302 588	21
		1144	9 104 142	27 312 426	110 273	36 758	2
		1145	156 119 886	468 359 645	1 843 989	614 663	59
		1146	257 526 565	772 579 670	3 080 905	1 026 968	66
		1147	25 755 723	77 267 168	306 054	102 018	4
	<b>Total 114</b>		<b>1 139 710 249</b>	<b>3 419 130 671</b>	<b>13 635 437</b>	<b>4 545 146</b>	<b>264</b>
	1308	1308	835 169 811	2 505 509 263	9 985 701	3 328 567	289
	<b>Total 1308</b>		<b>835 169 811</b>	<b>2 505 509 263</b>	<b>9 985 701</b>	<b>3 328 567</b>	<b>289</b>
<b>Total 2004</b>			<b>3 598 969 045</b>	<b>10 807 533 021</b>	<b>43 264 567</b>	<b>14 407 379</b>	<b>1 185</b>
2005	111	1111	2 110 648 153	6 331 944 332	25 596 919	8 532 306	834
		1113	726 966 597	2 180 899 736	8 801 491	2 933 831	164
		1114	376 196 635	1 128 589 867	4 545 327	1 515 109	83
	<b>Total 111</b>		<b>3 213 811 385</b>	<b>9 641 433 935</b>	<b>38 943 737</b>	<b>12 981 246</b>	<b>1 081</b>
	114	1141	1 012 326 310	3 036 978 897	12 252 694	4 084 231	93
		1142	132 104 556	396 313 667	1 593 436	531 145	15
		1143	146 317 571	438 952 701	1 778 167	592 723	25
		1144	17 178 000	51 534 000	205 010	68 337	2
		1145	425 780 318	1 277 340 929	5 139 915	1 713 305	85
		1146	284 165 606	852 496 795	3 425 169	1 141 723	59
		1147	9 472 673	28 418 017	116 525	38 842	3
	<b>Total 114</b>		<b>2 027 345 034</b>	<b>6 082 035 006</b>	<b>24 510 917</b>	<b>8 170 306</b>	<b>282</b>
	1305	1305	649 964 676	1 949 893 848	7 830 640	2 610 214	242
	<b>Total 1305</b>		<b>649 964 676</b>	<b>1 949 893 848</b>	<b>7 830 640</b>	<b>2 610 214</b>	<b>242</b>
	1306	1306	79 663 569	238 990 670	964 854	321 618	73
	<b>Total 1306</b>		<b>79 663 569</b>	<b>238 990 670</b>	<b>964 854</b>	<b>321 618</b>	<b>73</b>
	1308	1308	1 451 536 703	4 354 608 843	17 556 347	5 852 117	364
	<b>Total 1308</b>		<b>1 451 536 703</b>	<b>4 354 608 843</b>	<b>17 556 347</b>	<b>5 852 117</b>	<b>364</b>
<b>Total 2005</b>			<b>7 422 321 367</b>	<b>22 266 962 302</b>	<b>89 806 494</b>	<b>29 935 500</b>	<b>2 042</b>
2006	41	4170	4 156 061	15 843 939	59 698	15 660	1
	<b>Total 41</b>		<b>4 156 061</b>	<b>15 843 939</b>	<b>59 698</b>	<b>15 660</b>	<b>1</b>
	111	1111	20 734 459	62 203 374	226 079	75 360	4
		1113	96 543 785	289 631 340	1 058 366	352 789	12
		1114	17 723 942	53 171 819	197 311	65 770	5
	<b>Total 111</b>		<b>135 002 186</b>	<b>405 006 533</b>	<b>1 481 756</b>	<b>493 919</b>	<b>21</b>
	114	1141	151 532 218	454 596 644	1 746 535	582 178	15
		1142	133 698 666	401 095 995	1 529 497	509 832	10
		1143	48 204 787	144 614 353	544 822	181 607	8
		1144	34 367 257	103 101 772	377 192	125 731	1
		1145	265 540 213	796 620 608	3 075 205	1 025 068	43
		1146	217 672 862	653 018 576	2 428 574	809 525	20
		1148	62 073 795	186 221 384	681 281	227 094	1
	<b>Total 114</b>		<b>913 089 798</b>	<b>2 739 269 332</b>	<b>10 383 107</b>	<b>3 461 036</b>	<b>98</b>
	1305	1305	92 387 189	277 161 544	1 028 326	342 775	18
	<b>Total 1305</b>		<b>92 387 189</b>	<b>277 161 544</b>	<b>1 028 326</b>	<b>342 775</b>	<b>18</b>
	1306	1306	24 495 963	73 487 852	280 998	93 666	38
	<b>Total 1306</b>		<b>24 495 963</b>	<b>73 487 852</b>	<b>280 998</b>	<b>93 666</b>	<b>38</b>
	1308	1308	869 881 173	2 609 643 370	9 923 513	3 307 838	149
	<b>Total 1308</b>		<b>869 881 173</b>	<b>2 609 643 370</b>	<b>9 923 513</b>	<b>3 307 838</b>	<b>149</b>
<b>Total 2006</b>			<b>2 039 012 370</b>	<b>6 120 412 570</b>	<b>23 157 399</b>	<b>7 714 894</b>	<b>325</b>
<b>Total</b>			<b>13 429 476 812</b>	<b>40 302 574 111</b>	<b>160 473 815</b>	<b>53 472 702</b>	<b>3 693</b>

SAPARD payments (31.12.2006.) including interests HUF and expressed in EURO on the exchange rate used by SAPARD Agency/ARDA

HUF									
Measure	SAPARD sources 2000-2003*		Number of contracted projects**	By contracted beneficiaries		Public contribution paid to beneficiaries***		Payments total compared to SAPARD funds (%)****	EU payments compared to EU contributions (%)****
	Total	EU		Total costs declared	Support demanded	Total	EU		
41 Technical Assistance	73 851 825	59 081 460	13	76 884 949	76 884 949	73 851 936	58 925 488	100,00%	99,74%
111 Investments in agricultural holdings	20 278 664 370	15 208 998 150	1 453	52 277 162 541	24 296 858 838	20 272 946 618	15 204 709 874	99,97%	99,97%
114 Processing and marketing of agricultural and fishery products	17 690 437 065	13 267 827 735	313	46 427 502 373	17 939 371 511	16 678 719 701	12 509 039 716	94,28%	94,28%
1305 Renovation and development of villages and protection and conservation of rural heritage	2 715 240 765	2 036 430 510	229	7 800 722 802	5 715 568 651	2 940 870 957	2 205 653 167	108,31%	108,31%
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	463 218 720	347 414 040	57	961 791 759	46 784 806	416 638 054	312 478 522	89,94%	89,94%
1308 Development and improvement of rural infrastructure	13 186 967 235	9 890 225 490	575	19 414 823 986	14 021 810 903	13 136 269 381	9 852 201 639	99,62%	99,62%
<b>Total</b>	<b>54 408 379 980</b>	<b>40 809 977 385</b>	<b>2 640</b>	<b>126 958 888 410</b>	<b>62 513 279 658</b>	<b>53 519 296 647</b>	<b>40 143 008 406</b>	<b>98,37%</b>	<b>98,37%</b>
*Approved by the STAR Committee on 20.07.2005 (Commission Decision B(2005)3625 of 19.09.2005, effective SAPARD funds (without interest))									
** Contracts in force on 31. December 2006.									
*** Payments effected exclusively from SAPARD funds (without interest) 31.12.2006.									
**** In the case of payment exceeding 100%, subject to the contributions fixed in the annual financial agreements, on the basis of authorisation for exceeding by 10% the sums indicated in the row „Measures total“.									
<b>1 EUR = 255 HUF</b>									

Measure	SAPARD sources 2000-2003*		Number of contracted projects**	By contracted beneficiaries		Public contribution paid to beneficiaries***		Payments total compared to SAPARD funds (%)****	EU payments compared to EU contributions (%)****
	Total	EU		Total costs declared	Support demanded	Total	EU		
41 Technical Assistance	289 615	231 692	13	301 510	301 510	289 615	231 080	100,00%	99,74%
111 Investments in agricultural holdings	79 524 174	59 643 130	1 453	224 616 324	95 281 799	79 501 751	59 626 313	99,97%	99,97%
114 Processing and marketing of agricultural and fishery products	69 374 262	52 030 697	313	182 068 637	70 350 477	65 406 744	49 055 058	94,28%	94,28%
1305 Renovation and development of villages and protection and conservation of rural heritage	10 648 003	7 986 002	229	30 591 070	22 413 995	11 532 827	8 649 620	108,31%	108,31%
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	1 816 544	1 362 408	57	3 771 732	1 814 842	1 633 875	1 225 406	89,94%	89,94%
1308 Development and improvement of rural infrastructure	51 713 598	38 785 198	575	76 136 565	54 987 494	51 514 782	38 636 085	99,62%	99,62%
<b>Total</b>	<b>213 366 196</b>	<b>160 039 128</b>	<b>2 640</b>	<b>517 485 837</b>	<b>245 150 116</b>	<b>209 879 594</b>	<b>157 423 562</b>	<b>98,37%</b>	<b>98,37%</b>
*Approved by the STAR Committee on 20.07.2005 (Commission Decision B(2005)3625 of 19.09.2005, effective SAPARD funds (without interest))									
** Contracts in force on 31. December 2006.									
*** Payments effected exclusively from SAPARD funds (without interest) 31.12.2006.									
**** In the case of payment exceeding 100%, subject to the contributions fixed in the annual financial agreements, on the basis of authorisation for exceeding by 10% the sums indicated in the row „Measures total“.									
<b>1 EUR = 255 HUF</b>									

## 6.1.2. NRDP sources

The Commission Regulation (EC) no 447/2004 provides the possibility to Hungary to finance projects contracted under Commission Regulation (EC) no 1268/1999, in respect of expenditures incurred beyond 31 December 2006, from EAGGF Guarantee Section under Commission Regulation (EC) no 1257/1999 in case where appropriations under Commission Regulation (EC) no 1268/1999 are exhausted or insufficient. Based on the Commission Regulation (EC) no 447/2004 the initial financial allocation of the SAPARD Plan was increased by the resources reallocated from NRDP (EAGGF Guarantee Section – Resolution no. K(2004) 3235 by the Commission), and in case of project payments for which appropriations under Regulation (EC) No 1268/1999 were exhausted or insufficient were financed from EAGGF Guarantee Section.

The breakdown of payments from NRDP sources by measure and submeasure is shown by the table below:

SAPARD payments from NRDP sources							
Measure/submeasure		HUF			EUR*		
		National	EU	Total	National	EU	Total
111	1111	61 600 546	184 801 636	246 402 182	244 971,55	734 914,64	979 886,19
	1113	40 428 178	121 284 523	161 712 701	160 773,79	482 321,34	643 095,13
	1114	24 969 514	74 908 543	99 878 057	99 298,16	297 894,47	397 192,63
111 Total		126 998 238	380 994 702	507 992 940	505 043,50	1 515 130,45	2 020 173,95
<b>2005 Total</b>		<b>126 998 238</b>	<b>380 994 702</b>	<b>507 992 940</b>	<b>505 043,50</b>	<b>1 515 130,45</b>	<b>2 020 173,95</b>
111	1111	120 330 182	360 990 544	481 320 726	472 791,66	1 418 374,97	1 891 166,63
	1113	305 098 274	915 294 781	1 220 393 055	1 167 725,68	3 503 176,87	4 670 902,55
	1114	131 964 993	395 894 959	527 859 952	505 069,86	1 515 209,50	2 020 279,36
111 Total		557 393 449	1 672 180 284	2 229 573 733	2 145 587,19	6 436 761,34	8 582 348,53
1305 Total		607 434 052	1 822 301 969	2 429 736 021	2 349 369,57	7 048 108,00	9 397 477,57
<b>2006 Total</b>		<b>1 164 827 501</b>	<b>3 494 482 253</b>	<b>4 659 309 754</b>	<b>4 494 956,77</b>	<b>13 484 869,34</b>	<b>17 979 826,11</b>
<b>Total</b>		<b>1 291 825 739</b>	<b>3 875 476 955</b>	<b>5 167 302 694</b>	<b>5 000 000,27</b>	<b>14 999 999,79</b>	<b>20 000 000,06</b>

\*on the exchange rate used by SAPARD Agency/ARDA

## 6.1.3. Interests on SAPARD accounts

By 31 December 2006, the following interest amounts had been earned on SAPARD accounts:

- Interests on the euro account of the SAPARD Programme: EUR 264,780.29
  - Interests on ARDA accounts of the SAPARD Programme: EUR 117.08
  - Penalty interests paid by beneficiaries: EUR 15,544.18
- Total interest: EUR 280,441.55.

Based on the decision made by the Monitoring Committee (27.11.2003.), the amount of interests earned on EU accounts till the end of the commitment period were committed by contract for measure No. 1308 EUR 246,968.89 (EU: EUR 185,226.67).

Following the closing deadline for the conclusion of SAPARD contracts, interests earned on the SAPARD accounts could not have been used for commitments only for payments.

According to MAFA provisions (Part A. Article 10. ponit 3.) all interests earned on SAPARD accounts must be used for the implementation of the Programme MA lauched a written procedure on 18.10.2006.a to SMC proposing to use the interests earned on SAPARD accounts after the closing deadline of SAPARD contracts for the payments of the measure No. 1305.

Penalty interests – in case of payments by ARDA which must have been paid back by beneficiary for different reasons (irregularity, contract withdraw by beneficiary, etc.) - covered the payments of the relevant measure.

Thus, as regards measure 1305, support in the amount of EUR 74,363,77 (EU contribution) was paid in one case from the interests on the SAPARD euro account, while as regards measure 1308, EUR 190,416.52 (EU contribution) was paid in 4 cases from the interests on the SAPARD euro account, and EUR 117.08 (EU contribution) in one case from the interests on the ARDA SAPARD account. Additionally, EUR 15,544.18 (EU contribution) was paid from penalty interests.

<b>SAPARD interest</b>		<b>HUF</b>
<b>Measure</b>	<b>Public contribution paid to beneficiaries SAPARD interest</b>	
	<b>Total</b>	<b>EU</b>
1305 Renovation and development of villages and protection and conservation of rural heritage	26 064 997	19 548 748
1308 Development and improvment of rural infrastructure	69 564 788	52 173 591
		<b>EUR</b>
<b>Measure</b>	<b>Public contribution paid to beneficiaries SAPARD interest</b>	
	<b>Total</b>	<b>EU</b>
1305 Renovation and development of villages and protection and conservation of rural heritage	99 151,69	74 363,77
1308 Development and improvment of rural infrastructure	274 770,37	206 077,78
<b>Total</b>	<b>373 922,07</b>	<b>280 441,55</b>

## 6.1.4. Total SAPARD sources

The breakdown of total payments from the SAPARD sources (original SAPARD budget, interests, and additional sources from NRDP) is shown by the table below:

Measure	SAPARD sources 2000-2003*		Number of contracted projects**	By contracted beneficiaries		Public contribution paid to beneficiaries***		Total payments compared to SAPARD funds (%)****	EU payments compared to EU contributions (%)****
				Total costs declared	Support demanded	Total	EU		
41 Technical Assistance	73 851 936	59 081 549	13	76 884 949	76 884 949	73 851 936	58 925 488	100,00%	99,74%
111 Investments in agricultural holdings	22 828 664 386	17 121 498 098	1 453	52 277 162 541	24 296 858 838	23 010 513 291	17 257 884 860	100,80%	100,80%
114 Processing and marketing of agricultural and fishery products	17 690 725 209	13 268 044 098	313	46 427 502 373	17 939 371 511	16 678 719 701	12 509 039 716	94,28%	94,28%
1305 Renovation and development of villages and protection and conservation of rural heritage	5 292 328 824	3 969 246 427	229	7 800 722 802	5 715 568 651	5 399 143 278	4 049 357 361	102,02%	102,02%
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	463 218 655	347 414 055	57	961 791 759	462 784 806	416 638 054	312 478 522	89,94%	89,94%
1308 Development and improvement of rural infrastructure	13 249 944 508	9 937 458 381	575	19 414 823 986	14 021 810 903	13 320 487 357	9 990 365 119	100,53%	100,53%
<b>Total</b>	<b>59 598 733 518</b>	<b>44 702 742 607</b>	<b>2 640</b>	<b>126 958 888 410</b>	<b>62 513 279 658</b>	<b>58 899 353 617</b>	<b>44 178 051 066</b>	<b>98,83%</b>	<b>98,83%</b>
* Approved by the STAR Committee on 20.07.2005 (Commission Decision B(2005)3625 of 19.09.2005, effective SAPARD funds increased – by virtue of the SAPARD Monitoring Committee (SMC) resolution of 27.11.2003 and SMC written resolution of 18.10.2006 - by the interests /late payment interests earned on the SAPARD account and by the sums reallocated from NRDP funds pursuant to the SMC resolution of 18.06.2004 but not including sources of commitment from national budget (Government Decision 2212/2004 (VII.27)									
** Contracts in force on 31. December 2006.									
*** Total payments for SAPARD projects (by 31 December 2006)									
*** Payments effected exclusively from SAPARD funds (without interest) 31.12.2006.									
**** In the case of payment exceeding 100%, subject to the contributions fixed in the annual financial agreements, on the basis of authorisation for exceeding by 10% the sums indicated in the row „Measures total“.									
1 EUR = 255 HUF									

EUR

Measure	SAPARD sources 2000-2003*		Number of contracted applications**	By contracted beneficiaries		Public contribution paid to beneficiaries***		Payments total compared to SAPARD funds (%)****	EU payments compared to EU contributions (%)****
	Total	EU		Total costs demanded	Support requested	Total	EU		
41 Technical Assistance	289 615	231 692	13	301 510	301 510	289 615	231 080	100,00%	99,74%
111 Investments in agricultural holdings	89 524 174	67 143 130	1 453	224 616 324	95 281 799	90 237 307	67 677 980	100,80%	100,80%
114 Processing and marketing of agricultural and fishery products	69 375 393	52 031 545	313	182 068 637	70 350 477	65 406 744	49 055 058	94,28%	94,28%
1305 Renovation and development of villages and protection and conservation of rural heritage	20 754 231	15 565 672	229	30 591 070	22 413 995	21 173 111	15 879 833	102,02%	102,02%
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	1 816 544	1 362 408	57	3 771 732	1 814 842	1 633 875	1 225 406	89,94%	89,94%
1308 Development and improvement of rural infrastructure	51 960 567	38 970 425	575	76 136 565	54 987 494	52 237 205	39 177 902	100,53%	100,53%
<b>Total</b>	<b>233 720 524</b>	<b>175 304 873</b>	<b>2 640</b>	<b>517 485 837</b>	<b>245 150 116</b>	<b>230 977 857</b>	<b>173 247 259</b>	<b>98,83%</b>	<b>98,83%</b>
* Approved by the STAR Committee on 20.07.2005 (Commission Decision B(2005)3625 of 19.09.2005, effective SAPARD funds increased – by virtue of the SAPARD Monitoring Committee (SMC) resolution of 27.11.2003 and SMC written resolution of 18.10.2006 - by the interests /late payment interests earned on the SAPARD account and by the sums reallocated from NRDP funds pursuant to the SMC resolution of 18.06.2004 but not including sources of commitment from national budget commitment for sources from the national budget (Government Decision 2212/2004 (VII.27)									
** Contracts in force on 31. December 2006.									
*** Total payments for SAPARD projects (by 31 December 2006)									
**** In the case of payment exceeding 100%, subject to the contributions fixed in the annual financial agreements, on the basis of authorisation for exceeding by 10% the sums indicated in the row „Measures total“.									
<b>1 EUR = 255 HUF</b>									

## 6.1.5. Accounting of SAPARD projects with the European Commission

In the period 2000-2006 the National Authorisation Office (NAO) of the Ministry of Finance has declared the following eligible costs by measure to the European Commission as of the following table :

Priority axis Priority/ Measure/ submeasure	HUF				€		
	Public expenditure		Private funding	Total eligible costs	Public expenditure		Private funding
	EC	National			EC	National	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>2+3+4=5</i>	<i>6</i>	<i>7</i>	<i>8</i>
1. Priority total	27 675 006 357	9 225 428 844	54 165 129 329	91 065 564 530	110 528 310,98	36 844 396,11	216 151 467,71
111 Investment in agricultural holdings	15 197 613 896	5 066 097 945	28 123 979 124	48 387 690 965	61 097 168,08	20 366 601,40	113 078 859,08
114, 154 Processing and marketing of agricultural and fishery products	12 477 392 461	4 159 330 899	26 041 150 205	42 677 873 565	49 431 142,90	16 477 794,71	103 072 608,63
3. Priority total	12 529 899 033	4 176 633 635	6 546 042 568	23 252 575 236	49 565 246,70	16 521 751,37	25 876 221,42
1305 Renovation and development of villages and the protection and conservation of rural heritage	2 227 055 392	742 351 865	1 093 227 296	4 062 634 553	8 858 966,10	2 952 988,97	4 345 122,44
1306 Diversification of operations, development of economic activities providing alternative income	312 478 522	104 159 532	470 072 811	886 710 865	1 245 851,80	415 284,01	1 875 186,51
1308 Development and improvement of rural infrastructure	9 990 365 119	3 330 122 238	4 982 742 461	18 303 229 818	39 460 428,80	13 153 478,39	19 655 912,47
41 Technical assistance	58 925 488	14 926 448	0	73 851 936	231 692,00	58 658,02	0,00
Total	40 263 830 878	13 416 988 927	60 711 171 897	114 391 991 702	160 325 249,68	53 424 805,50	242 027 689,13

The HUF/EUR exchange rates valid at the date of declaration to the European Commission are summarized in the following table:

Valid exchange rate, HUF/EUR / Date:	241,28/30.10.02	237,95/28.11.02	235,98/20.12.02	243,5/30.01.03	243,29/27.02.03	246,98/28.03.03	245,68/29.04.03
Valid exchange rate, HUF/EUR / Date:	266,25/27.06.03	263,38/30.07.03	256,6/28.08.03	253,71/29.09.03	256,2/30.10.03	264,29/27.11.03	262,75/22.12.03
Valid exchange rate, HUF/EUR / Date:	258,68/26.02.04	249,85/30.03.04	253,77/29.04.04	251,17/27.05.04	252,85/29.06.04	247,35/29.07.04	249,33/30.08.04
Valid exchange rate, HUF/EUR / Date:	246,38/28.10.04	246,54/29.11.04	245,71/22.12.04	245,13/28.01.05	242,28/25.02.05	247,15/30.03.05	252,09/28.04.05
Valid exchange rate, HUF/EUR / Date:	247,66/29.06.05	245,08/28.07.05	245,05/30.08.05	248,75/29.09.05	252,43/27.10.05	251,46/29.11.05	250,85/22.12.05
Valid exchange rate, HUF/EUR / Date:	252,50/27.02.06	265,40/30.03.06	265,38/27.04.06	261,51/30.05.06	283,20/29.06.06	271,65/28.07.06	276,28/30.08.06
Valid exchange rate, HUF/EUR / Date:	262,88/30.10.06	257,16/29.11.2006					

## 6.2. Implementation of the individual measures

In December 1999, the Ministry of Agriculture and Rural Development handed over to the European Commission Hungary's SAPARD Plan (2000-2006), a seven-year programme for the planning of agriculture and rural development. The document, as reworked after consultation, was accepted by the European Commission in October 2000.

Government Decision No. 2349/1999 (XII. 21.) (on measures taken for the utilisation of Community supports for agricultural and rural development and for the establishment of the organisational background) approved negotiations with regards to the following measures of the SAPARD Programme to be submitted to the Commission after consultation:

- Investments in agricultural holdings
- Processing and marketing of agricultural and fishery products
- Improvement of vocational training
- Agricultural production methods designed to protect the environment and maintain the countryside
- Operation of producer groups
- Renovation and development of villages, protection and conservation of rural heritage
- Renovation and development of villages, protection and conservation of rural heritage
- Development and improvement of rural infrastructure
- Technical assistance.

The first prerequisite for commencing the implementation of the SAPARD Programme was thereby complied with.

Hungary's SAPARD Plan was approved on 18 October 2000 by Commission Decision No. C (2000) 2738, whereupon it was rendered into Hungarian law by Decree 53/2001 (VIII. 17.) of the Ministry of Agriculture and Rural Development on the announcement of Hungary's SAPARD Plan 2000-2006.

A further prerequisite was the signing of a *Multi-Annual Financing Agreement (MAFA)* between the European Commission and the Government of the Republic of Hungary. The above referred document contains the rules for the implementation of the SAPARD Programme and the accreditation of the SAPARD Agency (ARDA).

The MAFA was signed in March 2001. Thereupon, the Annual Financial Agreements were signed every year, which set the financial frames for each year. Until Hungary's accession in 2004, four Annual Financial Agreements were concluded between the European Commission and the Government of the Republic of Hungary (namely those of 2000, 2001, 2002 and 2003).

Before being able to commence the implementation of the Programme, Hungary had the obligation to solve a complex task successfully in the field of institutional development. Owing to the efforts made by the Government, the institutional structure delineated in the Multi-Annual Financial Framework was established, with appropriate conditions for financing, laws and procedures (i.e. operational manuals) regulating the operation, trained civil servants and an organisation controlling the operation of the institutions, the existence of which had been a prerequisite for accreditation by the European Commission.

With its Decision No. 927/2002 from 26 November 2002, the European Commission decided on the accreditation of the Agency. This first resolution permitted the implementation of four SAPARD measures:

- 111 Investments in agricultural holdings,
- 114 Processing and marketing of agricultural and fishery products,
- 1308 Development and improvement of rural infrastructure,
- 41. Technical assistance.

The second decision on accreditation was made in April 2004. The Agency called for the introduction of two new measures:

- 1305 Renovation and development of villages, protection and conservation of rural heritage,
- 1306 Development and diversification of economic activities, providing for multiple activities and alternative income .

Although Hungary's SAPARD Plan had originally contained 9 measures, the Ministry of Agriculture and Rural Development gave up its intention to procure accreditation for three of them, with a view to the maximal utilisation of resources and the simplification of the Programme implementation.

This document gives a short presentation of only those measures, which were implemented in the course of the Programme.

### 6.2.1. A short presentation of the SAPARD Programme measures

#### **6.2.1.1. Investments in agricultural holdings**

This measure aims at the modernisation of agricultural holdings, machines and technological equipment, through renovating and modernising existing buildings on the one hand, and introducing new machines and equipment on the other.

The main objectives of the measure are the following: to increase the equipment stocks of the farms, to improve the level of technology, to promote competitiveness and improve the market efficiency of the farms, to improve product quality, to comply with European hygienic and animal welfare provisions, to maintain existing jobs and create new employment possibilities and meeting the European requirements concerning environmental protection.

The beneficiaries of the measure are natural or legal persons and companies without legal personality involved in agricultural production, provided that at least 50% of their sales revenue originates from agricultural activity, and the realisation of the investment may enable them to become economically viable and competitive.

#### **6.2.1.2. Processing and marketing of agricultural and fishery products (114)**

Holdings involved in the processing of meat, poultry, milk and milk products, eggs, wine, fruit and vegetables or fisheries products may submit applications for investments which facilitate the promotion of the conditions necessary for food safety and the compliance with European hygienic requirements, solve the problems of waste and wastewater management, modernise the receiving and resting of livestock, the introduction of new products to the market, modern classification and packaging technologies and information technology development.

The beneficiaries of the measure are natural persons, companies with or without legal personality and their associations involved in the primary processing of the said products.

### **6.2.1.3. Renovation and development of villages, protection and conservation of rural heritage (1305)**

This measure has the aim to create the necessary conditions for sustainable farming and to preserve cultural heritage, whereby general entrepreneurial and life conditions could be enhanced and a living settlements could be created. The measure aims at the rehabilitation of man-built and natural environmental elements, also by adding new functions and ensuring employment possibilities for the local population.

The scope of beneficiaries comprises the inhabitants, entrepreneurs, local governments and civil organisations of rural settlements and homesteads.

### **6.2.1.4. Development and diversification of economic activities, providing for multiple activities and alternative income (1306)**

This measure aims at the creation of alternative activities and sources of income in rural areas, thereby maintaining employment possibilities and ensuring new jobs for the rural population. This comprises counterbalancing seasonal employment and low profitability characteristic of the agriculture, strengthening the positive impacts of diversified farming, expanding the range of services and products offered and improving the chances of self-supply and market access. In the frames of the measure, opportunities are offered for developing products and services connected to supported activities, market research, diversifying enterprises or developing traditional arts and crafts and regional specialty products, improving the technologies and quality of food processing in small-scale enterprises providing supplementary sources of income, furthermore, for developing village tourism, including the marketing of local products and services.

The scope of beneficiaries comprises owners of projects to be realised in the area/settlement concerned or of projects which are to exercise their positive impacts there, inhabitants of rural settlements and homesteads, owners of real estates in the settlement/area, entrepreneurs, registered agricultural producers and their organisations, associations, inhabitants of areas with a population density below 120 persons/m<sup>2</sup>.

### **6.2.1.5. Development and improvement of rural infrastructure (1308)**

The aims of the measure are the development of local infrastructure in accordance with the economic, cultural and landscape characteristics and needs of rural areas. Within the framework of the measure, applications could be submitted for the improvement of the agricultural road network and energy supply, the establishment of local wastewater management facilities, the creation and development of local markets and agricultural procurement points, as well as for the improvement of information technology and communication systems (e.g. the establishment of IT hubs, telehouses, telepost networks, advisory systems).

The scope of beneficiaries comprises agricultural producers, entrepreneurs and their integrative organisations, civil organisations and local governments of rural settlements.

### 6.2.1.6. Technical Assistance (41)

This measure has the aim to contribute to the realisation of activities which are required for the efficient implementation of the SAPARD Programme, in compliance with the relevant requirements. This can be easily distinguished from all other measures since it cannot be applied for in the traditional sense as its beneficiary is the Managing Authority of the SAPARD Programme. This measure contributes to the efficient realisation of the other measures by supporting the following activities:

a) information provision and publicity: informing the public on a continual basis, compiling and distributing application manuals and information leaflets, organising presentations and forums, organising professional trainings for the beneficiaries of the Programme, creating a website for SAPARD and popularising the SAPARD Programme by means of presenting some successful projects;

b) monitoring of the Programme: training the employees of the Secretariat in charge of assisting the Monitoring Committee, preparing study papers on the Programme with a view to perform large-scale monitoring tasks, organising the meetings of the Monitoring Committee and performing mid-term evaluations.

### 6.2.2. Summary of amendments to the SAPARD Programme

- **2002:** at its meeting on 20 November 2002, the STAR Committee approved the request of the Hungarian authorities for the amendment of the SAPARD Programme. The amendment affected the four measures accredited in September 2002 (111 “Investments in agricultural holdings”, 114 “Processing and marketing of agricultural and fisheries products”, 1308 “Development and improvement of rural infrastructure”, 41 “Technical Assistance”). Also were affected chapter 5 on the national regulations applied in the course of the implementation of the SAPARD Programme, chapter 6 on the eligibility criteria for Community contribution, chapter 8 on the institutional network for implementation and its operation as well as chapter 7 on the financial plan, the support ratios and the ratios of Community contribution along with the financial table pertaining thereto.
- **2003:** at its meeting on 25 November 2002, the STAR Committee approved the request of the Hungarian authorities for the amendment of the SAPARD Programme. From among the previously accredited measures, the amendment of 2003 affected measure 111 “Investments in agricultural holdings” and measure 114 “Processing and marketing of agricultural and fisheries products”, and two further measures were influenced as well, namely measure 4.3 “Improvement of vocational Training” and measure 1305 “Renovation and development of villages, protection and conservation of rural heritage”. The financial tables of the Programme were also modified. By these modifications, the maximum value limits of individual projects were increased with regards to several measures. On the other hand, the support ratio for agricultural enterprises was enhanced from 30-40% to 40-50%. Furthermore, a new element was added, which provided that economic viability be assessed on the basis of the data from the Test Production System, instead of the previously applied fixed performance expectation.
- **2004:** The amendment proposals approved at the November 2003 meeting of the Monitoring Committee were approved by the STAR Committee on 18 February 2004. The amendments affected measure 111 “Investments in agricultural holdings” and measure

114 “Processing and marketing of agricultural and fisheries products” as well as chapter 8.2.9 of the SAPARD Plan (Prevention and exploration of anomalies, reduction, suspension and termination of benefits, reimbursement of undue amounts paid).

In addition thereto, two new measures were accredited in 2004, namely measure 1305 “Renovation and development of villages, protection and conservation of rural heritage” and measure 1306 “Development and diversification of economic activities, providing for multiple activities and alternative income”. The calls for applications were published on 14 January 2004.

The financial tables pertaining to the SAPARD Plan were modified by the Commission Regulation No. 1419/2004 as well.

- **2005:** On 13 June 2005, Hungary submitted a petition to the European Commission, indicating its intention to use the interests earned on the SAPARD euro accounts for the measure “Development and improvement of rural infrastructure” and to receive the approval of the European Commission for the reallocation of sources as approved by the Monitoring Committee, subject to the support need of applications submitted for SAPARD measures.

### 6.2.3. Implementation of the SAPARD Programme

From 1 July 2003 onwards, the tasks in connection with the implementation of the SAPARD Programme have been performed by the Agricultural and Rural Development Agency (ARDA) as successor of the SAPARD Agency. The Agency performs state tasks serving the satisfaction of common social needs as its main activity, in accordance with the provisions of special laws and - as regards the operation of the Agency – with the standards incorporated in the bilateral Multi-Annual Financing Agreement concluded with the European Commission, along with the administrative, supervisory and information providing tasks and other community services listed under points *e*) and *l*) of paragraph (2) Article 8 of the Government Decree 217/1998 (XII. 30.) on the Operational Order of the State Budget.

The Agricultural and Rural Development Agency was established through the merger of the SAPARD Agency and the Centre for Agricultural Intervention as their general successor from 1 July 2003.

ARDA carries out its tasks through its central office and its local organs (regional offices), which do not possess legal personality. At present, 8 directorates and 4 departments are directly managed by the Chair of ARDA, and further 19 regional offices pertaining to the Regional Directorate are operational, 7 of which have regional competences. Supports provided through an application system (SAPARD matters) are managed by the 7 regional branch offices.

#### 6.2.3.1. Process of application management, rate of receiving and processing applications

Immediately after the national accreditation on 25 September 2002, the SAPARD Agency announced the first call for applications in respect of three from the four accredited SAPARD Programme measures (measures 111, 114 and 1308). Surveys conducted in 2002, in the course of the activities preceding the submission of applications, proved that in the area of agriculture and rural development, notwithstanding the rather strict conditions, there was a great interest and demand for support.

The applicants were given relatively short time for compiling their applications. The number of applications submitted by the given deadlines (15 November and 1 December) for the measures announced exceeded expectations, which was due to communication activities elaborated in detail and coordinated by the SAPARD Agency and the Managing Authority of the Ministry of Agriculture and Rural Development (MARD). Notwithstanding the short deadline and the complexity of compiling applications, the regional offices and the Department for Applications of the Food Industry received applications in a volume surprising to all (that is 1160 pieces).

The second call for applications was issued by the SAPARD Agency in February 2003, without setting a deadline for the submission of applications.

In mid-August 2003, following the approval from Brussels for the amendments to the SAPARD Programme, the third call for applications was published by the new Agricultural and Rural Development Agency (ARDA) set up as from 1 July 2003. As a result of these calls, further 1413 applications were received by the Agency during 2003.

The calls for application regarding SAPARD measures 1305 and 1306 with rural development objectives, which had been accredited in the second phase, were announced in the framework of a ministerial press conference attracting high interest on 14 January 2004, further increasing the number of applications submitted by the end of March, beginning of April, as expected in consideration of the time demanded for compiling applications. Owing to the wide-spread information campaign carried out in 2002 and 2003, the Programme achieved almost general publicity and great interest was expressed about it. The information published on the SAPARD website hosted by ARDA provided potential applicants with a further significant aid for accessing information. Owing to the efficient communication, altogether 2592 applications were received in 2002-2004, and they were supplemented by further a 6236 applications (total number of applications: 8828), which was far beyond preliminary estimates concerning the interest for the Programme. The project value of the applications submitted amounted to HUF 414,019,490,083 with total support need of HUF 216,952,269,388.

From the beginning of 2003 onwards, the Agency was continually evaluating the submitted applications and in the case of positive decisions, contracts on the provision of support were concluded with the owners of the projects. The assessment process was significantly slowed down by the fact that almost all applications had to be supplemented by missing documents. In the case of such applications, the processing of the merits of the application could commence only after submission of missing pieces of information. Owing to measures for organisational and operational modernisation and rationalisation processes implemented throughout the period of managing and assessing applications, as well as the wide-spread practical experiences acquired, the process of application management had been accelerated by 2003.

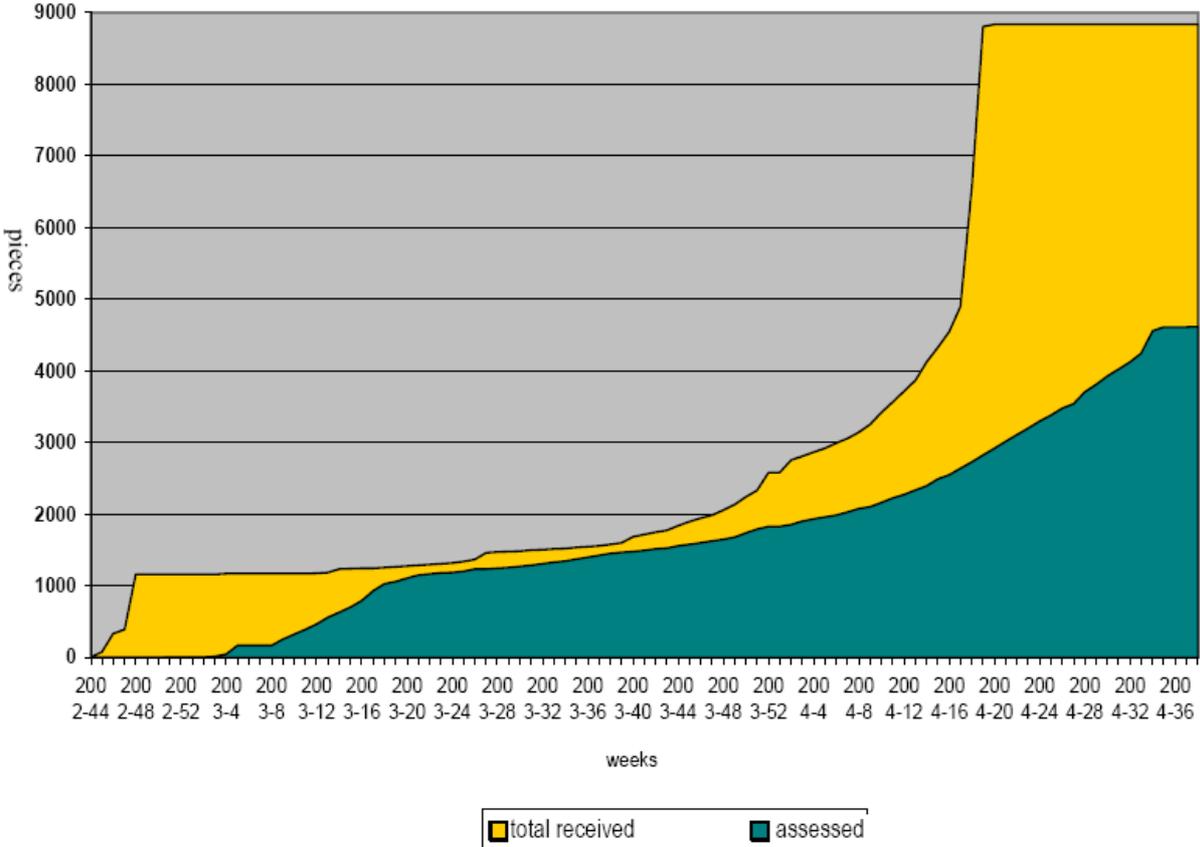
Starting from the announcement of the Programme, applications were received on a rather periodical basis, characterised by **significant disproportionalities in number and in composition as well**. The reason for this was, -besides initial expectations regarding the Programme and the submission deadline set for the first round of applications-, that the other available national support possibilities ceased.

The initially low number of applications submitted for the subsequent "open" calls, i.e. calls without deadlines announced in the summer of 2003, was influenced by the implementation

of the first round itself (the time demanded for generating new projects after earlier applications) as well as the drought damage suffered in the summer of 2003, which – by exercising negative impacts on the own resources of agricultural actors - even resulted in the withdrawal of some applications already submitted.

Application activity was given a boost in the autumn of 2003, further enhanced at the beginning of 2004 then closed by record submissions beyond hopes in the two weeks preceding the submission deadline of Programme applications at the end of April 2004.

**Temporal distribution of SAPARD applications received and assessed**



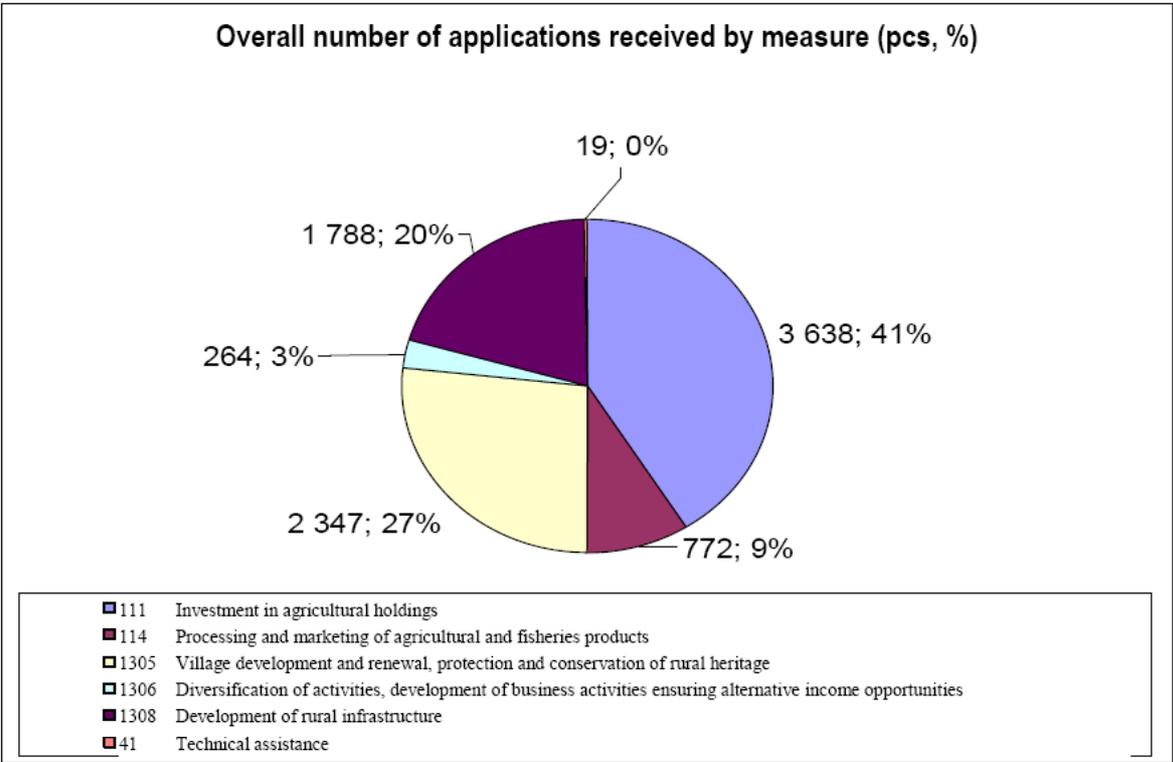
The above figure – showing the quantity of applications received and processed by weekly breakdown – clearly indicates the relatively consolidated growth of application volumes in the first period, which was being managed by the Agency in full compliance with the requirements. The period until October 2003 can be regarded as balanced, at that time submissions and filings followed the same rate, maintaining a normal volume of applications to be processed. Due to the conclusion of the Programme, a new, unexpected wave of applications could be experienced, which meant the accumulation of an unmanageable volume of applications.

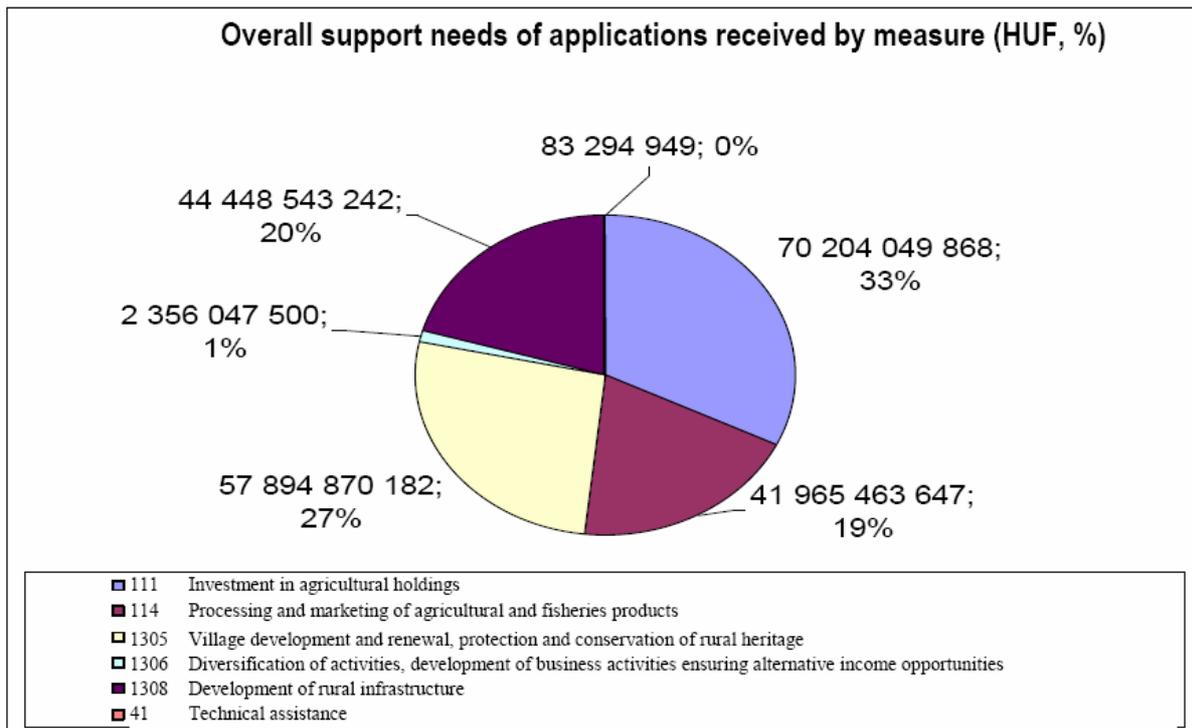
Owing to the prompt intervention by the management, the processing staff responded very fast to the increased rate of applications in November 2003, however, due to the individual characteristics of the procedures, the emerging problems regarding staff numbers and obviously the unexpected volume of applications received, the rate of processing became significantly slower than required by the volume of submitted applications.

Unfortunately a substantial number of applications (4361 pieces) had to be rejected on 31 August 2004, when the assessment period of the Programme came to an end, as a result of exhausted funds.

**6.2.3.2. Number of applications received, breakdown by area and by measure, quality, assessment**

In the framework of the SAPARD Programme, altogether 8828 **applications were received** by 30 April 2004. The support need of the applications submitted amounted to HUF 216,952,269,388. The composition of applications submitted by 30 April 2004 represents different volumes by each measure. The highest proportion (3638 pieces) belongs to measure 111 “Investments in agricultural holdings”, this represents 41% of the total number of applications received. 1788 applications were submitted for measure 1308 “Development of rural infrastructure”, which represents 20% of the total number of applications received. For measure 114 “Improvement of processing and marketing of agricultural and fisheries products” a total of 772 applications were submitted, which represents 9 % of the total number of applications received. For measure 1305 “Renovation and development of villages and the protection and conservation of the rural heritage” 2347 applications were submitted, which represents 27 % of the total number of applications received. Only 264 applications were submitted for measure 1306 “Development and diversification of economic activities, providing for multiple activities and alternative income”, representing 3 % of the total number of applications received.

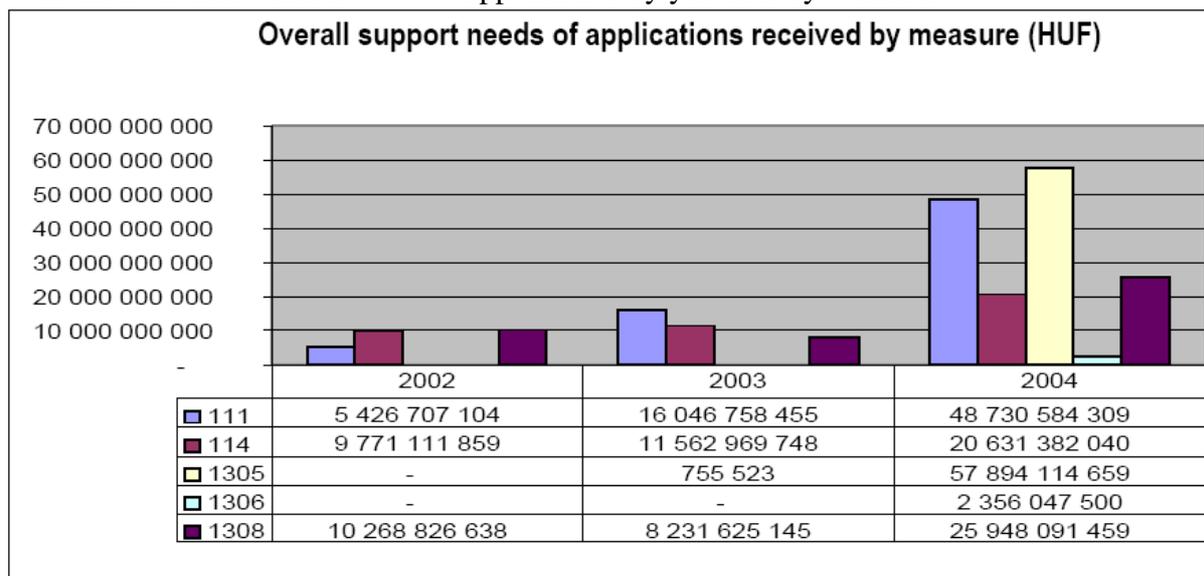




In 2005, the SAPARD Programme came into its final phase as the contracting for received and supported applications had been concluded by 30 September 2004; the emphasis was shifted to the implementation of projects and payments in 2005.

As regards the breakdown of submitted applications by year, it can be established that the reason for the outstanding number of applications submitted in 2004 was not only the introduction of the two new measures, as applications for the earlier measures were also submitted in significant numbers.

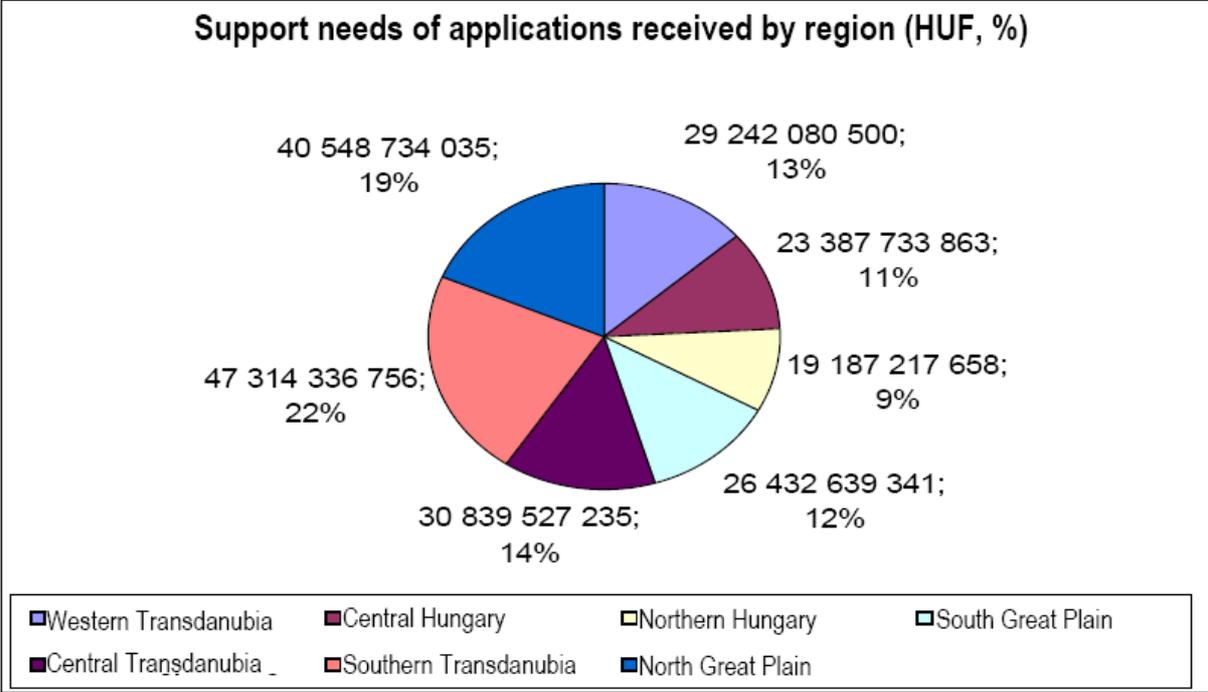
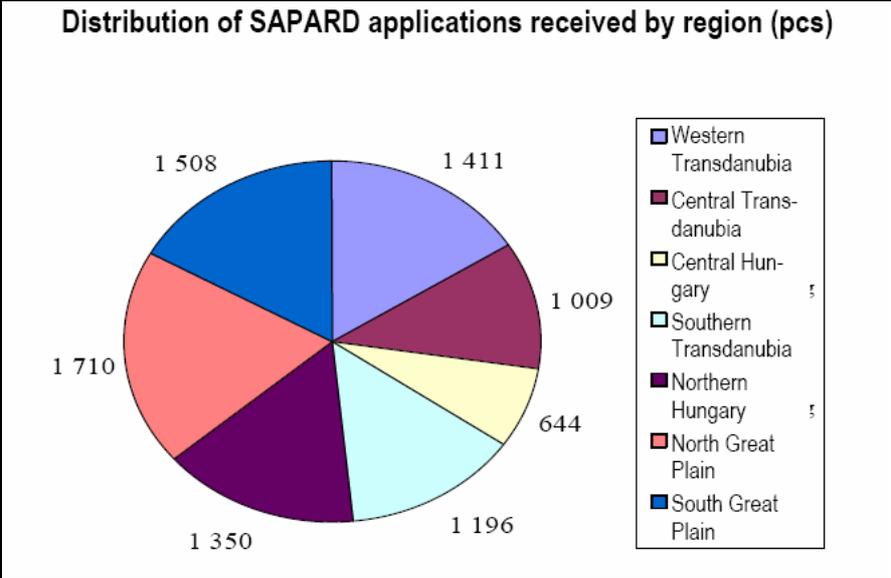
**Breakdown of submitted SAPARD applications by year and by measure**



As for the territorial distribution of the applications submitted, it can be stated that two regions show outstanding figures, namely North Great Plain and South Great Plain,

accordingly, the most applications were received from the Great Plain area. From the North Great Plain Region, altogether 1710 applications were received, while 1508 pieces originated from the South Great Plain Region. Lower numbers of applications were received from the Western Transdanubian Region (1411) and the region of Northern Hungary (1350), and average numbers came from the Southern Transdanubian Region (1196 applications). The lowest numbers of applications were received from the region of Central Hungary having Budapest as its centre (644) and from the Central Transdanubian Region (1009).

The ratios by measure showed similar regional distribution (however, it can be emphasised that the Great Plain regions applied for machinery procurement projects proportionally more often than the other regions), thus, no significant deviation could be traced in the composition of applications by region.



On the other hand, by examining the applications we can state that the average project and support need of individual projects had increased, which indicates the planning and realisation

of bigger investments. The support ratios requested are getting close to the maximum value determined in the call for applications.

As regards the quality of the submitted applications, due to the novelty and peculiarities of the SAPARD application system, no complete application was received for the calls in 2002 ; the submission procedure for additional information required 2 months on average. Applications were rejected due to late submission, non-eligible expenses, viability problems, failure to submit or undue submission of missing documents and provision of untrue information. For the reasons of various re-submissions, modifications and requests for additional information, the filing of applications submitted in November 2002 and December 2002 was still ongoing in February and March 2003.

In the case of applications submitted in 2002, the proportion of rejected applications was 57%, whereas only 24.4% of applications submitted in 2003 were rejected, which can be explained by the increasing knowledge of applicants.

Proven by statistics, 50% of rejected applications were turned down due to administrative errors.

The most frequent types of administrative errors were the following:

- the request was not submitted on the application form in accordance with the objective of the application and/or the documents pertaining to application packages for different objectives were mixed in the request;
- the application documentation was incomplete. Requisite documents were missing and/or the application or documents thereto were not submitted in the prescribed number of copies;
- the documents submitted had not been filled in completely, required data were missing;
- the documents submitted were not duly signed by the company (signature, stamp, date);
- the request was submitted or signed by a person other than the one vested with the power of representation;
- the obligatory content of the business plan was incomplete and not supported by the requested farming documentation;
- declarations were missing, incomplete or made without signature;
- individual certificates, expert opinions by authorities were missing, were not submitted in the prescribed form or their validity period expired;
- documents regarding securities were missing, incomplete or invalid.

Several applications were rejected for the reason that they did not meet the basic criteria for eligibility.

The following errors regarding the compliance with the subjective eligibility criteria occurred most frequently:

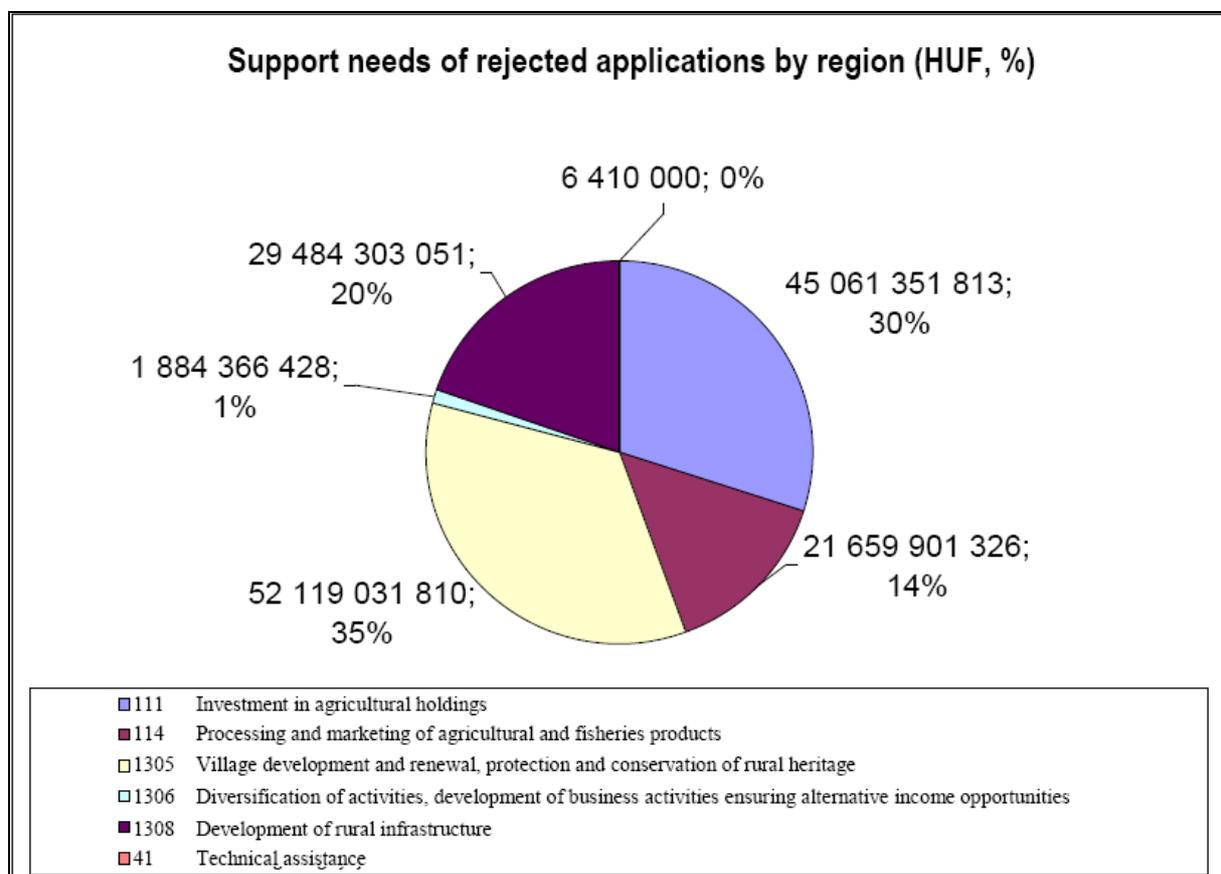
- the objective indicated in the application was not in compliance with the support objectives;
- the applicant's legal, entrepreneurial form did not fall within the scope of subjective eligibility;
- the applicant had outstanding public debts;

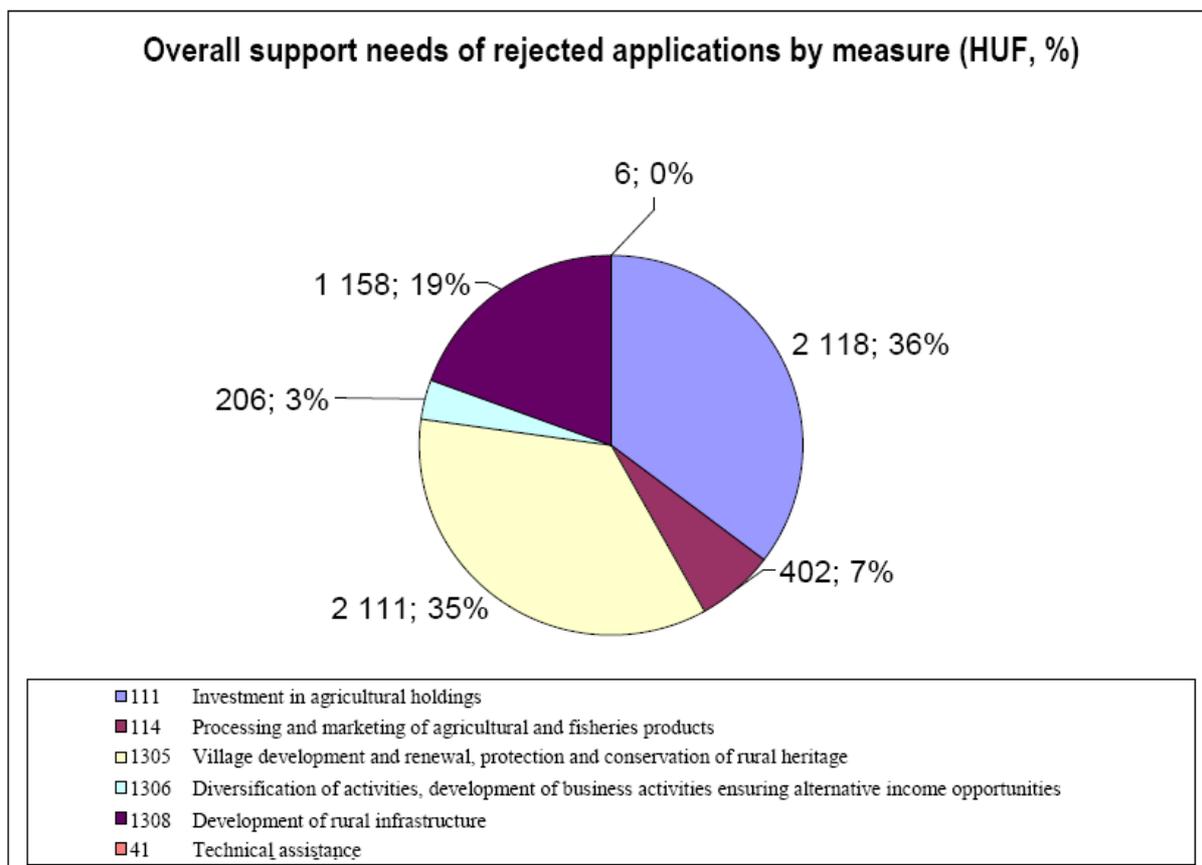
- the certificates, documents supporting subjective eligibility were not sufficient to prove eligibility;
- the data contained in the submitted application did not correspond to the content of the declarations and the business plan;
- the authorisations and expert opinions attached to the applications did not apply to the intended project;
- the authorisations and expert opinions did not support the compliance with Community standards;
- the securities offered were not connected to the subject of support.

Further frequent errors in connection with the eligibility criteria were the following:

- the budget contained non-eligible items;
- the requested support level exceeded the maximum rate of support;
- the request referred to non-eligible product or technology;
- the intended project would have led to unauthorised expansion of capacities;
- the intended project aimed at the processing of non-eligible products;
- the factual figures of farming did not support the content of the business plan;
- the business plan and the liquidity plan did not support the feasibility of the project;
- the business plan did not prove long-term viability and competitiveness;
- the intended project did not meet the horizontal objectives.

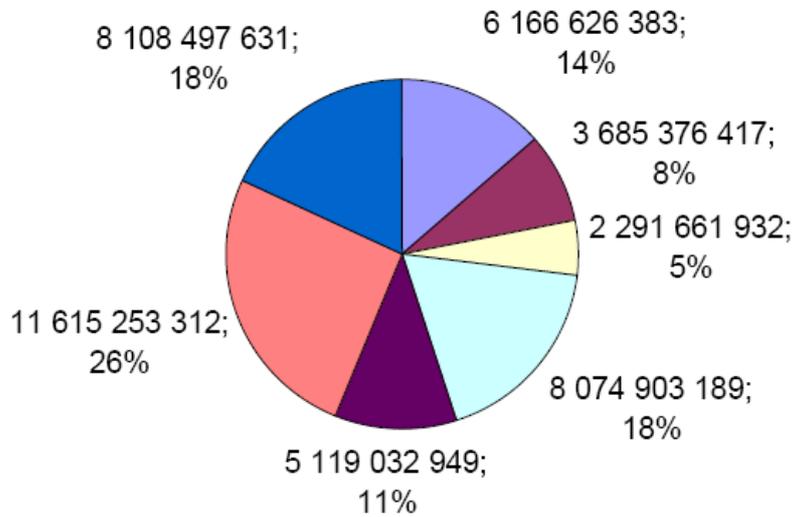
In the framework of the SAPARD Programme, altogether 6001 applications were rejected in the value of HUF 150,215,364,428.





The most rejected applications pertained to measure 111 "Investments in agricultural holdings", this means altogether 2118 such applications, the support need of which amounted to HUF 45,061,351,813. 1260 applications had to be rejected due to the lack of funds. 391 applications were rejected for incompleteness, 133 applications for non-eligibility and 67 applications for lacking viability. Applications were withdrawn in 80 cases. 16 applications were submitted after the expiration of the deadline open for submission, while in 9 cases on-the-spot controls proved that the applications were not in compliance with some eligibility criteria. 14 applications had to be rejected for the provision of incorrect information, 5 applications because of the source side of the planned budget, while 3 applicants failed to apply the requested modifications, whereupon their applications were rejected. In 140 cases, the rejection of the application was due to other reasons.

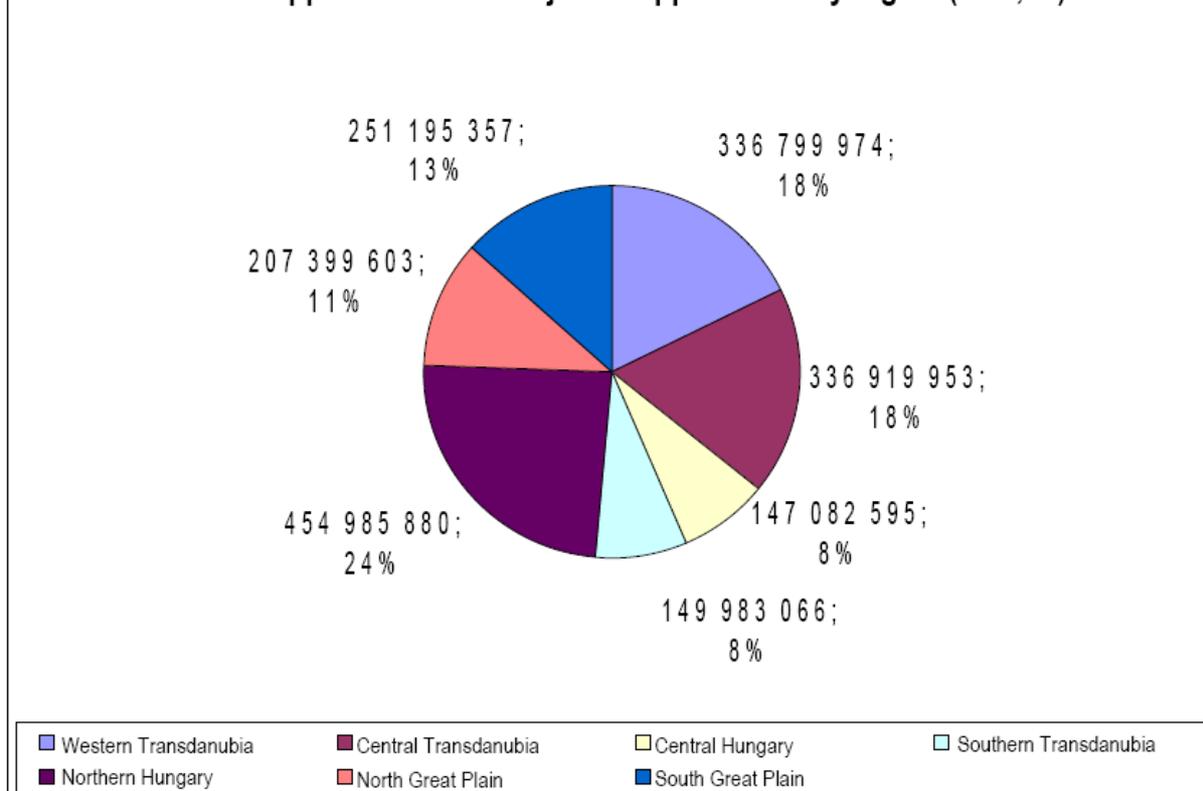
**111 Support needs of rejected applications by region (HUF, %)**



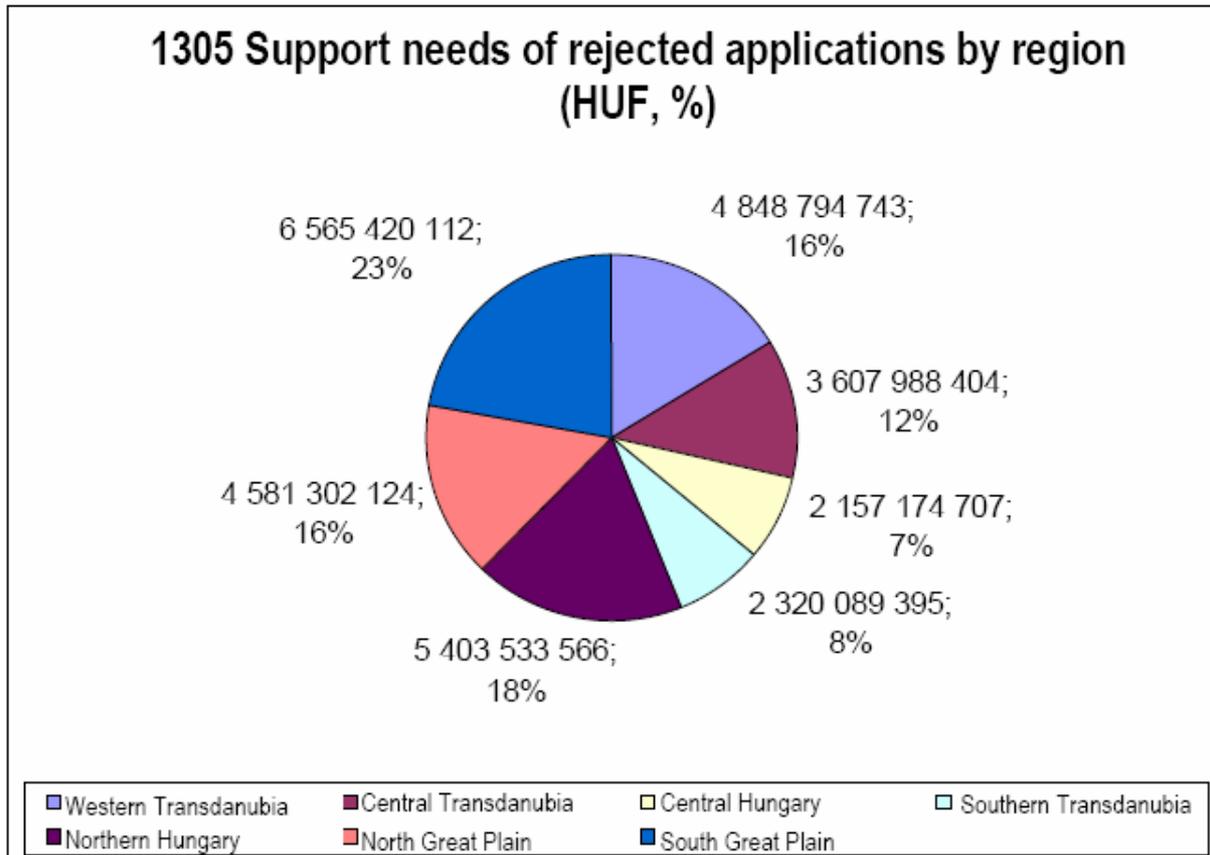
Western Transdanubia	Central Transdanubia	Northern Hungary	Southern Transdanubia
Northern Hungary	North Great Plain	South Great Plain	

At the second place we have measure 1305 “Renovation and development of villages and the protection and conservation of the rural heritage”, in the frames of which altogether 211 applications were rejected, with a total value of HUF 52,119,031,810. 1919 applications were rejected due to the lack of funds. 15 applications were rejected for incompleteness, 68 applications for non-eligibility and 1 each for the provision of incorrect information and for late submission. 93 applications were rejected for other reasons, whereas in 13 cases the applications were withdrawn by the applicants. In one case, rejection was due to review, which means that the application was first rejected but the applicant appealed against the decision, then a final decision on rejection was made.

**1306 Support demand of rejected applications by region (HUF, %)**

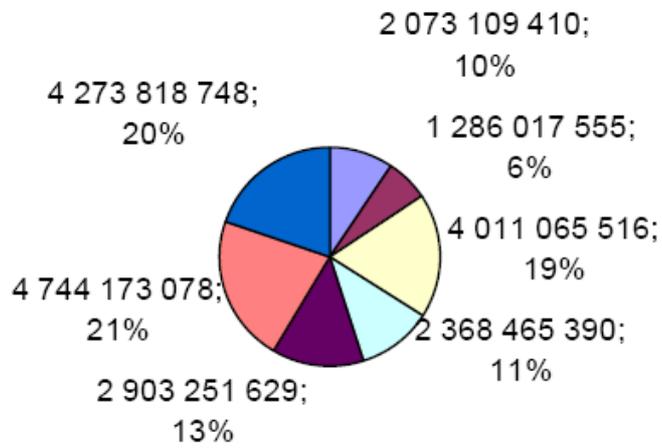


As regards the number of rejected applications, the third place is occupied by measure 1308 "Development and improvement of rural infrastructure" with 1158 rejected applications, the support need of which amounted to HUF 29,484,303,051. 545 applications could not be supported due to the lack of funds. 336 applications were rejected for various deficiencies, whereas 130 applications were turned down for non-eligibility. 4 applications did not meet the eligibility criteria, and 5 applications were in lack of appropriate budgets. 17 applications were submitted after the deadline, and 10 applications were rejected for deficiencies revealed in the course of on-the-spot controls. 7 applications had to be rejected for the provision of incorrect information, and 6 applications for failure to apply requested modifications. 29 applications were turned down for other reasons. In the framework of this measure, 67 applicants decided to withdraw their applications. In two cases, rejection was due to review, which means that the application was first rejected but the applicant appealed against the decision, then a final decision on rejection was made.



In the framework of measure 114 for “Improvement of processing and marketing of agricultural and fisheries products”, 402 applications were rejected in a value of HUF 21,659,901,326. Most of these, precisely 166 applications had to be rejected due to the lack of funds. 82 applications were rejected for deficiencies, 64 applications for eligibility problems and 13 applications for non-compliance with the viability criterium. 13 applications did not contain appropriate budget plans, 3 applications were overdue, incorrect information was provided in 2 cases, while 2 applicants failed to apply the modifications suggested by the SAPARD Agency/ARDA, therefore they resulted in rejection. 2 applications were rejected as a result of the on the spot controls, in 17 cases the reasons for rejection were other than the above, while 35 applicants withdrew their applications.

**114 Support needs of rejected applications by region  
(HUF, %)**



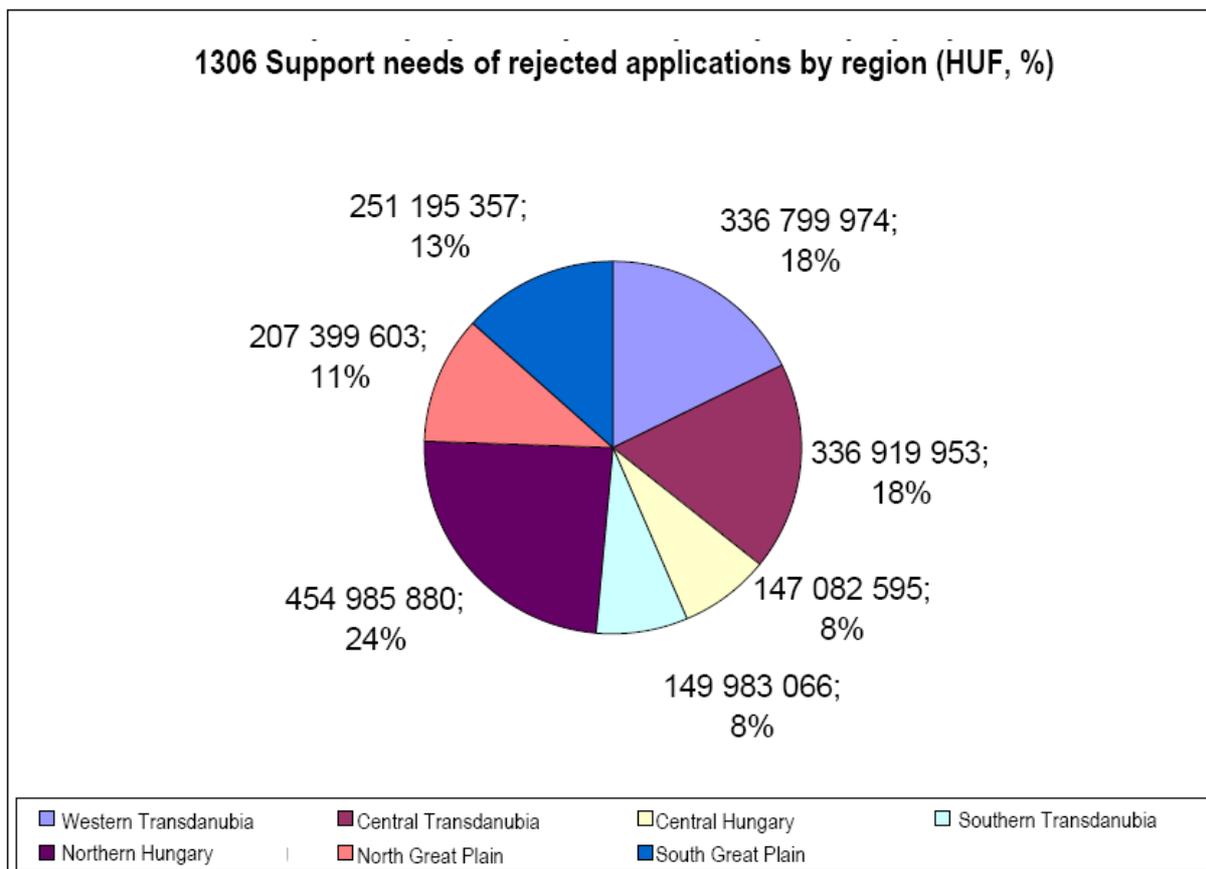
Western Transdanubia

Central Transdanubia

Northern Hungary

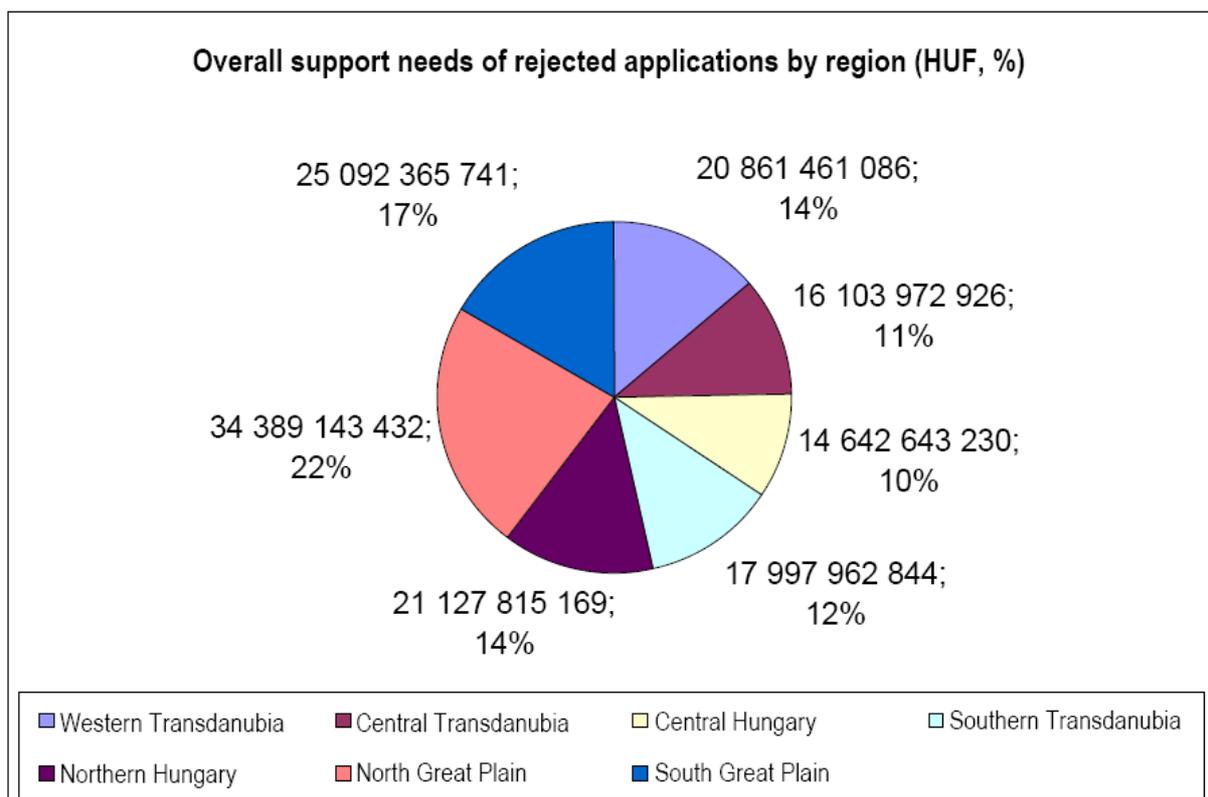
North Great Plain

The least rejected applications– altogether 206 pieces – had been submitted for measure 1306 “Development and diversification of economic activities, providing for multiple activities and alternative income” with a support need amounting to HUF 1,884,366,428. A total of 147 applications were rejected due to the lack of funds. 24 applications were rejected for deficiencies, whereas 27 applications were turned down due to non-eligibility. One application failed to meet the viability criterium, another one was submitted beyond the deadline indicated in the call for applications; both of these resulted in rejection. 4 applications were rejected for reasons other than the above, whereas 2 applications were withdrawn.



The measure "Technical Assistance" has to be mentioned separately since it could not be applied for in the traditional sense as its beneficiary was the Managing Authority of the SAPARD Programme. This measure contributed to the efficient realisation of the other measures and the successful implementation of the Programme as a whole. In the framework of this measure, altogether 19 applications were rejected with support needs amounting to HUF 83,294,949.

Considering the **territorial distribution** of applications, most rejections were effected in the North Great Plain Region, where the total number of applications rejected by the regional office was 1127. Second from this aspect is the region of Western Transdanubia with 1023 rejected applications. That is followed by Northern Hungary, where rejections were effected in altogether 947 cases. In the region Southern Great Plain 940 applications and in Southern Transdanubia 698 applications were rejected by the regional offices. The least rejections were reported from the Central Hungarian Region, this means altogether 479 applications.



On the whole, it can be established that a substantial proportion of applications had to be rejected for the lack of funds, since Hungary's accession to the European Union implied that the sources allocated for the last three years of the Programme could not be utilised any more.

### 6.2.3.3. Conclusion of the contracts

Given that the submission deadline in the first round of applications in 2002 was December 2002, the processing and evaluation of the applications was done entirely in the year 2003, and the processing was partially done in the year 2004. Until the end of the year 2003, ARDA concluded a total of 551 support contracts.

By the deadline set by the Commission and in Government Resolution No. 2212/2004 (VIII.27.), 30 September 2004, ARDA concluded a total of 2774 contracts with the winners, that is, in the year 2004, 2223 contracts were signed. Most of the contracts were concluded by ARDA in the period between June 1 and September 30, 2004.

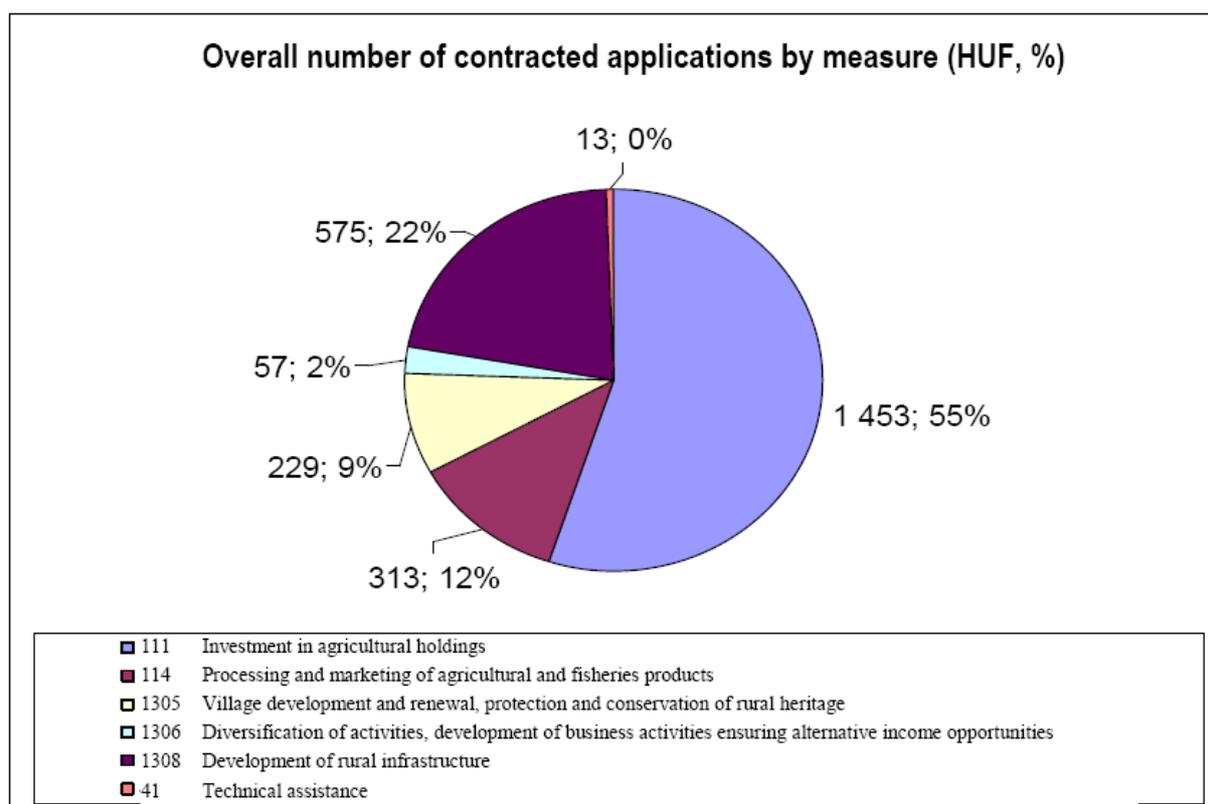
As a result of the above, the implementation of the majority of these projects started in the second half of 2004, and the investments with longer-term construction could be completed only by the end of 2006.

The number of contracts concluded in 2004 was 2774. On the basis of the breakdown of the supported and contracted applications by measure, it can be stated that interest was significant in two measures. The number of the applications resulting in contracts was the largest in the case of measure 111, "Investments in agricultural holdings" where we can speak about 1502 applications. This means 54% of all supported applications. In terms of applications having resulted in contracts, "1308 – Development and improvement of rural infrastructure" ranks second, with 620 applications, representing 22% of the supported applications. In terms of applications having resulted in contracts, measure 114 related to product processing and

marketing ranks third, with 346 applications, representing 12% of the supported applications. There were 235 applications (8%) under measure 1305 “Renovation and development of villages and the protection and conservation of the rural heritage”; the measure 1306 “Development and diversification of economic activities, providing for multiple activities and alternative income” means only 58 contracted applications (2%). In the case of the measure “Technical Assistance” a total of 13 applications led to contracts.

On the basis of the breakdown by region of the applications having received support and resulting in contracts, it can be stated that the largest number of contracts – 568 applications – were concluded in the Northern Great Plain Region. This is followed by the Southern Great Plain Region, with 552 contracted applications. Third is the Southern Transdanubia Region, with 402 applications, and with one application less, with a total of 401 contracted applications, the Northern Hungary Region follows. 378 contracts were concluded in the Western Transdanubia Region, and 306 in the Central Transdanubia Region. The number of contracts was the lowest in the Central Hungary Region, where only a total of 162 contracts were made.

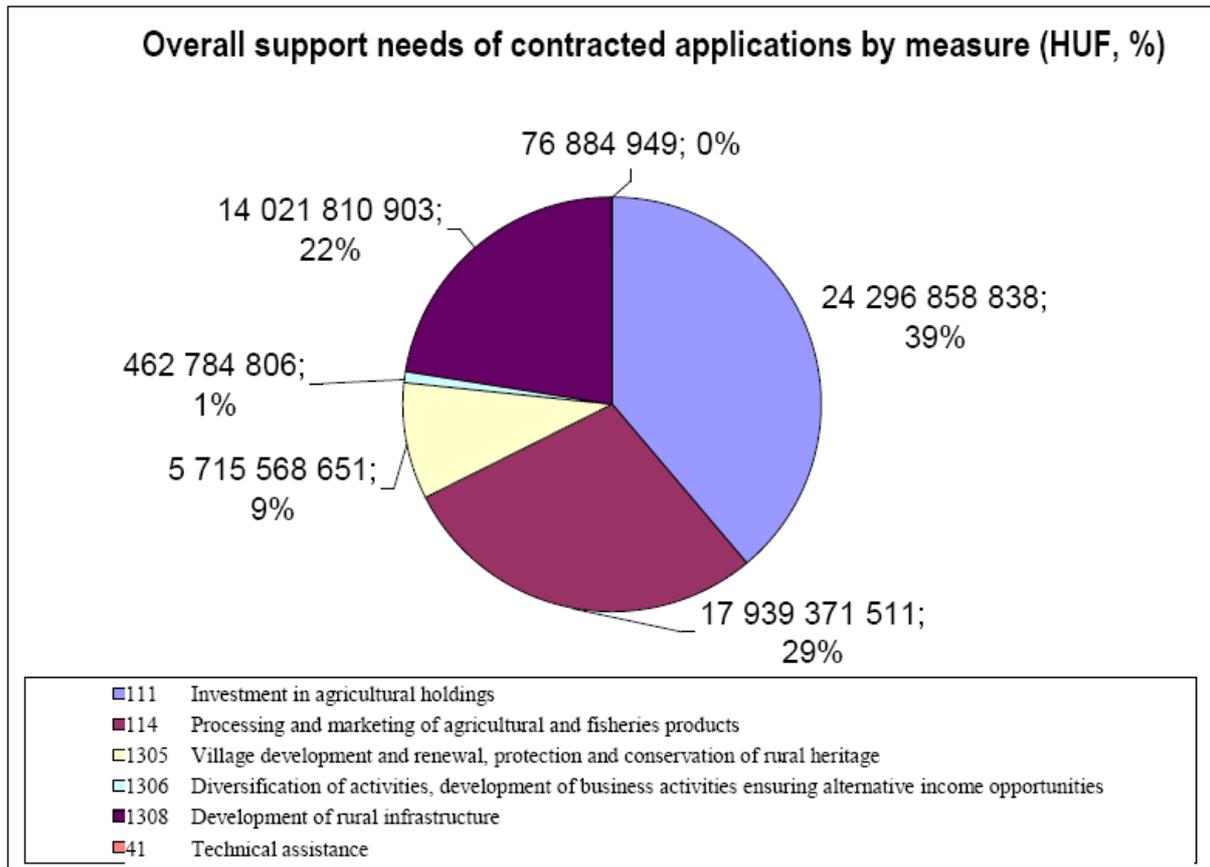
Until the end of the year 2004 and the final deadline of the commitment, the number of contracts decreased to 2640 by the end of 2006, due to resignations and dropouts. The overall support need of the applications having resulted in contracts, according to the statistics of 31 December 2006 was HUF 62,513,279,658.



The number of the applications resulting in contracts was the largest in the case of measure 111, “Investments in agricultural holdings”, where a total of 1453 contracts were concluded. This is followed by measure 1308, “Development and improvement of rural infrastructure”, where 575 contracts were concluded. Measure 114 “Improvement of processing and marketing of agricultural and fishery products” ranks third, where a total of 313 contracts

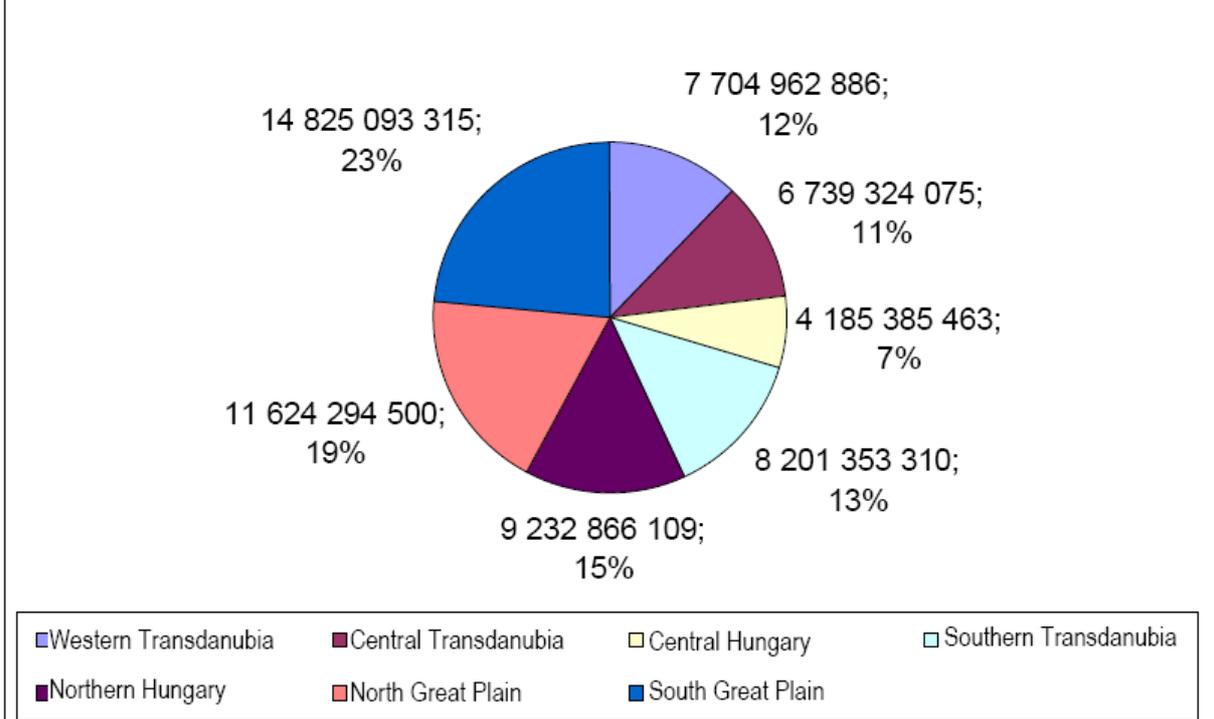
were concluded. The measure 1305 “Renovation and development of villages and the protection and conservation of the rural heritage” also proved popular, where 229 contracts were concluded. The lowest number of contracts was concluded in respect of measure 1306, “Development and diversification of economic activities, providing for multiple activities and alternative income”, where only 57 support contracts were signed.

A special case is the measure “Technical Assistance” (not available for traditional applications), where a total of 13 contracts were concluded.



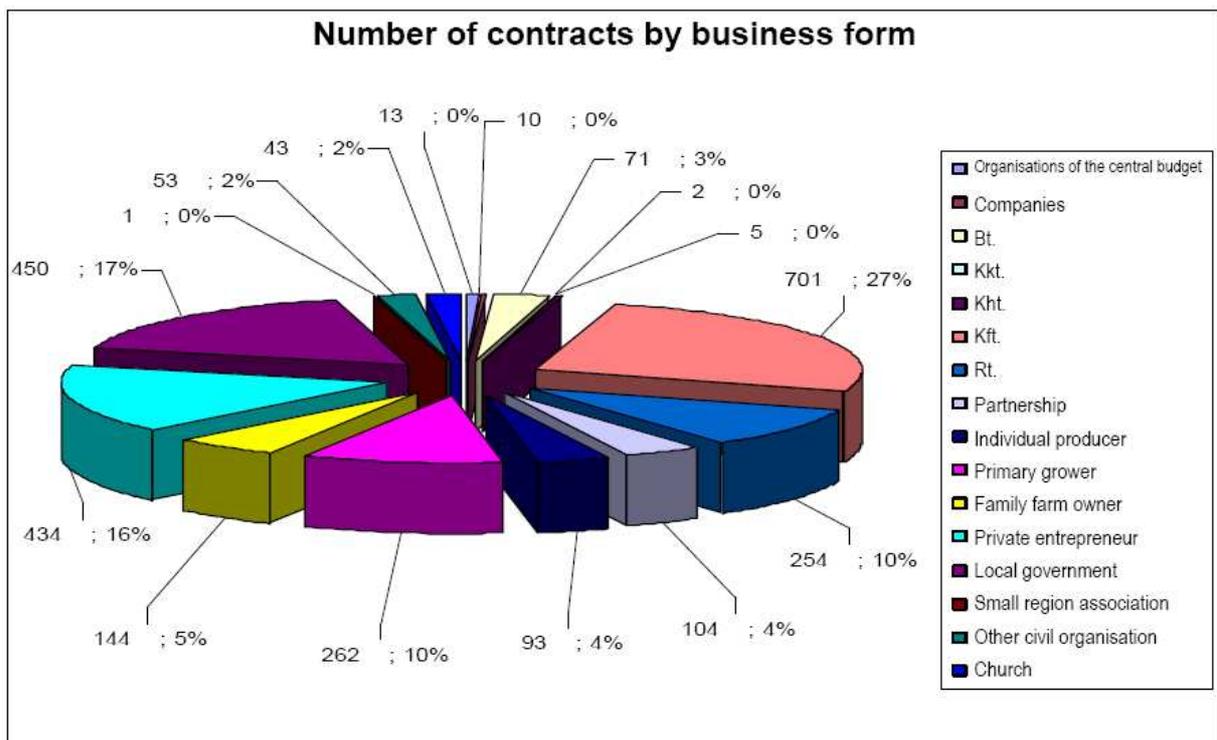
If we look at the breakdown of the contracts concluded by regions, it can be stated that the largest number of contracts – 538 in number – were concluded in the Southern Great Plain Region, regarding the five measures open for applications. The Northern Great Plain region ranks second, with a total of 528 contracts signed, followed by the Southern Transdanubia Region, with 383 contracts. Fourth is the Northern Hungary Region, where a total of 378 applications resulted in contracts. 365 contracts were concluded in the Western Transdanubia Region, and 294 in the Central Transdanubia Region. The number of contracts was the lowest in the Central Hungary Region, where only a total of 154 contracts were signed.

### Overall support needs of contracted applications by region (HUF, %)



### Breakdown of the contracts by the business forms of the beneficiaries

A significant portion of the contracts in effect on 31 December 2006, 40% were concluded with business associations, 35% with natural persons, 17% with local municipalities and budgetary organisations, 4% with churches and other civil organisations, another 4% with cooperatives.



In a breakdown by the form of business, the number of contracts is largest in the case of the limited liability companies, about 27%. This is followed by the Local Municipalities and individual entrepreneurs, with 17% and 16%, respectively. In addition, the number of primary growers is also important, about 10% of the overall number. In the case of other business forms, this ratio was well below 10%.

### **Breakdown of the number of contracts, by business form and by region**

If we look at the number of the concluded contracts on the whole, merely in a breakdown by regions, it can be stated that the largest number of contracts – 538 in number – were concluded in the Southern Great Plain Region, to the overall value of HUF 14,825,093,315.

If we look at the number of contracts in a breakdown by the types of business, the business associations are the most active in the Northern Great Plain and the Southern Great Plain regions, with 222 and 216 applications that resulted in contracts. In respect of the business associations, the Southern Transdanubia Region ranks third, where a total of 175 contracts were concluded. This is followed by the Northern Hungary Region, with 131 contracts signed, and by the Southern Transdanubia Region, with 116 contracts. The Western Transdanubia Region ranks sixth, with 113 applications leading to contracts in the case of business associations. The lowest number of contracts can be observed in the Central Hungary Region, where only a total of 70 contracts were signed based on the applications.

Natural persons (individual producers, primary growers, family farms, individual entrepreneurs) were involved in a total of 933 contracts to the value of HUF 7,807,067,326. The number of contracts concluded with natural persons was the highest in the Northern Great Plain Region, where a total of 210 contracts were made. The Southern Great Plain region ranks second, with a total of 189 contracts signed, followed by the Western Transdanubia Region, with 145 contracts. 127 contracts were concluded in the Central Transdanubia Region, and 124 in the Southern Transdanubia Region. In the Northern Hungary region, a total of 100 contracts were made. In respect of natural persons, the lowest number of contracts was observed in the Central Hungary Region, where only a total of 41 contracts were made. It can be stated that from among natural persons, individual entrepreneurs and primary growers were the most active, with 434 and 262 contracts, respectively. They are followed by family farmers and individual producers, with 144 and 93 contracts, respectively.

In the case of local municipalities and budgetary organisations, we can speak about a total value of HUF 12,824,974,132, in 463 contracts concluded. In the case of local municipalities, the largest number of contracts was concluded in the Northern Hungary region, a total of 121 contracts. The Southern Great Plain region ranks second, with a total of 86 contracts signed, followed by the Western Transdanubia Region, with 78 contracts. Local municipalities concluded 57 contracts in the Southern Transdanubia Region, 47 in the Northern Great Plain Region and 40 in the Central Transdanubia Region. In the case of local municipalities, the number of contracts was the lowest in the Central Hungary Region, where contracts were made only on the basis of 21 applications. In the Central Hungary Region, 13 contracts were concluded with budgetary organisations and these refer to applications submitted and supported under measure 41, Technical Assistance.

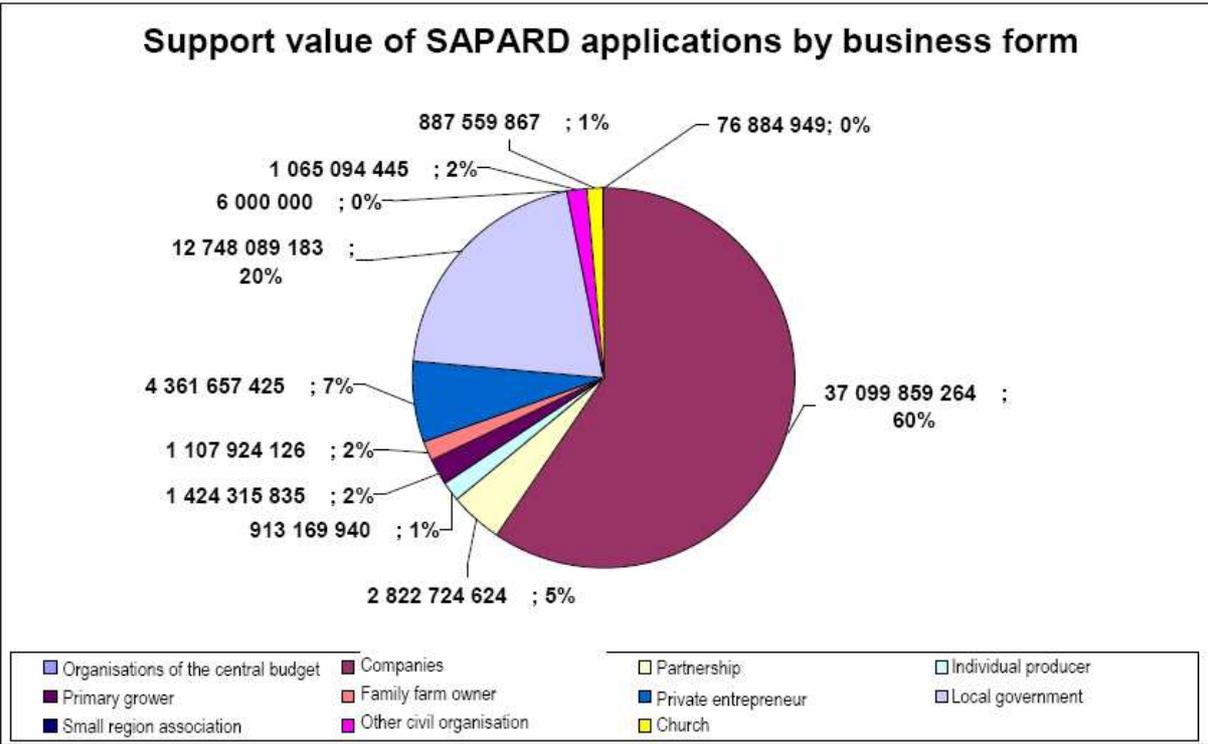
In the case of churches and other civil organisations, we can speak about a total value of HUF 1,952,654,312, in 96 contracts concluded. The highest number of contracts was observed in

the Northern Great Plain Region, where only a total of 23 contracts were made based on the applications. With two supported contracts less, the Southern Great Plain Region ranks second, with 21 contracts. Third is the Western Transdanubia region, with 17 contracts signed, followed by the Northern Hungary Region, with 14 contracts. In the Southern Transdanubia region, a total of 10 contracts were made. The lowest number of contracts was concluded in the Central Transdanubia Region and the Central Hungary Region, where churches and other civil organisations concluded 7 and 4 contracts, respectively.

As to micro-region associations, only 1 contract was signed in the Southern Transdanubia region.

In the case of cooperatives, a total of 104 contracts were signed, with a support need of HUF 2,822,724,624. The highest number of contracts was observed in the Northern Great Plain and the Southern Great Plain regions, where in both regions, 26 contracts were concluded. Third is the Southern Transdanubia region, with 16 contracts signed, followed by the Western Transdanubia and Northern Hungary regions with 12 contracts, each. The lowest number of contracts was concluded in the Central Hungary region and the Central Transdanubia region, where cooperatives concluded 7 and 5 contracts, respectively.

**Breakdown of the number of contracts, by business type and by measure**



In respect of the business associations (limited partnership; general partnership; public company; Ltd.; and Plc.) within the framework of the five measures open for applications, a total of 1043 contracts were concluded. The most popular measure was measure 111, “Investments in agricultural holdings”, where a total of 589 contracts were concluded. This is followed by measure 114 “Improvement of processing and marketing of agricultural and fishery products”, where a total of 263 contracts were concluded. Third is measure 1308, “Development and improvement of rural infrastructure”, where 167 contracts were concluded. The two least popular measures for business associations were measure 1306, “Development

and diversification of economic activities, providing for multiple activities and alternative income”, where only 20 contracts were concluded and measure 1305 “Renovation and development of villages and the protection and conservation of the rural heritage”; where only 4 contracts were made with Ltd’s. It can be stated that from among business association, the number of contracts is the highest in the case of Ltd’s and Plc’s, while limited partnerships rank third.

Natural persons (individual producers, primary growers, family farms, individual entrepreneurs) were involved in a total of 933 contracts. The support needs of the applications that led to contracts was HUF 7,807,067,326. The highest number of contracts was observed in the case of measure 111, with 806 applications. This is followed by measure 1308, with 59 concluded contracts. Measure 1306 ranks third, where a total of 35 contracts were concluded, followed by measure 114, with 29 applications that resulted in contracts. The number of contracts was the lowest in the case of measure 1305, where a total of 4 contracts were signed.

In the case of local municipalities and budgetary organisations, we can speak about a total value of HUF 12,824,974,132, in 463 contracts concluded. Measure 1308 was the most popular one, where a total of 306 contracts were concluded, followed by measure 1305, with 143 contracts. In the case of the measure “Technical Assistance” a total of 13 contracts were concluded.

The churches and other civil organisations concluded a total of 96 contracts, with a total support need of HUF 1,952,654,312. The largest number of contracts was concluded regarding measure 1305 “Renovation and development of villages and the protection and conservation of the rural heritage”, a total of 78 contracts. One contract was signed both regarding measure 111 and measure 1306, in respect of measure 1308, 16 applications resulted in contracts.

Out of micro-region associations, a contract was concluded only in one case. The application was submitted under measure 1308, its support need was 6,000,000 HUF.

In the case of cooperatives, a total of 104 contracts were signed, with a support need of 2,822,724,624 HUF. Cooperatives could apply for three measures. Support under measure 111 “Investments in agricultural holdings” was provided in 57 contracts, under measure 114 “Improvement of processing and marketing of agricultural and fishery products”, 21 contracts, and under measure 1308 “Development and improvement of rural infrastructure”, there were 26 contracts.

#### **6.2.3.4. Payments**

The method for the payment of SAPARD assistance is **ex post financing**. This means that the applicant can submit for settlement in its application request package only invoices already paid for, **issued in accordance with the respective rules**, supplied with the necessary accessories and attachments required by the accounting legislation. As a smaller portion of the projects relates to one-off items (e.g. machinery acquisition) and the collection of the invoices relates to an investment made in a period of not more than 2 years, in one of its stages, therefore, **during the implementation of the Programme, the payment processes started at a far later stage** (by the end of the year 2003).

Unfortunately, it can be stated as well that the **invoicing discipline** (here, formal accessories and attachments are referred to) in the supplier basis of the applicants often **does not comply**

with the criteria provided for by the EU or the local legislation, therefore, the authorisation process of the payments frequently required an unnecessarily long time.

In respect of the SAPARD payments, it can be stated that in the case of applications that resulted in contracts by 31 December 2006, payments from the original SAPARD funds were made in 3686 cases, to the value of HUF 53.5 billion (EUR 209.9 million), where the Community contribution amounted to HUF 40.1 billion (EUR 157.4 million).

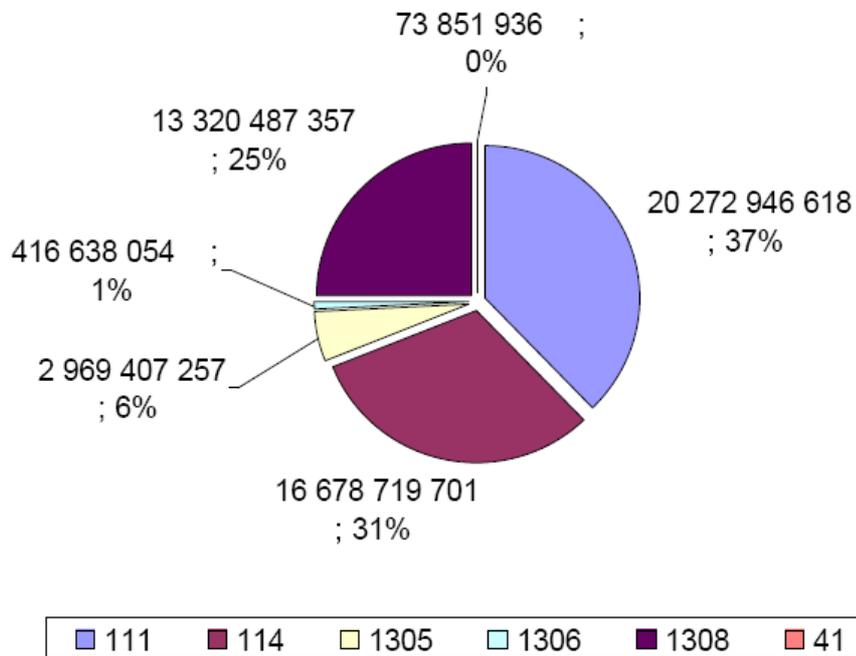
HUF

Measure	SAPARD sources 2000-2003*		Number of contracted projects**	By contracted beneficiaries		Public contribution paid to beneficiaries***		Payments total compared to SAPARD funds (%)****	EU payments compared to EU contributions (%)****
	Total	EU		Total costs declared	Support demanded	Total	EU		
41 Technical Assistance	73 851 825	59 081 460	13	76 884 949	76 884 949	73 851 936	58 925 488	100,00%	99,74%
111 Investments in agricultural holdings	20 278 664 370	15 208 998 150	1 453	52 277 162 541	24 296 858 838	20 272 946 618	15 204 709 874	99,97%	99,97%
114 Processing and marketing of agricultural and fishery products	17 690 437 065	13 267 827 735	313	46 427 502 373	17 939 371 511	16 678 719 701	12 509 039 716	94,28%	94,28%
1305 Renovation and development of villages and protection and conservation of rural heritage	2 715 240 765	2 036 430 510	229	7 800 722 802	5 715 568 651	2 940 870 957	2 205 653 167	108,31%	108,31%
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	463 218 720	347 414 040	57	961 791 759	46 784 806	416 638 054	312 478 522	89,94%	89,94%
1308 Development and improvement of rural infrastructure	13 186 967 235	9 890 225 490	575	19 414 823 986	14 021 810 903	13 136 269 381	9 852 201 639	99,62%	99,62%
<b>Total</b>	<b>54 408 379 980</b>	<b>40 809 977 385</b>	<b>2 640</b>	<b>126 958 888 410</b>	<b>62 513 279 658</b>	<b>53 519 296 647</b>	<b>40 143 008 406</b>	<b>98,37%</b>	<b>98,37%</b>
*Approved by the STAR Committee on 20.07.2005 (Commission Decision B(2005)3625 of 19.09.2005, effective SAPARD funds (without interest))									
** Contracts in force on 31. December 2006.									
*** Payments effected exclusively from SAPARD funds (without interest) 31.12.2006.									
**** In the case of payment exceeding 100%, subject to the contributions fixed in the annual financial agreements, on the basis of authorisation for exceeding by 10% the sums indicated in the row „Measures total“.									
<b>1 EUR = 255 HUF</b>									

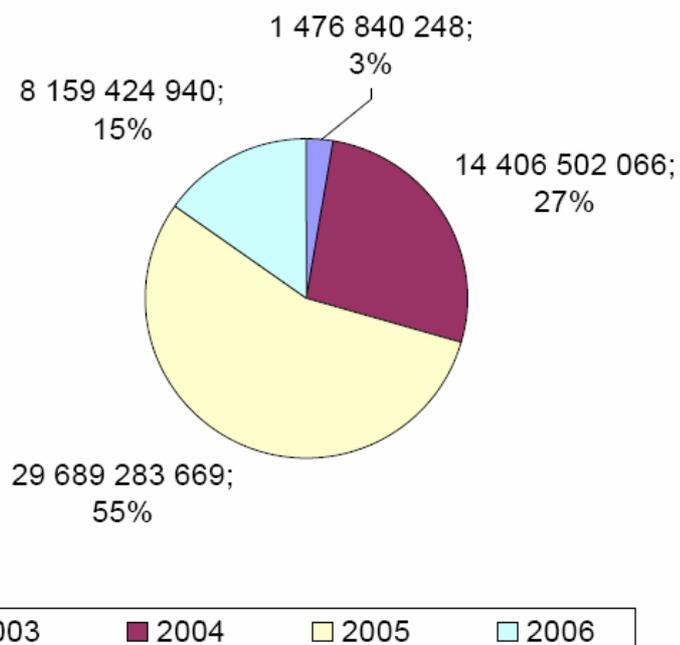
EUR

Measure	SAPARD sources 2000-2003*		Number of contracted projects**	By contracted beneficiaries		Public contribution paid to beneficiaries***		Payments total compared to SAPARD funds (%)****	EU payments compared to EU contributions (%)****
	Total	EU		Total costs declared	Support demanded	Total	EU		
41 Technical Assistance	289 615	231 692	13	301 510	301 510	289 615	231 080	100,00%	99,74%
111 Investments in agricultural holdings	79 524 174	59 643 130	1 453	224 616 324	95 281 799	79 501 751	59 626 313	99,97%	99,97%
114 Processing and marketing of agricultural and fishery products	69 374 262	52 030 697	313	182 068 637	70 350 477	65 406 744	49 055 058	94,28%	94,28%
1305 Renovation and development of villages and protection and conservation of rural heritage	10 648 003	7 986 002	229	30 591 070	22 413 995	11 532 827	8 649 620	108,31%	108,31%
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	1 816 544	1 362 408	57	3 771 732	1 814 842	1 633 875	1 225 406	89,94%	89,94%
1308 Development and improvement of rural infrastructure	51 713 598	38 785 198	575	76 136 565	54 987 494	51 514 782	38 636 085	99,62%	99,62%
<b>Total</b>	<b>213 366 196</b>	<b>160 039 128</b>	<b>2 640</b>	<b>517 485 837</b>	<b>245 150 116</b>	<b>209 879 594</b>	<b>157 423 562</b>	<b>98,37%</b>	<b>98,37%</b>
*Approved by the STAR Committee on 20.07.2005 (Commission Decision B(2005)3625 of 19.09.2005, effective SAPARD funds (without interest))									
** Contracts in force on 31. December 2006.									
*** Payments effected exclusively from SAPARD funds (without interest) 31.12.2006.									
**** In the case of payment exceeding 100%, subject to the contributions fixed in the annual financial agreements, on the basis of authorisation for exceeding by 10% the sums indicated in the row „Measures total“.									
<b>1 EUR = 255 HUF</b>									

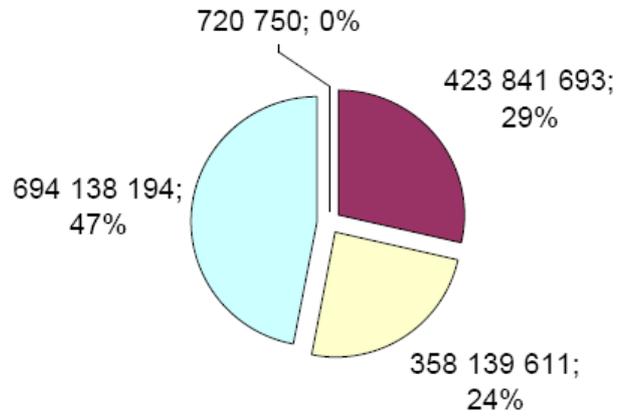
**SAPARD payments by measure during the whole lifecycle of the Programme (HUF, %)**



**Programme level annual payments debiting SAPARD funds only (HUF, %)**

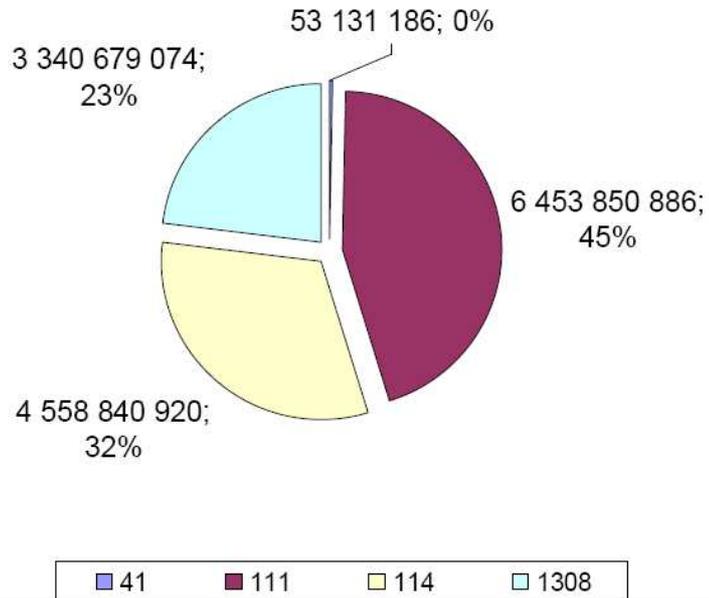


**Payments by measure debiting SAPARD funds and interests (HUF) 2003**

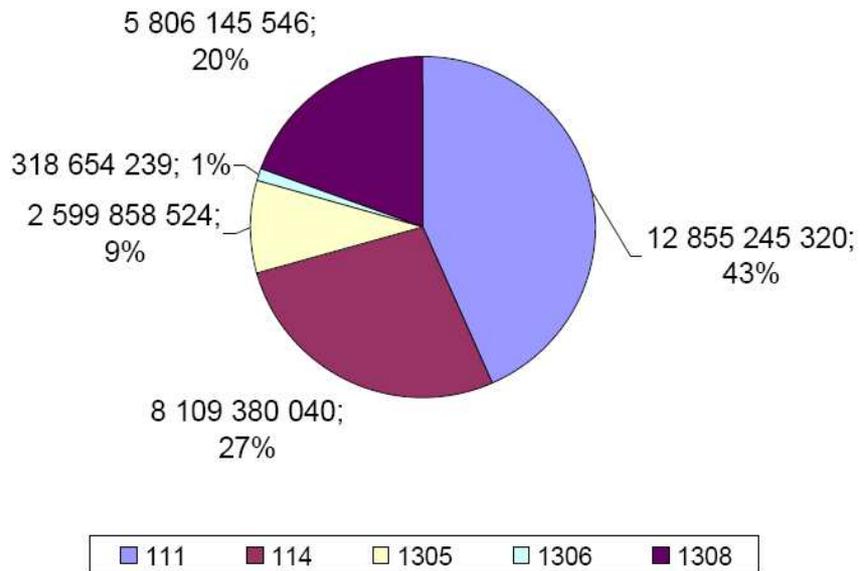


■ 41	■ 111	■ 114	■ 1308
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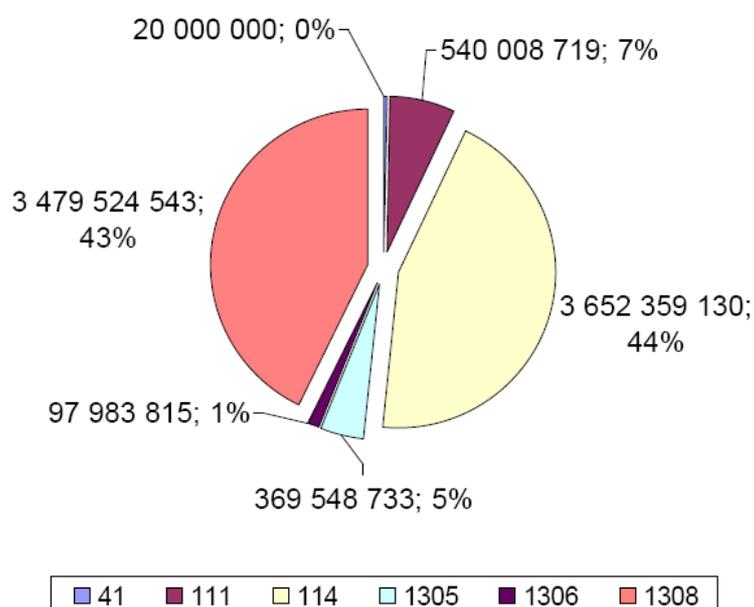
**Payments by measure debiting SAPARD funds and interests (HUF) 2004**



**Payments by measure debiting SAPARD funds and interests (HUF) 2005**



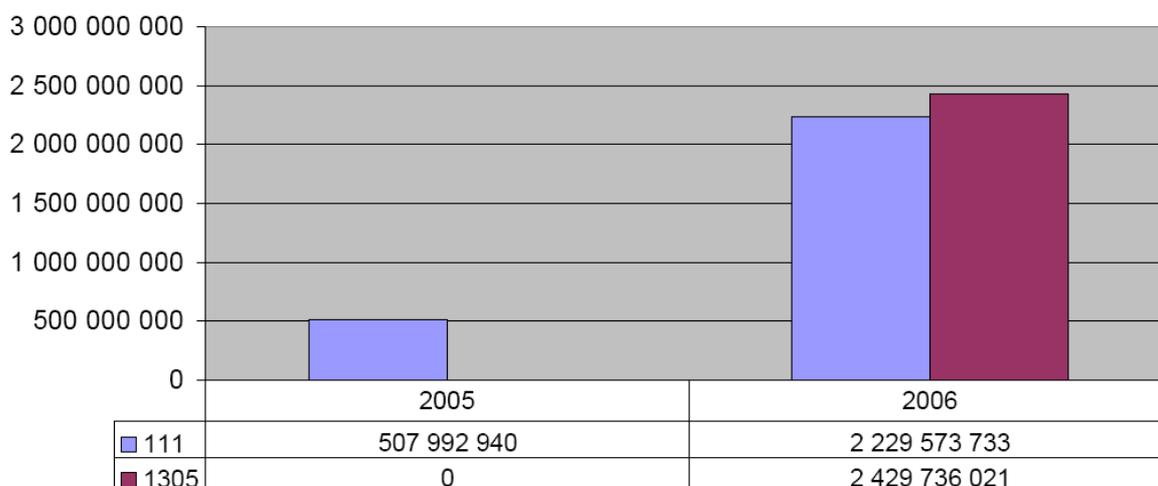
### Payments by measure debiting SAPARD funds and interests (HUF) 2006



At the same time, in another 7 cases, payments were made from the interests earned on the SAPARD accounts and from default interests paid by the applicants, to the value of HUF 212.7 million (EUR 0.8 million), where the Community contribution amounted to HUF 159.6 million (EUR 0.6 million).

In respect of the SAPARD funds reallocated from the NRDP framework, until 31 December 2006, payments were disbursed in 312 cases, to the value of HUF 5.1 billion (EUR 20 million).

### Annual payments of SAPARD measures financed from NRDP funds (HUF)



In 2005, payment financed from NRDP funds occurred only in respect of measure 111.

In respect of the SAPARD payments, it can be stated that 4005 payments were made to the value of HUF 58.9 billion (EUR 230.9 million), with a Community contribution of HUF 44.2 billion (EUR 173.2 million).

Measure	SAPARD sources 2000-2003*		Number of contracted projects**	By contracted beneficiaries		Public contribution paid to beneficiaries***		Payments total compared to SAPARD funds (%)****	EU payments compared to EU contributions (%)****
	Total	EU		Total costs declared	Support demanded	Total	EU		
	41 Technical Assistance	73 851 936		59 081 549	13	76 884 949	76 884 949		
111 Investments in agricultural holdings	22 828 664 386	17 121 498 098	1 453	52 277 162 541	24 296 858 838	23 010 513 291	17 257 884 860	100,80%	100,80%
114 Processing and marketing of agricultural and fishery products	17 690 725 209	13 268 044 098	313	46 427 502 373	17 939 371 511	16 678 719 701	12 509 039 716	94,28%	94,28%
1305 Renovation and development of villages and protection and conservation of rural heritage	5 292 328 824	3 969 246 427	229	7 800 722 802	5 715 568 651	5 399 143 278	4 049 357 361	102,02%	102,02%
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	463 218 655	347 414 055	57	961 791 759	462 784 806	416 638 054	312 478 522	89,94%	89,94%
1308 Development and improvement of rural infrastructure	13 249 944 508	9 937 458 381	575	19 414 823 986	14 021 810 903	13 320 487 357	9 990 365 119	100,53%	100,53%
<b>Total</b>	<b>59 598 733 518</b>	<b>44 702 742 607</b>	<b>2 640</b>	<b>126 958 888 410</b>	<b>62 513 279 658</b>	<b>58 899 353 617</b>	<b>44 178 051 066</b>	<b>98,83%</b>	<b>98,83%</b>

\* Approved by the STAR Committee on 20.07.2005 (Commission Decision B(2005)3625 of 19.09.2005, effective SAPARD funds increased – by virtue of the SAPARD Monitoring Committee (SMC) resolution of 27.11.2003 and SMC written resolution of 18.10.2006 - by the interests /late payment interests earned on the SAPARD account and by the sums reallocated from NRDP funds pursuant to the SMC resolution of 18.06.2004 but not including commitment for sources from the national budget (Government Decision 2212/2004 (VII.27))

\*\* Contracts in force on 31. December 2006.

\*\*\* Total payments for SAPARD projects (by 31 December 2006)

\*\*\*\* In the case of payment exceeding 100%, subject to the contributions fixed in the annual financial agreements, on the basis of authorisation for exceeding by 10% the sums indicated in the row „Measures total“.

† EUR = 255 HUF

Measure	SAPARD sources 2000-2003*		Number of contracted projects**	By contracted beneficiaries		Public contribution paid to beneficiaries***		Payments total compared to SAPARD funds (%)****	EU payments compared to EU contributions (%)****
	Total	EU		Total costs declared	Support demanded	Total	EU		
	41 Technical Assistance	289 615 174		231 692 130	13	301 510 324	301 510 799		
111 Investments in agricultural holdings	89 524 174	67 143 130	1 453	224 616 324	95 281 799	90 237 307	67 677 980	100,80%	100,80%
114 Processing and marketing of agricultural and fishery products	69 375 393	52 031 545	313	182 068 637	70 350 477	65 406 744	49 055 058	94,28%	94,28%
1305 Renovation and development of villages and protection and conservation of rural heritage	20 754 231	15 565 672	229	30 591 070	22 413 995	21 173 111	15 879 833	102,02%	102,02%
1306 Diversification of activities, development of business activities ensuring alternative income opportunities	1 816 544	1 362 408	57	3 771 732	1 814 842	1 633 875	1 225 406	89,94%	89,94%
1308 Development and improvement of rural infrastructure	51 960 567	38 970 425	575	76 136 565	54 987 494	52 237 205	39 177 902	100,53%	100,53%
<b>Total</b>	<b>233 720 524</b>	<b>175 304 873</b>	<b>2 640</b>	<b>517 485 837</b>	<b>245 150 116</b>	<b>230 977 857</b>	<b>173 247 259</b>	<b>98,83%</b>	<b>98,83%</b>

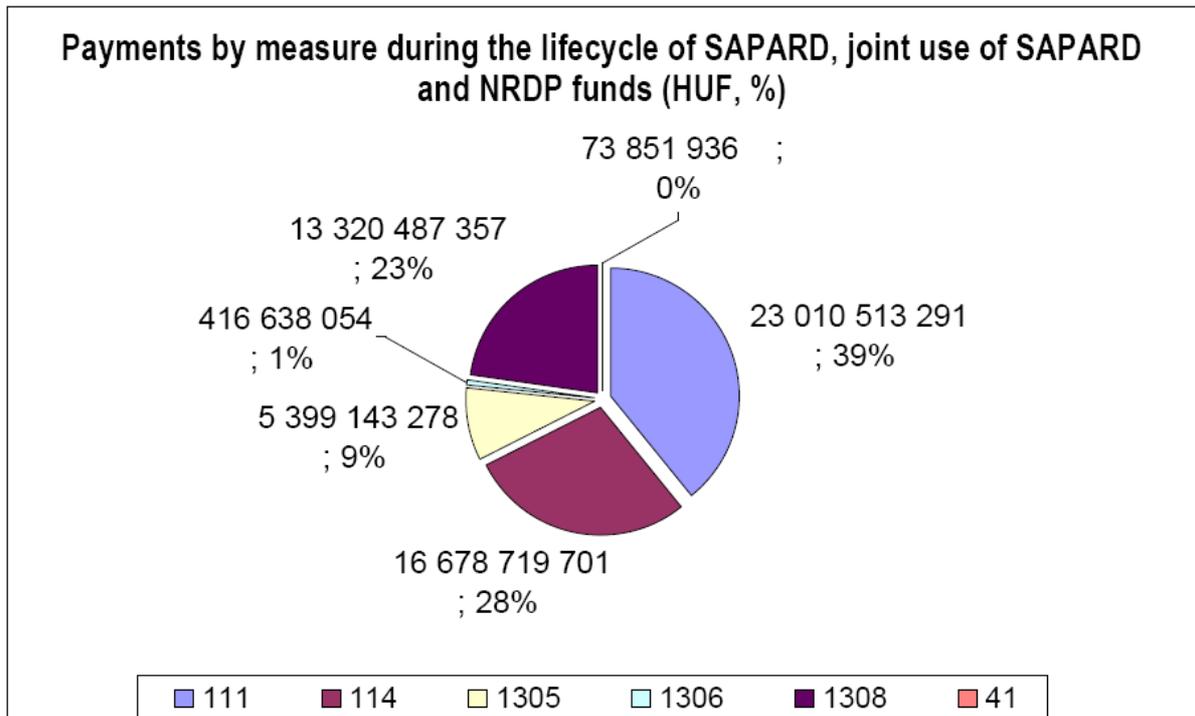
\* Approved by the STAR Committee on 20.07.2005 (Commission Decision B(2005)3625 of 19.09.2005, effective SAPARD funds increased – by virtue of the SAPARD Monitoring Committee (SMC) resolution of 27.11.2003 and SMC written resolution of 18.10.2006 - by the interests /late payment interests earned on the SAPARD account and by the sums reallocated from NRDP funds pursuant to the SMC resolution of 18.06.2004 but not including commitment for sources from the national budget (Government Decision 2212/2004 (VII.27))

\*\* Contracts in force on 31. December 2006.

\*\*\* Total payments for SAPARD projects (by 31 December 2006)

\*\*\*\* In the case of payment exceeding 100%, subject to the contributions fixed in the annual financial agreements, on the basis of authorisation for exceeding by 10% the sums indicated in the row „Measures total“.

† EUR = 255 HUF



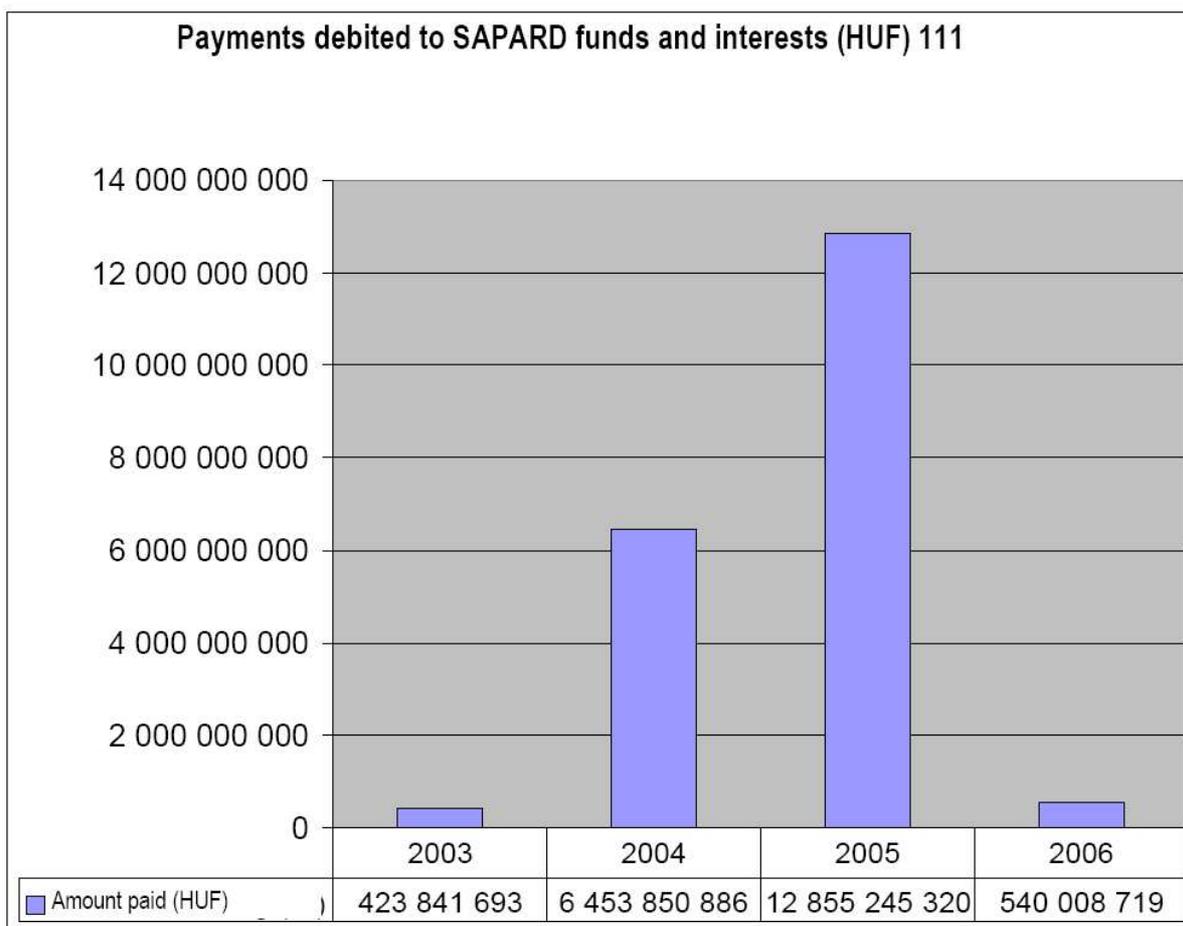
On the basis of the above, it can be stated that the funds allocated to the SAPARD measures were fully covered by settlements from the beneficiaries, by the end of the payment deadline, 31 December 2006.

Regarding applications the beneficiaries obtained experience by the end of the programme implementation and they already submitted the application packages supplied with the appropriate documents, taking account of the needs of processing.

#### 6.2.3.4.1. Developments in the payments, by measures

##### **Measure 111:** Investments in agricultural holdings

Under this measure, 306 applications were submitted in 2002, 856 applications in 2003 and 2476 applications in 2004. The project value of the applications received was HUF 158,767,727,626, the total support need was HUF 70,204,049,868. In respect of 1453 applications, the contracts were concluded, the support need of these applications was HUF 24,296,858,838. Until 31 December 2006, out of these, 1440 applications were completed, payments were made to a total value of HUF 23,010,513,291. Within that, EU funds amounted to HUF 17,257,884,860, including HUF 2,737,566,673 (Community contribution within the latter: HUF 2,053,174,986) from resources of NRDP. The total amount disbursed in 2006 was HUF 2,769,582,452, with an EU contribution of HUF 2,077,186,817.

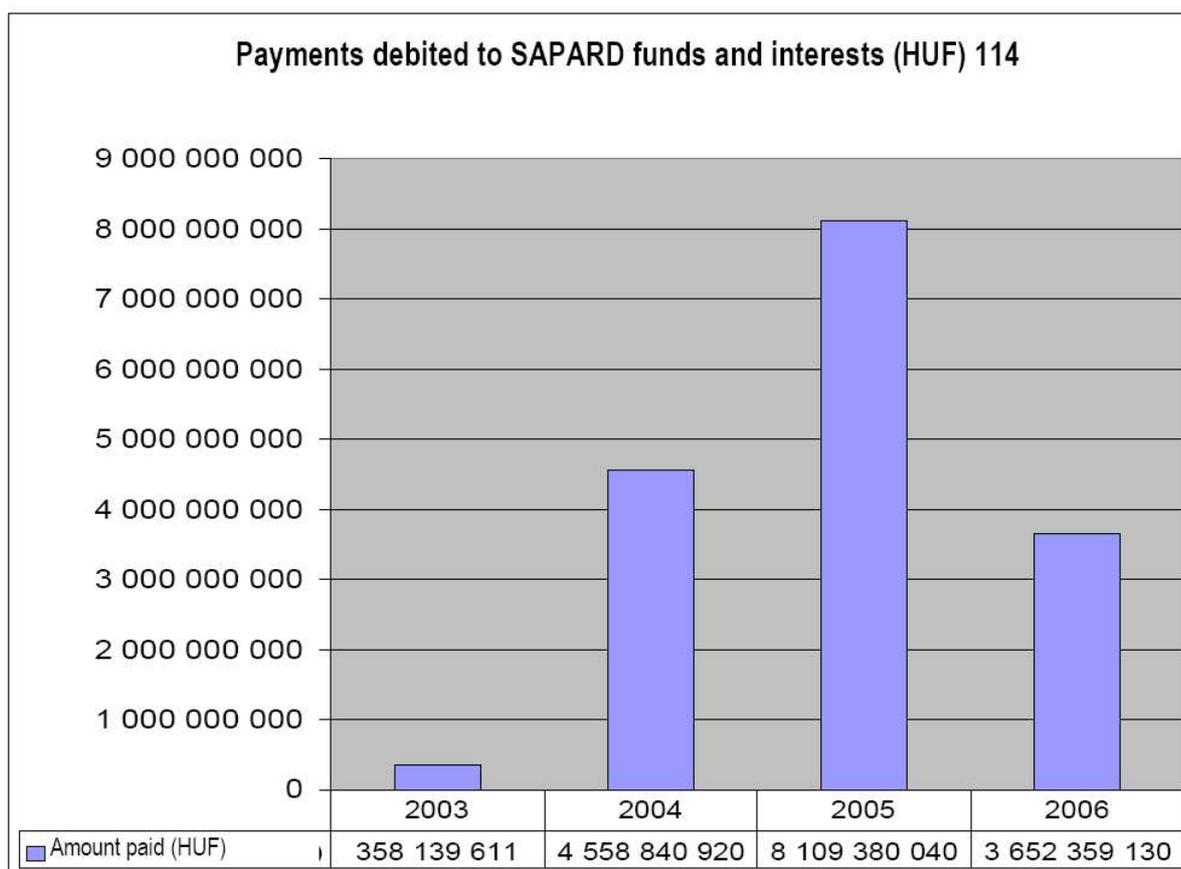


**Measure 114:** Improvement of processing and marketing of agricultural and fishery products

Under this measure, a total of 772 applications were submitted, in the following annual breakdown: 251 in 2002, 217 applications in 2003 and 304 in 2004. The project value of the 772 applications was HUF 106,239,935,442, the total support need was HUF 41,965,463,647. The number of the applications having resulted in contracts was 313, the support need was HUF 17,939,371,511. By 31 December 2006, 298 applications were completed. The total amount disbursed for the 313 contracted applications was HUF 16,678,719,701, where the Community contribution was HUF 12,509,039,716. In the case of this measure, no payments were made from the funds of NRDP. The amount of the support paid in 2006 was HUF 3,652,359,130, thereof, the Community support was HUF 2,739,269,332.

Within the measure, the most important payments was made in the field of Measure “Introduction of new technologies”. Second is the area of “Compliance with EU provisions (hygiene, protection of the environment, wastewater management, animal protection).

In a breakdown by sectors, the largest payments were made in the sector of "beef, pork and other meat", this is followed by the wine sector, and then, by the sector of fruits and vegetables.

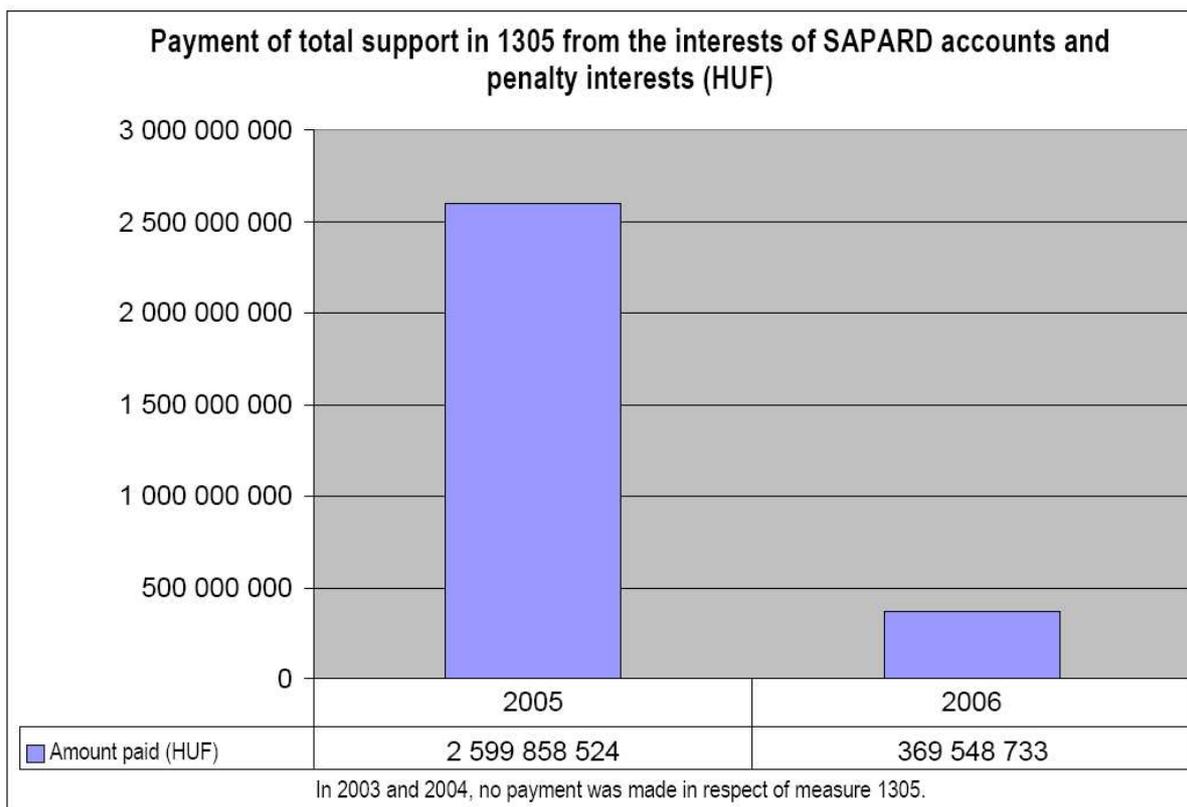


**Measure 1305:** Renovation and development of villages and the protection and conservation of the rural heritage

Under this measure, a total of 2347 applications were submitted, with 1 application in 2003 and the remaining 2346 in 2004. The project value of the applications received was HUF 79,780,501,920, the total support need was HUF 57,894,870,182. Contracts were concluded in the case of 229 applications, with a support need of HUF 5,715,568,651. The number of projects completed was 224. The total amount payed until 31 December 2006 was HUF 5,399,143,278, with a Community contribution of HUF 4,049,357,361. The amount of the support paid from NRDP funds was HUF 2,429,736,021, thereof, the Community contribution was HUF 1,822,301,969. The amount of the support paid in 2006 was HUF 2,799,284,754 (thereof, the Community contribution was HUF 2,099,463,513).

Most of the accepted and contracted applications were related to the activity “Protection and revitalisation of historical and architectural relics, revealing and establishing building in new functions”, the second most to the activity relating to “Maintenance and enhancement of local character in terms of the structures of towns and villages, renewals of streets, public areas”.

The lowest number of applications accepted and contracted was observed in the framework of the activity “Revitalisation, protection of landscape elements relating to villages”.

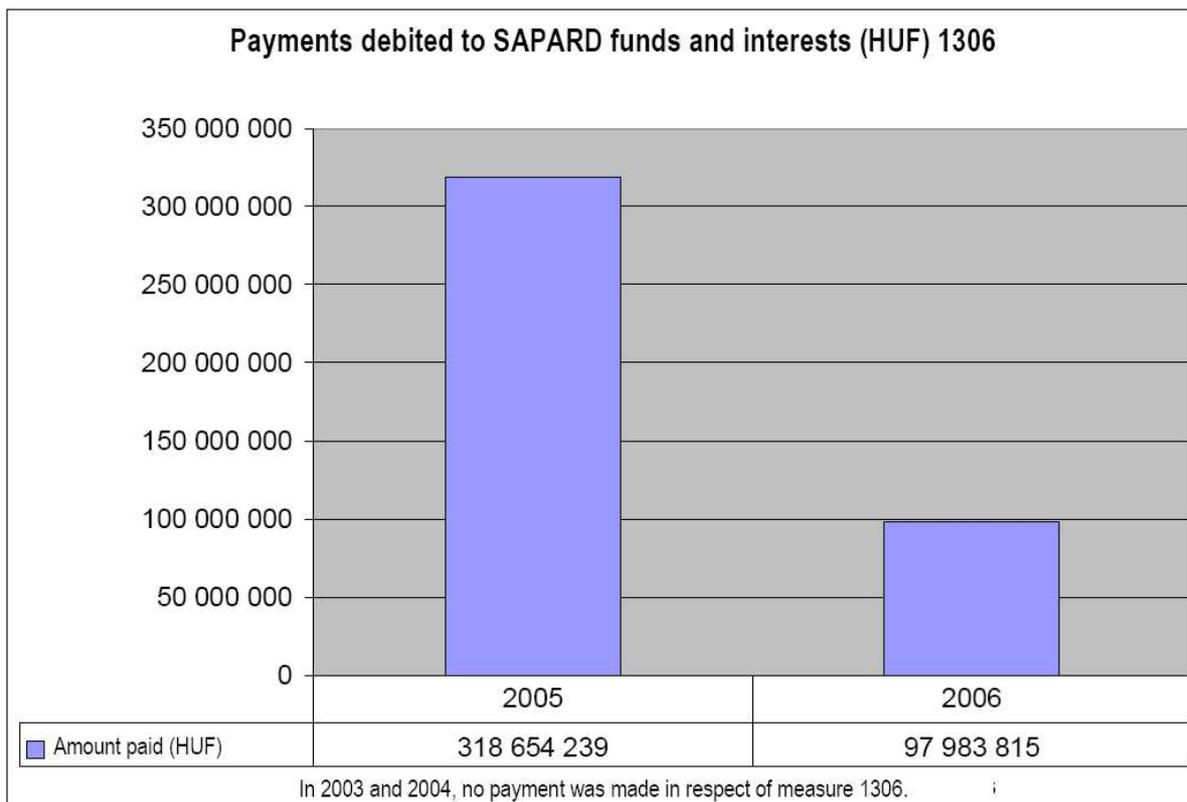


**Measure 1306:** Development and diversification of economic activities, providing for multiple activities and alternative income

The total number of applications submitted was 264 in 2004, with an overall project value of HUF 4,796,473,149, and a total support need of HUF 2,356,047,500. Contracts were concluded in the case of 57 applications, and until 31 December 2006, 53 applications were completed. The total amount disbursed for the contracted applications was HUF 416,638,054, where the EU contribution was HUF 312,478,522. The amount of the support paid in 2006 was HUF 97,983,815 (thereof Community contribution: HUF 73,487,852). No payments were made from the funds of NRDP.

If we establish a ranking of the applications that received support, we can state that the most popular activity was the “Development of village tourism”. This is followed by “Development of local products, development of the technologies and quality of food processing”, as well as “Development and sales of homemade and handicraft products”.

The lowest number of applications having led to contracts was observed in the framework of the activity “Development of products and services”.



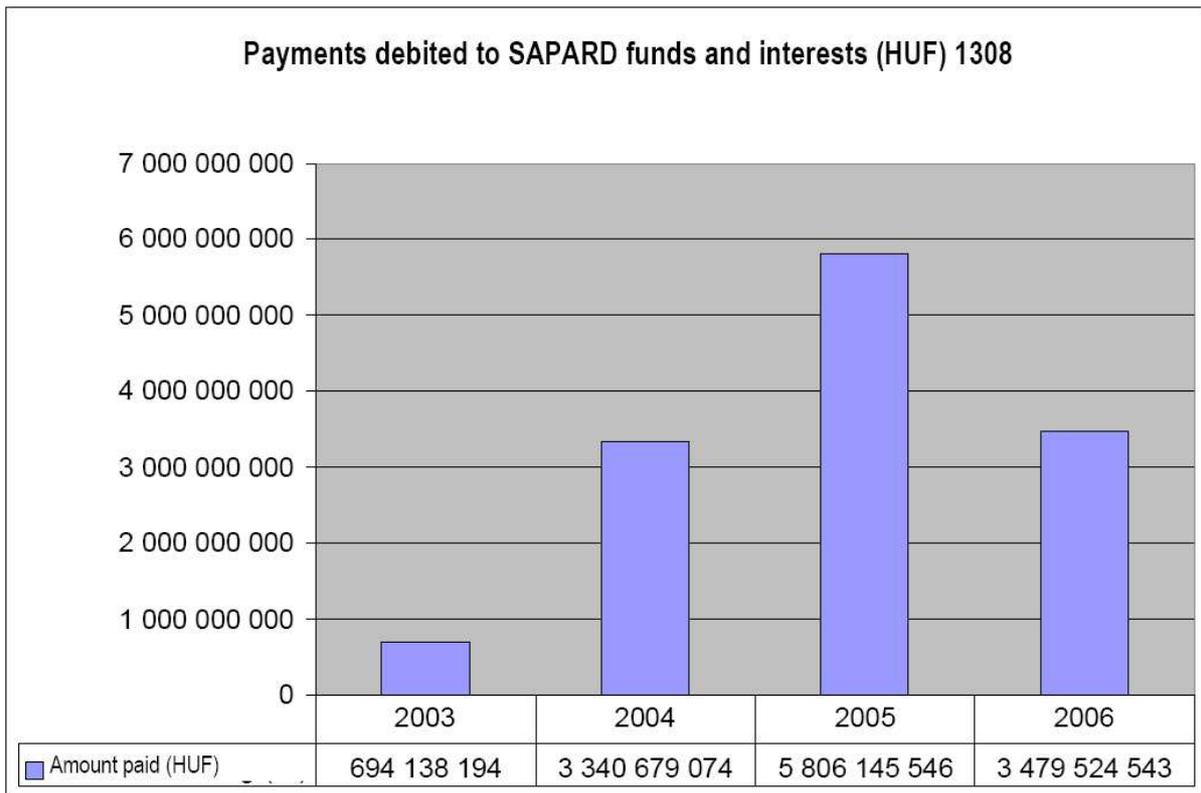
**Measure 1308: Development and improvement of rural infrastructure**

Out of the five measures open for applications, this one was the second most popular measure, as the total number of applications submitted was 1788, with an overall project value of HUF 64,351,557,097, and a total support need of HUF 44,448,543,242. If we look at the submission of the applications in an annual breakdown, it can be stated that there were 601 applications in 2002, 346 applications in 2003 and 841 in 2004, submitted to the SAPARD Agency/ARDA.

Contracts were concluded in the case of 575 applications, with a support need of HUF 14,021,810,903. According to statistics of 31 December 2006, 547 projects were completed. In the framework of the measure, the total amount paid until 31 December 2006 was HUF 13,320,487,357, with a Community contribution of HUF 9,990,365,119. Within that, in the year 2006, the paid support was HUF 3,479,524,543 (thereof, Community contribution: HUF 2,609,643,370). No payments were made from the funds of NRDP.

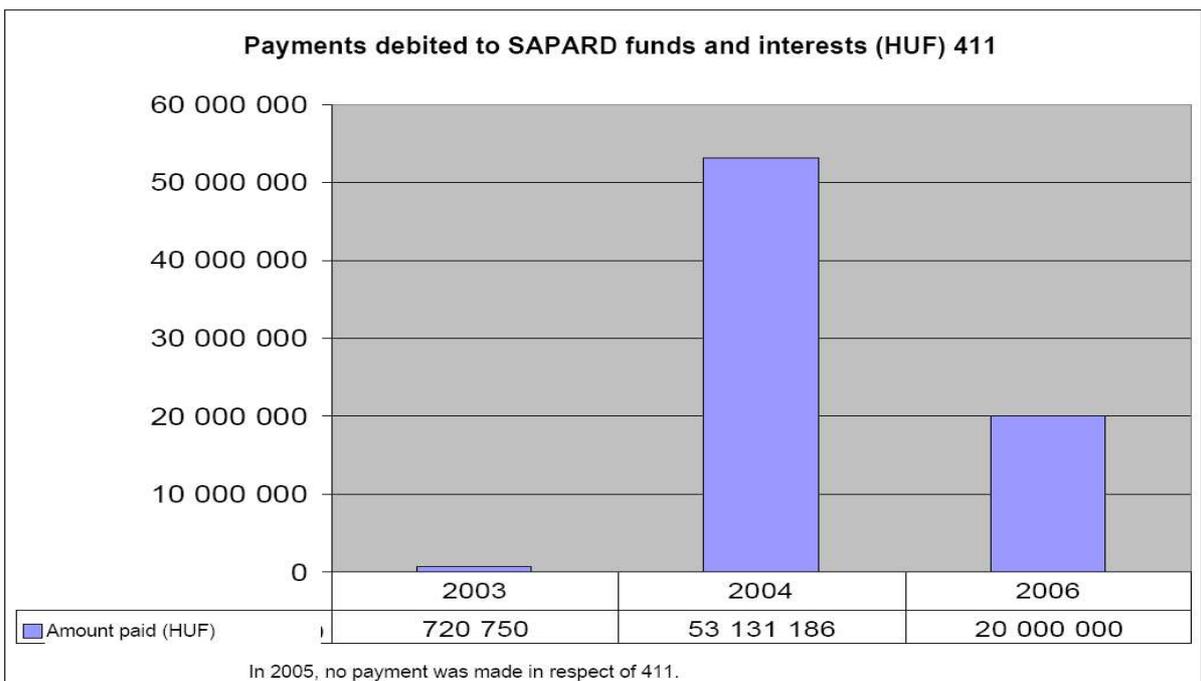
Out of the activities included in the framework of the measure the most popular one was the activity “Provision of local technical infrastructure” followed by the activity “Development of agricultural road network”.

The activity “Development of information technology and communications systems” was less popular, but within that activity, most of the contracts were concluded in relation to the “Development of IT junctions”. Within this activity, the sub-activity “Telehouses, telepost networks, advisory system” was also very popular.



**Measure 41: Technical Assistance**

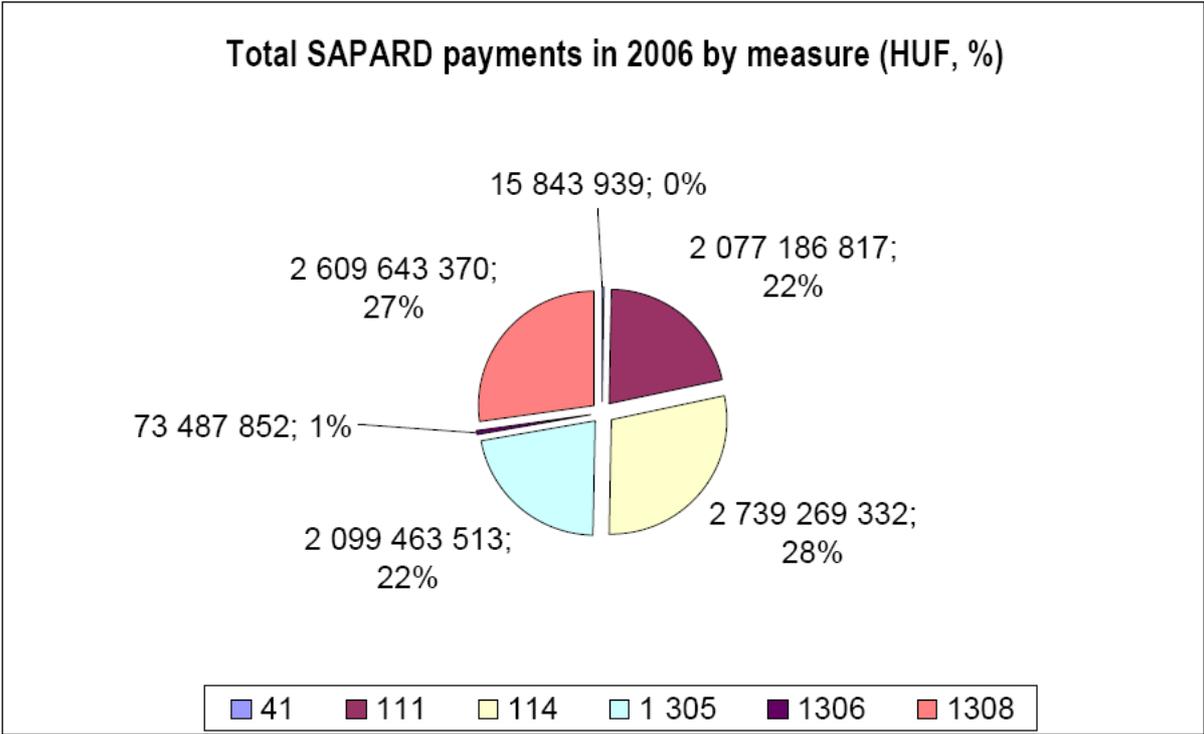
Until 31 December 2006, there were 13 contracts in effect, payments were made to a total value of 76,884,949 HUF. Until 31 December 2006, out of that, 73,815,936 HUF were paid (EU contribution: 58,925,488 HUF), payments in 2006 amounted to HUF 20,000,000 (EU: 15,843,939 HUF). In the case of this measure, no payments were made from the funds of NRDP.



On the whole, it can be established that from among the five measures open for applications, the largest number of contracts fully paid by 31 December 2006 were related to measure 111. From among the measures, 1308 “Development and improvement of rural infrastructure” ranked second in terms of fully paid applications. As for the whole period, measure 114 “Improvement of processing and marketing of agricultural and fishery products” ranked third from the point of view of applications paid for. Measure 1305 “Renovation and development of villages and the protection and conservation of the rural heritage” occupied the fourth place. Among the SAPARD measures, the least interesting proved to be measure 1306 “Development and diversification of economic activities, providing for multiple activities and alternative income”.

6.2.3.4.2. Payments 2006

2006 was the year of closing the **SAPARD programme** from the point of view of payments. With the end of the year, the possibility of drawing down of EU support was also over. **But the EU funds (SAPARD, SAPARD interests, resources reallocated from NRDP) were fully exhausted for the payments of support portion of the accounts received already in November.**



## Developments in the payments of the year by sources

SAPARD payments 2006

HUF

Measure	Public contribution paid to beneficiaries SAPARD		Public contribution paid to beneficiaries SAPARD interest		Public contribution paid to beneficiaries NRDP		Total	
	Total	EU	Total	EU	Total	EU	Total	EU
41 Technical Assistance	20 000 000	15 843 939					20 000 000	15 843 939
111 Investments in agricultural holdings	540 008 719	405 006 533			2 229 573 733	1 672 180 284	2 769 582 452	2 077 186 817
114 Processing and marketing of agricultural and fishery products	3 652 359 130	2 739 269 332					3 652 359 130	2 739 269 332
1305 Renovation and development of villages and protection and conservation of rural heritage	341 012 433	255 759 319	28 536 300	21 402 225	2 429 736 021	1 822 301 969	2 799 284 754	2 099 463 513
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	97 983 815	73 487 852					97 983 815	73 487 852
1308 Development and improvement of rural infrastructure	3 295 306 567	2 471 479 890	184 217 976	138 163 480			3 479 524 543	2 609 643 370
<b>Total</b>	<b>7 946 670 664</b>	<b>5 960 846 865</b>	<b>212 754 276</b>	<b>159 565 705</b>	<b>4 659 309 754</b>	<b>3 494 482 253</b>	<b>12 818 734 694</b>	<b>9 614 894 823</b>

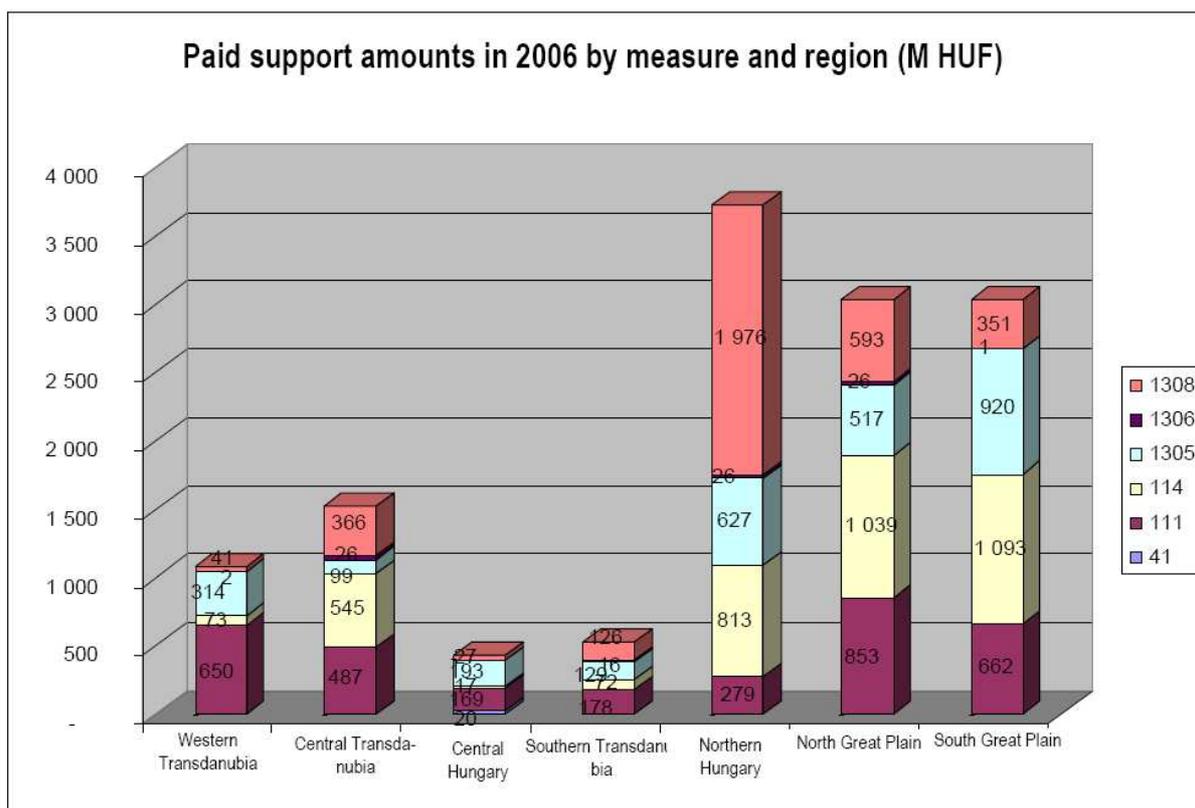
Exchange rate:  
255.00 HUF/Euro

EUR

Measure	Public contribution paid to beneficiaries SAPARD		Public contribution paid to beneficiaries SAPARD interest		Public contribution paid to beneficiaries NRDP		Total	
	Total	EU	Total	EU	Total	EU	Total	EU
41 Technical Assistance	78 431	62 133	0	0	0	0	78 431	62 133
111 Investments in agricultural holdings	2 117 681	1 588 261	0	0	8 743 426	6 557 570	10 861 108	8 145 831
114 Processing and marketing of agricultural and fishery products	14 322 977	10 742 233	0	0	0	0	14 322 977	10 742 233
1305 Renovation and development of villages and protection and conservation of rural heritage	1 337 304	1 002 978	111 907	83 930	9 528 377	7 146 282	10 977 587	8 233 190
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	384 250	288 188	0	0	0	0	384 250	288 188
1308 Development and improvement of rural infrastructure	12 922 771	9 692 078	722 423	541 818	0	0	13 645 194	10 233 896
<b>Total</b>	<b>31 163 414</b>	<b>23 375 870</b>	<b>834 330</b>	<b>625 748</b>	<b>18 271 803</b>	<b>13 703 852</b>	<b>50 269 548</b>	<b>37 705 470</b>

In an analysis of the regional distribution of these payments it is clearly visible that the payment ratios were high partially in the regions on the Great Plain, where the number of projects was important and partially in the Northern Hungary region, where the weight of the measure 1308 with a longer implementation period was more important, and the beneficiaries were mostly local municipalities, required to apply public procurement procedures.

In the more developed parts of the country – Central Hungary and Transdanubia – the overall picture looks better, both in terms of the project mix and from the point of view of the speed of the implementation . Here, there were no major delays in the completion of the projects.



## 6.2.3.5. Implementation of the projects

### 6.2.3.5.1. Summary of the results, qualitative and quantitative description on the basis of the relevant monitoring indicators

Analytical methodology, scaling of the plan figures by sources of support

The composition of the programme's funds and the development of drawings are covered in a separate chapter of this report. The present portion of this paper focuses on the programme and the measures and projects implemented in its framework, irrespective of the proportion distribution of the financing of the different funds exceeding own contribution, such as:

- SAPARD funds,
- funds reallocated from the National Rural Development Plan (NRDP),
- interests earned on SAPARD funds,

and the proportions of these. This approach is justified by the fact that the SAPARD plan indicates the amounts of the support received from the EU and from national sources and the proportion of these two sources only in a breakdown by measures, not by projects. The Multiannual Financing Agreements do not provide for a separate presentation of the amounts by measures and projects or contain a provision about separate accounting for these amounts resulting from a reallocation of NRDP funds and from use of the interests paid for implementation, taking account of the results. In the tables showing the progress made in terms of the different measures, only the SAPARD funds (increased by interests) and the NRDP resources are shown.

Out of all projects that received disbursements, 8.7% (225 projects) were realised making use of mixed financing, i.e. received support **not exclusively** from the original SAPARD funds and SAPARD accounts interests but also from the NRDP sources (based on Commission Regulation (EC) no 447/2004) in case of sources under Commission Regulation (EC) no 1698/1999 were exhausted or insufficient and from the respective 10% national surplus – overcommitment -sources. The list of projects financed in this way are properly registered. But these projects make parts of the Programme in the same way like the ones with no mixed financing. The support contracts of these projects are no different from the ones financing exclusively from SAPARD funds.

From an economic and financial point of view, it would make no sense to split the result reflecting the implementation and, in subsequent years, the impact indicators regarding operations by compound of financing (e.g. to present a tractor as an acquisition made from SAPARD in 75% and from NRDP funds in 25%). This is also supported by the fact that there was no obligation and no possibility to make plans about the differences of the projects and measures in terms of financing sources. Any developments in the compound of support funds were completely incidental, depending on the availability of the different funds at the time when the invoices were submitted by the beneficiary.

On the basis of the above considerations, the scaling of the actual and the planned data below reflects the relationship between the **support sources planned in the SAPARD plan for 2000-2006** and the actually available SAPARD sources between 2000-2003 and later, the additional funds allocated to the programme from the NRDP funds to the **amount of support sources disbursed until the end of 2006**.

That is, development projects implemented by making use of supports are analysed without a breakdown by sources, as components of a solid programme.

General characteristics of the programme's implementation, scaling of the planned result and impact indicators by the sources of support

The primary goal of SAPARD was – as this was clearly laid down in the respective provisions – to allow preparations for accession, that is, to create a system, viable in practice and complying with the EU requirements that is suitable for an efficient allocation of Community resources. The programme fully met this goal, experiences gathered during its implementation were used in the creation of the operating conditions for both ARDOP and ERDF as well. About this, detailed information is provided in chapter "Use of the experiences of the SAPARD programme in the implementation of post-accession programmes" of the present report.

The initial SAPARD plan, approved and published as a Minister's Regulation and later amended three times, was prepared for seven calendar years. However, only the first four and half years were available to achieve the goals set therein and to use the funds allocated, because due to the accession on 1 May 2004, the so-called "pre-accession programmes" had to be closed. But the time actually available for the implementation of the programme was actually reduced to less than two years, because of the preparations for its administration and the dragging of the creation of the institutional, organisational and technical background required.

The scaling prepared on the basis of the planned and actually available sources, is shown in the following table:

	Actually disbursed EU (SAPARD + interests + NRDP reallocation) and national supports together, as at end of 2006, €			Support approved in the SAPARD plan for the years 2000-2006, €			Scaling %
	EU	National	Total	EU	National	Total	
41. TA	231 692	58 658	290 350	1 166 432	291 608	1 458 040	20
111. Agricultural investment	69 076 797	23 025 599	92 102 396	96 440 101	32 146 700	128 586 801	72
114. Processing of agr. product	49 551 972	16 517 323	66 069 295	67 134 348	22 379 449	89 513 797	74
1305. Development of villages	15 907 074	5 302 358	21 209 432	16 856 882	5 618 961	22 475 843	94
1306. Diversification of economic activities	1 245 852	415 284	1 661 136	27 291 955	9 097 318	36 389 273	5
1308. Rural infrastructure	39 460 429	13 153 478	52 613 907	55 084 672	18 361 557	73 446 229	72
TOTAL	175 473 816	58 472 700	233 946 516	263 974 390	87 895 593	351 869 983	66
Dropout measures							
113. Vocational training				3 450 715	1 150 238	4 600 953	
116. Agro-env.protection, landscape preservation				6 172 255	2 057 418	8 229 673	
117. Producer groups				9 099 612	3 033 204	12 132 816	
TOTAL				18 722 582	6 240 860	24 963 442	
<b>Grand total</b>			<b>233 946 516</b>			<b>376 833 425</b>	<b>62</b>

Note: In the columns with heading "National", only national funds to co-finance linked Community funding are included, but the funds of the so-called additional commitments is excluded.

From the figures in the table it is evident that in spite of significant reduction in the implementation time, in the case of one measure (1305), the commitments and later the use of the funds almost attained the amount planned for the seven year period. On the other hand, there was a significant backlog, also in a comparison with the sources in proportion, in the support funds available for the diversification of rural income and its use. It is noteworthy that out of the implementation, with the exception of technical assistance, used to the extent of 20%, exactly the targets with the highest, 100% support intensity were completely left out.

Out of a total of 80 result and impact indicators suggested for monitoring in the SAPARD plan, 34 could be identified after the processing of the actual monitoring data of the projects shifting from the development stage into the operating stage. Each of the identified indicators measures the results of the development projects. In addition to the data comparable with the planned figures, the monitoring database under development contains a number of data that can be used to measure the effectivity of the programme. These are shown in the tables of a special part of this report, discussing the measures in detail.

The majority of the factual data of result indicators, compared with in the plan-fact relationship exceeded in the case of measures 111 and 114, as well as measure 1305 not only the values adjusted to the reduced support amounts, but also the appropriations for the whole of the seven-year programme. At the same time, in the case of measures 1306 and 1308, there is a major lag, with the length of the newly built and/ or modernised agricultural road network as the only exception.

On the whole, the implementation of the Programme was a success in the case of targets where the purpose was to improve the technical or asset conditions of production (machinery, equipment, building) and were in accordance with the development endeavours of the larger production units (agricultural plants operating on a land area exceeding 1000 ha, enterprises with a turnover of more than HUF 2 billion). Interest in portions of the programme requiring enhanced inter-sectoral cooperation (between enterprises, local municipalities, non-profit organisations) and targeted towards farmers and entrepreneurs representing smaller units, but important in number was significantly lower than expected. The main identifiable reasons were the following ones:

- Lack of capital and sources characteristic for the potential beneficiaries;
- The complicated application system and legislation prepared for large organisations with extensive administration, with short submission deadlines, modified four times within a year;
- Lack of information and skills at the small and medium-sized enterprises ;

- Extreme risks (full loss of property), multiplied by the uncertainties on the market, in financing, in the legislation;
- Lack of confidence, based on experiences, between economic players belonging to different sectors and representing different sizes;
- The time required for the official acquisition of the required documents and its difference to the deadline of the submission.

The survey prepared on the basis of inquiry forms by the compiler of the mid-term evaluation of the programme also confirmed that these were the reasons why the pattern of the beneficiaries was different from the plan, in terms of sizes and sectors.

Implementation of the different measures of the programme

### *Measure 111 –Investments in agricultural holdings*

#### Main indicators of the measure's implementation

Measure 111		Applications received	Projects contracted	Applications completed		
				SAPARD	NRDP	combined
2002	piece	306				
	project value	14 304 159 409				
	support demand	5 426 707 104				
2003	piece	856	138	28		
	project value	37 090 700 361	6 818 023 800	774 848 604		
	support demand	16 046 758 455	2 620 290 948	273 166 660		
2004	piece	2 476	1 364	451		
	project value	107 372 867 856	51 893 444 323	13 280 480 729		
	support demand	48 730 584 309	22 276 060 714	5 300 673 722		
2005	piece			847	7	11
	project value			30 767 075 959	352 284 698	1 301 290 827
	support demand			12 931 574 834	141 323 200	537 721 561
2006	piece			8	28	60
	project value			1 028 865 221	2 463 540 904	5 465 569 986
	support demand			480 961 864	1 130 473 613	2 608 832 995
<b>Total</b>	<b>piece</b>	<b>3 638</b>	<b>1 502</b>	<b>1 334</b>	<b>35</b>	<b>71</b>
	<b>project value</b>	<b>158 767 727 626</b>	<b>58 711 468 123</b>	<b>45 851 270 513</b>	<b>2 815 825 602</b>	<b>6 766 860 813</b>
	<b>support dema</b>	<b>70 204 049 868</b>	<b>24 896 351 662</b>	<b>18 986 377 080</b>	<b>1 271 796 813</b>	<b>3 146 554 556</b>

Investments in agricultural holdings were the most popular measure of the SAPARD Programme, to which the largest fund was allocated. For this measure, 72% of the support planned for seven years could be used. Instead of a support intensity of 45%, as planned, even the calls for applications mentioned first a value of 30%, later 40%. Nevertheless, the most important excess application, almost sixfold was observed in the case of this measure.

As a consequence of this strong interest, only the best applications could receive support, thus, the utilisation of the support funds reached 100%. Withdrawal or non-utilisation for other reasons occurred only in a few cases and those amounts could be used elsewhere. The results achieved are shown in the table below:

#### **Implementation of Measure 11 –Investments in agricultural holdings- , monitoring indicators with physical metrics**

Indicator	measurement unit	Realised from SAPARD	Realised %	SAPARD plan indicator (scaled to 72%)	SAPARD plan indicator (as per plan)
<b>Character of the development</b>					
New, greenfield	Number	81			
Renovation, modernisation of existing holdings	Number	266			
Newholding, on existing site	Number	70			
New technology	Number	1 032			
<b>Total beneficiaries</b>		<b>1 449</b>	<b>183,91</b>	<b>788</b>	<b>1 100</b>
<b>Purchase of machinery</b>					
Tractor	Number	864	46,88	1 843	2 573
	kW	85 784	77,77	110 305	154 000
Self-propelling machinery					
Harvesting machine for grains	Number	190			
	kW	38 416			
Harvesting machine for coarse fodder	Number	65			
	kW	5 621			
Other harvesting machines	Number	80			
	kW	4 819			
Work machinery					
soil cultivation machinery	Number	1 308			
dispensers for organic and artificial fertilizers	Number	201			
materials handling machinery	Number	304			
machinery for plant protection and weed-killing	Number	317			
tractor trailer	Number	255			
	t	4 450			
machinery for seeding and plantation	Number	329			
other work machinery	Number	613			
	kW	2 525			
<b>Building development</b>					
cattle	units	242 560	247,19	98 128	137 000
pig	units	341 620	132,97	256 925	358 700
poultry (15 animals /m2)	units	3 063 558	47,52	6 446 397	9 000 000
Technological element					
keeping technology	Number	40			
other investments connected with keeping technology	Number	68			
ventilation	kW	701 797			
lighting	kW	100 308			
heating	kW	397 823			
forage	t	5 977			
manure treatment					
litter manure	t	126 164			
liquid manure	m3	191 468			
milking	1,000 l	106 783			
<b>Other investments connected with farm buildings</b>					
Storage capacity	m2	50 636			
	m3	60 260			
	t	189 573	174,12	108 872	152 000
Storage type					
tower silo	Number	14			
with deck	Number	35			
silo between walls	Number	5			
groove silo	Number	2			
other	Number	43			
Cleaner					
Cleaner	tons/ha avg	26			
Material handling					
Material handling	tons/ha avg	27			
Drying					
Drying	evaporated water, kg/ha avg	1 780			
	tons/ha avg	16			
Mixing					
Mixing	tons/ha avg	7			
Forage type					
coarse fodder	Number	6			
Fermented	Number	2			
Grains	Number	36			

For support under the measure, SAPARD and ARDA concluded contracts with 1456 beneficiaries. From among there, 7 withdrew their applications prior to the disbursement, and so, the number of the beneficiaries became 1449. Through them, people in more than 1100 villages learnt about support provided by EU to development initiatives. Regarding the sub-measure “Agricultural machinery procurements”, it must be emphasised that a great number of applications were submitted and committed.

The **number of the beneficiaries significantly exceeds** not only the appropriation reduced in proportion of the sources, but also **the appropriation for the whole of the period and amount of the support**. This is an indication that significantly more entrepreneurs benefited from the available sources than it had been planned. The support demand of the successful applications submitted for the submeasure “Agricultural machinery” procurements (1111) accounted to 58 % within the measure, which essentially exceeded 10,7 % value of the plan. The average size of the projects, due to lower-than-expected demand for higher-value power machinery (tractors and self-propelling harvesting machines – combine-harvester), was smaller than expected. At the same time, it did not prove true that for smaller farms, the farmers and entrepreneurs would buy machinery with smaller capacities. Instead of an average planned capacity of 60 kW, the average capacity of the power machinery purchased was 100 kW.

On the market of animal-origin products, a downward trend is observed since the early 1990s. There was a decline and some polarisation in both the domestic and foreign demand, that is, in the medium category, there was a drop, in respect of the high quality (so-called premium) items and in the case of the cheap mass products, there was some increase. Parallel to that, a strong concentration and centralisation process started in the production of basic materials, implying that small farms, with a lower number of animals, gave up these activities and the larger ones increased their livestock keeping capacities, together with modernisation steps. This trend was reflected in the result indicators of SAPARD as well, because the investments not only exceeded the scaled appropriations of the plan, but they even reached the goals initially set. The establishment of new/modernized storage facilities in the cattle sector was doubled, which is an outstanding result. An exception thereof is the poultry sector, where only 47.5% of the reduced appropriation was realised. This lag was caused by the fear from the South-American and Asian dumping of poultry, as well as the rumours about avian flu, decreasing demand and increasing risks.

In agriculture and in grain trading, a large-scale storage construction and modernisation programme was implemented in the years 1982-1986, partially financed from World Bank loans. Since that time, there was a major drop from the production levels typical at that time (about 13.0 million tons of grains and another 1.0 million tons of oil-content seeds). As a result of the change occurred in 1990 in the management of the economy and due to privatisation, a significant portion of the storage capacities built at that time, 80% of which were suitable for multi-function use, underwent a change of functions, therefore, in a year of good harvest and/or in the case of an accumulation of stocks, the placement of grains is a problem for a significant portion of the **producers**. This is the reason why instead of 108.9 thousand tonnes (in proportion of the sources) and 152.0 thousand tonnes (as initially planned), the capacity development appropriation was “overfulfilled” by the beneficiaries, at the level of almost 190.0 thousand tonnes.

To summarize the results, it can be stated that the measure reached the set objectives. The support demand essentially exceeded the available resources. By means of the Programme,

“new types” of applications became known throughout the country, and the applicants now were more prepared to submit their applications to other Programmes, such as the ARDOP (Agricultural and Rural Development Operational Programme,) and the NHRDP (New Hungary Rural Development Programme).

Analysing the economical-social impact of the measure, the evaluation stated that one of the main objectives (increase the competitiveness of businesses) of the Programme was met, since 78 % of those asked about the results of the Programme said, that there was an improvement in the competitiveness of the businesses, and the income of the farmers also exceeded the planned value.

The number of retained workplaces of the supported holdings was 19242 (persons), the number of established workplaces was 770. The measure was very significant in the field of employment. More than half of the farmers thought that the general working-conditions improved partially. 21 % of those asked talked about significantly positive changes.

At 16 % of the supported investments, the primary objective of the investment was to meet the environmental conditions. 71 % of the supported investments promoted this objective indirectly.

#### *Measure 114: Processing and marketing of agricultural and fishery products*

In the SAPARD programme’s measure, 114 “Processing and marketing of agricultural and fishery products”, two main priorities were determined. Regarding that the basic objective of the SAPARD programme was to promote the preparation for accession, it was considered that the primary objective in connection with the programme was to provide support to food processing companies, to create the conditions necessary for compliance with EU provisions. The priority of this objective was supported by the fact that compliance with the provisions on food safety, hygiene, protection of the environment and animal protection became a requirement for the operation of the enterprises. In addition to the compliance with provisions, developments aimed the improvement of competitiveness and quality represented the second priority.

[A large number of micro- and small enterprises participated in the measure.](#) Partially as a consequence of a delayed start of the Programme, a significant portion of the enterprises initiated the investments required for compliance with the provisions from their own sources (basically, to ensure hygiene and food safety). But the support gave an impetus to start investments in capital-intensive areas of environmental protection, basically, the treatment of wastewater, and the number of applicants was larger than expected.

In the light of the above, it becomes clear why the number of applications was higher also in the case of investments to improve competitiveness, where the introduction of new technologies was an especially important objective.

In respect of the sectoral breakdown, it can be established that the meat processing industry and winery applied support in far larger proportions than planned, while the support need of the dairy industry and poultry processing was lower than expected.

### Breakdown of support funds by sectors

Sector	plan, %	actual, %
Processing of beef, pork and other meat	28,5	37,7
Processing of poultry	12,6	8,3
Processing of milk and milk products	23,3	9,4
Processing of eggs	2,7	1,9
Wine production	6,8	20,2
Fruit and vegetable processing	24,4	20,4
Processing of fishery products	1,7	0,8
Processing of grain	0,0	1,3
	100,0	100,0

772 applications under Measure 114 “Processing and marketing of agricultural and fishery products” were received, with an overall project value of HUF 106,239,935,442 and a support need of HUF 41,965,463,647 (“received applications”). 44.8% of the applications received won (346 applications), which means that with a support of HUF 19,328,419,131, the investment value (supported) was HUF 50,025,258,049 in the food economy within the framework of the SAPARD programme. Out of the winning projects mentioned above, 298 were completed, with an investment value of HUF 42,940,040,826, with a support contribution of HUF 16,597,309,840.

From the indicators it is evident that about half as much companies achieved the planned “compliance with the provisions” than it was planned. There might be two reasons for that. One of them is that due to different reasons (lack of sources, eligibility), about half of the applications were rejected. The other reason is that many of them either completed the appropriate investments of own sources, or they did not start costly investments that do not always generate income. From another portion of the indicators it becomes evident that the “development of the technology, introduction of a new technology” affected more companies than expected. The reason for that is that the enterprises recognised in due time that technological development is a major contribution to increase their competitiveness. [The number of the business introducing new technology significantly exceeded \(330 %\) the planned indicated number, which is a very important factor of competitiveness.](#)

“Quality improvement” brought an extremely high number of investment projects, mainly in the area of “indication of geographic origin” and “new branded products”, as opposed to the expectations.

Most of the applications were received from the two regions in the Great Plain and from Northern Hungary. In the case of applications submitted to the regions, the proportion of the winning applications was the highest in the Southern Great Plain region.

Both in terms in invested and support amounts, these three regions are at the top. But in comparison with their share in numbers, an important need for investment and support is observed in the Central Hungary region, where the most capital-rich companies are located.

The SAPARD programme brought significant investment and support volumes in respect of four sectors. These are: meat processing industry, dairy industry, production of wine and the processing of fruits and vegetables. According to the indicators, these sectors were the most involved in connection with the investments, that is, here we can find the largest number of products affected by and, manufactured with SAPARD support.

To sum it up it can be stated that due to development projects implemented by the means of the support granted meant a fundamental contribution to the implementation of the targets set by the programme and the measure within. There was considerable interest towards the measure, due to the lack of capital in these sectors. Even though in the elaboration of the

strict application rules and evaluation criteria we made an attempt to allow only well-prepared and basically viable applicants to compete, the large number of applications rejected due to the lack of funds also indicated the need of the sector for development resources and the correctness of the objectives set by the measure.

#### Main indicators of the measure's implementation

Measure 114		Applications received	Projects contracted	Applications completed		
				SAPARD	NRDP	combined
2002	piece	251				
	project value	25 232 916 936				
	support need	9 771 111 859				
2003	piece	217	148	11		
	project value	29 804 407 243	16 387 036 583	279 417 900		
	support demand	11 562 969 748	6 335 592 150	111 765 106		
2004	piece	304	199	93		
	project value	51 202 611 263	33 654 208 466	8 480 744 475		
	support demand	20 631 382 040	12 999 220 981	3 318 357 638		
2005	piece			135		
	project value			18 642 423 649		
	support demand			7 274 678 278		
2006	piece			59		
	project value			15 537 454 802		
	support demand			5 892 508 818		
<b>Total</b>	<b>piece</b>	<b>772</b>	<b>347</b>	<b>298</b>	-	-
	<b>project value</b>	<b>55 037 324 179</b>	<b>16 387 036 583</b>	<b>34 459 296 351</b>	-	-
	<b>support dema</b>	<b>41 965 463 647</b>	<b>19 334 813 131</b>	<b>16 597 309 840</b>	-	-

Prior to becoming a Member State, 74% of the support initially planned could be used for this measure, subject to an appropriated aid intensity of 40%. Mostly large processing companies showed an interest in this part of the programme. The submitted applications sought to obtain 2.5 times more support than it was available in the funds.

The number of applications was sufficiently high to make a proper selection of those that really deserve support in their implementation. The problem was rather the ranking, which was only possible by very slight differences between the different applications, compiled with high level professional skills.

The results of the uses of support are summarised in the following table:

Measure 114: Processing and marketing of agricultural and fishery products  
monitoring indicators of the measure's implementation

Indicator	measur ement unit	Realised from SAPARD	Realised %	SAPARD plan indicator (scaled to 74 %)	SAPARD plan indicator (as per plan)
<b>Character of the development</b>					
New, greenfield	Number	8			
Renovation, modernisation of existing holdings	Number	34			
New holding, on existing site	Number	6			
New technology	Number	248			
Marketing	Number	15			
<b>Total</b>		<b>311</b>	<b>178</b>	<b>175</b>	<b>237</b>
<b>Food processing sector</b>					
Beef, pork and other meat	t	1 493 123			
Poultry	t	223 758			
Milk and dairy products	1,000 l	1 325 342			
Eggs	Thousan d pcs.	279 602			
Wine	1,000 l	3 206 732			
Fruits and vegetables	t	501 083			
Fishery products	t	2 020			
Milling industry	t	14 250			
<b>Development area</b>					
<b>Compliance with provisions</b>					
EU food safety and hygiene provisions of animal protection	Number	185	78	236	320
	Number	22	31	70	95
<b>Environmental protection</b>					
Water treatment procedures	Number	29	131	22	30
water use	m3	2 034 438			
reduction of wastewater output	m3	1 234 881			
wastewater treatment within the holding	m3	1 103 869			
Waste management	Number	5	10	52	70
Waste produced (not hazardous) from technologies	m3	1 122			
Technological treatment of hazardous waste	m3	4 555			
Technological treatment of hazardous waste					
solid	t	6 196			
liquid	m3	210			
<b>Development of the technology, transformation of the sector</b>					
New technology	Number	110	186	59	80
New raw material supply and acceptance system	Number	21	71	30	40
Creation of capacity coordination	Number	45			
Informatics technology development:	Number	15			
<b>Improvement of quality</b>					
introduction of a quality assurance system	Number	12			
ISO 14000	Number	4	36	11	15
EMAS	Number	0			
HACCP	Number	9	3	258	350
Launch of a new product on the market	Number	71			
Certified quality product	Number	53	19	273	370
Indication of geographic origin	Number	41	278	15	20
Organic products, New branded products	Number	8	17	48	65
New branded products	Number	43	583	7	10
Modern classification, marking, packaging	Number	44			
Products with higher added value	Number	71	321	22	30

The number of the beneficiaries exceeded the scaled plan figures by 78%, and was 31% higher than initially planned. This is the consequence of the circumstance that in most of the processing industries, privatisation took place in the early 1990s and, after that, as a result of

ownership changes, the larger production units with an export-orientation potential became managed by foreign, mostly multinational companies. At companies that exported to EU Member States and to other developed countries earlier as well, the new owners carried out investments to ensure the safety of sales and so, in the years of the SAPARD programme's implementation, no large, complex or multi-elements projects were due. For the average size of the development projects, a limitation was that the period available from the announcement of the call to the deadline for submissions was too short to prepare investments with higher requirements as construction, environmental protection and for involving the authorities. The average support available for a project was EUR 212,000, as opposed to the initially planned and scaled figure of EUR 378,000.

The main target in most cases was an overall modernisation of some segment of the technology, but almost each project contained some elements with lower costs (e.g. hygiene, animal welfare, transmission system for raw and basic materials, quality assurance, treatment of wastewater and wastes etc.). Due to the complex character of the development projects and the problems with determining the separation of the different development elements, the result indicators can provide only an approximate view on the whole of the programme.

The number of projects aimed primarily at the development of hygienic conditions and animal welfare was substantially lower than planned, even in the scaled figures. [In respect of compliance with European provisions, moderate result can be seen. In regard of](#) provisions of food safety, animal protection and hygiene, only one-third or two-thirds of the planned objectives were performed. At the same time, the number of smaller investments and transformations planned for the repair of refrigeration, heat treating systems, the raw material supply and transmission systems and at the fore line of the slaughtering within the framework of technology modernisation was much higher than planned and indirectly, these improved the hygienic conditions and made the slaughtering a process with less stress, more indulgence for the animals.

In the area of water treatment procedures, the number of projects realised was more than planned in the scaled figures, almost as many as initially planned. This is largely due to the higher costs of technological water needed. In the case of the other environmental consideration, the treatment of waste, interest was less than 10% of the initially planned level. This was partially attributable to the fact that new technologies nowadays produce some minimal volume of unutilisable waste, because animal-origin materials not suitable for human consumption are processed to become food for animals.

Projects serving, as a primary objective, quality assurance and the manufacturing of products with certified quality were also substantially lower in number than planned. The reasons for that can be probably found in the business policies of the processing syndicates, which focus at their Hungarian interests on the production of premium products sensitive for rather quantity than quality.

With the support provided for product development, however, significant results were achieved. The indicators regarding the number of products distributable with the indication of geographic origin, the number of branded products and of the products with higher added value, were significantly overfulfilled. The only exception thereof is the group of the so-called organic product, where the Hungarian market and production environment is not prepared for an expansion yet.



Renovation of elements, building ornaments	Number/m2	46/4891			
Renovation of roads and streets	Number/m2	121/154489			
Buildings and monuments enriching public places	Number/m2	222/12533			
Resting places, footpaths, bicycle tracks	Number/m2	36/18055			
others	Number/m2	7154/15770			
<b>Renovation and protection of architectural and historical monuments of villages</b>	number	124			
Cathedral, church, chapel, belfry, castle	number	72			
Buildings, castles, mansions, statues and national monument protection	number	19			
Renovation and construction of look-out tower	number	3			
<b>TOTAL RENOVATED BUILDINGS</b>	number	218	116	189	200
<b>Településhez tartozó táji elemek védelme, revitalizációja</b>	number	5	2	302	320
növényállomány	ha/m2	31/9905			
parkosítás	ha/m2	23/144172			
természetes- és művi vízpartok rendbetétele, műtárgyainak, felújítása, pótlása	ha/m2	12/5129			
csatorna tisztítása	rm	6 769			
védelmet igénylő fasorok, védett fák környezetének rendezése	m2	2 010			
Vonzáskörzet jellemzői					
Település lakosainak száma	person	223 587			
Turista- és idegenforgalom évente	number	1 000			

Within the framework of the Measure, support contracts could be concluded with 229 beneficiaries. This shows an interest exceeding by far the number of projects planned at the beginning. The structure by targets was also above the appropriation, but the proportions were the same. An exception thereof represent projects aimed at the development of protection of landscape elements, their revitalisation, where instead of the expected 320, only 5 appropriate applications were submitted.

If we examine the economic impact of the measure, it can be stated that there was a boost in the field of tourism, travel and entertainment. The number of renovated and rebuilt buildings was 12% higher than planned, which means that owing to the development possibilities, many more buildings were given new functions. According to a survey based on questionnaires, 81% of the people thought that the measure had a direct and significant impact on the conservation of rural heritage, however this accounted for only 6% of the population living in rural areas.

The measure had the most significant impact on the life of local communities as the newly renovated community grounds became the scene for cultural and community programmes and therefore community life was renewed.

The measure also had significant economic and environmental impact owing to the different developments, which were made possible within the measure. These were as follow:

*Direct impact:*

Economic impact: renovated building were given new economic functions

Environmental: revitalised villages, green areas

*Indirect impact:*

Economic impact: the renovated villages and monuments attracted more tourists, therefore the number of nights spent by tourists in guest houses increased, or/and tourists spent longer time in the countryside.

Environmental impact: in the newly rebuilt village centres, small businesses, entrepreneurs and private individuals also decided to improve the look of their own surroundings. Local residents started to have a new kind of attitude, therefore villages started to show a better, a more integrated image.

*Measure 1306: Development and diversification of economic activities, providing for multiple activities and alternative income*

### Main indicators of the measure's implementation

Measure 1306		Applications received	Projects contracted	Applications completed		
				SAPARD	NRDP	combined
2002	piece					
	project value					
	support demand					
2003	piece					
	project value					
	support demand					
2004	piece	264	58			
	project value	4 796 473 049	979 434 292			
	support demand	2 356 047 500	471 681 072			
2005	piece			29		
	project value			494 983 570		
	support demand			236 996 638		
2006	piece			24		
	project value			365 274 388		
	support demand			177 372 629		
<b>Total</b>	<b>piece</b>	<b>264</b>	<b>58</b>	<b>53</b>	-	-
	<b>project value</b>	<b>4 796 473 049</b>	<b>979 434 292</b>	<b>860 257 958</b>	-	-
	<b>support dema</b>	<b>2 356 047 500</b>	<b>471 681 072</b>	<b>414 369 267</b>	-	-

This measure could not succeed in achieving the objectives from the support funds reduced to 5% of the initially planned figures. Very small number of applications were submitted to this measure. A contradiction, which must be mentioned is that taking into account the very small number of submitted applications, half of them were rejected due to the lack of financial resources available for the measure. If not such a significant amount of the available had been reallocated to other measures, than twice the number of submitted applications could have been supported.

The results of the uses of supports are summarised in the following table:

Monitoring indicators for Measure 1306: Development and diversification of economic activities, [providing for multiple activities and alternative income](#)

Indicator	Measurement unit	Realised from SAPARD	Realised, %	SAPARD plan indicator	SAPARD plan indicator (as
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				(scaled to 5%)	per plan
<b>Character of the development</b>					
New, greenfield	Number	2			
Renovation, modernisation of existing plants	Number	40			
New plant, on existing site	Number	2			
New technology	Number	12			
<b>Development of local products, development of the technologies and quality of food processing</b>	Number	11	29	37	820
dried fruits and vegetables:	t	30 001			
pickles	t	571			
winery	hl	6			
bee keeping	t	28			
<b>Development and sale of homemade and handicraft products</b>	Number	6	31	19	420
wood processing, carpenter, furniture, toys	Number	2 087			
textile industry	m2	800			
leather processing + products	Number	2 350			
glass, ceramics	Number	51			
<b>Village accommodation</b>	Number	36	74	48	1 060
village tourism	beds	256			
	rooms	13			
<b>Development of products and services</b>	Number	3			
Newly launched products, services	Number	12			

One of the aims of the measure was to establish diversified economic activities and provide alternative income opportunities for those who live in the countryside. By this workplaces can be retained and new ones can be established. This aim was realized regarding agri-tourism, since 12% more activities were supported, than originally planned.

The other aim of the measure was to counterbalance seasonal employment and low profitability characteristic of the agriculture, strengthen the positive impacts of diversified farming, expand the range of services and products offered and improve the chances of self-supply and market access. According to a survey based on a questionnaire, 57% of the respondents thought that the measure considerably contributed to the growth of the income of businesses not deriving from agricultural activities.

The measure mainly had an economical impact but only on micro level. On the level of the macro economy, the measure had no significance whatsoever. The measure had no social or environmental impact.

It seems that in Hungary, no traditions exist yet for independently initiated changes in jobs and activities, therefore, even with an aid intensity of 50%, only very few people were ready to implement projects improving their existential conditions, creating a basis for self-employment. The lack of interest was due to insufficient, not clear information that failed reaching the target group, consultation on an incidental basis and without personalised character, as well as the complicated calls for applications and system of general conditions.

#### *Measure 1308, Development and improvement of rural infrastructure*

Development of agricultural infrastructure is mainly justified by the changes in land ownership and land use. In agriculture, the economic transformation in the 1990s meant an organisational desintegration of large plants, including state-owned farms and holdings, the

privatisation of cooperatives. All that, through a redistribution of capital, land and other production resources led to a radical change in ownership relations. A mixed ownership structure was created, characterised by a significant majority of the small farms with very fragmented lands, small- and medium-sized enterprises. Nevertheless, the decisive majority of land, capital and other production resources are concentrated in a much smaller number of individual farms and business partnerships. The privatisation of agricultural land affected about three-fourth of the country's territory, because the remaining portion of land was, irrespective of the character of its use, in private ownership, already earlier.

A change in land possession relations induced the infrastructure development implemented within the framework of SAPARD. It became necessary to transform and renovate the roads and channels, established previously according to the size of fields of large farms, to build new facilities between the fields and to build up the connection to the existing recipients. Nevertheless, even today, there are several derelict gutter works in poor condition, not fulfilling their functions.

After the change of regime, due to unemployment and pauperization of a significant parts of the population, for a large portion of the population it was impossible to ensure their own resources to the development of wastewater drainage and wastewater cleaning, coupled with the construction of potable water networks. As a consequence, even today, there are still ongoing programmes for wastewater treatment, usually within the framework of regional development projects.

One of the basic conditions for the operation of businesses and farms is energy supply. Due to its extremely high costs, only the strong farms were able to build such facilities or to renovate the existing ones. Hunger for energy, typical for our days and the detrimental environmental effect of the traditional energy resources exceeded the environmental sensitivity threshold of the society. "Green" organisations, scientific forums called the attention to the necessity of an enhanced use of alternative energy sources. Both ARDOP and NHRDP continue to provide support for projects, investments aimed at the use of renewable energy.

The change in the society's job structure (workplaces closed, relocation of urban population to the outskirts, appearance of new sectors of industries, creation of new workplaces) induced measures to keep rural population in place, creating jobs. In addition to the development of the conditions of production, it became necessary to create the conditions for sales of local products on local and distant markets.

On the whole, the changes in the society were primarily stimulating the new stratum of owners to implement investments promising direct benefits, while the development of infrastructure remained in the background. The production development, the manufacturing of quality goods, the access of goods to the market necessitate the construction of the infrastructure elements, logistics structure connected with the production.

By the end of the year 2006, the resources available under the programme represented 72% of the initial appropriation. This amount was fully utilized by the beneficiaries. Actually, this is attributable to one single reason: the increased necessity and demand of agricultural road construction. As it can be seen from the following table, among the indicators planned, road construction was the only one where the initial appropriation was reached – actually, it was exceeded two times.

## Main indicators of the measure's implementation

2003	project value	11 901 829 125	6 867 076 093	863 026 841		
	support demand	8 231 625 145	4 922 722 972	620 008 433		
2004	piece	841	348	182		
	project value	38 183 357 114	13 419 448 481	4 003 682 908		
	support demand	25 948 091 459	9 728 547 864	2 935 422 471		
2005	piece			248		
	project value			8 171 053 692		
	support demand			5 954 195 717		
2006	piece			91		
	project value			4 463 232 778		
	support demand			3 208 285 817		
<b>Total</b>	<b>piece</b>	<b>1 788</b>	<b>619</b>	<b>547</b>	-	-
	<b>project value</b>	<b>50 085 186 239</b>	<b>20 286 524 574</b>	<b>17 500 996 219</b>	-	-
	<b>support dema</b>	<b>44 448 543 242</b>	<b>14 651 270 836</b>	<b>12 717 912 438</b>	-	-

## Monitoring indicators for Measure 1308, Development and improvement of rural infrastructure

Indicator	Metric	Realised from SAPARD	Realised, %	SAPARD plan indicator (scaled to 72%)	SAPARD plan indicator (as per plan)
<b>Character of the development</b>					
New, greenfield	Number	103			
Renovation, modernisation of existing plants	Number	273			
New plant, on existing site	Number	40			
New technology	Number	147			
<b>Development and improvement of local infrastructure</b>					
<b>Agricultural road network</b>					
length	km	524	318	165	230
cover					
solid	Number	292			
dirt road	Number	18			
Size of affected area	ha	142 886			
Number of farmers affected	Number	17 925			
<b>Energy supply for the enterprise</b>					
Type of the energy					
solar	Number	18			
wind	Number	1			
geothermical	Number	3			
biogas	Number	1			
agricultural waste	Number	4			
other	Number	35			
Quantity of energy produced, per year	MW	21 228			
Energy from the network					
Electricity	MW	9 080			

Natural gas	MJ	2 421 983 938 766			
<b>Alternative wastewater cleaning</b>	Number	37	65	57	80
Capacity created	m3	111 483			
Water quantity used	m3	138 263			
Wastewater produced	m3	119 612			
Cleaned wastewater	m3	120 149			
Affected population	capita	39 881			
Number of farms affected	Number	600			
<b>Local markets and procurement places</b>	Number	23	12	186	260
Ground area	m2	87 045			
Turnover of goods	thHUF	132 596			
Number of selling points	Number	2 155			
Characteristics of the area	Number				
Affected population	capita	1 561 971			
Affected enterprises	Number	7 956			
Distance from the closest similar market	km	522			
<b>Development of IT and communication systems</b>	Number	122			
<b>setting up IT junctions</b>	Number	63	17	373	520
Telehouses, telepost networks, advisory system	Number	59			
Number of computers installed	Number	711			
Number of printers	Number	336			
Number of software items	Number	975			
Internet use per year (based on ISP invoice)	hours	285 862			
Affected population	capita	913 260			
Affected enterprises	Number	25 457			

Owing to the available support within this measure, a significant length (524 km) of modern agricultural road was built. A very small number (69) of the enterprises made developments in the field of energy supply. In case of the settlements affected by the developments, the average distance from the closest market was reduced to 22,36 km. These facts improved the competitiveness of the enterprises locally, but this effect of the measure cannot be measured on macroeconomic level.

There were 16199 preserved (40662 pc of planned) workplace, and 659 newly established (559 pc of planned) workplace.

There was a considerable number of applications (313 pc), the objective of which was the reconstruction or construction of agricultural roads.

69 projects were realised in the field of the energy supply serving the purposes of the enterprises. The plan indicated 232 enterprises regarding energy supply, from which the achieved result of 69 projects differs to a great extent. The projects, which were realised in connection with alternative local sewage water cleaners affected 44 settlements, which meant a 55 % backlog in comparison with the plan. The cost of the elaboration of the documentation was very high, and this cost should have been pre-financed by the applicants. Generally the applicants were local governments who did not have enough resources available for such projects.

In the SAPARD Plan there were 634 newly built IT Centre (telehouses, data banks, etc) as result indicator. The number of realised applications (121 ) fell behind the expectations.

The SAPARD Plan planned 317 local markets but only 23 (7 %) were realised.

On the level of the settlements/micro-regions the establishments of local markets had a significant economic effect. The establishment of sewage water cleaners and the supply of enterprises with renewable energy had a positive effect on the environment. The establishment of telehouses stimulated the social life of the settlement. On the level of enterprises both the energy supply and development of agricultural roads indirectly improved the competitiveness of the affected enterprises.

In the case of indicators lagging behind planned figures, the most important problem was cooperation between sectors. The monopolistic organisations in service provisions are not interested in energy rationalisation, difficulties in the cooperation between the interested parties belonging to different sectors (entrepreneurs, local municipalities, public institutions, non-profit and other civil organisations) represented a hindrance for the solution of wastewater cleaning, the creation of markets and procurement points and the creation of logistics centres.

#### 6.2.3.5.2. Cancellations

The beneficiaries completed by the end of December 2005 2,192 projects, representing about 82% of all contracts in force. In early 2006, there were 490 projects in process, and a large portion of these was completed in 2006.

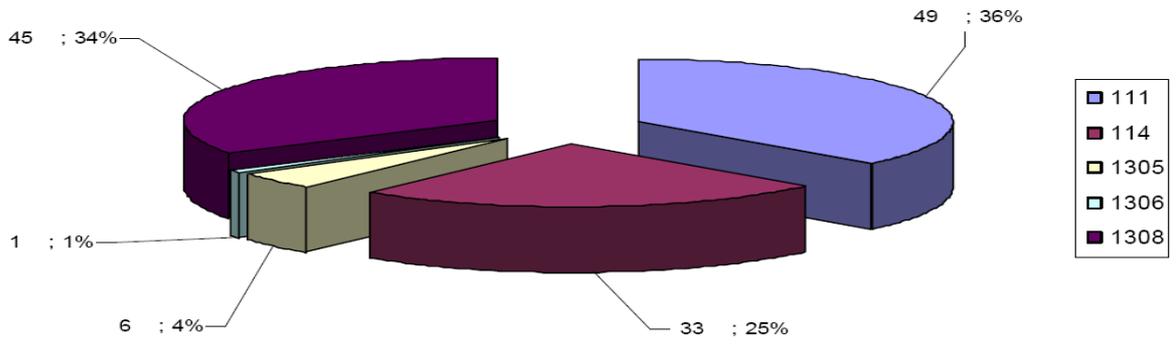
Cancellation of the aid commitments can take place in the form of any of the types below:

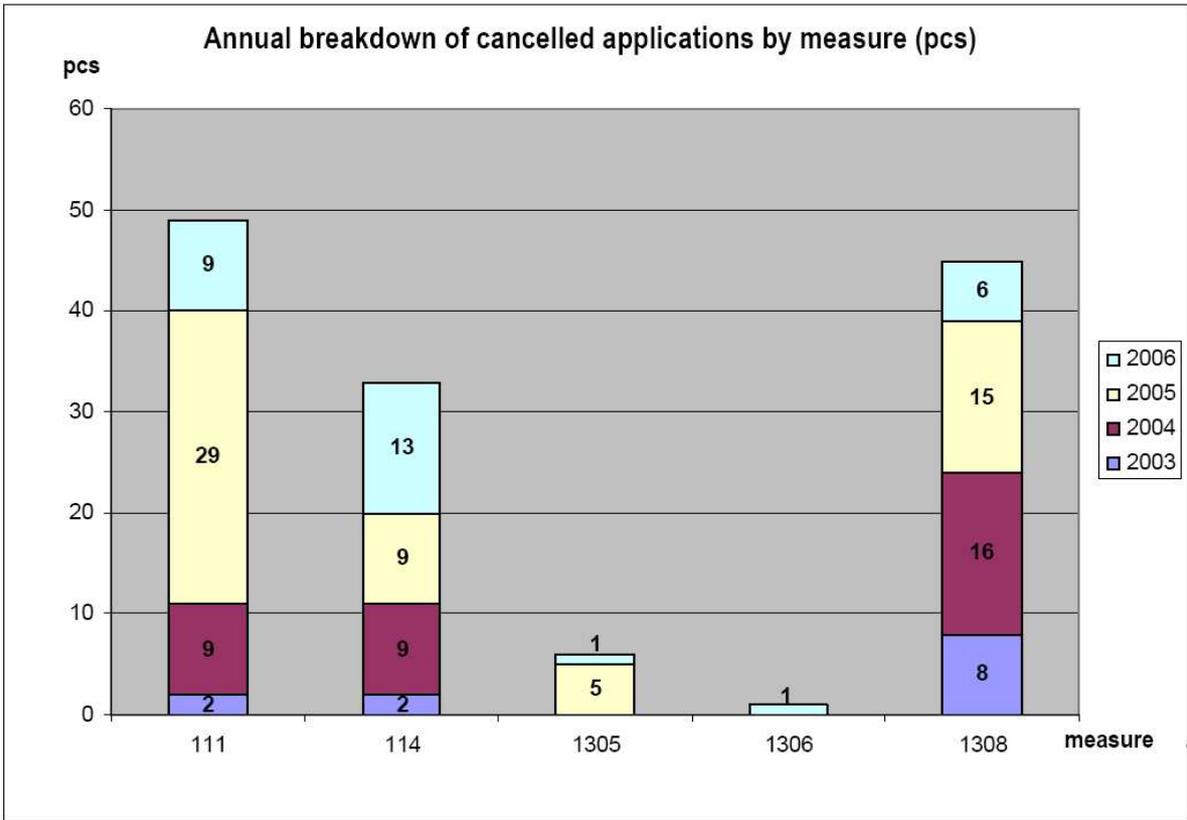
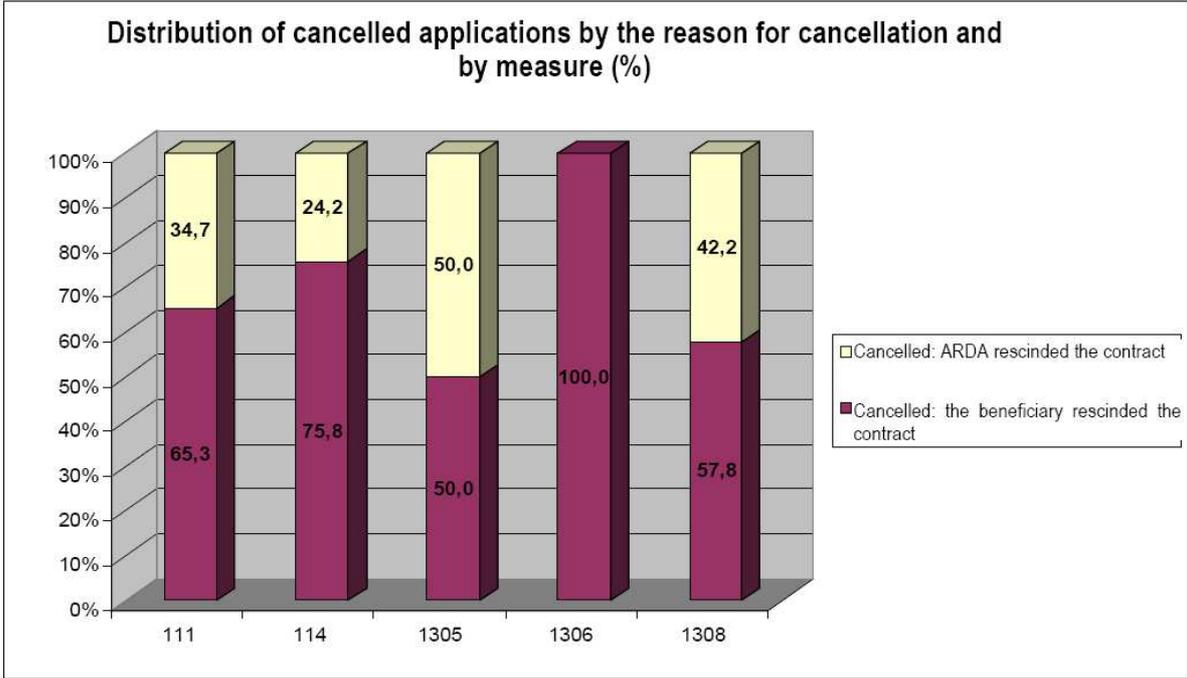
- a) the beneficiary desisted from the contract
- b) ARDA desisted from the contract
- c) the project cannot be realised, because of some not foreseeable reason at the time of the application's submission and/ or the start of the project.

The tables and charts below, show the data of the cancelled contracts; about projects cancelled in the decision-making stage, but prior to the conclusion of the contract, only textual information is provided.

The reasons for the cancellation of contracts and the proportions of the reasons for cancellation in a comparison with the total number of concluded contracts were different measure by measure. In case of all measures, it was typical that the main reason (in the proportions fifty-fifty, usually prior to the conclusion of the contract) was the lack of special technical conditions required for the investment (such as authority license) or of own resources required for the disbursement.

Number and distribution of cancelled applications by measure (pcs, %)

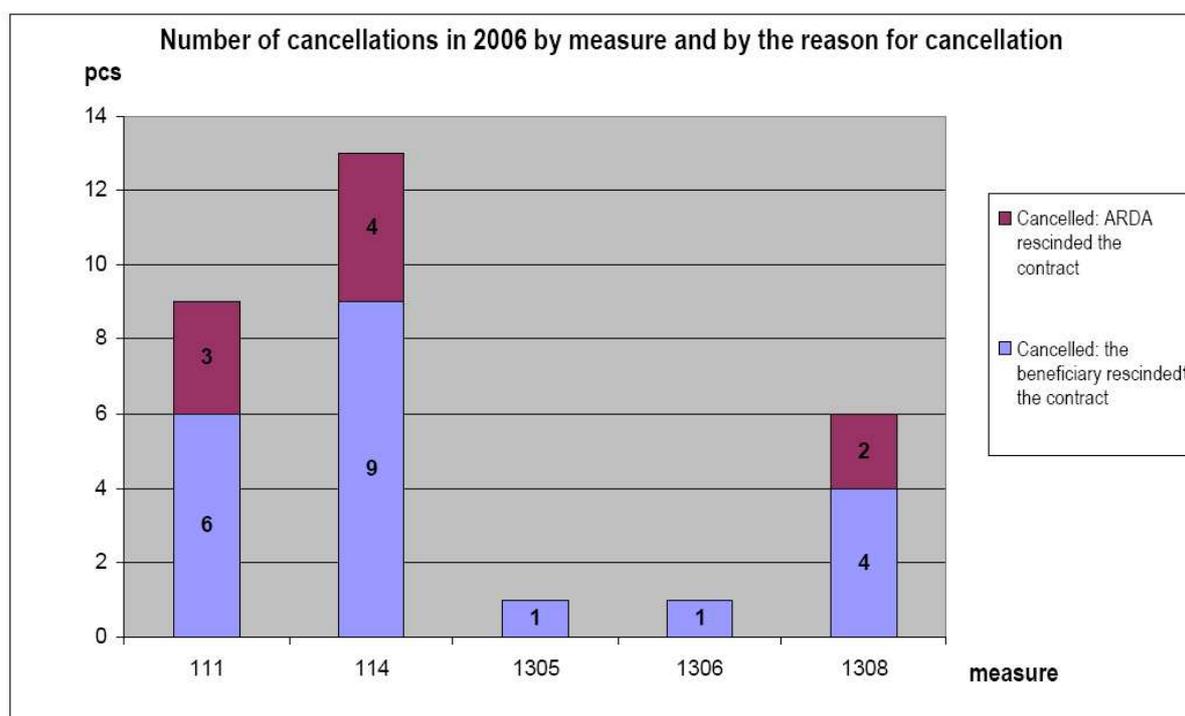




In **2006**, a total of 30 contracts were cancelled. A project can be cancelled after the conclusion of the contract if the beneficiary desists from the contract (21 applications) – this was more typical in the SAPARD programme –, but in nine cases, ARDA desisted from the conclusion of the contract.

In the case of Measure 111, "Investments to agricultural holdings", in 6 cases the beneficiaries, in 3 cases ARDA desisted from the contract. In respect of Measure 114, "Processing and marketing of agricultural and fishery products", in 9 cases the beneficiaries and in 4 cases ARDA desisted from the contract.

In respect of Measure 1305 "Renovation and development of villages and protection and conservation of rural heritage" and of Measure 1306 "Development and diversification of economic activities, providing for multiple activities and alternative income", there was 1 case under each measure, where the beneficiary desisted from the contract. In respect of Measure 1308 "Development and improvement of rural infrastructure", 4 beneficiaries desisted from the conclusion of the contract and in two cases ARDA desisted from the contract.



Note: In the column of aid requested, all financial sources playing a role in the financing projects are included (SAPARD EU and national, NRDP reallocation, EU and national, interests earned on SAPARD EU).

Out of the aid amounts, totalling HUF 79,171,219 by the end of the year 2006, HUF 52,454,265 were repaid by the beneficiaries. This is a recovery rate of 72%, very high in a comparison with other forms of support. The total amount of support affected by the failures was less than 0.15% of all disbursements.

In the case of Measure 111 "Investments to agricultural holdings", the decisive majority of the cancellations occurred within the scope of projects connected to construction. There were 19 applicants, having obtained positive evaluation on their applications, who withdrew from the implementation already prior to the conclusion of the contract. After the conclusion of the project, 49 projects failed, including 7 contracts regarding machinery acquisitions and 42 relating to construction works. Out of the 7 machinery development projects, the reason for the failure was irregularity in procurement and in three other cases, the lack of own resources. In these cases, no payments were made yet, no obligation of aid recovery arose. In the case of projects necessitating construction, the main reason for failures was that the beneficiary did not have adequate resources for financing the development project, so he/she was unable to

start the investment in the timeframe prescribed for the start or completion of the investment or for settlement. In 13 cases (together with the machinery purchases, in 17 cases), ARDA desisted from the contract because of some serious irregularity. Irregularities were mostly discovered in the course of a check of the procurements and of the underlying content of the invoices issued regarding the construction works, services provided (e.g. procurement not from the supplier with cheapest offer, inclusion of uneligible costs into the bill). Cancellations represented 4% of all projects under the measure and 3% of the contracts. The total amount in question was only HUF 18.4 million in terms of support, which was less than one thousandth of all support amounts paid. In respect of this measure, in the remainder of the operating period (1-2 years), further withdrawals can occur only very occasionally, as a consequence of an extraordinary event or force majeure event.

The share of projects that were cancelled was the largest within Measure 111, “Processing and marketing of agricultural and fishery products”, 9% in a comparison with all contracts concluded and 15% in a comparison with the authorised ones. These included some large, partially settled projects, therefore, out of the aid disbursed, almost HUF 61 million had to be recovered, making use of the collaterals – representing only 0.35% of all support disbursed under the measure. 32 of the beneficiaries withdrew from the conclusion of the contract and another 16 decided to give up the project prior to the first disbursement, because in the meantime there was a drastic deterioration in one of the conditions, seemingly advantageous at the time when the application was submitted. In most cases, the reason was the loss of markets or a reduction in the price achievable or a deterioration in the efficiency. Deterioration in the prospects of the project’s operation prompted the financing institutions as well to change their opinion, in spite of a former positive decision, on several beneficiaries. Out of the projects already contracted, in 5 cases, it was necessary to abandon the project, because some of the authorisations required (typically the one for waterworks or environmental protection) were not finalised. In the case of 8 projects, ARDA desisted from the contract because of an irregularity procedure in progress. In the case of this measure, liquidation proceedings started against several beneficiaries, at the end of 2006 and in 2007. In respect of each measure, when a project met a **liquidation situation, ARDA attempts to let those projects be operated by other enterprises, meeting the eligibility criteria.**

In case of Measure “1305, Renovation and development of villages, protection and conservation of rural heritage”; and Measure “1306, Development and diversification of economic activities, providing for multiple activities and alternative income” a total of 8 applications failed because of support commitment failure. Out of these, 2 dropped out from the system prior to the conclusion of the contract and another 6, after that. No disbursement was made in any of these cases, therefore, no repayment obligation arose. The reason for the failure was lack of own capital, in each case. The reasons for withdrawals on behalf of ARDA was not some serious irregularity, but overdue deadlines, caused by the lack of own capital or a consequence of settlements falling out completely. In the case of these two measures, further withdrawals occur only in a few cases, due to some extraordinary event or other event of force majeure character (such as elementary damage, fire, invalidation or death of the beneficiary).

In the framework of Measure 1308 “Development and improvement of rural infrastructure”, 7% of the contracts concluded or 9% of all projects accepted for support were cancelled. This relatively large proportion is attributable to one type of development, the construction of agricultural roads. The reason for withdrawal was, in the case of 22 contracts out of 45, the impossibility to arrange the financing, in the other 23 projects, a misunderstanding about the

purpose of the development project. In each case, ARDA carried out an on-the-spot control prior to the first disbursement on the road constructions, and where the public road character of the facility could be established, it suggested or mentioned the possibility of a waiver.

#### 6.2.3.5.3. Analysis of the economic, social and environmental situation

Interest towards the different measures and the development of the result indicators shows the economic and social effects that the programme could exercise and reveals which types of organisations could be reached with the message and what was its effect occurred on these. But the programming instructions, based on the experiences of other Member States did not take into consideration the circumstances in Hungary, that agriculture is a net contributor to the budget since 1983, not only at the entrepreneurial, but also at the activity levels. Even in the once least developed countries that became Member States (Portugal and Greece) the amount of taxes and affixes paid by people earning their living from agriculture is lower than the amount of support received by the sector. As opposed to that, in Hungary, the size and extent of the net budgetary drain (the balance of payments and grants), with the exception of short and temporary terms, increased permanently, whilst at the same time, in a world comparison, an almost unprecedented transformation took place in the production of basic materials, in processing and logistics. The vast majority of people living in the countryside and earning their living from agriculture were loser and not winners of this transformation. The new proprietary and entrepreneurial stratum of the population had an almost unlimited source of cheap, relatively well-trained manpower from this sociological group.

The size of the SAPARD support did not reach a level where a statistically significant effect could have been measured in agriculture and food processing, in the supply of the rural towns and villages. At the same time, both the affected potential beneficiaries (companies, enterprises, entrepreneurs, farmers, local municipalities, non-profit and civil organisations) and the members of the allocation's institutional system were pushed towards the acquisition of new information. This could make them more capable to overview the more complicated, more transparent relationships coming with the accession (with better documentation, controlled by the authorities, more precisely documented etc.), there was an increase in their capability to absorb support and to adapt themselves to the more complex system of conditions. In this respect, SAPARD managed to realise the objective expected from the preaccession programme in full. In addition to that, the implemented projects contributed to the maintenance of the existing relative positions of the beneficiaries, promoted, proportionately to the funds received an improvement in the economic and social situation of a given town or village and of a micro-region, but at least they slowed down the process of deterioration.

Due to the drains, the basic asset development needs kept accumulating and, because of the large risks experienced, interest focused comprehensibly on traditional, multi-function investments with theoretically quick return (purchase of machinery, construction of storage facilities, breeding units etc.).

#### 6.2.4. Using the recommendations of the mid-term evaluation by the implementation of the Programme and in the implementation of programmes after the accession

The mid-term evaluation of the SAPARD programme was carried out by a Belgian company, Agriconsulting Europe SA, its report was closed in October 2003.

In the opinion of the independent evaluators, in the course of the programme preparation process, the planners identified a series of needs and requirements applicable to the agricultural sector and rural regions, without any investigation about their urgency or necessity or ranking them by their order of urgency.

In order to avoid that in the future, a comprehensive SWOT analysis was prepared on ARDOP 2004-2006 and NHRDP 2007-2013, with the involvement of professionals and social partners as well. The amendments in the SAPARD programme improved in the meantime the objectives, as well as the conditions for the implementation of the programme.

Job fluctuation was high at the SAPARD Agency, and that had a negative effect on the efficiency of the programme's implementation.

This is exact the reason why, in the process of the implementation of the programmes, a stable core team and management shall be kept. Recently, this seems to work and therefore, within the relatively strict limits of public administration, at least a relatively high level of professional continuity can be ensured.

Information required on the general criteria of eligibility did not meet properly the expectations of the applicants. It would have been important that the potential applicants receive clear information and guidance, prior to compiling their documents for the applications.

Having realised the necessity of information and publicity, a wide-scale communications strategy was developed for SAPARD and, in the support programmes to come, more attention shall be paid to these segments, using funds allocated to the technical assistance measures. We also improved the quality and quantity of inter-institutional communications.

Due to the fear from a failure of the projects, several applicants were rejected, even if they had potentially viable projects. The measure-specific objectives described in the SAPARD Plan were not supported by selection criteria. The large size of the deadweight in the programme shall be highlighted. An extremely large portion of the rejected applications meant an increase in the administrative burdens.

In order to avoid all of these problems, a system preparations for decision-making, with a decision-making preparatory committee ("DEB – Döntés-előkészítő Bizottság") was set up, where the applications were assessed by a permanent team of professionals, based on professional evaluation, with the involvement of ARDA. Doing so, a consistent ponderation system of criteria was ensured to assist the process of making decisions on support.

The main reason for the slowness in the use of support funds was the late start of the programme's implementation, and this is the result of the slowness in establishing the institutional system. The other reason was the lengthiness of the evaluation procedure.

The previously mentioned problems could be eliminated in the case of ARDOP, but in the case of NHRDP, the start took place later than planned. The system of the decision-making

preparatory committee made it easier and more reliable in ARDOP to evaluate the applications. In respects of the NHRDP for 2007-2013 – learning from the previous programmes – the background of the implementation and the assessment is ensured (ex ante evaluation).

The applicants considered that the information received from colleagues at the SAPARD Agency on occasion of consultation meetings was useful, but the information provided and conditions set in the call for applications and in the guidance on the applications were sometimes confusing.

We are trying to develop information activities with proper informational background and training for our colleagues and by providing exact, applicant-friendly and up-to-date information.

In the opinion of the evaluators, the monitoring information system did not collect properly the indicators determined in the SAPARD Plan.

Actually, the paper-based monitoring system was not satisfactory effective, but in the case of ARDOP, SMIS was developed and in the case of NRDP, IACS, and so, data collection and processing became fully electronised.

The structure of the selected measures was not fully in line with the priorities, objectives and expected effects of the SAPARD Plan.

The reasons explained in the executive summary led us not to launch some of the selected measures and, in our opinion, a fragmentation of the SAPARD funds would have been harmful for the efficiency of the implemented measures. The free space left by the measures not launched within SAPARD was filled up at the time when ARDOP and NRDP were launched.

In the opinion of the mid-term evaluators, SAPARD, as a preaccession programme, met its role of a learning programme well.

SAPARD was a useful tool for the development of the service levels of private consultants as well, as a result, high-level consulting services shall be available for the applicants in the course of the implementation of future development programmes.

## **7. Using the experience gained during the SAPARD Programme for the execution of programmes following the accession**

Contrary to SAPARD, learning from the mistakes made and causing delay in the commencement of its execution, the Agricultural and Rural Development Operational Programme (hereafter referred to as ARDOP) and the National Rural Development Plan (hereafter referred to as NRDP) between 2004 - 2006 did not start with such a significant delay following the accessibility of funds as it had happened in case of the pre-accession programme.

Subsequent to the accession of Hungary to the Community on 1 May 2004, the measures of both new support schemes were open for applications already in the year of accession and results could also be obtained. On the one hand, this is partly due to the change in attitude started by SAPARD; on the other hand, to the strengthening of the institutional and professional background, as well as, obviously, to the rise of the trust index of beneficiaries.

One of the consequences of the timely programme launches was, for instance, that in case of ARDOP, funds could essentially be regarded as committed by contracts in the second quarter of 2006, even though they significantly exceeded the financial means of the SAPARD. The time-proportionate implementation of NRDP also met the expectations.

In case of SAPARD, the mainly paper-based administration and data filing caused many obstacles and much delay. To the impossibility to tolerate this situation was called attention to by the mid-term evaluators of SAPARD and the ex-ante evaluators of ARDOP.

In order to avoid the same problem in the future, the so-called Single Monitoring and Information System (hereafter referred to as SMIS) has been developed for the ARDOP, as well – in cooperation with the managing authorities of other operational programmes. SMIS meanwhile has greatly contributed to the creation of a successful, efficient, and transparent database compliant with community and national rules and regulations. SMIS is in online connection with the HSMS (i.e. the Hungarian Support Monitoring System), and therefore, e.g. it always contains up-to-date information about public debt data (from the Central Statistical Office and the Hungarian Customs and Finance Guard - hereafter referred to as HCFG - databases), which also serves the purpose of protection of the financial interests of the Community.

The Integrated Administration and Control System (IACS), originally developed for the management of area-based and product-type support (EAGGF Guarantee Section) applications, handles the NRDP. The system is highly complex and still suffers from some deficiencies, but it works adequately and securely, and this is why it will tackle the management of agricultural- and rural development support measures for the period 2007-2013.

Realizing and acknowledging the significance of information activities and the role of publicity, in case of programmes following the SAPARD these means are used to their fullest extent in the management of community funding. One of the really favourable examples was the communication campaign of the last tender window (1305 and 1306) of the SAPARD opened for 3 months prior to termination. This campaign was concluded by MARD in cooperation with co-ministries and additional organizations. As the result of the campaign, the number of submitted rural development projects reached half of the total number of applications (in case of 1305, 2,345 applications with a total resource demand of HUF 57.8 billion).

Encouraged by this success, in terms of ARDOP and NRDP, both the Managing Authority and ARDA were conscious and consequent to use, for instance, the possibilities of the Internet, and with further development, in case of the ARDOP, the programme had its own website where not only the concept could be introduced but also opinions were welcome.

## **8. The coordination of SAPARD and Additional International Financial Instruments**

The SAPARD Agency, in the accreditation procedure of the institution system, and as the consequence of the successful implementation of the preparation strategy, has gradually made its way up to the top and thus became the engine of the process. Probably the most important column the successful preparation and accreditation lied on, was that between the institutions, such new type of cooperation was born that targeted obtaining results and eased to cope with difficulties with joint effort. As a result, the efficiency of task solution grew dramatically.

Instead of cooperation, during the implementation of preparation strategy, a completely new, and solution-seeking external institutional cooperation was successfully established which had an interest in finding those solutions. This, needless to say, also required the commitment of partners, as well. Fortunately, parallel with the achieving of the results, such dynamic cooperation was established – both in terms of personnel composition and institutional attitude in strong connection – on which further results are based upon today.

Within the framework of internal institutional cooperation, the SAPARD Agency had to establish cooperation inside MARD. During the establishment of this cooperation, an agreement was signed by the SAPARD Managing Authority at MARD, the Budget Department, the Human Resources Department, and the Food Industry Department and in the area of file management, animal health care, and information technology.

The most vital document of the external institutional cooperation is the Cooperation Agreement which regulates the financial implementation procedure of the SAPARD Programme in detail, and which was signed by the National Authorising Office (NAO) at the Ministry of Finance, the MARD, the Hungarian State Treasury (HST) and the SAPARD Agency. This document was also included among the key criteria for accreditation.

The SAPARD Agency concluded a cooperation agreement with the HFCG and the Hungarian Tax and Financial Control Administration (HTFCA), as well for the implementation of the Programme. Extremely intensive cooperation has been created with units of the State Audit Office (SAO), also responsible for the national accreditation of ARDA and acting as the Certification Body, so MARD and ARDA did their best to meet their requirements to the fullest extent.

Paralell to the SAPARD programme the implementation of the ISPA programme was also under preparation, and the multiannual financial agreements signed within the framework of the Phare programme were also under preparation similarly to other to-be-members, like Hungary too. Pursuant to relevant Community rules and regulations, both the preparation of the programmes and the definition of targets were coordinated at a governmental level, in order to implement harmonized development. An institution, i.e. the Joint Monitoring Committee (JMC) has been set up for coordinating and supervising the pre-accession, EU-financed financial means and programmes: the SAPARD, ISPA and Phare resources. After the accession Government Decree No. 102/2006 (IV. 28.) regulates the activity of JMC. The institution responsible for the organising the JMC meetings (JMC Secretariat) is the National Development Agency. The representative of the Managing Authority of the SAPARD Programme is a member of JMC.

The application management system of the SAPARD programme was created in a way that it would exclude the possibility of any measure under the SAPARD programme to be supported from other Pre-Accession Fund or other national financial resources (except for co-financing). The Hungarian Support Monitoring System (HSMS) operated by the Hungarian State Treasury (HST) certifies the fulfilment of this condition.

During the implementation of the Programme, MARD – taking into consideration Article 1 of Annex C of the Multiannual Financial Agreement – considers a primary task to avoid parallel financing of projects with identical contents and targets, i.e. to avoid financing of the same expenditure twice, in order to protect the financial interests of the Community.

For the means of prevention, the SAPARD Operation Manual of the SAPARD Agency contains strict and detailed rules and regulations together with the definition of responsibilities connected with the procedure. Within this frame, in case of each and every application:

1. The Applicant declares in writing and under penalty of perjury both on the application sheet and its attached declaration where and when the submitted application received support, and where a parallel application was submitted with the intention of receiving support.
2. During the processing of the application it is the SAPARD Operation Manual that regulates if it is needed to be proven by a written documentation that the project in the application in question has received or receives assistance from an other fund. The Government Decree No. 217/1998 (XII. 30) *on the operational order of the state budget*, bindingly regulates the process of data supply prior to support and of the information procedure on the awarding of the support within the framework of the HSMS, i.e. the Hungarian Support Monitoring System operated by the HST. Since the issue is really significant, the Cooperation Agreement, in accordance with the relevant Government Decree, signed by the parties cooperating in the implementation of the SAPARD programme strengthens and obviously ensures mutual data supply. The HST, responsible for the operation of the Separate Department of Support Monitoring is an independent party to sign this Cooperation Agreement.
3. The Operation Manual of ARDA (former SAPARD Agency) aiming at the implementation of the SAPARD clearly regulates that if the project in the application has previously received support (e.g. from Phare), it shall be rejected. Both the certification and the decision are documented in writing besides meeting the requirements of the procedural controls prescribed in MAFA. The aim is that the same project shall not be supported twice. Provided that the declaration of the applicant and the registration of the Separate Department of Support Monitoring show differently, so ARDA launches the procedure for fraud.
4. The SAPARD Operation Manual clearly regulates that during the permission-granting of payments the invoices submitted by the beneficiary shall be marked by “ARDA” stamp so as to avoid further supports granted based on the same invoices. Prior to submission the beneficiary declares, under penalty of perjury, that the invoice submitted to ARDA has not been accounted for anywhere else.
5. ARDA besides and above the conciliation with the Separate Department of Support Monitoring conducts the conciliatory control of the granted support at a regional level. In case of possibly revealed double funding, ARDA takes immediate action in line with the procedure described under the heading of management of infringements in the Operation

Manual. Furthermore, the target is that, in accordance with the comparison in Article 1 of Annex C of MAFA and of Point 3 of Article 8 of MAFA and Points 6 and 7 of Article 5 of Annex A, taking the same expenditure twice into account should be prevented and avoided. The detailed procedure is described in detail in Chapters D/2, D/3 and D/6 of the SAPARD Operation Manual.

The independent Internal Audit Department of ARDA controls the practice of the previously described Manual, and in case it is required, elaborates preventive suggestions.

In 2004 in Hungary ARDOP was prepared for the application of rural development measures supported from the EAGGF Guidance Section, while NRDP was elaborated for the application of measures of the EAGGF Guarantee Section. During the compilation of these documents, the programmers – who mostly devised the SAPARD plan, too and participated in its Monitoring Committee, as well – considered SAPARD measures and the experience gained throughout the implementation of these measures. The programmers of ARDOP and of the other four OP's maintained in close consultative connection during planning, which made the harmonization of measures possible.

In order to avoid any overlapping, the contracts for ARDOP measures could only be concluded following the conclusion of SAPARD contracts.