

SAPARD REVIEW

in Bulgaria, Czech Republic, Estonia,
Hungary, Latvia, Poland and Romania

**IMPACT ANALYSIS OF THE AGRICULTURE
AND RURAL DEVELOPMENT**

APRIL 2005

COMPARATIVE STUDY ON THE SAPARD PROGRAMME - SEVEN POINTS OF VIEW
SAPARD REVIEW IN BULGARIA, CZECH REPUBLIC, ESTONIA, HUNGARY, LATVIA, POLAND AND ROMANIA
Impact analysis of the agriculture and rural development

**REPORT ON THE EFFECTIVENESS AND RELEVANCY OF INVESTMENT ACTIVITIES UNDER SAPARD IN BULGARIA
IN ITS ROLE AS A PRE-ACCESSION FINANCIAL ASSISTANCE INSTRUMENT**

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INTRODUCTION

The purpose of the project "Comparative Review of SAPARD Pre-Accession Assistance Impact on National Agriculture and Rural Development in 5 New EU Member States (Czech Republic, Poland, Estonia, Latvia, Hungary) and 2 future EU member states (Bulgaria, Romania)", financed by the Open Society Institute - Budapest, is to review the implementation of the Programme in seven Central and East European countries - the Czech Republic, Poland, Estonia, Latvia, Hungary, Romania and Bulgaria.

SAPARD Programme is a special pre-accession programme of the European Union in the field of agriculture and development of rural areas aiming at assisting the countries with a status of accession candidates to manage their problems related to the structural adjustment of their agricultural sectors and rural areas as well as the introduction of *acquis communautaire* in relation to the Common Agriculture Policy (CAP).

Since the accession countries, except Romania and Bulgaria, became in 2004 EU Member States, the European Institute concluded that the implementation of this project will provide the interested in this subject parties with the opportunity to view the chronological events - successful and problematic ones - at implementing the Programme in the separate countries as well as to benefit from the experience of the implementation of the pre-accession aid provided for the purpose of the active participation of the above countries into the

Common Agriculture Policy of the European Union.

The experts engaged in the implementation of this project prepared reports assessing the following aspects:

- Coherence of the aims of the SAPARD Programme with the aims of the National Strategies;
- The effective implementation (distribution of responsibilities, management and control), along with the effective functioning of the monitoring systems;
- The achievements of the Programme with a view of the results;
- The implementation of the common and specific assessment criteria and indices.

The structure of the national reports is identical and it is aiming to present:

- An overall comparative assessment of the institutional impact of the implementation of the SAPARD Programme and in particular - to present its contribution to the preparation of the corresponding country for the enforcement of the *acquis communautaire*;
- Analysis of the positive impact of the implementation of the SAPARD Programme with a view to the introduction of the *acquis communautaire* in the field of the Common Agriculture Policy of the European Union.;

- Analysis of the role that the SAPARD Programme played in the implementation of the partnership schemes and the consultative process, which includes the social and economic partners;
- A profile of the beneficiaries of the projects under of the SAPARD Programme, along with the measures that are to be taken in order to improve and diversify this profile;
- Analysis of how did the decentralized model for the management of the SAPARD Programme assisted the absorption of the EU resources for the development of the rural areas after first period of EU membership;
- Analysis of the good practices and the experience gained from the operations under the SAPARD Programme within the range of the priorities for the corresponding areas of the state;
- Analysis of how do the projects financed under the SAPARD Programme implemented EU sustainability and ecology requirements;
- Analysis of the transparency and the public participation in the decision making process of the cofinancing institutions such as the European Investment Bank;
- How could the skills developed and the experience gained be most efficiently implemented and how could special funds assisting the improvement of

the preparation of projects be established in order to benefit most from the EU aid streamed for the agriculture;

The published reports present the authors' opinion, regardless of the fact that they are drawing on official sources of information, and thus they do not tend to be exhaustive or seek the commitment of the European Commission.

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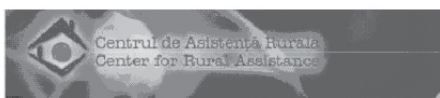
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BULGARIA



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LIST OF ABBREVIATIONS

AFA	Annual Financing Agreement
BTIC	Bulgarian Trade and Industry Chamber
CAP	Common Agricultural Policy
EAGGF	European Agriculture Guarantee and Guidance Fund
EC	European Commission
EIA	Environment Impact Assessment
EU	European Union
MAF	Ministry of Agriculture and Forestry
MAFA	Multi-Annual Financing Agreement
MC	Monitoring Committee
ME	Ministry of Economy
MEW	Ministry of Environment and Waters
MF	Ministry of Finance
MLSP	Ministry of Labor and Social Policy
MRDPW	Ministry of Regional Development and Public Works
NAAS	National Agricultural Advisory Service
NARDP	National agriculture and rural development plan
NEDP	National Economic Development Plan
NGO	Non-Governmental Organization
NPAA	National Program for the Adoption of the Acquis
NPPQAS	National Plant Protection, Quarantine and Agro-chemistry Service
NSI	National Statistics Institute
NVS	National Veterinary Service
RDID	Rural Development and Investment Directorate
SA	SAPARD Agency
SAPARD	Special Accession Program for Agriculture and Rural Development
SFA	State Fund "Agriculture"
SVSCS	State Veterinary and Sanitary Control Service

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INTRODUCTION

The report reviews in detail the key EU regulations on the pre-accession instruments SAPARD, ISPA and PHARE and compares the SAPARD Regulation with Regulation EC 1257/1999 on the rural development in the member-states for the period 2000-2006. The comparative review leads to the conclusion that SAPARD appears as the only pre-accession instrument that directly prepares the candidate-countries to manage programs under the Structural Funds of the EC.

The results of the implementation of SAPARD in Bulgaria were analyzed on the basis of the reports compiled for the regular meetings of the Bulgarian SAPARD Monitoring Committee, as well as on the basis of the mid-term evaluation of the Program and the annual SAPARD report of the European Commission.

With the adoption of Agenda 2000, the EU put forward a new strategy for its enlargement. The enlargement strategy was accompanied by the signing of Accession Partnerships with the candidate-countries and was financially backed up by the establishment of two new instruments - ISPA and SAPARD.

The SAPARD implementation will cover the period 2000-2006 and the annual financial envelope of the program allocated by the EC is 520 million euro for the ten countries in transition: Bulgaria, Hungary, Poland, Czech Republic, Slovakia, Slovenia, Estonia, Lithuania, Latvia and Romania.

The basic regulation on SAPARD is the Council Regulation (EC) 1268/1999 of June 21st, 1999 on the Community support to pre-accession measures for agriculture and rural development in the applicant countries of central and eastern Europe in the pre-

accession period [referred to as the SAPARD Regulation], as amended by Regulation (EC) 696/2003 of April 14th, 2004.

In pursuance of article 11 of the SAPARD Regulation, the European Commission allocates the annual financial envelope under the Program among the applicant countries and communicates its decision to each applicant country on its allocation for the seven-year program period. Article 7(3) of the same Regulation points out that the allocation among the applicant countries is made using objective criteria:

- Gross Domestic Product per capita in purchasing power;
- Farming population;
- Agricultural area;
- Specific territorial situation.

The indicative annual allocation of funds among the applicant countries under SAPARD was determined by the annex to Decision of EC 1999/595 of July 20th, 1999. The European Commission gave varying weights to the objective criteria listed in the SAPARD Regulation. Thus, 90% of the funds were allocated among countries using the two key criteria: agricultural area with weight of 65% and farming population with weight of 35%. The resultant country allocations were modified for each country depending on the variance of its GDP in purchasing power from the average GDP of the ten countries. The remaining 10% of the funds were allocated on the basis of the specific territorial situations.

The annual allocations are in fixed year 1999 prices and are given in the table below.

Annual allocation to the applicant countries participating under SAPARD	
Country	Allocation (in Euro)
Hungary	38 054 000
Latvia	21 848 000
Slovenia	6 337 000
Bulgaria	52 124 000
Czech Republic	22 063 000
Lithuania	29 829 000
Slovakia	18 289 000
Poland	168 683 000
Estonia	12 137 000
Romania	150 636 000

The indicative allocation of funds shows that Bulgaria was granted the third largest annual country allocation after Poland and Romania to the tune of 52 124 000 euro in 1999 prices. The concrete annual country allocation for each year of the 7-years program period is set in prices for the respective year and is subject to the signing of Annual financing agreements (AFA) between the EC and the candidate-country. To the annual EU allocation each applicant country adds co-financing from national funds in pursuance of the additionality principle. It is a major principle of the Structural Funds that EU assistance should not substitute national aid but complement the efforts of the respective country to assist certain sectors and/or regions.

The EU assistance plus the national co-financing form the public subsidy under the program.

The EU assistance under SAPARD investment measures reaches 75% of the total public subsidy.

- For investment projects, which generate revenue, the rate of the public subsidy reaches 50% of the total investment costs. 75% of the public

subsidies come from the EU assistance and 25% are national co-financing;

- For investment projects, which do not generate revenue, the rate of public subsidy reaches 100% of the total investment costs. 75% of the public subsidies come from the EU assistance and 25% are national co-financing.

In this respect Regulation 696/2003 introduced certain amendments - in case of natural disasters in the SAPARD applicant countries, the share of EU assistance in the public subsidy may reach 85%, if applied with projects/measures for affected regions. The same regulation modified the condition under the Technical Assistance measure, allowing the EU co-financing to reach 100% of the subsidy.

The main priorities of SAPARD, as pointed in the SAPARD Regulation, include assistance for the implementation of European legislation under the EU Common Agricultural Policy and related policies and for solving priority and specific problems in the sustainable transition of agriculture and rural areas in the applicant countries.

For this purpose, the SAPARD Regulation requires that each applicant country prepare National Agriculture and Rural Development Plan in accordance with the programming principle used in the member-states for their rural development programs. The applicant countries were allowed to include up to 15 different measures in their plans. The eligible measures were specified in the SAPARD Regulation. Most of these measures correspond to measures applied in the member-states in pursuance

of Council Regulation 1257/1999 of May 17th, 1999 on the support for rural development from the European Agriculture Guidance and Guarantee Fund (EAGGF), as amended by Council Regulation 1257/1999.

The table below lists the measures applied in the member-states that can also be implemented under SAPARD in the applicant countries.

Measures under Regulation 1257/1999, as amended by Regulation 1783/2003	Covered also under the SAPARD Regulation
Investment in agricultural holdings	Yes
Young farmers	No
Vocational training	Yes
Forestry activities	Yes
Marketing and processing of agricultural products	Yes (+ fish products)
Land improvement	partially
Re-parceling (land consolidation)	Yes
Farm relief/management services	Yes
Marketing of quality agricultural products	No
Agricultural water resources management	Yes
Development of agricultural infrastructure	Yes
Restoring agricultural production potential	Yes / with the latest amendments/
Basic services to rural economy	No
Renovation of villages	Yes
Diversification of agricultural activities	Yes
Tourism/crafts development	No
Financial engineering	No
Protection of the environment	No
Leader + type measures	No
Farm advisory and extension services	No
Early retirement	No
Less favored areas and areas with environmental restrictions	No
Agri-environment and animal welfare	partially - on pilot basis
Afforestation	No
Producer groups	Yes
Semi-subsistence farms undergoing restructuring	No

Food quality	Yes, partially
Compliance with Community standards	No
Technical assistance	Yes

Which, according to the EU regulations, are the main pre-conditions for the start of the SAPARD implementation in the applicant countries?

The two key pre-conditions were:

1. Preparation of a National Agriculture and Rural Development Plan for the period 2000-2006 based on the principles of the EU Structural Funds;
2. Conferral of financial management to the applicant country on a decentralized basis with ex-post controls by the EC. This follows the principle of financial management of the Guarantee section of EAGGF and entails the accreditation of a SAPARD implementing and paying agency.

As pointed out in the first SAPARD annual report of the Commission, the preparations for the start of SAPARD implementation aided the applicant countries to acquire practical experience in the procedures and principles of the Structural Funds and of the rural development policy in the member-states.

The fulfillment of the key pre-conditions introduced the principles of the Structural Funds in the following aspects:

1. The National Agriculture and Rural Development Plan was prepared by the competent authorities and submitted to the EC after compulsory consultations with the socio-economic partners at the national level. This introduced the partnership principle, which is a core principle in the Structural Funds management system;
2. The National Agriculture and Rural Development Plan had to be reviewed by the EC STAR Committee, established in compliance with Regulation 1260/1999 (laying the main conditions for the management of the Structural Funds) and consisting of member-state representatives. This enabled the applicant countries

to acquire experience in the functioning of the system;

3. The National Agriculture and Rural Development Plan is a multi-annual plan. This induced the applicant countries to acquire experience in the management of multi-annual programs: how to check operational progress, to analyze effectiveness, and when needed, how to amend and complement the program. To conduct these activities in an efficient manner, the authorities need an information/monitoring system, enabling the analysis of statistical data as well as the preparation of annual progress reports;

4. The obligatory establishment of a Monitoring Committee enhanced the process of regular consultation with the partners throughout the entire period of program implementation. At the same time, it allows its members to gain practical experience in the definition and analysis of data indicators to monitor progress;

5. The applicant countries had to conduct ex-ante and mid-term evaluations of the Program and their successful completion meant that they had gone far into their preparation to manage Structural Funds after the accession;

6. The conferral of management of SAPARD funds through the accreditation of a SAPARD Agency was an important step forward in the accession preparations because the country gained experience in the setting up of financial control systems compatible to those applied in the member-state paying agencies. The aim was to guarantee the implementation of clearly defined rules and responsibilities, transparency of operations and sound financial management of Community assistance. Therefore, the applicant countries acquired experience in the pre-accession period in the development of the systems, needed to manage the Structural Funds programs.

Bulgaria was the first country among the 10 applicant countries under SAPARD to meet the pre-conditions for the start of the Program implementation. The National Agriculture and Rural Development Plan for the period 2000-2006 was approved by the EC [following the positive review by the STAR Committee on September 12th, 2000] with a decision dated October 20th, 2000. The State Fund "Agriculture" was accredited as the SAPARD Agency on May 15th, 2001 after the EC took a decision to confer the management of the three main measures of the National Plan for Agriculture and Rural Development:

- ▣ Measure 1.1. "Investments in agricultural holdings";
- ▣ Measure 1.2. "Improving the processing and marketing of agricultural and fishery products"; and
- ▣ Measure 2.1. "Development and diversification of economic activities, providing for multiple activities and alternative income".

The official start of the SAPARD implementation in Bulgaria was set on June 1st, 2001 with the publication in the State Gazette of the Ordinances for the implementation of the above three measures.

With a decision of the EC dated August 14th, 2003 the SAPARD Agency was granted conferral of management for 7 other measures from the National Agriculture and Rural Development Plan:

- ▣ Sub-Measure 1.2.1 "Wholesale markets";
- ▣ Measure 1.4 "Forestry, afforestation of agricultural lands, investments in forestry holdings, processing and marketing of forestry products";
- ▣ Measure 1.5 "Setting up producer groups";
- ▣ Measure 2.2 "Renovation and development of villages, conservation of rural heritage and cultural traditions";
- ▣ Measure 2.3 "Development and improvement of rural infrastructure";
- ▣ Measure 3.1 "Improving vocational training";
- ▣ Measure 4.1 "Technical assistance".

The implementation start of the above measures was set with the publication in the State Gazette of the respective Ordinances. The preparations for conferral of management for the last two measures from the National Plan - measure 1.6 "Water resources management" and measure 3.1 "Development of environment-friendly agricultural practices" - are in their final stages.

Timeline of SAPARD in Bulgaria	
October 1998	MAF sets up a Task force to develop the National Agriculture and Rural Development Plan under SAPARD
22nd of November, 1999	The National Agriculture and Rural Development Plan is adopted by the Council of Ministers
28th of December, 1999	The National Agriculture and Rural Development Plan is presented to the EC
31st of March, 2000	The ex-ante evaluation of the National Agriculture and Rural Development Plan is completed
April, 2000	The National Agriculture and Rural Development Plan is submitted for approval to the EC
20th of October, 2000	The National Agriculture and Rural Development Plan is approved by the EC
18th of December, 2000	The Multi-Annual Financing Agreement is signed

12th of February, 2001	The Annual Financing Agreement for 2000 is signed
15th of May, 2001	The EC grants conferral of financial management to the SAPARD Agency for 3 measures of the National Plan
1st of June, 2001	Start of the SAPARD implementation in Bulgaria
19th of February, 2002	The Annual Financing Agreement for 2001 is signed
4th of April, 2003	The Annual Financing Agreement for 2002 is signed
23rd of July, 2003	The Annual Financing Agreement for 2003 is signed
23rd of August, 2003	The EC grants conferral of financial management to the SAPARD Agency for 6 other measures and 1 sub-measure of the National Plan

The main regulatory act on the implementation of SAPARD in Bulgaria is the Act on the ratification of the Multi-Annual Financing Agreement 2000-2006 between the European Community and the Republic of Bulgaria under the Special Accession Program for Agriculture and Rural Development (adopted by the National Assembly on February 9th, 2001 and published in the State Gazette on February 23rd, 2001).

The Multi-Annual Financing Agreement (MAFA) lays the main requirements for the management and control of the SAPARD funds throughout the program period. MAFA is grounded in three basic principles:

- ▣ Full decentralization of the management of funds through its conferral to a SAPARD Agency in each of the applicant countries;

- ▣ Signing of annual financing agreements, setting the respective annual allocations;

- ▣ Application of the clearance-of-accounts procedures of EAGGF-Guarantee section.

It must be emphasized that MAFA introduces certain payment procedures that are similar to those under the Structural Funds, as well as specific requirements for setting up a Monitoring Committee, for program evaluation and reporting of progress that are also compatible with those of the Structural Funds.

The key units/institutions, engaged in the management and monitoring of SAPARD in accordance to MAFA, are listed in the following table:

Regulatory and Administrative Framework		
Reference to MAFA	Required main management/monitoring institutions/tasks	Institutions, fulfilling the function in Bulgaria
<i>Article 2 & 5, annex A</i>	SAPARD Agency	State fund "Agriculture" (SFA)
<i>Article 5, annex B</i>	Managing Authority	Managing Board of SFA
<i>Article 7, annex B</i>	Monitoring Committee	The Committee is based on the partnership principle and set up by order of the Minister of agriculture. The Committee is assisted by a Secretariat - the Rural Development and Investment Directorate of MAF and permanent working groups under the various measures

<i>Article 6, annex B</i>	Monitoring Indicators	The SAPARD Agency collects data on the individual projects for the physical indicators;The Monitoring Committee Secretariat aggregates the data and presents them to the Committee and the permanent working groups
<i>Article 8, annex B</i>	Annual and Final implementation reports	The Monitoring Committee Secretariat prepares Annual and Final implementation reports, which are reviewed and adopted by the Monitoring Committee and the EC
<i>Articles 10/11, annex B</i>	Mid-term and ex-post evaluations	Independent expert evaluators contracted through a competitive tender. The Monitoring Committee and the EC review the evaluations. The corrective recommendations by the evaluators must be reflected into the program management.

STRUCTURAL ANALYSIS OF THE EFFECTIVENESS AND RELEVANCY OF SAPARD IN BULGARIA

Strategy for agriculture and rural development of Bulgaria in the period 2000-2006 under the SAPARD, priority areas, measures and eligible beneficiaries

The overall objective of the National Agriculture and Rural Development Plan is the achievement of the objectives of the Accession partnership and the National program for adoption of the *acquis communautaire*.

Thus, in pursuance of the:

- 1) Accession partnership objectives;
- 2) Economic priorities laid down by the National Program for adoption of the *acquis communautaire*;
- 3) Regulation 1268/1999, article 1(2) "Community support shall comply with the conditions laid down in the framework of accession partnerships and shall relate in particular to:
 - a) contributing to the implementation of the *acquis communautaire* concerning the common agricultural policy and related policies;
 - b) solving priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the applicant countries."

4) The socio-economic conditions in the rural areas of Bulgaria, their strengths and potential.

The following strategic objectives of the Bulgarian National Agriculture and Rural Development plan 2000-2006 were defined:

1. Development of efficient and sustainable agricultural production and competitive food processing sector through improved market and technological infrastructure and strategic investment policies, ultimately aimed at reaching the EU standards;
2. Sustainable rural development, consistent with the best environmental practices, by providing alternative employment opportunities, economic diversification, development and rehabilitation of infrastructure. This will lead to improved standards of living and will increase income and employment opportunities for rural communities.

Both objectives aim at improving the rural economic and social conditions. They are also directly aimed at improving the farming structures and their market efficiency with a view to implementing the Community *acquis* while creating employment opportunities and raising living standards in the rural areas.

The objectives follow the priorities specified in article 4.3 of Regulation 1268/1999, namely: "In their plans, applicant countries shall ensure that priority is given to measures to improve market efficiency, quality and health standards and measures to create new employment in rural areas, in compliance

with the provisions on the protection of the environment”.

The first strategic objective of the National Agriculture and Rural Development Plan is focused on the development of efficient and sustainable agricultural production and competitive food processing sector that is compliant with the EU standards.

The analysis of the strengths and weaknesses of the Bulgarian agricultural production sector and rural areas pointed out a number of internal and external structural problems faced in the transition of the country towards market-oriented economy. These can be summarized as follows:

- ▣ Fragmentation of the farming structures, leading to a huge number of semi-subsistence farms;
- ▣ Deteriorating condition of agricultural machinery and equipment in the farms, leading to substantial losses, low productivity and low production quality;
- ▣ Aging rural population, lacking skills and knowledge of modern farming management and production methods;
- ▣ Inadequate skills and capacity of primary producers to influence farm gate prices, resulting from the under-developed market infrastructure, inadequate transparency of market information, lack of tradition in market cooperation and inadequate contracting opportunities - lack of long-term contracts between producers and processing entities, leading to price instability, insecure income and lack of stimuli for investments in specific production activities (such as creation of vineyards and orchards);
- ▣ Lack of integrated and multi-sector approach;
- ▣ Lack of internal coordination and effectiveness;
- ▣ Lack of sustainability and environment protection;

- ▣ Lack of partnership.

The strategy for the implementation of measures under objective 1 of the National Agriculture and Rural Development Plan is based on improving the efficiency and competitiveness of primary agricultural production and of the food industry.

Sector scope of the strategy: the priority sectors were selected following analyses at expert level and public discussions with the professional associations. The core criteria for the selection of priority sectors was the difficulty faced in the restructuring, their comparative advantages [evident in their good present or past export potential].

Special investment support had to be provided to milk producers in order to improve the quality and marketing of milk. Efforts had to be focused on the improvement of livestock housing conditions, on the hygiene of milking and milk storage, as well as on modern milk collection points and transport.

Another priority was related to the investment support for perennials - apple, peach, cherry, berries and rehabilitation of vineyards. The needed investments in the latter are tremendous. The sector analysis showed a deteriorating age structure of vines and a drastic drop in areas planted with Bulgarian vine varieties. This means that substantial financial support has to be provided to rehabilitate this traditionally competitive sector of Bulgarian agriculture.

During the development of the strategy special attention was devoted to the potential impact of the measures under objective 1 on employment in the rural areas.

According to the ex-ante evaluation of the National Agriculture and Rural Development Plan, it was likely that the proposed combination of measures and interventions would have a positive impact on rural income and on work conditions.

The increase in income and the improvement of work conditions would in turn affect the maintenance of rural employment and might slow down the migration of young people from rural areas.

The second objective of the National Agriculture and Rural Development Plan was focused on the achievement of sustainable development of rural areas in line with the best environmental practices, through provision of alternative employment, diversification of economic activities and rehabilitation of rural infrastructure.

The rural areas have great resources that should spur development. In the past most basic services for the population were available in the rural areas. However, at present the services sector in these areas could not offer good quality and opportunities and could not stem the outflow of people to larger towns.

The compact villages populated with closely knit communities with strong traditions and identity, along with the well-developed [in the past] social infrastructure, need renovation and extension of facilities. The problems with the poorly maintained

and at times inexistent road network, sewerage and sanitation have to be solved. In certain areas rural communities are also faced with problems in telecommunications and electricity supply. The overcoming of these problems could make these areas more attractive in terms of fostering economic development.

Irrespective of the fact that there is an extensive road network, its poor maintenance in the past couple of decades poses enormous obstacles to economic development of remote rural settlements - many of these settlements remain isolated from the regional centers. This makes them unattractive for the business and for the younger generations.

■ The principle of sustainable rural development largely combines many of the other principles of development policy, such as: rational use of natural resources, conservation of rural environment, rational and effective manage-

The achievement of the two strategic objectives had to come through 4 priority areas with 11 measures.	
Priority area 1 - Improvement of the production, processing and marketing of agricultural and forestry products, as well as the processing and marketing of fishery products in compliance with the EU acquis, promotion of environment-friendly farming and environment protection	
Priority area 2 - Integrated rural development aimed at protecting and strengthening rural economies and communities	
Priority area 3 - Investment in human resources	
Priority area 4 - Technical assistance	
Measure	Eligible beneficiaries
Priority 1	
M.1.1 Investment in Agricultural Holdings	Physical persons (not older than 55 years) or legal entities having not more than 25% state or municipal share registered as agricultural producers;
M.1.2 Improving the Processing and Marketing of Agricultural and Fishery Products	Physical persons or legal entities with no more than 25% state share registered under the Commercial Code.
Sub Measure 1.2.1 Wholesale Markets	Legal entities registered in accordance with the relevant national legislation, which have no more than 25% of state share.
M.1.3 Development of environment -friendly agricultural practices and activities	Farmers, physical or legal entities (including municipalities and non-governmental organizations) that own, lease or rent land for at least 5 years in the selected pilot areas, and are willing and capable of adopting the "basic" whole farm agri-environment package.

M.1.4 Forestry, afforestation of agricultural areas, investment in forest holdings, processing and marketing of forestry products	<ul style="list-style-type: none"> - Physical or legal persons, municipalities who are forest or forest land owners, as well as owners and renters (by a contract valid for at least 10 years) of marginal agricultural land with area not less than 1 ha; - Trade companies with less than 25% state shares and sole proprietors, registered in the Public register under the Forestry act, as well as co-operatives with main business in the field of forestry and wood harvesting; - Forest-owner organizations (with cumulative area, owned by the organization members, of more than 5 ha), established with the purpose of joint management of members' forests.
M.1.5 Setting up Producer Groups	Producer groups that have a membership of no less than 30 members, and minimum annual marketed production of 150 000 EURO by all the members in total, generated from the product, for which the group seeks official recognition, and that have a certain minimum of overall commercialised production.
M.1.6 Water Resources Management	<ul style="list-style-type: none"> - Irrigation associations, registered in accordance with the Irrigation Association Act - under sub-Measures 1 and 2; - Municipalities - under sub-Measure 3 ; - Ministry of Agriculture and Forestry - under sub-measures 3 and 4.
Priority 2	
M.2.1 Development and diversification of economic activities, providing for multiple activities and alternative income	Physical persons or legal entities residents, or with headquarters in the relevant municipality, and registered as agricultural producers
M.2.2 Renovation and development of villages; protection and conservation of rural heritage and cultural traditions	Municipalities from the rural areas of the country.
M.2.3 Development and improvement of rural infrastructure	Municipalities from the rural areas of the country.
Priority 3	
M.3.1 Improvement in Vocational Training	<ul style="list-style-type: none"> - Registered agricultural producers ; - Registered tobacco producers; - Forest holders or forest users, registered under the conditions defined by the National Forestry Department; - People employed by registered agricultural producers or forestry enterprises
Priority 4	
M.4.1 Technical Assistance	Ministry of Agriculture and Forestry.

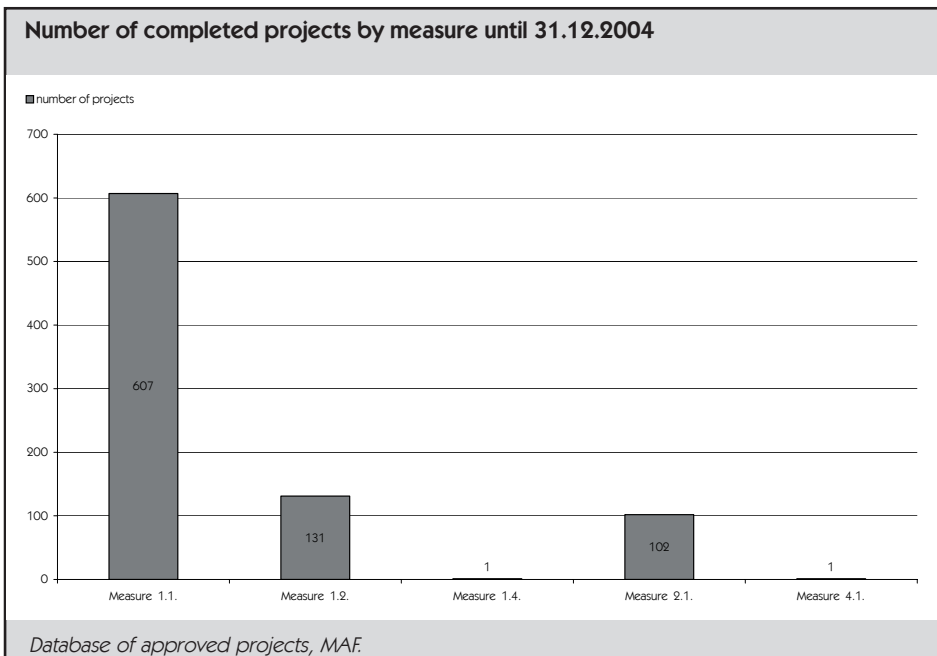
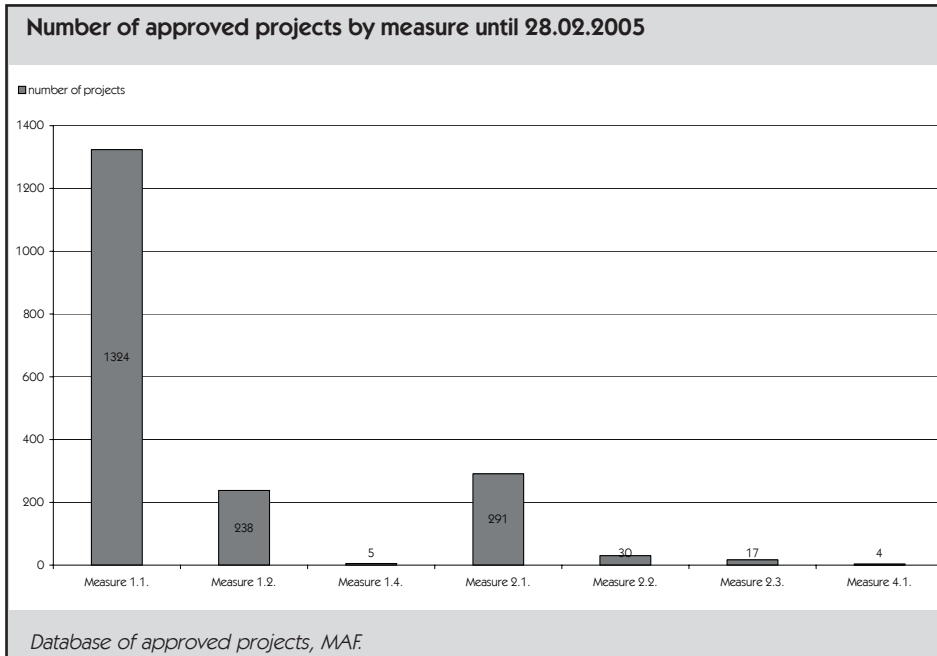
ment of forests, eliminating pollution sources, etc.

Program implementation results by measure

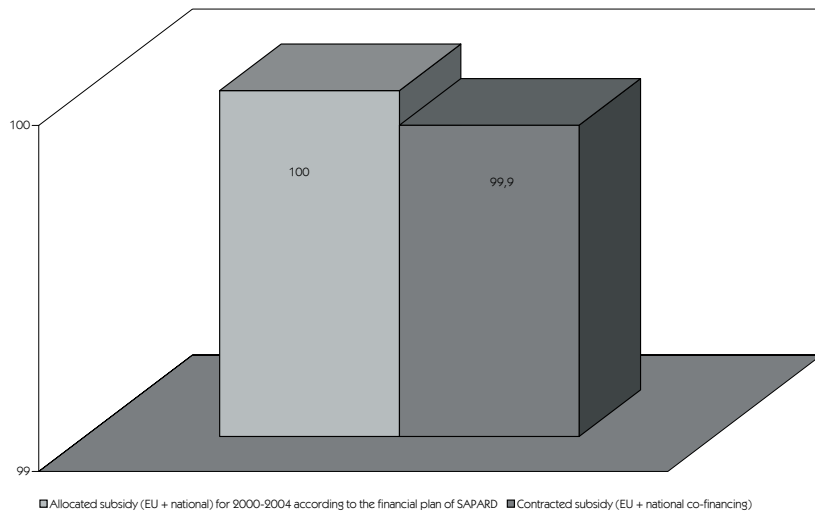
By February 2005 there were 1 909 projects approved under the Program measures with a cumulative value of 768 878 208 Euro. Most of the approved projects were under measure 1.1 "Investments in agricultural holdings" - 1 324 projects, followed by measure 2.1 "Development and diversifi-

cation of economic activities" with 291 projects and measure 1.2 "Improving the processing and marketing of agricultural and fishery products" with 238 projects.

It is evident from the graphs below showing the number of approved projects, contracted funds and reimbursed projects that the up-take of SAPARD funds has been going quite well. If at the beginning of the Program implementation the main problem was insufficient number of applicants, then two years ahead of the Program end the main problem

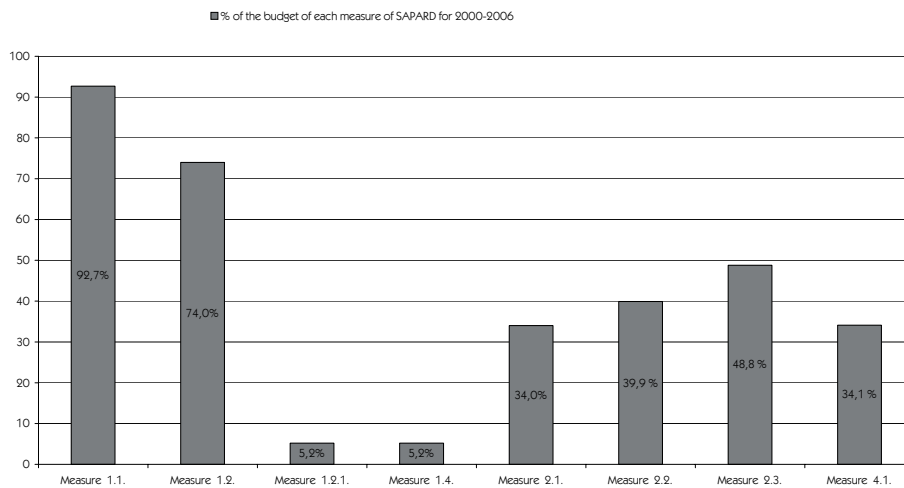


Contracting of assistance under SAPARD (EU + national co-financing) until 28.02.2005 according to the financial plan for 2000-2004 (in %)

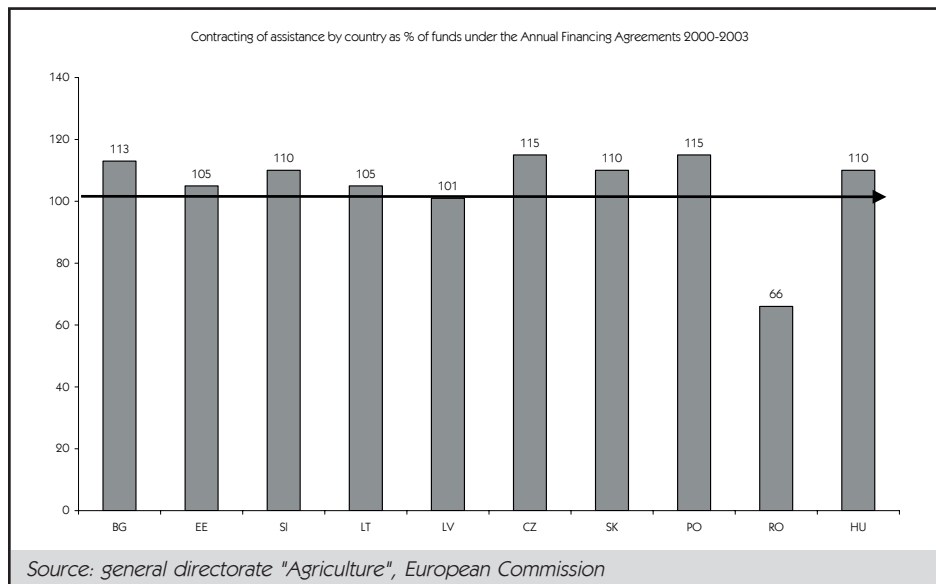


Source: Database of approved projects, MAF

Contracting of SAPARD budget 2000 - 2006 by measure until 28.02.2005 for approved projects



Source: Database of approved projects, MAF



appears to be the almost completely absorbed funding under the main measures. The last graph presents a comparison between the applicant countries and indicates that Bulgaria has been among the most successful countries under the Program.

Measure 1.1 "Investments in agricultural holdings"

Currently there are 1 324 projects approved under the measure with cumulative value of 322 796 392 Euro. Of these, two-thirds are projects of large agri-companies, while the rest are mostly of agricultural cooperatives. Most of the approved projects involve purchase of machinery and equipment and reconstruction of farm premises. 65% of the approved projects [some 760 projects] involve purchase of tractors, combine-harvesters and their implements. The achieved practical results differ from the initially planned progress indicators. The greatest divergence exists in the milk production sector, where project applications are very few - hardly 28 approved projects. The situation is much better in the "perennials" sectors - 343 approved projects and "cereals, oil seeds, vegetables, flowers" with 852 approved projects. The number of projects from the livestock breeding sub-sectors is below the expectations with just 117 approved projects. These sub-sectors are faced with heavy requirements for the

introduction of the EU standards. There are almost no approved projects from dairy farms. The smaller farmers have not been reached under SAPARD at all.

These latter results prompted special analysis of the causes for the insufficient number of project from the milk production sector. Following the recommendations made in the analysis and the effort of the permanent working group on the measure, the Monitoring Committee decided to earmark a special budget solely for projects in the milk production sector.

The investments assisted by the measure have had a positive effect on the competitiveness of beneficiaries, leading to lower production costs, lower losses during harvesting and higher yields. The investments should also affect the management of waste products and water, and of manure, resulting in increased efforts and awareness in terms of environment protection in rural areas. With regard to the uneven interest in applying under the measure sectors, the Monitoring Committee held discussions at its 7th meeting in an attempt to boost applications by farmers intending to reach compliance with the hygiene and veterinary conditions. In order to focus the effort on this issue, the Committee decided that submission of applications for ag-

Measure "Investments in agricultural holdings" - approved projects until 28.02.2005 and reimbursed projects until 31.12.2004 by sector in Euro					
Sector	approved projects	approved investment costs	approved subsidy	completed projects	reimbursed subsidy
sector 01 - milk and milk production	28	10 973 681	5 331 046	5	470 230
sector 02 - meat and meat production	89	60 812 177	27 917 490	26	5 925 024
sector 03 - perennials - orchards, vineyards, berries	343	79 357 005	34 953 520	103	5 540 409
sector 04 - vegetables, flowers, essential oil crops, perennial medicinal plants, cereals and oil seeds, tobacco, cotton	852	204 416 989	96 982 565	473	44 768 062
sector 05 - eggs and egg products	12	9 387 051	4 540 794	0	-
Total	1 324	364 946 902	169 725 416	607	56 703 724
<i>Source: Database on approved projects, MAF</i>					

gricultural machinery would be suspended as of July 1st, 2004.

Additional information on the progress in the measure implementation is given in the table below.

Measure 1.2 "Improving the processing and marketing of agricultural and fishery products"

The measure supports investments in one sub-measure "whole sale markets" and in five sectors: wine production, processing of fruit and vegetables, processing of milk and milk products, meat processing and production of meat products, processing of fish and production of fish products. Currently there are 238 approved projects under the measure with cumulative investment value of 295 270 106 Euro. The leading sectors in terms of approved projects are: "meat processing" with 91 approved projects, "processing of fruit and vegetables" with

62 projects and "wine production" with 39 projects. Thus, a pretty high percentage of the companies active in these sectors have approved projects under SAPARD.

According to the findings of the mid-term evaluation, the supported investments have had significant impact on the competitiveness of companies - 63% of beneficiaries have improved the quality of their products/production operations (in terms of hygiene, introduction of ISO 9000 or the system for control of critical points HACCP, introduction of European quality labels). More than one-third of the beneficiaries have lowered their production costs, while 31% of them expect to increase their exports. All companies interviewed by the evaluators complied with the normative requirements for environment protection, work hygiene and safety. In response to the rapid absorption of the budget under the measure, amendments were introduced in the National Agriculture and Rural Development Plan in

Measure "Improving the processing and marketing of agricultural and fishery products" - approved projects until 28.02.2005 and reimbursed projects until 31.12.2004 by sectors in Euro

Sector	approved projects	approved investment costs	approved subsidy	completed projects	reimbursed subsidy
01 - Wine	39	56 453 990	26 888 666	24	12 336 451
02 - Fruit and vegetable	62	80 357 955	37 932 961	32	13 273 907
03 - Milk and milk products	31	41 525 827	19 567 515	12	4 280 637
04 - Meat and meat products	91	96 599 699	46 894 990	53	21 184 838
05 - Fish and fish products	14	16 854 205	8 008 815	10	4 983 152
Whole sale markets	1	2 598 280	1 296 675	24	-
Total	238	294 389 956	140 589 623	131	56 703 724

Source: Database of approved projects, MAF

order to modify the project selection criteria under the measure and give priority to investments in the milk and meat processing sectors, which face the strictest hardest European standards.

Additional information on the progress in the measure implementation is presented in the table below.

Measure 2.1 "Development and diversification of economic activities, providing for multiple activities and alternative income"

Currently there are 291 approved projects under the measure with cumulative value of 60 010 331 Euro. The projects are located in 54 different municipalities throughout Bulgaria. Almost half of the projects are located in mountainous areas. The mid-term evaluation pointed at the fact that approved projects are concentrated in a couple of the measure sectors: "rural tourism" with 102 approved projects, "wood processing, carpentry and bio-fuels" with 72 projects, and lately [following a sharp increase in applications] "bee-keeping" with 78 projects. As was noted in the mid-term evaluation, the increase in the maximum eligible project costs from 200 000

to 500 000 Euro has led to the approval of applicants from traditional tourist destinations which, although located in rural area, have well developed tourist sector. As a result of the mid-term evaluation recommendations and in order to adhere to the measure objectives, the Monitoring Committee at its 7th meeting [and on the basis of in-depth analysis, discussions and consultations] decided that developed tourist destinations, even located in rural municipalities, would be excluded from the support under the rural tourism sector of the measure. At the same time the Committee decided that the maximum eligible project costs would be decreased to 250 000 Euro.

Additional information on the measure implementation progress is presented in the table below.

The progress, achieved in the implementation of the measures accredited in 2003, can be summarized as follows:

Measure 2.1 "Development and diversification of economic activities, providing for multiple activities and alternative income" - approved projects until 28.02.2005 and reimbursed projects until 31.12.2004 by sectors in Euro

Sector	approved projects	approved investment costs	approved subsidy	completed projects	reimbursed subsidy
Rural tourism	102	25 289 723	11 491 017	34	2 212 072
Local artisanship and agro-industry	7	2 346 113	1 060 404	2	144 727
Wood processing, carpentry and bio-fuels	72	19 705 064	8 833 466	31	2 910 569
Silk-worm breeding	0	-	-	0	-
Bee-keeping	78	5 308 391	2 050 885	21	272 882
Horse breeding	2	998 068	492 116	1	227 856
Aquaculture	11	2 067 440	960 731	3	198 429
Mushroom production	5	873 533	432 211	4	298 993
Processing of essential oil crops, herbs and mushrooms	14	3 243 120	1 554 137	7	448 524
Total	291	59 831 452	26 874 966	103	67 140 540

Source: Database on approved projects, MAF

The interest among rural municipalities towards applications under measure 2.2 "Renovation and development of villages" and measure 2.3 "Development and improvement of rural infrastructure" has been strong. Hitherto, there are 47 approved projects of rural municipalities under the two measures at a cumulative value of 100 million leva. This means that the entire budget of the two measures [for the whole seven-year program period] has been contracted. The approved municipalities, however, faced serious difficulties in the organization of the tender procedures to select contractors for the construction works. At its 8th meeting the Monitoring Committee discussed this issue and decided that MAF, the SAPARD Agency and the National Association of Municipalities in the Republic of Bulgaria should analyze the causes for the delays in tenders and offer action to remedy the situation. It was noted that municipal administrations

have to be trained to apply the tender procedures of the EC.

The number of applications under measure 1.4 "Forestry, afforestation of agricultural lands, investment in forestry holdings, processing and marketing of forestry products" is too small, with only 5 approved projects at present. Therefore the Monitoring Committee at its 8th meeting decided to transfer a sizeable part of the measure budget to other measures with almost fully contracted budgets.

The most problematic measure is "Vocational training", which is very important for the preparation of farmers in the pre-accession period. So far, there has been no tender completed and no contract signed with a training institution under the measure. The main difficulties include the cumbersome pro-

cedures for approval of would-be trainees, which precede the tenders for training institutions. At its last meeting the Monitoring Committee reviewed this issue and decided to introduce changes in the procedures. The same situation exists with the measure "Setting up producer groups".

Amendments to NARDP

Since the start of the Program implementation the accredited measures underwent modifications 3 times. Each package of modifications was approved by the Monitoring Committee and ultimately by the European Commission. The first package of modifications was introduced in May 2002, the second in May 2003 and the third and most significant in July 2004. The third package reflected the conclusions and recommendations of the mid-term evaluation. The packages in 2002 and 2003 included the following key modifications:

- ▣ Changes in the text of the measures in line with the Multi-Annual Financing Agreement and the harmonized Bulgarian legislation on environment protection;
- ▣ Inclusion of new activities/sectors (rabbit breeding under sector meat and sector egg and egg products under measure 1.1 and rabbit meat processing under measure 1.2);
- ▣ Increase in the maximum eligible project costs;
- ▣ Inclusion of new type of investments in sector milk and milk products under measure 1.2 and in sector bee keeping under measure 2.1;
- ▣ Changes in the geographic coverage of measure 2.1.

The most significant modifications of the National Agriculture and Rural Development Plan were made as a result of the report of the independent experts who conducted the mid-term evaluation of SAPARD in Bulgaria - the modifications were reviewed at the 6th and 7th meeting of the Monitoring Committee, then by the EC STAR Committee on July 20th,

2004 and finally adopted by the EC with a decision dated December 23rd, 2004.

The main modifications to the measures concerned:

- ▣ **Modification of the project selection criteria**, giving priority to the adaptation of farms and processing plants to the EU standards;
- ▣ **Limitation of the business plan preparation costs**, in accordance with the market conditions in Bulgaria, releasing more funds for investments;
- ▣ **Introduction of monitoring indicators** with respect to the impact of projects on the environment;
- ▣ **Re-allocation of EU co-financing among the measures;**

The re-allocation was made as a consequence of the accession to the EU of some applicant countries participating under SAPARD [on May 1st, 2004 eight of the ten SAPARD applicant countries joined the Union and presently only Bulgaria and Romania implement SAPARD]. With a Council Decision dated July 19th, 2004 in pursuance of the road maps for Bulgaria and Romania, adopted in Copenhagen, Bulgaria was notified that the allocation of top-up EU funds between Romania and Bulgaria would be 70:30 [this follows the road map ratio of 70:30 for the three pre-accession instrument ISPA, PHARE, SAPARD]. In the road map for Bulgaria it was also specified that in the years 2004, 2005 and 2006 the combined assistance to the country under the three instruments would be increased by 20%, 30% and 40%, respectively. The re-allocation of the increase among the programs for Bulgaria was done with a national decision. The provided top-up funds for SAPARD necessitated the modification of the financial tables of the National Plan for Agriculture and Rural Development and allocation of additional funds to priority areas and measures.

- ▣ Narrowing of the geographic coverage of assistance under measure 2.1 for the rural tourism sector.

Overall effectiveness and impact of SAPARD

Contribution of the Program to the adaptation of agriculture to the EU standards

According to data of the mid-term evaluation and to the views of NGOs, 66% of the beneficiary farmers follow the requirements on environmental protection and their interest towards organic farming has increased in the past three years. About 100 small farmers [none of whom has yet applied under SAPARD] are already using organic farming. At its 7th meeting the Monitoring Committee adopted a Code for the minimum environment protection, hygiene, animal welfare, veterinary and sanitary requirements. The Code became part of the assistance contract under the Program. In this way, all the beneficiaries will be obliged to adhere to these requirements and may be checked accordingly within five years after the completion of the project.

Among the processing companies the share of those complying with the EU environment protection standards is quite high. In response to the harmonized legislation almost all companies have plans for waste management, permit for discharge of effluents, permit for water use, monitoring plan and emergency plan. Almost all medium and large companies have local treatment facilities. Most of them also use gas instead of diesel. In 2003 the Ministry of Environment and Waters adopted Ordinance 62 of 13.03.03 introducing integrated permits for the companies/farms subject to obligatory environment impact assessment under the Act on Environment Protection. The issuance of these permits will mean that their holders are fully compliant with the EU environment protection standards.

According to official information from the State Veterinary and Sanitary Control Service about 85% of the foodstuffs produced in Bulgaria comply with the food quality and safety standards, although sometimes they are not produced by plants complying with the hygiene requirements of the EU.

Data of the State Veterinary and Sanitary Control Service shows that all slaughterhouses have created operating conditions compliant with the EU standards. In addition, livestock is being marked, subjected to veterinary controls and the necessary immunizations. Premises of larger farms are undergoing rehabilitation to improve livestock housing conditions. To secure the improvement of work conditions in accordance with the EU requirements, MAF developed Guidelines for healthy and safe work conditions in the entities operating in the Agriculture sector.

In the published White Paper, listing the companies with good work safety practices, there are 602 entries. Of these, 6 companies were supported under SAPARD.

Contribution of the Program for building and improving the administrative capacity needed to implement the CAP-Rural development

The building and improvement of the administrative capacity needed to implement CAP and related EU policies were an overall objective of SAPARD. It has the following aspects:

- ▣ Harmonization of legislation;
- ▣ Training of the administrative personnel in the EU standards and procedures;
- ▣ Building or improving capacity of institutions/agencies responsible for the management of agriculture and rural development policies;
- ▣ Improving transparency, shortening delays of project application processing and ensuring the appropriate selection procedures for beneficiaries, including the national schemes;
- ▣ Introduction of [the concept] of partnership and the establishment of consultative process with the economic and social partners in all aspects of management of national and regional development policies.

The EU PHARE program in Bulgaria in its early stages of assistance to the agricultural sector focused

on the ensuranceof food safety and later on support for the privatization and restructuring of the sector. Then in 1997 the program started to provide assistance to the alignment of the Bulgarian legislation with that of the EU, strengthening of the administrative capacity and institutional development. After 1998 the program enhanced its focus on the strengthening of the national and regional capacity of MAF and its agencies to harmonize and implement the EU legislation. In 1998 under PHARE Bulgaria could benefit from a Special Preparatory Program for the management of the EU Structural Funds. A substantial part of that SPP was devoted to the preparation of the country to manage SAPARD. This support consisted in:

- Twinning for the preparation of the National Agriculture and Rural Development Plan and for the establishment of a SAPARD Agency, conducted together with the Ministry of Agriculture of Greece;
- Pilot project for the region of Dobrich to assist cow milk producers, aimed at testing the SAPARD procedures;
- Technical assistance for the preparation of sectoral analyses for the formulation of SAPARD intervention strategy.

The successful start of SAPARD in Bulgaria was proof of the effectiveness of the PHARE support for the building of administrative capacity of MAF and the SAPARD Agency.

The institutional development was also supported under other bilateral and international donor programs.

Building or improving capacity of institutions/agencies responsible for the management of agriculture and rural development policies

As is pointed out in the mid-term evaluation of SAPARD in Bulgaria, the capacity of the Rural Development and Investment Directorate and the SAPARD Agency [the two organizations responsible for the program management] was quite satisfactory.

The mid-term evaluation report underlined that during the face-to-face interviews with experts from the SAPARD Agency [from its implementing and payment departments at both central and regional level] the evaluators registered a high degree of competency and knowledge of the EU rules, procedure and standards. The administrative capacity was developed through technical assistance, exchange of experience, training and accumulation of practical experience.

With regard to the SAPARD Agency the majority of the staff has been selected among young and motivated candidates, who have then undergone intensive and continual training, including under PHARE projects. Since the start of Program implementation the agency organized monthly, and later bi-monthly, training courses and seminars for its personnel, including from regional and district units.

The agency staff also takes part in a continuous learning program. It includes periodic short-term training, covering modifications in measure Ordinances, procedural issues and case studies.

The position of Bulgaria under chapter 7 "Agriculture" noted that due to the capacity built during the implementation and payments of SAPARD, the agency should be the Paying agency for the funds under the CAP post-accession, including those for rural development.

The Rural Development and Investment Directorate (RDID) of MAF was established at the end of 1998 on the basis of a special task force for the preparation of the National Agriculture and Rural Development Plan under SAPARD. Presently, the directorate is responsible for the programming, monitoring, control and evaluation of SAPARD. The directorate participates in the development of the National Economic Development Plan and in the internal coordination of operational programs under that plan. RDID has a staff of 26 experts, working for three departments: "SAPARD Program", "Investment in rural areas" and "Agri-environment".

With regard to SAPARD department staff, most the experts in it worked for the SAPARD task force, which was established through transfer of experts

from the PHARE management unit of MAF. The other RDID experts were hired through competitive procedures and include economists, engineers and other specialists with high proficiency in the official EC languages.

The RDID staff participated in a series of TAIEX training seminars, held in the member-states, obtained technical assistance under PHARE projects [including the above-cited twinning project with the Greek Ministry of Agriculture]. Technical assistance for institutional development was also provided to RDID under other bilateral and international donor programs. The SAPARD department of RDID also carries out the functions of Secretariat to the Monitoring Committee. The Secretariat supports the work of the Monitoring Committee by preparing all expert materials needed for the monitoring and implementation of the Program. The Secretariat is also responsible for all technicalities related to the organization of Committee meetings. The efforts of the Secretariat were assessed as excellent by the mid-term evaluators in terms of timeliness and of quality of the expert materials prepared, as well as in terms of organizational capabilities.

In accordance with chapter 21 "Regional policy and coordination of Structural funds", RDID is designated as the Managing Authority of the Operational Program for Agriculture and Rural Development.

The National Agricultural Advisory Service (NAAS) was set up in 1999 in order to enhance the provision of extension and consultancy to rural areas. After the approval of the National Agriculture and Rural Development Plan NAAS was entrusted with the responsibility to assist the farmers in the preparation of SAPARD application documents. For that purpose the experts of NAAS underwent specialized training, focused on the procedures for preparation of applications, especially of business plans. NAAS has a laboratory of 149 experts in its HQs, analytical laboratory and regional units.

At the local level MAF has over 260 municipal units. The units were set up in 2002 and their staff underwent training but has not yet been entrusted with specific competencies under SAPARD and the EU programs. The role of these units, having in mind their direct contact with farmers, could be en-

hanced under SAPARD, especially with regard to on-the-spot checks and publicity.

Development of partnership and establishment of consultation process with the social and economic partners throughout the program cycle under SAPARD

The SAPARD program was the only pre-accession instrument, which enabled Bulgaria to implement the full scope of partnership within a program cycle similar to those under the Structural Funds. Under SAPARD the authorities relied on the existing regulatory framework to determine the relevant socio-economic partners, as well as attract other less formal partners that have cooperated with MAF during previous programs [this applies mostly with the professional associations from the agriculture and rural development sector]. Active representatives of NGOs were also involved as the program went ahead to enrich the initial scope of partners.

In accordance with MAFA, the SAPARD Monitoring Committee was set up in Bulgaria to supervise program implementation in coordination with the Managing authority, the SAPARD Agency and the socio-economic partners. The Committee had to be established three months after the approval of the National Agriculture and Rural Development Plan. The representatives of the European Commission participate in the work of the Committee as members with advisory capacity. The Committee adopts its own rules of procedure. The Committee at its first meeting adopts these rules. The chairperson of the Committee is appointed by the Bulgarian side.

The SAPARD Monitoring Committee was set up by order of the Minister of agriculture and forestry dated January 10th, 2001. The Committee consists of 28 people, divided into 3 groups - members with voting rights, representatives of the EC and members with advisory capacity.

The members with voting rights are officials representing MAF, the SAPARD Agency, Ministry of Finance and other ministries, local authorities [National Association of Municipalities in the Republic of Bulgaria], farmer associations, environment protection NGOs, official socio-economic partners (the trade unions KNSB and Podkrepa, the Bulgarian

Trade and Industry Chamber and the Bulgarian Industrial Chamber).

The representatives of the EC participate in the work of the Committee in advisory capacity and represent the official position of the European Commission.

The members with advisory capacity include representatives of financial institutions (World Bank, European Bank for Reconstruction and Development, Association of Commercial Banks in Bulgaria).

The chairperson of the Monitoring Committee is a Deputy Minister of Agriculture and Forestry, who represents also the Managing Authority and the Agriculture sub-committee under PHARE, as well as the Joint Monitoring Committee on the implementation of PHARE, ISPA and SAPARD.

The work of the Committee is guided by Rules of Procedure (prepared in compliance with the MAFA and EC Regulation 1260/1999), which specify that the Committee should monitor the effectiveness and quality of the Program implementation with a view to achieving its objectives.

In pursuance of the order setting up the Committee its efforts are assisted by Secretariat - Rural Development and Investment Directorate [SAPARD Dept.]. The tasks and functions of the Secretariat are described in the Rules of Procedure.

As set out in Regulation 1260/1999, the Committee meets at least twice each year. By December 2004 the Bulgarian SAPARD Monitoring Committee has held 8 meetings, which were instrumental in the preparation of three major modification packages of the National Agriculture and Rural Development Plan and in the adoption of various other measures aimed at streamlining and accelerating the absorption of the Program funds.

The Committee established as its auxiliary units permanent working groups covering all accredited measures. The working groups include members with voting rights - representing professional associations and government agencies - and observers, representing the units, responsible for the im-

plementation and monitoring of the Program. The working groups identify the problems with the implementation of the Program and devise solutions for them. The proposed solutions are then reviewed by the Committee itself, which can either adopt them or reject them.

Setting up the necessary mechanism for monitoring and evaluation is a core part of the management of the National Agriculture and Rural Development Plan as it provides feedback that facilitates the introduction of timely modifications to the plan.

So far, the Committee has adopted 2 Annual SAPARD implementation reports, which were then approved by the EC.

The conduct of a mid-term evaluation is important as specified in the regulatory framework of the Structural Funds and of SAPARD. According to MAFA Bulgaria must ensure the implementation of a mid-term evaluation which should assess the results of the measure implementation, the relevancy of results with respect to the Program objectives and the degree of achievement of these objectives. The evaluation also assesses the quality of the monitoring and of implementation procedures. The evaluation is carried out by independent evaluators hired in a competitive tender and funded under the "Technical assistance" measure. The mid-term evaluation had to be submitted to the EC not later than 31st of December 2003.

On the basis of the recommendations made in the mid-term evaluation, which should be discussed by the Managing Authority, the SAPARD Agency, the Monitoring Committee, the MA must notify the EC about the corrective action taken on account of these recommendations.

In 2003 a mid-term evaluation of SAPARD was carried out in Bulgaria in pursuance of the Structural Funds regulation and the MAFA. Unlike the ex-ante evaluation where the organizational and procurement responsibilities were entrusted wholly to MAF and the EC, under the mid-term evaluation the socio-economic partners were given greater role both as member of the evaluation Steering Committee, and through their participation in the tender selection commissions. The mid-term evaluation pro-

curement preparations started in late 2001, the procurement proceeded through 2002 and the contract with the evaluators was signed in mid-2003. The findings and the recommendations of the mid-term evaluation were reviewed by the Monitoring Committee at its 6th meeting and by the permanent working groups. At its 7th meeting the Committee decided to amend the National Agriculture and Rural Development Plan and the implementation procedures in accordance with the evaluation recommendations. The modifications were then submitted to the EC STAR Committee, which reviewed them on July 20th, 2004 and the modifications were adopted with EC Decision dated 23rd of December 2004.

The mid-term evaluation noted that with regard to working rules and representation the permanent working groups are relevant consultative bodies where the stakeholder could effectively contribute to the management and implementation of the Program and be informed about the progress achieved thereof. The group members received the agenda of each meeting and accompanying materials two weeks in advance of the meeting. At the meeting prior to the discussions, the secretariat updated the participants on the progress achieved under the Program with the help of the monitoring indicators.

However, the capacity of the various socio-economic partners to take on their role in the program implementation is not uniform both with regard to the Monitoring Committee members, and to permanent group members. It must be noted that the professional associations in Bulgaria, as in most of the eastern European countries, are a very varied array of organizations. Some of them are similar to western European ones, which can effectively defend the interest of their sector [for example, associations in the food processing sectors], whereas others have been created by a limited number of founding members with unclear (often limited in scope) representation and scope of work.

Although the criteria for representativeness of trade unions are determined in the Labor Code, there are no criteria for the representativeness of professional associations and unions. Thus, all of them working in sectors assisted under the Program were invited to the consultation process.

The mid-term evaluation noted that the principle of partnership, established during the preparation of the National Agriculture and Rural Development Plan, has been implemented throughout the program cycle of SAPARD. The partnership is laid out in written procedures regarding programming, implementation, monitoring and evaluation, which can also be applied within the post-accession rural development programs. In 2003 MAF initiated a project for the setting up of National rural network that should unite the efforts of all NGOs active in the sectors agriculture, processing industry and rural areas under the Accession Communication Strategy. They should form a forum for rural development.

Synergy

The mid-term evaluation did not find any synergy arising from the implementation of SAPARD. The evaluation found no proof of farmers and processors uniting their effort to integrate production and processing. Nevertheless, the Program might in the future prompt the establishment of such integrated projects. The SAPARD assistance to the processing sectors were front-loaded in the first years of the Program implementation as it was expected that the processing industry had better capacity to mobilize private investment and apply under the Program. Thus, so far the modernization of the processing industry outstrips the modernization of machinery and equipment in the primary agriculture.

It could be expected that integration efforts between sectors are more likely in the coming years. The milk processing, wine production and fruit and vegetable processing sectors depend heavily on the availability of inputs on regional markets. Therefore, it could be expected that the supported beneficiaries from the processing sectors could stimulate the primary producers to invest in increasing the quantity and in improving the quality of their output. Experience gained so far shows that agricultural producers are uncertain about contracting long-term arrangements, as they are different from one another in terms of size of farm, stability of output quality, etc. An interesting phenomenon in this respect is the so-called "demonstration/pilot effect" of SAPARD beneficiaries. The successful im-

plementation of a SAPARD-assisted project in a given area stimulates the other adjacent farmers to apply under the Program. The establishment of a critical mass of comparatively modern and structurally homogenous farms may provide the preconditions for the unification of agricultural producers leading to an increase in integration projects.

Access to credit

The access to credit and its price were identified during the preparation of the National Agriculture and Rural Development Plan as factors that may limit applications under SAPARD and skew the support towards larger farmers and companies.

The underdeveloped system of agricultural credit is a problem that has been among the priorities of agricultural policy since the beginning of the market transition. So far, no sustainable solution to this problem has been found - the operating farm credit schemes are of limited scope or are temporary.

The majority of the small and medium-sized farmers continue to experience difficulties in the access to credit.

MAF and the SAPARD Agency committed substantial efforts trying to change the attitude of commercial banks towards farmers and companies with approved projects under SAPARD. Since the beginning of the Program implementation, MAF and SFA initiated negotiations with the commercial banks resulting in memoranda of understanding with over 20 banks designed to facilitate the access to credit for SAPARD applicants. To further ease the situation, SFA allocated 50 million euro in 2003 to refinancing the commercial banks that have provided credit to SAPARD applicants. The memoranda of understanding contained clauses on the reduction of the price of credit [the interest rate for SAPARD applicants was set at no more than 8.5% p.a.]. The first banks, which signed memoranda with SFA, apparently had better understanding of the SAPARD philosophy and objectives and are most frequently cited as sources of credit to SAPARD applicants. These banks, following the strict financial discipline principles as propagated by the Bulgarian National Bank, accelerated the procedure for credit claim assessment and had qualified person-

nel processing the claims of SAPARD applicants. In 2003 MAF and SAPARD Agency jointly organized a seminar with the SAPARD beneficiaries to discuss the problems they faced in the implementation of approved projects. Representatives of the commercial banks were also present as the organizers sought to improve their understanding of the Program procedure and to improve the access of farmers of up-front credit. Given the importance of access to credit for the successful absorption of SAPARD funds, it was decided during the program preparation that the Monitoring Committee must be attended by representatives of the Association of commercial banks and of international financial institutions.

The problematic access to credit for farmers has been raised at all meetings of the Monitoring Committee. The farmer associations proposed the establishment of a credit guarantee fund. The issue is still unresolved.

SFA proposed to the EC a credit scheme under which SFA would provide the needed up-front loans to farmers and companies with approved projects under SAPARD. The EC initially did not approve the proposed scheme as there was no mechanism developed to assess the element of state aid under the scheme, which might lead to risks of increasing the rate of public support beyond the eligible one. Consequently, it turned out that such a scheme was a good way to stimulate applications under SAPARD. The recently published report of the European Court of Auditors on SAPARD points out the relevancy of the proposed scheme and that the EC was not right to turn it down. It has to be underscored, however, that as a result of the proposals by the Bulgarian authorities and the conclusions of the European Court of Auditors' report, the EC included in the last modifications of the SAPARD Regulation an option for the applicant countries to set up such schemes.

CONCLUSIONS AND RECOMMENDATIONS

As emphasized in the introduction of the report, the pre-accession instrument SAPARD assisted on a decentralized basis the applicant countries to manage post-accession Structural Funds and especially to implement measures for rural development.

All the analyses of the agricultural policy of Bulgaria [done by the OECD, the World Bank, the FAO] noted that the National Agriculture and Rural Development Plan 2000-2006 was the first attempt to formulate integrated policy for rural development, albeit with limited available financing. As a whole, SAPARD produced important results in Bulgaria in the following aspects:

- ▣ Completion of investments aimed at improving the hygiene conditions and the animal welfare, the environment protection and the phyto-sanitary conditions in compliance with the EU requirements [investments, which would hardly be made without SAPARD assistance];
- ▣ Encouragement of the overall investment process in agriculture;
- ▣ Building awareness of European programs, of the importance and responsibility of institutions, involved in their management;
- ▣ Accumulating precious experience by the administration in program management in view of preparing Bulgaria to effectively use the Structural Funds and most notably the new European Agricultural Fund for Rural Development in the period 2007-2013;
- ▣ Contribution to the establishment of partnership in all aspects of program management. To a very high degree the success of SAPARD is due to the existing dialogue, and credibility and partnership with the professional associations, the NGOs, the local authorities and the business.

The short overview of the SAPARD implementation in Bulgaria shows that the needed administrative capacity for programming, implementation, payments, monitoring and evaluation has been created and will serve as the basis for the successful

accession of the country in this sector. The work of the Monitoring Committee shows that the competent institutions have reacted on time to amend weaknesses. Despite the great progress achieved and the successes of implementation, certain recommendations can be made to improve it.

Recommendations related to the implementation procedures:

1. The managing institutions could use the latest amendments in the SAPARD Regulation to provide up-front credit for farmers and companies with approved projects under SAPARD. Such credit should be preferably provided only to small and medium-sized farmers/companies who are denied proper bank credit;
2. The practice of the EC is to have the project selection criteria published so that applicants could find out whether their projects would meet the criteria. The selection criteria were published on the MAF website, but as farmers have difficult access to Internet, it is advisable to post these criteria in the municipal units of MAF;
3. Increasing the role of social and economic partners. The partners are involved in the programming and implementation of the Program. The effectiveness of their contribution can be improved through additional training focused on their responsibilities in guaranteeing the transparency of procedures.

Recommendations to enhance publicity:

1. Despite the substantial efforts put into publicity campaigns it is necessary to focus them on the encouragement of all potential beneficiary groups. It is a fact that hitherto the applicants include mainly larger companies [as it is easier for them to prepare projects], but this puts off smaller potential applicants as the Program has obtained the image of being "only for the big". The focused publicity campaign is needed to overcome this perception;
2. The unavailability of sufficient promotional print materials is a weakness that precludes better understanding of eligibility criteria among

farmers. It is advisable to prepare guidelines for applicants on the basis of the measure Ordinance. The funds of the "Technical assistance" measure could be used to finance such initiatives. It is important to publicize the Code of minimum veterinary, sanitary, environment protection, hygiene and animal welfare requirements. This must be done not only by MAF and the SAPARD Agency, but also by the National Veterinary Service and NPPQAS;

3. It is recommended that, in order to lower application preparation costs, a List of frequently asked questions should be posted on the Internet and then continuously updated;

4. The inadequate participation of small farmers under SAPARD requires a more streamlined approach to Program implementation. The agricultural advisory services and the municipal services of MAF must have not only promotional material but also the business plan and the guidelines for its preparation, as well as print-outs of the measure Ordinances. The experts in these services should be trained in the provision of consultancy for the application process. It is recommended that these experts directly approach the small farmers and try to motivate them to apply under the program. Moreover, the National Agricultural Advisory Service could also contribute in this aspect. The service has developed standard business plans for 18 types of investments, which have been circulated among its regional units as well. This initiative could be extended to cover all eligible sectors under the Program;

5. As is noted in the materials of the Monitoring Committee meetings, the implementation of measure 3.1 "Improving vocational training" requires a pro-active approach on behalf of implementing institutions. MAF and NAAS and the training institutions must initiate efforts to overcome the difficulties and to speed up the procedures under the measure. A similar approach must be applied to measure 1.5 "Setting up producer groups" with the active participation of MAF regional units, especially the municipal services as well as the NGOs.

RECOMMENDATIONS TO DEVELOP AND STRENGTHEN PARTNERSHIP

The effective participation of partners requires clear and detailed framework for their representativeness, for the mechanisms of their inclusion in the consultation process and for the responsibilities and obligations of the partners in the programming, management, monitoring and evaluation of the pre-accession and later of the Structural Funds of the EC. To that end guidelines must be prepared for the inclusion of partners under the pre-accession instruments and under the operational programs. At present there are no rules on the representativeness and the transparency of NGO activities. The NGO representatives in the permanent working groups of the Monitoring Committee need training to improve their capacity in strategic planning. Experience shows that they show interest in forwarding the interests of their sub-sector without considering the overall situation. A typical phenomenon is the existence of many sector associations (sometimes with more than 2 associations per sub-sector). To this regard it is recommended that the responsible institutions make active use of the "Technical assistance" measure to organize training for the members of the Monitoring Committee and its permanent working groups. The consolidation of the NGOs in agriculture and rural areas must also be pursued. The first steps have been taken with MAF initiating the idea for a National rural network. Efforts in this direction must continue.

In conclusion it should be recommended to the EC to speed up the process of signing of Annual Financial Agreements for 2005 and 2006 so that funds are made available on time without delaying the implementation of the Program at a time when farmers and the processing industry need substantial assistance to comply with the EU requirements. It is also necessary to seek opportunities to get additional financing for SAPARD in pursuance of article 14¹ of the Resolution of the European Parliament on the progress of Bulgaria towards accession, which calls the Council and the Commission to explore the options for increasing pre-accession support for Bulgaria after the signing of the Accession Treaty.

¹ (COM(2004)0657 - C6 - 0150/2004 - 2004/2183(INI))

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SAPARD REVIEW
in Bulgaria, Czech Republic, Estonia,
Hungary, Latvia, Poland and Romania

CZECH REPUBLIC



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LIST OF ABBREVIATIONS

ARDP	Agriculture and Rural Development Plan (SAPARD Plan)
CAP	Common Agricultural Policy
DP	Direct Payments
EAGGF	European Agriculture Guidance and Guarantee Funds Guidance Funding
EU	European Union
EC	European Commission
EIA	Environmental Impact Assessment
HACCP	Hazard Analysis and Critical Control Point
HRDP	Horizontal Rural Development Plan
CHKO	Protected Landscape Area
MAFA	Multi-Annual Financing Agreement
MoA	Ministry of Agriculture
MoE	Ministry of Environment
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoLSA	Ministry of Labour and Social Affairs
MRD	Ministry of Regional Development
NDP	National Development Programme/Plan
NSC	National SAPARD Selection Committee
NUTS	Nomenclature of Territorial Units for Statistics
NMC	National SAPARD Monitoring Committee
OP RDMA	Operational Programme Rural Development and Multifunctional Agriculture
RO SA	Regional Offices of SAPARD Agency
SAPARD	Special Accession Programme for Agriculture and Rural Development
SEUROP	Common classification of carcasses
SME	Small and medium sized company
SRDP	Common Regional Operational Programme
TSES	Territorial System of Ecological Stability
SWOT	Strengths and Weaknesses, Opportunities and Threats
SZIF	State Agriculture Intervention Fund
VUZE	Research Institute of Agricultural Economics

NATIONAL REVIEW ON THE SAPARD PROGRAMME IN THE CZECH REPUBLIC

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EXECUTIVE SUMMARY

As the launch of the SAPARD Programme was originally planned for 2000, the first seminars in the framework of an information campaign dedicated to final beneficiaries and administrators took part already by the end of 1998. Nevertheless, due to the uncompleted process of establishing of the SAPARD Agency (SA) postponed for 1 September 2001, as well as to essential delay in the adoption of the legislation, its launch had to be put off until 15 April, 2002. SA was directly subordinated to the Ministry of Agriculture (MoA) whereas the responsibility for the Programme implementation was shared between the MoA and the Ministry of Rural Development (MRD). Even though the publicity campaign has been very successful and the promotion material was of high quality, many applicants were obliged to find other sources of project financing due to the delay in time between the promotion and the implementation.

Since no accreditation was attributed to the SA in 2001, firstly, a consultation test round was carried out by RO SA helping the applicants to elaborate their projects, secondly, in June 2001 the TEST Programme, fully financed from national sources, was launched by the MRD. Since 2002, 6 rounds for receipt of applications under agricultural measures and measures for rural development have been declared, as well as another 5 rounds in 2003 for the measure on vocational training. The majority of the allocated funds were used for agricultural measures while only one third of them were allocated to rural development. The latter were exhausted in the first three rounds. In December 2002, an extraordinary Flood Round was opened exclusively for the farmers affected by the August floods. The success in the first round of the agricultural measures was about 90%, whereas in the second round it was just 60% due to increasing competition. On the contrary, the demand under the measures on rural development exceeded five times the volume of allocated funds, and the successfulness remained flatly very low. Furthermore, there was a systematic dif-

ference monitored in terms of the number of submitted projects between counties with high level of activity, resulting from high share of agricultural land, such as Southern Bohemia, and those with relatively low performance such as the industrial Northern Bohemia. The allocated funds were 100% exhausted, and even an overcommitment of 15% was made.

As far as the agricultural measures under Priority 1 are concerned, the strategy of MoA was to reduce as much as possible the scope of eligible expenditures in order to satisfy at least the crucial needs of this sector with the limited budget. In general, the implementation of Priority 1 turned out very effective and efficient, the investments in agricultural holdings led to increased quality of the products and thanks to the support the majority of the beneficiaries are now in compliance with the EU standards. Positive effects were also registered in terms of more rationalized use of production factors, improved product quality, decreased production costs and created jobs due to the support. However, the investments were focused more on the short-term survival of the primary production in the perspective of the EU membership, than on a sustainable increase of competitiveness. Concerning the measures on rural development (2.1, 2.2), the absence of a tighter delimitation of eligibility expenditures resulted in an excess of applications, of which only about 22% were approved. The support had very positive effects in terms of increased quality of life for the local population, preservation of the rural heritage, creating of new jobs opportunities and the development of existing SME, and thus the sustainable development of rural areas. Nevertheless, as only few projects for agri-tourism, regional non-agricultural products and production of alternative energy sources have been supported, the financed projects have not attributed much to the diversification of farm activities. Furthermore, under Priority 2 the measure 2.3 for agricultural environmentally friendly production has been de-

signed in a very complicated way in order to test specific management practices, tailored to the needs of each selected area. A considerably low participation in some pilot areas resulted from the lack of experiences concerning the implementation of more complex land management among local authorities and farmers. Since the potential scale of agri-environmental activities in the Czech Republic is quite large, it is not evident whether 5 pilot areas projects could have provided sufficient experience for implementing the HRDP. Finally, in the framework of the third priority, a measure on vocational training was implemented in 2003 by the Institute of Agricultural and Food Information. Due to the relatively unfavourable conditions for training bodies, and the high administrative requirements, only half of the announced topics were covered. Nevertheless, the organized seminars were in general very successful. The last implemented measure on technical assistance for improvement of the Programme in terms of monitoring and evaluation contributed essentially, on one hand, to the facilitation of the Programme activities, and on the other hand to a crosscutting approach that was missing, in particular as regards the monitoring.

Regarding the small amount of funds allocated to SAPARD, the main role of the SAPARD Programme has to be seen in the preparation for the set-up of the administrative system for the Operational Programme Rural Development and Multifunctional Agriculture (OP RDMA), established on the basis of the SAPARD implementation system. After the transition to structural funding, the impact of the implementation of the new CAP in the OP will be much more significant. The continuity of personnel, and hereby of transmission of the accumulated experience and best practices was generally preserved on both levels, the regional as well the national administration. As of the 1st January 2004, the SA has been transferred to the State Agricultural Intervention Fund (SZIF). The transfer of the SA to the SZIF was preceded by the appointment of the Managing Authority for the OP RDMA and it was decided to merge the former SAPARD Programme Managing Authority with this newly established department as of 1 July, 2003. The implementation of the agri-environmental measure has helped essentially for the setting up of the implementation of HRDP on the level of the programming document.

The Programme produced a wide range of positive results and impacts, such as increase in productivity and more rational production, increase in income, improved quality of the products, positive effects on the animal welfare, improved working and health conditions, improved storage capacity, high number of created jobs, partial diversification of the rural economy, improved competitiveness and increased activity of the existing SME. However, it turned out that the farmers who are inexperienced in demanding public funds had been often discouraged by the volume of information required for project applications of any size. Thus in the case of small-sized projects the volume of requirements did not correspond to the risks associated with the granting of aid. It turned out that the implementing system favoured systematically projects submitted by big agricultural co-operatives, whereas projects of smaller operators whose technical level and human resources do not meet the Programme requirements, were missing. Furthermore, the unwillingness of banks to offer loans to private entrepreneurs, especially in agriculture, was partially overcome in the course of the Programme implementation. In spite of the fact that the measure for rural development focused also on the start-up of new businesses and diversification of farmers' income, the realized diversification of farmer's activities, and the rural tourism account for less than 10 % each. Concerning the Programme administration, it was organized in compliance with the EU requirements and turned out very effective. Nevertheless, the scoring system as well as the controls were focused rather on administrative compliance and verification than on the quality criteria, and the administrative procedures were elaborated in a too complicated manner, often hindering effective implementation. The co-operation with administrators at the regional level was assessed by the beneficiaries as excellent, as opposed to the typical unwillingness of state authorities, especially of the higher ones, to assume full responsibility and to communicate the up-to-date conditions and rules that changed perpetually in the course of the Programme, to the beneficiaries.

In conclusion, as the large processing holdings or cooperatives are narrowly specialized in large-scale production, alternative income through extension of farming activities had to be ensured by supporting the SME. Therefore the administrative proce-

dures for small-scale projects should be simplified by introducing a simpler system in addition to the current one. A very simple small project should be provided as a model, also and the assessment of the financial health should be simplified, too. Furthermore, the state authorities should certify a certain number of consultants, authorized for consultancy activities, in order to ensure the protection of the beneficiaries of public funds. To prevent the unnecessary excess of demand increasing the risks for applicants and discouraging small operators, monitoring of the planned investment projects in the regions should be ensured in order to allow for designing of measures, better aimed at the real regional priorities. The scoring criteria should be focused more on the individual quality of projects than on the maximum compliance with listed items in order to avoid the prioritization of projects with lower marginal utility. Moreover, the rural development should be more interconnected with the diversification of agricultural activities by means of a co-operation between mayors and farmers, and the projects should express the essential interest of the concerned municipalities in the implementation of projects improving the living conditions and the co-operation within microregions. More focus should also be put on the bottom-up approach and the inclusion of the rural dwellers and socio-economic partners in the decision-making process, as well as on the improvement on the information dissemination on agri-environmental issues.

INTRODUCTION

This report aims to describe and evaluate the development of the SAPARD Programme in the Czech Republic (hereinafter the "Programme"), a special EC pre-accession programme for agriculture and rural development, in order to provide a national review of current achievements and deficiencies of the SAPARD operation in the Czech Republic. This report has been elaborated for the European Institute in Sofia via EUROPEUM, the Institute for European Policy in Prague, in order to be presented before an international conference titled "The SAPARD Programme - Effective EC Pre-accession Instrument: Comparative Review" to be held in Sofia in 2005.

This report consists of Introduction, Framework analysis divided in 4 main chapters, Policy options, Policy recommendations, Comments, List of measures and List of acronyms. The first sub-chapter of the Framework analysis (3.1) gives an overview of the context situation in the Czech agricultural sector and the rural areas while the second sub-chapter (3.2) describes the diachronic development of the SAPARD Programme in the Czech Republic. The third sub-chapter (3.3) is dedicated to the implementation of the Programme, in particular to the assessment of relevance and effectiveness of individual measures and to the presentation of its current achievements and deficiencies. The fourth sub-chapter (3.4) presents the implementing structures of SA and analysis of the experiences achieved during the project administration and control. Sub-chapter five (3.5) focuses on the usage of SAPARD's best lessons and practices for implementing programmes of the EC structural assistance, as well as on the transformation of the SAPARD Paying Agency to the CAP Paying Agency. A brief summary of conclusions and policy recommendation is presented in last two chapters.

Problem statement

SAPARD is a special pre-accession programme in agriculture implemented in countries with the status of a candidate for accession to the European Union. The use of this instrument should lead to practical implementation of the *acquis communautaire*. It also aims to solve problems affecting the agricultural sector and rural areas in the candidate countries. However, apart from the common implementation of the *acquis*, these overall objectives have to be aligned with the national priorities. Thus the national implementation solution based on a specific selection of eligible measures, proposed in the framework of the (SAPARD) Council Regulation 1268/1999, may differ from one country to another in terms of operations carried out with priority for the respective country sectors. By setting up the SAPARD Programme, the Czech Republic, as well as any eligible candidate country, faced with an essential problem: how to put together the short-term priorities linked to an operational, in-time adoption of the *acquis*, representing for many holdings the only survival option of being in conformity

with the EU standards after the accession, and the long-term adjustment of the agricultural sector and the rural areas? Apart from maintaining this fragile equilibration between the short and long-term objectives, the implementation of the SAPARD Programme should help switch to the setting up of an administrative system for receiving funds related to agriculture after the EU accession. Therefore this report aims to assess the "Czech solution" not only in terms of the impact of projects, supported under SAPARD on national agriculture, but also in regard to the long-term objectives of the Common Agricultural Policy, placing more weight on the rural development and the diversification of rural activities that represent an alternative income in the agricultural sector.

Research goal

In accordance with the Terms of Reference, the objective of this report is to provide information on the Programmes implementation and impacts, in particular analysis of the consistency of the SAPARD strategy in terms of relevance, effectiveness and appropriateness of implementing arrangements and structures, the monitoring system, initial achievements in terms of effectiveness and efficiency, as well as the application of common and programme-specific evaluation questions. Also taken into consideration are the compatibility of actions, financed under SAPARD, with the EC strategy for sustainable development of rural areas, and the environmental impact of implemented projects. This report aims also to assess the readiness of the Czech Republic to use the best practices learned from SAPARD during the transition in order to draw aids from structural and non-structural agricultural funds (esp. the Guidance and Guarantee Section of EAGGF and FIFG). Based on the assessment of above-mentioned experiences achieved during the implementation, this report aims to offer solutions to improve the project preparation and thus the usage of pre-accession funds and the EC structural assistance to agriculture.

Thus the overall objectives of this report are:

- to provide information on best practices and lessons learned in the Czech Republic to share

these experiences with other countries having implemented the SAPARD Programme;

- to help the acceding countries to switch to the structural funds for agriculture in the most effective way on the basis of the experiences gained by the new EU member states, notably by the Czech Republic, during the implementation of the SAPARD Programme;

- to improve the usage of the EC pre-accession funds, more specifically SAPARD, regarding current objectives of the CAP towards rural development and sustainable agriculture.

Definition of terms

In this report the following terms are used:

- Priority - a key strategic objective in relation to the respective sector based on the national policies. Under "Priority I", that is within the competence of the Ministry of Agriculture, fall measures 1.1, 1.2, 1.3 and 1.4. The term "Priority II" is used for measures 2.1, 2.2 (within the competence of the Ministry of Regional Development) and 2.3 (within the competence of the Ministry of Agriculture). The term "Priority III" is used for measure 3.1 and 3.2, and is within the competence of the Ministry of Agriculture;

- Measures - means and instruments designed to implement the objectives (priorities);

- Relevance - justifiability of project objectives in relation to the needs of the beneficiary and in relation to the objectives of the measure;

- Coherence - logical and orderly and consistent relation between measures;

- Effectiveness - fulfillment of operational objectives, accordance between produced outputs and project objectives;

- Efficiency - utility of investments with regard to its results and impacts;

- Sustainability - duration of results and impacts

of the project output in the long-term perspective;

- ▣ SME - small (less than 50 employees) and middle-sized (less than 100 employees) enterprises;

- ▣ Large holdings - more than 100 employees.

Research methodology

The research methodology can be understood as a set of criteria and questions analyzed and answered on the basis of collected data.

It has to be stated that, due to relatively short time period available for the preparation of this report, the scope of questions and problem fields had to be reduced to several essential points.

Evaluation criteria

This report is based on the crosscutting evaluation criteria set in the Terms Reference. These criteria are :

- ▣ Relevance;
- ▣ Coherence;
- ▣ Effectiveness;
- ▣ Efficiency;
- ▣ Sustainability.

(for the definitions see Chapter 2.3)

Evaluation questions

At the Programme level, as well as at the level of individual measures, this report focuses on the following crosscutting and common evaluation questions:

- ▣ To what extent has the Czech SAPARD Programme been in compliance with the EC Strategy for sustainable agriculture?

- ▣ To what extent has the implementation of projects under the Programme prepared the agricultural sector and the rural economy for the implementation of the *acquis communautaire*?

- ▣ Has the implementation of projects in the framework of the Programme helped the agricultural sector (production and processing) fulfill the Community standards, and to what extent?

- ▣ Has the Programme contributed to establish CAP administrative procedures at the administration level?

- ▣ Has the implementation of projects, financed under the Programme, contributed to any improvement of the environment and to the environmental protection in the Czech Republic, and to what extent?

- ▣ To what extent has the Programme contributed to the diversification of the rural economy, more specifically to that of the agricultural activities in the rural areas?

- ▣ Has the Programme contributed to the sustainability of the rural areas by creating new employment opportunities, and to what extent?

- ▣ Have the implementing arrangements been in accord with the effects to be achieved?

- ▣ Which were the main obstacles and difficulties from the point of view of the administration?

- ▣ Which were the main obstacles and difficulties from the point of view of the beneficiaries?

- ▣ How have the experiences gained during the Programme implementation contributed to setting up the system of granting aid from structural funds oriented to agriculture?

Sources of information

The questions resulting from the research goal and corresponding to the Terms of References were answered on the basis of collected sources of both

qualitative and quantitative nature. The following sources of information have been collected and analyzed:

Secondary data sources

The secondary data sources consist of:

- ▣ Ex-ante evaluation;
- ▣ Midterm evaluation;
- ▣ Annual reports;
- ▣ National Monitoring Committee Meetings Minutes;
- ▣ Monitoring indicators produced by the MoA;
- ▣ National Statistics of the Czech Statistical Office;

- ▣ Statistics of other EU member states;
- ▣ SAPARD annual reports of the European Commission;
- ▣ Agriculture and Rural Development Plan;
- ▣ Operational Programme Rural Development Multicultural Agriculture;
- ▣ Horizontal and Rural Development Plan;
- ▣ Common Regional Operational Programme.

Primary data sources

Due to the lack of time only a representative group of "key persons" related to the SAPARD Programme was interviewed or answered a written questionnaire, among them:

Name	Function
Ms. Eva Vlasakova	Head of the Independent Managing Division for the SAPARD Programme, State Agriculture Intervention Fund (SZIF)
Mr. Vitezslav Vopava	Head of the HRDP Methodology Division, SZIF
Ms. Eva Machacova	Head of Department for OP and SAPARD, SZIF
Ms. Milena Vicenova	Head of Department for Food Safety and Environmental Risks, MoA, former Director of Managing Authority
Mr. Pavel Prazan	Research Institute for Agricultural Economics (VUZE)
Mr. Vondrak	Protected Landscape Area Blanik, (CHKO Blanik)
Ms. Milena Rydlova	Manager, Institute of Agricultural and Food Information (UZPI)
Ms. Petra Hodova	External Relations Division, Managing Authority Department for the RDMA (Operational Programme Rural Development and Multicultural Agriculture), Ministry of Agriculture (MoA)
Ms. Sarka Hartychova	Managing Authority for SROP (Common Regional Operational Programme), Ministry of Regional Development (MRD)
Ms. Gabriela Sulmanova	Consultant, Eustrain s.r.o., former administrator of the SAPARD Programme at MRD
Mr. Miroslav Laska	Head of RO SA Usti nad Labem
Ms. Petra Vitkova	Controls Co-ordinator, RO SA Usti nad Labem

Mr. Vodicka	Inspector, RO SA Ceske Budejovice
Mr. Holoubek	Inspector, RO SA Ceske Budejovice
Ms. Matulova	Livestock Specialist and Farm Manager, Najmr farm
Mr. Martin Kratochvil	Economist, Bohusovicka dairy

On-the-spot visits

Thanks to the kind assistance of Ms. Eva Vlasakova, Head of Independent Managing Division for the SAPARD Programme in SZIF, I had the possibility to visit, in the framework of my research, two of eight Regional Offices of the SAPARD Agency (RO SA) established on the NUTS II level of 8 regions², namely the RO in Ceske Budejovice covering the South-West region, and the RO in Usti nad Labem covering the North-West region of the Czech Republic. These two regional offices contrast each other strongly in terms of submitted applications, and in levels of activity under the SAPARD programme. RO SA Ceske Budejovice has managed the Programme in counties showing a generally high level of activity (Southern Bohemia, Pilsen) arising from its character of a rural area with traditional social structures, high share of agriculture, processing industry and an extraordinary environmental potential for the development of tourism. On the contrary, RO SA covers the north Czech counties with low activity, such as Karlovy Vary, Usti nad Labem, Liberec, having low share of arable land and agriculture in general, high share of less favoured areas, stagnating or declining industry and high unemployment. In each region, I had the possibility to visit two implemented SAPARD projects.

In the county of Usti nad Labem I visited Bohusovicka dairy that has implemented a project on the acquisition of a cottage cheese production facility under sub-measure 1.2.1 Modernisation of Technologies (see Annex 1). Moreover, I visited a conventional agricultural farm "Najmr". This farm was one of those struck by the floods in August of 2003, and it now has reconstructed housing capacity for cattle benefiting from sub-measure 1.1.1 on animal welfare within the extraordinary "flood-round".

² RO SA Prague & Central Bohemia; RO SA Southwest; RO SA Northwest; RO SA Northeast; RO SA Southeast; RO SA Central Moravia; RO SA Moravia-Silesia

In the County of Ceske Budejovice I had the occasion to visit a project implemented within Priority II on Rural Development that brought back to life an old local tradition of bobbin lace in a typical picturesque South-Czech village of 1300 inhabitants. The municipality was represented by its mayor Mr. Frantisek Kopacek, who has personally been involved in two projects under sub-measure 2.1 a) Renovation and development of villages, and 2.1b) Development of rural infrastructure. The renovated villageplace corresponds to the original idea to connect the traditional lacemaking with the development of tourism in the microregion. The second project I visited in the South-Czech region was a constructed entertainment center in a small town of 6476 inhabitants Vodnany offering leisure time activities such as bowling, a discotheque, internet, a playground, a restaurant and accommodation. This center was financed under measure 2.2 on development and diversification of economic activities for revenue-generating projects.

FRAMEWORK ANALYSIS

Structural problems of the agricultural sector and the rural areas

The Czech Republic has a total area of 76,866 square meters, of which 92,3 % can be defined as rural. There are 2.988,550 inhabitants living in villages, i.e. 29 %. Of the total population, 75,9 % lives in rural regions. The natural conditions for agriculture correspond to the European average; the soil is fertile and the climate is moderate, benefiting from the mutual penetration and mixing of oceanic and continental effects. Of the total territory of the Czech Republic, 28% of the agricultural land resources are below 500 m in elevation (above the sea level), about 8% between 500 m and 700 m, and only 3% of the agricultural land resources are

above 1,000 m. In some areas, however, the topography and elevation produce less favourable conditions. The 72% share of arable land is one of the highest in Europe, whereas the grasslands, despite the climatic conditions, make only 22,5% of the agricultural land. Even though the share of the agricultural sector in the GDP (including fisheries and forestry) is fluctuating after 1997 in the margin of 4,50%, (4,51% in 2002), it is practically decreasing since the beginning of the 90tes. Compared with 1990, the gross agricultural output was 28 % lower in 1997, with crop output down by 21 % and livestock output down by 32%. The share of farmers in the employment structure of the national economy was 3,4% in the year 2001. In 1998, the production of foodstuffs and beverages accounted for 16.9 % of the overall processing industry output.

Since 1989, fundamental changes have taken place in the ownership, production structure and organization of work in agriculture that focused until the 90tes on the intensification of agricultural production. The latter was based on establishing large-size agricultural companies with total area of several hundreds, and later even thousands of ha. At the beginning of the transition period in the early nineties, the agricultural policy focused on the transformation of collective farms, the privatization of state farms and food enterprises and on the settlement of restitution claims. Since 1994, the agricultural policy has followed the goal of stabilizing and gradually developing the rural areas. However, almost 50% of the enterprises have not remained viable for a long time. Nowadays, around 70% of the enterprises face serious financial difficulties due to their high indebtedness and low liquidity. The current business structure in agriculture consists of transformed agricultural cooperatives (29,3% in 2000) and corporate farms (joint-stock - 21,6% of the arable land in 2000 - and limited liability companies - 21,7%), as well as of private farmers (23,5%). Even though the average size of the transformed cooperatives has been gradually decreasing and the areas of state companies have been dramatically limited, large agricultural holdings still prevail in the Czech Republic: 60,81 % of the arable land is cultivated by 1.148 agents (out of total 56.487) with arable land of over 1.000 hectares. Despite the process of transformation, there is still

a large-size production character of farming in comparison with the European Union. Therefore the low revenue and high indebtedness of the farms are the main structural problems.

Another perturbing consequence of the large-scale farming practices till 1989 is the destruction of field roads and natural barriers, the reduced ecological stability of the landscape, the devastation of agricultural soil funds by the erosion and by the loss of biodiversity. Besides, there is a need for consolidation of the new production and property structures. The privatization of the agricultural land farmed by former cooperatives has not been finished yet and the property rights on land are not determined. The land ownership is significantly fragmented. The major part of the arable land, more than 3 400 000 hectares, is owned by physical persons or executives of joint-stock companies running a farm (52%), while the state owns about 800 000 hectares.

Concerning the situation in the rural areas, the Czech Republic is divided into 8 regions (NUTS II), 14 counties (NUTS III), 77 districts (NUTS IV) and 6.244 municipalities (NUTS V). Rural areas encompass 4,995 municipalities, i.e. 80% of the total 6,244 municipalities. The large number of municipalities is a typical feature of the Czech Republic. 66,5 % of the population of the Czech Republic live in rural areas, and it comprises 90,9 % of the total area. Moreover, new rural micro-regions have emerged through the voluntary association of villages to cope with their common problems. Besides Prague, which falls into Objective 2, the rest of the Czech Republic can take advantage of the financing under Objective 1. In rural areas, especially in smaller municipalities, we can register some negative demographic trends, negative migration rate, disparity of income between the rural areas and the cities etc. These structural problems have a negative impact on the labor market such as unemployment due to the lack of investments, and the lack of employment in the agricultural sector. In consideration of the employment rate in agriculture in the rural regions, the number of people employed in agriculture shrank from 531 000 employees in farms in 1989 to 156.000 in 2001, which represents a yearly decrease of 5,2%. The impediments to this devel-

opment include insufficient and costly infrastructure, low initial capital and poor availability of loans and guarantees.

Development of the SAPARD Programme

The relatively late official launch of the SAPARD Programme in the Czech Republic caused some real difficulties. Even though it was planned for the beginning of the year 2000, it had to be considerably delayed due to the uncompleted process of establishing of the SAPARD Agency, and to the significant delay in the adoption of the respective legislation, as both the EC, and the administration of the Czech Republic have considerably underestimated the situation. The MAFA between the EC and the Czech Republic was not signed before the 5 of February, 2001. As of September 1, 2001 a higher level of independence has been granted to the established SAPARD Agency that was directly subordinated to the MoA. The process of its accreditation³ started officially on March 26, 2001 whereas the official launch of the Programme had to wait for one more year to be announced on April 15, 2002 -on the date of the Commission Decision on conferring management of aid to the SAPARD Agency⁴. Moreover, the responsibility for the Programme implementation is shared between MoA and MRD⁵. As both domains have completely different methodologies, forms, and funding procedures, problems occurred in terms of harmonization of administrative systems and repartition of competencies between these two ministries. Especially the latter demanded a lot of energy of both parts during the preparation of the Programme implementation.

With respect to the fact that the launching of the Programme was originally planned for 2000, the first seminars devoted to the final beneficiaries took part already by the end of 1998. The Programme

was promoted centrally and regionally using a mix of mass and other media such as leaflets, brochures, seminars and exhibitions each year, especially in the period 2001 to 2003. In 1999, about 100 seminars were already organized for auditors, -representatives of the municipalities and farmers. In addition to that, web pages have been created providing very precise information on the project plan, requirements on annexes and instructions to applicants for financial aid from the SAPARD Programme⁶. Until the launch of the Programme on 15 April 2002, the 5th edition of the publication on the SAPARD Programme "SAPARD Programme in the Czech republic" appeared. In the autumn of 2002, three TV programmes were broadcasted. However, according to the Mid-term evaluation about 80% of the beneficiaries heard about the Programme through other sources than mass media⁷. It has to be also stressed that especially during the first round for receipt of applications the RO SA organized very flexibly in co-operation with the Agrarian Chamber that is traditionally near to farmers additional seminars with high attendance. In general, the publicity campaign was very successful, the leaflets and materials were produced to a high quality and provided very detailed information on each measure. Nevertheless, regarding the time delay between promotion and implementation of the first round, many potential beneficiaries, which had counted on the launch of the Programme in 2000, were pressed for time in terms of the start-up of investments and had found other financial sources. On the other hand, the early launch of the information campaign generated - high response rate of eligible applications requesting more funds than were available. In the case of the agricultural measures, the demand has even increased in the following rounds.

Regarding the fact that the accreditation has not yet been attributed in 2001, the Czech authorities were allowed to carry out preparatory work on measures concerned with the framework of the national

³ A temporary accreditation for the implementation of six measures: 1.1; 1.2; 1.3; 1.4; 2.1; 2.2; 3.2 (for the measures see annex 1) was granted to the SAPARD Agency by the Competent Authorizing Officer on the 29 of June 2001 and for that of the seventh measure 1.4 on the 31 of January 2002. The management of aid on the implementing structure for the agri-environmental measure was conferred on February 19, 2003 and for the measure 2.3 on August 1, 2003 (Decision 2003/123/EC of 19 February, 2003) and that for the measure 3.1 on August 1, 2003.

⁴ Subject of Decision 2002/298/EC of 15 April 2002 were the above mentioned seven measures out of nine, representing 95% of the funds.

⁵ The rural development, traditionally in the competence of the ministries of agriculture, is in the Czech republic managed by the Ministry of Regional Development, a relatively young institution, established on 1 November, 1996.

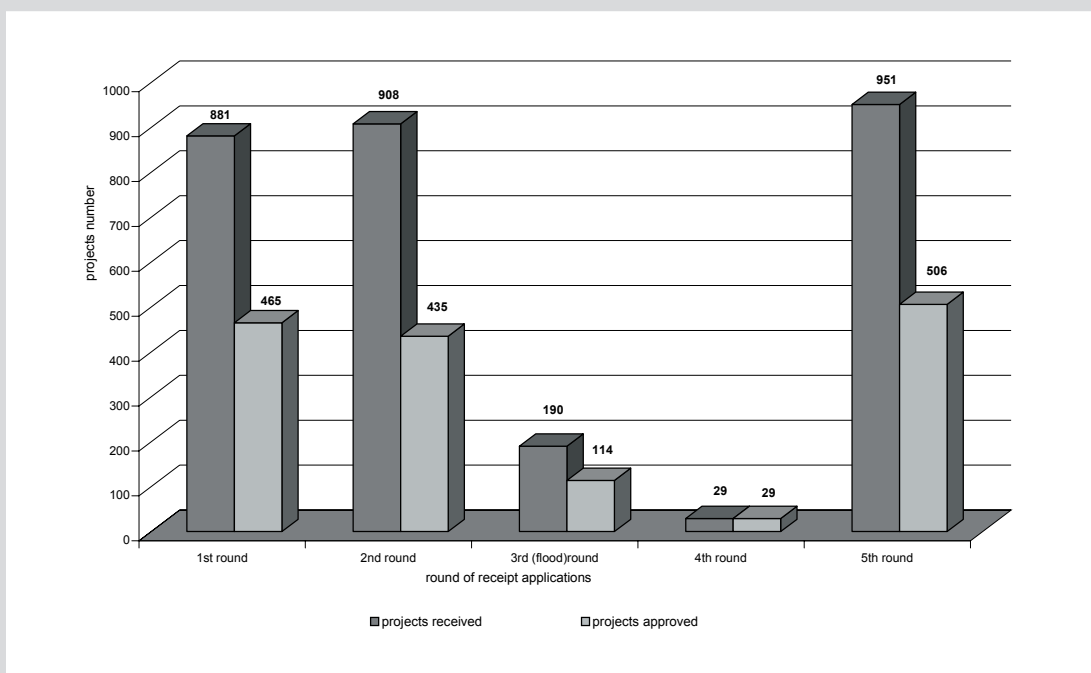
⁶ These instructions were also published in 2002 in 4.000 copies followed by 7.000 copies of leaflets for the measures 2.1, 2.2, 3.000 leaflets for the measures 1.1., 1.2, 1.3, 1.4 and 5.000 leaflets for the measure 2.3 introduced within the first round for receipt of applications.

⁷ i.e. supplement dedicated to the SAPARD Programme, published in professional press on agriculture and processing such as Zemedelec or Potravinarsky zpravodaj representing one of the main information sources for farmers not being very accustomed to work with internet.

accreditation and under the national responsibility. Firstly, a so-called consultation round was launched on 17 September, 2001, which had to continue till the Commission's decision on conferring the management of aid on the SAPARD Agency. The applications under the measures 1.1, 1.2, 1.3, 1.4, 2.1, 2.2 were received for consultation without being administered. The applicants had the possibility to get their projects assessed for financial health and feasibility by the administrators of RO SA, as well as to consult in detail on the project elaboration. Secondly, in June 2001 the TEST Programme, fully financed from national sources, was launched by the Ministry of Regional Development in two indus-

trial regions with heavy structural problems Moravskoslezsko (Ostravsko) and the North-West, based on two national programmes. This pre-round allowed to verify the administrative procedures before the launch of the Programme by accepting - project applications submitted by the municipalities and enterprises in order to meet the requirements of the SAPARD measures 2.1 and 2.2. After the launch of the Programme, 6 rounds for receipt of applications for aid from the SAPARD were declared - first, second and third in 2002 and fourth, fifth and sixth in 2003 - as well as 5 rounds in 2003 for the measure 3.1⁸. Generally, in all rounds the

Figure 1: Total number of received and approved projects



Source: Ministry of Agriculture, 2003

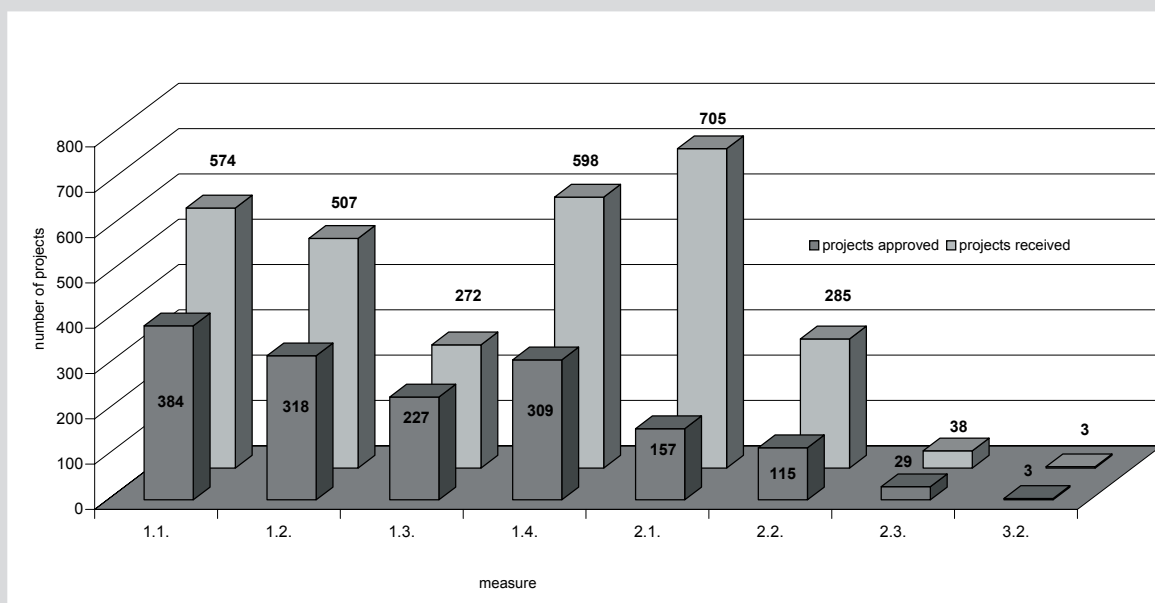
⁸ 1. round on measures 1.1, 1.2, 1.3, 1.4, 2.1, 2.2 from 15 April to 15 May 2002; 2. round on measures 1.1, 1.2, 1.3, 1.4, 2.1, 2.2 from 25 September to 6 November 2002 on measures ; 3. "flood round" on measures 1.1, 1.2., 2.1, 2.2 from 2 to 13 December 2002; 4. round on measure 2.3a) from 3 to 28 February 2003; 5. round on measures 1.1, 1.2, 1.3, 1.4 from 9 to 30 April 2003; 6 round on measure 2.3b) from 1 to 12 September 2003 Measure 3.1 (2003): 1. round from 7 to 22 April; 2. round from 26 May to 6 June; 3. round from 8 to 24 July; 4. round from 10 to 17 September; 5 round from 13 to 20 October 2003

demand exceeded considerably the funds allocated.

One third of the finances were allocated to rural development, and already exhausted during the first three rounds. In December 2002, an extraordinary flood round was opened to the farmers affected by the August floods who were struggling with the lack of funds, limited availability of loans and unwillingness of the banks⁹. The criteria for submission of applications were not strict because some farmers had lost all documentation and could not prove their financial health. In the case of agri-

cultural measures under Priority 1 the number of submitted applications increased with each round (except the 3. extraordinary flood round) whereas the number of submitted applications under Priority 2 on rural development was slightly decreasing. Accordingly, the successfulness in the first round of agricultural measures was about 90% while in the second round it was just 60% because of the increasing competition in the course of the Programme due to the positive experience from the first round. On the contrary, the demand under the measures on rural development (2.1, 2.2), exceeding five times the volume of allocated funds, decreased

Figure 2: Submitted and approved projects by measures



Source: Ministry of Agriculture, 2003

⁹ As of August 12, 2002 the territory of the Czech Republic was acknowledged as affected by a natural catastrophe and the floods were classified as "exceptional natural disaster" with 3-5% decline of the Czech GDP. The Council Reg. 1268 was modified by Council Regulation (EC) No 696/2003 of April 14, 2003. Besides the funds allocated from the original budget, some funds were reallocated from the measures, which were accredited later and where there was no possibility to exhaust them (2.3, 3.1).

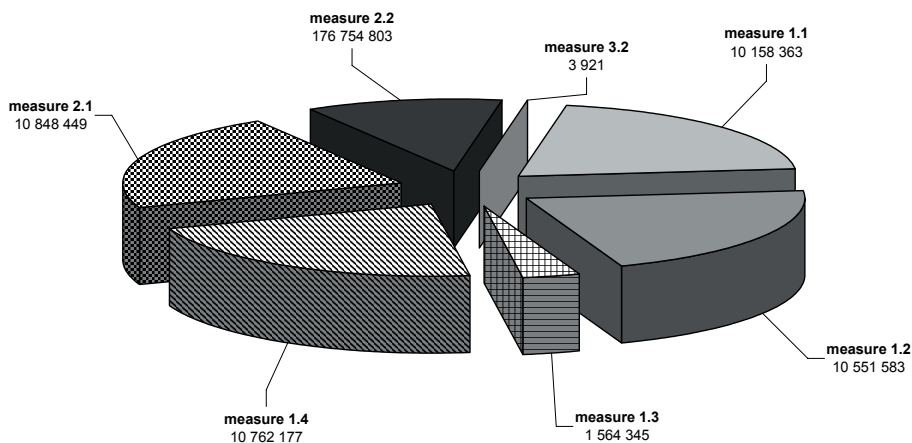
considerably after a high proportion of projects was not approved in the first round. However, the successfulness remained generally very low (20 till 40%).

The financial effectiveness of the programme is very high¹⁰ in view of the fact that there has been already

an over-commitment of 15% made on the basis of the current development of "mortality" of approved projects. In this manner, the Czech republic was able to use the entire 100% of the Community co-financing funds.

The over-commitment of 15% was possible in the form of a transfer of commitments due to repeated contract withdrawals during the project implementation by the beneficiaries whose priorities have changed considerably after the accession of the

Figure 3: Reimbursed amount in 2003 by specific measures

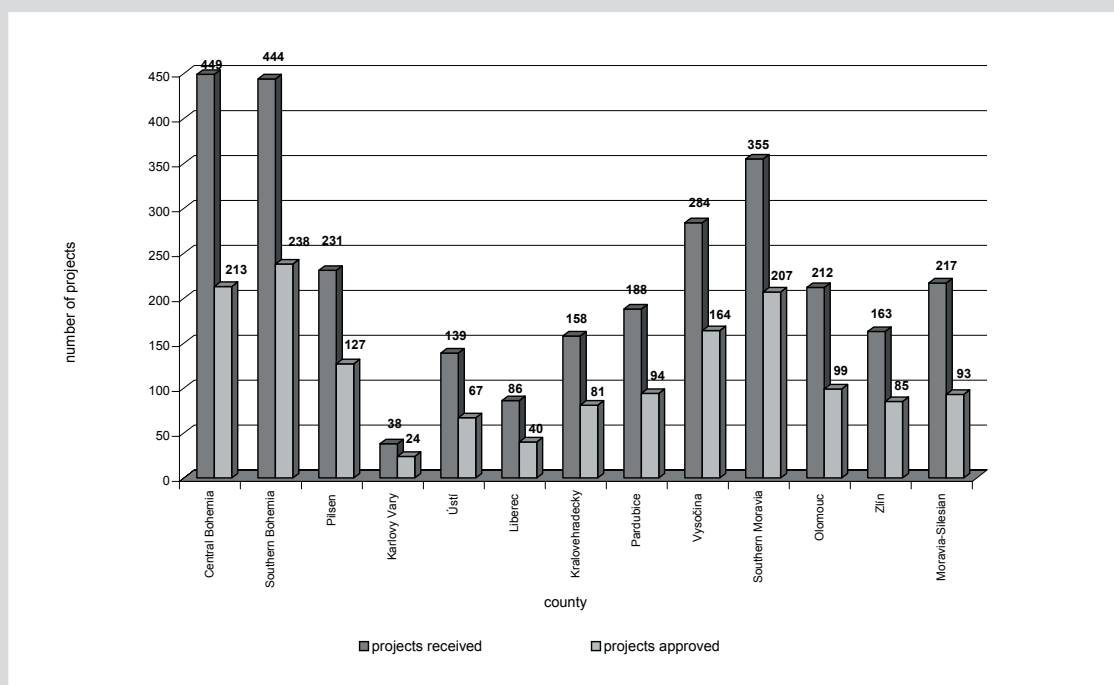


Czech republic to the EU, or in case of non-implementation by the beneficiary due to bankruptcy, closing of production, shrinking sales etc. In the case of exhausting of funds, the projects will be reimbursed from national funds.

¹⁰ The total public funds allocated to the Czech republic from 2000 till 2003 are 123 169 115 EUR, out of which 75%, the amount of 91 987 860 EUR, is the contribution of the Community. However, there are 17,313,663 EUR more commitments than budgeted, i.e. 15% over-commitment, which is distributed with 64% to priority I and 43% to priority II, whereas priority III represents lower commitments than budgeted. The unused funds of the agri-environmental measure (2.3), which was not accredited before 2003, and those of the Priority 3 (3.1, 3.2) were reallocated mainly to the first two priorities, especially to the measures on investments in agricultural holdings and partially to the Priority 2, namely to the renovation and development of villages. The total commitment is therefore continuously decreasing with the expected "mortality" of approved projects between 10-20%. The balance of commitments should be achieved till the end of 2006. Between 2002 and 2003, funds were also reallocated for 86 projects not recommended in the previous rounds because of the shortage of finance (measures 1.2, 2.1, 2.2).

The analysis of regional distribution of project applications and approvals shows that there was a systematic difference in the number of projects submitted between counties with high level of activity such as Central Bohemia, Southern Bohemia, Southern Moravia and Vysocina, representing rural regions with high share of agriculture, stabilized population and traditional social structures, and

Figure 4: Regional distribution of submitted and approved projects



Source: Ministry of Agriculture, 2003

those with relatively low performance in terms of submitted projects such as Northern Bohemia (Karlovy Vary, Usti n. L., Liberec) and Moravia-Silesian County, having industrial character with low share of agriculture and high unemployment rate.

Implementation of the SAPARD Programme in the Czech Republic

Agriculture and Rural Development Plan (SAPARD Plan)

The plan of the Czech Republic on the SAPARD Programme was approved as Agriculture and Rural Development Programme with a Decision taken in accordance with Article 4 (5) of Regulation (EC) No 1268/1999 on October 26, 2000. Three priorities have been chosen in accordance with this Regulation: Increasing the competitiveness of agriculture and the processing industry, including the quality and health standards, the requirements of Acquis; Sustainable development of rural areas focusing on

the environment and support to the diversification of rural activities and income; and Conditions for full utilization of the Programme supporting the measures under the first two Priorities and the Programme implementation.

Relevance and effectiveness of measures

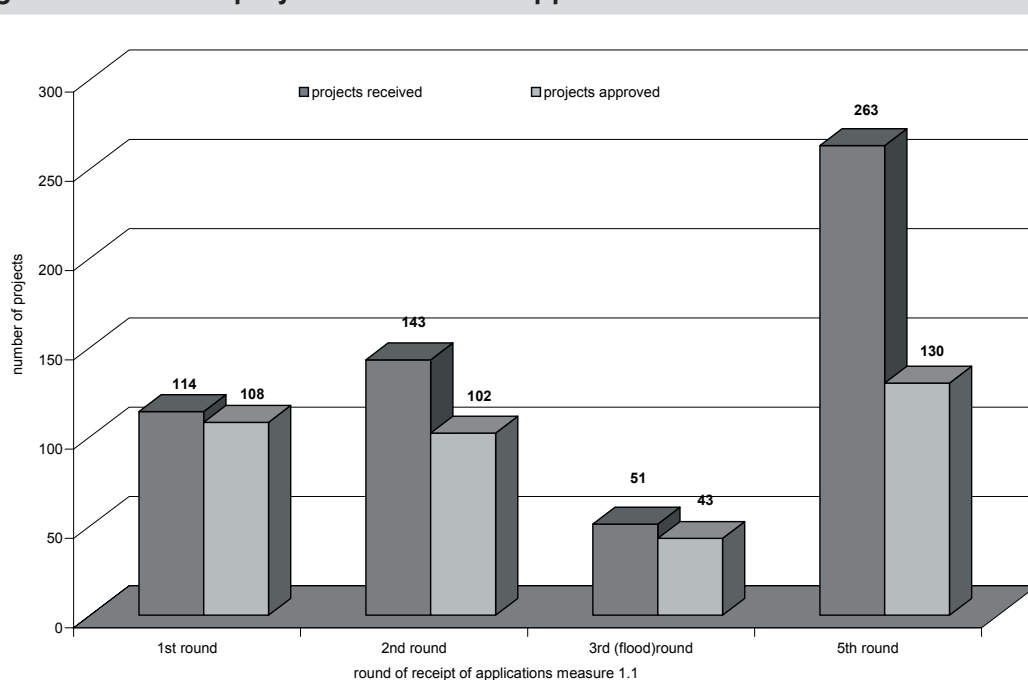
Priority 1 - Increasing the competitiveness of agriculture and the processing industry

The agricultural measures were designed in order to implement the *acquis communautaire* in the areas where the implementation is too slow and its failure could have led to the non-compliance of holdings with the requirements on standards and norms after the accession to the EU. As the improvement needs in this sector exceed considerably the funds allocated to the SAPARD Programme, it was decided to reduce significantly the scope of eligible expenditures under Priority 1 in order to satisfy at least the thorniest needs.

Within four application rounds 573 applications in total were submitted in the framework of the first measure on investments in agricultural holdings,

Republic that results in a poor implementation (1.1.1). There is also an urgent need for the improvement of storage of fruit and vegetables in

Figure 5: Number of projects received and approved under the measure 1.1



Source: Ministry of Agriculture, 2003

out of which 384 projects were selected, which represents relatively high performance of about 60-70%. Regarding the relatively short implementation period, the effectiveness of all three sub-measures was quite high¹¹.

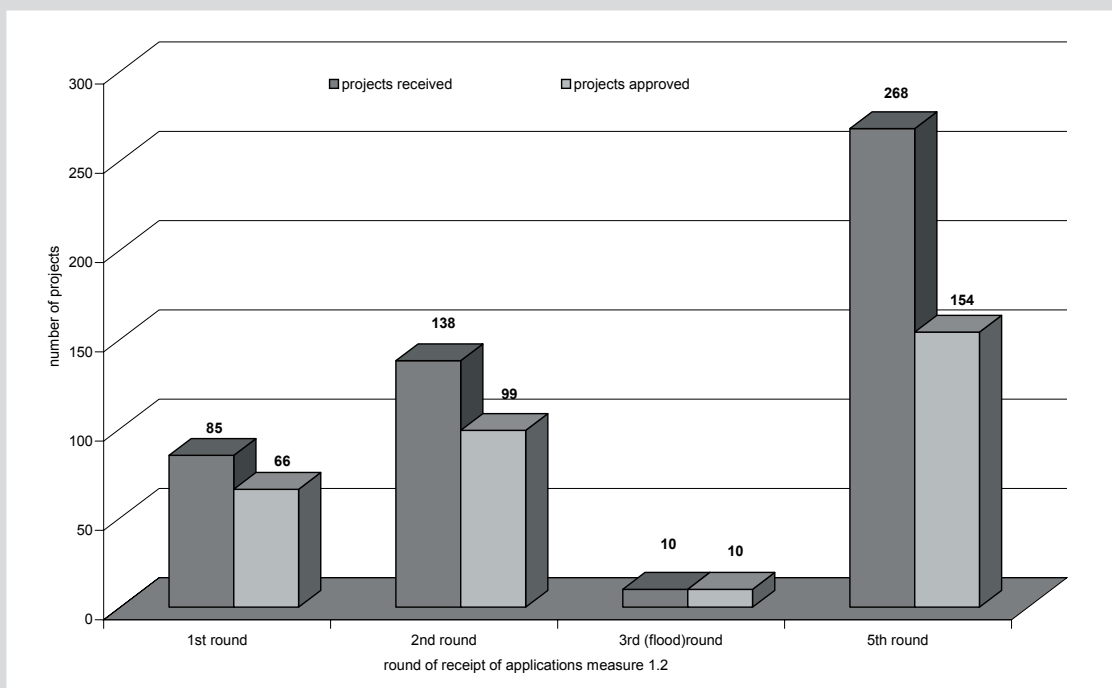
Measure 1.1 is very relevant in terms of sustainability of the primary sector¹². There is particularly little awareness of the required EU standards for animal welfare, hygiene and the environment in the Czech

terms of hygienic standards and modern storage technologies in order to increase the share of primary producers (1.1.2), and that of a reconstruction of slurry storage tanks in order to meet the requirements of the Nitrates Directive 91/676/EEC till 2006 (1.1.3).

¹¹ Concerning sub-measure 1.1.1, 40%-60% of cattle housing and even 88% of sow housing is not in compliance with the legislation of the Czech Republic, of which only 3% of cattle housing (13,200 cattles) and 15% of sow housing (24,000 sows) were to reconstruct from the SAPARD Programme. The operational objective of giving support to 360-390 projects was reached by 62-67%, since resources have been committed to 242 projects. By the end of 2003, projects were completed for a reconstruction of 88 896 m² of cattle stables and 79 798 m² of sow stables. As for sub-measure 1.1.2, the required storage capacity for fruits and vegetables to improve is 30,000 t for each of them, of which 20% had to be covered from the SAPARD Programme. The objective was reached by 42% as 25,249 t were reconstructed. Regarding sub-measure 1.1.3, the operational objective was achieved by 44%.

¹² Council Regulation 1257/999, Chapter 1, Art. 4

Figure 6: Number of projects received and approved under -measure 1.2



Source: Ministry of Agriculture, 2003

The second measure on processing and marketing targeted also the development of the primary sector and the food industry through modernization of technologies and - support to regional products. During the implementation period 329 projects were selected, which indicates a relatively high realization of 54 - 82 % of the operational objective of 400-600 projects.

Even though the main shortcomings of all sectors of the Czech processing industry remain old technologies, non-compliance with the EU hygienic standards, low quality of products and poor marketing, due to the limited funds available the measure had to be restrained to the meat sector, accounting of the largest share of the revenues from the processing industry (23,6%), as well as to the milk and fish processing accounting of 14,9% and

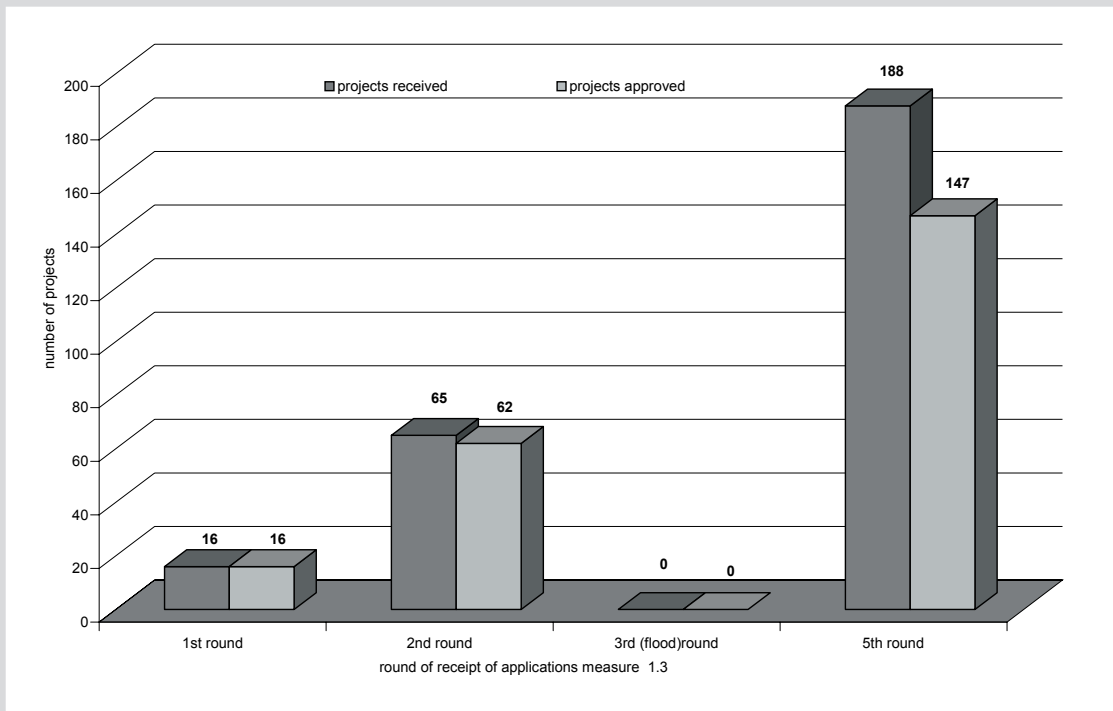
0,6% of the revenues. The sub-measure on support of the processing and marketing of regional agricultural products¹³ had -very low activity in terms of submitted projects (effectiveness 26%). The lack of interest in this measure results from a rather complicated procedure of acknowledgement of the "regional affiliation" of the products persuading the farmers to choose the common processing methods.

The introduction of the SEUROP classification of carcasses and of the HACCP system within measure 1.3 on improving the quality control and consumer protection was also highly relevant as it aimed at strengthening the competitiveness and thus the sustainable development of the foodstuff sector. The sub-measure concerning HACCP was very effective, in particular as far as the milk sector¹⁴ is concerned, whereas the sub-measure intro-

¹³ The processing and marketing of non-agricultural products was covered by the measure 2.2

¹⁴ This measure was limited to milk and meat sector. The effectiveness of the milk sector was 100%, and of the red meat sector 42%. However, only 11 projects of 232 have been selected for sub-measure 1.3.1.

Figure 7: Number of projects received and approved under the measure 1.3



Source: Ministry of Agriculture, 2003

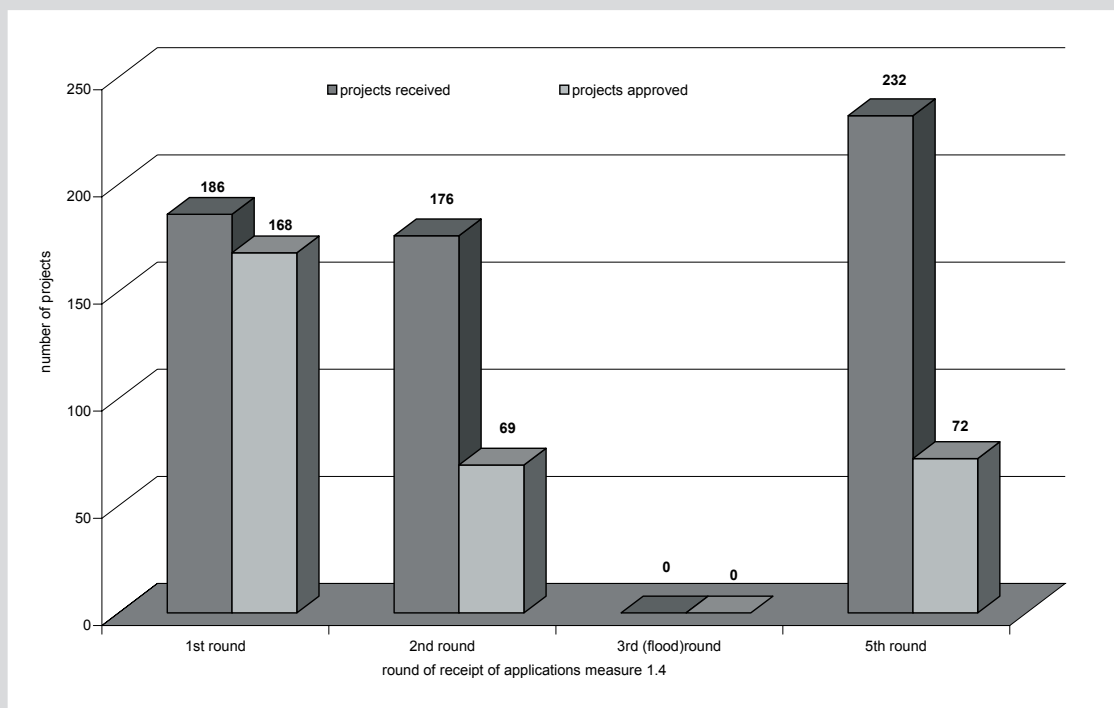
ducing the SEUROP system failed completely (effectiveness 5%).

The lack of interest in the latter resulted on the one hand from a non-optimal timing of the Programme launch in view of the national effective legislation¹⁵, and on the other hand from the existence of a national funding scheme covering 100% of the costs for the purchasing of the SEUROP system, whereas the SAPARD programme offered just 50% of co-financing from public funds. Thus the majority of the producers had during the implementation of the SAPARD Programme the SEUROP system already in place and only a small number of producers who

intended to replace the current -system for a SEUROP system entered into the SAPARD Programme. Therefore the weak participation in this submeasure has had no consequences on the preparedness of the Czech producers for the EU membership. However, regarding the low effectiveness the introduction of the SEUROP system, financing by the designers of the SAPARD Programme seems to be questionable.

¹⁵ Pursuant to the national legislation, Decree No. 147/1998 Coll., and the Council Directive 98/83/EC, the food companies were obliged to introduce the HACCP systems as of 1 January 2000. The SEUROP system of common carcass classification was introduced and generally applicable since 2001. However, the legislation allowed the introduction of the system in the following two years. At the beginning of the year 2003, the State Veterinary Administration issued a regulation prescribing the veterinary and hygienic norms to be introduced in holdings until the end of the year, or otherwise they were in danger of closure. Some holdings did not follow this regulation and were closed.

Figure 8: Number of projects received and approved under the measure 1.4



Source: Ministry of Agriculture, 2003

Under the measure 1.4 on land improvement and reparcelling 598 high quality projects were submitted by Land offices, of which 309 were selected in three rounds of project submission.

The consolidation of property rights of tenant farmers on land parcels, the functional and spatial changes of the parcels, their division or unification, the ensuring of their accessibility and the determination of their borders should have been guaranteed by the reparcelling process, which started in the Czech Republic in 1991. However, this process has not yet been accomplished. This has an important impact on the agricultural investment. The leasing is not stabilized and is usually signed for short time periods, which makes it very often impossible for the farmer to borrow or apply for funds, in particular to adhere the agri-environmental measures. Thus the measure 1.4 is very relevant and the effectiveness of the implemented projects is satisfactory, especially in case of sub-measure 1.4.1 where

the measure was realized by 43%¹⁶. Thanks to the support, in some of the districts the reparcelling process has been accomplished while creating a unified digital card.

Measure 1.1, especially the projects implemented under sub-measures 1.1.1 and 1.1.3, had significant environmental impact even though the primary objective of the investments was not support to environmental farming. Measure 1.3 had a significant impact on the environment as it concerned hygienic norms. As for the measure 1.4, there is no significant evidence of direct effect on the environ-

¹⁶ The total sum allocated by the SAPARD Programme (2000-2006) covers 17,6% of the total needs for construction and renovation in the field of roads and landscape enhancement and protection (50,000 ha) in the Czech Republic. 21,579 hectares are expected after the projects dealing with implementing anti-erosion measures (43% of the operational objective). A threefold increase in the amount of field roads is expected after the implementation of the projects (25,820 km). A minor part of this increase relates to the establishment of 46 km of bio-corridors. As for sub-measure 1.1.2, the SAPARD Programme covers 12,3% of the total needs on digital mapping in the Czech Republic, of which the operational objective of 86,000 ha has been reached only by 25%. However, the operational objectives have been fixed on the basis of funds assigned for the period 2000-2006 while - funds for 2000-2003 have been allocated in regard to the accession to the EU on May 2004.

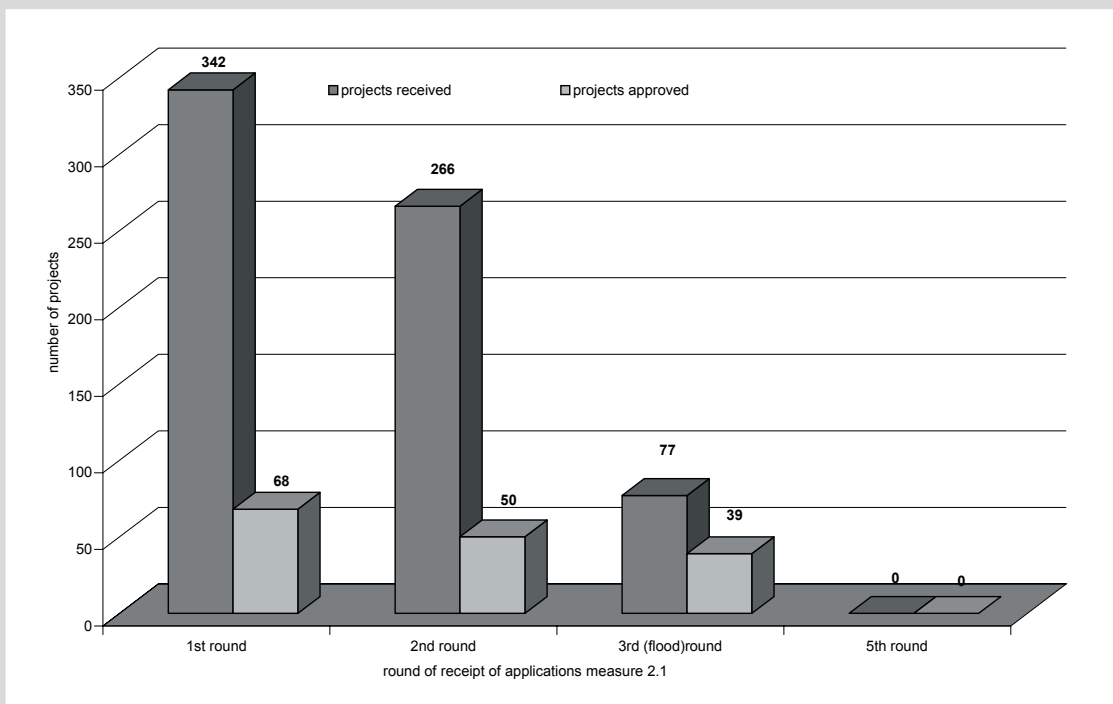
ment; however, the more efficient transport of farm input and outputs thanks to the construction of new roads will confine the negative impact on the environment. In general, the big agricultural holdings were better prepared and reacted more flexibly (measure 1.1) than the processors, even though the latter had much better capacities to implement the projects (measures 1.2 and 1.3). The procrastination of food processing holdings that have not been put under adequate pressure by the state was significant.

Priority 2 - Sustainable development of rural areas

In general it can be stated that the measures on rural development (2.1, 2.2) under the competence of the MRD were too wide-cut. This resulted from a substantial difference between very exactly set up agricultural measures with tightly fixed eligible ex-

penditures under the Priority I on one hand, and wide-cut measures on rural development on the other hand, allowing to finance a wide range of very heterogeneous projects that extended from the purchase of a bus for the reconstruction of a historical building to the construction of a home for the aged. The absence of tighter delimitation of eligible expenditures resulted in an excess of applications, of which only about 22% were approved. The development of villages and rural infrastructure, which is the subject of measure 2.1, is highly relevant to the urgent needs of improving the competitiveness of rural areas and of the rural infrastructure in the Czech Republic, as well as in terms of implementation of the CAP¹⁷. In total, 704 projects were submitted by the municipalities, the sole beneficiaries under this measure, of which only 200 were approved as the demand highly exceeded the allocated funds.

Figure 9: Number of projects received and approved under the measure 2.1



Source: Ministry of Agriculture, 2003

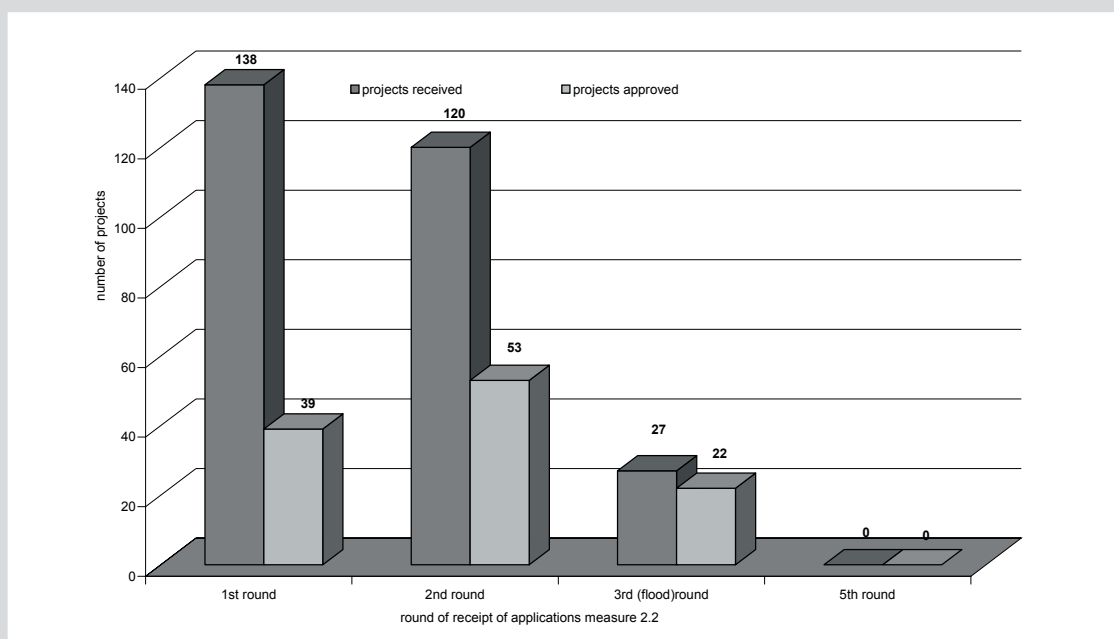
¹⁷ Council Regulation 1257/1999, Chapter IX, Art. 33

The majority of the projects supported old building renovation and reconstruction and renovation of rural infrastructure. Great accent was placed also on the multifunctionality of projects. However, according to the Mid-term evaluation the effectiveness cannot be assessed because no operational objectives have been identified. Furthermore, - measure 2.2 focusing on the development of rural private businesses was also highly relevant regarding the national priority for support of the establishment and development of small and middle-sized businesses (SME) and of the diversification of business activities in order to ensure sustainable development of rural areas, and overcome their depopulation related to the decrease of agricultural production. Nevertheless, the measure has been focused rather on the support to existing businesses, since of the 147 projects approved under this measure, as much as 61% of funds were allocated to the development of the existing SME.

The effectiveness is not very high regarding the number of projects expected by the SAPARD Plan¹⁸. This measure has been however very effective in terms of job creation: 1,600 permanent jobs have been created, representing 80% of the operational objective set in the SAPARD Plan.

Under Priority 2 the measure 2.3 on agricultural environmentally friendly production methods has been implemented in 5 landscape-protected pilot areas with differences in geographical, natural and farming factors¹⁹ in order to assure diversity of the management types. By implementing this measure, the state authorities aimed to gain experience with the future implementation of the agri-environmental programmes (HRDP). It was designed in a very complicated way in order to test specific management practices tailored to the needs of each selected area²⁰. It needs emphasizing that this measure was highly relevant to the main environmental

Figure 10: Number of projects received and approved under the measure 2.2



Source: Ministry of Agriculture, 2003

¹⁸ 500-800 projects were expected (effectiveness = 21%), along with the creation of 2,000 permanent full-time jobs.

¹⁹ Blaník - wet fertile meadows, Bílé Karpaty - dry, semi-natural meadows, rich in species, Moravský Kras - caves under intensive arable land, Litovelské Pomoraví - wetland meadows, Poodří - wet alluvial meadows rich in birds

²⁰ The LFA measure, which represents the highest share of allocated funds for HRDP, was not included in measure 2.3 because a functioning system has been already running in the Czech Republic (national agri-environmental scheme 505).

threats in the Czech Republic such as land abandonment, changes of management, high share of arable land and intensification of agricultural production. It was also coherent with Council Regulation (EC) 1257/1999²¹. Even though there was - lack of support by the Ministry of Environment with respect to the delayed implementation of Natura 2000 network, developed and designated under the Birds and Habitats Directives, these directives have been already taken into consideration by the designers of the measure in some pilot areas (i.e. protection of birds in Poodri). In total, 36 projects were approved while - in only two of the pilot areas²² the operational objective has been reached.

Priority 3 - Conditions for full utilization of the Programme

As for measure 3.1 on vocational training, the project selection was done by the Institute of Agricultural and Food Information, a state allowance organization (beneficiary), which prepared calls for proposals for training activities provided by registered educational entities. The measure was highly relevant because the financial support was intended to contribute to the improvement of the knowledge and skills of farmers and foresters, and persons involved in other activities in the rural landscape, as well as for quality experts. As the scope of basic vocational themes announced under this measure by the Managing Authority covered and even exceeded the whole scope of activities of the Programme, it can be stated that this measure is highly coherent with Priorities 1 and 2. Nevertheless, in regard to its relatively late accreditation²³ that delayed considerably the launch of the calls for proposals, and the implementation of projects its effectiveness is not yet to be evaluated. Besides a very demanding tender procedure in terms of administrative requirements to be done in a very short time period, UZPI was bound by an EC Manual Calls for Proposals prescribing a selection among at least 3 candidates²⁴ per each vocational theme. Having in mind that the - conditions were not very stimu-

lating to the training bodies to enter into this measure (the eligible expenditures covered only the running costs²⁵), almost half of the vocational topics themes were eliminated for lack of three available quality projects - submitted for each topic. In total, 34 contracts were concluded in 2003, of which 19 have already been implemented. Nevertheless, the attendance of seminars was very high, in particular the one just before the accession day of 1 May 2004. This is evidence of big interest among the final beneficiaries. Moreover, the shortcomings in terms of tender procedure have been to a great extent removed in the OP RDMA on the basis of this SAPARD experience. Nowadays, the applicants can submit only a frame offer in the first round, and the elaboration of a detailed project is not necessary until the decision for acceptance of the offer.

Measure 3.2 on technical assistance is relevant as it covers the operational tasks of the Managing Authority related to monitoring and evaluation²⁶. Even though the results of the implementation of this measure cannot be evaluated yet, it can be anticipated in terms of its design that the operational objectives will be achieved. Monitoring activities on agri-environmental matters establishing reference baseline situation for pilot projects to be implemented under measure 2.3 are highly relevant. Nevertheless, as regards the fact that no monitoring activities concerning other measures are covered under this measure, the quality of the monitoring system will be improved only in relation to measure 2.3. Also, the NMC meetings and annual reports²⁷ are relevant and indispensable activities for the Programme implementation. In terms of effectiveness, the annual reports are of high quality and provide complex information on the Programme's implementation. On the contrary, according to the Mid-term evaluation the utility of the project "Communication Strategy for NGOs" is very low and unsatisfactory and is focused on one restricted target group in terms of recommendations. To conclude, the measure on technical assistance greatly contributes to the facilitation of the Programme implementation. The design of this supporting measure however lacks - a cross-cutting approach.

²¹ The Czech Republic was allowed not to apply - Art. 23 of - Council Regulation (EC) 1257/1999 concerning the 5 years agri-environmental commitment. Thus - measure 2.3 provided the faculty of four-year's, in few cases even of one-year agreements in accordance with the national agri-environmental scheme.

²² In Blanik pilot area, only one farmer adhered into the measure.

²³ On the 1 of August 2003

²⁴ For projects from 9.670 EUR to 64.516 EUR

²⁵ Only 12% of the project price has been allocated to - provider's costs.

²⁶ The two main issues and activities under this measure were: monitoring of the Programme (monitoring of agri-environmental measure 2.3, technical support to NMC meetings, elaboration of annual reports), as well as evaluation of the Programme.

²⁷ Three annual reports were prepared till 2004 for the years 2001, 2002 and 2003 (see www.sapard.cz).

Assessment of achievements and deficiencies

The consultation round had already unfolded the trends and deficiencies, which appeared - later in the course of the normal rounds, such as high number of quality projects for measure 1.4 on land improvement and reparation by the state Land Registers and, conversely, the lowest number of submitted projects registered for the sub-measures on regional products and the SEUROP system. The lack of well-elaborated projects resulted partially from the procrastination of farmers inexperienced in demanding funds who did not take advantage of the free consultation service at their disposal. The farmers were also often discouraged by the volume of information required to accompany an application for projects of any size. In order to ensure that the applicant would be able to implement the project correctly, very costly annexes such as a feasibility study, a written undertaking of the bank to grant credit, indebtedness certificate, building license were required by the state authorities together with the application submitted without any guarantee of its selection²⁸. On one hand, for the administration bodies it was not possible to require the annexes after the approbation of the project in order to spare the unsuccessful applicants - unnecessary costs. In case of their non-delivery, the committed funds should have been reallocated, which would have demanded a new selection procedure. In the case of small-size projects the volume of requirements did not correspond to the risks associated with the granting of aid.

The preliminary round showed another very important disturbing tendency of predominant submission of projects by big agricultural co-operatives, whereas the projects of smaller operators were missing. There is a small number of SME in the Czech Republic²⁹ and their technical level and human resources do not meet the programme's requirements. Along with the lack of experiences and capacities for elaborating a good project and of available funds for financing professional consultancy³⁰, the main obstacle was the economic instability of the SME having lower chance to have access to bank credit as they were not able to pass

the rating process. Moreover, in accordance with the scoring criteria for measures 1.1, 1.2, 1.3, large and stable companies with long history got more points. The tendency to support more often already established stable holdings was monitored also in the case of measure 2.2 on development and diversification of economic activities.

In general, the implementation of agricultural measures has been very effective and efficient. Concerning its efficiency, animal welfare has been significantly improved in the farms that have invested under sub-measures 1.1.1 and 1.1.3. Concerning the hygienic norms, the quality of the produced products has increased considerably and 64,4% of the beneficiaries are in compliance with the EU standards thanks to the support³¹. As for the processing and marketing measure, positive effects are monitored in terms of more rationalized use of production factors, improved product quality, decreased production costs and created job due to the support. Nevertheless, it has to be stressed that the investments under these three measures were focused on the short-term survival in the perspective of the EU membership. The implementation of the *acquis communautaire* has however produced the effects of sustainability by increasing the competitiveness of a considerable part of the Czech producers³² on the EU market. It has to be pointed out that the amount allocated to sub-measure 1.3, aiming to enable the individual companies to meet the requirements for being listed in the A1 group (able of export to the EU), did not correspond to the estimated total funding needed by the Czech Re-

²⁸ Theoretically, all applicants should have been able to elaborate a project by themselves taken the high quality consultation services of RO SA and the detailed plan and guidelines published on internet. However, the elaboration of a project is very demanding in terms of time and human resources, which are not available to SME. The revenue regenerating projects over 5 millions demanded a feasibility study that is very costly and must be prepared by a professional qualified third party. For revenue generating projects below EUR 138,900, a business plan, including a market study, was required.

³¹ In accordance with ARDP, in 2000 only 5 slaughtering establishments were approved for exports to the EU whereas of the remaining 284 high-capacity and 207 low-capacity establishments, 70 and 120 respectively were supposed to meet EU requirements by 1 January 2003. Despite the three-year transition period requested to improve hygienic conditions of other establishments, 40 high-capacity establishments and 20% of the low-capacity establishments were about to cease operating before the accession. Of the 125 establishments producing dairy products, 20 were approved for export to the EU in 2000, and a further 51 were expected to meet the EU requirements by the time of accession. Nevertheless, 30 establishments were expected to close down. A three-year transition period should allow another 26 establishments to meet the EU requirement after the Accession. Concerning the meat sector, of a total of 1,023 such establishments 25% were about to close down before the date of the accession. Of the 40 poultry slaughterhouses, 10 met the EU requirements in 2000, and another 16 were about to meet them by the time of the accession. 8 establishments were about to close down.

³² It was envisaged that about 300 establishments would achieve status A1, and eventually A2 during the seven-year implementation period. The objective has been reached by 75%.

²⁸ In accordance with the rules, the required annexes expired - three months after their issuance so that in case of refusal of the application the applicants had to provide up-to-date certificates in order to participate in the next round of applications. This discouraged many applicants.

²⁹ About 8.000 family farms.

public³³. Regarding the small-scale character of the SAPARD Programme, its main role should be seen in the setting up of the administrative system for funding from the structural funds after the accession, which is expected to have a greater impact on - all agricultural sectors in the near future.

Also the support under the rural development measures has produced very positive effects in terms of increasing the quality of life for the local population, preservation of the rural heritage, creating new jobs opportunities and - development of the existing SME, and therefore the sustainable development of rural areas. On the one hand, the scope of eligible expenditures was too wide in view of the very limited funding appropriated to rural development measures (1/3) and was not based on identifying the real, most urgent needs of the regions. On the other hand, the implementation of rural development measures helped to identify the most urgent needs for the next programming period and the EC structural assistance. Nevertheless, a certain discrepancy has been registered between the measure level and the implementation level due to the unrestrained set-up of the measure. The financed projects have not much attributed to the diversification of farm activities as only few projects on agri-tourism, regional non-agricultural products and production of alternative energy sources were supported. The measure focused also on the start-up of new businesses and the diversification of farm income whereas after the Programme implementation the diversification of farmer's activities and rural tourism each account for less than 10 %. Thus the traditional economic structure remained conserved. In general it can be stated that the Programme was to a very large extent in favour of the (partially larger) existing businesses, regarding both the agricultural measures and the measures on rural development.

Concerning the agri-environmental measure, besides overlapping with the national agri-environmental scheme 505 leading to a low participation in some areas³⁴, which should have been considered when designing the measure, the low partici-

³³ The required investments were estimated at CZK EUR app. 55,560,000 whereas the funds allocated to the measure 1.3 amounted 25,172,617. It was envisaged that about 300 establishments would achieve status A1, and eventually A2 during the seven-year implementation period. The objective has been reached by 75%.

³⁴ In Blanik area, at least 40% of eligible are of 110 ha should have been treated, while only 1 farmer entered into the Programme (10 ha). In Bile Karpaty, the operational objective was to implement agri-environmental measures on a surface of 400 ha of the total grass area of

pation of farmers resulted from the lack of experience with the application of more complex land management among the local authorities and farmers. Nevertheless, irrespective of the fact that the main objective of measure 2.3 was to test the entire scope of future horizontal agri-environmental titles in small-scale areas by including specific local management, the potential scale of agri-environmental activities in the Czech Republic is quite large, and it is not evident whether 5 pilot areas projects could have provided sufficient experience for HRDP.

Another important obstacle, the unwillingness of banks to offer loans to private entrepreneurs, especially in agriculture, has been partially overcome in the course of the Programme as the banks took into consideration the profitability of the repayment of onehalf of the credit³⁵ right after the project realization. However, the banks should have been better prepared by the national SAPARD authorities before the launch of the Programme in order to take into account the guaranteed repayment of the funds. Also in this concern the larger enterprises are favoured in terms of the interval between claim and payment because they can afford to wait longer for reimbursement of project costs in case of delayed payments. This problem has been even more relevant in OP RDMA: regarding the possible insolvency in the power of the state administration³⁶, the clause on the 3-months term for reimbursement, laid down in the SAPARD Plan, has been exempted from OP RDMA.

To conclude, the main role of the SAPARD Programme should be seen in the preparation for the set-up of the administrative system for OP RDMA. Regarding the small amount of funds allocated to SAPARD it is difficult to quantify at this stage the consequences that the Programme had on the Czech agriculture³⁷, whereas the impact of the implementation of the new CAP in the OP will be much

6000 ha. The measure was implemented on 305 ha. In Moravsky Kras, the objective was to grass 170 ha and to implement the changed sowing process on the area of 150 ha. In Poodri, the maximal area to treat is 1800 ha and to grass is 340 ha of which on 230 ha the agri-environmental measures have been implemented.

³⁵ The intervention rate for a revenue generating project is 50%, of which 75% come from EU funds and 25% from the national budget.

³⁶ Until the end of the year 2003, the EC had difficulties to allocate the funds for AFA 2001. The Czech Republic was obliged to reimburse the projects through its own national means so that the payments were delayed by some 2 months.

³⁷ This will be the subject of the final evaluation of the SAPARD Programme, to be carried out after the end of the Programme implementation.

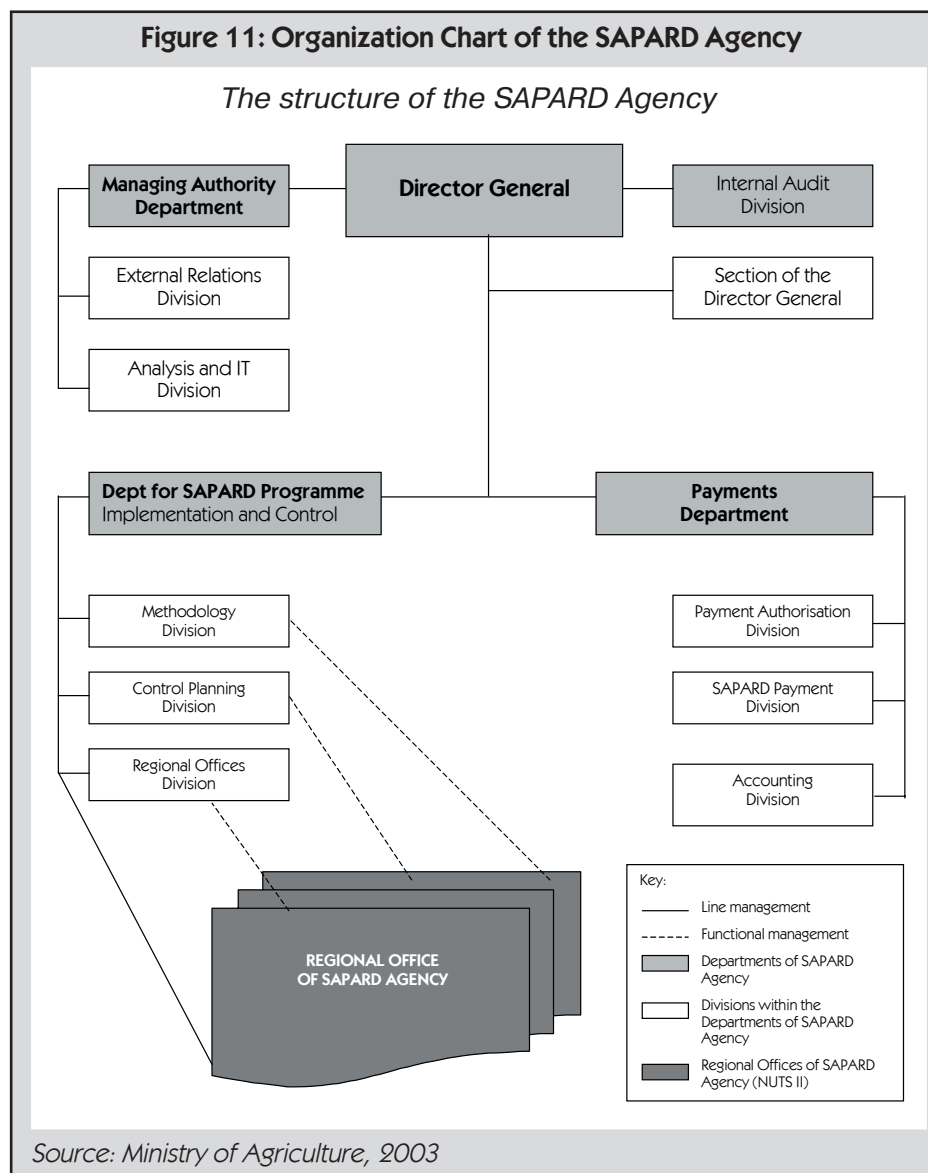
stronger taking into account the high share of funds allocated to investment in the agricultural holdings and processing following the SAPARD Programme. Nevertheless, the tendency of the Czech government to favor the primary production is no longer sustainable as the farmers should consider other sources of subsistence by means of diversification of their agricultural activities. The first round of OP on the purchase of agricultural machines opened in 2004, showing that the demand exceeds considerably the allocated funds, has also confirmed the experience gained in the SAPARD Programme that the eligible expenditures have to be tightly delimited in order to use the agricultural funds granted by the EC more effectively.

Implementing structures and procedures of the SAPARD Programme

The structure of the SAPARD Agency

Pursuant to Commission Regulation (EC) No. 1268/1999, a single SAPARD Agency has been established, responsible for both SAPARD implementation and payments. Apart from the independent Internal Audit Division directly subordinated to the Director General, there are three main departments, namely the Managing Authority Department, Department for Implementation and Control and Payments Department. The functions of authorization, payment and accounting were separated in three subdivisions of the Payments Department, and the responsibilities for project

approval, authorization and payments were not assumed by one administrator as it was required in the MAFA. The Department for SAPARD Programme Implementation and Control is divided into a Methodology Division, a Control Planning Division at the central level and Regional Offices Division managing 7 regional offices at NUTS II level to ensure the Programmes central controls planning and methodology. The projects were checked for completeness at the regional level³⁸ and after approval by the Regional Selection Subcommittee handed over to the central level for final selection by the National



³⁸ The total number of administrators in 7 RO SA was 52 people from the MoA, plus 14 from the MRD.

SAPARD Selection Committee. At the final stage, the contracts are signed by the Director General. Except for the payments and preparation of contracts, the majority of the administrative tasks were decentralized and the responsibility for them were transferred to RO SA³⁹. In accordance with the MAFA, separate bodies were established, namely a Managing Authority, Implementing Body, Paying Agency and Internal Audit Division. The tasks and responsibilities related to the implementation of the SAPARD Programme are elaborated in great detail in the Operational Manual, an intern working document for all the staff involved in the Programme implementation, containing more than 1000 pages and often hindering the administrative procedure rather than facilitating it.

In order to ensure the monitoring of the Programme, a National Monitoring Committee comprising of 25 members (representatives of governmental and non-governmental institutions) has been set up, together with eight Regional Monitoring Sub-Committees at the level of the NUTS II regions. In addition to the representatives of ministries participate in the NMC also rather representatives of associations and chambers⁴⁰ related to the agricultural and food sector and having the right to vote. In the course of the Programme 7 meetings⁴¹ have been held dealing with themes and topics included in MAFA (in particular selection procedure, monitoring and overview of financial plan). The absence of higher officials, sometimes exceeding one third of the permanent members, made it impossible to take decisions in certain instances. During the second meeting of NMC a requirement was expressed to invite the representatives of regional monitoring subcommittees to participate in the meetings. This improved the transferring of information from the national to the regional level. Furthermore, a computer database was developed with graduated access interconnecting the regional of-

fices with the central office. The latter has access to data from all the regions, whereas the regional offices only have access to information on their own registered projects. Except for input and updating of project data after completion of on the spot controls, the database also records financial commitments and payments from the SA and is capable of reporting on the financial and physical outputs.

Project administration and control

Concerning the submission of applications, there was massive project submission by farmers on the deadline date and for the understaffed team of RO, especially in regions traditionally dealing with a high number of submitted applications, it created serious difficulties. As the farmers brought all documents on hard copies, the employees RO SA had to input the data into the computer, which was very time demanding. From the point of view of the beneficiaries, co-operation with the administrators at the regional level has been assessed as excellent. RO SA provided information on how to elaborate the project, helped to assess the financial health of the holdings of the beneficiaries, helped with the collection of all the necessary annexes. Without their willing attitude and this extraordinary service, which went beyond the obligatory office agenda⁴² more than a half of the beneficiaries would not have got the grant. The source of this enthusiasm was their awareness of the national interest to use up the available funds. Nevertheless, during the first two rounds the legal conditions (terms of submission of application, notification, payments and reimbursement) changed perpetually. This compounded the confusion of beneficiaries that were themselves bound by obligations vis-a-vis the state. This legal gap is considered by the beneficiaries as unpreparedness of the state. It was the typical unwillingness of the state authorities, especially at the national level, to assume full responsibility and to communicate the up-to-date conditions and rules to the beneficiaries.

Regarding the limited funds allocated to SAPARD, three levels of project assessment were set in order to satisfy at least the best quality projects: eli-

³⁹ Exceptions: projects exceeding EUR 138,900 as well as projects involving more than one region had to be evaluated at the central level.

⁴⁰ Structure of NMC - members: MoA, MoF, NF, MoFA, MRD, MoE, MoLSA, director of the Implementation and Payment Control Dpt. of SA, director of Payment Dpt. of SA, Association of Cities and Municipalities of CR, Association for Rural Renewal, Chamber of Commerce of CR, Food Chamber of CR, Managing and Coordination Committee, Association of Private Agriculture of CR, Association of Young Farmers of CR, Association of Municipality and Private Forests Owners in CR, Association of Agricultural Cooperatives and Societies, State Veterinary Administration, Czech Association for Nature Conservation, representatives of the EC in the role of advisors

⁴¹ The meetings were held on: 10 May 2001, 5 December 2001, 24 April 2002, 23 October 2002, 23 April 2003, 26 November 2003, 22 April 2004

⁴² Some RO SA managing a large territory covering more counties offered by their own initiative one office day per week in the more distant counties in the office of the Agricultural agency (i.e. RO SA in Ceske Budejovice in Plzen) to facilitate the time-demanding consultation process to the farmers.

gibility criteria, scoring results and complementary criteria. The fulfillment of the eligibility criteria was an indispensable condition for the recommendation of projects by the Regional Selection Sub-committee for the next selection procedural steps while the scoring results determined the ranking of the project on the list of recommended projects. At the national level it was necessary to set additional criteria in order to determine the granting of aid in case of higher number of submitted projects, having the same scoring results and coming from different regions. In this system, besides the degree of financial health (the healthier, the better), which was already scored, the crucial additional criterion for passing the funding limit was the total amount of demanded public contribution financing⁴³. Smaller projects were generally preferred. This practice showed, firstly, at regional level the uselessness of the Regional Selection Sub-committees as their role was practically only to approve and to pass over the list of projects scored by the subordinated administrators without having any real influence on the results. Secondly, the weak point at the level of the NSC was the possibility of influencing the final project selection with regard to the regional affiliation of projects, as each voting of a commission allows for subjective argumentation.

Furthermore, it can be stated that the scoring system as well as the controls⁴⁴ were focused on administrative compliance and verification rather than on quality criteria. The control is concentrated on the administrative, purely formal check of accounting books and the project outcomes corresponding to the eligible expenditures disregarding the quality of its accomplishment⁴⁵. Thus, in order to assure the required multifunctionality⁴⁶ of projects on rural development, the project objectives reflect often the selection criteria published on internet by the Programme. Furthermore, for the purposes of controls there were clear-cut and evident criteria for agricultural measures, which could be answered unambiguously with yes/no and did not allow any interpretation., Conversely, in the case of rural de-

velopment projects the rules designed by MRD had to be interpreted by officers of MoA at the regional level, responsible for on the spot controls. Thus the co-operation of MoA with MMR at the regional level was generally quite problematic. On the one hand, its administrators at the regional level executing the delegated tasks related to the assessment of the projects for rural development were independent and were not subordinated to higher officers of the RO SA. On the other hand, their actions had consequences on the work of RO SA, i.e. on the planning of controls within the competence of MoA.

To conclude, the Programme administration was set up in compliance with the EU requirements and turned out very effective. However, the administrative procedures were too complicated and often hindering the effective implementation of the generally very flexible staff.

Transition from the SAPARD Programme to EC funds oriented to agriculture

Transition to EC structural and non-structural assistance in agriculture

The SAPARD programme represents very precious experience of the transition to the structural funding, especially for the OP RDMA, which was built on the basis of its implementation system. The continuity of personnel and hereby the transmission of achieved experiences and best practices was preserved on both levels, the regional and the national. In the regional offices the staff executing the administration of the SAPARD programme has kept its agenda till the completion of the implementation of the SAPARD programme with the last ex-post controls in 2006 and has taken on the tasks related to the administration and to the controls of the projects submitted in the framework of the RDMA. However, besides a very operational application of the best practices and lessons learned from SAPARD in the current funding system, a certain discontinuity has been also monitored in sharing experience achieved in the SAPARD programme by some key persons who switched from SAPARD to another agenda.

⁴³ The percentage of demanded public contribution was already scored: one percent less, one point more.

⁴⁴ Interim controls are executed in 100% of the projects, while ex-post controls in 100% only for revenue generating projects. The project objective has to be fulfilled for at least three years. This exception to the rule of 5 years has been accredited by the European Commission.

⁴⁵ This concerns especially the measures on rural development.

⁴⁶ The scoring criteria were published on Internet and thus well known to the applicants.

The SAPARD Programme featured more or less the measures, which appear in the Operational Programme, with the exception of young farmers, forestry and water management. The practices applied in the SAPARD Programme represented the main source for the implementation of the Operational Programme. Nevertheless, there are some changes in the implementation system based on the deficiencies uncovered in the SAPARD Programme. The selection committees at the regional level and at the national level did not produce satisfactory results; therefore they were dissolved in the Operational Programme and replaced by a mechanism of project scoring on the basis of clear and distinct scoring criteria. Moreover, the additional criteria for projects with the same scoring level coming from different regions were introduced in the regular scoring system. While good financial health was a necessary selection criterion for the project admissibility in the SAPARD Programme without being scored, in the first round of the Operational Programme it was scored (group A, B, C, D) and thereafter it has played the key role of an additional criterion in case of shortage of funds. Regarding the negative experience of last-minute application submissions by farmers, the second additional criterion introduced in the OP was an on-time application. The earlier the applicant has been registered, the better his score. The practice of attribution of each percent less of demanded public contribution proved successful and was reinforced by more favourable conditions for young farmers and farmers running a farm in LFA. In such cases a farmer can get up to 15% of public contribution in addition (5% young farmers, 10% LFA) and gain a better score by their deduction from the final increased percentage of aid. On the basis of the experiences gained in the SAPARD Programme the control system has also been changed. With regard to the fact that ex-ante controls in 100% of the cases turned out very time demanding, they are executed only in urgent cases⁴⁷. The planning of controls was decentralized and is now executed at the regional level and submitted for control at the central level. Moreover, in order to facilitate the project submission to the applicants of aid, the requirement for submission of original documents was abandoned and replaced by a declaration of honour

However there are some practices, which have proved successful. In the SAPARD Programme the economic viability belonged to the eligible criteria whereas in the OP it was scored and on the basis of a special calculation that is not published, additional points were attributed to projects with higher viability. However, this system favours again bigger holdings having available funds for financing an expert on financial analysis. Therefore, an option has been considered to revert back to the above-mentioned SAPARD solution. Similarly, in the SAPARD Programme it was set up in the regulations that the beneficiary would be reimbursed within three months after the application. This had to be abandoned in view of the insolvency of the Paying Authority, the National fund not receiving in time the co-financing contribution of the European Commission. However, this causes big problems for the beneficiaries having obligations to pay their providers in time.

As far as HRDP and SROP are concerned, the implementation of the SAPARD programme has been a very precious experience for the administration in terms of getting used to the common mechanisms and rules of EC funding, such as the four-eyes-rule, audit, on-the-spot controls etc. The implementation of the agri-environmental measure has greatly helped the setting up of the implementation of HRDP on the level of programming document. However, as opposed to measure 2.3, the HRDP measures are implemented horizontally and the applications are submitted yearly and once they are in compliance with all requirements, they are granted automatically. Except for the setting-up of producer groups and early retirement measures, the control is based more on measuring and rules observance than on the control for administrative compliance and accountancy. The continuity with SAPARD has been maintained particularly on the level of trained staff. Concerning SROP, the implementation of the rural development measure in the SAPARD Programme was significant, especially regarding the identification of regional needs at the level of programming document and designing of measures. Thus the experiences from the SAPARD measure 2. 1b) were used by laying the conditions for the SROP measure on rural infrastructure, to

⁴⁷ Unlike the SAPARD Programme, the beneficiary can start the project implementation already in the moment of registration and does not have to wait to sign the contract.

which most funds have been allocated. Nevertheless, the project selection procedure and the administration have been set up on a different basis and differ essentially from that of the OP based on the SAPARD administrative procedures.

Transformation of the SAPARD Paying Agency into the CAP Paying Agency

Originally, two agencies were planned in the Czech Republic, one at the MoA, the other in the State Agriculture Intervention Fund (SZIF). Finally, a decision about their unification has been taken. The SA was transferred under SZIF as of the 1st January 2004. This transfer was only an organizational change; the right and obligations of the SA arising from the signed contracts remain unchanged. At the same time, the activities of the employees and the necessary competencies of the institutional structures of the established CAP paying agency were transformed. The RO SA became part of the regional divisions of the fund but it remained within the competence of the SA. The former heads of the RO SA became regional heads of the Programme. The transfer of the SA to the SZIF was preceded by an appointment of a Managing Authority for the Operational Programme RDMA and it was decided to merge the former SAPARD Programme Managing Authority with this newly established department as of 1 July 2003. This new independent SAPARD Programme Managing Department was established as a coordination unit for the activities related to the implementation of the Programme.

The former Department for SAPARD Programme Implementation and Control has been transformed into a Department for OP and SAPARD that is part of the Programming Body of SZIF. The former 7 RO SA have become part of the 7 regional departments of SZIF and are directly managed by the Regional Departments Body. As regards the methodology, its employees are still subordinated to the Independent Division for SAPARD Management that had replaced the former division of director general of SA, as well as to the Department for OP and SAPARD⁴⁸.

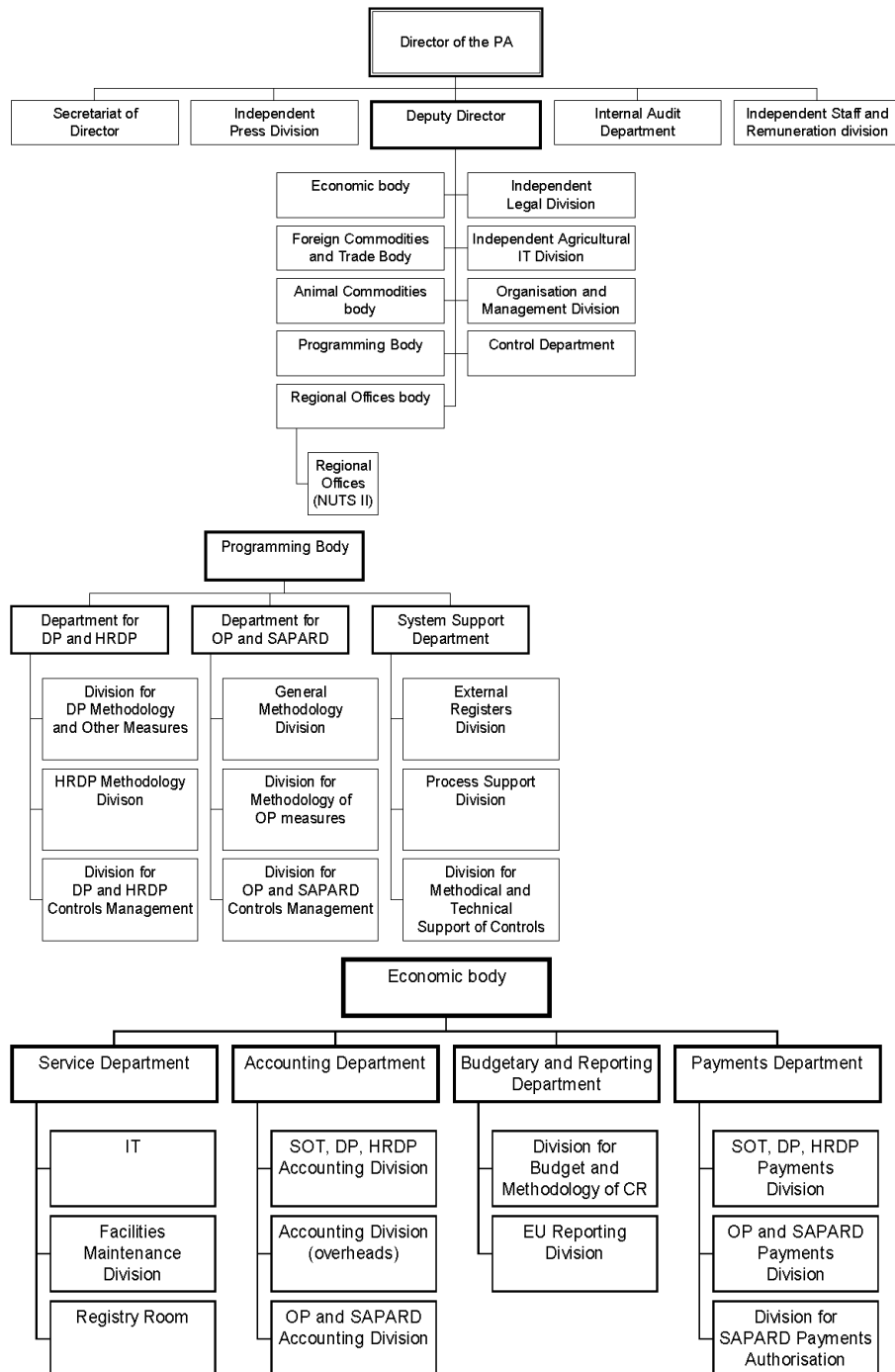
Apart from the OP and the SAPARD Department, the Programming Body comprises also a Department for HRDP and Direct Payments and System Support Department for controls in the guarantee sec

sion, as well as OP and SAPARD Payment Division, are part of accounting and payments departments for direct payments, HRDP, OP and SAPARD, falling under the Economic Body of SZIF. The Internal Audit Department is directly subordinated to the Director General of SZIF.

On the one hand, the transformation of the SAPARD Paying Agency was carried out very effectively using the current functioning system of existing funds and the established structures and mechanisms of the former SAPARD Agency, in particular as regards the OP RDMA. Besides the reorganization of the existing departments, an adjustment of the internal rules of the SA (Operational Manual) had to be made in order to adjust the system of internal directives of SZIF. On the other hand, the staff of some key bodies such as the Managing Authority has changed, thus cutting partially the continuity of achieved experiences and the information flow towards the co-operating bodies.

⁴⁸ The Department for OP and SAPARD has four subordinated bodies: 1. General Methodology Division, which was created by the former Division for SAPARD Methodology and 3 regional methodists and has also taken over the OP methodology; 2. Division for OP and SAPARD Control Planning based on the former Control Planning Division in SA and responsible for OP controls planning; 3. OP Methodology Division (no competencies concerning SAPARD); 4. Payments Authorization Division that was created by the former Payments Department of SA

Figure 12: Organization Chart of SZIF



Source: Ministry of Agriculture, 2003

POLICY OPTIONS

Regarding the agricultural market saturation and the low economic profits with uncertain future, alternative incomes through extension of farming activities have to be ensured, for instance ecological farming, processing and marketing of regional products and ecotourism, in order to diversify the local economy. In the Czech Republic, the revenue generating activities alternative to the primary agricultural production are very often SME, whereas the large processing holdings or cooperatives are specialized in large-scale production without any alternative sources of income. Therefore a multi-sectoral programme should be created to support the development and establishment of small and medium size businesses in the rural areas and to achieve a greater variety of non-production rural activities and therefore boost the appeal of rural areas.

To ensure the access of the SME to funding opportunities, the administrative procedure for small-scale projects must be simplified and introduced in to complete the current one. There is a long set of procedures to be followed from the submission of aid application to the granting decision. In view of the low risks associated with the submission of small-scale projects, the requirements for provision of information should be less strict and the project elaboration should be simplified. A very simple small project⁴⁹ should be provided as a model that could be elaborated by the beneficiary without costly professional advisory services. Moreover, the assessment of the financial health should also be simplified. In this manner even applicants who might not have the financial and human resources at their disposal to meet the Programme requirements or who would decide that the cost and effort is not worth it could participate. This simplified system could be introduced as a separate measure for small businesses. Furthermore, the state authorities should certify a certain number of consultants with authorization for consultancy activities and present them to the regions in order to ensure the quality of the consultancy services. During the implementation of the SAPARD Programme in the Czech Republic, the

services provided by "professional" consultants differed essentially in the degree of quality and the applicants were subjects to unfair conditions set by the consultancy companies. The state should ensure the protection of the beneficiaries of public funds.

As far as the rural development is concerned, the idea of microregions should be supported more effectively by ensuring greater coherence of the measures. Firstly, a regional analysis should be elaborated in order to monitor the more concrete needs of the potential beneficiaries. It is clear that speaking of the rural development policy in the Czech Republic, the needs of rural areas cannot and should not be dictated from above. However, the monitoring of planned investment projects in the regions would allow the design of measures better targeted at real regional priorities. In this way, a decrease in the number of applicants would result from any narrowing of the eligible costs and thus the scope of potential beneficiaries would be limited. As a result, a big number of applicants would be spared from high costs without having a very limited perspective of getting grants and thus the funds would be allocated in the most efficient way. Secondly, the scoring criteria should be focused more on the individual quality of projects than on the maximum compliance with listed items in order to avoid the prioritization of projects with a lower marginal utility than the rejected projects. Thirdly, to improve the usage of the EC pre-accession funds, and more specifically the SAPARD Programme, which is a pre-accession instrument in agriculture, the rural development should be more interconnected with the diversification of agricultural activities by means of co-operation of mayors with the farmers. The municipalities should be encouraged to co-operate with farmers in the supply of regional agricultural products and the farmers should be obliged to get their projects approved by town halls. Furthermore, the approval of a project demanded from all municipalities in one microregions should not be purely formal, understood as *quid pro quo*, as it turned out in the course of the implementation of measure 2.2 in the Czech Republic but should express serious interest of the concerned municipalities in the implementation of projects improving the living conditions and the interconnection within a microre-

⁴⁹ For small scale projects under 32,258 EUR.

gion. This should be secured through the individual quality of well-targeted projects improving the co-operation of municipalities that should be evaluated on the basis of quality-focused evaluation criteria. Finally, more focus should be placed on the bottom-up approach and the inclusion of the rural dwellers and socio-economic partners in the decision-making process in order to ensure the sustainability of the development of rural areas.

It is also a key issue to strengthen the information dissemination activities in order to increase the adhesion of the farmers to the agri-environmental measure. To encourage the farmers to adopt a more extensive approach to farming in a more environmentally sensitive way should be one of the main priorities to follow in a country with high degree of intensive approach and with big share of arable land. This was not the case of the "Czech way" of implementation of the SAPARD Programmes, as the state authorities have placed a priority on "classic" agricultural activities, structural adjustment and investment in processing and marketing. Moreover, the measure was implemented rather late and part of the rather modest funds allocated to this measure was reallocated to agricultural measures. However, the effectiveness of this measure depends on several factors, not only on the available funds but also on the degree of competence of the stakeholders? and the farmers' awareness and willingness to participate. Thus the increasing of funds earmarked for agri-environmental schemes should be preceded by increased awareness of the stakeholders of the profitability and sustainability of entering into this measure. This could be ensured by timely implementation of the measure on vocational training providing seminars on agri-environmental activities and the EC strategy for sustainable agriculture.

CONCLUSIONS AND POLICY RECOMMENDATIONS

The SAPARD Programme revealed some very important tendencies of the national policies on agriculture and rural development and offered some ways of improving the pre-accession aid in order to assure compliance with the EC strategy for sustainable agriculture. In general, it turned out that

the Programme was focused on the support of the primary production while favourising big agricultural and processing holdings. Thus the strategy of the Programme was highly relevant in terms of compliance of the agricultural sector with the *acquis communautaire*. In accordance with that, the majority of funds were successfully allocated to the agricultural measures, whereas a minor part went to the rural development. The implementation authorities succeeded to exhaust all the allocated funds and even to exceed the commitments by 15% with the help of the chosen strategy. The Programme has also produced a wide range of results and impacts, such as increase in productivity and more rational production, increase in income, improved quality of products, positive effects on animal welfare, improved working and health conditions, improved storage capacity, high number of created jobs, partial diversification of the rural economy, improved competitiveness and increased activity of existing SME. A direct positive environmental impact, as well as positive side effects of the implemented projects have been identified, especially under Priority 1. Nevertheless, in order to exhaust the allocated funds a short-term perspective was chosen while taking into consideration the accession of the Czech Republic in the EU. In the long-term perspective this policy is however not sustainable with respect to the objectives of the EC strategy for sustainable rural development. The following recommendations are based on the positive and negative experiences gained during the implementation of the SAPARD Programme.

- More funds should be allocated and priority should be given to the diversification of agricultural activities and to activities related to tourism, creating an alternative source of income for rural areas. The operational objectives of activities under this measure should be clearly specified, a smaller target selected and the scope of eligible expenditures narrowed in order to decrease the excess of demand and thus to spare the applicants from unnecessary expenditures and to decrease the risk they have to take;
- Under the rural development measures, an instrument should be included ordering as an integrate condition co-operation between mayors and farmers in order to involve the farmers into the projects;

■ An increased focus should be placed on branches of the foodstuff sector processing diversified products, such as regional and ecological products. The design of the sub-measure for support to processing of regional products should offer more favourable conditions for potential processors in order to motivate them to enter into this sub-measure rather than to choose conventional methods of processing;

■ Priority should also be given to the establishment of SME in order to diversify the spectrum of economic activities in rural areas;

■ The target groups should be defined in order to allow access of SME to the funding. The size of the farm is to be taken into account while designing the scoring criteria;

■ A simpler application and appraisal system for small-sized projects demanding lower amounts of grant aid should be introduced with simplified project plan and reduced volume of required information, as well as softer requirements concerning the financial health;

■ The required original documents to be submitted together with the application (indebtedness certificate etc.) should be replaced by a declaration of honour;

■ The costs for technical and financial expert opinion directly related to the project (marketing study, business plan, feasibility study, environmental impact assessment and costs for bookkeeping) should be included in the eligible expenditures as they represent a relatively high expense item, in particular for SME.⁵⁰;

■ A regional analysis should be elaborated on the basis of the needs of the local population involving local associations, economic partners, city halls and farmers. The focus should be on the bottom-up approach;

■ Better coherence between individual measures should be ensured, especially as it concerns the horizontal environmental matters that should be an integral part of each individual measure;

■ The selection procedure should be carried out on the basis of "objective" selection criteria that do not allow subjective interpretation, as it was in the case of setting up selection committees. The selection criteria should be based on the project quality and not only on administrative compliance. One of the additional criteria could be in-time application in order to facilitate the work of the regional agencies;

■ The state authorities should protect the beneficiaries by assuring the quality and independence of the consultants. Furthermore, the feasibility studies should be controlled by economists in order to detect any inconsistencies in the calculation⁵¹;

■ Banks should be informed about the benefits of granting loans in due time before the launch of the Programme;

■ A higher priority should be given to the organization of IT seminars for farmers in order to improve their access to information (internet) as well as to ease the administrative burden of the regional administrators;

■ The dissemination of information on sustainable agriculture should be improved and strengthened because the sensibilization of farmers concerning environmental matters leads to increased adherence to the agri-environmental measures;

■ The representatives of regions should participate in the NMC and they should be given the right to vote in order to provide the regions with more decision-making power.

⁵⁰ In the Operational Programme RDMA these items are already included in the eligible expenditures.

⁵¹ In the case of measures on rural development, a feasibility study was obligatory for projects over EUR 138,900, which is very costly and it seems that its content concerning possible overestimation of individual items in order to get the required minimum outcome was not really controlled.

Czech Republic: Characteristics of the area ¹		Year of reference: *	2002
GDP in USD per capita and year			6 822,0
Share of agriculture in the GDP (in %)			2,8
Per capita average income (EUR)	urban population		NM
	rural population		NM
	agricultural population ^A		11 700
	overall^A		15 700
Population density (inhabitant/km ²)			131
Migratory balance between rural and urban areas (net result, in thousand of people)			NA
Population	urban ^B		7 620 108
	rural	total ^B	2 672 825
		of which farmers	NM
		of which part-time farmers	NM
	total^B		10 292 933
Active population	urban		NA
	rural	total	NA
		of which farmers	NA
	total^C		4 825 100
Unemployment rate (in %)	urban		NM
	rural		NM
	total^D		9,8
Share of female employment in the active population (in %) ^E			43,3
Share of people over 40 years in the active population (in %) ^F			39,4

* Data 2003 are not available.

¹ Information of contextual tables (number 1, 2 and 3) is updated on an annual basis. When the data are not yet available, indicate the last available data and specify the year they refer to.

² Rural population = population in communities of up to 1 999 inhabitants, urban population = population in communities of 2 000 inhabitants and over

^A Average monthly gross wages (CZK) - estimate.

^B Source: Census of people, houses and flats 2001, Czech statistical office (CSO) 2001.

^C Aggregate number of employees in the national economy. Source: Employment and unemployment in the Czech Republic in the 4th quarter of 2002. CSO 2003.

^D Towards 31.12.2002, Ministry of labour and Social Affairs 2003.

^E Aggregate number of female employees in the domestic economy. Source: Employment and unemployment in the Czech Republic in the 4th quarter 2002. CSO 2003.

^F Aggregate share of employees above 45 year in the national economy. Source: Employment and unemployment in the Czech Republic in the 4th quarter 2002. CSO 2003.

NA Not available

NM Not monitored

Land use		Year of reference:	2002
	ha	% of UAA ¹	% of total
Arable land	3 068 239	71,80	38,9%
Permanent crops	236 290	5,53	3,0%
Permanent grassland and pastures	968 272	22,67	12,3%
UAA total	4 272 801	100,00	54,2%
Forests and other woodland	2 643 058		33,5%
Other uses	970 896		12,3%
TOTAL	7 886 755		100,0%

¹ UAA: Utilised Agricultural Area
Data 2003 are not available

	2000	2001	2002	2003	2004	2005	2006	2000-2006
Priority I. Increasing the competitiveness of agriculture								
Measure 1.1.	4 266 768	4 665 026	4 392 254	4 062 294	3 915 050	3 630 202	3 630 202	28 561 796
Measure 1.2.	4 092 241	4 141 929	4 601 705	6 013 419	3 877 569	3 378 552	3 317 513	29 422 928
Measure 1.3.	1 800 938	2 470 423	2 494 024	630 442	1 625 560	1 902 911	1 963 950	12 888 248
Measure 1.4.	5 182 789	4 316 729	3 760 847	4 051 049	4 581 122	5 159 384	5 159 384	32 211 304
Priority II. Sustainable development of rural areas								
Measure 2.1a	3 247 664	3 321 980	2 941 000	2 489 384	1 991 507	1 500 698	1 500 698	16 992 911
Measure 2.1b.	1 762 433	1 793 500	1 611 929	1 386 121	995 754	750 350	750 350	9 050 437
Measure 2.2.	2 087 784	2 135 547	2 941 000	3 734 075	4 480 891	5 252 442	5 252 442	25 884 181
Measure 2.3.	0	0	267 714	267 714	1 070 856	1 070 856	1 070 856	3 747 996
Priority III. Technical support								
Measure 3.1.	0	0	320 000	292 900	348 029	240 943	240 943	1 442 815
Measure 3.2.	0	51 613	196 322	196 323	237 383	237 383	237 383	1 156 407
Total of measures	22 440 617	22 896 727	23 526 795	23 123 721	23 123 721	23 123 721	23 123 721	161 859 023
Assistance as referred to by art. 7 (4) of Regulation 1268/1999	0	0	0	424 288	424 288	424 288	424 288	1 697 152
TOTAL (5) Euro	22 440 617	22 896 727	23 526 795	23 548 009	23 548 009	23 548 009	23 548 009	163 056 175

OPERATIONAL PROGRAMME MULTIFUNCTIONAL AGRICULTURE AND RURAL DEVELOPMENT

5.1. Financial plan for the period 2004 - 2006 (priorities and measures)

2004-2006	Public						National funds					Private funds (indicative)
	EU Contribution			FIFG			State budget	Budget of regions	Budget of municipalities	Other funds		
	Total	ERDF	ESF	EAGGF	FIFG	Total in Euro						
Total	151 141 395	97 484 885		97 484 885			53 656 510				123 386 254	
Support to agriculture, processing of agricultural products and forestry	124 456 982	78 407 900		78 407 900			46 049 082				101 828 440	
Investment in agricultural holdings												
Improving of processing and marketing of agricultural products	14 309 602	10 016 721		10 016 721			4 292 881				14 309 602	
Forestry	12 374 811	9 060 264		9 060 264			3 314 547				7 248 212	
Rural development, fisheries and vocational training	95 438 065	73 390 659		66 434 601	6 956 058		22 047 406				19 291 442	
Strengthening the adaptability and development of rural areas	83 983 696	65 304 243		65 304 243			18 689 453				9 329 175	
Vocational training	1 507 143	1 130 358		1 130 358			376 785					
Fisheries	9 937 226	6 956 058		6 956 058			2 981 168				9 962 267	
Technical assistance	4 034 511	3 025 883		2 730 252	295 631		1 008 628					
Technical assistance	4 034 511	3 025 883		2 730 252	295 631		1 008 628					
Total	250 613 971	173 901 427		166 649 738	7 251 689		76 712 544				142 677 696	
Total related to k ERDF												
Total related to ESF												
Total related to EAGGF	240 282 570	166 649 738		166 649 738			73 632 832				132 715 429	
Total related to FIGG	10 331 401	7 251 689		7 251 689			3 079 712				9 962 267	

ANNEX I**List of measures****Measure 1.1 Investments in agricultural holdings**

- 1.1.1 Welfare
- 1.1.2 Reconstruction of Storage Capacities for Fruit and Vegetables
- 1.1.3 Storage Capacities for By-products of Livestock Production

Measure 1.2 Improving the processing and marketing of agricultural and fishery products

- 1.2.1 Modernization of Technologies
- 1.2.2 Support to Regional Products

Measure 1.3 Improving the structures for quality control, for the quality of foodstuffs and for consumer protection

- 1.3.1 SEUROP Classification of carcasses
- 1.3.2 Assistance in the introduction of the HACCP

Measure 1.4 Land Improvement and Reparcelling

- 1.4.1 Construction and Renovation of Field Roads, Building the TSES and Anti-Erosion Measures
- 1.4.2 Land Surveying Work, New Digital Mapping, Land Surveying including Geometrical Plans in compliance with Act No 229/1191 Coll.

Measure 2.1 Renovation and Development of Villages and Rural Infrastructure

- 2.1 a) Renovation and Development of Villages
- 2.1 b) Development of Rural Infrastructure

Measure 2.2 Development and Diversification of Economic Activities, Providing for Multiple Activities and Alternative Income

Measure 2.3 Agricultural production methods designed to protect the environment and maintain the countryside

- 2.3 a) Agricultural production methods designed to protect the environment and maintain the countryside
- 2.3 b) Cost of informing on agri-environmental measures

Measure 3.1 Improvement of vocational training**Measure 3.2 Technical Assistance**



SAPARD REVIEW
in Bulgaria, Czech Republic, Estonia,
Hungary, Latvia, Poland and Romania

ESTONIA



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LIST OF ABBREVIATIONS

ARIB	Agriculture Registers and Information Board
CAP	Common Agricultural Policy
CEEC	Central and Eastern European Countries
EAGGF	European Agriculture Guidance and Guarantee Fund
EC	European Commission
EU	European Union
ISPA	Accession Instrument for Structural Policies for Pre
MoA	Ministry of Agriculture
NDP	National Development Plan
OECD	Organization of Economic Cooperation and Development
PA	Paying Agency
PHARE	Pologne, Hongrie, Assistance a la Restructuration Economique
RDP	Rural Development Plan
SAPARD	Special Accession Programme for Agriculture and Rural Development
SME	Small and Medium Size Enterprises

POGRAMME SAPARD - ESTONIA

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INTRODUCTION

Estonia signed the Europe Agreement with the EU in June 1995. The Agreement entered into force in February 1998 after being ratified by the Parliaments of the Member States, the European Parliament and the Estonian Riigikogu [1]. With applying to become a member of the European Union (the EU) Estonia took on an obligation to harmonize its policies and political instruments with those of the EU without any reservations. The 1999 activity plan of the Government of the Republic for Estonian integration in the EU envisaged the achievement of accession readiness by January 1st 2003 [2]. The actual readiness to accede to the EU was achieved by January 1st 2004, in some areas directly before Estonia joined the EU on May 1st 2004. Thus, it took around six years for Estonia to implement the EU *acquis communautaire*.

In the context of the EU integration three aspects of convergence can be discussed: nominal, real and institutional. The first of those aspects shows the harmonization of price level with that of the EU, the second one, however, indicates the harmonization of income level with the income level of the EU. Institutional convergence means first and foremost taking over the EU legislation (*acquis communautaire*) [3].

Varblane et al have referred to the dangers in the EU integration process [4]: "... Estonia should avoid taking on obligations that would bring along a fast rise in prices and therefore a decline in competitiveness. When the legislation harmonization process is carried out in a very short time, it puts a very big additional costs on Estonian enterprises and its competitiveness might decrease considerably".

Next to environmental and social policies, agricultural policy is a sphere where the harmonization of

Estonian legislation and principles with those of the EU turns out to be particularly expensive and where investments have to be made by the state as well as the enterprises.

In order to achieve accession readiness of the candidate states the European Commission worked out a strategy [5] which defined the short- and long-term goals of the acceding states in achieving accession readiness and noted down the funds necessary for achieving these goals. The goals and funds for agriculture and rural development were included in EU SAPARD program.

SAPARD was a special accession program for agriculture and rural development for Central and Eastern European countries (CEEC) the goal of which was to guarantee the sustainable development of the agricultural sector and rural areas of the candidate countries and help to implement the Community legislation (*acquis communautaire* concerning the common agricultural policy and the policies connected to it. Beside the ISPA and PHARE programs it was one of the most important economic policy instruments in preparing for the EU eastern enlargement.

The main goal of the present research is to evaluate to what extent SAPARD has fulfilled its purpose in preparing the Estonian agricultural and rural development sector for accession to the EU by investigating both the contribution of the SAPARD program to building up an efficient administration and its impact on Estonian agriculture and rural development.

The following tasks have been formulated in order to achieve the purpose of the research:

1. To evaluate the transparency of the goals of agricultural and rural development policies of
-

Estonia and the EU and SAPARD program's role in achieving this;

2. To show how Estonia has benefited from implementing the SAPARD program and to what extent has it helped to achieve the goals of Estonian agricultural and rural development policies;

3. To bring out the problems that came about during the implementation of SAPARD and whether and how it has been possible to remove them during transition to using EAGGF structural funds;

4. By analyzing the aforementioned aspects, make a proposal for improving the implementation of Estonian agricultural and rural development policies.

The present research is based on comparative analyses of different documents and papers concerning the relevant matters: Estonian agricultural and rural development policies, SAPARD.

According to the terms of reference, the research follows the structure presented below.

Chapter 2 briefly discusses the previous problems and objectives regarding agriculture and rural development in Estonia and analyses the impact of the integration process with the EU on their transformation. The main problems faced by the new member states are also briefly reviewed in this chapter.

Chapter 3 contains an overview of the implementation process of the SAPARD program in Estonia, analyses the impact of SAPARD on the relevant sectors and on the goals and means of agricultural and rural development policies. The administrative framework of the program, including the implementation costs, aspects concerning human resources and involvement of social partners, is also described and discussed. The chapter analyses the impact of the SAPARD program on attaining the objectives of the agricultural and rural development policies as well as the problems that have arisen and the lessons learned in the process of implementing the program.

The overview was drawn up PRAXIS Centre for Policy Studies experts currently employed by the Ministry of Agriculture of Estonia, Ms Doris Matteus, chief specialist of the bureau of market development, and Mr Taavi Kuntu, the chief specialist of the bureau of market analyses.

The present approach does not reflect the official opinion of the Ministry of Agriculture.

THE GENERAL CONTEXT OF SAPARD IN ESTONIA

Estonian Agricultural and Rural Development Policies in the 1990s

After regaining independence, the Estonian government liberalized agricultural policies as part of the economic and social reforms, the purpose of which was to create a market-oriented, effective and internationally competitive economy. In principle, agriculture was not regarded as "a special case" different from the other sectors. The main goals of the agricultural policies after regaining independence were:

- supplying the population with national main food products;
- developing farms and associations, restructuring and privatizing the processing industry;
- developing less-developed rural areas;
- stabilizing the market of national food products. [6]

Some of these political goals were discussed again in 1995. The free trade principle was preserved but "only to the extent that it does not damage Estonian interests and its social welfare". At the same time a proposal was made that the government should specify the following goals for agricultural policies [7]:

- to guarantee the social environment and quality of life for the rural population at the average level for the country in order to preserve rural settlements and the vitality and development of rural areas;

- ▣ to supply the population with quality food at affordable prices;

- ▣ to support the development of competitive business and market structures as well as economic relations.

The free trade principle was accepted, but it was specified that "the state tries to increase the efficiency of agriculture and achieve equality between the income of agricultural producers and other sectors of economy".

Comparing the periods before and after the independence in terms of agricultural support granted, it can be seen that the level of support in Estonia before the independence was higher than the OECD average, but declined remarkably afterwards. Since then, the level of agricultural support in Estonia has been lower than in other CEEC and OECD countries. [6]

Lower support to agriculture compared to the main trade partners and the absence of import tariffs created unbalanced market conditions and made it difficult for the Estonian food industry to compete with imported food products. On international markets, Estonian agricultural products suffered mainly due to the lack of quality products compatible with the requirements of the market but also to the lack of market price support and adherence to free trade.

Besides the abovementioned aspects, it should be pointed out that agricultural investments in the 1990es were much lower in Estonia than in the EU. This caused a low quality of products and non-compliance with the EU requirements and led to low competitiveness of the Estonian agricultural products.

Regarding the social (rural development) aspects of agricultural policies, it should be mentioned that although agriculture traditionally has been one of the most important sectors in the Estonian economy, the relative share of agriculture in the overall economy has declined since Estonia gained its independence. Both the contribution of agricultural output to GDP, and the share of agriculture in the total employment

have decreased significantly⁵². [8]

That caused high structural unemployment in rural areas, which had an overall negative effect on the rural societies: large number of social beneficiaries reduces the income basis of the local governments leading to a lower quality of the public services. This makes it difficult to attract investments and give younger people incentives for staying in the rural areas. There are significant disparities between urban and rural areas in Estonia underpinning the conclusion that there is a significantly weaker socio-economic structure in the rural than in the urban areas. [9]

In addition, poor quality of the basic educational system, relatively low qualifications of the rural labor force and unsatisfactory level of infrastructure all contribute to low income in the rural areas. [10]

Therefore the liberal agricultural policy of Estonia in the beginning of the 90es had the following effects on agriculture and rural development in Estonia:

1. Rapid structural changes in agricultural production and processing sectors: the production was concentrated into large, market-oriented enterprises and an almost ideal structure in terms of efficiency was achieved;
2. Numerous problems concerning rural development and rural enterprises arose, questioning the sustainability of Estonian rural development.

The need for support measures for agriculture was acknowledged by the government and the politicians after the accession negotiations with the EU had started and the conditions of the accession were formulated.

In 1993 the Agriculture and Rural Life Credit Fund was established for granting loans at favourable terms to the development of agriculture and rural life.

⁵² But these indicators are still above the EU average (author's remark)

In 1995 the Agricultural Market Organization Act was adopted by the parliament. This legal act gathered together all the different (already implemented and to be implemented in the future) support measures for agriculture and rural development.

The most important changes supporting agriculture and rural development started in 1997, after the creation of the Regional Development Foundation. The financial support for agriculture and several national programs were funded from the state budget.

The measures mentioned above contained both elements of revenue- and development support, therefore bringing Estonian agricultural and rural development policies closer to the Common Agricultural Policy of the EU.

At the end of the 1990es the following changes took place in the Estonian agricultural policy:

- The number and interdisciplinarity of goals pursued by the policy increased. The goals of the agricultural policy were not considered separate from other policies anymore but as a complex part of the economic system. It was realized that the achievement of the goals pursued in agriculture is also connected to other policies such as the environmental policy, the food safety policy, the regional policy, and the rural development policy;
- The agricultural policy priorities were changed. More emphasis was put on supporting rural development and not only the traditional sectors of agriculture. It was realized that the sustainable development of agriculture does not depend only on the efficiency of production but also on the development of the living environment as a whole.

An overview of the changes in the Estonian agricultural policies in the 1990es is given in annex 1.

Changes in the EU agricultural and rural development policy. The Estonian perspective for the future

Of the expanded EU territory, 80-90% are rural areas where about a half of the EU population lives. Despite the continuous decrease in the importance of the primary sector in the recent years, agriculture and forestry are nevertheless the biggest users of land in the EU member states. [13]

The accession of the 10 CEEC countries increased the proportion of rural areas, the people living there and the agricultural sector involved in the EU policies. Since the amount of money allocated by the EU to the CAP is limited, a choice has to be made what sectors/activities to support and which measures are to be implemented.

The main objectives of the CAP are to promote:

- A competitive agricultural sector without excessive subsidy, while at the same time ensuring a fair standard of living for the agricultural community;
- Safe production methods capable of supplying quality products;
- Vibrant rural communities capable of generating employment and opportunities;
- An environmentally sustainable agricultural production preserving the natural resources and natural heritage;
- A simple and transparent decision-making process;
- A clear connection between the public sector aid to agriculture and the economic, social and environmental benefits produced by agriculture.

The importance of the measures that comply with the wider interests of society is expected to increase in the future (for example, the agricultural measures in relation to the environment).

The main source of the problems for the new member states is the obligation of taking over the existing market organization. Apart from the fact that

implementing the CAP is expensive, Estonia has to consider the following aspects/problems concerning the present situation:

- ▣ The socio-economic situation in Estonia differs greatly from that in the EU 15;
- ▣ As a result of the lack of financial resources in the past, Estonia is lagging behind the EU 15 and it is not realistic to overcome the differences in a short time period;
- ▣ Before the accession, the measures regulating the market of agricultural products were not implemented in Estonia. No real experience exists concerning the administration of such measures;
- ▣ Estonia was obliged to take over the institutional structure of the CAP, a structure that will be significantly reformed in the near future. Taking into account the reform of the CAP, Estonia has the obligation to develop simultaneously the market oriented institutions, and the institutions necessary for ensuring the sustainability of Estonian agriculture and rural development.

The main problems regarding the implementation of the CAP and the EU structural funds are as follows for all the new EU member states:

- ▣ Structural measures require co-financing by the recipients of the subsidies, which might limit the investments and the achievement of the desired goals;
- ▣ As there is a need for investments in very many areas, a choice has to be made between the sectors, activities and enterprises to be supported;
- ▣ Since with the CAP reform a larger orientation to the market is pursued parallel with the development of rural areas, the question arises as to how to achieve these goals simultaneously (in a balanced way).

The abovementioned aspects formed the background of the implementation of the SAPARD program and can therefore be considered as the main problems the program was expected to solve or at least help to solve.

THE SAPARD PROGRAM IN ESTONIA

The basis of SAPARD

SAPARD was a special pre-accession support program for agriculture and rural development. The designated duration of the program was 2000 - 2006. It was in fact the pre-accession analogue to the rural development support granted in the EU. Most of the measures to be implemented under SAPARD are mentioned also in Council regulation 1257/1999 on support for rural development from the EAGGF.

The official goals of the program, stated by the European Commission, were:

- ▣ To create and fixate a framework for supporting agriculture and rural development and accelerating the growth of the relevant sectors in the pre-accession period;
- ▣ To promote cooperation in order to be prepared for the implementation of the CAP and the measures connected to CAP;
- ▣ To resolve the specific structural problems of the agricultural and rural sectors.

The specific objectives of the SAPARD program involved encouraging investments into agricultural and rural enterprises in order to bring them into compliance with the relevant EU standards and strengthen the institutions and administration in the candidate countries in order to ensure the effective implementation of the CAP after the accession. One of the main goals was to develop the paying agency for the implementation of the CAP.

The basis for the implementation of the SAPARD program was the Rural Development Plan (RDP), prepared by the candidate state.

The Estonian RDP identifies and analyses the problems and disparities of Estonian agriculture and rural areas compared to urban Estonia and to the European Union and defines on this basis the objectives, strategy and measures to be implemented within the framework of the SAPARD program. The

strengths, weaknesses, opportunities and threats of Estonian rural development are summarized in the RDP. The SWOT analysis constitutes the basis for defining relevant objectives as well as priority measures for SAPARD assistance.

The SWOT analysis focuses on the agricultural, forestry and fishing sectors respectively, as well as the processing sector, the rural activities sector, infrastructure and the rural living environment. The SWOT analysis points at a series of strengths of rural Estonia but equally documents that rural areas face serious difficulties justifying the SAPARD assistance.

The lack of investments in both the primary and secondary sectors implied:

- ▣ Technologies in both the primary and secondary sectors are rather outdated;
- ▣ The quality of outputs and products does not meet the EU requirements;
- ▣ Income in the different sectors has been on the decline;
- ▣ Organizational shortcomings are obvious;
- ▣ There is a shortage of adequate vocational training;

- ▣ Structural deficiencies are present (excessive number of producers).[9]

All these factors have resulted in a negative spiral with low competitiveness on international markets and a trend toward depopulation of rural areas and thereby threatening the very foundations of rural life.

The SWOT analysis clearly demonstrated a need for new impetus and a redefinition of the strategy for rural development in the context of, inter alia, the SAPARD program. Agricultural producers and processors needed to modernize the different sectors through investments with a view to improve efficiency and quality and consequently secure a stable income for rural inhabitants.

The rural development strategy was defined on the basis of the description of the problems, disparities and potential of Estonian agriculture and rural areas. In addition, the lessons learned from previous actions are taken into account to capitalize on prior experience. The logic of 'strategy formulation' is illustrated in the figure below.

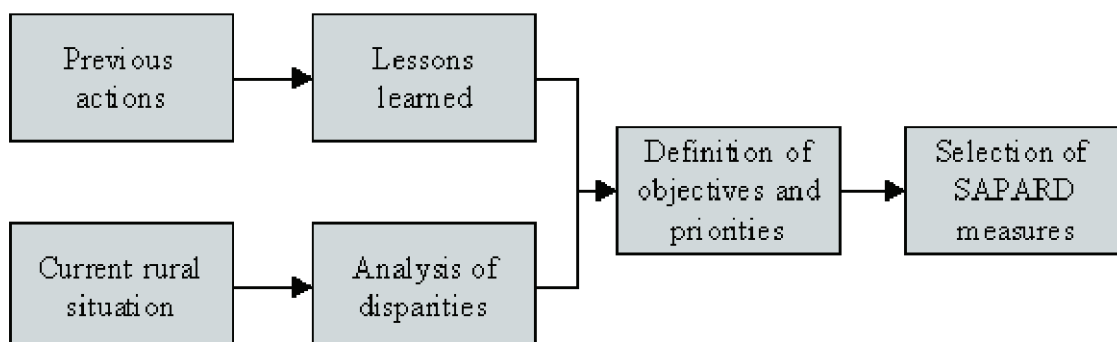


Figure 1. The selection of SAPARD measures

In terms of administration, the RDP was prepared by the Ministry of Agriculture in cooperation with other state agencies and co-ordinated with various non-government institutions. Numerous background investigations were conducted in the course of the preparation of the RDP to identify the main problems in each sector. In addition, during the course of the preparation of the RDP, consultation meetings were held with the principal socio-economic partners. Consultations were undertaken also with other governmental departments, the sub-committees of the parliament, county and municipal governments etc.

The objectives of the program implementation, as stated in the Estonian RDP, were:

1. To improve the efficiency of agricultural production, bringing it into compliance with the market requirements;
2. To provide conditions for sustainable rural development, to complete land reform and administrative reform;
3. To contribute to the socio-economic and infrastructure development of rural areas;
4. To ensure the development of a competitive and efficient food processing industry.[9]

The four main measures to be applied under the RDP in order to achieve the above-mentioned objectives were formulated on the basis of the investigations and consultations. These measures, which are an integral part of the agricultural and rural development policy of Estonia, cover:

- Investments in agricultural holdings (measure 1);
- Improving the processing and marketing of agricultural and fishery products (measure 2);
- Development and diversification of economic activities (measure 3);
- Development and the improvement of rural infrastructure (measure 4).

It was planned that these measures were assisted by a technical assistance measure (measure 5), but such measure was never implemented.

The introduction of additional measures was also planned at a later stage:

- Renovation and development of villages (measure 6);
- Agri-environment (measure 7);
- Forestry (measure 8).

The measure for renovation and development of villages was actually implemented; the other measures concerning agri-environment and forestry were never implemented in the framework of SAPARD in Estonia.

The impact of SAPARD on relevant sectors

The beneficiaries

SAPARD was built on the model of the EU Guidance Section of EAGGF directed primarily at developing smaller and medium-sized enterprises in rural areas. At the same time several restricting conditions applied for receiving investment aid:

- The enterprise should have been active in the corresponding field for at least one year (three years in the case of measure 2);
- The enterprise was supposed to be economically sustainable;
- The allocation of support took place after making the investment.

These criteria guaranteed expedient use of the EU funds but they had certain negative aspects. The enterprises that were already existing and successful were given advantage in applying for investment aids; the companies that were just starting or that were smaller had difficulties. Smaller enterprises were hindered by bureaucracy and by funding according to investment that required great monetary expenses from small companies in applying for

SAPARD investment aid. In the case of the agricultural production and processing sectors, this was justified, developing economically viable enterprises in order to achieve competitiveness and efficiency.

In addition to the aforementioned, the possibilities of the enterprises were influenced by environment outside SAPARD, as described in the second chapter of the research. Since Estonia had not implemented policies that stabilize and regulate agricultural markets, the producers and processors of agricultural products were dependent on the situation on the world market. The instability of income decreased the investment opportunities of primarily smaller companies.

Another important factor that influenced the investment opportunities of smaller companies was domestic competition. A questionnaire carried out by the Ministry of Agriculture in 2003 among producers of pork gave the following results:

- Economically more viable⁵³ were big, vertically integrated enterprises in foreign capital ownership, which had invested in the production process;
- Economically in the most difficult situation were SMEs who wanted to invest in the production process but who had neither adequate means for investments, nor the opportunities to get funds.
- Competition in prices was offered to big enterprises by old enterprises with morally and physically obsolete production equipment who had not invested in the production process and who would go out of business after the accession to the EU. Accession to the EU did force old enterprises with depreciated equipment out of the market but during the pre-accession period they offered unequal competition to smaller companies.

Thus it can be said that the SAPARD program (at least as far as investment support measures for producers and processors are concerned) offered support primarily to bigger enterprises. The con-

tribution of the program to the structural changes might have been less than expected, or at least the impact was different from the one expected. This was justified in the case of agricultural production and processing. Regarding the rural development measures, it is too early to evaluate their impact, as their goals and therefore also their impact was more social than economical.

The investments made within the framework of SAPARD

The overall public support granted within the framework of the program during the years 2000-2003 amounted to 68 million euros. Since in accordance with the rules laid down in the SAPARD regulation, public aid may amount to no more than 50% of the total eligible expenditure, in total the sum of 143 million euros were invested in agriculture and rural development during the three years of SAPARD. [12]

The Community contribution comprised as a rule 75% of the public funding - except for measure no. 5 (technical assistance) where the rate of community support was 100%. This means that the community contribution for implementing the SAPARD program in Estonia added up to 51 million euros. National funding was 17 million euros, whereas the amount of private co-financing was 75 million euros. [12]

Table 1 gives an overview of the use of SAPARD. The largest amount of investments in the framework of SAPARD went to agricultural production (over 52%), followed by the measures for improving the processing and marketing of agricultural products (26%) and for diversification of activities in the rural areas (18%). In the framework of the existing measures of SAPARD during the period 2001-2003, basically all the money allocated for this period was used up (99%).

It can be concluded from the analyses of the implementation process, that there was a great interest and need for SAPARD in Estonia. In the framework of measures 2 and 3 even more funds were used than was foreseen in the budget. This was possible because there were unused funds in the framework of measure 4 that were re-directed to other measures.

⁵³ This was measured according to financial indicators, similarly to the SAPARD methodology

Table 1 - SPARD budget and use of funds 2001-2003 (mln. euros)

	Budget			Actual investments			
	Eligible costs	Eligible support	% of total budget	Investments applied for	% of the budget of the measure	Investments approved	% of the budget of the measure
Measure 1	73 523 773	32 479 817	51,5	84 075 559	114,4	73 127 521	99,5
Measure 2	36 921 665	18 464 028	25,9	49 812 612	134,9	38 378 847	103,9
Measure 3	25 353 686	12 641 692	17,8	37 694 994	148,7	26 951 473	106,3
Measure 4	4 230 940	2 115 470	3,0	4 288 461	101,4	3 342 571	79,0
Measure 6	2 805 714	2 243 293	2,0	4 365 154	155,6	-	-
TOTAL	142 771 867	67 937 909	100,0	180 236 779	126,2	141 806 803	99,3

Source: ARIB

This decision was approved by the European Commission.

The biggest number of projects was received by ARIB in the framework of measure 1 (table 2) that had the largest budget in the program. In the framework of other measures considerably less projects were received, which is nevertheless not a sign of lesser interest towards these measures. For example, the average investment sum per project that was applied

for in the framework of measure 2 (investment aid for improving the processing and marketing of agricultural products) was five times bigger than in the framework of the measure for agricultural production. This is mostly due to the fact that there are a considerably smaller number of enterprises active in the processing sector and the production is more concentrated. The industries also had more possibilities for co-financing the investments (better possibilities to find external financial support etc.) and

Table 2 - SAPARD approved projects and the investments made in 2001-2003

	Projects			Investment		
	Number of projects submitted	Number of projects approved	%	Average amount of investment applied for (mln. Euro)	Average amount of investment approved (mln. euro)	%
Measure 1	1000	859	85,9	843 63	85 002	101,2
Measure 2	130	91	70,0	383 469	421 816	110,1
Measure 3	372	278	74,7	101 619	97145	95,7
Measure 4	118	95	80,5	36 430	35 151	96,8
Measure 6	212			20 452	-	
TOTAL/ AVERAGE	1832	1323	72,2	120 793	149 553	108,9

Source: ARIB

therefore the sum of the investments made per applicant was considerably higher than in the case of agricultural production.

The biggest number of projects approved was in the framework of measure 1: 859. Also, in the framework of measure 1 the number of projects approved in comparison with the projects received was the biggest: 86%. At the same time it should be emphasized that in 2003 measures 2 and 3 exceeded the allocated budget, which logically decreased the number of applications approved (not all projects that were eligible for support were actually supported, for example in the case of measure 2 the evaluation procedure was carried out and only the best projects were supported).

Taking a closer look at the approved projects, it appears that in the framework of measure 2 investment projects with higher than average value were the ones that received support (the average amount of investment approved was higher than the amount

of average investment applied for). It does not mean however that it is easier for food industry enterprises to receive investment aids. Also, it is not possible to extend this assumption to other SAPARD measures. Looking at the enterprises that received support more closely, the following can be brought out: in the framework of measures 1 and 2 almost all the biggest enterprises producing and processing agricultural products in Estonia (within the sectors covered by SAPARD) applied for investment aid and received it. Considering also the limit of total maximum yearly support, the budget of the program was big enough to support both bigger and smaller companies.

As was shown in table 1, the allocation of the planned SAPARD funds by measures did not correspond to the interests of the applicants. For example, in the framework of SAPARD measures 2 and 3 more support was requested than there were funds available. Measure 4, on the other hand, was

Table 3 - Predicted and actual use of SAPARD support by sub-measures in 2001-2003

	Prediction	Real	%
Measure 1			
Milk production	20%	8%	-12%
Animal barns	30%	15%	-15%
Crop protection, organic fertilizer spreading and seed propagation	10%	4%	-6%
Crop cultivation	30%	72%	42%
Diversification of agricultural production	10%	0%	-10%
Measure 2			
Dairy processing	40%	26%	-14%
Meat processing	30%	52%	22%
Fish processing	30%	23%	-7%
Measure 3			
Rural tourism and related activities	30%	30%	0%
Handicraft activities	20%	3%	-17%
Service enterprises	10%	57%	47%

Crayfish and fish farming	20%	7%	-13%
Food processing in small enterprises	20%	3%	-17%
Measure 4			
Electricity supply systems	20%	6%	-14%
Access roads	30%	36%	6%
Water supply and sewage	40%	58%	18%
Telecommunications	10%	0%	-10%
<i>Source: ARIB</i>			

underutilized. As appears from Table 3, there were also differences between the predicted and actual use of SAPARD among the sub-measures.

For example, in the dairy sector (which is considered a priority sector for Estonia), the predicted support for dairy production was 20% of the total funds of measure 1 and the support for dairy processing 40% of the funds of measure 2. In fact, 8% and 26% respectively of the predicted sums were used. As alternative sectors, the ones, which were able to receive more support than predicted, were plant production (+42% compared with the forecast) in the framework of the measure of investment aids for agricultural production, and meat processing (+22% compared with the forecast) in the framework of investment aids for the food industry.

The SAPARD measure for diversification of activities in rural areas should be considered separately since a large part of the support went to the preservation of the existing jobs (service enterprise), to a lesser extent to diversification of activities in the rural areas and to creating new jobs, except in the sphere of rural tourism.

Regarding the impact of SAPARD on the relevant sectors, the findings of the mid-term evaluation report of the program should also be taken into consideration. When making the analyses, the evaluator came to the conclusion that although there was a relatively high extent of dead-weight present in the implementation process of SAPARD, the program still provided added value in the following aspects:

- ▣ Through provision of investment that was sufficient to implement projects at the required level for the majority of these projects;
- ▣ By diminishing the deterioration of business performance;
- ▣ By working towards the addressing of specific needs within the target sector. [19]

As concerns the food industries, the evaluation report of SAPARD indicated that the program contributed significantly to bringing the sector into conformity with the EU requirements. At the same time the evaluator noted that regarding measure 2, the objective of providing agricultural producers with benefits had not met its targets. [19]

Conclusions

From the above the following conclusions about the selection of the measures can be made:

- ▣ The main problem addressed through the program was the lack of investments both in the primary and secondary sector;
- ▣ The measures increasing the efficiency and competitiveness of agricultural holdings and processing plants were supplemented by the measures aimed at solving the socio-economic problems (also the ones arising from the structural changes in the agricultural production and processing sectors) in rural areas.

The main conclusion about the impact of the mea-

asures implemented in the framework of the SAPARD program, are the following:

- The impact of the implementation of the selected measures was somewhat different from the one expected and foreseen in the RDP. More support was granted to bigger and more successful enterprises than was foreseen;
- In terms of influence on the relevant sectors, the program contributed significantly to bringing both the production and processing enterprises into conformity with the EU requirements;
- The implementation process was quite flexible. The administration was bureaucratic for the applicant but for example the facts that unused funds under one measure were re-directed to other measures and the predicted division of funds between sub-measures was changed in order to respond to the demand shows certain flexibility in terms of administration.

The impact of SAPARD on the Estonian agricultural and Rural Development policies

Estonian policies

One of the main characteristics of Estonian agricultural policy in the 1990es was that even though the goals of agricultural policy and rural development were set, the means to achieve these goals were not formulated. Only the accession process with the EU brought along changes in the former Estonian agricultural policy: the goals of agricultural policy were specified and the existence of means to achieve the desired goals was guaranteed.

It cannot be deduced from the above that SAPARD could be in contravention of some objectives of the Estonian agricultural and rural development policies. The spectrum of the agricultural and rural development policies of the EU was and is much wider than that of Estonia. As a result of this, and of the structure of SAPARD, Estonia had the possibility to choose between different support measures according to its national preferences. This is confirmed by the fact that Estonia started implementing the SAPARD program with a small number of measures and concentrating on the spheres tradi-

tional for Estonia in agriculture and rural development. The problems of SAPARD did not arise from the objectives set up by the program so much as from its implementation.

Arising from the conception of SAPARD, the transparency of goals of Estonia and the EU in implementing the program has been achieved. SAPARD has been built up on the model of the EU structural funds and includes the same support measures and schemes as, for example, the Guidance Section of the European Agricultural Guidance and Guarantee Fund.

The compatibility of the goals has been guaranteed in another way; though the implementation of the SAPARD program took place in a decentralized way, the control of the European Commission over the whole process in its different levels was guaranteed.

- The implementation of the program took place according to the national Rural Development Plan that needed the approval of the European Commission;
- The SAPARD implementation institution needed accreditation from the European Commission;
- The implementation of SAPARD and the process of granting support was evaluated by the European Commission;
- For later amendments to SAPARD and its adaptation to the circumstances of Estonia the agreement of the European Commission was required.

From the perspective of the EU these are justified requirements since besides the goals of agriculture and rural life the compatibility of the program with the objectives of other EU policies is guaranteed, and the control over the use of funds allocated by the EU is guaranteed.

Even though the goals of agricultural policy should at the same time involve real as well as institutional aspects of convergence, in the activity plan of the Government of the Republic of Estonia in 1999 for

the Estonian integration with the EU [2] the connection between the goals set and the means to achieve them was not always clearly understandable. We will illustrate the above with an example.

In the sphere of veterinary and food safety, the activity plan of the Government of the Republic set as a goal to "adopt, in accordance with the Food Act, as many implementation acts as possible" and "bring into force the majority of the regulations that regulate the production and processing of food of animal origin so that it would be possible to start updating the enterprises". Later, under the rural development support measures, investment aid was also mentioned, but there was no reference to what was to be pursued by the harmonization of enterprises, what was to be its effect on the business and how and to what extent the state supports businessmen in fulfilling their obligations.

The SAPARD program granted funds to the agricultural and rural development sector to fulfill the obligations arising from the take-over of *acquis communautaire* but also required co-financing from Estonia and from the private sector. The EU funded most of the SAPARD projects only up to 37,5%. Thus, implementing the SAPARD program in the candidate countries did not mean that the EU would pay for the accession readiness, but that it motivated the candidate countries and their enterprises to mobilize in the pre-accession period. A bigger part of the expenses connected to the accession had to be covered by the candidate country and its enterprises.

Taking into consideration the agricultural policy background, in the framework of which people operated in complete commercial freedom and non-intervention conditions, the SAPARD program was still a noteworthy milestone in the Estonian agricultural policy. In addition to the EU co-funding, the SAPARD program increased considerably the state support to the agricultural sector. Before the implementation of the SAPARD program, different kinds of foreign support were also available to the Estonian agriculture and rural development - PHARE, World Bank, bilateral agreements. However, those projects did not have as a goal to solve structural problems of the agricultural and rural sector as a whole.

Between 2000-2003 Estonia spent 22,9 million euros per year on average to support the agricultural and rural development sector⁵⁴ [11]. The SAPARD program added around the same amount to this, i.e. 22,7 million euros per year on average. The total participation of the Estonian public sector in the SAPARD program comprised of 5,7 million euros per year on average [12].

Since other support measures of agricultural and rural development were still in effect besides SAPARD, the state support increased considerably. Thus, SAPARD brought along a quantitative as well as qualitative leap in Estonian agricultural and rural development policy: the goals were specified, new measures were implemented and additional financial resources were allocated.

CAP

In the framework of the CAP, there has been a constant but slow reorientation from the agricultural policies determining the market and agricultural structures to the policies influencing the structures. The proportions have so far been still strongly in favor of direct aids that constitute monetarily 65% of all EU agricultural subsidies. The subsidies for developing rural areas constitute monetarily about 16% of all agricultural subsidies. [14]

In the future, a continuous growth in the proportion of development measures in agriculture and rural development is to be expected. As a result of the 1999 reform ("Agenda 2000") different measures to support rural development were introduced to the CAP [15]. The 2003 reform added new measures to the CAP to support rural development and allocate more funds - for example, a certain number of rural development measures began to be financed from the funds of the first pillar of the CAP, i.e. market organization and direct aids [16].

Regarding the compliance between SAPARD and CAP in Estonia, the mid-term evaluator of the SAPARD program noted that with regard to gradually adopting the EU CAP and its accompanying measures, the RDP was in compliance with CAP and adopts the main principles of CAP.[19]

⁵⁴ Does not contain compensation for damage caused by weather conditions

Table 4-The achievement of the objectives of the program

Objectives	Achievement of the objectives
Improve the efficiency of agricultural production and bring agricultural production and products into compliance with the EU internal market requirements and gradually adopt the EU CAP and accompanying measures.	As regards bringing the market into compliance with the EU requirements and adopting CAP - excellent. As regards improving the efficiency - satisfactory
To set up conditions for economical development of agriculture.	As regards infrastructure development - unsatisfactory. As regards the decrease of structural unemployment - satisfactory (good in relation of structural change, but unsatisfactory as regards the creation of new jobs)
Contribute to the socio-economic and infrastructure development of the rural area, decrease the idle economy and structural unemployment.	
To secure the effectiveness and competitive ability of food production.	As regards the competitive ability - good. As regards the effectiveness, the time period was too short to conclude
<i>Source: 19</i>	

Table 4 shows the achievement of the objectives of the SAPARD program, as assessed by the mid-term evaluator.

The main problem pointed out in the process of mid-term evaluation was that, even though several measures had an environmental dimension (measures 1, 2 and 4), it was not clear how Estonia planned to prevent or remedy the environmental problems ensuing from an intensified and competitive Estonian agricultural sector. The RDP addressed environmental protection issues in many different ways. The main measures and sub-measures concerning environmental issues, were: on-farm management (measure 1.1), manure storage (measure 1.2), crop protection, manure spreading (measure 1.3), waste collecting and treating in the processing plants (measure 2) and water supply and sewage (measure 4.2).

Although the environmental issues were addressed under several measures of the SAPARD program, during the mid-term evaluation it was concluded that the total number of supported projects was too small to give a valid opinion. However, the completed projects have contributed significantly to bringing the holdings into conformity with the EU standards.[19]

The administrative framework of SAPARD

General background

In a larger context, parallels can be drawn between the implementation of SAPARD and the reforms carried out in Estonia (CEEC countries in general). A transition from a totalitarian society to a democratic one and from a planned economy to a capitalist market economy took place faster than it was possible to build up efficient state structures. Similar processes took place also in implementing SAPARD: at first, taking over and implementing the SAPARD program was started and only then the adaptation of structures and procedures took place; learning was developed at the same time in the course of all the activities.

The preparation and implementation of SAPARD took place in a very short time period. The preparation period started in 1999 and the substantive readiness was achieved in 2001. The implementation of SAPARD (acceptance of applications) began in July 2001. [13]

During a relatively short period of time both the legal framework of SAPARD was developed and the administration created. Almost immediately after implementing the SAPARD program, the preparations began in order to implement the CAP and also the EU structural funds (EAGGF). This fact put a serious burden on the administration.

The implementation of SAPARD was planned for 2000-2006. In actual fact, the implementation took place in 2001-2003. Due to the short preparation time, SAPARD started a year later than was originally planned and ended in connection with the accession to the EU on May 1st 2004.

It should be pointed out that the programming period for the programs like SAPARD in the EU is six years. In the case of Estonia and other new member states, the pre-accession SAPARD program began in 2001 and should have lasted until 2006, the end of the programming period. As the accession of Estonia to the EU took place already in 2004, the shift from the pre-accession support program to the structural funds was extremely accelerated. All of the SAPARD measures foreseen in the RDP were not yet implemented, when the preparations and programming for the period 2004-2006 started. This fact also placed a heavy burden on the administration.

acquired more experience. For example, the harmonization of the Estonian veterinary and food hygiene legislation to the EU requirements had already started before the implementation of the SAPARD program, which is why the enterprises were aware of their needs for investments.

The order of applying for SAPARD support was bureaucratic and included control mechanisms integrated by the EU. The projects of enterprises that applied for SAPARD support were evaluated according to the presented business plans, following formal as well as substantive criteria. For presenting missing documents or correcting mistakes a certain deadline was given.

However, the analyses of application procedures, carried out within the mid-term evaluation of the program, indicated that these were both effective and efficient. This was supported by the high satisfaction rate of the final beneficiaries. The evaluator found the staff of ARIB working efficiently.[19]

Table 5-Number of applications and investments applied for in 2001-2003 (mln euros)

	2001	2002	2003
Number of applications received	248	426	1158
Total investment applied for	29,5	31,9	118,8
...of which public sector support	12,6	13,4	59,8

Source: 19

Effectiveness of the administration

Table 5 gives an overview of the implementation of SAPARD in Estonia. It shows the activeness of applying for SAPARD during its implementation. It appears that using SAPARD became more attractive year by year.

The increase in the investment support applied for in the framework of SAPARD was not caused by an increase in the investment needs of enterprises in 2001-2002 but comes from the fact that both the administration and the applicants of the subsidy

Parallel to the increase in the investment aid applied for in the framework of SAPARD, the number of applications presented in 2001-2003, as well as the effectiveness of the investment aid increased (table 5). This can be explained by two circumstances:

1. Businessmen acquired experience in applying for SAPARD support;
2. Professional project managers appeared who offered their services for project preparation.

It should be mentioned that both the ex-ante, and

the mid-term evaluation reports of the program point out the need for more research and analyses as the basis for the selected measures, the supported activities, the financial split between the measures etc.

When talking about administrative ability, it must be pointed out (as was mentioned also by the mid-term evaluator of the program), that one of the indirect benefits of SAPARD was the rise of knowledge and experience in accounting and financial management of the beneficiaries (farmers). Before the SAPARD program only the best agricultural holdings had good accounting systems and used external financing. Due to the requirements set forth by the program, most of them had to find external financial support and improve the quality of accounting (in some cases switch from cash accounting to accrual based accounting). [19]

The mid-term evaluator assessed the extent to which the program contributed to establishing and improving the implementation of the CAP objectives and procedures at the administration level as excellent: the legislative framework was established and the administrative staff became aware of the relevant EU rules and standards. [19]

Expenses

Building up the administration and control mechanisms in Estonia that would comply with the EU requirements was connected to serious expenses. Estonia did not implement any noteworthy measures for developing the agricultural and rural life sector in the pre-SAPARD period. For that reason the administration had to be built up from almost nothing and all the necessary investments had to be made within a very short time.

In 1998, 6 people started preparing for SAPARD in the Ministry of Agriculture [17]. In 2003 there were more than 100 people involved in ARIB, created for the administration of SAPARD [14]. The operational costs of ARIB increased in 2001-2003 from 1,7 million euros to 7,2 million euros [11]. The subsidies increased at the same time period from 7,9 million euros to 66,2 million euros [12].

The actual costs of implementing SAPARD are even higher since the aforementioned example does not include the expenses connected to the development of legislation, the capital costs connected to creating implementation institutions or a great deal of the expenses connected to developing the human capital (for example, training costs). The said costs were not financed by the EU at all, or were financed only to a certain extent in the framework of the PHARE program.

During the mid-term evaluation of SAPARD it was concluded that the costs of the SAPARD agency (ARIB) were in line with other relevant Estonian implementation agencies' administrative costs, although being notably higher than the European Commission's relevant costs.[19]

Human resources

As it appeared in the study carried out by OU Self II [17], one of the most important problems turned out to be the human capital deficit in the building up of SAPARD. Even though the management level existed - people who dealt with implementing SAPARD in Estonia from the very beginning - as the process developed, the lack of specialists who would deal with the details of implementing SAPARD increased.

In order for a specialist to be able to deal with the details of SAPARD, he or she also needs to be familiar with the program in general. It was possible to acquire the skills necessary during the preparation period of SAPARD and this had to be done in a very short period of time. One of the hindrances turned out to be the high mobility of labor force in the Estonian public sector.

The Estonian public sector cannot always compete with the private sector in hiring specialists. Movement of employees from the public sector to the private sector is very frequent. The high mobility of people hindered to a greater or lesser extent the implementation of SAPARD in Estonia and is also a problem in taking over NDP (since people with SAPARD experience have left). The pre-report of accrediting ARIB as a paying agency refers to the lack and weaknesses of human capital in Estonia. [18]

Involvement of social partners

As mentioned earlier, during the course of the preparation of the RDP consulting meetings were held with the principal socio-economic partners. Consultations were undertaken also with other governmental departments, the sub-committees of the parliament, county and municipal governments etc. The mid-term evaluation of the program, however, revealed that the involvement of social partners and the documenting of this process were not clear enough. During the interviews conducted by the evaluator, it was found that no defined practice exists as to how social partners can follow the handling of raised questions and comments. The letters sent to the MoA by the social partners were answered, but the questions raised in letters or proposals were not listed in the Monitoring Committee meetings and nor was a record of them kept in a systematic manner. [19]

Conclusion

Looking at the goal and structure of SAPARD, it is possible to outline the following problems in the implementation of the program. The implementation of SAPARD:

- ▣ Took place in a very short time period;
- ▣ Was expensive;
- ▣ Was bureaucratic;
- ▣ Did not take into consideration all the aspects of the EU policies.

Still the program contributed to the successful implementation of the EU structural funds and CAP, both by providing the administration with relevant experience and knowledge in order to implement several new measures, and by giving the applicant the experience necessary to fully benefit from the agricultural and rural development policies of the EU.

SUMMARY AND POLICY RECOMMENDATIONS

SAPARD is a special pre-accession aid program that was used to support Estonian rural areas and agriculture with an average of EUR 22,6 mn a year. An institution called ARIB was established to administer SAPARD's investment aid. ARIB was later accredited as an agency for the EU's CAP payments.

SAPARD was an indispensable instrument for developing Estonian rural areas and agriculture and achieving compliance for the EU accession. The positive impact of SAPARD is mainly the reconciliation of the Estonian rural sector with the EU regulations that took place simultaneously with the harmonization of the Estonian legislation with the EU's *acquis communautaire*.

An institutional structure for implementation of CAP was created that was not especially outlined among the goals of SAPARD but was at least as important as the aid itself for reaching compliance in view of the EU accession. It can be concluded that SAPARD attained its object of institutional convergence and enabled Estonia to join the EU on May 1st 2004.

Numerous problems emerged while implementing SAPARD and switching to the EAGGF structural funds. Taking account of the different situation of Estonian agriculture and rural sector compared to the old member states and the fact that it is impossible for Estonia to adopt EU's market structure without drawbacks, it can be concluded that SAPARD only partially solved the real convergence problem of the Estonian rural sector.

The starting position of the Estonian rural sector differs from that of the EU:

- ▣ Problems related to agriculture: the access to credit is low, the machinery is outdated, there is poor access to markets and weak development of co-operative activities and land markets do not function properly. Further, the food processing industry is inefficient due to overcapacity and lack of machinery;

■ The problems related to the rural areas: overall, the rural physical, economic and social infrastructure is underdeveloped. Examples will be the absence of representative organizations and networks, and the poor quality of roads, electricity and housing. The incomes in the rural areas are generally low, especially in agriculture, and are often related to a decline in agriculture. In addition, the overall level of education is low, meaning that there is a mismatch in the skills of the labor force, and the demand of enterprises in rural areas. Also, the experience needed to start up businesses is insufficient. The age-structure is generally unfavorable, a situation which is aggravated by out-migration of young people. Finally, structural unemployment is persistent and alternative employment opportunities are in short supply.

Since SAPARD pursued two (opposing) objectives at the same time: to contribute to solving country-specific problems of the agricultural and rural development sector, and achieving institutional congruence, a transformation of agricultural and rural development policies of the candidate countries took place. Achieving institutional convergence started to dominate over the candidate country specific problems.

As a result of the aforementioned, the EU candidate states implemented only some of the possible support measures. In Estonia the choice was made in favor of developing traditional agricultural sectors and products, and at the same time providing conditions for sustainable rural development. As the administration costs of SAPARD were borne by the candidate countries themselves, relatively small number of measures were adopted. This kind of development resulted from the need to support the sector's social life and economics. Without support the agricultural production and processing sectors

would have been in difficulties in achieving accession compliance.

In spite of the downsides of SAPARD, continuation of structural funds support to the Estonian rural sector is of great importance. Due to the absence of notable rural sector support schemes in Estonia before SAPARD, the sector was market-oriented. Development was hindered by lack of investments in areas not profitable enough.

The positive impacts of SAPARD include:

- Establishing the framework of supporting schemes and improving the development of the rural sector;
- Enhancing co-operation for applying cap and related activities;
- Helping to meet the requirements of the EU accession by investments in veterinary, food hygiene, health protection, quality, animal protection etc;
- Reinforcing aid to and accelerating growth of the rural sector during the pre-accession period.

In conclusion, this brought along a situation where enterprises in chosen sectors achieved institutional convergence (accession readiness) but substantial problems, such as competitiveness after accession to the EU, remained unsolved. Thus, a change in the objectives of applying for investment aids can be predicted in connection with implementing the EAGGF structural funds - a shift to increasing product development, specialization and effectiveness and improving environmental conditions while achieving compliance with the EU requirements. Following from the above, it can be claimed that the objectives of SAPARD were achieved only partly.

ANNEX 1

	2004 – 2006 (RDP, NDP)	2000 – 2006 (RDP)	1995 – 2000	1992 – 1995	1995 – 2000	2000 – 2006 (RDP)	2004 – 2006 (RDP, NDP)
Stabilizing measures	Common agricultural policy	Help implement the <i>acquis communautaire</i> related to the CAP and the policies connected to it	supply the population with quality food at affordable prices	stabilizing the market of national food products; supplying the population with national main food products	support the development of competitive business and market structures as well as economic relations	Improve the efficiency of agricultural production, bringing it into compliance with the market requirements; Ensure the development of a competitive and efficient food processing industry	Structural strengthening and restructuring of agriculture and forestry; Improving the processing and marketing; Investments in reducing the production costs and improving the quality of the products; Eliminating the unfavorable conditions for production
					guarantee the social environment and quality of life for the rural population at the average level in the country in order to preserve rural settlements and the vitality and development of rural areas	Contribute to the socio-economic and infrastructure development of rural areas Provide conditions for sustainable rural development	Developing an adequate living standard in the rural areas; Diversification of rural activities
Development measures							Improving the conditions of animal welfare and hygiene; Improving the working conditions of the farmers; Investments into the infrastructure in rural areas; Environment protection

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SAPARD REVIEW
in Bulgaria, Czech Republic, Estonia,
Hungary, Latvia, Poland and Romania

HUNGARY

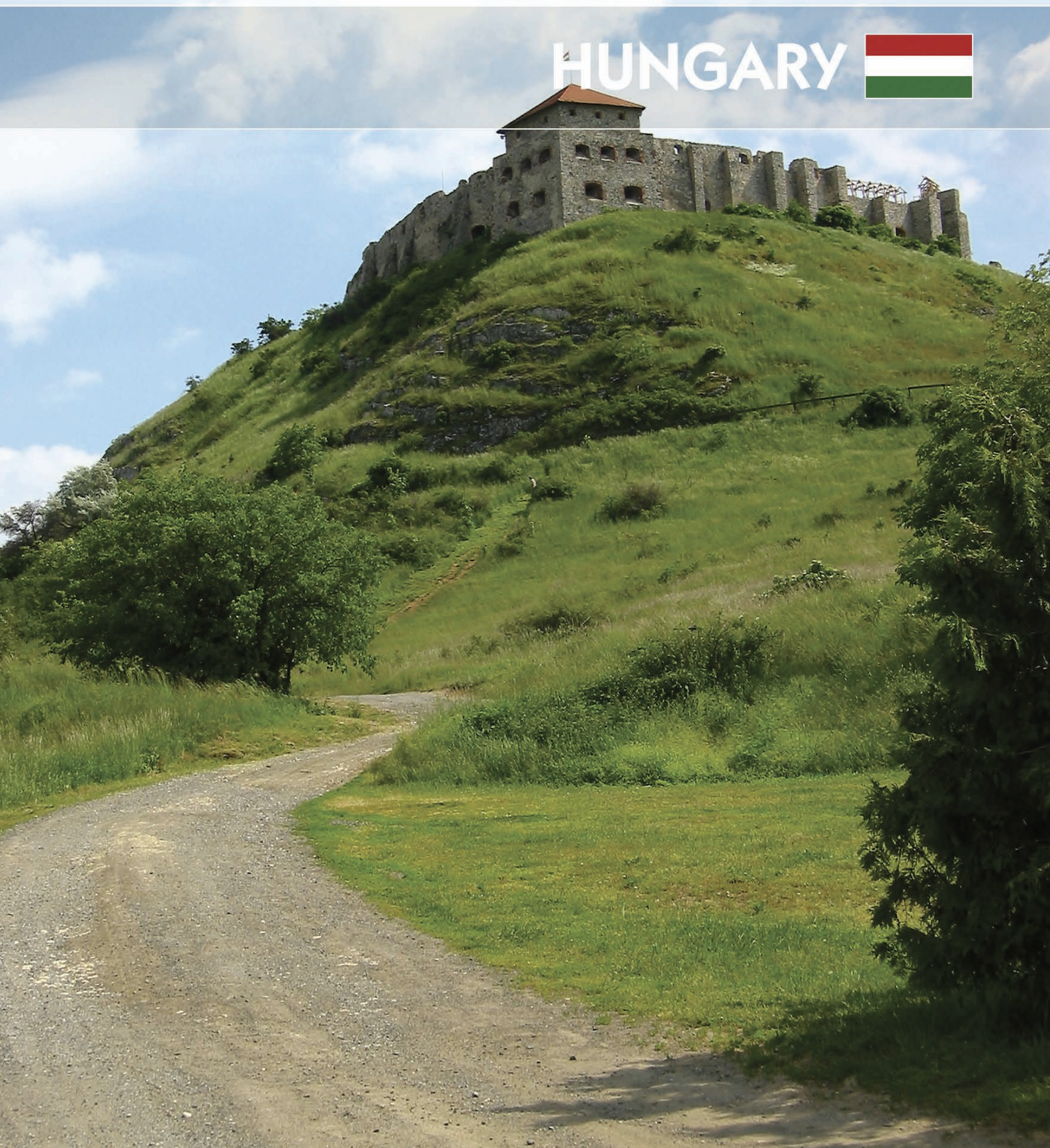


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PLANNING AND IMPLEMENTING THE SAPARD PROGRAM IN HUNGARY

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EXECUTIVE SUMMARY

SAPARD, as the forerunner of the Structural Funds, has fulfilled a real mission in Hungary with lots of conflicts, mistakes but also with lots of positive impacts. The development resources channelled to agriculture and rural areas, institution building as well as experiences gained on submitting proposals from the clients' point of view and processing, administering, selecting them on the side of the SAPARD Office have to be emphasized. Not only the application process, but the EU's harmonized system of operation, monitoring and financing was also new. The main tasks of SAPARD program included primarily the adoption of these potentials and skills, the changing of the application habits of the entrepreneurs, and promoting the EU's harmonized methods. Furthermore, the program drew the attention to several new considerations, values, approaches, standards that were to be developed/met in a narrower sense (food quality and consumer protection, animal welfare and health, working safety and hygiene, environmental considerations, etc.).

The introduction of second pillar-measures was also very much SAPARD-related and conditioned. The EU policies considerably supported the new and weak rural development policy entering the battle field for scarce resources both in an abstract and in a very concrete way via their representatives taking part in open discussions (which were critical towards the exaggerations of rural development policy makers as well). Protecting one's favourable positions on the market of public funds, trying to keep away new actors thus preventing fur-

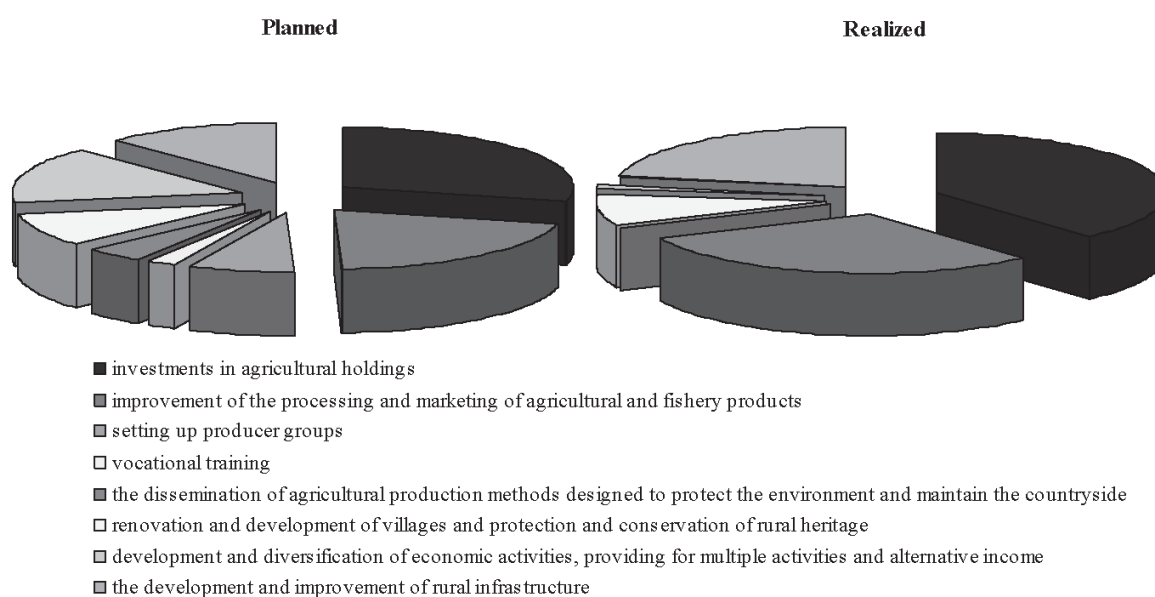
ther fragmentation of resources have to be understood as rather natural reactions of those "within the game", i.e. agricultural developers. The same is true for the newcomers, rural developers who, relying on a loud media campaign around the bottom up planning exercise they initiated, tried to counterbalance their weak position at that time.

To judge the result of the struggle of the two groups is a difficult and highly subjective task, but the fact that rural developers managed to acquire that 36% of the SAPARD grant was allocated to cover second pillar type of investments in the SAPARD Plan can be evaluated as a good start. Rural developers were also very efficient and successful in institution building as well as in collecting experiences on the basis of operating a semi-SAPARD support scheme. However, during the course of events, intervening political decisions and its consequences resulted in less than expected share of rural development grants within SAPARD, but the 31% rate of the final result is still not so bad. We can conclude, that directly and indirectly SAPARD was a major vehicle of the introduction, approval and legitimation of rural development policy. Despite the hardships, this kind of "orientation role" of the SAPARD program undoubtedly represented one of its most important impacts.

The planned and realised shares of SAPARD measures are illustrated in the below table and figures:

The Hungarian SAPARD menu in measures	Planned	Realized
to increase market effectiveness	58,13	68,2
- investments in agricultural holdings,	28,46	38,3
- improvement of the processing and marketing of agricultural and fishery products,	20,53	29,9
- setting up producer groups,	7,35	0
- vocational training	1,79	0
to strengthen the environmental protection aspects	4,27	0
- the dissemination of agricultural production methods designed to protect the environment and maintain the countryside	4,27	0
to enhance the development and the adaptation of rural areas	36,5	31,7
- renovation and development of villages and protection and conservation of rural heritage,	9,06	8,7
- development and diversification of economic activities, providing for multiple activities and alternative income	15,46	0,7
- the development and improvement of rural infrastructure	11,98	22,3

Source: SAPARD Plan + own calculations



Despite all the opposing approaches and convictions, there are some points where the two parties are on the same or close to same platform laid down in the National Agricultural and Rural Development Strategy May 2004. They are as follows:

- ▣ both parties accept that agriculture should be sustainable and multifunctional serving broader social needs;
- ▣ relying on the favourable endowments of farming, export orientated, competitive farm sector, however, should be maintained and strengthened on the basis of rationalization of production and the appropriate utilization of combined (EU and national) funds;
- ▣ environmental protection, animal welfare and health, food quality, etc. must be safeguarded;
- ▣ a transparent, safe, accountable and stable support system should be operated.

As a learning program, SAPARD was functioning quite well although not to the required degree. The most important shortcomings can be understood as a consequence of the delay in real start which fact was purely politics-driven. Regrettably, because of the huge delay in the process, lessons could not be used in the programming of National Development Plan, more precisely when ARDOP was compiled. Lacking appropriate experiences, the harsh debate restarted between rural and agricultural developers, the first version of ARDOP was biased towards first-pillar type of investments to an unacceptable degree that triggered open intervention from the Commission on the one hand, contributed to the unreasonable allocation of funds, on the other hand. Therefore mistakes committed in SAPARD were repeated in ARDOP.

Another issue that should be raised is that of uncertainty and a lack of trust, which is rather natural in the case of a completely new program in a completely new arena that is the European Union. Policy makers were not able to estimate the real absorption capacities of the measures, trusted neither new actors, such as smaller-scale entrepre-

neurs, nor the absorption capacity of new measures, such as those aimed at rural development. These circumstances as well as the unequal power relations between old (agricultural) and new (rural development) actors led to the biased allocation of funds in the SAPARD Plan, the preference order of measures when accreditation was at stake, and when eligibility and assessment criteria were set. SAPARD did not take much in favour of agri-environment, beyond "gender blindness" this is one of the most important shortcomings of the Program, but fortunately enough a national support scheme compensated for the losses and the same function was secured by the operation of the Rural Development Fund.

Taking all this into account, SAPARD has brought significant changes in the acquaintance of the Community standards by the agricultural sector and by the rural population, assisted institution building, provided the administration with appropriate experiences in processing and selecting applications which were helpful and eased the implementation of "post-accession" tasks.

INTRODUCTION

Problem statement and research goals

Problem statements

- ▣ When SAPARD appeared in 1999, it was the first concept that seriously challenged the traditional practice of agricultural development in Hungary;

o For various reasons to be detailed in the second chapter of this report, a battlefield came into being between the traditional agrarian lobby, which was and remained in favour of large-scale farming, and a new wing of rural developers who stood for a broader, multi-sectoral understanding of rural development. The chief actors of rural development had previously been involved in spatial and physical planning and various rural studies, i.e. in fields differing from agriculture which fact contributed to the utterly

different approaches of the two groups: the two opposing parties missed the common language that could have allowed them to find paths for a fruitful co-operation.

▣ The struggle between the groups of agricultural and rural developers representing divergent approaches and concepts was and remained rather sharp from the beginning until the end, i.e. from the planning phase to the implementing phase of the SAPARD program;

o Strategy building commenced with the heading of the new Rural Development Department (hereafter: RDD) of the Ministry of Agriculture (hereafter: MARD). One of the extension institutes responsible for co-ordinating rural development policies was in charge of implementation (VATI) in co-operation with another extension institute (AKII) responsible mainly for implementing background research and advisory service backing agricultural, food industry and trade policies. Half a year after the start, still in 1999, a shift in responsibility over SAPARD planning took place: the department taking over the task of developing the country's SAPARD Plan was the one traditionally in charge of creating development policies for agriculture. From this point the analytical background studies and planning exercise continued in two workshops, the tasks were split between the staff of the agricultural research institute and that of rural developers;

o RDD followed its own approach when launched a planning procedure at grassroots level in 1999. The aim of the RDD was many-fold:

- gathering information from rural areas about the needs and necessary fields of development and utilize it in the national planning process;

- promoting area-based strategic planning thus introducing the new approach (top-down -paradoxically enough);

- spreading knowledge about new EC policies and SAPARD in an effective way coupled with capacity building;

- revitalise rural communities' visions towards their own future within a partnership procedure;

- reveal and strengthen local initiations that were to develop projects then applications to SAPARD funds thus securing the safe implementation of the program.

o Although the guideline for developing rural development strategies did include agricultural development as well, this initiative was strongly criticized by the agricultural lobby. Criticism targeted the bottom up strategic planning from micro-regional (NUTS IV) level through county and regional levels (NUTS III and IV levels) to the national plan whose accomplishment on the one hand was not in line with the strict deadlines dictated by the Commission, and, on the other hand, lacked grassroots capacities. The new EU legislation, agricultural strategists argued, clearly presented the menu of measures accession countries were eligible to select from, which limited the scope of any grassroots ambitions, and therefore the opponents did not see the function of the process either;

o They, as well as Commission representatives, warned against "over-selling of SAPARD", raising too high expectations that could not be met;

o The rather sharp differences in approaches as well as the fight for the bigger slices from the SAPARD cake lead to divergent institutional building as well: RDD established its seven regional extension offices well be-

fore the idea of regional SAPARD offices came to the fore.

▣ From retrospect, it seems to be evident that the two opposing approaches were not necessarily mutually exclusive. On the one hand, agricultural assistance is of course needed after a serious decline of the industry in a country where agriculture had been part of the national pride. On the other hand, grassroots capacity building as well as introducing participatory spatial planning had also been an issue of great importance just not as part of a nation-wide campaign, more like a pilot program as in the EU;

▣ However, it was also the SAPARD, which finally and definitely proved to be the great pressure for sound development need in both directions, coming from grassroots levels, i.e. agriculture, its up streams and down streams industries on the one hand, and various fields of rural development, on the other hand. In certain cases, for example, when the plan had under-estimated needs, five times more support was requested than the allocated fund was. This is what happened with the measure of village renewal during the spring of 2004 when thousands of applicants submitted their claims within four months. If anything, this should convince policy makers that a balanced strategy has to be built in line with EU policies and in strong cooperation with the related national operational programs. (The great pressure for subsidies of rural infrastructure and village renewal was due to the lack of funding elsewhere.);

▣ The fate of the SAPARD program was, unfortunately, influenced strongly by politics and politicians as well, not in terms of the content but in terms of institution building. The actual minister's decision about the establishment of an independent SAPARD office was taken so late, that the whole execution was put at risk. In addition to this, the parliamentary election campaign in 2002 further slowed down the process, which almost resulted in a failure later on.

At the time this review of SAPARD experiences was prepared, the very first final outputs of the program have been published. According to the latest data the Program has been implemented successfully: Hungary managed to spend the SAPARD fund allocated by the European Union, despite the huge delay it witnessed in implementation between 2000 and 2002, and subsequently till 2004. At the beginning of 2004 only 20 million Euro, less than one tenth of the allocated public funds had been committed by contracts with successful applicants and hardly any project was completed. Four tendering rounds took place during the one and a half years from the start (at the end of 2002) to the closure (30th April, 2004). The very last open tender with two new rural development measures opened for competition in February 2004 and closed two months later brought three times more applications than in the previous year and two times more claims than the amount allocated to the entire program.

Due to this situation not many useful evaluations have been available. Therefore authors of this review had to make rather serious efforts to analyze new data available for the public. They, also, have been still impeded to include vast program results in their account that otherwise the realized projects would have yielded to.

With the intention of providing a firm basis for comparison, in the first chapter of the main part of the text the paper continues to provide an overview of Hungarian peculiarities, then the focus shifts to the analysis of results, experiences, missed and used opportunities, lessons learnt from the SAPARD program and inbuilt in the new program-documents as well as mistakes made once again. In other words, in addition to a certain kind of evaluation and broader impact assessment, the issue of continuity has also been raised.

Research goals

Research goals have been as follows:

- ▣ to provide a brief overview about the peculiarities of the Hungarian SAPARD program;

- ▣ to assess its implementation;
- ▣ to summarize best and worst practices stemming from the content as well as institutional settings and implementation;
- ▣ to provide policy recommendation on the basis of research results.

Research methodology

Lacking the time and resources for realizing a genuine research on the topic, authors' opportunities were largely restricted to reviewing related literature and various programming documents, reports available at the SAPARD Agency / MARD, and a secondary analysis of the existing research material. Two of such sources have been used for the present analysis, one of them is a set of information (transcribed interviews, minutes of focus group discussions) collected during the mid-term evaluation of SAPARD⁵⁵, the other stock of material (mainly interviews with key persons) was available from a comparative research (After the Accession), a joint project of the Vienna Institute of Human Sciences and the Central European University⁵⁶.

As far as the genuine research activity is concerned, it is the full list of the successful applicants that has been analyzed⁵⁷ and two interviews have been conducted with high-ranking SAPARD officials.

Sources of information

Beyond the primary and secondary processing of the above-mentioned quantitative and qualitative material, authors relied on the following sources of information:

- ▣ The Mid-term Evaluation of SAPARD in Hungary for the period 2000-2003⁵⁸, December 2003;

- ▣ The Report of the State Audit Organization on the Execution of the SAPARD Program, April 2004;

- ▣ Reports of the SAPARD Agency and the Managing Authority on the execution of the SAPARD program and Agricultural and Rural Development Operational Program (here in after ARDOP), 2003-2004;

- ▣ Minutes of the SAPARD Monitoring Committee 2003-2004;

- ▣ Reports of the Agricultural and Rural Development Agency (here in after ARDA) on the results of monitoring activity 2004.

FRAMEWORK ANALYSIS

Agriculture and new rural development policy in the Hungarian context

The "Farm Problem" and the "Rural Problem" in the Pre-Accession Hungary

The farm problem

Describing the "farm problem" in Hungary would need a rather long list of issues but all of these issues are somehow related to still ongoing farm restructuring. The most important ones, however, are as follows:

- ▣ an over-staffed and badly organised, therefore still shrinking and changing large-scale commercial farm sector providing roughly half of the agricultural output;
- ▣ a weak small-scale commercial farm sector providing some 10% of the production;
- ▣ the low productivity and profitability of production equally characteristic to small-scale and large-scale farms;

⁵⁵ From among the authors of the present report, Krisztina Magocs participated in mid-term evaluation.

⁵⁶ Project leaders: Janos Matyas Kovacs and Violetta Zentai; from among the authors Katalin Kovacs participated in this project

⁵⁷ We are thankful for the material, received from the SAPARD Agency, to Mrs Toth, Zsuzsa Pasztor (director), Mr. Gyula Szoke (head of the Monitoring Department) and Mr. Ferenc Guba.

⁵⁸ Agriconsulting Europe S.A was the leading partner of the consortium that prepared the report

- ▣ capital access problems, the low level of net investments due to the ownership and land-lease rules (which do not allow foreigners and corporations to buy agricultural land or lease within long-term contracts);

- ▣ the extensification of production threatening with the "latifundium scenario"⁵⁹ as a short term response of large-scale actors to the emerging challenges.

The high number (approx. 900 thousand) of plots farms producing partially for self-sufficiency and partially for the market bridges "farm problems" and "rural problems" in the Hungarian context. It is a phenomenon that reflects major structural weaknesses within agricultural production: semi-subsistence farms provide some 34-39% of the total of agricultural production⁶⁰, a very high proportion that threatens with major difficulties following the accession for the lack of reliability and rational operation of this sector. The huge weight of dwarf farms, however, is influenced by the lack of jobs outside agriculture (i. e. the over-supply of non-agricultural labour) as much as job scarcity within agriculture. The comparative analysis of information provided by agricultural censuses of 1994 and 2000 reveals that the drop of population dealing with plot farming was the highest in the rapidly developing core region (within the capital city and its conurbation zone) and in those areas where the production and marketing of small-scale auxiliary farms had been heavily dependent on large-scale farms during the socialist era, therefore small scale farms could not make the shift towards independent operation.

The rural problem

The most important elements of the "rural problems" resulting - among others - in the large number of plot farms are as follows:

- ▣ the lack of jobs on-farm and off-farm, which reflects the weaknesses of the rural economy outside the rapidly growing core areas;

- ▣ the polarisation symptoms taking place in the rural space originating in the regionalisation of economic processes that brought about so-called luxury ghettos, the dwelling areas of the middle-class and upper classes, within the metropolitan area and around the larger rural centres on the one hand, and rural ghettos in the peripheries, on the other hand. In this latter, Roma population and marginalized social layers and the elderly constitute the majority groups of rural communities. People in these communities usually witness and are subject to long-term exclusion from the labour market. The weight of the two poles is roughly balanced in terms of population coverage: approximately 7% of the population live in highly developed suburban villages and 6% in villages showing marked segregation symptoms.⁶¹ The common feature of the "poles" is the drastic "de-coupling" of dwelling places and the places of work. On the positive pole, in the suburbs this does not generate real, existential hardships because urban centres provide job opportunities appropriate both in terms of quantity and quality. On the negative pole "de-coupling" has signified the vast disappearance of jobs locally as well as in the urban centres available for the population concerned.

Seemingly, the "triad", meaning three major types of rural areas such as suburban zones, peripheries and in-between "classical" rural spaces, is more or less the same in Hungary as in the advanced countries, with the exception of considerable differences as far as the proportion of well-to-do and poor areas are concerned and the gravity of crisis at the negative pole with marked social exclusion. The polarisation of the rural space clearly manifests the inadequacy of any non-territorial intervention system. The multi-sectoral character of rural crisis, however, makes also self-evident that it is a set of spatially co-ordinated and co-operating policies, sectoral, rural and regional policies alike that can be beneficial for rural spaces.

⁵⁹ Pouliquen 2001:46.

⁶⁰ Pouliquen 2001:58

⁶¹ Kovacs and Koos 2003

"Old" and New rural policies in Hungary

Regional policy prior and following the system change 1990-1995

The basis of current regional (and rural) development policies is still the 1996 XXI. Act on Regional Development and Physical Planning, which came into effect on 5th June, 1996. This Act, as a framework, laid down the objectives and the authority of Parliament, of the government, of individual ministries and of the main policy-co-ordinating body, the National Regional Development Council. The Act guarantees not only executive, but also co-ordinating and decision-making duties to the regional actors in the establishment of regional policy. The content of the Act was greatly in line with the content of the National Regional Development Concept issued in 1998⁶². The disadvantaged target areas of regional development policy were defined as follows: (i) areas underdeveloped by social and economic criteria, (ii) areas affected by changes in the industrial structure, (iii) backward rural regions with an agricultural character, (iv) areas not belonging to the above categories, but facing prolonged, significant unemployment.

As opposed to the multi-sectoral regional development policy agricultural support policy was and remained centrally managed, purely sectoral policy aiming at increasing production competitiveness. The beneficiaries of the agricultural budget were exclusively farmers and organisations dealing with agricultural production and food-processing. The content of the support schemes covered purely agricultural issues based on individual claims. No emphasis was put on integrated programming and partnership at any level.

When trying to identify the strengths of the post-socialist regional policy a multi-sectoral approach coupled with partial decentralisation (the concerned fund was distributed partially at county level) and institution building have to be highlighted. It was also spatially delineated, problem-oriented (see the target areas) and included crisis areas of the rural space, amongst others those with agricul-

tural dominance. Considering the weaknesses, the lack of safe monitoring system including the civic sector and the weak presence of the bottom-up and participatory approach in the planning-programming procedure need mentioning. However, this spatial policy alone has not been able to claim great achievements, simply because of the inappropriate funding that - regarding the strict funds supporting regional development policies - never exceeded one per cent of the GDP.⁶³

Setting up a New Policy Framework: Introducing RD Policy

The parliamentary elections in 1998 brought about substantial changes in connection with the organisation of regional and rural development policies formerly belonging under one and the same category. Within an overall reorganisation of ministries' responsibilities, (i) rural development policy, for the first time, had become detached from regional development policy, (ii) and they both were moved from the Ministry of Environmental and Regional Development to the Ministry of Agriculture and Regional Development (MARD)⁶⁴. However, this solution proved to be temporal: four years later the new political turn swept regional development policy away from MARD. It shifted under the umbrella of the Prime Minister's Office, whilst rural development policy, in line with EU standards, remained with the agricultural administration.

When trying to identify the most important characteristics of the new rural development policy we can say that it showed a move towards an approach concentrating more on (agricultural and cultural) resource management, agriculture-related and agri-environmental issues than prior rural development oriented regional policy did. The emphasis had been moved also from an exogenous development approach aimed at attracting resources from outside to a few-sectoral, endogenous development approach (preserving and revitalising intra-region resources). Such differences in emphases can be analytically identified; however, no clear sep-

⁶² 35/1998 (III. 20.) Parliamentary Resolution on the National Regional Development Concept

⁶³ When much larger figures are mentioned, authors calculated with some single-sectoral investment subsidies as well. Here the so-called Regional Development Fund is considered only.

⁶⁴ It is quite interesting that although the Hungarian name of the ministry included 'rural development', the official English translation put it as 'regional' between 1998-2002. Then, with the new reorganisation, the discrepancy between the Hungarian and English expressions ceased to exist.

aration of the goals and target areas of rural development policy from those of regional development policy was performed.

The lack of clear distinction between the two policies became manifest during the SAPARD preparation phase. The preparation work for SAPARD started at the beginning of 1999, right after the separate unit, the Rural Department Development, was set up in the Ministry of Agriculture and Regional Development. It was this new unit that took the main responsibility for creating Hungary's SAPARD Plan that time.

The SAPARD preparatory work

Preparation work for completing the country's SAPARD Plan started at the end of 1998, as it was mentioned above, under the heading of RDD, and after a shift of responsibilities it continued in two groups of experts. After the shift, during late spring of 1999, a multi-layered spatial planning procedure was launched by the RDD for various regional levels, i.e. micro-regional level (NUTS-IV), county-level (NUTS-III), the level of the regions (NUTS-II) and finally, the national level. It was advertised as a bottom-up process ensuring the inclusion of the individual development needs of rural micro-regions (roughly district level) and providing opportunities for innovation and the implementation of tailor-made development programs. This multi-layered planning procedure represented a unique element in Hungarian SAPARD preparations - other countries did not opt for this solution. In decision-makers' explanations two major factors emerged to underline the importance of this method: the bottom-up building of the whole procedure and revitalising rural communities' visions towards their own future whilst building partnership relations. These goals obviously reflected some relevant features of the EU LEADER program while filled the gap regional policy left behind.

However, a rather paradoxical situation developed at the beginning of the SAPARD-related activities, which situation remained so until the end. Namely, that SAPARD was not appreciated to the extent it should have deserved for the small amount of available funds (5% of the total of the agricultural bud-

get), whilst at one and the same time, a harsh struggle prevailed between agricultural and rural developers for these little resources. The latter group, the newcomers, wanted to enter the scene at a time when the cake that agricultural developers had sliced exclusively for themselves so far was diminishing compared to the needs they assessed. Why to share scarce resources, they asked during the fight over the measures to be included in the Plan as well as over the distribution of resources among the measures. The Rural Development Department naturally fought for greater financial allocation for Art. 33 type measures of the 1257 EC law, whilst departments of traditional agriculture wanted to see SAPARD as a minor supplement to the agricultural budget containing investments of purely agricultural type. Due to the traditions as well as some lobby interest the latter force was and still is a lot stronger. The ratio of Art. 33 measures in the original Plan did not exceed 36 percent of the total budget. RDD had very few resources compared to the whole agricultural budget, so SAPARD provided practically the only opportunity to introduce such measures in Hungary.

Staying with the new rural development policy and giving some deeper insight about the co-ordinated planning and programming process in the micro regions that was probably the most peculiar element of Hungarian SAPARD preparation process its major steps were as follows:

1. Situation analysis, data acquisition, data processing, SWOT analysis, future vision;
2. Preparation of strategic programmes, priorities, sub-programmes, packages of measures;
3. Operational programmes, outlined projects.

The major features of the two-year-long planning process can be described in the following way:

- ▣ Design process was bottom up where the area basis signified voluntary coalition between at least four settlements, although a lot of micro-regions chose its partners from the official statistical micro-region;

- ▣ The micro-regions were granted 100% central financial support;
- ▣ The programming process was preceded by an intensive phase of training;
- ▣ A centrally financed (co-financed)⁶⁵ management system was created linked to the areas developing rural development strategic programs.

Altogether 150 programmes with 4500 actual project plans were prepared in 195 micro-regions. The results of this planning and programming process were not taken into consideration in the preparation of the SAPARD Plan that had been approved by Brussels authorities much earlier than the accomplishment of the overall planning exercise. They were never implemented as such either. The main results of the procedure were as follows:

- ▣ Improvement of local human capacity;
- ▣ Growing involvement, slowly changing attitude;
- ▣ Emerging horizontal and vertical communication, partnership;
- ▣ Some still active and viable local development groups.

To implement its policy, during the period 2000 to 2002, RDD operated a funding scheme, the so called Rural Development Support Scheme on the basis of the financial resources allocated as national contribution for implementing SAPARD rural development measures unused for the years concerned, because of the delay of the accreditation process to be expounded below. The measures were the same as in the SAPARD Plan by purpose. Opening up this fund enabled the administration to gain experiences on the tendering process as well as on the implementing and the control of the SAPARD rural development measures.

⁶⁵ MARD provided the so-called micro-regional managers with a relatively low salary that could be supplemented by the allied villages.

The operation of the fund was secured by the so-called Regional Rural Development Offices set in motion in the seven regions. Twelve hundred applications were accepted within this support scheme. The total budget for these applications amounted to 44 400 000 Euro, of which the amount of the support totalled 22 000 000 Euro. The application procedures simulated the rules and procedures of SAPARD during implementation. When regional SAPARD offices started to operate, experiences gained from the operation of Rural Development Support Scheme were used to a less extent than it should have been. Needless to say it had to do with the distinct operational network of the Regional Rural Development Offices of the RDD more regarded as competitors than as co-operators of the SAPARD offices established more than a year later in the regions (not necessarily in the same rural centre as Regional Rural Development Offices).

Institutional framework and procedural bottlenecks, their background and their impacts

Institution building

In the beginning the very minimum amount of time, effort and funding was devoted to institutional building. The political decision-makers of the MARD and the government of that period failed to recognise that SAPARD was a key programme for institutional development in Hungary and for the country's accession to the European Union. The programming and accreditation process in Hungary was unduly long, which resulted in major delays. Analysing the institutional building process chronologically, at the beginning, in 1999, Agricultural Intervention Centre (hereinafter AIC), Paying Agency for national market support was regarded as the central SAPARD Office. AIC made some progress in preparing the different tasks for accreditation that was to undertake in 2000.

The originally appointed organization for programming and implementing SAPARD was changed in May 2000 by the decision of the Minister of MARD. According to this decision a completely new institution (SAPARD Agency) had to be established. This decision is considered as the principal reason for

the delay in the whole accreditation procedure. The newly appointed president of the agency did not take the advice provided by experts and did not understand fully the requirements either. For more than one and a half year no progress was made in setting up the agency: the institutional framework could not be set up, and no professional staff was hired. This occurred despite all the warnings and advice from the European Commission. Finally, the central office and the seven regional offices were set up by the fall of 2002, but the long political driven lack of progress caused a two-year delay in accreditation.

Based on a Government decision the new Agricultural and Rural Development Agency (here in after ARDA) that was to become the chief administration unit of CAP was formally established on the 1st July of 2003 through a merger of the existing Agricultural Intervention Centre and the SAPARD Agency.

When ARDA was born, one of its pillars, the SAPARD Agency had 275 staff members at its disposal. The seven regional offices employed 26 persons each on an average. In order to cope with the predicted rise in the number of applications, personnel of the Regional offices were increased proportionately to about 30-33 persons per office, following the transfer of proposal-evaluating activities of the Food Industry Department of MARD to regional level.

Despite of increasing the number of personnel, according to the State Audit Organization report of April 2004, the lack of appropriate human capacities represented a most serious bottleneck in the operation of the SAPARD Office. The same was concluded by the mid-term evaluation team in December 2003. It was not only due to the insufficient number of staff members, but it also had to do with the staff's quality and stability. According to the mid-term evaluation the fluctuation of the personnel was rather high in the regional offices, notwithstanding the fact that since its establishment, the SAPARD Agency has had five directors, the fifth is just going to leave behind the Agency at the end of 2004. This turnover of directors and the ensuing instability has helped neither the accreditation nor the implementation of the process. A lack of teamwork and the

fluctuation of the management increased the uncertainty among the employees.

In the case of SAPARD, ARDA is not functioning as a paying agency. The National Fund within the National Treasury carries out this task. The CAP paying agency has completely different tasks than that of SAPARD. By joining the two institutions (SAPARD Agency and AIC) a huge institution was born with more than a thousand people and with very heterogeneous tasks. The management of such an institution is hardly likely to be performed effectively. According to the director of the former SAPARD Agency, the Agency should have been kept independent. When the reorganisation had started, the SAPARD Agency just began to operate well, having great number of applications to be processed. By the merger, the SAPARD Agency was losing valuable human capacity when it was basically taken apart. Many of its functions became common with the CAP Paying Agency. It significantly slowed down the application processing procedure.

From the SAPARD point of view the merger was not favourable at all. It took away human capacity, slowed down and made it difficult to hire people. Since in the Organisational and Operating Manual the tasks connected to CAP Paying Agency and the accompanying measures were not well separated from those of SAPARD, the centre several times ordered people in the regions working on SAPARD to switch to work on other CAP issues. Therefore the Hungarian case tells more about how not to transfer SAPARD Agency to CAP Paying Agency than good examples would do.

If the two (actually three) tasks are carried out by the same institution, the Organisation and Operation Manual should clearly separate tasks and responsibilities by functions and it should be made clearly traceable.

The tendering procedure

When, eventually, the Agency was set up, to speed up the process, decision makers decided not to go for the accreditation of the nine measures that the SAPARD Plan comprised, but initiated the accreditation of only three of these measures and, of

Title of the measures accredited in the first round	Weight in the Plan
Investment and improvement of agricultural holdings	28,46
Processing and marketing of agricultural and fishery products	20,53
Development and improvement of rural infrastructure	11,98
<i>Source: NRDO</i>	

course, technical assistance. The table below illustrates a title of the three measures accredited in the fall of 2002 as well as their original weight in the SAPARD Plan (altogether some 60%).

The deadline for submission of applications was 15 November 2002, in the case of "Investment and Improvement of agricultural holdings", and 1 December 2002 for the two other measures such as "Processing and marketing of agricultural and fishery products" and "Development and improvement of rural infrastructure"

Despite the short deadline and the complexity of the application form, an unexpected number of applications totalling 1160 were submitted. Out of the applications received, more than 50% were related to the development of rural infrastructure. The relatively low interest in the procurement of machinery was due in the main to

- ▣ the complicated support conditions and;
- ▣ a parallel and less trouble-making national support scheme for machinery

Each proposal from the pool of the first set of submitted applications was given back to the applicant for completion. The rate of the rejection of proposals was very high, 57% as well. The extremely high rate of rejected applications increased the administrative load, which was an important reason for the lengthy evaluation procedure and the slow implementation of the programme.

According to the mid-term evaluators, the necessary information on the general eligibility criteria did not meet the applicants' needs adequately. The criteria on the business plan assessment were not transparent and well disclosed enough for the applicants to see whether they were eligible or not. The complexity of the business plan was also an obstacle for potential applicants. This was especially true in the case of small companies, which had problems in collecting all the necessary data and figures required for business planning.

The scoring system that was applied after the general eligibility check was used to assess the business plan according to the measure-specific criteria set out in the SAPARD Plan. The criteria on economic viability, efficiency and effectiveness favoured the larger and better performing companies, which included the foreign-owned food-processing businesses. Application safeguarded the system from losing money through not supporting enterprises with high financial risk. Such fear of failing projects excluded many applicants with potentially viable projects.

The evaluators concluded that due to the little number of approved applications only of economic viability, efficacy efficiency and effectiveness criteria were assessed. Since more budget was available than claims of the approved projects, the SAPARD Plan selection criteria were not be applied to score the projects. The evaluators agree with modifications introduced in May 2003 to approve the economic viability and see a further review of the criteria necessary.

In May 2003 an amendment proposal of the Hungarian administration was submitted to Brussels that was aimed at increasing the effectiveness of the program via the following steps:

- ▣ Lifted the too strict assessment criteria of economic eligibility;
- ▣ Expanded the scope of final beneficiaries and clarified the conditions of economic viability in case of measure Investments in agricultural holdings;
- ▣ Increased the level of support by 10% (from 30% to 40% in case of purchase of machines, from 40% to 50% in case of building development and other investment associated with agricultural building development) and also the maximum amount of support per project in case of measure Investments in agricultural holdings;
- ▣ New ranking criteria was approved for measure Investments in agricultural holdings;
- ▣ Upper limit of support per project was increased in case of measure for Processing and marketing of agricultural and fishery products;
- ▣ Decision was made on launching three new measures, namely "Improvement of Vocational Training", "Renovation and development of villages and protection and conservation of rural heritage", "Development and diversification of economic activities, providing for multiple activities and alternative income".

The Star Committee approved the amendment requests of the Hungarian government in July 2003, thus the next round of tendering for the already accredited measures in September 2003 continued according to the eased rules. The SAPARD Office also committed itself to speeding up the administration and selection process (reducing from 90 to 60 days). From among the suggested new measures, "Improvement of Vocational Training" was dropped, only the other two rural development measures were accredited late autumn. The last tendering procedure was started as late as Febru-

ary 2004, preceded by a huge joint media campaign of three ministries (MARD, Ministry of Economic Affairs, Ministry of Culture and Cultural Heritage). The result was a never experienced amount, almost 6,000 applications, which generated enormous processing problems and the refusal of 6,000 proposals. (See Figure 1 and 3 in the Appendix)

The structure of the planned and implemented measures: the effected sectors

When assessing the impacts of SAPARD and the effected sectors we have to be cautious. SAPARD was a rather little fund representing some 5-6% of the MARD budget that inevitable limited its potentials. However, the most effected sectors can be relatively easily determined: that is

- ▣ farm business via supported machinery and building investments;
- ▣ processing industry;
from among first-pillar type investments,
- ▣ rural infrastructure;
 - o mainly road development investments;
 - o IT investments;
 - o investments to alternative waste water treatment;
- ▣ the built environment of rural areas
from among second-pillar type of support.

Altogether 2752 SAPARD applications were approved and 264,2 Million Euro grants have been allocated via approved applications. 38,3% of the public funds went for farm investments, further 30% to support food industry. The latter measure's share in the SAPARD cake reflects the increase of the project ceiling secured by the 2003 amendment of the SAPARD Plan that affected the scope of eligible applicants in the first measure (investments of agricultural holdings) as well. These two changes influenced the further distortion of first-pillar type

of spending in Hungarian SAPARD program at the expense of the rural development support.

The proportion of allocated second pillar funds exceeded 31,7% out of which infrastructural investments took the largest portion (22,3% of the total allocated fund) followed by village renewal (8,7% of the fund total). (See Tables no. 1-4 and Figures no 4-6 in the Appendix)

If we analyze the applications according to the type of applicants, the picture varies measure by measure. Figure 4 illustrates, that under the measure called "Investments in agricultural holdings" individual producers represented a majority in terms of the number of applicants (58%) but they managed to acquire only one quarter of SAPARD grants under this measure, whilst the opposite proportions characterized the company sector: 37,5% of the applicants took the 64% of available funds. In case of food processing individual entrepreneurs represented an exception from the rule (see Figure 5), whilst among approved applications for rural development measures local governments reached the highest rate (see Figure 6). Figures of Table 5 are telling about the typical project size by applicants' groups: 21,4% of individual applicants in the lowest rate tenth took as few as 3,5% of the grants and 1,3% highest rate applicants took 11%, whilst in case of limited liability companies the relevant figures are: 3,1% : 0,1% and 14,4% : 48%.

Analysis of the how the SAPARD program contributed to the smooth transition

SAPARD, as the forerunner of the Structural Funds, has fulfilled a real mission in Hungary with lots of conflicts, mistakes but also with lots of positive impacts. The development resources channelled to agriculture and rural areas, institution building as well as experiences gained on submitting proposals from the clients' point of view and processing, administering, selecting them on the side of the SAPARD Office have to be emphasized. Not only the application process, but the EU's harmonized system of operation, monitoring and financing was also new. The main tasks of SAPARD program included primarily the adoption of these, the changing of the application habits of the entrepreneurs, and pro-

moting the EU's harmonized methods. Furthermore, the program drew the attention to several new considerations, values, approaches, standards that were to be developed/met in a narrower sense (food quality and consumer protection, animal welfare and health, working safety and hygiene, environmental considerations, etc.)

The introduction of second pillar-measures was also very much SAPARD-related and conditioned. The EU policies considerably supported the new and weak rural development policy entering the battle field for scarce resources both in an abstract and in a very concrete way via their representatives taking part in open discussions (which were critical towards the exaggerations of rural development policy makers as well). In addition to this, without SAPARD, without the resources allocated to self-contribution during the "delay" period in 2001-2002, the Hungarian Rural Development Fund could not be operational, which was a major vehicle of the latter's approval and legitimation. Despite the hardships, this kind of "orientation role" of the SAPARD program undoubtedly represented one of its most important impacts.

As a learning program, SAPARD was functioning quite well although not to the required degree. The most important shortcomings can be understood as a consequence of the delay in real start which fact was purely politics-driven. Regrettably, because of the huge delay in the process, lessons could not be used in the programming of National Development Plan, more precisely when ARDOP was compiled. Lacking appropriate experiences, the harsh debate restarted between rural and agricultural developers, the first version of ARDOP was biased towards first-pillar type of investments to an unacceptable degree that triggered open intervention from the Commission on the one hand, contributed to the unreasonable allocation of funds, on the other hand. Therefore mistakes committed in SAPARD were repeated in ARDOP.

Another issue that should be raised is that of uncertainty and a lack of trust, which is rather natural in the case of a completely new program in a completely new arena that is the European Union. Policy makers were not able to estimate the real ab-

sorption capacities of the measures, trusted neither new actors, such as smaller-scale entrepreneurs, nor the absorption capacity of new measures, such as those aimed at rural development. These circumstances as well as the unequal power relations between old (agricultural) and new (rural development) actors led to the biased allocation of funds in the SAPARD Plan, the preference order of measures when accreditation was at stake, and when eligibility and assessment criteria were set. SAPARD did not take much in favour of agri-environment, beyond "gender blindness" this is one of the most important shortcomings of the Program, but fortunately enough a national support scheme compensated for the losses and the same function was secured by the operation of the Rural Development Fund.

Taking all this into account, SAPARD has brought significant changes in the acquaintance of the Community standards by the agricultural sector and by the rural population, assisted institution building, provided the administration with appropriate experiences in processing and selecting applications which were helpful and eased the implementation of "post-accession" tasks.

Thinking strategically: SAPARD aimed at sustainable agriculture

The requirements of sustainability and environment have emerged in political discourse as well as in program-creation since the change of regime. The issue of sustainability and environment protection was investigated and elaborated upon in course of the pre-accession process in compliance with the conceptual framework and the related programmes of the EC. During the preparation of the SAPARD Plan the aspects of sustainability and environment were elaborated in accordance with three national programmes (Hungarian Agricultural, Regional and Rural Development Strategy, the Comprehensive Development Plan of the Hungarian Economy, the Preliminary National Development Plan and The National Agri-Environmental Programme.)

It clearly turns out from the situation analysis and the SWOT of the SAPARD Plan that the primary

problem of rural areas and agriculture is more of an economic and social than environmental character. Due to the lack of capital and low profitability agricultural production as well as the usage of chemicals have significantly decreased. Owing to these facts environmental sustainability did not become the major priority of SAPARD, which contributed to the fact that the relevant measures were not accredited.

However, the environmental aspects as a kind of "horizontal" requirement, as a condition of the approval of the projects played an essential role in measures generating investments. In the measure "Investments in agricultural holdings" one of the objectives was to secure compliance with the respective EU standards such as food quality and safety, environmental and animal health welfare.

Transparency and public participation

Before the pre-accession programmes started in Hungary there had been no good practice of partnership consultation, transparent decision making procedure as well as communicating the results of support schemes through monitoring systems.

Partnership consultation as a compulsory element of the programming procedure was quite unknown to MARD. As it was the first occasion to meet this procedure in practice, no good method was elaborated, as neither MARD nor the involved partners were prepared for such activities. From MARD's point of view it was difficult to share decision-making power with organisations that were having different opinion on agricultural policy. On the other hand, these organisations were not well prepared, were not aware of the legislative background of SAPARD, so did not know the actual possibilities and obstacles caused by EU rules. Building partnerships is a time consuming procedure and SAPARD was the first step.

Operating a Monitoring Committee is also a new element of the implementation of the agricultural policy. It is a great tool to inform and have the rep-

representatives of many parties involved in the decision-making. At least the problems are open to a much wider public than previously, and the monopoly position of MARD has diminished to a certain extent. However, the processing and monitoring system has not yet been IT based without which it is hard to make any kind of activity transparent. The homepage of the SAPARD Agency has improved considerably, making a great deal of useful information accessible to a wide public.

At the beginning of the implementation procedure the communication between MARD Managing Authority (hereinafter MA) and the SAPARD Agency was not satisfactory. No information on the operation or program results made available to the MA as well as SAPARD Agency took over some decisions that should have been made by the relevant department of MARD. This relation has significantly improved. There is frequent communication with and data supply for MARD. The attitude of SAPARD Agency has changed towards the wider public as well. The protective attitude has changed towards a more open and transparent operation. It might be due to the less criticism towards the implementation of the Programme as well as to some success already achieved (within 12 months the commitments increased from 20 to 262 thousand Euro).

The development of skills, special funds designed for better project preparation

There has been a lot done in Hungary for developing skills aimed at better project preparation. Many opportunities have been still available financed/organised by various state administration units and market figures mainly for professionals or semi-professionals to get trained in proposal writing including the basic knowledge about the rules in the European Union to access public funds. Most of these training courses are supported directly or indirectly from combined state and EU funds, therefore clients do not have to cover full training fees.

However, most of the applicants do not submit a proposal every day of every week. For an ordinary farmer for example, efforts to acquire the relevant skills would need far too high investment costs calculated in time and money, notwithstanding the still

lacking knowledge based on practicing. As opposed to our ordinary farmer, a specialist engaging in writing applications develop a stock of skills, knowledge and network s/he uses for realising high income on the basis of approved applications. The market based proposal writing industry of consultants and consultancy companies that started to flourish right after the appearance of over-complicated SAPARD application forms was criticized but accepted. The inevitable consequence of the appearance of complicated application mechanisms is the "dead weight" effect favouring the big fish in getting more discriminating the small fish lacking financial means as well as knowledge about the availability of required services.

As remedies, some "managerial services" have been developed and maintained from state resources such as "village managers" (falugazdasz) providing some extension services aimed mainly at fulfilling administration tasks for MARD but also advising farmers how to reach agricultural support schemes and get direct payments. As it has been mentioned in an earlier chapter, the Rural Development Department of MARD operated a so called rural development manager network on micro-regional basis. Managers have been in charge of information dissemination, networking and organising useful events aimed at strengthening endogenous potential of the area and enhancing capacities for rural and regional development. However, if they provide proposal-writing services, they usually do it on market or semi-market bases.

Monitoring the results of the program: the compliance of output-indicators with EC indicators on clean environment

The impact of any investment on environment has to be approved by the relevant authorities. However, in the assessment of the projects there is not any criterion that takes into consideration the extent of compliance SAPARD assistance contributed to. Regarding environmental standards, no detailed impacts of the procedure such as improved energy balance of the holding, reduced noise or reduced waste water or waste water treated by a new sewage system have been assessed.

No indicators on this subject are collected in the monitoring system so it is hard to prepare any kind of analysis on the environmental impact of the SAPARD Programme. Based on the questionnaires of the Mid-term Review the following conclusions can be drawn:

Investment in agricultural holdings

In the case of pig keeping yards the most serious problem is meeting the environmental requirements, since it is difficult to use the manure to improve the quality of soil at the current level of livestock concentration, and because of the general technology for the disposal of manure. In 11% of the pig keeping spaces studied, the disposal technology is incomplete. The storage of farm manure is a problem for 25% of the yards in Hungary. From

the point of view of environment protection, manure treatment and air pollution may cause problems in the poultry yards.

There is not any satisfying solution for either manure treatment or storage. In this sector, meeting the animal protection requirements, especially the restrictions for coops means a more serious problem. From environmental aspect, the main problem for the cattle keeping yards is the treatment of manure and of the liquid manure. The separation of liquid manure and rain requires a more considerable amount of investment costs in the future. In 12% of the cow barns the disposal of manure is done manually.

Investments in agricultural holdings			
Measure/activity	Number of projects	Costs (in thousand Euro)	
		Total	SAPARD
Environmental protection	2	816	384
Animal welfare	1	100	40
Farm manure	23	6 828	3 200
Collateral projects	127	45 044	2 092
<i>new farms</i>	11	5 696	2 704
<i>total reconstruction</i>	72	24 720	11 512
<i>breeding technology</i>	22	6 712	3 160
<i>new stables</i>	15	6 740	2 980
<i>technology change</i>	7	1 172	584
Others	42	9 992	4 764
Total	195	62 776	29 328

Source: NRDO

By summarizing all this, it can be claimed that the SAPARD measures had a significant role in the improvement of the environmental conditions. Most of the businesses carried out such investments as a secondary goal either because these were conditional for their investments or because of the pressure of the new EU standards of operation. From the data processed it can be clearly seen that the change of environmental conditions will only be the consequence of a technological development, while only a few entrepreneurs applied for direct environmental investments.

Processing and marketing of agricultural products

During the pre-accession period the primary aim of development in the food industry was to ensure compliance with the EU standards regarding environment, hygiene and food safety as well as to in-

crease the competitiveness in the single market. The Specific Sector Programmes provided a reasonable basis to outline development objectives, relevant areas and strategic priorities. Prior to the elaboration of the SAPARD Plan a guideline was elaborated within the framework of a PHARE project ordered by the Food Industry Department, MARD to assist the preparation of the development strategy for the food sector and to define the measures and actions promoting its development and structural adjustment. This measure was the only one developed on the basis of thorough sector analysis.

Environment-related expenditures of the measure of processing and marketing agricultural products				
Measure/objectives	Number of projects		Costs (in thousand Euro)	
	Accessed	Finished	Total	SAPARD
Compliance with EU regulations				
Hygiene and food safety	93	31	60 584	24 232
Environmental protection	35	8	20 352	8 140
Waste management	6	4	3 132	1 252
Sewage	20	11	9 532	3 812
Animal welfare	3	1	1 308	524
Other within the measure	185	51	101 260	40 504
Total	342	106	196 168	78 468
<i>Source: NRDO</i>				

Development of rural infrastructure

The SAPARD Plan, among other things, identifies the following priority needs regarding rural infrastructure:

- ▣ lack of waste-water treatment facilities in small settlements (of less than 2000 inhabitants);
- ▣ non existing or not effective energy supply of agricultural enterprises.

In line with the priority needs the measure includes the following fields of development:

- ▣ development of energy supply for local businesses;
- ▣ construction of local waste water treatment systems using alternative technologies in settlements with a population of less than 2,000 inhabitants.

The number of approved applications for wastewater treatment facilities using alternative technologies in small settlements was rather low (44). This may be attributed to the fact that the laws giving legal standing to such system have only recently been formulated. The other sub-measure that could have had positive effect on the environment is the energy supply for enterprises. Despite of the fact that projects aiming at utilizing renewable energy resources were prioritized, not many of such projects were submitted, although two times more applications were approved within this sub-measure (80 proposals) than in the case of waste water treatment. As two thirds of the applications for both sub-measures were submitted in the last round of Spring 2004, nothing can be stated about the impacts of these investments.

There is a very low awareness of such technologies in Hungary, not only for their novelty but also due to the lengthy and difficult authorisation procedure and the strong lobbying power of the standard wastewater treatment systems with their inherent high cost. Another possible reason for submitting a low number of applications is that the cost of elab-

Rural infrastructure			
Measure/activity	Number of projects	Costs (in thousand Euro)	
		Total	SAPARD
Alternative waste-water technology	22	6 828	4 884
Waste-water	22	6 588	4 644
Renewable energy	24	2 336	1 476
Energy	52	3 748	2 640
Other projects	491	61 340	44 876
Total	611	80 840	58 524
<i>Source: NRDO</i>			

orating the necessary documentation is very high and must be pre-financed by the applicant. The typical applicants for this type of project are municipalities that are in need of financial resources and cannot take the risk of pre-financing the expensive architectural engineering.

Agri-environmental measures

The relevant measure was not implemented; the current measures did not have significant impact on the protection of the environment.

All projects submitted are approved in compliance with EU environmental standards by the respective environmental authority. The criteria used for scoring the projects are very much focused on the assessment of the financial performance indicators provided in the business plan, and no criteria assess the extent to which the projects contribute to the defined objectives of the programme such as improving environmental conditions.

During the application process the applicants had to have very detailed impact studies concerning the planned investment attached to their proposals. Investments making significant impact on the environment have been scrutinised by the Regional Environmental Authority. In general, low impact of the program can be forecasted because of the low amount of the SAPARD aid compared to the magnitude of the problem.

To summarise: the impacts of SAPARD Programme on environmental sustainability were insignificant. It is due to the following main reasons:

- The SAPARD Plan could not concern environmental programmes such as National Agri-environment Programme, Nitrate Action Programme, Natura 2000, Water Framework Directive etc. on one hand because the EU directives at that time were not compulsory to Hungary, on the other hand the national programmes were not in the state of preparedness to be considered;

National Agri-Environment Program 2003					
Target programme	Approved			Calculation: number of NAEP applicants (2003) *NRDP payment rate	
	area (ha)	applications (item)	support (thousand Euro)	Euro/ha in NRDP	Total in thousand Euro
Agri-environment management basic programme	14 856	137	1 133	168	3 494
Integrated farming target programme	13 048	1 321	1 861	337	7 179
Ecological farming target programme	59 657	1 136	4 175	337	22 109
Grassland utilisation target programme	89 348	1 672	3 440	126	15 656
Wetland habitat target programme	16 983	100	522	261	4 785
ESA programme target	40 740	748	4 589	211	10 835
Total	234 632	5 114	15 721		64 058

Source: MARD 2004

- ▣ The measures that could have had effect on the sustainable development of agriculture were not implemented;
- ▣ The content of the measures as well as the selection criteria of different projects did not put enough weight on the environmental sustainability of the different investments.

Best practices and lessons learned from SAPARD operations for the respective country sectors

Best practices

It is really difficult to mention any best practices concerning SAPARD Programme. Somehow even the good and effective actions did have some negative consequences. The information campaign prior to the opening of the two new measures (village renewal and diversification) was a very well organised joint activity carried out by ARDA, the Ministry of National Cultural Heritage and the Ministry of Economy. The notoriety of the Programme, especially the new development possibilities within the village renewal measure rose significantly country-wide. An enormous amount of applications was received within this measure showing the great demand for such support. On the contrary, the financial resources available under this measure are far behind the needs expressed in the applications

It means that every applicant had to be rejected or advised to apply again under ARDOP. However, resources under ARDOP allocated to village renewal covers only 3,5% of the applications already received under SAPARD. No available additional national resources are and foreseen for such purpose until the resources of the new planning period (2007-13). This problem is essential taking into consideration that the preparation of a village renewal project application costs quite some money, which has to be invested in advance. The project owners are mostly municipalities of small settlements having major financial difficulties. By giving them hope of development and not closing the application window in time, although it was advised by ARDA, basically worsened their financial situation instead of supporting them.

ARDA advised MARD in mid-February 2004 to claim additional resources from the Commission, knowing that other pre-accession countries were having difficulties to use up SAPARD funds. But this letter was received in Brussels too late. Obviously, the answer was that there was no possibility of reallocating pre-accession money to a member state; therefore Hungary should concentrate on the utilisation of the funds available under ARDOP. However, the Commission allowed reallocating 80 million Euro from the budget of the National Development Plan to ease the situation. 60 million Euro was devoted to procurement of machinery while 20 million was provided for village renewal.

Lessons learnt

Experience concerning planning activities...

Due to the late start of the implementation of the SAPARD Programme there were hardly any quantified results of any kind of assessments or evaluations available for the planners of the Structural Fund operational programmes, namely the Agricultural and Rural Development Operational Programme (hereinafter ARDOP). It means that from the planning point of view no data were available in time for the strategy development of the ARDOP.

The efficiency of communication among different institutions as well as different departments of MARD involved in the planning exercise of both programmes has significantly improved based on the SAPARD experience. However, the same old argument started between the agricultural strategists and the rural developers on the distribution of the resources of the ARDOP with considerably less favourable conditions to rural development (the suggested share of Art. 33 measures was around 10 % of total budget, which is a lot lower than that of in SAPARD). Still, it did not slow down the planning procedure as much as it did in the case of SAPARD. Planners recognised that late political decision should not influence negatively the pace of preparation.

People involved in the planning of ARDOP were mostly the same as in the case of SAPARD, therefore the planning and negotiating skills as well as knowledge on EU legislation that had been gath-

ered during the SAPARD planning exercise was fully utilized. Unfortunately, a same kind of bipolar (agriculture versus rural development) planning practice (embodied in two planning institutes the AKII and VATI) continued during ARDOP planning instead of establishing one strategic working unit responsible for the elaboration of the new plan with equal representation of the development fields involved.

Experiences concerning institutional building...

As far as institutional arrangements are concerned, it has been proved that having an already more or less functional institution is a huge advantage compared to other operational programmes of Structural Funds that started the accreditation process and the institutional development almost from scratch.

Based on the lessons of SAPARD the application processing procedures and the organizational structure of implementation was rationalized to a certain extent.

Yet, parallel activities such as processing the very high number of SAPARD applications received at the end of the programme and at the same time reorganizing SAPARD Agency in order to increase its efficiency as well as setting up for the implementation of new measures (preparing call for proposals, setting up and introducing the new IT system etc.) of ARDOP caused a huge work overload which is still not solved.

The merger of AIC and SAPARD Agency took place also in the peak period. It caused major restructuring in the organization of the SAPARD Agency that had been operating independently until that time. The reorganisation slowed down the processing of SAPARD applications as well as the preparation for the implementation of ARDOP. Basically, only the department dealing with processing application remained the same. The other departments became common with the ones dealing with direct payments and with the implementation of the accompanying measures. The successor of the SAPARD Agency in ARDA is one single directorate called Department for Rural Development Supports. According to the head of directorate ARDA became too large (1000

employees) so that it cannot be managed efficiently. The implementation of the three different types of support (direct payments, accompanying measures and the so called rural development measures) requires quite different ways of operation methods, thinking and human capacity. SAPARD Agency should have remained independent. It would have been more flexible in terms of reorganizing human capacity according to the actual workload. On the contrary, in practice, as direct payments and accompanying measures have a lot greater financial importance than that of SAPARD and ARDOP, in addition the paying agency for the guarantee expenditures was established by the general director of ARDA, therefore the human capacities were concentrated on these fields.

The experiences of SAPARD could have been transferred more efficiently to structural assistance if:

- the implementation of the programme had started in time so most of the money could have been already spent before the necessary setting up of implementing ARDOP;
- in that case reasonable time could have been spent on adjusting the organizational structure and the procedures to the lessons learnt as well as to the new measures.

Experience concerning applicants...

As it has been mentioned in the previous chapters, the operation of the agricultural support schemes prior to SAPARD had been a lot simpler. Beneficiaries had to learn to prepare applications fulfilling the requirements of the new system. Most of the applicants hired experts/companies having experience in developing the unreasonably high standard business plans and filling in the application forms. The high number of incomplete or rejected applications (in the first round 100% of the received application was incomplete or needed certain modification causing huge amount of administrative extra work) indicated both the unnecessary complexity of the application forms as well as the low preparedness of applicants (and experts). The quality of applications increased by the time of implementation.

SAPARD as a pre-accession programme is well fulfilling its function as a learning programme. Both on the institutional part and on applicants' side the knowledge of European procedures and requirements, rural projects, the practice of writing and evaluating applications has been widely spread during the last years. SAPARD was a useful instrument to improve the level of private consulting services, too, which can result in well-based consulting services available for applicants during the implementation of future development programmes. The Programme brings definitely positive effect on national level decision-makers and executives by providing them with the practice of partnership co-operations and harmonised activities.

POLICY OPTIONS

Policy options do not signify free choices between abstract alternatives, they are very much determined by the actual power-relations of the broader arena of influential policies, among others WTO and EU policies, the situation of produce markets, domestic, single market of the European Union and that of the globalized world market, economic situation and existing structures, rural labour market and the role of agriculture in that, the absorption capacities of the other branches of the economy and cities, etc.

In this context Hungarian policy makers have not had a large room for manoeuvre. They had to accept the fact that by the accession, certain norms and values, such as multi-functionality of agriculture, environmental-conscious production, food quality standards, competition rules, equal opportunity considerations should be strengthened or introduced. They are also aware of the fact that the access to operational and development resources will be determined by EU policies, i.e. by the CAP and the structural funds (especially the combined fund of EAGGF). Moreover, member states limited the budget available for the accession countries as well as the rate of direct agricultural support, the type of accompanying measures, the measure tailored to the needs of the accession countries (support for semi-subsistence farms) and the menu of investments, first and second pillar types equally.

Hungarian negotiators were heavily criticized, of course, mainly by the opposition parties for not reaching more derogations during accession talks, particularly at the Copenhagen summit, where the phasing in system as well as the seven-year-long derogation for opening up the land market were accepted. The 30% top-up allowance narrowed the room for manoeuvre of policy makers a lot, because it generated an extreme burden on the budgetary resources of the agricultural administration. This decision also weakened the position of new, rural development policies, either those of accompanying measures comprised in the so called National Rural Development Plan (hereinafter NRDP) financed from the Guaranty section of EAGGF or in the Agricultural and Rural Development Operational Program, financed from the Guidance section of the same fund. The Copenhagen agreement allowed the re-orientation of funds allocated for NRDP to a certain extent to cover part of the top-up costs. On this legal basis the opportunity has been used already at the expense of second pillar type of measures.

Under such circumstances, agricultural developers, whose convictions and interests are usually related to the large-farm lobby, feel the scarcity of resources and want more, larger slices from the support cake and so do rural developers, obviously weaker in the policy battle. Despite all these opposing approaches and convictions, there are some points where the two parties are on the same or close to same platform laid down in the National Agricultural and Rural Development Strategy May 2004. They are as follows:

- both parties accept that agriculture should be sustainable and multifunctional serving broader social needs;
- relying on the favourable endowments of farming, export orientated, competitive farm sector, however, should be maintained and strengthened on the basis of rationalization of production and the appropriate utilization of combined (EU and national) funds;

- ▣ environmental protection, animal welfare and health, food quality, etc. must be safeguarded;
- ▣ a transparent, safe, accountable and stable support system should be operated.

Unfortunately, beyond these broad goals, the parties do still not seem to be ready to make compromises, form a consensual platform and go for common strategic policy choices; those interested in first pillar-type support strongly oppose any further allowance to be provided for second-pillar type developments and vice versa. In addition to the opposing platforms within the group of agricultural and rural development policy makers, the scarcity of cooperation with other related fields such as regional development of rural areas is also has prevailed so far. Fortunately enough there is a certain level of willingness to change these bad practices nowadays when activities of the second national development plan started.

CONCLUSIONS AND POLICY RECOMMENDATIONS

The relevant conclusions of the Mid-Term Review

According to focus group discussions and the questionnaire survey among stakeholders at national level it can be concluded that the overall programming process was badly organised and caused a lot of misunderstanding in the regions, sub-regions and counties and at national level.

In the identification of targets and priorities of the programme, there was both open and undisclosed lobbying by interest groups. There is a perception that such lobbying played perhaps greater a role in decision-making than the one based on reaching consensus with the social partners. There is also a strongly held belief that party politics of this period played a significant role in the formulation of the decisions made by the ministry.

The preparation of the programme was not transparent. It gave rise to a lot of conflicts, and for certain it was not helped by the activities of the lobby-

ists who are believed to have operated at the level of ministry departments engaged in the elaboration of certain part of the programmes.

In the course of programme preparation, there was conflict between sector and branch interest. In answering the questionnaire it is the opinion of the persons interviewed at national level, that the targets and priorities of the programme only partly fulfil the needs of the countryside and agriculture. A similar opinion prevails concerning the indicative financial tables. Some interviewees expressed an opinion of the lack of an overall consistent strategy for the future development of agriculture and rural areas of Hungary. A cross-section of needs in agriculture and rural areas was identified, but these are not ranked with respect to the need or degree of urgency.

The application processing procedure was unreasonably complicated and long and has been changed many times during operation. Information on the business plan assessment was not accessible for applicants for a long time, which resulted in the submission of many applications that were not eligible. It caused unnecessary costs to applicants as well as extra workload to the administration.

Policy recommendations

Regarding planning procedure

- ▣ A more integrated approach with other related policies like regional development should be enforced. Avoiding overlapping among programs is just a minimum requirement. Synergic effect should be increased;
- ▣ The strategic planning approach should be based on an in depth analysis which assess the extent and level of urgency for identified needs;
- ▣ Set up a strategic planning process in an appropriate institutionalized way for the programming process for Structural Funds for the period 2007-2013.

Regarding institutional capacity

▣ Continuous capacity building within agricultural administration at central and regional levels has been a pre-requisite for the effective implementation of the common agricultural policy and rural development actions. The heterogeneity of the different type of supports (direct payments, accompanying measures, structural measures) should be considered by the institutional set-up. A clear distinction of functions and relative independence should be given to the institution implementing the structural type measures. It needs more knowledge and time from both the applicants' side as well as from the point of view of administration.

Regarding implementation

▣ The existing advisory service as it is presently constituted cannot provide a quality cost effective service for all potential applicants. The development of a more complete service operating through a much-expanded network is recommended;

▣ The quality of applications could be greatly improved through the dissemination of examples of successful projects to potential applicants. These could act as benchmarks for future applications;

▣ Closer involvement and preparation of the different authorities involved in providing certifications could avoid delays and ease the application as well as the processing procedure;

▣ Develop a tailor made business plan that takes into account the type and size of the project, beneficiaries, type of accounts required in the different types of enterprises and municipalities. The "one size fits all" approach to business planning is not best practice;

▣ The application forms as well as the administration system should be comprehensive, user/client friendly and not overcomplicated in order to avoid slow selection/decision-taking;

▣ Government should encourage the closer involvement of banks and similar financial organisations. Arrangements with commercial banks to provide soft credit for applicants could be enacted by way of government subsidised interest rates.

Regarding rural development policy

▣ Better assessment of needs of the rural areas in co-operation with regional development policies that might lead to a more appropriate budget allocation;

▣ A greater degree of preferential treatment should be granted to small companies or holdings, which are located in areas lagging behind. The rural development policy should be more target-group oriented (a special attention paid to entrepreneurs, young farmers and/or other rural groups);

▣ Regarding the dead weight effect, consideration should be given as to how to deal with very successful companies. Should they be excluded from support generally? On the other hand their leading function could encourage other potential companies to look at developments in the fields of better market orientation/ exports / innovative production. A stronger emphasis put on vertical and horizontal co-operation in supply and demand could support this development.

Figure 1 - Number of submitted applications

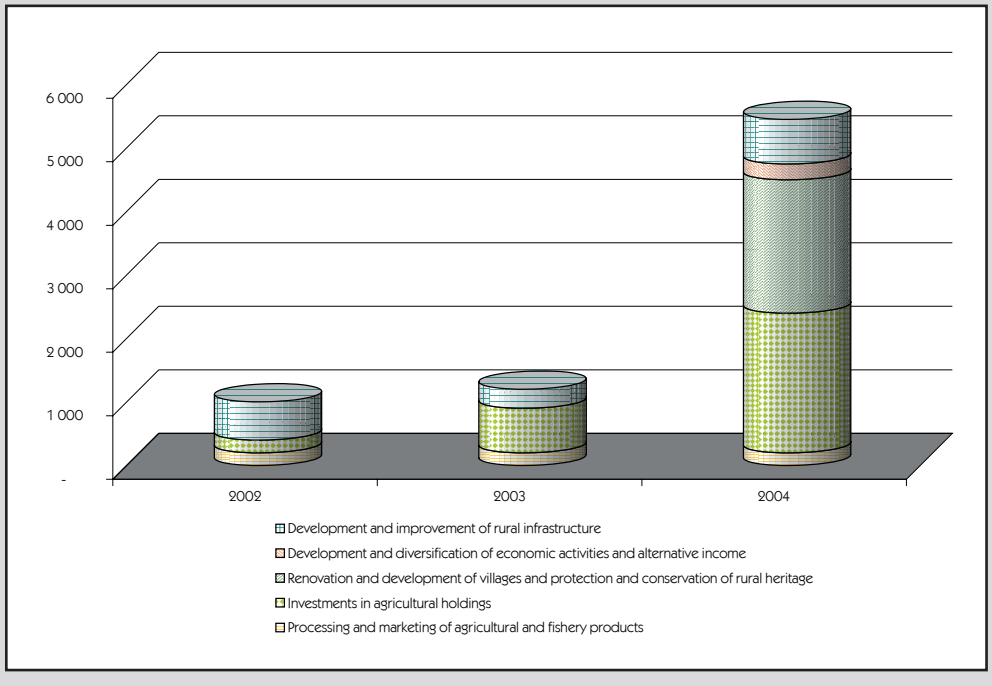


Figure 2 - Number of projects and SAPARD expenditure by measures

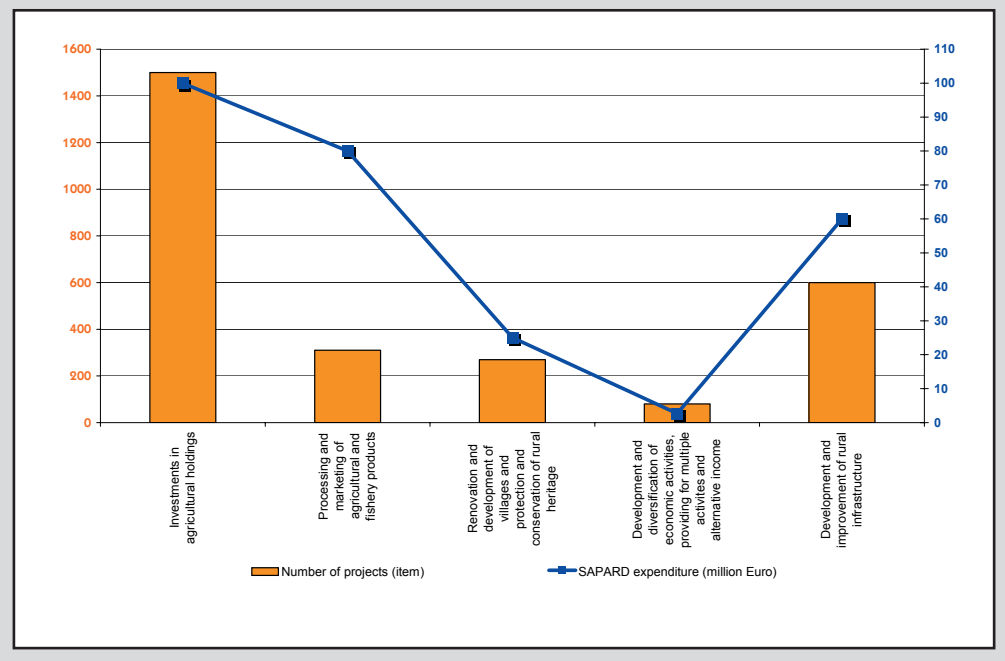


Figure 3 - Rejected projects by justifications

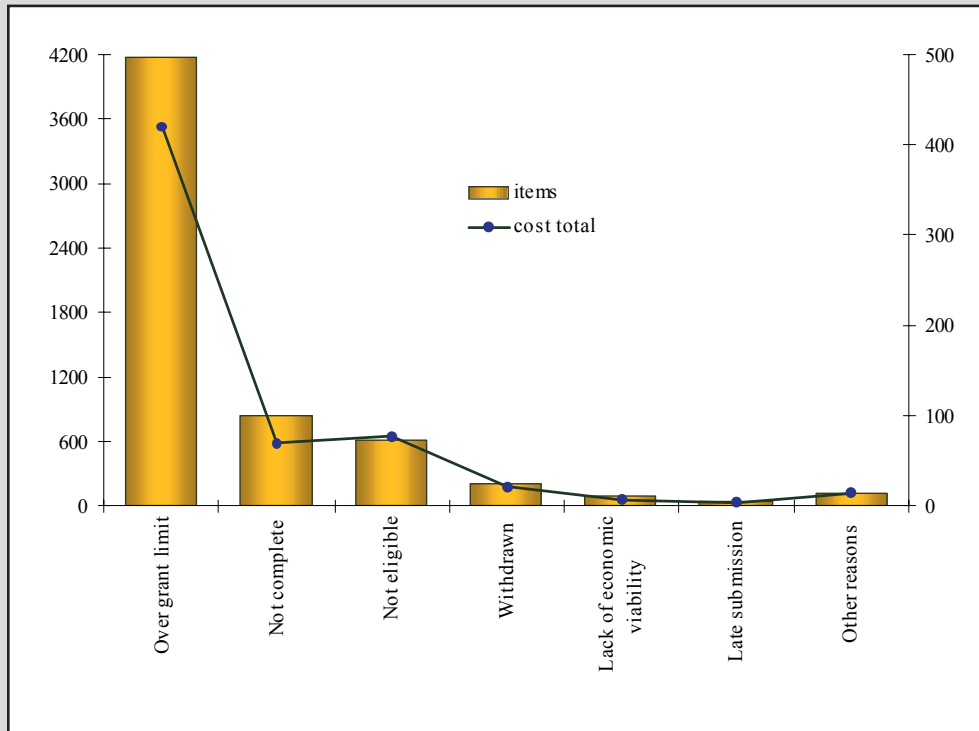
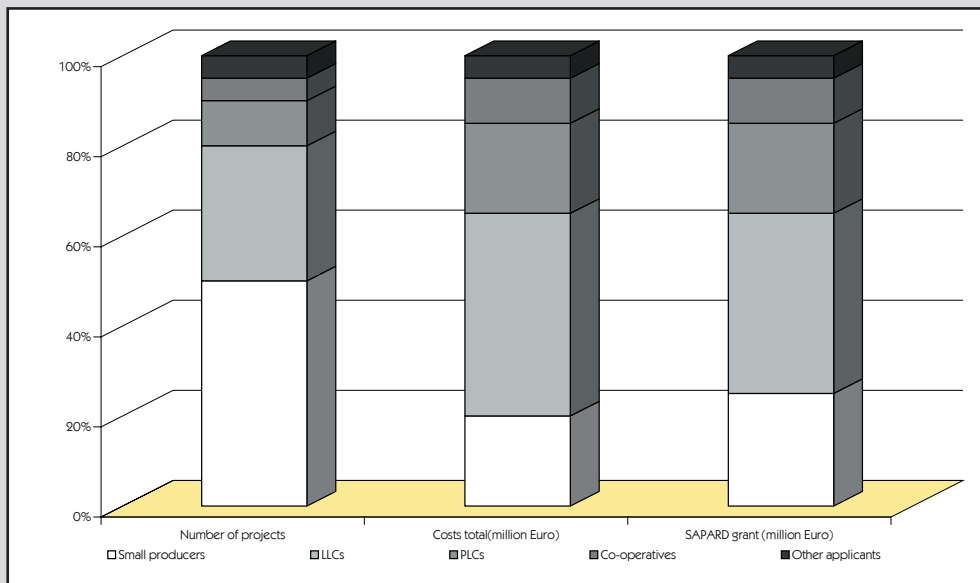
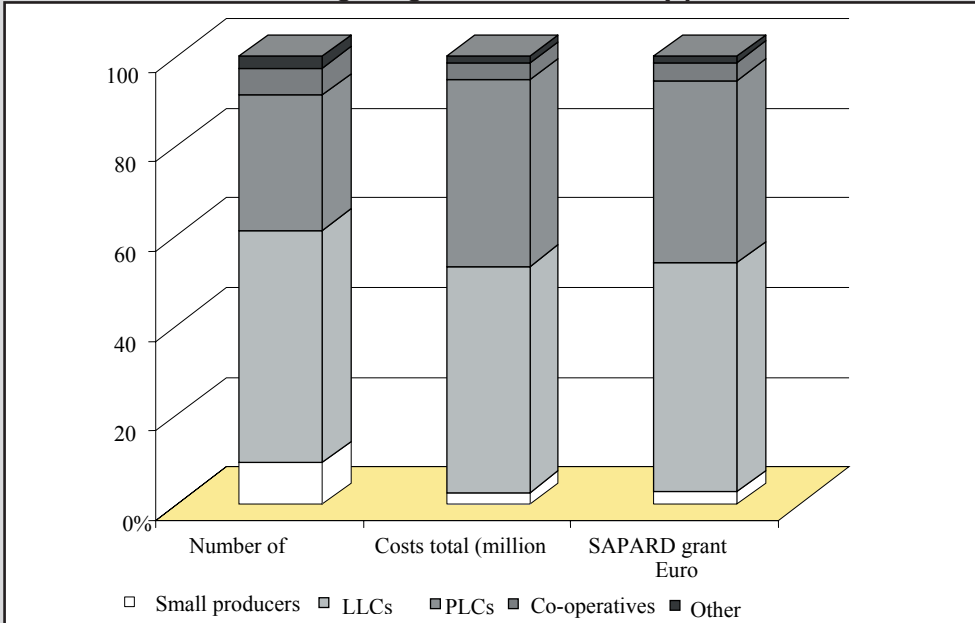


Figure 4 - Distribution of applicants and funds under the measure „Investments in agricultural holdings”



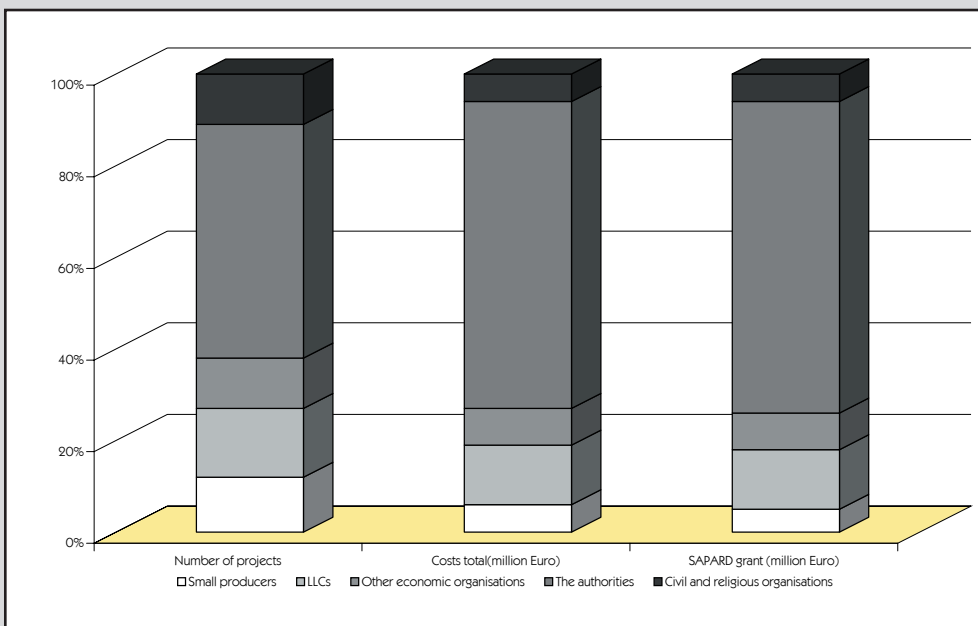
Source of data: NRDO

Figure 5 - Distribution of applicants and funds under the measure "Processing and marketing of agricultural and fishery products"



Source of data: NRDO

Figure 6 - Distribution of applicants and funds under rural development



Source of data: NRDO

Table1

The planned and realized weight of measures under the Hungarian SAPARD program

Measures	Planned	Realized
to increase market effectiveness	58,13	68,2
○ investments in agricultural holdings,	28,46	38,3
○ improvement of the processing and marketing of agricultural and fishery products,	20,53	29,9
○ setting up producer groups,	7,35	0
○ vocational training	1,79	0
to strengthen the environmental protection aspects	4,27	0
○ the dissemination of agricultural production methods designed to protect the environment and maintain the countryside	4,27	0
to enhance the development and the adaptation of rural areas	36,5	31,7
○ renovation and development of villages and protection and conservation of rural heritage,	9,06	8,7
○ development and diversification of economic activities, providing for multiple activities and alternative income	15,46	0,7
○ the development and improvement of rural infrastructure	11,98	22,3

SAPARD REVIEW
in Bulgaria, Czech Republic, Estonia,
Hungary, Latvia, Poland and Romania

LATVIA 

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LIST OF ABBREVIATIONS

LAP	Latvian Rural Development Programme
LLKC	Latvian Agricultural Advisory and Extension Center
LAD	Rural Support Service
LAF	Rural Development Fund
LVAE	Latvian State Institute of Agrarian Economics
Programme	Latvian SAPARD Programme
LOSP	Cooperation Board of Latvian Agricultural Organizations
EU	European Union
VIS	Management Information System
MoA	Latvian Ministry of Agriculture
WTO	World Trade Organization

SAPARD IN LATVIA

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EXECUTIVE SUMMARY

Latvian SAPARD Agricultural and rural development programme 2000-2006

An integrated, diverse and sustainable rural development in Latvia follows the guidelines specified in the Latvian Rural Development Programme. The main long-term objectives, stated in the programme, are:

- ▣ Development of agriculture, forestry and fisheries;
- ▣ Promotion of entrepreneurship in rural areas;
- ▣ Diversification of rural areas;
- ▣ Environmental protection and preservation of rural heritage ;
- ▣ Improvement of the infrastructure;
- ▣ Education and cultural aspects.

The Latvian Agricultural development policies are based on the Law on Agriculture. The minimum annual national support to agriculture of 3% from the national budget is provided by the Law. The law, along with the National Agricultural Support Programme, defines the legal basis of the National Agricultural Policy. The main areas of State support are:

- ▣ Land improvement;
- ▣ Modernization of the agricultural production;
- ▣ Improvement of the agricultural input quality;
- ▣ Production of high quality raw material for processing;

- ▣ Development of non-traditional agriculture and support to rural development;
- ▣ Funding of loan guarantees;
- ▣ Certification of product origin and quality.

The main objective of the Policy is efficient agricultural production, able to integrate into the European common market and high quality products with the conformity to the EU regulations. The undertakings necessary to reach the main objective are:

- ▣ Maintaining the rural population numbers;
- ▣ Providing the population with quality domestic foodstuffs;
- ▣ Providing a competitive income level for the persons employed in agriculture;
- ▣ Preservation of rural landscape and rational use of natural resources.

Measures applied by the National policy support are:

- ▣ National State Support Programme providing the co-financing, promotion of crediting and other direct payments;
- ▣ Foreign trade policy, including trade liberalization, approximation of the domestic legal acts with the EU and WTO requirements;
- ▣ Fiscal policy, including stable and lasting taxation policy, improvement of the loan availability and promotion of investments.

Rural development in Latvia is promoted by the involvement of the Ministry of Agriculture, Ministry of

Environmental Protection and Regional Development, Ministry of Economics.

The main strategic objectives to be reached by the year 2015 are:

- ▣ Rationalization of the food processing sector with a 70% share of large companies in the total output;
- ▣ Growth in income of persons employed in agriculture to the national average;
- ▣ Reaching the 6% level in the number of persons employed in agriculture;
- ▣ Maintaining the necessary sustainable crop production, providing the basis for livestock production;
- ▣ Provision of basic agricultural education level for all agroindustry and farm business managers.

Forestry

Given the high level of environmental importance of forests as part of the Latvian landscape, the objectives are:

- ▣ Restrictions on transforming the forest areas;
- ▣ Maintaining the productivity and improvement of the forest areas;
- ▣ Afforestation of marginal and agricultural land areas.

Fisheries

With the integration of the Latvian fisheries into the EU Common Fisheries Policy, the main objective of National policy is the provision of fish catch resources for the Latvian fishing fleet, use of these resources to a full extent and production of competitive fish products for domestic and international markets. The priorities are:

- ▣ Full use of the national fishing quotas;
- ▣ Long-term structural adjustments through development of up-to-date and flexible fishing and fish processing technologies in the enterprises which primarily process domestic fish resources, enabling the diversification of the product range and use of imported raw material;
- ▣ Rationalization of the fishing and processing sectors by balancing the fish catch with the sales opportunities, especially in export markets;
- ▣ Compliance with the EU sanitary and hygiene requirements in all the fishing and processing enterprises.

Selection of measures

Prior to the Programme, the needs of agriculture and rural development were discussed with the public organizations, community self-governments, boards of industry associations, farmer's organizations, grower's associations, district agricultural departments and agricultural extension services. The questionnaires elaborated by the Ministry of Agriculture were distributed to assess the most appropriate Programme measures. The respondents were asked to select and prioritize 5 out of 14 (exclusive of technical assistance) measures proposed by EU Council Regulation. The summary brought the following results (in descending order):

1. Investments in agricultural holdings;
2. Development and diversification of economic activities, providing for multiple activities and alternative income;
3. Development and improvement of rural infrastructure;
4. Improving the processing and marketing of agricultural and fishery products;
5. Agricultural production methods designed to protect the environment and maintain the countryside;

- 6.Improvement of vocational training;
- 7.Forestry, including afforestation of agricultural areas, investments in forest holdings owned by private forest owners, and processing and marketing of forestry products;
- 8.Setting up producer groups;
- 9.Renovation and development of villages and the protection and conservation of the rural heritage;
- 10.Land improvement and re-parcelling;
- 11.Improving the structures for quality, veterinary and plant health controls, for the quality of foodstuffs and for consumer protection;
- 12.Agricultural water resources management;
- 13.Setting up farm relief and farm management services;
- 14.Establishment and updating of land registers.

Accreditation of measures

The Programme was approved in December 2001. The following measures were accredited and implemented:

Measure 1.1: " Modernization of agricultural machinery, equipment and construction of buildings";

Measure 1.2: "Afforestation of agricultural areas";

Measure 2.1: "Improving the processing and marketing of agricultural and fishery products";

Measure 3.1: Development and diversification of economic activities, providing alternative income";

Measure 4.1: "Improvement of the general rural infrastructure".

Supporting measure 1: "Vocational training"

Similarly to other countries, Latvia had not accredited subprogrammes in all of the proposed measures. The accepted measures were focused mainly on bigger and less complex measures for agriculture and processing at the expense of rural development measures. Generally, Programme supports the most competitive applicants.

Objectives of the Programme

The overall objectives of the SAPARD Programme are:

- ▣ Implementation of the Acquis communautaire with respect to the Common Agricultural Policy;
- ▣ Competitive, developed and sustainable agriculture and rural environment.

To achieve this general goal, specific programme objectives are:

- ▣ Increasing the competitiveness of agricultural production and the farm revenues;
- ▣ Increasing the revenues of agroindustrial companies;
- ▣ Increasing the competitiveness of the food industry and compliance with the EU requirements;
- ▣ Improvement of the rural infrastructure, moving it closer to the urban standards;
- ▣ Development of employment and diversifying of the employment structure in rural areas;
- ▣ Promotion and development of environmentally friendly agricultural production methods;

The performance of the Programme was monitored and evaluated by the following criteria:

- ▣ Level of income in agriculture and rural areas;

- ▣ Volumes and values of production conforming to the EU hygiene, quality, animal welfare and environmental standards;
- ▣ Additional jobs created in the rural areas;
- ▣ Number of rural population with access to improved rural infrastructure;
- ▣ Number of new viable businesses;
- ▣ Number of agricultural holdings with environmentally friendly farming methods.

INTRODUCTION

Problem statement

The Latvian food supply chain

The domestic food chain is permanently confronted with the need to adapt to the changing circumstances due to several major reasons. First of all, the impact of competition on a global marketplace grows. As the production cycle for most agricultural commodities is relatively long, it is difficult to keep the balance between the supply of raw material for processing and the declining consumer demand of a particular processed product. The resultant necessity for cost reduction is felt along the entire chain backwards from retailers to processors, and ultimately, to primary producers, whose income and margins are already low. New retail market entrants and further retail market consolidation puts additional pressure on the farm producers. Trying to of-

fer the lowest prices to the consumer, retailers and processors can easily increase the sourcing of cheaper imported raw material and products. The principal layout of the Latvian food supply chain with the values of product flows is provided in Appendix 1.

Farm producers

The Latvian farming sector is rather fragmented, with many smallholds still present on the market. Almost one half of the produced commodities is consumed on the farm. The total agricultural sales to processors in the main sectors - meat, dairy, cereals and sugar beet, are not growing. After several years of growth in the total sales value, the year 2003 saw a decline due to unfavorable producer prices in the main sectors.

Food processing

Food processing is an important part of the Latvian food chain, as it purchases about 60% of the total farm output, and, in turn, provides about 60% of the total grocery retail supply. The existing level of retail concentration has still left some selling power to the manufacturers. However, the rather fragmented major meat, dairy and bakery sectors will consolidate and concentrate further in the nearest future in response to retail concentration. A rather distinctive sector is fish processing with almost 90% of the total output being exported. Total food manufacturing output has been stable for about five years.

Latvian Agricultural sales to processors, 1995-2003, EUR									
Sector	1995 r.	1996 r.	1997 r.	1998 r.	1999 r.	2000 r.	2001 r.	2002 r.	2003 r.
Milk	17 466 159	21 832 699	21 208 908	26 199 239	19 337 534	21 832 699	23 704 073	22 456 491	26 199 239
Livestock	16 842 368	14 970 994	13 723 411	11 852 037	11 228 245	14 347 202	16 218 577	18 713 742	13 099 619
Cereals	6 237 914	13 099 619	11 852 037	8 733 080	10 604 454	12 475 828	15 594 785	15 594 785	14 347 202
Sugar beet	3 118 957	3 118 957	4 990 331	7 485 497	5 614 123	4 990 331	5 614 123	6 861 705	6 237 914
Total	43 665 398	53 022 269	51 774 687	54 893 644	47 408 147	53 646 061	61 131 558	63 626 723	59 883 975

Number of companies in the Latvian food processing and sector output		
Sector	Companies	Output, EUR
Meat	139	64 874 306
Dairy	122	57 388 809
Bakery	310	37 427 484
Fish	122	33 684 736
Beer, malt	19	21 832 699
Alcoholic beverages	13	18 713 742
Milling products	23	18 089 951
Pasta, coffee, condiments	70	15 594 785
Sugar	2	12 475 828
Feed	13	11 228 245
Soft drinks&mineral water	28	9 356 871
Juices, canned fruit/vegetables	31	8 109 288
Confectionery	12	6 237 914
Snack foods	3	4 366 540
Oils, fats	2	623 791
TOTAL	909	320 004 990

Food retailing

The last decade has witnessed considerable changes in the grocery retailing in Latvia with the growing prevalence of retail chains and improved logistics. The retail consolidation process is still continuing. The rise in concentration is mainly associated either with development through internal growth, or with acquisitions. The retail concentration ratio CR4 of 40% means retailers exert buying power over the processors and farm suppliers.

Food consumption

Per capita expenditures on food have stagnated or even slightly declined over the second half of the nineties, while total expenses increased at the same time in absolute value. Food expenditures surged in this decade. Nevertheless, the share of expenses on food in the total expenditures has declined from 51% in 1996 to 35% in 2002. While the per capita consumption remains unchanged or slightly

growing, the continuously declining population does not allow for significant overall food market expansion. Thus the total food market value is stable. The number of retired persons with stable, yet relatively low income, is increasing. Self-consumption still is high in almost all the main product groups, especially fruits, berries and vegetables. In rural areas, vegetables, milk, eggs and meat are consumed on-farm.

PROBLEMS

The food supply chain concept has not been addressed by Governmental Officials before the acceptance of the LAP or the accreditation of the Programme measures. Apart from the necessity for assessing the rationalization within the food processing, a list of important questions remain to be answered, which was not done either before the Programme, or after the implementation:

- ▣ What are the prospects of increasing the total agricultural sales value after they have been stagnant or declining for years?
- ▣ How the food processing sectors will increase the manufacturing output considering the growing retailer buying power and only stable consumer demand?
- ▣ What are the food export opportunities in the new market environs?

Solving these problems would contribute substantially to the development of the agriculture and rural regions.

Research goal

The purpose of the study is the following:

1. Evaluation of the Latvian SAPARD Programme by means of the following qualitative and quantitative indicators:
 - ▣ Consistency, effectiveness, implementation and sustainability;

- ▣ Conformity with the objectives stated in the Latvian rural development programme.

2. Determination of the general necessary modifications to the Programme;
3. Determination of the necessary measures outside the Programme;
4. Policy options for Latvian Rural Development.

Definition of terms

Justified expenses - project expenses in compliance with the list of investments, which are supported by the Programme, and are specified for sub-sectors within the each measure

Public financing - project expenses financed by the EU and the Latvian State

Approved project - project approved by LAD.

Project with a concluded agreement - approved project with a bi-lateral agreement between the applicant and LAD.

Completed project - project endorsed by LAD for public financing.

Research methodology

The analysis of the implementation of measures accredited within the Latvian SAPARD Programme is based upon the initial SWOT analysis of the corresponding sector (agriculture, food processing, rural economics, rural infrastructure). Analysis of the measures is focused on the evaluation of the results with respect to expected outcome in number of applications, project financing, conformity with the planned breakdown of the projects by specific sectors within the measure, and overall impact.

Sources of information

The study is based on the following sources of information:

- ▣ Latvian SAPARD Programme;

- ▣ Latvian Rural Development Plan;
- ▣ Interim Report on Latvian SAPARD Programme by the Ministry of Agriculture;
- ▣ SAPARD project information by LAD;
- ▣ National Information Agencies;
- ▣ Central Statistics Office;
- ▣ Personal interviews with farmers, processors, officials, bankers, consultants.

SAPARD AGENCIES

The Ministry of Agriculture (MoA) as a Governing institution of the Programme was charged with responsibility for the coordination and implementation of the Programme as a whole. MoA as a Coordinator of the State Support (VPK) coordinated the planning and monitoring of Phare, ISPA and SAPARD pre-accesion financial support projects. VPK cooperates with the Coordination Board of International Programmes.

The Rural Development Service (LAD) was accredited as Latvia's SAPARD agency. LAD is a public institution subordinate to MoA. It comprises a Central Office and 9 regional Agricultural Departments. The Regional Agricultural Departments were responsible for receiving and examining the applications falling within measures 1.1, 1.2, 3.1 and 4.1. The Central Office administered the applications in measure 2.1 and the supporting measures 1 and 2. LAD provides the implementation of corrections to the Programme after they have been approved by UK. LAD is also responsible for the secretariate function for UK.

The Monitoring Committee (UK) was established by the Ministry of Agriculture after the approval of the long-term financial agreement. UK is managed by an official appointed by MoA. UK reports to the General Monitoring Committee. UK is responsible for the efficiency and quality of the Programme implementation and its main tasks are:

- ▣ Monitoring of the compliance of the Programme with the physical and financial indicators specified in the Programme;
- ▣ Overview of the progress in the achievement of specific support objectives;
- ▣ Examination of the implementation results, especially in specific support measures;
- ▣ Review and approval of the annual and final Programme implementation report prior to the submission of the report to the Commission;
- ▣ Evaluation and approval of proposals for corrections in the Commission statement on the allocation of support ;
- ▣ Submission of proposals for corrections or revisions to the Ministry of Agriculture, promoting the achievement of the Programme objectives through improvement of the support management.

The Committee has meetings at least twice a year or more frequently upon necessity.

Institutions and number of officials represented in the Committee:

- ▣ European Commission (2);
- ▣ Ministry of Agriculture (4);
- ▣ LAD (1);
- ▣ LOSP (5);
- ▣ National Board of Fisheries (1);
- ▣ Latvian Union of fisheries (1);
- ▣ LLKC (1);
- ▣ State Cultural Heritage Inspection (1);

- ▣ Ministry of Regional Policy (1);
- ▣ Ministry of Environment (1);
- ▣ Ministry of Economics (1);
- ▣ Ministry of Finance (2);
- ▣ Ministry of Education and Science (1);
- ▣ Ministry of Welfare (1);
- ▣ Secretariate for Special Minister of Children and Family issues (1);
- ▣ Latvian Nature Fund (1);
- ▣ Latvian Union of Community Self-Governments (1);
- ▣ Latvian State Institute of Agrarian Economics (1);
- ▣ Food and Veterinary Service (1);
- ▣ Latvian Tourism Development Agency (1);
- ▣ European Integration Bureau (1);
- ▣ Latvian Traders' Association (1).

The general layout of the administration of the Programme is provided in the Appendix 1.

OTHER RELEVANT INSTITUTIONS

Board of Cooperation for Latvian Agricultural Organizations (LOSP)

LOSP was established and operates under the auspices of MoA. Any public nationwide organization related to agriculture can apply for LOSP membership. LOSP regularly holds meetings with the MoA officials, LAD and other Governmental institutions, including monthly meetings with the Minister of Agriculture. Thus LOSP has a considerable influence on the acceptance of the strategy policies and

overall development of Latvian Agriculture. LOSP is governed by a board of 24 members equally representing the Association of Agricultural Statutory companies, the Latvian Rural Support Association, the Farmers' Parliament, the Farmers' Federation, the Young Farmers Club, the Association of Latvian Agricultural Cooperatives, on the one side, and representatives of the production sector groups (meat, crops, dairy, fruits and vegetables, non-traditional), on the other. Every represented group or association appoints two authorized members to the board for 6 months on a rotation principle.

Latvian Agricultural Advisory and Extension Center (LLKC)

LLKC is a non-profit organization. The state owns a 99% share in LLKC. The Federation of Latvian Farmers owns 1%. LLKC has a Central Office and 26 Offices in all the districts. LLKC has 6 departments:

- ▣ Agriculture;
- ▣ Accounting and finance;
- ▣ Economics and rural development;
- ▣ Extension;
- ▣ Information;
- ▣ Engineering.

LLKC provides the following services: business consulting, accounting, loan applications, project development, tax consulting, economics, engineering and sector-specific consulting. LLKC organizes workshops and training courses. The cases of elaboration of projects and business plans without outside support were rare. About two third of the applicants received training or advisory support from the LLKC.

Rural Development Fund (LAF)

The objectives of the LAF have changed since its establishment in 1994. Initially, LAF provided short- and long-term loans to agrobusinesses. Since

1997, LAF provides only loan guarantees for agribusinesses to Latvian banks. LAF thus has facilitated the access to the financing of investments in farm modernization and business efficiency, and stimulated the overall economic development in rural areas. Guarantees for loans from the EU structural funds is seen as very important for future rural development. LAF provided loan guarantees for about 20% of all the projects in the Latvian Programme s. Besides agribusinesses, LAF also supports non-agricultural rural development projects.

RECOMMENDATIONS

Farmer organizations are represented in the UK only indirectly by the Board of Cooperation of Agricultural Organizations. The direct participation of the Farmer Council in the Monitoring Committee would provide more transparency and closer follow-up of the important proceedings. The Latvian Chamber of Craftsmanship was not participating either. The participation of organizations involved in environmental protection was insufficient.

Implementation of the Programme

Administrative procedures

Administrative procedures are an important factor with influence on the Programme implementation. The procedures are complicated and involve heavy bureaucracy when compared to similar programmes. Generally, the application process for the Programme support was too complicated to consider it successful, and it created problems to the capacity of administrative institutions.

Publicity and the availability of information about the Programme were adequate. The potential applicants get information mostly from LLKC or media. Workshops as a part of National Information Campaign, organized by Agricultural Advisory Center, contributed essentially to the release of comprehensive information on the Programme. The role of successful applicants was important in encouraging other potential applicants through personal contacts. However, the full information package on the website was only partly accessible because of the

rather limited Internet availability in rural areas. At the early stages of the Programme the established frequency of quarterly application submissions caused delays even up to a three months period for some applicants. As the project development requires a package of references and certificates issued by various institutions, an unexpected delay in obtaining the documents could have caused missing the submission deadline. Most references and certificates are valid for one month, so the procedures had to be repeated. Also, the delay in building construction works could cause additional expenses due to seasonality.

The training and support for potential applicants was insufficient. Even large companies with very professional staff at their disposal decided to apply for outside assistance by hiring private consultancies for the preparation of applications. The Agricultural Advisory Center has certain consulting advantages because of the lower price and comprehensive knowledge of the Programme as an institutional part of the Monitoring Committee. Definitely, lack of the necessary training at the early stages of the Programme was a major failure.

The eligibility criteria were quite acceptable for the majority of the potential applicants, with the exception of economic viability. However, the amount of documents required to prove the eligibility was abundant. The criteria in Latvia are more stringent than in neighboring Baltic States because of the less efforts put in the negotiations with the European Commission under the time pressure. The requirement for the economic viability was not specifically adjusted to the kind of entrepreneurship and investment. As a result, part of the projects was subject to more stringent requirements, while with respect to others the requirements were too loose. The use of the 20% viability formula in the first years of the Programme was seen as too severe in cases where the applicant company has already had some pending loan liabilities. The fragmented structure of the Latvian agroindustries with large number of small companies has formed the general attitude towards the business strategy and planning. The business plan was not viewed as an important strategy guideline but only as a mandatory requirement for receiving the support. Thus the business plan

was considered a burden or additional expenditures. This factor is seen behind the motivation of many companies submitting projects, which were not appropriate for the business development, but were compliant with the requirements for eligibility for support. Thus frequently companies made investments in production facilities while the lack of available financial resource later hindered the production process.

The evaluation of the projects in some cases was delayed due to the necessity to involve building construction experts or lawyers from other organizations, as the technical expertise of the officials from LAD was not adequate. The administration of the Programme is generally considered moderately complex. The overall implementation and monitoring of the Programme took more time and administrative resources as initially planned. In certain cases, unacceptable pressure was put on the officials involved in the evaluation of the projects. The role of LAD as the sole responsible institution is viewed positively. However, several weaknesses have to be stressed. The extent of paperwork was a restraining factor for part of the potential applicants. The rather prolonged period of the project evaluation after the submission of applications was frequently contradictory to the project implementation schedules. The mandatory requirement for three price quotations was over-abundant, as the number of potential suppliers was limited, especially in rural areas. Often suppliers refused to take part in tenders, if they felt the opportunities to win were negligible. A monopoly situation on the machinery and equipment market was creating difficulties to make proper cost estimates. Seemingly, the lowest price lists contained the unforeseen additional expenses. The requests for additional information, especially for building construction projects, were hindered as suppliers were paid in advance and thus were not interested in cooperating after having been remunerated. The request for a statement from the Regional Environmental Department on the environmental impact of the project in many cases was useless, especially with respect to projects concerning only purchases of machinery and equipment. About two third of the approved projects were developed for application to the Pro-

gramme exclusively. None of the rejected projects were otherwise realized.

Management information system (MIS) in effect initially was based on MS Excel. The elaboration of more efficient system was started by the Ministry of Agriculture. Thus the possibilities of data input, processing, output and effective links to other relevant information sources were very limited. Electronic requests for information and prompt answers to these requests were not possible. The system was not able to accumulate aggregate information on applicants and projects. But the most important flaw of the system was that such errors were not eliminated as wrong numbers were entered, and the inability to avoid the duplicate acceptance of the same project, or application for virtually the same project under a different company name persisted. The system could not recognize the similar keywords, serial numbers of the equipment and machinery involved, the same manager or address of the company. This system is also making post-evaluation time consuming and does not allow the formation of a clear overview of the overall situation in the Programme. The information from project applications and final forms was regularly gathered and submitted to UK. However, the summaries were not convenient for prompt and accurate evaluation of the planned results and outcomes with respect to the various sectors. Thus the evaluation of the Programme and its conclusions at the selected stages was difficult.

Administrative expenses were relevant to the planned amounts.

Recommendations

The role of the extension services should be strengthened before the implementation of the Programme with respect to the availability of information to potential applicants and further training, and support for preparing the project. The criteria for eligibility should be worked out with respect to project specificity in each accredited measure. The capacity of the SAPARD agency should be improved by supporting the involvement of competent experts on a daily rate basis or agreements with relevant institutions.

TOTAL FINANCIAL RESULTS OF THE PROGRAMME

Number of projects			of which completed	Financing of projects with agreements concluded		Public financing			Financing of completed projects	
submitted	approved	rejected		Justified expenses		available financing (2000-2003)	for projects with concluded agreements	for approved projects as % of the total available	Justified expenses	Public financing
				total	per average project					
Measure 1.1 Investments in Agricultural Holdings										
903	827	76	780	32,91	0,04	15,86	15,64	1,00	30,65	14,10
Measure 1.2 Afforestation of agricultural areas										
292	281	11	229	2,11	0,01	1,10	1,05	1,00	1,13	0,56
Measure 2.1 Improving the processing and marketing of agricultural and fishery products										
141	105	36	84	31,03	0,32	16,64	15,46	1,00	21,14	10,19
Measure 3.1 Development and diversification of economic activities, providing alternative income										
586	441	145	308	24,22	0,06	12,01	11,70	1,00	13,40	6,18
Measure 4.1 Improvement of the general rural infrastructure										
173	150	23	128	5,18	0,04	3,59	4,12	1,15	4,22	3,41
Supporting Measures 1 Vocational training 2 Technical assistance										
8	8		8	0,74	0,01	0,12	0,07	0,63	0,08	0,07
TOTAL										
2,103	1,812	291	1,537	95,56	0,06	49,30	48,04	1,01	70,61	34,53
Total EU SAPARD co-financing: 45,03 Mln Euro										

Measure 1 Investments in Agricultural Holdings
Measure 1.1. Modernization of agricultural machinery, equipment and construction of buildings
Measure 1.2. Afforestation of agricultural areas

SWOT analysis

This measure is an important strategy priority of the whole Programme. Although the minimum requirements to holdings were not overly high and, in general, were adequate to farming areas and/or the number of livestock typical to small holdings, predominantly a minority of potential applicants succeeded. These holdings include the most devel-

oped farms with opportunities to get co-financing even with temporary financial deficiencies and the assistance of professional consultancies for research and project development. The average size of the successful applicant farm exceeded the four times national average. Such an outcome can be considered a failure, having in mind the Programme should have supported rural development equally to the upgrading of the agricultural holdings. This

Strengths	Weaknesses
the privatization in agriculture has been completed	large number of small holdings
all the land owners and users are registered in the State Cadaster	scattered structure of almost one half of the holdings
A Loan Guarantee Fund was established and the support structure has improved	insufficient legal base for land consolidation
steady concentration trends within the meat, dairy and cereal farming sectors	large number of subsistence farms; relatively low income level of persons employed in agriculture
relatively low agricultural land prices	less than a half of all the holdings registered in the Land Registry
relatively good conditions of soil and water resources	depreciated buildings, machinery and equipment
relatively short period of transforming the production from conventional to organic methods of farming	low production efficiency; low average yields
	declining farm revenues
	low liquidity of land as bank collateral
Opportunities	Threats
growing demand for home grown fruits, berries and vegetables	growing agricultural input prices
growing organic markets	possible impoverishment in rural areas
improvement of the bargaining power by forming marketing cooperatives	migration to urbanities
	increased competition from the imported commodities when entering the common EU market
	stagnating demand for raw material from the processing sector

is important, especially when taking into account the structure of the farms in the nearest future, with its predominance of smallholds that will be supporting the subsistence of many inhabitants. The number of dairy cows in more than 90% of the dairy farms was insufficient to qualify for the Programme. Thus, the majority of the dairy farmers were kept out of the opportunity to expand their herds to medium size. The Latvian Programme emphasized the rationalization of agricultural production at the expense of rural development. Thus the large number of small farms would hinder the proposed development of commercial farming. The outcome of this is an internal rationalization of the sector rather than any fundamental restructuring of the agriculture. An inability to accredit and implement subprogramme 1.3 has to be considered a major failure, as the subprogramme would have provided precious contribution to the land consolidation and area rationalization. The fragmented structure of holdings, large number of land co-owners, incomplete land registry, inconvenient location of some parts of the holdings are the main problems, which still exist. Domestic floriculture, which is facing the growing competition of imports mainly from the Netherlands, is categorized as non-traditional agriculture and thus growers are not eligible for Programme measure 1.1. Moreover, the majority of grower companies are located in urbanities, while the Programme supports exclusively rural holdings.

Financial results

The number of applications and the financing of approved projects did not correspond to the plan. Almost half of the projects were in cereal farming with investments in quality, cost reduction by technology improvement, yield improvement, efficiency, working conditions and labor safety. The interest by specific sectors is motivated mainly by the market demand for their produce and/or high or low purchasing price level prior to the application submission period. About 70% of the projects were targeted at investments in machinery and equipment.

Measure 1.1									
	Number of projects			Justified expenses of supported projects, Mln. Euro			Justified expenses of completed projects, Mln. Euro		
	Applied	Supporte-d	Paid-up	Total financing	of which public financing		Total financing	of which public financing	
					Total	of which EU		Total	of which EU
Cereals	423	376	325	15,86	7,66	5,75	13,19	6,08	4,56
Vegetables, including potatoes	54	53	48	1,93	0,93	0,70	1,77	0,82	0,62
Fruits and berries	31	23	22	0,73	0,34	0,26	0,64	0,30	0,22
Dairy	289	276	225	7,98	3,74	2,80	6,41	2,89	2,17
Cattle	6	6	1	0,26	0,11	0,09	0,03	0,01	0,01
Pigs	87	80	45	4,97	2,37	1,78	1,87	0,85	0,64
Poultry	10	9	4	1,60	0,75	0,56	0,29	0,12	0,09
Arboreta	3	3	3	0,06	0,03	0,02	0,03	0,02	0,01
TOTAL	903	826	673	33,38	15,93	11,95	24,24	11,10	8,32

Virtually all projects within measure 1.2 were in afforestation of abandoned agricultural land. On the average, the involved areas make up to 40% of respective applicant's total land owned.

Measure 1.2									
	Number of projects			Justified expenses of supported projects, Mln. Euro			Justified expenses of completed projects, Mln. Euro		
	Applied	Supporte-d	Paid-up	Total financing	of which public financing		Total financing	of which public financing	
					Total	of which EU		Total	of which EU
Coniferous	94	89	32	0,45	0,22	0,17	0,08	0,04	0,03
Deciduous	108	105	34	0,72	0,36	0,27	0,15	0,07	0,06
Mixed	90	87	36	1,02	0,51	0,39	0,14	0,07	0,05
TOTAL	292	281	102	2,20	1,10	0,82	0,36	0,18	0,13

Recommendations: to avoid the concentration of the support in the large farm segment, the application procedures should be revised in favor of small farms. The option of qualified project preparation

inputs by farmers should be considered as justifiable expenses. Building construction project regulations should include the option of using own available human resources instead of expensive

contracted works. The implementation of subprogramme 1.3 has to be considered almost a precondition to the successful implementation of measure 1.1, especially with respect to the Programme overall objectives. Changes in the eligibility criteria should be extended to urbanities, if necessary. The relatively small-afforested area raises doubts about the sustainability of future wood and timber resources, especially with forestry as an industry with a major share in the total Latvian exports.

differentiation are suppressed by optimal use of resources and cost minimization. Small and medium sized companies are not innovative and up-to-date management and marketing methods are seldom introduced. Investments in personnel training are small. Forming of vertically integrated food clusters, including several stages of the food supply chain from raw materials to finished products is viewed as a powerful tool for increasing the competitiveness of the processing sector. Albeit the measure

Measure 2.1 Improving the processing and marketing of agricultural and fishery products SWOT analysis	
<i>Strengths</i>	<i>Weaknesses</i>
the importance of the processing sector in the total manufacturing output and total workforce	fragmented structure of the main processing segments (meat, dairy, bakery);
share of GDP	depreciated equipment
positive foreign trade balance of fish and fish products	excessive reliance on CIS canned fish market in fish processing
relatively cheap labor	short-term financial inefficiencies due to the necessity to make investments in upgrading before joining the EU
traditional consumer preferences for domestic products	
<i>Opportunities</i>	<i>Threats</i>
improved accessibility of imported raw material	growing retailer bargaining power
expansion of markets	increasing imports of food products through trade liberalization
forming of food clusters	only moderately growing or stagnating per capita consumption
improved competitiveness through product quality improvement	decline in the number of population
further mergers and acquisitions	reductions of fishing quotas
	lower accessibility of third country markets after joining the EU

The Latvian food-processing sector lacks efficient strategic planning and human resources development. The education programmes in new product development, operational management and client management are insufficient. The introduction of advanced technologies is hindered by limited availability of loans on acceptable terms. Dominating world trends with emphasis on quality and product

includes improving the marketing of agricultural and fishery products, the supported projects did not include important marketing activities. Thus, the potential benefits from the measure are not fully realized, because even the high quality value added product is only one and not necessarily the most important constituent of the successful product line. The minimum project size limit is rather low for

the upgrading and restructuring of the conventional processing enterprises. At the same time, the specific niche producers providing employment opportunities in the regions need less investment. The limit for justified project expenses including fees for project designers, engineers, consulting, feasibility studies and licensing is too high, especially for large projects. Moreover, no maximum limit for these expenses has been set.

FINANCIAL RESULTS

The majority of the projects fall within the meat, dairy and milling sectors. Financing in fish, and fruit and vegetable sectors lagged behind the planned amounts. The situation in fish processing with rather unstable export markets made bankers cautious. The initially too high lower project financing limit, combined with the renovation not enclosed in the justified expenses, prevented many smaller processors from applying with projects for simple facility upgrading. The extremely low interest in fruit and vegetable processing is closely connected with the insufficient domestic raw material availability, which is reflected in the results of measure 1.1

Recommendations: corrections to the measure are necessary, allowing to support the product marketing by enterprises, which have already received support to invest in production and processing. At the same time, the list of activities to be supported by the measure should include innovation, new product development and human resources development. The minimum limit for the project should be lowered for small-size niche or regional processors. The limit for justified project expenses should be set depending upon the project size (less percentage points for large projects). The sectors with insufficient domestic raw material supply should be supported by undertakings under measure 1.1. Moreover, the accreditation of the measure "Setting up producer groups" would allow to create a vertically integrated cluster. For instance, a proposed cooperative of apple growers would get support from two measures, improving the bargaining power of the retailers by offering larger quantities with consistent quality and/or supplying the processors in accordance with their specifications.

Financial results									
	Number of projects			Justified expenses of supported projects, Mln. Euro			Justified expenses of completed projects, Mln. Euro		
	Applied	Supported	Paid-up	Total financing	of which public financing		Total financing	of which public financing	
					Total	of which EU		Total	of which EU
Meat	42	33	12	11,53	5,73	4,29	3,38	1,62	1,22
of which abattoirs	7			3,44	1,72	1,29	1,68	0,79	0,59
Dairy	26	25	9	8,71	4,35	3,26	2,88	1,38	1,04
Cereals/milling	34	25	16	7,29	3,62	2,72	3,63	1,70	1,27
Fruit and vegetable processing	9	6	5	0,64	0,32	0,24	0,47	0,22	0,17
Fish processing	30	16	6	5,31	2,66	1,99	0,27	0,14	0,11
TOTAL	141	105	48	33,49	16,67	12,51	10,64	5,06	3,79

Measure 3.1 Development and diversification of economic activities, providing alternative income SWOT analysis	
Strengths	Weaknesses
diverse environment, which is favorable to leisure, recreation and tourism	low remuneration of women workforce in rural areas
strong base for the production of alternative fuel (wood chips)	excessive dependance of employment upon a weak agricultural sector
	high unemployment
	insufficient use of rural resources with high potential
	low investments in rural areas
	weak communications and transport
	insufficient professional skills of people in rural areas
	unreasonably low rental payment for using agricultural land for commercial purposes
Opportunities	Threats
development of tourism and recreation in natural environs	social isolation of the rural population
creation of new employment opportunities by means of encouraging businesses not involved in agriculture to relocate in rural areas	marked decline in rural population numbers
better use of wildlife resources by adding value to wild berries, herbs, game hunting	strong trend of increase in investments in townships
expected growth in the number of tourists from EU countries	decline in the value of abandoned land

The total number of submitted projects was appropriate. The list of activities supported by the measure is rather short and comprises rural tourism, craftsmanship and non-traditional agriculture. About one half of the projects were supporting rural tourism. However, the impact on increasing the employment and diversifying the income was not considerable. The measure was basically targeted at small-scale farmers, whose opportunities to become the small or medium sized employers are weaker. Predominantly big farm owners applied for support.

Financial results

The projects approved under the rural tourism sector exceed by far the initially planned amounts. The other sectors lag behind the expectations. The rural tourism sector is growing fast, especially after

joining the EU. However, the number of beds in new places of lodging makes about 10% of the total number of existing hotels. The proposed number of guests staying at 18% of the total number is even higher. This raises serious doubt about the profitability of many companies, because the increase in the number of beds is not supported by a national rural tourism promotion campaign. The applicants were not obliged to provide client attraction plans and methods. The growing land and real estate prices also contribute to the expansion of the sector. The rather low interest in the craft sector reflects the concentration of craftsmen shops in towns, so they cannot apply. Moreover, the opportunity to move the production to rural area makes the access to raw material supply and sales outlets more expensive.

	Number of projects			Justified expenses of supported projects, Mln. Euro			Justified expenses of completed projects, Mln. Euro		
	Appl- ed	Support- ed	Paid- up	Total financing	of which public financing		Total financing	of which public financing	
					Total	of which EU		Total	of which EU
Rural tourism	319	219	75	14,75	7,23	5,42	2,94	1,37	1,02
of which diversification of rural tourist services	145	90	37	7,26	3,57	2,68	1,57	0,71	0,53
of which improvement of the quality of accomodation	174	129	38	7,50	3,66	2,74	1,37	0,65	0,49
Craftsmanship	37	35	16	2,08	0,95	0,72	0,64	0,28	0,21
Non-traditional agriculture	113	83	45	3,39	1,65	1,24	1,59	0,76	0,57
Alternative fuel	30	27	14	1,60	0,75	0,57	0,61	0,27	0,21
Technical services	87	77	61	3,01	1,42	1,06	2,35	1,04	0,78
TOTAL	586	441	211	24,83	12,00	9,00	8,15	3,72	2,79

Recommendations

The option of making the measure more "flexible" should be considered by lifting any restrictions to the supported activities and modifying the subprogramme by adjusting it to the regional factors. Regions with high unemployment rate should be considered an utmost priority. The overly optimistic plans with respect to craftsmanship were clearly a failure even before the Programme, having in mind

the list of professions subject to eligibility. Almost all businesses are strongly oriented towards clients, who are predominantly found in the cities and towns. Moving a business to a rural area means also the sources of involved raw material will be less accessible. Starting a new business is hardly possible, as all craftsmen should have their skills approved by the Chamber of Craftsmanship, and certainly it takes years spent on professional training.

Measure 4.1. Improvement of general rural infrastructure / SWOT analysis

Strengths	Weaknesses
a relatively compact network of towns in rural areas that can be used as hubs for future development	low quality of the local road network
	insufficiently developed transportation services between rural areas and cities
	low quality and availability of phone communications and internet
	low quality and availability of proper electricity
	low availability of water supply
	low availability of civil services
	insufficient community budgets
	underdeveloped upward planning possibilities in rural districts
	lack of development projects which are based on local resources
	long distance from towns and workplaces
Opportunities	Threats
redistribution of State budget in favor of rural communities	further deterioration of communication networks and transportation facilities
	further migration to cities

The Latvian National Rural Development Policy acknowledges the broadening gap in the social and economic conditions between Riga and other regions. The lower living standards and economic disadvantages of the residents of rural areas contribute to the increasing migration of population to urban areas. Investments in improvement of infrastructure and service level, which would promote alternative forms of entrepreneurship in rural areas, should be considered a priority within the Programme. Unfortunately, measure 4.1 was not properly implemented. The necessity of transforming the measure into a "public" subprogramme was assessed in the late stages of Programme. The changes in the measure, enabling community authorities to apply for the support were belated because of prolonged preparation periods before the infra-

structure building construction projects. Hence, only projects developed prior to the Programme could be supported by the measure. Nevertheless, the existing legislation is constraining the borrowing opportunities of community self-governments, wherefrom the co-financing possibilities are limited.

Financial results

The majority of the projects were in local road construction and renovation. Lower amount of financing in polder⁶⁶ systems and electric supply was caused by the later approval of these supported activities. The interest in the water supply sector would have been higher, if the renovation of the existing systems had been initially supported.

	Number of projects			Justified expenses of supported projects, Mln. Euro			Justified expenses of completed projects, Mln. Euro		
	Applied	Supported	Paid-up	Total financing	of which public financing		Total financing	of which public financing	
					Total	of which EU		Total	of which EU
Production water supply	48	42	19	0,861	0,618	0,462	0,162	0,081	0,062
of which new	32	33	17	0,518	0,324	0,243	0,131	0,069	0,050
of which improved	16	9	2	0,343	0,293	0,218	0,031	0,019	0,012
Rural local roads	107	92	17	4,067	3,262	2,445	0,393	0,187	0,143
of which new	16	16		0,749	0,655	0,493			
of which improved	91	76	17	3,312	2,614	1,959	0,393	0,187	0,143
New rural communication centers	10	9	1	0,200	0,175	0,131	0,009	0,004	0,003
Electrification of holdings	7	6	1	0,069	0,056	0,044	0,005	0,004	0,003
Polder renovation	1	1		0,025	0,019	0,012			
TOTAL	173	150	38	5,221	4,136	3,100	0,568	0,281	0,206

Recommendations

The proposed development of infrastructure projects should be encouraged and supported before the implementation of "public" subprogrammes. Increased State support is necessary to self-governments to improve their ability of co-financing. The proposed decentralization of governmental institutions by locating them in rural areas

⁶⁶ Polder - a plot of land gained from the sea that usually is under the sea-level.

is impossible because of the high costs of moving, low level of accessibility in terms of communications and transport. Moreover, the opportunity to do this becomes even more unrealistic, taking the centralization in health care and education systems by closing small hospitals and village elementary and primary schools.

ENVIRONMENTAL IMPACT

The accredited measures of the Latvian Programme have an impact on soil, surface and underground waters, air, biodiversity, rural landscape and natural resources, noise level and waste management. Measure 1.2 has considerable impact on the rural landscape, soil and biodiversity by afforestation of abandoned and overgrown agricultural land. Measure 2.1 has a major impact on the quality of surface waters through the improved management of food processing wastewater treatment. Measure 4.1 would reduce the organic contamination of surface and underground waters thanks to the construction of wastewater treatment systems. The impact of measure 1.3 is insignificant. The support measure 1 only has indirect impact by improving the knowledge on environmentally friendly farming methods.

The exclusion of the initially proposed measures 4.2 and 5.1 reduces the positive potential impact of reduction of indirect water contamination through the gradual reduction in the use of non-organic fertilizers, increased biodiversity and soil improvement by using more extensive and organic farming methods and better water management in polder zones. The potential negative impact of the Programme is not anticipated. Unfortunately, the important issue of wetlands has not been addressed at all in the Programme. Wetlands were destroyed due to an intense draining as part of the land amelioration. The problem of restoration of the original land conditions, especially in the currently abandoned agricultural land areas, has to be solved at least partly as a pilot project.

BANKING AND LOAN AVAILABILITY

The limited availability of bank loans raises concerns. Generally, bankers rate risks in the agricultural sector as high. Many projects were granted bank loans only after the Programme support had been confirmed and/or guarantees from the Rural Development Fund (LAF) had been given. Lack of co-financing is one of the most important reasons why potential receivers of Programme support did not apply. The most important general loan conditions set by the banks are understandable and transparent business operations, positive development history, willingness to invest own money as co-financing, sufficient cash flow for the repayment of obligations, sufficient loan security. Many applicants regarded the received support as once-for-all option, rather than incorporate the project into a long-term development plan of the company, which ensures the achievement of the business objectives. This can be exemplified by the changes in business ideas during the project preparation. Often, the preparation of the applications was postponed until the last minute. The emerged availability of funds prompted businesses to make investments in purchasing production equipment faster before the previous investments had started to become profitable. In certain cases even new projects were initiated. Thus resources that should have been invested in liquid assets were directed towards the implementation of the next project, leading to cash flow difficulties. Unresolved ownership rights over the land, on which construction is planned, makes the use of EU funds resources impossible. The refusal of small companies to use the expensive services of qualified accountants causes complications to the correct transferring of data into the application form and delays the submission of applications. The unjustifiably high cost of construction schedules for building projects raises suspicion in the applicant's desire to cover their own investment share, so that a project is virtually financed by Programme. The period from the project submission to the concluding of a contract for support is relatively lengthy. The time period when a project is under review could stretch to three months or longer, even if the application is submitted in time. The large number of documents to be submitted takes

a lot of time because the statements of many institutions are not always issued on the same day they are requested. Some explanations regarding the correct filling of applications applicants come across when they are submitting their applications. Applicants have difficulties when conditions change just before the deadline for projects submission, and the document file has been completed already.

The evaluation process in accordance with the approved procedures with close attention on formal details rather than the essence of a project does not allow the evaluation of the project in a broader sense. Compliance with the instructions, correct definition of the costs and correct filling of documents do not necessarily always reflect the public benefits of a project, and, what is more important, the compliance with the overall objectives of the Programme. Conformity with the formal requirements is put before the viability of business ideas.

NATIONAL POLICY

The systematic approach and coordination has been inadequate in the Latvian national policy with respect to priorities in agriculture and rural development during the years of independence. The integrated strategy for agriculture and rural development has not been formulated yet. The use of policy measures is too centralized and lacks appropriate regional approach. Support measures were frequently modified and the implementation of respective projects did not achieve the expected overall results. The decision-making and evaluation of applications were not fully transparent and reliable. Specific undertakings providing objective and adequate evaluation of the projects were not implemented. The amount of support to agriculture was insufficient and a relatively small number of potential applicants received funding. The available national support was not channeled to a manageable number of priorities. Frequent changes in the eligibility criteria and regulations made even mid-term planning difficult. Project applications were evaluated separately, and sometimes overlapping of activities and/or product types occurred. The individual measures were sometimes controversial and inefficient, and support to a particular stage in the vertical product supply chain created pressure in

the following stages. Financing under the State support measures was not monitored and the evaluation of national policies was difficult.

EVALUATION OF THE PROGRAMME OBJECTIVES AND ACTUAL OUTCOMES

- Given the strategic objective to reach a 6% level of the number of persons employed in agriculture by 2015, and maintain the rural population numbers means to create at least 60,000 new jobs in the rural areas. The total number of new jobs created under measure 3.1 does not exceed 900;
- Rationalization of food processing with a 70% share of the large companies requires strategic approach in the selection of the companies. Instead, two small competing companies with similar products could successfully apply for the support.

Policy options

The theoretical background of the selection of measures is not specified in the Latvian SAPARD plan. The set of selected measures shows the much more impact of involved parties' interests, than conformity with any clearly defined strategic priorities and needs of the rural development sectors. A number of development needs do not fall within the area of Programme support:

- Support to small and medium enterprises in rural areas, not eligible for measure 3.1;
- Increased investment in road communications and public transportation in rural areas;
- Increased share of internal investments redistributed to rural areas;
- Decentralization of the activities of governmental institutions and transferring them to rural areas;

- ▣ Increased investments in the improvement of social services in community self governments;
- ▣ Increased investments in the development of efficient communications and transportation network between rural areas and domestic/export markets.

Measures 3.1 and 4.1 would have very limited impact on the overall rural development. In order to promote rural development, several options have to be considered the state level:

- ▣ Higher retirement pensions for those who have resided and worked in rural areas;
- ▣ Tax benefits/exemptions for newly established businesses in rural areas;
- ▣ Lower value added tax on food products;
- ▣ Salary bonuses for persons employed in rural governmental institutions and public organizations;
- ▣ Redistribution of allocations from excise tax collected to road renovation to the benefit of rural roads;
- ▣ More favorable redistribution of the state budget to the benefit of rural self-governments and increasing of their borrowing capacities;
- ▣ State support to rural infrastructure projects;
- ▣ More stringent control and sanctions towards the state energy and communications monopolies in cases of unequal treatment of rural clients.

CONCLUSIONS AND POLICY RECOMMENDATIONS

The evaluation of the results of the Programme should be viewed not only in terms of the achievement of the Programme objectives but in a broader sense, too. The Programme was based on the Latvian Rural Development Plan and on the undertakings, which were falling within the accredited measures. The involvement of the local and regional public organizations as potential developers of the local projects in rural areas was almost non-existent. The Rural Development Plan does not use the concept of the food supply chain, which views agriculture as a part of the whole chain and mainly as a supplier of raw material for the food processing. The completely new market conditions after joining the EU were not reflected in the LAP. Inevitable changes in third country exports and removal of trade barriers within the EU are the major factors, which have to be analyzed before the evaluation of future total agricultural sales. The proposed decline in the number of workforce in agriculture from the existing 16% to 6% in 2015 was not backed up with a reasonable action plan to achieve this. The plan does not contain an analysis and forecasts of the development of the rural tourism market, which should take place prior to a surge in the construction of rural tourism outlets. Moreover, neither the possible existing or anticipated structure (domestic or foreign), nor the volume (in terms of annual spending) for the tourist market has been provided. The number and volume of the Programme infrastructure projects is insufficient to promote the rural tourism development.

Contribution of the Programme to the achievement of the LAP long-term objectives					
	High	Fair	Medium	Low	None
Development of agriculture, forestry and fisheries		*			
Promotion of entrepreneurship in rural areas			*		
Diversification of rural areas					*
Environmental protection and preservation of rural heritage					*
Improvement of the infrastructure				*	
Education and cultural aspects					*

Evaluation of the Programme according to the criteria set before the implementation					
	High	Fair	Medium	Low	None
Level of income in agriculture and rural areas				*	
Volumes and values of production conforming with the EU hygiene, quality, animal welfare and environmental standards		*			
Additional jobs created in rural areas			*		
Number of rural population with access to improved rural infrastructure				*	
Number of new viable businesses				*	
Number of agricultural holdings with environmentally friendly farming methods				*	

Evaluation of persistent needs		
Needs conforming with the SAPARD Programme	Needs conforming with the SAPARD Programme, not included in the Latvian Programme	Needs outside the SAPARD Programme
Increased investments in modernization of agricultural holdings	Increased investment in new food product development and market research	Increased cooperation within the food supply chain to improve product quality
Increased investments in food processing systems	Support to small scale production and marketing	Forming of clusters in the food processing sector
Increased investments in afforestation and woodworking	Support to niche and regional product marketing at the farm level or small cooperatives	Investments in training and studies for rural population, especially youth in professions with higher demand
Investments in adding value to farm produce prior to sales from the farms	Implementation of support programmes for training and retraining to eliminate the lack of professional and trade skills in agriculture and food processing	Support and promotion of the establishment of local enterprises and public organizations to facilitate the access to planning and development projects in rural areas
Promotion of farm mergers to improve the efficiency	Support and promotion of establishment and initial activities of the groups of forest owners	Support and promotion of development of funding schemes with the special loan opportunities for agriculture, food processing and new types of rural businesses
Support and promotion of entrepreneurial activities that involve trade skills	Investments in technical assistance to promote the registration of private land owners	Redistribution of domestic investments in favor of businesses in rural towns, which are able to involve relatively cheap labor
Support and promotion of rural tourism and infrastructure	Support and promotion of small and medium businesses in rural towns	Increased investments in the improvement of social services in rural areas
Increased investments in community utilities, infrastructure and services		Increased investments in effective communications and transport between rural districts and domestic/export markets
Investments in flood prevention systems		
Investments in agricultural holdings to reduce the negative impact on the environment		
Investments in the reduction of sources of contamination		
Decentralization of labor in certain public sectors in the rural districts		
Increased investments in roads and public transportation services in the rural areas		

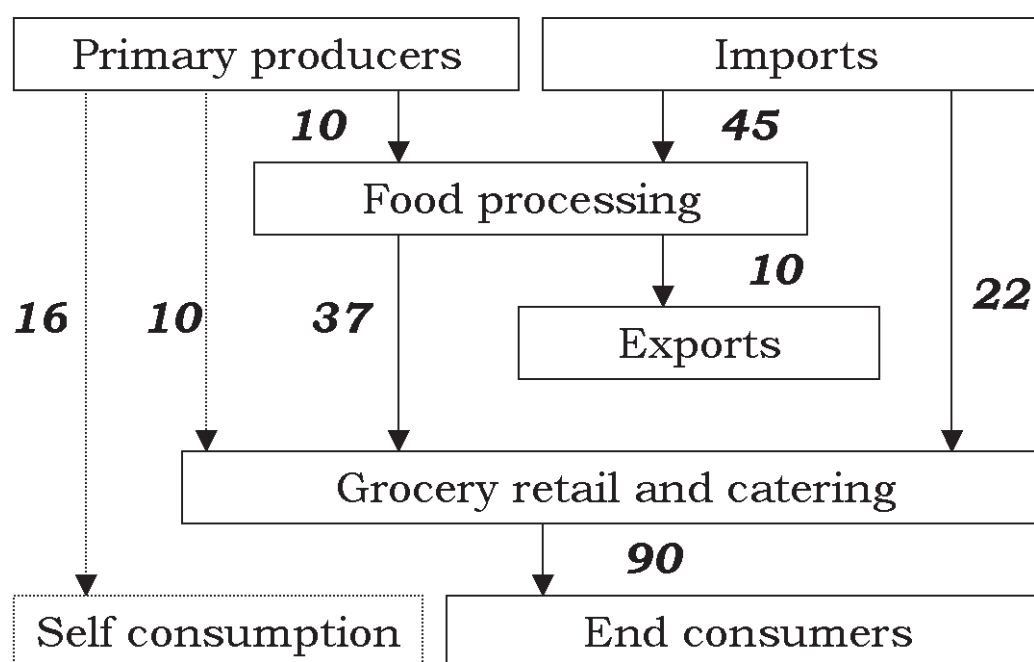
CAPACITIES OF THE LATVIAN SAPARD AGENCY

The first year of the Programme can be considered a basic development of the capacities necessary for the administration and implementation of the EU co-financing programmes. Given the notable differences between the National support schemes and the EU support programmes, the changes introduced by the Ministry of Agriculture have improved the support system policy and transformed it in accordance with the EU standards. The management and administrative structures are adapted to the implementation of various support programmes conforming to the EU regulations. Integrated procedures for information and audit were introduced. Less developed regions are determined using the criteria applied in the old EU member states. Other support programmes are targeted towards increased efficiency, investments, diversification of agricultural production, rural development, environmental issues, food quality and safety. The cooperation between policy-making institutions and public organizations has become closer, providing more transparency and an extended basis for policy development and decision-making. The office premises of the involved agencies and institutions are conforming to EU standards.

Notwithstanding the deficiencies in the Programme implementation, it has provided a major contribution to increasing the institutional capacities of the Programme Agency, given the complexity and uniqueness of the Support Programme. This capacity should be maintained and further improved. However, the bulk of the deficiencies lie within the regional and community levels. More active engagement of the officials and public rural organizations in the Support Programmes will be necessary.

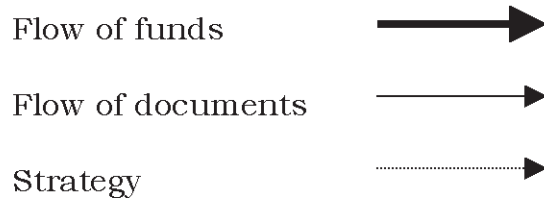
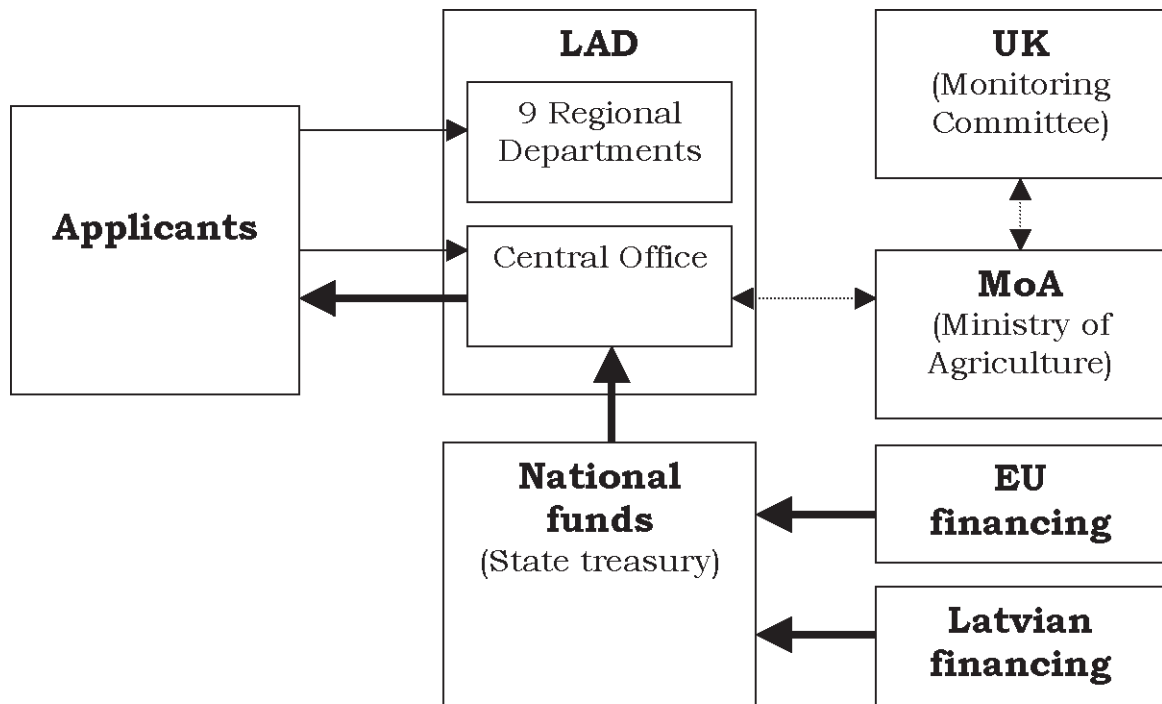
APPENDIX 1

Principal layout of the Latvian Food Supply Chain



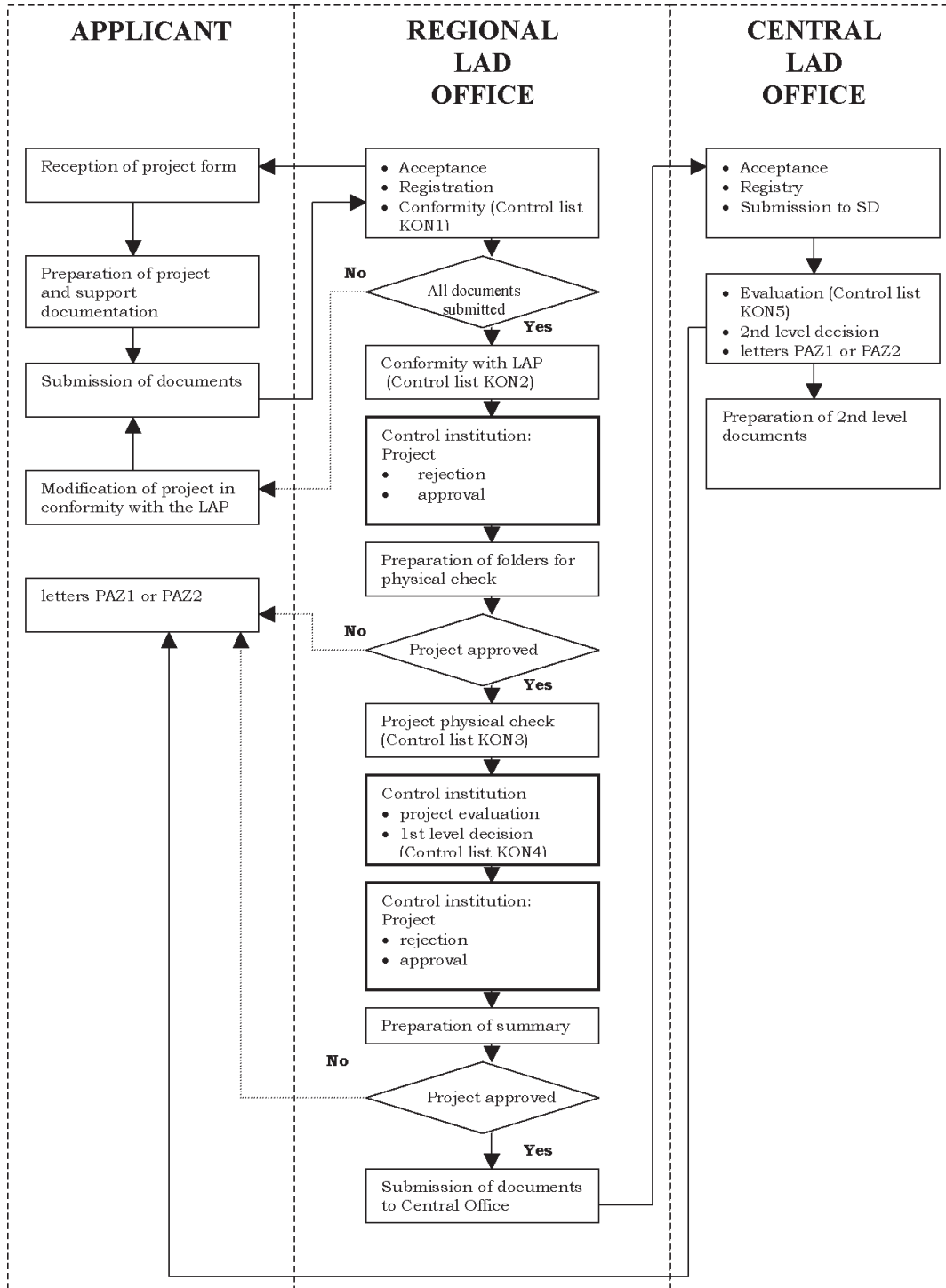
APPENDIX 2

General layout of the SAPARD Programme administration



APPENDIX 3

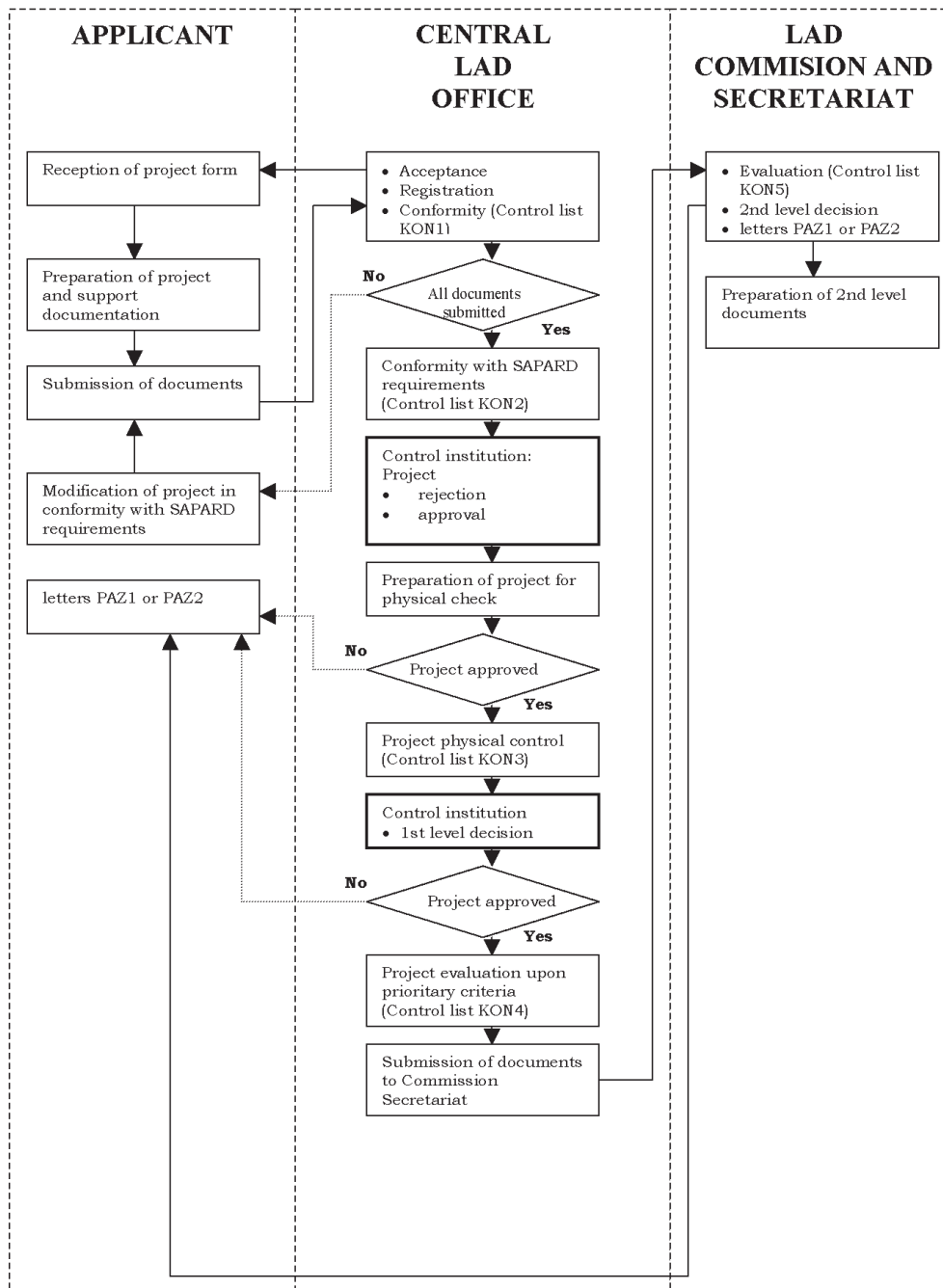
Flow of documents for projects with the applications to regional LAD offices



APPENDIX 4

Flow of documents for projects with the applications to the Central LAD office

Appendix 3
Flow of documents for projects with the applications to Central LAD office



SAPARD REVIEW
in Bulgaria, Czech Republic, Estonia,
Hungary, Latvia, Poland and Romania

POLAND



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LIST OF ABBREVIATIONS

AFA	Annual Financing Agreements
ARMA	Agency for Restructuring and Modernisation of Agriculture - SAPARD agency in Poland
CAP	Common Agricultural Policy
CSPRAAD	Coherent Structural Policy for Rural Areas and Agriculture Development
EC	European Commission
EU	European Union
HR	Human Resources
MARD	Ministry of Agriculture and Rural Development (in Poland)
NPAA	National Programme for the Adoption of the Acquis
PLN	Zloty, Polish national currency
RDP	Rural Development Plan
SAPARD	Programme Support for Accession Measures for Agriculture and Rural Development Programme
SAPRO	IT system for management of the SAPARD programm
SPO	Sectoral Programme Operational, for example: Restructuring and modernisation of food sector and development of rural areas 2004 - 2006
Voivodeship	Polish region

NATIONAL REVIEW OF SAPARD PRE-ACCESSION ASSISTANCE IMPACT ON NATIONAL AGRICULTURE AND RURAL DEVELOPMENT IN POLAND

Tomasz Grzegorz,

Head of the project in Institute of Public Affairs

OBJECTIVES

Among the most significant research issues, the following two should be listed: analysis of the possibility to carry out the national agricultural policy within the SAPARD framework, and the policy for rural development. Special attention was paid to the regional variations and possibilities for inclusion of the Programme under discussion in the country's regional policy. Moreover, the objective of the analysis was to investigate the usefulness of the SAPARD Programme in the process of implementation of ecological standards in the Polish agriculture sector, including the promotion of sustainable agriculture i.e. agriculture that combines the aims of agricultural production with the respect for the environment. At the same time, the SAPARD Programme was supposed to be a significant instrument for the preparation of Polish agriculture and agricultural processing for the accession to the European Union. Due to the above, one of the objectives of this analysis was to draw attention to this aspect of the programme performance in Poland. This paper presents the analysis of the level of participation in the Programme. An institutional analysis has also been conducted in order to define its functionality and effectiveness in the process of implementation of the SAPARD priorities.

METHODOLOGY

This paper was prepared on the basis of analysis of available programme documents and documents evaluating the performance of the SAPARD programme in Poland, as well as scientific papers and numerous press publications.

EXECUTIVE SUMMARY

The SAPARD programme enjoyed great popularity among the beneficiaries in Poland: farmers, agricultural entrepreneurs and local self-governments.

It resulted in notable profits in the field of adjustment of quality and sanitary norms of production and agricultural processing to the requirements of the EU. The close perspective of the EU membership and the willingness to export food to the EU market encourage farmers and entrepreneurs to use SAPARD. Thanks to it, upon becoming a member of the EU, Poland became an important exporter of food and agricultural products to the EU member states. The success of the program was the absorption of resources available from SAPARD. In a relatively short period of time the organisational system, needed to carry out the programme, was established and a sufficient number of projects were submitted enabling to use up the EU funds.

At the same time, it is difficult to evaluate highly the effects of the programme on the process of carrying out the agricultural policy and rural development. It seems that delays in the programme performance contributed to a situation where the administration focuses on organising institutions in charge of the programme implementation and its promotion among the potential beneficiaries. Thus, more attention was paid to the amount of spent funds than to the substantive direction of the spending, compatible with the political strategies of the government. Consequently, the programme financed mainly big enterprises and agricultural holdings, neglecting small and medium ones. It did not affect the consolidation of small holdings either. Moreover, targeted assistance for young farmers and infrastructure for improvement of the situation of water management was insufficient. It increased the farmers' incomes, but it did not really contribute to a decrease of unemployment in the rural areas. An illustration of this way of absorption is the inappropriate monitoring system. It gathers too little useful information from the point of view of the country's agricultural policy and rural development. At the same time, it does not give precise information on the economic results of investments.

The organisational structure of SAPARD seems to be excessively developed and multi-level. The implementation of the programme is strongly centralised and influenced by two central institutions whose activities partially overlap - the Ministry of Agriculture and Rural Development (MARD) and the central office of the Agency for Restructuring and Modernisation of Agriculture (ARMA). Centralisation and institutional development of the programme resulted not only in prolonged procedures but also in the necessity to employ additional officials, who performed the same works. Moreover, too many detailed decisions concerning the organisational correction of the programme required approval by the EC, which hindered the flexible implementation of the programme in Poland. In the opinion of the questioned programme beneficiaries - the main problem in the SAPARD performance in Poland were the complicated procedures and insufficient own resources needed to co-finance the projects. Officials approached some procedures in too rigid a way, which made the impression that procedures had considerable priority over the successful and timely accomplishment of the programme aims.

Despite a considerable delay in the commencement of the programme and its relatively complex organisational structure, the management of the programme on the central level was relatively smooth. Decisions on the transfer of unused financial resources to measures enjoying high popularity with beneficiaries should be especially highly evaluated. Also management of the programme on the regional level should be evaluated as satisfactory. However, monitoring of programme performance confirmed a low effectiveness level of the officials' work. The productivity of the ARMA regional branches was not improved by better work organisation or additional training for officials. It was only improved thanks to employing new staff. There are considerable differences in the effectiveness of individual regional SAPARD agencies.

In Poland there are serious spatial differences relating to both the situation in agriculture, and the rural areas. These differences are visible between individual regions, as well as inside them. In spite of the above, SAPARD as such does not focus on

regional and sub-regional orientation. Neither is it an instrument of regional development policy in Poland. Negligence of the program with respect to providing support to the regional policy of the country is linked with two basic factors. Firstly, when constructing the programme, the necessity to orient measures regionally was neglected. Secondly, provincial authorities were in fact excluded from the management of the programme under discussion. It is important to remember that these authorities are the main institutions in charge of regional development in Poland. Instead, the main functions in the process of programme performance are performed by central and regional government administration.

A special benefit resulting from SAPARD was the acquisition of experience of carrying out European development programmes in the field of agriculture and rural areas. Certainly, it will be beneficial in the process of using European funds within programmes available after Poland's accession to the EU. However, it is not sure whether accession funds for agricultural policy and rural development are properly used.

SAPARD PERFORMANCE IN POLAND

SAPARD Programme (Support for Accession Measures for Agriculture and Rural Development) is a pre-accession instrument in support of agricultural and rural development, offered to ten countries applying for membership in the EU. The SAPARD preparatory works commenced in Poland in 1999, soon after the European Council had published a regulation on the discussed types of assistance in acceding countries⁶⁷. Still in December of that year, the Polish party presented the first proposal of operational programme to be accepted by the European Commission (EC)⁶⁸. The EC accepted the Programme nearly one year later, in October 2000. Only then organisational works on the management and implementation systems of the Programme in

⁶⁷ The range of areas and issues covered by the programme, the ways of preparing the operational programme, time frame and rules for monitoring and evaluation of SAPARD are defined by Council Regulation (EC) No 1268/1999 of 21 June 1999 on the Community support for pre-accession measures for agriculture and rural development in the applicant countries of Central and Eastern Europe in the pre-accession period.

⁶⁸ cf. SAPARD Operational Programme for Poland. The Ministry of Agriculture and Rural Development, Warsaw 2002.

Poland commenced. The accreditation of the organisational system by the European Commission was concluded as late as July 2002. There were three basic reasons of this delay. Firstly, the slow proceedings in the EC administration. Secondly, political changes in the top management staff of the SAPARD agency (The Agency for Restructuring and Modernisation of Agriculture - ARMA). Thirdly, highly complicated administrative system responsible for the implementation of SAPARD in Poland. A number of requirements, listed in the Multi-Annual Financing Agreement, and presented by representatives of the European Commission during the so-called identifying missions conducted in Poland were set on a very high level, often even higher than in the case of the Member States. Due to a complicated organisational system its verification and accreditation by the EC were prolonged. Poland and the EC signed four Annual Financing Agreements (AFA):

the Ministry of Agriculture and Rural Development (MARD) undertook a series of actions whose objective was to obtain additional financial resources to cover the costs of self-government infrastructural investments. In March 2004 MARD submitted an application to the EC to be allowed to earmark additional Euro 375 mln within the Rural Development Plan (RDP)⁷⁰ for carrying out SAPARD projects. The EC consented to finance SAPARD measures using additional Euro 140 mln within the RDP framework, where 105 mln comes from EU resources and Euro 35 mln from national co-financing. Due to the very limited interest in Measure 5 that was of a piloting nature, in December 2003 a decision was taken to cancel this measure and transfer its financial resources to other measures. Similarly, unused resources from the training Measure 6 were transferred to Measure 3. A higher exchange rate of calculating the EU resources stated in the Financing Agreements for 2002 and 2003 into

Year	Date of signature	Planned amount in Euros
2000	29 th March, 2001	171 570 075
2001	6 th June, 2002	175 057 271
2002	3 rd April, 2003	179 874 468
2003	4 th June, 2003	181 658 615

Based on: Information on the performance of the SAPARD Programme following the data of 15 September 2004, ARMA 2004, Warsaw.

On 4th August 2004⁶⁹, the EC increased the amount of allocations for 2003 by 1 249 357. Thus, the total resources earmarked by the EU to co-finance projects carried out in Poland within the SAPARD Programme from AFA 2000-2003 rose to Euro 709 409 786, coupled by national co-financing equal to Euro 236 234 919, altogether 945 644 705.

It is worth mentioning that, since in 2003 as many as 4 198 applications for financial support within the framework of Measure 3 of SAPARD were submitted by local governments (communes and powiats),

Polish ZLOTY was agreed with the EU. Thanks to the above-mentioned actions, the total resources available under Measure 3 rose to circa 444 444 444, euro which was higher than the amount initially earmarked for this measure by almost 200 000 000 euro. However, it has not enabled the implementation of all projects submitted within this measure. Thus, it was decided that the remaining applications should be moved to the programme targeted at rural development, to be commenced after Poland's accession to the EU⁷¹.

⁷⁰ The Rural Development Plan is being carried out in Poland on the basis of Commission Regulation (EC) No 447/2004 of 10 March 2004.

⁷¹ SPO Restrukturyzacja i modernizacja sektora żywnościowego oraz rozwój obszarów wiejskich 2004-2006, Ministry of Agriculture and Rural Development, Warsaw 2004

⁶⁹ cf. Commission Regulation (EC) No 1419/2004

In the case of SAPARD in Poland, the first four measures were of basic financial significance. The others were of either piloting or training - organisational nature and little financial significance. In order to finance investments carried out within Measures 1,2,3 and 4 of the SAPARD program from AFA 2000 - 2003 resources (covering RDP and bank interests) as much as PLN 4 772 035 896 (circa 1 060 452 421 euro) was spent, and this amount can be split as follows:

For Measure 1	376 169 035 Euro
For Measure 2	42 956 492 Euro
For Measure 3	34 602 870 Euro
For Measure 4	06 724 022 Euro
<i>Based on: Information on the performance of the SAPARD Programme following the data of 15 September 2004, ARMA 2004, Warsaw.</i>	

The data subject to monitoring prove that in the initial period of the SAPARD implementation, the programme did not enjoy much interest on the part of the prospective beneficiaries, especially in the case of Measures 1 and 2. A far greater interest in the program, since the very beginning of its implemen-

tation, was expressed by the local self-governments - beneficiaries of Measure 3. In the 2nd half of 2003, a rapid increase in the number of applications for financial support within the Measures 1,2 and 3 was noted.

In accordance with the Agency for Restructuring and Modernisation of Agriculture (ARMA) data from 15th September 2004⁷², the use of financial resources from the Financing Agreements for years 2000 -

2003 was as follows: 27 182 applications worth of PLN 5 904 664 793.29 (circa 1 312 147 731 euro) were considered to be in line with the SAPARD programme. This number equals 124.02% of the total limit on resources from AFA 2000 - 2003, including:

	No of applications	The use of joint limit
In Measure 1	1 488	116,02%
In Measure 2	14 505	105,17%
In Measure 3	5 745	142,53%
In Measure 4	5 444	102,44%
Total	27 182	124,02%
<i>Based on: Information on the performance of the SAPARD Programme following the data of 15 September 2004, ARMA 2004, Warsaw.</i>		

⁷² Based on: Information on the performance of SAPARD Programme following the data of 15 September 2004, ARMA 2004, Warsaw.

ARMA concluded 24 397 contracts for financial assistance, total worth of PLN 4 803 301 464.45⁷³ (circa 1 067 400 325 euro). This amount accounts for 100.66% of the joint limit of the AFA financial resources, RDP resources and interests, including:

The contracts signed before September 2004 in fact used up the entire amount of financial means available in the Programme (to the exclusion of Measure 4). So far as the settlement of payments and the number of contracted projects were de-

	No of contracts	The use of joint limit
In Measure 1	1 341	100.37%
In Measure 2	13 740	99.53%
In Measure 3	4 461	103.45%
In Measure 4	4 855	91.80%
Total	24 397	100.66%

Based on: Information on the performance of the SAPARD Programme following the data of 15 September 2004, ARMA 2004, Warsaw.

ARMA has made 9 910 payments to the benefit of recipients. The sum of all the payments amounts to a total of PLN 1 382 947 218.34 (circa 307 321 604 euro) accounting for 28.98%⁷⁴ of the joint resources covering the financial means from AFA 2000 - 2003, and RDP as well as and interests, including:

layed, the greatest delay was recorded within Measure 4. Such a situation was brought about mainly by the pro-longing of EC works connected with the accreditation of this measure. In spite of the fact that works on the preparation of the Polish administration to carry out the measures in question had

	No of payments	The use of joint limit
In Measure 1	413	17.62%
In Measure 2	7 640	55.22%
In Measure 3	1 633	36.75%
In Measure 4	224	2.25%
Total	9 910	28.98%

Based on: Information on the performance of the SAPARD Programme following the data of 15 September 2004, ARMA 2004, Warsaw.

⁷³ This amount does not include savings that result from the performance of project between the contracted amount and the amount of payment application.

⁷⁴ At an exchange rate fixed by the Council of Ministers' regulation on detailed scope and directions of measures as well as ways of carrying out the tasks of ARMA in the field of managing financial resources coming from EU funds (O.J. No 102, item 928 as amended)

lasted since 1999, the EC issued a decision to pass the management of Measure 4 on to Poland as late as 14 November 2003. Thus the reception of projects from potential beneficiaries started in December 2003.

Summing up the above-presented information, it is worth mentioning that the greatest interest in SAPARD in Poland was on the part of the local authorities that use investment funds earmarked for development of rural areas available under Measure 3. This situation was more or less connected with the best preparation of these beneficiaries for carrying out such investments. Experience of participation of local self-governments in other pre-accession programmes, national programmes as well as programmes connected with local and regional development was the decisive factor. A great interest in the programme (mainly Measure 2) was demonstrated by the farmers, which was especially evident by the number of submitted applications, whereas least interested in the programme were the entrepreneurs (mainly Measure 1).

In terms of territorial distribution, the most active local self-governments were from Greater Poland (Wielkopolska), Masovia (Mazowsze), Lesser Poland (Malopolska) and Sub-Carpathia (Podkarpackie). The least active in submitting applications were the self-governments from Opole voivodeship (województwo opolskie), Western Pomerania (Zachodnie Pomorze) and Lubusz voivodeship (województwo lubuskie). The greatest interest in the Program was among farmers in Masovia, Greater Poland, voivodeship of Lublin (województwo lubelskie) and voivodeship of Kielce (województwo świętokrzyskie). The most modest interest in the Program was among farmers living in Lubusz voivodeship and Western Pomerania. Among the entrepreneurs, the greatest interest in the Program was recorded in Greater Poland and Masovia, while the weakest interest was in Opole voivodeship, Kielce voivodeship and Lubusz voivodeship.

To sum up, it may be concluded on the basis of the number of submitted applications that the greatest interest in the SAPARD Programme in Poland was expressed in rich regions characterised by well-developed agriculture and rural processing indus-

try, i.e. in Masovia and Greater Poland. Other voivodeships outstanding in this respect were also the agricultural regions of Lublin voivodeship and Kielce voivodeship. At the same time the least was the interest in the program on the part of beneficiaries recorded in Opole voivodeship, Lubusz voivodeship and Western Pomerania. These are regions situated in the western part of Poland that are considered to be economically better developed than regions in the eastern part of the country. These regions also had some previous experience of EU pre-accession funds. It might be the case that social activity in these areas has been directed towards the implementation of other EU programmes, and not SAPARD.

In Poland there are considerable spatial differences concerning both the situation in agriculture, and rural areas. These differences are visible between individual regions, as well as inside them. In spite of the above, SAPARD as such does not focus on regional and sub-regional orientation⁷⁵. Neither is it an instrument of regional development policy in Poland. During the allocation of funds the specificity of individual voivodeships was almost neglected. Some preference was given to less affluent regions having weaker infrastructure in rural areas. However, it was not the regional allocations that decided about the actual use of the assistance but the initiative of beneficiaries on a national scale. It significantly favored better-developed parts of the country. Consequently, the richest regions (Masovia and Greater Poland voivodeship) considered to have well-developed agriculture and, when compared with other regions of the country, relatively good infrastructure, benefited from the SAPARD assistance.

It may be assumed that one of the reasons for adopting such a policy were delays in the programme performance and fear that too rigid regional criteria will hinder the effective use of granted funds. It is worth noting that potentially, orienting SAPARD could have been strongly linked to regional development, especially in rural and slower developing areas. However, negligence of SAPARD in the

⁷⁵ Cf. Mid-term evaluation of the SAPARD Programme in Poland for the implementation period 2000-2003 (PL-7-05/00), REF.: EUROPEAID/114803/D/SV/PL, European Commission, SAPARD Programme, 2003, p. 141.

process of supporting the country's regional policy is connected with two basic factors. Firstly, when constructing the programme, the necessity to orient measures regionally was neglected. Secondly, provincial authorities were in fact excluded from the management of the programme under discussion. It is important to remember that these authorities are in Poland the main institutions in charge of regional development. Instead, the main functions in the process of the programme were performed by the central and regional government administration. Participation of provincial authorities in the programming of the SAPARD resources was exceptionally modest. Only some projects were consulted by the regional steering committees. Thus the SAPARD programme was kept within the framework of the sectoral policy of the Ministry of Agriculture. This policy is coordinated within the government framework and the local authorities are hardly able to control it. Instead of benefiting from the occasion to strengthen the regional policy, a framework was established to encourage sectoral policy. Taking over the SAPARD management, the government administration proved a successful attempt to centralise the European regional development policy in the hands of the government's policy-makers⁷⁶.

The influence on agricultural policy and rural development in Poland

The Ministry of Agriculture and Rural Development prepared the Operational Programme SAPARD for Poland on the basis of two vital strategic documents:

- National Programme for the Adoption of the Acquis (NPAA) - all the measures within SAPARD relate to commitments resulting from NPAA, where the priorities for adjustment of the Polish agriculture and rural development were set. The adjustment in question covers: establishment and implementation of the Common Agricultural Policy (CAP) and rural development policy, law harmonisation and harmonisation of veterinary and phytosanitary administration structure; modernisation of milk, meat, fruit and vegeta-

ble processing sectors; ecological agriculture and preparation of institutions responsible for the implementation of CAP;

- Coherent Structural Policy for Rural Areas and Agricultural Development - a document approved by the Council of Ministers in July 1999. It defines the aims of the national policy towards rural areas and agriculture in the period 2000 - 2010. The aims are defined on the basis of problems identified in agriculture and rural sector, including escalation of supplying activities in the period prior to the declared readiness of Poland to join the EU in 2003.

The most important feature of the national agricultural budget is the definitely dominating position of expenditure on farmer pensions, amounting to almost 80% of the total budget. Though the sole inclusion of farmer pensions into the budget of expenditure on agriculture may be perceived as sth. unusual, such a ratio has a triple significance from the point of view of the SAPARD idea. Firstly, a considerable part of the population living in rural areas function separately from the reality of the market economy because they are provided with free healthcare and social insurance. Secondly, these transfers are mainly directed at elderly people. Thirdly, as little as 20% of the transfers from the budget to the benefit of agriculture are spent on development and investment⁷⁷. It means that the policy for agriculture and rural development is obviously under- invested when compared to social measures.

The Polish agricultural and food industry is dualistic. There are farms and processing plants, which are potentially very competitive. They will tend to absorb most of the SAPARD assistance both because of their size, and their ability to seek assistance. A large number of small enterprises also exist, mainly managed by older traditional farmers and businesspersons. Thus, the basic direction of agricultural policy in Poland is to influence the consolidation of the heavily fragmented rural areas and the creation of bigger and stronger agricultural holdings characterized by a higher level of productivity.

⁷⁶ J. Hausner, M. Marody (red.) - Jakosc rzadzenia: Polska blizej Unii Europejskiej? EU-monitoring IV, Friedrich Ebert Stiftung, Malopolska Szkoła Administracji Publicznej AE w Krakowie, Warsaw-Cracow 2000, p. 103-104.

⁷⁷ See: A. Wos 2003, The Polish Agriculture and Food Sector, Instytut Ekonomiki Rolnictwa i Gospodarki Żywnosciowej (IERGZ), Warsaw 2002.

Likewise, the country is trying to help small and medium industrial enterprises oriented towards agricultural production. Among other problems of Polish agriculture, one should pay special attention to the relatively low incomes from rural activities, especially in small family-run holdings. Other problems are attempts to prevent young farmers from leaving the country, as well as concealed unemployment in certain rural areas. A serious structural challenge is an attempt to influence the decrease in the number of people employed in agriculture and to move the surplus of labor force towards agricultural processing and services. The next challenge is to increase incomes and productivity of agricultural sector and to decrease the average age of people employed in agriculture. Other difficulties in Polish agriculture include the introduction of quality and ecological standards binding in the EU. This issue is connected with water management and a serious shortage of water in some parts of the country. From the point of view of the rural development policy, urbanization of rural areas is of great importance, as is the creation of infrastructural and administrative conditions for development of non-agricultural activities.

There are two balanced priority axes in the SAPARD Operational programme for Poland, namely: (1) improvement in the efficiency of the Agro-food sector and (2) improving the business conditions and job creation.

The measures in priority axis 1 are:

- ▣ Measure 1 Improving the processing and marketing of Food and Fishery products, which consist of a scheme to support the processing of milk, meat, fish and fruit and vegetables. Beneficiaries include firms and producer groups;
- ▣ Measure 2 Investments in agricultural holdings including the modernisation of milk and meat production facilities on agricultural holdings, and a scheme for environmental protection against the harmful effects of farming including manure handling and animal welfare. A further sub-measure encourages the diversification of agricultural production, as well as val-

ue- adding to agricultural products from the first stage of farm processing.

The measures in priority axis 2 are:

- ▣ Measure 3 The development of rural infrastructure provides for the development of basic infrastructure including roads, water supply, wastewater disposal, solid waste management and the provision of renewable energy;
- ▣ Measure 4 Diversification of economic activities in rural areas providing for multiple activities and alternative incomes covers aid for individual business projects outside conventional farming for both members of farming families, and rural (non-farm) entrepreneurs. In addition, support is available for the restoration of public tourist facilities.

Complementary measures include:

- ▣ Measure 5, after some changes, is a pilot agro-environmental scheme in two geographical areas;
- ▣ Measure 6 Vocational training promoting structural, agricultural and rural development through the enhancement of human capital in rural areas;
- ▣ Measure 7 is for technical assistance, much of which has been used to promote SAPARD and to provide relevant detailed information to prospective beneficiaries.

Within Measure 1, the most popular were the projects concerning restructuring of processing and marketing of products of animal origin. Entrepreneurs are the least interested in sub-measures concerning fishery products processing. Among farmers within Measure 2 projects connected with the increase in diversity of agricultural production enjoyed the greatest popularity. It was beneficial from the point of view of farmers since research proves that under the Polish conditions it is diversified agricultural holdings that generate the most profit. The second best in the opinion of farmers were projects

concerned with the restructuring of milk production.

The poor state of rural infrastructure was a central argument in favour of Measure 3 as is shown by a variety of indicators on the availability of roads, water supplies, drains and waste disposal facilities. The greatest popularity within this measure was enjoyed by projects oriented towards building local roads, water supply, and wastewater disposal in rural areas. Measure 4 addresses the problems of rural development in a most direct way by providing support to entrepreneurship for both the farmer's families and for rural dwellers in general. Public investment in the development and restoration of tourist facilities was also promoted. The greatest popularity within this measure was enjoyed by projects oriented towards job creation on farms. The poor situation in terms of social capital, especially for farmer education and training, underpinned Measure 6 while the severity of the unemployment and under-employment situation gave strong evidence for employment creation measures to be supported by Measure 4.

On the basis of monitoring and mid-term evaluation of the SAPARD performance in Poland⁷⁸ it may be concluded that the programme proved to be the most beneficial for big enterprises and big agricultural holdings. In the Program there were no sub-measures that would support small and medium agricultural enterprises via a system of small grants. Moreover, it was economically strong holdings that benefited most since the system preferred agents capable of assuming the burden of co-financing projects from their own resources or bank credits that were able to substantiate their financial reliability. In the opinion of interviewed potential beneficiaries of the Programme, it was financing the projects that posed the greatest difficulties for those interested in participation in the Programme⁷⁹. As a result the SAPARD Programme increased the competitiveness of the largest Polish agricultural enterprises and holdings, but only contributed to the restructuring of Polish agriculture

to a limited extent. This is why the authors of the mid-term evaluation of the SAPARD conclude that in Poland commercial considerations and profits of individual transactors clearly dominated over the aims of agricultural policy and rural development⁸⁰. Such a situation resulted in difficulties with the evaluation of the SAPARD results in Poland.

Additionally, neither the system of grading the projects nor the system of gathering information in the process of monitoring favoured aims crucial for the implementation out of the above-mentioned government policies. Evaluators are especially critical about the possibilities of evaluating the economic profitability of an investment⁸¹. The monitoring system evaluates relatively well the amount of spent funds and not the quality of the spending, i.e. compatibility with the intended economic and social results⁸². In projects oriented towards infrastructure development in rural areas (Measure 3) the evaluation of economic effects of an investment was abandoned, which was the result of difficulties and high time consumption of the preparation of such analysis. Given the fact that there was a time pressure, the decision was justified. Simultaneously it limited the possibilities for evaluation of the conducted investment policy from the perspective of rural areas. It is worth mentioning that an evaluation of this type was prepared in a very similar investment programme financed from the funds of the World Bank, i.e. the Rural Development Programme. Moreover, mainly richer local authorities that had sufficient financial means to cover their own part of financing of a given investment⁸³ participated in the SAPARD Programme. No special supporting system for local authorities with insufficient financial means was created. This rendered participation in the programme impossible for many poor rural local governments. Likewise, participation of smaller and weaker holdings and processing establishments was limited, which may result in a decrease of possibilities to use the SAPARD Programme for pursuing the aims of rural development policy.

⁷⁸ Cf. Mid-term evaluation of the SAPARD.

⁷⁹ Cf. Opinions of entrepreneurs, potential beneficiaries of the SAPARD Programme. Measure 1. ARMA, Department of Analyses and Forecasts, Warsaw 2003; Opinions from agricultural counselling units and potential beneficiaries on the SAPARD programme. Measure 2. ARMA, Department of Analyses and Forecasts, Warsaw 2002.

⁸⁰ Cf. Mid-term evaluation of the SAPARD, pp. 6-7, 12, 157-158, 163

⁸¹ Ibidem, p. 159.

⁸² Ibidem, pp. 163-165

⁸³ Annual Report on performance of the SAPARD programme in Poland in the period 17 July 2002 - 31 December 2003, Ministry of Agriculture and Rural Development, Warsaw 2004, p. 9.

The obtained information on the performance of the programme points out an increase in the incomes of both farmers and agricultural establishments participating in the programme by some 20%. However, no data was gathered that would point at a decrease in unemployment level resulting from the programme performance. It is linked with the very late commencement of Measure 4 and the limitation of financial resources initially earmarked for this component of the programme. Indices in the field of safety and work hygiene increased significantly. However no considerable improvement of animal welfare was achieved. The programme brought also very limited results in the field of improvement of environmental protection. The piloting programme concerning agricultural-environmental activities (Measure 5) was cancelled, which confirms the relatively low rank of this type of measures in the Polish version of SAPARD. Projects directed at the increase in the level of groundwater and improvements of water management that may pose a threat to the harvest in some areas were not given priority. Projects for farmers were in the majority of the cases directed at improvement of production effectiveness (circa 60%), whereas environmental protection, as the main aim of a measure crops up as little as 13% of the projects submitted by farmers (Measure 2). The evaluation report confirmed that institutions managing the programme in Poland did not include the directive on environmental protection in agricultural production⁸⁴. Also, training tasks undertaken within the framework of Measure 6 were directed mainly at information about the technical side of the prepared applications and not, for example, on raising the ecological awareness of farmers and producers of agricultural products.

The success of the program was the great absorption of resources available from SAPARD. Simultaneously, it is difficult to evaluate highly the effects of the programme on the performance of agricultural policy and rural development. It seems that delays in the Programme performance contributed to the administration focusing on organising institutions responsible for the programme implementation and its promotion among the potential beneficiaries. In such a way, the amount of the spent funds attracted more attention than the substan-

tive direction of the spending, compatible with the government political strategies. Thus the programme financed mainly big enterprises and agricultural holdings, neglecting small and medium ones. Neither did it affect the consolidation of small holdings. Moreover, its preferred focus on assistance for young farmers and infrastructure for improvement of the situation of water management was insufficient. It increased the farmers' incomes, however it did not really contribute to a decrease in unemployment in the rural areas. The illustration of this way of absorption is the inappropriate monitoring system. It gathers too little useful information from the point of view of the country's agricultural policy and rural development. At the same time, it does not give precise information on the economic results of investments.

One of the main aims of SAPARD in Poland was the preparation for membership in the EU. This was related mainly to the adoption of specific legal standards related to the participation in the European agricultural policy and rural development. The clear aim of Measure 1 was to promote the adoption of the *acquis* in view of the accession requirements for food processing companies. Likewise the adoption of the *acquis* for specialist animal farms was a clear target of Measure 2. The programme enjoyed a lot of interest on behalf of the beneficiaries, both farmers and agricultural entrepreneurs, and local self-governments. It brought advantages in the field of adjustment of quality and sanitary norms, as well as agricultural processing, to the EU requirements. The close perspective of membership in the EU and willingness to export food on the EU markets encouraged farmers and entrepreneurs to use SAPARD. Thanks to this, upon becoming a member of the EU, Poland became an important exporter of food and agricultural products to the EU Member States.

A special benefit from SAPARD was acquiring experience in the field of carrying out European development programmes in agriculture and in rural areas. Certainly, it will be profitable in the case of using European funds in programmes available after joining the EU. The substantive orientation of SAPARD is included into two sectoral operational measures: SPO Restructuring and modernisation

⁸⁴ IPPC Directives (96/61/EC), cf. Mid-term evaluation of the SAPARD ... p. 153

of the food sector and development of rural areas 2004 - 2006 and , to a smaller extent, SPO Fishery and fishery product processing 2004 - 2006. Experience gathered when performing the pre-accession SAPARD programme may point at the potential of high absorption of funds available after the accession. It is worth noting that the preparation of the two sectoral programmes took place in a period of very intensive implementation works for SAPARD. The same institutions simultaneously had to prepare accession programmes and increase the pace of delayed SAPARD implementation. It may influence limitations of possibilities to perform agricultural policy and rural development in the first period of the Polish membership in the EU.

ORGANISATION OF SAPARD IN POLAND

The Ministry of Agriculture and Rural Development (MARD) as the managing authority is responsible for the co-ordination and management of the programme. The design of the programme, the setting of the selection criteria and the levels of assistance are the responsibility of the authority. The managing authority also has the task of informing potential beneficiaries about the programme although both ARMA and the Ministry are involved in this process. The managing authority has the function of coordinating the whole programme and is assisted in this matter by expenditure reports from the Agency on implemented projects on a daily basis.

The SAPARD agency (ARMA) plays a double role in the SAPARD programme in Poland as both the implementation body and the paying agency. In addition, it is also responsible for the bookkeeping and the control of the payment process. Its headquarters are located in Warsaw, which is supported by 16 regional offices situated in voivodeship cities. According to the rules in force on operational and physical independence, the implementation and payment functions of the Agency have been separated, i.e. they are carried out by different people and served by different computer systems. Two separate units have been established in the organisational structure of the SAPARD Agency, which are: internal audit unit and the technical control unit. The last one is responsible for verifying the commitments and payments through inspections of the

beneficiary's investments. The implementation and also part of the payment function of the SAPARD agency is delegated to its regional branches. They prepare reports on the registered projects for The Ministry of Agriculture and Rural Development and ARMA Headquarters in Warsaw. The activities related to the authorisation of payments under Measures 1 and 3, and the execution of payments for all measures are made by the ARMA central office. The authorisation of payments for Measure 2 is made by the regional SAPARD offices.

There are two sorts of committees on the central and regional level: steering and monitoring committees, which assist the planning and supervising of the SAPARD program in Poland. The National Steering Committee consists of representatives of the ministries competent for: economy, rural development, finance, labour, environment as well as the European Integration Committee, branch organisations, organisations of employers, marshals of the voivodeships and experts. The foreseen responsibilities consist of: recommendations on the project ranking lists within Measure 1 and on the list of activities for horizontal training; recommendations to the Ministry of Agriculture and Rural Development on the regional distribution of financial sources (among voivodeships) under Measures 2, 3 and 4 and according to the schemes and components of Measure 1. There are Regional Steering Committees in each of the 16 voivodeships (regions). They consist of the representatives of the local self-government, the regional self-government, the regional state administration, socio-economic partners, NGO's. The basic tasks of these committees are: recommendations concerning the distribution of financial resources among the particular schemes and ranking lists (Measure 3 and 4), recommendations on the merit and scope of training programmes addressed to the region (Measure 6). The marshal (representative of the regional self-government) is the chairperson of the regional committee. He is also responsible for the co-ordination of assistance programmes carried out in the region.

There are 16 Monitoring Committees on the regional level and a National Monitoring Committee on central level. There is partnership between the var-

ious interested government ministries and the elected regional self-government, and representatives of both districts and communes. Other beneficiaries and their representative organizations also participate, including NGO's active in rural areas and the environment, the National Council of Agricultural Chambers, representatives of agro food and agricultural producers, and researchers and academics. There are, in addition, non-voting members from ARMA and the European Commission.

It should be stated that amongst the institutions involved in the SAPARD programme implementation in Poland the position of the 16 regional Monitoring Committees seems to be the weakest. It is particularly strange that working contacts between the Monitoring and Steering Committees have not been established, taking into account the complementarity of their tasks. At present the Monitoring Committees are not informed on a regular basis about the physical results, neither about the meeting of programme objectives but mainly about the quantity of applications at a particular stage of the procedure and the absorption of financial sources. Beneficiaries are hardly represented in the Committees. However, it has proved its ability to make changes in the programme.

The division of responsibility amongst particular institutions is reflected in the procedures for the allocation of resources within the programme in the following way. The Ministry of Agriculture and Rural Development plays the main role. It decides, based on recommendations from the National Steering Committee, on the allocation of funds among the regions under Measures 1 and 2. In the case of Measure 3 proposals concerning the division of resources within the regional envelopes are transmitted by the MARD to the Regional Steering Committees without preliminary distribution between particular schemes. The Committees proposes the respective distribution. These proposals are then sent to the Agency for Restructuring and Modernisation of Agriculture. The Agency's President takes the final decision. The entire procedure is time-consuming, for each of the units involved takes its designated time.

The organisational structure of SAPARD seems to be excessively developed and multi-level. For example, on the voivodeship level there are two kinds of advisory committees, while one combining planning and monitoring functions would be enough to ensure social partnership in the regions. At the same time, despite passing the main implementation competences on to the 16 regional branches of ARMA - some of the implementing decisions unnecessarily required authorisation from the Ministry of Agriculture and Rural Development. For example, all payments for projects within Measure 3 required the approval of central level officials. It brought about not only prolonged procedures but also the necessity to employ additional officials at the ARMA headquarters, who performed the same works as their colleagues in the regional branches. Moreover, too many detailed decisions concerning the organisational correction of the programme required approval from the EC, which hindered the flexible implementation of the programme in Poland. It encouraged the centralisation of the whole system and contributed to delays in the performance of individual measures. As a result of those delays, some stages of the measures were performed in a great hurry, which could negatively influence the quality of performed projects and limited the possibilities of directing individual measures towards the country's policy aims. Additionally, improper timetable for submission of applications for individual measures caused a serious mess, too short periods for collecting applications and lack of continuity in the process of accumulating projects.

In the opinion of the interviewed beneficiaries, the main problem in the performance of the SAPARD programme in Poland were the complicated procedures⁸⁵. An example of excessive organisational complexity is the vast documentation required from the beneficiaries, especially business plans attached to the applications for Measures 1 and 2. Moreover, some procedures were approached in too rigid a way, which produced the impression that procedures had considerable priority over the suc-

⁸⁵ Opinions of entrepreneurs, potential beneficiaries of the SAPARD Programme. Measure 1. ARMA, Department of Analyses and Forecasts, Warsaw 2003; Opinions from agricultural counselling units and potential beneficiaries on the SAPARD programme. Measure 2. ARMA, Department of Analyses and Forecasts, Warsaw 2002.

successful and timely accomplishment of the programme aims⁸⁶. Moreover, some changes in the regulations issued by the Ministry of Agriculture and Rural Development and concerning SAPARD introduced the necessity to fill in new documents, organising additional training for beneficiaries, attending numerous meetings with public officials etc.

Despite a significant delay in the commencement of the Programme, and its relatively complicated organisational structure, the programme management on the central level was conducted in quite smoothly. Decisions on the transfer of unused financial resources to measures enjoying high popularity with the beneficiaries should be especially highly evaluated. Thanks to this, it was possible to use the majority of the resources granted by the EU. During the programme, some organisational corrections aiming at simplification of the procedures or the required documentation were introduced, which naturally contributed to the improved performance efficiency of the SAPARD measures.

Furthermore, the programme management on the regional level should be evaluated as satisfactory, which is confirmed by a high level of contracts concluded with beneficiaries. However, the monitoring of programme performance confirmed a low effectiveness level of the work of officials. A better work organisation or additional training did not improve the productivity of ARMA regional branches for officials. It was only improved thanks to employing new staff. Research confirmed the improper HR management of ARMA branches, which was proved by, among others, the fact that key staff is always under time pressure⁸⁷. In the agency there are not enough people with proper qualifications and education. Moreover, there is a strong differentiation of efficiency of the individual regional SAPARD agency branches. Branches in Masovia (Mazowsze), Great Poland (Wielkopolska), Sub-Carpathia (Podkarpacie) and voivodeship of Lodz (województwo łódzkie) are characterised by their highest efficiency. This is related to the great interest of beneficiaries in these regions. The least effective officials' performance was in branches in Western Pomerania (Zachodnie Pomorze), Opole

voivodeship and Silesia voivodeship (województwo śląskie)⁸⁸. The frequent personnel changes at high managerial levels, resulting from strong political involvement of personal decisions in SAPARD agencies, were dysfunctional for the preparation of organisational structures⁸⁹.

In the initial period of the SAPARD implementation, a serious barrier was the lack of knowledge on the programme performance among the beneficiaries (especially farmers). However, this shortfall was compensated later⁹⁰. In the opinion polls respondents evaluated the information activities and training of SAPARD⁹¹ more or less positively. However, the IT system (SAPRO) gathering information on SAPARD was strongly criticised. In the opinion of the respondents some of the collected information was irrelevant and this contributed to overloading the system, which results in its blocking and crashing down. Moreover, it unnecessarily absorbed too much of the officials' time. On the other hand, some relevant information was missing. Some of the stored information was not used to generate reports in the software. Another problem were difficulties with correcting faulty information accumulated in the system⁹².

CONCLUSIONS AND POLICY RECOMMENDATIONS

The SAPARD programme enjoyed great popularity with beneficiaries in Poland - farmers, agricultural entrepreneurs and local self-governments. It resulted in notable profits in the field of adjustment of quality and sanitary norms of production and agricultural processing to the requirements of the EU. The close perspective of membership in the EU and the willingness to export food onto EU market encourage farmers and entrepreneurs to use SAPARD. Thanks to it, upon becoming a member of the EU, Poland became an important exporter of food and agricultural products to EU member states. The

⁸⁶ Cf. Mid-term evaluation of the SAPARD ...p. 10.

⁸⁷ Ibidem.... pp. 110,126

⁸⁸ Ibidem.... pp. 8, 108-109, 148 - 149.

⁸⁹ An example of such decisions was a replacement of a number of directors from regional ARMA branches in the summer 2002, when the new president of this agency became Aleksander Bentkowski from the Polish People's Party

⁹⁰ Annual Report on Performance of SAPARD in Poland in the period 17 July 2002 - 31 December 2003, Ministry of Agriculture and Rural Development, Warsaw 2004, pp. 53-54

⁹¹ Cf. Mid-term evaluation of the SAPARD p. 161.

⁹² Ibidem.... p. 9

success of the program is in the high absorption of the resources available from SAPARD. In a relatively short period of time, the organisational system needed to carry out the programme was established, and a sufficient number of projects were submitted enabling to use up the EU funds.

At the same time, it is difficult to evaluate highly the effects of the programme on the process of carrying out the agricultural policy and rural development. It seems that delays in the programme performance contributed to a situation where the administration focused on organising institutions in charge of the programme implementation and its promotion among potential beneficiaries. Thus, the amount of utilized funds got more attention than the substantive direction of the spending, compatible with the political strategies of the government. Consequently, the programme financed mainly big enterprises and agricultural holdings, neglecting small and medium ones. It also did not affect the consolidation of small holdings. Moreover, it favoured insufficiently assistance for young farmers and infrastructure for improvement of the situation in water management. It increased the farmers' incomes, however it did not really contribute to a decrease in unemployment in the rural areas. The illustration of this way of absorption is the inappropriate monitoring system. It gathers too little useful information from the point of view of the country's agricultural policy and rural development. At the same time, it does not provide precise information on the economic results of investments.

The organisational structure of SAPARD seems to be excessively developed and multi-level. The programme performance is strongly centralised and influenced by the two central institutions whose activities partially overlap - the Ministry of Agriculture and Rural Development (MARD), and the central office of the Agency for Restructuring and Modernisation of Agriculture (ARMA). The centralisation and institutional development of the programme resulted not only in prolonged procedures but also in a necessity to employ additional officials, who performed the same works. Moreover, too many detailed decisions concerning the organisational correction of the programme required the approval of the EC, which hindered the flexible implemen-

tation of the programme in Poland. In the opinion of interviewed programme beneficiaries the main problem in the SAPARD performance in Poland were the complicated procedures and the insufficient own resources needed to co-finance projects. Officials approached some procedures in a too rigid way, which made the impression that the procedures had considerable priority over the successful and timely accomplishment of programme aims.

Despite a considerable delay in the commencement of the programme and its relatively complex organisational structure, the management of the programme on the central level was relatively smooth. Decisions on the transfer of unused financial resources to measures enjoying higher popularity with beneficiaries should be especially highly evaluated. Also, the programme management on the regional level should be evaluated as satisfactory. However, monitoring of the programme performance confirmed a low effectiveness level of the officials' performance. The productivity of regional ARMA branches was not targeted by better work organisation or additional training for officials. It was only improved thanks to employing new staff. There are considerable differences in the effectiveness of individual regional SAPARD agencies.

In Poland there are serious spatial differences relating to the situation in agriculture and rural areas. These differences are visible between individual regions, as well as inside them. Despite , SAPARD as such did not focus on regional and sub-regional orientation. Neither was it an instrument of regional development policy in Poland. The negligence of the program with respect to providing support to the regional policy of the country is linked to two basic factors. Firstly, when constructing the programme, the necessity to orient measures regionally was neglected. Secondly, provincial authorities were in fact excluded from the management of the programme under discussion. It is important to remember that in Poland these authorities are the main institutions in charge of regional development. Instead, the main functions in the process of programme performance were performed by central and regional government administration.

A special benefit resulting from SAPARD was the acquisition of experience in carrying out European development programmes in the field of agriculture and rural areas. Certainly it will be beneficial in the process of using European funds within the programmes available after Poland's accession to the EU. However, it is not sure whether the accession funds aiming at carrying out agricultural policy aims and rural development were properly used. Experience of SAPARD in Poland can and should be used while programming resources earmarked for agricultural and rural development policy, carried out with the help of the EU structural funds after 2006. Beyond doubts, simplification of the organisational system should be postulated, which means at the same time reduction of the number of involved institutions, in this - reduction of central institutions involvement, simplification of programme and implementation procedures, and increase of the required documentation. Monitoring system and IT systems should also be changed. Changes should also cover the building of programme priorities, organisational and IT systems responsible for their performance - to direct them not only to the smooth absorption of public funds but also to the efficient performance of public policies. In this context it is especially important to ensure a closer connection between rural development policy and regional policy. Some problems may result from the exclusion of tasks relating to agriculture and rural development policies planned by the EC in the period 2007 - 2013 from EU cohesion policy⁹³. Moreover, a problem may emerge from the rules of establishing single-fund operational programmes on the regional level. Transfer of implementation of programmes relating to rural development outside self-government authorities may turn out to be another drawback.

It may seem that there are two basic conditions for close connection of regional policy and rural development policy, carried out in Poland with the help of the EU funds. Firstly, a programme carrying out rural development aims should be regionally oriented. In the case of leaving one operational programme on a national scale it implies the necessity to introduce more resource and instrument differ-

entiation due to the specificity of rural areas in individual voivodeships. Moreover, more flexible shaping of the programming on the regional level is worth considering the better allocation of resources adjusted to intra-regional differentiation of rural areas. The furthest-reaching regional orientation would be the inclusion of resources and priorities referring to rural development into the 16 regional operational programmes, planned in Poland for the period 2007 - 2013. Secondly, rural area policy should not be carried out by a government agency. It should be transferred to the regional self-governments for implementation. One of possible options in this direction would be the transfer of structures and budget resources from ARMA to the self-governments. Then it would be possible to close down the central office of ARMA, which would limit the overlapping of some functions between the ARMA central office and the Ministry of Agriculture.

The SAPARD programme resulted in notable profits in the field of adjustment of quality and sanitary norms of production and agricultural processing to the requirements of the EU. It is worth mentioning that the SAPARD programme has only an additional and not a decisive significance for the improvement of the situation in Polish agriculture after the accession to the EU. The success of the agriculture sector in Poland after the accession is directly linked to the abolition of barriers for Polish food export to the EU and the competitiveness of Polish agricultural production in comparison with the EU15 food prices. Polish meat was especially cheaper, so Polish export of pork and beef products to the EU15 was tremendous. Profits and the incomes of both farmers and enterprises in the Polish meat sector have also increased substantially. However grain sector profits decreased, mainly because of the growing costs of production factors. Taking into consideration the results of the SAPARD programme and the first benefits of CAP in Poland, we could conclude that the most beneficiary from the EU integration were the biggest agricultural holdings and firms, especially those with foreign capital, specialised in meat production. Furthermore, the first benefits of the EU accession related to competitive prices are going to an end. The reason therefore was the speediness of price convergence between Poland and the rest of the European Union.

⁹³ A new partnership for cohesion. Convergence, Competitiveness, Cooperation. Third report on economic and social cohesion, 2004. European Commission, Brussels

The competitiveness of Polish agriculture in the long-term perspective should be built on structural reforms, mainly consolidation of small holdings and improvement of productivity.

APPENDIX - RELEVANT COUNTRY BACKGROUND

Processing of agricultural items in Poland

The food industry is a very important branch of the Polish economy. Its share in the industrial production reaches approx. 24% and is by approx. 9 percentage points higher than in the European Union as a whole, where it reaches 15% on average. Among the EU countries only Denmark (28%) and Greece (27%) have share of the food industry higher than the Polish. Value added gross, made by the food Polish industry (including drink and tobacco industry) equals 6 billion USD, which comprises more than 4% of the gross value added produced by the entire national economy and about 6% of GNP. The Polish accession to the EU requires essential modernisation of the sector of agricultural products processing, regarding hygienic and veterinary standards and environment protection. It concerns in particular dairy, meat and, though to a lesser scale poultry sectors. Nowadays the required standards are observed only by: 38 of the dairy, 60 of the meat and 29 of the poultry processing plants (which manufacture A category). Further 2186 have opportunities to adjust to the EU requirements before 01.01.2004. (B1 cat.), and subsequent 466 are in the transitional period (B2 cat.). Those holding the EU export rights compose a small part of the general number of plants (particularly meat and dairy) though their share in the overall production potential of each branch is significant. They represent approx. 30% of the slaughter and 25 % of the preserves production in meat, approx. 40 % in dairy, and more than 70 % in poultry industry. Regarding the shortage of capital investment in the processing sector, activities aiming at the adjustment to the EU standards must be supported by public resources. The basic condition for improving the competitiveness of Polish food processing is the continuation of the modernisation processes, especially the phases, in which the technological gap appears.

Investments must be related to modernisation of the technical infrastructure of processing plants, including energy, water and sewage management. For improvement of the processing competitiveness the following activities are of great importance:

- Application of modern systems of food quality and stability of quality features in compliance with ISO and HACCP;
- Development of the integration of processing and raw materials producers in order to ensure the appropriate qualities for specific processing methods;
- Application of modern logistics, control, management and marketing systems;
- Restructuring of storage subsidiaries, management of reserves and distribution of ready products.

Characteristics of agricultural farms in Poland

In 2001 in Poland there were 1885,8 thousand agricultural farms with a size of above 1 ha, of which 1884,2 thousand agricultural farms belonged to the private sector and 1,6 thousand to the public sector. The average area of an agricultural farm in 2001 amounted to 9,5 ha, of which 8,3 ha were arable land.

75% of the farms of 1 - 5 ha produced merely to supply their individual needs and additional 3,8% of them do not run agricultural business (either permanently or temporary). Those data show to how little extent small sized farms take part in the market supply. The areal structure of agricultural farms in Poland is very diversified. The small sized farms of 1 - 5 ha dominate the farms' structure, they compose 56% of all farms and use approx. 19% of the arable land. The farms of 5 - 10 ha are the largest group in Poland (24% of all farms) and cultivate 24% of the arable land. A decrease of the number and overall area of arable land is noticeable in the farms of both 5 - 10, and 10 - 15 ha. 2% of all the farms belong to the group of the area larger than 30 ha,

which jointly cultivate 19% of all the arable land in the country. A particularly high increase of the number and cultivated area (by 38,7 % in the years of 1996 - 2000) is characteristic of the farms of 30 - 50 ha. The technical condition and standard of stock and farm buildings are poor. About half of them were built before 1960, i.e. 46 % of the cowsheds, 50 % of the piggeries, 44 % of the barns. Until 1996 15 % of the stock and farm buildings were modernised. The average capacity of a new stock building reaches approx. 1200 m³, of which in individual building - 1000 m³. For several years now a tendency of decrease in the amount of production buildings in agriculture (mostly stock buildings) can be observed.

Infrastructure of agriculture and rural areas in Poland

The underdeveloped technical infrastructure in the country is the most important barrier to the rural areas development. The inappropriate level of rural infrastructure development not only declines the standard of living and farming, but also determines the weak attractiveness of the rural areas for investors. In the years of 1990-2000 rural infrastructure developed fast, especially with regard to telephone services, water and gas supply. Nevertheless, there are big disproportions in the realisation of investments of water supply and utilisation of sewage. In 2000 1453,3 thousand (75%) of the households were connected to running water supply systems but only 292,4 thousand to sewage systems. In 1999 in the rural areas there were 1704 sewage treatment plants - 229 of the new ones were only activated in 1999, of which 51 in Sub-Carpathia voivodeship - those investments must be continued in order to meet the EU requirements. In 2000 15,9% of the distributive gas network was in rural areas - the highest number of gas receivers was in Lesser Poland voivodeship (187,6 thousand), the smallest in Cuiavia and Pomerania voivodeship (3,0 thousand). In the rural areas there are approx. 1118 organised dumping sites of approx. 2183,3 ha joint area, of which 842 have isolating screens and possibilities for collecting drained water of the whole area of 1008 ha. The dumping sites are used by only 34,5% of the rural homesteads.

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SAPARD REVIEW
in Bulgaria, Czech Republic, Estonia,
Hungary, Latvia, Poland and Romania

ROMANIA



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LIST OF ACRONYMS

Acquis	Acquis communautaire (the whole body of Community legislation)
AFA(s)	Annual Financing Agreement(s)
ANCA	National Agency for Agricultural Consulting
BRIPS	Regional Offices of Implementation of SAPARD, part of SA
Central agency	The central body of SA
EC	Commission of the European Communities on behalf of the European Community
EU	European Union
MA	The Managing Authority
MAFA	Multiannual Financing Agreement
MAFRD	Ministry of Agriculture, Forestry and Rural Development (the current name and format of the ministry in charge with SPARD in Romania, it changed its name and structure several times during the analyzed period but we use only the current name throughout the report)
MC	The Monitoring Committee (MC)
Measure	Domain of SAPARD program that address one problem identified in NPARD and it has been allocated a certain amount of funds
MEI	Ministry of European Integration
MPF	Ministry of Public Finance
MTCT	Ministry of Transport, Construction and Tourism (formerly)
MTE	Mid Term Evaluation executed under SAPARD program by Kvistgaard Consult at the request of NPARD
NPARD	National Plan Agriculture and Rural Development
SA	SAPARD Agency, the national authority responsible with financial and technical implementation of SAPARD Program
SME	Small and medium size enterprises
SP	SAPARD Program

NATIONAL REVIEW ON THE IMPLEMENTATION OF THE SAPARD PROGRAMME IN ROMANIA

Marian Stoian,

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INTRODUCTION

This report has been prepared by Marian Stoian (Initial Advisory SRL) subcontracted by the Rural Center for the period 15 November 2004 - 10 January 2005. Beside raw data extracted from public sources, including the official Romanian SAPARD Agency, the current analysis is based on paper research that included also Mid Term Evaluation (MTE) executed under the SAPARD program by Kvistgaard Consult.

The MTE research examined the first three years of the SAPARD Program in Romania and surveyed the period between December 2000 (the date when the European Commission - EC approved the Romanian SAPARD) Program and 3th of June. The launch of SAPARD in terms of submission and official registration of application forms of potential beneficiaries could begin at the Regional Offices for Implementation of the SAPARD Program - BRIPS).

Therefore the MTE covered only three measures of the implementation of the program. Also the current research covers further 14 months of the SAPARD implementation in Romania. During those months two other measures were accredited and implemented (agricultural holding investment and development, and diversification of economic activities, multiple activities, alternative income) starting (meaning submission of application forms) in December 2003.

Problem Statement

Research Goal

The goal of this research was to review the effectiveness and efficiency of the SAPARD Program operations as an EC pre-accession instrument in the specific case of Romania.

Definition of Terms

The operational objectives of the Romanian review of SAPARD's pre-accession assistance impact on national agriculture and rural development were:

- to evaluate the initial achievements of SAPARD in Romania in terms of efficiency and effectiveness;
- to evaluate the institutional impact of the SAPARD implementation as a way of preparing Romanian agriculture and rural areas in view of the Accession to the EC (implementation of the *Acquis Communautaire*);
- To evaluate the consistency of the SAPARD strategy in terms of:
 - o Relevance (internal and external);
 - o Appropriateness and effectiveness of the implementing arrangements (division of responsibilities, management, and control);
 - o Monitoring system (as a source of information for evaluation and a tool for management).

Research Methodology

The methodology used for drawing the draft report included:

- Desk study of existing documents;
- Focus interviews with decision employees from SAPARD and other bodies involved in the implementation of the program.

The desk research included:

- ▣ In-depth desk research of the Program context, design, objectives and their importance - including MAFA;
- ▣ In-depth research of MTE, its methodology, results, and conclusions;
- ▣ In-depth research of the applicant guidelines that included applications form beneficiaries, business plan templates;
- ▣ Research of mass media articles and opinions on SAPARD.

The evaluation methodology emulated the "Guidelines for the evaluation of rural development Program supported by SAPARD".

The relevance and coherence aspects should result in an assessment of the relevance of the objectives of the project in relation to the needs and problems of the beneficiary (internal relevance) and an assessment of the project in relation to the objectives of the Program measures.

Effectiveness of the program in Romania consists in the fulfilment of the project objectives.

Cost effectiveness is measuring the produced output in relation to the cost.

Efficiency is an assessment of the value and utility of the results and impact, as compared to the investments involved.

Other important considerations on the instruments used for this report:

MTE results were considered very relevant regarding Measures 2.1 and Measures 1.1, as well as Measures 4.1. MTE covered all projects selected by the SAPARD Agency until July 2003. The analyses of measure 1.1 covered only projects until mid 2003, so we extended the quantitative research. We considered that most of the qualitative conclusions of MTE on the above mentioned measures are still available, but amended some of them in accordance with the adjustments

implemented by the SAPARD Agency or changes in facts sheets of the projects in discussion.

Concerning Measures 3.1 and 3.4, the entire report is formed mainly on desk research. We used also ground experience gathered in previous consultancy activities. We added informal interviews with stakeholders - including decision makers at the level of the SAPARD agency, employees with experience and working in key areas of the Agency, delegated bodies or other entities that interact or are indirectly involved in implementation of the program, project consulting or financing. Due to the short span of time it was not possible to apply formal interviews.

Most of the qualitative and quantitative assessments for Measures 3.1 and 3.4 were prepared exclusively taking into consideration selected projects (commitments of SAPARD) but not payments disbursed as public information on them. Due to the fact that officially the measures were put into practice starting in December of 2003, and potential beneficiaries' applications were received by the Agency in a significant volume in the beginning of the spring of 2004, we consider that our approach used a relevant database.

Sources of Information

Data collection

- ▣ The on-line data available on the SAPARD website www.sapard.ro which included selected projects on each measure, non-selected applications including indications of eligibility criteria that were not answered by the projects;
- ▣ MTE released in April 2004 and annexes with data up to July 2003;
- ▣ Press releases of involved institutions;
- ▣ Informal interviews with stakeholders;
- ▣ Data base collected by Info Rural project - a project that aimed to inform the Romanian journalist on the common agricultural policy;

- ▣ Research or papers available on different websites of different think tanks or media articles and reports.

SAPARD PROGRAM DESIGN AND IMPLEMENTATION IN ROMANIA

The EC approved the program for Romania in December 2000. Through the Commission Decision Conferral of Management of Aid no. 638 of 31 July 2002 the internal accreditation of the SAPARD Agency in Romania was made by the National Fund within Ministry of Public Finance. The effective launch of the program - meaning the process of official submission and registration of applications - was on August 1st 2002.

Institutional framework:

SAPARD is a decentralized program. According to MAFA "The Program should be executed on a decentralized basis following a Commission Decision conferring management of aid on an Agency in Romania taken in accordance with Article 12 (2) of Council Regulation (EC) No 1266/1999 of 21 June 1999 on coordinating aid to the applicant countries in the framework of the pre-accession strategy and amending Regulation (EEC) No 3906/89".

The Competent Authority for the SAPARD program is the General-Directorate National Fund that lies within the Ministry of Public Finance. The role of the competent authority is to examine the structures and procedures of the Agency with respect to the administrative, accounting, paying and internal audit settlements. The main function of the National Fund is to confer, monitor and withdraw the accreditation of the SAPARD Agency.

SAPARD Agency (SA) is the national authority responsible for the financial and technical implementation of the SAPARD Program. The SAPARD Agency was set up with the Government Emergency Ordinance no. 142 / September 2000, approved on the basis of the Law no. 309/ 2001 completed with Government Emergency Ordinance 140/2000. The Agency has a central unit and eight regional implementation offices (BRIPS), the

regions being defined according to Law number 151/1998 on the regional development in Romania. The SAPARD Agency is an autonomous public institution with juridical power with the Ministry of Agriculture, Food and Forests. There are eight regional BRIPS, quite evenly distributed, except for one that covers only Bucharest and one agricultural county.

The Managing Authority (MA) of the SAPARD Program was initially organized with the Ministry of European Integration (MEI), according to Government Decision No. 339/2001. It is responsible for the coordination and reporting on program monitoring and assessment. Afterwards the managing authority was assigned to the Ministry of Public Finance (MPF) and finally it was granted to the Ministry of Agriculture, Forestry and Rural Development (MAFRD), the last one having suffered different re-organizations and can be found under different names.

The Monitoring Committee (MC) was established in accordance with the Prime-Minister's decision no.271/2001, modified by Prime-Minister's decision No 279/2003 in order to ensure the supervision, efficiency and quality of the program implementation. It consists of representatives of governmental institutions in charge of the field covered by the program, social partners and observers from the European Commission. The MC periodically assesses the progress and authorizes adjustments to the Program based on input partly from the MA secretariat, and partly from the SAPARD Agency.

As **Certifying Body** for the SAPARD program has been assigned the Romanian Court of Accounts, in compliance with the Government Emergency Ordinance no. 101/2001. Its main obligations cover the external audit and certification of the annual accounts of the SAPARD Agency.

Delegated bodies In order to implement measures 1.1, 2.1, 3.4 and 3.1, the SAPARD Agency transferred/shared part of its responsibilities to two delegated bodies: the Directorate of Rural Development within the MAFRD (Measures 1.1, 3.1,

3.4), and the Ministry of Transport, Construction and Tourism (MTCT) for Measure 2.1. The delegated bodies were designated based on the technical expertise needed for the implementation of each measure. The experts from the MTCT became employees of the SAPARD Agency during 2003 for the period of implementation of the committed projects under measure 2.1 in order to enhance the co-ordination and speed-up the program implementation.

Legal framework

The main body of specific regulation (international agreements) for the SAPARD Program in Romania consists of:

- ▣ Multiannual Financing Agreement (MAFA) between the Commission of the European Communities on behalf of the European Community (EC) and Romania;
- ▣ Annual Financing Agreement (AFAs) -such agreements were signed for the years 2000, 2001, 2002, and 2003.

OBJECTIVES OF THE PROGRAM

The **overall objectives** for the National Plan Agriculture and Rural Development (NPARD) are:

- ▣ To contribute to the accession of Romania to the European Union;
- ▣ To ensure that Romanian agriculture is reinforced in order to be able to cope with the Community market competition pressure ;
- ▣ To improve the living conditions of the economic agents in rural areas.

NPARD was developed by Romania and was approved by the Commission.

The Program classifies Romania's **priorities for sustainable development** of its rural areas into four priority axes:

- ▣ Priority 1: Improving the access to markets and the competitiveness of agricultural processed products;
- ▣ Priority 2: Improving infrastructures for rural development and agriculture;
- ▣ Priority 3: Development of the rural economy;
- ▣ Priority 4: Development of the human resources.

In order to fulfill the general objectives and the priorities, the following specific/strategic objectives are defined:

- ▣ Sustainable development of a competitive agro-food sector through modernizing and improving the processing, and marketing of agricultural and fisheries products;
- ▣ To increase the standards of living in rural areas by improving and developing the necessary infrastructures, and by defining and setting up the good agricultural practice for sustainable agricultural and rural development;
- ▣ To develop the rural economy by setting up and modernizing the fixed assets, for private agricultural and forestry holdings, developing and diversifying the economic activities, in order to maintain and/or create alternative/ supplementary incomes and new jobs;
- ▣ To develop the human resources by improving the vocational training for farmers and owners of forestry lands, and by building and consolidating the institutional capacity.

The objectives are addressed through 11 selected support measures, of which five measures are included in the current analysis (1.1, 2.1, 3.1., 3.4 & 4.2) as they have been accredited and are being implemented. The selected measures are:

- 1.1 Processing and marketing of agricultural and fisheries products

1.2 Improving the structures for quality, veterinary and plant-health controls, foodstuffs and consumer protection;

2.1 Development and improvement of rural infrastructure;

2.2 Management of water resources for agriculture ;

3.1 Investments in agricultural holdings;

3.2 Setting up producer groups;

3.3 Agro-environmental measures;

3.4 Development and diversification of economic activities, multiple activities, alternative income;

3.5 Forestry;

4.1 Improving the vocational training;

4.2 Technical assistance;

The initial allocations for each measure and sub-measure are enclosed in Annex 1.

The implementation of the above measures started in the following order: August 2002 - Measures 2.1 and 1.1; December 2003 - Measures 3.1 and 3.4.

The ex-ante logic behind the schedule was to create the badly needed infrastructure in rural areas in order to stabilize the workforce and create bases for investment, and on the other hand to create competitive agro-food businesses in order to determine an increased demand for agricultural products. Later measures 3.1 and 3.4 were designed to support the rural economy and sustainable development in order to be competitive after the adoption of the Acquis.

Problems with the logic: vocational training is a prerequisite for the applicants and the measure has not been implemented yet.

FINANCIAL ALLOCATIONS

The annual financial allocations were about Euro 150m from EU funds, and were complemented by the MFP so that the final annual budget was composed of 75% from EU funds and 25% from Romanian funds.

Annex 1 presents details of the proposed annual allocation on each measure. The final allocation was subject to alterations in accordance with the proposal of SA in order to meet the objectives of the program. The annual sums were modified by an index reflecting the inflation of the euro so order that the initial projected sums remained unchanged in real terms.

Common eligibility criteria for measures that regard private applicants

Type of applicants:

The applicants had to be legal bodies with 100% private capital (commercial companies, cooperatives). For measures 3.1 and 3.4 special private economic entities were approved, such as natural authorized persons - commercially registered; business family association; agricultural companies with a special registration; producer groups and special groups of farmers who are not legal entities but are registered as associations.

The Romanian SAPARD regulation is much more exigent than the MAFA agreement envisaged . Under MAFA the requirement was that the applicant entity should be at least 75% privately owned. The 100% requirement was very good for the acceleration of privatization, but this it was not a specific object of the Acquis. Therefore we consider that the threshold should be lowered at least to include companies, in which the state still has residual stakes. Due to the Romanian law in some specific cases the state became a minority shareholder after the initial privatization when the inclusion of land property in the companies' balance sheets were not juridical cleared at the moment of the privatization. In all of the cases it is a transitory process, but one that can delay a project without solid argument vis-a-vis the program objectives.

Rules concerning losses or debts to the state consolidated budget:

- ▣ The beneficiary should not have registered losses during the previous financial year (at the launch of the project it was about three years before) except for companies registered during that year;
- ▣ The beneficiary should not have any debt to public/administrative entities and the consolidated state budget;
- ▣ For investments in agricultural holdings it is the most recent year, in which there were no registered natural disasters was taken into consideration;
- ▣ The applicant and the project must meet all the eligibility criteria in order to be accepted for the selection session.

Co-financing documents

The applicant must prove that it has the necessary funds to finance its share of eligible investments ("financial resources which are stable and sufficient for ensuring the continuity in the activity of his organization during the whole project implementation and to take part in this financing"). The proof could be made through bank documents that certify that the applicant possesses the sum in a bank account, or a letter of credit confirmation issued by a registered bank. It is one of the main elements that define the absorption capacity of the private beneficiaries for the SAPARD Program.

Other general conditions:

- ▣ The applicant must be a Romanian registered person/entity;
- ▣ The applicant has to be directly responsible for the management and implementation of the program;
- ▣ The number of projects to be supported per applicant shall not exceed 2 for each measure,

and each applicant can implement only one a project at a time;

- ▣ Ownership or legal possession and use (for at least 10 years) of the terrain for constructions, and ownership of the assets to be modernized/upgraded;
- ▣ Documents that certify at least 5 years of right to use agricultural terrain for Measure 3.1;
- ▣ Access to basic infrastructure.

Location of the project within rural area (NUTS 5 level)

Regarding the above eligibility criteria the following exception should be mentioned:

- ▣ Investments are allowed in urban locations but only for improvement of existing capacities under Measure 1.1, in view of the structure of agro-food industry in Romania;
- ▣ The rural areas for measures 3.1 and 3.4 were extended to incorporate small towns that have rural characteristics or villages that are under the administration of a town. An ordinance states the criteria that the small town should meet so that projects developed in the area could apply for the SAPARD program support. In most of the cases it was about rural communes that were transformed into towns (urban entities) only in order to have slightly higher budget allowances from the central government but were entrapped and could not qualify either for rural or urban financing programs due to their characteristics;

- ▣ For measure 2.1 it was accepted that rural administrative beneficiaries that had meanwhile been urbanized could continue the implementation of the project, if at the date of the contracting with SA they were still rural.

Duration of the project

The projects shall be implemented for a maximum of 2 years from the date of signing of the contract

in order for the Program to respect the theoretical n+2 implementation rule, where "n" is the year of committed funds by the Commission. In the case of Romania for part of the funds the rule was amended to n+4 due to the delay between the allocation and the accreditation of SA.

RULES RELATED TO THE IMPLEMENTATION OF ACQUIS

There are requirements for each measure depending on the kind and dimension of the implemented project that demand its compliance with the national or EU regulation concerning environmental protection, sanitary, sanitary-veterinary or phyto-sanitary characteristics.

Eligible payment - rules

- ▣ To be necessary for the project;
- ▣ To be effectively used during the period of the financing contract except for payments done in order to prepare the application (up to 12% of the total eligible value);
- ▣ To be officially recorded ;
- ▣ To be specified in the respective fiche of each measure ;

Non-eligible payments

- ▣ Land costs;
- ▣ Leasing costs except when the property is transferred to the beneficiary (in fact it is considered that only the final payment of terminal value is eligible);
- ▣ Operational costs; banking fees and similar costs;
- ▣ Taxes that can be redeemed (VAT) or are not part of the general fiscal regime of Romania;
- ▣ Costs that do not respect the origin rule ;
- ▣ Marketing costs;

ANALYSES OF THE ADMINISTRATIVE SET-UP

Effectiveness

During the initial stages of the program the location of the managing authority with the Ministry of European Integration (MEI) was supposed to harvest scale benefits from the administration of other European programs. But we believe that the decentralized nature of the program, as well as the strict focus on agriculture and rural areas, made it more suitable to be managed by MAFRD, as is the case now.

The delegation of essential tasks of SAPARD agencies to external bodies unnecessarily increased the complexity of the program and hampered its smooth implementation. Inter-institutional communication is a plague that affects the Romanian bureaucracy. There is also a risk of conflict deriving from the delegation of control functions upward in the MAFDR hierarchy.

The complexity of the responsibilities and tasks is very high. The geographical size of Romania imposes the necessity of the existence of eight BRIPS, but we believe that the local offices (at county level) of the delegated bodies is unnecessary, or at least could be limited to strictly technical consultation advisory work at the request of BRIPS in very specific cases. Otherwise the 42 local rural development offices of the MAFDR employment scheme is a bit too elaborate . From focus interviews with the beneficiaries it was revealed that in many cases the local rural development offices do not understand the philosophy of the program. Also, they take procedures in their literally form and do not make efforts to harmonize the discrepancies among different bodies of MAFDR that are entitled to issue supporting documents for the applications (especially under Measure 3.1). They also do not have economic or juridical analytical capacity in spite of the fact that they have to perform the same level of control as BRIPS (conformity, eligibility), and they do not pronounce only on technical issues.

However, the organization of work within the program meets the Commission requirements. The decentralization of the program administration from

the national level determined for the Romanian SAPARD procedures and the functioning schemes were "more Catholic than the Pope" that imply less effectiveness and delays in implementations.

Implementing procedures

The operational manual contains over 600 pages and is detailed to every directorate and delegated bodies within SA. The operational manuals are drawn up by the SA. The manuals elaborate in great detail all the steps, tasks and responsibilities related to the SAPARD implementation. The manuals are audited and sometimes required to be amended by internal audit department, external private consultant (one of the big four) and EC bodies. We consider that it is one of the best practice cases that happened within the Romanian bureaucracy and can be used to design not only the work of other bodies involved in implementation of European projects but also in other Romanian institutions.

Stages of the SAPARD projects

- ▣ Call for applications - done monthly for each implemented measure until the allocated funds are completely exhausted;
- ▣ Application writing (includes for most of the projects application form, feasibility study, business plan and supporting documents). Projects under Euro 50,000 do not need feasibility studies and business plans but only a memorandum to demonstrate the need for investment (elapsed time of at least 2 month due to the need for supporting documentation);
- ▣ Conformity: the preliminary check of documentation that is personally deposited by the applicant's two representatives (a legal and technical one) and performed by BRIPS (if the project does not conform, BRIPS still registers it and the applicant can come again two more times under the same call of application);
- ▣ Eligibility evaluation: done base on papers by BRIPS and documents , and terrain inspections by delegate bodies;

- ▣ Selection process - the eligible projects are scored and ranged and SA commits funds in reverse order from the best to the lowest score. Eligibility and selection process should be performed within 60 days from the last day of the call of application. However, delays are sometimes registered when there has been a large number of applications;

- ▣ Contracting - the stage is performed within 15 days from the announcement of the project;

- ▣ Implementation and payments - maximum two years from the contracting until the last call for payment is registered with BRIPS by the applicant;

- ▣ Monitoring period of five years.

The prospective beneficiaries hand over their applications to the relevant regional office (BRIPS) of SA. The documents are checked for conformity (completeness and accuracy) in the presence of the applicant. If the conformity is positive, the application is sent to the relevant delegated bodies for eligibility checks at county level. The eligibility is checked also through site visits by delegated bodies. The eligibility is also checked by BRIPS. The conclusions of BRIPS and the delegated bodies should be the same or otherwise the Directorate or Evaluation from the central agency decides on the outcome. Afterwards, decision for support is taken and sent to the Selection and Contracting Directorate. The General Director will sign the decision and at a later stage will conclude a contract. If the decision is contested by the applicant, the Directorate for Control and Antifraud will solve the conflicts and take a decision. (Until the autumn of 2003, the above directorate solved also the discrepancies between BRIPS and local delegated bodies; the procedure was changed in order to avoid possible conflict of interest at the contestations stage).

At all levels of decision-making the "four eyes" principle is put into practice.

It is worth mentioning that the procedures and manual of operation are drawn in such a manner

and detail that has no precedent within the Romanian bureaucracy. Thus the possibility for corruption during the implementation of the program is very much limited. We consider this a big step forward as compared to the Romanian bureaucracy, and also as compared to other pre-accession program implementation. However it pays a complexity cost, which impedes the effectiveness of the program.

The timeframe for procedures of tender processing for the SAPARD funding:

- A minimum of 30 days is required for the preparation and advertising of the tender dossier;
- 60 days is the mandatory period set by the Commission between the opening and closing dates for such tenders;
- 60 days maximum to evaluate the tenders and award the contracts;
- 90 days maximum from payment claimants and payments.

The Directorate for Internal Audit exerts 100% control of all steps from application to payment. Finally, the Control and Antifraud Directorate is in charge of the 5 year ex post controls and the cases of identified irregularities and complaints.

From observations, MTE and focus interviews it was revealed that sometimes the period of time elapsed between the application to the contracting happened to be up to 6 month, far too long. In most of the cases it was about implementing new measures, especially at the start of the program. Once the routines were formed for each measure and function, the process improved considerably. In some cases the problem is capacity of absorptions of beneficiaries in terms of capabilities of writing coherent and fully compliant applications.

Payments for the non-reimbursable financial support:

The SAPARD Program does not offer advance payments, only reimburses the expenses already made. The execution of the project is made out of the applicant's finance until the accordance of SAPARD financing. The reimbursement is made on the basis of a payment request/claimant accompanied by the justifying documents (bills, contracts, payment orders, etc). The applicants may choose the number of portions of the reimbursement (5 modules for Measure 1.1 and 2.1, 3 modules for 3.1 and 3.4 out of which the first module covers 30% of the eligible value of the project) that cover the entire eligible expenditure of the project. The reimbursements are made in maximum 90 days from the submission of the payment claim at BRIPS.

The situation has much improved in what is concerning the 90 days limits for payments. The average payment clearing of claims was 55 days until July 2003 and decreased to around 30 days at the end of 2004. The payment system have been overloaded with payment claims during August-November 2004, when all the funds allocated for 2000 had to be absorbed in order that Romania does not lose the EU co-financing. The reports showed Euro 85 millions payments until August 8th 2004, and at the end of October 2004 the allocation for year 2000 of more than Euro 204m have been completely absorbed. Such a fire test needed some deployment of personnel from less active BRIPS to the central agency and also created a routine.

Regarding the procedure of payment we consider the requirement that the beneficiary should pay the entire amount of an invoice, and then wait for the SAPARD disbursement a big constraint in what concerns the capacity of absorption. During the implementation ways were found to shorten this period but we recommend a change in the procedure: SAPARD should pay its part directly to the supplier/contractor after the beneficiary made his part of the payments. That could provide the same level of security control. We take into consideration that in cases of new projects and smaller ones the beneficiary must support the VAT payment - covering the SAPARD portion, too in some of the cases in spite of the special

arrangements that waives the VAT payment for public support under the SAPARD program.

Nevertheless we consider that beside the quantitative results of the program implementation in Romania one has to pay much attention to the qualitative ones (creation of bureaucracy that should obey rules and regulations, and not political commands). We consider that the institutional capacity is in danger of alteration in case of repeated push-ups in order to attain the money absorption indicators.

Effectiveness of application of procedures

We consider the level of effectiveness of application of procedures satisfactory. Moreover, we have concluded a leap forward in the institutional building of bodies that can interact and respect the EU rules and the best example for the Romanian bureaucracy.

The division of labor and responsibilities seem to be too complicated therefore we think that based on the gathered experience the manual of operations could be redesigned in order to smooth the implementation. The delegated bodies burdened the operations under the SAPARD program. We believe that ways could be found to repeat the experience of internalizing their services within SA (like in the case of Measure 2.1), applying responsibilities separation (according to MAFA) in order to have fewer discrepancies in the evaluation work and implementation. We suspect that in some cases both BRIPS and the delegated bodies used the discrepancies among them as a method of transferring the decision to the central SA. That was done in complex situations or in cases where local pressure of political or similar nature was put on a particular project.

The administrative set up is not always fully transparent. There are inevitable grey areas in the application guides that tend to be resolved once some decisions have been made as regards particular projects. This kind of "precedents culture" is not publicly available on the website or other communication instruments. We must admit that SAPARD's personnel is open to sharing such

information but we consider this kind of clarifications (undertaken by the central SA) should be made public once they were known to internal network (BRIPS and delegated bodies).

The procedures and administrative practices are in accordance with the demands of the EU Commission.

Cost effectiveness and efficiency

Based on the MTE evaluation and informal assessment we can affirm that the program is cost effective but we can not fully evaluate the entire cost of the program structure as it is defused throughout much more bureaucratic bodies than the SA. The cost of the delegated bodies is very difficult to measure. But we conclude that the administrative costs of the program are quite low due to the low salaries in Romania.

Personnel - Education and training

The number of full time staff in the Agency, including BRIPS, was 6 in 2000, increased to 171 in 2003, and to more than 330 at the moment of drafting the current report. The number of open positions is higher. More than two third of the staff has higher education .

It was noticed that an important number of staff left the agency for positions in the private business or in international organizations that offer better salaries. We suspect some of the key staff left the organization due to the frequent change of the position of General Director. With regard to the above position we concluded that the general director of SAPARD was changed very often (the average mandate was around one year). In no case clear reason was announced - this function seems to be quite political , as none of the directors seemed the most qualified person available for the job. Many of the lower rank directors seemed in many of the cases more suitable for the job. We also witnessed that ad-interim general director became the full general director without being challenged during the so-called competitive official selection.

As concerns the staff payment, the salaries are above the public employees on similar position within ministries but still lower than more competitive ones offered by the private business. A more meritocratic payment scheme could be conceived in order to retain the best trained and qualified personnel (for example a person that is very experienced in one field such as finance but worked exclusively for the private sector has no experience or much lower one compared with a colleague much more inexperienced and educated but that worked exclusively for public bodies.

The education, experience and training of the key staff responsible for the critical steps in the processing were adequate and very good in some cases. Most of them constitute a reliable pool of qualification and can participate in other institutions' building such as the Payment Agency. We consider that much more attention should be paid to the general director's position to select the best person among the existing or potential candidates.

Measure 1.1. Processing and marketing of agricultural and fisheries products

The general objectives of the measure are to increase the competitiveness of the Romanian agro-food businesses and to improve the efficiency, processing and marketing of agricultural and fishery products, and the sector to comply with the Acquis, to create and to maintain jobs.

Eligibility criteria:

- ▣ Eligibility budget per projects: the minimum value of a project is Euro 30,000, the maximum eligible value of a project was set initially at EUR 2,000,000 and was raised to 4,000,000 starting with November 2004;
- ▣ The public financial support of the program should not exceed 50% in the case of sub-measures 1, 2, 3, 4 and 5, and 30% of the total eligible expenditure for measures 6, 7 and 8. Starting with November for the primary processing of cereals (sub-measure 6) the limit was heightened to 50%;

- ▣ Minimum capacities of production set for each of the sub-measures;
- ▣ Economic viability;
- ▣ Criteria related to compliance of the existing capacities with the national norms for environmental protection, hygiene and animal welfare, and compliance of the project on the above criteria with the EU rules.

The selection criteria: see Appendix 2 for Measure 1.1.

Implementation results/analyses.

See appendix 2 Measure 1.1. table: Status of approved and rejected application as of September 30th

From the scoring grill and application form we can notice a slight inconsistency, as the documents for the second selection criteria have to be attached to the application, and therefore it does not make any difference as a criteria for selection among eligible projects.

The fourth criteria, in the case of sub-measure meat processing, was replaced by a criteria that selects among slaughter house/capacity in compliance to the EU rules starting with November 2004.

The average scoring of the selected projects for the period under discussion and the submitted projects was 56.9 points, the minimum scoring was 20 points and the maximum was 85 points. There were 37 projects that indicated eligible budgets that passed over 1,9 mln Euro; 20 projects that have eligible values between Euro 1m and Euro 1.9 m; 31 projects that are between Euro 0.5m and less than Euro 1m; and 34 projects less than 0,5 mn. Only one project was under the threshold of Euro 50,000 (the limit that does not require a business plan and therefore demonstration of economic viability)

9 projects from the top range of values are from milk processing, 20 are for meat processing, 5 are for wine producing capacities, and 1 is in the area of fish products.

At the bottom of the range value we could not register any correlation based on sub-measures.

To that we shall add that until the end of September there were no projects approved or rejected for oilseed or sugar producing capacity. Therefore we can affirm there is a correlation between the share/percentage of public co-financing and the capacity for absorption. There is also empirical evidence on low deadweight of the program (the extent to which the program investments were to be made anyway).

The rejected projects targeted the same sub-measures where most of the beneficiaries applied for. With the exception of one project (cereals) most of them were from the dairy and meat processing sectors.

The rejection (non-eligibility) criteria are related to:

- ▣ Private co-financing documents;
- ▣ The non economic viability of the project;
- ▣ Non-compliance of the applicant with the national norms in the field of environmental protection, hygiene and animal welfare or non-compliance of the project with the EU rules in the same field;
- ▣ Non-compliance with the criteria for financial losses or debt of the consolidated state budget, non-compliance with the minimum production capacity required. Out of the 22 initial rejected project, at least 6 became eligible at a later stage.

Measure 1.1 has special economic indicators that are not entirely relevant for the evaluation by the lenders from the private sector (banks). They used the same incremental financial indicators that did not create any problems for new investments but could be difficult to reach by projects for modernization of existing capacity, especially if they did not increase the production capacity. However, as most of the projects were related to modernization/upgrading of existing capacity, we can assume that there was no major problem for most of the applicants.

On the other hand there were poorly designed and not relevant tables for business plans such as the F2 table (cash flow of investment that is produced based on the feasibility study and not on a technical project - a later stage - and therefore often differs from the contracted one). Also C7 - Table 1 (a history of economic indicators of the applicant) in the business plan is wrongly designed but due to the procedure the applicant must follow the instructions and therefore the results are not relevant.

The above mentioned mistakes are not of great importance but they are evidence of the bad side of designing very tight procedures (very often less qualified evaluators follow the instructions literally and have no incentive or do not understand the need for change. Due to the same interpretation of the law there is redundant information and overlapping between the structure required in the feasibility study and in business plan.

MTE evaluation revealed that most of the investments could not have been made without the SAPARD aid, thus meaning the low deadweight effect.

The number of applications under measure 1.1 was lower than expected. The absorption capacity was the most important constraint.

Measure 2.1 Development And Improvement Of Rural Infrastructure

This was by far the most successful measure in term of commitment of the funds. We will see that it was due to the greater absorption capacity as a result of the fact that SAPARD supported 100% of the project budget. This measure creates real prerequisites for the accomplishment of other directions of SAPARD (diversification of the economic activities, processing and marketing of agricultural products, investments in the agricultural holdings) because very often the existence of a minimum infrastructure is a prerequisite for the success of the project attributed to other measures.

The general objective of the measure is to improve the actual situation of the infrastructure in rural

areas, to help to increase living and working standards, to help the population in the rural areas to remain there.

Specific objectives are:

- ▣ Improvement of the access of inhabitants living in the rural localities to the public network of village, county, and national roads, and to the network of railways, as well as to the agricultural holdings, tourists aims of national importance or other economic objectives;
- ▣ Increase the quality of the acces to the the economic, commercial and tourism activities by developing the minimum infrastructure;
- ▣ Improve the hygiene and sanitary conditions;
- ▣ Improve the quality of the environment and diminish the polluting sources;

Operational objectives:

- ▣ Building and modernisation of roads and bridges of local interest;
- ▣ Building and modernisation of the drinking water supply systems;
- ▣ Building of sewage water networks and investments related to water purification stations.

The program envisages support to 700 projects over the entire period of implementation, of which 300 road projects, 300 projects for drinking water acces, 100 sewerage projects.

Financial provisions

The global amounts available for the Call for Project Proposal M2.1-n/2000-D are: EURO < 150666667 > distributed by the sub-measures.

Grants size

The minimum and maximum values of grants for individual projects that could be financed by the Programme are as follows:

- ▣ Minimum eligible value for one project: 100,000 EURO;
- ▣ Maximum eligible value for one project: 1,000,000 EURO.

Public contribution could reach 100% of the total budget.

Eligibility criteria

General

- ▣ The project shall prove its functional and technical utility through an explanatory statement and feasibility study;
- ▣ During the execution of the works only materials in accordance with the national regulations in force, as well as the national legislation and standards consistent with the EU legislation shall be used; these materials must comply with the Decision of Government no.766/1997 and with Law no. 10/1995 regarding the obligation of using materials agreed by the law in force when executing works;
- ▣ The project shall be based on the proposed priorities established through the General Urbanisation Plan (GUP) and through the Plan for Structuring of Territory;
- ▣ The legal status of the land where the work is carried out must be public property;
- ▣ The project's beneficiary is committed to design the technical study 6 months from the approval of the project at the latest;
- ▣ Decision of the Local Council of the benefiting commune with reference to the necessity of the investment;

- ▣ Decision of the Local Council for providing the maintenance expenditures;

Beneficiaries:

- ▣ Local Councils of Romania's rural communities;
- ▣ Associations with legal statute between Local Councils of Romania's rural communities.

Relevance and coherence

The measure is regarded, according to MTE by several stakeholders, as the most relevant measure for additional activities to be implemented due to the current state of the rural infrastructure.

Effectiveness

The effectiveness of the measure was very high. During the period August 1 - November 30, 2002 1354 applications were submitted (in the table it is presented as a breakdown of eligible projects).

It was by far the most successful measure in terms of absorption capacity. As a result for a year-long period of time at the level of the mass media, the SAPARD Program seemed to be equal to Measure 2.1. Most of the irregularities and conflicts of interest of SAPARD in Romania came from implementation of this measure.

For detailed results in terms of number of projects see appendix 2

Regional/Geographical spread

The repartition among regions seems to be especially influenced by the repartition among the counties in the region. There are some concentrations of projects in particular counties such as Suceava, Dambovită, Iași, Bacău, Valcea, Neamț, Gorj. The only resulting correlation is that the western part of the country seemed to have a lower number of projects than the Eastern and Southern ones. The territorial spread of the number of applications and selected projects depended very much on the involvement of the local authorities at

the level of the county. It was in the power of local councils' co-ordination, authorities that controlled much of the advisory bodies in the area of public works. The above correlation came out also from the implementation of projects that suffered large periods of delays as compared to the programmed period. The involvement of the county and central authorities implied that all eligible projects that have not been selected were later disbursed with application cost (feasibility studies) through special allocation from the central administration for local counties that were involved. The MTE evaluation also confirmed "undocumented information on political motives behind investments" and concluded that the effectiveness of the Measure depended very much on support (unlike any other measure involving private beneficiaries). "Almost two thirds of the investment would not have been implemented, if support was not available".

The geographical focus seems to be the less accepted eligibility criteria by the beneficiaries.

Except for the last two months of call for applications, most of the selected projects were based in first in first method. The short span of only one month per call for applications determined that the scoring was irrelevant for the projects that were submitted at the first calls.

Efficiency and utility

The average score for selected projects was 57 points while the score for eligible projects was 53 points. It is obvious that in the case of the other Measure the selection criteria are less important. Hence using scoring criteria for project selection should at all times be preferred to the "first come-first served" approach.

The average value of selected projects was above Euro 800,000 and therefore confirms the propensity of eligibility and selection criteria towards larger projects.

Measure 3.1

Description

Measure 3.1 from NPARD is granting non-repayable financial support for investments in agricultural holdings. The financial allocations were made through Government Decision 916/14.08.2003. The implementation of the measure started in December 2004.

General objectives

In the framework of this measure, financial support shall be granted for investments in private agricultural holdings, vegetal and livestock breeding, for ensuring the rationalisation and reorientation of the production in order to increase the quality of the products resulted from the application of competitive technologies, and which may also limit the pollution on the environment.

Specific objectives

- ▣ To modernize the farming technologies and reduce the production costs;
- ▣ To diversify production and improve the quality of agricultural products;
- ▣ To improve the breed, the animal hygiene and welfare conditions;
- ▣ To diminish the production losses and increase the efficiency of the agricultural holdings;
- ▣ To promote the diversification of agricultural activities in order to ensure a better use of the labor force in agriculture;
- ▣ To ensure better capitalization of the agriculture potential in each area;
- ▣ To facilitate the transfer of agricultural holdings to the young farmers;

- ▣ To protect, preserve and improve the natural environment, to ensure the restoring and preservation of the soil quality;

- ▣ To stimulate the competitiveness.

Eligibility criteria

Projects value: The total eligible value of a project must be within the frame of maximum 10.000 and minimum 500.000 Euro. The bottom limit has been lowered to Euro 5000 since November 2004.

The selection criteria are presented in the Appendix

Effectiveness

The average public supported amount per project is Euro 121,233 (in the middle of the range) that suggests well chosen upside limits. 30 of the projects asked for the maximum allowed support funds and roughly 20 of the eligible applications asked for less than Eur 25,000 (the limit that allows less paper works in the application). Most of the media and talks with some farmers showed their applications were in the lower limits of up to EUR 5000. This kind of low limits should lead to improved indicators of the program, provided the advisory activity of public bodies such as ANCA (National Association for Agricultural Consulting) prepare a model of applications for each sub-measure for small projects. The capacity to write eligible applications is very low at the level of (small) farms and the consulting companies usually target above Eur 100,000 of the eligible budgets of projects in order to cover their expenses (87 projects of the 120 analyzed above).

Two of the sub-measures for sheep/goats farms and young muttons fattening farms were totally neglected by the beneficiaries, and not a single application was registered. Most of the projects came from field crops (83 projects) and dairy cows/buffaloes farms (13 projects). Other sub-measures that were solicited for support funds for investments were greenhouse, poultry and pig farms. The average score of the projects was 48,65 quite low. Due to the low demand for funds the first-come, first-served criteria works.

Eligibility and selection criteria.

Most of the rejected applications had not respected the following eligibility criteria:

- ❑ EG 4 - lack of the ownership deed over the land, or of a leasing contract, concession contract or any other document justifying the right of using the land, and the ownership of real estate goods, according to the legislation in force;
- ❑ Non-compliance with the EU veterinary and/or phyto-sanitary and/or sanitary standards of hygiene and animal welfare;
- ❑ Non-compliance with the recommended dimensions;
- ❑ Lack of economic viability.

The EG4 criteria (ownership of the land, or the leasing contract) is very difficult to be demonstrated, especially regarding the right to use farming land for 5 years, as land ownership and certificates of property were issues with a large delay and therefore the very fragmented land ownership was not able to be amassed in critical dimensions. This makes the compliance with the requirement to register with various offices of the MAFDR (Agricultural registry) difficult. From It came out some focus interviews that the Agricultural Registry procedures have not been very well understood by their own employees or at least that s various disagreements exist between them and the employees of the same Ministry that work for the Directorate of Rural Development and represent the delegate bodies for Measure 3.1. This resembles a caricature of miss-communications between the different institutions involved in the implementation of SAPARD.

Coherence issues

The minimum and maximum values for agricultural holdings have been taken out, wherefrom the recommended dimensions. Thus the recommended dimension selection criteria will be more relevant. We consider the selection criteria

quite relevant in the case of Measure 3.1. They include the land potential for various types of farming; existence of not very old equipment in the exploitation; recommended dimension of the projects; projects implemented by young farmers; environmental friendly technologies.

There is high incoherence between the selection criteria that encourage groups of producers. There are only a few such groups of producers, and the measure that supports their establishment has is not been implemented/accredited yet.

The specific objectives are reflected in the eligibility or selection criteria.

Measure 3.4 - Development And Diversification Of Economic Activities, Multiple Activities, Alternative Incomes

This is the most eclectic measure in terms of supported activities and it was very important for the preparation of rural Romania to attract non refundable support from the EU after the accession as CAP is reforming and much of its budget that is now used for direct subsidies should be transferred to rural development projects.

The general objective of Measure 3.4 is to support the creation and/or maintenance of employment, and to generate alternative incomes by diversifying rural activities related to agriculture and forestry through rural tourism and other types of tourism in the rural areas, aquaculture, breeding and processing of frogs and snails, traditional handicrafts, sericulture, bee keeping, processing of berries and bushes and medicinal and aromatic plants.

The specific objective is to diversify the agricultural and forestry activities and to provide multiple activities.

The operational objectives are:

- ❑ To sustain the agricultural activities in the rural areas through the provision of specific services;

- ▣ To sustain the rural tourism, forest tourism and ecological tourism;
- ▣ To preserve and develop traditional handicraft activities;
- ▣ To increase the alternative incomes and employment opportunities of youths and women in rural areas;
- ▣ To develop aqua-culture;
- ▣ To develop bee keeping, sericulture, mushrooms, processing of berries and of bushes and medicinal and aromatic plants, snails and frogs;
- ▣ To support projects initiated by youth and women for all the above-mentioned activities.

Within this program projects of a total eligible value of between 5.000 EURO - 200.000 EURO could be financed. The degree of intervention for the project is 50% private contribution and 50% public contribution.

Other activities include sericulture, bee keeping, mushrooms cultivation and processing, processing of fruit of berries and of bushes and medicinal and aromatic plants, snails and frogs.

For the financial allocation see Appendix 2 - measure 3.4

Specific eligibility criteria

In order to extend the scope of eligible applicants, applications from authorized natural persons and family association were accepted for all sub-measures, and non-profit associations were specially created for the setting up and endowing of agricultural machinery circles.

Results

The most active sub-measure was rural tourism followed by the eclectic "other activities". Aquaculture and handicraft registered one project each.

Geographical results. The applications and the selected projects were concentrated in the Central and North Eastern Regions due to the large number of rural tourism projects and application coming from the two traditional counties for this kind of activity - Brasov and Suceava.

Coherence issues

The selection criteria favor diversifications, new investment or modernization on the same level (involving construction) projects submitted by young people; women and qualified persons (the same incoherence regarding the vocational training measure) and encourage associations and not authorized natural persons. We find Measure 3.4 to be the most coherent measures in terms of selection and eligibility criteria.

However, the geographical concentration of the projects suggests that it contributed poorly to the creation of clusters for economic diversification in rural areas. We have discovered a large deadweight effect for the rural tourism sub-measure in the traditional areas of Suceava and Brasov counties. For example in the case of the Brasov County the great majority of the projects are spread on a maximum of 30 km in an area very much visited by foreigners. This kind of project could have been developed without public support. Nevertheless, the minimum level of comfort required for the investment is 3 flowers and restaurants, and the related facilities of the supported hostels must obey the sanitary and sanitary- veterinary and hygiene EU rules.

GENERAL CONSTRAINTS AND SPECIFIC CONSTRAINTS OF SP IN ROMANIA

The absorption capacity it was outlined also by the MTE but only from the point of view of of the potential beneficiaries private co-financing actual abilities. Given the above mentioned rejection criteria, we also think there was a lack of consulting capacity at least at the start of the program.

Distribution of information: it is presumed that companies that have business culture usually operate or are intending to operate under measure 1.1, but during the first stages of implementation it

was revealed that most of them had not envisaged the trouble of project management resources they have to deploy. Most of the efficient companies are managed usually by entrepreneurs, daring but not very much used to long- term planned investments.

The exchange rate problem constraint: Currently the SAPARD contracts are concluded in the local currency instead of EUR, which puts an enormous currency risk on the lap of the beneficiary. The matter is too complicated to come under the same solution as the simple solution of contracts in EURO leaving the risk in the hand of the Romanian state. That is difficult to accept, as it seems that there are many prohibiting regulations. On the other hand the currency evolution is no longer one way (ROL devaluation) but due to the convergence game it is expected that ROL should appreciate in the medium term. Nonetheless it is clear that some of the beneficiaries covered exchange rate losses of up to 20% of the entire value of the project! We can expect in a longer term perspective that the exchange rate risk would stay with the Romanian public authorities (MFP).

Historic indicators for private beneficiaries: At the launching of program in Romania, the requirement was that potential private beneficiaries should not have registered losses during the previous three years. The constraint was reduced later to the previous year, unless it was the first year of operations. However, for measure 3.1 (farming) it was stated that the beneficiary should have losses in the previous year, other than not registered exceptional losses due to natural disasters.

Vocational training: It can be a problem related to the qualification of potential beneficiaries (technical representatives) as the measure 4.1 "vocational training" has not yet been implemented/accredited and therefore the projects could be implemented before the so-called obligation for qualification. We will encounter projects that are fully implemented and the technical representatives will be too late or irrelevantly trained with a serious delay.

Financing issues: The SAPARD Program does not offer advance payments, only reimburses the expenses already made.

SA advertises that it had concluded financial arrangements with banks for co-financing projects. As a matter of fact the SA's initial arrangements with such financial institutions were very ineffective and only a bureaucratic task to be completed. In most of the cases the credits granted to private beneficiaries were difficult to instruct and implement as it was forbidden to guarantee such credits with the assets co-financed by the SAPARD agency. The provision is still in force and private beneficiaries have to come with other kind of guarantees (real or personal) such as institutional guarantors for SMEs or for rural areas.

We also have to mention the existence of a World Bank project that provides a credit line for a partner bank as part of the project, targeting also co-financing under SAPARD program. Only roughly Euro 4mn have been used out of USD 80mn for such kind of co-financing. Only three small banks are involved in the project despite the long list of banks that have formal co-financing arrangements with SA. It seemed that the formalities and level of disclosure to the treasure bank of the program (a private multinational) influenced that low implication.

Concerning the public beneficiaries, most of the projects under Measure 1.1 could be finalized only after the government issued an ordinance that guaranteed loans to such beneficiaries and therefore the banks were able to contribute to intermediary financing of infrastructure projects under Measure 1.1. After the ordinance was issued, the projects' implementation speed increased dramatically.

We believe that a similar ordinance can be drawn in order to help private co-financing, especially for small projects.

Despite the provision saying that assets acquired under leasing contracts can be supported by SAPARD, the procedures make it impossible to use this very popular way of financing in Romania. Only a small part of the final value is recognized as eligible by the SA, and only if the financing contract is for less than two years. In Romania only the financial leasing is very well developed. The law states that the leaser is forced to transfer the property of the

asset at the end of the leasing period, and therefore we think it appropriate to design schemes that allow the use of this way of co-financing. The financial leasing was very important during the previous three years, as the credit institutions were more flexible and open to risk taking. We are sure that the absorption capacity would have increased very much, if such financing were used.

Guarantee funds. There are two institutions that grant guarantees for co-financing: The Romanian Fund for Rural Credit Guarantee and the Romanian Fund for SMEs Credit Guarantee. Being related to SAPARD, the first one is especially targeting projects for Measures 3.1 and 3.4, and the last one targets projects for Measure 1.1. They can guarantee up to roughly 75% of the principal of the loan. Despite the high cost, they contribute hugely to the private absorption capacity for SAPARD.

INSTITUTIONAL COHERENCE AND INTER-INSTITUTIONAL ISSUES

The institutional capacity at the level of central authorities and especially the local ones other than SAPARD was yet another constraint. SAPARD signed protocols and formal agreements with most of the central authorities in what concerns the documentation related to hygiene, animal welfare, standards etc. but the central bodies did not always properly communicate the protocol down the chain. The very fact that the SAPARD program contributes hugely to institutional building emerges here. In spite of the delayed program start in Romania, and the later adjustments to compensate for small divergences in the procedure at the level of the SAPARD Agency in directly related institutions, it was clear that the procedures of other independent entities or state bodies has not achieved the same continuity. We can perceive a serious difference in the actions at the level of delegate bodies. A proof of the above statement is the fact that the employees involved in the technical evaluation at the level of the MTCT were later transferred directly to the SAPARD Agency in order to improve the efficiency of payments and project implementation.

We also need to mention the lack of vision of ANCA - the National Agency for Agricultural Consulting

that is the public financed body with the most widespread network of agricultural specialists. ANCA is very poorly involved in consulting activities for projects related to Measure 3.1. We expected that it was an opportunity for ANCA to cover areas that private consultants cannot due to lack of efficiency - small agricultural holdings. They were not capable of designing standard projects for small farms and MAFRD did not spot the possibility of asking them to. It would have been a mutually beneficial involvement (ANCA could attract revenues from consulting and SA could easily reach the objectives of Measure 3.1).

ENVIRONMENTAL ISSUES AND THE ACQUIS

It is worth mentioning that the last protocols (dating from the last months of 2004) and formal agreements with environmental, sanitary and sanitary veterinary and phyto-sanitary bodies contribute hugely to the implementation of the Acquis as it is clearly and comprehensively described in terms of the way and level of involvement of such bodies in assuring that projects co-financed by SAPARD are compliant with the EU standards and harmonized regulations. They have to give the private beneficiary a personalized checklist of all such provisions once they release the pre-authorizations paper (support documents to the formal application to SA).

POLICY OPTIONS

Irrelevance of the selection criteria

We consider the selection criteria irrelevant, if the calls for proposals are released monthly. There are two ways, in which the current state of affairs can be modified. Extending the period of call for proposals of the SA to three months is an option, but we envision a possible constraint and delay of absorption of the funds. The other possibility could be a methodology that requires that the available funds to be allocated to each call of proposals (for example the available financing to be spent for each call of proposals either equally or on other algorithm. I.e, if we have Euro 12.000.000 for a specific measure, we can allocate 1m for each monthly call for proposals. If the Euro 1.000.000 for one specific month is not completely exhausted, we

could transfer it to the next month. Thus we increase the chance of quality competitiveness and better relevance of the selection criteria. Also, there could be a combination of the above-mentioned solutions.

Overlapping institutions

We encourage the reduction of tasks of the delegated bodies to the level of technical issues only or just for specific cases when the BRIPS lack the corresponding expertise. We do not see the expertise of MAFRD in the field of rural tourism for example.

Guarantees for private co-financing

We advice on the creation of a special guarantee fund financed by the same SAPARD program able to complement the existing guarantee structure that would equally cover guarantees to the private co-financing. The private beneficiary would pledge the part of goods financed through own sources or credits to such body and the institution would in turn guarantee to the creditors of the private beneficiary. In this way the public agencies could be assured that they can execute the project in case of breach of the contract (during the implementation and the consequent 5 years of the contract) and the beneficiary should not be deprived of its right to use its own sources of investment). We envisage a tremendous increase in the absorption capacity of the private sector.

Communication of the program

Communication policy

We think the communication activity of the SAPARD Program is pivotal for the success of the program.

But we can conclude that communication was one of the worst parts of the program.

The lateness of the program launching for the final beneficiaries transformed the SAPARD Program and reduced the importance of the message the moment SAPARD became fully operational. Moreover, an important official of the program was involved in a corruption scandal not related to

SAPARD but perceived by the press like a big stain on the Program.

The communication started to improve only in 2004. The communication strategy has a flaw in the fact that it does not stress the administrative innovation: i.e. the full decentralization of the Program implementation.

The transparency towards stakeholders during the implementation of the Measures could be assessed as better than in other cases of EU pre-accession funds. But it should be significantly improved, especially during the design period.

We believe that internal procedures of SAPARD agencies should be more transparent. We also consider the publication of the internal recommendations, derived from precedents, of the Directorate for Evaluation and Selection and of the Contract Payment Directorate on a website.

CONCLUSIONS AND RECOMMENDATIONS

Measure 1.1

- ▣ Relevant and coherent in relation to the objectives;
- ▣ Low effectiveness of the measure due to the design of eligibility and especially selection criteria; bureaucratic process; exchange rate fluctuation; low absorption capacity; low share of public co-financing for some of the sub-measures;
- ▣ Low deadweight effect but not completely absent;
- ▣ Additionality: speed up of investments;
- ▣ Supported investments contribute to the increase of competitiveness of supported industry but the ability to compete on the EU integrated market it still questionable. Introduction of the EU sanitary, veterinary and phyto-sanitary standards is a major step toward;

- ▣ Good effects on environmental protection; there is significant environmental focus;

- ▣ Significant benefits for the administrative level.

Recommendations:

- ▣ to elaborate a set of procedures that will allow the guarantee of credits attracted by private beneficiaries, with part of the assets co-financed by SAPARD (the private half).

Measure 2.1

- ▣ Relevant and coherent with the rural needs;

- ▣ Highly effective;

- ▣ High absorption capacity;

- ▣ Prone to irregularities due to the lack of (need for) beneficiary co-financing;

- ▣ Low capacity of implementation due to both public beneficiaries and sub-contractors;

- ▣ High achievement of the objective - surpassed - probably due to poor ex-ante assessment of indicators;

- ▣ The only measure that truly applied selection criteria and not only eligibility rules; but even in this case the process of selection was hampered by the short period of call for applications (monthly);

- ▣ Limited amount of funds.

Recommendations:

- ▣ To increase the financial allocation for Measure 2.2;

- ▣ SA to be directly involved in the tenders for contracting works and goods through the personnel part of the tender commission -

providing less opportunity for conflict of interests.

Measure 3.1

- ▣ Relevant and coherent with the objective;

- ▣ Increasing effectiveness;

- ▣ Low absorption capacity for small farms;

- ▣ Hampered by the complicated procedure of registering the use of land in more than one point; hampered by the unclear property of the land (due to the very small parcel of terrain and incipency of the system of registration in some regions);

- ▣ Very much helped by the already implemented projects from measure 1.1 - the demand determined and contributed to the generation of projects;

- ▣ Environmental criteria help only for the preservation but contribute little to the improvement of the environment;

- ▣ Very effective for hygiene and animal welfare of the involved projects;

- ▣ Very effective for increasing the productivity;

- ▣ Better evaluation tool and application form and package using unitary methodology;

- ▣ Poor coherence between financial indicators, even though some of them were quite relevant. There is also a visible improvement of the approach as compared to the earlier implemented measure 1.1;

- ▣ Arbitrary limits of the minimum and upside limit for exploitation in the initial conditions. That reduced the number of projects for the first rounds of applications. Afterwards this kind of criteria have been abandoned;

▣ Very complicated procedure for small projects. The amount of the necessary consultancy work is quite high and therefore large project can afford it while small ones cannot. The low involvement of the state consultant body in agriculture during the first year of implementation, a body that could have contributed vastly for absorption of funds by small farms, was only compensated by large dairy processors, which acted as a hub of consultancy for small projects that could generate raw material for them. That could increase the risk of irregularities in some cases (non-competition);

▣ Hampered by the non-existence of "group of producers".

Recommendations:

▣ See recommendation paragraph one from Measure 1.1;

▣ Use of a less complicated procedure in the case of projects involving exclusively the acquisition of machinery (extending the limit from Eur 50,000 to Euro 200,000).

Measure 3.4

▣ Most coherent with and very relevant to the objectives of the program and to the transformation into PAC and rural development at the EU level;

▣ Unbalanced allocation between the sub-measures as compared to the absorption capacity;

▣ Very effective for part of the sub-measures, low effectiveness for others;

▣ Low eligible maximum for individual projects;

▣ Very popular with banking loans - SME's desks of banks are more likely to find ways to serve their clients and therefore they acted like

a catalyst for juridical and credit departments in order to develop procedures for co-financing;

▣ Hampered by the non-implementation of vocational training;

▣ The selection criteria are only a formality in the earlier period of implementation (except for the last call), as in 1.1, 3.1 so long as the calls for application are monthly and the available sums for financing tresspass the eligible demand.

Recommendations:

▣ To transfer half of the funds from the sub-measure on other types of tourist activities to rural tourism;

▣ To lower the level of minimum classification of eligible projects to two stars for zones, in which tourism is non-traditional;

▣ To limit the deadweight effect through selection criteria that give advantage to the creation of clusters of tourism investments in new rural areas (where there is not yet a significant level of investment in the field).

CONCLUSIONS AND RECOMMENDATIONS FOR THE NON-ACCREDITED MEASURE - EX ANTE ANALYSES

Measure 1.2 Improving the structures for quality, veterinary and plant-health controls, foodstuffs and consumer protection. It should be implemented as soon as possible in order to prepare the Romanian Agro-food industry for the EU competitiveness. There remain only three years to do that.

Measure 2.2 Management of water resources for agriculture. The sub-measure is overlapping with a similar World Bank program. Due to the high effectiveness and very high relevance of Measure 2.1, we advise giving it up or significantly re-allocating the funds to Measure 2.1.

Measure 3.2 Setting-up producer groups. It is extremely important to be very rapidly implemented. Already some of the sub-measures of Measures 3.1 and Measure 3.4 are directly related to it. As was unofficially reported, only 2 such groups of producers from the vegetable sector are fully registered with MAFDR. The PAC financing in the vegetable sector could be done only through such bodies and the measure is very relevant for the competitiveness of this sub-sector of agriculture.

Measure 3.5 Forestry - We consider the measure the least relevant, especially in the field of forestry exploitation where the financing had a high deadweight effect,

Measure 4.1 Improving vocational training The lateness in the launching of the measure affected very much the coherence of the program and the coherence of the implementation of measures already in progress targeting private beneficiaries.

CONCLUSION ON THE ADMINISTRATION

- ▣ The administrative structures and arrangements created in order to implement the program are in accordance with the EU requirements. The delegation of responsibilities and tasks has been done in accordance with the MAFA principles;
- ▣ The general director of SAPARD was changed too often (the average mandate was around one year) and in no case a clear reason was presented;
- ▣ The regional bodies of the SAPARD Agency (BRIPS) need to increase their efficiency in order to be delegated more power and responsibilities in the implementation of different stages of the projects - such as processing payments;
- ▣ Project controls are being implemented according to the letter of the manuals but we believe that controls in accordance with the algorithms that were included in the initial manuals should continue to be used ;

- ▣ The Monitoring Committee meets regularly but ineffectively due to the non- relevant indicators, and the non-relevant data collection.

Recommendations:

- ▣ The delegated bodies of the Ministry of Agriculture need more training in order to accomplish correctly their tasks and the best solution would be to be involved only in some consultancy activity or at least to transfer their employees in charge with SAPARD to the SA (the technology part of the projects) and less on the business evaluation;
- ▣ The Monitoring Committee should open up to other stakeholders such as credit institutions and the consultants' industry.

The National Payment and Intervention Agency and the SAPARD Agency

The National Payment and Intervention Agency was designed as a separate institution and its establishment started at the end of 2004. It is expected and advisable that at a later stage the personnel of the SA will be transferred to the National Payment and Intervention Agency due to their large experience in administering EU co-financed funds in rural areas and agricultural sectors. The experience in the decentralized model of the SAPARD management can be transferred also to the level of procedure design. We advice to use the Directorate of Technical Assistance of SAPARD for such transfers.

APPENDIX 2 - STATISTICAL DATA ON THE IMPLEMENTED MEASURES

Measure 1.1

The selection criteria:

Criteria	Scoring
1. Investment that contributes to environmental protection	15
2. Stable purchasing contracts for 50% of the raw material for at least one year	15
3. Improvement of the quality of the products (own laboratories)	20
4. Value added to by-products	10
5. Traditional products	10
6. Location based on the potential of production: - high - medium - low	15 10 5
7. Project objective: - upgrading existing capacities - new investments	15 10

Status of approved and rejected applications as of September 30th

Sub measure	Approved	Rejected	Total value of approved projects in Euros	Sapard Financing	New investment projects	Modernization projects
1. Milk and dairy products	41	8	33.041.711,31	16.520.011,05	13	28
2. Meat and meat products	56	12	66.730.387,19	33.348.472,64	15	41
3. Fruit, vegetables and potatoes	11	1	10.347.013,23	5.173.483,06	5	6
4 Wine	12		16.125.222,52	8.049.583,53	4	8
5 Fish	3		2.090.402,50	1.045.201,24	0	3
6 Cereals	8	1	4.904.253,68	1.471.276,40	0	8
7 Oilseeds	-	-	-	-	-	-
8 Sugar	-	-	-	-	-	-
Total	-	22	133.238.990,43	65.608.027,92	37	196

Geographical repartition on regions and counties

Region	No. of selected projects	Total Eligible Value	Public contribution	No of projects - new investments	No of projects - modernization
BRIPS 1 North East - Iasi	26	24,372,524	12,184,687	10	16
BRIPS 2 South East - Constanta	19	19,694,276	9,635,141	3	16
BRIPS 3 South Muntenia - Targoviste	16	21,954,294	10,949,690	7	9
BRIPS 4 - South West Oltenia - Craiova	12	14,907,098	7,436,531	2	10
BRIPS 5 West Timisoara	11	10,003,779	4,609,187	3	8
BRIPS 6 North West - Satu Mare	16	8,557,347	4,007,944	5	11
BRIPS 7 Centre - Alba Iulia	16	8,557,347	4,007,944	5	11
BRIPS 8 Bucharest - Ilfov	7	10,204,050	5,032,957	2	5

Measure 2.1

Selection criteria

General

N°	Criteria for project assessment	score (if yes)
1	Projects placed in de-favoured areas (Annex 3)	10
2	Projects with a total value higher than 250,000 EURO	10
3	Projects that are placed: - in the priority areas in which one of the measures 1.1 , 3.1 3.4 and 3.5 are applied; - in the priority areas in which one of the measures 1.1 , 3.1 3.4 and 3.5 are applied, and which can serve the cultural and tourist objectives in accordance with the clarification of Law no. 5/2000 on the approval of NPTA, Section III, protected areas located along the route.	Max. 15 10 15
4	The existence of a private financial donation to cover the non-eligible expenditures: - 5% - 10% of the eligible cost of the project - more than 10% of the eligible cost of the project	Max. 10 5 10
5	The number of localities benefiting from the project: • 2 localities • 3 localities • 4 or more localities	Max. 15 5 10 15
6	Projects with their technical study already drawn up and are ready to start dully after the signing of the contract	10
	TOTAL	70

Specific

For the sub-measure roads in rural areas

N°	Criteria for project assessment	score (if yes)
1	Projects that ensure the connection with county and national roads, and with the rail-road network or those carried out within the framework of other projects such as the World Bank, ISPA, etc;	10
2	The projects for existing roads which are made of minimum 80% earth and the projects for the roads in new locations..	15
3	Roads facilitating the access or serving the national tourism objectives Law no. 5/12.04.2000 on the approval of the Arrangement Plan of the National Territory - Section III –protected areas placed along the route;	5
	TOTAL (sub measure)	30

For the sub-measure drinkable water supply from
the centralised system in rural areas

N°	Criteria for project assessment	score (if yes)
1	Project placed in areas where the traditional water resources (wells, shafts) are:	Max.15
	-Insufficient or sufficient but polluted;	10
	-Polluted and insufficient	15
2	Projects from which a population of more than 2,500 inhabitant benefits.	15
	TOTAL (sub measure)	30

For the sub-measure sewerage in rural areas

N°	Criteria for project assessment	score (if yes)
1	Projects for connection to the sewerage network -of a mixed type (for rain falls and for waste waters) -of a separate sewage (for rainfalls and for waste waters)	Max.15 1015
2	Projects from which a population of more than 2,500 inhabitants benefits;	15
	TOTAL (sub measure)	30

Financial allocations

Measure / Sub-measure	Total (EURO)	Public grant	
		Of which:	
		European Union contribution	National contribution
Measure 2.1, of which:	150,666,667	113,000,000	37,666,667
Roads in rural areas	75,333,333.5	56,500,000	18,833,333.5
Drinking water supplying systems	52,733,333.5	39,550,000	13,183,333.5
Construction of water sewerage through investments related to water treatment stations	22,600,000	16,500,000	5,650,000

Status of the approved and rejected application as
of September 30th

Measure / Sub-measure	Selected projects	Eligible applications without funds	Total eligible applications	Impact indicators number of projects expected
Measure 2.1, of which:	675	610	1285	700
Roads in rural areas	298	478	776	300
Drinking water supplying systems	268	110	378	300
Construction of water sewerage through investments related to water treatment stations	108	22	130	100

Geographical spread of eligible projects

Centralizare pe judete	Total number of eligible projects				Total number of eligible projects not selected due to the lack of funds			
	Total	D	A	C	Total	D	A	C
BRIPS 1 North East - Iasi								
Bacau	39	22	14	3	6	3	3	0
Botosani	30	26	4	0	22	20	2	0
Iasi	42	28	12	2	2	2	0	0
Neamt	31	19	11	1	3	3	0	0
Suceava	53	42	4	7	3	3	0	0
Vaslui	34	31	1	2	13	13	0	0
BRIPS 2 South East - Constanta								
Braila	19	10	9	0	8	7	1	0
Buzau	46	22	24	0	20	12	8	0
Constanta	23	17	6	0	3	1	2	0
Galati	26	13	13	0	2	2	0	0
Tulcea	12	3	7	2	1	1	0	0
Vrancea	31	12	16	3	6	5	1	0
BRIPS 3 South Muntenia - Targoviste								
Arges	41	24	12	5	26	17	8	1
Calarasi	37	25	12	0	27	22	5	0
Dambovita	55	25	28	2	12	11	1	0
Giurgiu	21	19	0	2	16	15	0	1
Ialomita	22	4	18	0	7	2	5	0
Prahova	51	32	12	7	27	20	5	2
Teleorman	29	25	4	0	17	16	1	0
BRIPS 4 - South West Oltenia - Craiova								
Dolj	35	21	14	0	27	18	9	0
Gorj	40	22	17	1	13	12	1	0
Olt	38	34	3	1	23	22	1	0
Mehedinti	17	13	4	0	17	13	4	0
Valcea	47	27	14	6	17	15	2	0
BRIPS 5 West Timisoara								
Arad	8	3	3	2	6	3	3	0
Caras-Severin	30	14	14	2	7	4	3	0
Hunedoara	32	19	12	1	21	16	5	0

Centralizare pe judete	Total number of eligible projects				Total number of eligible projects not selected due to the lack of funds			
	Total	D	A	C	Total	D	A	C
Timis	44	26	8	10	33	24	6	3
BRIPS 6 North West - Satu Mare								
Bihor	52	29	18	5	35	28	7	0
Bistrita Nasaud	15	11	3	1	13	11	2	0
Cluj	37	14	14	9	20	13	5	2
Maramures	33	20	7	6	17	12	4	1
Salaj	42	36	5	1	37	33	4	0
Satu Mare	26	19	5	2	21	19	1	1
BRIPS 7 Centre - Alba Iulia								
Alba	23	12	8	3	10	7	2	1
Brasov	12	6	4	2	10	6	3	1
Covasna	8	4	1	2	3	3	0	0
Harghita	21	5	5	11	5	4	0	1
Mures	39	26	8	5	27	24	3	0
Sibiu	19	8	0	11	12	8	0	4
BRIPS 8 Bucharest - Ilfov								
Ilfov	25	8	4	13	15	8	3	4
BRIPS 1 North East - Iasi	229	168	46	15	49	44	5	0
BRIPS 2 South East - Constanta	157	77	75	5	40	28	12	0
BRIPS 3 South Muntenia - Targoviste	256	154	86	16	132	103	25	4
BRIPS 4 - South West Oltenia - Craiova	177	117	52	8	97	80	17	0
BRIPS 5 West Timisoara	114	62	37	15	67	47	17	3
BRIPS 6 North West - Satu Mare	205	129	52	24	143	116	23	4
BRIPS 7 Centre - Alba Iulia	122	61	26	34	67	52	8	7
BRIPS 8 Bucharest - Ilfov	25	8	4	13	15	8	3	4

Measure 3.1

Selection criteria

The projects will be selected and evaluated according to the following criteria:

General

N°	Criteria for project assessment	Score (if yes)
1	Projects of total eligible value between 10,000 and 300,000 Euro);	20
2	Projects which are sustained by young farmers (maximum 40 years);	10
4	Projects presented by producers groups, or their members	15
5	Project applying "environmental-sound" technologies*	15
6	The project ensures the diversification of production, so that more than 30% of the incomes will have to be obtained by the diversification;	10
	TOTAL	70

Specific

Vegetal farms production

N°	Criteria for project assessment	Score (if yes)
1	Projects* which fall within the dimensions recommended	10
2	The sites of projects* are located in zones with production potential: a) high potential b) average potential c) low potential	15
		Maximum
		15
		10
	5	
3	The farms that have agriculture equipment and machinery purchased it maximum 5 years before the submission of the financial application, which can be utilised in the technological flow.	5
	TOTAL	30

* Projects, which do not observe the dimensions in Appendix 1 and/or are not included in the potential area in the Appendix 3, will scored 0.

Greenhouses

N°	Criteria for project assessment	Score (if yes)
1	Projects* which fall within the dimensions recommended in Appendix 1	10
2	Projects* for modernisation of the existing greenhouses without increasing the existing capacities, which already have the necessary utilities ensured according to Appendix 5	10
3	Projects*, for which is the heating network ensured	10
	TOTAL	30

Farms for animal land poultry breeding

N°	Criteria for project assessment	Score (if yes)
1	Projects* which fall within the dimensions recommended in Appendix 2	10
2	The sites of projects* are located in zones with production potential in accordance with Appendix 3: a) high potential b) average potential c) low potential	Maximum 15 15 10 5
3	Projects * with existing buildings and/or animals of high genetic potential and/or equipments that were purchased maximum 5 years earlier and which may be used in the technological flow and/or the minimum fodder basis according to Appendix 4.	5
	TOTAL	30

Financial allocations based on sectors and type of submeasures

Sub-measure	Percentage within the measure% (1)	Public costs (EU + national budget) (2)	Percentage of the private co-financing out of the total project value (3)	Private co-financing (4)
Fields crops	19%	42.970.754,92	50,00%	42.970.754,92
Horticulture (out of which flowers 1.5%)	8 %	18.092.949,44	50,00%	18.092.949,44
Vineyards	8 %	18.092.949,44	50,00%	18.092.949,44
Fruit cultivation	8 %	18.092.949,44	50,00%	18.092.949,44
Greenhouses	4 %	9.046.474,72	50,00%	9.046.474,72
Dairy cows/buffaloes	14 %	31.662.661,52	50,00%	31.662.661,52
Cattle-rearing and fattening	14 %	31.662.661,52	50,00%	31.662.661,52
Sheep/goats farms	3 %	6.784.856,04	50,00%	6.784.856,04
Young muttons fattening farms	3 %	6.784.856,04	50,00%	6.784.856,04
Pig farms	10 %	22.616.186,80	50,00%	22.616.186,80
Poultry farms	5 %	11.308.093,40	50,00%	11.308.093,40
Other vegetal and animal poultry breeding farms	4 %	9.046.474,72	50,00%	9.046.474,72
TOTAL	100%	226.161.868,00		226.161.868,00

Status of absorption of the funds until September
31 on each Sub-measure

Sub-measure	Number of projects	Public costs (EU + national budget) (2)	Average value of co-financed projects
Fields crops	85	9335312,62	109827
Horticulture (out of which flowers 1.5%)	1	189062,85	189063
Vineyards	3	726183,74	242061
Fruit cultivation	2	270710,2	135355
Greenhouses	4	610912,5	152728
Dairy cows/buffaloes	13	1487467,75	114421
Cattle-rearing and fattening	1	130000	130000
Sheep/goats farms	0	0	0
Young muttons fattening farms	0	0	0
Pig farms	5	931965,63	186393
Poultry farms	5	841723,38	168345
Other vegetal and animal poultry breeding farms	1	24675	24675
TOTAL	120	14548013,67	

Geographical Absorption of the funds until September 31.

Measure 3.1			
Region 2 South-East	29	8.041.490	4.020.745
Region 3 South Muntenia	21	4.417.459	2.208.730
Region 6 North-West	21	4.468.573	2.234.286
Region 5 West	19	4.805.511	2.402.756
Region 7 Centre	13	3.145.845	1.572.922
Region 1 North-East	10	2.391.684	1.195.842
Region 4 South-West Oltenia	6	1.791.906	895.953
Region 8 Bucharest Ilfov	1	33.560	16.780
	120	29.096.027	14.548.014

Measure 3.4

Selection criteria

The project will be selected according to the following criteria:

No.	Criteria for project assessment	Score (if yes)
1	Projects, which promote other activities compared with the basic activity.	20
2	New investments / Modernisation	30
3	Projects promoted by women	10
4	Projects promoted by youth (under 40 years old)	10
5	The beneficiary/responsible person has already obtained a qualification certificate for the proposed activity.	10
6.	The project beneficiary is: - individual producer - an association/commercial company	Max. 20 10 20
	Total	100

Financial allocations

Submeasure	Percentage within the measure% (1)	Public costs (EU + national budget) (2)	Percentage of private co-financing out of the total project value (3)	Private co-financing (4)	Total (5=2+4)
Agricultural services	4%	1,267,306.66	50%	1,267,306.66	2,534,613.32
Rural tourism	25%	7,920,666.625	50%	7,920,666.625	15,841,333.25
Other types of tourism activities	20%	6,336,533.3	50%	6,336,533.3	12,673,066.6
Handicraft	24%	7,603,839.96	50%	7,603,839.96	15,207,679.92
Other activities	15%	4,752,399.975	50%	4,752,399.975	9,504,799.95
Aquaculture	12%	3,801,919.98	50%	3,801,919.98	7,603,839.96
TOTAL	100%	31,682,666.5		31,682,666.5	63,365,333

Status of results in terms of eligible and selected projects

Submeasures	No of selected projects	Value of the projects (Euro)	Value of public support (Euro)
Rural tourism	76	12,037,222.35	6,018,610.6
Other types of tourism activities	6	717,890.00	358,944.0
Handicraft	1	93,370.0	46,685.0
Aquaculture	1	100,712.00	50,356.0
Other activities	32	599,892.8	299,946.13

Geographical absorption

Measure 3.1			
Region 2 South-East	18	2,705,860	1,352,930
Region 3 South Muntenia	13	1,102,481	551,240
Region 6 North-West	11	1,235,052	617,526
Region 5 West	14	569,450	284,725
Region 7 Centre	13	1,385,544	692,772
Region 1 North-East	8	1,112,929	556,465
Region 4 South-West Oltenia	37	5,341,648	2,670,824
Region 8 Bucharest Ilfov	2	96,123	48,062

