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Twenty years of EU agricultural accession in Hungary – experiences and lessons learned

Az uniós agrárcsatlakozás húsz éve Magyarországon – tapasztalatok és tanulságok

A tanulmány egy átfogó kutatási projekt részeként, a magyar agrárpolitika és vidékfejlesztés elmúlt húsz évének tapasztalatait és tanulságait foglalja össze az Európai Unióhoz történő 2004-es csatlakozást követő időszakban. Rámutatunk a pozitív fejleményekre, de azokra a nem szándékolt következményekre és működési zavarokra is, amelyek a szabályozási- és támogatási rendszer következményeiként álltak elő. Megvizsgáljuk azokat a nehézségeket, amelyekkel a gazdálkodók az uniós támogatások igénylése során szembesültek, valamint azt, hogy az intézményi környezet mely elemei támogatták és melyek akadályozták az agrárpolitikát céljai elérésében. Rávilágítunk továbbá a szakpolitikai intézkedések néhány nem szándékolt következményére, amelyek a szabályozás és a finanszírozás eredményeként Magyarországon jelentkeztek. A támogatások intézményrendszerének és az elosztási mechanizmus elemzésének célja a felvázolt problémák lehetséges jövőbeni kiküszöbölése.

Kulcsszavak: Mezőgazdaság, Európai Unió, KAP, agrárpolitika, vidékfejlesztés, KAP diszfunkciói

This study is part of a comprehensive research project which aims to review and summarise the experiences and lessons learned on the agricultural and rural policy in the countries that joined the European Union (EU) in 2004. It points to the positive developments, but also to the unintended consequences and dysfunctions that were the result of the regulations and the support system in Hungary. It looks at the difficulties that farmers encountered in applying for EU grants and the institutional arrangements that have supported or hindered the agricultural policy in achieving its objectives. It also highlights the unintended consequences of policy measures and some dysfunctions that have occurred in Hungary as a result of legislation and funding. The focus is on the institutional system of subsidies, the allocation mechanism of subsidies, the difficulties in mobilising resources and possible solutions to the problems outlined.

Keywords: agriculture, EU, CAP, rural development, agricultural policy, dysfunctions of the CAP

1. Introduction

The study highlights the main difficulties, the unintended consequences of policies, some difficulties and dysfunctions that developed in Hungary as a result of regulation and support. The history of the development of the European Union's Common Agricultural Policy (CAP) shows that it is a policy that is constantly changing, adaptable, flexible and, in this context, extremely valuable. In terms of the changing trends in the policy over the last 20 years, there has been a trend towards a greener approach, a preference for environmentally friendly and sustainable farming, a more landscape-oriented approach and the introduction of measures to offset the adverse effects of climate change on agriculture. In addition, the policy aims to ensure a secure and affordable food supply, to maintain and increase the competitiveness of agriculture and, last but not least, to support farmers, especially young farmers. Achieving these objectives benefits all Member States, including Hungary, and it is, therefore, in Hungary's interest to continue and further develop the policy.

However, it is necessary to point out the main problems and difficulties of the post-accession period. In addition, we make some suggestions and possible solutions which, in our view, could help to prevent or minimise their negative effects. We will see that some of the listed structural problems are inherited from the pre-accession period or were defined earlier, but in some cases may have been intensified by the accession.

2. 1. *Institutional environment*

2.1.1. The problem

The institutional system for rural development is of paramount importance for the functioning (or even the operation) of the application system. The organisational culture, personnel relations and human qualities of the institutions have a major impact on the success of calls for funding and the implementation of proposals. A serious problem, however, is the excessive bureaucracy which makes real development a major obstacle or at least very difficult for the average farmer.

In recent decades, the management of several institutions in Hungary (such as the former Office for Agriculture and Rural Development - MVH) has been characterised by a systemic lack of flexibility, the avoidance of responsibility and the transfer of risk to applicants. The organisation was highly resistant to any external requests for innovation or change that would have compromised its unique organisational autonomy. It was often described as a state within a state, the work of which even the managing authority responsible for the rural devel-

opment programme was unable to influence substantially. The logical starting point (the basis of the argument) for approaching the task was 'why it cannot be done' rather than 'how to solve the problem'. All this led to a situation where, if the necessary expertise was unavailable - either through in-house provision or commissioning - it was either impossible or somewhat difficult for the applicant to succeed.

2.1.2. Recommendation

International research also clearly shows that higher institutional excellence and economic development are closely linked to a more efficient use of EU funds, with better long-term results (Rodríguez-Pose-Garcilazo 2015; Nyikos 2018).

To make the institutional system of grants effective, a 'service approach' to governance is needed. This requires training, professionalisation and improving the problem-solving skills of staff, but it is particularly important to speed up the decision-making process. This requires screening, transparency and simplification of institutional structures and improving the decision-making process (Nagy, 2006).

Based on our experience from personal interviews, we propose to reduce bureaucratic complications and inconsistencies in the assessment and payments of grants. At the same time, the monitoring of CAP applications should be strengthened, taking into account compliance with approved and relevant CAP objectives and the development and application of related indicators.

2. 2. *Problems with the "top-down" approach*

2.2.1. Problem

The mechanism for allocating funds is the application system. However, centrally advertised tenders often do not meet the needs of local or individual farmers. This often results in investments that are not the most needed ones. This can have the negative consequence of creating both wastage and shortages, as unnecessary and often unfundable capacity is created while necessary improvements are not made. EU funding can often only be spent on very specific purposes. The need to get the most out of grants further reinforces the process whereby it becomes secondary that a grant is channelled into an investment that pays off. The short period for submitting applications also runs counter to the expectation that what is envisaged will actually happen. Rapid calls for proposals may not lead to sound professional and economic decisions. However, a poorly selected project can divert resources from other meaningful develop-

ments, not to mention the long-term operational costs of the resulting investments.

2.2.2. Recommendation

Development should be based on local or internal (endogenous) resources. The critical question is what is considered as such in a given locality. What is the quality of what is available? Can they be used successfully in an investment or development? A proper listing of local resources is often incomplete and mainly formulaic, and their valorisation is typically unsuccessful. In addition to ‘created’ resources (organised economy, ingenuity, coordination, etc.), the biggest problem is with resources that are commonly classified as elements of social capital: e.g., cooperativeness, trust, strong civic activity).

The strategy-making process must be bottom-up. Identifying and using local resources requires creativity and activity. Among the elements in the list below are several that are created resources that would not exist or could not be exploited without activity and ingenuity. Typically, it requires activity (and some creativity) to organise the local economy and to develop synergies between activities, sectors and institutions (Póla, 2014).

2.3. *Absorption capacity*

2.3.1. Problem

The complexity of the application system is a major source of uncertainty (and therefore a disincentive) for applicants. It is a common experience that more developed farms are more successful in applying for funds. They have higher levels of contribution, better infrastructure, higher quality human capital and better capacity to apply for and absorb funds.

For the average farmer, however, writing a proposal is a complex task: interpreting the call for proposals, the concepts and the documentation itself requires the services of an expert. Unfortunately, numerous examples and bad experiences in Hungary show that this is not a without risk process for the applicant. There were many cases where the expert tender writer was not reliable, asked for a fixed fee for writing the tender, and then the tender was not accepted because of formal issues, but the tender writer still asked for the fixed fee.

Compiling a business plan, demonstrating cost-effectiveness and examining net sales is a complex process. The preparation of the financial plan, the presentation of its feasibility, the return on investment and other economic calculations are also tasks that go beyond the general tasks and knowledge of the farmer. It

is not every day that a farmer writes a human resource development plan and a risk management strategy.

The average farmer, apart from knowing what kind of equipment, building or storage facility they would need, is not familiar with project planning, writing tenders, contracting or the implementation phase (difficulties in financial accounting, avoiding irregularities, closing). In addition, the beneficiary has to provide the intermediary with the regularity and content of the data required by the Grant Agreement throughout the whole period.

Proposal management is therefore a complex, multi-professional task: it is based on close and precise cooperation between the proposal writers, procurement, technical tasks, public authorities and the public.

It is common experience that at lower intensities it is not worth applying for a grant if the number of employees and the amount of the grant are considered together. The number of employees should not be reduced in the application, but it is a 'plus point' to take on an additional employee. It is very difficult these days to guarantee staffing levels, let alone take on extra staff. Tenders for the purchase of machinery and equipment are often not submitted at all, or not submitted at all if the applicant does not want to commit to keeping 4 people on until the end of the project. To maintain a project for 3-5 years, the salaries and allowances of 4 people cost more than the purchase price of a tractor for one year. In addition, in recent years there has been a clear risk that prices will rise significantly between the planning stage and the start of implementation.

The services currently available do not provide prior preparation and do not, or do not adequately, present the pitfalls and difficulties of project implementation, so that potential or actual beneficiaries who have no experience of tendering cannot accurately assess the difficulties.

2.3.2. Recommendation

From the farmer's point of view, the process of obtaining funding is not a short and easy procedure, but it is worth the effort, and it is advisable to seek the help of a (trustworthy) expert. Substantial and well-chosen investments can ensure long-term stability of the holding, but the advantages and disadvantages of such support, both financial and otherwise, must be carefully assessed. This requires a thorough training of farmers in the implementation of investment support.

The transfer of knowledge to farmers needs to be constantly improved in the face of rapid change. Regional Farmers' Advisory Centres should be set up, jointly funded by the state and farmers, to provide farmers with continuous advice and information. In the work of these advisory centres, a significant role would be played by well-trained and qualified village economists, who would act

as advisers, holding information sessions and providing services. A priority would be to develop a well-functioning network of advisers, working closely with vocational training, higher education and agricultural research institutions.

International experience shows that the integration of innovation is significantly influenced by a well-functioning advisory network and the level of farmers' qualifications. This reinforces the need to create farm-specific advice, which would certainly also significantly improve the knowledge transfer of digitalisation and ecologisation.

2.4. Bottlenecks in the food chain

A key prerequisite for a well-functioning agriculture is the strengthening of critical points in the product chain. The negative experience of the decades following the change of regime was that, with the fragmentation of land ownership and the disintegration of large-scale agriculture, the Hungarian agricultural economy suffered significant disadvantages both in terms of domestic supply and exports. A new, highly profit-oriented network of intermediaries was established between producers and consumers, which today, with its capital strength, plays a dominant role in the trade of goods. It undermines income and consumption by lowering producer prices and raising consumer prices (Lisányi, 2018).

2.4.1. Problem 1.: Lack of local food processors

The situation of agriculture and the fate of individual localities was fundamentally influenced by the fact that the transition itself took place in a period characterised by the internationalisation of food processing and food markets. International capitalist groups sought to gain ever greater market dominance, and the Hungarian food industry became one of their main targets in the 1990s and 2000s.

In recent years, however, there has been a break in the drastic decline of the food industry, and even a positive trend can be seen. The various plants of the Hungarian food industry are characterised by very different technical, technological and management standards. There are world-class companies as well as those that have been underdeveloped for many years. On the whole, however, Hungary has a serious competitive disadvantage compared with developed EU countries. Irrespective of size, the turnover, value added, and labour productivity of domestic firms are well below those of the major EU food-producing countries.

2.4.2. Recommendation

In 2014, the Hungarian government declared the food processing sector a strategic sector, making it a priority area that receives special attention from the Ministry of Rural Development. The Ministry has developed a strategy to support the development of the food industry, and in the design of EU co-funded programmes for 2014-2020, significant attention is paid to the food industry. The strategic goal is to restore its competitiveness, therefore priority is given to promoting stable financing opportunities, increasing the efficiency of enterprises by promoting innovation, increasing the share of well-trained employees, strengthening the market position of the food chain and promoting a supportive business environment (Schlett, 2014).

We agree with the objectives of the National Strategic Plan that food processing should play a role in the assessment of investment aid. We suggest that a key criterion to be taken into account is that priority should be given to improving competitiveness when accepting grant applications. However, we consider that the analysis of possible products and potential markets in the plan and the development of conditions for sustainable market presence and competitiveness are incomplete. These should be developed further.

2.4.3. Problem 2: Abuse of economic dominance by retail chains

The abuse of economic dominance by retail chains is as much a problem in Hungary as in most Central and Eastern European countries.

In the food chain, producers and consumers have the weakest bargaining position and are most vulnerable as they do not have advance information and are not flexible. Retailers and food processors, on the other hand, have advance information, are often large and flexible, so that supply can respond quickly to consumer demand (Balto, 2001; Seres, 2006).

In recent decades, the food retail trade network in Hungary has undergone significant expansion due to the impact of globalization and the economic and political transition in the country. The transformation of retail trade in Hungary from the 1990s was characterized by the rapid expansion of hypermarkets and supermarkets owned by foreign operators. After the political and economic changes in the early 1990s, there was a significant increase in the number of food retail shops, which nearly doubled. As a result, there was a strong concentration in the sector after the turn of the century. The national food retail market has undergone a significant transformation, with food chains, supermarkets, and hypermarkets representing 70% of the market share. In contrast, traditional groceries, small shops, and markets have experienced a notable decrease in their market share. Retail chains have established buying groups, which have enabled

them to utilize their buyer power. However, there is a noticeable information and power asymmetry between buyers and producers (Lisányi, 2018).

When it comes to agricultural products, prices are influenced by both supply and demand as well as the linkage between buyers and sellers in the market. It is worth noting that agricultural producers are usually considered price takers rather than price setters, as their prices are determined by the demand for their products. Small-scale farmers, who have limited access to alternative large buyers, may have less bargaining power (Lisányi, 2018).

2.4.4. Recommendation

Already in 2013, the Food Chain Safety Strategy set out the objective to ensure that all farm businesses operating fairly have access to markets and the opportunity to participate in markets, minimising the disadvantages due to differences in power.

The Hungarian Competition Authority and the National Food Chain Safety Office currently have specific market and consumer protection tasks under a number of laws, in particular the Act on Trade, the Prohibition of Unfair Market Practices and Restrictions of Competition, the Act on Consumer Protection, the Act on the Food Chain and the Act on the Supervision of Authorities. A distinct group of these are the rules on the protection of suppliers to the agri-food industry and suppliers to undertakings with significant market power (Fehér et al., 2022).

With regard to unfair market practices, the Hungarian Competition Authority has closed a number of cases and imposed significant fines. Cooperatives, which help small producers to pool their resources, can play a key role in improving the situation (Lisányi, 2018).

It is well documented in the literature that countries with an agricultural structure consisting of a relatively large number of small farms can position themselves well if producers are grouped in agricultural organisations or cooperatives. (Szabó & Barta, 2014).

In Western Europe, it is common for agricultural cooperatives to specialize in specific areas, which can lead to increased efficiency and benefits for all members of the cooperative. Additionally, cooperatives can help to countervail the power of monopolistic competitors, thereby increasing competition. Producers, including farmers, can benefit greatly from agricultural cooperatives as cooperatives can address the inefficiencies of small farms and have stronger bargaining power (Lisányi, 2018).

The primary objectives of these cooperatives are to support individual members by providing various services and business advice, by pooling resources, or by aggregating distribution, storage and purchasing, while having limited

liability, i.e. not taking over the responsibility of the producers. One of the key benefits of these cooperatives is their ability to empower small producers in the supply chain. (Kovács, 2007; Lisányi, 2018).

There are around 110 cooperatives in Hungarian agriculture, with over 30,000 members (Fehér et al., 2022). In recent years, it has been demonstrated that cooperatives have business potential even at an early stage. The beneficial effects of cooperation are self-evident. However, there is potential to further increase stakeholders' interest in forming cooperatives, as voluntary cooperation is a key to competitiveness on the global market (Lisányi, 2018).

Improving possibilities and finding and disseminating solutions and techniques of cooperation, which could integrate local communities into the network of cooperatives, are of utmost importance.

The functioning and organisation of the sectors require a review of the legal framework, a rethink of the incentive mechanisms and respect for the role of entrepreneurship.

The strategic plan for domestic support measures for the period 2023-2027 sets as a priority objective the promotion of the creation, maintenance, joint development and investment in producer cooperatives.

3.1. Rural Development Experiences

3.1.1. Problem

The rural development programme is designed to complement other EU measures in agricultural areas. Its aim is to support the diversification of farmers' activities and improve access to local services, such as local markets, social enterprises, minor roads, and rural homes. Additionally, the programme supports the development of basic services in small and very small settlements, such as helping to treat waste water and promoting the creation of multifunctional community spaces.

In Hungary, the concept of sectoral (agricultural) rural development is still very strong. Regional initiatives are often blocked by agricultural interest groups. A sectoral approach to rural development, whatever the sector, is doomed to failure. A spatial approach to rural development is not well supported because (1) it requires much more financial resources than, for example, social farming, (2) it requires the reconciliation of different interests and may harm the interests of different sectors, (3) it requires a long-term vision which is not popular with those who think in election-to-election terms (Kulcsár, 2020). Another important experience shows that in Hungary, the lack of trust is most evident in the administrative overcautiousness and slowness, the delay of cases, and the upward push of decision-making (Kovács, 2020).

The problem is illustrated by the failure of the LEADER programme. The LEADER concept is external, i.e., not part of the public administration, external to the general perception and everyday culture. The idea that we should work together, brainstorm and plan together, and make transparent who does what and how. Partners should be citizens, entrepreneurs and elected leaders. The LEADER programme has become an over-bureaucratised, fragmented, assembly-line fashion mechanism. The original principles and objectives and reality have become very far apart.

The whole LEADER, with its bottom-up approach, local involvement, local decision-making, etc., is a pain in the neck for the decision-making hierarchies. The rural development hierarchy has created a plethora of rules that are not even known in detail by those who work professionally in rural development (Kovács, 2020).

3.1.2. Recommendation

Overall, rural development is a complex task that can only be achieved over a long period of time and with a lot of commitment. EU funding for the renovation of village centres and local infrastructure, and the improvement of night-time lighting in rural areas, can only be partial elements of rural development. They cannot, however, bring about radical change on their own. The task is much more multifaceted and can only be achieved through development that meets the demands of today's competitive market (Buday-Sántha, 2009).

At the same time, in the case of EU-funded developments, the regional approach and the effort to solve a problem at a holistic level is not usually present. Instead, depending on the options available, the focus is only on solving local problems, which is why there are many parallel and often unjustified, low-quality developments that are unsustainable. The uncoordinated, fragmented developments cannot have synergistic effects at all.

One of the reasons for this is that the requirement for regional cooperation is not a prominent criterion in the call for proposals. Rural policy has also failed to play its role as a territorial leveller, i.e. the expected correlation of more EU support per capita for the most disadvantaged regions has not been achieved. This is mainly due to the fact that more developed regions with stronger social capital, cooperation and local activism have shown greater ambition in applying for funding and have been more successful in applying for funding. The latter is clearly due to their higher levels of own contribution, better infrastructure, higher quality human capital and greater capacity to apply for and absorb resources.

Rural development is an area where long-term, planned processes need to be implemented in ongoing consultation with stakeholders, but with sufficient

flexibility. Decisions should be taken on the basis of the classical principle of subsidiarity, i.e. closest to the people concerned, and a greater role should be given to trust as a factor which, as the literature shows, is a major cost-reducing factor and gives greater speed to action.

Unfortunately, rural development knowledge has largely been reduced to administrative knowledge, the knowledge of the law and regulations, and not how to build trust in communities, how to get from one point to another, how to innovate with community consent, and how to get things out of a deadlock. The focus is primarily on fundraising and the distribution of money. However, beyond programme evaluation and reporting, there is no discussion of the institutional and organisational framework of rural development as the backbone of the system, and there is a lack of critical research and analysis (Kovács, 2020).

5. Summary

Overall, from the point of view of Hungary's agricultural economy and rural development, it is a fact that the accession to the European Union proved to be a positive development, as it opened up unprecedented agricultural prospects, with a wealth of opportunities and support. Looking more closely at these aspects of the EU membership, there is, of course, less consensus on the circumstances. In the early days of our accession, the three most striking factors were, on the one hand, the varying degrees of unpreparedness, the initial anomalies of the institutional system and, on the other, the huge expansion of well-organised crop producing farms. The impacts were felt both by the country's economy and by the farmers (and the many mistakes of the regime change brought retribution). Finally, an important lesson is that the types of support or regulation often devised under 'laboratory conditions' can have unintended consequences and even dysfunction in practice.

In recent years, there has been increasing uncertainty due to the complex regulatory and skills requirements and the rapidly rising costs associated with them.

The main conclusion drawn is that the agro-vertical system became fragmented. As a result of the regime change, the various product chains (agricultural production, processing, marketing) became fragmented and subject to conflicting interests. Often, these sectors fell into the hands of foreign competitors or domestic investors who had no interest in sustaining Hungarian agricultural production in the long term and were focused only on immediate profit. Hungarian agriculture therefore continued to be marked by low value added and insufficient food processing.

It is important to note that the concept of sectoral rural development is still very much present in Hungary. Territorial initiatives are often hampered by agri-

cultural interest groups. The sectoral approach is a failure in itself, as it does not take into account the diversity of the countryside and the need for cooperation. There is little support for territorial rural development because it requires more financial resources, reconciles different interests and requires long-term planning, which is not popular with short-term decision-makers.

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