



SUMMARY

of the Audit on the Effectiveness and Efficiency of the Utilisation of Funds Used for the Implementation of Rural Development Objectives, the Strengthening of the Role of Local Communities and Its Role in the Improvement of the Quality of Life in Rural Areas (1293)

Objectives and scope of the audit

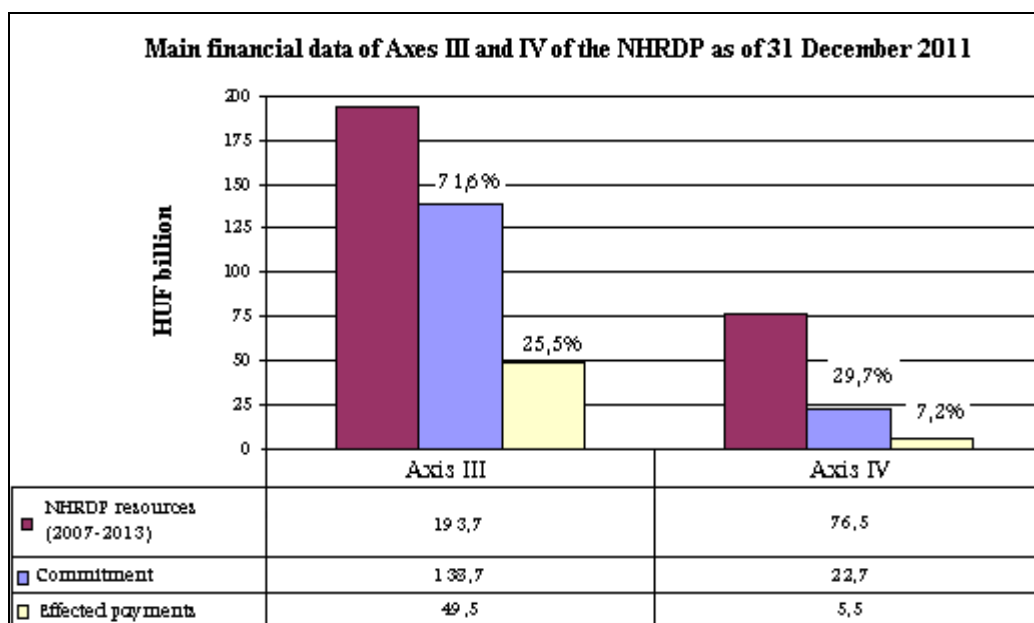
The main objective of our audit was to assess whether the utilisation of funds spent on the implementation of rural development objectives – to improve the quality of life in rural areas, to encourage diversification of the rural economy and to strengthen the role of local communities – was effective and efficient in the 2007-2011 period.

The audit evaluated the measures of the New Hungary Rural Development Programme (NHRDP) aimed at improving the quality of life in rural areas, encouraging diversification of the rural economy and strengthening the role of local communities (Axes III and IV). Furthermore, the audit covered the utilisation of the Technical Assistance resources aimed at financing preparation, management, monitoring, assessment, information and audit activities performed to ensure the effectiveness and efficiency of implementation of the NHRDP.

Main findings

NHRDP objectives were in line with the objectives of the National Development Policy Concept as well as with EU requirements. At the same time, the Government did not adopt them by way of a decision.

The NHRDP set forth output, result and impact indicators used to measure target implementation as well as impacts (e.g. number of villages and micro-enterprises supported, number of new jobs, total amount invested, and net number of new jobs created as a result of development). By the end of 2011, HUF 270.2 billion is available in the NHRDP for implementation in the total programming period; commitments were made for 59.7% of this amount but the proportion of payments was only 20.4%.



By the end of 2011, in case of 7.8% of HUF 138.7 billion (i.e. HUF 10.8 billion) committed by way of a grant decision under Axis III, more than 24 months have elapsed since the grant decision without the beneficiaries submitting any request for payment. In such cases, the legislation requires that a statement be made either on implementing the project or on foregoing the assistance. Towards the end of the programming period, however, the risk is high that funds released due to any foregone assistance cannot be used successfully for new projects.

The NHRDP was modified several times until the end of 2011 but the content of rural development objectives did not change. In 2008, support intensity was increased in order to make it easier to provide own funds. As a result of this change, grant recipients are required to provide less own funds, which ensures better conditions for enterprises which are typically less capitalised in rural areas. This had a positive effect on the average payback period of own funds provided for projects, which is 8 years according to the data of the certificates sent to the SAO.

In 2009, available funds in the NHRDP were changed in a way that LEADER Local Action Groups (LEADER LAGs) reorganised 56.4% of resources allocated for the measure related to creating and developing micro-enterprises according to the budgets planned for individual measures in their local rural development strategies. This modification was contrary to the objective set out in the NHRDP's economic development programme intended to strengthen micro-enterprises operating in rural settlements and improve local employment. At the same time, increasing the resources for improving the image and attractiveness of, and the

quality of services rendered in rural settlements does not contribute to managing social tensions generated by the low economic activity of the population living in rural areas, by low employment and consequently by low revenues.

The reorganisation of resources did not come with an overall review of indicators intended to measure target implementation (e.g. number of micro-enterprises supported, total amount invested, number of multifunctional service centres, etc.). Therefore the objectives are not in line with the resources allocated to them.

The institutional system to manage and implement the NHRDP as well as the legislative background were established in accordance with EU requirements. However, the multitude and frequent modification of legal regulations decreased transparency, making it more difficult for those seeking assistance to find the right information. The creation of 96 LEADER LAGs as well as of their local rural development strategies were supported by local rural development offices. Following preliminary recognition of local communities as LEADER LAGs in September 2008 as well as the approval of local rural development strategies in May 2009, the support of local rural development offices ended only in the summer of 2010. Their expenses incurred while performing their tasks were covered from the budget of the measure 'Skills acquisition, stimulation and implementation' of which they received a subsidy of HUF 3.9 billion.

The Managing Authority established a complicated system for requesting assistance. A part of measures under Axis III (integrated community and service spaces, farm bus) were so-called 'centrally announced' measures. In these cases, incoming requests for assistance were assessed by the Agricultural and Rural Development Agency (ARDA) and decided upon by the Managing Authority considering resources. For the rest (micro-enterprises, tourism, renewal of villages, and rural heritage) called 'non-horizontal measures', LEADER LAGs also took part in the assessment and scoring of requests in addition to the ARDA.

In the annex to the legislation issued to implement the measures, the Minister set forth the scoring criteria as well as maximum scores to be given for each of the criteria, which also varied by LEADER LAG. The application of the LEADER approach to measures under Axis III cannot be considered efficient, since projects with a very low score were usually also eligible for assistance. 32.1% of the grants awarded fell into the lower third of the maximum score. The enforcement of local aspects was only assessed by the extent to which the project was in line with the local development strategy. The score to be given for that only represented 12-14% of the total available score. All this endangered the implementation of NHRDP objectives aimed at improving the quality of life in rural areas and encouraging diversification of the rural economy. On the other hand,

preliminary minimum thresholds from the professional aspect were only defined from 2011 to help the assessment of requests submitted.

The Managing Authority provided opportunity to submit requests for financial resources rarely and irregularly. In the submission periods announced on an occasional basis, the period of processing requests for assistance regularly and significantly (394 days on average) exceeded the deadlines specified by the Act XVII of 2007 for completing individual stages of the administration process. All this compromises the reliability of the assistance system and represents a risk for the funds to be drawn by 2015 at the latest.

Development grants under LEADER Axis IV were announced in 2009 and 2011. In the second round, development grant applications were more successful as the call for proposals was more carefully prepared, and project proposals were collected in advance. Comparing the two rounds of the call for proposals, we can observe favourable trends even in terms of economic and enterprise development. Based on the strategies reviewed in 2011, development resources intended for enterprise development doubled, with their proportion increasing from 31% to 53%.

In the audited period, LEADER LAGs were not equally successful as regards their cost effectiveness and results. In their operational expenses, the rate of personnel costs differed significantly. Disproportions were observed in the number of managers and subordinates, as well as in the remuneration of managers. In addition, bonuses of hundred thousands of HUF were paid several times a year at 22 LEADER LAGs. As for non-personnel expenses, it occurred that the area of leased properties was well above the average. Although the ARDA carried out administrative and on-site checks, it did not check whether expenses were appropriate and well-founded.

The financial resources available for technical assistance, intended among others to cover operating costs, were properly used during the audited period. The Managing Authority failed to perform its obligation undertaken in the NHRDP to ensure open and transparent procedures, as it did not conduct any tendering procedure prior to purchases below the public procurement threshold. No rules of procedure have been developed to identify and objectively measure what effect the measures financed from the technical assistance budget have on the implementation of the NHRDP.

By the end of 2011, the rates of committed resources and of the performance of related indicators differed in measures under Axis III and Axis IV alike. As a consequence, the utilisation of resources – except the measures ‘renewal and development of villages’ and ‘preservation of rural heritage’ – was not efficient.

On the other hand, the significant lag of rural areas has not diminished. The measures aimed at encouraging diversification of the economy (development of micro-enterprises and tourism) have little effect on employment and they contributed only partly to increasing economic activity.

Conclusions

In rural areas, no positive change has been observed in comparison to 2005 in the GDP per capita, in the unemployment rate, in the activity rate, in the employment rate or in the internal migration balance. The reasons include the low number of completed projects as well as the rate of payments, a mere 20.4% as compared to the available resources.

In the NHRDP, indicators intended to measure the results and the resources ensuring that such indicators are achieved were not changed in a complex and coordinated manner, and the results, performance and effects expected from the support system received less attention. This threatens the achievement of rural development, convergence and NHRDP objectives.

In the support system established, the application of the LEADER approach was not efficient, because there were a large number of target areas, and projects with a very low score could also benefit from the assistance; furthermore, the projects that were carried out in the area were not focused on one strategic goal. The time needed for the procedure applied carried a high risk for the enterprises.

Recommendations

We recommended the Minister of Rural Development to conduct a comprehensive review of indicators measuring the effectiveness and efficiency of the implementation of the NHRDP (output and result indicators), to make a successful and efficient use of resources available and those released due to grants being foregone, to announce measures at the pace and in the number required to ensure the successful utilisation of resources, and to concentrate on expected results, performances and synergies between projects in planning the programming period of 2014-2020.

We recommended the President of the Agricultural and Rural Development Agency to ensure, in implementing the measures under Axes III and IV of the NHRDP, that the assessment of requests for support and payment submitted by beneficiaries, the issuance of support decisions as well as the payment of grants take place by the deadlines specified by the Act XVII of 2007 for completing individual stages of the administration process.