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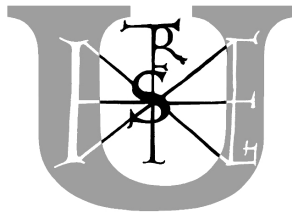
**DEVELOPMENT OF THE INSTITUTIONAL  
SYSTEM REQUIRED FOR INTRODUCING AND  
IMPLEMENTING THE COMMON  
AGRICULTURAL POLICY IN HUNGARY**

**THEOREMS OF PHD THESIS**

**ATHÉNÉ NESZMÉLYI**

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# 1. INTRODUCTION

## 1.1. Actuality and relevance of the subject

The present status of Hungary in the European Union, the interrelation between Hungary and the European Union (EU) is based on the Association Agreement signed by the Hungarian Republic and the Member States (MS) of the European Communities in December 1991 in Brussels. This association contract that entered into force in February 1994 and was published in Hungary in the Act I of 1994 serves as the **basis of integration to the European Union**.

Hungary has submitted its official application for membership to the European Union in March 1994 after getting acquainted with the criteria established for the countries intending to join the EU at the Copenhagen European Council. The European Commission handed over a questionnaire to the governments concerned in order to estimate the economic, political and social status and the preparation for adoption the *acquis communautaire* of the candidate countries. The opinion of the European Commission on the application of Hungary to the European Union was an answer given to the questionnaire elaborated by the government. This Opinion discussed among the **accession criteria** the political and economics conditions and contained also the sectoral policies, such as the agriculture. The Opinion underlined the importance of special efforts needed on restructuring the food industry, on veterinary and phytosanitary issues and on improving the institutional structure especially in the field of implementing the measures of the Common Agricultural Policy (CAP).

The bases of the CAP are the uniform objectives and measures laid down in the founding Treaty of Rome, which directs the decisions concerned to a Community level, thus **the ruling of the Community has a direct effect in the Member States**. The CAP is one of the most comprehensively regulated policies of the Union, since next to its other aspects such as the single market, the Community preference and the financial solidarity the agricultural expenditure represents half of the Community budget in the subsidy policy of the Union, which is implemented by a complex institutional system stipulated in legislation.

The development of the CAP has given birth also to the establishment of the European Agricultural Guidance and Guarantee Fund (EAGGF), which is financing the measures of the **market and price subsidy policy** and the **improvement of the production structure**.

The prerequisite of the accession to the European Union is to set up an agricultural institutional system introducing and implementing the CAP in compliance with the EU legal requirements. This system should be capable to **administer and control payments** from the EAGGF common agricultural budget. The expenditure financed from EAGGF is handled by accredited intervention agencies, i.e. by the so-called **paying agencies** (PA).

## 1.2. Background of the research

It is visible from the part above discussing the actuality of the subject that in the countries in the pre-accession stadium the development of the institutional system implementing the Common Agricultural Policy is the most urgent and complex task of their agricultural sector, which brings up new questions day-by-day.

**The Ph.D. research area was selected deliberately.** From the beginnings, thus since 1999 I am working in the field of the institution development necessary for the adoption and implementation of the Common Agricultural Policy of the European Union. I was a founding member of the integration group, which was at first in charge of establishing the institutional system handling the

pre-accession aids and then became responsible for the setting-up of the agency paying and controlling EU subsidies. It gives me a complex view on this special institutional development activity from the first steps.

The literature of **organisational, institutional and management theories** serve as the basis of the research. In the investigated aspect the organisation covers the establishment of an organisation, where the organisation means an organised institution serving a concrete goal and interest, thus a formed system, which is administered by the management function.

For the foundation of the research and for the transparency of the agri-political processes it was necessary to review the different aspects, especially the elements and the functions of the necessary **institutional system implementing** the CAP. This became possible by analysing the relevant EU legislation, especially the requirements laid down in the Community legislation concerning the CAP financing, the financial accounting and reporting system, the market organisations and horizontal measures and the administrative, control and IT systems supporting the operation.

By investigating the **method of the functional analysis** it was possible to lean on the related research of my supervisor, Dr. István Fehér professor, which research was improved in the direction of the functional analysis method of the paying agency institutional development.

During my Ph.D. lifecycle the opportunity was given to take part in the **education** of the “EU Institutional System” subject at the Department of Economic Integration of the Institute of Agricultural and Regional Economics of the Szent István University in Gödöllő, where the students were educated on the forming of the European Union, the characteristics of its institutional system, the decision-making procedure and the implementation of the agricultural regularisation. At the Department of Economic Integration I co-operated in writing of the **university note** “Basic Information on the European Union” and I acted as a co-author in compiling the **university textbook** “The Integration and the Institutions of the European Union”. This knowledge was also incorporated into the thesis.

The Ph.D. thesis was compiled based on the knowledge acquired during my Ph.D. studies and on my activity in the field of the establishment of the institutional system of the Common Agricultural Policy. The thesis investigates the subject of the development of the institutional system required for introducing and implementing the Common Agricultural Policy in a **structural aspect, based on scientific background**.

### 1.3. Objectives

The objective of the research was to **elaborate a methodology** for the development of the institutional system required for introducing and implementing the Common Agricultural Policy, which **facilitates the improvement of the paying agency institutional system towards efficiency, effectiveness, economy, transparency and accountability**.

Before starting the Ph.D. research, the following adjacent objectives were set:

- ✓ **Synthetising and enlarging the literature on the Common Agricultural Policy** in the fields of the formation, the operation, the measures, the reforms, the financing and the institutional system of the CAP.

- ✓ **Screening, analysing and drawing conclusions of the institutional development experience** of the paying agency system administering agricultural and rural development subsidies and of its connected external institutional system based on the example of some EU Member States. First of all, it was intended to investigate the paying agency system of those countries, of which elements can be adopted by the further eastern enlargement of the EU by taking into consideration the public administration characteristics of the new candidate countries, of course.
- ✓ **Elaborating a method optimal from organisational and economic point of view for the development and improvement of the institutional system** required for introducing and implementing the CAP concerning the tasks before accession, the characteristics of the pre-accession period and the duties after accession based on the long-term experience of the former EU Member States and on the solutions created for solving the problems of the countries joining the EU lately. It is involving the definition and analysis of the activities of the paying agency, the sum up of the activities into functions, the analysis of the functions, the elaboration of the improvement possibilities concerning the paying agency, with special regard to the development of the organisation form and the implementation procedure.
- ✓ Investigating the **structural correlations, interactions** among the created measure-types containing support schemes having a similar implementation procedure and inquiring whether there are any countries among the EU Member States having **similar subsidy structure**.

The scientific research keeps apart of the conflicts of interest and of political debates and it is analysing the possibilities of the development and improvement of the integrated institutional system of the agricultural and the closely related rural development sector by following the present tendencies of the EU at the same time. The investigation of the institutional system required for introducing and implementing the CAP was implemented based on scientific-professional expedience.



## 2. MATERIAL AND METHODS

The organisational sub-technics are procedures, methods of a varying life-cycle, which separately can solve only sub-tasks in general. Therefore, certain sub-technics were used combined in the thesis. The **surveying methods** (interview procedures, questionnaire method) were used by analysing the institutions implementing the Common Agricultural Policy, the **combined methods** (functional analysis, decision-tree) were applied by defining the activities and functions of the paying agencies and the **evaluation-calculation methods** (mathematical-statistical survey methods) support the analysis of the agricultural and rural development expenditure.

### 2.1. Surveying methods

The development procedure of the paying agencies and the follow-up of the tendencies of their institutional changes, the analysis of the organisation and its tasks and the elaboration of the implementation procedure of the organisation were based on the methodology of interview preparation followed by studying and processing the documents. The objective to fulfil was the definition of the activities and functions of the paying agency and through this the elaboration of the organisation and the general implementation procedure of the paying agency. The survey and the analysis were accomplished related to the **paying agency system of The Netherlands, Austria, Slovenia and Hungary**. The results of the survey were summarised in publications following the investigation of the institutional system implementing the Common Agricultural Policy in a Member State.

### 2.2. Functional analysis

The objective of the institutional improvement is the **elaboration of an efficient institutional system and the creation of the conditions necessary for its operation**. By restructuring the institutions one has to be aimed at the creation of a more efficient, effective, economic, transparent, accountable organisational unit or complete organisation. For the elaboration of the conditions of the efficient operation the **functional analysis** was used, which is based on the systematic analysis of the institutional activities.

The **objective** of the functional analysis is to develop an efficient organisation in the institution investigated. The **core** of the method is to define the present and the future activities of the organisation per organisational unit. The evaluation helps to decide on the treatment of the function analysed. There are six consecutive stages in the functional analyses:

- ✓ elaboration of the method;
- ✓ collection of the information;
- ✓ analysis of the functions;
- ✓ elaboration of the possible changes (development, improvement);
- ✓ discussion of the suggestions with the managers of organisations concerned;
- ✓ compilation of the final report.

The **collection of the information** covers the collection of the present and the future activities or tasks of the organisational units and their grouping into functions. The **function** represents an activity or a group of activities, which results in achievement or performance in the public administration and which contributes directly to achieve the general objectives of a given institution. The **analysis or evaluation of the functions** means the measurement of the characteristics of the functions. The analysis of the functions is supported by the so-called **decision-tree**. The purpose of a function can be diverse, it can be eliminated, transferred, concentrated, decentralised, privatised,

their intensity can be increased or decreased, etc. In most of the cases the direct introduction of the changes is not possible in order to ensure the continuous operation of the organisation. The **result** of the functional analysis is the elaboration of a mid-term and a long term organisation form satisfying changing needs and the management of the connected changes, such as the continuous consultation with the parties involved and the attention of their proposals concerning the elaboration, the content and the execution of the functions.

## 2.3. Multivariate analysis methods

The measures of the agricultural subsidies of the European Union are very complex. Their investigation was based on the analysis of expenditure by measure-types created by standardisation of the subsidies and by Member States. It was hypothesised that certain correlations can be found by the created measure-types and that relationships exist between the structure of the subsidies withdrawn by the different Member states of the EU. The analyses were based on four times two database-matrices containing EAGGF Guarantee expenditure of 2000-2003 broken down by Member State and by measure-type (storage measures, export refunds, direct aids, other market measures). The questions tackled seemed to be answered with the help of the **multivariate mathematical-statistical methods**. The multivariate analysis of the expenditure for agricultural subsidies was accomplished by factor- and cluster analyses.

The core of the multivariate mathematical-statistical methods is that instead of the correlated original variables artificial or independent background variables – **principal components or factors** – are defined and with their help the original characteristics of the observation units are replaced by fewer artificial coordinates, thus the information is concentrated. It is hypothesised that the common background variables are already independent contradictory to the original interpretation variables. By abandoning the less important information the number of the variables is decreasing, so the cause and effect connections can be better underlined. The significant principal components can be graphed instead of the original multidimensional co-ordinate system – where the figuration is in practice not feasible – in a two-dimensional co-ordinate system based on the co-ordinates of the two principal components. This way their relationship or their grouping is easier to be identified.

The **cluster-analysis** is used for the grouping and division of the observations characterised by several variables. The analysis is adapting the concentration hierarchical method. In the beginning all of the observation units form a separate group. At first the two closest observation units are concentrated in a group. In the next step a third observation is attached to the first two or two other observations create another group. This procedure is going on until all of the observations are part of a single group.

## 3. MAIN OBSERVATIONS OF THE THESIS, RESULTS

### 3.1. Theoretical background of organisation, institution and management

The elaboration of the subject of development of the institutional system required for introducing and implementing the Common Agricultural Policy was based on the **collection and systematisation of the literature of organisational, institutional and management theories** as the organisation - institution - management form a strong engagement by the operation of the institutes. The organisation was defined as a determined activity or continuous action being aimed at the creation of an institution. Since most of the time the objectives cannot be reached by the efforts of an individual, the institution ensures on the one hand the fulfilment of the objectives by the division of tasks and on the other hand it is an appropriate tool to co-ordinate the different tasks. The management is an activity supporting the fulfilment of the objectives of the organisation, which can be considered also as a decision-making, problem-solving process.

### 3.2. Institutional system implementing the Common Agricultural Policy

The implementation of the Common Agricultural Policy comes into practice through the particular connection of the institutional system of the European Union and the Member States, which relationship was analysed in the thesis. In order to evaluate the characteristics of the paying agency and to implement the functional analyses of the paying agency **the literature on the Common Agricultural Policy was synthetised and enlarged**. The literature background of its formation, objectives, principles of operation, measures, comprehensive reform, criticism of the reform and EU enlargement and financing was screened and the elements of the institutional system of a Member State implementing the Common Agricultural Policy were outlined.

### 3.3. Evaluation of the characteristics of the paying agency

#### 3.3.1. Characteristics of the system elements implementing the CAP

The agricultural and rural development expenditure financed from the EAGGF Guarantee Section is administered by the **paying agencies**. The analysis of the paying agency system includes the investigation of the paying agency and of the adjunct external institutions supporting the implementation, such as the competent authority accrediting yearly the organisation and the implementation procedure of the paying agency, the certifying body auditing the correctness of the yearly clearance of accounts and the coordinating body ensuring the harmonised use of the Community law and the connection to the EU Commission.

#### 3.3.2. Information and advisory activity

Giving information to the potential beneficiaries (farmers, processors, traders) on the possible subsidies and supporting them in filling in the application forms is not a basic or obligatory task for the paying agency. However, in order to withdraw the maximum amount of subsidy it is inevitable for the Member states to solve this task. On the one hand there is a need for **giving comprehensive information** to farmers on the general administrative and other obligations related to the application for subsidies, on the data-supply and on other conditions. On the other hand professional support is needed concerning the concrete administrative tasks, the **filling in the application forms**.

### 3.3.3. Connection of EU Commission and Member States by implementing the CAP

The **implementation** of the Common Agricultural Policy comes into practice on the one hand through the daily communication between the EU institutions – first of all the EU Commission – and the Member States and on the other hand through the activity of the institutions implementing the CAP in the Member States. The communication takes place in committees operating based on strict rules, where the daily implementation rules of the Common Agricultural Policy are decided. In channelling the subsidies from the common EU budget to the farmers, processors, traders of the Member States the paying agencies of the Member States play a relevant role. The communication between the paying agencies and the Commission operates in the form of a comprehensive reporting system and in the framework of the EAGGF Committees.

## 3.4. Functional analysis of the paying agency

### 3.4.1. Elaboration of the method and collecting the information

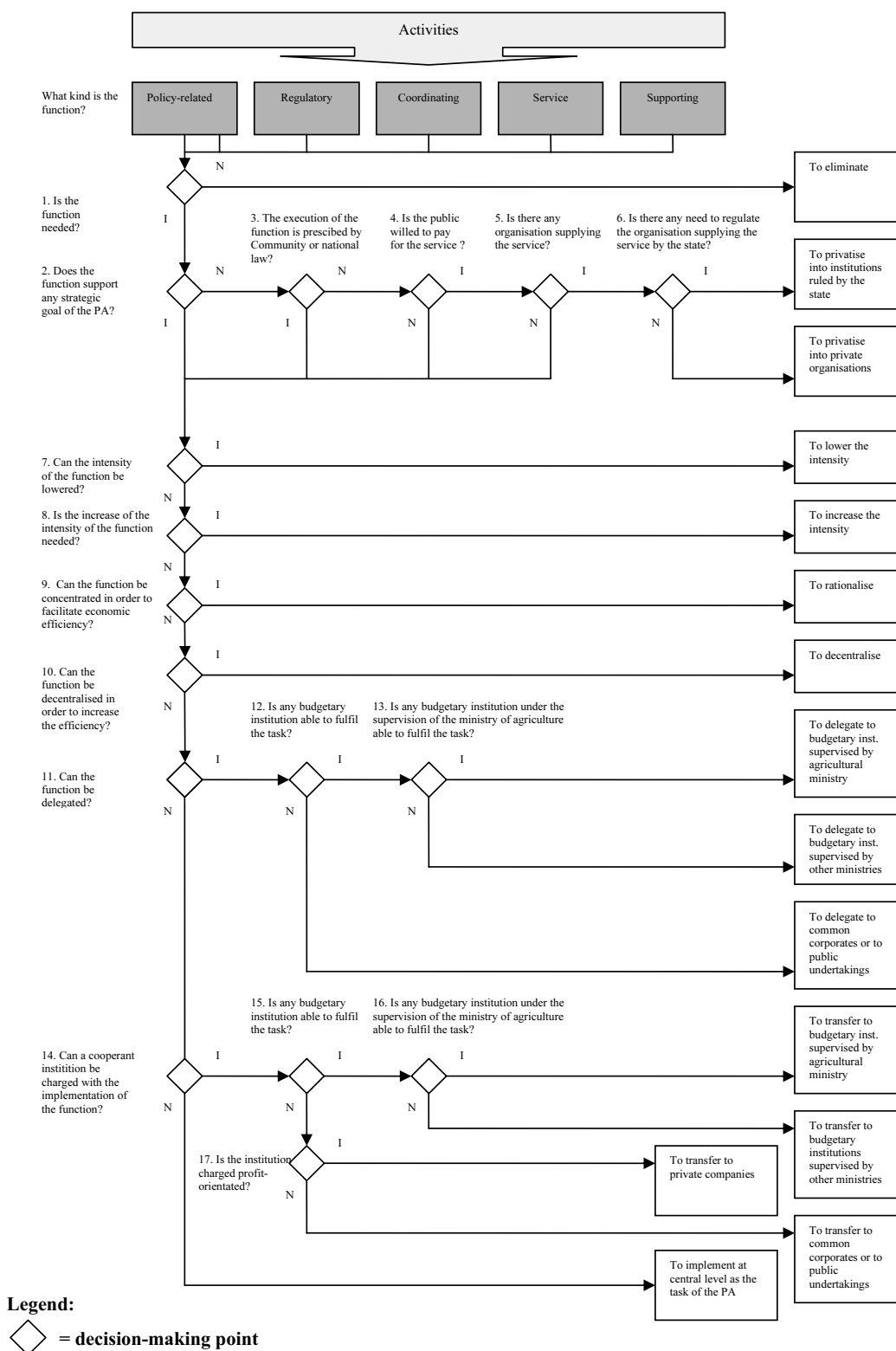
By **collecting the information** at first the **activities necessary to elaborate a paying agency** were defined. The organisation form of the paying agency can be figured by defining the original activities of the predecessor of the PA (generally the institutions handling national or pre-accession subsidies), the new PA tasks laid down directly or indirectly in the legislation, the logically required other new activities and the traditional supporting activities, by collecting these into functions and by analysing the functions. In the next step the **analysis of the paying agency activities** was accomplished, which means in fact the definition of the tasks to be implemented. After analysing the activities of the paying agency the **activities were grouped into functions**. The paying agency is the background institution of the agricultural ministry, it implements **policy-related, regulatory, coordinating** (controlling, reporting), **service** and **supporting functions**.

### 3.4.2. Analysis of the functions

By **analysing and evaluating the functions** the characteristics of certain functions were estimated. It had to be decided, which functions will remain in the institution and which are the new functions to be elaborated. The survival and the elimination of the functions was investigated concerning two periods (before and after accession). Before the accession the tasks of the predecessors have to be implemented unchanged. Parallel to this, the new functions operate only in the “theory”, thus in the practice their establishment, the preparation for these tasks takes place. After accession the new tasks are implemented “in production”, among the former tasks a lot of will be eliminated in the future but at first they transform into “leaving” tasks.

In order to analyse the paying agency functions the decision-tree visible at Figure 1 was drawn up. The destiny of the functions at a paying agency can be diverse, they can be handled differently. It is possible:

- ✓ to **eliminate**, since after accession their application coincides with the Community law;
- ✓ to **transform**, since after accession their application differs, their implementation alters;
- ✓ to **lower the intensity** of the activity, since the task will be abolished in the near future, but before its elimination several aspects handled have to be finished or since it is not an obligatory task of the paying agency or it is not a priority;
- ✓ to **increase the intensity** of the activity, since after accession the requirements concerning the activity increase considerably;

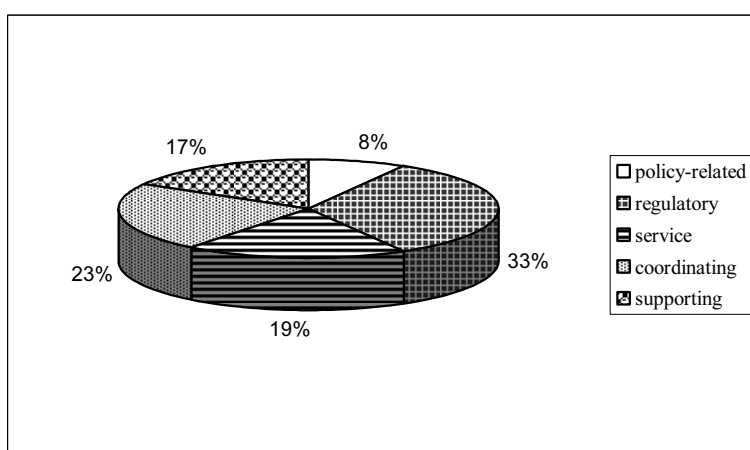


**Figure 1: The decision-making tree for the analysis of the paying agency functions**

- ✓ to **rationalise**, to concentrate with similar functions in order to eliminate the parallel use of functions having the same content or in order to improve the level of the decision-making process, the communication and the services;
- ✓ to **decentralise** to local offices due to the physical proximity to beneficiaries;
- ✓ to **privatise** into private organisations or into institutions ruled by the state, to common corporates or to public undertakings;
- ✓ to **implement** at central level as the task of the paying agency;
- ✓ to **execute** as a task delegated to the paying agency;
- ✓ to **delegate** to budgetary institutions supervised by the agricultural or by other ministries or to common corporates or to public undertakings;
- ✓ to **transfer** to budgetary institutions supervised by the agricultural ministry or by other ministries, to common corporates or to public undertakings or to private companies.

The analysis of the activities belonging to the same function and the analysis of the functions are shown at Table 1. The analysis of the functions indicates, whether the implementation of a function is rational at central level, whether its decentralisation is more efficient, is it more useful to delegate a function or is it more feasible to transfer the task to a cooperant institution. Furthermore, it is visible that if a task already existed at the predecessor of the paying agency, how the intensity of the activity changes after the development of the PA.

**To sum up** it can be concluded that the biggest part of the functions before and after accession is a regulatory one (36%), which supports the definition of the paying agency as the executive body of the regularisation of the agricultural market. The activity of the PA is closely connected to the agricultural policy, thus it is implementing it, which is reflected in the 8% ratio of the policy-related functions. Since the operation of the different data-bases or registries is essential in order to administer the subsidies and especially to justify the data and the facts, the service functions are present in a relevant percentage (18%). The 22% ratio of the coordinating function is justified by the magnitude of delegated tasks and tasks implemented by cooperant institutions due to the special technical knowledge required at controls, by the operation of local offices and by the feature of the PA tasks (integrated regulations, implementation procedures and documentation system). Finally, the supporting functions helping the operation of the paying agency represent 16%. The percentile distribution of the functions implemented by the paying agency is indicated at Figure 2.



**Figure 2: Percentile distribution of the functions implemented by the paying agency**

**Figure 1: The activities belonging to the same function and the analysis of the functions**

Activities	Function								
	Policy-related		Regulatory		Coordinating		Service		Supporting
		E / L	Authorisation of national subsidies	E / D / L	International relations	E	Advisory service	T / L	Human resources management
		E / I	Administrative and on-the-spot control of national subsidies	E / D / L	Information services	E	Execution of rural development structural measures	E / D	Legal service
		E	Execution and payment of pre-accession schemes	E / D / L	Establishment of standard methodology	E	Execution of fisheries measures	E / D	Planning and budgeting
		E	Authorisation of internal market measures	E / D / DE / T	Operation of information and monitoring system	E	Operation of the central IT unit of the Integrated Administrative and Control System	E	Financial management
			Authorisation of external trade measures	E / D / DE / T	Internal audit	E	Operation of farmer and client registry	E	Accounting
			Authorisation of storage schemes	E / D / DE / T	Administrative control	E / D	Operation of Agricultural Parcel Identification System	DE	Operation and supply
			Authorisation of direct aids	E / D / DE / T	On-the-spot control	E / D / DE / T	Management of registration systems	E / T	Administration
			Authorisation of rural development accompanying measures	E / D / DE / T	Satellite control	DE	Management of field cadastre	E / T	E / I
			Authorisation of payments	E	Supervision of local offices	E	Operation of Integrated Animal Identification and Registration System	DE	
			Execution of payments	E					
			Accounting for payments	E					
			Debtors' ledger	E					
			Handling guarantees	E					
	Legend: E = to execute, D = to decentralise, DE = to delegate, T = to transfer to cooperator body, L = to lower the intensity, I = to increase the intensity								

### 3.4.3. Elaboration of possible institutional changes

The elaboration of possible changes (development and/or improvement) serves the configuration of the **basic structural features** of the future organisation form respectively the configuration of the different versions of the structural features. To the basic structural features of the organisation form belong the division of tasks and its regularisation, the division of competences, the coordination and its regularisation and the configuration, thus the horizontal and vertical fragmentation of the organisation. With the help of the basic structural features of the structural form the structural form can be tackled and described.

The paying agency operating after accession shows a **linear** organisation form. The organisation is **unidimensional**, the primary division of tasks is according to the functions of the organisation. The organisation form is **unilinear**. The controlling and the professional connections are not separated, the subordinates can get instructions only from his boss. The downwards instructions and the upwards reporting communicate on the same service channel. The management of the paying agency is supported professionally by the staff service, which plays an important role by the preparation of strategic decisions. In the paying agency the structural (e.g. staff service), the technocratic (e.g. regulations, implementation procedures) and the person-oriented (e.g. promotion system) coordination tools are all present.

The organisation of the paying agency has to be developed at such a way that it accommodates the implementation of the applied support schemes. In the thesis the general implementation **procedure of the claim/application treatment** was sketched.

## 3.5. Analysis of agricultural expenditure

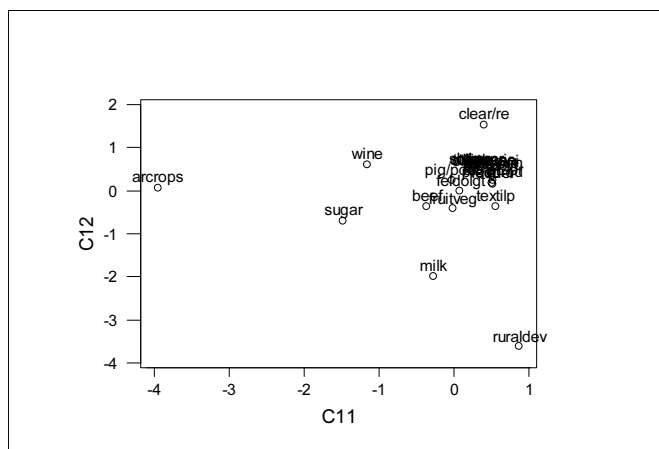
While analysing the expenditure financed from the European Agricultural Guidance and Guarantee Fund it was assumed that certain correlations should be found among the created measure-types and that there are similarities concerning the subsidy structure among certain Member States of the European Union. Since the results obtained based on the analyses of data 2001-2003 are similar to the one concerning the year 2000, the results based on the data of 2000 are presented in the theorems of the thesis.

### 3.5.1. Analysis of the subsidies by measure-types and products

Firstly, the classification of the EAGGF Guarantee Section expenditure per **measure-types** was investigated. By investigating the possible coherencies among the measure-types with the help of the **factor analysis** there is a strong relation between the volume of **storage measures** and **direct aids** and a weaker, but positive correlation with the **export refunds**. The second factor can be considered as the (individual) factor of the **other market measures**, which means that the other market measures can be considered as independent from the other three factors. The individual factor of the other market measures can derive from the fact that this measure-type consists of a lot, different support scheme. Beyond the support schemes of plant and animal products, which cannot be categorised as storage measure, export refund or direct aid, hereto belong the measures of rural development and the measures administered directly by the EU and beneficiaries (without the administration of the paying agencies of the Member States), for example the veterinary and phytosanitary measures. Furthermore, the reduction of subsidies by calculating the advances or by the clearance belongs also here (the latter is a negative expenditure, since it has to be reimbursed by the Member States to the common budget). The above written is supported fully by the dendrogram obtained with **clustering** of the variables respectively by the shown hierarchical connection of the variables.



The possible grouping of the **subsidised products** can be investigated at Figure 3 prepared based on the coordinates of the **two relevant factors**. Since according to the first factor there is a strong correlation among the volume of storage measures, export refunds and direct aids, these three factors appear together at the horizontal axis. Based on the figure and the original data it is evident that the expenditure spent on the **arable crops** is prominent. The production of **sugar, wine, beef and veal and milk and milk products** is subsidised with lower, but over the average amount in a similar line.



**Figure 3: Subsidised products by the first (c11) and the second (c12) factor (2000)**

Arable crops, beef and veal and milk and milk products are typically continental products, which had a high relevance in the eyes of decision-makers of the Member States founded the European Economic Community. At the same time it can be stated that the production of beef and veal and milk and milk products is approaching the average due to the negative values of the storage measures. It is due the fact that intervention selling price was higher than the booking value of the stocks and therefore the Member States had to reimburse a part of the subsidy received earlier. The rural development measure can be found on the other side of this scale, since its value concerning the first three factors is zero. The second factor (c12) on the horizontal axis was identified as the other market measures. Comparing the figure with the original data it can be concluded that at the two ends of the scale the high negative expenditure of the **clearance and reduction of advances** and the high positive expenditure of **rural development** can be found. The **other factors/products** situate mostly around the average (since these are standardised variables around zero). Since the subsidy level of fruit and vegetables, textile plants, processed products, pig meat, eggs and poultry, olive oil, dried fodder and grain legumes, tobacco, fisheries, food programmes, POSEI, veterinary and phytosanitary measures, control and prevention, promotion and information, other plant sectors and animal products is similar, these products appear together at the right hand upper part of the Figure.

In order to discover the group of products having similar subsidy structure it seemed to be worth to accomplish the **clustering** of the products as well. In accordance with the above written the **arable crops, rural development, clearance and reduction of advances** and the support of **beef and veal** production can be considered as independent from the other products.

### 3.5.2. Analysis of the subsidies by Member States and products

Secondly, the EAGGF Guarantee Section expenditure was analysed by **Member States**. By using the advantages provided by the methods of the multivariate analysis, the following questions were tackled:

- ✓ are there any homogeneous group of the Member States from the point of view of the structure and magnitude of the subsidies, i.e. how far is the distribution and subsidy policy uniform and consequent;
- ✓ are there countries, which differ from the uniform subsidy policy due to their special feature or features;
- ✓ what could be these special features;
- ✓ by analysing the products subsidised by Member States, can be similar product groups isolated;
- ✓ are there, and if yes, which are the relatively independent products/fields subsidised?

Based on the accomplished principal component analysis the first four principal components count for 85.6 % of the total variance. Based on the high principal component coefficients in the column of principal component 1 it can be concluded that there is a relevant one-way correlation among the subsidy structure of most of the Member States, thus **the subsidy distribution is fairly consequent**. From the high principal component coefficients in the column of principal component 2 it is visible that the subsidy structure of **Belgium** and **The Netherlands** is **similar** and they are **contrary** to the one of **Greece**. By controlling this statement with the original data it can be concluded that the difference is eye-catching. Compared to Belgium and The Netherlands (but also to other countries) the subsidy on olive-oil, textile plants, fruit and vegetable, tobacco, sheep and goat and rural development is high in Greece, which reflects the production structure. On the contrary, the milk and milk products indicator is negative.

At the third and forth principal component only one country shows a high coefficient at each component. Therefore, the subsidy structure of **Ireland** and the **European Communities** (which latter cannot be classified to the Member states) differs from the expenditure structures of other countries. The latter is trivial since these subsidies cannot be directly contributed to Member States. The “favouritism” of Ireland can be explained by the fact that almost extraordinarily the expenditure on animal products is nine times higher than that on plant products. Its subsidy structure is rather simple: expenditure is spent almost exclusively on arable crops, beef and veal and sheep and goat. Since the biggest part of the subsidy of these products is direct aid it can be estimated that Ireland reacts quickly to the trends of the reforms and it coincides with the traditionally animal production feature of its agriculture. The dendrogram received by the hierarchical **clustering** of the Member States supports the above written.

By investigating the correlation among the **supported products** the production of the continental products, such as **arable crops, beef and veal** and the **rural development** segregate from the other products similarly to the conclusions in the previous chapter. Furthermore, hereto belongs also the production of **sugar, milk and milk products**. There are two further groups, whose differentiation is fairly visible: the support of the typically **mediterranean products** (sheep and goat, wine, tobacco, textile plants, olive-oil) and the group of **other products**.

The hierarchical **clustering** of the products was implemented again. The result corresponds almost completely to the one presented previously at the **analysis of the subsidies by measure-types and products** by the **investigation of the supported products**.

### 3.6. New scientific results

The research on “Development of the institutional system required for introducing and implementing the Common Agricultural Policy in Hungary” gives the following new scientific results:

- ✓ By **systematising the literature of organisation, institution and management** the theoretical context of organisation – institution – function – structure – management was explored. The scientific basis of the organisation was investigated, the methodological models of the organisation of new and existing structures were collected and improved by establishing the methodology of the research. The aspects of certain organisation theories used at analysing the operation of organisations were systematised and confronted, the basic structural features of the organisation forms were synthetized. By investigating the management of institutions the management functions and the process of management of institutional changes were analysed.
- ✓ Through the systematisation and enlargement of the national **and international literature on the Common Agricultural Policy** an overview was given on the objectives of the CAP, on the principles of its operation, on its measures, financing and on the main changes since its formation. The elements of the last comprehensive CAP reform were analysed, the expected impact of the reform was evaluated and the coherences between the CAP reform and EU enlargement were investigated. Furthermore, the elements of the institutional system implementing the CAP were collected. Throughout the research the information collected on the CAP was systematised in university note and university textbook in order to support the EU knowledge of the students.
- ✓ A **survey based on a questionnaire** facilitating the evaluation of the characteristics of the paying agency implementing the Common Agricultural Policy and the form of interview preparation and document investigation were elaborated. The objectives and the methodology of the functional analysis were established and the use of field of the methodology was synthetised. The analytical methods facilitating the research of certain measure-types and subsidy structures were evaluated.
- ✓ The **characteristics of the institutional system implementing the Common Agricultural Policy** were estimated and evaluated with special regard to the organisation structure and implementing procedures of the paying agencies paying and controlling agricultural and rural development subsidies in the case of two former – The Netherlands and Austria – and two new – Slovenia and Hungary - EU Member States. The tendencies of the institution development at the former Member States were outlined and the experience gained was incorporated into the development and improvement possibilities of the paying agency system of the new Member States. The way leading to the setting-up of the Hungarian Paying agency was synthetised, a special attention was drawn to the difficulties, which could be avoided by the gained information by countries wishing to join the EU in the future. The features of the paying agencies analysed, the **features which are worthy for adoption were highlighted**. The practice of the **communication of the EU Commission and the Member States** was evaluated, the way of connection related to the subsidies paid was sketched.

- ✓ **The functional analysis of the paying agency system was accomplished for the first time.** Based on this analysis the efficiency, effectiveness, economy and transparency of the operational paying agencies could be defined and improved and the subsidy administration of the future EU Member States could be established. The activities of the paying agency were defined, they were grouped to activities already present at the predecessor of the PA, to new PA tasks laid down in the legislation, to logically required other new activities and to traditional supporting activities. The activities were analysed, the paying agency functions were defined and the activities were grouped into policy-related, regulatory, coordinating, service and supporting functions. By analysing the functions the characteristics of the functions were evaluated and a decision-tree to be used for analysing the functions was set up. The structural features of the PA concerning the division of tasks, the development of competencies, the coordination and the configuration were defined by investigating the basic structural features of the PA organisation form, respectively by elaborating different forms of the structural features. The configuration of the paying agency was figured for the pre-accession preparatory phase and for the operational period following the accession. The characteristics of the improvement of an existing institution were outlined specially. **The general scheme of the implementation procedure of a paying agency** - thus the flow of the claim or application from the applicant to receipt of the subsidy – was measured.
- ✓ The **multivariate method of analysis of the agricultural expenditure** financed from the European Agricultural Guidance and Guarantee Fund is a novelty, the method was applied in the study on a new field. This so-called methodological adaptation trial is accepted and used broadly also on other scientific fields. The result itself is getting sure and certain about the fact that no strange, unintended correlation exists between the created agricultural measure-types. The interpretation of the results obtained by the factor analysis and clustering **reflected the characteristics of the Common Market Organisations.**
- ✓ For the analysis of the agricultural expenditure measure groups were created and it was assumed that certain correlations should be found among the created measure-types and that there are similarities concerning the subsidy structure among certain Member States of the European Union. The subsidies were analysed by measure-type and product and by Member State and product. The correlations in the volume of certain measure-types were estimated and the independent product groups were isolated. It was observed that the typical **continental products**, which had a high relevance in the eyes of the founder Member States forming the Common Agricultural Policy, **are supported strongly until today despite of the multiple CAP reforms.** Since in the investigated period there is a relevant one-way correlation among the subsidy structure of most of the Member States, it can be concluded that the subsidy distribution is fairly consequent. It was presented that the **interrelated subsidy groups formed on the base of measure-types and of Member States are identical.**

## 4. CONCLUSIONS AND SUGGESTIONS

Based on the results of the research on the development of the institutional system required for introducing and implementing the Common Agricultural Policy the following conclusions and suggestions can be made:

- ✓ In the process of the development and improvement of the paying agency institutional system implementing the EU agricultural regularisation it can be concluded that the **establishment of the legal background is the base for setting-up the institutional system**. The Netherlands and the other countries joining the EU at a later stage – e.g. Austria – had the advantage that before starting the institutional development the bodies in charge of the implementation of agricultural regularisation and the cooperant institutes fulfilling delegated tasks were appointed. The setting-up of the system was started after defining these competencies and distributing the roles, which lasted also for several years. It has to be mentioned at the same time that the main directions of the agricultural common policy were more clearly elaborated, the MS could be aimed at a less dynamic objective and from a shorter distance due to their developed agricultural economics than the countries, which joined the EU lately or intend to do this in the future. Therefore, it is strictly needed that the legal background of the setting-up of the paying agency is decided at an appropriate stage and that the institutional development activity can start on this solid basis.
- ✓ By screening the actors implementing the CAP in the Member States it was concluded that **in the old Member States the number of the paying agencies is constantly decreasing and a certain concentration was found**. Behind this trend the intention to improve the efficiency of the operation and to minimise the costs can be found, which is extended by the intention to simplify the complicated and complex control mechanisms required by the EU and to decrease the coordination activities. Concerning the decreasing number of the paying agencies the new Member States could take advantage of the experience of the old ones, hence the difficulties arising from the concentration of institutions operating for several years could be avoided and the way to establish a single paying agency could be shortened. The fact that in case of operating a single paying agency there is no need to set up the coordinating body, which is solely responsible for the communication with the EU Commission and for the financial accounting and reporting and this way the operational costs of the agricultural regularisation could be lowered compared to the amount of subsidies channelled to farmers and other beneficiaries should be also considered. Therefore, to set up a single paying agency can be definitely recommended to the countries joining the EU at a later stage. This advice was also accepted by the new EU-10 countries.
- ✓ The tendency towards the **centralisation is also visible, thus the number of the offices operating at local level is decreased by centralisation and the tasks are centralised**. By setting-up the local offices, another approach is suggested to the new Member States, since the old MS can decrease the number of the local offices today due to the fact that the support schemes implementation is standardised and all of the actors are well-practised in their role. With the assistance of written information the applicants are able on their own to do their heavy administration tasks, to complete the information on the application form, to purchase the necessary certificates and attestations and to follow up the old, the revolving and the completely new subsidy measures. Next to their practical experience they are assisted by an excellent technical support (PC, Internet access). The experience gained from the accession process shows that **preceding the year of the accession not only the farmers, but also the actors of the agricultural regularisation are not entirely aware about the content of the possible subsidy measures**.

In order to ensure objectivity it has to be also underlined that the coordination of a large number of local offices creates a heavy burden for the central office. This statement is also valid for the institutions fulfilling delegated tasks, since also in the case of delegation of tasks the paying agency remains the single responsible for all of the tasks. Therefore, it is advisable to allocate the tasks, the necessary competences and the personal, material and financial conditions to the actors involved and to determine the necessary number – which number still excludes the danger of crumbling and uncoordination - of local offices and to define the tasks to be delegated or to be transferred to other institutions afterwards. By the improvement of the already existing paying agencies an impact assessment has to be accomplished before the number of the local offices would be decreased.

- ✓ The information of producers and their preparation for subsidy application is not an obligatory task for the paying agency. Nevertheless, the central and local offices of the PA have to make huge efforts in order to ensure that the producers can engage in the strange and highly administrative process of subsidy application. On the one hand, the preparation of the support scheme application is the task of the PA. Therefore, it is rational and necessary to test the application forms, the other formulas and the information material on the subsidy measures during their design on a certain group of applicants and to use the results of the test when designing these documents. On the other hand by developing the subsidy administration system a special attention has to be paid for the preparation of the producers, since the whole system is operated by the Member States in order to channel the subsidies to the producers and other beneficiaries. There is a definitive need for **arranging seminars to the farmers presenting the core elements of the subsidy measures** (what is subsidised, who can apply for subsidy, what conditions have to be fulfilled) and for **administrators helping concretely by filling in the application forms** or for advisory services fulfilling this task for allowances. The appropriation of the national advisory offices for the accomplishment of this task should be reviewed and the establishment and operation of a management and farm business management advisory service net should be considered.
- ✓ The public administration organisations implementing the agricultural regularisation are having full autonomy on the field of the subsidy implementation due to their activity, to the features of their functions and to their compulsory responsibility, which makes **the segregation of the agripolitical decision-making and implementing functions necessary**. The augmentation of the autonomy of the implementing institutions and their importance in the agricultural public administration are underlined by two facts. The members of the paying agency are active actors of the EU legal preparation procedures of the EU Commission conferred to it by the Council via the management committees. In the national legislation preparation procedure they assist the decision-makers in creating a legislation, which can be implemented in the practice via transmitting their experience gained at implementation. The strengthening of the positive coordinating, synthesising function of the agricultural ministry can be suggested.
- ✓ After the EU accession the profit-oriented agricultural production and the questions of competition are supported by the ambition that the producers and the entrepreneurs **maximise the utilization of the EU subsidies in order to increase their income**. In order to achieve this objective and that the competition of the Hungarian producers is ensured also at the single market the agricultural decision-makers and the ones influencing the decision-making have to do their best in the field of improving the institutional system administering the subsidies, since the producers and the other actors of the market **do not get any agricultural and rural development subsidy without the operation of an accredited subsidy administration system**.

- ✓ Since the most comprehensive reform of the Common Agricultural Policy is taking place nowadays, there is a need to **screen the activities and the functions of any - even of a well operating - paying agency system and to adjust them to the changing environment**. The basis of the development of an efficient institutional system and of the initiation of the conditions necessary for the operation is the methodical and to the bottom analysis of the implemented tasks. Without this approach the ideas on the improvement of the institution do not result in the achievement of the required status. The conclusion drawn by the functional analysis could be used for **improving the not yet accredited PA systems of the Member States, for restructuring the paying agencies operating with low efficiency and for the preparation of the future EU members**. It has to be followed continuously whether the institutional system implementing the CAP is appropriate to fulfil any possible new function.
- ✓ The research can be continued in the field of **measuring the efficiency of the institutional improvement**. It is worthy to investigate in the future, how the efficiency of the operation forms after the period of improving the institution, thus whether the ambitions were reached by the improvement. The measurement of efficiency is possible by comparing the expenditure paid by the PA in one year with the costs of operating the administration running the implementation (investigation of transactional costs).
- ✓ By analysing the agricultural expenditure it was concluded that the subsidy measures of the CAP were simplified throughout the reforms. The support schemes can be grouped to external trade measures, storage measures, direct aids, rural development measures and other market measures along their implementation procedures. The subvention of arable crops, beef and veal production and rural development can be segregated from the subvention of the other products. There are two other groups, whose differentiation is fairly visible: the support of the typically mediterranean products and the group of other products. Since the investigation based on subsidies and measures-types and the analysis based on subsidies and Member States lead to the same result, the conclusion can be drawn that the **correlated subsidy groups formed on the base of measure-types and Member states are identical**.
- ✓ From the clear segregation of certain products it was deducted that the typical continental agricultural products, which had a high relevance in the eyes of the founder Member States forming the Common Agricultural Policy are still supported strongly until today in spite of the numerous CAP reforms and therefore, they will be the key products also in the future. Also the conclusion can be drawn that since the biggest part of the EAGGF expenditure are the direct aids and by the continental products the biggest part of the subsidies exists in the form of direct payments, a part of the CAP reform, thus the de-coupling of the subsidy from the production has already came true at these products. A further research topic could be **how will be the subvention of the key continental products shaped after the accession of the ten new Member States**, whether the high proportion of the direct aids will remain or the market will call for the increasing operation of buying-in into storage or of export subsidies?

- ✓ It was concluded that there is a relevant one-way correlation among the subsidy structure of most of the Member States, thus **the subsidy distribution was fairly consequent before the 2004 enlargement of the EU**. A further research area is the **forming of the subsidy structure of the Member States after the accession of the ten new Member States**. Will there be countries with similar subsidy structure among the new Member States and will it be a one-way correlation or an adverse one with the subsidy structure of other countries? Will the subsidy structure of the new Member States be similar to the old MS or will it be formed differently?

In my opinion the highest value of the research is that it measured, analysed and synthesised a field of the agricultural public administration, which is unique both in the national and international **management and business administration sciences**. The procedure was established along which the clear development and improvement of the institutional system administering agricultural and rural development subsidies becomes possible. The results demonstrated, the conclusions and suggestions drawn could be used in the theoretical and practical university education, in the possible reform of the Hungarian – mainly in the field of the agricultural - public administration, in the restructuring of the paying agencies operating at low efficiency level, in the development of the PA system of the future EU Member States and in the analysis of the structure and efficiency of the agricultural and rural development subsidies withdrawn from the European Union.



## 5. SUMMARY

The precondition for setting into practice the Common Agricultural Policy of the European Union is to establish the institutional framework for its implementation, which has also to be accepted by the EU. The methodology of the research is based on the division of tasks and functions of the paying agency and co-operating system elements of this framework.

The paying agency institutional system of the old and new Member States for handling agricultural and rural development subsidies was screened and analysed on the scientific basis of the organisational, institutional and management theories, by systematising and expanding the literature background of the Common Agricultural Policy. Examination of the paying agencies' functions showed that these could be methodized as policy-related, regulatory, coordinating, service and supporting functions. By analysing each of these functions their characteristics were measured and the functions to be removed, to be operated at central paying agency level, to be decentralised, to be delegated and to be transferred to other institutions were distinguished. By building upon this separation of the functions it was possible to identify how a new paying agency can be set up or the efficiency of an already operating agency can be improved. Furthermore, the structure of agricultural subsidies was studied: whether any correlations existed and, if yes, in which direction they went among the created measure-types and between the structures of the subsidies withdrawn by the different Member States of the EU.

A number of new scientific analyses were carried out and are worth underlining for the innovative results they gave. The specialities of the paying agency institutional system of two former and two new Member States of the EU were measured and evaluated, the positive features of the paying agencies implementing the agricultural regularization measures, which would be worthy of adoption were highlighted and the practice of communication by the EU Commission and the Member States was evaluated.

The functional analysis of the paying agency system was accomplished for the first time. Based on this analysis the efficiency, effectiveness, economy and transparency of the operational paying agencies could be defined and improved. Furthermore, the structure of the subsidy administration of the future EU Member States could be established. The characteristics of the functional analysis concerning the development of an existing institution are discussed separately. The general scheme of the implementation procedure of a paying agency - thus the flow of the claim or application from the applicant to receipt of the subsidy – was measured.

The multivariate method of analysis of the agricultural expenditure financed from the European Agricultural Guidance and Guarantee Fund has been applied in the study on a new field. The interpretation of the results obtained reflects the characteristics of the Common Market Organisations. It was observed that the typical continental agricultural products, which had a high relevance in the eyes of the founder Member States forming the Common Agricultural Policy, are still supported strongly until today in spite of the numerous CAP reforms.

The research completed is unique in the field of Management and Business Administration. Its novelty is reflected in the fact that the scientific results obtained by the analyses of the functions of the paying agency and the methodology elaborated in order to achieve these results can give rise to benefits in the development of an existing paying agency and in the setting-up of new paying agencies in the countries joining the European Union in the future. The methodology developed can be utilised also for improving other institutions in the context of a possible reform of the Hungarian public administration.

## 6. PUBLICATION LIST

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