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Priority 7 – Citizens and Governance in the Knowledge-based Society

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Summary
This case study is focused on the analysis of the new modes of governance with reference to the rural development policy, with particular consideration given to the programmes making use of the EU funds. Its subject is the Agricultural Paying Agency in Slovakia as a good and internationally comparable example of agency on which the EU accession has had important and sustained influence. In terms of overall performance of the agency, the conclusion is that the Agricultural Paying Agency has been successful. EU accession and EU funds meant a significant change in how the business was done though and the new APA model is based on a bureaucratic, Weberian logic, where individual civil servants are responsible for specific steps in evaluating documents and the final decision is made based on aggregation of all evaluations in a formula-based fashion. In terms of its establishment, technical complexity, lack of experience, existence of outside authority (EC) and high political importance meant a curious combination of technocrats working with political support but limited interference. As a result, power seeped away from ministry downwards to APA and upwards to the European Union, particularly European Council and European Commission. The key stakeholders were not the traditional social partners, but lobbyist associations of agricultural producers and their role was limited to practical feedback with very little power sharing on strategic issues. These conclusions are subject to some change as a new government brings new political equilibrium and politicians and ministerial civil servants lose some of their awe towards the agency.

Contents
I. INTRODUCTION AND NOTE ON METHODOLOGY .................................................................3
II. DESCRIPTIVE INTRODUCTION OF THE AGRICULTURAL PAYING AGENCY ......................3
III. PERFORMANCE OF AGRICULTURAL PAYING AGENCY ...................................................5
IV. HISTORY OF APA – A BRIEF SKETCH ..............................................................................7
V. KEY FINDINGS ..................................................................................................................9
VI. CONCLUSION ...................................................................................................................18
VII. ANNEX – SOURCES OF INFORMATION ...........................................................................20
   VII.1 LIST OF PERSONS INTERVIEWED ..............................................................................20
   VII.2 OTHER SOURCES OF INFORMATION .........................................................................21

Table of Figures and Graphs
TABLE 1: AGE STRUCTURE OF APA EMPLOYEES, 2005 .........................................................4
I. Introduction and note on methodology

This case study is focused on the analysis of the new modes of governance with reference to the rural development policy, with particular consideration given to the programmes making use of the EU funds. Its subject is the Agricultural Paying Agency in Slovakia as a good and internationally comparable example of agency on which the EU accession has had important and sustained influence.

The analysis presented in the case study answers the following questions:

- Has APA, as an example of a new type of agency, been successful?
- To what extent and in what direction did the “business” of granting and administering agricultural subsidies change as a result of EU accession and APA establishment?
- Consequently, how has the distribution of power changed?
- What has been the relationship between politicians on one hand and technocratic civil servants on the other in establishment of APA and its continuing existence?
- Who are the social partners with regard to APA and what has been their influence?

The case study is based primarily on two sources of information:

- Publicly available documents (produced mainly by various institutions of the Slovak Government, but also by the World Bank and others)
- Detailed directed interviews with approximately 20 key stakeholders in Slovakia and abroad

The publicly available documents are useful in describing the basic metrics of Agricultural Payment Agency (from number of employees to disbursement rates) and in outlining the environment in which it operates (Slovak agricultural sector). However, since the case study analyses issues, which:

- Are of current or recent vintage,
- Have strong personal and partisan associations,
- Are often intangible, such as administrative culture or instances of clientelism.

It is unlikely that the documents alone would produce sufficient information to answer the relevant questions, answers provided in the interviews are crucial to the case study.

At the same time, there are obvious risks in drawing conclusions from oral testimonies, particularly by self-interested actors. Therefore, the case study uses the information from interviews carefully. It builds its strongest statements on it only if the same or very similar views were provided by a number of participants, optimally by those who otherwise disagree about certain issues or have different incentives. Also, the text tries to indicate, whenever appropriate, whether the claims made are based on individual testimony or statements of many uncoordinated individuals.

II. Descriptive introduction of the Agricultural Paying Agency

Agricultural Paying Agency (Pôdohospodárská platobná agentúra in Slovakia) was created in 2003 by a special law (473/2003 Z.z.) as of December 1, 2003. It is a budgetary organisation, which means that its budget is fully integrated into the budget of the Ministry of Agriculture (i.e. all revenue is budget revenue, all expenditure is budget expenditure).
APA has headquarters in Bratislava and 18 regional branches. Its task is to deliver „administrative activities related to financial support from EU sources and national sources“ in agriculture, forestry and fishery. (APA Annual Report for 2005 p. 4)

The principal tasks of APA are:
- Managing applications for EU and national funding for agriculture and rural development
- Financial management of approved projects/payments

In the 2004-2006 programming period, it is responsible for the following EU programs/funds:
- SOP Agriculture and Rural Development (funded from EAGGF – guidance section and FIFG)
- Rural Development Plan (funded from EAGGF – guarantee section)
- Direct payments

Additionally, APA is responsible for administering all national support programs of MoA.

APA has, in addition to a number of small units, 5 major organisational units:
- Section of project oriented supports
- Section of direct supports
- Section of market organisation
- Paying section
- Control section

At the end of 2005, APA had 595 jobs available and 560 employees on average in 2005. Out of these, 293 were in the headquarters and 267 in the regions. Their age structure is shown in the following table 1. 82% of APA employees have university education.

<table>
<thead>
<tr>
<th>Age category</th>
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<tr>
<td>Less than 26</td>
<td>5.54</td>
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<tr>
<td>26 to 30</td>
<td>17.14</td>
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<td>31 to 35</td>
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<td>56 to 60</td>
<td>13.04</td>
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<tr>
<td>More than 60</td>
<td>1.96</td>
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III. Performance of Agricultural Paying Agency

In terms of overall performance of the agency, the conclusion of the case study is that the Agricultural Paying Agency has been successful in its mission as measured by two key benchmarks: disbursement and legality/regularity.

Disbursement, in this context, means success in making payments to the recipients. This success can be documented both in terms of agricultural subsidy programs as well as for programs funded from Structural Funds and thus comparable to other programs in Slovakia financed from the Structural Funds.

In terms of special agricultural subsidy programs, the most important have been so-called direct payments to farmers, which APA managed to pay in 2004 despite major challenges and which it has succeeded in paying ever since. As will be discussed later, this was the key political benchmark for functioning of APA and if the payment had not been done in 2004, it would have directly threatened the position of then Minister of Agriculture Zsolt Simon.

A more quantitative yardstick of APA success can be gained by comparison of disbursement of Structural Funds. In the programming period 2004-2006, APA is the intermediate body for SOP\(^1\) Agriculture and Rural Development, which can be compared to other SOPs.

According to the data provided by the Slovak Ministry of Finance to the Government Office, the four key SOPs in Slovakia had the following disbursement rates as of December 31, 2006:\(^2\)

- SOP Agriculture and Rural Development: 48.09%
- SOP Human Resources: 38.86%
- SOP Basic Infrastructure: 32.10%
- SOP Industry and Services: 31.39%

The lead of SOP ARD is significant and a closer look at number reveals that this has been so since the accession of Slovakia to the EU. The rate was also satisfactory in absolute terms given the fact that nearly 40% of the programming period still remained for disbursement of the remaining funds.

The second priority of APA has been legality/regularity, which means that the agency follows, in its work, relevant EU and national legislation and has financial control systems that comply fully with EU requirements. As analysed in more detail below, the EU rules are not exhaustively and unambiguously defined, but are closer to a set of principles which each country can implement with a level of discretion. These have then been implemented into the Slovak legislation: both generally in laws governing control, audit and financial management, as well as into specific legislation governing APA. There were many innovations introduced into Slovakia as a part of this process, but two areas are worth mentioning:

- Creation of the position of internal auditors and adding evaluation of system performance to legal compliance as a basis of control and auditing systems. Slovakia has a system of

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\(^1\) Sectoral Operational Program
internal and external “control”, which was substantially reformed institutionally following
the fall of communism, but the paradigm on which it is based and methods used remained
largely changed and focused on checking compliance of controlled subjects with all appli-
cable specific legal requirements. EU accession brought an introduction of new position of
internal auditors, more concerned with overall performance of systems and institutions.
This was grafted on to the traditional control system and they now exist in sometimes un-
easy symbiosis though the two group have maintained personal, institutional and proce-
dural separation. (see Law on Financial Control and Internal Audit No 502/2001 Coll. and
Law on Internal Control 10/1996 Coll.)

- Introduction of a variety of specific steps to decrease corruption and fraud risks. These
steps, such as the rule of four eyes (each key administrative step has to be checked by at
least two people) or audit trail (documents detailing administrative flows) have been di-
rectly pushed by the EU. (see Council Regulation No 1260/1999/ES laying down General
Provisions on the Structural Funds).

In terms of how APA managed to achieve regularity/legality, such a wide notion can never be
assessed both comprehensively and objectively at the same time, but the following three ar-
guments can be used.

First of all, APA was accredited and has been audited by audit/control bodies at various na-
tional and supranational levels with a decreasing number of findings and none of them as a
systemic problem.

Secondly, an overwhelming majority of those interviewed praised enormous increase in
transparency in awarding and financial management of agricultural subsidies since creation of
APA. This view was shared regardless of political background or former/current position of
the person interviewed. The views differed from absolutist (“the new system makes fraud and
corruption essentially impossible”) to relativist (“despite remaining problems, we have seen
major improvements and the situation is acceptable”). It needs to be noted that this view was
however not shared by all stakeholders interviewed.

Thirdly, APA work during the 2004-2006 period was not subject to major scandals compared
to the past problems with agricultural subsidies or other EU subsidy mechanisms.

The positive assessment is also based on explicit views of those interviewed – how does APA
compare to similar agencies in other new member states? The interviewed ranked APA as av-

erage or somewhat above average, but it is interesting to note that those interviewed who were
outside Slovakia had, on average, a more positive view of its functioning compared, in par-
ticular, to Poland and Hungary.

As will be discussed in more detail below, this does not mean that every stakeholder considers
APA an unqualified success. However, it will be shown that the key criticism of the agency –
the bureaucratic burden of grant-making and payment process – was a largely unavoidable
combination of the second priority (regularity of payments) and a learning curve for an
agency from a new member state.

It also needs to be noted that these conclusions are related to the past work of the agency and
are not necessarily sustainable. As will be discussed in more detail below, APA has recently
been subject to significant change based both on the personality and policy priorities of the
new minister as well as an evolving overall environment for the work of the agency.
IV. History of APA – a brief sketch

This section is devoted to a brief summary of how APA was created and built up into its current form.

Even though agency itself was created in December 2003, its „real“ history goes back to 1996-1997 when a small group of people in the Ministry of Agriculture began to focus more and more on EU and accession issues. The process was quite slow at first and involved usual instruments of knowledge transfer: study visits, technical assistance by experts from EU countries etc.

This process was accelerated significantly when SAPARD Agency was created and accredited both nationally and by EC in years 2001-2002.

SAPARD was the EU preaccession program for agriculture with an explicit aim to prepare both farmers and authorities for EU membership and implementation of Common Agricultural Policy. As such, it followed, in many ways, the procedures and approaches adopted for the member states in CAP. In Slovakia, the „learning curve“ objective of SAPARD was successful in the sense that the SAPARD Agency was the embryonic APA, as shown, for example, by a very high level of continuity in senior positions between the SAPARD Agency and APA.3

At the same time, SAPARD:

- did not contain the whole range of financial instruments that would come with the accession
- the financial volume was relatively small compared to CAP
- in some of the key administrative issues for member states (including IT systems), it was not identical to postaccession requirements.

Consequently, there was a long way to go before the SAPARD Agency could be turned into working APA both in terms of scaling up (the SAPARD Agency had less than 100 people increasing to 125 at the time of APA creation, APA has nearly 600 employees) and new challenges – particularly the IT system and related requirements.

Simultaneously, the so-called state funds which served as alternative subsidy agencies were still operating and fight for their elimination was only taking place (and only finished by the end of the 1998-2002 parliamentary term).4

The key problem during the 2001-2003 period was a relative lack of political priority of preparing for accession in terms of administrative capacity. In 2001 and 2002, Pavol Končoš, who was the minister in the 1998-2002 period, focused on political activities of his Party of Democratic Left which he was trying to save from extinction and reportedly devoted much less attention to the management of the ministry than previously. As a result, preparation for accession was much slower than necessary.

New minister Zsolt Simon, appointed in October 2002, was a young politician (and private farmer) with limited previous experience in administration or national politics. He immediately increased the pace of preparation for EU accession, but it took him reportedly several

3 By this time, 3 out of 4 people who were identified by most of the interviewed as key to functioning of APA were already in identical/similar positions in SAPARD Agency.
4 Comparison of the way funds operated and APA operates will be later used as a very instructive shorthand for the change that came with EU accession.
months to fully appreciate the depth of the crisis in which his ministry found itself and also to take full control of the ministry. According to the warnings provided reportedly by the European Commission, including at the very highest levels, it was considered unlikely the EU would provide Slovakia timely funding for direct payments in 2004. If farmers would have not received benefits most closely associated with EU membership, this would have threatened the very position of the minister.

The minister then took several radical steps, the most important of which was creation of APA by special law and utilisation of several existing administrative structures and their staff for APA benefit. (Kazda 2005) These were not only the SAPARD Agency, which served as the proto-APA, but also Agricultural Intervention Agency, regional departments of the ministry and some capacities within the ministry itself (one section). As a result, APA dramatically scaled up (to 480 employees by February 2004) and managed to deliver the key political objectives. (APA 2004 Annual Report 2005).

During its preparation and subsequent establishment, relevant individuals in the ministry and the SAPARD Agency benefited primarily from bilateral contacts (Austria, the Czech Republic and Germany were mentioned frequently). These contacts have continued and are still source of information and inspiration. The European Commission formally kept more of a distance in terms of advice and assistance because it is also responsible for supervising national systems and ensuring their compliance with EU rules. Extensive involvement in setting up the agency, its procedures and staff could prejudice its role. At the same, EC officials provided extensive informal advice to ministerial and APA employees especially in the run-up to the accession. What is often forgotten is also that learning was also an inherent part of the negotiation process and meetings with the Commission. Information and suggestions passed via these meetings were crucial.

APA and its officials became part of various international networks which strengthened horizontal international networks at the expense of vertical national ones. Such networks exist not only at the level of APA Director, but also for other senior/key positions (for example, internal auditors).

These networks along with the learning from the Commission were the key element in Europeanisation of the agency. To be more precise, the SAPARD Agency and later APA were not Europeanised, but were set up as new agencies to deal with EU funds. In other words, they did not have to be transformed, but rather their Europeanisation occurred in their creation and subsequent accreditation process and this is where all the contacts played their role. In this respect, administrative culture at the SAPARD Agency and later APA was different from the very start from the previous administrative culture at state funds or at the ministry. Employees transferred to APA from other organisations thus had to adjust themselves to this new culture.

Both bilateral and multinational networks obviously had no formal impact on the APA autonomy from the ministry, but this was a case where “knowledge is power”. Superior technical expertise of the key team in APA (Mr Haraj, Mr Guniš, Ms Turčanová), coupled with references to practice in other countries and informal messages from the Commission officials, were a powerful weapon in ensuring bureaucratic autonomy of APA in the process of its creation.
V. Key findings

Finding 1: EU funds meant a significant change in how the business was done

As already mentioned, until 2002, bulk of agricultural subsidies were distributed through so-called state funds. State funds were separate legal bodies with their own board and management and, particularly during 1990s, a high level of financial independence. During the 1998-2002 period, their control was tightened until they were eliminated and their funding and staff directly integrated into the Ministry of Agriculture and its other institutions. This was part of the overall reform of the state funds in Slovakia, where these extrabudgetary funds came to be seen as fiscally hazardous, insufficiently accountable and unnecessary.

However, whether the national subsidies were distributed through state funds or by the ministry directly, they generally had the following two key features:

- advance payments
- significant level of discretion in allocating subsidies, particularly at the regional level

Even though the situation differed in time and between various instruments, providing some funding in advance was, for a long time, one of the defining features of subsidies. The justification for this policy was simple: need of credit by farmers based on production/seasonal cycle coupled with very limited availability of credit.

Limited availability of credit can be mainly attributed to the fact that, during 1990s and early 2000s, the agricultural sector in Slovakia was undergoing a wrenching transition, with high number of bankruptcies and other types of financial and organisational distress. As a result, lending to agricultural sector was considered highly risky. Agricultural assets – particularly land – were illiquid and of uncertain or no market value, particularly in depressed regions. At the same time, both nominal and real interest rates were high to extremely high.

As a result, the government provided advance payments on subsidies and, in doing so, took on all the credit risk and, precisely because the credit risk was so high, was left with billions of crowns of receivables that were impossible to collect after this policy was terminated.

Discretion in allocating subsidies also varied in time and between programs. As a stylised fact, it can be said that the ministry provided guidelines, but the final decisions were generally done on a regional level by stakeholder boards. This enabled flexibility, but, particularly because of lack of transparency and access to information, also led to clientelism and corruption.

Creation of APA and EU accession brought significant change in both aspects.

APA, in all its programs, shifted to strategy of refunding eligible expenditure and does not provide advance payments anymore, either in EU or national programs. This shifted the credit risk to those who are providing funding to the farmers and other recipients – mostly banks. The shift to bank financing was possible for two reasons. One was that macroeconomic stabilisation and bank restructuring decreased interest rates significantly and increased the bank credit expertise as well as competition in the banking market. The other was that continuing restructuring of the agricultural sector and decrease in uncertainty that came with EU funding

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5 Before the gradual changes related to EU accession, but starting several years before as a part of the accession process

6 It needs to be noted that there was a special bank, Poľnobanka, set up in early 1990s to provide agricultural credit, but it was relatively small
decreased the credit risk of lending to farmers. In this respect, the guarantee and predictability of EU direct payments played a major role.

Shift to bank financing not only decreased the government credit risk, it also introduced a new actor into the equation – banks. Since most agricultural procedures do not have sufficient cash reserves to prefinance their expenditure themselves, they need bank credit. However, success in obtaining bank credit is connected to a host of requirements: provision of information, quality of accounting, existence and quality of business plans...

Consequently, by pushing farmers and other subsidy recipients towards banks, the new system significantly contributed to cultural change in the agricultural sector towards more standard corporate governance practices. (Though the point should not be overstated.)

Equally importantly, APA sought to minimise discretion and change the whole procedural model of how award of subsidies is decided. Based on the interviews conducted as a part of the report preparation and the study of the relevant legislation, the changes can be described in the following way.

The previous model can be characterised as a group-based decision-making with concentrated discretion. In other words, the groups (usually committees at the regional level) were making the decision about who gets what and even though they were circumscribed by the ministerial guidelines, these provided for some discretion which was concentrated in this committee. Since the groups were mainly composed of stakeholders, this can be labelled as a model based on political logic – decision is made with some discretion by a co-ordinated group of individuals with legitimacy (supposedly) coming from representing various interests and accountable to them.

The new model is based on a bureaucratic, Weberian logic. Application passes through a decision-making process where individual civil servants (not stakeholders) individually evaluate it from a technical point of view where they supposedly hold expertise. The final decision is made based on aggregation of all evaluations in a formula-based fashion and those applications fulfilling the criteria are automatically awarded the subsidy.

Even though both of these changes are strongly related to EU accession, they do not necessarily and completely follow from it. Even member states can provide, through a variety of means, advance payments to farmers, but not from EU money, which are based solely on re-funding expenditure. EU rules also provide for detailed financial control of many aspects of subsidies, but not for complete elimination of discretion in their award in all programs (for example, in SOP ARD). Also, APA switched to the new approach in remaining national subsidies, where the model is up to national authorities within some fairly broad limits.7

In other words, EU accession meant a significant change in „how the business is done“, but not all of the change was mandated by the accession. Instead, our interviews show that, when the system was being designed, key technocrats, with support of minister Simon, used the EU accession as a lever to achieve policy changes they considered beneficial.

It will be interesting to analyse sustainability of such a shift, particularly as it is not completely mandated by EU regulations. The issue is relevant, because the appointment of Miroslav Jureňa as a new minister in 2006 led to change in the person of APA Director and our interviews indicated that the role of APA, its procedures and its relationship to the ministry is also being rethought (more on that below).

7 It needs to be stressed that the remaining national subsidies are relatively small compared to their previous level, because most of the domestic funding for subsidies was redirected towards co-financing EU funds.
According to our interviews, the new system enjoys a high level of legitimacy among stakeholders on all sides. Attempts to dismantle it and replace it by a completely different one would probably also encounter serious opposition from the European institutions. Therefore, a new paradigm seems unlikely, but this does not prevent change on the margins.

The high legitimacy is obviously not due solely to the transfer of power from well-connected stakeholders and politicians to technocrats controlling APA. On the contrary, this aspect of the change was seen as negative by those negatively affected: politicians and organised interests. However, there is sufficient trust that the new system is transparent and unbiased (or at least a huge improvement on the previous system) and that the civil servants in charge of APA are bound by their own rules to preserve the legitimacy. At the same time, the fact that the ministry kept the powers of strategic management and that monitoring committees including stakeholders had both oversight and formal decision-making powers ensured that the more contentious elements in the “rules of the game” were removed from APA power and this also worked to preserve APA legitimacy.

Points made in these findings can be illustrated by two key scandals surrounding agricultural subsidies in the 2002-2006 period.

In the first scandal, the media found out that the Ministry of Agriculture granted, in 2003, subsidies to firms owned by the then minister Simon and the State Secretary Radošovský. The policy-makers defended themselves by claiming that they changed the rules to make it clear who is entitled to subsidies and their firms only received subsidies to which everyone is entitled. This was generally seen as true but was disputed for a portion of subsidies. The State Secretary resigned, but the minister survived.

In the second scandal, it was revealed in October 2006, 3 months into the new government, that the new State Secretary Záhumenský instructed the ministerial staff to change subsidy rules so that his tobacco farm could receive higher subsidies. The State Secretary subsequently charged that he had only done so because the previous minister Simon limited his subsidies in contravention of the EU law. In the end, Záhumenský resigned. (Kazda 2007)

In neither of these cases was APA implicated or criticised, despite the fact that it was the financial conduit for the subsidies for Mr Záhumenský. (ibid.) However, there was an understanding by all sides that APA just implemented rules as determined by the ministry, whether under Mr Simon or Mr Záhumenský. APA did not distribute the 2003 subsidies to Mr Simon and Mr Radošovský (at the time, this was done by the ministry), but the arguments used by both sides of the political spectrum and the media also illustrated strong support for the Weberian, rule-based approach implemented by APA, over committee-based approach with significant discretion.

**Finding 2: After previous consolidation, the power seeped away from ministry downwards to APA and upwards to the European Union, particularly European Council and European Commission.**

The second claim made in this case study is that EU accession and preparation for it meant a shift of power away from the Ministry of Agriculture downwards (to APA) and upwards (to European Commission and the supranational level in general).

Let us start with the more obvious shift – to the supranational level. Agriculture is one of the areas where the European Union has its own extensive policy including regulatory and financial instruments to enforce it; indeed, it is called *Common* Agricultural Policy for a reason. As one of the interviewed put it: „You have to get used to the fact that you have some leverage in the negotiations in Brussels, but once they are finished, you just have to do what has been
agreed. This, coupled with another reported and obvious fact – that a country the size of Slovakia can never have much leverage over EU policy – means that accession is inevitably tied to significant effective decrease in policy-making powers of the national ministry. This was as true for Austria in 1995 as for Slovakia in 2004.

However, since Slovakia and other postcommunist states were negotiating their accession from a perspective of poorer relations less skilled in the international diplomacy of any kind and with a very small cadre of qualified officials, the previous paragraph applied even more strongly.

The fact that such a high percentage of EU funds is going towards agriculture and that the EU is running common and highly regulated market in agriculture also make the European Commission much more prone to interference and micromanagement in this area compared, for example, to Structural Funds in general.

In terms of power shifting downwards to APA, this requires a more detailed chronology of organisation changes in the ministry and its institutions. As already mentioned, prior to 2002, many state funds existed in Slovakia and worked outside the normal budgetary rules. In agriculture, these were the following:

- State Fund for Protection and Improvement of Agricultural Soil
- State Fund for Improvement of Forests
- State Water Management Fund
- State Support Fund for Agriculture and Food Industry

The funds officially had only limited autonomy as the final decision on providing subsidies rested with the minister. However, they had councils composed of a variety of stakeholders that approved proposals for the ministers and, as extrabudgetary funds, were not subject to same controls as other public expenditure. Consequently, the funds were essentially a joint venture of the minister and powerful stakeholders largely outside any technocratic control.

The funds were abolished by special law as of December 31, 2001. All their money and power was transferred to the Ministry of Agriculture, so there was a significant increase in the formal powers of the ministry. These powers were concentrated in the ministry during 2002 and 2003.

Since 2004, all national programs were transferred to APA and were greatly reduced in size as much of the money was used for co-financing European programs. At the same time, the Slovak officials with the best knowledge of EU systems, procedures and requirements in the area of subsidies congregated in the SAPARD Agency and later in the Agricultural Paying Agency - in some cases (e.g. Vadim Haraj, the Director) even shifting from the ministry to the agency.

The ministry officials were not only facing much stronger and technically stronger partners at the EU level, but also much more focused and better informed counterparts in its own agency. This tendency was further reinforced by the fact that ministry was nearly overwhelmed by other priorities related to the EU accession and agricultural reforms, so there was limited ambition to micromanage APA or otherwise interfere in its operations. APA autonomy was reinforced further by the decision to delegate selection of projects to the agency and thus delegate the project management cycle completely to APA.

As a result, the agency was quite autonomous both when it being set up and in its first years of operation, particularly in terms of procedures and functioning. The ministry kept strategic management, particularly guidelines on project selection, but little else. Consequently, the pe-
period when the ministry concentrated much of the power in its own hands was relatively short and lasted essentially two years – 2002 and 2003.

Finding 3: Various stakeholders had different objectives for APA, but two were dominant: the political imperative to disburse and the preference for legality/regularity and risk aversion pushed by the European Commission.

APA can be seen as successful in management of agricultural subsidies if measured against two yardsticks which we used: disbursement and legality/regularity. These are of course not the only possible objectives for APA. It is however clear that these are the ones APA and ministerial management pursued as a matter of priority.

High level of disbursement is of paramount concern in an agency such as APA not only because it exists to deliver money to its clients, but also because EU funds were one of the most tangible rewards for EU membership and as such attracted extensive political and media attention in new members states. This tendency was strengthened by the fact that disbursement rates are a very simple and eloquent metric which enable comparisons across ministries, countries and programs. Additionally, there is a well-defined and organised group of potential recipients in agriculture who all expect some funding and where this funding is a key aspect of their business model. Under such circumstances, disbursing is a necessary and nearly sufficient condition for administrative and political success.

The term “nearly sufficient” was used because there is another necessary condition for success: compatibility of systems, procedures and operations with various European regulations. EU accession presents a particular challenge in this regard. EU institutions do not present a precisely defined list of specific requirements with fulfilment guaranteeing acceptance by “Brussels”. Existing member states have wildly varying organisation of administrative institutions and procedures that they are unwilling to unify or simplify to oblige EU institutions. As a result, the requirements placed on systems for distributing EU funding can be rather general so that they can be flexibly interpreted in the light of various administrative cultures present in member states.

This strong position of member states paradoxically became a weakness for new member states. Since there was no clear list of prescriptions and no direct experience with EU membership, those in charge of preparing for the accession had to, within certain range, guess what would be acceptable within the Slovak context. As the political imperative was to make sure Slovakia was successful in tapping the available funds, there was a natural tendency towards risk aversion and “gold-plating” financial management systems to minimise the probability of potential problems.

For these reasons, the twin priorities of disbursement and legality/regularity dominated other potential concerns: e.g. user friendliness, targeting subsidies and tailoring them more closely to policy goals. Legality/regularity is in itself in some conflict with disbursement, but this conflict was resolved (or at least weakened) by generous co-financing rates for Structural Funds part of subsidies and the fact that direct payments were a new, additional element of “money for nothing” to put it a bit simplistically. APA resisted any attempts to smooth the conflict by informally relaxing its rules.

Combination of generous financing and high administrative burden created markets for intermediaries. However, unlike in other EU funds, these intermediaries mostly dealt with technical knowledge and less with lobbying and/or corruption (which is not to say that such things did not happen at all).
Finding 4: Technical complexity, lack of experience, existence of outside authority (EC) and high political importance meant a curious combination of technocrats working with political support but limited interference. Even in such a situation however, politicians found a way of having indirect means of surveillance of APA.

When one looks at the relationship between the Ministry of Agriculture and the Agricultural Paying Agency, particularly at the relationship between the minister and the APA Director, it has been a relationship of unusual complexity with multiple layers of facts and meanings.

Let us start with the overall trends in the ministry and other government institutions in the agriculture concerning personal policy and stability. Slovakia, like other transition countries, has witnessed personal turmoil in ministries and other governmental institutions in the 17 years of transition. Because the political conflict in the society has been very sharp, it had a tendency to spill into the civil service and lead to widespread changes in the senior and middle ranks with changes of government. Once this “cycle of revenge politics” (see Beblavý 2007) is established, it becomes very difficult to reverse as every new minister sees himself/herself surrounded by hostile faces and considers it perfectly legitimate to change them for friendly ones. At the same time, it needs to be said that these changes enabled modernisation of the civil service, which had been woefully unequipped to deal with all the tasks that Slovakia encountered as an independent state since 1993.

However, the policy-making and implementation institutions in the agricultural sector had been spared frequent changes until 2002. Indeed, between 1992 and 2002, only two ministers alternated in the Ministry of Agriculture – Peter Baco from the nationalist HZDS and Pavol Končoš from the postcommunist Party of Democratic Left. Moreover, these two parties and their ministers had, in many respects, similar policy outlook: they represented interests of large co-operatives inherited from the communist times and, to some extent, large food producers.

This personal and political stability at the top meant that there was much less change and turnover also in the lower ranks. Besides the obvious positive consequences, this also meant that the agricultural sector was lagging others in terms of modernisation of the civil service, particularly the ability to prepare for the EU membership, which is crucial for agriculture.

After the 2002 elections, Party of Democratic Left disappeared (it did not reach the requisite 5% of votes to enter the parliament) and HZDS remained in the opposition. For the first time since independence, a politician from another party became minister – Zsolt Simon from Party of Hungarian Coalition. This party represents interests of ethnic Hungarians who live in southern Slovakia. Mr Simon himself was a successful young private farmer. In all these respects – age, business background, ethnicity, political orientation - the new minister was a sharp contrast to the way business was done previously.

It would therefore be understandable (in the Slovak environment) if this new minister meant a comprehensive change in senior and middle ranks of the civil service. This has not been so though there was a significant degree of personal rupture. Whether this rupture was part of necessary modernisation to prepare Slovakia for successful EU accession or “just the way business is being done” when a new party gets hold of a ministry depends on the point of view.

When one looks at APA from this angle, the key personality in its establishment was Vadim Haraj. Mr Haraj represents the continuity in the agricultural policy-making since he held senior positions in the ministry under both Mr Baco and Mr Končoš. During the 2001-2002 period, he was asked by Mr Končoš to set up the SAPARD Agency and accelerate SAPARD
implementation. According to some of our sources, this was because of his reputation as a troubleshooter.

Mr Haraj then built up the SAPARD Agency as documented above, with limited political interference. The same approach was repeated with transformation of the SAPARD Agency into APA and the subsequent work on APA. One could therefore postulate the following conclusion: a technically complex issue related to the EU, but with high political priority, was largely left to technocrats.

This picture is, in some respects, true. Mr Haraj was not personally close either to Mr Končoš or Mr Simon and his continuing survival as the SAPARD Agency Director and the APA Director can be attributed to the combination of the following factors:

- Technical complexity of the work and the significant probability that if Mr Haraj were removed, this could threaten the processes under way
- Political importance of the work and danger that disruption in the functioning of the agencies could spell political disaster for the minister involved
- Belief by ministers that even though he is not necessarily “their man”, he is also not a creature of somebody else

However, if one looks more closely, the picture becomes more complex. While Mr Končoš and Mr Simon were generally content to let Mr Haraj manage and the SAPARD Agency/APA work, this does not mean politicians totally gave up on political control. In particular Mr Simon, for whom APA was absolutely crucial, found other means of control. He successfully pushed Mr Haraj to appoint a Simon loyalist to the position of the Head of Office of APA, which is similar to a position of chief of staff or permanent secretary. This is highly ironic because the Civil Service Act established the position “head of office” as a supposedly apolitical highest-ranking civil servant in organisation where the director is a political appointee. In case of APA, the reverse happened – an apolitical Director with a political Head of Office as a watchdog.

While it is difficult to interpret personal relationships from the outside, it seems that the bargain between Mr Haraj on one hand and Mr Končoš and Mr Simon on the other was that Mr Haraj accepted interference by ministers as long as it did not threaten his fundamental managerial capability to deliver results required by the same ministers.

This bargain did not work on a sustainable basis with Mr Jureňa, a new minister from HZDS who was appointed in July 2006. His appointment was a typical example of “cycle of revenge politics” when, on the day of his appointment, he removed majority of senior civil servants in the ministry; probably because of their perceived closeness with the previous minister.

Mr Haraj was dismissed after 6 months and only after he refused to accept a political nominee he considered incompetent, as one of his deputies. While the immediate reason for his dismissal might have been this issue or his other “failings” in relation to the new minister, it is clear from the interviews that the key factor enabling the minister to dismiss him was the confidence by ministerial leadership that APA was working smoothly enough for them to be able to risk dismissal of its director without potentially disastrous consequences. In other words, by making APA work smoothly, Mr Haraj created an environment where he was no longer indispensable and so could be dispensed with.

The new APA Director is both a technocrat from inside the agency and a political nominee with long-standing personal relationship with the new minister. In this respect, we are seeing
a retreat from a more formal and professional relationship between the Minister and APA Director towards a more personalised and political relationship.

It is impossible to forecast how the situation will be developing in the following years, but other key members of the managerial team have not left so far and reportedly only plan to leave if the bureaucratic paradigm on which APA is currently based is violated or if there are other serious obstacles for their work.

The relationship between the minister and the APA Director has been reflected in the relationship between institutions – the ministry and APA. As already analysed, the ministry devolved much of the power over project management to APA and interfered in the internal workings of APA only to a very limited extent. However, the ministry utilised its powers as the Managing Authority of EU programs which enabled it (sometimes together with a Monitoring Committee composed of ministerial and other government representatives as well as stakeholders) to determine, for example, criteria and methodology for project selection. It also pressurised APA concerning politically salient issues – excessive bureaucracy as perceived by recipients, structure of regional network etc.

Again, interviews indicate that the appointment of the new minister coincides with change in the ministry-APA relationship, with power seeping back to the ministry. This is a logical outcome of the fact that, in an established and essentially stable system, both the Minister and the ministerial civil service have an interest in reclaiming part of their policy-making powers over the only major financial instrument in their hands – funds flowing through APA.

**Finding 5: The key stakeholders were not the traditional social partners, but lobbyist associations of agricultural producers**

Social partnership and social dialogue in the agricultural sector have several idiosyncratic features, some common to agriculture in most countries, others particularly pronounced in Slovakia.

First of all, trade unions have traditionally not been active in the Slovak agricultural sector, primarily because the dominant organisation form during the communist times was cooperative where all employees were at the same time partners/owners in the co-operative.

Secondly, Slovak agriculture is comparatively large-scale, with an average size of 349 ha per farm and while co-operatives and commercial companies are 20% of all farms, they use 80% of the agricultural land. Also, the average size of family farms (39 ha) is large compared to the average farm size in old member states (World Bank 2006).

Thirdly, two other types of civil society groups are active in this arena: environmentalists and rural civil society organisations. Neither has managed to achieve a very strong position vis-à-vis the Ministry of Agriculture, which still sees itself as primarily defending the position of agricultural producers.

As a result, the social dialogue had a bipartite, rather than tripartite form – with government on one side and various peak associations representing agricultural producers on the other one. Relative strength of these groups as well their overall position vis-à-vis the ministry changed with each government, but they have remained the key client.

Out of these, the Slovak Agricultural and Food Chamber is the strongest and most representative organisation. The second key group is Association of Agricultural Cooperatives and Cor-

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8 In this view, environmentalists „have“ the Ministry of Environment and rural development is best served by defending agricultural interests
portations, which has steadily lost ground as transformation of the agricultural sector gradually weakened its core member group - traditional cooperatives and their various legal successors.

**Finding 6: The role of social partners was limited to practical feedback, there was very little power sharing and the relationship was conducted primarily through the ministry, monitoring committee and informal contact**

With regard to APA and its programs, social partners have had two functions. One has been related to programming, the other to implementation.

During the preparation of various programs both for the 2004-2006 period and 2007-2013 period, social partners of all stripes, including environmentalists and civil society, were involved in the working groups. Their influence can be analysed at two levels. The first level is the level of major programming decision, where their influence was relatively low unless it coincided with government objectives. This was particularly so since various partners disagreed on key issues, so the ministerial representatives could, to a large degree, pick and choose. On the second level, a specific social partner could have significant influence on minor points if they did not face strong opposition from other players.

Concerning implementation, there is experience only with the 2004-2006 period, where not all programs have stakeholder involvement in the form of monitoring committees. To be more precise, monitoring committees exist for SOP ARD and for the Rural Development Plan, but not for direct payments. Where monitoring committees existed, the ministry was careful to ensure dominance by ministerial and other government representatives so external stakeholders could not block their will. However, the proceedings were generally consensual because the role of social partners was limited to practical feedback and dissemination of information rather than participation in strategic management of programs.

Overall, the role of agricultural stakeholders in government policy was quite weak during the 2002-2006 period where only the Party of Hungarian Coalition strongly defended the interests of agriculture, but even it did not have a strong relationship with the peak associations, which only developed as time went on. This changed with the new government in mid-2006, with the link between the agricultural lobbies and the government as whole and the ministry in particular becoming much stronger.

In terms of direct APA relationship with social partners, the legal framework for APA as well as its Weberian model of work pushed the relationship either into informal channels or conducted it through the ministry. The reason is that APA is a so-called budgetary organisation with its employees part of the civil service. In practical terms, this means that APA has a single individual responsible for management (Director General) who officially reports directly and only to the minister and there is no legal provision for collective management board or formal involvement of social partners (or anyone else) in management of the agency. Therefore, direct contact and cooperation between APA and the social partners happened mostly on informal basis. At the same time, monitoring committees mandated by the EU regulations for SOP ARD and Rural Development Plan were a good platform for more formal discussion with stakeholders on implementation of these two programs. However, the monitoring committees were chaired by ministerial representatives and APA representatives officially had only observer status.

This approach is in stark contrast with the system utilised before the EU accession where stakeholder groups had direct representation in various regional and national committees deciding on subsidy allocation. As already analysed above, this committee-based decision-making was replaced by a rule-driven approach implemented by APA civil servants and thus
this involvement of social partners officially disappeared. Again, it is not yet clear how much the new government and the new minister will change about this system.

VI. Conclusion

In terms of overall performance of the agency, the conclusion is that the Agricultural Paying Agency has been successful both as seen by outside observers and measured against its two key benchmarks: disbursement and legality/regularity.

Even though agency itself was created in December 2003, its „real“ history goes back to 1996-1997 when a small group of people in the Ministry of Agriculture began to focus more and more on EU and accession issues. The process was quite slow at first, but began to accelerate somewhat when SAPARD Agency was created and accredited in years 2001-2002. The preparations were still lagging behind however and it was only thanks to extensive if not heroic efforts during the 2003-2004 period that the APA was in the end successfully accredited and has been performing well since.

A key conclusion is that EU accession and EU funds meant a significant change in how the business was done, particularly in shift from advance payments to refund philosophy and in elimination of significant level of discretion in allocating subsidies. This contrast is not with previous APA operations (as APA did not exist before), but compared to previous practice.

The new APA model is based on a bureaucratic, Weberian logic, where individual civil servants are responsible for specific steps in evaluating documents and the final decision is made based on aggregation of all evaluations in a formula-based fashion.

It is important to note though that not all of the change was mandated by the accession, but instead the EU accession was used by key technocrats, with support of Minister Simon as a lever to achieve policy changes they considered beneficial.

The second key conclusion is that EU accession meant that, after previous consolidation, the power seeped away from ministry downwards to APA and upwards to the European Union, particularly European Council and European Commission.

The third key conclusion was that various stakeholders had different objectives for APA, but two were dominant: the political imperative to disburse and the preference for legality/regularity and risk aversion pushed by the European Commission.

The fourth key conclusion was that technical complexity, lack of experience, existence of outside authority (EC) and high political importance meant a curious combination of technocrats working with political support but limited interference. Even in such a situation however, politicians found a way of having indirect means of surveillance of APA.

The fifth key conclusion concerned stakeholders. The key stakeholders were not the traditional social partners, but lobbyist associations of agricultural producers and their role was limited to practical feedback with very little power sharing on strategic issues.

Finally, the appointment of a new government in summer 2006 meant a potentially significant change in the role of APA and its relationship with the ministry due to a combination of two reasons:

- different political, policy and personal preferences of the new Minister
- but more importantly, decreasing leverage of technocrats over politicians as APA and processes related to EU funds have gradually become routine and technocrats lost their exclusive standing. At the same, ministerial civil servants also began to reassert some control
## VII. Annex – sources of information

### VII. 1 List of persons interviewed

**Politicians**

3. Marián Záhumenský – former State Secretary of Ministry of Agriculture (July – November 2006), since December 2006 Member of Parliament

**Ministry of Finance**

5. Marcela Zubriczká – Director of Department of Paying Agency for Structural Funds

**Ministry of Agriculture**

6. Karol Zimmer – former General Director of Section of European Integration, Structural policy and Policy of Rural Development
7. Ľuba Fedáková – former General Director of Control Section of Ministry of Agriculture
8. Tibor Katocs – former Director of Secretariat of Minister of Agriculture, former General Director of Section of Management of Agriculture Paying Agency, former General Director of Section of Agriculture Policy and Budget of Ministry of Agriculture
9. Alexander Čarný – Director of the Department for Coordination and Management of Agriculture Paying Agency
10. Lubomir Miček – General Director of Section of rural Development of Ministry of Agriculture

**Agricultural Paying Agency**

12. Vadim Haraj – former General Director of Slovak Agricultural Paying Agency, from December 2003 – Dec. 2006, before that worked as director of SAPARD agency
13. Iveta Turčanová – Director of Internal Audit Department of Slovak Agricultural Paying Agency
14. Tibor Guniš – Director of Payments Division of Slovak Agricultural Paying Agency

**Supreme Audit Office of Slovakia**

15. Zora Dobrikova, the Vice-Chair of Supreme Audit Office of Slovakia

**External experts:**

16. Gejza Blaas – Director of Research Institute of Agricultural Economics
Stakeholders:

18. Vaclav Fabrici – Chair of Association of Agriculture Co-operatives and Corporations of the Slovak Republic

19. Zoltán Varga – Director of Association of Agriculture Co-operatives and Corporations of the Slovak Republic

European Commission:

20. Iman Boot - DG Agri

Journalists:

21. Jozef Sedlák – journalist from daily Pravda

VII.2 Other sources of information

Law No. 473/2003 Z. z. dated October 24, 2003 on Agricultural Paying Agency, support of agricultural business and on amending certain laws