



## **ECONOMIC EVALUATION IN THE PROGRAMS OF RURAL DEVELOPMENT IN HUNGARY**

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### **ABSTRACT:**

The goal of the Sapard programme is to accelerate regional development in the rural areas. They consider the adaptation, that is the conformity and the development of the specific regions important. They wish to place an emphasis on the promotion of the use of the Special Action Programme for Pre-Accession Aid for Agriculture and Rural Development. Their aim is to implement multi-year, complex development programmes. During our work we examine the possible effects of the SAPARD programme on regional development. We are preparing a model for actions assisting the alternative employment of the residents of the regions, which is related to the supplementary activities in tourism and hospitality in the farming economy of Homokhátság. We are preparing a model for the costs and the rate of return of investments realised using private resources and SAPARD assistance.

### **Keywords:**

economic evaluation, rural development

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### **1. INTRODUCTION**

Today for some people farm life represents the only living and housing alternative that can be achieved and maintained. In addition to the emotional and the cultural attachment to the location an attachment by necessity exists, as well. For another group the farm serves as a place for retreats and relaxation. One of the most important questions regarding regional development is to decide on the justification of the existence of the farms and to formulate their future role (4).

The subsistence of the farms has many kinds of requirements, among which the development of a modern model of farms that are economically also viable should be emphasized. In terms of this it is practical to develop the utilisation structure of the farms (e.g. farms used for farming, as a second home, with touristical or hospitality roles or as residential farms in the city suburbs) (7).

This in no way can be realised without the extension of the basic infrastructure and the enhancement of the cooperation of the farms, the villages and the cities according to the environmental considerations (5). The basic infrastructure needs to be defined in quite broad terms here (traditional technological infrastructure, cultural and vocational programmes, services promoting economic stimulus, consulting network). The development of a farm cadastre is a basic requirement for all of these (6).

During our work we have examined the situation of the farms located in the territories of Pest, Bács-Kiskun and Csongrád counties and have drawn up supplementary income alternatives.

### **2. THE CHARACTERISTICS OF THE FARMS IN HOMOKHÁTSÁG**

In Bács-Kiskun County 300 new farms were built between 1980 and 1990. 90% of these have electricity, and a motor vehicle belongs to 30% of them. The road conditions are becoming favourable (100m/km<sup>2</sup>). It can be determined that the number of farms have

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decreased, but the decrease of those having advantageous traffic conditions has stopped. In 1998 the operation of the farms represented 13,000 peripheral „jobs“. The availability of wired telephone communication was on quite a low level, but this has lost its importance with the spread of mobile sets (1).

### 3. THE REGIONAL DEVELOPMENT AREAS EXPECTED TO RECEIVE ASSISTANCE

A. The goal of the assistance related to „The renovation and development of villages; the protection and preservation of the rural material and intellectual heritage“:

- ❑ The improvement of the conditions promoting income generating activities in the small communities through the creation of new functions and the development of the existing ones.
- ❑ The protection and rehabilitation of the man-made and natural environmental elements to provide new functions for them.
- ❑ The development of the cooperation of the local communities for the implementation of the above goals.

The programme may be oriented towards arrangements regarding community structures, streets and public areas preserving and strengthening community character and the development of a uniform village image to enhance the attractiveness of the community. The renovation and the protection of the historical and architectural monuments of the villages need assistance. The promotion of the protection of the landscape elements belonging to the villages, the tree rows, the water courses and the lakes, results in the enhancement of ecological and touristical qualities. The grants of the previous programme covered 50% of the total development costs, and the maximum total amount of investment was 10 million HUF (2).

B. The goal of the assistance related to „THE DIVERSIFICATION OF ECONOMIC ACTIVITIES AND THE DEVELOPMENT OF ACTIVITIES ENSURING ALTERNATIVE REVENUES“:

- ❑ The identification and creation of alternative activities and revenue sources, the preservation of jobs and the securing of new employment.
- ❑ Compensation for low profitability in agriculture and for seasonal employment in agriculture.
- ❑ The strengthening of multi-layer farming and the expansion of services and product lines.
- ❑ The enhancement of opportunities for self-sufficiency and market penetration primarily through supplementary additional income.

The programme may be oriented towards developments aiming at the preservation of the existing employee base and promoting job creation through market and product changes. The income and employment opportunities, the development of rural agrotourism and the augmentation of the employment of women are in the basic interest of the region (8). The special products and services should receive assistance: the production and the sales of region-specific, homemade and handicraft products and the quality enhancement of specialty food processing technologies. Especially Homokhátság would require assistance for the revival of the disappearing crafts with the renewal and development of the tools required for this. In 2000 the assistance for concepts similar to the above comprised 50% of the total value of the implementation, and in case of an investment a maximum of 5 million HUF was granted to the successful tenderers.

C. The goal of „THE DEVELOPMENT AND IMPROVEMENT OF THE RURAL INFRASTRUCTURE“ programme:

- ❑ The local infrastructural development according the needs and the economic, cultural and rural characteristics of the specific rural regions.
- ❑ To ensure the background enhancing the operation of businesses and improving living conditions in certain underdeveloped regions.

The programme may be oriented towards the development of the energy supply serving businesses and the agricultural road network. The development and the improvement of the local markets and the purchase locations form a basis of the subsistence of the population, which need to be augmented with the development of computer interchanges. In 2000 for concepts similar to the above the tenderers received 50% of the total value of the implementation. In case of an investment a maximum value was 15 million HUF.

#### 4. THE EXAMINATION METHODS OF RETURNS ON INVESTMENTS

In the following chapter I performed the examination of returns on investments via economic methods: with the help of static indicators. Accommodation facilities are a long-term investment, so thorough calculations are required prior to their realisation. These calculations essentially indicate the ratio of the investment value and the expected revenues (3).

A. Investment costs contain all the costs arising from the planning to the realisation of the construction examined.

B. Average net income is the result of the difference between the annual revenues the expenses. As this is a static indicator, I use this value for every year.

D. Payback period is calculated by dividing the investment value and the average net income. I analyse the investment alternatives using both 100% own capital and assistance.

E. The investment profitability indicator is the quotient of the average net income and the investment value. I am modelling the possible annual income generated by the investment. I am comparing the alternatives realised by using 100% own resources and assistance.

#### 5. INCOME SUPPLEMENTATION OPPORTUNITIES THROUGH ALTERNATIVE ACTIVITIES IN A FARMING PROPERTY IN HOMOKHÁTSÁG

We are modelling the opportunities identified in the title using touristical and hospitality activities. In the first model we examine the development of an enclosed campground built on a farm by a forest and near water. The campground equipped with outside furnitures and a playground for children would accomodate a maximum of 60 persons (15 vehicles with 1 vehicle for 4 family members on average).

For the realisation of this the development of a water block is required, which would mean a common washroom and English toilet. The development of a 6-seat toilet and a 6-tray shower can be realised on 40 m<sup>2</sup>, calculating with a 600 Euro per square metre cost. The investment would cost 24.000 euro. The 15 m<sup>2</sup> kitchen in the camp would cost 400 Euro per square metre, a total of 6.000 Euro. Of course the camp would also include an incoming road, external furniture and landscaping. The investment cost of these is 10.000 Euro, so the total capital requirement of the accomodation facility is 40.000 Euro.

The use of the campground can be calculated with 8 Euro per day per family, and by assuming 40 days we can calculate annual revenues of 4.800 Euro. According to accomodation practices showing a profit rate of 40% a profit of 2.000 Euro can be realised. Using one's own resources this amount would be returned in 20 years, and investment profitability would be 4,8%. The type „B” SAPARD assistance allows a maximum of 20.000 Euro. With these conditions the investment value of the accomodation facility built with assistance would be returned in 10 years, and investment profitability would be 9,6%.

In the second model the existing building of the farm is transformed into an accomodation facility, and we also provide hospitality services. To increase the comfort level of the farm we create 3 rooms with double beds and an extra bed availability, a toilet, a washroom with a shower and a common tea kitchen. The cost of restructuring per room and the construction of the water block is 8.000 Euro, the tea kitchen costs 2.000 Euro, and the investment means a total of 26.000 Euro.

Hospitality costs (room with breakfast):

The meals cost 1 Euro, the operational cost is 1 Euro/person/day. The rooms can be rented for an average of 40 days during the summer season. By calculating 3 persons for each room the expected cost is 648 Euro/year.

##### **Hospitality revenues and profits**

The rooms can be rented for 10 Euro per family; the total revenues are 900 Euro. Breakfast – considering the rural conditions – can be calculated with 1,6 Euro, so the revenues from meals is 576 Euro. The annual revenues from hospitality are 1456 Euro, and the expected gross profit is 1092 Euro.

Using own resources this amount would be returned in 18 years. With these conditions the investment value of an accomodation facility developed with 50% SAPARD assistance has a return period of 12 years. In case of own resources investment profitability is 4,2%, and with assistance this value increases to 8,4%.

The third model is different from the above in that it has full board. The raw material norms of lunch and dinner are 1,6 Euro each, so the total cost of meals calculated for a 40-day season is 1512 Euro.

Lunch and dinner cost 2,4 Euro/person each, and by taking the cost of breakfast into account total revenues of 2304 Euro can be expected. The total revenues from hospitality are 3204 Euro, and the expected gross profit is 1692 Euro. By using own resources the investment would be returned in 15 years, and investment profitability is 5,8%. By utilising a 50 % assistance the return period can be reduced to 7,7 years, and with this we can expect a 13% profitability.

## 6. CONCLUSIONS, RECOMMENDATIONS

- The SAPARD programme aimed at regional development was not available in the past years, although this assistance significantly improves the living conditions of the rural population and provides supplementary income for them.
- The assistance would be especially needed in Homokhátság, where in addition to the more difficult living conditions income opportunities are also more limited.
- Following EU accession several thousands of hectares will not be cultivated, which further worsens the situation of those living here.
- Therefore there is a need for the activities also supported by SAPARD: the revival of old crafts, the continuation of homemade and specialty food production activities, unique services, rural tourism, etc., which enhance the viability of the region.
- An opportunity for job creation would be the renting of accommodations, and providing meals could significantly increase the profitability of the activity.
- The calculations also support the concept that the more complex hospitality services are, the greater the profits achieved, and with this the return on investment is more favourable, as well. By using own resources the return would require quite a long time; with assistance (e.g. by utilising the SAPARD programme) entrepreneurial spirit would be higher and the chances to invest own capital would increase.

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