

**ASSESSMENT OF INFLUENCE OF STRUCTURAL FUNDS ON
RURAL AREAS TRANSFORMATION IN POLAND ON THE
EXAMPLE OF RURAL DEVELOPMENT PROGRAMME**

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Abstract: One of the largest challenges of economic policy as regards rural areas in Poland is their sustainable development. Agricultural policy, regional development policy and other economic policies should in a coherent and complementary manner take into consideration in their instruments agriculture, non-agriculture nature of rural areas and non-market activity, inseparably connected with agricultural production. The article attempts to evaluate the influence of measures implemented in Poland in the years 2004-2008 basing on Rural Development Plan, on the food economy and rural areas. Synthetic description of Rural Development Plan 2004-2006 was presented, as well as an analysis of the programme economic effectiveness, effects of programme impact at regional level, influence on agricultural incomes and structural changes.

Key words: structural policy, public aid in agriculture, support for rural areas development, agricultural policy

Introduction

Defining the model of rural areas economic activity is of basic importance for socio-economic development of the country. Rural areas are characterized by certain development potential and a specific number of stagnation factors. Rural areas development is determined by endogenous conditions resulting from their internal characteristics and exogenous conditions generated by the pace of national economy development and economic policy. These conditions cause polarization into rural and non-rural orientation. It concerns population, households and economic entities.

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Speaking of economic development of rural areas in Poland, we are referring to approx. 93% of the country's territory inhabited by 15 million people, over 4.1 million households, 1.8 million agricultural holdings, nearly 3.9 million people working in agriculture and generating approx. 4.3% of GDP, approx. 2.2 thousand rural and urban-rural gminas, 42 thousand villages and approx. 50 thousand population centres). The range of rural areas, the number of population, dispersed settlement network and little significance of rural economy, outline the scale of the problem. This creates specific challenges in searching for the ways, methods and instruments of affecting the process of shaping transformations and implementing concepts of rural areas economic development.

Two entirely different economic policies may be a response to the socio-economic diversity of the country. The first type is the policy which does not acknowledge diversity and is oriented at directing the means to the regions where they will be used most efficiently, thus where they will cause the highest GDP growth. Usually, such policy causes further, relatively fast increase of development centres, and at the same time stagnation or much slower development of periphery areas. The critics of this policy indicate that it often leads to excessive expansion of several large urban centres to the size in which the society's life becomes difficult for different reasons. The final effect of it is deepening of the existing diversity. The second type is the policy aiming at limitation or even elimination of existing development differences. Under this policy, the means are addressed not to the regions, where they will be most effectively used but to regions with the lowest degree of economic development. Adversaries of such policy point to the fact that often, despite incurring huge public expenditures, the results of the policy are slight. Its advocates refer to the necessity for economic policy to take into consideration the rules of solidarity and social justice.

Both these types of policy do not exist in economic practice in a pure form. Each national policy is a mixture of both approaches placing itself next to one or the other extreme. It is also, or even mainly, a part of rural regions development policy. One of the greatest challenges of economic policy as regards rural areas in Poland is their sustainable development. Agricultural policy, regional development policy and other economic policies should in a coherent and complementary manner take into consideration in their instruments agriculture, non-agriculture nature of rural areas and non-market activity, inseparably connected with agricultural production.

Taking into account the fact that economic and regional policy in EU is oriented at structural transformations an attempt has been made to assess the influence of the activities implemented between 2004 and 2008 under Rural Development Plan on the food economy and rural areas. The analysis was prepared, *inter alia*, basing on the sources related to programme implementation

and ex-post evaluation of RDP 2004-2006 prepared for the needs of the Ministry of Agriculture and Rural Development (MRiRW). Basic methods include analysis and synthesis, as well as induction, deduction and reduction.

Synthetic description of the Rural Development Plan for 2004-2006

RDP was the largest programme supporting development of agriculture and rural areas implemented from EU funds, right after joining the European Union. The amount of EUR 3592.4 million was planned for the measures of the programme, EUR 3590.6 million of which was disbursed, which means that the implementation reached 99.95%. The programme was scheduled for two and a half years of Polish membership in EU (from May 2004 to December 2006), but according to EU $n+2$ rule (that is, two years after the programme completion) it was being implemented until 2008. Thus, the programme was the equivalent of RDP 2000-2006 implemented in the "old" Member States.

Table 1 Implementation of Rural Development Plan 2004-2006

Name of the measure	Number of beneficiaries granted with payment	Paid amount (million PLN)	% of means utilisation
Priority I Increase in the economic effectiveness of agricultural holdings			
Structural pensions	53 732	2 084	100.0
Semi-subsistence farms support	157 192	1 316	100.27
Agricultural producers groups	79	24	99.6
Priority II Sustainable development of rural areas			
Support for agricultural activity on LFA	2006 - 705 682	3 708	100.3
	2005 - 691 849		
	2004 - 607 114		
Support for agri-environmental undertakings and improvement of animal welfare	78 261	814	100.1
Afforestation of agricultural lands	18 009	384	100.2
Adjustment of agricultural holdings to EU standards	70 756	2 432	99.7
Total RDP	6 577 039	14 115	99.5

Source: PROWinki weekly, MRiRW, www.mrirw.gov.pl

At the same time, RDP 2004-2006 constituted an integral and important part of EU Common Agricultural Policy and related policies. It was coordinated both with the EU and national policies, especially with regional policy, competition

policy, employment policy and environment protection policy. In spite of RDP 2004-2006 being only a part of agriculture and rural areas development support policy, it played a key role in it. Owing to the fact, that the beneficiaries of RDP 2004-2006 were farmers, it may be acknowledged that they influenced and motivated the improvement of the situation in their place of work (agriculture) and place of living (in the country).

Strategic objective of RDP 2004-2006, that is the improvement of agriculture and food economy competitiveness and sustainable development of rural areas, was to a large extent achieved as a result of disbursed programme funds. The largest amount of the programme financial means was designated for the implementation of the measure: "Support of agricultural activity on the less favoured areas- LFA" (27% from RDP funds). The second place belongs to the measure "Adjustment to EU standards" (17.7%), and the third place belongs to the programme "Structural pensions" (15.2%) - aid for farmers in pre-retirement age. The smallest amount was designated for the measure: support for "Agricultural producers groups" (0.2%). The main part of the RDP 2004-2006 funds (20.86%), was designated to supplement area payments (table 1).

Economic effectiveness of the programme

Economic effectiveness of individual RDP 2004-2006 measures depended on: the amount of the funds, objectives they were used for, type of used instruments and number of beneficiaries. If relative amount of funds is taken into account, then both at national and individual voivodships' level, separate measures constituted in majority only less than 1 % of voivodship Gross Regional Product (GRP) and Gross Domestic Product (GDP). The largest support for separate measure at national level amounted to 0.38% and concerned LFA, the smallest support amounted to 0.003% of GDP and was designated for Agricultural Producers Groups. Taking into account the nature of the measures, from economic point of view they were implemented in a form of three types of instruments: Direct transfers (structural pensions, support for semi-subsistence farms, support for agricultural producers groups) area-based subsidies (support for LFA, agri-environmental programmes, afforestation), investment subsidy (adjustment to EU standards). With regard to the way of disbursing funds within each measure they may be divided into: "mostly investment" comprising adjustment to EU standards and semi-subsistence farms (according to beneficiaries' opinion 46% of the funds under this measure was designated for investment). Next, there are the "mostly consumer", measures comprising structural pensions (according to beneficiaries' opinion 94% of the funds was designated for consumption). The other measures are "mixed" and comprise support for LFA (beneficiaries declared 34% of expenditures for investments and 20% for consumption), agri-environmental

programmes (according to beneficiaries 44% for investments and 19% for consumption), afforestation (30% for investments and 13% for consumption) and agricultural producers groups (disbursed for coverage of the costs related to establishing and functioning of the group).

First of all, the measures, which had the most positive influence on the economic development, were these which focused on investments, followed by these for which the largest funds were designated. The most efficient way to provide investments were the measures unequivocally formulated as investment subsidies, on the other hand, direct transfers and area subsidies were characterized by larger freedom of disbursing, hence were of investment nature only to a limited extent. The measures most effective in generating economic growth in respect to their investment nature were: "adjustment to EU standards" (GDP growth by 0.73%) and "support for semi-subsistence farms" (GDP growth by 0.43 %), and in respect to large funds also support for LFA and structural pensions (both generated GDP growth by 0.07%).

The analysis conducted on the basis of "RegPol" model shows, *inter alia*, that the most effective measures in relation to generating economic growth, were those mostly investment and decreasing costs of management. The most favourable ratio of input (financial means passed on to beneficiaries under the measure) to benefits (in a form of economic growth achieved owing to it) was successively proved by the following measures: "support for semi-subsistence farms" (indicator of benefits to input amounted to 3.29), "adjustment to EU standards" (effectiveness indicator 2.89) and support for agricultural producers groups (0.60).

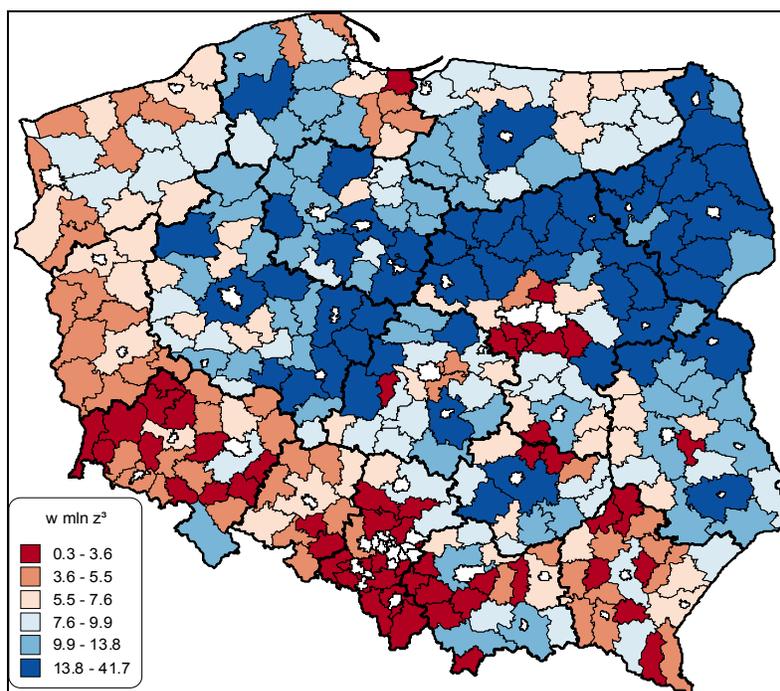
Although small, the influence of RDP 2004-2006 on Polish economy was generally positive. Total support for RDP 2004-2006 at the national level amounted to 1.2% of GDP (calculated on average between 2004 and 2006). Taking into account the fact, that it was addressed to a relatively small part of the country's population (farmers – RDP beneficiaries), the support may be considered significant. Owing to this, RDP contributed to economic growth, increase of rural population incomes and increase of rural population employment, at the same time without causing inflationary pressure and creating motivation to remain in the areas of Poland, which are more rural and agricultural.

Regional results of the programme

Regional distribution of support under RDP 2004-2006 indicates that the largest amount of disbursed funds was placed in relatively poorer agricultural and rural regions of Poland. It concerns voivodships of so-called "Eastern wall" and Northern and Eastern part of Mazowieckie Voivodship, but also the part of poviats in voivodships characterized by good agricultural condition (in Wielkopolska and

Kujawsko-Pomorskie regions) - diagram 1. Despite the fact that in absolute values the largest support was granted to Mazowieckie voivodship (PLN 1857 million, GDP 0.91%), relatively to its GRP the largest support was granted to the following voivodships: Podlaskie (4.51% GRP), Warmińsko-Mazurskie (2.42% GRP), Lubelskie (2.33% GRP), Kujawsko-Pomorskie (2.01% GRP) and Świętokrzyskie (1.90% GRP). Relatively the smallest support was granted to the following voivodships: Śląskie (0.13%) and Dolnośląskie (0.49%). Therefore, the majority of regions, which were granted support, were predominantly rural and agricultural.

Figure 1 Expenditures for RDP 2004-2006 implementation according to poviats (in PLN million)



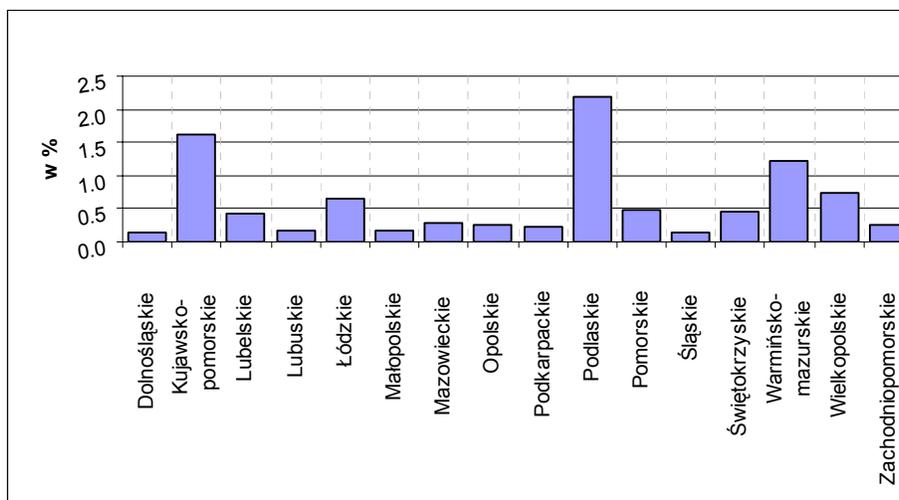
Source: own compilation based on ARMA Monitoring

Macro-economic influence of RDP 2004-2006 was regionally diversified. First of all, the highest economic growth caused by RDP 2004-2006 was achieved by the following voivodships: Podlaskie (2.2%), Kujawsko-Pomorskie (1.6%),

Warmińsko-Mazurskie (1.2%), Wielkopolskie (0.7%) and Łódzkie (0.6%), whereas the lowest in: Śląskie and Dolnośląskie – diagram.2. Moreover, the highest increase of real income was noted in the following voivodships: Podlaskie, Warmińsko-Mazurskie, Kujawsko-Pomorskie and Lubelskie. These voivodships noted also the highest increase of rural population employment in non-agricultural sectors, such as: building industry, energy sector, mining, services sectors related to tourism (hotels, restaurants, real estate services) Despite the increase of employment the RDP 2004-2006 influence on unemployment rate, which changed only by 0.1% was very low.

RDP 2004-2006 impact on employment on rural areas and in other sectors of economy related to agriculture and rural areas was slight, but positive. Small scale of the impact did not result from the lack of programme effectiveness but from the structure of measures. From the beginning they were oriented at creating non-agricultural workplaces. Moreover, the scale of granted aid related to employment (calculated by the number of beneficiaries, e.g. structural pensions) did not give any chances to solve huge problems such as decrease of unemployment, which means finding employment for approx. 1 million people.

Figure 2 Regional diversity of economic growth caused by RDP 2004-2006 impact (cumulated changes in %)



Source: RegPOL model data

However, it is worth mentioning, that the programme strengthened the general tendency visible on the rural labour market, that is the increase of employment indicator in the country from 47% to over 49% (according to Central Statistical Office), in particular in a group of young people up to 25 years old. Attractiveness and possibility of finding employment in the country were strengthened, *inter alia*, owing to RDP 2004-2006. RegPOL model indicated that as a result of RDP 2004-2006 the employment of rural population increased by 0.8%, which taking into account short period of the programme implementation, may be considered as a noticeable change. Programme measures also had an multiple influence on other sections related to agriculture, which all in all resulted in a total effect of employment increase by 1.64%. The influence was the strongest in voivodships of rural and agricultural nature e.g. in Podlaskie, Warmińsko-Mazurskie and Kujawsko-Pomorskie voivodships. It is also a significant result as regards the sphere of measures favourable to territory cohesion improvement, which is an important objective of RDP 2004-2006 and generally the EU policy.

Agricultural incomes

Together with European integration, Polish farmers' incomes to a greater extent were dependant on transfers to agriculture, as it is in EU-15 Member States. Between 2004-2006 the main stream of income increase covered the area payments, RDP 2004-2006 and Sectoral Operational Programme Restructuring and Modernisation of the Food Sector and Rural Development for the years 2004-2006. In this arrangement RDP 2004-2006 constituted approx. 21% of transfers to agriculture.

During the programme implementation period, a visible convergence effect of rural income level was noticed in comparison with average national income level and in non-agricultural sections. In the structure of rural population the indicators of rural population incomes, at which the RDP measures were oriented, have improved the most. Whereas the agricultural families' incomes in Poland in 2003 amounted to approx. 70% of the total average households' income, in 2007 the parity indicator of agricultural families' income amounted to 91%, decreasing visibly the difference of total agricultural families' incomes and households' incomes, which had been growing since 1995. These tendencies are also confirmed by the Economic Accounts for Agriculture research conducted by Eurostat and FADN results for Poland. Improvement of the situation of agriculture incomes and indirectly of rural population in our country was a result of many measures started thanks to Poland's membership in EU, including particularly direct payments. However, over 1/5 of estimated income results of these activities may be ascribed to RDP 2004-2006 measures (21%). If the value of financial transfers to agriculture

is concerned, the measure „support to less favoured areas – LFA” was of the greatest importance after single area payments (First pillar CAP).

Structural changes

Structural changes in agriculture usually take place very slowly, because their rhythm is often marked by generation changes e.g. resigning from active professional life and handing over the agricultural holding to children. RDP 2004-2006 was being implemented during the period of Polish economy stabilization, which additionally was not favourable to fast structural changes in agriculture, while it was accompanied by relatively high unemployment, so in many regions people from rural areas working in agriculture had difficulties with finding non-agricultural workplaces. Main weakness of Polish agriculture is the area structure (the area of 90% holdings does not ensure profitability), age structure (high average age of the farm manager and high percentage of persons over 60 years old), employment structure (too high percentage of rural population work in agriculture), commodity structure of production (sold production is too small) RDP 2004-2006 measures referred to these problems but the scale of the support and limited spectrum of measures did not enable carrying out all necessary structural transformations in agriculture. Conducted analyses show that some of the RDP 2004-2006 accepted solutions would have brought more benefits, if they had been accompanied by additional supplementary measures. The example is RDP 2004-2006 influence on employment structure, the structural pensions' measure motivated to resign from employment in agriculture, on the other hand, the beneficiaries were not offered any other alternative than early retirement, which increased long-term, rigid social costs.

RDP 2004-2006 also moderately influenced commercialization process of agricultural holdings. It results from bipolar character and objectives of the measures covered by Programme implementation that is the improvement of management, on one hand, and environmental aspects, on the other. Process of production intensification and effectiveness improvement in holdings participating in RDP 2004-2006 (as a whole) was slightly lower than on other farms.

Among RDP 2004-2006 measures, the one which was market-oriented was the support for agricultural producers groups, for the basic objectives were to the greatest extent achieved in a form of production efficiency increase or improvement of market position. However, its impact on changes at national level was small, due to little interest in the measure. The second measure positively affecting commercialization process was adjustment of holdings to EU standards. Increase of effectiveness of these holdings is proved not only in survey data but in

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a form of FADN indicators, such as increase of production, sale and work efficiency.

Comparing the structure of agricultural holdings in Poland and the structure of households managed by beneficiaries of RDP 2004-2006, it may be stated that relatively more often medium and larger holdings benefited from the Programme, and more rarely those with the area not exceeding 5 ha. Small holdings (up to 5 ha) constituting over half of the total number of holdings in Polish conditions are managed relatively often by the persons whose main livelihood is different (apart from the household). These are the holdings where the main income constitutes unpaid livelihood or non-agricultural job. Therefore, the diversity of real accessibility to RDP means depending on the size of the holding is rational and favourable to one of the main objectives of the Programme, which is the growth of competitiveness of Polish agriculture.

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**ОЦЕНА УТИЦАЈА СТРУКТУРНИХ ФОНДОВА НА
ТРАНСФОРМАЦИЈУ РУРАЛНИХ ПОДРУЧЈА У ПОЉСКОЈ НА
ПРИМЕРУ ПРОГРАМА РУРАЛНОГ РАЗВОЈА**

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Сажетак

Један од највећих изазова економске политике што се тиче руралних области у Пољској је њихов одрживи развој. Пољопривредна политика, политика регионалног развоја и економска политика, би требало да на кохерентни и комплементарни начин узму у обзир инструменте у пољопривреди. Не-пољопривредна природа руралних подручја и не тржишна активност, су нераздвојно повезани са пољопривредном производњом. Чланак покушава да процени утицај мера у Пољској у периоду 2004-2008. базирајући се на Плану руралног развоја, на економији хране и руралним подручјима. Синтетички опис плана руралног развоја 2004-2006 је представљен, као и анализа програма економске ефикасности, као и ефекти утицаја програма на регионалном нивоу, утицај на пољопривредне приходе и структурне промене.

Кључне речи: структурне политике, јавне помоћи у пољопривреди, подршка руралном простору, пољопривредне политике

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