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The Impact of LFA payments in different rural structures – an example of the Czech Republic and Poland[1]

Abstract: *Core objectives for rural development support for the programming period 2007–2013 are: (1) improving the competitiveness of agriculture and forestry, (2) improving the environment and the countryside, and (3) improving the quality of life in rural areas and encouraging diversification of economic activity. Regulation (EC) No 1698/2005 includes a clearer targeting towards smaller and micro – enterprises to sustain job opportunity in rural areas. For this programming period a minimum funding of 10% of the total EU contribution has been withheld by the Council Regulation for measures concerning the quality of life and diversification of the rural economy outside agriculture and forestry. In spite of it the EU's Court of Auditors has concluded that Rural development policy in Europe is ineffective because continues to allow member states to adopt a predominantly sector approach with a primary focus on the agricultural sector. Taking into account the variety of regions in Europe and the different situations at national level, it is difficult to provide a single guideline to solve the problem.*

This paper deals with possible impact of Less Favorite Area payments on rural development. Special attention will be given to the role of LFA in maintenance of agricultural production that is desirable from environmental point of view and overcoming common rural problems like depopulation of rural areas. Using the case of Poland and Czech specific implementation of LFA payments rules will be compared (that to be done with respect to different rural structures between those two countries). Descriptive analysis of farm structures development patterns will be used to explain low economic effectiveness of LFA instrument. Similarly presentation of spatial distribution of LFA payment will be used to investigate its environmental effectiveness. Groups of farms that are major beneficiaries of LFA instrument are to be selected and compared with the objective one.

It is expected that comparative analysis clarify the practical efficiency of LFA instrument in rural development. Finally, the conclusion concerned with future CAP is to be presented in respect of supporting regional rural development.

Keywords: *Less favoured area, agricultural holdings' structures, Czech Republic, Poland.*

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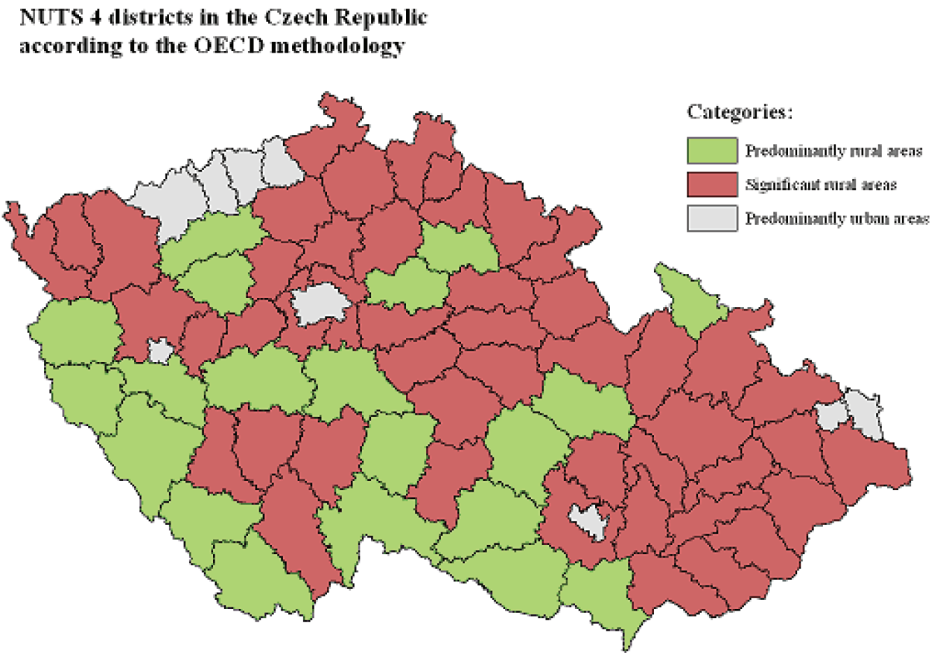
Basic situation in the countries

The Czech Republic

The total area of the Czech Republic (CR) is 78,867 thousand km^2, there are 10.3 million inhabitants, and the average population density is 131 inhabitants per square kilometer. Regions classified as Objective 1 cover the whole area, except for Prague. Administratively, the Czech Republic is subdivided into 14 self-governing regions ("kraj" NUTS3), 77 districts ("okres" NUTS4) and 6 258 municipalities. According to the OECD classification, at the level of NUTS 4 there are 9 urban districts (city Prague, Brno, Plzen, Ostrava, and industrial areas in the west of country), 20 significantly rural districts and the rest are predominantly rural areas. See the map below (Figure 1).



Source: CZSO – demographical statistic 2006, own calculation

The national unemployment rate is 7.4% (the Czech statistical office 31.12.2006), but this differs significantly among regions. The lowest is in Prague (2.7%), the highest (more than 15%) – in some districts affected by structural changes in industry and agriculture.

The share of agriculture, forestry and fishery in total employment dramatically decreased during the transformation process from 11.6% in 1991 to only 4.3 in 2001. The decline in agricultural employment is regionally differentiated. The largest decline, to 20% of the 1991 level, can be seen in some districts in the southwest of CR (former state estates), whilst the smallest to 40–50% – was in the districts in south Bohemia region and in Czech-Moravian highland with rare opportunity of jobs outside agriculture.

Half area of CR is agriculture land (4 259 thousands ha) and one-third the area is covered by forest. 3 514 thousand ha of agricultural land is registered in the Czech Land Parcel Information System (LPIS). The rest is used for hobby production (gardens, small orchards and vineyards) or noncommercial agriculture. But in some districts the agricultural area has been abandoned (non registered agricultural land comprises more than 50% of total agricultural land). The drop in livestock numbers can document the scale of the reduction of agriculture in CR. In comparison to 1990 the number of cattle has reduced to 39%, cows to 46%, pigs to 59% and sheep 35%.

The Republic of Poland

The total area of the Republic of Poland is 312.7 thousand km^2, there are 38.2 million inhabitants and the average population density is 122 inhabitants per square kilometer (Data for 2005). This area amounts to 31 269 thousand ha, of which 61% is agricultural land. Forested land as well as woody and bushy land amounts for 30% of the total area. Total legally protected areas processing unique environmental values amount to 32.5% of the total area. The population in urban areas is 23.4 million (61.4% of the total) and in rural areas it is 14.8 million (38.6% of the total). The average population per square kilometer in urban areas is 1352 inhabitants per square kilometer, whilst in rural areas it is 54. There are differences between populations in rural areas – from 25 up to 123 inhabitants per 1 km^2.

Note: Central with voivodship (mazowieckie, łódzkie); South with voivodship (małopolskie i śląskie); East (podlaskie, lubelskie, świetokrzyskie i podkar-

Figure 2. NUTS 1 – Regions in the Republic of Poland

packie); North-West (zach-pom, wielkopolskie, lubuskie); South-West (dolnośląskie, opolskie); North (pomorskie, war-maz, kuj-pom)

Based on a six-level-administrative-structure, Poland is divided into 6 regions (level 1), 16 voivodships (level 2), 45 subregions (level 3), (level 4) 314 powiats, (level 5) 65 cities with powiat status, and (level 6) 2478 gminas (urban 307, rural 1591, urban-rural 580).

The national unemployment rate increased from 6.5% in 1990 to 14.9% in 1995. In 2005 it reached 17.6%. This rate differs significantly according to the region considered. The lowest is in Warsaw (2.1%) and the highest (more than 27%) – in voivodship Warmińsko-Mazurskie.

The share of agriculture, forestry and fishery in total employment between 1995 and 2005 decreased from 26% to 15,9%. The reduction of production of cattle and milk in Poland can be documented by drop in livestock numbers. In comparison to 1990, the number of cattle has reduced to 45%, cows to 43%.

The main characteristics in the comparison of The Czech Republic and Poland: The total area and the number of inhabitants of Poland are four times that of Czech. Population density is almost the same (Poland 122 inh/1 km^2, Czech 131 inh/1 km^2). In Poland the unemployment rate is 2.4 times higher than in Czech, but in both there is no problem in the capital cities. Share of UAA on total area is 50% in Czech and 60% in Poland. In both countries about one third of total area is forest area.

Structure of farm holding

The average size of agricultural holding in the Czech Republic is 79 ha of UAA according to Eurostat harmonized data 2003. This is the largest average size of agricultural holdings within EU.

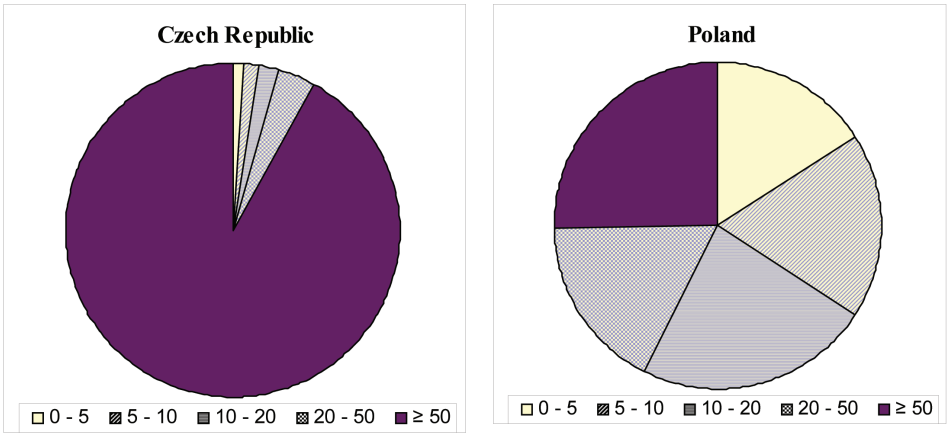


Figure 3. Structure of land use according to farm size in CR and Poland. Source: Eurostat – harmonized national data of structures survey, 2003

The same source lists the average size of Poland's agricultural holdings as 6.6 ha of UAA. Farms greater in size than 50 cultivate 95% of agricultural land ha. In Poland 25% of UAA is cultivated by farms of this size.

There is no comparable farm size structure between these two countries. In Poland 41% of farm holdings are less than 15 ha in size. In Czech more than 70% of UAA is used by farms bigger than 500 ha.

LFA delimitation in Czech and in Poland

The Czech Republic

Delimitation of less favoured areas, similar to regulations according NR 1257/1999, was introduced in 2000. Full implementation of EU criteria caused a decrease of LFA share from 60% to 50% of agricultural area in the period 2004–2006. For the period 2007–2010 the actualization of data and the adjustment of criteria for mountain areas to EURO recommendation have been proposed and the share of LFA will become 50.8% of agricultural land.

In the Czech Republic, the following criteria have been established to demarcate less-favoured areas:

- Mountainous areas (H)
  - Average altitude of the municipality's territory or cadastre areas not less than 600 metres above sea level or
  - Average altitude not less than 500 metres combined with a slope of more than 15% over an area greater than 50% of the municipality or cadastre areas.
- Other less-favoured areas (O)
  - Average productivity of agricultural land lower than 34 points (80% of the CR average)
  - Population density lowers than 75 people per km^2.
  - Workforce in agriculture, forestry and fisheries accounting for more than 8% of the economically active population
- Areas affected by specific handicaps (S)
  - Terrain in the foothill regions in the Northwest and East of the Czech Republic, with an average land productivity of lower than 34 points. Agriculture in these border areas has had a specific position within the country for a long time and needs to be supported in order to preserve and restore the cultural character of the countryside serving as a recreational hinterland for urban areas and for the development of tourism.
  - Individual areas with land productivity lower than 34 points or cadastre areas with land productivity above 34 points but lower than 38 points combined with a slope of more than 7°over greater than 50% of the agricultural land
  - Areas in transition for the period 2007–2010 (XS)

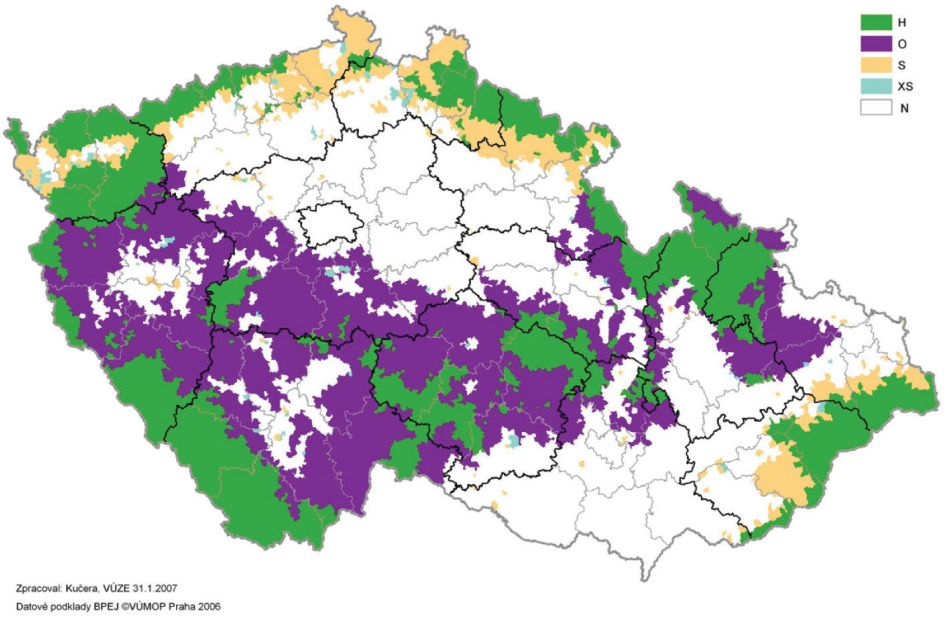


Figure 4. Less favoured areas in CR 2007–2010. Source: Rural Development Programme of the Czech Republic 2007–2013

The Republic of Poland

The following criteria have been established to demarcate LFA areas:

- Mountainous areas with more than 50% agricultural land and located higher than 500 meters above sea level. There are difficulties in the management of these areas due to the short growing season, high altitude or steep slopes at a lower altitude. Those conditions require a higher expenditure on labour or special technical equipment.
- Lowland areas, with the danger of discontinuation of rural area utilization and landscape change. These areas are divided into two zones (Table 1).
- Areas with specific difficulties. The danger in these areas is the abandonment of agricultural land-use. Conservation of the countryside is necessary here. Rural activity ought to be continued to improve the environment, maintain

Table 1. Principal designation of lowland LFA areas

Number of inhabitants per square kilometre	Index of quality agro-ecological conditions			
	Extreme difficult conditions (4)	Difficult conditions (52.1–56)	High difficulties (56.1–66.0)	Difficulties (66.1–72.5)
Less and 40	Zone II	Zone I	Zone I	Zone I
40.1–60	Zone II	Zone I	Zone I	–
More than 60	Zone II	Zone I	–	–

Source: The Rural Development Plan for Poland 2004-2006, Ministry of Agriculture and Rural Development, Warsaw.

the landscape and preserve the tourist potential of the area. These areas contain sub-mountainous regions and geodesy grounds and are defined as a sub--mountainous zone. In these areas agricultural land is located higher than 350 meters above sea level. Their small area and the unprofitable split of fields characterize farm holdings in these areas. There is a large share of permanent meadows and pastures in the total arable land on the farms situated in these areas.

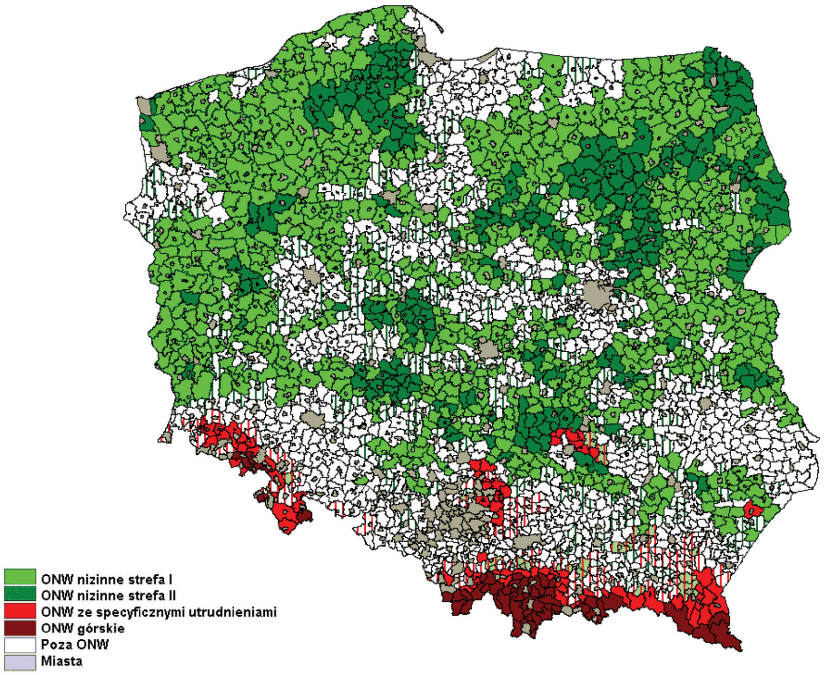


Figure 5. Less favoured areas in PL 2007–2010. Source: Rural Development Programme of Poland for 2007–2013

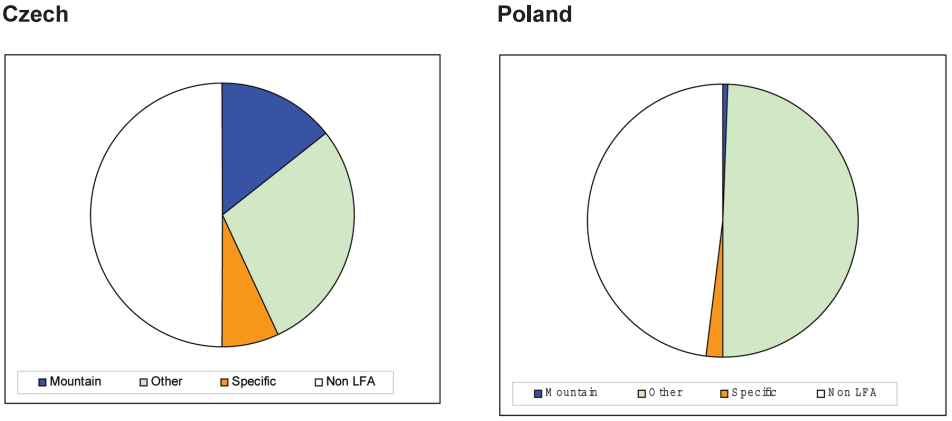


Figure 6. Comparison of LFA structure. Source: Rural Development Programmes of the Czech Republic and Poland 2007–2013

Table 2. Comparison of Czech and PL LFA category

LFA	Thousand ha of UAA		Share of UAA (%)	
	CZ	PL	CZ	PL
Mountainous	622.0	99.3	14.6	0.5
Other	1 219.0	9 436.4	28.5	49.5
Specific	298.4	397.3	7.0	2.1
LFA	2 139.4	9 933.0	50.1	52.1
Non LFA	2 133.5	9 141.1	49.9	47.9
Total UAA	4 272.8	19 074.1	100.0	100.0

Source: Rural Development Programme (RDP) of Czech and CSO and RDP of Poland

The significant differences between LFA in Czech and Poland are:

- The share in UAA is almost the same;
- The main category is both – in Czech and in Poland – the "other LFA" (lowland in Poland);
- The Czech Republic belongs to the group of countries with significant share of "mountain areas", but in the Poland these areas do have a smaller share in UAA – they are present only in the south part of the country (Czech – 14,6%, Poland 0,5% of UAA);
- The areas with specific difficulties in Czech important inhave 3, 5 times more share in total UAA than in Poland.

Objective of LFA measure

In the framework of the Czech RDP 2004–2006 the following objectives of measurement were established:

- To ensure an adequate income for farms operating in more difficult conditions,
- To contribute to the sustainable use of agricultural land and to the protection of other natural resources (especially water resources),
- To contribute to the stabilisation of rural population,
- To maintain the attractiveness of the landscape (landscape character),
- To support environmentally friendly farming systems.

To reach these objectives, the following eligibility criteria were introduced at the farm level:

- The applicant shall undertake to farm in accordance with the principles of good farming practice.
- The applicant shall undertake to pursue farming activity in LFA for at least five years from the first payment.
- The minimum size of farm is 5 ha of agricultural land (national parks or protected landscape areas – 2 ha, organic farming – 1 ha).

- The livestock density shall not exceed a maximum of 1.5 LU per hectare of agricultural land.
- The compensatory allowance was established for grassland exclusively in order to reduce the economic attractiveness of arable farming in less-favoured areas. Research has found that about 20% of enterprises in LFA didn't receive any support, due to the fact, that they didn't fulfil these criteria.

In Poland RDP objectives were established as described below:

- To maintain farms managing in rural areas in difficult conditions,
- To maintain the landscape in rural areas,
- To maintain sustainable development to protect the environment.

The following conditions must be fulfilled for aid to be granted within the framework of LFA support:

- The agricultural holding must be situated wholly or partly in a LFA; however, the LFA payment is related only to the agricultural land actually located in the LFA,
- The area of agricultural land of holdings located in the LFA and used for farming activity must not be less than 1 hectare,
- The applicant must observe the principles of good farming practice within the whole holding and pursue farming activities in the less-favored area for at least five years from the first payment of LFA aid and to comply with the bans on the use of hormones, thyreostatic substances and of beta-agonists in livestock feeding.

LFA payments

In the Czech Rural Development Plan total expenditure on LFA during the period 2004–2006 amounted to 295 million EUR. The share of LFA payments in the total RDP expenditure was 45%.

In Poland the total expenditure on agricultural holdings in LFA during the period 2004–2006 was 905 million EUR. The share of LFA payments in the total RDP expenditure was 25.2% and for the period 2007–2013 it will be 10%.

Payment in Czech Republic

Rates of payments are differentiated in CR according to the severity of natural condition. No other differentiation is applied. For the reduction of eligible area (grassland), payments rates per hectare are relatively high.

The average contribution of LFA payments to Gross Farm Income (GFI) differs between 24 EUR (Other LFA in 2004) to 86 EUR (mountain 2005) in the recalculation per hectare of used agricultural area (UAA) of representatives of LFA type.

Table 3. Rates of compensatory allowance for individual types of LFA's

LFA	CZK / ha grassland	EUR / ha grassland
Mountainous area of type H^A	4 680	166
Mountainous area of type H^B	4 014	142
Other LFA of type O^A	3 490	124
Other LFA of type O^B	2 820	100
Areas with specific limitations	3 420	121

Source: Government Regulation no 241/2004 Coll. (recalculation for EUR with an exchange rate of € 1 = CZK 28.19)

Payment in Poland

LFA payments were calculated per 1 ha utilized land per year. Payments concern areas with arable land, orchards and permanent meadows and pastures. There is a modulation of LFA payment according to farm size.

Table 4. The basic rates payment to the LFA in Poland

Category LFA		Payment EUR/ha
Mountain		80
Lowland:	- Lowland zone I	45
	- Lowland zone II	66
Areas with specific difficulties		66

During previous RDP 2004–2006 and actual 2007–2013
Source: www.arimr.gov.pl

These principles were introduced after analysing agriculture income of farm holdings from different area groups. As we know there exists in agriculture holdings a direct proportional relationship between agriculture income and area of farm (economy of scale).

Table 5. Digressivity of LFA payment on the different size of farm holding

Size of area groups (ha)	LFA payment
1–50	100%
50,01–100	50%
100,01–300	25%
Much more than 300	There is no payment for areas more than 300 hectares

During previous RDP 2004–2006 and actual 2007–2013
Source: www.arimr.gov.pl

Differences between Czech and Poland in payment system:

- In Czech LFA payment is given only for grassland but in Poland farmer get payments for arable land, orchards and permanent meadows and pastures,
- In Poland the rates of payment are differentiated according to farm size, payments are not digressive in The Czech Republic.

Impact of LFA payments on rural areas

Impact on farm income

Czech

The average contribution of LFA payments to Gross Farm Income (GFI) differs from 24 EUR (Other LFA in 2004) to 86 EUR (mountain 2005) in the recalculation per ha of used agricultural area (UAA) of representatives of each LFA type.

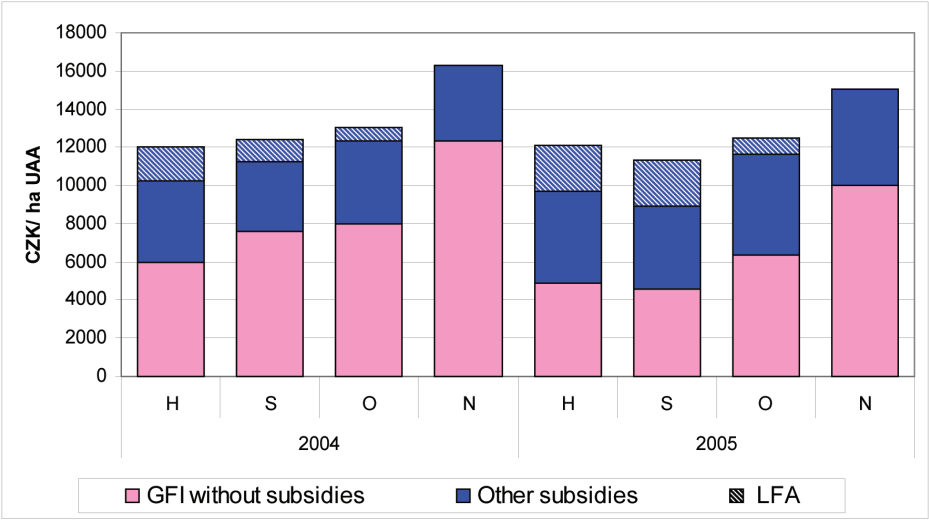


Figure 7. Contribution of LFA payments on Gross farm income. Source: FADN, RIAE

Poland

There is no significant impact of LFA payments on agriculture income. As can be seen in the table below, LFA payments have only a small impact on farm income in the group of farm holdings with economic size more than 8 ESU. In

Table 6. Share of LFA payment in agriculture income in farm holdings with different economic size during 2004

Specification	Total	ESU	4–8 ESU	8–16 ESU	16–40 ESU	40–100 ESU	100 ESU
Share of LFA payment in income (%)	0.7	2.7	1.5	1.0	0.7	0.6	–

Source data: FADN 2004 year (Juzwiak J.)

the farm group with the smallest economic size (less than 4 ESU) they have more impact – but only 2.7% of total income.

Comparison of Czech and Poland shows that the impact of LFA payment on farm income in Czech Republic was much bigger than in Poland (see table 6, 7 and the graph above).

Table 7. The share of LFA in Gross Farm income

	CZ	PL
not in less-favoured areas	0.6	0
in less-favoured non mountain areas	6.6	0.5
in less-favoured mountain areas	20.0	0.9

Source: FADN 2004, DG Agree Brussels

Impact on land use

Czech

Concerning the stated objectives of the RDP measures, LFA system in CR is targeted at increasing the share of meadows and pastures. Subsequently we can expect a decreased risk of water and wind erosion and better care of natural resources. Research by RIAE showed a tendency to increase the share of grassland in some LFA regions, especially in those with the biggest decrease in agriculture employment. The contribution of LFA payments to farm income and the obligation to farm in accordance with the principles of good farming practice support the sustainable use of agricultural land.

Poland

LFA payments have had a significant impact on the size of set-aside and fallow land area. This area decreased till 2004 to 60.8% of the 2002 area. Maintaining agricultural land use and preventing the abandonment of land, the main goal of LFA payments, was realized. No significant change was noticed in farm structure.

Table 8. Data about abandoned and fallow land area by voivodships in Poland

Voivodship	Set-aside and fallow land area (in thousand ha)		
	2002	2004	2004/2002 (%)
Dolnośląskie	151,2	131,5	87,0
Kujawsko-pomorskie	61,4	27,6	45,0
Lubelskie	151,8	77,7	51,2
Lubuskie	121,3	89,5	73,8
Łódzkie	123,9	69,9	56,4

Małopolskie	137,8	59,6	43,2
Mazowieckie	306,6	186,7	60,9
Opolskie	41,6	22,1	53,1
Podkarpackie	204,9	113,9	55,6
Podlaskie	99,3	41,8	42,1
Pomorskie	154,0	85,5	55,5
Śląskie	143,5	85,2	59,4
Świętokrzyskie	98,1	85,7	87,4
Warmińsko-mazurskie	190,7	100,4	52,6
Wielkopolskie	91,0	43,5	47,8
Zachodniopomorskie	225,0	178,5	79,3
Poland	**2302,2**	**1399,2**	**60,8**

Source: Data National Census 1996 and 2002 by Central Statistic Office, Statistical yearbook of agriculture and rural areas, 2005 year

Impact on rural population

The population density in rural areas didn't change between 2004 and 2006 in Poland. Only average population changed (2%). If we compare the population between voivodships, there were no significant changes at all. It will not be possible to conclude about the change of the population in rural areas, until after a 15-year period. Only analyses over a long period can show significant changes in population. This is the same as in the Czech Republic.

Problems of different farm structure

Czech

Research has been done concerning the distribution of LFA payments across agricultural holdings, classified according to the size of eligible area. Model calculations have been performed on the basis of the database of the register of LPIS and the Czech farm accountancy data network (FADN).

The comparison shows that the largest beneficiaries of LFA supports were large holdings with a large share of grass-land in UAA in the Czech Republic. The average LFA payment recalculated per annual work unit (AWU) increased significantly with the size of the eligible area (see graph below). This is a consequence of the lack of payment reduction for large enterprises.

The future reduction of payments for only large farms has begun to be a subject of discussion among the agricultural public in the Czech Republic. On the basis of consultations with managers of large agricultural enterprises a whole range of responses, of how these large enterprises might cope with this, can be outlined. It analysed the impact of a large group of factors, such as:

- Formal split of the enterprise,

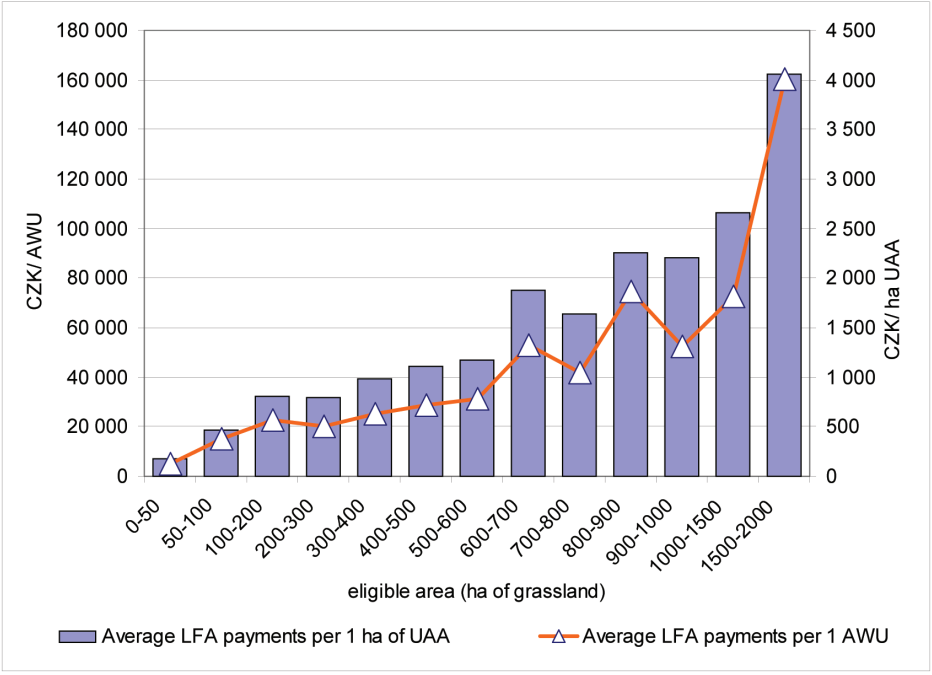


Figure 8. Average LFA payments per 1 ha of UAA and per AWU in size classes according to eligible area. Source: FADN RIAE 2004, LPIS, data processing Štolbová RIAE

- Large reduction of permanent employees from agriculture (especially in marginal areas),
- Withdrawal from rental of remote, small, poorly accessible pieces of land,
- Preference of arable land in mountain and highland areas,
- Extension of forests.

Some experiences in Poland prove that any of the threats listed above could happen in the future.

Poland

More than 82% of LFA payment applications come from farm holdings in the area group 1–15 ha. So we can say that farm owners with smaller farms and less income receive the most payments. Due to modulation the area group with the largest area and the highest income receive the lowest LFA payments.

Table 9. Number and share of LFA payment applications by area group of farm holdings

Specification	Total	Area groups (ha)			
		1–5	5–15	15–50	More than 50
Number of application	629 960	264 712	253 527	99 264	12 457
Structure of applications (%)	100.00	42.0	40.2	15.6	2.0

Source: Data ARiMR, 2004 year.

Because of the digressive of LFA payment in Poland more farms with small area (less than 15 ha) were the main participants of this rural activity (more than 80%). Research at Warsaw agriculture institute proves that large farms with more than 50 ha were split into a few smaller farms because of dergesivity of payments. Some of them have got into economic trouble because they didn't get the whole payment.

Conclusion

- Because of the fact, beneficiaries of LFA payments ought to realize Good Farming Practices in both countries they play a big role in the environmental condition of our countryside. They play a big role in sustainable activity in rural areas.
- On the other hand in Poland the LFA payments have stopped the process of increasing farm size and were one of the reasons for farms larger than 50 ha dividing into several smaller farms, because of the nature of the digressive LFA payments. In Czech Republic, because of the special farm structure, the negative impact of this digressiveness is expected after 2010. This will influence the rise of the rate of unemployment in rural areas.
- There is no significant impact of rural depopulation in LFA. Due to the short period, it is not possible to make conclusions about the population density.
- There is a significant impact on agriculture income in the Czech Republic, but there is no impact in Poland (less money for this part of RDP and the digressive nature of payments).
- There is a significant impact in land use both – in Poland and in the Czech Republic. In both countries the area of abandonment and fallow land has decreased. In Czech additionally increased extensive grassland has occurred. (Anti-erosion impact).
- LFA measure is one of the measures that have a significant impact on the increase of biodiversity maintaining the countryside.

LFA payment has indirectly an impact on rural development by the maintaining the countryside, keeping good environmental living condition for inhabitants on rural areas and keeping it for tourism and for the future.

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