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EU FINANCIAL SUPPORT FOR MULTI-FUNCTIONAL DEVELOPMENT OF RURAL AREAS IN POLAND

1. Introduction

The purpose of this paper is to present the possibilities of EU financial support to Polish agriculture and rural areas in the context of their multi-functional development. This direction of evolution should be stimulated by instruments restructuring and modernizing agriculture. These ideas are included in the strategic documents which define the adaptation of the EU cohesion policy and Common Agriculture Policy (CAP) in Poland. This refers to the National Development Plan (for two time periods: one document for 2004-2006 and the other one for 2007-2013), the Sector Operational Program "Restructuring and modernizing the food sector and rural development" and the Rural Development Plan. These plans are based on co-financing investments in agriculture and its environment, together with the realization of widely comprehended rural development programs – subsidies for farmers who implement appropriate measures. The efficiency of their implementation and consequently the possibilities of receiving huge EU financial transfers are conditional on the effective functioning of Polish institutions and administration.

2. The multi-functional development of rural areas in the context of CAP evolution

Multi-functional development is the integration of new functions within rural areas. Beside agricultural production, these are ecological,

tourist, cultural, residential and recreational functions. They should create new jobs outside agriculture, so the direction of evolution can be combined with business activities. Multi-functional agriculture supplies both food products, raw materials for food processing, as well as other goods and services demanded by society. The value of production is the sum of material goods production and incorporeal production which brings social benefits [Adamowicz, 2005, 13]. However, agriculture causes both positive and negative external effects – especially regarding changes in environmental quality. The following are external ecological benefits: land productivity improvement as the result of crop rotation, landscape conservation and protection of natural habitats. The following are external disadvantages: water polluted with nitrates, phosphates and pesticides, soil contamination, the breakdown of the integrity of traditional agricultural ecosystems and landscapes, as well as the gradual extinction of many plant and animal species – bio-diversity degradation. The ecological function of agriculture should stimulate positive effects and counteract negative ones. This means that farmers should provide public goods and services aimed at environmental protection. In the European Union, they can take part in agri-environmental programs (and be paid for it). This is one of the most important measures of CAP.

The ecological function is strictly connected with tourist, residential and recreational ones. Areas of particular natural value, pure environments and beautiful landscapes are attractive places for living, visiting and having holidays. This could be a factor in the development of the hotel industry, eco-tourism and agri-tourism. Villages in such territories and close to cities become residential and recreational areas for people from urban areas. These are sources of creating jobs outside agricultural production, but they should be supported by public authorities. Market incentives are insufficient and farmers do not have enough capital for business activities. The instruments introduced by the McSharry reform of CAP in 1992 provide adequate payments.

Multifunctional development of rural areas is an important goal of the reform. The changes in the functioning of CAP are connected with implementing the II pillar – Rural development programs. These programs consist in compensating farmers regarding the loss of income and incurring of extra expenses and also in giving financial incentives to those farmers who, on their farms, commit themselves to act for the benefit of environmental protection, landscape conservation and cultivation of traditional culture. National and regional long-term programs are aimed at using agricultural practices which reduce the harmful impact of agriculture on the environment, along with a decrease in the volume of production, which may contribute to a better-balanced agricultural products

market. The following are also aims: the use of arable land compatible with the protection and improvement of the rural natural environment, the preservation of natural resources, soil and genetic diversity (transformation of arable land into extensive green land), conservation of abandoned farmlands and forests. These measures also include early retirement for farmers, which gives them a source of living and transforms them from producers into residents of rural areas. The changes introduced by the McSharry reform and developed by Agenda 2000 are heading towards the transformation of CAP from an agricultural policy into a rural policy. The main reasons for this are: the transition from extensive to intensive methods of agricultural production and concentration on activities outside agricultural production. Its manifestation might be for example: promoting higher quality food, regional products, diversification of activity and fulfilling a motivating function to keep people employed in agriculture in areas with difficult farming conditions. Such tendencies should go along with the development of more markets – both, in relationship to diverse regional products, as well as providing so called environmental services to the country (recreation, tourism, culture, residential functions). They concern the forming of the *European Agricultural Model* which will be sustainable in the long term perspective and will provide not only the agri-food industry with benefits, but also consumers, the environment and society as a whole (also in the aspect of raising employment in rural areas). The new CAP objectives, in a social, ecological and cultural perspective, is the manifestation of realizing the concept of sustainable development.

3. EU rural development funds in Poland

Financial support from structural funds is stated to be among the most important benefits of Poland's accession to the European Union. CAP and structural policy in agriculture are financed from the *European Agriculture Guidance and Guarantee Fund* – EAGGF. This consists of two sections – the Guarantee section, financing accompanying measures included in pillar II of CAP – Rural Development and the Guidance section, which governs structural funds. In Poland, these pillars are being implemented separately in two programs: the Sector Operational Program (SOP) which covers restructuring and modernizing the food sector and rural development funded by structural instruments of CAP (2 bln EUR, including 1 bln EUR from EU sources) and the Rural Areas Development Plan – RADP funded by accompanying measures of CAP (3.5 bln EUR, including 2.8 bln EUR from EU sources). These funds, among oth-

ers, are allocated to realize measures stimulating the multi-functional development of rural areas.

The SOP has three objectives which are linked, to different extents, to Multifunctional development [Sektorowy Program Operacyjny, 2003; Uzupełnienie Sektorowego, 2003]:

- objective 1. Promoting competitiveness and sustainable development in the agriculture sector,
- objective 2. Support for the food processing industry aimed at increasing its competitiveness,
- objective 3. Support for the multifunctional development of rural areas.

These objectives are based on three priorities:

1. Support for changes in the food sector,
2. Sustainable development of rural areas,
3. Technical assistance.

These priorities lead to measures aimed at different functions of rural areas.

3.1. The ecological function

The SOP does not contain plans of commitments aimed at particular environment protection and conservation measures. However, the possibilities of such enterprises are included in measures of the program. This refers to Measure 1 – *investments in farms* (722 mln EUR, including 325 from EAGGF, 144 mln EUR from the Polish budget and 252 mln EUR from private sources). Not all investments refer to multi-functional development. After all, they are aimed at investment projects connected with farm modernization, in order to adapt to EU requirements in the areas of sanitation, animal welfare and environmental standards. It could be significant for the reduction of nitrogen emission from agriculture (the greatest ecological problem in the sector – both in Poland and EU member states). According to assessments, the costs of the necessary solutions in Poland are approximately 3 bln EUR. The allocation for Measure 1 could finance only a part of this sum, but it should be an important source of supporting investments required to adapt Polish farms to Directive 91/676/EEC concerning protecting water against pollution by nitrates from agriculture. The regulation requiring the fulfilling of minimal environmental protection standards in farms (as the result of such investments) is important. Presently, in EU countries, farmers applying for support have to comply with these requirements before participating in the programs. Consequently, regulating Polish farmers could improve the absorption of structural funds [Kociszewski, 2003]. Measure

2 – *the facilitation of young farmers entering the market* (162 mln EUR, including 130 mln EUR from EAGGF) will be aimed at the same activities as Measure 1 in the context of environmental protection. Measure 6 – *water management in rural areas* – (125 mln EUR, including 100 mln EUR from EAGGF) consists of projects connected with land reclamation, building and modernizing regulation and flood control equipment and other such projects. Measure 3 of Priority 2 – *the development and improvement of infrastructure connected with agriculture* (44 mln EUR, including 20 mln from EAGGF, 2.2 mln EUR from the Polish budget and 22.2 mln EUR from private sources) is aimed at plans for building or modernizing individual water supply and treatment systems, local or individual sewage systems and energy supply equipment, (including renewable energy). The promotion of ecological activities is contained in other measures with a lower level of funding (professional training, agricultural advisory support).

3.2. Cultural, recreational and tourist functions

Priority 2 contains measure 3 – *restoration of the countryside, protection and conservation of cultural heritage* (investment activities connected with: monument conservation, building and modernizing infrastructure and objects for tourist, recreational and cultural functions, purchase, restoration of traditional country buildings combined with their adaptation for cultural and social purposes). Another measure of priority 2, connected to this function, also referring to creating new jobs outside agriculture is *differentiation of agricultural activities aimed at assuring alternative sources of incomes* (support for projects in: agri-tourism, services for people living in the countryside, services for livestock breeding including veterinary medicine, maintenance of agricultural equipment, small-scale processing, handicrafts, bio-mass raw material production, e-commerce for forest and agricultural products). New job places could also be created through measure 5 of priority 1 – *improvement of agricultural product processing and marketing*.

The measures discussed will be carried out by designing and implementating the Rural Areas Development Plan (RADP), which is complementary to the SOP, in the years 2004-2006. Its purpose is the support of structural changes in agriculture and the multi-functional and sustainable development of rural areas by way of promoting the *European Agriculture Model*. The instruments of implementation will be *CAP accompanying measures*, meaning such activities as agri-environmental programs – mainly organic farming, (348 mln EUR, including 81 mln EUR from EAGGF), afforestation programs (101 mln EUR, in-

cluding 81 mln from EAGGF), support for farmers in Less Favored Areas – LFA (977 mln EUR including 781 mln EUR from EAGGF) and programs not connected with environmental protection: technical support (34 mln EUR including 27 mln EUR from EAGGF), earlier retirements of farmers (640 mln EUR including 512 mln from EAGGF) and support for semi-subsistence farms (376 mln EUR including 301 mln EUR from EAGGF). The agri-environmental measures, described at the beginning of the Paper, can be realized in preservation areas, in the NATURE 2000 network [Kociszewski, 2004]. Unfortunately, these measures have not been initiated yet, which is one of the disadvantages of RADP. The amount of money which is going to be actually spent on multifunctional development and the efficiency of making use of EU funds, depends on the will and effectiveness of potential receivers and their financial conditions. Furthermore, the role of the following institutions implementing the programs will be very significant: the Ministry of Agriculture and Rural Development (MARD) and the Agricultural Restructuring and Modernizing Agency (ARMA).

The instruments of farm modernization and diversification, together with accompanying measures, will be meaningful in a social dimension. They will take part in the improvement of environmental quality, of the standard of living, creating workplaces outside agriculture, so they will stimulate multifunctional development of rural areas. These factors are not perceived by the Polish authorities in their proper range. This can be easily seen from the final results of the pre-accession negotiations. Part of the pillar II funds have been reallocated to direct payments, which were additionally supported by subsidies from the national budget. This solution will enable a higher level of absorption of funds and consequently improve the financial situation of farmers in the short term. However, it does not enable an intensification of the restructuring of the Polish countryside, including the implementation of ecological accompanying measures in a wider range. It also means diminishing the possibilities of using the instruments which could improve the situation in the long term. The potential allocation of funds to these measures has been reduced by approximately 0.5 bln EUR in 2004-2006. This solution will also be in force relating to the EU budget in 2007-2013. Furthermore, it could be said that the short term economic issue is in conflict with ecological objectives [Kociszewski, 2003]. One of the arguments presented for the direction of the EU transfer was the lack of preparation of the Polish administration (especially ARMA) to the effective use of “more difficult” support within Rural Development Programs. This is a short-sighted point of view. In such a way, the situation, in which a highly funded government agency does not adapt to efficient functioning after EU acces-

sion, is accepted. The difficulties in implementing SAPARD and irregularities in the construction of the IACS (Integrated Agriculture Control System) are evidence of this. The lack of preparation on the part of ARMA to implement CAP payments does not improve the situation of our country as a European Union funds receiver. In the light of the predicted CAP reform, which will probably increase the allocation of funds to Rural Development Programs, the ability of Polish institutions and administration to use CAP support will not improve. This is evidence that the Polish government does not treat the discussed instruments in the same manner as in the European Union. The contents of RADP can be assessed as adequate, but one of its disadvantages is a lack of concrete plans for the NATURE 2000 network. This also applies to SOP. The huge problems of implementing these programs are the great difficulties of their introduction in practice. These were already apparent during the implementation of the SAPARD program (ARMA did not start the pilot version of the agri-environmental program at all). These problems are still visible now.

4. Perspectives of multi-functional development in the years 2007–2013

According to CAP and cohesion policy reform plans, the EU will allocate more payments to multi-functional development in the years 2007–2013 than in 2004–2006. This could be 88 bln EUR in total, including 31 bln EUR for objective 1 regions (among others – all the Polish voivodships). Transformation of this potential allocation into real financial support – the level of absorption – depends on: the competence of administration and institutions, the efficiency of the programming process and the possibilities of final beneficiaries – especially in the context of gaining financial resources. Taking into account the fact that the first period of EU membership will be an introductory stage of implementing widely comprehended programs, the experiences of 2004–2006 should be very important for absorption of Agenda 2007 support – the EU budget perspective for 2007–2013.

Generally, the EU programs of rural development in Poland (SOP, RADP) were appropriately prepared. However, the funds that could have been allocated to multi-functional development were aimed at direct payments [Kociszewski, 2003]. Beside that, the most important CAP accompanying measures – agri-environmental programs – are insufficiently realized. The receipt of applications only started in late 2004. The beginning of their implementation is planned for March 2005. In this

case, the reason is not only the weakness of institutions, but also the low ecological consciousness of farmers, whose mistrust and ignorance of EU procedures and regulations play a meaningful role too. Considering the difficulties the final beneficiaries are faced with, the simplification of procedures and decreasing bureaucracy is a justified postulate of the Polish authorities. It should be carried out while keeping high standards in monitoring public funds.

In the context of rural structural funds, the Commission proposal of including the Guidance section of EAGGF in the new instrument of CAP – *European Rural Areas Development Fund* – is very important. In 2007–2013 the section which finances the SOP will be moved from regional policy to agricultural policy. The role of the discussed instruments in CAP will be strengthened. This should contribute to better integration of accompanying measures with structural policy instruments. The Commission communication referring to future cohesion policy and the budgetary perspectives of the enlarged Union in 2007–2013 highlights the changes introduced in CAP. It was said that they will be continued and developed until 2013. The purposes concentrate on improving competitiveness, solidarity and better integration of environmental factors (in the context of the key measures of the Lisbon Strategy). The most important targets (from an ecological point of view) are strengthening the rural development programs by transferring a part of direct payments to pillar II. The Polish statement on EU cohesion policy in 2007–2013 refers to these plans: (...) *The key role for the effectiveness of cohesion policy is played by measures of other Community policies. That is why we evaluate the changes made in the agriculture chapter very positively. They consist in removal measures and funds for rural development programs* (...). [Stanowisko..., 2004]. Unfortunately, the activities of the Polish authorities in this area indicate the reverse direction of the changes in agricultural policy.

The proposals of multi-functional development measures are included in the Introductory National Development Plan 2007–2013. They are included in the following directions: *fair access to natural resources* (development and strengthening of Nature 2000 areas, improvement of environmental quality in recreational areas, sustainable development of tourism), *ensuring the environmental security of the state* (implementing sustainable, multi-functional forestry, improving the quality of the environment in rural areas), *the spatial economy* (support for the development of rural areas), *organisational and technical progress in specific sectors of economy* (support for farms wishing to modernise, support for tourism), *promoting exports* (building an integrated system of attracting foreign tourists), *development of infrastructure in urban and rural areas*

(electrification of the countryside, modernising infrastructure in small towns, development of social infrastructure in rural areas), *rebuilding the surroundings of enterprises* (development of regional tourism products, increasing the role of cultural activities in the national economy), *improvement of the natural environment* (reducing the emission of nitrates and phosphates into water resources). These proposals must be transferred into sector operational programs and this will be one of the conditions of their practical implementation.

Regardless of the form of future EU cohesion and rural policy, the improvement of the programming process is necessary. This refers to administration and institutions connected with agricultural, structural and ecological policies in Poland. Policy should be carried out at a regional scale, especially rural policy. In this context, a very important task is to broaden the implementation of environmental programs. They should be enhanced and more fully realised.

5. Conclusions

CAP accompanying measures – especially agri-environmental programmes – are the most important institutional and economic incentives of multi-functional development. Most of the EU member states are implementing the instruments in a wide area – in approximately 20% of the rural areas. The policy of the Polish authorities and institutions in this field is not carried out in the proper way. This is manifested by the following:

- reallocating part of CAP Pillar II funds into direct payments,
- cancelling agri-environment programmes within SAPARD,
- delays in introducing agri-environment programmes as an element of the Rural Areas Development Plan – RADP – and their temporary limitation to supporting organic farming,
- delays in payments to farmers which is responsible for their financial problems – they took credit in order to adapt to the requirements of organic farming, so they could be discouraged to take part in future programmes,
- a lack of effective education and promotion system for the programmes.

This leads to the diminishing possibilities of multifunctional development, as well as threats to the environment. Without widely comprehended agri-environmental programmes the introduction of CAP will stimulate the intensification of Polish agriculture and cause the ecological problems which had previously occurred in “old” member states. In this context, changes in Polish agricultural policy are needed. This refers

especially to ARMA and the Ministry of Agriculture, which should make great efforts to enable farmers to take part in the programmes. There is a need for political decisions, financial incentives, ecological education and effective promotion.

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