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## LFA influence on regional development of the Slovak Republic

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## **LFA influence on regional development of the Slovak Republic**

**Summary:** The paper analyzes the possibility of supporting disadvantaged regions of Slovakia. Defines the LFA support. Analyzes support options defined in the Rural Development Programme for the years 2007–2013 and compares them with pre-accession period.

**Key words:** LFA subsidies, regional development, employment

### **Introduction**

The Slovak Republic is characterized by a high proportion of less productive soils and soils with specific handicaps such as skeletal, sandy soil and sloppy lands. Disadvantaged areas create more than 50% of the land fund of the SR, therefore, their support is essential especially in order to maintain agro production in the region and is one of the possible settlements of regional disparities. Rural development programmes are fully in line with the Lisbon Strategy on innovation and knowledge economy, creating a favourable business environment, employment growth in EU countries to achieve their sustainable development.

### **Support for LFA in the SR before 2004**

Under the Act No. 240/1998 on Agriculture and on amendments to other acts pursuant to Article 3.paragraph 2, the disadvantaged areas are such contiguous territorial units in which, due to adverse weather conditions, altitude, slopes and low soil fertility and other adverse natural conditions or in connection with specific local economic and social conditions, the cost per unit of production in farming is constantly above average. Disadvantage is manifested by increased

production costs and lower revenues, which means achieving the loss of production.

**Table 1.** Subsidy support for agriculture in the SR in 2001 and 2002 in millions Skk

Grant title	2001	2002
I. The Support of the disadvantaged areas		
Entrepreneurs employed to TTP	2, 300.3	2,311.9
Compensation of lower yields from maintenance of arable land	911.4	877.2
Compensation of lower yields from special crops	41.8	45.5
Breeding cows not for milk production	119.0	143.6
Sheep and goats	205.2	214.0
total	3, 577.7	3,592.2
II. Promoting entrepreneurship in agriculture		
Market regimes, including direct payments	2,691.3	2,007.6
General services in agriculture	473.1	454.6
Organic farming	149.8	98.6
Modernization and structural adjustment support	2,087.7	1,415.1
Investments	1,764.0	788.4
Total	5,401.9	3,975.9
Total Grant support in agriculture	8,979.7	7,568.1

Source: Ministry of Agriculture and Rural Development of the SR

Legislative regulations, under which the subsidies provided in the pre-accession period to encourage production in disadvantaged areas were changed annually. Their typical feature was that it was entitled to a subsidy only if the businessman employed in mountainous and other disadvantaged agricultural areas met a minimum density of LU per hectare from sustainable grass land (SGL). Under the minimum claim there was provided full or a reduced rate of differentiated support for SGL and arable land.

Since 2001, entities farming in disadvantaged conditions may also receive other grants not only single compensation for disadvantage. According to Ministry Decree No. 2 367/1/2001 – 100, entrepreneurs, with occurred livestock morbidity and aspiring entrepreneurs, irrespective of region and degree of disadvantage had favourable business conditions in the first three years of business and pursuant to Decree No. 3 809/2/2000 – 100 entrepreneurs performing in disadvantaged areas were entitled to receive direct payments to support the breeding cows not for milk production, to support breeding sheep and goats etc. In that period, subsidies were provided to maintain soil quality in the country by grazing or mowing in compliance with the minimum density of LU. Based on normative percentage revenue, subsidy was provided to compensate for lower revenue due to disadvantaged conditions on arable land

and lower yields in the cultivation of special permanent crops were compensated up to 10% of sales achieved in the current year and such compensation was provided per hectare of arable land. It concerned the hop gardens, vineyards, orchards and small fruit plantations. The amount of compensation has been differentiated depending on the price of the land. Under Council Regulation (EC) 1357/1999 in 2003 there were defined criteria in the SR for inclusion of villages into LFA and their classification was modified to:

- mountain areas
- disadvantaged areas
- areas with specific disadvantages.

Subsequently, in the spirit of EU legislation the classification of individual cadastral areas was harmonized according the typology of disadvantaged areas. A key element for categorization of LFA are creditworthy soil-ecological units (CSU), which represent categorization of agricultural land in terms of natural, productive, environmental and economic conditions. Depending on natural conditions, every CSU has specific agro-ecological characteristics and we can set particular value of production potential within a specified time period to every CSU. At present, there are classified 6266 CSU for 3503 cadastral areas in the Slovak Republic.

**Table 2.** Summary LFA

total LFA	agricultural land		
	ha	%	SCP
Mountain areas (H)	486 594	20%	1–9
Other handicaps (O)	390 966	16%	9–13
Areas with specific handicaps (S)	348 203	14%	12–15

Source: Programme of Rural Development 2007–2013 and own elaboration

Based on the results of long-term observation of the impact of soil and climate conditions, production capacity of every CSU was indicated by normative base yields per hectare of major crops grown in the Slovak Republic (sugar beet, cereals, maize, potato, rapeseed, forage crops, grassland). Depending on the specific circumstances of a particular area, there were practically applied coefficients of decreased basic yields and major crops were assigned to the normative values of market prices. On the basis of per hectare yields of major crops and the corresponding market prices, production value per hectare was expressed for every CSU. In relation to the yield per hectare of each crop there were prescriptively set the costs per hectare reflecting the increased costs of operation in disadvantaged conditions via specific coefficients for each crop. Difference in the production value per ha / Skk for the chosen structure of main crop, prescriptive and normative costs of revenues is called the gross

annual revenue effect (GARE) on which are set official land prices in the regions. Then, every CSU was assigned to official land price. We know 20 groups of land prices (GLP). We include 1 to 15 GLP into disadvantaged areas representing 1,639,292 ha of agricultural land in the SR (62.2% of Land Resources SR). Land not included into LFA corresponds with GLP 16 – 20. Each type of less-favoured areas is further specified by altitude, average temperature during the growing season, the number of days above 5 ° C and maximum earning capacity in terms of GARE.

**Table 3.** Programme supporting agriculture and food production in the SR in 2002 and 2003 in millions Skk

<b>Subroutines</b>	<b>2002*</b>	<b>2003</b>
Support for the management of agriculturally disadvantaged areas		
I. Agricultural management of LFA-s	3,189.1	3,261.6
Promoting entrepreneurship in agriculture		
II. Intensive agriculture and food production	3,348.5	4,141.1
III. fertilization and soil conservation	242.1	358.2
IV. Support for investment in agriculture and food production	788.4	367.3
Total (II. + III. + IV.)	4,379.0	4,866.6
Subroutines total	7,568.1	8,128.2

Source: Ministry of Agriculture and Rural Development of the SR, 2002 data were adjusted to methodology valid in 2003

At the same time in 2003, the various types of aid were united (support specialty crops, suckler cows, sheep and goats) and supported farming in agriculturally disadvantaged areas. Since 2003 the subsidy titles became part of Directive No. 148, 969/2/2003 – 100 on supporting entrepreneurship in agriculture. Under harmonization of national legislation with EU we moved away from support for arable land and grassland, and a single rate of aid was fixed per hectare of agricultural land. At the same time, new measures were introduced and have been valid till now and their compliance is strictly controlled. It concerns recording of the so-called. “white areas”, which are unpreserved or uncultivated areas and it is the responsibility of the applicant to register them and remove plant raids in the five-year intervals so that the area is maintained. We can conclude that before 2003 the entities performing in such disadvantaged areas were purposefully supported by grants directly from the state budget. In 2003 there was applied harmonization of national legislation, which meant the introduction of the classification of subsidies and grant titles valid in the EU.

## Support for disadvantaged areas after 2004

Following accession of the Slovak Republic to EU the support for disadvantaged areas became part of the measures for rural development which had to improve the quality of life of rural population, to ensure enough jobs and adequate incomes for the population of disadvantaged regions, while their role was to ensure the ecological approach and protect the environment in disadvantaged areas to ensure sustainable development of these regions. At the same time, the overall change in the system providing support for disadvantaged areas was implemented. The basic condition that must be fulfilled by the applicant till now, was, that his use of agricultural land must be in accordance with agricultural practice. The system of granting was changed after 2004 so the support for disadvantaged areas was paid in advance during the year, and since 2004 the CAP provides a lump sum by the end of the year with the possibility of payment by 30 April of the following year. Projects funded by the Rural Development Plan focused mainly on environmental measures and measures promoting the acquisition of investments into agricultural entities.

Under the pre-accession trends in 1997, there was prepared and submitted a proposal of rural development and on that basis there was subsequently elaborated the Rural Development Plan for the shortened programming period 2004–2006 in 1999. Under the agreement between the SR and EU on financial support in 2001, the Slovak countryside and disadvantaged areas were supported by multiple sources. Firstly, there were the funds from the SAPARD programme as an actually pre-accession assistance for Slovak agriculture and rural areas and regions. Via SAPARD programme, there were supported rural development measures aimed at pre-accession aid for the Slovak Republic and by the end of 2003 there was completed recruitment of individual projects; in the following year, the approval was completed and payments themselves were made in 2005. Receipt and disbursement of support from the Fund was completed at the end of 2006.

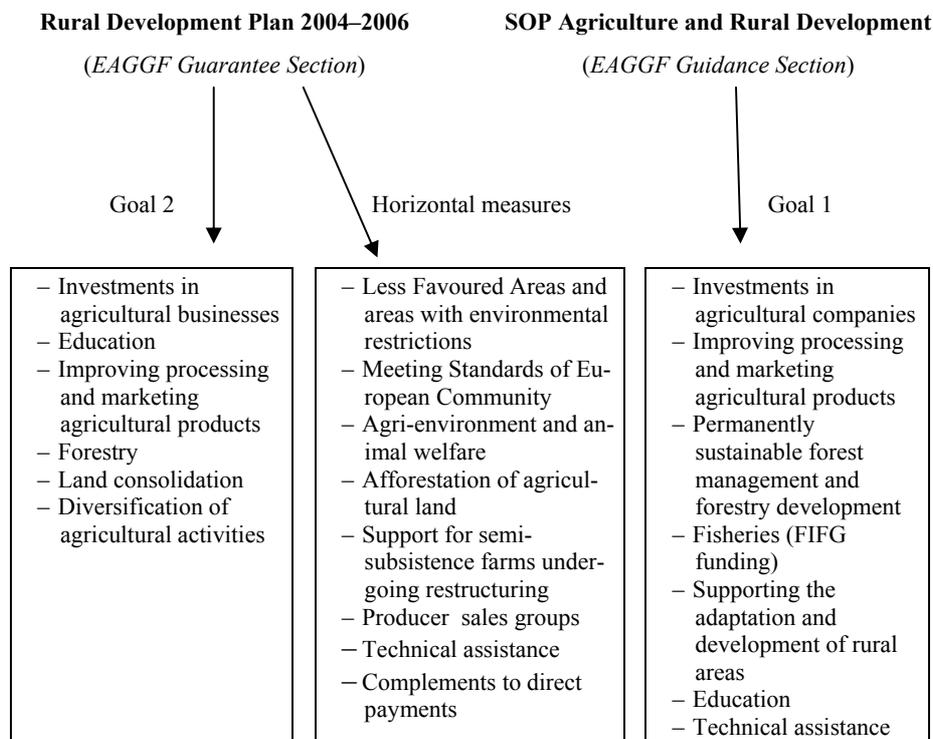
**Table 4.** Support for rural development in the millions. SKK in the Slovak Republic

	2003	2004	2005	2006	2007	2008	2009*
SOP P—RV	—	0	1,987.1	2,835.2	8,908.4	8,243.2	433.4
PRV	—	2,624.8	3,474.9	4,754.5	3,442.4	876.6	2.2
LFA	3,261.6	2,583.1	2,976.3	3,141.9	—	—	—
ongoing measures of the SAPARD programme	—	41.7	120.4	188.9	—	—	—
Rural Development Programme 2007–2013	—	—	—	—	2,921.7	5,603.9	427.8

	2003	2004	2005	2006	2007	2008	2009*
LFA	—	—	—	—	2,921.7	3,187.5	102.4
Total Rural Development	4,370.2	2,624.8	5,582.4	7,589.7	8,908.4	8,243.2	433.4

Source: Ministry of Agriculture and Rural Development of the SR, data from 2009 are in mil. EUR and they reflect the situation by the end of 2009

The second source of funds were liable for the applicants to be obtained through the Sectoral Operational Programme on Agriculture and Rural Development 2004–2006 and the ultimate resource funds were drawn from the Rural Development Plan 2004–2006. Directly from subsidies from the state budget, there was supported rural development, tourism and diversification of economic activities. Elaboration of the Sector Operational Programme and the Rural Development Plan for the years 2004–2006 was an essential condition that the Slovak Republic had to meet in order to receive funding from EU funds. Documents were approved by the European Commission in 2004, they complemented and covered the entire territory of the Slovak Republic and monitored the fulfillment of two objectives. Objective 1 covers Trnava, Nitra, Trencin, Banska Bystrica, Zilina, Kosice and Presov regions. Objective 2 is valid only for the Bratislava region. Based on these documents the supporting projects of hard and soft investment in agriculture were carried out supporting disadvantaged areas. Regional development was also supported by payments for disadvantaged areas (LFA – Less Favoured Area), promotion of organic farming, forestry support and promotion of entrepreneurship and creation of business environment in the regions.

**Table 5.** Support of agriculture in the SR

Source: Rural Development Plan 2004–2006

Rural Development Plan 2004–2006 (RDP) included various measures that had local scope, which was the Objective 2 and the horizontal application – Objective 1 and 2. Depending on the scope, the level of financing changed in Objective 1 to 20% and Objective 2 to 50% from the national budget. The RDP financed projects approved by the Regulation No. 1 268/1999 of EC support within the pre-accession measures for agriculture and rural development and financed the so-called RDP ongoing projects from the SAPARD programme, because the total funding allocated to finance projects under that program was inadequate, and the total amount of financial applications was significantly exceeded. In 2004, the RDP was drawn to support the compensatory allowances for disadvantaged areas, agri-environment and public investment in forestry. Decisive share of the expenditure consisted of just the compensatory payments for disadvantaged areas and the promotion of agri-environmental measures.

Individual measures were financed from the Structural Funds and the Guarantee and Guidance section of EAGGF (European Agricultural Guidance and Guarantee Fund) and FIGF (Financial Instrument for Fisheries Guidance). In 2006, there was completed receipt of applications for grant assistance under the

Sectoral Operational Programme on Agriculture and Rural Development from 2004 to 2006 and the Rural Development Plan 2004–2006. Evaluation and contracting took place in 2007 and followed the release of funds until the end of 2008 and in that year, it was necessary to complete all projects.

For the years 2007–2013 the Slovak Republic has been allocated funding of € 1 969 billion. EUR. Direct continuation of the Rural Development Plan 2004–2006 was the Rural Development Programme for the years 2007–2013 that was approved by the Commission on 4 December 2007. The programme aims to increase the competitiveness of agriculture, food and forestry through the introduction of new technologies and crop rotation to improve the environment and quality of life in rural areas with emphasis on sustainable development. The programme consists of four axes (Table 6).

**Table 6.** Rural Development Programme 2007–2013

<b>Axis 1 – Increase the competitiveness of agriculture and forestry</b>	<b>Axis 2 – Improve the environment and landscape</b>	<b>Axis 3 – Quality of life in rural areas and diversification of rural economy</b>	<b>4th Axis – Implementation of the LEADER approach</b>
<ul style="list-style-type: none"> <li>– Modernization of farms</li> <li>– Adding value to agricultural and forestry products</li> <li>– Infrastructure related to the development and adaptation of agriculture and forestry</li> <li>– Increasing the economic value of forests</li> <li>– Producer sales groups</li> <li>– Vocational training and information activities</li> <li>– Use of advisory services</li> </ul>	<p>Measures targeting the sustainable use of agricultural land</p> <ul style="list-style-type: none"> <li>– Payments for natural handicaps in mountain areas and payments in other LFAs</li> </ul> <p>Measures under the NATURA 2000 payments and payments linked to Directive 2000/60/EC</p> <ul style="list-style-type: none"> <li>– Agri-environment payments</li> <li>– Payments for animal welfare</li> </ul> <p>Measures targeting the sustainable use of forest land</p> <ul style="list-style-type: none"> <li>– First afforestation of agricultural land</li> <li>– Payments under the NATURA 2000 – forest land</li> </ul>	<ul style="list-style-type: none"> <li>– Diversification into non-agricultural activities</li> <li>– Encouragement of rural tourism</li> <li>– Training and information</li> <li>– Village renewal and development, education and services</li> <li>– Skills acquisition, animation and implementation of local development strategies</li> </ul>	<ul style="list-style-type: none"> <li>– Implementation of integrated strategies for local development</li> <li>– Implementing co-operation projects</li> <li>– Running the local action group</li> </ul>

Axis 1 – Increase the competitiveness of agriculture and forestry	Axis 2 – Improve the environment and landscape	Axis 3 – Quality of life in rural areas and diversification of rural economy	4th Axis – Implementation of the LEADER approach
	<ul style="list-style-type: none"> <li>– Forest – environment payments</li> <li>– Restoring forestry potential and introducing prevention actions</li> </ul>		

Source: Rural Development Plan 2007–2013

Proposed strategic plan for Rural Development, made in 2006, was the preparatory document for the elaboration of the Rural Development Programme of the Slovak Republic for the programming period 2007–2013. Both documents define the priorities of the Slovak Republic in the field of rural development, which will be financed by the European Agricultural Fund for Rural Development (EAFRD) in the programming period. Overall, this seven-year plan earmarked over 2.5 billion Euros from public funds. The programme of “Rural Development” focuses on a viable and environmentally sustainable rural environment, stabilizing the existing population in rural areas through employment generation and higher living standard in rural areas.

Legislatively, the transition between the period 2004–2006 and 2007–2013 under Regulation (EC) no. 1 320/2006 establishes the obligation for Member States to indicate in their national rural development programmes information concerning the acquisition and financing commitments from previous programmes. In 2008, support to agriculture was provided by Government Ordinance No. 499/2008 on the conditions for receiving aid under rural development programme. The sectoral Operational Programme on Agriculture and Rural Development was one of the priority axes of the NDP SR for the period 2004–2006 approved by the Slovak Government. It implies acceptance of the different measures taken within individual programmes during 2006. The SR programme SAPARD and SOP PARVO in the year 2006 completed acceptance of applications under the above-mentioned regulations in the next programming period and continued only in additional financing measures within “Agri-environment and animal welfare” section. In 2007, only projects taken under the measure no. 2.5 Technical Assistance were accepted. The measures for fisheries – fish processing, propagation of fish and aquaculture products were funded by FIGF as a part of Budget 2007.

Another ongoing measure of programme SAPARD was “Afforestation of agricultural land”, which was funded by the measure “First afforestation of agricultural land”. Measure “Semi-subsistence farms in restructuring process” without additional financing has been implemented in the new programming period from Axis 1. The measure “producer marketing groups” has had the additional financing arrangements from “producer sales group” (axis 1). Legislative provision of support in disadvantaged areas or balancing payment was supervised by the Government Regulation No. 213/2007 Coll. on the conditions for granting aid to disadvantaged regions and inclusion in the agri-environment measures under Axis 2 of the Rural Development Programme for the years 2007 to 2013. Mountainous areas and areas with specific handicaps are adhered to the LPIC (register of soil blocks and parts of soil blocks), classified by region and type of predominant acreage belonging to the cadastral territory. The applicant has the right to ask for a contribution if the agricultural activity on the surface of at least 1 ha of agricultural land is in disadvantaged areas kept in the records in the form of the blocks of soil and soil block parts, whereas this area may present a more coherent parts of the certain type of soil blocks of this land with an area of at least 0 , 3 ha of cultivated land by this one applicant in compliance with good farmland for agricultural and environmental conditions and under cross-compliance rules (Article 5.1 paragraph. 3 of Council Regulation (EC). 1 698/2005 as amended by Regulation (EC) No. 2 012/2006 of 19/12 2006).

### 1. adverbs

together  
along  
jointly  
overall  
in concert  
cohere

### 2. prepositions

between

**Table 7.** An overview of agricultural support for SR 2004, in millions. Skk

	2004	2005	2006	2007	2008	2009*
Market-oriented expenditure (MOE)	178.27	3,831.01	933.17	232.51	214.15	39.80
Direct payments	6,977.38	6,138.53	6,633.60	7,291.60	11,158.69	364.10
Rural development	2,624.82	5,461.96	7,589.72	8,908.89	8,243.27	433.50
State aid + other domestic support	517.22	358.53	438.90	293.70	273.80	15.20
Total	10,297.69	15,790.03	15,595.39	16,725.70	19,889.91	946.8

Source: Ministry of Agriculture and Rural Development of the SR, The Research Institute of Agricultural and Food Economics, \*data for 2009 are in mil. EUR

In December 2007, there was issued a new regulation of the Government no. 579/2007 Coll. completing Government Regulation No. 213/2007 Coll. in terms of providing support in disadvantaged areas, which changed the amount of payments in regions with worse natural conditions. There was a reduction in total payments due to termination of aid payments for environmental restrictions, which in 2007, moved into action plan Natura 2000 (European network of SPA-s in accordance with Council Directive No. 79/409/EEC on the conservation of wild birds and Council Directive No. 92/43/EEC on the conservation of habitats). LFA payments are made on the acreage of 1,152,700 ha.

Despite the fact that in 2006 was completed recruitment, evaluation and contracting applications for non-repayable grant under the Rural Development Plan 2004 to 2006 and the Sectoral Operational Programme Agriculture and Rural Development from 2004 to 2006 due to financial crisis, the European Commission authorized the Ministry of Agriculture of the SR of additional funding in 2009 and drawing was completed by the end of 2009. In 2009, funds were disbursed only as measures Afforestation of agricultural land, semi-subsistence farms, producer sales groups and technical assistance.

Since 2008, the disbursement of aid was carried out in accordance with Government Regulation No. 499/2008 on the conditions for receiving aid under rural development programme. In 2009 all the measures announced a call for applications for support, but no selection was made in these measures. The overall totals reporting LFA payments are the amounts for the period from 1 December.2008 – 15 October 2009.

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### **Wpływ obszarów mniej uprzywilejowanych na rozwój regionalny Republiki Słowackiej**

**Synopsis:** Artykuł analizuje możliwość wsparcia pokrzywdzonych regionów Słowacji. Definiuje on wsparcie obszarów mniej uprzywilejowanych, analizuje możliwości wsparcia przez Program Rozwoju Wsi w latach 2007–2013 i porównuje z okresem przed wejściem do Unii Europejskiej.

**Słowa klucze:** dotacje dla obszarów mniej uprzywilejowanych, rozwój regionalny, zatrudnienie