

# Spatial aspects of the Sectoral Operational Programme – Agriculture and Rural Development – implementation in the Slovak Republic

## *Priestorové aspekty implementácie Sektorového operačného programu Poľnohospodárstvo a rozvoj vidieka na Slovensku*

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**Abstract:** The contribution deals with the spatial distribution of approved projects under the Sectoral Operational Programme – Agriculture and Rural Development (SOP ARD) in the programme period 2004–2006. The approved projects from agrifood industry were concentrated in the production regions of western and southern Slovakia. It does not indicate only the high absorption capacity of the enterprise subjects, but also really well prepared projects in these regions. In the next programme period, we will have to count with unevenly distributed projects. On the other hand, the low absorption ability in the northern and mainly eastern areas of the SR may result in forming the islands of extreme extensity with negative socio-economical impacts. The SOP ARD (analogous to Sapard) accelerates the process of enterprising selection and significantly supports the increase of competitiveness in economically powerful farms.

**Key word:** Sectoral Operational Programme – Agriculture and Rural Development, Sapard Programme, public resources, spatial distribution of projects, regional development

**Abstrakt:** Príspevok sa zaoberá priestorovou distribúciou schválených projektov Sektorového operačného programu Poľnohospodárstvo a rozvoj vidieka (SOP PaRV) za programové obdobie 2004–2006. Schválené projekty z agropotravinárstva sa koncentrovali do produkčných regiónov západného a južného Slovenska. To indikuje nielen vysokú absorbnú kapacitu podnikateľských subjektov, ale i dobrú kvalitu projektov v týchto regiónoch. S priestorovo nerovnomerným rozložením projektov sa musí počítať i v novom programovom období. Na druhej strane nízka absorbná schopnosť v severných a najmä východných oblastiach Slovenska zakladá nebezpečie vzniku ostrovov extrémnej extenzity s negatívnymi socio-ekonomickými dopadmi. SOP PaRV (podobne ako Sapard) zrýchľuje proces podnikateľskej selekcie a výrazne napomáha k zvyšovaniu konkurencieschopnosti ekonomicky silných fariem.

**Kľúčové slová:** Sektorový operačný programu Poľnohospodárstvo a rozvoj vidieka, Program Sapard, verejné zdroje, priestorová distribúcia projektov, regionálny rozvoj

The Slovak Republic is characterized by a significant regional diversity with differential space allocation of the economic infrastructure, level of urbanization, manpower, etc. This resulted in clear regional differentiation that has led to the uneven socio-economical development of regions. The economical transformation has had the different regional impacts up to now. Dynamic development poles have

appeared and regional disparities have become more significant. This development continuity forms the acute danger of the socially unacceptable differentiation, thereby a long lasting conservation of unequal chances for the inhabitants and business activities in the affected areas.

According to Gajdoš (2005), increase in regional disparities in socio-spatial situation of the SR rep-

resents one of the most difficult socio-economic problems of the current transformation situation. Actual problems of the economic, social and political character have become more significant in the problem regions. Faltán et al. (2004) says that the rural economic basis starts to reprofile in the transformation period. In this time, the rural space also loses the dominance in agricultural production as the economical basis. He points out at some negative tendencies as the depopulation of rural areas, decreasing human capital, stagnant cultural capital, decline and deformation of social capital, etc.

The current problems connected with the continuous restructuring changes in the agrifood industry, differentiated economic conditions, growth of unemployment, etc. have multiplied the distinctions in development trend among the regions. The presented contribution shows this tendency by implementation of the Sectoral Operational Programme – Agriculture and Rural Development (SOP ARD).

This article attempts to form the current evaluation particularly concentrating on regional aspects of the SOP ARD realization and critically evaluates the first results of the implementation up to the middle of 2006. It continues as an analogical analysis of the Sapard programme implementation (Buchta 2005). The Sectoral Operational Programme Agriculture and the Rural Development relate geographically to the area falling within the Objective 1 (territory other than the Bratislava region).

This programme document is composed of two priorities implementing the following measures:

**Priority no 1: Improvement of the agricultural production sector**

Measure no 1.1: Investment in agricultural holdings

Measure no 1.2: Improving the processing and marketing of agricultural products

**Priority no 2: Sustainable rural development**

Measure 2.1: Sustainable forest management and forestry development

Sub-measure 2.1.1: Investments for improvement and rationalisation of silviculture and forest protection, harvesting, primary timber processing and marketing of timber and non-timber products (profitable investments)

Sub-measure 2.1.2: Public welfare investments (non-profit investments)

Measure 2.2: Fisheries

Sub-measure 2.2.1: Fish processing and promotion of fishery products

Sub-measure 2.2.2: Aquaculture

Measure 2.3: Promoting the adaptation and development of rural areas

Sub-measure 2.3.1: Land consolidation

Sub-measure 2.3.2: Diversification of agricultural activities

Measure 2.4: Training

Measure 2.5: Technical assistance

There were 1 364 approved projects on the date of 30<sup>th</sup> June 2006, of which 588 were finished ones and 1 210 approved projects on the date of 31<sup>st</sup> December 2005, of which 384 were finished ones. Analyses show that the problems with projects implementation of SOP ARD (as well as Sapard) are more serious in economically undeveloped areas.

An amount of SKK 7.980 billion came from the approved assistance provided by public funding before middle of 2006. The rest of the approved financial limit for the programme period 2004–2006 was SKK 1.740 billion. A share of the approved amount came from the public sources represented by 82% on the aforementioned date.

According to the “Analyses of the contractual obligations of structural funds and Cohesion fund by 31<sup>st</sup> December 2005 and estimation by 30<sup>th</sup> June 2006” (Report about implementation 2006) the programme documents SOP Industry and Services (69.7 %) and the SOP Agriculture and Rural Development (68.6 %) had the highest percentages within the implementation of the structural funds by making the contractual obligations in 2005. The SOP ARD achieved the full contractibility (100%) up to the end of 2006.

## METHODOLOGY

The work is based on the secondary analysis of the full-area “hard data” (number of projects, structure of beneficiaries, financial amounts of the approved public sources, etc.) aggregated at the NUTS IV level. Regionally differentiated statistics from the Statistical Office of the SR and the Agricultural Payment Agency (APA) provided primary data. In this way, the basic data for the regional comparisons were obtained.

The regional analysis used dichotomic spatial aggregation (north-south, east-west), which was also applied by the evaluation of the Sapard programme implementation (Buchta 2005). The horizontal dichotomy is based on territorial units on the NUTS III level. West regional aggregation included the Bratislava, Trnava, Nitra, Trenčín and Žilina regions. The east area included the Banská Bystrica, Prešov and Košice regions. The vertical spatial structure comprised of the northern and southern regional aggregations, based on the level of the NUTS IV regions.

## RESULTS

### Spatial allocation of the projects

Of the total number of ten measures, nine had regional dimensions (they were implemented in different regions within the Slovak Republic). By 30<sup>th</sup> June 2006, the most approved projects were concentrated under the Measure 1 (64%) and Measure 2 (149 projects, i.e. 11%). The approved projects from these two measures did three quarters of the total amount of 1.347 approved projects, i.e. the priority 1 (Improvement of the agricultural production sector, Measure 1.1 and 1.2) accounted for one quarter of all SOP projects. Almost two thirds (61%) of 858 approved projects under Measure 1 were allocated to the western and 80% to the southern regions. The most significant shift in the distribution of the projects directed more to the south than to the west (Figure 1). The absolute number of the SOP ARD projects (in comparison with the Sapard) in every legal form has increased. On the other hand, their proportional shares have changed significantly. The projects share of business companies (by 13 percentage points) and agricultural companies (by 8 percentage points) has decreased and the share of self-earning farmers has markedly increased (by 21 percentage points). The important acceleration of the private farmers projects occurred in the approving process of the SOP ARD.

Most projects under the Measure 1.1 were oriented at new machines and technologies, almost one tenth of the projects were concentrated on the construction and buildings reconstruction. The basic aim was to increase the labour productivity and production

efficiency. The interview with beneficiaries of the Measure 1.1 and the APA experts tended to conclusions that the investments in the new technologies would result in decreasing the number of labour forces (replacing the old technologies by the new ones, application of advanced innovations, etc.). There were 275 self-earning farmers among the total amount of beneficiaries under the approved measure, who are not expected to have increasing employment. Other 500 beneficiaries, legal persons, are expected to create new job opportunities and also terminate the current job opportunities under use of the new technologies. Quantification of the impacts under the analysing measure proceeded from the assumption that it would have more stabilizing than developing character with possible slight decrease of jobs in these business entities. Generally, a big working load has regressed and the hard manual labour has been limited. This measure has caused the decrease in production costs, increase in labour productivity, production efficiency and mainly in competitiveness by the referred beneficiaries. The meritorious goal of the investment's measure is to raise the business competitiveness under the environmental protection. We do emphasise, that the measure has been applied for a too short time to be evaluated from the view of its impacts.

There were 858 approved projects and 776 excluded projects under the Measure 1.1 (Investment in agricultural holdings) up to the middle of 2006. With respect to the significant regional eccentricity of the approved projects, it was necessary to consider if the excluded projects came from the minority regions or not, i.e. the regions with low

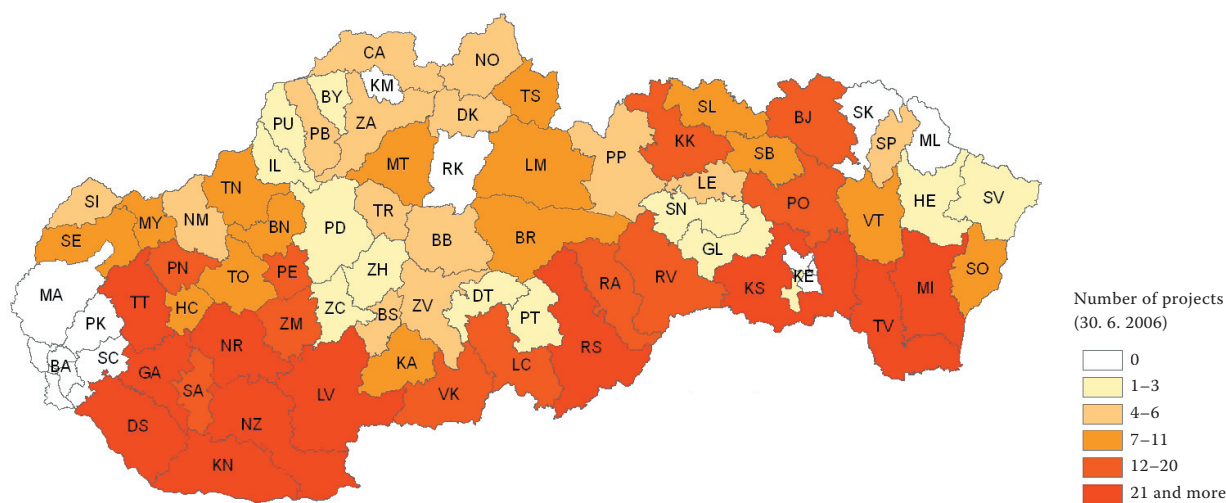


Figure 1. Distribution of the approved SOP ARD Projects in the Slovak Republic (Measure 1.1 – Investment in Agricultural Holdings)

Source: APA, author RIAFE

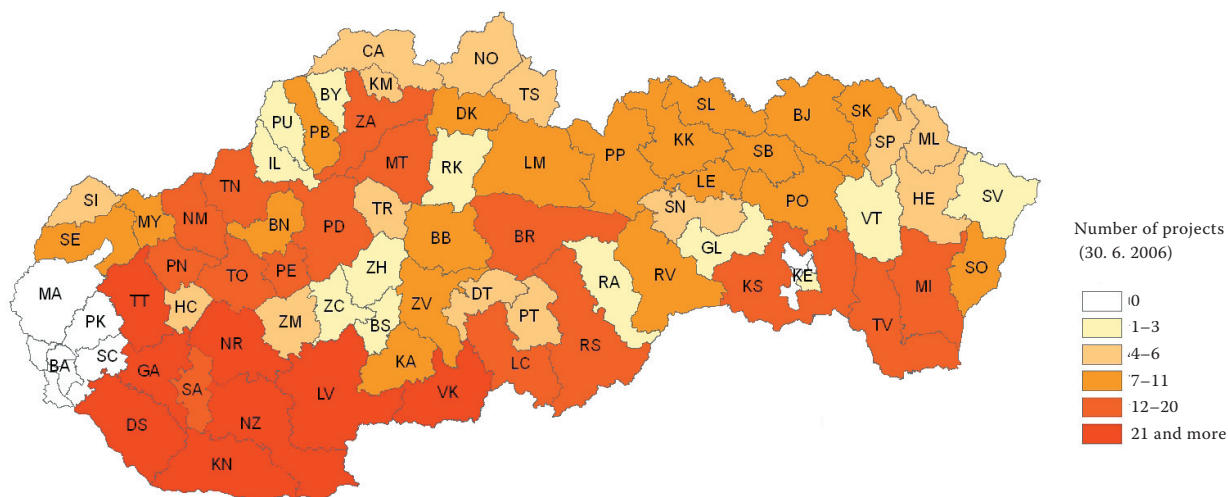


Figure 2. Distribution of the excluded SOP ARD Projects in the Slovak Republic (Measure 1.1 – Investment in Agricultural Holdings)

Source: APA, author RIAFE

amount of the contracted projects, or if the excluded projects were analogically spatially allocated as the approved ones. Therefore, the analysis dealt with the regional distribution of the excluded projects under the Measure 1.1. 88% of the excluded projects came from the Measure 1.1, which means that the demand for this type of projects became enormous among the enterprise subjects and significantly exceeded the approved financial resources. The most common reason for excluding the projects was not their insufficient quality but a lack of financial resources in the APA. These projects will be shifted to the new programme period 2007–2013.

Most of the excluded projects came from the Nitra and Trnava regions (Figure 2). In these regions, there were concentrated the biggest amounts of the approved

projects as well. Two thirds (66%) of 776 excluded projects under the Measure 1.1 were allocated to the west and almost three quarters (72%) to the south. This distribution is almost the same as in the approved projects. In both cases the spatial shift in the distribution to the south regions predominates. The most significant southern shift appeared in excluded projects of self-earning farmers. The high percentage in both the excluded and approved projects in the production regions of the SR means not only the high absorption capacity of enterprises but really well prepared projects in these regions, too. Therefore, in the next programme period we will have to count with unevenly distributed projects and great supply of projects coming from these production areas of Slovakia.

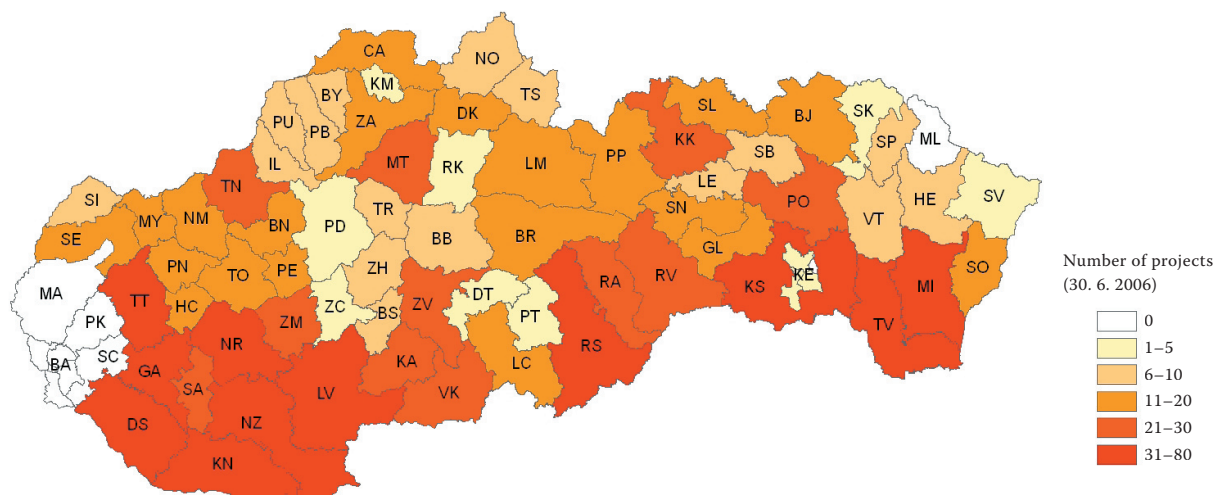


Figure 3. Distribution of the approved SOP ARD Projects in the Slovak Republic (Measure 1.1–2.4)

Source: APA, author RIAFE



Over half of the SOP ARD projects (58%) under the Measures 1.1 to 2.4 – total, were allocated to the west and three quarters to the south (74%, Figure 3). The overall majority shift to the west and south was typical for all measures (with the exception of the Measures 2.1 – forestry, 2.3.1 – land consolidation and 2.4 – training). The insufficient distribution of projects to the east has resulted in the unbalanced spatial distribution of businesses and the associated risks of the permanent regression in the development of agricultural businesses in less economically favoured regions, with the subsequent impact on spatial economic and social development. Within the framework of the regional development in agriculture, the SOP ARD (as well as the Sapard programme) has shown the low horizontal absorption ability of the capital for enterprise subjects in eastern and northern areas.

The increased distribution of projects into southern areas has had a positive effect on the increasing competitiveness of agricultural businesses in the economically underdeveloped regions in the south of Slovakia. The approved projects in the SOP and the Sapard programme were regionally distributed in such a way that they do not contribute to mitigation of the differences between regions. The regional shift to the regions of western and southern Slovakia occurred mainly in the Measures 1.1 and 1.2.

### Financial characteristics

The total volume of costs for all projects approved under the SOP ARD amounted to SKK 7.788 billion

by 30. 6. 2006 (except the Measure 2.5 – technical assistance). Over three quarters (SKK 6.092 billion, i.e. 78%) of the public sources for the approved projects under the Measure 1.1 and 1.2 came from the total contracted amount of money. The Priority 1.1 (Investment in agricultural holdings) predominated over the Measure 1.2 (Improving the processing and marketing of agricultural products). These measures were dominant, both in terms of projects and also the amount of approved funding.

The most financial resources for the SOP ARD were allocated into the Nitra (SKK 2.121 billion) and Trnava (SKK 1.318 billion) regions. These regions absorbed over half (59%) of the total approved public funding. Among the first ten districts, there were only the southern districts and in horizontal view eight western districts (Figure 4). In this way the dominance of these regions in the SOP ARD funding absorption is documented.

Compared with the Sapard programme, the financial support from the SOP ARD (the EU contribution + SR) directed to each region was markedly higher. Financial assistance provided by the Sapard programme and the SOP ARD (except payments from the Rural Development Plan) in the period 2002–2006 (30. 6.) amounted to SKK 12.376 billion. The total eligible costs (including the own financial resources of the beneficiaries) were SKK 22.847 billion.

With respect to the indicated regional aggregations, the SOP ARD provided public funding of SKK 4.69 billion to the western (60%) and SKK 3.10 billion to the eastern regions (40%). In terms of vertical regional aggregation, northern regions received SKK 2.03 billion (26%) and the south received SKK 5.76 billion (74%).

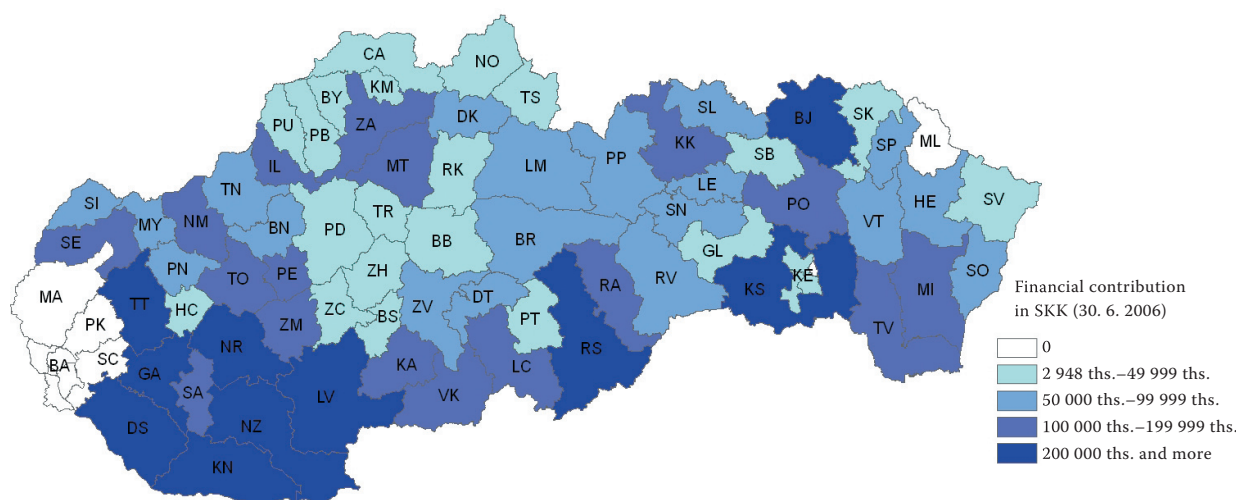


Figure 4. Distribution of the approved financial assistance (public sector) under the SOP ARD in the Slovak Republic (Measure 1.1–2.4)

Source: APA, author RIAFE

In terms of the horizontal regional aggregation, 60% of the approved funding was allocated to the west and in terms of vertical regional aggregation, almost three quarters of regionally identified funding were allocated into the southern regions.

Distribution of funding from the SOP ARD mostly favoured larger entities. It affected the selection and differentiation of businesses and contributed to the acceleration of business restructuring in agrifood industry. The programme helped to increase the competitiveness of viable businesses, contributed to growth in technology and labour productivity. In agrifood industry, the SOP ARD has increased regional differences. On the other hand, these effects are mitigated by direct payments (SAPS, LFA – less favoured areas), which counterbalance regional differences.

Over half (56%) of the public financial resources directed to commercial companies, 18% to the self-earning farmers and 17% to the agricultural cooperatives. The bulk of the approved funding for the commercial companies was 3.2 times higher than for the cooperatives. The commercial companies became a clearly dominating project hegemon, to which more than half of the approved costs were distributed.

The amount of SKK 4.302 billion per 1 ha of agricultural land was approved up to 30<sup>th</sup> June 2006. More than half of these resources came from the Measure 1.1. and one quarter from the Measure 1.2. The southern regions received one quarter more than the north, and the western regions received one third more than the east. The dominance of the south was not such great in calculation of the total approved funding per 1 ha of farmland, because of the measures supporting more non-agricultural activities (e.g. improving the processing and marketing, forestry, fisheries, land consolidation, etc). Concerning the financial volume, these measures did not belong to the biggest ones, their projects were allocated to the smaller northern areas and so importantly influenced the amount of approved funding in calculation per 1 ha, in comparison among districts.

## CONCLUSION

According to the “Analyses of the contractual obligations of structural funds and the Cohesion fund met by 31<sup>st</sup> December 2005 and estimated by 30<sup>th</sup> June 2006” (2006), the tendency of development in the contract making in 2005 and 2006 has rapidly increased within the implementation of the structural funds. The highest percentages among the contracts of the planned volume of resources in 2004–2006 were

reached by the programme documents SOP Industry and Services (69.7%) and SOP Agriculture and Rural Development (68.6%). The SOP ARD achieved the full contractibility (100%) up to the end of 2006.

The evaluation of implementing the SOP ARD (Buchta, Rentková 2006) has shown that increase in regional disparities of agri-food business structure is faster and more rapid after the EU accession. More regions has become significantly suppressed, classic agricultural production is being abandoned and this results in its increasing concentration in production regions, and the real danger of originating the islands of extreme extensity is growing. It is generally accepted that agriculture generates other economic activities in the fields of processing, services, trade, etc. These business activities are spatially distributed and form the conditions and resources for other enterprising. For this reason, the huge regional disparities may negatively influence the other business activities. A more detailed analysis of the spatial distribution in agricultural production in every region and its relationship to processing industry would be more convenient for formation of the long-time conception (i.e. vision) of agricultural and rural development in Slovakia.

The SOP ARD (similar to the Sapard programme) does not provide a substantial contribution to regional development through the balanced and general regional competitiveness, because of the eccentric spatial allocation of the supportive funding and also by the fact that the supported enterprises fail to generate new job opportunities although they help to increase the labour productivity. The supporting funding contributes more to unbalanced spatial growth of economic competitiveness of strong business entities and accelerates the business restructuring in the agrifood industry of the Slovak Republic. In contrast to the spatial horizontal approach of direct payments with lower effectivity in investments, the SOP ARD represents the project-focused and selective approach tending to support the economic competitiveness in agrifood industry with high level of efficiency and return of the associated investments. This approach has regional consequences. On one hand, the SOP ARD has helped to reduce regional disparities in the vertical spatial approach by diversion of the bulk of funding to the economically less favoured southern areas of Slovakia lagging behind in terms of infrastructure. On the other hand, though, it has increased regional disparities in the horizontal spatial view with regard to the fact that most of the funding is spent in the production areas of western Slovakia. Eastern Slovakia, thus, has become a disadvantaged and minority recipient of financial assistance under

this programme. Implementation of the SOP ARD and the Sapard programme has brought two antagonistic regional effects. It removes regional imbalances between north and south, but in horizontal direction (west-east) it rather increases disparities. An arisen dilemma “competitiveness development or balanced regions” should lead to the discussion about the proportions of these two dimensions (i.e. competitiveness development of enterprises and balance in regional disparities).

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