

Impact of the investment grants from the European funds on the development of agriculture and rural areas

Dopady investičných podpôr z eurofondov na rozvoj poľnohospodárstva a vidieka

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Abstract: The article describes the impact of the Sectoral Operational Programme Agriculture and Rural Development and the Rural Development Plan 2004–2006 on the rural development in 2004–2007. In addition to the implementation analysis of these programming documents, the article also describes territorial distribution of direct subsidies and state aid over the monitored period of 2004–2007. A summarized overview is given for the drawdown of all types of subsidies and their proportionate amounts. The evaluation of all subsidies has shown that most of them were paid to the Northern and Eastern parts of Slovakia, due to the agroenvironmental and direct payments (mostly LFA). The article also describes, in quantitative terms, the social and economic impact of investment subsidies from the Sectoral Operational Programme Agriculture and Rural Development and the Rural Development Plan 2004–2006, based on the monitoring indicators of result and impact. The comparison of the socio-economic development of the beneficiaries and non-beneficiaries of investment subsidies from the SOP and RDP has shown a faster growth in income of the beneficiaries, as well as a faster growth of labour productivity. Also, the subsidies significantly helped to reduce the decrease in employment and/or helped to maintain the employment in agriculture.

Key words: Sectoral Operational Programme Agriculture and Rural Development, Rural Development Plan, project (investment) measures, direct subsidies, state aid, territorial distribution of public sources, rural development, socio-economic impact of investment grants on rural development

Abstrakt: Príspevok sa zaoberá hodnotením dopadov Sektorového operačného programu Poľnohospodárstvo a rozvoj vidieka a Plánu rozvoja vidieka 2004–2006 na rozvoj vidieka za roky 2004–2007. Okrem analýzy implementácie týchto programových dokumentov sa zaoberá aj územným rozložením priamych podpor a štátnej pomoci za sledované roky 2004–2007. Súhrnne hodnotí čerpanie všetkých typov podpor a ich vzájomné proporcie. Pri zohľadnení všetkých podpor sa ukázalo, že najviac ich bolo vďaka agroenvironmentálnym a priamym platbám (najmä LFA) vyplatených do severných a východných oblastí Slovenska. Kvantifikuje sociálno-ekonomické dopady investičných podpôr Sektorového operačného programu Poľnohospodárstvo a rozvoj vidieka a Plánu rozvoja vidieka 2004–2006 na základe monitorovacích indikátorov výsledku a dopadu. Porovnanie sociálno-ekonomického vývoja poberateľov a nepoberateľov investičných podpôr zo SOP a PRV ukázalo u beneficiárov investičných podpôr rýchlejšie tempo rastu výnosov a produktivity práce; podpory výrazne brzdili tempo znižovania zamestnanosti, resp. napomáhali udržiavať zamestnanosť v poľnohospodárstve.

Kľúčové slová: Sektorový operačný program Poľnohospodárstvo a rozvoj vidieka, Plán rozvoja vidieka, projektové (investičné) opatrenia, priame podpory, štátna pomoc, územná distribúcia verejných zdrojov, rozvoj vidieka, sociálno-ekonomické dopady investičných podpôr na rozvoj vidieka

Sustainable rural development is an important issue in the social and economic development in Slovakia. Life conditions of the population and sustainability of economic life in rural areas are largely affected by the presence of agriculture and its economic performance. In general, the future of rural areas will depend on economic restructuring and on the potential for creation of job opportunities for rural population. In addition, agriculture has provided objective conditions to help improving the quality of life in rural areas, to address unemployment, and to improve life conditions of rural population. Agriculture has created job opportunities that are uniformly distributed across the territories. This means that it helps to maintain settlement also in the remote areas outside the urban centres and it may help to employ people with the reduced mobility caused by objective reasons. Agrarian sector thus brings about a substantial contribution to social cohesion in rural areas, especially in those regions where the optimum rate of employment in agriculture was preserved. It was mostly the process of diversification towards non-agricultural operations and the measures targeted at improvement of rural life conditions which had a positive impact on rural development. This article provides an analysis of the impact of two programming documents on agriculture and rural development in the shortened programming period 2004–2006, namely the Sectoral Operational Programme Agriculture and Rural Development and the Rural Development Plan.

CONTEXT

The economists generally accept the view that an appropriate diversification of the portfolio helps to reduce the potential losses. According to Szentivány (2004), diversification of production, i.e. growing of various commodities or varieties at the same time helps reduce the fluctuations in income, especially, when when the produced commodities incur different

pricing and production risks. However, increasingly common phenomenon is the diversification through increasing the share of non-agricultural operations (such as wage income from other activities, income from investment, lease, property, and social transfers) in the total income of farmers' households. According to the "Rural Development in the European Union, Report 2006", up to 31% of European farmers employ other profitable activity in addition to agriculture.¹ This percentage surpassed (by more than 50%) the level in many countries and regions (especially in Slovenia, Sweden, Cyprus, Malta, and Germany). Up to 87% of employment and 95% of the added value added, mostly in rural areas of the EU-25, is generated by non-agricultural sectors. Tourism is one of the key choices for the potential development of rural areas. This sector has already played a key role in rural areas in the EU-25 where three quarters of the total accommodation capacity are located in rural areas.

Štolbová (2008) states that, for example, the LFA (less favoured area) payments in the Czech Republic help stabilise rural population only indirectly because the subsidized farmers maintain the environment and cultural landscape, although these payments do not result in the development of rural employment. On the contrary, she argues that the reduction in payments may release a certain amount of funding which could be targeted on supporting the creation of new job opportunities in rural areas, the improvement of rural services, restoration and development of villages, etc.

Prachár (2006) states that even though the subsidies represent an important tool to mitigate the effects of the imbalance, they will not resolve the cause of such imbalance. A growing imbalance between the production capabilities and markets will favour those producers that are in a good position to reduce production costs. Just relying purely on subsidies in a crowded market may be a negative attitude. Therefore, the creation of resources will continue to remain the main factor of production

¹ According to Farm Structure Survey in the Slovak Republic, of the total of 9 000 farms in 2005 (legal persons and farms owned by natural persons not registered with Trade Register), one of each four farms (23%) provided other profit activities. However, diversification of operations in farms of legal persons was almost three times the level in farms owned by registered natural persons. 47.2% of farms of legal persons carried out other profit activities, in contrast to 16.9% farms of natural persons. The highest diversification of operations was recorded in the group of cooperatives (62% with other profit activities). Joint stock companies held an above average share of diversification (51.2%). Higher share of diversification was recorded in less productive regions where, for economic reasons, it is necessary to add other profit activities to agricultural production. This need is not so urgent in agricultural productive regions. Higher economic power of larger corporate businesses was also shown in the fact that more than half of profit activities by legal persons included two and more activities; which means that they provided more than one profit activity. On the other hand, most individual farmers who provided other profit activities, had only one such activity.

capacity. It is generally known that the opinions on the subsidization policy differ and are determined by the economic and political orientation of those who provide such opinions.

Doucha (2006) remarks the fact that the restructuring process in the Czech agriculture slowed down after the accession to the EU and the enterprises with performance below the average were given a chance to prolong their existence, thus delaying the solution of this problem. In our opinion, the situation in Slovakia is more varied. We can identify two main groups of businesses in Slovakia.

- the group of economically viable businesses that are successful beneficiaries of the project oriented subsidies (obviously enough, these enterprises also receive direct payments). This group of businesses has experienced an accelerated competitiveness of the individual businesses and a substantial rate of business restructuring. The competitiveness of the already competitive enterprises is on the rise.
- the group of economically weaker businesses that do not receive any business-oriented subsidies and these subjects only survive thanks to the direct and LFA payments. One of the objectives of these subsidies is to preserve rural landscape, sustainable farming system with respect to environment protection, stabilisation of rural population, etc.

While the first group of businesses is best described by a relatively fast process of business restructuring and the increased competitiveness, no such process takes place in the second segment of businesses which copies the Czech example.

METHODOLOGY

The article is based on the analysis of the available statistical data provided by the Agricultural Payment Agency (APA) aggregated on the level NUTS IV. All the available data sources were used in the data collection, as well as the materials which related to the implementation of the Sectoral Operational Programme Agriculture and Rural Development (hereinafter referred to as the SOP) and the Rural Development Plan (RDP), mostly from the APA. For the purposes of the regional comparative analysis and the territorial concentration of the public SOP sources, the analysis of statistical data from the APA Office used the dichotomic spatial aggregation data which was used by the authors in their previous analyses (Buchta, Rentková 2006, 2007). The preliminary calculation of the impact was completed, using the analysis of indicators in the Central Database of the Research Institute of Agriculture and Food Economics

(RIAFE) – the Information Sheets of the Ministry of Agriculture of the SR. All enterprises were selected in the period of 2005–2007 during which they received investment subsidies from the SOP and RDP every year (without the identification of the specific measure). These indicators were then compared with the data from businesses which received no investment subsidies from the SOP and RDP during the period. The quantitative analysis in the article used the respective monitoring indicators of result and impact from the completed investment projects in SOP and RDP using data from the central database of the RIAFE.

RESULTS

The Sectoral Operational Programme Agriculture and Rural Development – condition of implementation

The SOP applies to the areas under the Objective 1, (i.e. the entire territory of Slovakia, with the exception of the Bratislava region). Some 3 058 SOP projects were received submitted by June 30, 2008. Of those, 1 687 projects were approved and 1 370 were rejected. The completed payments by that date amounted to SKK 8 369 million, i.e. 86% of the planned limit. 1 187 projects were completed as of June 30, 2008 (i.e. two thirds of the total number of the approved projects) and the amount of the completed projects stood at SKK 6 339 million. The highest number of the approved projects fell under the Measure 1.1 (Investment into agricultural businesses – 931 projects) and the Measure 1.2 (Improved processing and marketability of agricultural products – 167 projects).

In 2004–2007, the biggest bulk of public funding from the SOP, in both absolute and relative terms (per ha of agricultural land – a.l.), was allocated to the Nitra and Trnava regions, and the least amount was allocated to the Žilina and Košice regions. Nitra region received twice as much in public funding than Žilina region. In the terms of subsidies per hectare of a.l. (agricultural land), the West of Slovakia received by 20% more than the East, and the South of Slovakia received by 29% more than the North. The highest amount of subsidies was allocated to the Western part of the country (SKK 4 275 per ha of a.l.) and the lowest amount was allocated to the North (SKK 3 276 per ha). The Western regions received by 30% more in subsidies per hectare, i.e. by SKK 1 000 more, in the absolute terms. Most of the resources in the SOP have been permanently concentrated in the West and South of the country.

Most public sources (52%) in 2004–2007 were paid out to farming companies, 28% to agricultural cooperatives and 20% to private farmers (PFs). Up to two thirds (SKK 2 585 million or 64%) were allocated to crop production and the animal production received only some SKK 636.6 million (16%). Up to 80% of the volume of paid sources was used to purchase new technology and equipment, or the money was spent in modernisation and refurbishment of the technology production lines. Some 12% of public resources were allocated in 2005–2007 to the construction or modernisation of buildings.

The Rural Development Plan – status of implementation

The RDP covers the areas under the Objective 2, (i.e. the territory of the Bratislava region). However, the RDP also includes horizontal measures which apply to the whole of Slovakia. As of June 30, 2008, some 2 437 projects were received under the RDP 2004–2006, of which 2 180 projects were approved and 284 were rejected. Some SKK 5 910 million were paid out by that date, i.e. 84% of the planned limit. 692 projects were completed by June 30, 2008 (i.e. one third of the total number of the approved projects) and the completed projects received SKK 916 715 000 in payments. The low amount of payments allocated to the towards the completed projects is caused by the multiannual focus on the dominant Measure No 5 (agri-environment) which also covers the new programming period of 2007–2013.

The highest portion of the RDP public resources in 2004–2007 (without the atypical Bratislava region) were allocated to the Prešov region, and the lowest amount was allocated to the Nitra and Trnava regions. The Prešov region received one fourth of the entire RDP sources that were spent in 2004–2007, and 9 times more than the Nitra region. In the terms of payments per ha of a.l., the North of Slovakia received almost twice as much as the South and the East received by 55% more in payments than the West of Slovakia. The major bulk of payments was allocated to the North (SKK 4 126 per ha of a.l.) and the least amount of payments was recorded in the South of the country (SKK 2 155 per ha). In contrast to the SOP, an opposite distribution of public resources was recorded in the RDP – most of the money was allocated to the North and to the East. The trend towards the majority concentration of sources was clearly caused by the distribution of the dominant Measure No 5 (agri-environment).

The Bratislava region (the areas of the Objective 2) received SKK 2.8 billion from the SOP and RDP, which represents about 13% of the total volume of the contracted public sources under the SOP and RDP. The amount of public sources per ha of a.l. displays a clear preferential treatment of the Bratislava region. The reason behind preferring businesses in the Bratislava region is the relatively small share (about 5%) of legal and natural persons that operate in the region. The Bratislava region received the highest average payments per project under the SOP and RDP from the approved volume of public funding.

Even though most of the implemented projects, especially under the major SOP measures and the identical projects in the RDP, received direct financial subsidies which are relatively easy to implement. One may reasonably expect that other effects of the investment support, such as the creation of additional job opportunities, the transfer of knowledge and technology, and human resources development will be felt in full in the next 2–3 years when the production capacity is to be used to the full extent and the subsidized economic business structures are to be stabilised. The completed investment will, in future, attract an additional investment and a secondary creation of new job opportunities. To that end, the investment made so far may have a favourable impact on effective use of investment aid in future. In addition to the primary effect, such as the influx of investment and the creation of new job opportunities, the investment subsidies resulted in other multiplication effects within the respective regions which will positively impact the development of rural economy. The agriculture has attracted other economic operations in the field of processing, services, trade, etc. These business activities create conditions and sources also for other types of business.

Structure and distribution of project subsidies in the support policy

This section gives an overview of all types of subsidies in total, i.e. investment (project) subsidies, direct subsidies, and state aid. Project measures do not include the outlays for the Technical Assistance and Land Modifications. The summary of all subsidies presented here does not include market measures and the separate payments on sugar.

In 2004–2007, the total of SKK 54.2 billion was paid in subsidies (however, the real volume of subsidies was higher because these subsidies are not quite complete). The structure of investment and non-investment subsidies presented here must, however, account for

Table 1. Structure of the subsidies drawdown in 2004–2007

Source of drawdown (2004–2007)	Volume of drawdown in 2004–2007 (thousand SKK)	Share of individual sources (%)
Sapard	4 533 556	8.4
SOP	7 542 036	13.9
RDP	5 503 830	10.2
Direct subsidies	35 471 141	65.4
State assistance	1 163 100	2.1
Total	54 213 663	100.0

Source: APA, own calculations

Table 2. Paid investment subsidies in total, in 2004–2007, according to the spatial aggregations

Aggregation	Completed investment subsidies per ha of agricultural land (SKK)	
	incl. agri-environment	without agri-environment
West	8 670	7 319
East	8 083	4 828
North	8 934	4 917
South	8 208	6 708

Source: APA, own calculations

the special position of agro-environment which is treated as a project (investment) measure, although it has a different nature. Therefore, we filtered out the drawdown by agro-environment as a separate segment which is not listed under the project (investment) subsidies. The distribution of subsidies has shown that after the exclusion of agro-environment, the share of investment subsidies (in the total volume of subsidies) dropped down from 32.1% to 22.2%, i.e. from one third to one fifth (see Table 1 and 2). This underlines even more the exclusive position of direct payments in the agrarian support policy.

Non-investment subsidies had a dominant position in the less productive regions in the North-Eastern Slovakia. The share of non-investment subsidies has gradually increased from the West to the East. On the other hand, the highest investment subsidies (without agri-environment) were allocated to the Bratislava region and the South-Western regions of Western Slovakia. In general, however, the share of investment subsidies did not surpass 50% in any district in Slovakia. This means that the non-investment subsidies prevailed on the entire territory of Slovakia.

According to spatial aggregations (in 2004–2007), when the entire amount of subsidies is taken into account; most of the funding was paid in the North (SKK 31 475 per ha of a.l.) and in the East (SKK

29 060 per ha of a.l.), and the least amount was paid in the South (SKK 26 586 per ha of a.l.), and in the West (SKK 27 043 per ha of a.l.). Over the four-year period (2004–2007), the North has received by 18% more in payments per ha of a.l. than the South, by 8% more than the East and by 16% more than the West (Table 3). The difference between the North and South was more than twice the amount of the difference between the West and East. This suggests that the highest differences in the subsidies paid out are in the vertical spatial distribution (the difference between the North and South amounted to SKK 4 889 per ha, the difference between the East and West was only SKK 2 017 per ha).

Similarly, if the investment subsidies were taken into respect (and agri-environment is excluded), the

Table 3. Paid subsidies in total, in 2004–2007 according to spatial aggregations

Aggregation	Subsidies, SKK total per ha of agricultural land
West	27 043
East	29 060
North	31 475
South	26 586

Source: APA, own calculations

major bulk of investment subsidies was paid to the West (SKK 7 319 per ha) and to the South (SKK 6 708 per ha) and the smallest amount per hectare was paid to the East (SKK 4 828 per ha) and to the North (SKK 4 917 per ha). The spatial coverage of non-investment subsidies including agri-environment shows a clear spatial determination towards the Northeast. The increased support to less productive areas was caused mostly by direct payments (especially the LFA payments) and by agri-environmental subsidies. The opposite trend in the spatial distribution was recorded in the case of investment subsidies (mostly those from the Sapard and the SOP).

Social and economic impact of investment subsidies from the SOP and RDP

The preliminary calculation of the impact was completed using the analysis of indicators in the RIAFE Central Database (Information Sheets of the Ministry of Agriculture of the SR). All enterprises that received investment subsidies from the SOP and RDP (without the identification of the specific measure) every year were selected for the period of 2005–2007. This approach is based on the analysis of the sample collection which does not have to correspond to the entire basic collection of the beneficiaries of investment subsidies from the SOP and RDP. In addition, the sample collection does not include those businesses which received and spent investment subsidies over one year (or two years), and the amount of subsidy is also not taken into account. Given these limitations in the research, we realize that a cautious approach must be taken to generalisation of the obtained knowledge and its application to all businesses in Slovakia that received subsidies. On the other hand, most of the effects suggested here were shown and verified through interviews that took place with the top management in many enterprises and was also verified through the talks with the relevant APA experts.

Specific indicators were selected using the indicators of result and impact that were based on the monitoring reports of the main SOP and RDP measures. These indicators were then compared with the data from the businesses which received no investment subsidies from the SOP and RDP during the period. Even though we are aware of the fact that there are more complex reasons behind the resulting trends, the evaluation presented here describes the realistic features of the development of the beneficiaries and non-beneficiaries of subsidies and suggests certain effects of investment subsidies.

The comparison of the social and economic development of the beneficiaries and non-beneficiaries of the SOP and RDP investment subsidies has shown the following effects:

Legal persons

- the beneficiaries of the SOP and RDP investment subsidies experienced a higher rate of income growth than the group of businesses that received no investment subsidies;
- the employment decline was slower in the group of beneficiaries than of non-beneficiaries. The SOP and RDP beneficiaries were clearly able to create new job opportunities, although investment subsidies mostly helped to preserve employment or to mitigate the decline in employment. The dominant effect consisted in the preservation of employment, rather than in creation of new job opportunities (when new opportunities were created, the employees were transferred from the discontinued operations; and, as a result, a significant growth in employment was recorded only in the individual and rare cases). Even in the subsidized enterprises the number of the cancelled job positions surpassed the number of the newly created positions,
- in general, there were very few new job opportunities created, although the dynamics of creation was clearly better for the beneficiaries of the SOP and RDP investment subsidies. The number of newly created job opportunities per one subsidized business amounted to 1.13 (SOP) and 0.75 (RDP) in the category of cooperatives, in contrast to the cooperatives which did not receive any subsidies and which created only 0.08 new job opportunities per one cooperative. A similar situation was in the case of farming companies:
- the beneficiaries recorded a much higher growth in profit (per employee),
- the SOP and RDP investment subsidies clearly boosted the growth in labour productivity, with a higher dynamics of labour productivity in the case of beneficiaries.

Private farmers (PFs)

- PFs – the beneficiaries of the SOP and RDP subsidies recorded a higher growth of the total income, compared to private farmers who did not receive these subsidies,
 - the beneficiaries of investment subsidies experienced the growth in employment, in contrast to those farmers who did not obtain such subsidies (and experienced a slight decline in employment).
- PFs – the beneficiaries of investment subsidies

Table 4. Development of indicators in the category of legal persons

Legal form(type of enterprise)	Index 2007/2005							
	average income	pre-tax profit/loss	average number of employees	profit/loss per employee	average monthly wage	number of N/PM per one business	labour productivity from income	labour productivity from added value
AC – beneficiaries SOP	109.1	144	90.1	116.8	118.5	1.13	126.6	103.3
AC – beneficiaries RDP	110.3	+	92.1	+	117.8	0.75	117.8	110.6
AC without investment subsidies	105.7	+	87.1	101.0	121.6	0.08	107.9	103.1
FC – beneficiaries SOP	115.8	153.6	86.7	254.9	126.5	0.6	132.4	178.7
FC – beneficiaries RDP	98.5	151.3	91.4	154.1	120.0	0	145.4	209.3
FC without investment subsidies	114.0	177.0	85.1	158.4	120.8	0.44	121.1	192.6

+ Development from negative towards positive values

Source: MoA Information sheets, CD released by RIAFE

Table 5. Development of indicators in the category of private farmers (PFs)

Legal form (type of enterprise)	Index 2007/2005					
	average income	difference between income and expenditure	average number of employees	profit/loss per 1 employee	number of new job opportunities per 1 business	labour productivity on income
PF – beneficiaries RDP	151.1	410.1	115.6	228.6	0.66	140.5
PF – beneficiaries SOP	135.4	198.6	117.4	245.3	0.82	145.2
PFs without investment subsidies	130.4	192.4	0.99	220	0.25	138.2

Source: MoA Information Sheets, CD released by the RIAFE

recorded a slight increase in employment, in contrast to legal persons (beneficiaries of investment subsidies). This may suggest that the investment subsidies have a greater impact in the category of individual farmers than they have in the case of legal persons,

- PF beneficiaries created more new job opportunities than PF non-beneficiaries,
- Growth of labour productivity was higher in the case of PF beneficiaries compared to PF non-beneficiaries.

CONCLUSION

Due to the high number of the received projects which resulted in a complex and demanding process-

ing and implementation, the Sectoral Operational Programme Agriculture and Rural Development has been, in the long run, one of the most utilised programmes and was clearly the most successful programming document during the shortened programming period of 2004–2006.

The comparison of social and economic development in the categories of beneficiaries and non-beneficiaries of investment subsidies under the SOP and RDP has shown that the beneficiaries experienced a faster rate of growth in income and labour productivity. The subsidies significantly contributed to the mitigation of the decline in employment and helped to preserve the employment in agriculture. In the category of the subsidized enterprises, the number of the cancelled job positions mostly exceeded the number of the newly created positions.

In addition to the direct effects that were calculated through the proposed system of indicators of result and impact of the monitored programmes; there were also indirect effects, such as the increased rate of production innovations, the positive impact on environment, the improved look of the facilities with a positive impact on the rural landscape aesthetics, the improved life conditions of animals, the elimination of the difficult manual labour, the increased production quality, the reduction of production costs, the improved competitiveness of enterprises, a better diversification of agricultural activities, including the support to energy saving and the use of the renewable energy resources, the improved rural development through ecologisation of the landscape and environment friendly farming, the overall improvement of rural environment, the modernisation of forest management systems, etc. Of a certain importance is also the fact that other businesses will try to copy the positive examples of these interventions, which will help to establish a sound competition associated with this type of investment subsidies during the new programming period of 2007–2013.

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