ANDRZEJ MISZCZUK
Maria Curie-Skłodowska University of Lublin
MAGDALENA MISZCZUK
Lublin University of Technology

FINANCIAL DETERMINANTS OF RURAL AREAS DEVELOPMENT IN THE PERIOD 2014-2020

Abstract: The Cohesion Policy for 2014-2020 assumes that the main beneficiaries of EU funds are not going to be local government units. Moreover, the resources that will be available are going to be funnelled to urban areas and will not finance simple infrastructures, but innovative projects. Lower chances of obtaining EU funds coincide with changes in local government finances. A particularly difficult change will concern the implementation of a new liability ratio. Analysis of the financial situation in selected communes in the Podkarpackie Voivodeship shows that the new solution will decrease the chances of rural communes absorbing EU funds. This will be reflected in the ability of communes to use EU structural funds to ensure the development of rural areas.

Key words: Cohesion policy, finance of communes, individual liability ratio, Podkarpackie Voivodeship, rural areas.

Introduction

The aim of the article is to present a financial determinant of rural area development in Poland in the coming financial perspective 2014-2020, which is the result of the new cohesion policy of the European Union, outlined in European and Polish strategic documents and changes in the system of local government finances. In the former, emphasis is placed on the possibility to obtain and use financial resources; in the latter, on the influence of limitation in incurring liability on stimulating socio-economic development by local authorities. Along with a general discussion, examples from the Podkarpackie Voivodeship are presented.

1. Determinants resulting from European and Polish strategic documents

The basic European determinant of rural areas is the evolution of the approach to cohesion policy and national inter-regional and intra-regional policies. Weaknesses exist in the centralist and compensatory approach, which is the answer of public authorities to the differentiation of development processes and is based on the criterion of egalitarianism, rather than efficiency. Currently, a new approach, termed as decentralised and competitive, is gaining popularity. It is considered to be a policy of development diffusion, exploiting internal potency and employing strategic – from the point of view of the whole country – regional interventions of the government, mainly in the form of regional contracts. The main objective of such a regional policy is supporting the so called "locomotives of development" regions, which facilitate the development of peripheral regions. In such a situation, large cities become the main beneficiaries of this policy at the expense of rural areas as well as small and medium cities [more in *Regional*... 2010].

The first attempt to consider the problem of development efficiency in the European Union was the Lisbon Strategy. Its implementation in 2000-2010 was intended to turn the EU into the most dynamic and competitive area of the world, based on knowledge and maintaining sustainable development, offering more and better jobs, better social coherency and respect for the natural environment. Its first stage did not bring the intended effects, so in 2004-2005 the policy was redefined by narrowing the priorities, reorganising their implementation and funnelling cohesion policy resources into the objectives of economic growth, more jobs, knowledge and innovations. The evaluation of the Lisbon Strategies in 2010 showed that the achievements of the policy were still unsatisfactory, meaning that the EU regional development policy in 2000-2010 was dominated by compensation measures, which were unable to increase the level of economic competitiveness of regions in the EU member states.

In this situation, another decade (2010-2020), including the analysed period 2014-2020, is covered in a mid-term strategy for EU member states: *Europe 2020. A strategy for smart, sustainable and inclusive growth*[1]. It covers the following priorities:

- Smart growth: developing an economy based on knowledge and innovation,
- Sustainable growth: promoting a more resource-efficient, greener and more competitive economy,
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

The *Europe 2020* strategy includes detailed headline targets that will ensure the implementation of priorities defined in 2020, if obtained. The targets are defined for the

[1] http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index_en.htm.

whole European Union and individual states, with a more restrictive level of implementation adopted by “old” member states (which were members before the accession in 2004), and lower for new EU members, including Poland (Table 1).

Table 1

Targets of Europe 2020 implementation in 2020, average for EU and Poland

Target values	EU – average target	Poland
Average employment in the 20-64 age group %	75.0	71.0
GDP invested in R&D %	3.00	1.7
CO_2 emission reduction % (1990=100.0%)	-20	-14
Share of renewable sources of energy in Total balance %	20.0	15.48
Energy efficiency – reduction of energy consumption in Mtons	20% increase in energy efficiency, equal to 368 Mton	14.0
Proportion of early school leavers (in %)	10.0	4.5
Proportion of population with tertiary degree (in %)	40.0	45.0
Reduction in the number of population threatened by poverty and social exclusion (in thousands)	20000	1500

Source: Own elaboration on the basis of: http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index_en.htm.

The implementation of *Europe 2020* strategy is directly related to cohesion policy in 2014-2020. This is reflected in redefining the objectives of this policy from the three ones implemented in 2007-203, *i.e.* convergence (target 1), regional competitiveness and employment policy (target 2) and European territorial cooperation (target 3), down to two, *i.e.* investment for growth and jobs (target 1) and European territorial co-operation (target 2).

In the framework of target 1 of European Union cohesion policy will be addressed in 2014-2020 to:

- all European regions, divided on the basis of their GDP *per capita* with relation to EU average in to three categories: less developed (PKB < 75% EU27 average), transition regions (75% < PKB < 90%) and well developed regions (PKB > 90%),
- Member states whose national domestic product (GNP) is lower than 90% of EU27 average.

The second target of cohesion policy covers – as it was before – the border and extra-national regions.

The relationship between European Union cohesion policy in 2014-2020 and *Europe 2020* is reflected in the concentration rule. EU financial support can concern one of eleven priorities (thematic objectives) resulting from *Europe 2020* strategy. They are the following[2]:

[2] http://www.mrr.gov.pl/rozwoj_regionalny/Polityka_spojnosci/Polityka_spojnosci_po_2013/Debata/Strony/Fund.usze_Europejskie_na_lata_2014_2020_Propozycje_MRR_110612.aspx (data dostępu 21.01.2013).

1) strengthening research, technological development and innovation;
2) enhancing access to, and use and quality of, information and communication technologies;
3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector;
4) supporting the shift towards a low-carbon economy in all sectors;
5) promoting climate change adaptation, risk prevention and management;
6) protecting the environment and promoting resource efficiency;
7) promoting sustainable transport and removing bottlenecks in key network infrastructures;
8) promoting employment and supporting labour mobility;
9) promoting social inclusion and combating poverty;
10) investing in education, skills and lifelong learning;
11) enhancing institutional capacity and an efficient public administration.

The above thematic „menu" determines the objective scope of both strategic document at state and regional level in member states, including Poland. Additionally, to ensure the implementation of the rule of concentration of European Union cohesion policy, aimed at achieving the priorities of *Europe 2020* strategy, it was decided that at least 80% of investment projects in the best developed and transition regions, co-financed from European Regional Development Fund in 2014-202 must concern three priorities:

- energy efficiency and renewable sources of energy,
- research, technology development and innovation,
- enhancing the competitiveness of small and medium-sized enterprises.

With relation to less developed regions, the share of these priorities cannot be lower than 50% of the value of investment project.

Europe 2020 strategy, along with the Council of Europe guidelines and the set of resolutions for cohesion policy in 2014-2020 were the basis to develop strategic documents, including *National Development Strategy until 2020* and 9 integrated strategies, *i.e.*:

- *Strategy for Innovation and Efficiency of the Economy* (Ministry of Economy),
- *Human Capital Development Strategy* (Prime Minister's Office),
- *Transport Development Strategy* (Ministry of Infrastructure),
- *Energy Security and Environment* (Ministry of Economy),
- *Efficient State* (Ministry of Administration and Digitalisation),
- *Social Capital Development Strategy* (Ministry of Culture and National Heritage),
- *National Strategy of Regional Development. Regions, Cities, Rural Areas* (Ministry of Regional Development),
- *Strategy for Development of the National Security System* (Prime Minister's Office, Ministry of National Defence),

- *Strategy for Sustained Development of Rural Areas, Agriculture and Fisheries* (Ministry of Agriculture and rural Development),

and

- *The concept of spatial management to 2030* (The council of ministers).

National Development Strategy until 2020 defines the main objective for the coming years, *i.e.* strengthening and using economic, social and institutional potentials, ensuring quicker and sustainable development and improvement of life, which is going to be implemented – in accordance with the objectives of *Europe 2020* strategy – in three areas: competitive economy, social and territorial coherence and effective government [comp. *Strategia*... 2012].

The objectives defined in *National Development Strategy until 2020* will be implemented through *the Partnership Agreement*, concluded between Poland and EU, which defines the range and manner of intervention in 2014-2020 by:

- scope of support from European resources in selected thematic areas;
- number and scope of operational programmes;
- manner of distribution of intervention between national and regional programmes;
- outline of the implementation system;
- manner of complementing financial intervention under Cohesion Policy, Common Agricultural Policy and Common Fisheries Policy.

The objective scale of European fund's intervention in 2014-2020 is going to concern three thematic objectives included in *National Development Strategy until 2020,* convergent with 11 objectives in *Europe 2020* strategy. For rural areas this means the chances for:

- the development of information technologies, fighting digital exclusion, e-economy development, improvement of education and lifelong learning;
- improvement of the environment;
- better accessibility to communication, only in relation to TEN-T network, rather than building a number of minor local roads;
- labour market activation and preventing social exclusion.

In territorial aspect, rural areas were included in four out of five areas of strategic intervention, *i.e.* as:

- the area of lowest accessibility to goods and services stimulating growth;
- rural part of functional areas in voivodeship cities;
- rural part of Eastern Poland, including Lubelskie, Podkarpackie, Podlaskie and Świętokrzyskie Voivodeships;
- rural part of border areas.

It is anticipated that EU funds for cohesion policy in 2014-2020 are going to be divided into 6 operational programmes:

  - *Infrastructure and environment* – programme dedicated to ow-carbon economy, environmental protection, prevention of and adaptation to climate change, transport and energy security (28.4 bln. EUR from European Regional Development Fund and Cohesion Fund),

- *Intelligent Development* - program for innovation, research and its links with the sphere of business (7.3 bln EUR from European Regional Development Fund).
- *Knowledge, Education, Development* - program for the development of competencies and skills, and good governance (2.9 bln. EUR from European Social Fund).
- *Eastern Poland* – programme dedicated to five weakest voivodeships (2.2 bln. EUR from European Regional Development Fund).
- *Digital Poland* - program for the digital development (2.2 bln. EUR from European Regional Development Fund).
- *Technical Support* (0.7 bln EUR).

Around 0.7 bln. EUR is programmed for European Territorial Cooperation and European Neighbourhood and Partnership Instrument. Whereas, for 16 regional operational programmes, funded from two funds (European Regional Development Fund and European Social Fund) 28.1 bln. EUR was programmed (Table 2). It is worth emphasising that in case of 15 voivodeships the programmes concern less developed regions. Mazowieckie Voivodeship, as the only – so far – Polish transition region, obtained a smaller amount for the regional operational programme.

Table 2

Proposition of division of European funds into regions in the framework of regional operational programmes in 2014–2020

Voivodeship	Amount in bln euro	Voivodeship	Amount in bln euro
Dolnośląskie	2019,4	Podkarpackie	1895,4
Kujawsko-Pomorskie	1706,5	Podlaskie	1088,0
Lubelskie	2000,0	Pomorskie	1671,8
Lubuskie	813,0	Śląskie	3117,0
Łódzkie	2022,5	Świętokrzyskie	1223,3
Małopolskie	2580,3	Warmińsko-Mazurskie	1549,4
Mazowieckie	1923,6*	Wielkopolskie	2196,6
Opolskie	847,1	Zachodniopomorskie	1435,5

* Mazowieckie Voivodeship, as a transition period will obtain 1923.46 in the framework of ROP, moreover, beneficiaries from this voivodeship will use the funds from national programmes for *c.a.* 1.4 bln. Euro from Cohesion Fund.

Source: Ministry of Regional Development.

In the framework of regional operational programmes there is obviously the rule of concentration in 11 objectives *Europe 2020 Strategy*, what is implemented by minimum level of resources concentration. Thus, in less developed regions (all Polish voivodeships except for Mazowieckie):

- minimum 50% of funds under EFRD must be allocated for thematic objectives no. 1, 2, 3 and 4 (research and innovation, information and communication technologies, enhancing the competitiveness of SME, low carbon economy) with minimum 15% of funds from EFRD,
- minimum 20-25% of funds under EFRD and ESF – for thematic objectives no. 8, 9, 10 (employment and labour mobility, inclusion and combating poverty, investing in education), minimum 20% of funds from ESF.

whereas in Mazowieckie Voivodeship:

– minimum 60% of funds under EFRD must be allocated for thematic objectives no. 1, 2, 3 and 4 (research and innovation, information and communication technologies, enhancing the competitiveness of SME, low carbon economy) with minimum 15% of funds from EFRD,
– minimum 45-50% of funds under EFRD and ESF – for thematic objectives no. 8, 9, 10 (employment and labour mobility, inclusion and combating poverty, investing in education), minimum 20% of funds from ESF.

In the Partnership agreement there are also new instruments. The first one are integrated territorial investments (ITI), concerning urban functional areas, incl. transport, revitalisation, environment protection, energy. Rural areas can use this instrument only in case of being part of functional areas of cities.

Another instrument, better adapted to the specifics of rural areas, is the society driven local development, which is aimed at increasing the participation of local societies in programming and managing a given area. It is facultative for cohesion policy and common fisheries policy mad obligatory for common agricultural policy. Support is addressed to the areas populated by 10-150 thousand people, in a form of non-agricultural entrepreneurship development projects information and communication technology projects for tourism development and local product promotion.

The rule of concentration and new instruments translate into a new set of objectives, priority axes and strategic intervention areas (SIA) in regional operational programmes. Table 3 presents an example of ROP for Podkarpackie Voivodeship, which suggests that the actions will cover the whole voivodeship, cities and urban functional areas (UFA) and with regards to rural areas only in context: the development of renewable energy sources, natural and anthropogenic threats.

Summarising this part of discussion the following conclusions can be made:

- 2014-2020 period is most probably the last with such a high level of support for Poland in the framework of EU cohesion policy;
- the rule of concentration approved in *Europe 2020* strategy and national strategic documents, dictates innovative directions of actions which concern cities and their functional areas, than rural areas;

Table 3

ROP Project for Podkarpackie Voivodeship in 2014-2020

ROP main objective

Strengthening and efficient use of economic and social potentials of the region for sustainable and intelligent development of the voivodeship

Specific objectives:

- Increasing regional competitiveness by entrepreneurship and innovation development, on the basis of intelligent specialisations
- Higher accessibility of online services,
- Better energy efficiency and higher use of renewable energy,
- Building infrastructure ensuring environment protection preserving biodiversity and using cultural heritage for increasing attractiveness of the region,
- Better communication in voivodeship,
- Strengthening social coherence by investments in environment protection, social aid, education and revitalisation of rural and urban areas,
- Increasing health awareness and social activation of voivodeship population,
- Adapting education system to the needs of labour market and challenges of the future,
- Productive functioning of programme implementation and continuity of programming process,
- Promoting information about the forms of support from *Regional Operational Programme of Podkarpackie Voivodeship for 2014-2020* and promotion of programme effects

Priority axes:

1. Competitive and modern economy

1.1 Support for research and its commercialisation

The whole voivodeship area, with preferences for companies from prospective industries, located in the areas of their concentration,

1.2 Support for business environment institutions

The whole voivodeship area

1.3 Improving investment and tourist attractiveness

The whole voivodeship area, in particular with summary tourist function,

1.4 Entrepreneurship promotion

The whole voivodeship area

2. Digital Podkarpackie

2.1 Digital support for citizens

2.1.1 Public e-services in Rzeszów Functional Area and development poles of the voivodeship

The whole voivodeship area

Clean energy and environment

3.1 Promoting renewable sources of energy

The whole voivodeship area, in particular the communes with most favourable conditions (wind, solar, hydrological, geothermal) to locate the investments related to using renewable energy, except for the areas included in environment protection forms, where such investments cannot be made.

3.2 Efficient low-carbon industry
The whole voivodeship area with preference for the areas with low air quality standards indicated in improvement programmes for air protection.
3.3 Low-carbon integrated public transport in Rzeszów Functional Area and development poles of the voivodeship
Rzeszów Functional Area and development poles of the voivodeship
3.4 Environment protection and biodiversity
The whole voivodeship area with preference for the areas included in environment protection forms (including Nature 2000) and the areas with low air quality standards indicated in improvement programmes for air protection.
3.5 Improvement of natural environment in Rzeszów Functional Area and development poles of the voivodeship
Rzeszów Functional Area and development poles of the voivodeship, in particular, urban centres in development poles.
3.6 Waste management
3.6.1 Waste management in Rzeszów Functional Area and development poles of the voivodeship
The whole voivodeship area, in accordance with Waste Management Plan for Podkarpackie Voivodehip
3.7 Water and sewage management
The whole voivodeship area (in accordance with standards set by EU and Polish documents), in particular the areas without sewage infrastructure and non-agglomeration areas, for which the construction is difficult due to scattered development and/or unfavourable landform,
3.8 Cultural heritage protection
3.8.1 The development of symbolic functions of Rzeszów Functional Area and development poles of the voivodeship
The whole voivodeship area
3.9 Preventing natural and technological threats
The whole voivodeship area, in particular the areas threatened by floods and where rail and road communication routes, most important airports (Rzeszów-Jasionka, Krosno, Mielec), energy fuel transportation facilities and production facilities included of high or elevated risk of industrial breakdown are located,
4. Communication infrastructure
4.1 Road infrastructure
4.1.1 Development of road infrastructure in Rzeszów Functional Area and development poles of the voivodeship
The whole voivodeship area, particular road located in the vicinity of main communication routes (motorway, express roads, state roads) and the roads in peripheral areas of difficult communication accessibility, connected to the network of voivodeship roads,
4.2 Rail infrastructure and rolling stock
The area of communes with existing or planned rail roads,
4.3 Multimodal transport
The area of communes and Urban Functional Areas located in the vicinity of main communication routs (motorway, express roads, state roads) and the communes with existing or planned rail roads.

5. spatial and social coherence
5.1 Development of health protection and social aid
The whole voivodeship area
5.2 Comprehensive revitalisation
5.2.1 Physical economic and social revitalisation in Rzeszów Functional Area and development poles of the voivodeship
The whole voivodeship area
5.3 Educational and training infrastructure
The whole voivodeship area in tertiary education – Rzeszów and development poles of the voivodeship
6. Social and health activation of the region
6.1 Activity for the labour market
6.2 Promotion of health and provisions of social services
6.3 Local development
6.3.1 Social and professional activation of excluded and exclusion-threatened people in Rzeszów Functional Area and development poles of the voivodeship
The whole voivodeship area
7. Job market and social integration
7.1 Promoting employment, entrepreneurship and self-employment in the region
7.2 Equal chances for everyone
7.3 The development of employees and supporting adaptation processes
7.4 the development and popularisation of active integration
7.5 The development of social economy and in the region
7.6 Inclusion of marginalised communities
7.6.1 Social integration in Rzeszów Functional Area and development poles of the voivodeship
The whole voivodeship area
8. Education quality and competences in the region
8.1 the development of high quality education
8.2 Better accessibility and popularisation of education system
The whole voivodeship area

Source: Podkarpackie Voivodeship Marshal's Office.

- the development of rural areas, supported from EU funds must change its character, as previous simple infrastructural investments must be substituted with more innovative projects;
- entrepreneurs must be more active beneficiaries of EU funds than local government units.

The question arises on the extent to which changes in financial system of local government units will facilitate or hinder the stimulation of rural areas development in the framework of new model of cohesion policy. The answer to this question is in the second part of the presented article.

2. Determinants resulting from changes in the system of local government finances

Local government units are one of the most important beneficiaries of European Union funds. Their financial conditions translates into their ability to obtain funds from European Union budget. In the last few years changes in legal regulations disciplined and improved regulations concerning budget development and incurring liabilities by local government units. The changes in 2011 may include the obligation to maintain current balance and add new types of liabilities. In 2014 unified individual debt ratio will substitute unified indicators for all local government units.

Important issue in finances of local government units is the maintain a current balance. This is regulated in art. 242 of the bill on public finances of 2009 [*Ustawa*... 2009, art 242]. Since 2011 local governments have been obliged to maintain balance between income and expenditures in planning and executing (operating surplus), yet current spending may be higher than current income by the amount budget surplus from previous years and free resources from settling credits and loans and the emission of stock in previous years. Moreover, current balance can be maintained in case when it concern non-refundable resources, other than EU and EFTA funds, from abroad that were not transferred in present budget year [*Ustawa*... 2009, art 242, ust. 3]. Thus, local governments must maintain budget balance, regardless of the resources obtained from EU budget. It is worth to emphasise that in individual debt ratio operation surplus for three successive years marks a limit of settling liabilities debt service. In 2012 as many as 84 communes (except for cities in the common function and Warsaw) out of 2014 did not balance current spending with current income. Most of them covered this deficit with surpluses from previous years or used non-refundable resources. Only 19 communes failed to comply with art. 242. The main reason for lack of operational balance was lower income from tax and non-tax sources and high spending in education and social aid [*Sprawozdanie*... 2013, pp. 177-179]. Therefore, fur such communes it is difficult to economise resources for own contribution with realisation of tasks co-financed from EU resources or resources for debt service, when they incur liabilities for this purpose. Apart from lack of operational balance, another obstacle for communes to obtain resources can result from low operational surpluses. Weak financial condition of local government units is going to hinder absorption of resources from EU budget, and the chances to increase operational surplus with income from selling the elements of the property is not going to solve the problem for long.

Broadening debt instruments was implemented by the regulation of ministry of finances on 1 January 2011. Debt was additionally broadened by liabilities in private-public partnership, sales on instalments, leasing contracts with producer or financer, where the risk and benefits from the property is transferred to the user of the good, innominate contracts (long-term) related to financing services, deliveries, construction works with the results similar to loan or credit. In some local governments this accelerated obtaining 60% of debt level against income, with relation to inability to contract further liabilities [Młynarczyk 2012, pp. 48-49].

In 2014 the regulations limiting liability contraction is going to change significantly. Previous regulations that were binding until 2013 which limit the freedom to incur liabilities, resulting from the regulations of the "old" bill on public finances of 2005 [*Ustawa*... 2005, art 169 - 170] define the following indicators:

– local government unit's debt must not exceed 60% of income (planned in the year and executed at the end of year);
– Credit and loan payments and redemption of bonds emitted by local government units along with load service (interests) and possible payments resulting from the guarantees must not exceed 15% of the planned budget income in a given year, or 12% when the ration of public debt to GDP exceeds 55%;

Regulations allow exceeding these indicators provided this is related to using resources from European Union budget or other non-refundable funds from European Free Trade Association (EFTA) member states [Satoła 2012, p. 74].

After 2013 solutions in limiting local governments' liabilities are going to change. Instead of limits 60% an 15% (also 12%), local authorities will follow the regulations included in art. 243 of the bill on public finances, defining individual liability ratio limiting incurring liabilities. The resolutions of art. 243 oblige the managing bodies of the unit to present a budget that follow the inequality, *i.e.* the left cannot be higher than the right.. In the left there is a relation of credit payments and redemption of bonds with interests as well as possible pays on guarantees for the total balance in budget year. In the right there is an arithmetic average, from last three year period, the relation of current income increased by income from the sales of property and decreased by current expenditures to the total budget income. Such a limit of using refundable income does not consider for redeeming bonds, credit and loan payments incurred for the implementation of financial tasks with resources from UE or EFTA countries (whereas interest from these resources are included in the indicator). It does not cover the amounts for paying for guarantees given to government's legal persons for the tasks with the use of foreign funds [*Ustawa...* 2009, art. 243].

On the basis of data from all local government units, it is estimated that 138 (out of 2809) units will not meet this requirement. Moreover, further 290 will comply with the regulation but at a very low level, what may disable them from incurring further liabilities, as of art. 243. In three voivodeships: Lubuskie, Małopolskie and Opolskie, all communes will obtain a proper value of the indicator in 2014. On the other hand, communes that will not comply with the equation are located in north and east part of Poland in Lubelskie, Podlaskie, Warmińsko-Mazurskie and Zachodniopomorskie [*Sytuacja*... 2013, pp. 27, 34].

It is also worth adding that according to new regulations, the limits of incurring liabilities are incomparably low in relation to previous, constant 15% indicator. The calculation for communes in 2013 indicates that only 158 out of 2014 communes would have a lower limit than 15%, and majority of them (1815) would have a significantly lower indicator [*Sprawozdanie* ... 2013, p. 180].

The new regulations are discussed in the light of their advantages and disadvantages. Individualisation of limitations in incurring liabilities, basing on significant budgetary data, using historic data, what prevents data manipulation, depending on credit needs (the existing values cannot be changed) and the reality of the indicator are among unquestionable advantages of the solution.

The literature, however, enumerates a number of faults. First, the construction of the indicator may encourage communes to incur long-term liabilities (as longer payment period means lower payments in the current period) or restructure the liabilities [Kluka, Kluza 2012, 93]. Second, to certain extent, individual liability ratio will worsen the condition of local authorities, which had previously used EU resources and thus had higher income (what relatively increases the denominator lowering the ingredients of the right side of the equation). Third, failing to include probable liabilities of government-owned companies [Łękawa 2012, p. 187]. Fourth, local governments burdened with debt service must consider it in the calculation twice (in debt service in the left and as a component of current expenditures in the right, with negative sign).

The last disadvantage is translated into a postulate to exclude the interests and discounts from the right and current expenditures on guarantees. Simulation of the indicator with this correction causes a decrease of local government units that do not meet the requirement from art. 243 down to 57, while those with low indicator level will make 50 [*Sytuacja*...2013, p. 32].

Another important regulation, along with the laws changing the rules of incurring liabilities or maintaining current balance, is the obligation to develop long-term financial plans by local governments, implemented in the bill of public finances on 2009. Along with the budget for 2011, local government units will have to enact this prognosis for the first time. Undoubtedly, one of the advantages of this solution is that it allows to evaluate financial condition of a local government units in a future period. The prognosis is developed for the period of a budget year and at least three following years. For each year that are covers, it defines, inter alia, income, current expenditures, capital expenditures, budget surpluses or deficits, liabilities and methods of repaying them and individual liability ratio [*Ustawa*... 2009, art, 226 and 243]. The implementation long financial prognosis entails a risk of using it by central government to cut down on the ability to incur liabilities. One such example was a government project of changes in the bill on public finances in 2012, which assumed a complicated procedure of maintaining the deficits of all the local authorities at certain nominal amount, for using the amount that results from the long-term financial plan [Miszczuk M. 2012, p. 234].

3. Evaluation of financial conditions of selected rural communes in Podkarpackie Voivodeship

Using long-term financial prognosis of local government units, one can analyse financial condition of selected communes in Podkarpackie Voivodeship in 2013-2016. The sampling is intentional and includes 5 rural and 1 rural and urban communes that play different roles. These are: Boguchwała, Bojanów, Gorzyce, Medyka, Rokietnica and Solina. Rural and urban commune of Boguchwała is located in the immediate vicinity of Rzeszów and constitutes a part of Rzeszów Functional Area. Bojanów and Rokietnica are typical agricultural communes. The former has weak soils but has a population of *c.a.*7500 people. The latter has relatively good soils but relatively few inhabitants (slightly over 4000). Gorzyce has quite well developed industry and construction businesses and over 13000 inhabitants. Medyka, which houses border crossing, plays the role of a transportation and border area, with its population above 6000. Whereas Solina is a tourist commune located near a people plant. The number of population us slightly above 5000.

Financial evaluation of the analysed communes is limited to the most important financial data, *i.e.* revenue, total and operational expenditures, budget and operational balance, debt and individual liability ratio.

Total income in the examined communes in 2013-2016 are going to oscillate from 11 to slightly above 50 mln PLN. The poorest communes is Rokietnica. Its agricultural values do not translate into high income, and relatively low number of population does not represent high income potency. In the other end of the range is Boguchwała. Its revenue in the analysed period oscillate around 50 mln PLN. Such high revenues result from the location (vicinity of Rzeszów) and high number of population. Gorzyce also have quite high revenues – over 30 mln. This results from relatively high number of population and companies. One should also consider Solina, whose revenues may increase by 25 mln in 2014, with relatively low number of population.

The total expenditures in 6 communes are at similar but slightly lower level than revenues, one exception being 2013 when almost all the communes planned deficits. Moreover, Rokietnica planned revenues equal to expenditures after 2013 and Boguchwała is going to have unbalanced budgets throughout 2013-2015.

Comparing current income and expenditures, one may conclude that the analysed communes are going to realise operational surpluses in 2013-2016. One exception is Rokiernica, which is having higher expenditures than income in 2013. Additionally, the sums of surpluses in analysed programmes are very different. The lowest are noted in Rokietnica and the highest in Boguchwała. Table 4 illustrates the distributions of operation surpluses in comparison to total income.

Table 4

Operation surpluses in comparison to total revenue in the analysed communes in 2013-2016 (in %).

Commune	Year			
	2013	2014	2015	2016
Boguchwała	9,8	9,7	10,9	12,9
Bojanów	8,8	10,7	12,3	13,9
Gorzyce	0,9	4,9	7,2	7,2
Medyka	3,3	4,4	7,6	8,9
Rokietnica	-2,4	4,3	3,5	2,6
Solina	13,7	14,0	15,0	16,5

Source: Own elaboration, on the basis of: From long-term financial forecasts for 30.06.2013 data taken JST, www.rio.gov.pl (date of visiting the website: 07.10.2013) (Tabs. 4-7).

The data from Table 4 indicates that relatively highest operational surpluses will be realised in Solina. Indicators in Bojanów and Boguchwała have also high values. Relatively low surpluses after 2013 are planned in Rokietnica and as the only one does not anticipates their constant increases. Successive increase of surpluses seems to be dubious. Deeper analysis allows claiming that the communes assume much higher revenues (rather than cutting current costs), a pan increase in income from taxes and transfers from the state budget. Understandably, the income from education will increase as a result in lowering the school age (more students, means more money), however, it is doubtful that taxes income will increase. This primarily concerns those communes that undergo high increase of revenue from taxes and fare, other than real property tax.

In order to complete their tasks, local governments incur liabilities. Among the examined communes, only Rokietnica does not have any debts. The debt of other communes ranges from 6 up to nearly 24 mln. PLN. All the communes are planning to lower their debts and Rokietnica is not planning to go into debts at all. Table 5 presents the share in debt in total revenue in the analysed local government units.

Relatively most indebted is Boguchwała. It is at the same time the commune of the highest revenue potential, among the examined units. Significantly, Rokietnica – a commune of the lowest revenue potential, does not use return income at all. The most probable reason for this is low incomes and operational surpluses, which does not form a proper base to pay up debts. Other communes are indebted, however, at the level that is distant from the 60% limit that is still valid in 2013.

Table 5
Public debt to total revenues in selected communes in Podkarpackie Voivodeship in 2013-2016 (in %)

Commune	Year			
	2013	2014	2015	2016
Boguchwała	49,4	44,2	37,9	32,8
Bojanów	39,1	36,8	32,5	25,9
Gorzyce	23,6	24,0	21,2	17,6
Medyka	31,6	28,0	26,5	21,6
Rokietnica	0	0	0	0
Solina	37,5	31,3	23,5	15,7

New, individual debt ratio that is going to be valid since 2014 on is going to limit rural communes to larger extent that the current 15%, in terms of paying debts and debt servicing. Table 6 presents individual debt repaying limits with interests and discounts in the analysed local government units (*i.e.* the right side of the equality from art 243 of the bill on public finances).

Table 6
Individual debt repaying an d debt service limitations in selected communes in Podkarpackie Voivodeship in 2013-2016 (in %)

Commune	Year			
	2013	2014	2015	2016
Boguchwała	8,5	10,8	10,8	10,3
Bojanów	9,9	9,9	10,1	11,7
Gorzyce	2,8	3,3	4,1	6,9
Medyka	8,2	7,9	7,3	6,4
Rokietnica	7,2	2,8	0,7	1,8
Solina	20,6	17,8	17,3	16,2

Possible opportunities to incur liabilities are higher only in Solina. Its indicators exceed 15% indicator for all the analysed years until 2013. Other communes are going to have lower chances for chargeback after this year. The worst situation in this respect will be recorded in Rokietnica and also Gorzyce. Table 7 illustrates additionally the level of meeting the requirement from art. 243 of the bill, *i.e.* it determines the difference between the left and right of the equation. Negative values inform about exceeding the liability limits, and consequently, inability to incur further liabilities.

Table 7

Percent level of meeting the requirement from art. 243 of the bill on public finances in selected communes in Podkarpackie Voivodeship in 2013-2016 (in %)

Commune	Year			
	2013	2014	2015	2016
Boguchwała	-1,5	2,3	1,6	1,5
Bojanów	4,0	4,1	2,8	4,6
Gorzyce	-8,1	0,1	0,1	2,3
Medyka	-0,8	3,0	2,1	0,5
Rokietnica	7,2	2,8	0,7	1,8
Solina	14,1	8,8	8,0	6,7

The examined communes in the years of new regulation validity obtain a positive result. It is notable that in 2013 half of them have negative values of this indicator. This may be explained by conscious manipulation of data, in order to meet the requirement or because the communes planned to limit their liabilities. Regardless of the methods to lower this indicator, they prove difficult situation in rural communes. Rokietnica is in poor condition. Even if liability ratio is relatively high in 2013, in coming years it is going down. This suggests that the commune has probable monetised part of its property. Gorzyce have even greater problem with meeting this requirement. This is evident in high negative indicator in 2013 and in small positive values of this indicator in the coming years. Not so good situation is also recorded in Boguchwała. Yet, absolutely the best results are seen in Solina, which owns its tourist values and the power plant. This will allow the commune to use loan instruments for future tasks.

Conclusions

In new financial perspective of EU, companies, rather than local government units attempt to be the beneficiaries of the funds increasingly often. Whereas in local government units it is major cities and their functional areas that will receive the financial resources. Thus, the communes located around large cities are going to have higher chances to obtain funds. Lower chances to obtain funding by local governments correlate with new limitations in incurring liabilities. This will be particularly reflected in the development of communes located in rural areas. Their income potency does not allow for the absorption of EU funds without chargeback Moreover, smaller units (with smaller population) will not be allowed to take loans as they will not be able to repay them. The exception is communes with a large company in its area or other values.

Against weak financial condition of certain units of local government, there are proposals of changes in public finance laws. They assume easing the regulations limiting incurring liabilities by those units. Most of all, the changes exclude in liability ratio interests and discounts from loans and credits and bonds emitted to realise the tasks co-financed with European Union funds. Moreover, it is permitted to ignore the payments of loans that were taken for the implementation of projects co-financed with UE funds in individual liability ration. The condition is, though, that European money covered at least 60% of the task, project or programme. If the changes are implemented, they will have a positive effect on the ability to incur liabilities in local government units, especially in small rural communes.

References

Kluka L., Kluza K., 2012, *Symulacja wpływu zmian ustawowych na dostępność finansowania dla JST. Nowe formy finansowania zadań samorządowych* „Finanse Komunalne", No. 1-2.

Łękawa Z., 2012, *Zadłużenie gmin województwa dolnośląskiego w świetle nowej ustawy o finansach publicznych,* [w:] *Finanse publiczne* J. Sokołowski, A. Żabiński (Eds.). Prace Naukowe UE, No. 167, Wyd. UE, Wrocław, p.187.

Miszczuk M., 2012, *Deficyty i zadłużenie wybranych jednostek samorządu terytorialnego w świetle ograniczeń ustawowych,* [in:] *Finanse publ*iczne, J. Sokołowski, M. Sosnowski, A. Żabiński (Eds.). Prace Naukowe UE No. 247, Wyd. UE, Wrocław, p. 234.

Młynarczyk A., 2012, *Zadłużenie jednostek samorządu terytorialnego a państwowy dług publiczny.* „Finanse Komunalne" No. 1-2, pp. 48-49.

Regional Development Policy in OECD Countries, OECD, Paris, 2010.

Satoła Ł., 2012, *Zadłużenie jednostek samorządu terytorialnego – analiza empiryczna. „*Samorząd Terytorialny", No. 1-2, p. 74.

Sprawozdanie z działalności regionalnych izb obrachunkowych i wykonania budżetu przez jednostki samorządu terytorialnego w 2012 r, Krajowa Rada Regionalnych Izb Obrachunkowych, Warsaw, 2013, www.rio.gov.pl (date of visiting the website: 07.10.2013), pp. 177-179.

Sytuacja finansowa JST w ocenie RIO, KRRIO, Warsaw 2013, www.rio.gov.pl (date of visiting the website: 07.10.2013)

Strategia rozwoju kraju 2020, MRR, Warsaw, wrzesień, 2012.

Ustawa z 30 czerwca 2005 r. o finansach publicznych (Dz.U. 2005, nr 249, poz. 2104).

*Ustawa z 27 sierpnia 2009 r. o finansach publ*icznych (Dz.U. 2009, nr 157, poz. 1240).