

Village Fund in Poland During Covid-19

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Abstract: The article discusses the preliminary results of a study on changes in the scale and directions of spending from the village fund during the Covid-19 in 2020-2021. The response of local governments and residents to the crisis caused by the pandemic is, in the case of the village fund, a manifestation of shared responsibility for the financial situation of the local government, which results from the idea of public participation. The article analyses the structure and size of expenditures in the period 2018-2021, considering the directions of expenditures both nationally and in individual voivodships (regions). The results of the research indicate that despite a decrease in the number of rural municipalities in which the village fund functioned during the pandemic period, this was not a mass phenomenon. In addition, there was no significant change in the structure of expenditure in 2020-2021 compared to 2019.

Keywords: village fund; covid-19; public participation

JEL Classification: H76; J48

1. Introduction

Village funds as a tool of public participation have become one of the more popular solutions in Poland for activating small local communities in rural areas. The main advantages of this solution include the directness of decision-making through deliberation and the co-creation and co-production of public services. Thus, they are part of the implementation of the concept of good governance and, as part of it, increasing public participation (European Governance - A White Paper, 2001). Since 2009 (when regulations governing the creation of village funds were formally established), the number of rural municipalities in which local authorities agreed to set up such a fund has steadily increased.

In practice, processes of consultation of local authorities' decisions with the inhabitants were already possible before, but the opinion of the inhabitants was usually not binding (Łukawiak, 2020) and it was only by regulating the procedures and giving a binding character to the decisions taken regarding the direction and form of spending of funds by local communities within the framework of village (sołectki) funds that a new dimension of the relationship between citizens and those who govern them was created in Poland. It should be noted that, according to S.R. Arnstein's classic ladder of participation (Arnstein, 1969), the introduction of village funds, involves the actual surrender of power (with significant limitations) over a dedicated part of public funds (Bednarska-Olejniczak et al., 2020). It is thus a crossing of the boundary between sham participation (consultation) and real participation

(partnership). Research to date has focused firstly on the construction of the village fund mechanism itself (Wójcik, 2014; Łukowiak, 2020). Secondly, on its scale, scope and financial implications for municipalities (Kaczurak-Kozak, 2017; Feltynowski, 2020). Thirdly, they focused on the differences and similarities to participatory budgeting (Owsiak, 2016; Pięta, 2020; Leśniewska-Napierała & Napierała, 2020). Next, the impact on local communities (Głodvan de Sanden, 2017; Gulińska & Składanek, 2017; Ptak, 2015; (Bednarska-Olejniczak et al., 2021) and the fit of village funds in achieving the SDGs goals (Bednarska-Olejniczak, et. al. 2020) have also been addressed. One of the most recent studies was devoted to the analysis of the variability of the directions of spending of SFs indicated by the inhabitants of municipalities (Olejniczak & Bednarska-Olejniczak, 2019b; Sześciło & Wilk, 2018; Olejniczak & Bednarska-Olejniczak, 2019a; 2022). In contrast, no analysis has appeared in the literature to date indicating the impact of the Covid-19 pandemic on changes in the number of municipalities, the amount of funding and the direction of expenditure from village funds. This is partly due to the design of the village fund mechanism (decision-making one year in advance of expenditure implementation) and partly due to the availability of data.

It should be noted that the introduction of a village fund in a municipality is not mandatory. The Covid-19 pandemic has disrupted the financial management of municipalities - in particular affecting their revenue and increasing the expenses associated with the need to counter the risks associated with it. This raises the question of whether, and to what extent, local governments and residents have reduced spending related to the operation of village funds, and if they have maintained their operation, have the directions of spending changed? The available data covers the year 2021, which also affects the results of the study. This is because it is significant here that the adoption of a resolution to allocate the village fund for 2021 (or to keep the earlier one in force) occurred literally on the eve of the outbreak of the pandemic in Poland (March 2020), and the communities' applications for expenditure were already submitted during the pandemic (until 30 September 2020). This indicates that municipal councillors should have anticipated the impending crisis (on the basis of information from other countries), and residents co-determining municipal expenditure at the time of the decision (and thus taking joint responsibility for the finances of the municipality) should have been aware of the seriousness of the situation.

The paper therefore raises the following research questions:

RQ1. Was there a change in the number of municipalities in which village fund expenditure was implemented nationally and by region during the pandemic period?

RQ2. To what extent has the scale and structure of village fund expenditure changed nationally and in individual regions?

The rationale for posing such questions is based on the experience of cities in which a participatory budget (which is also a tool for public participation) was in operation, some of which abandoned its continuation during the pandemic.

The problem described is also important from the point of view of the theory of public participation as an observation that in part makes it possible to assess the sense of responsibility of residents for the finances of the municipality, because to a large extent (due to the timeframe of the procedure for adopting the village fund, and the limitations on the possibility of

modifying the adopted expenditures within the fund) it was the residents who made the final decision on the scale and directions of spending in 2021 the village fund.

2. Methodology

According to data from the Ministry of Finance for the period 2009-2022, by 2019, the number of municipalities that had decided on the possibility of setting up village funds in their area was steadily growing, reaching more than 74% in 2019. Between 2020 and 2022, this trend reversed. It should be noted that the issue of a local law act in the form of a council resolution alone does not guarantee the creation of a SF in a municipality in the following year. Only an analysis of the actual expenditure of the municipalities makes it possible to conclude that the village fund has been functioning in practice in a given municipality. For this reason, the research used data available from the Local Data Bank of the Central Statistical Office (GUS) on the volume and directions of expenditures from the budgets of municipalities allocated to the implementation of tasks within the framework of village funds in the years 2018-2021. The level of detail of this data makes it possible to diagnose the main areas/directions of expenditures, but it does not make it possible to obtain detailed information on individual distributions of expenditures. Thus, the analysis carried out included, firstly, an analysis of changes in the number of municipalities (nationally and regionally) that implemented the village fund in successive years, and secondly, a comparison of the scale and main directions of expenditure nationally and regionally.

3. Results

3.1. Essence of the Village Fund from a Research Perspective

To improve the efficiency of municipalities located in rural areas, it is possible to set up auxiliary units – sołectwo. Their scope is usually the area of one or more villages. The main tasks of the sołectwo are cooperation with the municipal authorities in the areas of health care, social welfare, education, culture, physical culture, public order and fire protection. To fulfil these tasks, a pool of funds may be set aside in the municipal budget for individual sołectwos, the allocation of which is decided by the inhabitants of the village. These funds constitute the village fund, which is one of the most common forms of public participation in Poland. The procedure for its establishment and disbursement is described in the Act on the Village Fund of 21 February 2014. The aim of the Act was to ensure that villagers can decide independently and collectively about their environment and quality of life. Village funds expenditures usually account for about 1% of total municipal expenditures (Figure 1), and their main source is the budget of the municipality and partial refinancing of expenditures from previous years from the state budget.

In practice, the decision to set aside a village fund for the following year may be taken each year by 31 March of the year preceding the year in which the funds are to be spent, but it is permanent in nature, i.e. it is in force in subsequent financial years until the Municipal Council adopts a resolution not to approve the setting aside of the village fund. A resolution not to express consent for the creation of a village fund applies only to the financial year following the year in which it was adopted.

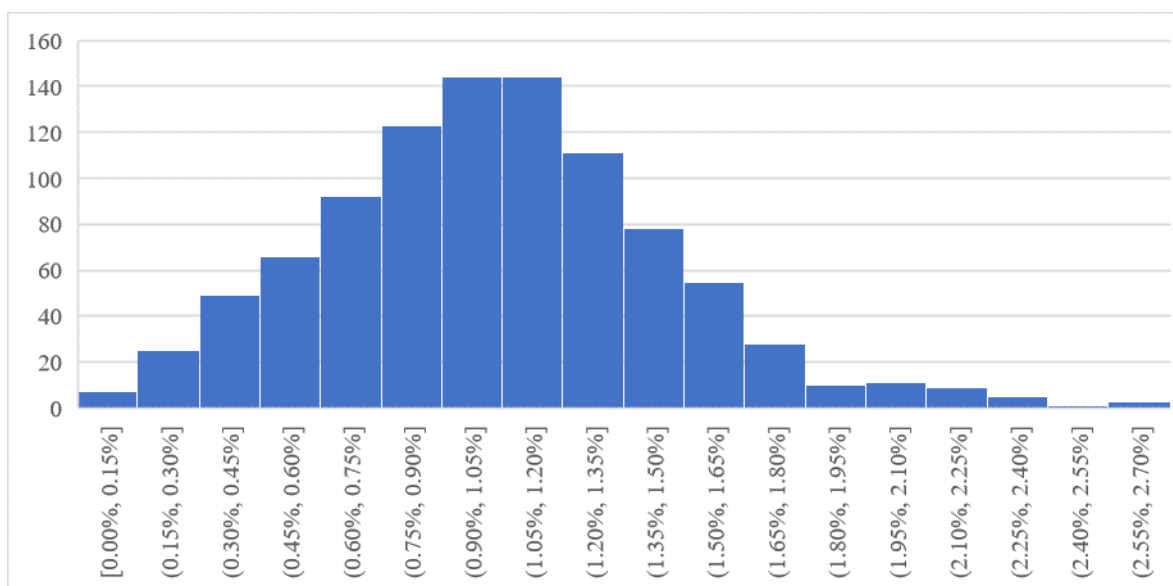


Figure 1. Share of village funds expenditure in total expenditure in 2021 year in rural municipalities. X-axis - % share, y-axis – number of municipalities.

The amount of funds to which the village fund will be entitled is determined by 31 July of the year preceding the year in which the funds are to be spent. The amount depends on the number of inhabitants of the sołectwo's area, the realised current income of the municipality for the year preceding the financial year by two years and the number of inhabitants residing in the area of the municipality.

The next step is for the sołtys (village administrator) to convene a village meeting of all residents of the sołectwo by 30 September at the latest, at which they will decide on the allocation of funds. According to the law, a project proposal can be submitted for discussion by the sołtys, the village council (rada sołectwa) or at least 15 adult residents of the sołectwo.

In order for an application to the village fund to be implemented, it must meet three conditions. Firstly, the undertakings fall within the catalogue of the municipality's own tasks. Secondly, they are in line with the municipality's development strategy. Thirdly, they serve to improve the living conditions of the residents. There are also a number of formal requirements (e.g. cost estimates, project documentation) which affect the possibility of the application being accepted by the executive body of the municipality. The approved application is included in the draft municipal budget for the following year.

During the budget year, the village may submit a motion to the mayor to change the undertakings or their scope to be implemented under the fund. Tasks from the village fund are implemented in accordance with the description in the application.

The role of the sołtys and residents is not limited to the adoption and submission of the application. It involves, among other things, participation in the implementation of the project, which can be their work or a contribution in kind.

An important issue here is also the possibility of obtaining refinancing of part of the incurred expenses of the village fund from the state budget in the following year.

Thus, there are three key points here at which it was possible to change the decision on the composition and allocation of the village fund. Firstly, adoption of a resolution, secondly, selection of projects and thirdly, the preparatory phase of project implementation.

3.2. Data Analysis

Municipal expenditures within the village fund are of an optional nature. This means that in case of financial problems of municipalities (e.g. caused by the Covid-19 crisis), the decision to reduce these expenditures is one of the first that can be taken to ensure that the main tasks of the municipality can be carried out. The Ministry of Finance indicated that, after 2019, the number of municipalities in which village fund was enacted was decreasing. In 2018 it was 1,596 municipalities, in 2019 it was 1,593 municipalities, in 2020 it was 1,527 municipalities and in 2021 it was 1,498 municipalities. An analysis of the data for rural municipalities that did not continue with the village fund in 2020 or 2021 shows that in 2020 only 9% of municipalities that did not implement the village fund for next year experienced a decrease in their own income, while in 2021 it was about 46% of municipalities. Taking the 2020-2021 opt-outs from the village fund together, it is apparent that as many as 43% of municipalities experienced a decrease in own income.

Table 1 compares the changes in the percentage of rural municipalities between 2018 and 2021 in which the village fund was spent by region (voivodship). It can be seen that the level of implementation of village council funds varies between regions and changes over the period studied. One of the highest percentages of rural municipalities (80%) and at the same time the most stable situation was characterised by the Opolskie voivodship. Thus, the question arises whether in this voivodship, while maintaining the functioning of the village funds, the directions and scale of spending from the village fund changed during the Covid-19

Table 1. The percentage of rural municipalities between 2018 and 2021 in which the village fund was spent (by region)

Region/Voivodeship	2018	2019	2020	2021
Dolnośląskie	76%	74%	74%	65%
Kujawsko-pomorskie	73%	78%	76%	71%
Lubelskie	71%	69%	74%	68%
Lubuskie	79%	74%	85%	74%
Łódzkie	47%	46%	48%	42%
Małopolskie	64%	65%	64%	63%
Mazowieckie	61%	63%	57%	52%
Opolskie	80%	80%	80%	80%
Podkarpackie	86%	84%	83%	85%
Podlaskie	33%	42%	46%	40%
Pomorskie	69%	69%	73%	73%
Śląskie	64%	68%	70%	71%
Świętokrzyskie	55%	44%	48%	42%
Warmińsko-Mazurskie	64%	73%	66%	66%
Wielkopolskie	76%	78%	74%	71%
Zachodniopomorskie	58%	56%	50%	48%
Poland	65%	66%	66%	62%

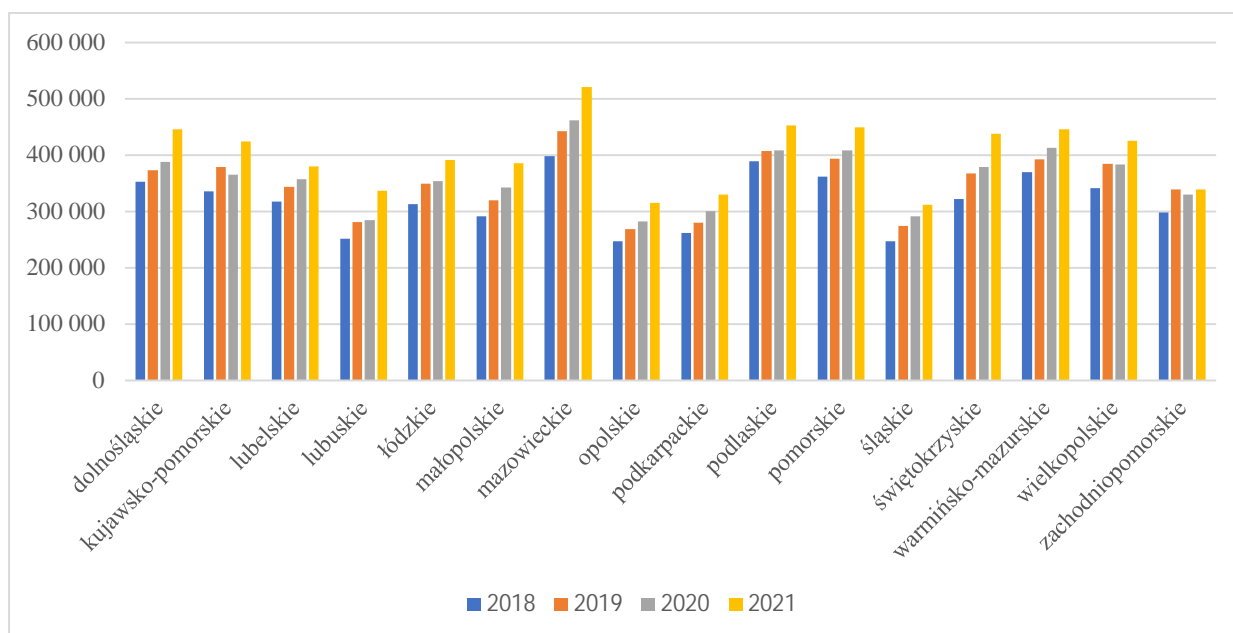


Figure 2. The expenditure of village funds per number of municipalities by regions (PLN)

pandemic. On the contrary, the highest percentage of rural municipalities using village funds was recorded in Podkarpackie (85%), and here it can also be indicated that the high level of utilisation of the sołeczki fund was maintained. On the other hand, the lowest percentage throughout the study period was in Podlaskie (from 33% to 46%), and the greatest loss of municipalities was recorded in Lubuskie (11%).

A comparison of expenditures within the framework of village funds per number of municipalities indicates that, despite the mentioned resignation of some of them from the village fund, a relative increase in these expenditures can be noted in individual voivodships (Figure 2). The main directions of spending under village funds include expenditure on transport and communications, public safety, culture, sport and recreation. Figure 3 illustrates the changes in the structure of the main directions of spending from village funds (nationally).

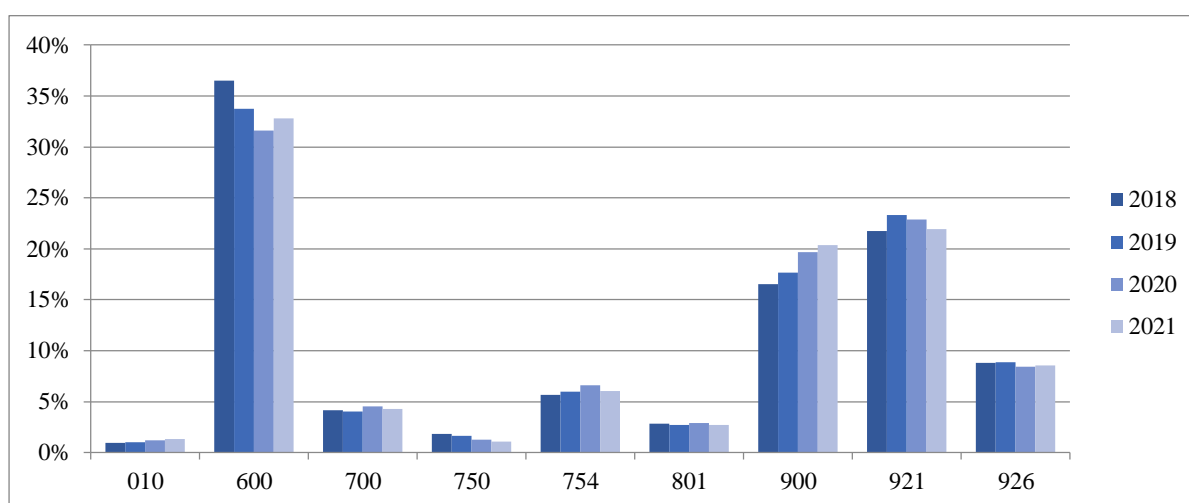


Figure 3. The structure of the main directions of spending from village funds (nationally)

A decrease in expenditure in the area of transport and communications (exp. 600) in particular in favour of expenditure in the area of municipal management and environmental protection (exp. 900) and expenditure related to public safety and fire protection (exp. 754) is evident. There are also expenses for agriculture and hunting (exp. 010), housing management (exp. 700), education and upbringing (exp. 801), public administration (exp. 750), physical culture (exp. 926). A detailed analysis of the direction of change in individual expenditure categories in municipalities measured against the 2019 expenditure level shows that in the first year of the pandemic there was a reduction in expenditure in more than half of the rural municipalities in all for the first category but in the rest of major categories it was between -5 and 5 percentage points (Figure 4). In contrast, the trend was reversed in 2021 compared to 2019.

The question therefore arises as to whether variations can be observed for individual regions. Figure 5 shows changes in the share of expenditure on transport and communications (exp. 600) from the village fund in individual voivodships in the period under study. A decrease in the share of this group of expenditures, analogous to that observed nationally, can be seen in most of the voivodships. It should be noted that it was the year 2020 that for more than half of the voivodships marked the lowest share of these expenditures.

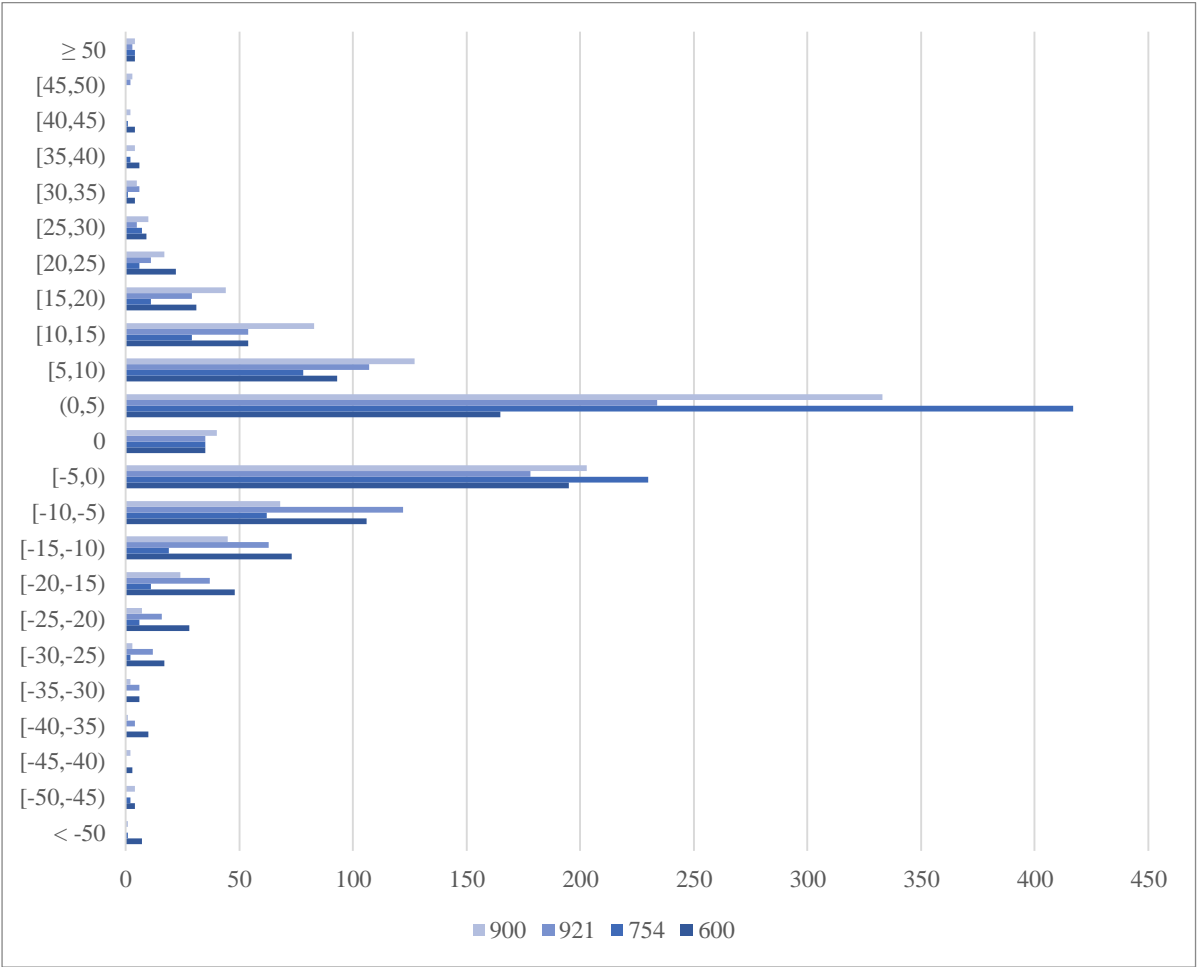


Figure 4. Changes in the level of municipal expenditure areas from the village fund in 2020 (four main areas of expenditure in percentage points). Vertical axis – number of municipalities, horizontal axis – change in 2020 compared to 2019 in percentage points.

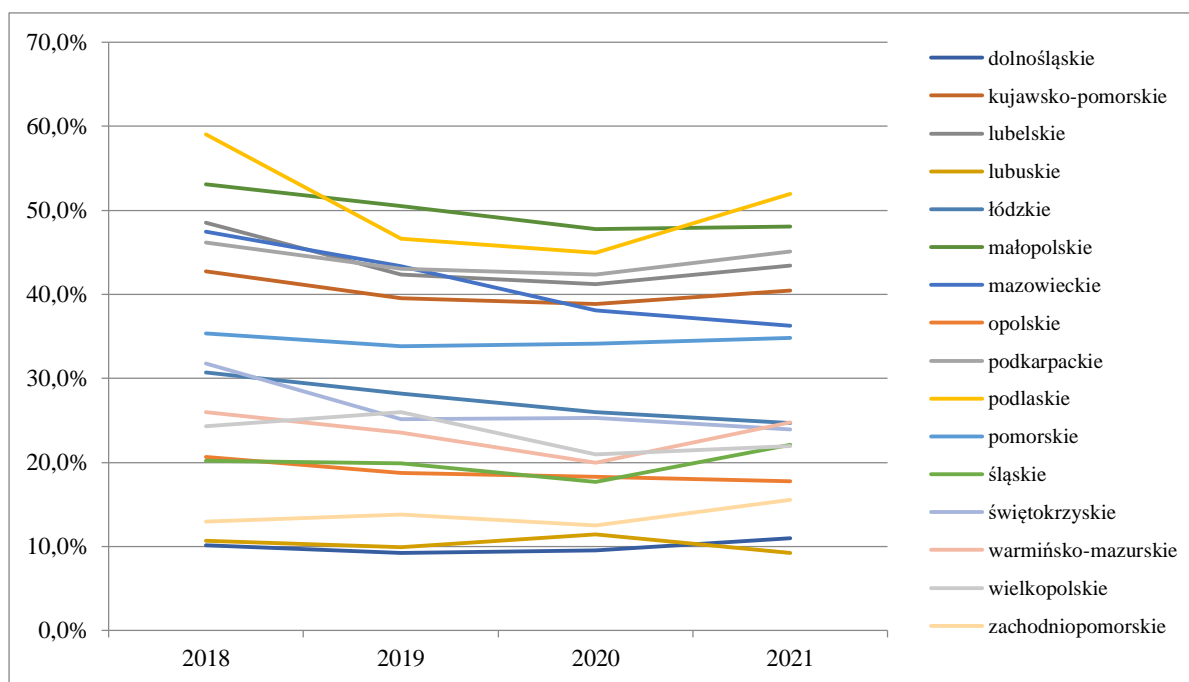


Figure 5. Changes in the share of expenditure on transport and communications (exp. 600) by regions

Figure 6 shows changes in the share of expenditure on municipal management and environmental protection (exp. 754). There was a large regional variation in the share of this group of expenditures, which in 2021 ranged between 13% and 36%. In as many as 13 voivodships, these expenditures increased by 2 to 5 percentage points during the pandemic period.

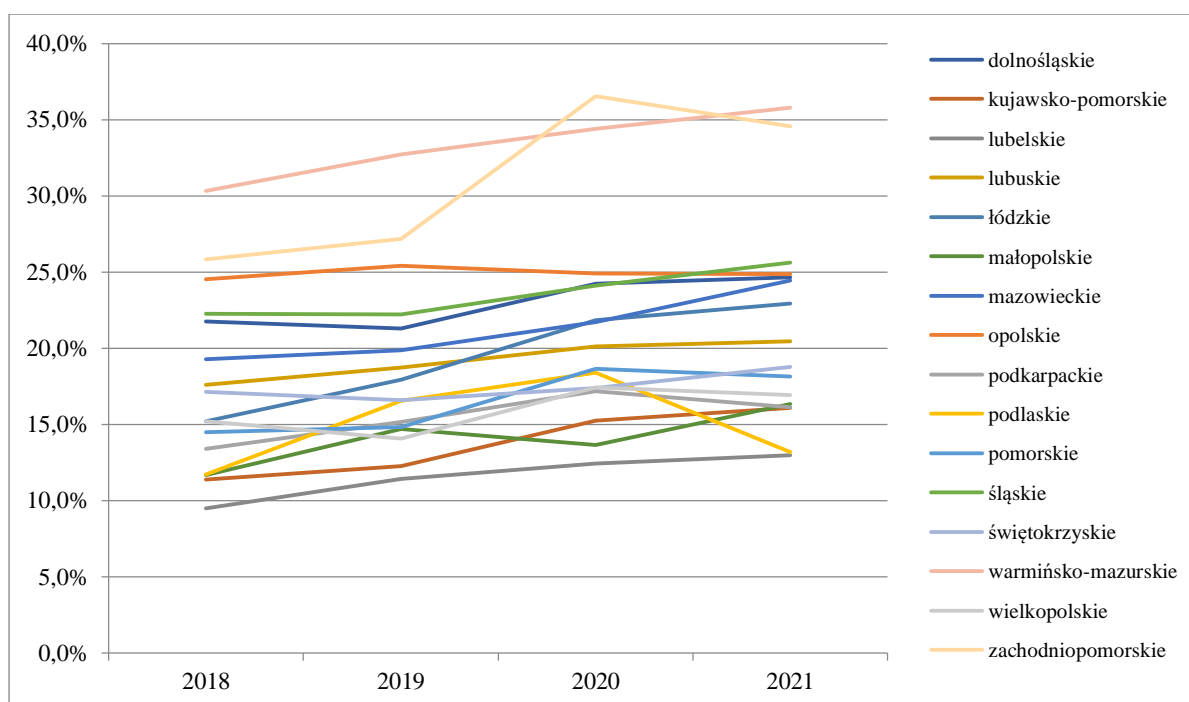


Figure 6. Changes in the share of expenditure on municipal management and environmental protection (exp. 754)

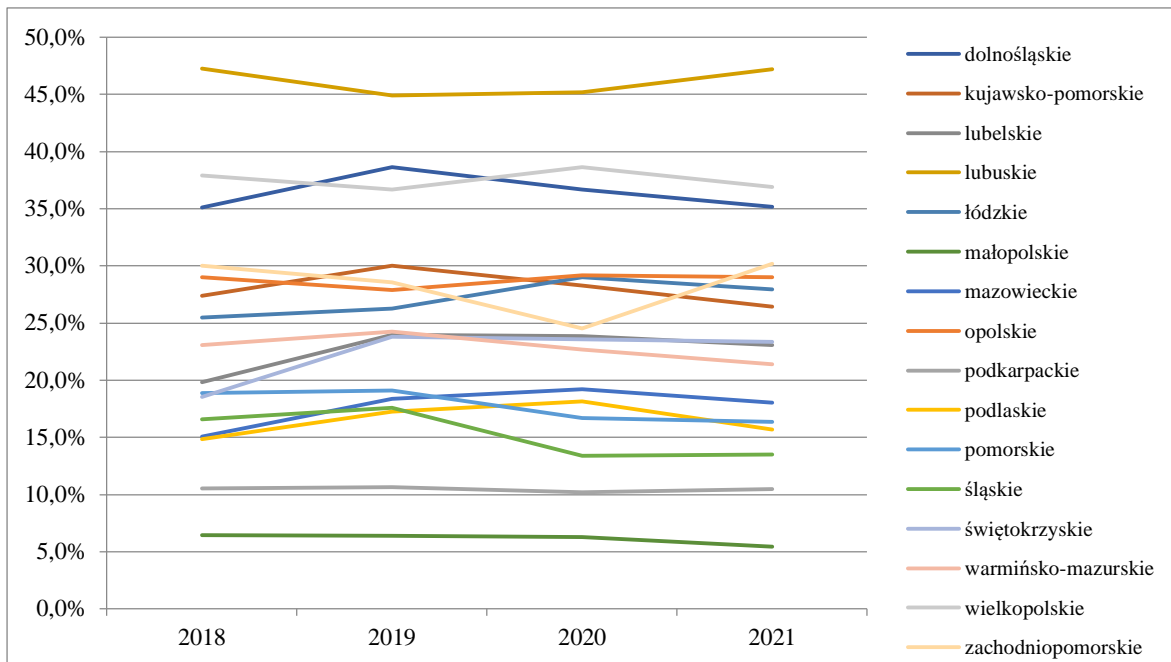


Figure 7. Changes in the share of this expenditure for culture and national heritage protection category (exp. 921) by region

Another important area of expenditure of rural municipalities under the village fund was culture and national heritage protection. Changes are shown in Figure 7.

As can be seen, in contrast to the previous categories, there were no significant fluctuations here (in proportion to the scale of the share of these expenditures in total expenditures). What can be seen, however, is a significant variation in the importance of this category of expenditure between regions. In order to analyse the stability of the structure of expenditures from the sołectki fund, expenditures were analysed in the Opolskie and Podkarpackie voivodships, which were characterised by a high and stable percentage of municipalities with a sołectki fund. Figure 8 illustrates the main directions of spending in 2018-2021 in the Opolskie. Figure 9 illustrates the main directions of expenditure in 2018-2021 in the Podkarpackie. Both in the Opolskie and Podkarpackie, despite differences in the structure of expenditure, there were no significant changes in the directions of expenditure during the pandemic (on a regional scale).

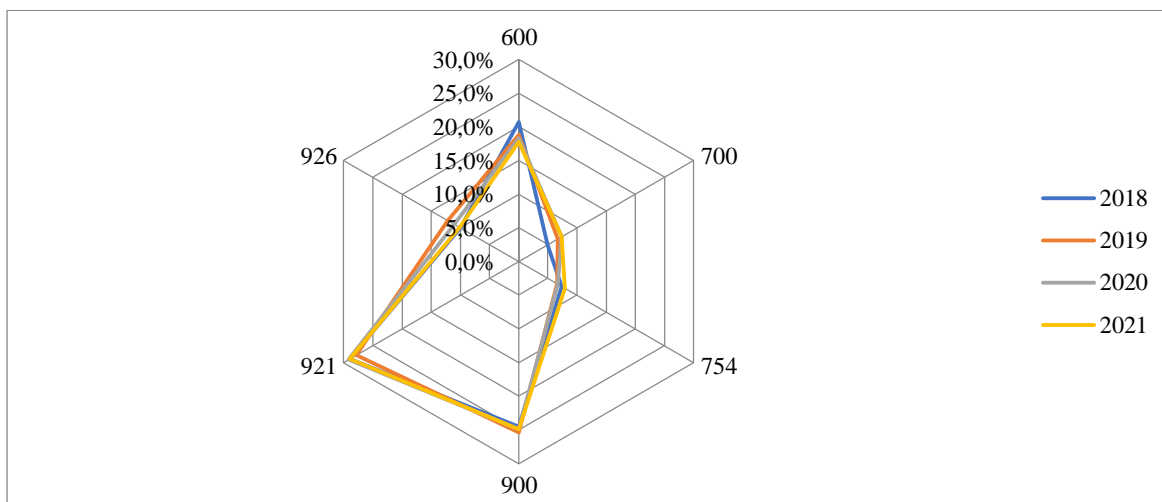


Figure 8. Village funds main expenditures share in Opolskie

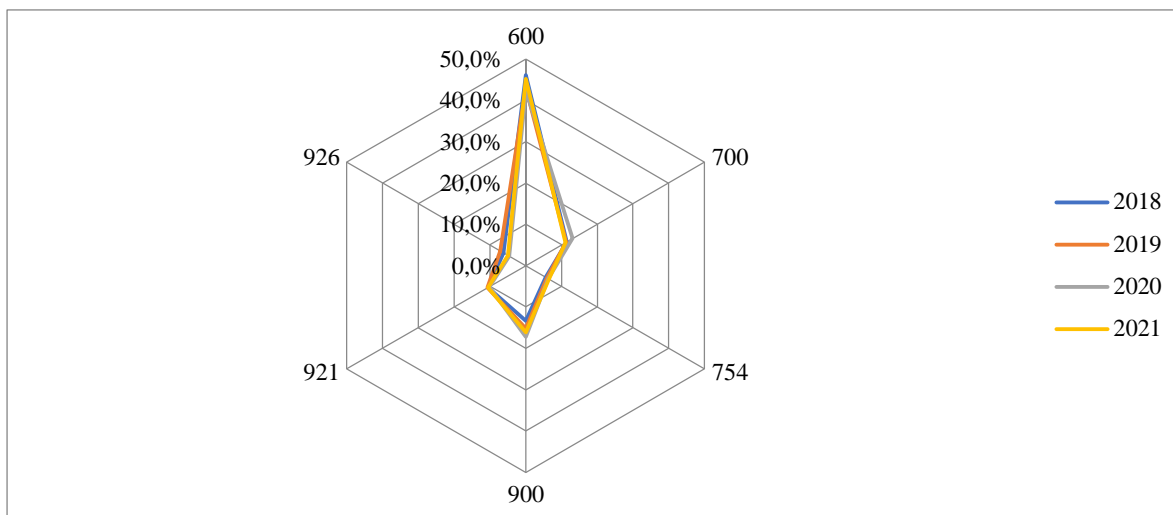


Figure 9. Village funds main expenditures share in Podkarpackie

4. Discussion and Conclusions

The analysis of the data carried out makes it possible to answer the research questions posed. The first research question RQ1 concerned changes in the number of municipalities that used village funds during the pandemic. The research showed a decrease in the number of rural municipalities using village funds during the pandemic on a national scale. At the same time, it should be noted that there was a significant regional variation here (Table 1). In regions where a high number of municipalities with a village fund was recorded before the pandemic, there was not a high degree of abandonment of the village fund during the pandemic period. In regions with a lower percentage of municipalities with village funds before the pandemic, on the other hand, the scale of the decline was greater. The assumption of a significant impact of the Covid-19 pandemic on changes in the use of village funds by municipalities seems questionable. Other possible factors could have been a decline in interest, exhaustion of ideas, a decline in civic activity, or a phase of the political budget cycle (the distant timing of the next election). To gain a better understanding of the rationale for the abandonment of village funds, it would be necessary to reach out to individual decision-makers in the municipalities with a corresponding questionnaire/direct interview.

The second research question RQ2 concerned the impact of the Covid-19 pandemic on the change in spending directions of village funds. This change could have been due to the need to redirect spending to other purposes than in previous years. The reason for this change could be that these expenditures are largely related to culture, education and sport and recreation, activities that were often curtailed during the pandemic. Secondly, there may have been an increase in (sanitary) security needs. The analysis showed that, nationally, there was little change in the direction of expenditure – there was an increase in expenditure on municipal management and environmental protection (900) and a slight increase in expenditure on public safety and fire protection (754). On the other hand, expenditure on transport and communications (investment) decreased, especially in 2020. However, analysis in the case of the previously mentioned Opolskie and Podlaskie voivodships indicates that no significant changes occurred in the case of villages from these voivodships.

The Effectiveness of Village Fund Utilization in The Covid-19 Pandemic Era was solved also by Prastica and Suswanta (2022). The results show that, through the eight indicators that were tested to determine whether the village fund utilization in Batu Lambang village was effective, all of them were effective. This can be seen by the fact that the village funds were used to reach the predetermined goals, such as Cash Transfers, and the procurement of COVID-19 mitigation and prevention tools. In addition, all of those were done in a timely, economically effective manner, as prescribed in the fund's planning.

In conclusion, it should be emphasised that the above analysis is preliminary and constitutes only a probe to identify the research problem. In the subsequent stages of the research, in addition to a more in-depth analysis of quantitative data (at the level of individual municipalities), it would be advisable to undertake a qualitative study to identify the reasons why individual municipalities decided not to continue with the village fund.

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