GENERAL SUBSIDY AS SOURCE OF INCOME FOR RURAL MUNICIPALITIES IN POLAND

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Research into the differences between income-generating capacities of rural municipalities and the effectiveness of vertical and horizontal transfers in levelling these differences reflects the financial situation of municipalities and their ability to meet the needs of local communities. The conclusions of this study can be used in the implementation of the government's financial policy. The aim of this article is to analyse and assess the effectiveness of the general subsidy for rural municipalities in Poland. The income-generating capacities of municipalities are expressed in the amount of tax revenue per capita, and its primary and secondary diversity is measured by the coefficient of variation weighted by the number of inhabitants. The study found very significant discrepancies among income-generating capacities of rural municipalities in Poland. The effectiveness of the fiscal equalization mechanism is moderately high, as individual transfers vary with respect to their "equalising power".

Key words: differentiation, fiscal capacity, fiscal equalization, Poland, rural municipalities.
JEL Codes: H23, H71, H73.

1. Introduction

The article discusses the discrepancies visible in the tax revenues of rural municipalities in Poland and the attempts at their reduction. This is an interesting issue, because usually in unitary states, tasks performed by different types of municipalities (e.g. rural and urban), or the types of their own income, are not differentiated. At the same time, it must be emphasized that rural municipalities are very specific, so the universal system of municipalities' own income may not be able to provide them with satisfactory revenue per inhabitant. This leads not only to deficits in the budgets of these municipalities, but to concerns about the extent to which the collective needs of their inhabitants are satisfied. Another interesting problem which appears against this background is the role of rural municipalities in financing horizontal transfers.

Taking the subject of levelling the differences in the income-generating capacities of rural municipalities in Poland is justified, as this problem is rarely taken both in Polish and foreign literature.
The few exceptions include the works of J. Olejniczak, who has studied the impact of some compensatory transfers on the income level and different levels of local development of all rural municipalities in Poland (Olejniczak, 2013) and in Lower Silesia (Olejniczak, 2012). The analysis of the solutions applied in different countries has not only academic but also applicational values – it can be a starting point to evaluate the mechanism of fiscal equalization used in a given country and a source of inspiration for its modification. In particular, test results can be invoked by the proponents of the differentiation of the system of municipalities' income depending on their nature (their administrative type). These results can also be used for international comparisons regarding the scope of the primary and secondary diversity of tax revenues of rural municipalities and the effectiveness of equalising transfers.

**The aim** of this article is to analyse and assess the effectiveness of the general subsidy for rural municipalities in Poland, which is an instrument of the fiscal equalization mechanism. The conducted study is to enable to answer the following research questions. What is the degree of diversity of income-generating capacities of rural municipalities against the background of all the municipalities in Poland? Are these municipalities homogeneous from the perspective of income revenue per capita? What is the "equalising power" of individual transfers? Is the mechanism of horizontal redistribution an effective instrument for equalizing differences in income-generating capacities of these municipalities? Can redistribution transfers be used as instruments to level fiscal differences? The article proposes three theses. 1. Income-generating capacities of rural municipalities are very different. 2. An effective instrument for equalizing the differences in the income-generating capacities is both the equalizing and the educational part of the general subsidy. 3. Horizontal transfers are more effective than vertical transfers in equalizing differences in the tax revenues of rural municipalities.

Since 1999, the local Polish government has been functioning on three levels: municipality (*gmina*), district (*powiat*) and province (*województwo*). A municipality is the fundamental local government entity. As of 1st January 2014, there were: 16 provinces, 314 districts and 2,479 municipalities. Among the municipalities, 305 were urban municipalities, including 66 cities with district rights, 608 urban-rural municipalities, i.e., municipalities consisting of a city with the surrounding rural area, and 1,566 rural municipalities made up of rural areas (GUS, 2015: 11). **The object** of this study is only rural municipalities, which constitute about. 64% of all the municipalities in Poland. The number of municipalities included in the study is given in Table 1. This number has changed, as some urban municipalities were deprived of their urban status, while other, previously rural municipalities, were granted the urban status. The study was conducted for the years 2004–2014.

Table 1. The number of rural municipalities in Poland in 2004–2014

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<tr>
<td>The number of rural municipalities</td>
<td>1592</td>
<td>1592</td>
<td>1589</td>
<td>1587</td>
<td>1586</td>
<td>1581</td>
<td>1575</td>
<td>1570</td>
<td>1571</td>
<td>1571</td>
<td>1566</td>
</tr>
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</table>
Rural municipalities are highly diverse with respect to many features, including their economic level, income per capita, technical infrastructure, living conditions, demographic characteristics. The subject of the study is the primary (before equalization) and secondary (after equalization) differences in the ability of rural municipalities to generate income. This ability is expressed by the indicator of rural municipalities’ tax revenues per capita (G) presented against the background of the indicator of the tax revenues of all municipalities in Poland (Gg), used to calculate the amounts of certain vertical and horizontal transfers.

Research methodology. The primary and secondary income differences among municipalities have been studied with the use of the variation coefficient weighted by population. It is used also by other authors (Blöchliger, 2007; Portnov, 2010). This coefficient is calculated from the following formula (Shankar, 2003):

\[ CV_W = \sqrt{\frac{\sum (y_i - \bar{y})^2}{\bar{y}}} \],

where: \( y_i \) – fiscal capacity of municipality \( i \) per capita, \( \bar{y} \) – the national average of fiscal capacity per capita, \( N \) – number of municipalities, \( p_i \) – the population of municipality \( i \), \( P \) – the national population.

The coefficient shows the dispersion of the variable in relation to the average, which starts from 0, meaning ideal equality, to representing ideal inequality. The higher the value of this coefficient, the greater the diversity of the analysed collectivity with respect to a given characteristic. The interpretation of the coefficient in the economic research is as follows: CVw \( \leq 35\% \) - the dispersion is low; 5\% < CVw \( \leq 60\% \) - the dispersion is moderate, 60\% < CVw \( \leq 75\% \) - the dispersion is large; 75\% < CVw \( \leq 100\% \) - the dispersion is very large (Ignatczyk, 2004; Roeske-Słomka, 2010).

The primary diversity is calculated from the relation between indices G and Gg. The study includes the calculation of both tax revenues of individual rural municipalities in comparison to the municipalities in general, and the differentiation of these revenues against the background of the average tax revenues of rural municipalities. The secondary diversity is described by three values: 1) the tax income increased by the equalising part of the subsidy (G+Eq), 2) the tax income increased by the balancing part of the subsidy minus compensatory payment (G+B-Cp) and 3) the tax income increased by the educational part of the subsidy (G+Ed). These indices are calculated for each municipality per capita. Then, they are related to similar values calculated for rural municipalities.

It was assumed that compensatory transfers contributed to a reduction of analysed diversity, if after the receipt or payment for the transfer, the value of the coefficient of variation was lower in relation to the original situation (the primary diversity). At the same time, the intervals of effectiveness were determined: 0.5–10\% – very small; 11–30\% – low; 31–50\% – moderately high; 51–70\% – high; 71–100\% – very high.

This part of the article which refers to the results of the study was divided into three sections. The first section presents the structure of the general subsidy for mu-
nicipalities in Poland, the second one shows the diversity of income-generating capabilities of rural municipalities, and in the third one - the evaluation of the efficacy of the subsidy as far as reducing this diversity is concerned.

2. Results and discussion

2.1. The general characteristics of the general subsidy for municipalities in Poland

According to Polish law, municipal sources of revenue comprise own revenues, general grants (termed general subsidies) and specific grants from the state budget and other public funds. Own revenues (f. e. local taxes and fees, shares in personal income tax and in corporate income tax) account for 47% of the total revenue, 31% come from general grants (subsidies) and 22% come from earmarked (specific) grants.

The general subsidy for municipalities consists of three separately calculated parts: equalising, balancing and educational. We have also compensatory payments. The equalising part of the general subsidy is compensatory in nature. The balancing part is an instrument of horizontal equalisation. The nature of the educational part is unclear; according to some researchers it is an instrument for the financing of tasks (Ofiarski, 2012), whereas other researchers see it as one of equalising transfers (Wernik, 2011). Some municipalities (about 20) receive yet another transfer to compensate for the loss of income, but due to little fiscal significance, was not taken into account in the study. All these parts are general (unconditional) grants. The rules for obtaining individual parts and making compensatory payments are the same for all municipalities, i. e. regardless of their rural, urban, or mixed (urban-rural) status.

The significance of the different parts of the subsidy varies (Figure 1). The educational part accounts for about ¾ of the total amount of the general subsidy. The equalising part is about ¼ of the total amount of the subsidy. A small percentage of this subsidy is a balancing part, whose share in the initial period (apart from the year 2004) was 1.9%, and in recent years did not exceed 1.5% of the total amount of the general subsidy for municipalities. The compensating part is of marginal significance, as it constitutes only 0.03% of the total amount of the general subsidy for municipalities.

The fiscal equalisation mechanism in local finance in Poland is regulated both by Basic Law, which is the Constitution of the Republic of Poland (Constitution..., 1997) and the Local Government Revenues Act (Act..., 2003). Characteristically, the Polish Constitution does not mention horizontal redistribution of revenues, only of vertical redistribution. Therefore, compensatory payments are an exception and not a regular part of equalising the inequalities in municipalities' revenues (Poniatowicz, 2015).

In Poland, the basis for measuring income inequalities among municipalities, granting them equalisation transfers and making compensatory payments is the tax capacity per capita index (G) which relates to the tax capacity index calculated for all municipalities in the country (Gg). Both these indices are published by the Ministry of Finance. They take into account the potential (not real) revenues of municipalities
from agriculture tax, forestry tax, motor vehicle tax, tax on civil law transactions, personal income tax in the form of the tax deduction card, inflows from stamp duty and service charges, shares in the inflows from personal income tax and shares in the inflows from corporate income tax. Both indicators are calculated based on data from the two years preceding the year for which the equalising part is determined.


Figure 1. The structure of the general subsidy for municipalities in 2004–2014

The core of the equalisation mechanism is the equalising part of the general subsidy. Its purpose, not expressed outright in the law, is to offset the inequalities of revenues earned by municipalities and to support economically weaker units. This part is financed from the state budget. It includes the basic amount (3/4) and the supplementary amount (1/4). The first one of them is granted to a municipality whose tax capacity (G) is lower than 92% of the national average for all municipalities (Gg). The extent to which a municipality's income is compensated varies depending on the relation between the two indicators G and Gg. The equalising amounts are the highest in the case of municipalities of the lowest tax capacity (G ≤ 40% Gg) and the lowest in the case of municipalities meeting the condition of 75% Gg < G < 92% Gg.

The extent to which the incomes of municipalities are equalised varies. Municipalities are divided into three groups depending on the relation of indicator G to indicator Gg, but irrespective of their administrative type and functions. The equalisation is progressive. Meaning that the lower the tax revenue of a municipality, the higher the basic amount of transfers it receives. Even in the case of the poorest municipalities (G ≤ 40% Gg) the amount of the transfer it receives does not ensure the full alignment of the tax revenue to the reference level (92% Gg), because it could discourage municipalities in their efforts to increase the number of their own revenue sources and weaken their own performance.

The supplementary amount in the equalising part refers indirectly to the cost of services provided by municipalities. The supplementary amount is granted to the municipality in the case of population density being lower than the average population density in the country and the G index being lower than 150% of the Gg index. Muni-
cipalities whose value of this index is higher are not granted the supplementary amount. The supplementary amount is negatively correlated with the population density, so it evens out the incomes of non-urbanised, rural municipalities (Niezgoda, 2012).

The balancing part of the general subsidy is financed mostly (over 91%) from compensatory payments made to the state budget by municipalities with high fiscal capacity (whose G index exceeds 150% Gg), so the horizontal equalisation of revenues is based on the mechanism of making solidarity payments by entities with a high tax revenue for entities of a lower revenue. It is increased by the unpaid supplementary amount of the equalising part of the general subsidy. The amount of the payment depends on the relation between indices G and Gg. The payment amount depends only on the relationship between indicators G and Gg. It is equal to 20%, 25% or 30% of the surplus of indicator G.

The criteria for the distribution of this part are defined in a slightly different way depending on the administrative type of a municipality. The first criterion is the amount of expenditure for housing allowances paid by a given municipality in the year preceding the base year, per capita, compared to 80% (in urban municipalities) or 90% of the average expenditure of all the municipalities of that type. According to the second criterion, a transfer goes to those rural and urban-rural municipalities in which the sum of revenues per capita from the share in personal income tax, agricultural and forestry tax is lower than 80% of the corresponding average revenues in all the municipalities of the same type. Also, a municipality making compensatory payments may receive this transfer.

The idea behind the educational part is to ensure that each local self-government unit has "resources corresponding to the standard cost of maintaining schools run by this unit" (Malinowska-Misiąg, 2006, p. 582). However, this cost is not determined on the basis of the actual expenditure on the education of a student, but by dividing the amount of the educational part which in a given year state authorities have at their disposal by the so-called conversion number of students. The starting point is therefore not the expenditure needs of local self-government units, but the possibility of financing them from the state budget.

The educational part is given to all units of local self-government, irrespective of their income-generating capabilities and expenses on educational tasks. The amount of this transfer is recorded every year in the state budget and can never be lower than in the previous year (after the necessary adjustments). Typically, the amount of this transfer is adopted in subsequent years at a level a few percent higher, but the lack of criteria for its valorisation means that it is determined on a discretionary basis (Misiąg, 2010). This part is divided between local self-government units on the principles established by the Ordinance of the Minister of Education. The amount of the due transfer depends on the types of schools and other educational institutions (other than kindergartens) supported by a given municipality, the professional status of teachers and the number of students in these schools and institutions. The algorithm is changed every year. The educational part is divided according to the calculative number of students, which is established by taking into account the weights which theoretically reflect the cost of educating one student or alumnus. These
weights comprise: the character (type) of the municipality, its wealth and the specific needs of students (disability for example). This determines the scope of tasks and the cost of education. The most controversial aspect is the so-called rural weight. It means that municipality whose schools are located in rural areas and towns of up to 5000 inhabitants received 38% more funding per student, and after taking other weights into account, as much as about 50% more than other municipalities (Herczyński, 2011). This was an attempt to compensate to these municipalities their likely higher expenditure on educational tasks, resulting from the fact that in rural areas and small towns schools are smaller, have smaller class units and a low standard of buildings, so the unit cost of teaching one student is higher than elsewhere. The main drawback of the rural weight is its administrative nature – it was applied to students of all schools situated in rural areas, regardless of whether they are suburban municipalities or typical agricultural municipalities located peripherally in relation to large cities. In 2015, this weight was slightly modified, but it still does not take into account the specificity of differently located rural municipalities.

2.2. Differences in tax revenues of rural municipalities in Poland

In 2004–2014, the indicator of tax revenues of municipalities per capita in Poland (Gg) ranged from PLN 714.7 to PLN 1358.9, whereby the tax revenues of individual municipalities was different from the Gg (Figure 2). The presented data shows that the differences in tax revenues among municipalities in Poland are moderate (the average for 2004–2014 CVw = 0.59), but the same differences between different types of municipalities are significant. The average income-generating capability of an urban municipality (including big cities) is higher than the income-generating capacity of all the municipalities; moreover, the revenues or urban municipalities do not vary strongly (CVw = 0.35). The lowest tax revenues are generated by rural municipalities, which are on average the poorest, although this group includes also municipalities in the case of which, the G index is higher than 150% Gg, which means they are payers of the balancing part. In the studied years, the average gap between the average income of rural and urban municipalities amounted to PLN 363 per capita.

![Figure 2. The primary diversity in the tax revenues of municipalities in Poland 2004–2014, in PLN, per capita](image-url)
In 2004–2008, the income of the poorest rural municipality did not exceed PLN 200 per capita (Figure 2), and in 2009–2013 – the amount of PLN 300 per capita. The income of this municipality was about 21–23% of the tax revenues of all municipalities and about 30–33% of the income of rural municipalities. The revenue of the richest rural municipality exceeded the amount of PLN 30 thousand per capita (with the exception of 2004, 2005, 2009). Some rural municipalities are even richer than big cities, because they profit from the extraction of natural resources in their territory or are located in the vicinity of cities from where they attract wealthy residents and businesses. The differences in the income-generating capabilities of rural municipalities is then very large (on average $CV_w = 1.06$).

Table 2. The primary diversity of the income-generating capabilities of rural municipalities in Poland

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<tbody>
<tr>
<td>Index Ggw(^a) (PLN)</td>
<td>502</td>
<td>519</td>
<td>551</td>
<td>603</td>
<td>645</td>
<td>753</td>
<td>865</td>
<td>854</td>
<td>857</td>
<td>936</td>
<td>1057</td>
</tr>
<tr>
<td>Lowest capacity (PLN)</td>
<td>166</td>
<td>163</td>
<td>164</td>
<td>184</td>
<td>198</td>
<td>230</td>
<td>281</td>
<td>259</td>
<td>254</td>
<td>283</td>
<td>344</td>
</tr>
<tr>
<td>Highest capacity (PLN)</td>
<td>28901</td>
<td>29514</td>
<td>30405</td>
<td>29596</td>
<td>30153</td>
<td>29966</td>
<td>31114</td>
<td>33455</td>
<td>34680</td>
<td>33124</td>
<td>33561</td>
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<tr>
<td>Variation coefficient</td>
<td>1.174</td>
<td>1.197</td>
<td>1.237</td>
<td>1.121</td>
<td>1.104</td>
<td>1.005</td>
<td>0.926</td>
<td>1.000</td>
<td>1.057</td>
<td>0.940</td>
<td>0.844</td>
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\(^a\) The average tax income of rural municipalities in Poland.

Source: Author’s calculation based on data from the Ministry of Finance (www.mf.gov.pl) and Regional Chamber of Account in Bydgoszcz.

2.3. The impact of the general subsidy on the differences in the tax revenues of rural municipalities in Poland

The general subsidy constitutes about 38–42% of the income of rural municipalities in Poland. In 2004–2014, the equalising part was received, on average, by 87% of these municipalities. After the transfer, their tax revenues per capita increased by approximately 44% (Table 3). The data in this table shows that this part contributed to decreasing the differences in income-generating capacities or rural municipalities. The average coefficient of variation for 2004–2014 for $G + Eq$ was 0.67 and was smaller compared to the coefficient calculated for the $G$ indicator – by 38.6%, with the average for the total of municipalities equal to 44.9%. Both in municipalities in total and in rural municipalities, the efficiency of this transfer is moderately high. The obtained results correspond to the conclusions relating to the original diversity of the $G$ index in rural municipalities and the construction of this part of the subsidy. The highest transfers are received by municipalities in which $G \leq 40\% G_g$. In the group of rural municipalities there were on average 243 such municipalities, which constituted about 15% of all rural municipalities.
In the years 2004–2014 about 4% (89–110) of Polish municipalities made compensatory payments from which horizontal transfers were financed. Most of them were rural municipalities, which constituted 52–60% of the payers. The number of these municipalities changed, because the obligation to make a payment is related to the amount of tax revenues, which varied along with the changes in the socio-economic situation of the state and the municipalities, but on average, the payments were made by 56 rural municipalities (3.5% of the studied population). After the transfer of the balancing part to municipalities and after making payments by some of them, there was no noticeable increase in the average tax revenues of rural municipalities, but on average the minimum income increased by 23% and the maximum income decreased by 28% (Table 4). The data shows that both transfers lead to a reduction in the coefficient of variation by only about 23%. The mechanism of horizontal equalisation had only a small impact on the reduction of the differences in the tax revenues of rural municipalities.

Table 4. The impact of the horizontal redistribution mechanism on the income differences among rural municipalities in Poland (PLN)

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<tbody>
<tr>
<td>Index Gg+B-Cp</td>
<td>501</td>
<td>518</td>
<td>552</td>
<td>605</td>
<td>649</td>
<td>758</td>
<td>867</td>
<td>855</td>
<td>856</td>
<td>934</td>
<td>1055</td>
</tr>
<tr>
<td>Lowest capacity</td>
<td>166</td>
<td>163</td>
<td>222</td>
<td>243</td>
<td>264</td>
<td>304</td>
<td>347</td>
<td>333</td>
<td>320</td>
<td>353</td>
<td>407</td>
</tr>
<tr>
<td>Highest capacity</td>
<td>21451</td>
<td>21898</td>
<td>21720</td>
<td>21194</td>
<td>21632</td>
<td>21592</td>
<td>22445</td>
<td>24068</td>
<td>24934</td>
<td>23889</td>
<td>24240</td>
</tr>
<tr>
<td>Variation coefficient</td>
<td>0.926</td>
<td>0.952</td>
<td>0.942</td>
<td>0.866</td>
<td>0.854</td>
<td>0.791</td>
<td>0.734</td>
<td>0.786</td>
<td>0.830</td>
<td>0.751</td>
<td>0.674</td>
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<tr>
<td>Equalisation effect</td>
<td>0.248</td>
<td>0.246</td>
<td>0.296</td>
<td>0.255</td>
<td>0.250</td>
<td>0.215</td>
<td>0.192</td>
<td>0.214</td>
<td>0.227</td>
<td>0.190</td>
<td>0.171</td>
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</table>

a) In this study, tax revenues were increased by the amount of the balancing part and reduced by the amount of compensatory payments made obligatory by some municipalities to the state budget.

The impact of the educational part of the subsidy on the income per capita in rural municipalities is significant - on average, it increased by approximately 100% (Table 5). However, the effectiveness of this part in equalizing the differences in income is very small. The data in Table 4 shows that after the equalization, the coefficient of variation averaged 0.53 and on average was lower than the coefficient of variation depicting the primary diversity by only 8.6%. Other, so far unpublished studies of the author conducted for all municipalities in Poland, showed that this part is a moderately effective equalisation transfer, as it reduces income inequalities...
among rural and urban municipalities. The study included in this article, however, showed that this phenomenon does not occur within the group of rural municipalities. This is due to the fact that the amount of this part is 90% affected by the so-called urban weight, which in the analysed period was the same for all rural municipalities.

Table 5. The impact of the educational part of the general subsidy on the diversity of tax revenues in rural municipalities in Poland (PLN)

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<tbody>
<tr>
<td>Index Gg + Ed</td>
<td>1059</td>
<td>1076</td>
<td>1127</td>
<td>1216</td>
<td>1314</td>
<td>1466</td>
<td>1609</td>
<td>1627</td>
<td>1671</td>
<td>1744</td>
<td>1865</td>
</tr>
<tr>
<td>Lowest capacity</td>
<td>574</td>
<td>613</td>
<td>671</td>
<td>720</td>
<td>777</td>
<td>870</td>
<td>916</td>
<td>956</td>
<td>909</td>
<td>967</td>
<td>1063</td>
</tr>
<tr>
<td>Highest capacity</td>
<td>29447</td>
<td>30084</td>
<td>31016</td>
<td>30242</td>
<td>30860</td>
<td>30711</td>
<td>32042</td>
<td>34481</td>
<td>35812</td>
<td>34329</td>
<td>34809</td>
</tr>
<tr>
<td>Variation coefficient</td>
<td>0.553</td>
<td>0.575</td>
<td>0.602</td>
<td>0.551</td>
<td>0.537</td>
<td>0.511</td>
<td>0.495</td>
<td>0.525</td>
<td>0.546</td>
<td>0.509</td>
<td>0.484</td>
</tr>
<tr>
<td>Equalisation effect</td>
<td>0.622</td>
<td>0.623</td>
<td>0.636</td>
<td>0.570</td>
<td>0.567</td>
<td>0.495</td>
<td>0.431</td>
<td>0.475</td>
<td>0.511</td>
<td>0.431</td>
<td>0.360</td>
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The total efficiency of all the tested transfers is moderately high. The average coefficient of variation for 2004–2014 amounted to 0.54 and was by 50.9% smaller than the coefficient describing the diversity of income before equalization.

3. Conclusions

1. The degree of diversity of income-generating capacities of rural municipalities against the background of all the municipalities in Poland is very large, so the study confirmed the first thesis.

2. Rural municipalities are not homogenous in terms of tax revenues per capita. This group includes both very rich and very poor municipalities. In the analysed period (with the exception of the year 2012), the richest municipality in Poland was the rural municipality of Kleszczów, whose tax revenue per capita is a hundred times (!) higher than the lowest tax revenue per capita in rural municipalities.

3. The equalising part of the general subsidy has a clear equalising character, as does the balancing part of this subsidy, financed from the payments made by rich municipalities. Sometimes, such equalising character is also ascribed to the educational part of the general subsidy. We could agree with that if we emphasize the fact that its construction takes into account the expenditures of municipalities on schools and other educational institutions (other than kindergartens). However, if in the evaluation of its character, a stronger emphasis is put on the fact that it is received by all municipalities, it must be classified as a redistribution transfer.

4. The "equalising power" of particular transfers is different, from moderately large to very small. The equalising part is a moderately effective transfer, which partly confirms the second thesis.

5. The study showed that the educational part does not reduce income inequalities within a group of rural municipalities. This is due to the fact that for all rural municipalities the same rural weight is applied, which leads to an increase in the so-called conversion number of students attending schools and other educational institutions in rural areas. This weight is differentiated neither depending on the number of residents
of the municipality, nor the population density ratio, or the wealth of a given municipality. Therefore, the obtained results do not support part of the second thesis.

6. Unsatisfactory (small) is the effectiveness of the mechanism of horizontal redistribution, contrary to the situation in other European countries. The obtained results do not support the third thesis.

7. The effectiveness of the fiscal equalization mechanism for municipalities in Poland is moderately high, as individual transfers vary with respect to their "equalising power". It should be emphasized that this mechanism covers only the revenue side, almost completely ignoring cost aspects. At this point the question arises, what changes in the structure of the general subsidy could improve its effectiveness in equalising the discrepancies in the income-generating capacities of rural municipalities? Among the potentially conducive factors are: including incentives to increase income-generating efforts in the construction of the equalising part; establishing several rural weights, depending on, e.g. the degree of population density; changing the rules for dividing the balancing part in such a way that it is not given to municipalities which make payments for the purpose of horizontal transfers. This changes should have to take place in conjunction with the reform of the whole system of state, regional and local finances. Firstly, there ought to be taken a new revenue sharing between the state, regional and local governments. The new division of tax revenues ought to increase the income-generating capacities of municipalities (also district and province) and their financial independence. Secondly, there ought to be designed a new equalization mechanism for municipalities and other self-government entities in Poland.

Reference


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