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INSTITUTE OF AGRICULTURAL  
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*The impact  
of structural funds  
of the European Union  
on agricultural  
and rural development  
in the first years  
of membership*

no **178.1**

Warsaw 2010

*Janusz Rowiński*

THE ECONOMIC AND SOCIAL CONDITIONS  
OF THE DEVELOPMENT OF THE POLISH FOOD  
ECONOMY FOLLOWING POLAND'S ACCESSION  
TO THE EUROPEAN UNION



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*Author*

*Janusz Rowiński, PhD*



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This report is a part of the research topic

“The impact of structural funds of the European Union on rural development in the first years of membership. The general concept of supporting this development from structural funds and the Cohesion Fund in 2007–2013” (*Wpływ funduszy strukturalnych Unii Europejskiej na rozwój regionów wiejskich w pierwszych latach członkostwa. Ogólna koncepcja wsparcia tego rozwoju w latach 2007–2013 środkami funduszy strukturalnych i funduszu kohezji*)

in the following tasks:

“The analysis of the implementation and effects of PROW 2004–2006 and of the Sectoral Operational Programme Agriculture” (*Analiza przebiegu realizacji i skutków programów PROW 2004–2006 i Sektorowego Programu Operacyjnego Rolnictwo*)

“The concept of supporting rural development from structural funds and the Cohesion Fund in 2007–2013” (*Koncepcja wsparcia w latach 2007–2013 rozwoju regionów wiejskich środkami funduszy strukturalnych i funduszu kohezji*)

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# Contents

- Introduction ..... 7
  
- 1. Remarks on the preparation and implementation of agricultural and rural development programmes. Legal and organisational problems ..... 12
  
- 2. Substantive assessment of PROW-2013 as compared to the previous programmes ..... 19
  
- 3. Conclusions from the remarks on the preparation and implementation of agricultural and rural development programmes ..... 44
  - 3.1. Introductory remarks ..... 44
  - 3.2. Organisational conclusions ..... 44
  - 3.3. Substantive conclusions ..... 46





## Introduction

The research topic “The impact of structural funds of the European Union on rural development in the first years of membership. The general concept of supporting this development from structural funds and the Cohesion Fund in 2007–2013” (*Wpływ funduszy strukturalnych Unii Europejskiej na rozwój regionów wiejskich w pierwszych latach członkostwa. Ogólna koncepcja wsparcia tego rozwoju w latach 2007–2013 środkami funduszy strukturalnych i funduszu kohezji*) is a part of the Multi-annual Programme “Economic and Social Conditions of the Development of the Polish Food Economy Following Poland’s Accession to the European Union” (*Ekonomiczne i społeczne uwarunkowania rozwoju polskiej gospodarki żywnościowej po wstąpieniu Polski do Unii Europejskiej*), implemented at the Institute of Agricultural and Food Economics – National Research Institute (*Instytut Ekonomiki Rolnictwa i Gospodarki Żywnościowej – Państwowy Instytut Badawczy*, referred to as IERiGŻ-PIB in the text and in footnotes) in 2005–2009. The topic was supervised by Janusz Rowiński, PhD, and it comprised two tasks: (1) “The analysis of the implementation and effects of PROW 2004–2006 and of the Sectoral Operational Programme Agriculture” (*Analiza przebiegu realizacji i skutków programów PROW 2004–2006 i Sektorowego Programu Operacyjnego Rolnictwo*, the team leader: Marek Wigier, PhD), and (2) “The concept of supporting rural development from structural funds and the Cohesion Fund in 2007–2013 (*Koncepcja wsparcia w latach 2007–2013 rozwoju regionów wiejskich środkami funduszy strukturalnych i funduszu kohezji*, the team leader: Janusz Rowiński, PhD).

The final report is not aimed at discussing all the results obtained. Those can be found in subsequent annual reports available at the IERiGŻ-PIB website<sup>1</sup>, providing information on research projects financed within the framework of the Multi-annual Programme. Furthermore, the same website includes all reports implemented under the topic and published in the Multi-annual Programme series (*seria Program Wieloletni*; for the list of the publications and of their contents see Multi-annual Programme No 178 Annex<sup>2</sup>). This report solely contains the results of certain surveys and studies as well as the most significant conclusions.

The publication consists of three parts. The first chapter discusses the outcome of the analysis of the planning and implementation of particular programmes for agriculture and rural development. The main focus is on the dates of implementing the successive stages of both processes. The reasons for delays, if any, were also investigated, on the assumption that they might be caused by actions of EU institutions as well as of national bodies.

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<sup>1</sup> [www.ierigz.waw.pl](http://www.ierigz.waw.pl).

<sup>2</sup> J. Rowiński (ed.), *Wpływ funduszy współfinansowanych ze środków Unii Europejskiej na rozwój rolnictwa i regionów wiejskich. Raport końcowy, seria Program Wieloletni 2005–2009*, No 178, IERiGŻ-PIB, Warszawa 2010.

Chapter 2 was aimed to deliver the results of the substantive examination of the programmes and to formulate an opinion as to whether the successive programmes co-financed projects having the best possible impact on long-term agricultural and rural development. Much attention was paid to the Rural Development Programme (*Program Rozwoju Obszarów Wiejskich*) 2007–2013 (referred to as PROW-2013 in the report) as the presented analysis of the current programme may be of importance to the preparation of the next programme for agriculture and rural areas co-financed from funds of the European Union (the EU, with the term Community used interchangeably), to be implemented between 2014 and 2020.

The assessment of PROW-2013 was based on three working assumptions. The first two are hypotheses previously formulated in one of the reports prepared for the purposes of the research topic<sup>3</sup>. According to the first hypothesis, the years 2007–2013 constitute the last budget period when the European Union allocates such substantial appropriations for rural development, and the second one is that in the next programme, covering the years 2014–2020, the obligatory share of broader environmental measures will considerably exceed the figure in PROW-2013. The third assumption is the hypothesis that production structures of Polish agricultural holdings will only have improved to a limited extent by 2020. It is consistent with the widespread and well-substantiated opinion, including with the forecast made by W. Ziętara for the purposes of the topic<sup>4</sup>.

The chapter in question also presents the most important conclusions from a study by R. Grochowska and Ł. Hardt published in one of the previous Multi-annual Programme reports<sup>5</sup> which analyses the impact of four programmes co-financed from the Cohesion Fund on rural areas. It appears, among other things, that the total amount of public funds allocated under those programmes for the co-financing of projects with a direct or strong indirect impact on rural areas is higher than the appropriations of PROW-2013.

Chapter 3 represents a logical continuation of Chapter 2, containing conclusions and recommendations. Some of them have been formulated in other studies prepared for the purposes of the topic.

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<sup>3</sup> J. Rowiński, *Program Rozwoju Obszarów Wiejskich na lata 2007-2013 [Analiza zatwierdzonej wersji programu i pierwszych lat realizacji]*, seria Program Wieloletni 2005–2009, No 118, IERiGŻ-PIB, Warszawa 2008.

<sup>4</sup> W. Ziętara, *Charakterystyka zmian struktur produkcyjno-ekonomicznych polskich gospodarstw rolnych w najbliższych latach*, [in:] J. Rowiński (ed.), *Wpływ funduszy współfinansowanych ze środków Unii Europejskiej na rozwój rolnictwa i regionów wiejskich. Raport końcowy*, seria Program Wieloletni 2005–2009, No 178, IERiGŻ-PIB, Warszawa 2010.

<sup>5</sup> Ł. Hardt, R. Grochowska, *Możliwości oddziaływania środków finansowych Polityki Spójności na rozwój obszarów wiejskich w Polsce w latach 2007-2013*, [in:] J. Rowiński (ed.), *Wpływ funduszy współfinansowanych ze środków UE na rozwój regionów wiejskich w Polsce (Studia i Materiały)*, seria Program Wieloletni 2005–2009, No 156, IERiGŻ-PIB, Warszawa 2009.

This report excludes certain important research issues analysed during the implementation of the topic. Firstly, it leaves out methodological explanations<sup>6</sup>. In search of the most effective analytical methods, we endeavoured to follow the guidelines published by the European Commission<sup>7</sup>. Those are the guidelines for teams of independent experts performing compulsory evaluations preceding the approval of programmes co-financed by the EU budget (*ex ante* evaluations), during their implementation (*mid-term* evaluations) and after they have been completed (*ex post* evaluations), but all interested parties may also apply those recommendations. The guidelines contain, among other things, a list of obligatory common indicators to be used when analysing programmes as well as a list of additional indicators.

The Commission's handbook is sometimes criticised. For instance, in one of the reports prepared for the purposes of the topic<sup>8</sup> some of the common indicators are considered unfeasible, for various reasons. Furthermore, it is argued that some of the common indicators should be replaced with others. It is also stated that for various reasons it is impossible to accurately estimate certain indicators,

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<sup>6</sup> For more on methodological issues, see the following reports prepared for the purposes of the topic: (1). Published studies: A. Bołtromiuk, *Ocena wpływu instrumentów Wspólnej Polityki Rolnej na środowisko i zrównoważony rozwój obszarów wiejskich w okresie programowania 2004-2013*, [in:] J. Rowiński (ed.), *Wpływ funduszy współfinansowanych ze środków Unii Europejskiej na rozwój rolnictwa i regionów wiejskich. Raport końcowy, seria Program Wieloletni 2005–2009*, No 178, IERiGŻ-PIB, Warszawa 2010; M. Bułkowska, *Ocena wpływu inwestycji realizowanych z udziałem środków unijnych na ekonomikę gospodarstw specjalizujących się w chowie bydła mlecznego*; K. Chmurzyńska, *Ocena wpływu inwestycji realizowanych z udziałem środków unijnych na ekonomikę gospodarstw specjalizujących się w chowie trzody chlewnej*; J. Rowiński, *Możliwości użycia bazy danych FADN do analizy efektywności wsparcia gospodarstw rolnych środkami publicznymi*. All the three studies are included in: J. Rowiński (ed.), *Wpływ funduszy współfinansowanych ze środków UE na rozwój regionów wiejskich w Polsce (Studia i Materiały)*, seria Program Wieloletni 2005–2009, No 156, IERiGŻ-PIB, Warszawa 2009. (2). Unpublished studies: M. Kozłowska-Burdziak, *Analiza spójności celów programów SPO „Restrukturyzacja...”, PROW 2004-2006, PROW 2006-2013 w okresie programowania 2004-2013, ocena efektywności zaangażowanych środków oraz ocena trwałości uzyskanych rezultatów. Rozwój przedsiębiorczości i pozarolniczych źródeł utrzymania ludności wiejskiej*; M. Kozłowska-Burdziak, A. Sadowski, *Wpływ programów inwestycyjnych współfinansowanych ze środków UE na sytuację ekonomiczną gospodarstw rolnych w województwie podlaskim*; A. Sadowski, *Analiza spójności celów programów SPO „Restrukturyzacja...”, PROW 2004-2006, PROW 2007-2013 w okresie programowania 2004-2013, ocena efektywności zaangażowanych środków oraz ocena trwałości uzyskanych rezultatów w zakresie poprawy konkurencyjności gospodarstw rolnych*.

<sup>7</sup> The current guidelines for evaluators of agricultural and rural development programmes are those formulated in: *Handbook on Common Monitoring and Evaluation Framework. Guidance Document*. Directorate General for Agriculture and Rural Development. September 2006. This handbook (most of which has been translated into Polish) is available at the European Union website.

<sup>8</sup> J. Rowiński, *Oceny ex-ante i mid-term programu SAPARD w Polsce*, „Zagadnienia Ekonomiki Rolnej” 2007, No 4.

including key ones such as the efficiency of public intervention. The study also proposes amendments which would allow to remove certain existing shortcomings<sup>9</sup>.

Secondly, the report excludes the results of a survey conducted among enterprises and farmers assisted under the Special Pre-Accession Programme for Agriculture and Rural Development (*Specjalny Przedakcesyjny Program na rzecz Rolnictwa i Obszarów Wiejskich*, referred to as the SAPARD in the text), the Rural Development Plan 2004–2006 (*Plan Rozwoju Obszarów Wiejskich na lata 2004–2006*, referred to as PROW-2006 in the text) and the Sectoral Operational Programme for the “Restructuring and modernisation of the food sector and rural development 2004–2006” (*Sektorowy Program Operacyjny “Restrukturyzacja i modernizacja sektora żywnościowego oraz rozwój obszarów wiejskich 2004–2006”*, referred to as SPOR-2006 in the text). The primary objective of the survey was to obtain opinions on the performance of the institutions in charge of the programmes. Since critical assessments of the functioning of the Polish administration are rather frequent, the generally positive evaluation of the institutions responsible for the implementation of the programmes, including the most important Agency for Restructuring and Modernisation of Agriculture (*Agencja Restrukturyzacji i Modernizacji Rolnictwa*, referred to as ARiMR in the text), came as a nice surprise<sup>10</sup>.

Finally, a vital issue addressed by A. Bołtromiuk<sup>11</sup> is the conflict between the protection of the rural environment and the need for structural transformation in Polish agriculture, resulting in the liquidation of the majority of small agricultural holdings engaged in mixed and extensive farming. According to the Author, their liquidation will bring about a reduction in biodiversity and unfavourable changes in the rural environment. Thus, the most environmentally advantageous solution would be to have the current area and production structure of Polish agriculture unchanged. Agriculture subject to requirements resulting from strict compliance with the preservation of biodiversity and of the rural landscape is then inconsistent with the model of agriculture capable of coping with EU and international competition as well as of ensuring fair income to farmers<sup>12</sup>. The two

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<sup>9</sup> For more on this subject, see the studies by A. Bołtromiuk, M. Bułkowska, K. Chmurzyńska and J. Rowiński listed in footnote 6.

<sup>10</sup> For a detailed presentation of the results, see: M. Wigier (ed.), *Identyfikacja i ocena barier administracyjnych realizacji programów rozwoju obszarów wiejskich, seria Program Wieloletni 2005–2009*, No 66, IERiGŻ-PIB, Warszawa 2007.

<sup>11</sup> For an outline of environmentally-friendly agriculture see A. Bołtromiuk, *Ocena wpływu instrumentów wspólnej polityki rolnej na środowisko i zrównoważony rozwój obszarów wiejskich w okresie programowania 2004-2013*, [in:] J. Rowiński (ed.), *Wpływ funduszy współfinansowanych ze środków Unii Europejskiej na rozwój rolnictwa i regionów wiejskich. Raport końcowy, seria Program Wieloletni 2005–2009*, No 178, IERiGŻ-PIB, Warszawa 2010.

<sup>12</sup> Different views on this matter are expressed by researchers at the Institute of Soil Science and Plant Cultivation (*Instytut Uprawy, Nawożenia i Gleboznawstwa*), I. Duer and T. Stuczyński, in: *Ewaluacja ex post Planu Rozwoju Obszarów Wiejskich 2004–2006. Raport końcowy*. Consortium: IERiGŻ-PIB, Instytut Rozwoju Wsi i Rolnictwa Polskiej Akademii Nauk, Instytut

orders, economic and agri-environmental, are very distant from each other, at least according to A. Bołtromiuk. The conflict may increase, if only due to farming in Natura 2000 areas, therefore solutions should be sought to reconcile both orders.

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The team engaged in the implementation of the topic mainly comprised researchers employed at the Food Industry Economics Department of the Institute of Agricultural and Food Economics (M. Bułkowska, K. Chmurzyńska, K. Gradziuk, J. Rowiński, M. Wigier), but overcoming certain technical difficulties involved assistance from scientists at the Agricultural Accountancy Department. Certain issues were prepared by employees at *Centrum Doradczo-Szkoleniowe Mar-Ka* (W. Nikiciuk), the Institute of Rural and Agricultural Development – *Instytut Rozwoju Wsi i Rolnictwa* (M. Drygas, K. Zawalińska), the Supreme Chamber of Control – *Najwyższa Izba Kontroli* (A. Szczepaniak), the Rzeszów University of Technology – *Politechnika Rzeszowska* (M. Woźniak), the Warsaw University of Life Sciences – *Szkoła Główna Gospodarstwa Wiejskiego* (W. Ziętara), the University of Białystok – *Uniwersytet w Białymstoku* (A. Bołtromiuk, M. Kozłowska-Burdziak, R. Przygodzka, A. Sadowski), the Poznań University of Life Sciences – *Uniwersytet Przyrodniczy w Poznaniu* (W. Czubak, W. Poczta, A. Sadowski), the University of Rzeszów – *Uniwersytet Rzeszowski* (T. Cebulak, M. Lechwar). Authors not employed at IERiGŻ-PIB were mostly<sup>13</sup> entirely free to select research methods and draw conclusions. Thus, those are independent studies, and the views expressed represent the authors' personal opinions.

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Uprawy, Nawożenia i Gleboznawstwa – PIB, BSM Głowacki, Skopiński, Starzyński, Załuski Sp.J., Warszawa, 28 May 2009. Cf. particularly pp. 57–93 and 265–299.

<sup>13</sup> With the exception of the collective work: M. Wigier (ed.), *Identyfikacja i ocena barier administracyjnych realizacji programów rozwoju obszarów wiejskich, seria Program Wieloletni 2005–2009*, No 66, IERiGŻ-PIB, Warszawa 2007.

# **1. Remarks on the preparation and implementation of agricultural and rural development programmes.**

## **Legal and organisational problems**

Since the early 1990s, Poland has been receiving financial assistance from the EU, including for agricultural and rural development. The pre-accession programme PHARE (*Poland and Hungary: Action for the Restructuring of the Economy*)<sup>14</sup>, functioning in 1990–2003, had significant appropriations, but relatively limited in comparison with the subsequent programmes (between 1990 and 2003, Poland received ca. EUR 3.9 billion, i.e. approx. EUR 280 million annually). Projects financed under this programme were rather small and aimed at promoting integration into the European Union. PHARE was a rolling programme; each year funds were mobilised to be used, according to the n+2 rule, in that year and in the two following years for the financing of projects approved by the Commission. A certain part of PHARE funds was allocated for agricultural and rural development, but in some years agriculture was excluded.

At the summit in Luxembourg (12–13 December 1997), the European Council decided to increase financial assistance granted to candidate countries and to launch two programmes in the following budget period (2000–2006). One of those was the SAPARD, which can be regarded as the first programme co-financed by the EU to support Polish agriculture and rural development. The SAPARD was supposed to apply from 1 January 2000 to 31 December 2006. However, the first legal acts to launch the SAPARD were not adopted until June 1999<sup>15</sup> (18 months after the European Council summit), whereas the implementing Commission Regulation, laying down detailed rules indispensable for preparing SAPARD plans by the beneficiary countries, was only adopted in December 1999<sup>16</sup>. Under such circumstances, it was impossible not only to launch the SAPARD on 1 January 2000, but even to have prepared its final version by that date. The SAPARD programme was launched in the candidate

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<sup>14</sup> The legal basis for the PHARE programme: Council Regulation 3906/89/EEC.

<sup>15</sup> The legal basis for the SAPARD: Council Regulation (EC) No 1268/1999 of 21 June 1999 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of Central and Eastern Europe in the pre-accession period, OJ L 161, 26.6.1999, and Council Regulation No 1266/1999 of 21 June 1999 on coordinating aid to the applicant countries in the framework of the pre-accession strategy and amending Regulation (EEC) 3906/89, OJ L 161, 26.6.1999. The SAPARD benefited eight Central and Eastern European countries which acceded to the EU on 1 May 2004 as well as Bulgaria and Romania (which joined the EU on 1 January 2007).

<sup>16</sup> Commission Regulation (EC) No 2759 of 22 December 1999 laying down the rules for the application of Council Regulation (EC) No 1268/1999 on Community support for pre-accession measures for agriculture and rural development in applicant countries of central and eastern Europe in the pre-accession period, OJ L 331, 23.12.1999.

countries between 2001 and 2002. Thus, the delay was, depending on the country, 18 months to nearly three years. The decision on the completion of the launching procedures by Poland was published on 2 July 2002, whereas the implementation of the programme (the receipt of applications for the co-financing of projects) started on 17 July 2002. But the appropriations allocated to Poland for the years 2000–2001 had not been lost. Upon the launch of the programme, Poland had at its disposal the appropriations for 2002, assigned under the multi-annual financial plan, as well as those to have been mobilised in 2000 and 2001. However, on account of EU membership acquired on 1 May 2004, Poland did not receive the appropriations for 2004–2006.

The final amount of national and EU public funds to be utilised by Poland for the implementation of the SAPARD was, at constant prices, approx. EUR 911 million, i.e. nearly an annual average of EUR 228 million. The projects co-financed from the appropriations received between 2000 and 2003 were implemented and cleared according to the contracts signed, with the n+2 rule replaced with the n+3 rule, more favourable for beneficiaries. Thus, the clearance of accounts of the projects co-financed from the SAPARD appropriations was finished on 31 December 2006.

Soon after Poland's joining the EU, the Commission approved two programmes co-financing Polish agriculture and rural development from the EU budget. One of them was the Rural Development Plan (*Plan Rozwoju Obszarów Wiejskich* 2004–2006, referred to as PROW-2006 in the text; approved on 6 September 2004<sup>17</sup>; the EU and national public funds totalled EUR 3,592 million), and the other was the Sectoral Operational Programme for the “Restructuring and modernisation of the food sector and rural development” (*Sektorowy Program Operacyjny “Restrukturyzacja i modernizacja sektora żywnościowego i rozwój obszarów wiejskich”* referred to as SPOR-2006 in the text, adopted on 7 July 2004<sup>18</sup>; the total EU and national public funds amounted to EUR 1,193 million). Both programmes were developed according to the EU provisions published in 1999<sup>19</sup> (as amended<sup>20</sup>), applicable to the EU-15 countries in the

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<sup>17</sup> Commission Decision of 6 September 2004 approving the programming document for rural development in Poland for 2004–2006. Notified under document number C(2004) 3373.

<sup>18</sup> Commission Decision of 7 July 2004 approving the operational programme “Restructuring and modernisation of the food sector and rural development” concerned by the Community framework for structural interventions in areas of Objective 1 in Poland (CCI No 2004 PL 061 PO 001). Notified under document number C(2004) 2746.

<sup>19</sup> The legal basis: Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations. Special edition in Polish. Chapter 3, Volume 25, pp. 391–413; Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds. Special edition in Polish, Chapter 14, Volume 01, pp. 31–72; Commission Regulation No 1750/1999 of 23 July 1999 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF), OJ L 214, 13.8.1999.

programming period 2000–2006, and the provisions for the new EU Member States to introduce additional measures<sup>21</sup>. Since both programmes were implemented according to the “n+2” rule, the clearance of accounts procedures were completed by 31 December 2008.

Therefore, it appears that almost immediately after Poland’s accession to the European Union Polish agriculture and rural areas were included in the EU support system on the same terms as those applicable to agriculture and rural areas of the EU-15. The possibility of such a rapid completion of procedures resulted, *inter alia*, from the fact that all the necessary EU legislation was in force from the early 2000s. Although, as has already been mentioned, the EU provisions were supplemented with implementing rules prior to EU accession, the Commission closely cooperated with the countries acceding on 1 May 2004 and both programmes were practically prepared in the pre-accession period.

Thus, the preparation and approval of the programmes implemented in 2004–2006 and co-financed from the previous multi-annual budget of the EU was much faster and more efficient than in the case of the SAPARD. However, it was a rather exceptional situation as months of delay in preparing EU regulations retarded the preparation and launch of the current PROW-2013.

The EU legislation regulating the programming and implementation of PROW-2013 is very different from the provisions applicable in 2000–2006. To begin with, the European Agricultural Guidance and Guarantee Fund (EAGGF)<sup>22</sup>, established in 1962, was replaced with two new funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). This change eliminated an odd situation

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<sup>20</sup> Amendment to Council Regulation: Council Regulation (EC) No 1783/2003 of 29 September 2003 amending Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF), OJ L 270, 21.10.2003. The Commission Regulation had been amended so often that a new was adopted: Commission Regulation (EC) No 445/2002 of 26 February 2002 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF), OJ L 74, 15.3.2002. This regulation was amended as well.

<sup>21</sup> In the programming period 2004–2006, the new EU Member States were entitled to provide additional support under the following measures: “Support for semi-subsistence farms undergoing restructuring”, “Support for compliance with Community standards”, “Producer groups”, “Technical assistance”, “Leader+ type measures”, “Farm advisory and extension services” and “Complements to direct payments” in accordance with Chapter IXa inserted into Council Regulation No 1257/1999. Legal basis: Act concerning the conditions of accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic and the adjustments to the Treaties on which the European Union is founded, OJ L 236, 23.9.2003, pp. 365–367.

<sup>22</sup> Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy, OJ L 209, 11.8.2005.



indeed, with two agricultural and rural development programmes in fact constituting one programme artificially divided into two separate parts. The subsequent Council Regulation<sup>23</sup> specified the scope of programmes co-financed by the EAFRD in 2007–2013 as well as the most important rules of programming and implementation.

As early as 2005, by adopting regulations concerning the programming and implementation of PROW-2013, the Council made it possible for the Commission to issue implementing regulations in time for Member States to complete the preparation of national agricultural and rural development programmes in the second half of 2006. Thus, the Commission could have approved them around 1 January 2007, which would have enabled Member States to launch their programmes in the first half of the year. However, an important Council decision laying down the overall amount of support from the EAFRD in 2007–2013, its annual breakdown and the minimum amount to be allocated to Convergence regions was taken as late as 19 June 2006<sup>24</sup>, i.e. six months after the adoption of the multi-annual budget. On the basis of that Decision, on 12 September 2006 the Commission fixed the annual breakdown by Member State and Convergence region of the overall amount of aid<sup>25</sup>.

The lack of information on the funds available to individual Member States between 2007 and 2013 was not the only cause of delay in the preparation of national programmes. Detailed binding rules for the structure and content of the programmes were adopted by the Commission as late as mid-December 2006<sup>26</sup>. In such circumstances, with the application of the principle that Member States begin to prepare programmes when the EU legislation is complete (as it should have been), the Commission would have received the first proposed programmes to be approved in the second half of 2007 at the earliest. Member States would then have not launched national programmes until 2008, i.e. with nearly 18 months of delay. In order to avoid such a situation, the Commission cooperated with Member States, giving them information indispensable for the preparation of programmes. Therefore, the works on Polish PROW-2013 were

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<sup>23</sup> Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), OJ L 277, 21.10.2005, pp. 1–40.

<sup>24</sup> Council Decision No 2006/493/EC of 19 June 2006 laying down the amount of Community support for rural development for the period from 1 January 2007 to 31 December 2013, its annual breakdown and the minimum amount to be concentrated in regions eligible under the Convergence Objective, OJ L 195, 15.7.2006.

<sup>25</sup> Commission Decision No 2006/636/EC of 12 September 2006 fixing the annual breakdown by Member State of the amount for Community support to rural development for the period from 1 January 2007 to 31 December 2013 (notified under document number C(2006) 4024), OJ L 261, 22.9.2006.

<sup>26</sup> Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), OJ L 368, 23.12.2006.

completed as early as December 2006, and the revised programme was sent to the Commission in July 2007. The Commission approved the Polish programme on 7 September 2007<sup>27</sup>.

The efficient cooperation between the Commission and Member States, which prevented a much-delayed launch of PROW-2013 in all Member States, does not change the fact that the long-drawn-out legislative process on the part of the Community authorities precluded a timely start of the implementation of multi-annual agricultural and rural development programmes for 2007–2013 in EU Member States.

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The launch date of PROW-2013 depended not only on the entry into force of relevant EU legislation and on the cooperation between the Commission and Member States. Although the Council and Commission Regulations are directly applicable in the whole Community, i.e. their transposition into national law is unnecessary, Poland adopted a solution which consisted in transposing EU legal acts into Polish law by national provisions. The government draft act on support for rural development with the contribution from the European Agricultural Fund for Rural Development was presented to the Parliament on 13 December 2006, and the act<sup>28</sup> was enacted on 7 March 2007. It appears, therefore, that the act transposing Council Regulation No 1698/2005 into the national law was enacted when PROW-2013 would have already been implemented if there had been no delay. It could have been passed much earlier as Council Regulation No 1698/2005 had been adopted in June 2005. On account of the date of entry into force, the act had no influence on the preparation of the programme. But the absence of such an act did not hamper the works on the draft programme since the authors relied on the Council Regulation, knowing that the future act must conform with it. What mattered in practice was the part of the act which specified the obligations and powers of the Polish authorities and bodies as well as regulating specific issues in the implementation of PROW-2013. Those included the procedure of distributing funds allocated for the financing of most measures between voivodships and the breakdown rules, eligibility provisions, the obligation to conclude written contracts with beneficiaries in order for such contracts to be valid, as well as general provisions on controls.

The EU regulations governing the implementation of PROW-2013 leave a wide discretion to Member States in specific issues. For this reason, it is necessary to adopt national legislation which in Poland tends to take the form of ordinances of relevant ministers. Those are, as a rule, ordinances of the Minister

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<sup>27</sup> Commission Decision CCI 2007 PL06 RPO 001.

<sup>28</sup> *Ustawa z dnia 7 marca 2007 r. o wspieraniu rozwoju obszarów wiejskich z udziałem środków Europejskiego Funduszu Rolnego na rzecz Rozwoju Obszarów Wiejskich*, Journal of Laws (Dz. U.) 2007, No 64, Item 427.

of Agriculture and Rural Development, with statutory powers to regulate various specific issues. Undoubtedly, the most important ones include detailed rules on financial aid and the granting thereof. A total of 23 relevant ordinances were issued (the conditions and procedures for granting support under the measure “Infrastructure related to the development and adaptation of agriculture and forestry” are regulated by two ordinances), of which 7 were adopted in 2007, 11 in the first half of 2008, 2 in the second half of 2008 and 3 in 2009. Since the last ordinance was issued on 7 July 2009, the national legislation regulating the rules for the implementation of PROW-2013 can only be considered to be complete as of that date. But a complete set of national legal acts regulating the functioning of a specific measure is sufficient for its implementation to start, complete PROW-2013 legislation is not necessary. Therefore, particular measures of the programme could be launched successively if the Agency had been accredited.

Issuing as many as 23 ordinances reflects enormous legislative efforts by the lawyers employed at the Ministry of Agriculture and Rural Development (*Ministerstwo Rozwoju Rolnictwa i Obszarów Wiejskich* – MRiRW), regardless of the fact that some of them were only amended ordinances applicable in 2004–2006. But two and a half years for the adoption of a complete set of ordinances was definitely too long a period from the point of view of the implementation of PROW-2013. Undoubtedly, the legislative work could have been finished earlier, considering that the preparation of the majority of ordinances could have started in early 2007 or, most probably, even sooner. Furthermore, the question arises as to the quality of the ordinances issued since a number of them had been already amended, in some cases several times. Although amendments usually concerned secondary details, each amendment, however small or justified, causes a certain legal destabilisation, whereas stability constitutes one of the foundations of a good legal system and of a good management system.

Complete national legislation laying down eligibility rules, the procedures for the preparation, receipt, examination and approval of applications and for project implementation to the payment by ARiMR of the support granted, is necessary but insufficient for a measure to be launched. National institutions serving as paying agencies must prove that they are prepared to fulfil their tasks. The formal acknowledgement of full organisational preparation is accreditation<sup>29</sup> (at present, Polish institutions are accredited by the Minister of Finance),

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<sup>29</sup> The main EU legal acts regulating accreditation are as follows: Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy, OJ L 209, 11.8.2005; Commission Regulation (EC) No 885/2006 of 21 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the accreditation of paying agencies and other bodies and the clearance of the accounts of the EAGF and of the EAFRD, OJ L 171, 23.6.2006; Commission Regulation (EC) No 1975/2006 of 7 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures, OJ L 368, 23.12.2006.

received after an audit performed for each measure by an independent auditor has been successfully completed. Audits could not start until after the completion by the agencies of organisational preparations, i.e. at least for several months following the approval of the programme. Therefore, if a Member State fully launched its agricultural and rural development programme for 2007–2013 by the end of the first quarter of 2008, the “blame” for the delay is exclusively or almost exclusively on the EU authorities. However, if PROW-2013 was fully launched on a later date, part of the “blame” should be put on the Member State which proved unable to timely prepare national institutions to fulfil the tasks of paying agencies<sup>30</sup>.

The Polish programme PROW-2013 was not fully launched until 16 October 2009<sup>31</sup>, primarily due to the lack of accreditation, necessary for ARiMR to handle the majority of measures. The Ministry of Finance could not grant accreditation as ARiMR did not have the IT system required for the implementation of PROW-2013. Such a situation undoubtedly surprised the general public, primarily potential beneficiaries of PROW-2013 as in the two previous programming periods the Agency had been rather well prepared to fulfil its functions. Although the preparations for handling the SAPARD had been unquestionably easier than in the case of PROW-2013, even if for the much smaller scale of the programme, reflected in a several times lower number of measures and much more limited funds (cf. Table 1). However, the preparatory efforts by ARiMR in the period immediately preceding EU accession had been at least as difficult as the preparations for the implementation of PROW-2013 since PROW-2006 and SPOR-2006 combined had formed a programme nearly as complicated. Moreover, at that time ARiMR was also preparing to handle the direct payment system. It was no easy task, and even a few months before Poland’s joining the EU the preparations by the

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<sup>30</sup> In Poland, ARiMR fulfils the functions of the paying agency for all measures and of the implementing agency for 14 measures. The tasks of the implementing agency are also performed by the following: the Foundation of Assistance Programmes for Agriculture – *Fundacja Programów Pomocy dla Rolnictwa* (measure “Vocational training and information actions”), regional governments in voivodships (measures “Infrastructure related to the development and adaptation of agriculture and forestry”, “Basic services for the economy and rural population”, “Conservation and the upgrading of rural heritage” and “Measures financed by the Leader Axis”) and the Agricultural Market Agency (“Information and promotion activities”).

<sup>31</sup> *Rozporządzenie Ministra Finansów z dnia 14 października 2009 r. zmieniające rozporządzenie w sprawie przyznania Agencji Restrukturyzacji i Modernizacji Rolnictwa akredytacji jako agencji płatniczej w zakresie uruchamiania środków pochodzących z Europejskiego Funduszu Rolniczego Gwarancji oraz Europejskiego Funduszu Rolniczego Rozwoju Obszarów Wiejskich* (Ordinance of the Minister of Finance of 14 October 2009 amending the ordinance concerning the granting of accreditation to the Agency for Restructuring and Modernisation of Agriculture as the paying agency in respect of funds from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development), Journal of Laws (Dz. U.) 2009, No 173, Item 1349.

Agency had been assessed as so delayed that PROW-2006 and SPOR-2006 would not be launched in due time, and that Polish farmers would receive the first direct payments with delay. Nevertheless, by the date of EU accession ARiMR had basically finished all preparatory work. Therefore, it was believed, and this belief proved to be false, that ARiMR was a sufficiently mature institution in terms of organisation to have no difficulties with timely preparations for the implementation of PROW-2013.

## **2. Substantive assessment of PROW-2013 as compared to the previous programmes**

By adopting Regulation No 1698/2005, the Council imposed on Member States, as in the previous programming periods, a uniform structure of agricultural and rural development programmes to be implemented between 2007 and 2013. At the same time, it introduced a new rule of obligatory distribution of a certain part of resources between particular groups of measures referred to as axes<sup>32</sup>. The minimum Community financial contributions were specified as follows: axis 1 titled “Improving the competitiveness of the agricultural and forestry sector” – 10% of the available EU funds, axis 2 “Improving the environment and the countryside” – 25%, axis 3 “The quality of life in rural areas and diversification of the rural economy” – 10%. Axis 4, Leader, represented an additional set of measures such as “Implementing local development strategies” and “Running the local action group” (with at least 5% of the total EAFRD contribution). As demonstrated in one of the previous studies<sup>33</sup>, such requirements were not necessarily pivotal for the structure of a Member State’s programme, as reflected in Polish PROW-2013 approved by the Commission. Axis 1 accounted for nearly 45% of the total funds available under the Programme, axis 2 – almost 37%, axis 3 – slightly over 16%. The programme conforms to the Council’s guidelines as it satisfies the requirement of “not less than”. At the same time, the funds available to Poland were distributed between the axes in very different proportions. As a result, PROW-2013 primarily reflects Poland’s preferences.

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<sup>32</sup> Curiously enough, specialist terminology is often translated literally into Polish, which regrettably reflects disregard for the tradition and spirit of the Polish language, including the economic terminology. The terms *działanie* (“measure”) and *oś* (“axis”) are vivid examples of such practices. It results from the incompetence of Polish translators and indifference on the part of Polish economists who accept absurd terms without protest.

<sup>33</sup> J. Rowiński, *Program Rozwoju Obszarów Wiejskich na lata 2007-2013 [Analiza zatwierdzonej wersji programu i pierwszych lat realizacji]*, seria *Program Wieloletni 2005–2009*, No 118, IERiGŻ-PIB, Warszawa 2008.

The titles of the axes suggest that axis 1 only comprises measures resulting in reduced costs of agricultural and forestry production, with a relatively greater reduction than that achieved by competitors (which is the essence of competitiveness). At the same time, all measures under axis 2 should contribute to improving the environment and the countryside. It appears, however, that the two titles fail to fully reflect the economic and social nature of measures classified under these axes. An important outcome of the implementation of some of those measures is the improvement in the income situation of the farming population as well as of rural dwellers not engaged in agriculture. Obviously, programmes promoting rural development also tend to bring about, indirectly or even directly, an increase in incomes obtained by certain social groups in the countryside. Simultaneously, programmes enhancing the competitiveness of agriculture and forestry basically improve the economic situation of beneficiaries, thus working indirectly as income aid. In general, it can be stated that very few programmes serve a single purpose; as a rule, the primary objective is accompanied by secondary, usually foreseeable goals. It is doubtful, however, whether the Council's classification of measures under specific axes was based on correct determination of the main objectives. As a matter of fact, that grouping arouses suspicion that it was an attempt to conceal an increase in income as the primary objective of certain measures. Such measures should be included in neither axis 1 nor 2 as it obscures the true character of the measures in question, thus of the programme. The right solution would be to create another axis titled "Income aid and social measures".

The objective to be attained by measures under axis 3, "The quality of life in rural areas and diversification of the rural economy", was accurately determined. There is, however, a different issue. Support under axis 3 is only granted for the co-financing of investments (1) in the water supply and sewage systems, (2) solving the problem of the disposal of household waste, and (3) increasing internet penetration in rural areas. At the same time, funds for the construction, modernisation and repair of local roads and large wastewater treatment plants, i.e. the bulk of basic technical infrastructure in the countryside, are distributed within the framework of sixteen Regional Operational Programmes, covering one voivodship each. Furthermore, some of the largest investments in technical infrastructure, e.g. motorways and flood defence, with an indisputable and significant indirect impact on rural development, are co-financed under the Sectoral Operational Programme "Infrastructure and Environment" (*Infrastruktura i Środowisko*).

The quality of life in rural areas depends not only on technical infrastructure, but also on social infrastructure which is not co-financed under PROW-2013. Social infrastructure mostly comprises healthcare establishments, schools at all educational levels, nursery schools and crèches. The availability of social infrastructure is determined not only by the number of establishments, but also by the accessibility and quality of public transport and by the quality of healthcare and educational services.

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An important component of the assessment of PROW-2013 is a detailed analysis of its structure as compared to the previous programmes. The basic data for such an examination are shown in Table 1, containing the amount of public (both EU and national) resources – utilised (SAPARD) or planned (PROW-2006, SPOR-2006, PROW-2013) – by measure. It is complemented by Table 2, presenting the breakdown of public funds. In line with the above-mentioned opinion that PROW-2006 and SPOR-2006 in fact formed one programme financed from two different sources, the appropriations of the two programmes were summed up. The breakdown of measures into groups represents the Author’s own classification which has already been presented in previous studies<sup>34</sup> and at scientific conferences<sup>35</sup>. The titles of the measures are consistent (if possible) with the terminology of PROW-2013, and measures implemented within the framework of the SAPARD, PROW-2006 and SPOR-2006 were “matched” accordingly, with any ambiguities clarified under the Tables and in footnotes.

This classification differs from the division into three axes adopted by the Council, but it is based on the same principle: the determination of the primary objective of a given measure. It was introduced for in certain cases the official EU categorisation was found to obscure the actual character of measures, thus precluding a proper analysis of the programmes. The classification adopted is subjective, particularly that it is sometimes difficult to identify the main objective and the secondary goal of a measure.

It follows from Tables 1 and 2 that the pre-accession programme SAPARD<sup>36</sup> significantly differed from the programmes implemented in the two following periods. To begin with, its objectives were reduced to an efficient

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<sup>34</sup> For instance, see J. Rowiński, *Program rozwoju Obszarów Wiejskich na lata 2007-2013 [Analiza zatwierdzonej wersji programu i pierwszych lat realizacji], seria Program Wieloletni 2005–2009*, No 118, IERiGŻ-PIB, Warszawa 2008, p. 41; J. Rowiński, *Program Rozwoju Obszarów Wiejskich na lata 2007-2013 na tle wcześniejszych programów wiejskich, współfinansowanych ze środków unijnych (analiza struktury programu)*, „Wieś i Rolnictwo” 2008, No 3(140), pp. 67–84.

<sup>35</sup> Cf. Conference “Influence of EU Support on Structural Changes in Agricultural and Food Sector” (Vilnius, 27–28 March 2007), Paper “Rural Development Programme 2007–2013 – a few remarks”., Organised by: Lithuanian Institute of Agrarian Economics; Conference *Ekonomiczne i społeczne przesłanki dalszego rozwoju rolnictwa, gospodarki żywnościowej i obszarów wiejskich Polski w Unii Europejskiej* (“Economic and Social Conditions for Further Development of Polish Agriculture, Food Sector and Rural Areas in the European Union”) (Warsaw, 24 October 2007), Paper *Program rozwoju obszarów wiejskich w latach 2007–2013* (“Rural Development Programme 2007–2013”), Organised by: Wyższa Szkoła Ekonomiczna Almamater and IERiGŻ-PIB.

<sup>36</sup> The assessment of the SAPARD presented in this and the next paragraphs is based on the analysis contained in: J. Rowiński, *SAPARD – programowanie i realizacja, seria Program Wieloletni 2005–2009*, No 14, IERiGŻ-PIB, Warszawa 2005, p. 91.

implementation of EU legislation (*acquis communautaire*) in the area of the CAP and related policies as well as to resolving the most pressing problems of agriculture and rural areas by the candidate countries. It was obvious that Objective 1, mainly consisting in the adjustment of Polish agri-food enterprises to EU veterinary, sanitary, environmental and animal welfare standards, had to be realised before 1 May 2004 if Poland wished to fully exploit the opportunities offered by EU membership. Furthermore, it was not unknown that the full attainment of Objective 2 was impossible; Poland will continue to face the most acute problems of agriculture for many years, it is even doubtful whether such issues could ever be resolved. The different character also resulted from a much smaller scale in comparison with the following programmes; the SAPARD appropriations (in EUR) were over 7.5 times lower than the funds allocated to PROW-2006 and SPOR-2006 and more than 10 times lower than those assigned to PROW-2013 (Table 1). Nevertheless, it was a significant amount: the beneficiaries received over PLN 4.5 billion. The SAPARD had three important characteristics worth highlighting in the context of this evaluation. (1). The concentration of funds on several selected measures. Poland chose 7 out of the 15 eligible measures, including technical assistance, i.e. the financing of studies and expert opinions necessary in the preparation and implementation of the programme. However, six measures were implemented, with more significant funds only allocated to three of them (“Modernisation of agricultural holdings”, “Adding value to agricultural and forestry products” and “Basic services for the economy and rural population”; cf. Table 1)<sup>37</sup>. (2). The measures referred to in (1) as well as “Diversification of economic activities in rural areas” supported the development of the food sector, small non-agricultural activities and the countryside. (3). All measures were investment-oriented. The support for investments adjusting the four agri-food sub-sectors (the meat, fish, dairy as well as fruit and vegetable industries) to EU standards was particularly important. Thus, the SAPARD had a vital long-term contribution to the preparation of the Polish food sector to EU membership.

In the period of implementation of the SAPARD there were major shifts between measures. In comparison with the initial plan, much more substantial funds were allocated to rural infrastructure (water supply and sewage systems, local roads), whereas there was a cut in the appropriations for the adjustment of agri-food enterprises to operating in compliance with the European Union requirements and for investments in agricultural holdings. The final version of the Programme was dominated by local governments implementing infrastructure investments, accounting for nearly 50% of the total funds. However, such reallocations cannot be regarded as discrimination against agriculture as they

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<sup>37</sup> The corresponding SAPARD measures were “Investments in agricultural holdings”, “Processing and marketing of agricultural and fishery products” and “Development and improvement of rural infrastructure”.



stemmed from limited interest in SAPARD measures on the part of farmers who did not apply for support almost until the deadline for the receipt of applications. Besides, the reduction in the funds for investments in agricultural holdings did not result in the rejection of any single application submitted by a farmer, provided that it met the criteria of the programme. All applications submitted in the last days before the deadline which satisfied the criteria but could not be funded within the framework of the SAPARD due to the exhaustion of appropriations were approved and included in PROW-2006 as a separate measure. Neither did the reallocations adversely affect the public support programme for the four sub-sectors of the food industry undergoing adjustment to EU standards (the meat, dairy, fish, fruit and vegetable industries). On the contrary, the outcome was much better than expected<sup>38</sup> as from Poland's joining the EU the Polish agri-food industry experienced virtually no difficulties with access to the markets of other Member States stemming from the failure to comply with veterinary and sanitary regulations of the European Union. Some production plants which had not adjusted to the *acquis communautaire* in the pre-accession period completed adaptations in the first years of membership. A part of them benefited from the co-financing of adaptation investments under SPOR-2006.

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The programmes PROW-2006 and SPOR-2006, implemented between 2004 and 2006, i.e. on account of the “n+2” rule in the eligibility period until the end of 2008, had much more significant appropriations than the SAPARD. The total amount of public funds to support various projects under the 24 measures of the programmes was nearly EUR 5.4 billion. The beneficiaries received approx. PLN 20.5 billion, of which PROW-2006 represented almost PLN 14.2 billion and SPOR-2006 accounted for PLN 6.3 billion. According to the official EU classification, those funds were aimed to co-finance projects: (1) improving the competitiveness of the food sector, or (2) promoting the sustainable development of agriculture and rural areas. The figures in Tables 1 and 2 where the Author's own classification was applied show that the objectives of the programmes were much more complicated. Thus, it appears that only approx. 50% of the appropriations (Groups A and B) were targeted at the development of the food sector and other sections of the economy. Together with environmental measures which also promote sustainable development, this proportion increases to nearly 60%. Therefore, it appears more than 40% of the funds were allocated to measures whose primary goal was income support or social assistance.

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<sup>38</sup> A total of 1,030 projects aimed to adjust Polish enterprises to EU veterinary and sanitary regulations were financed under the SAPARD (256 in the dairy industry, 561 in the meat industry, 81 in the fish industry and 132 in the fruit and vegetable industry). Source: *Informacja o realizacji i rezultatach programu SAPARD* of 15 June 2007, at the website of the Ministry of Agriculture and Rural Development.

Table 1. SAPARD, PROW-2006, SPOR-2006 and PROW-2013 programmes:  
public funds (EU and national appropriations), EUR million

Measure	SAPARD		PROW-2006 and SPOR-2006		PROW-2013	
	Appropriations used		Appropriations available <sup>1</sup>		Appropriations available <sup>1</sup>	
	Total	Annual average	Total	Annual average	Total	Annual average
<b>A. Measures supporting the development of the food sector</b>						
Modernisation of agricultural holdings	128.0	32.0	603.9 (626.1)	201.3 (208.7)	1,779.9 (1,849.1)	254.3 (264.2)
Adjustment of agricultural holdings to EU standards	-	-	243.4 (632.3)	81.1 (210.8)	-	-
Projects transferred from SAPARD	-	-	140.0 (119.3)	46.7 (39.8)	-	-
Adding value to agricultural and forestry products	280.5	70.1	464.2 (465.6)	154.7 (155.2)	1,100.0 (932.0)	157.1 (133.1)
Infrastructure related to the development and adaptation of agriculture and forestry	-	-	194.0 (193.5)	64.7 (64.5)	600.0 (637.5)	85.7 (91.1)
Semi-subsistence farms	-	-	376.4 (340.7)	125.5 (113.6)	440.0 (590.0)	62.9 (84.3)
Setting-up of young farmers	-	-	173.3 (177.2)	57.8 (59.1)	420.0 (420.0)	60.0 (60.0)
Use by farmers and forest holders of advisory services	-	-	53.8 (42.1)	17.9 (14.0)	350.0 (218.0)	50.0 (31.1)
Producer groups	-	-	25.4 (6.4)	8.5 (2.1)	140.0 (140.0)	20.0 (20.0)
Participation of farmers in food quality schemes	-	-	-	-	100.0 (80.0)	14.3 (11.4)
Vocational training for persons engaged in agriculture and forestry	5.5	1.4	20.0 (19.4)	6.7 (6.5)	40.0 (40.0)	5.7 (5.7)
Information and promotion activities	-	-	-	-	30.0 (30.0)	4.3 (4.3)
Group A, total	414.0	103.5	2,294.4 (2,622.6)	764.9 (874.3)	4,999.9 (4,936.6)	714.3 (705.2)
Of which: agriculture	133.5	33.4	1,830.2 (2,157.0)	610.1 (719.1)	3,899.9 (4,004.6)	557.2 (572.1)
food industry and trade	280.5	70.1	464.2 (465.6)	154.8 (155.2)	1,100.0 (932.0)	157.1 (133.1)
<b>Group B. Measures supporting other sectors of the economy</b>						
Basic services for the economy and rural population	459.9 <sup>3</sup>	115.0 <sup>3</sup>	-	-	1,471.4 (1,541.4)	210.2 (220.2)
Creation and development of micro-enterprises	-	-	-	-	1,023.6 (1,023.6)	146.2 (146.2)
Diversification into non-agricultural activities	70.9	17.7	107.1 (75.6)	35.7 (25.2)	345.6 (345.6)	49.4 (49.4)
Group B, total	530.8	132.7	107.1 (75.6)	35.7 (25.2)	2,840.6 (2,910.6)	405.8 (415.8)

Table 1. continued

<b>Group C. Measures supporting the environmental protection</b>						
Agri-environmental scheme (agri-environmental payments)	-	-	348.9 (208.4)	116.3 (69.5)	2,303.8 (2,314.9)	329.1 (330.7)
Afforestation of agricultural land and afforestation of non-agricultural land	-	-	101.8 (100.0)	33.9 (33.3)	653.5 (513.5)	93.4 (73.4)
Restoring agricultural production potential damaged by natural disasters and introduction of appropriate prevention measures	-	-	12.5 (13.9)	4.2 (4.6)	140.0 (100.0)	20.0 (14.3)
<b>Group C, total</b>	-	-	463.2 (322.3)	154.4 (107.4)	3,097.3 (2,928.4)	442.5 (418.4)
<b>Group D. Income aid and social measures</b>						
Support for farming in mountain areas and in other areas with handicaps (less-favoured areas – LFA)	-	-	976.8 (945.3)	325.4 (315.1)	2,448.7 (2,448.7)	349.9 (349.9)
Structural pensions (early retirement)	-	-	640.5 (534.8)	213.6 (178.3)	2,187.6 (2,549.5)	312.5 (364.2)
Complements to direct payments	-	-	705.3 (677.6)	235.1 (225.8)	-	-
<b>Group D, total</b>	-	-	2,322.6 (2,157.7)	774.1 (719.2)	4,636.3 (4,998.2)	662.4 (714.1)
<b>Group E. Other measures</b>						
Implementing local development strategies	-	-	18.8 (30.4) <sup>2</sup>	6.3 (10.1)	620.5 (620.5)	88.6 (88.6)
Conservation and the upgrading of rural heritage	-	-	112.5 (120.0)	37.5 (40.0)	589.6 (589.6)	84.2 (84.2)
Running the local action group, acquiring skills and animating the territory	-	-	-	-	152.0 (152.0)	21.7 (21.7)
Technical assistance	1.0	0.3	57.9 (51.6)	19.3 (17.2)	266.6 (266.6)	38.1 (38.1)
<b>Group E, total</b>	1.0	0.3	189.2 (202.0)	63.1 (67.3)	1,643.7 (1,643.7)	234.7 (234.7)
<b>Total</b>	945.8	236.5	5,376.5 (5,380.2)	1,792.2 (1,793.4)	17,217.8 (17,417.5)	2,459.7 (2,488.2)

Note: 1. In brackets: limits after reallocations; 2. Leader+, 3. Measure “Development and improvement of rural infrastructure”.

Source: PROW-2006 after reallocations: Orientacyjna zbiorcza tabela finansowa planu w euro zmieniona po realokacji środków No 4/2008(10), December 2008, and System Informacji Zarządczej ARiMR Informacja o realizacji Planu Rozwoju Obszarów Wiejskich na lata 2004–2006, Stan na dzień 31.01.2009 r.; SPOR-2006 after reallocations: Uchwała Nr 40 Komitetu Monitorującego Sektorowy Program Operacyjny „Restrukturyzacja i modernizacja sektora żywnościowego oraz rozwój obszarów wiejskich” of 5 December 2008, Table 4; PROW-2013, Approved programme: Program Rozwoju Obszarów Wiejskich na lata 2007–2013 (PROW 2007–2013), Ministry of Agriculture and Rural Development, Warsaw, July 2007, after reallocations: Obwieszczenie Ministra Rolnictwa i Rozwoju Wsi z dnia 18 marca 2010 r., w sprawie zmiany Rozwoju Obszarów Wiejskich na lata 2007-2013. Official Gazette of the Republic of Poland (M. P.) 2010, No 19, Item 193.

Table 2. Financial structure of the SAPARD, PROW-2006, SPOR-2006 and PROW-2013 programmes

Measure	SAPARD	PROW-2006 and SPOR-2006	PROW-2013
<b>A. Measures supporting the development of the food sector</b>			
Modernisation of agricultural holdings	13.5	11.2 (11.6)	10.3 (10.6)
Adjustment of agricultural holdings to EU standards	-	4.5 (11.8)	-
Projects transferred from SAPARD	-	2.6 (2.2)	-
Adding value to agricultural and forestry products	29.7	8.6 (8.6)	6.4 (5.4)
Improving and developing infrastructure related to the development and adaptation of agriculture and forestry	-	3.6 (3.6)	3.5 (3.7)
Semi-subsistence farms	-	7.0 (6.3)	2.6 (3.4)
Setting-up of young farmers	-	3.2 (3.3)	2.4 (2.4)
Use by farmers and forest holders of advisory services	-	1.0 (0.8)	2.0 (1.3)
Producer groups	-	0.5 (0.1)	0.8 (0.8)
Participation of farmers in food quality schemes	-	-	0.6 (0.5)
Vocational training for persons engaged in agriculture and forestry	0.6	0.4 (0.4)	0.2 (0.2)
Information and promotion activities	-	-	0.2 (0.2)
Group A, total	43.8	42.6 (48.7)	29.1 (28.4)
Of which: agriculture	14.1	34.0 (40.1)	22.7 (23.0)
food industry and trade	29.7	8.6 (8.6)	6.4 (5.4)
<b>Group B. Measures supporting other sectors of the economy</b>			
Basic services for the economy and rural population	48.6	-	8.5 (8.4)
Creation and development of micro-enterprises	-	-	5.9 (5.9)
Diversification into non-agricultural activities	7.5	2.0 (1.4)	2.0 (2.0)
Group B, total	56.1	2.0 (1.4)	16.5 (16.7)
<b>Group C. Measures supporting the environmental protection</b>			
Agri-environmental scheme (agri-environmental payments)	-	6.5 (3.9)	13.4 (13.3)
Afforestation of agricultural land and afforestation of non-agricultural land	-	1.9 (1.9)	3.8 (2.9)
Restoring agricultural production potential damaged by natural disasters and introduction of appropriate prevention measures	-	0.2 (0.2)	0.8 (0.6)
Group C, total	-	8.6 (6.0)	18.0 (16.8)
<b>Group D. Income aid and social measures</b>			
Support for farming in mountain areas and in other areas with handicaps (less-favoured areas – LFA)	-	18.2 (17.6)	14.2 (14.1)
Structural pensions (early retirement)	-	11.9 (9.9)	12.7 (14.6)
Complements to direct payments	-	13.1 (12.6)	-
Group D, total	-	43.2 (40.1)	26.9 (28.7)
<b>Group E. Other measures</b>			
Implementing local development strategies	-	0.4 (0.6)	3.6 (3.6)
Village renewal and development	-	2.1 (2.2)	3.4 (3.4)
Conservation and the upgrading of rural heritage	-	-	0.9 (0.9)
Running the local action group, acquiring skills and animating the territory	-	-	0.1 (0.1)
Technical assistance	0.1	1.1 (1.0)	1.5 (1.5)
Group E, total	0.1	3.6 (3.8)	9.5 (9.4)
<b>Total</b>	<b>100.0</b>	<b>100.0 (100.0)</b>	<b>100.0 (100.0)</b>

Source: Own calculations based on the data in Table 1.

In previous studies the authors of PROW-2006 and SPOR-2006 were criticised for such a distribution on the grounds that in 2004–2006 insufficient appropriations had been allocated to agricultural and rural development. It appears, however, that the programme designers had an extremely narrow margin of manoeuvre. Both programmes were co-financed from the European Agricultural Guidance and Guarantee Fund, but the appropriations for PROW-2006 and SPOR-2006 came from the Guarantee Section and the Guidance Section respectively. The breakdown of EU funds between the two programmes was made by the Community authorities. That decision largely determined the nature of support for agriculture and rural areas as Poland could transfer EU funds between the programmes neither at the stage of programming nor during implementation. Although both programmes comprised measures promoting development, PROW-2006 was mostly aimed at complementing agricultural income and clearly social measures (therefore the name “Rural Development Plan” is rather misleading). The most important development-oriented projects (the modernisation of agricultural holdings and of the agri-food industry) were co-financed from SPOR-2006 appropriations. According to the decision taken by the EU authorities, the funds for PROW-2006 were more than double the appropriations of SPOR-2006, therefore a significant share of the former needed to be assigned for measures supporting agricultural income and social projects, even though it would have been more efficient to co-finance development-oriented investment projects. Otherwise, Poland would have failed to utilise all the available EU funds<sup>39</sup>.

The above remarks do not mean that the programmes could have excluded agricultural income support and social measures. At least one of those, “Complements to direct payments”, had to be included in PROW-2006 in line with rather well-defined needs. The problem of direct payments was one of the most difficult issues of the accession negotiations in the agricultural chapter. Pursuant to the Accession Treaty, direct payments to Polish farmers will not be fully covered from the EU budget until 2013. However, Poland obtained the right to partial complements to direct payments from the funds received for the development of agriculture and rural areas in the first three years of membership, and had to make use of this provision for both political and economic reasons. Between 2007 and 2012, direct payments in Poland are complemented by funds from the national budget, being paid in full to farmers from 2010.

It was also advisable to exploit the possibility of utilising subsidies in order to maintain agricultural activities in such less-favoured areas where the discontinuation of agricultural use of the land would lead to serious degradation of the environment. However, this measure should have been used in moderation,

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<sup>39</sup> The Author wishes to thank the reviewer M. Drygas, PhD, for drawing the former’s attention to this issue, seldom raised but important to the assessment of Polish programmes for agricultural and rural development.

with respect to mountain and certain other areas of particular natural value<sup>40</sup>. Covering such a high proportion of agricultural land (ca. 50% of the utilised agricultural area) by LFA payments, e.g. through designating all land characterised by poor soils as less favoured areas, can be explained primarily by the above-mentioned need to utilise the EU funds available to Poland in the previous budgetary period. As a consequence of that decision, it was necessary to maintain an equally high level of subsidies in 2007–2013, which had an unfavourable effect on the structure of PROW-2013, as discussed below.

The decision to include the measure “Structural pensions” (Early retirement) in the programme, taken in the period of programming of PROW-2006, was particularly controversial. According to the EU classification, this measure was considered to be one improving the competitiveness of agriculture<sup>41</sup>. Obviously, the transfer of land to another holding, thus increasing its utilised agricultural area, should bring about an improvement in the economic situation of the latter. The transfer of the farm to a successor could have the same impact. In both cases, it may or may not enhance the competitiveness of the enlarged holding. However, irrespective of the objective set in the EU documents, structural pensions are primarily of a social nature as to each transferring farmer they ensure a rather high, as for Poland, amount of money on a regular basis. Structural pensions, received by still relatively young persons (a structural pension could be applied for by those aged 55 or over and received until the reaching of the retirement age, i.e. 65 or 60 (women); the recipient is then included in the general agricultural pension system, with a pension paid from KRUS), were so high in 2004–2006 that they were beyond the structure of the Polish pension system for farmers. One of the consequences of high pensions was the number of applications, considerably higher than expected. As a result, the funds were exhausted and all eligible applicants could not be granted pensions (some farmers did not apply as the receipt of applications had been stopped). Such significant restrictions on access disqualify structural pensions as a social policy measure.

Structural pensions continue to provoke discussion. Some economists, including the author of this text, see them as economically inefficient as well as of doubtful value as a social measure. Others consider such pensions to be rather effective in transforming agrarian structures<sup>42</sup>. It is difficult to agree with such an optimistic assessment due to the very high costs involved. In 2004–2006 the appropriations allocated for structural pensions were much higher than the funds

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<sup>40</sup> For a more detailed discussion see: J. Rowiński, *Program Rozwoju Obszarów Wiejskich na lata 2007-2013 [Analiza zatwierdzonej wersji programu i pierwszych lat realizacji]*, seria *Program Wieloletni 2005–2009*, No 118, IERiGŻ-PIB, Warszawa 2008 (cf. particularly pp. 55–60).

<sup>41</sup> For more on this subject see: J. Rowiński, *Program...*, *ibid*, pp. 60–73.

<sup>42</sup> Cf. S.J. Paszkowski, *Renty strukturalne w rolnictwie. Instytucjonalne uwarunkowania transformacji gospodarstw rolnych w Polsce*, Institute of Rural and Agricultural Development of the Polish Academy of Science (Instytut Rozwoju Wsi i Rolnictwa Polskiej Akademii Nauk), Warszawa 2006.

targeted at supporting investments undertaken by agri-food businesses (the measure “Adding value to agricultural and forestry products”) and exceeded those assigned for the measure “Modernisation of agricultural holdings” (cf. Table 1)<sup>43</sup>. There are also economists and sociologists who hold a compromise view that also in Poland structural pensions could be a very good instrument facilitating the restructuring of agriculture, provided that access conditions undergo some fundamental changes<sup>44</sup>.

Most probably, the introduction of “Structural pensions” to PROW-2006 was not preceded with detailed analyses of possible long-term consequences of such a decision, or the findings of such examinations were neglected. According to ARiMR data, structural pensions are paid for an average of 7 years. Thus, the granting of structural pensions in 2004–2006 involved making commitments beyond 2006. Those commitments reduced the margin of manoeuvre in the planning of PROW-2013 as part of the programme funds had to be pre-assigned. The amount of EUR 1.4 billion reserved in PROW-2013 for the commitments in respect of pensions granted in between 2004 and 2006 proved to be insufficient. As early as 2008 the Monitoring Committee of PROW-2013 decided to increase by EUR 362 million the appropriations for the measure “Structural pensions”, at the same time acknowledging that it would not suffice as the supplementary financial needs were estimated at EUR 800 million<sup>45</sup>. Since the overall EU contribution to the Programme remained unchanged, this amount had to be reallocated from other measures, such as the co-financing of investments in the agri-food industry.

“Structural pensions” did not constitute the only measure implemented under PROW-2006 and SPOR-2006 to generate “fixed commitments”. A certain part of the appropriations of PROW-2013 needed to be reserved for the commitments taken on in the previous budget period in respect of the agri-environmental scheme (EUR 854 million), support for semi-subsistence farms (EUR 440 million), the afforestation scheme (EUR 183 million) and the promotion of producer groups (EUR 10 million). As a result, the team preparing PROW-2013 was free

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<sup>43</sup> However, farms were also assisted under the following measures: “Adjustment of agricultural holdings to EU standards”, “Projects transferred from SAPARD”, “Setting-up of young farmers” and “Semi-subsistence farms”. The total appropriations allocated to the development of agricultural holdings (mainly investment support) in PROW-2006 and SPOR-2006 amounted to ca. EUR 1.5 billion, and total expenditure reached nearly EUR 1.9 billion.

<sup>44</sup> For instance, such an opinion is formulated by A. Hałasiewicz in an unpublished review as he argues that a structural pension should be granted to a farmer who sold his land to a holding with an economic size of at least 8 ESU and not exceeding 32 ESU after the transaction.

<sup>45</sup> *Uchwała Nr 13 Komitetu Monitorującego Program Rozwoju Obszarów Wiejskich na lata 2007–2013 z dnia 25 września 2008 r. w sprawie zatwierdzenia zmian w Programie Rozwoju Obszarów Wiejskich na lata 2007–2013 (wraz z załącznikami)* (Resolution No 13 of the Monitoring Committee of the Rural Development Programme 2007–2013 of 25 October 2008 on the approval of amendments to the Rural Development Programme 2007–2013, with annexes). Most likely, the amount of EUR 800 million will not be necessary as it was calculated at the exchange rate EUR 1 = PLN 3.20.

to allocate EUR 14,331 million rather than EUR 17,218 million as EUR 2,887 million had to be reserved for fixed commitments. It proved insufficient, however, and the Monitoring Committee decided (and its decisions must be approved by the Commission before entering into force) that the total appropriations for fixed commitments should be increased to nearly EUR 3,400 million.

Therefore, it appears that, unlike the SAPARD, a programme to almost exclusively support the development of the food sector (mostly adaptation investments in certain agri-food industries and agricultural investments) and the countryside (investment in basic technical infrastructure), the objectives of PROW-2006 and SPOR-2006 were much broader. Their appropriations were also used for agricultural income support, to finance projects aimed at the environmental protection, measures of a social character as well as animating local communities. Thus, the preparation of the programmes for 2004–2006 was based on the opinion that the Polish food sector and rural areas have a variety of needs, and each of those needs should be met to a certain degree. However, as a consequence of such a structure of the programmes, the available funds were spread rather thinly over a number of measures. Therefore, the programmes were far from optimal as their focus was not on resolving the most pressing problems of the Polish food sector and rural areas.

Production structures constitute the main problem of Polish agriculture. The majority of Polish farms do not ensure a fair income to their holders, being so economically weak that they will never be able to do so. Polish agriculture should consist of ca. 200,000 commercial holdings with an economic size of at least 12 ESU and providing the only or main source of income. Another group of holdings in Polish agriculture will be small farms whose holders are engaged in both farm work and non-agricultural activities, a number difficult to be established. For holders of such units, off-farm employment will present the main livelihood, whereas farm work will be a secondary source of income. For decades, agricultural and non-agricultural activities have been frequently combined, particularly in regions where small farms are widespread. Many agricultural holdings held by persons engaged in multiple activities are and will continue to be primarily a place of residence rather than an income source.

Obviously, it will take at least a decade before such a structure of commercial agriculture in Poland can be formed, provided that a consistent support policy is pursued. The group of holdings with a sufficient economic size to provide a fair income to farmers, or those able to prove their potential to be such farms, should be offered opportunities for further development in the form of investment support.

Therefore, financial assistance to those wishing to continue farming should concentrate on investment aimed at increasing the economic size of strong holdings. At the same time, owners or holders of small farms unable to reach the threshold of 12 ESU should be granted support facilitating multiple activities. The focus of the rural development programme should also be on assisting those farmers who decide to start a non-agricultural business. (The issue of public transport,



providing quick and convenient commuting to farmers who combine farm work with employment outside farm, should be resolved within the framework of other programmes. Efficient public transport is of vital importance to the whole rural population).

The above remarks suggest that public funds directly supporting Polish agriculture should lead to a transformation in its production structures, as fast as possible. With this criterion in mind, the most significant weakness of PROW-2006 and SPOR-2006 appears to be the allocation of excessive financial resources (ca. 43% of the available appropriations and ca. 40% of the expenditure; cf. Tables 1 and 2) to agricultural income support and social measures, including structural pensions and LFA payments (a total of 27.5%). As has already been mentioned, however, this weakness primarily stems from the EU regulations, significantly restricting the margin of manoeuvre for the authors of the programme.

But at the same time a considerable amount of the appropriations under PROW-2006 and SPOR-2006 was assigned to the modernisation of agricultural holdings. In the previous programming period the funds intended for measures which should permanently increase the production potential of farms<sup>46</sup> exceeded EUR 1.5 billion (more than EUR 500 million annually), whereas the expenditure reached nearly EUR 1.9 billion (over EUR 600 million annually; cf. Table 1). Their share in the funds planned was 28.5%, but it went up to 35.2% of the funds spent.

It is doubtful, however, whether the financial resources allocated for the modernisation of agricultural holdings were actually conducive to a rapid improvement in the production structure of Polish agriculture. Firstly, the lower limit for a viable holding was set at a very low level of 4 ESU. Thus, a considerable part of investment support could be directed to farms which will never ensure a fair income, many of which will be wound up. Particular criticism was expressed with regard to the measure “Support for semi-subsistence farms”. The appropriations for the measure in question were supposed to provide assistance to the group of holdings with an economic size of 2 to 4 ESU, with the aim to increasing their economic size to at least 4 ESU. However, a holding with an economic size of or slightly over 4 ESU continues to be a semi-subsistence farm, inefficient economically, whereas the limited amount of granted support cannot produce essential structural changes. (The measure in question is not continued in 2007–2013, and PROW-2013 only provides for funds to cover the financing of the commitments entered into between 2004 and 2006).

Furthermore, it is difficult to regard the measure “Investments in agricultural holdings” as one contributing to a quick improvement in production structures. The appropriations under the measure mostly supported farm mechanisation.

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<sup>46</sup> Measures having such an effect were considered to be the following: “Modernisation of agricultural holdings”, “Adjustment of agricultural holdings to EU standards”, “Projects approved under Regulation No 1268/1999”, “Semi-subsistence farms” and “Setting-up of young farmers”.

Obviously, mechanisation represents an important part of the modernisation of agriculture, but its primary outcome is to facilitate the farmer's work and to substitute it with machinery. As a rule, it results in a reduced demand for labour in assisted holdings. Under the current circumstances, this is not the most important direction of modernisation of Polish agriculture as its major large-scale problem is hidden unemployment, i.e. an excessive number of workers rather than labour shortage. At the same time, Polish agriculture requires a transformation leading to a significant increase in the economic size of commercial holdings. Its long-term growth could be ensured mainly by measures such as investments increasing the production scale, i.e. in livestock production the construction of new or extension of the existing farm buildings, in crop production: purchases of agricultural land (an increase in the scale of production, not only in crop production, is also guaranteed by long-term land lease; in livestock production it ensures an increased forage area). However, the funds under PROW-2006 and SPOR-2006 could not be used for the co-financing of the purchase of agricultural land, whereas the possibilities of funding investments increasing the scale of livestock production were restricted (with the exception of the measure "Support for semi-subsistence farms", but the limited amount of support did not allow any major investment).

It should be pointed out that Poland's position in the period of programming and implementation of PROW-2006 and SPOR-2006 was different from that in the period of programming and implementation of the SAPARD. Although both programmes were prepared during accession negotiations, Poland was treated as a Member State as they would be implemented during membership. The annual average Community contribution was more than 7 times higher than in the case of the SAPARD; furthermore, basic technical infrastructure in rural areas could also be co-financed within the framework of the Integrated Regional Development Programme. Tempted by several times higher financial resources, both the planners and policy makers were inclined to include measures which could not be financed under the SAPARD or had not been financed as they had been found less efficient. The decision to increase the number of measures was made easier by the fact that the set of measures co-financed within the framework of PROW-2006 and SPOR-2006 included those co-financed under the SAPARD, with several times higher appropriations<sup>47</sup>.

Undoubtedly, it was also due to the requirements of the European Commission, attaching great importance to the protection of the rural landscape, the environment and the rural production area. It was one of the reasons for the

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<sup>47</sup> The actual annual contribution to the modernisation of agricultural holdings under SPOR-2006 was over 6 times higher, and under all SPOR-2006 and PROW-2006 measures fostering farm modernisation ("Modernisation of agricultural holdings", "Adjustment of agricultural holdings to EU standards", "Projects transferred from SAPARD", "Semi-subsistence farms", "Setting-up of young farmers") – nearly 20 times higher than the funds available within the framework of the SAPARD. At the same time, the annual average contribution of SPOR-2006 to the modernisation of the agri-food industry was more than double the SAPARD figure.

allocation of rather significant funds to the financing of the “Agri-environmental scheme” under PROW-2006. The scheme was even included in the SAPARD, as a pilot measure with limited appropriations (ca. EUR 17 million). But the organisational arrangements made by Poland turned out to be insufficient for the implementation of agri-environmental schemes. Therefore, they were discontinued, and the funds were used for other purposes. However, intensive preparatory work in the pre-accession period resulted in the inclusion of the measure “Agri-environmental scheme” in PROW-2006.

Presumably, one of the reasons for spreading the funds too thinly was the view that the Polish programme, due to political considerations, should comprise certain measures included in programmes implemented by other Member States, for instance the measure “Structural pensions” (“Early retirement”) mentioned above. Undoubtedly, its inclusion in PROW-2006 had not been preceded by an detailed analysis of all possible effects of such a decision. However, even if the authors of the programme and the policy makers had had expert opinions demonstrating that structural pensions represented an inefficient structural policy instrument and failed to meet elementary requirements as a social measure, whereas it was possible to allocate the funds for other purposes, early retirement support would have been selected for the programme anyway since it was implemented by certain other Member States (with the rationale such as “why should Poland treat the farmers worse than other Member States?”). At the same time, the inclusion of the measure “Support for semi-subsistence farms undergoing restructuring” in PROW-2006 did not follow an examination whether its introduction was advisable in Poland. Its drawbacks were evident even at the stage of preparing PROW-2006<sup>48</sup>. Therefore, it may be presumed that the decision to include this measure in the programme was primarily driven by concerns that Poland would be criticised for not exploiting the opportunity to support the development of small agricultural holdings.

When criticising PROW-2006 and SPOR-2006, it should be remembered that those were the first programmes implemented by Poland in which such a wide range of instruments for supporting agricultural and rural development could be included. In such a situation, it was easy to take non-optimal decisions in the preparation period, especially that certain shortcomings were not fully apparent until the period of implementation.

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In the period 2007–2013 Poland is the largest beneficiary of EU support from the European Agricultural Fund for Rural Development. It has at its disposal approx. 15% of the overall amount of support for the 27 Member States

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<sup>48</sup> This subject was discussed in detail in: J. Rowiński, *Program Rozwoju Obszarów Wiejskich na lata 2007-2013 [Analiza zatwierdzonej wersji programu i pierwszych lat realizacji]*, seria *Program Wieloletni 2005–2009*, No 118, IERiGŻ-PIB, Warszawa 2008 (cf. particularly pp. 114–116).

(i.e. EUR 88,294 million). Poland is followed by Italy (EUR 8,292 million, ahead of Romania, with EUR 8,023 million)<sup>49</sup>.

The approved version of the programme provided for public funds exceeding EUR 17.2 billion (over PLN 60 billion at the exchange rate EUR 1 = PLN 3.50), of which Community support<sup>50</sup> and national funds represented EUR 13.2 billion and EUR 4.0 billion respectively. The EU funds were subsequently increased by EUR 169 million. Thus, the appropriations of the programme total EUR 17.4 billion of public funds. Furthermore, own contributions of beneficiaries were estimated at EUR 7.4 billion. Therefore the total value of programme is 24.8 billion. Such a high amount should effectively stimulate rural development in Poland.

But the appropriations of PROW-2013 will not be the only public funds spent on rural development between 2007 and 2013. Table 3 presents an estimation of possible amounts of public support for Polish agriculture and rural development in the period in question<sup>51</sup>. Funds for this purpose are provided for not only in PROW-2013, but also in four centrally-managed structural programmes (“Infrastructure and Environment”, “Human Capital”, “Innovative Economy” and “Development of Eastern Poland”), with the total appropriations of ca. EUR 60.7 billion, as well as in the 16 regional programmes for each voivodship (with the overall public funds of approx. EUR 23.9 billion). Part of financial resources available under those programmes is assigned to the co-financing of projects implemented in urban areas, but some appropriations are reserved for supporting the countryside. In addition, there are measures available to both urban and rural applicants.

The estimation of public funds targeted at rural development and available under the centrally-managed programmes was based on the findings by R. Grochowska and Ł. Hardt, who analysed the impact of each programme on rural areas in a comprehensive study<sup>52</sup>. The authors divided all the measures

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<sup>49</sup> For a detailed analysis of EU support for Poland in comparison with other Member States see: J. Rowiński, *Program rozwoju Obszarów Wiejskich na lata 2007-2013 [Analiza zatwierdzonej wersji programu i pierwszych lat realizacji]*, seria Program Wieloletni 2005–2009, No 118, IERiGŻ-PIB, Warszawa 2008, from p. 32.

<sup>50</sup> Commission Decision No 2006/636/EC of 12 September 2006 fixing the annual breakdown by Member State of the amount for Community support to rural development for the period from 1 January 2007 to 31 December 2013 [notified under document number C(2006) 4024], OJ L 261, 22.9.2006; Commission Decision No 2007/383/EC of 1 June 2007 amending Decision 2006/636/EC fixing the annual breakdown by Member State of the amount for Community support to rural development for the period from 1 January 2007 to 31 December 2013 [notified under document number C(2007) 2274], OJ L 142, 5.6.2007.

<sup>51</sup> The estimation was first presented in the paper by J. Rowiński, *Program Rozwoju Obszarów Wiejskich (“PROW–2013”)* delivered at the annual conference dedicated to the results of the Multi-annual Programme, held in Pułtusk (7–8 December 2008).

<sup>52</sup> Ł. Hardt, R. Grochowska, *Możliwości oddziaływania środków finansowych Polityki Spójności na rozwój obszarów wiejskich w Polsce w latach 2007-2013*, [in:] J. Rowiński (ed.), *Wpływ*

included in the programmes in question into the following four groups, with different effects on the countryside: (1) with a direct impact, (2) with a strong indirect impact, (3) with a weak indirect impact, (4) with no impact. According to their estimations, projects worth approx. EUR 41 billion (ca. 68% of the total value of projects) may have a favourable influence on rural areas. The estimated breakdown of this amount is as follows: a direct impact will be exerted by projects worth EUR 14.4 billion (23% of the funds available under the four centrally-managed operational programmes), a strong indirect impact – by those of EUR 14.5 billion (24%), a weak indirect impact – by those of EUR 12.6 billion (19%), whereas projects worth EUR 20.7 billion (34%) will have no effect on rural areas. Based on the above figures, the appropriations supporting rural development were cautiously estimated by J. Rowiński at EUR 21.6 billion, the sum of the funds allocated to measures with a direct impact and of half of the resources aimed at the co-financing of measures with a strong indirect impact.

Table 3. Total public funds (EU and national appropriations) supporting rural development in 2007–2013 (in EUR billion)

Programme	Amount of support
(1) Rural Development Programme 2007–2013	17.4
(2) Centrally-managed operational programmes	21.6
(3) Integrated Regional Development Programmes <sup>1</sup>	8.3
(4) Preferential investment loans	4.8
Total	52.1

Note: 1. Programmes managed by Marshal Offices.

Sources: (1) *Program Rozwoju Obszarów Wiejskich na lata 2007–2013, materiał informacyjny, Ministry of Agriculture and Rural Development, Warsaw, November 2006*; (2) *On the basis of E. Hardt, R. Grochowska, Możliwości oddziaływania środków finansowych Polityki Spójności na rozwój obszarów wiejskich w Polsce w latach 2007-2013, [in:] J. Rowiński (ed.), Wpływ funduszy współfinansowanych ze środków UE na rozwój regionów wiejskich w Polsce (Studia i Materiały), seria Program Wieloletni 2005–2009, No 156, IERiGŻ-PIB, Warszawa 2009*; (3) and (4): own estimations.

There is no study with a similar classification of measures included in the 16 regional programmes (implemented within voivodships). Therefore, it was assumed that the share of measures with a direct and strong indirect impact was the same as that for the centrally-managed structural programmes. Based on this assumption, projects implemented under regional programmes with a direct impact on the situation in rural areas were estimated at nearly EUR 5.5 billion, whereas those having a strong indirect impact – at EUR 5.7 billion. Assuming, as above, that rural development is supported by the total funds for the co-financing of

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*funduszy współfinansowanych ze środków UE na rozwój regionów wiejskich w Polsce (Studia i Materiały), seria Program Wieloletni 2005–2009, No 156, IERiGŻ-PIB, Warszawa 2009.*

measures with a direct impact plus half of the appropriations allocated to measures with a strong indirect impact, the overall amount is EUR 8.3 billion.

According to the above estimations, the programmes co-financed by the EU between 2007 and 2013 include ca. EUR 47 billion (nearly PLN 165 billion) targeted at rural areas, of which approx. EUR 37 billion (almost PLN 130 billion) will have a direct impact, and ca. EUR 10 billion (PLN 35 billion) – a strong indirect influence.

The actual amount of funds for the co-financing of projects contributing to rural development will be higher or lower than estimated, not only for the fact that they merely indicate the order of magnitude. The differences may also result from the competition, in some measures, between urban and rural applicants for support. In this connection, there are concerns that urban beneficiaries will prove to be more successful in obtaining funds.

In addition to programmes co-financed from the EU budget, Poland also has national support programmes for agriculture, usually based on the mechanism of preferential investment loans, well-known and accepted by farmers. The national programmes which had existed before 1 May 2004 could be continued in an unchanged form for the first three years of membership, provided that they were notified to the European Commission. As of 1 May 2007, Poland is not authorised to continue the existing programmes or to launch new ones without prior approval by the Commission<sup>53</sup>. Poland prepared the national support programmes in agreement with the Commission, in time to launch new preferential credit facilities as early as July 2007. In 2007–2008, preferential investment loans totalled ca. PLN 4.8 billion, i.e. approx. PLN 2.4 billion (ca. EUR 685 million) annually. If the annual amount of preferential investment loans remains unchanged in the following years, between 2007 and 2013 agriculture will be injected with PLN 16.8 billion (EUR 4.8 billion) in this form of assistance. It would be major financial support for farmers modernising and enlarging their holdings, even greater than aid under PROW-2013. In PROW-2013, the appropriations for the four measures directly targeted at the development of agricultural holdings and producer groups (“Modernisation of agricultural holdings”, “Semi-subsistence farms”, “Setting-up of young farmers” and “Producer groups”) amount to EUR 2.8 billion, i.e. PLN 9.8 billion. Furthermore, preferential loans complement rather than compete with PROW-2013. In the first eight months of 2008, young farmers were granted more than 4,500 such loans for nearly PLN 750 million (over 50% of the total amount of the loans granted). An important role is also played by preferential investment loans for the purchase of land (more than PLN

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<sup>53</sup> This provision was relaxed by Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation), OJ L 214, 9.8.2008. It seems, however, that all or almost all support programmes targeted at agriculture still must be approved by the Commission.

250 million, 17% of the overall amount of the loans granted). The area structure of Polish agriculture is unlikely to change without increasing the farm size by purchasing agricultural land. However, the purchase of land, or of holdings, is not eligible for co-financing under PROW-2013.

Naturally, preferential loans, which must be repaid together with interest in the following years, are not directly comparable to non-refundable aid granted under the programmes co-financed from EU funds. The actual public funds are spent on the difference between the interest rates on commercial and preferential loans. The latter cannot be overlooked, however, when analysing public support for agriculture. Moreover, they might gain in importance in the next multi-annual programming period (2014–2020). It is conceivable that EU support for Polish agriculture and rural areas will then be lower than in 2007–2013, thus the modernisation and restructuring of Polish agriculture would have to be fostered by increasing financial resources available to farmers in the form of preferential loans.

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One of the conditions for an undisturbed and steady socio-economic development of agriculture and rural regions is consistent implementation of a multi-annual programme, with a duration of more than ten years, well-defined priorities and substantial funds. It is obvious, therefore, that PROW-2013 should be a revised follow-on from PROW-2006 and SPOR-2006. However programmes implemented in the previous and current periods differ significantly, even though for the three years there were no vital changes, since it was impossible, to justify the reorientation of support (the only reason could be an assessment that certain support measures in the previous period were inefficient and thus should be ceased). At the same time, the sectoral nature is their common characteristic as they chiefly support agriculture and the farming population, whereas relatively minor funds were allocated for the co-financing of non-agricultural activities, technical and social infrastructure. Those objectives are supported under centrally-managed structural programmes, regional development programmes, but mostly through Poland’s central and local budgets.

As follows from Tables 1 and 2, the food sector plays a much lesser role in PROW-2013. Not only is the share of programme funds co-financing its development in the total programme funds much lower (the share of public spending on measures classified as those fostering the food sector in the total expenditure was 48.7% in PROW-2006 and SPOR-2006 combined, whereas in PROW-2013 the initial proportion was 29.1% of the total appropriations, reduced to 28.4% after reallocations), but also the annual average amount of funds available to the food sector fell from nearly EUR 875 million in the previous financial perspective to EUR 705 million in PROW-2013 (after reallocations). There were changes in the distribution of appropriations within the group as well.

To begin with, the clear orientation of PROW-2006 and SPOR-2006 to promote modernisation investments in farms is not continued in PROW-2013, although their investment needs have not diminished. In the seven-year period, support for investments in agricultural holdings<sup>54</sup> (budget after reallocations) will total nearly EUR 2.9 billion, i.e. a mere EUR 410 million annually. But an annual amount of ca. EUR 85 million (after reallocations) provided for the measure “Support for semi-subsistence farms undergoing restructuring” is only assigned to cover payments in respect of commitments made in 2004–2006 (the Ministry of Agriculture and Rural Development decided not to co-finance new projects supporting semi-subsistence farms on account of their limited efficiency). However, in the previous financial perspective five measures supporting the development of agricultural holdings were co-financed with public funds of ca. EUR 630 million annually. Even more conspicuously, the programme lacks continuation with regard to the share of appropriations to foster investments in agricultural holdings in the two periods in the total public funds. In PROW-2013, they represent (after reallocations) 16.4% of the planned public contribution, i.e. less than half the 2004–2006 figure. However, the demand for financial support for investments in agricultural holdings far exceeds the funds reserved for this purpose in PROW-2013. It is reflected, for instance, in the number of applications for support submitted between 2008 and 2009. It is necessary further to modernise Polish agricultural holdings if Poland’s agriculture is to be competitive in the single European market in the long term. However, successful modernisation depends on its scope. The appropriations of PROW-2013, as in the case of SPOR-2006, are mostly used to co-finance purchases of machinery. Undoubtedly, mechanisation contributes to the modernisation of Polish agriculture, but with a minor influence on production structures, including on increasing the economic size of farms. In 2007–2013 the production structures of Polish agriculture will only change to a limited degree. If in the next multi-annual rural development programme (for 2014–2020) the EU rules on support for agricultural holdings remain unchanged, in 2021 Poland will still rank among those EU Member States where the majority of farms, for structural reasons (too small economic size), are not able to ensure a fair income for the farmers concerned.

In PROW-2013 the reduction in appropriations co-financing investments in agricultural holdings is accompanied by a marked increase in funds which do not contribute to increasing the economic size of farms, i.e. they will neither enhance their production capacities nor reduce costs. Those represent agricultural income support, compensation for income foregone or social security, with a total of

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<sup>54</sup> The PROW-2013 measures considered to promote investments in agricultural holdings are as follows: “Modernisation of agricultural holdings”, “Semi-subsistence farms” and “Setting-up of young farmers”.



EUR 7.8 billion in PROW-2013 (after reallocations), i.e. nearly 2.7 times more than the amount for measures directly supporting investments in agricultural holdings.

The measures to compensate for income foregone include the agri-environmental scheme and the afforestation of agricultural land. The funds planned amount to EUR 2.8 billion, i.e. more than a fivefold increase in comparison with the previous programming period. Their share in the total appropriations nearly tripled. A relatively limited part (ca. EUR 650 million) is assigned to the promotion of afforestation (mostly funds reserved to cover payments in respect of commitments made during the implementation of PROW-2006). The eligibility rules for land to be afforested applicable in the period of co-financing the scheme from PROW-2006 appropriations raised serious doubts since the afforestation of permanent grassland harmed rather than protected the environment (which was reason why such rules were changed in PROW-2013). However, the question arises whether the afforestation of small plots of land can have a favourable impact on the environment and, consequently, whether it is prudent to co-finance the afforestation of small areas.

Nearly 80% of appropriations (over EUR 2.3 billion, of which ca. EUR 850 million reserved for the clearance of commitments contracted during the implementation of PROW-2006) are allocated for the financing of the agri-environmental scheme. The land covered by agri-environmental scheme frequently shows a fall in output, which has a downward effect on sales and income. Hence, a major share of funds, as in the case of afforestation, represent compensation for income foregone.

Without denying the need to protect the rural environment, it seems that there is an imbalance between funds intended to support the development of agricultural holdings (with less than EUR 2.3 billion for new commitments) and those for the financing of agri-environmental schemes (with nearly EUR 1.5 billion reserved for funding new commitments). Probably, such proportions would be appropriate if Polish agriculture had a favourable agrarian structure and was capable of financing development with own funds and commercial loans. But the essential problem of Polish agriculture, at present and for many years to come, is the fragmented agrarian structure and the resulting income inefficiency of the majority of holdings. Therefore, support should be granted primarily to projects increasing the number of economically viable and strong farms as well as to projects enabling farmers to pursue non-agricultural activities. Therefore, support should be granted primarily to projects increasing the number of economically viable and strong farms as well as to projects enabling farmers to pursue non-agricultural activities. In the current circumstances, the agri-environmental scheme should be mainly used to finance three “natural” packages: “Protection of endangered bird species and natural habitats”, “Conservation of endangered plant genetic resources in agriculture” and “Conservation of endangered animal genetic resources in agriculture”. However, the majority of farmers participating in the agri-environmental scheme choose

“packages” protecting soil and water. At least a part of those agro-technical procedures should be performed by farmers without subsidies as normal farming practice? Another popular “package” supported under the agri-environmental scheme is the conversion to organic farming. Undoubtedly, under the current conditions which are unlikely to change in Poland over the next dozen years, this system of production is inefficient and would not exist without public support. But is the environmental impact of an organic farm essentially different from that exerted by a “traditional” holding applying good farming practice? Is organic food healthier than traditionally produced food compliant with all sanitary and veterinary requirements?

It is fundamental, although usually overlooked, whether the current agri-environmental scheme, with voluntary participation, brings sustainable results. A farmer signs a five-year contract and commits himself to running the farm in accordance with well-defined rules (sustainable farming, organic farming), to performing certain agro-technical procedures or to implementing “natural” packages. The contract may be prolonged for a maximum period of two years. Thus, it expires after five to seven years. It is uncertain whether the farmer intends to continue running the holding according to the rules he had to observe when participating in the scheme. It is possible that after he has analysed the financial situation of the farm he will return to “traditional” farming.

As regards social measures (“Structural pensions”) and agricultural income support (“Support for farming in mountain areas and in other areas with handicaps (less-favoured areas – LFA”); according to the EU classification, is included in the set of measures intended to protect the environment), the PROW-2013 appropriations for such purposes total approx. EUR 5.0 billion, of which ca. EUR 2.5 billion for the funding of structural pensions. Unquestionably, this amount might be used in a much more efficient manner if it were assigned to measures modernising Polish agricultural holdings.

The level of public funds for the two measures as well as the conditions for the granting of subsidies or pensions were strongly affected by decisions taken in the previous budget period. This is particularly true of subsidies for farming in less-favoured areas as the area of agricultural land covered by such subsidies was determined on the basis of the delimitation prepared by the Institute of Soil Science and Plant Cultivation (*Instytut Uprawy, Nawożenia i Gleboznawstwa*), and changing it now is virtually impossible. At the same time, it would be possible, but very difficult, to reduce the level LFA payments per hectare which in Poland is much lower than the maximum possible.

Although the structural pensions (early retirement) system should be stable, the criteria for the granting of pensions were changed during the preparation of PROW-2013. The new rules are much stricter than the previous regulations, which results in a substantial drop in the number of potential pensioners. The maximum number was set at 50,400, i.e. only ca. 7,000 pensions to be granted annually between 2007 and 2013 (the annual average for the period

2004 to 2006 was 24,000 structural pensions). Furthermore, the new structural pensions are much lower than those granted under PROW-2006, which undoubtedly reduces farmers' interest in this measure.

The new regulations cannot be applied retroactively, thus the structural pensions from 2004–2006 will be paid as granted in full until they expire. The PROW-2013 funds reserved for covering the commitments made in the previous period amounted to EUR 1.4 billion. However, this amount proved to be insufficient and was increased by EUR 362 million. Simultaneously, the number of pensions to be granted in 2007–2013 was cut to 20,400, i.e. approx. 3,000 annually, which is a rather token figure, and further restrictions were introduced<sup>55</sup>. Since nearly 14,000 positive decisions were issued in 2007–2008, the lowered limit has been almost exhausted. In the following years only a marginal number of applications will be received, and the operation of the measure will soon be reduced to the payment of pensions granted.

Investments in businesses operating in the agri-food industry and trade were treated in a similar fashion to investments in agricultural holdings. For understandable reasons (the need to comply with EU standards), support for certain agri-food industries represented one of the most important measures within the framework of the SAPARD. Although in SPOR-2006 the share of funds indented for the co-financing of investment projects undertaken in the agri-food industry was much lower than in the SAPARD (cf. Table 2), the annual average contribution was more than double the SAPARD figure. In PROW-2013 there was a reduction in the share of funds for the co-financing of investment activity of industrial and commercial agri-food companies in the total appropriations to 5.4% (after reallocations), and the annual contribution fell from EUR 155 million in SPOR-2006 to EUR 133 million. Thus, it appears that in the successive programmes co-financed from EU funds the agri-food industry diminishes in importance. Should the Polish agri-food industry in the next programme period (2014–2020) develop without public assistance, using its own resources, supplemented with commercial loans if necessary? Analyses suggest<sup>56</sup> that it is possible due to the favourable economic situation of the majority of industries in the past few years. Another solution would be to decide that at present public support for the agri-food industry should be reduced to special

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<sup>55</sup> *Obwieszczenie Ministra Rolnictwa i Rozwoju Wsi w sprawie zmiany Programu Rozwoju Obszarów Wiejskich na lata 2007–2013* (Announcement of the Minister of Agriculture and Rural Development concerning amendments to the Rural Development Programme for 2007–2013), Official Gazette of the Republic of Poland (M. P.) 2010, No 19, Item 193.

<sup>56</sup> The situation of the Polish food industry broken down by sub-sector is analysed at the Food Industry Economics Department of IERiGŻ-PIB on a regular basis. The most recent analysis: J. Drożdż, *Analiza ekonomiczno-finansowa przemysłu spożywczego w latach 2003-2007*, IERiGŻ-PIB, Warszawa 2008.

and justified cases, e.g. primarily to the so-called “infant industries”<sup>57</sup>. Thirdly, investment support could be continued under the current or slightly modified rules. The main argument for the third solution is that the agri-food industry processes the majority of agricultural products, thus determines development of agriculture. At the same time, it is necessary to develop it further as the Polish agri-food industry still has, despite a rather widespread belief, a weak position in EU markets<sup>58</sup>. The development of the agri-food industry constitutes an important factor of local development. Another argument for maintaining the co-financing of investments in certain food industries vital to agriculture is combining public funds with own resources of enterprises. Public funds only cover a certain share of investment costs, up to 50% of the so-called eligible costs. Therefore, at least 60% of investment costs are incurred by the assisted operator from own funds (total costs also comprise non-eligible costs, covered in full by the beneficiary). Thus, public support for investments in the agri-food industry has a multiplier effect as beneficiaries invest their own financial resources. It was assumed in PROW-2013 that PLN 1 of public funds supporting investments in the agri-food industry and trade would generate investment worth PLN 4. Moreover, public assistance to the modernisation of agricultural holdings also leads to a multiplier effect due to the requirement of farmers’ own contribution.

The comparison of support for technical infrastructure is impossible on account of changes in the scope of financing in successive programmes. The SAPARD co-financed practically all basic technical infrastructure in rural areas, whereas in the period of implementation of PROW-2006 and SPOR-2006 support for infrastructure investments was moved to the Integrated Regional Development Programme. The appropriations available under PROW-2013 can only be used to co-finance certain types of infrastructure investment, i.e. the water supply and sewage systems, household waste management (collection, separation and disposal systems), energy production from renewable sources and broadband internet. As in 2004–2006, the remaining technical infrastructure is still co-funded from other resources. In the financing period 2007–2013, such appropriations are included in the 16 Regional Development Programmes.

It is possible, however, to compare the levels of financial assistance targeted at the development of non-agricultural activities in rural areas. The figures in Tables 1 and 2 show that the appropriations assigned to this goal in PROW-2013 are much higher than in the case of the previous programmes. They were divided into two measures. More than EUR 1 billion was allocated to the “Creation and

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<sup>57</sup> For more on the issue of a possible revision of the current rules on support for the food industry see: J. Rowiński, *Program Rozwoju Obszarów Wiejskich na lata 2007-2013 [Analiza zatwierdzonej wersji programu i pierwszych lat realizacji]*, seria Program Wieloletni 2005–2009, No 118, IERiGŻ-PIB, Warszawa 2008 (cf. particularly pp. 86–100).

<sup>58</sup> As reflected in the provisional findings from the research conducted by J. Rowiński and M. Bułkowska at the Food Industry Economics Department of IERiGŻ-PIB.

development of micro-enterprises”<sup>59</sup>. The other measure, “Diversification into non-agricultural activities”, with much lower appropriations (nearly EUR 350 million), is the continuation of measures included in the previous programmes managed by MRiRW and consists in supporting farmers or members of farming families<sup>60</sup> running or starting small businesses. It is mostly targeted at persons with small agricultural holdings which do not ensure fair living standards. Both measures show that the funds available under PROW-2013 will be used to support projects helping transform rural areas currently dominated by agriculture into multifunctional regions. However, the question arises whether the beneficiaries are not obliged to take on too restrictive commitments. The financial contribution must be repaid if the objective of the operation, including the level of employment, was not achieved and maintained for five years after the payment of aid by ARiMR (there are few exceptions to this general rule). However, not all projects prove to be successful, even those carefully prepared and comprehensively analysed. According to statistics, ca. 50% of business start-ups are wound up in the first year of operation. Therefore, the beneficiaries run a significant risk of serious financial consequences of a possible failure.

Finally, there are also measures addressing other objectives. There is an unquestionable need for the funding of technical assistance enabling efficient implementation of other measures. “Village renewal and development”, oriented towards various rural investment projects, should also be regarded as purposeful. The remaining two measures, “Implementing local development strategies” and “Running the local action group, acquiring skills and animating the territory”, undoubtedly represent an experiment in Poland, virtually forced by the Commission on the grounds that the inclusion of local communities in the implementation of the programme had brought about excellent results in other EU Member States.

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<sup>59</sup> *Rozporządzenie Ministra Rolnictwa i Rozwoju Wsi z dnia 17 lipca 2008 r. w sprawie szczegółowych warunków i trybu przyznawania oraz wypłaty pomocy finansowej w ramach działania „Tworzenie i rozwój mikroprzedsiębiorstw” objętego Programem Rozwoju Obszarów Wiejskich na lata 2007–2013* (Ordinance of the Minister of Agriculture and Rural Development of 17 July 2008 concerning detailed conditions and procedures of the granting and payment of aid under the measure “Creation and development of micro-enterprises” within the framework of the Rural Development Programme 2007–2013), Journal of Laws (Dz. U.) 2008, No 139, Item 883.

<sup>60</sup> *Rozporządzenie Ministra Rolnictwa i Rozwoju Wsi z dnia 17 października 2007 r. w sprawie szczegółowych warunków i trybu przyznawania pomocy finansowej w ramach działania „Różnicowanie w kierunku działalności nierolniczej” objętego Programem Rozwoju Obszarów Wiejskich na lata 2007–2013* (Ordinance of the Minister of Agriculture and Rural Development of 17 October 2007 concerning detailed conditions and procedures of the granting of aid under the measure “Diversification into non-agricultural activities” within the framework of the Rural Development Programme 2007–2013), Journal of Laws (Dz. U.) 2007, No 200, Item 1442.

### **3. Conclusions from the remarks on the preparation and implementation of agricultural and rural development programmes**

#### **3.1. Introductory remarks**

At present it is too late for any major amendments to PROW-2013. It will be implemented with minor adjustments to current needs, consisting in transfers of funds between measures. Hence, this study only comprises substantive and organisational conclusions which may be useful in the preparation of an agricultural and rural development programme for 2014–2020.

#### **3.2. Organisational conclusions**

1. Thus far, EU-supported multi-annual programmes for agricultural and rural development have been, as a rule, launched with a considerable delay (a year or even more). One of the reasons has been the protracted work of the Commission on implementing regulations to Council regulations, but Member States participating in this work share the blame. However, as the formal period of the implementation of EU-supported multi-annual programmes is seven years, or actually nine years on account of the n+2 rule, full implementation of a programme is possible despite a delayed launch. However, in the economy time is a value and it is not irrelevant when a project is completed and starts to bring results. Moreover, a delay distorts the smooth implementation of a programme, with a pile-up of procedures such as the receipt and examination of applications for support and the clearance of accounts of completed projects. One of the tasks for Polish EU presidency should be efforts to prepare EU legislation in time for the next stages of the preparation of EU-supported programmes (not only those for agriculture and rural areas) for 2014–2020 to be timely completed and their launch to be possible in the first months of 2014 at the latest. If the Polish presidency shows sufficient determination, this goal can be achieved as in the second half of 2011 the legislative work of both the Council and the Commission should be much advanced.
2. Timely adoption of relevant EU legislation is necessary but insufficient for the launch of the programme without delay. It is also indispensable to timely prepare national legislation (an act and ordinances of the Minister of Agriculture and Rural Development and of the Minister of Finance based on it). However, much of the Polish legislation necessary for the implementation of PROW-2013 was adopted with delay, and the majority of the ordinances had already been amended. Thus, it turned out that the legal service of MRiRW failed to meet the deadline, and the provisions adopted required amending, for various reasons. Moreover, the legislation fails to satisfy one of the criteria

of sound regulation as it is not clear, simple and precise. It is particularly important to beneficiaries, having a vested interest in the content of the relevant legislation; as a rule, farmers and rural dwellers are not lawyers, fully acquainted with the specific vocabulary and language of legal acts. Furthermore, after amendments some ordinances appeared to be unreadable due to the lack of consolidated versions. Two conclusions can be drawn from the above remarks. The legislative work on the next programme for the development of agriculture and rural areas must be much more efficient than in the case of PROW-2013, and the improved efficiency should consist in timely preparation of well-drafted regulations. The launch of a measure cannot be delayed on account of the absence of the relevant ordinance. The postulate is of a “technical” character and should be realised without major difficulties if ordinances are prepared by excellent lawyers.

3. It is much more important to resolve the issue of ARiMR, which as the managing authority and the paying agency constitutes the key institution in the implementation of agricultural and rural development programmes. The Agency must follow detailed procedures (manuals of procedures), but undoubtedly much also depends on management efficiency and the service of beneficiaries by the ARiMR staff (according to the surveys conducted in the Podlaskie, Podkarpackie and Wielkopolskie voivodships among the farmers and enterprises assisted under the SAPARD, PROW-2006 and SPOR-2006, assessments of ARiMR tended to be positive or very positive<sup>61</sup>). The Agency, set up in 1993<sup>62</sup>, should have a well-established organisational structure and sound management after more than a decade of existence, but it has been in crisis in recent years. One requisite for sound management of ARiMR is the stabilisation of top managers. However, the Agency is seen by successive governments as part of “political spoils”, which is reflected in frequent changes of the president and members of the management board as well as of managers in the head office and branches. Should ARiMR continue to be treated in this way, also in the future one may expect developments such as the failure to timely set up an IT system for handling PROW-2013. Frequent changes of managers could be prevented by a procedure of competitions and tenorial management contracts, only allowing early retirement for an important reason specified in the contract.

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<sup>61</sup> R. Przygodzka, *Bariery pozyskiwania środków UE na cele inwestycyjne przez przedsiębiorstwa przemysłu spożywczego*; W. Poczta, W. Czubałak, *Bariery pozyskiwania środków UE na cele inwestycyjne przez gospodarstwa rolne*; M. Lechwar, M. Woźniak, *Wpływ otoczenia instytucjonalnego na decyzje inwestycyjne*, [in:] M. Wigier (ed.), *Identyfikacja i ocena barier administracyjnych realizacji programów rozwoju obszarów wiejskich, seria Program Wieloletni 2005–2009*, No 66, IERiGŻ-PIB, Warszawa 2007.

<sup>62</sup> *Ustawa z dnia 29 grudnia 1993 r. o utworzeniu Agencji Restrukturyzacji i Modernizacji Rolnictwa* (Act of 29 December 1993 on the establishment of the Agency for Restructuring and Modernisation of Agriculture), *Journal of Laws (Dz. U.)* 1994, No 1, Item 2.

### 3.3. Substantive conclusions

1. PROW-2013 does not satisfy the postulate of the concentration of appropriations on measures improving the competitiveness and productivity of the Polish food sector, including Polish agriculture. It is characterised by a rather even distribution of public funds (shares after reallocations; cf. Table 2) between the following measures: (1) the development of the food sector (slightly over 28%, of which 23% for agriculture), (2) the development of other economic sectors (less than 17%), (3) the protection of the agricultural and rural environment (18%), (4) agricultural income support and social measures (nearly 29%), other measures (9.4%). As regards its objectives, it is a compromise between different goals and needs. Naturally, such a programme will satisfy no-one, but neither can anyone submit that it excludes measures which should be implemented.
2. Undoubtedly, the structure of the programme and the breakdown of funding between measures were largely affected by decisions taken during the preparation of PROW-2006 and SPOR-2006. Those choices resulted in considerable amounts of fixed commitments and inflexible measures, and in fact forced the authors of PROW-2013 to reserve significant funds for agricultural income support and social measures. As a consequence, in PROW-2013 such measures, i.e. structural pensions (early retirement) and support for farming in mountain areas and in other areas with handicaps (less-favoured areas – LFA), accounted for a share nearly 6 percentage points higher than that of measures promoting the development of the food sector. Only the need to cover in 2007–2013 the financing of the commitments made during the implementation of PROW-2006 fully revealed the danger of turning the EU-supported agricultural and rural development programme in Poland into a social assistance scheme. Such risk is still relevant, despite the new regulations amending the eligibility provisions and thus limiting the number of potential new pensioners or changes to the programme reducing the number of pensions to be granted under PROW-2013 nearly by half. The amendments introduced improve the efficiency of the measure “Structural pensions (Early retirement)” as a structural policy instrument, but they do not eliminate the need to allocate additional funds for payments in respect of pensions already granted. It will be determined by the exchange rate of the zloty against the euro. At the PLN/EUR exchange rate of 3.80 (or with an even weaker zloty), the current appropriations will most probably suffice, but with a stronger zloty additional financial resources would be indispensable. At the same time, PROW-2013 continues the policy of maintaining farming in less-favoured areas under the PROW-2006 rules. The eligibility criteria for LFA payments and their level applicable in the previous financial perspective remained unchanged.



3. It is now too late to reduce funds for agricultural income support or limit social measures in PROW-2013. Such amendments are only possible when a programme is being prepared and approved. During its implementation merely “cosmetic” changes can be introduced, forced by the lack of appropriations to settle the commitments made or excess funds resulting from marginal interest from prospective beneficiaries. Therefore, analytical work necessary for designing a sound programme for 2014–2020 should start now. One of the early stages should be an estimation of amounts to be reserved in the successive multi-annual programme for agriculture and rural development for the funding of fixed commitments (structural pensions, afforestation, the agri-environmental scheme, producer groups) and inflexible measures (support for farming in mountain areas and in other areas with handicaps). Such an estimation is indispensable, particularly that in 2014–2020 Poland is likely to have at its disposal lower EU appropriations for the development of agriculture and the countryside. The reduction in funds available under the EAFRD is currently ever more probable due to the crisis developments in public finance faced by virtually all EU Member States, also net payers to the EU budget. The continuation of the measures “Structural pensions” and “Support for farming in mountain areas and in other areas with handicaps (less-favoured areas – LFA)” under the current rules and with limited financial resources would be inconsistent with long-term development priorities for the Polish food sector and rural areas.
4. It is necessary to continue investment support of agricultural farms, but successful modernisation depends on its scope. The appropriations of PROW-2013, as in the case of the previous programmes, are primarily used to co-finance purchases of machinery. Undoubtedly, mechanisation contributes to modernisation, but with a minor influence on production structures, including on increasing the economic size of farms. Therefore, in 2007–2013 the production structures of Polish agriculture will only change to a limited degree. If in the next rural development programme (for 2014–2020) the scope of support for agricultural holdings remains unchanged, in 2021 Poland will still rank among those EU Member States where the majority of farms, on account of too small economic size, are not able to ensure a fair income for the farmers concerned. Therefore, efforts should be made to change the current situation. Two solutions are possible. One is an attempt to amend the EU regulations restricting the possibilities for promoting investments in agricultural holdings aimed at increasing the scale of production. It is unlikely, however, that Poland manages to form a coalition with other Member States in order to enable such amendments. The other course of action is to complement, to a much greater extent than before, the programme co-financed from the EU budget with national programmes co-financing investments increasing the scale of production from public funds. Such a solution

involves no amendments to EU regulations, but it is indispensable to obtain the Commission's approval, which is no easy task.

5. Preparations should be made presently to decrease the appropriations for structural pensions and subsidising farming in less-favoured areas under the following multi-annual programme. A further reduction in the number of new structural pensions (a much better solution would be to cease granting new pensions) will be possible in the process of programme preparation. Most probably, the decision to reduce the scope of the measure in the next multi-annual programme to the payment of pensions granted during the implementation of PROW-2006 and PROW-2013 will not spark farmers' protests, particularly if funds for the modernisation of agricultural holdings are increased simultaneously. As it turned out, they responded rather calmly to amendments resulting in a reduced amount and number of structural pensions to be granted in 2007–2013 and changing the eligibility provisions.
6. Reducing the support for farming in less-favoured areas will require more stringent delimitation criteria. It is, unquestionably, a difficult decision to take. Thus far, the criteria have been mainly determined by Member States, but at present leaving a wide discretion in establishing the criteria for the delimitation of less-favoured areas to EU Member States is not considered to be the right solution. Therefore, the Commission is preparing new, probably much tighter delimitation criteria to be applicable in all EU Member States. For Poland, such a solution would be an advantageous way of reducing the area of agricultural land classified as less-favoured areas as it would be the EU authorities' decision rather than one made by the Polish government.
7. Another issue worth considering is whether the area covered by certain agri-environmental "packages" should be increased further. The promotion of organic farming on a large scale is particularly doubtful. In Poland the market for organic food continues to be rather small. As a result, at present the strongest incentive to the conversion to organic farming is the agri-environmental payment rather than the interplay of demand and supply in the Polish organic food market and in export outlets. However, the current legislation only provides for the agri-environmental subsidies for a fixed period. Contracts for the co-financing of agri-environmental schemes, including the conversion to organic farming, are concluded for 5 years and may only be prolonged for another 2 years. Thus, if a well-established market for organic food does not develop in the next few years, at least in some farms no longer eligible for support organic production may prove to be unprofitable. Possibly, owners of such holdings would then decide to return to "traditional" farming methods. It would be not only a "waste" of the funds granted to the conversion to organic farming, but also a failure to farmers compelled to make such a decision. Therefore, decisions on increasing the number of organic farms through subsidies compensating for

higher production costs during conversion should be taken with caution and follow in-depth analyses of demand and supply.

8. At the same time, certain other packages represent procedures which should be performed in all well-managed farms. Undoubtedly, they do have a favourable impact on the rural environment, but is it the reason for agri-environmental payments? Projects eligible for funding under the packages “Extensive permanent grassland”, “Soil and water protection” and “Buffer zones” should be included in the list of procedures of good agricultural practice rather than constitute part of an agri-environmental scheme.
9. Funds freed as a result of reducing the budgets for agricultural income aid and eliminating or at least limiting some of the agri-environmental packages should be assigned to measures fostering the economic development of rural areas. The focus should be on four measures. With regard to the food sector, those should comprise “Modernisation of agricultural holdings” and “Adding value to agricultural and forestry products”, whereas greater support to other economic sectors should be granted under the “Creation of development of micro-enterprises” and “Diversification into non-agricultural activities”.



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