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AGRICULTURAL AND RURAL DEVELOPMENT POLICY IN 2007-2013

Abstract

The European Union commences another budget period (2007-2013). This means significant changes for agriculture and rural areas with respect to the manner and the scope of financing of this sector, which were started in 2003 by the Luxembourg reform.

The objective of the article is to analyse the introduced changes and evaluate their results and potential impact on the Polish agriculture and rural areas. Changes in the organisation of the so-called agricultural funds, their scope and the manner of management necessitate harmonisation of Polish agricultural legislation with that of the EU as well as adjustments in the institutional system, established in the first half of the current decade.

The author analyses the effects of these changes on Polish agriculture and legal and organisational system, as well as the expected impact of the available financial funds on transformations of the Polish agricultural sector and rural areas in the coming years.

New legal regulations

The reform of the EU budget spending on agriculture has already been commenced in 2003 by means of introducing changes to the direct payments system [7]. During the two years (2005-2006), significant changes were also made in the methods of programming and the organising of rural expenditures. The subject of the analysis presented in this article is to evaluate the EU disbursements for this purpose.

In the second half of October (exactly on 16 October 2006) the Act on releasing resources from the European Union budget for the financing of Common Agricultural Policy (Dz. U. No. 187, item 1381) was published and immediately came into force. For Polish farmers this act is the key to resources for the development of agriculture and rural areas in the coming 2007-2013 programming period. To be more precise, it "determines competent bodies for releasing of resources" coming from EU funds (article 1 of the Act).

It applies to resources coming from two new funds – the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development.

The act specifies main tasks in the process of releasing of resources for the financing of the Common Agricultural Policy entrusted to the Minister competent for public finance and the Minister competent for rural development and agricultural markets, as well as enumerates some of the responsibilities of paying agencies in this respect. The Minister competent for public finance is above all responsible for ensuring due spending of EU resources as well as for the following activities:

– accrediting organisational unit to perform duties of a paying agency and carry out supervision (article 2);
– setting, if necessary, additional accreditation criteria besides the ones stipulated in Council Regulation (EC) No 885/2006 [4] (article 3);
– establishing a coordinating body in accordance with article 6(3) of the Regulation 1290/2005[1];
– submitting to the European Commission information on paying agencies and the coordinating body;
– supervising the paying agency (article 6);
– possible revoking of accreditation of a paying unit which does not meet all criteria for entities of this type (article 7).

The paying agency accreditation is preceded by a complex process consisting in checking whether the accredited institution meets accreditation criteria defined in Regulation 885/2005[2].

The analysis of institutional solutions adopted in the Act shows that the choice of the authority performing the accreditation may raise certain reservations. In Poland, such an authority is represented by the Minister competent for public finance. In the vast majority of EU Member States accreditation is performed by the Minister of Agriculture, as an entity directly engaged in and responsible for the agriculture policy and the use of EU funds directed to rural areas. Empowering the Minister competent for public finance by means of the act to carry out the process of accreditation of agricultural paying agencies – in the light of experience gained in the years 2003-2004, i.e. during the period of the first accreditation – leads to protracted legal procedures, causes coordination problems within ministries, necessitates of numerous irrelevant bureaucratic adjustments, increases the cost of the process itself, thus, in

[1] Applies to a situation when more paying agencies have been accredited in a given country. It applies to Poland, where there are two accredited paying agencies: the Agency for Restructuring and Modernisation of Agriculture and the Agricultural Market Agency.

[2] In Annex 1 to the Regulation 885/2005.

general, it does not create any "added values". Neither does it constitute a basis for improving the whole process. It is a pity that in this case the legislator did not rely upon past experiences or solutions adopted and proven efficient in other Member States. Moreover, the problem is a part of a much broader issue – the tendency of many "non-agricultural" Polish institutions and offices to take on competencies and tasks relating to the implementation of EU funds allocated to agriculture and rural areas. It applies to central offices as well as public services.

In the latter part, the act details the flow of resources coming from EU funds (article 10) and of national resources for pre-financing of EU expenditures and their national co-financing.

The EU funds are gathered on separate bank accounts of the Minister competent for public financing which are managed by the National Bank of Poland (NBP). The resources from EU funds and national resources for pre-financing (in the form of an interest-free loan from the State budget) are transferred to the paying agency by the Minister competent for public finance, on the basis of an application submitted by the Minister competent for agriculture, depending on the paying agency's needs. National resources for co-financing are transferred by the Minister competent for agriculture in the form of a target subsidy basing on the paying agency's needs.

Exact terms of transferring resources to the paying agency (deadlines, terms of payment) will be specified in a regulation of the Minister competent for public finance which will be issued after consulting it with the Minister competent for agriculture.

The act introduces further changes in other legal acts concerning the spending of EU funds in agriculture which result from the creation of new agriculture funds. It concerns, for example, the act establishing the Agency for the Restructuring and Modernisation of Agriculture (ARMA) [9], acts on the Agricultural Market Agency (AMA) [11], acts on national system for the registration of producers, agricultural holdings and register of applications for aid [10], as well as the act on public finance [12].

New Agricultural Funds

As mentioned above, for the new programming period, i.e. 2007-2013, two new agricultural funds were established in the place of the European Agricultural Guidance and Guarantee Fund (EAGGF), which had existed for many years and which had been created on the basis of Council Regulation (EEC) No 25 of 4 April 1961 on the financing of the Common Agricultural Policy [5].

New Funds were created on the basis of Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy [6]. They hold resources for financing of expenditures made within the common agricultural policy, including expenditures for the development of rural areas (article 1).

Article 2 of this Regulation states: "In order to attain the objectives of the common agricultural policy defined by the Treaty and finance the various measures falling under it, including rural development, the following are hereby set up:

a) *European Agricultural Guarantee Fund, hereinafter referred to as the "EAGF";*
b) *European Agricultural Fund for Rural Development, hereinafter referred to as the "EAFRD"."*

The result of this regulation was the elimination of the duality of sources of financing, programming, clearing of accounts and controlling of funds allocated for rural development from the former EAGGF Guarantee Section and also partly from the EU Structural Funds (EAGGF Guidance Section). It could be an opportunity to facilitate the whole process of programming and managing of resources directed from EU for agriculture and rural areas.

The EAGF is above all responsible for financing expenditures on direct payments, as well as on interventions within agricultural markets, refunds for exportation, veterinary measures, promotion of agricultural products, information activity and agricultural surveys. It will also cover certain expenditures on fisheries markets.

EAFRD finances rural development programmes. The scope of financing was defined in Council Regulation (EC) No 1698/2005 [8]. Its adoption was preceded by numerous and long discussions between Member States concerning possible forms of support, their scope, validity period, amount and structure of the fund (priority support axes, ceilings for resources assigned to particular axes). Finally, the consensus was reached during the Agriculture and Fisheries Council meeting on 20-22 June 2005 in Luxembourg. Polish side received permission to introduce advocated provisions to the new Regulation concerning such issues as maintaining of support for semi-subsistence farms, maintaining rules advantageous for Poland of the delimitation of less-favoured areas, gradual, not rapid, approaching the increased level of expenditures for the Leader programme (the so-called 'phasing in' rule) as well as granting financial support to medium-sized and large processing enterprises.

As a result the new rural development fund will finance the implementation of the following objectives:
– improvement of the competitiveness of agriculture and forestry through granting support to restructuring, development and innovation (economic objective);
– improvement of natural environment and rural areas through granting support to land management (environmental objective);
– improvement of quality of life in rural areas and supporting the diversification of business activities (social objective).

Practical implementation of these objectives will be performed through four support axes to which different measures (resources) eligible for financial support were assigned:
– axis 1: *Improving the competitiveness of the agricultural and forestry sector*,
– axis 2: *Improvement of the environment and the countryside*,
– axis 3: *Quality of life in rural areas and diversification of rural economy*,
– axis 4: *Leader*.

Each of the axes contains several or more measures which support the implementation of set objectives. Thus, axis 1 contains 16 different measures (which each Member State can choose), axis 2 – 13 measures, axis 3 – 8 measures and axis 4 – 3 measures (including one relating to three domains). Therefore, in total, EAFRD gives possibility of choosing from 40 different, partly connected with each other, measures (for example measures of axes 3 and 4)[3].

In the RDP 2007-2013 project, Poland decided to choose the total of 24 measures, the majority of which (10) from axis 1, 7 measures from axis 2, 4 measures from axis 3 and 3 measures from axis 4 Leader. In general, the assessment of the choice of measures for Polish agriculture is rather positive. The selected measures are devoted above all to the modernisation and improvement of the competitiveness of Polish agriculture as well as to diversification of rural economy. Measures which were rejected were more difficult to implement, for example measures relating to forest management[4], and included the so-called soft projects – informing, gaining skills and promoting development of selected types of activities.

However, the rejection of such an instrument as *Support for the semi-subsistence farms* may seem controversial and difficult to understand. Currently, it attracts a lot of interest. Funds allocated for the 2004-2006 period run out after several weeks of the submission of applications (farmers submitted over 150 thousand applications in two rounds, including ca. 40 thousand during the second round which lasted only 11 days). Moreover, the Polish side was the main mover of maintaining this instrument in the 2007-2013 period[5]. Omitting in the RDP project such instruments as "*Development of new products, processes and technologies*", "*Compliance with norms based on community legislation*" and "*Conducting activity connected with tourism*", may cause certain reservations.

On the basis of Community Strategic Guidelines (CSG)[6] [1], each Member State is obliged to prepare the so-called National Development Strategy (NDS). NDS is a document which indicates goals and priorities of a given country as well as the contribution of the European Community (EAFRD) in financing of

[3] The possibility of financing expenditures for the so-called technical assistance from EAFRD was not included here, just as the functioning of the National Network of Rural Areas (a structure which assembles all organisations engaged in the development of rural areas and supports administration in the implementation of rural development programmes financed from EU resources) and the obligations left of the SAPARD Programme.

[4] Measures financed from EAFRD relating to forest management concern mainly private forests and forests belonging to associations. In Poland, 80% of forests belong to State Treasury, therefore they are not eligible to apply for the EU support. During the process of preparations of the new fund, Poland postulated many times that state forests should be incorporated in EU support. However, this view did not gain sufficient support from other Member States.

[5] During a meeting on 01 March 2007, the Parliament adopted the Senate's amendment introducing this measure to RDP 2007-2013, which may, however, delay the approval of the whole Programme by the European Commission.

[6] CSGs indicate strategic priorities of rural development at the Community level, especially with relation to the goals of sustainable development and the implementation of the Lisbon Strategy.

these undertakings. Rural development programmes (RDP) constitute operational instruments for NDS implementation. A Member State may submit one RDP for the whole country or some regional programmes[7].

RDP should be composed of the following parts:

a) **analytical part** (analysis of the country's macroeconomic situation, SWOT analysis, evaluation of the situation in agriculture);
b) **prognostic part** (choice of priorities along with justification, reference to CSG and NDS, *ex-ante* evaluation of the Programme, choice of suggested measures with description – scope, beneficiaries, conditions, financial ceilings, indicators of assessment);
c) **financial part** (Community's financial contribution, national co-financing, division of resources on axes and measures, contribution from private resources, information on complementarity with resources from other instruments);
d) **organisational part** (description of institutions engaged in the programme's implementation – managing authority, paying agency, certifying bodies, implementing authority/ies, monitoring systems and the programmes evaluations).

Each national RDP has to be submitted to the European Commission for approval. Only after it has been approved, the Programme can be launched and financial commitments for EAFRD resources can be made.

One of significant programme and organisational changes which will take place in the upcoming period is the obligation to make all payments through an accredited paying agency. Up till now, this condition applied only to the disbursements from the Guarantee Section of the EAGGF.

Accreditation of paying agencies

Changes introduced in 2007 by new agricultural policy concern also the method of managing EU funds appropriated for rural development. It means, among others, the obligation to make all payments through an accredited paying agency. Conditions and criteria of accreditation are stipulated in Commission Regulation (EC) No 885/2006 of 21 June 2006 [4]. The Regulation also determines the scope of the paying agency's accreditation (administration structure, internal control system) and the institutional system, including tasks of certifying and coordinating bodies.

Accreditation criteria are specified in detail in Annex 1 to the Regulation and concern the following issues:

a) internal environment (organisational structure, human resources standards, rules of task delegation);
b) control activities (procedures for authorisation of requests for payment, making payment, accounting, advances and debts);

[7] According to provisions which were up till now in force, each Member State was obliged to prepare two separate programme documents: Rural areas development plan, which was a basis for the use of resources allocated to rural development from the EAGGF Guarantee section, and the Sectoral Operational Programme, which in turn consisted of two parts – base document and the so-called Complement, which was a basis for the use of resources from the Guidance Section.

c) information and communication (updating and safety of IT systems);
d) monitoring (ongoing monitoring at all levels of the paying agency, organisation of internal audit services).

In general, the structure of the paying agency should ensure maximum safety of EU resources which includes the transfer of resources to the beneficiary, recording all actions, effective inquiries into unduly paid resources as well as costs and debts related to it. Accreditation requirements included in Regulation 885/2006 do not differ from those which have been up till now applied with relation to paying agencies [3]. The criteria (of the fourth group) were systematised and certain requirements were described in a more detailed way, including especially the ones concerning control activities, adopted procedures and monitoring.

The Resolution also determines methods of accounts' clearance, including the scope of transferred accounting information, financial clearance and accounts' conformity clearance. It also includes transitional provisions, which are very important for Poland and other Member States (especially to the new EU members).

The first transitional provision included in article 17(1) states that "when a paying agency which has been accredited in accordance with Regulation (EC) No 1663/95 [3] assumes responsibility for expenditure for which it was not previously responsible, the examination provided for in Article 1(3)[8] of this Regulation and the new accreditation required as a result of the new responsibilities shall be completed by 16 October 2007 at the latest" [article 17(1)]. It means that only new measures included in the RDP 2007-2013, which did not required accreditation of the paying agency in the 2004-2006 period, i.e. measures under SOP[9], are subject to accreditation. It is very good news because the accreditation process itself is usually lengthy and costly and the institution responsible for the implementation of EU programmes cannot make the resources available to beneficiaries until this process is completed. It is all the more important when taking into account that the approval of RDP 2007-2013 will probably be issued in the second half of 2007. Only after this decision and after necessary accreditation, ARMA, being a paying agency, will be able to launch the implementation process of new funds. Thanks to the transitional provision, ARMA will be able to implement – immediately after obtaining RDP authorisation by the European Commission – measures which have already existed in RDP 2004-2006 and for which it has already obtained accreditation under Regulation (EC) 1663/95. The measures include, for example, early retirement, support for agricultural activity in less-favoured areas (LFA), afforestation or the agri-environmental programmes. These are probably the only measures that Polish farmers can count on in 2007. It probably will not be

[8] Article 1(3) of Commission Regulation No 885/2006 concerns the accreditation process and the decision of the competent authority on the accreditation of the paying agency.

[9] Full title: Sectoral Operational Programme *Restructuring and modernisation of the food sector and the development of rural areas*, 2004-2006.

possible to launch measures currently included in the SOP, due to a different system of managing of these resources in 2004-2006. Until now, it has not been necessary to obtain accreditation before implementing structural funds.

It means that in 2007 there will be no funds for the support of young farmers or the modernisation of agricultural holdings and processing enterprises. What may be realistic is the start of submission of applications for the remaining measures of RDP 2007-2013 in the last quarter of 2007, as the above mentioned provision obliges Member States to perform additional accreditation by 16 October 2007, i.e. the beginning of the new EU budgetary year.

The second transitional provision included in the article 17(2) is also important. It allows the so-called certifying body of the paying agency[10] to include only "comments and provisional conclusions, using a scoring mechanism, as to the measures put in place by the paying agency" in the report from the paying agency's certification relating to the information systems security in the financial year 2007/2008. It means a less rigid approach to the issue of the so-called IT security systems of the paying agency in the first year of the new provisions' validity. It will allow the paying agency to meet the security criteria imposed by the EU on institutions engaged in EU funds management, criteria which are usually very strict[11].

Financial resources in 2004-2006

The allocation of resources to individual measures within EU programmes (RDP, SOP) stems from the objectives which were adopted and will be implemented under these programmes. Unfortunately, Poland's relatively modest experience gained during the implementation of these plans shows that objectives adopted in the process of their preparation do not always match the political objectives of consecutive governmental teams responsible for agricultural policy. It is best seen on the example of changes made to the initial financial tables of these programmes. It applies especially to the Rural Development Plan. In the case of this programme, the initial tables were changed twice – in 2005 and 2006 (table 1).

The first change, made in 2005, has been so far the biggest reallocation of resources in Polish EU programmes for agriculture and rural areas; both the pre-accession (SAPARD, the Rural Areas Activation Programme, PHARE) and the membership ones. The total of EUR 443.6 million was reallocated to other measures (in fact to one measure). Thus, the reallocation concerned 12.3% of the total RDP budget for the 2004-2006 period. The measure whose budget was enlarged almost threefold thanks to the reallocation was *Adjustment of agricultural holdings to the EU standards*. In order to acquire such a sum, the Ministry of Agriculture and Rural Development (MARD) reduced the budget of all of the

[10] In Poland, this role is played by the Minister of Finance.

[11] However, it should be underlined that these favourable legislative solutions will be applied if the interpretation of analysed normative provisions, adopted in this article, obtains approval in the European Commission.

main RDP measures including such measures as Early retirement (by as much as EUR 140.5 million), *Supporting agri–environmental actions and increasing animal welfare* (reduction by EUR 130 million) as well as the much promoted nowadays *Support for semi-subsistence farms* (reduction by EUR 83.2 million). The share of reductions of individual measures' budgets ranged from 10% (afforestation) to almost 40% (agri-environmental programmes). As a result of this decision, the resources appropriated for measure *Early retirement* were nearly used up only 6 months later. Contrary to some opinions, it was not the incorrect calculation of the amount of a retirement pension, but the reduction of resources by over 20%, that was the true cause of suspending the implementation of this measure. This is the true nature of this change which was made with the participation of milk producers' and pig breeders' lobbies in the decision-making process.

Table 1

Changes in the Rural Development Plan 2004-2006 (EUR million)

Specification	2004*	2005	2006	Changes**
Early retirement	640.5	500.0	534.9	83.5
Supporting semi-subsistence farms	376.3	293.1	293.1	77.9
Producer groups	25.4	17.4	17.4	68.5
Priority A in total	**1,042.2**	**810.5**	**845.4**	**81.1**
LFA	976.8	905.0	905.0	92.6
Agri-environmental programmes***	348.9	218.9	218.9	62.7
Afforestation	101.8	91.7	91.7	90.1
DSU****	243.4	687.0	687.0	282.3
Priority B in total	**1,670.9**	**1,902.6**	**1,902.6**	**113.9**
Technical assistance	34.0	34.0	22.0	64.7
Supplements to area-based payments	705.3	705.3	682.4	96.8
Complementing OP SAPARD	140.0	140.0	140.0	100.0
Remaining measures in total	**879.3**	**879.3**	**844.4**	**96.0**
RDP in total	**3,592.4**	**3,592.4**	**3,592.4**	**100.0**

* For 2004 – RDP initial table, for 2005 – change came into force on 15. December 2005, for 2006 – change came into force on 17 July 2006.
** Changes in 2004-2006 period (%).
*** Supporting agri–environmental actions and increasing animal welfare.
**** Adjustment of agricultural holdings to the EU standards.

Source: Author's own compilation based on the MARD data.

The consecutive change that was introduced in the mid-2006 by MARD made it clear that the first change was not in line with farmers' expectations. It concerned the next reallocation of resources, that time for early retirements by EUR 34.9 million. Resources were obtained by reducing the budget of *Technical assistance* and *Complementing direct payments* measures. Thus, the total of EUR 478.5 million was retransferred during two reallocations, which constitutes 13.3% of the RDP budget.

Although not on such a large scale, changes in financial tables were also made within the SOP (table 2). Two table changes were performed, both in 2006.

Table 2

Changes in the SOP Restructuring and modernisation of the food sector and the development of rural areas, 2004-2006 (EUR million)

Specification	2004	IV.2006	**IX.2006**	Changes*
Investments in agricultural holdings	603.92	603.92	614.35	10.43
Setting up of young farmers	173.33	178.93	178.93	5.60
Trainings	20.00	20.00	19.36	-0.64
Support for agricultural advisory services	53.75	48.50	42.78	-5.72
Improving processing and marketing of agricultural products	464.29	464.29	474.97	10.68
Priority 1 in total	**1,315.29**	**1,315.64**	**1,330.39**	**15**.10
Diversification of agricultural activity	107.14	107.14	89.34	-17.80
Development and improvement of infrastructure	40.71	40.71	47.07	6.36
Priority 2 in total	**444.86**	**444.86**	**433.41**	**-11.45**
SOP 2005-2006 in total	**1,784.15**	**1,784.50**	**1,787.81**	**3**.66

* Changes which took place between the second relocation and the initial table for Priority 1 and 2, first relocation and the initial table in the case of measure *Setting up of young farmers* as well as the first and the second relocation in measure *Support for agricultural advisory service* (in the course of two relocations, this measure's budget was reduced by EUR 10.97 million).

Source: Author's own compilation based on the MARD data.

The first change (April 2006) concerned the increase of resources for measure *Setting up of young farmers*. It is a measure which, thanks to its "simplicity", was very popular among farmers since the launching of SOP. The resources were used up relatively quickly and it was necessary to ensure funds for the applications accepted by ARMA. Thus, the total of EUR 5.25 million was reallocated to this measure from measure *Support for agricultural advisory service*. However, due to different share of EU resources in measures *Setting up...* (75% EU, 25% PL) and *Support for agricultural…* (80% EU, 20% PL), it was necessary to complement the financing from national resources for the full use of reallocated EU funds. Therefore, the total of EUR 5.6 million was reallocated to measure *Setting up…* to the level of EUR 178.93 million.

The second change took place in September 2006 and concerned reallocation between measures as well as between priorities of the SOP. The budget of measures which were less popular among beneficiaries was reduced:

– *Diversification of agricultural activity...* by EUR 17.8 million
– *Support for agricultural advisory services* by EUR 5.72 million
– *Trainings* by EUR 0.64 million.

Thus, the budget of these measures was reduced by the total of EUR 24.16 million, which constitutes 1.35% of resources available within SOP 2004-2006. Resources, which were released in this way, were first directed to measures which, apart from *Setting up...*, were always most popular among farmers, i.e. *Investments in agricultural holdings* (EUR 10.43 million) and *Improvement in processing and marketing of agricultural products* (EUR 10.68 million). As before, due to different share of EU resources in individual measures, changes had to be additionally co-financed from national resources (the total of EUR 3.31 million). The remaining resources of EUR 6.36 million increased the budget of measure *Development and improvement of infrastructure*. As a result of this reallocation, resources for Priority 1 *Supporting changes and adjustments in agricultural and food sector* also increased by EUR 15.10 million to the level of EUR 1,330.39 million. On the other hand, resources for Priority 2 *Sustainable development of rural areas* were reduced (by EUR 11.45 million). The changes required additional co-financing from national resources in the amount of EUR 3.66 million, which resulted in the fact that the SOP 2004-2006 budget increased to EUR 1,787.81 million and is now higher from the initial one by 0.2%.

In general, changes of financial tables – apart from one RDP 2004-2006 table change which did not result from incorrect assessment of agricultural needs on the project's designing stage, but rather from the need to finance other projects than those included in the initial plan – were rather superficial. These relatively small changes indicate that, on the one hand, the assessment of demand for particular measures, which was carried out at the stage of programme documents preparation in 2002/2003, was correct and, on the other hand, that there was a desire to use all available resources. This is a notable observation because Poland has prepared these documents for the first time and, more importantly, in the pre-accession period. These experiences should be taken into consideration when preparing further programme documents for the new financing period.

Resources and structure of the new RDP

RDP 2007-2013 comprises resources which were up till now included in two programmes – the Rural Development Plan and the Sectoral Operational Programme. Discussions on the European Commission forum on the topic of the value of EU support for agriculture and rural areas, were held simultaneously with discussions on the subject of EU budget for this period. Discussions were especially heated during British presidency. It was due to suggestions made by Great Britain that resources for agriculture and rural areas should be considerably limited.

At the same time, during bilateral meetings, Poland was informed many times by representatives of the EU Directorate-General for Agriculture that the value of resources for our country cannot be lower than the annual budget of joint RDP and SOP in 2004-2006, enlarged by 15% to 30-40%. The value of additional resources evolved in the course of discussions on the topic of EU budget for 2007-2013. The final amount of EU contribution in the RDP for Poland is presented in Table 3.

Table 3

Comparison of resources appropriated for the development of agriculture and rural areas in 2004-2006 and 2007-2013 (EUR million)

Specification	EU contribution	National contribution	Total	Annually
Rural Development Plan 2004-2006	2,866.4	726.0	3,592.4	1,197.5
SOP AGRI[*]	1,192.7	595.1	1,787.8	595.9
Total RDP + SOP	4,059.1	1,321.1	5,380.2	1,793.4
RDP 2007-2013[**]	11,767.5	3,550.3	15,317.8	2,188.3
RDP 2004-2006 = 100				122.0
RDP 2007-2013 (without commitments)[***]	9,550.0	2,880.3	12,430.3	1,775.8
RDP 2004-2006 = 100 (without commitments)				99.0
RDP 2007-2013[****]	13,230.0	3,987.8	17,217.8	2,459.7
RDP 2004-2006 = 100				137.2
RDP 2007-2013 (without commitments)[***]	11,012.5	3,317.7	14,330.2	2,047.2
RDP 2004-2006 = 100 (without commitments)				***114.2***

[*] Full title: Sectoral Operational Programme Restructuring and modernisation of the food sector and the development of rural areas, 2004-2006.
[**] Full title: Rural Development Programme 2007-2013. Values as of July 2006.
[***] Resources devoted to commitments stemming from RDP 2004-2006 were omitted.
[****] Values in accordance with EU Commission's decision of 12 September 2006 (document no C 2006/4024).

Source: Author's own compilation based on the MARD data.

EU resources, which were allocated for the development of Polish agriculture and rural areas in 2003-2006, amounted to the total of EUR 5,380.2 million, including EUR 3,592.4 million under RDP and EUR 1,787.8 million under SOP. It resulted in an annual budget of EUR 1,793.4 million. A question arises on how the level of resources available to Poland in the next 7 years looks like in this respect.

Earlier information coming from EU indicated that Poland could receive resources of the value of EUR 11,767.5 million. The planned value of resources from RDP 2007-2013, together with the national co-financing, was established at the level of EUR 15,317.8 million. This amount is also stated in the RDP version which was submitted to the EU for approval in July 2006. It means an annual fund of EUR 2,188.3 million, i.e. 22% more that was annually available in 2004-2006. However, this level should be corrected by taking into consideration the commitments stemming from programmes implemented in 2004-2006 with relation to such measures as early retirement, supporting semi-subsistence farms, agri-environmental programmes, afforestation and agricultural producer groups. According to MARD, the value of these commitments amounts to EUR 2,887.6 million (table 4). Therefore, what remains is the total of EUR 12,430.3 million. Such a level guarantees an annual budget of EUR 1,775.8 million, i.e. 99% of resources available each year in the 2004-2006 period. Certainly, it is not a satisfactory amount, nor does it answer the needs of the development of Polish agriculture. In the end, however, the European Commission, as a result of numerous requests and motions of the Member States and after conducting valorisation of primary fund's sums, decided in September of the previous year to increase resources appropriated for agriculture and rural areas in 2007-2013 to the level of EUR 7,662.8 million. Together with resources for Romania and Bulgaria the amount was increased to EUR 88,294.4 million [2].

The biggest share of funds, exactly 15%, was granted to Poland (figure 1). The group of countries (Italy, Germany, and Romania) participates in EAFRD budget at the level of 9.1%-9.4%. A similar amount of funds was granted to Spain (8.2%) and France (7.3%). The share of remaining countries amounts to 3%-4%, so it is five times lower than that of Poland. Less than 20% of all resources (exactly 18.6%) directed for the development of rural areas in 2007--2013 is allocated to 15 countries with the lowest share in EAFRD budget.

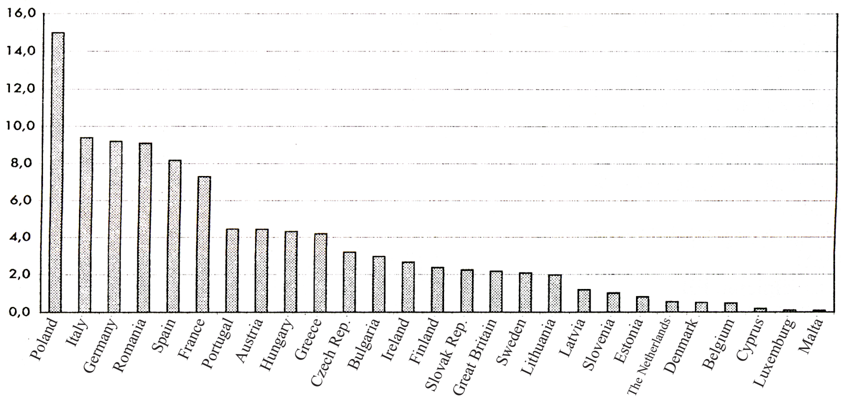

Figure 1. Share of individual Member States in EAFRD 2007-2013 (%)

Source: Author's own compilation.

According to this decision, Polish agriculture will receive EUR 13,230 million of EU funds, which together with the national co-financing results in a total budget of EUR 17,217.8 million (by EUR 1.9 billion more than in the previous proposal). This equals 2,459.7 EUR million annually, i.e. by 37.2% more than the annual value in the 2004-2006 period. However, when commitments of the present period are taken into consideration, what remains is EUR 2,047.2 million annually, i.e. 14.2% more than now. Such resources, although of considerable amount, will not ensure a breakthrough in the modernisation of Polish countryside. They will, however, allow making a step in this direction.

Table 4

Structure of resources appropriated for the development of agriculture and rural areas in 2004-2006 and 2007-2013 (EUR million, %)

Specification	RDP 2004/06*	Share	RDP 2007/13**	Share
Vocational training	19.4	0.4	50.0	0.3
Setting up of young farmers	178.9	3.3	440.0	2.9
Early retirement	534.9	9.9	787.6	5.1
Modernisation of agricultural holdings	614.3	11.4	1,650.0	10.8
Increase in the added value of agricultural production	475.0	8.8	1,100.0	7.2:
Improvement and development of infrastructure	153.2	2.9	430.0	2.8
Food quality schemes	x***	**x**	120.0	0.8
Information and promotion activities	**x**	**x**	30.0	0.2
Agricultural producer groups	17.4	0.3	130.0	0.8
Advisory services	42.8	0.8	400.0	2. 6
LFA	905.0	16.8	2,286.2	14.9
Natura 2000	x	x	550.0	3.6
Agri-environmental programmes	218.9	4.1	900.0	5.9
Afforestation	91.7	1.7	469.7	3.1
Restoration of forestry production	12.5	0.2	140.0	0.9
Diversification of agricultural activity	89.3	1.7	402.2	2.6
Services for the economy and rural population	47.1	0.9	801.7	5.2
Renovation and development of villages	112.5	2.1	840.6	5.5
Creation of micro-enterprises	x	x	502.2	3.3
Leader	18.8	0.3	200.0	1.3
Semi-subsistence farms	293.1	5.4	X	X
DSU	687.0	12.8	X	X
Supplements to area-based payments	682.4	12.7	X	X
SAPARD	140.0	2.6	X	X
Technical assistance	46.0	0.9	200.0	1.3
Commitments 2004-2006	**x**	**x**	2,887.6	18.9
Total	**5,380.2**	**100.0**	**15,317.8**	**100.0**

* Including resources available under SOP 2004-2006.
** According to RDP 2007-2013 W-06/VII/06 version of July 2006.
*** Such measures were not included in Plans for the subsequent resources programming periods.

Source: Author's own compilation based on the MARD data.

Apart from the absolute level of available funds, what is also important is their purpose. This type of comparison for the two programming periods is presented in Table 4. For the 2007-2013 period, tables included in the version sent to the European Commission in July 2006 were adopted. Also the draft proposals were discussed for the distribution of the additional resources granted to Poland in September 2006.

In the 2004-2006 period, the accumulated resources which were at Poland's disposal within the RDP and SOP, were disbursed, in the first place, to satisfy investment and modernisation needs of Polish agriculture and the whole agribusiness. The following resources were allocated to this objective:
- expenditures for the adjustment of agricultural holdings to the EU standards – 12.8% (EUR 687.0 million),
- modernisation of agricultural holdings – 11.4% (EUR 614.3 million),
- improving processing and marketing – 8.8% (EUR 475 million).

Exactly 1/3 of the whole budget was allocated to the three above mentioned developmental measures. This group should also include the financing of selected projects from the pre-accession programme SAPARD (2.6%). Thus, the total of 35.6% of available resources was allocated to investment and modernisation projects.

The second goal in the 2004-2006 period was to fulfil the needs for direct payments, due to a low level of their financing in the first pillar of the common agricultural policy (35% of the EU level in the first year of membership) as well as programmes connected with these payments, i.e. LFA. The total of 12.7% of the available budget (EUR 684.4 million) was allocated to the financing of the direct payments and 16.8% for the LFA payments, which constitutes 29.5% for these two measures. Next group of resources was devoted to financing generation changes in Polish agriculture – 13.2%, including early retirements – 9.9% and setting up of young farmers – 3.3%. Some part of the resources was allocated to environmental objectives – 6.0% (agri-environmental programmes, afforestation) as well as for the improvement of rural infrastructure and the diversification of activities in rural areas – 7.6%.

RDP 2007-2013 structure differs significantly from the 2004-2006 programmes. The highest share, as much as 18.9% (16.8% after the decision on the increase in resources made by the European Commission), is represented by present commitments. It is no longer possible to increase EU funds appropriated for direct payments[12], nevertheless the total of 14.9% of resources was allocated for the LFA payments.

The plan is to allocate the following resources for modernisation activities in agriculture and the agribusiness:
- modernisation of agricultural holdings – 10.8%,
- increase in the added value of agricultural production – 7.2%.

Thus, the total of 18% and only 16% in the increased budget, of resources is directed to developmental objectives and the modernisation of production poten-

[12] European Commission agreement to grant additional funding under RDP concerns the period 2004-2006.

tial. It is a two times smaller share than the one available in 2004-2006. Moreover, within the measure concerning the modernisation of agricultural holdings, the upper limit of financing available to one farmer was lifted – from PLN 300 thousand in 2004-2006 to PLN 500 thousand in the new period. This means the concentration of resources in a smaller group of the biggest holdings and, as a consequence, the reduction of the number of beneficiaries.

The total of 8% of resources was allocated for generation changes. The share of environmental expenditures increased significantly and reached the level of 13.5%, mainly due to the payments for the Nature 2000 areas, just as the share of resources for the improvement of rural infrastructure and the diversification of activities in rural areas – 19.4%. On the other hand, no resources were allocated for supporting semi-subsistence farms. In the 2004-2006 period, 5.4% of resources were devoted to this measure.

Therefore, the modernisation of agriculture and agribusiness potential constituted priority in the 2004-2006 budget, whereas the proposal for the distribution of resources in the new period mainly concentrates on activities indirectly related to agriculture, as well as environmental activities and the diversification of Polish rural areas. The proposal for distribution of the additional resources that Poland was granted does not change these proportions, but it even makes them more profound. It results from the fact that they were used for enlarging budgets of the following measures:

- improvement and development of infrastructure – EUR 199.9 million,
- LFA – EUR 162.5 million,
- diversification of agricultural activity – EUR 70.1 million,
- services for the economy and rural population – EUR 669.8 million,
- creation of micro-enterprises – EUR 648.1 million,
- LEADER – EUR 100 million,
- technical assistance – EUR 66.6 million.

In this way, the total budget of 7 measures increases to EUR 1,917.0 million[13]. In view of the above, almost all additional resources were allocated for measures related with infrastructure and the diversification of activities in rural areas[14]. It may be assumed, therefore, that the main goal of RDP 2007-2013 is to counteract the number one problem in rural areas, namely the unemployment. Such approach is truly admirable, however these are general social problems which should be solved mainly with the use of structural funds and only later with the aid of sectoral (agricultural) ones, all the more so as the infrastructural and social expenditures can be financed from other funds, which is not possible in the case of modernisation expenditures in agriculture and agribusiness. It is due to the fact that agricultural funds are supposed to be aimed at economic and environmental objectives of the agriculture.

[13] By the decision of the European Commission, the RDP 2007-2013 budget was increased by EUR 1,900 million. Additionally, MARD reduced resources for measure *Rural renewal and development* by EUR 17 million.

[14] Apart from EUR 162.5 million for LFA payments and EUR 66.6 million for technical assistance.

Finally, as a result of introduced changes as much as 26.4% of resources are disbursed for this purpose, i.e. over 1/4 of the total RDP budget. It is all the more controversial taking into consideration that starting from 1 May 2007 national forms of aid (the so-called existing aid) notified for three years to the EU have been no longer valid in their present form, including preferential loans with subsidies to interest rates for modernisation undertakings in agriculture and food processing. Attempts to limit investment expenditures from the EU budget for agriculture and rural areas are highly disadvantageous, because resources available in the 2007-2013 period will be the last significant expenditures for this aim made by EU. It should be, therefore, considered whether to allocate them to the modernisation of production potential in agriculture and improving the competitiveness of this sector or to the reduction of unemployment in rural areas and stimulating entrepreneurship. The latter goals, although very important from the social point of view, can be and should be financed to a larger degree from other EU funds in order not to limit so greatly resources directed for the development of agriculture.

Thus, according to adopted principles, the majority of funds available in 2007--2013 will be directed for the implementation of social and environmental objectives at the expense of the economic objective and the improvement of the competitiveness of Polish agriculture. Although the choice of measures for the new programme emphasised economic objectives (10 out of 24 measures selected for implementation under RDP), the amount of resources allocated for their implementation will be the great impediment to the achievement of desirable results.

Conclusions

1. The new EU budget programming period starts at a time of introducing changes in the methods of financing expenditures for the development of agriculture and rural areas. Two new agricultural funds were established in the place of the European Agricultural Guidance and Guarantee Fund, which had existed for many years. The funds are: The European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development.
2. Introduction of new funds means the elimination of the duality of sources of financing, programming, clearing of accounts and controlling of funds allocated to rural development. At present, the only source of these expenditures is the EAFRD.
3. The analysis of the use of EU resources appropriated for rural development in 2004-2006, indicates that the needs of Polish agriculture in this respect have been correctly defined. Changes in initial allocations of such programmes as RDP and SOP concerned the total value of EUR 507.9 million, which constitutes 9.5% of the total budget of these programmes.
4. The most important changes of financial tables in 2004-2006 concerned the RDP budget and resulted from the desire to finance other projects than had been previously planned (mainly DSU) rather than from incorrect assessment of the needs of agriculture and agricultural holdings.

5. For the new programming period, the biggest share of funds, exactly 15% of resources available in EU budget for the development of rural areas, was granted to Poland. In accordance with the decision of the European Commission, Polish agriculture will receive EUR 13,230 million of EU funds, which with the national co-financing results in a total budget of EUR 17,217.8 million (it equals EUR 2,459.7 million annually).
6. When commitments of the 2004-2006 period are taken into consideration, the amount of EUR 2,047.2 million annually remains to be used in 2007--2013, i.e. 14.2% more than now.
7. In the 2007-2013 budget, the largest share of resources – 26.4%, i.e. over 1/4 of the whole RDP budget – was allocated for expenditures indirectly related to agriculture and for social expenditures. It means that counteracting unemployment became the RDP's priority. It is a general social problem, for the solution of which structural funds should be utilised and only later the sectoral (agricultural) ones.
8. Thus, the majority of funds available in 2007¬2013 will be directed for the implementation of social and environmental objectives at the expense of economic objectives and the improvement of the competitiveness of Polish agriculture. Although the choice of measures for the new programme emphasised economic goals (10 out of 24 measures selected for implementation under RDP), the amount of resources allocated for their implementation will be the great impediment to the achievement of desirable results.

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8. 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 of 21.10.2005). Here, what should be noticed is the lack of consistency in Polish versions of EU acts. In Council Regulation (EC) No 1290/2005 the term "fundusz rolniczy" is used, whereas in Council Regulation (EC) No 1698/2005 – the term "fundusz rolny na rzecz rozwoju".
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