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**The Credit Support System in the Polish Agriculture. The Evaluation of 10
Years Performances**

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THE CREDIT SUPPORT SYSTEM IN THE POLISH AGRICULTURE. THE EVALUATION OF 10 YEARS PERFORMANCES

Abstract. The aim of the paper is to evaluate the 10 years performance of the credit support system in the Polish agriculture. The analysis showed that during 10 years of the running the system about 10% of farms were its beneficiaries. The positive changes in agricultural sector took place but it is difficult to separate the credit assistance effects. The system has the advantageous influence on the creation of the sustainable financial system in the rural areas by helping cooperatives banks to overcome difficulties by generating stable farmers' credit demand.

Keywords: preferential credit, cooperative bank, credit market

JEL classification: Q₁₄ Q₁₈

Introduction

In May 2004 Poland joined the European Union. It means involving in Common Agricultural Policy. The accession will result the end of agricultural preferential credit system, which has existed since 1994. It seems that the evaluation of outcomes of the system is necessary. It can help to understand dimensions of credit as a tool of intervention and to recognize constrains, advantages and disadvantages of it using.

The analysis of results of credit interventionism starts with characteristics of the Polish agriculture and its role in the economy at the beginning of the transition. It is followed by the description of the first steps of credit intervention in agriculture. The next part is devoted to presentation of basic assumptions, formal aims, and elements of the credit preferential system. In the third part, the results of the 10 years its functioning is examined. To sum up the comparison losses and gains is given.

The examined period covers generally 10 years from 1994 to 2003. When data are available the year of 2004 is included to analyses. The information and data are taken from different sources like The Central Statistical Office of Poland, The General Inspectorate of Banking Supervision, The Agency for Restructuring and Modernization of Agriculture, the research of author, and relevant literature. The data used in paper illustrate the examined processes; show the scale of changes and their tendency. The mixed methods of analysis were used. The descriptive method with elements of comparative one is the main method. It is supported by statistic method.

The Polish agriculture at the beginning of the transition, its characteristics and the role in the economy

In the communistic period the agriculture was important sector of the Polish economy (Table 1). Its share in GDP just before transition was more than 10%, its share in employment was much greater. About 40% population lived in rural areas and was connected with agriculture with many various kinds of links. The share of agriculture in total investment outlays as well as in export was not adequate to its share in GDP and employment.

Table 1. The place of agriculture in the Polish economy at the beginning of transformation to market economy

Specifications	1989	1993
Population in rural areas (% of total)	38.4	38.2
Persons employed in agriculture and hunting (%)	26.4	25.7
GDP in agriculture (%)	11.8	6.4

Agricultural land area ('000 ha)	18 727	18 642
Of which private farms	14 274	14 602
Share of agriculture, hunting, forestry in total investment outlays (%)	14.1	6.8
Share of live animals, animal and vegetable products in export (%)	4.1	3.4

Source: GUS, Statistical Yearbook of the Republic of Poland 1991, 1994.

The specific feature of the Polish agriculture was the presence of private sector. The private farms existed in parallel with state farms and cooperative farms. The role of private farms was the most important taking under consideration their share in agricultural land, employment, production. There were very many private farms but of rather small area, with agricultural land divided into many small plots. The farms were generally technically bad equipped; they had problems with buying working capital and fixed capital because of characteristic of communistic countries permanent shortage of goods, which is analyzed in famous works of Kornai (1980, 1982). As a consequence, farms' productivity was small (Table 2) comparing with the results of farms in well developed market economies in Europe. These data indicate dimensions and the scale of problems connected with restructuring of agriculture, which the Polish economy faced at the beginning of transformation into market economy. But in contrary to the other communistic countries, a domination of private farms was a positive aspect of the Polish agriculture. Moreover, private farms were familiar with conducting operations at their own account and on own risk although the conditions of activity in central planned economy were different from conditions in market economy.

Table 2. Trends and the major economic and production results in the Polish agriculture in the 1989 and 1993 (only private farms)

Specifications	1989	1993
Private farms exceeding 1 ha of agricultural land	2,143,000	2,149,000
Private farms by area groups (%)	100	100
1.01 – 1.99	17.9	17.9
2.00 – 4.99	34.9	35.3
5.00 – 9.99	29.8	29.6
10.00 – 14.99	11.3	11.2
15 ha and more	6.1	6.0
Average total farm area (ha)	7.2	7.1
Tractors per 100 ha of agricultural land (units)	6.9	7.2
Consumption of artificial fertilizers in terms of pure ingredients per 1 ha of agricultural land (kg)	168	61
Protein feed sales per large head (dt)	3.0	1.9
Yields of basic cereals per ha (dt)	32.7	27.0
Production of milk per cow (l)	3 156	3 024
Price relations ("price gap") of sold agricultural products to goods and services purchased by private farms (1990=100)	125.6	84.0
Agricultural income (1989=100)	100	43

Source: GUS, Statistical Yearbook of the Republic of Poland 1990, 1991, 1994

To sum up the balance of entry of agriculture into market economy was not advantageous.

The first effects of the market economy for agriculture

In 1990, the economic environment has changed significantly for Polish farmer. Introduction of market reforms with elimination most farms and food subsidies (including subsidies to credits), free import, privatization of state or cooperative enterprises in food sector, floating market demand and unstable prices did rapidly the conducting operations more difficult than before. Farmers faced strong competition on market and new production requirements. In planned economy they were expected only to produce. In market economy the skills to sell and to be paid became very important. These changes resulted in a significant decrease in agricultural incomes. In real terms they fell down by 51.4% in 1990 and by 26.1% in the next year. In 1992 and 1993 slight increase was noticed so at the end of 1993 the incomes were about 57% lower comparing with 1989. What more, the very many part-time farmers lost their job outside the farms. The sharp and deep reduction of incomes and widening “price gap” (Table 2) influenced the level of farmers’ expenditures for working capital and investments. The same time access to external sources of capital, namely credits were limited because of very high interest rates. As a result, demand for inputs (fertilisers, pesticides and seeds) decreased significantly as well as investments. The effects of this reduction appeared very quickly (Table 2).

The initial credit intervention

After introduction of market reforms at the beginning of 1990 the signals about worsening situation of agriculture and dissatisfactions of farmers appeared. More over in 1992 a severe natural disaster, which the agriculture is specially exposed and sensitive for, took place. As a remedy the Governments, no matter of what political option (the governments were changed several times during the first five years of transformation) did use credits as a tool of intervention. These credits can be divided into three groups in respect of aim: (i) so called “spring credits” or “fertilizers credits”, (ii) so called “draught credits” and (iii) investment credits.

“Spring credits” were established rather very quickly after introduction of rules of market economy because in April 1990. They were designed only for one year and could be used for financing of purchase of working capital (seeds, fertiliser, pesticides, protein feed, etc.) and land. But every next year in spring the government repeated the preferential credit offer. The range of credit targets were widened gradually. Additionally credits for buyers of agricultural products were allowed. The preferential character of these credits relied upon the lower then market interest rate. The farmers paid only a part of market price. The size of interest rate paid by farmers was connected with central bank refinancing credit rate (except 1990 when it was described at fixed level). Until 1995 the government every year issued new ordinance to establish credit of this kind. The Ministry of Agriculture proposed the list of preferential targets and Ministry of Finance was responsible for settling account with banks.

To reduce the effects of the severe draught in the summer 1992 (comparing with 1991 the production of basic cereals felt down about 27,9%, potatoes -19.4%, vegetable – 20.5%, surge beat – 26.8%) the Council of Ministers decided in November to use the preferential credits. The terms of them were more favourable than “spring credits” in respect to the interest rate and the other terms too. In 1994 the draught appeared again so the government used the “draught credits” again.

The “spring” and “draught credits” could finance the chosen investments in farms, at the beginning land, later tractors or the other farm equipment. In 1991 in state budget about 30 millions USD was devoted for subsidies to credits for modernisation and restructuring agriculture and food industry. In 1992 the attempt was made to solve institutionally the problem of agricultural debt and the support the process of restructuring and modernisation. The Fund for Restructuring and Debt Reduction in Agriculture (FRiOR) was established. It is worth to mention that this time the leader of the Polish Farmers Party was the Prime Minister. At the same time the similar agencies were established in Hungary, Slovakia (Chrastinova, 1999; Silar and Doucha, 1999; Ulrich, 1999). Priority was given to farmers, who wanted to restructure their debt. Credits were granted by banks on the ground the funds of Fund. Smaller credits were allowed by banks independently, bigger ones after acceptance of Fund. Banks took the commission for intermediation. The terms for borrowers were very favourable comparing with market terms. For example the interest rate of credits for new investments was at 20% whereas the central bank refinancing rate was at 38% in the second half of

the 1992. Lack of financial responsibility by banks caused that they were not very careful about the aims of credits, efficiency of planned investments or collaterals by granting credits. The Fund had worked for only one year. In July 1993 after the total critics it was suspended from activity for two months. In 1994 the new state agency replaced it and undertook its obligations.

The effects of all presented kinds of credits were rather small. The values of granted credits were not high. In the case of “spring credits” most of the subsidies were used not by farmers but by enterprises which bought agricultural products

The creation the system of credit support of the agriculture

The first economic effects of implementation of market economy were not positive for creation preconditions for future modernisation and restructuring of agriculture. The several years of decrease in investments and lack of changes in farm structure (Table 2), especially in the context of the intention to join the European Union formally expressed in Athens 8 April 1994 by official application for membership in the UE, mobilized the government to start to create a stable system of support of restructuring and modernisation of the agriculture. The credit was chosen as a main tool to achieve these goals. To realize the credit policy in agriculture the state agency – The Agency for Restructuring and Modernisation of Agriculture (ARMA) was established in the end of 2003 as the main leading element of credit support system. It is the typical way in Poland to sort out the economic problems in the way of forming the state agencies. At the beginning of transition the two state agencies were set up in the sector of agriculture – The Agency for Agricultural Markets (1990), The Agency of State Real Estate in Agriculture (1991). Banks and the Advisory Centres for Agriculture were the other elements of that system.

Agency for Restructuring and Modernisation of Agriculture

As aforementioned the ARMA replaced the FRiOR and took its responsibilities. The negative experiences with the FRiOR were taken under consideration in creation its targets, scope and forms of activity so it did not follow the FRiOR at all. The ARMA was established by The Act of Parliament in December 1993.

The official aims of Agency at the beginning were:

- to support investments in agriculture, food industry and firms providing services to agriculture;
- to improve the agrarian structure;
- to provide financial assistance to programs (investors) creating new non-farming jobs in rural areas;
- to develop rural infrastructure;
- to support the education, information and advisor initiatives;
- others.

In the following years the scope of aims were widened.

The Agency executes its tasks through:

- subsidies to interest on credits granted by banks;
- financing or co-financing particular projects;
- bank guarantees and collateral security for bank credits and loans.

The Agency activity is mainly financed by state budget. The interest on bank deposits, credits, foreign financial support and others are additional sources but of decreasing importance.

Banks

The banks that are interested in granting preferential credits sign contracts with the ARMA about realization of granting subsidised credits, or guarantees. The contracts precise terms of credits, procedures, rules of control, limits of subsidies for their disposal. Banks allow credits from their own resources on their own risk. Banks grant preferential credits in the framework of so called lines of credits, which differ by purpose, borrowers and the level of subsidies. Number of this investment

credits lines was changed nearly every year from 4 ones at the beginning to 46 ones in the end of 1997. Many branch credits lines and all regional credits lines of rather small importance were shut in 1998 (for example during three years of working of regional credit lines in the frame of 27 of these lines only 1007 credits were allowed). At the end of 2003 credits from 15 investment credit lines were available. The most important and popular lines have worked since 1995 continuously up today. In 1995 28 commercial banks except cooperative banks cooperated with agency, 10 years later - 22 ones.

The Advisory Centres for Agriculture

The Advisory Centres for Agriculture (ACA) are responsible for the financial and formal evaluation of the investment projects that farmers want to realize and to finance with subsidised credits. The ACA are obliged to do this gratis. To evaluate the project the Centres request different documents especially business plan. The Centres' officers check the realisation of the larger investment projects. It is important activity in the light that banks are generally interested in punctual repayment of credits and may not pay enough attention to declared aim of using of the subsidised credit by the lender.

The regulation of credit support system

The scope, targets and forms of agency activity are regulated by the Acts of Parliament. The terms of credit support are ruled by the Ordinances of Council of Ministers and Regulations of The President of the ARMA. They describe kinds of investment credit lines and the terms of the credits for farmers or the other economic agents and for banks.

In 1995 the problem of "spring credits" were regulated by The Act of Parliament which stopped every year uncertainty and stabilized terms of them. The administration of these credits was given to the ARMA on the base of the agreement between The Ministry of Agriculture and the ARMA.

The elements of support system and the relations between them are presented in Figure 1.

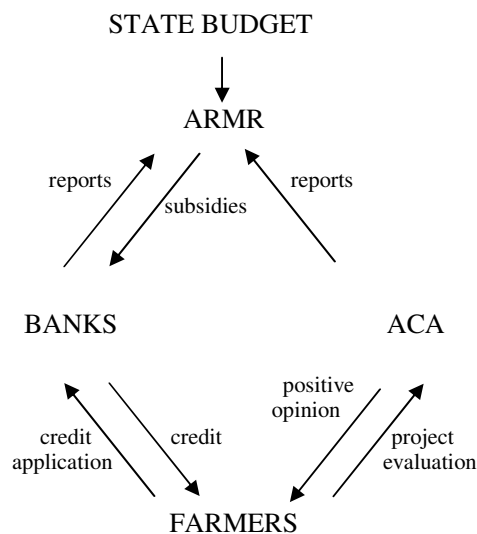


Figure 1. The schema of credit support system in Poland

The system of credit support can be estimated as not complicated and rather clear. The way to obtain a credit by farmer is the same as in the case of commercial credits with one aforementioned exception – the positive opinion of Advisory Centre about the purposefulness of the investment is required additionally. It of course increases the cost of applying a credit.

The terms of the preferential credits

The terms of credits are advantageous for farmers in comparison with commercial terms of credits (Table 3). It is expressed generally by lower interest rate, longer maturity and the grace period.

Generally central bank discount rate is the benchmark for interest rate paid by farmers. It is a result of subtraction the interest rate required by bank and the maximum level of interest rate subsidised by the ARMA.

Table 3. The main terms of preferential credits offered by banks to farmers in the frame of the main credit lines in 2003 (31 December)

The credit line	Interest rate paid by farmers	Grace period for repayment (years)	Farmer's contribution in the financing of the investment (%)	Maturity (years)
Basic investment credits	1/2 of bank interest rate min 3%	2	20-30	8
Credits for land purchasing	1/4 of central bank discount rate min 1.2%	2	20-30	15
Credits to young farmers	1/4 of central bank discount rate min. 1.2%	2	20-30	15
Branch credits	0.75 x 1.3 Polish Central Bank discount rate min 2%	2	20-30	8-15
Credits for working capital	0,35 of the central bank discount rate min 2%	-	-	1 - 2

Source: Own comparison based on Ordering of Council of Ministers and The Regulation of The President of the ARMA

To prevent the high interest rates charged by banks, the maximum interest rate on preferential credits is established. It is connected with central bank discount rate too. The multiplier using to investment credits was changed several time and ranged from 1.5 to 1.25. Since the end of September 2003 it has been 1.3.

In the case of investment credits, the period of maturity is very important. In the circumstances of inflation, low profitability and high risk the banks do not want to allow credits for long period so the 8-15 years of repayment of preferential credits can be treated as a big advantage of these credits. This remark concerns to grace period too. The farmers ought to have their own contribution in financing the investment. Its level depends on kind of credit target. What more the maximum level of the value of the preferential credits was established -PLN 4 millions (about EUR 1 million) in the case of investment credits and amount money equal of value of 10 dt of ray for every 1 ha of agricultural land own or leased in the case of credits for working capital.

The very important mechanism to prevent farmers from using the credit not according to declared target was introduced. Farmers who used credits in the improper way have to pay subsidies back. Another regulation concerns repayment credit in time: those who delay with repayment, lose the right to preferential interest rate. It resolved the very important problem of reimbursement often mentioned in the literature (Yanbykh, 2001; Von Pischke, 2001; Van Empel, 2001). As data shows the farmers are very reliable debtors. The share of irregular claims in the debts of individual farmers in cooperative banks was in 2003 at 3% level in the next year decreased to 2% (Summary Evaluation 2004, 2005).

The scale and the effects of 10 years performance of credit support system

The evaluation of the effects of the credit support system is not easy because of their vast range dimensions: economic, social and political and many economic agents involving in that system. The scale of support, its influence on agricultural indicators and the cost of running the system must be taken under consideration.

The scale of the credit assistance

During the period 1994-2003 every year some ten thousand of farms (a very few percent of existing farms, or even farms that produce mainly for sale) took the investment credits and some hundred thousand of them borrowed money for working capital (Table 4). The number of credits varied from year to year. The highest interest of farmers was at the beginning of the preferential credit system. At the end of the 90s the number of credits decreased noticeably. In new decade the number of investment credits increased but did not reached the level from the beginning. This fall of using credits especially investment ones can be connected with the recession in the Polish economy. It seems that the agricultural credit is very sensitive about macroeconomic situation, which determines the global demand and influences the perspective perception (Danilowska 2004). In Poland the level of using bank agricultural credits is generally low. The investigation of The World Bank about the rural credit market in Poland gives two explanations for the low levels of borrowing among the rural Polish households (Report No. 22598-POL 2001). The first one is the “uncertainty hypothesis” underlying the role of stable and predictable economic environment; the second is “credit market hypothesis” indicating imperfections in the banking system. The findings of the World Bank investigation showed that the first hypothesis is more consistent with the “uncertainty hypothesis”. The role of macroeconomic incentives is underlined by Kowalski (1999) and Kulawik (2001). The author’s investigation (the investigation made in frame of university grant 504 08020011 “The microeconomic determinants of agricultural credits in Poland”) on microeconomic determinants of taking bank credits by farmers, which were examined systematically by the Institute of Agricultural and Food Economics, showed rather small or even not important role of such determinants as age, education, farm area, the scale of investment, output, income, the non-farming activity, being a shareholders of cooperative bank. The findings can suggest implicitly the leading role of macroeconomic determinants in undertaking decisions about using bank credits.

Table 4. The number and structure of subsidized credits for farms in Poland in 1994-2003

Year	Investment credits ^{1,2}		Branch credits		Credits for working capital		Credits due to natural disasters	
	Number	%	Number	%	Number	%	Number	%
1994	15 850	7.0	81	0.4	400 000	9.3	339 860	41.7
1995	29 908	11.3	3 438	19.1	311 437	7.3	170 421	20.9
1996	53 840	20.3	3 977	22.1	667 761	15.6	2 600	0.3
1997	50 592	19.0	3 597	20.0	593 736	13.9	23 959	2.9
1998	15 990	6.0	1 133	6.3	460 086	10.7	11 709	1.4
1999	18 430	6.9	1 446	8.0	457 964	10.7	17 893	2.2
2000	14 112	5.3	1 528	8.5	348 110	8.1	134 629	16.5
2001	18 517	7.0	755	4.2	351 026	8.2	21 628	2.7
2001	24 012	9.0	1 126	6.2	354 107	8.3	22 711	2.8
2003	24 570	9.2	941	5.2	340 509	7.9	70 554	8.6
Total	265 821	100	18 022	100	4 284 736	100	815 964	100

Notes: ¹ Investment credits: Basic investment credits, Credits for land purchase, Credits to young farmers, Investment credits for farms suffered from natural disasters, Credits for set up or increase of production

² excluding credits for investments in food industry

Source: Own calculations based on: data from Kredyty preferencyjne “wiosenne” 1994 r., Sekcja Analiz Ekonomicznych Polityki Rolnej, FAPA, Nr 5/94, Warszawa 20.10.1994, Annual Reports on Activity of the ARMA (1994-2003), ARMA 1995-2004

Assuming that for average farm using the preferential investment credits 1.4 preferential credit (the effect of authors investigation on the base of survey made on sample of 86 farms which were examined systematically by the Institute of Agricultural and Food Economics and were in debt due to preferential investment credits on 31 December 2001) was devolved it can be estimated that about 10% farms were beneficiaries of that kind of assistance during 10 years of running credit support system. More over every year about 20-30% of farms took credits for working capital

The place of the agriculture in the economy and the effects of 10 years of the credit support system performance

During 10 years (1994-2003) the place of the agriculture in the Polish economy compared with 1993 has changed noticeably. The share of agriculture in GDP decreased nearly 3 times, the employment in that sector went down about 40%, the export of agricultural product raised about 40%, the share of in investment outlays decreased. But those processes were generally an effect of transformation of the whole economy, which developed rather quickly especially in the mid of nineties.

Table 5. The place of agriculture in the Polish economy at the end of 2003

Specifications	2003	2003 1993=100
Population in rural areas (% of total)	38.4	100.5
Persons employed in agriculture and hunting (%)	16,1	62.6
GDP in agriculture, hunting and forestry (%)	2,6	40.6
Agricultural land area ('000 ha)	16 169	86.7
of which private farms	14 012	96.0
Share of agriculture, hunting and forestry in total investment outlays (%)	2,0	29.4
Share of live animals, animal and vegetable products in export (%)	4.8	141.2

Source: GUS, Statistical Yearbook of the Republic of Poland 1990, 1991, 1994, 2004

The changes inside of the agricultural sector took place too. Of course they resulted from many factors not only credits. After 10 years of running credit support system in agriculture the changes in number of farms and in area structure appeared. The decrease in the number of farms is rather positive sign, but changes in farms' structure can not be evaluated positively, because the number of the smallest farms increased very much, whereas the decline in the number of larger farms was observed with one positive exception – the group of the largest farm with the share of 9.9%. The nearly 10 percentage of number of farms in Poland means about 185 thousand of large farms. These farms have a big production capacity.

Table 6. The major economic and production results in the Polish agriculture in 2003

Specifications	2003	2003 1993=100
Private farms exceeding 1 ha of agricultural land	1,850,000	86.1
Farms structure by area of agricultural land (%)	100	-
1.01 – 1.99	25.8	144.1
2.00 – 4.99	33.0	93.8
5.00 – 9.99	22.1	74.7
10.00 – 14.99	9.2	82.1
15 ha and more	9.9	159.7

Average total farm area (ha)	8.2	115.5
Tractors per 100 ha of agricultural land (units)	8.5	118.1
Consumption of artificial fertilizers in terms of pure ingredients per 1 ha of agricultural land (kg)	93.6	153.4
Yields of basic cereals per ha (dt)	28.3	104.8
Production of milk per cow (l)	3 969	131.2
Price relations ("price gap") of sold agricultural products to goods and services purchased by private farms 1990=100	63.9	76.1

Source: GUS, Statistical Yearbook of the Republic of Poland 1990, 1991, 1994, 2004 and own calculation on these data

The findings of Petrick indicate that the Polish farmers make their investment decisions conditional on the availability of subsidised credits (2004). The undertaken investment influenced technology of production and the results. The productivity of the agricultural activity in 2003 was better comparing with 1993. However, it is very difficult to estimate the role of preferential credits in these phenomena.

The effect of credit system for the agricultural credit market

The quite easy access to credit and vast range of preferential credits targets caused nearly replacing the commercial credits by preferential credits. During examined period the share of farmers' banking debt due to preferential credits in banking farmers debt was increasing and in December 2003 was amounted at about 85% (Table 7). Author's investigation done on farms, which were examined systematically by the Institute of Agricultural and Food Economics showed that about 21.4% analysed credits were taken on commercial terms and about 40% of the latter were used for financing the purchase of car.

Table 7. The structure of farmers' debt in the banking sector, by classification (December 31)

Banks	Farmers' debt due to preferential credits in total farmers' debt in the particular group of banks (%)			Farmers' debt in total debt of non-financial sector in the particular group of banks (%)			Farmers' debt due to preferential credits in total debt of non-financial sector in the particular group of banks (%)			Share of particular group of banks in total farmers' banking debt (%)		
	1999	2001	2003	1999	2001	2003	1999	2001	2003	1999	2001	2003
Total	79.9	84.5	85.4	4.0	4.4	4.4	3.2	3.7	3.8	100	100	100
Cooperative banks	81.0	82.0	80.4	40.6	42.5	4.8	32.9	34.8	35.2	50.3	54.6	66.6
Commercial banks (without regional and affiliating) ¹	77.9	76.9	96.0	1.1	0.9	1.2	0.9	0.7	1.2	25.1	17.8	26.0
Regional and affiliating banks	79.7	94.4	93.0	16.3	23.5	33.3	12.9	22.2	30.9	24.6	27.6	7.4

¹ Since 2002 the Food Bank (Bank Gospodarki Żywnościowej) is not classified as affiliating bank and it was reflected in the data for 2003

Source: Own calculations based on data from Bilansowe wyniki finansowe banków w 1999, 2001, 2003, GUS, Warszawa 2000, 2002, 2004.

The other phenomenon of a very great importance is the role of agricultural preferential credits in creating stable financial system for rural areas. At the beginning of transition only the network of

cooperative banks serviced agents in the rural areas. The commercial banks focused on developing their network in the urban areas. In the second half of the 90s it seemed that they were interested in service of the rural areas and granting credits to farmers, but in the new decade, as data show, their share in farmers debt decreased noticeably, what's more the number of their different kinds offices declined from 11 470 in 2000 to 8 359 in 2004 (about 27%) (Summary..., 2005). These data indicate the fall of the role of the commercial banks in the rural areas. In the first half of the 90s the situation of cooperative banks was worsening quickly for many reasons (Swinnen 1998; Van Empel, 1999) and many banks bankrupted (Danilowska 2004). The restructuring of the sector of cooperative banks, which has taken place since 1994, probably would not have been finished successfully without preferential credits for farmers and for food enterprises. Farmers' credit demand especially at the beginning of transition was rather small (Danilowska 2004). The credits subsidies increased farmers' credit demand. The allowed credits became than the revenues of different kind of enterprises operating in the rural areas and having their accounts in the cooperative banks. The role of preferential credits for the cooperative banks is illustrated by data in Table 7. The well developed network of offices of the cooperative banks (3 383 different kind of office in the end of 2004) not only meets demand for financial services in rural areas but decreases transaction costs of the credit contracts in many ways as well, for example for banks by having credit history of farms often from communistic period, for farmers by lowering of the travel costs to arrange the credit. Without cooperative banks the access of many people living in rural areas would have been more difficult and the transaction cost of many financial services would have been very high. The different processes (among them preferential credit system) resulted the stable well functioning system of cooperative banks providing financial services for economic agents in the rural areas.

The cost of running credit support system in the agriculture

The running the credit support system requires the every year budget expenditures. They depend on the number of credits, the period of credit maturities, the height of interest rates in the economy and the way of describing the height of the interest rate for banks and farmers (enterprises) .

Table 8. The expenditures for financing of preferential agricultural credits in 1995 -2003

Specification	1995	1996	1997	1998	1999	2000	2001	2002	2003
Expenditures due to subsidies to interest on preferential agricultural investment credits – indices, previous year =100	-	218.9	151.9	107.9	86.2	111.3	97.7	69.8	63.9
Expenditures due to subsidies to interest on preferential agricultural credit for working capital – indices, previous year =100	-	139.0	114.5	73.6	58.2	141.7	41.8	97.5	37.0
Relation of expenditures for agriculture to state budget expenditures (%)	1.60	1.84	1.76	1.69.	1.71	1.63	1.76	1.68	1.87
Relation of expenditures due to subsidies to interest on preferential agricultural credit (for the whole investment, current means of production and purchase of agricultural products) to state budget expenditures for agriculture (%)	30.1	43.2	59.9	58.2	45.0	56.3	45.7	32.3	15.8
Relation of expenditures due to subsidies to interest on preferential agricultural credit (for the whole investment, current means of production and purchase of	0.48	0.79	1.05	0.98	0.77	0.92	0.81	0.54	0.30

Source: Own calculations based on data from Annual Reports on Law on Public Finances and Annual Reports on Activity of the ARMA (1995-2002).

At the beginning of the working of the credit support system the widening preferential credit offer and accumulation of debts caused the quick increase of subsidies. On the other hand at the same time the central bank discount rate was going down, which slowed the growth of the subsidies. In 1998 and 1999 the subsidies declined noticeably because of a deep and rapid fall in the number of allowed credits, further decrease of central bank discount rate and aforementioned reduction of the multiplier that describes the maximum level of the bank interest rates on preferential credits. Next year the subsidies rose as an effect of an increase of the central bank discount rate but since the 2001 this rate has been going down so the subsidies have been falling too.

The relations of the credit subsidies to budget expenditures for agriculture in examined period at even 60% level indicate that the credit was leading tool of state intervention in agriculture. Since 2000 it has fallen deeply as the other tools were implemented mainly subsidies in the frame of different programs in agriculture for example coo-financing investments done in the frame of SAPARD or the program of the afforesting of agricultural land.

The credit subsidies compared to state budget expenditures show the scale of the credit assistance from the perspective of the economy. It can be evaluated as of noticeably meaning in the 90s and of a decreasing importance in the new decade.

The tendencies in the value of credit subsidies prove that the credit support system is losing gradually its significance in financing the Polish agriculture. The farmers don't protest against, as even more favourable financial tools of intervention are introduced in the frame of many programs - mainly direct subsidies.

Conclusions

The credit support system is addressed mainly to the farmers and in a smaller part to the food enterprises. These economic agents are obvious beneficiaries of that system, but they are not alone ones. There is a quite long list of other beneficiaries, who take advantages in different ways and forms. The list includes banks, especially cooperative banks, inhabitants of rural areas, producers and sellers of the means of production, the staff of ARMA and the Agricultural Advisory Centres and of course politicians.

Banks derive profits from the credit support system in the form of the increase of farmers credit demand. They get the whole subsidies. What's more, the state by regulation of repayment the preferential credits and financing the Agricultural Advisory Centres that evaluate investment project lowers banks' risk and costs. It is worth to underline that the cooperative banks are the especially beneficiaries of the examined system. Credit subsidies helped cooperative banks to overcome the difficulties connected with the transformation through creating credit demand. In result of that and other incentives the sustainable financial system in the rural areas was established. That system services the people in the rural areas, gives them the easy and quick access to financial services at reasonable cost.

The producers and sellers of the means of production and investment goods take the advantage from the system because subsidies increases the credit demand and in result demand for working and fixed capital.

The staff of the Agency and the Advisory Centres is a beneficiary too, as the officers have a stable job in the state organisations, what in the country with the very high unemployment rate is very valuable.

Politicians are the group especially interested in credit support because credit is a very flexible and comfortable tool, suitable for quick using in different situations. The every political party that formed governments during analysed period used the preferential credits as a tool of a gain of farmers acceptance.

The mentioned agents can be described as a winners of the credit support system in the Polish agriculture.

In the contrary to the list of beneficiaries, the list of losers is rather short. There are only two groups on it. The taxpayers are the first but very large group of losers, as the credit subsidies are paid from the state budget. It is worth to mention that the Polish farmers don't pay income tax. The second group includes the farmers, who have to pay the higher prices for the means of agricultural production because the producers rise the prices as the result of the higher demand.

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