



**Ministry of Agriculture  
and Rural Development**

**POLAND**

**Sectoral Operational Programme  
Restructuring and  
Modernisation of the Food  
Sector and Rural  
Development  
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**NATIONAL DEVELOPMENT PLAN  
FOR 2004-2006**

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## **CHAPTER 1. CHARACTERISTICS OF THE DEVELOPMENT OF RURAL AREAS AND THE AGRI-FOOD SECTOR IN POLAND**

### **Polish rural areas**

In Poland, in accordance with the terminology used by the Polish Central Statistical Office, a rural area is defined as a territory situated outside town administrative boundaries. According to this criterion, rural areas in Poland account for 291,400 square kilometres, which is 93% of the area of the country. Taking the population density criterion into account, the share of rural areas in the Polish territory is 91% if we exclude the areas where population density exceeds 150 persons/square km, and it is 86% if we consider only administrative units with a population density lower than 100 persons/square km to be rural ones.

There are 884 towns in Poland, of which 576 are small towns that are the centres of urban-rural gminas (municipalities); there are also 56,769 rural localities, of which 42,804 are villages and 13,965 are colonies, settlements and hamlets.

In the year 2002, the population of Poland was 38,230,100. The rural areas were inhabited by 38.2% of the total population, i.e. 14,619,700 people, out of whom 7,282,200 were males and 7,337,500 were females. Rural localities are very varied with regard to the number of inhabitants:

- 15% of localities have less than 100 inhabitants;
- 66% of localities are inhabited by 100-500 people;
- 13% of localities are inhabited by 500-1000 people;
- only 6% of localities are inhabited by more than 1000 people.

Rural population share also varies regionally: from 20.2% in Śląskie Voivodeship to 59.0% in Podkarpackie Voivodeship, and the share of rural population in the region correlates with the regional wealth.

### ***1.1. Place and role of the agricultural sector in the Polish economy, and the characteristics of farms***

#### **Role of agricultural sector in the economy**

In Poland, the agricultural sector has greater social and economic importance than in Western European countries. There are still regions where agriculture has a major influence on the economy and as such has a crucial impact on the development of these regions and the standard of living of their inhabitants.

In 2001 agriculture (including the hunting and forestry sectors) accounted for 3.3% of the Gross Domestic Product. This had decreased from 12.9% in 1989, 8.3% in 1990 and 6.0% in 1995.

#### **Farm structure**

In 2002, there were 1,956,100 farms with an area exceeding 1 ha in Poland, out of which 1,954,900 farms were privately owned and 1200 were state owned farms. In 2002, the average area of farmland per farm was 5.76 ha and it was 1.8% larger than in 1996; an average area of farms with the area of farmland exceeding 1 ha was 8.44 ha. According to the data of Agricultural Census of 2002 amongst the total number of individual holdings of the size above 1 ha of agricultural land:

- 334 500 i.e. 17% (2.4% in year 1996) holdings operating on a non-permanent or temporary basis

- 207,300 i.e. 10.6% (12,7% in year 1996) - subsistence farms;
- 498,800 i.e. 25,5% (37.4% in year 1996) –semi-subsistence farms;
- 915,400 i.e. 46,8% (47.4% in year 1996) – commercial farms.

Despite the slow pace of changes in the agrarian structure of agriculture, an increase in the number of smallest and largest farms has been observed in recent years. On the one hand it results in reallocation of land resources to larger and more efficient farms and on the other hand to an increase in the number of subsistence farms. During the 1996-2002 period, the groups of farms mentioned above evidently shifted towards a bipolar model, within which two separate groups of farms became distinct:

- group I includes subsistence farms, holdings that do not engage in agricultural activities and those that produce exclusively or mainly to meet their own needs;
- group II includes holdings that produce mainly for the market.

Within the group of holdings involved in marketable production, 72.8% of farmers generate income exclusively or mainly from agricultural production, whereas in the case of all individual farms only 45.5% generate their income in such a way. As many as 75% of farms between 1 and 5 ha in area produced mainly or exclusively for their own needs. Furthermore, 3.8% of farms are not engaged in agricultural production at all (on a permanent or temporary basis). These figures show that small farms participate in marketable production to a negligible extent.

Table 1. Number of farms with an area exceeding 1 ha of agricultural land and the use of land by farm area groups in 1996 and 2002

Agricultural land area groups (ha)	Total number of holdings (thousands)		Agricultural land area (thousands of ha)		Changes in agricultural land area 2002/1996 (%) 1996 = 100
	1996	2002	1996	2002	
<b>Total</b>	<b>2041</b>	<b>1956.1</b>	<b>1941.0</b>	<b>18787.4</b>	<b>96.7</b>
1-2	462	517.0	797.6	892.3	111.9
2-3	282	281.1	834.6	831.2	99,5
3-5	386	348.7	1783.6	1603.8	89.9
5-10	521	426.8	4255.3	3505.2	82.4
10-15	217	182.7	2981.0	2509.9	84.1
15-20	89	83.9	1730.6	1616.8	93.4
20-30	56	64.3	1514.5	1713.3	113.1
30-50	19	31.7	828.2	1290.3	155.8
50 and more	9	19.9	4684.4	4824.6	102.3

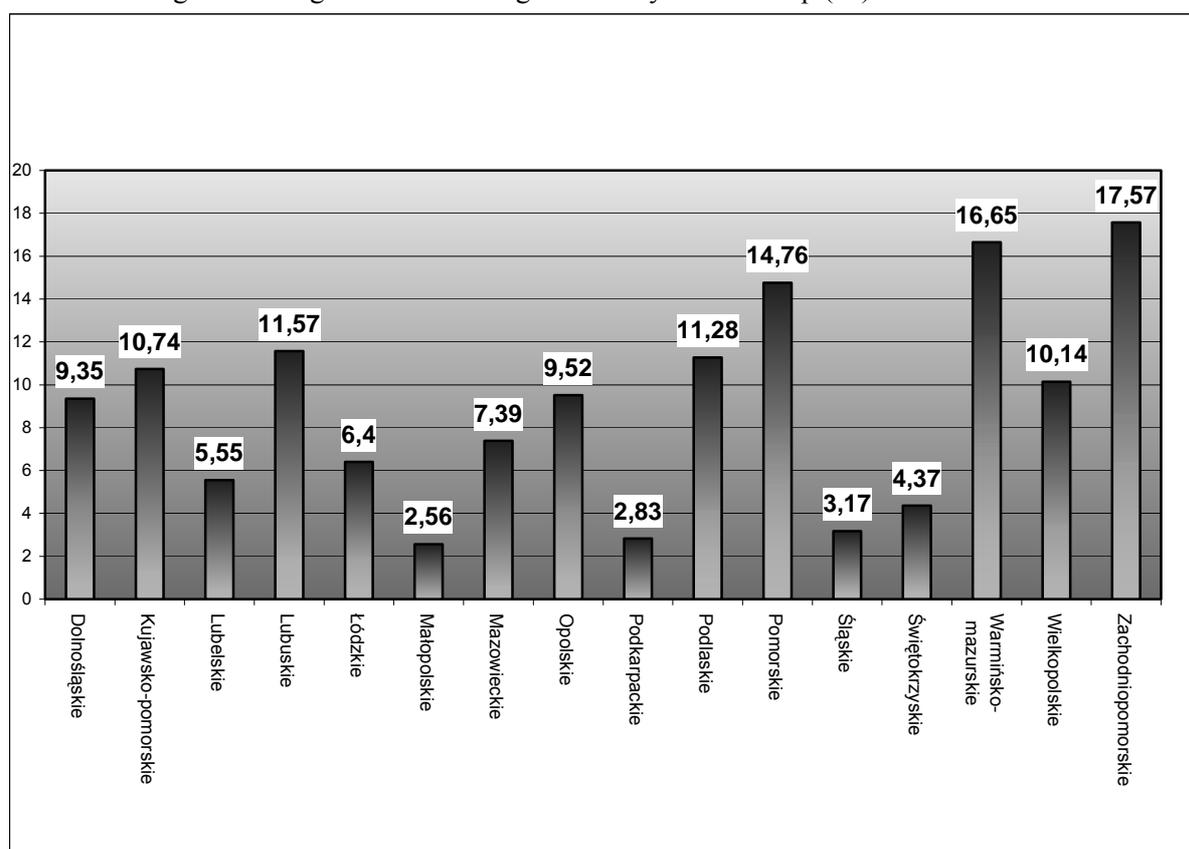
Source: National Agricultural Census 2002 Report, Central Statistical Office, Warsaw 2003.

Poland enjoys extensive agricultural land resources but the farmland structure of Polish holdings is rather varied. Small farms with an area between 1 and 5 ha are the most numerous – they account for over half of the total number of agricultural holdings (59%) and farm around 18% of agricultural land. Over the recent years both the number of these farms and the total area of agricultural land farmed by them have declined slightly. On the other hand, there

has been a marked increase in both the number of farms and the total area of farmland in the group of farms between 20 and 30 ha in size. Agricultural holdings with an area over 30 ha account for 2.4% of the number of farms and they utilise about 27.3% of the total arable land in Poland. A particularly large increase both in the number and in the total farmed area has occurred with regard to holdings with an area between 30 and 50 ha (by 55.8% in the years 1996-2002).

The average farm size in Poland exhibits considerable regional variation. The highest degree of fragmentation of individual farms occurs in the southern voivodeships where the average area of farmland per farm is 2.10 ha in Małopolskie and 2.15 ha in Śląskie. The farms with the largest average size are found in the northern voivodeships where a farm covers more than 14.27 ha in Zachodniopomorskie, 14.0 ha in Warmińsko-Mazurskie and 11.33 ha in Pomorskie.

Chart 1. Average area of agricultural holding in 2002 by voivodeship (ha)



Source: National Agricultural Census 2002 Report, Central Statistical Office, Warsaw 2003.

The land plots of the majority of individual farms have a “chess-board” structure, which is illustrated by the fact that 20% of them consist of 6 or more dispersed plots of land. In some cases the distance between the plots and the farmstead exceeds 10 km (in 3.9% of farms). Plots lie above 5 km from the farmstead account for 40% of the total number agricultural land area. Running agricultural activity in such spatial conditions is especially difficult, particularly taking into account low level of technical equipment. In order to improve this unfavorable situation between the years 2000-2002, 22 633 ha of agricultural land were covered by re-parcelling, however over 135 000 ha still need to be re-parcelled.

Table 2. Fragmentation of Polish farms in 1996

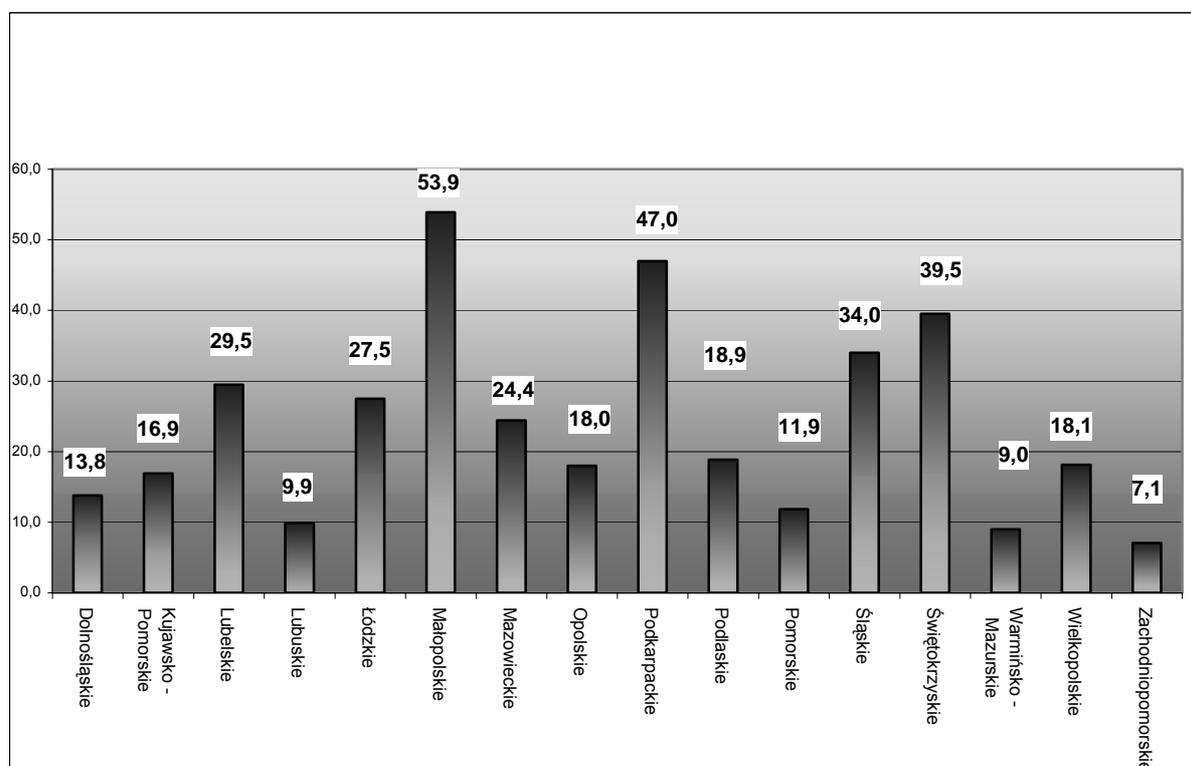
No. of plots constituting a farm	Percentage	
	of farms	of farmland
1	16.5	8.8
2-3	40.6	28.2
4-5	22.3	21.9
6-9	14.3	18.7
10 and more	6.3	22.4

Source: National Agricultural Census 1996 Report, Central Statistical Office, Warsaw 1997.

Related to fragmentation is high agricultural employment. The level of employment in the agricultural sector measured as the number of employed persons per 100 ha is highest in the south of Poland. In Małopolskie Voivodeship there are 53.1 persons employed in agriculture per 100 ha of farmland, in Podkarpackie there are 46.8 persons employed per 100 ha, in Świętokrzyskie there are 38.9 and in Śląskie – 32.9. Although the number of people employed in agriculture is lowest in Śląskie Voivodeship, the small area of agricultural land in this voivodeship (638,617 ha) yields a high number of persons employed per 100 ha of farmland.

The lowest number of persons employed per 100 ha of agricultural land has been recorded in Zachodniopomorskie (7.1), Warmińsko-Mazurskie (8.8), Lubuskie (9.9) and Pomorskie (11.9) Voivodeships.

Chart 2. Number of employed per 100 ha of agricultural land by voivodeship.



Source: Central Statistical Office.

### **Educational attainment and age structure in agriculture**

According to 2002 Central Statistical Office data 50.2% of the persons managing the farms are without agricultural education. The share of farmers graduated from agricultural courses stands at 29,9%. The percentage of farmers with vocational agricultural education exceeds 12% and with secondary agricultural education 6%. The share of farmers graduated from agriculture faculties in the universities amounts to 1.1%. Low level of agricultural education within Polish farmers hampers acceleration of structural changes in rural areas.

Majority of persons employed in agriculture is in the working-age group (83%), of which 43% is in the mobile age group. Every 6 person remains in the pre-working or post-working age group. Small percentage of farmers do not exceed the age of 30 years (7.4%), while 18.6% is in the age between 30-39 years. The biggest age group constitutes farmers in the age 40-49 years..

### **Forestry**

In rural areas, forestry is also an important sector of the economy. Forest covers 28.5% (8,918,000 ha) of total area in Poland, which is lower than the European average of 36%. Over the last 11 years, the forest cover in Poland has increased by 0.7%. Forests in Poland are not evenly dispersed and have been preserved best in areas where there are few opportunities for agricultural production. Forest cover in individual voivodeships ranges from 20.6 to 48.2%. Coverage is lowest in the central, agricultural regions and highest in the south-eastern and western parts of the country. With regard to ownership structure, state-owned forests dominate and occupy 7,283,000 ha (81.7%). The State Forests National Forest Holding manages most of this area (6,987,000 ha). Private and municipality-owned forests account for 1,555,000 ha (17.4%) and 80,000 ha (0.9%), respectively.

Natural disasters or fires that cause massive damage to forest stands are a threat to forestry. The hurricane that struck north-western Poland on July 4, 2002, was the largest such disaster in recent years. According to estimates, this hurricane damaged almost 33,000 ha of forests, of which around 17,000 ha were totally destroyed.

Fire is one of the major factors distorting life cycles in ecosystem of all plants. Fire is also treated as one of the most dangerous disasters which can affect forests. The potential fire danger is mostly determined by condition of the forest stand. Among the particular classes of trees, Polish forests are found as the most susceptible to fire across Eastern Europe. The most common coniferous classes (above 70% of the total forest area in Poland) can particularly be affected by the fire, so as the younger forest stands.

Fire danger is also conditioned on the meteorological factors which stipulate time frames of potential fire disasters which in Poland usually happen from March to October. The total number of forests fire in Poland in 2002, peaked to 10 000 that is doubled the number from the year 2001. The biggest number of forest fire in 2002, happened In Mazowieckie Voivodship (above 30% of the total number of fire which accounted for over 3100 accidents), above 700 fire accidents were reported in Lodzkie and Podlaskie Voivodship. On the contrary Malopolskie, Opolskie and Zachodniopomorskie were the Voivodships of the smallest number of fire accidents (under 300).

### **Water management in rural areas**

In Poland 6.66 million ha of arable land are equipped with specific water management facilities; these include: ditches with related structures, drainage systems, sprinkling machines, pipelines with a diameter less than 0.6 m, earth fish ponds and gravity irrigation systems. An area of 2.5 million ha requires the regulation of soil water relations. The most

important water management facilities for agriculture are the following: regulatory structures on natural watercourses with a total length of 39,570 km, canals with a total length of 10,400 km, flood control dykes with related structures – 8,460 km, 588 pumping stations and water reservoirs with a capacity of 251.97 million cubic metres. However, part of these facilities require reconstruction and modernisation.

### **Farm income**

During the period between 1995 and 2000 real incomes in farmers' households fell by around 50% while there was an increase of around 20-30% in other household categories. The average disposable monthly income in farmers' households in 2001 was around 73% of that in employees' households. According to the 2002 National Agricultural Census data, only 18.6% of members of farmers' families generated their income exclusively or mainly by working on farm. In comparison with 1996, the number of such persons decreased by one third.

## ***1.2. Agriculture and environment***

### **Soil conditions**

Natural and soil conditions in Poland are worse than average EU soil conditions. This is the result of the influence of subsequent glaciations on the soil forming process, which led to the major part of the country being covered with light soils on sandy, permeable ground. Medium-quality and poor soils comprise 74.7% of agricultural land. Moreover in Poland the climate conditions are less favourable for agricultural production than in UE countries (lower temperatures, a shorter vegetation period and less rainfall). The relative soil and climate valuation ratio (the so-called Agricultural Production Space Valuation Ratio<sup>1</sup>) is in the range of 60 to 70 points, compared to 100 points in Central European countries. The typical feature of the Polish production space is the mosaic layout of soil types – soils with good physical-chemical features and high agricultural suitability are situated adjacent to low-quality soils. The best soil conditions with respect to the above-mentioned valuation ratio are in the Opole, Dolny Śląsk and Lublin Provinces, while the worst soil conditions are in the Podlasie and Mazowsze Provinces.

Soils in Poland are characterized by excessive acidification, which is primarily of natural origin. Acidic and highly acidic soils constitute about 45% of agricultural lands. The annual demand for calcium fertilisers amounts to around 2.8 M tons of CaO. In recent years the average utilisation of calcium fertilisers (expressed as pure calcium) has significantly decreased (from 182.4 kg/ha in 1989 to 94.1 kg/ha in 2001/2002), which has reduced the effectiveness of counteraction against soil acidification in Poland.

It is estimated that 28.5% of the territory of Poland is threatened by water erosion and 27.6% of the territory is threatened by wind erosion. Mountain and upland areas, composed of rocks that exhibit low cohesion, are the most exposed to water erosion. In the mountains, over half of the areas are threatened with erosion, while for agricultural lands situated in the mountains, the share is as high as 80%. Average-degree erosion usually affects lake district areas. The largest areas seriously threatened with wind erosion are situated in the provinces where the share of forests is low, e.g. in Łódzkie and Mazowieckie voivodships. Counteracting erosion

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<sup>1</sup> The Agricultural Production Space Valuation Ratio describes the quality and suitability of agricultural land for agricultural production, based on the score for soil quality, agri-climate, water conditions and surface features.

is not widely practiced, because agro-technical procedures aimed at preventing erosion and the creation of shields (consisting of trees and bushes) on deforested areas are costly.

Failure to utilise agricultural land occurs on a larger scale in Poland than in EU countries. In 2002 the area of rested and idle land in Poland was 2.3 M hectares, i.e. 17.6% of the total area of agricultural land. It is estimated that the actual area of uncultivated land is larger – especially with respect to grasslands – due to a decrease in the number of livestock and the lower demand for feeding stuffs. The appearance of high-growing vegetation on idle meadows or pastures is the primary cause of biodiversity degradation. The largest areas of rested and abandoned lands have been recorded in Podkarpackie (35.8%), Śląskie (34.3%), Lubuskie (32.8%), and Zachodniopomorskie (27.1%) voivodships.

### **Water resources**

Poland is considered to be a water-poor country. One of the indicators of this is the multi-annual average flow, which is just 63 billion m<sup>3</sup>/year. This amounts to 1660 m<sup>3</sup>/year per capita on average, while the average surface water resources per capita in European countries amount to 4,560 m<sup>3</sup>/year per capita. The amount of surface water resources varies both according to annual and multi-annual timescales. Water resources are not evenly distributed. The central part of the country is affected by a water deficit, while the mountain regions in the south often receive intensive rainfall.

Water may become a limiting factor with regard to the size of agricultural production. Disturbing the water balance of agricultural areas leads to a permanent reduction in the productive potential of agricultural lands. This is why increasing the water resources in soil and in bog habitats and reducing the surface runoff of water are very important measures from the point of view of prospects for the development of agriculture in the areas already threatened by a water deficit. The insufficient water resources within the entire Polish lowland as well as the uneven distribution of rainfall can be partially balanced by an increase in available water resources.

Agricultural production conditions are reflected by the yields achieved, which can be analysed by comparing reference yields in different countries. Only in the case of Finland (2.82 tons/ha), Portugal (2.9 tons/ha) and Spain (2.69 tons/ha) are reference yields close to the Polish level (3.0 tons/ha). In other countries, reference yields, which reflect average yields in a given area, are significantly higher (from 3.9 tons/ha in Italy to 6.6 tons/ha in the Netherlands or 6.88 tons/ha in the German region of Schleswig-Holstein).

River quality in year 2001, according to the obligatory parameters criterion (e.g. dissolved oxygen concentration, BOD<sub>5</sub>, COD<sub>Mn</sub>, phenols, chlorides, sulphates) is as follows: 40,8% of length of monitored water courses - I water quality class; 40,5% - II class; 8,8% - III class; 9,9% - non-class. The quality of Poland's river waters is affected chiefly by discharges of inadequately treated municipal wastewater and of saline mine waters, particularly from hard coal mines. Nutrients, which come mainly from municipal wastewater and surface runoff, are a serious problem leading to water deterioration of quality. Nevertheless analysis of the condition of river waters in years 1996-2001 shows a steady improvement of water quality, reflected by a decrease in the length of excessively polluted rivers and an increase in the length of rivers falling into Class II and III. Excessive eutrophication of river waters was determined in 12% of 362 tested measuring points, with a decreasing tendency of chlorophyll and phosphorus since 1992.

In years 1994-2001, 792 lakes representing almost 60% of Poland's lake water resources, were monitored. There are only 30 lakes with waters of the highest quality, representing 3.8%

of all monitored lakes and 290 lakes (37%) within Class II. Lakes with Class III water quality constitute the largest group (308), which represents almost 40% of the total number of lakes monitored. Eutrophication is the most serious threat to Poland's lakes which characterized high level of susceptibility to this natural and anthropogenic process. In recent years, a considerable decrease in the concentrations of phosphorus and nitrogen in lake waters has been recorded. This is a result of a decrease in the volume of wastewater discharged to waters and of an increase in the share of wastewater treated biologically and chemically.

The assessment of pollution of ground waters (both unconfined and confined) on the basis 7 965 test results from the period between 1991 and 2000 indicated that each year from 7.4% to 12.5% of results were between 25-50 mg NO<sub>3</sub>/dm<sup>3</sup>, and from 9.8% to 16.9% of results indicated nitrate content exceeding 50 mg NO<sub>3</sub>/dm<sup>3</sup>, with most pollution in unconfined ground waters. The quality of confined ground waters in active outlets, however, was significantly improved during analysed decade.

While the problem of nitrate pollution in agricultural areas is not as acute in Poland as in the EU countries, it will be aggravated by a failure to store animal manure properly. In Poland 75% of animals are reared with the use of bedding (i.e. stable manure and liquid manure are produced) and 25% are reared without bedding (i.e. fermented liquid manure is produced). The most crucial problems are connected with:

- the common practices, as a storage of a stable manure directly on the ground, what influences in a negative way for pollution of drinking water wells, subsequently, according to the Ministry of Health's data, in 2000 approximately 44.8% of farmstead wells containing poor quality water, which was unsafe for drinking (over 10 mg of nitrates/litre),
- the percentage of agricultural holdings with manure slabs and liquid manure tanks is insufficient; only about 47% of agricultural holdings have manure slabs and 3.8% have liquid manure tanks with an average capacity sufficient for 4 months' production.

One of the significant factor influencing on water quality is stocking density. Total concentration of livestock, according to results of Central Agriculture Census in 2002, cattle was 5,532,7 thousand head, pigs - 18,628,9 thousand head and poultry —198,783,5 thousand. Average stocking density is 0,45 LU/ha. Highest livestock density (60% of all livestock in Poland) kept on 44,8% of all farmland in Poland, is in 6 regions: Wielkopolskie, Podlasie, Kujawsko-Pomorskie, Małopolskie, Łódzkie, Mazowieckie, where the average figure is between 44,8-72,5 LU/100 ha or 0,56 LU/ha.

Despite the decrease in agricultural production, the water pollution issue will be a crucial one until the rules concerning the storage of organic fertilisers and the limitation of the surface runoff of biogenic substances from fields are observed.

Until 1999, the area of drained agricultural land was 36.2% of the total area. The strategy with regard to drainage measures should take the following elements into account:

- limiting new drainage projects aimed at reducing soil moisture;
- the necessity for modernisation of the existing drainage systems, aimed at the reconstruction of irrigation installations;
- the verification of drainage network functioning in areas with habitat-forming functions and in the areas where agricultural activity has ceased.

Floods are another danger to quality of utilized arable land. According to the present data on the results of floods, almost every Polish river was endangered with flood risk – in the years 1997-2001 area of arable land affected by floods was as follow:

- in 1997 – 520,6 thousand ha;
- in 1998 – 165,4 thousand ha;
- in 1999 – 170,0 thousand ha;
- in 2000 – 170,7 thousand ha;
- in 2001 – 402,3 thousand ha.

### **Air protection and climate changes**

In Poland, in 1988 – 2001 the emission of greenhouse gases decreased by 30%. Estimated data in 1990-2001 shows the reduction of ammonia emission by 40%.

In according to the Central Statistical Office data total emission (in thousand tonnes) of main air pollution in 2002 was as follow:

- SO<sub>2</sub> - 1564;
- NO<sub>2</sub> - 805;
- CO<sub>2</sub> - 317844;
- CO - 3528;
- Methane - 1846;
- Ammonia - 328.

Poland has ratified “Convention on climate changes” (1994) and Kyoto Protocol (2002) which makes possible to take part in mechanisms included in these agreements.

Estimated increase of emission of greenhouse gases in our country will depend on the direction of development of Poland. Proposed solutions show that, independently of accepted variant, reduction of gases exceed considerably threshold (6%) of reduction commitments accepted in Kyoto Protocol and can reach further 30% of emission amount in base year – 1998.

Mentioned commitments concern also agriculture in following scope:

- improvement of energy effectiveness of economy;
- protection of absorption and retention of greenhouse gases through promotion of sustainable forest management;
- promotion of sustainable agriculture;
- promotion and implementation of technology which use renewable sources of energy, absorb CO<sub>2</sub>, etc.

Realization of activities connected with air protection is discussed in document: “*Climate policy in Poland – strategies of emission reduction of greenhouse gases in Poland to 2020*”, accepted by Government in October 2003. Established in this document solutions give advises for different sectors designated for emission reduction of greenhouse gases and further improvement of air condition in Poland.

### **Impact of agriculture on environment**

In general, Polish agriculture has preserved its traditional character. The majority of farms have a mixed production pattern and apply extensive methods of cultivation. In 1998 the productivity in the agricultural sector was less than 25% of the average productivity in the national economy. The use of mineral fertilisers in 2001 amounted to 90.8 kg of NPK/ha (from 132.0 kg of NPK/ha of farmland in Opolskie Voivodeship to 52.1 kg/ha in Podkarpackie Voivodeship). The use of pesticides in Poland is several times lower than the EU average – i.e. 0.62 kg/ha of farmland.

In Poland extensive systems of animal production are used, based mainly on the farm's own supply of feedstuffs. 75% of animals are reared with the use of bedding (i.e. stable manure and liquid manure are produced) and 25% are reared without bedding (i.e. fermented liquid manure is produced). The percentage of agricultural holdings with manure slabs and liquid manure tanks is insufficient. Only about 47% of agricultural holdings have manure slabs and 3.8% have liquid manure tanks with an average capacity sufficient for 6 months' production.

Due to low productivity the impact of agriculture on the environment and landscape has been limited. The natural qualities of rural areas and abundant labour resources provide opportunities for the development of labour consuming types of farm production, including organic farming, which is less developed in Poland than in Western European countries. Polish organic farming production is developing gradually – there are about 1700 farms which have been granted organic farming conformity certificates. However, many of the conditions in which Polish agriculture operates are conducive to organic farming, such as abundant labour resources or an extensive character of agricultural production.

### **Biological diversity in agriculture and agricultural area**

As regards biodiversity, Poland is one of the best-endowed countries in Europe. Both favourable natural conditions and the unique (in comparison to other European countries) character of anthropogenic influence (uneven industrialisation and urbanisation, traditional extensive farming still preserved in large areas, and the existence of large forests with a long history) have contributed to this phenomenon. The situation with respect to biodiversity varies among the regions as well. Eastern and south-eastern regions of Poland boast well-preserved natural resources alongside fragmented agrarian structures. The continued existence of the traditional agricultural economy in these areas has made it possible to preserve valuable agricultural landscapes together with a great deal of biodiversity and genetic resources in the form of primitive varieties of crop plants and livestock breeds.

Varied surface features as well as diverse soil and climate conditions contribute to the large diversity of habitats and natural landscapes in Poland. There are about 365 different types of plant assemblages in Poland, half of which are associated with agricultural areas. There are some 45 types of plant communities in Poland that are utilised as meadows and pastures. Bog and peat habitats, as well as extensively utilised meadows and pastures located in natural river valleys, bushes planted in agricultural fields, and mountain and xerothermic grasses with many endemic plant species have retained their natural and semi-natural character.

### **NATURA 2000 network**

The diversity of agricultural area habitats creates favourable conditions for the stable presence of around 100 bird species. Many of them are threatened with extinction on the European and global scales (e.g. the aquatic warbler and the corn crane). Over 500 sites meeting international environmental protection criteria, resulting from Directive 79/409/EEC on wild birds protection and Directive 92/43/EEC on wild habitats protection and on wild fauna and flora protection have been primarily identified in Poland. In the framework of NATURA 2000

there are 420 sites of European importance proposed by Poland, that occupy around 21% of the territory of the country (65,600 km<sup>2</sup>). As a result of regional consultations, the following types of areas have been proposed: 279 Special Areas of Conservation with the area 32,600 km<sup>2</sup> (10.4% of the country area) and 141 Special Protection Areas with the area 56,200 km<sup>2</sup> (18.0% of the country area), and some of them are overlapping. The proposed NATURA 2000 network covers 99% of the area of existing national parks, 60% of landscape parks and above 70% of natural reserves.

The preservation of traditional forms of the extensive agricultural economy has also conserved local varieties of crop plants and local livestock breeds. In the year 2000 there were 917 varieties of crop plants registered in Poland. Old plant varieties are extant predominantly in the southern part of the country, in mountain areas. However, the fact that they are rarely utilised in practice constitutes a threat for the genetic resources of crop plants. Sales of certified seeds have recently decreased (by about 30%) and crop rotation has been simplified. Poland possesses significant genetic resources with regard to livestock. The genetic pool includes 215 native breeds of livestock. Native breeds are particularly useful for rearing in the extensive production system and environmentally friendly grazing, which allows the semi-natural areas with poor feedstuff resources to be efficiently utilised.

The environmental awareness of the Polish public is growing and environmental protection needs are being taken into account to an increasingly greater extent. The cultural and natural diversity of Polish rural areas can be considered a special asset worth preserving and maintaining.

### Particularly vulnerable areas within the meaning of Directive 91/676/EEC

With relation to transposition of the Directive (EC) 91/676 nitrate vulnerable zones were selected where the runoff of nitrogen from agricultural sources into these waters should be limited. Pararely, preparations regarding action programmes for the following zones are underway

Table 3. List of projected particularly vulnerable areas

Water region	Catchments within which particularly vulnerable areas have been delimited	Area of particularly vulnerable areas		Municipalities situated within particularly vulnerable areas
		km <sup>2</sup>	% of Regional Board for Water Management area	
<b>GDAŃSK</b> lower catchment Wisła	<b>rivers:</b> Kotomierzycza, Struga Żaki, <b>lakes:</b> Kornatowskie, Płużnickie, Wieczno Południowe, Wieczno Północne	689.0	1.96	Pruszcz, Dobrcz, Lisewo, Stolno, Chełmno, Płużnica
<b>WARSZAWA</b> middle catchment Wisła	<b>rivers:</b> Zgłowiączka, Sona and the Przedwojewo tributary <b>wells</b> in the localities of Doba, Ludwin, Przegaliny Duże, Pniewnik	1700.7	1.53	Bytoń, Osiećiny, Radziejów, Ciechanów, Regimin, Opiniogóra Górna, Gołymin Ośrodek, Sońsk, Giżycko, Ludwin, Komarówka Podlaska, Korytnica
<b>SZCZECIN</b>	the Płonia <b>river</b>	1068.0	5.24	Barlinek, Pełczyce, Dolice, Stargard Szczec., town of Stargard, Kobylanka,

lower Odra and Pomorze Zachodnie catchments				Przelewice, Warnice, Pyrzyce, Kozielice, Lipiany, Bielice, Banie, Gryfino, Stare Czarnowo, town of Szczecin
<b>WROCLAW</b> middle Odra catchment	<b>rivers:</b> Orla, Rów Polski <b>underground water reservoir:</b> GZWP 327	2823.3	7.20	Góra, Wąsosz, Cieszków, Milicz, Żmigród, Krobica, Pępowo, Piaski, Pogorzela, Poniec, Kobylin, Koźmin Wlkp., Krotoszyn, Rozdrażew, Zduny, Rydzyna, Dobrzyca, Bojanowo, Jutrosin, Miejska Górka, Pakosław, Rawicz, Niechlów, Wąsosz, Szlichtyngowa, Wschowa, Gostyń, Krzemieniewo, Lipno, Osieczna, Święciechowa, Wielowieś, Pawonków, Lubliniec, Kalety, Miasteczko Śląskie, Tworóg
<b>GLIWICE</b> Mała Wisła and upper Odra catchments	<b>underground waters in the catchments of the rivers:</b> Troja, Psina and Cisek	280.0	3.40	Kietrz, Baborów, Polska Cerekiew
<b>POZNAŃ</b> Warta catchment	<b>rivers:</b> Kopla, Pogona, Dąbrówka, Sama, Olszynka, Samica Stęszewska, Mogilnica, Rów Racocki <b>lakes:</b> Chrzypskie and Radziszewskie	1190.1	2.16	Kleszczewo, Kostrzyń Wlkp., Kórnik, Swarzędz, Mosina, Poznań, Borek Wlkp., Koźmin Wlkp., Szamotuły Obrzycko, Czempień, Duszniki, Dopiewo, Buk, Opalenica, Krzywiń, Śrem, Chrzypsko

### Cultural values of rural areas

Due to traditional production methods and spatial development patterns, the rural cultural landscape abounds in monuments (single ones or entire islands) of preserved original rural architecture – complexes of traditional wooden architecture (churches, chapels and cemeteries, structures utilised for food processing, granges, palaces and gardens) as well as archaeological monuments. Their preservation and utilisation is an excellent way to shape the image of rural and agricultural areas. Together with the renewal and promotion of traditional handicraft, folk culture, rituals, music, the preservation of cultural heritage contributes to the unique and exceptional character of each region.

### *1.3. The rural population and their economic activities in Poland*

#### Characteristics of rural population

Traditionally, the structure of a rural family consists of several generations. Households with families of 5 or more family members constitute 29.7% of all rural households whilst in towns the figure is only 12.2%.

The share of children and teenagers in the entire population is larger in rural areas than in urban ones. Therefore, it is particularly important to ensure that there are appropriate educational structures and new job generation opportunities in rural areas. It should also be emphasised that 42% of the rural population is over 40 years of age with limited mobility (in terms of travel) and therefore unlikely to leave the rural area.

Table 4. Population of Poland in 2002

<b>Voivodeships</b>	<b>Total</b>	<b>In rural areas as % of total population</b>
<b>POLAND – voivodeships</b>	<b>38 230.1</b>	<b>38.2</b>
Dolnośląskie	2907.2	28.6
Kujawsko-Pomorskie	2069.3	37.7
Lubelskie	2199.1	53.4
Lubuskie	1009.0	35.5
Łódzkie	2612.9	35.0
Małopolskie	3232.4	49.7
Mazowieckie	5124.0	35.6
Opolskie	1065.0	47.4
Podkarpackie	2103.8	59.5
Podlaskie	1208.6	41.1
Pomorskie	2179.9	21.9
Śląskie	4742.9	20.9
Świętokrzyskie	1297.5	54.1
Warmińsko-Mazurskie	1428.4	39.8
Wielkopolskie	3351.9	42.3
Zachodniopomorskie	1698.2	30.5

Source: *National Census of People and Dwellings 2002 Report, Central Statistical Office, Warsaw 2003.*

The 2002 population structure figures for rural areas by age groups show a decrease in the pre-working age group (0-17 years) by 15% – to 3,876,500 – compared to 1996. The working age group, however, grew by 5.6% to 8,455,900 and the number of persons in the mobile age group (18-44 years) increased by 4% to 5,680,600. Moreover, the post-working age group increased by 6.3% to 2,286,700 persons.

### **Educational attainment of rural population**

A considerable improvement in the level of education has been observed over the last ten years. In 2002, the percentage of persons with post-primary education increased to 56% (from 39% in 1988) and the share of university graduates exceeded 4%. The share of rural area inhabitants without any education has more than halved. However, in comparison with the percentage of town inhabitants with post-primary education (73%), the level of education in rural areas is still unsatisfactory. Only a quarter of the total number of university students originate from rural areas due to the lack of easy access to education among rural teenagers. The low education level of the rural population has not only an adverse impact on the modernisation of agriculture but also diminishes the chances of developing off-farm business activity in rural areas on a larger scale. Such activity could generate alternative employment for excess labour.

Table 5. Educational structure of the population over 15 years of age in the years 1988 and 2002

Education level	1988		2002	
	urban	rural	urban	rural
University	9.4	1.8	13.7	4.3
Secondary and post-secondary	31.8	13.1	38.6	22.4
Vocational	23.2	24.2	21.1	29.2
Primary	32.3	49.2	22.2	38.3
Incomplete primary or no education	2.9	11.2	1.5	5.0

Source: National Census Report, Central Statistical Office, Warsaw 2003.

### Rural employment patterns

In Poland, the population employed in the agricultural sector is much larger than that in EU member states. This is partly due to the differences in the methodology of counting the number of people working on individual farms. In Poland persons working on farms with an area of 0.1-1.0 ha of agricultural land as well as persons who produce food for their own needs are included in the figures. According to the 2002 National Census and National Agricultural Census data, there are 2,192,900 people employed chiefly in agriculture, which corresponds to 16.5% of the total employed population.

As far as particular voivodeships are concerned, the highest level of employment in the agricultural sector in rural areas is found in Lubelskie Voivodeship (34.2%), and the lowest in Śląskie Voivodeship (3.8%). The EU average for employment in agriculture is 4.5% (the highest in Greece – 17%, and the lowest in Great Britain – 1.6%).

Table 6. Population structure in rural areas by sources of income in the years 1996 and 2002

Incomes generated from working (%)	Percentage share	
	1996	2002
Exclusively on farm	21.3	16.6
Mainly on farm	2.2	2.0
Additionally on farm	33.5	14.8
Exclusively or mainly on farm	4.2	11.7
Exclusively or mainly from non-earned sources	7.7	15.8
Dependants	30.5	38.9

Source: National Agricultural Census 2002 Report, Central Statistical Office, Warsaw 2003

Employment in agriculture is decreasing slowly, mainly due to the lack of jobs in non-agricultural sectors. Despite generally high levels of employment in agriculture, it should be noted that in some regions (mainly in Eastern Poland) there is a problem of a lack of successors on farms resulting in the depopulation of rural areas.

In accordance with Agricultural Census 2002 data (comparing to 1996 data) the number of holdings running off-farm activity has increased, nevertheless it is still a small number particularly where the total number of holdings and employment are concerned. In 2002 off-farm economic activity run 363,4 thousand holdings that makes 12,4% of the total number of holdings (in 1996 – 249 thousand). Taking into account the total employment in agricultural sector, level of hidden unemployment in rural areas and low level of income of farmers' families, diversification of agricultural activity and taking-up off-farm activity, still requires additional support.

### **Rural unemployment**

The transformation process in Poland has resulted in high unemployment in rural areas. According to the Central Statistical Office, in June 2002 there were 1,368,700 unemployed persons registered in rural areas (42.7% of the total number of unemployed in Poland). This figure corresponds to an unemployment rate of 17.4%. In Poland the owners and holders of farms with an area of over 2 equivalent hectares of agricultural land cannot be registered as unemployed – according to the estimates about 1 million individual farmers cannot find a job and are referred to as ‘the hidden unemployed’, while almost 70% of people only have part-time employment.

From the beginning of the transformation period, agriculture has absorbed the surplus labour force from the rest of the economy. Together with the fragmented farmland structure, this has caused overpopulation and an increase in hidden unemployment in rural areas. The level of unemployment in rural areas differs regionally. The unemployment rate is highest in Warmińsko-Mazurskie (33.1%) and Zachodniopomorskie (28.9%) Voivodeships and lowest in Małopolskie (10.4%). One of the reasons for such regional variation is the fact that collective farming (state owned and co-operative farms wound up in the 1990s) was developed to a much greater extent in the northern and western territories of Poland. The specific features of rural unemployment include a long period without work and a slow adjustment process to the new market requirements. The growing number of unemployed without rights to unemployment benefit is another problem.

### **Rural tourism**

In 1999, 16.0% of hotels, 50.8% of motels, 35.5% of pensions and 51.7% of other tourist facilities were situated in rural areas. Małopolskie and Zachodniopomorskie Voivodeships had the largest number of tourist facilities (1211 and 1171, respectively), while Opolskie and Świętokrzyskie Voivodeships had the lowest number (85 and 97 facilities, respectively). The occupancy rate in the following tourist facilities in the period from January to September 1999 was as follows: 27.0% for hotels, 29.2% for motels, 37.0% for pensions, and 42.8% for other facilities.

In 2001 there were 13,500 establishments registered for rural tourism purposes, however, it is estimated that the rural accommodation base is considerably larger since many such farms have not submitted for registration. The overwhelming majority of the rural tourism oriented farms in Poland are located in four voivodeships: Małopolskie, Warmińsko-Mazurskie, Pomorskie and Podlaskie. The development of tourism in rural areas may generate an additional source of income and new jobs for the local population

### **Rural renewal**

The element which resists the negative changes with regard to economic situation in rural areas are the pilot programmes for the renovation of rural areas implemented during the pre-accession period activated local communities and gave them real influence and the chance to participate in making decisions concerning the directions of local development.

The basic objectives of pilot programmes are:

- developing and forming the civic and cultural awareness of residents as well as fostering and developing local identity;
- stimulating business activity;
- preserving cultural and natural environment values while taking the needs of future generations into account;
- shaping and maintaining spatial order.

Rural renewal activities do not substitute restructuring of agriculture, but it can stimulate the personal engagement of farmers and rural dwellers. It gives the sense of community and strengthens the responsibility for own future. For all these reasons, integrated and universal measures under rural renewal in Poland are of utmost importance.

The Opole Programme for the Renovation of Rural Areas, which has operated since 1997, is the oldest rural renovation programme in Poland, based on activating local communities at the level of villages.

Since 1999, the interest in such programmes has been growing in other regions, e.g. in Pomorskie and Śląskie Voivodeships as well as in Nakło Powiat (Kujawsko-Pomorskie Voivodeship) and Kłodzko Powiat (Dolnośląskie Voivodeship). The institutions contributing to rural development have also been increasingly active in this regard.

### **Diversification of agricultural activities**

The Agricultural Census of 2002 revealed that 2,281,600 agricultural holdings have conducted economic activities (agricultural and/or non-agricultural) on their own account, including 2,280,400 private sector farms and 1,200 public sector farms. There have been 363,400 farms, holders of which have conducted additional non-agricultural activities or taken up non-agricultural activities on their own account, having temporarily suspended or abandoned agricultural activities. The share of agricultural holdings, holders of which have declared conducting non-agricultural activities in total amount of farms, increased by 4.3% in the period of six years.

Within the group of holdings having declared conducting non-agricultural activities, 29.8% of agricultural holdings have up to 1.0 ha of farmland; the frequency of undertaking additional activities is most considerable amidst the holders of farms ranging from 0.2 to 1.0 ha of farmland. Agricultural holdings with the area of farmland exceeding 1.0 ha, holders of which conduct non-agricultural activities, constitute 70.2% of total amount of farms whose holders have declared conducting such activities. The holders of farms ranging from 1.0 to 2.0 ha of farmland conduct non-agricultural activities most frequently.

Considerable majority (338,900) of total amount of agricultural holdings conducted non-agricultural activities, undertake such activities solely within one section of non-agricultural activities; 6.2% conduct activities within two sections of above-mentioned activities at the same time and 0.6% - within three and more sections concurrently.

Rural areas are characterized by significant opportunities of development of additional activities generating additional income for rural population. Thanks to the emerging of small enterprises, which allows private persons engage their capital, there is possibility of booming the rural areas and minimalization of unemployment results. The market orientation results in the fact that the more and more rural citizens undertake non-agricultural activities on the basis of their farms resources and provide themselves with the additional source of income. Farm diversification towards the non-agricultural activities (commerce, services, craftsmanship etc.) constitute the way of development of vocational activities of rural population (self-employment, job creating).

## 1.4. Rural infrastructure

### 1.4.1. Technical infrastructure

An insufficient level of technical infrastructure in rural areas is one of Poland's main barriers to rural development. A poorly developed infrastructure not only decreases the standard of living and farming but also discourages investment in rural areas.

There are on average 47.4 km of regional roads with paved surfaces for 100 square km in rural areas. As far as the density of the rural access road network is concerned, in 2001 Dolnośląskie Voivodeship had the highest density – over 160 km/100 square km, and Kujawsko-Pomorskie Voivodeship had the lowest one – only about 33 km/100 square km. The density of communal rural roads is highest in Małopolskie Voivodeship – 89 km/100 square km, and lowest in Zachodniopomorskie Voivodeship – 20 km/100 square km.

Between 1990 and 2002 the development of rural infrastructure, particularly in respect of collective water supply, the telephone network and gas supply, accelerated. However, there are still large discrepancies between water supply and wastewater disposal investments. In 2002 3,397,300 farms were supplied with running water and 2,690,400 farms had access to hot running water. Another crucial problem in Polish rural areas is the unsatisfactory development of the sewerage network, because the average share of rural dwellings with access to sewerage infrastructure is only 4.5%. As many as 10% of rural households have no access to any infrastructure.

With regard to the usage of modern telecommunications services, the gap between Polish rural areas and the rural areas of EU member states is immense. In 2000, there were 173.2 telephone subscribers per 1000 inhabitants of rural areas in Poland, while the national average was 277.9 and the corresponding indicator in EU member states was 470.

According to 2002 data, one third of dwellings in Poland were located in rural areas. The average usable floor space of a rural dwelling was 85 square metres, on average 15 square metres more than in the case of urban dwellings. However, 14% of rural population live in congested dwellings (two or more persons living in one room), while the corresponding indicator for towns is 9%. Over a quarter of inhabited rural dwellings was constructed before 1945.

Table 7. Water supply, sewerage and other installations in households (% of the total number of households as of 2002)

Elements of infrastructure	Rural areas	Urban areas
	%	
Water mains	89.2	98.7
WC	74.3	94.6
Bathroom	76.0	92.3
Gas mains	17.4	75.0
Central heating	64.3	84.3

Source: National Agricultural Census 2002 Report, Central Statistical Office, Warsaw 2003.

Rural dwellings in Podkarpackie, Małopolskie and Śląskie Voivodeships have the best access to infrastructure. From 26% to 40% of dwellings in these voivodeships are equipped with the complete set of installations. The worst situation is in rural areas in Kujawsko-Pomorskie, Podlaskie and Warmińsko-Mazurskie Voivodeships, where this share is only 1.7-2.2%.

In 1999 there were 1704 operational waste water treatment plants in rural areas. In 1999 alone, 229 new waste water treatment plants were put into operation, out of which 51 were in Podkarpackie Voivodeship. Similar investments will be carried out in order to meet EU standards in this respect. There are around 1118 official refuse disposal tips, totalling 2183.3 ha in rural areas, out of which 842 sites with a total area of 1008 ha are equipped with isolating screens to ensure the collection of leachate. Only 34.5% of rural households deliver their waste to official disposal sites.

The technical production infrastructure utilised in Polish agriculture is growing systematically. In 2002, individual farms were equipped with 1,364,300 tractors, 123,000 combine-harvesters, 81,200 potato harvesters and 32,200 sugar beet harvesters. However, if calculated in terms of equipment units per unit farmland area, the figures differ considerably from those in EU member states. The number of tractors per 100 farms in Germany, France or Great Britain is two or even three times that in Poland. Poland has significantly fewer combine-harvesters per 100 ha of farmland than the majority of EU member states. With regard to other farm equipment per 100 ha of farmland, the indicators in Poland are usually also lower than in developed EU member states.

In theory, it is estimated that in absolute numbers, Polish farmers are sufficiently equipped with tractors and basic machines to ensure the mechanisation of basic farm work. However, this equipment and these machines urgently require modernisation and replacement. These machines are mostly obsolete, inefficient and the degree of their operational wear amounts to around 70%. Due to the financial problems faced by the majority of farms, the operation period of the equipment is extended beyond reasonable limits and replacement with more advanced machines is difficult. The average age of a tractor in 2000 was 20 years and its power was 31 kW. By contrast the average tractor power in France exceeds 40 kW, and in Denmark - 45 kW. The Polish fleet of combine-harvesters is also ageing quickly. Over 60% of combine-harvesters are over 10 years old. The age structure of the combine-harvesters in operation continues to deteriorate because of the negligible numbers of new machines being purchased and the considerable number of imported used combine-harvesters. The frequent failures of old machines and the fragmentation of farms impede efficient operation.

In Poland, the degree to which farms have access to technical equipment largely varies with the region and farm size. The most favourable indicators with regard to the mechanisation of farm work and the largest number of modern machines can be found in Wielkopolskie, Lubelskie and Mazowieckie Voivodeships. The farmers in Zachodniopomorskie, Warmińsko-Mazurskie and Świętokrzyskie Voivodeships are in the worst situation. About 50% of holdings (mainly small farms) are not equipped with a tractor, and the collective use of farm machinery is not popular.

In conclusion, Polish farms are not sufficiently equipped with farm machinery. In order to ensure the competitiveness of Polish agriculture at the moment of accession to the EU, it is necessary to increase the number as well as improve the range and quality of machines used by farmers and to develop mechanisation services.

The results of the National Agricultural Census conducted in 2002 show that there are 5,373,600 livestock and farm buildings in 2,199,700 individual farms in Poland, of which 1,659,100 are livestock buildings and 3,714,500 are farm buildings. Multipurpose buildings were found in 32.4% of farms – the largest share (45-60%) was found in farms with an area of 300 ha and more.

The technical condition and standards of these structures are usually poor. Almost half of them were constructed before 1960 (46% of cowsheds, 50% of pig houses and 44% of barns). By 1996 only 15% of livestock and farm buildings were modernised. The average size of a

new livestock building is almost 1200 cubic metres, and in the case of individual structures – 1000 cubic metres. However, for several years the number of commissioned farm production structures, mainly livestock buildings, has been increasing. The table below shows this trend.

Table 8. Buildings and structures in the years 1996 and 2002.

Type of building	1996	2002
	(thousands)	
Cowsheds	842.3	919.6
Pig houses	264.0	345.8
Poultry houses	273.8	393.7
Barns	1145.6	1197.4
Garages	527.2	837.4
Multipurpose buildings	987.3	1019.6

Source: National Agricultural Census 2002 Report, Central Statistical Office, Warsaw 2003.

#### 1.4.2. Social infrastructure

The amount of investment in social infrastructure in rural areas has been inadequate and this infrastructure does not meet the existing needs. Particularly cultural and tourist facilities but also schools and healthcare centres are insufficiently developed.

With regard to access to healthcare, rural areas are also far behind towns – in 1999, the number of consultations in doctors' and dentists' surgeries per capita was three times higher in towns than in rural areas. The number of people treated per single surgery and health centre in rural areas was largest in Wielkopolskie Voivodeship (9433 people) and lowest in Podlaskie and Opolskie Voivodeships (3960 and 3756 persons, respectively).

Educational conditions are considerably worse in rural areas than in towns and the average education level is also usually lower in rural areas. The educational opportunities of rural children are hampered by several obstacles related to the functioning of the educational system in rural areas (e.g. limited access to kindergartens, less qualified teachers, lower standards of education at secondary schools) as well as the lower financial standing of rural families. The choice of secondary school depends on the schools available in the immediate neighbourhood, means of travelling to school or the availability of boarding schools as well as the costs of travel or accommodation away from home. There are considerable regional differences with regard to social infrastructure in rural areas – the development level is lowest in the north-eastern voivodeships.

#### 1.5. Processing of agricultural products in Poland

The food industry is one of the most important sectors of the Polish economy in terms of the volume of production sold (over 20% of the total sales value of the Polish industry), the number of plants (about 30,000) and employment (411,000 people, i.e. 8.4% of the total employment in the national economy, and about 16% of the total employment in industry). Its share in the total industrial production is almost 24% and exceeds that of the EU food industry, where it accounts for about 15% on average, by about 9 percentage points. Outside Poland the share of the food industry is higher only in Denmark (28%) and in Greece (27%).

The gross value added generated by the Polish food industry (including the soft drink and tobacco industries) amounts to about USD 6 billion, i.e. over 4% of the gross value added generated by the entire national economy, and about 6% of GDP.

The Polish food market still has a large growth potential. Systematic growth in the Polish food processing sector as well as improvements in technology and production quality are, however, hampered by serious problems, the most important of which are:

- the shortage of domestic capital,
- an unstable raw material base in the case of many industrial establishments (weak contract links with raw material suppliers),
- lack of strong processors' groups.

Because of Poland's approaching accession to the European Union it is necessary to modernise the agri-food processing industry in respect of veterinary, health and environmental protection standards. This is particularly true in the case of the milk, meat and waste utilisation sectors, and, to a lesser extent, in the case of the poultry sector. As far as the currently required standards are concerned, they are met only by 49 dairies, 66 meat processing plants and 55 poultry processing plants (all of them are classified as A category). A further 2,081 plants are likely to comply with EU requirements by January 1, 2004 (B1 category), and another 396 plants may adjust themselves to these requirements during the transition period (B2 category).

Those plants that have been recognised by the EU as exporters represent a small percentage of the total number of industrial establishments (particularly of meat processing plants and dairies), though they have an important share of the total production potential in the respective sectors. As for the meat processing industry, their share amounts to about 30% of slaughters and 25% of processed food articles, in the dairy sector to about 40% and in the poultry sector to over 70%.

Due to the shortages of investment capital in the food processing sector the measures aimed at achieving compliance with EU standards must be supported with public funds. It should be recognised that a number of plants will not complete their investments by the accession date and will be forced to operate only on the local market, which will make them less competitive. The adjustment of animal product processing plants to EU standards may change the structure of this sector of the food industry, as it must result in the concentration of production, particularly in respect of slaughterhouses. This will contribute to enhancing production efficiency.

### **1.5.1. Milk production and processing in Poland**

In 2002, milk production in Poland amounted to 11.4 billion litres, of which 7.2 billion litres were produced for the market (of which the share of the Extra class amounted to 70%). Over 800,000 farms keep dairy cows, of which almost 60% produce milk exclusively for their own needs, only selling seasonal surpluses to neighbours or on local markets.

Over 98% of farms engaging in milk production have herds numbering up to 9 cows. Such farms account for over 86% of the cow stock in Poland. Only less than 2% of farms have herds numbering 10 or more cows, of which 0.1% of farms have large herds, numbering more than 50 cows. Less than 15% of the cow stock in Poland belong to herds of 10 or more cows. An average cow herd in Poland numbers around three cows and is almost ten times smaller than in the EU.

A downward trend has been observed with regard to the dairy cow stock. This is caused, inter alia, by changes in farm structure, the fact that small farms owning from one to three cows

cease to engage in the production of milk as well as the introduction of stricter quality requirements that must be met by milk producers. It should be noted, however, that the decrease in livestock is accompanied by an improvement in the genetic quality of dairy cattle and an increase in average milk yield. Despite the decrease in the numbers of livestock, the volume of milk production in Poland remains steady and ensures that the country is self-sufficient with regard to milk and dairy products while the foreign trade balance remains positive. According to the data published by the Central Statistical Office, the average milk yield in 2002 was 4018 kg per cow and the data yielded by the assessment of cow performance conducted indicate an average milk yield of 5597 kg milk per cow. This is a level approaching the average milk yield in EU countries.

It is estimated that the total milk production in Poland in this year will be around 11,500 million litres, out of which around 7,200 million litres will be processed further.

There are currently 413 dairy processing plants active in the Polish milk processing sector. More than a half of them (207 + 47 branches) function pursuant to the laws concerning co-operatives. The rest are private enterprises. Out of 413 establishments, 49 meet EU sanitary and veterinary requirements (A category), 174 have declared that they would meet EU sanitary and veterinary requirements by the accession date (B1 category), 112 have been granted transition periods in order to adjust to EU sanitary and veterinary standards until the end of 2006 (B2 category) and 78 establishments are incapable of adjusting to EU sanitary and veterinary standards (C category).

The products of the Polish dairy industry are sold both domestically and worldwide. The export of dairy products (in milk equivalent) in 2002 amounted to 1296 million litres. In the previous year, the domestic dairy industry employed around 50,000 persons.

### **1.5.2. Meat production and processing in Poland**

In 2002 pig and cattle production amounted to 2,600,000 tons and 522,000 tons, respectively. Almost 1.2 million farmers in Poland keep cattle and almost 1.1 million keep pigs. However, only 58% of them produce for the market. In the case of pigs, over 65% of farms produce for the market.

The production and processing of red meat is one of the largest sectors of the national economy. The purchase of meat accounts for about 10% of the total expenses of the entire population (around 30% of food expenses). The production of pork and beef accounts for 33% of the marketable agricultural production and the sector provides jobs for over 100 thousand persons in industry and crafts and for around 1 million persons in agriculture. Annually, the meat industry slaughters around 52% of the total number of slaughter animals (1,020,000 tons). This means that as many as 48% of those animals (960,000 tons) are slaughtered outside industrial establishments. At the present time, the meat sector is very varied and dispersed due to private investments and the privatisation of state plants; the levels of production concentration and specialisation are low. A typical feature of the Polish meat industry is the low degree of utilisation of production capacities, which usually does not exceed 62%. The technological level of establishments varies widely. Some processing industry leaders represent high standards in this respect. The standards of slaughterhouses and meat cutting plants with regard to their technological infrastructure are lower – this applies particularly to local slaughterhouses.

According to the data of the General Veterinary Inspectorate, there are currently 3548 plants in Poland that engage in the slaughter, processing and cutting of red meat, of which 1647 establishments are slaughterhouses. 66 establishments represent the highest standard, confirmed by European Union export authorisation. Moreover, 1729 firms belong to a group

that has a chance and technological capabilities of meeting European Union veterinary standards by the date of accession (B1). The group of plants that have been granted transition periods until the end of December 2007 numbers 242 firms (B2). 1588 firms belong to a group of plants whose owners have not prepared remedial programmes related to the adjustment to EU standards (C category). There are 455 poultry meat processing plants, out of which 55 firms meet EU standards, 178 plants have a chance and technological capabilities of meeting European Union veterinary standards by the date of accession (B1). 42 establishments have been granted transition periods until the end of December 2007 (B2) and 180 plants have not undertaken the task of restructuring in order to adjust to EU legal requirements (C category).

The production sold by plants employing over 9 persons in 2002 was around PLN 18.8 million and the average total employment in those plants was 84,267 persons.

In 2002, a large increase in investment expenditure (to USD 170 million) was observed and the financial results improved significantly. However, the financial standing of most firms is still difficult, mainly because of the lack of working capital. In 2003 a large increase in industrial slaughter and investment expenditure is expected as well as the stabilisation of meat product manufacturing and the deterioration of the financial results and financial standing of firms.

### **1.5.3. Production and processing of fruit and vegetables in Poland**

In 2002 over 3.0 million tons of fruit and 4.3 million tons of vegetables were harvested in total. In 2002, around 800,000 farms engaged in fruit production and vegetables were grown by about 1.6 million farms. However, only between 15 and 20% of farms (between 350,000 and 400,000) went in for commercial production. The remaining farms grew fruit and vegetables for their own consumption. A considerable share of crops, especially with regard to orchards and berries, is located in the central and eastern parts of the country. Most fruit and vegetable processing plants are also situated there.

However, fruit and vegetable processing is still extremely dispersed. This sector currently includes between 1400 and 1500 processing plants employing over 28,000 persons in total. About 85% of processing plants are small ones that employ between 1 and 50 people. The proportion of large processing companies is about 10% of the total number of processing plants. Around 70% of plants (in terms of production capacity) are controlled by foreign capital.

The production capacities of plants vary widely – large ones process many tens of thousands of tons of raw materials annually (e.g. 50,000 tons or more) while medium ones process 5,000-20,000 tons and small ones a few thousand tons at most. Since 1998, the average productivity expressed as the value of production per employee has increased by almost 70% – to PLN 217,000 at the end of 2002.

The significance of fruit and vegetable processing for the Polish economy is reflected by the fact that this sector employs over 10% of persons working in the food industry and accounts for over 9% of its revenues.

In 2002 about 60% (2.2 million tons) of fruit crops and about 15% (850,000 tons) of vegetable crops were processed by the plants. The majority of processing plants face problems with the lack of a stable raw material base, considerable crop dispersion and the lack of a homogenous quality of raw materials. The dispersion of production is accompanied by poor technical equipment on farms; many lack cold rooms, which are needed to preserve product quality and ensure the continuity of supplies.

Domestic fruit and vegetable processing focuses on three groups of products: juices and soft drinks (40% share in production), frozen food (25% share in production) and concentrates (9% share in production). The share of vegetable pickles and other products is lower.

In 2002, the total production was about 2,335,000 tons: semi-processed and processed fruit products 1,475,000 tons (around 63%) and processed vegetable products around 860,000 tons (37%). In 2002, exports amounted to 830,500 tons of fruit and vegetable products with a value of USD 617.9 million (36%). During the same time, 212,200 tonnes of such products with a value of USD 190.1 million were imported.

#### **1.5.4. Cereal processing**

Around 900 milling plants with varying production capacities are active in the cereal processing sector. The total milling capacity of the abovementioned establishments amounts to around 9 million tons of wheat and rye grain annually. The actual utilised milling capacity is around 5 million tons per year (around 4 million tons of wheat and around 1 million tons of rye), due to the current domestic demand and the virtual lack of export opportunities. Individual milling plants sell flour to purchasers in the whole country. The number of employees of these plants is around 10,000 persons.

In Poland, the area of cereal crops constitutes around 70% of the total agricultural land area, so the economic strengthening of the milling sector, which is the largest buyer of wheat and rye grain from Polish farmers, is important for grain producers. During the recent years the milling sector exhibited a relatively low profitability but the required modernisation processes have been initiated in many establishments.

#### **1.5.5. Potato (starch) industry**

Poland is a major European and world producer of potatoes. The potato is grown on about 1.3 million ha. Poor soils and the abundance of labour, associated with fragmented farmland, means that potato production in Poland is much more significant than in neighbouring countries. For many small farms with poor soils and ample labour resources there is no alternative.

The starch production sector includes 13 processing plants, situated in Dolnośląskie Voivodeship (4 establishments), Kujawsko-Pomorskie Voivodeship (3 establishments) and Podlaskie Voivodeship (2 establishments). Wielkopolskie, Zachodniopomorskie, Opolskie and Lubelskie Voivodeships have one plant each. The average daily processing capacity is around 11,000 tons of starch potatoes. Taking the daily processing capacity, the length of the potato processing campaign, the starch content in potatoes and the quantity of recovered starch, the starch production capacity of the 13 plants is about 219,800 tons.

It is estimated that the sector employs 2000-2500 persons depending on the needs and the length of the processing campaign. It is also estimated that 13 plants from this sector will be granted European Union aid from structural funds.

#### **1.5.6. Egg processing and egg packaging and distribution centres**

The development of egg processing is the crucial requirement that must be met in order to stabilise the market for eggs in shells by ensuring that the producers of eggs are able to sell their products during seasonal supply surplus periods. In Poland, only around 8% of the egg supply is processed, while in European Union countries this indicator is between 25 and 30% of eggs produced. There are 12 egg processing plants in Poland. The total domestic production potential (egg processing capacity) is 64,000 tons of eggs (around 1100-1200 million eggs). The capacity of machinery in individual plants varies and lies in the range from

300 kg/h to 4600 kg/h. In the group of largest establishments and plants with export authorisation, the capacity ranges from 2500 kg/h to 4600 kg/h. In 2002, the production sold in the egg processing sector amounted to over 20,000 tons.

The total number of persons employed in the egg processing sector (according to 2002 data) was around 300. The restructuring and modernisation of this sector is necessary due to the sanitary requirements concerning processed egg products used in the food industry stipulated in domestic regulations and EU law (according to the data of the Chief Veterinary Officer, currently only 3 of 12 processing plants are listed as A category establishments that have the authorisation to export to EU member states). Out of 12 plants engaging in egg processing, 11 declare the intention to invest and apply for support from structural funds.

The egg quality system functioning on the EU market puts Poland under the obligation to establish egg packaging plants. Currently such plants are situated by the farms that produce eggs. This system is based on the obligation to establish packaging plants; these plants must also engage in egg distribution for direct consumption.

According to the data of the General Veterinary Inspectorate, in 2002 the total number of entities engaging in the production of eggs for food was 747. We estimate that currently around 60-70% of these entities (i.e. about 500 farms) engage in activities concerning the classification and packaging of eggs.

#### **1.5.7. Hop processing**

There are 4 entities (some of them comprising multiple plants) active in the hop processing sector. These entities produce granulated hops and hop extracts, their estimated annual production capacity is 4800 tons. The establishments employ around 100 persons. The production is sold in the entire territory of Poland and also exported (to the EU, Russia, Ukraine).

The cultivation of hops and their utilisation in brewing have a long-standing tradition in Poland. Taking the crop area (around 2198 ha) and the number of planters (around 1200) into account, this sector might be considered marginal. However, due to the profitability of production, the development opportunities of the sector and the benefits to agricultural producers, the cultivation of hops may have large economic and social significance in Poland.

With regard to the crop area and the quantity of produced hops, Poland is currently ranked fourth in Europe, which testifies to a large specialist production potential.

#### **1.5.8. Honey processing**

Currently about 20 establishments are active in Poland that engage in the purchase and packaging of honey. Three of them are bee-keeping co-operatives situated in Lubelskie, Małopolskie and Wielkopolskie Voivodeships. The rest are private firms that are mainly situated in Wielkopolskie, Lubelskie, Małopolskie and Warmińsko-Mazurskie Voivodeships.

#### **1.5.9. Flax and hemp processing for non-nutritional purposes**

The utilisation of plant fibres for cloth production is one of the components of agricultural product processing for non-nutritional purposes. The basic raw material for the production of cloth fabrics is flax, the production of which has been systematically growing since 1998 (1998 – 5,800 tons; 2000 – 7,900 tons). The domestic sector of flax and hemp fibre processing is strongly concentrated – there are only 9 large plants that carry out this production. The present potential of the plants producing flax and hemp fibre allows the processing of crops cultivated on an area of about 30,000 ha. In order to obtain high quality fibres it is necessary

to introduce advanced flax and hemp growing technologies, such as full mechanisation of flax harvesting and retting, the processing of flax straw and the production of scutched flax fibre.

It is estimated that 890 persons are employed in plants engaging in flax and hemp production and the annual production capacity of these plants is approximately 18,300 tons.

The volumes of production in the domestic flax and hemp processing sector in 2003 are as following: a) long flax fibre – 4000 tons (of which 50-60% is exported), b) short flax fibre – 2000 tons, c) hemp fibre – 200 tons. The production is sold throughout the country and around 2400 tons are exported.

#### **1.5.10. Meat refrigeration**

Not all entrepreneurs who are active in the meat processing sector have cold storage facilities of sufficient capacity within their processing plants. Moreover, owning extensive cold storage facilities is very costly.

As a result, the refrigeration sector provides services with regard to the storage of deep frozen products. The entities that provide services with regard to storing frozen products must meet the same veterinary requirements concerning the storage of meat as processing plants. The need to include this sector in support under this Programme results primarily from its importance for ensuring the high quality of products and also food safety for the consumers.

The capacities of cold stores with regard to freezing and storing meat amount to around 250,000 tons. It is estimated that these entities employ around 4500 persons. These are medium sized and large establishments, both state-owned and owned by private capital. The number of meat plants served by a single cold storage facility ranges from 5 to 12 and the amount of products stored for the plants ranges from one to nine thousand tons.

#### **1.5.11. Wholesale markets**

The necessity to initiate the functioning of wholesale markets in Poland was caused by transformations in the food economy, which eliminated from the market the structures that had hitherto engaged in the organisation of trade in agricultural and food products. The history of wholesale markets in Poland began in 1992, when the Wielkopolska Giełda Rolno-Ogrodnicza (agri- and horticultural commodity exchange) started operating in Poznań. As a result of the implementation of government programmes aimed at the establishment and development of wholesale markets, 13 subsequent wholesale markets were created; stock in these entities is owned, inter alia, by the Minister of the State Treasury, Agency for Restructuring and Modernisation of Agriculture, Agricultural Market Agency, local government authorities, producers and individual operators. The supraregional wholesale markets built from scratch in Poznań, Warszawa, Gdańsk, Wrocław and Lublin are the most modern ones. Apart from the abovementioned supraregional markets, there are also local ones, which were often established as a result of adapting the existing facilities. Among such markets are the wholesale markets in Zielona Góra, Radom, Kielce, Białystok, Elbląg, Rzeszów, Wałbrzych, Legnica and Tarnów. The remaining wholesale markets are entities established without the financial participation of the State Treasury; the most important ones are situated in Szczecin, Łódź, Sandomierz, Bielsko-Biała, Białystok and Wrocław. Fruit, vegetables, flowers, processed food products (including dairy products), meat and meat products are the most important goods that are traded in wholesale markets. It is estimated that 80-90% of fresh agri- and horticultural products are sold through wholesale markets, marketplaces and intermediaries and 10% are sold through chains of shops. The estimated annual volume of trade in fresh products in regional markets is 140 to 150 thousand tons and

around 200 persons are directly employed or cooperate with these markets; on the supraregional market, those numbers are five times higher.

## **CHAPTER 2. THE MOST IMPORTANT PROBLEMS AND DEVELOPMENT OPPORTUNITIES IDENTIFIED FOR THE AGRI-FOOD SECTOR**

### ***2.1. Problems related to the development of agriculture***

#### **2.1.1. Labour force**

The surplus of labour committed to farm production is a major barrier to the development of the Polish agricultural sector. This phenomenon is regionally differentiated with a high regional intensity in the southern and south-eastern regions of Poland. Excessive employment impedes the improvement of the agrarian structure, farming efficiency, technological progress, and this in turn leads to low income in the agricultural sector and incomplete use of the competitive potential. The gradually worsening price relations make the situation more serious.

Though the reduction of employment in agriculture is one of the basic challenges to be confronted in the immediate future, the opportunities for labour to leave agriculture are and may remain few due to the general unemployment level and low mobility of farmers and the rural population on the labour market. The social function of the absorption of domestic labour by the agricultural sector (at the expense of economic effectiveness of the sector) should be limited.

Statistical data (Chapter 1) demonstrate that a sizeable proportion of the rural population finished education at the level of primary school or vocational, medium-level school, while it is much more common for urban inhabitants to have secondary or post-secondary education. The access to education is typically worse in rural areas, resulting in a worse level of education among the rural population. In its turn, the poor financial situation of rural families hampers the chances of young people from rural areas to obtain education in big centres away from their homes.

The search for off-farm jobs which require appropriate qualifications is hindered not only by a low standard of general education but also by poor agricultural education (a too slowly changing curriculum).

A low level of education among the rural population may be a factor negatively affecting the structural transformation process, technological progress and the opportunities arising from the participation in the EU Single Market. Due to its worse education, the rural population finds it difficult to compete with the urban population for attractive jobs, a fact that represents a serious obstacle to the migration from agriculture.

Therefore, we should be prepared for the fact that a large proportion of the population employed in the agricultural sector will remain on farms until retirement age even at the expense of a lower income. Opportunities for a reduction of the employment level in the agricultural sector are mainly associated with the possibilities for general economic development.

#### **2.1.2. Farm structure**

Small farms prevail in the agrarian structure of the Polish agriculture. The land resources of the majority of farms are too small to ensure sufficient income. A small scale of production also obstructs the achievement of technological progress both for financial and technical reasons.

Another serious structural problem lies in the low level of farm specialisation which undermines farming efficiency, technological progress and the competitiveness of farmers on

the market. However, we can assume, that the stabilisation of markets under the CAP on the one hand, and the access to investment support programmes on the other, are very likely to be conducive to the establishment of specialised farms.

The number of commodity (production) farms, i.e. producing for the market, is limited by the poor agrarian structure and low level of specialisation. Thus, there is a large number of subsistence holdings. This status quo is neither propitious for the improvement of the conditions of production (technical and quality standards) nor for the improvement of farming efficiency.

However, it should be noted that the transformation process in agriculture is very slow. Despite a slow reduction in the number of agricultural holdings and a statistical increase in the average farm area, a growing number of very small and very large farms has been observed over the period of the few last years – evidence of the tendency of the large and more effective farms to take over land on the one hand, and of an increasing number of subsistence holdings on the other. As the agrarian transformation process occurs in two parallel planes, agricultural policy should take into account both the development of modern capital and science-intensive areas and the support of labour-consuming tasks which may be implemented even on small farms. Support to a differentiated production structure in small agricultural holdings and the creation of jobs in rural areas will contribute to an increase in their profitability. This process is contingent on the simultaneous development of market institutions, marketing and rural infrastructure.

### **2.1.3. Vertical and horizontal integration of the agri-food sector**

The dispersed structure of agricultural production justifies and implies a necessity for the development of all forms of cooperation among producers both in the form of horizontal integration (producers' groups, machinery partnerships etc.) and vertical integration (links between producers and recipients, agricultural product processing plants). The need for horizontal and vertical integration will increase sharply in view of the approaching accession to the Single European Market and the necessity to reduce transaction costs. As Polish agriculture is facing the problem of the lack of such relations, the risks and costs of operations are increased at each level of the food production chain. Moreover, the international competitiveness of individual agricultural holdings and companies (both in the processing and trade sectors) and of the whole sector is reduced. Despite their unquestionable advantages, the integration processes develop very slowly both due to errors and encumbrances inherited from the past and to the currently reduced financial and organizational support.

### **2.1.4. Shortage of capital**

One of the major barriers impeding the development of Polish agriculture is the shortage of capital resulting from declining trends in agriculture (declining price relations) and the high costs of credit facilities (high real interest rates). The agricultural machines owned by farmers are obsolete and depreciated. The main reason for the technical stagnation of agricultural holdings is the lack of own capital and external sources of financing.

In the past years only 9 - 10% of farms demonstrated a capacity for accumulation. This is due to price relations disadvantageous to farmers (squeezing price scissors) and low levels of agricultural support (measured on a PSE basis). The appreciation of the Polish currency expressed in real values has intensified the difficulties in agriculture, particularly for exports, though it helped to reduce inflation. These macroeconomic conditions have led to the reduction of farmers' income for several years past. Between 1995 and 2000 the reduction in

available gross income in real terms amounted to as much as 50%<sup>2</sup>. In 2000 the real available gross income on individual agricultural holdings fell by 12.6% as compared to the previous year (1999).

The farmers' difficult income situation limits the possibilities of investing in the development of their farms. The lack of own capital (low income) makes it also difficult to use external sources of financing. The costs of credit facilities and the requirement to provide credit collateral and guarantee constitute a significant barrier for agricultural holdings.

The reduction of nominal and real interest rates resulting from further macroeconomic stabilisation and the accession of Polish agriculture to the CAP will certainly enable the approximation of the economic conditions in which the Polish agricultural sector is operating to those of EU-15 and will reverse the unfavourable trends in the reconstruction of fixed assets.

### **2.1.5. Adjustment of farms to EU requirements**

Agricultural production must be conducted in keeping with technological regimes that ensure the safety of foodstuffs, and in a manner guaranteeing both a good product quality and the compliance with environmental requirements and animal keeping conditions.

Legislation was amended in Poland in the pre-accession period, in line with EU legislation, by adopting increased requirements for agricultural production, particularly animal production. In order to meet these standards, agricultural holdings are faced with serious investments in modernising their production base and acquiring new equipment. The majority of these investment requirements refer to animal production.

### **2.1.6. Restrictions for agricultural production arising from natural conditions**

Conditions for agricultural production in Poland are worse than in other European countries because of a big share of medium-quality and poor soils in agriculturally utilized area, excessive acidification and climate conditions. Despite expensive agro-technical procedures, in Poland it is not possible to cultivate a set of plants similar to the one cultivated by EU farmers and to produce comparable yields.

Excessive soil acidification has a detrimental impact on the crops and reduces the effectiveness of fertilisation, causing some nutrients to be washed out deeper into the soil profile. Excessive acidification blocks the plants' access to some nutrients and increases the absorption of some substances, such as certain heavy metals. Liming the soil is the usual way of coping with this problem, because besides reducing acidification, this procedure also improves the physical properties of the soil.

Water may become a limiting factor with regard to the size of agricultural production. Disturbing the water balance of agricultural areas leads to a permanent reduction in the productive potential of agricultural lands. This is why increasing the water resources in soil and in bog habitats and reducing the surface runoff of water are very important measures from the point of view of prospects for the development of agriculture in the areas already threatened by a water deficit. The insufficient water resources within the entire Polish lowland as well as the uneven distribution of rainfall can be partially balanced by an increase in available water resources.

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<sup>2</sup> During the same period of time the income increased by 21% in the entire household sector.

### **2.1.7. Threats to environment**

Agriculture is strongly linked with environmental conditions. In Poland natural conditions (including climatic and soil conditions) limit the scope of agricultural production and the farm economic effectiveness. They require also the specific production regime in respect of crop rotation, counteracting erosion, balance of animal and plant production as well as fertilizers management.

It is expected that in the coming years a significant part of market oriented farms will aim at intensifying production. That may lead to unfavourable changes in the environment such as water and soil pollution (caused by increased use of fertilizers and pesticides as well as concentration of animal production), limited crops rotation and decrease of biological diversity on the rural areas.

On the other hand extensive production or resigning from the agricultural production by some holdings may lead to abandonment of agricultural land and as a consequence to conversion of landscape and limiting the number of environmentally attractive habitats.

Nowadays inadequate equipment of farms with tools for minimizing unfavourable influence of agricultural production on environment constitutes a danger to environment. In particular it concerns the equipment for natural fertilizers storage.

Farmers are not aware enough of the impact of the agriculture activity on the environment. Harmonization of agriculture development with environmental aspects requires social awareness in that area and dissemination of the rules of good agricultural practice among farmers.

## **2.2. Possibilities for the development of agriculture**

### **2.2.1. Production resources and condition of the natural environment**

Poland has comparative advantages over the EU market in these sectors and in types of production which require relatively high expenditure of labour and/or land and which are difficult to mechanise. Agriculture as a whole, and several types of production in particular, meet this criterion. In some cases, such as horticulture, the abundant production resources are accompanied by a long tradition and existing infrastructure. High marginal cost effectiveness of invested resources<sup>3</sup> and improving access to the latest technology may appear as another important potential basis of competitiveness in the Single Market.

Because of traditional production methods and the low use of chemicals, Poland may successfully produce "high quality food" the demand for which will grow both among EU and Polish consumers. Poland provides conditions for organic farming, i.e. using methods which are environmentally friendly and satisfy consumers' needs. Taking advantage of this "old-fashioned" character of Polish farming for the development of the competitiveness of Polish agricultural holdings which use organic farming methods requires, however, the improvement of farmers' knowledge and the implementation of appropriate investment and marketing activities.

### **2.2.2. Age structure**

The relatively advantageous age structure of the farming population represents a chance for Polish agriculture. In Poland, about 17% of managers of agricultural holdings are under 34, whereas in the EU the figure is only 8%. Rejuvenation of the farming population is largely

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<sup>3</sup> Consequence of the low saturation of the sector with capital.

due to a reduction in migration, limited possibilities of finding work and a faster replacement of generations encouraged by the possibility of obtaining a retirement pension in agricultural sector. In the period of adaptation to new conditions of operation following accession, young farmers are more inclined to take risks and to cope with the challenges imposed by the new circumstances.

### **2.2.3. Non-production functions of agriculture**

The social debate carried out in Poland on the development strategy for this sector points to the necessity for changing methods and priorities aimed at increasing the significance of the non-production functions of agriculture. This evolution follows the changes in the social perception of the sector, new challenges pertaining to the protection of the natural environment and the decline of local traditions. There is growing social awareness that the future development of agricultural production must be carried out in a sustainable fashion and, if possible, in a way ensuring the provision of additional public goods. A relatively low intensity of farming, well preserved traditional production methods and the diversity of agricultural and rural microstructures present an opportunity to develop Polish agriculture in harmony with the European model for the development of this sector identified within the framework of Agenda 2000.

## **2.3. Problems of rural development**

### **2.3.1. Rural employment**

Rural unemployment and limited opportunities for finding a job in rural areas are the most important and the most difficult problems to be overcome. Counteracting unemployment in rural areas, e.g. facilitating access to the labour market or the generation of non-agricultural jobs in rural areas, is, therefore, one of the most important challenges.

At present, the labour market does not allow one to quickly move surplus rural labour outside rural areas. This is because the unemployed rural population fails in competition with the urban unemployed in local labour markets which are concentrated in towns. Moreover, investors tend to generate new jobs in towns rather than in rural areas. Low occupational mobility of the rural population in Poland is another problem aggravated by the lack of appropriate housing infrastructure – thus, unemployment persists not only in rural areas but also in many regions in Poland. The effect of rural unemployment and limited possibility of finding alternative non-farm employment are considerable low labour costs. However the long-term growth trend of above-mentioned costs is seen which is in line with this situation in whole economy.

The rural unemployment and limited possibility of finding alternative employment outside the agricultural sector result in low labour costs. Nevertheless the gradual, long-term growth of labour costs is observed which is in line with the situation in the whole Polish economy.

### **2.3.2. Level of education among the rural population**

The transition to a market economy initiated in Poland in 1989 deepened the educational disproportion between rural and urban areas, and between the agricultural sector and other sectors of the economy. Education for the rural population has become less accessible, particularly at university level.

Access to vocational information in rural areas is also problematic. The information gap in rural areas is somehow bridged by extension services, and to a lesser extent by the

professional press. The use of Internet in rural areas is negligible. Computerisation of agricultural holdings barely crawls on all fours.

Rural community is characterised by insufficient level of environmental consciousness. Only 30 % of farmers are conscious of potential negative influence of agricultural activity on environment.

### **2.3.3. Level of rural infrastructure development**

Poor technical infrastructure considerably impedes the multifunctional development of rural areas. Insufficient development of rural infrastructure not only brings down the standard of living and productive capacities but also discourages potential investors. Financial barriers and the limited funds of local governments hamper the development of infrastructure in rural areas.

#### **Road network**

The possibilities of developing rural areas are to large extent conditioned by the location of villages in relation to the road network. Differences in the process of transformation of rural areas are associated with the degree to which these areas are provided with road infrastructure. The larger number of villages with hard surface roads can be found in the voivodeships of southern and western Poland, whereas the smallest number of villages with hard surface roads is observed in north-eastern voivodeships. While the density of road network in Poland is comparable to the European average, roads need to be modernised and adjusted to EU standards.

#### **Water Supply**

At the national level there are differences in water supply networks between the eastern and central regions and the rest of the country. Approximately 8 million inhabitants of rural areas are not provided with mains while the farms having their own water intakes rely on shallow and low-efficiency wells. Problems with access to the water supply network hamper farmers because of the dispersed housing pattern, the high costs of connecting houses to networks and the lack of funds for co-financing construction work. There are considerable disproportions in the implementation of water supply investments and those related to waste water treatment.

#### **Sewerage**

The sanitary conditions in rural areas represent a substantial problem which is associated with insufficient adaptation of the sewerage and waste water treatment facilities to the needs of rural areas and with the lack of funds for these types of investment. The average ratio of rural households provided with sewerage facilities is as low as 4.5%. Disproportions between the sewerage and water supply systems are huge and do not recede.

#### **Gas supply network**

Access of the rural population to gas is continually increasing, but this should be contributed to the distribution of bottled gas (only 15.9% of the gas network is deployed in rural areas). Distribution of bottled gas is on the increase – mainly in areas where the development of the gas network is impossible for economic or technical reasons. Regions with a low farm gasification indicator can be found in eastern Poland and west of the Upper Silesia region. The spatial differentiation of rural areas is largely correlated with the routes of the main gas-pipes and the arrangement of the major cities.

Despite an accelerated rate of development of rural infrastructure in recent years, the needs in this respect are still enormous. Significant regional differences in levels of infrastructure are

associated with the agrarian structure of rural areas in a given region and the region's capacities to adjust to new economic conditions. The dynamics of infrastructure development and the economic development of rural areas also depend on local social activity and an effective management of available funds.

## ***2.4. Guidelines for rural development***

### **2.4.1. Generation of a supplementary source of income on farms and off-farm jobs**

About 38% of the Polish population live and work in rural areas and 45% of this number depend on farming. Farming activities do not need to be the only source of income in rural areas as there are many opportunities to develop other activities which may become an additional source of income.

The economic uplift of rural areas may only be ensured by small businesses in which private individuals can invest their capital. A growing number of inhabitants of rural areas have responded to the market economy by getting engaged in trades, services and crafts based on the use of the resources of their own farms. However, given the limited availability of funds, off-farm economic activities in rural areas are still poorly developed.

The diversification of farm activities into non-agricultural areas (such as farm tourism, trades and handicrafts) is an important way to develop the economic activity of a significant proportion of the rural population. In this manner a number of households may obtain a supplementary source of income in the future.

Sustainable development is the long-term objective for rural areas. It is understood as involving parallel activities along several lines: multifunctionality of agriculture and rural areas, the alleviation of unemployment, the improvement of standards of living of the rural population and the economic/social functions of rural areas.

### **2.4.2. The preservation of traditional forms of spatial development and environmental values**

The varied landscape of rural areas, rich in trees, baulks and other semi-natural features with a diverse variety of plants and animals, epitomises the non-production values of rural areas and agriculture. The environmental awareness of the Polish public is growing and environmental protection needs are taken into account to a wider and wider extent. The cultural and natural diversity of Polish rural areas can be considered a special asset worth preserving and maintaining.

### **2.4.3. Development of farm tourism**

Polish rural areas present favourable conditions for the development of rural tourism. This is particularly true in the case of industrially underdeveloped regions with low employment in the non-agricultural sector, and which possess attractive natural, landscape and cultural assets. The number of agricultural holdings that offer farm tourism oriented services is continually growing. However, farms with farm tourism constitute less than 1% of all agricultural holdings in Poland.

For the majority of agricultural holdings the development of farm tourism provides the local population with additional job opportunities, makes use of existing housing resources, offers the possibility of the direct sale of "wholesome food" produced on the farm, and, at the same time, enables cultural development and the improvement of the environmental infrastructure,

the protection of historic monuments, the environment and natural/landscape features. Rural tourism is a source of considerable income in the regions which are capable of taking advantage of their attractive location.

## **2.5. Processing sector problems**

The improvement of the competitiveness of the Polish agricultural sector must go hand in hand with that of the food processing sector, and, therefore, it is necessary to study and identify its basic problems and to carry out measures aimed at improving its condition.

### **2.5.1. Effectiveness and productivity in the agricultural and food processing sectors**

Agricultural and food processing plants in the main sectors achieve poor financial results. The low return of the Polish agricultural and food processing industry, as compared with the level in EU member states, results from, *inter alia*, low productivity per worker (EUR 105 000 in 2000). Moreover, the turnover per company (EUR 12.9 million) is half that in the EU and the average production per capita in 2000 amounted to EUR 985, i.e. 65% of the national average in the current EU member states.

The competitiveness of the Polish agri-food industry is also reduced due to excessively high production costs. The cost index for the whole food and beverage production sector in 2001 (the relation of the expenditure incurred in order to generate revenue from overall activities to the revenue from overall activities) amounted to 98.0%.

### **2.5.2. Technical equipment**

About 33,000, mainly small, private processing plants, were established within a few years of the start of the process of transformation. These mainly produce for the local market. However, such dispersion of processing potential has had a detrimental effect, primarily on the economic results of the plants. Unconsolidated, small and medium sized plants have had limited opportunities for investment and, therefore, problems with modernisation and the rationalisation of their production.

The pre-existing large State owned plants were systematically privatised during the last ten years, mainly with the participation of foreign capital. This has permitted their accelerated modernisation and restructuring. Between 1990 and 2001 the food processing sector received USD 5 billion of foreign capital, i.e. 10% of all foreign direct investment in Poland; 65% of this amount originated from EU member states.

The modernisation process in the food processing industry differs from sector to sector. During the last five years the highest investment level was observed in the secondary processing sector, whereas investments in the primary processing of agricultural products were negligible.

Since 2000 a decline has been observed in investment in the food processing sector. Therefore, in order to achieve an improvement of competitiveness in the Polish agri-food sector, it is extremely important to apply appropriate measures to support investment processes in this sector.

### **2.5.3. Raw material base**

The effective operation of the Polish agricultural and food processing industry also depends upon an adequate source of raw materials. The processing sector mainly relies on domestic raw materials and frequently faces barriers associated with the destabilisation of sources of

raw materials and the heterogeneous quality of raw materials. Fluctuations in the supply of farm produce and the lack of uniform quality produce limit the necessary installation of new technology in processing.

The Polish processing industry is still poorly integrated with agricultural production and, therefore, is sensitive to supply fluctuations and the unstable quality of raw materials compared to the processing sector in the European Union. Establishing stronger links between farmers and processing plants through long-term contracts (vertical integration) and the establishment of producers' groups (horizontal integration) supplying the industry with uniform quality raw materials may help overcome the problems. These solutions also help to increase and stabilise a farmer's income (due to the better quality of raw materials supplied).

#### **2.5.4. Safety and quality of products and compliance with EU standards**

Raw material supply problems and under-investment in many Polish agricultural and food processing plants also contribute to insufficient safety and often the unsatisfactory quality of finished goods as well as to poor compliance with EU standards.

At present, few meat and milk processing plants comply with EU veterinary and sanitary standards. The group of plants classified as B2 category (this refers to those plants which are declared to comply with EU requirements during the first few years after accession, i.e. during the transition period) mainly includes meat processing establishments, of which 242 are red meat processing plants and 42 are poultry processing plants. The B2 category group also includes 112 dairies.

Polish meat processing plants from the B2 category (slaughterhouses, carcass cutting plants, meat processing plants) must, in the first instance, conform with EU sanitary and veterinary standards. The necessary adjustments include, *inter alia*: finishing floor and wall surfaces complete with corners to a standard which enables their washing and disinfection, elimination of points where personnel routes between different plant zones cross transport routes, separation of "clean" and "dirty" zones, separation of livestock facilities from slaughter halls and mechanical processing rooms from heat treatment areas. Compliance with EU standards also implies a better cooling of carcasses and carcass partition rooms, improvement in animal welfare, etc.

Another problem faced by the Polish agricultural and food processing sector is compliance with EU standards in the area of food safety. This means that each plant should introduce the HACCP system and respect Good Manufacturing Practice (GMP).

Though the introduction of product safety (HACCP, GMP and GHP) and food quality control systems (ISO 9000 Standard) started during the last 10 years, the results are still not satisfactory. About 50% of food processing plants have implemented or are implementing the HACCP system.

Apart from unsatisfactory sanitary conditions of production, the Polish agricultural and food processing sector is poorly adjusted to EU environmental protection requirements. The volume of waste (including sludge) produced by the food industry is between 3% and 90% of raw material, depending upon the sector. The largest volumes of waste are produced in the meat, potato and sugar sectors. The problem of liquid waste treatment is, in particular, faced by small and medium sized meat processing plants due to the large volumes of waste and under-investment in technology. In order to comply with EU environmental standards, these plants will have to ensure proper management of offal, the construction of liquid waste treatment or pre-treatment plants, the reduction of pollution emissions to the atmosphere, etc.

It is estimated that e.g. 30% of untreated liquid waste produced by the meat processing sector is discharged into surface waters.

Given the significance of the agricultural and food processing sector to the national economy, farmers and local labour markets, it is necessary to support modernisation processes in those plants that are likely to comply with EU standards and engage in profitable market activities after accession.

### **2.5.5. Management, marketing and distribution**

The Polish agri-food sector still does not attach sufficient importance to management and marketing activities. In the opinion of many agricultural producers and businessmen marketing is expensive and its results uncertain.

During the second stage of restructuring in the agri-food sector after 1998, the marketing, distribution, supplies, financial management, development and investment functions became concentrated in the headquarters of concerns and holdings. In small and medium size businesses these processes are little developed and, therefore, their competitiveness on the domestic and foreign markets is reduced.

### **2.5.6. Problems of wholesale trade in agricultural products**

The Polish wholesale trade, both domestic and foreign, in agricultural products faces the following problems:

- lack of standardised, large and homogeneous batches of agricultural crops;
- considerable dispersion of the distribution system;
- lack of modern storage spaces that would ensure the continuity of supplies of quality agri-food products;
- high margins caused by low turnover and numerous intermediaries;
- insufficient information concerning the prices, supply and demand on individual markets.

Recent years have brought immense changes in the foodstuffs trade, related, among other things, to the establishment of large shopping centres that create their own supply channels. The centralised supply system operating in these shops bypasses, just like in other countries, the intermediaries active in wholesale markets who are unable to guarantee the continuity of supplies and the homogeneous quality of products on their own. Moreover, the economic weakness of intermediaries and of a large number of agri-food processing plants prevents local products from being included in shopping chains' sales.

## ***2.6. Possibilities for the development of the processing sector***

### **2.6.1. Raw material resources**

The basic sectors of the Polish agri-food industry mainly process domestic raw materials. The raw material base is very rich and from the quantitative point of view satisfies the demand of processing plants. In the main sectors of Polish food production, self-sufficiency as measured by the ratio of production volume to consumption is close to or exceeds 100%. However, Polish raw materials should be of a higher and more homogenous quality. The introduction of mechanisms generating the desired changes in this respect will produce an improvement in the quality and safety of Polish food products and thus will strengthen their competitiveness. The bonds between agricultural producers and their groups with processing plants established through concluding long-term contracts will contribute to that. A higher quality of raw

materials often means higher purchase prices and these, in turn, contribute to an increase in a farmer's revenues and, indirectly, to the improvement of the farmer's standard of living.

### **2.6.2. Processing potential**

Various factors have determined the location and concentration of food processing plant in Poland. Small and medium size processing plants which prevail in the food processing sector are dispersed but, at the same time, located near their raw material sources. This is advantageous because short distances allow one to better preserve quality and to reduce the transport costs. Time of product delivery to the consumer may also be reduced. However, an excessive dispersion does not allow one to take advantage of the economies of scale in order to improve the economic effectiveness of these plants. The structural changes occurring recently in food processing plant and consisting of an increase in the number of medium size plants (employing 50 persons or more) and a decrease in the number of small plants should be appreciated. In 2001 medium size enterprises noted a 20% increase in productivity as compared with 2000, with employment reduced by about 18%.

Thus, it would be preferable to ensure financing for the existing plants which would comply with EU sanitary and veterinary standards after modernisation, and at the same time would remain close to the raw material producer and to the consumer. Besides, these agricultural and food processing plants are often the only places of employment in the off-farm sector for the rural population.

### **2.6.3. Higher degree of food processing**

It is noted that the product range available on the market has widened and has become better adjusted to consumer expectations. In the nineties the Polish agri-food sector achieved a higher degree of food processing, because the current degree of secondary processing is two times as high as that in 1992.

Establishments have appeared which specialise in new processing areas. Such sectors as juices and soft drinks, yoghurt and ice-cream, crisps, corn flakes, poultry products, coffee and tea processing and pet food industries have been created from scratch. Great progress and the widening of the range on offer on the market has been achieved with regard to ready meals, food concentrates and diet food.

### **2.6.4. Innovation with regard to the finished goods of the agricultural and food processing sector**

The possibility of developing the Polish agricultural and food processing sector may also be ensured by the innovative nature of its products. Both domestic and foreign markets (i.e. potential Polish export markets) are subject to continuous change in respect of consumer preferences, and to a strong segmentation. Groups of consumers appear who look for specific types of food products. The Polish food processing sector may take advantage of this phenomenon and widen and differentiate its product range looking for as many market niches as possible both on domestic and foreign markets (organic and diet food products, semi-finished goods for catering and restaurants).

Moreover, regional products, specific to a given country and region, may have an impact on the development of the Polish food processing sector. Such Polish products include "*bryndza*" – sheep's milk cheese, and "*oscypek*" – smoked sheep's milk cheese, both produced in the Podhale region. Poland is striving to obtain EU approval for these regional products, however, in order to be exported to EU markets, these products must obtain quality certificates.

### **2.6.5. Rationalisation of management and marketing in the agricultural and food processing sector**

The arrival of international companies onto the Polish market has given access to world-wide achievements in the field of business organisation and management. The operations of foreign corporations forces domestic enterprises to show closer interest in the implementation of advanced operational strategies, structure optimising, consolidation and the quest for a new quality in sales management. They disseminate advanced techniques based on electronic exchange of data and access to the Internet. These techniques should also be widely applied in small and medium sized enterprises.

Polish farmers and agricultural and food processors do not sufficiently appreciate the impact of marketing on the development of the sector. There is need to establish common systems which would facilitate the launching of products on the market and to use cooperatives dealing with sales organisation for this purpose. Training, study tours, expert assistance in arranging exhibitions or stands at fairs are also significant in this respect.

### **2.6.6. Improvement of hygienic and quality standards in the processing sector**

Compliance with EU sanitary and hygiene standards, particularly in slaughterhouses, meat cutting and processing plants and dairies, is a prerequisite for these plants remaining on the Single Market after accession.

The development of the Polish processing sector must also meet EU requirements concerning food safety. As mentioned above, over 50% of plants have implemented, or are implementing, the HACCP system. Other safety systems, such as GMP- Good Manufacturing Practice, GHP – Good Hygienic Practice, and ISO 9000 quality control systems are also implemented.

Observation of GMP and GHP by plants is associated with the improvement of the technical condition of buildings and their environment, protection against rodents, the condition of mechanical equipment, machines and the materials from which they are manufactured, the origin of raw materials and materials used in production processes, the improvement of storage facilities, methods of storage of raw and finished goods, work-place and production/storage facilities, lighting, etc.

### **2.6.7. Use of the proximity to large domestic and foreign markets**

The possibilities for developing the Polish agricultural and food processing sector are associated with better harmonization of their product range with domestic market needs and with the needs of foreign markets (EU Member States and the former Soviet Union).

Poland is a large potential market for the food products manufactured by Polish producers. The share of food products in the structure of household expenditure still exceeds the corresponding share in EU member states. It is estimated that in the short term, the rise in domestic demand for food products will reach the level of 2% annually, and in the long term it will exceed 3%. This will be the effect of an increased consumption of fruit, meat, cheese and the more widespread consumption of organic as well as highly processed food, including ready meals; and the development of a range of cheaper foods for the poor.

The Polish food processing sector should also better exploit the opportunities presented by its geographical location and natural proximity to large markets. i.e. the former USSR republics and EU Member States, which are tied to Poland by their traditions and tastes. Poland has gained long experience in trade contacts with these countries and should use this to its advantage.

The products of the Polish farm produce and food processing sector constitute an important item in foreign trade, because in 2000 their share in export volume amounted to 8.4%. Over 68% of exported goods from the agri-food sector are processed products. The intensification of marketing and better quality exported products may bring about better results for the Polish food industry.

The issues affecting the Polish agricultural and food processing sector presented above and its potential opportunities for development should point out the main objective: the improvement of the competitiveness of the agricultural and food processing sector. An efficient and competitive agricultural product processing sector is a precondition for the proper development of agriculture. Intermediate objectives resulting from the analysis particularly include the improvement of the safety and quality of food products and compliance with the *acquis* (a particularly significant target on the eve of accession), the adjustment of the product range to market needs, and ensuring jobs for the rural population. This is particularly true in the case of those businesses which will not be able to cope with the challenge of their EU competitors and the new requirements of the Single Market.

#### **2.6.8. Development of wholesale markets**

The changes that have occurred in the domestic and foreign commodity trade during recent years, together with the economic weakness and large number of businesses operating on the market and the lack of proper technical infrastructure, create opportunities for wholesale markets to play their role with regard to the planning and organisation of a base enabling the sale of standardised, homogeneous and large batches of goods. The lack of proper storage facilities guaranteeing regular supplies and ensuring product quality throughout the season is an obstacle that prevents wholesale markets as well as small entrepreneurs active in this sector from concluding long-term contracts. In view of the considerable dispersion of Polish agriculture, wholesale markets form an important component in the system of purchasers and intermediaries. The concentration of the supply of food crops in wholesale markets increases competitiveness as a result of the operation of a large number of independent businesses and this results in:

- price stabilisation;
- curbing inflation and the improvement in the quality and safety of offered products;
- reducing the number of trade intermediaries;
- adjusting agricultural production to consumers' requirements.

Taking into account the role of wholesale markets situated in the regions where agricultural production is concentrated for the implementation of state policies with regard to development and structural change in rural areas, it should be pointed out that action is required in the following areas that are important for wholesale markets:

- cooperation and the active formation of producer and marketing groups as a natural element of market supply through providing assistance in their formation, legal and financial advisory services etc.;
- creation of off-farm jobs related to the standardising and distribution of agricultural crops;
- enhancing the professional qualifications of persons living in rural areas with regard to new ways of organising production, marketing and distribution;
- creating a consistent system of market information including the exchange of information on demand, supply and prices quoted;
- cooperation between individual markets with regard to the joint handling of large batches of agricultural products.

Assessment of the current condition of the agricultural and food sector as well as of rural areas - SWOT analysis.

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>- large land resources;</li> <li>- favourable age structure of farmers;</li> <li>- low land and labour unit costs;</li> <li>- low level of chemical use in agricultural production;</li> <li>- large raw material base in processing;</li> <li>- large internal market;</li> <li>- good condition of the natural environment;</li> <li>- preserved natural and landscape values of rural areas;</li> <li>- tradition of economic contacts with Eastern European countries.</li> </ul>	<ul style="list-style-type: none"> <li>- high registered and hidden unemployment;</li> <li>- fragmentation of agricultural holdings' territorial structure;</li> <li>- shortage of capital in the sector concerned;</li> <li>- low level of specialisation of agricultural holdings;</li> <li>- low income in agriculture;</li> <li>- low level of education among farmers and rural population;</li> <li>- low level of technical and social infrastructure in rural areas;</li> <li>- weak managerial staff in small food-processing plants;</li> <li>- high transaction costs in agricultural and food sector;</li> <li>- weak horizontal and vertical integration in the said sector;</li> <li>- weak marketing.</li> </ul>

<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>- entry into the Single Market;</li> <li>- introduction of Polish agriculture into the Common Agricultural Policy;</li> <li>- availability of structural funds;</li> <li>- improvement in agricultural holdings' territorial structure;</li> <li>- fast economic development in Poland, allowing for absorption of workforce surpluses;</li> <li>- adaptation of management technologies and methods from the UE-15;</li> <li>- use of the competitive potential owing to the market orientation (CAP reform);</li> <li>- growing market for organic food products;</li> <li>- increase in direct foreign investments;</li> <li>- diverse market range of traditional and regional products;</li> <li>- developing markets in Eastern Europe.</li> </ul>	<ul style="list-style-type: none"> <li>- competition from the Single Market;</li> <li>- need to incur high adaptation costs over a short period of time;</li> <li>- continued high rate of unemployment;</li> <li>- fast growing labour costs;</li> <li>- marginalisation and depopulation of rural areas;</li> <li>- environmental threats to agriculture (droughts, floods, exhaustion of underground waters), exposure to plant and animal diseases;</li> <li>- threat to the natural environment due to an excessive intensification of agriculture.</li> </ul>

## CHAPTER 3. SUPPORT FOR RESTRUCTURING AND MODERNISATION OF THE AGRI-FOOD SECTOR AND THE DEVELOPMENT OF RURAL AREAS IN THE PRE-ACCESSION PERIOD

### *3.1. Measures in respect of food sector restructuring and rural development*

So far, the activities related to restructuring the agri-food sector and rural development were mainly aimed at:

- improvement of the organisation of the agri-food market and the development of modern institutions on this market;
- on-farm investments;
- projects generating new jobs in the off-farm production, services and trade sectors in rural areas;
- vocational training;
- development of technical and production infrastructure in rural areas and investments in the agricultural and food processing sector;
- investments in the agri-food processing industry.

The above mentioned activities were implemented both under the programmes of the Agency for Restructuring and Modernisation of Agriculture (ARMA) and Agricultural Property Agency of the State Treasury (APAST), financed by national budget, and under the pre-accession EU programmes like SAPARD, Phare and Rural Development Programme.

The basis of these actions were strategic programming documents concerning Polish agriculture and agricultural policy, that had been being established since the beginning of Poland's economic transformation. The role of these documents consisted in describing of long term strategy and directions of agricultural and rural development.

In 1990, at the beginning of transformation, the Ministry of Agriculture ordered the development of the **Strategy for Agriculture and Rural Areas**. It was developed by a team of Polish and EU experts, supported by the World Bank.

The major assumptions of the programme included the following:

- the improvement of agri-business through privatisation and demonopolisation (state-owned farms, processing industry, transport, storage);
- the abandonment of support for farms and the processing industry and the restriction of the role of the government to providing good institutional conditions for the transformation of the agri-food sector.

The document defined the following objectives:

- the growth in employment and the mobility of labour in rural areas;
- prompt privatisation and the establishment of small production units;
- enhanced initiatives and the generation of alternative sources of jobs;
- establishment of a social safety net for the population.

In fact, Polish agri-food policy in the nineties was characterised by:

- rapid privatisation;
- a low level of support (compared with other OECD states);
- concentration of public funds on supporting modernisation and restructuring and social security for the older generation of farmers.

This strategy largely influenced later agri-food sector reform in the subsequent years.

In 1994 the Polish government created *Guidelines for socio-economic policy for agriculture, food sector and rural areas*, in the year 1998, *Mid-term strategy for agriculture and rural development* and one year later *Pact for agriculture and rural areas*.

In 1999 the strategic document *A Coherent Structural Policy for Rural Areas and Agricultural Development* was prepared. It highlights the importance of an integrated policy for rural areas and agricultural development. It defines three major objectives, with respective specific objectives for Polish rural areas and agricultural development during the pre-accession period and after Poland's accession to the EU.

I. The creation of adequate living and working conditions in rural areas so as to allow rural inhabitants to achieve their economic, educational, cultural and social objectives (by means of the development of the social and technical infrastructure and by providing opportunities for non-agricultural business activities).

II. The restructuring of the agricultural sector by providing conditions for the adaptation of agriculture to the changing economic and social situation (improvement of the agrarian structure, modernisation of farms, strengthening the farmers' position on the agricultural market, carrying out biological improvement).

III. Providing sustainable development models for rural areas, protection of the natural environment and the rural cultural heritage (environmental protection, dissemination of ecological farming methods and other environmentally responsible methods of agricultural production, management of marginal land).

This document determined the manner of utilising pre-accession funds under the SAPARD programme and has become a guideline for programmes prepared for implementation during the current programming period.

### **3.1.1. Investments on Farms in pre-accession period**

Support to investments on farms was provided by the Agency for Restructuring and Modernisation of Agriculture mainly in the form of investment credit interest subsidies.

The following investments on farms were financed by the Agency for the Restructuring and Modernisation of Agriculture in the form of credits (a summary of information on domestic programmes implemented by ARMA between 1994 and 2001 is enclosed in Annex 1):

- the purchase of farmland;
- the establishment or furnishing of farms by persons less than 40 years old;
- the establishment or furnishing of a farm under the programme of farm settlement on State Treasury land approved by the Minister of Agriculture and Rural Development;
- the implementation of projects in agriculture and special sectors (use of the existing farm and/or special sector production base for starting or increasing production);
- the restoration of production on farms and in the special sectors of farm production in regions struck by drought, hailstorm, excessive precipitation, frost, flood, fire or rodent attack.

Credits subsidised by ARMA were granted by commercial banks with which the Agency had concluded relevant agreements. The subsidy granted by the Agency differed and depended upon the type of credit. Credit was contingent upon the preparation of a business plan, a

positive opinion of the competent Agricultural Advisory Centre (ODR) and the submission of an application to the bank which cooperated with the agency.

Guarantees and securities represented other forms of assistance offered by the Agency in respect of credits intended for investments including support for young farmers.

### **3.1.2. Generation of new jobs in the off-farm production, services and trade sectors in rural areas**

Activities related to this area were mainly undertaken by the Agricultural Property Agency of the State Treasury, the Agency for Restructuring and Modernisation of Agriculture and the Rural Development programme.

The relevant programmes of the Agricultural Property Agency of the State Treasury (APAST) were aimed at the alleviation of unemployment on the areas of the former State Farms (PGRs). Besides, APAST cooperated with institutions and organisations which were engaged in the control of unemployment, and provides assistance to local and regional initiatives in respect of job creation.

APAST in particular:

- 1) assigned its own funds for preferential credit facilities subsidised by the National Labour Office. These were intended for the generation of new jobs in the off-farm production sector for former State Farm workers who were unemployed and members of their families;
- 2) gave securities against credits granted by the Labour Fund to unemployed former State Farm workers to undertake business activities and to employers who run businesses on the former territories of State Farms. It also entered into guarantees against bank credit facilities (loans) for legal and natural persons running businesses associated with the development or cultivation of the former State Farm assets;
- 3) implemented a programme of "micro-loans" intended for self-employment in co-operation with the Rural Support Fund;
- 4) partially refunded the salary and wage costs of employers or provided other financial support to employers, who create new jobs in off-farm businesses. This decreased the costs incurred in connection with the employment of new workers;
- 5) supported local unemployment control programmes (including participation in establishing local guarantee funds) – the programme was addressed to the local government authorities;
- 6) participated in the unemployment control programmes co-ordinated and implemented by the relevant ministries and government bodies.

Between 1996 and 1999 the Agency distributed considerable funds obtained under EU grants for creating new jobs. The *Unemployed Animation Fund* (UAF) (over EURO 3.8 million) allowed the creation of almost 3600 new jobs and 165 independent businesses. The *Supplementary Fund* of PLN 1.6 million, which allowed 420 new jobs to be created, was the extension of the UAF.

The Agency for Restructuring and Modernisation of Agriculture also supported the generation of new jobs. For this purpose the Agency granted, through the intermediary of commercial banks, low-interest loans from the Agency's fund intended for natural and legal persons who run or undertake off-farm business activity in rural and rural/urban municipalities (small business programme). Between 1998 and 1999 the Agency granted loans to employers from the Labour Fund to generate new jobs for the unemployed who lived in rural and rural/urban communities. Between 1995 and 2001, 5,786 loan agreements were entered into for creating

new jobs. These covered a total amount of PLN 209,943,600 originating from the small business programme and Labour Fund. This action allowed 19,710 jobs to be created in rural areas. Moreover ARMA subsidised credit interest in relation to investment intended for the creating of new off-farm jobs in the rural and urban-rural municipalities and in the cities (under 20,000 inhabitants). Between 1996 and 2001 Agency granted credits to 3491 investors for PLN 443,738,000, thus helping to generate the 17,750 new jobs.

The Rural Development Programme was financed with a significant amount of domestic funds and co-funded by the World Bank. It was meant to support rural development. The key element of the Programme was Component A – *Micro-loans*, which was mainly aimed at creating off-farm employment opportunities. Instruments financed under Subcomponent B1 of the Rural Development Project (*Reorientation/Re-training*) included those intended to revitalise rural population and create new job opportunities mainly through advisory assistance, information and job intermediation services.

### **3.1.3. Vocational training**

The activities related to vocational training were mainly implemented by the Agency for Restructuring and Modernisation of Agriculture. They included:

- subsidising projects associated with improving qualifications and retraining the rural population, and
- subsidising projects associated with advisory services, information on agriculture and hands-on vocational training.

The Agricultural Property Agency of the State Treasury participated in similar projects in order to implement:

- an educational grant programme for school children from former State Farm (PGR) areas – a programme called *Improvement of the educational opportunities for children from former PGR housing estates* and so-called *bridging educational grants* which allow particularly talented young people originating from poor families to continue education at State colleges;
- the organisation of training courses for the unemployed and workers threatened with loss of their job.

Apart from Component B1 (*RDP*), the Rural Development Programme comprised Component B2 (*Education*), which aimed to improve the conditions and standard of education in primary and grammar schools in rural areas. Higher qualifications of rural school graduates would simulate their professional mobility as well as increase their chances on the labour market.

Agricultural advisory centres reporting to the head of regions (voivodes) and regional advisory centres for agriculture and rural development reporting to the Minister of Agriculture and Rural Development provided training courses to farmers and inhabitants of rural areas with the aim of improving their knowledge on farm management, new technologies, EU requirements, green farm management, off-farm activities, reskilling, etc. Apart from providing training courses and advisory services falling under their statutory responsibilities and financed from the budgets of the voivodes and the Minister of Agriculture and Rural Development, these centres helped farmers to upgrade their qualifications through attending courses dedicated to the particularly important aspects of the state's agricultural policy. Such courses were outsourced to scientific institutions, associations, foundations and other units not belonging to public finances sector.

As well as financing a variety of educational initiatives for young people from rural areas, the Minister of Agriculture and Rural Development provided funding for transposing scientific

research findings into agricultural practice and compiling these findings into databases. The best of research projects which had been put in practice were annually awarded by the Minister of Agriculture and Rural Development.

#### **3.1.4. Development of the technical and production structure in rural areas**

In the pre-accession period the Agency for Restructuring and Modernisation of Agriculture was the key organization to implement the programmes related to the development of the technical and production infrastructure. ARMA subsidised the construction of water supply and sewage networks as well as the modernisation and construction of roads in rural areas.

The Agency's tasks also included implementation of the European Investment Bank (EIB) and European Council Development Bank (ECDB) loans which had been taken by Polish government for the repair of the damage inflicted by 1997 flood to basic land improvement facilities. The investments included repair and modernisation of the existing dykes and the construction of new ones, the repair of roads and the construction of storage reservoirs. Between 1997 and 2001 the investments in basic land improvement facilities amounted to over PLN 1,018.8 million.

In 2002 the Agency was appointed as the institution which will be implementing the EIB's and ECDB's loans drawn by Polish government for the repair the flood 2001 damage to basic land improvement facilities in the Vistula-basin.

The Agency also implemented Component C – *Rural Infrastructure* of the Rural Development Programme funded by the World Bank loan. These investments were implemented across the country, whereby support was provided for construction and modernisation projects on municipal and poviats roads, water supply, sewage disposal, waste water treatment plant as well as solid waste management.

The Phare *Social and Economic Consistency Programme*, which was mainly designed to create and develop infrastructure with the aim of improving the climate for investments in the area concerned, covered also the implementation of investments related to infrastructure development in rural areas. Grants were provided for the co-financing of infrastructure projects in municipalities, including investments in waste water treatment and solid waste management, sewage and gas networks, local transport and the adaptation of areas for business needs.

#### **3.1.5. Investments in the agricultural and food processing sector**

Investment related measures in the agricultural and food processing sector were mainly implemented by the Agency for Restructuring and Modernisation of Agriculture. The Agency subsidised credit interest in relation to basic investment credit intended for, but not limited to, the financing of investments in the agricultural and food processing sector, and supported the following sector programmes:

- restructuring of potato starch processing;
- support to the restructuring and modernisation of the meat processing industry;
- the dairy programme.

Furthermore, the Agency was also granting guarantees and securities against credits intended for investments in the agricultural and food processing sector.

The Phare Programme was also committed to supporting the modernisation of the Polish agricultural and food processing sector, particularly in respect of compliance with EU standards. The project *Common Dairy Fund* aimed at the restructuring of Polish dairies and their adaptation to EU standards, was implemented under Phare 1999. Furthermore, projects

implemented under Phare 2000 (completed by the end of 2003) and Phare 2001 (to be completed by the end of 2004) covered the area of veterinary, phytosanitary and food control organisation as well as arrangements for the mechanisms of the Common Agricultural Policy.

### ***3.2. Other support for agriculture in the pre accession period***

Apart from the measures related to the modernisation of agriculture and rural areas presented above, assistance in the pre-accession period was also granted with regard to the following issues:

1. Price support and market stabilisation effected primarily through market protection (tariffs on a number of agricultural products), intervention purchases with regard to major agricultural markets (wheat, rye, pork half carcasses, butter, honey), subsidies to purchase prices (for wheat and rye), subsidies to purchases of raw tobacco, export subsidies (with respect to beef, pork half carcasses, skimmed milk powder, butter and hard cheeses), production subsidies for milk powder, compensatory allowances for starch producers and compensatory payments for potato producers.
2. Subsidies for soil liming, crop protection chemicals, biological improvement, fuel for agricultural purposes and current assets for agricultural production.
3. Support for ownership transformations in the agricultural sector after 1989 with regard to the lands of the former state-owned agricultural holdings – primarily through privatisation, usually in the form of lease and sometimes through the sale of land.
4. Afforestation of farmland – the law on farmland afforestation had been in force since 1 January 2002. Landowners who had planted forest on their land received financial equivalents.
5. Support for the creation of agricultural producer groups – producer groups had access to preferential investment credits using special credit facilities. They obtained also support for their administration activities.
6. Early retirement for farmers – it is assumed that from 1 January 2003, around 1,000 farmers took advantage of the early retirement system under the KRUS (Agricultural Social Security System).

Moreover, due to the fragmented agrarian structure and the high percentage of farms that do not produce for the market, agricultural holdings were exempted from income tax. A reduced VAT rate of 3% was used with regard to agricultural products. The rates of agricultural tax have always been low and there was a wide range of exemptions (lowest quality soils) and breaks with regard to this tax.

An important form of support for agricultural population was the fact that the state budget subsidised a separate social security system (Agricultural Social Security System); the system covered farmers and their family members.

In the pre-accession period the annual budget expenditure per 1 farmer in Poland was around EUR 390, while in the EU the respective expenditure was around EUR 6,500.

The abovementioned support for agriculture sector was implemented in the pre-accession period and might be continued according to the state aid rules.

### ***3.3. EU assistance under the pre-accession programmes***

### **3.3.1. Phare Programme**

#### **Phare in agriculture in the years 1990 – 1997**

The sectors in which Phare resources have been used in Poland also included agriculture, rural areas and agricultural and food processing. Funds committed to these sectors amounted to about 10% of the total funds allocated to Poland by the EU under the Phare programme.

The priorities, including the management and the type of tasks that have been funded, have changed significantly from year-to-year during the ten year period during which the Phare programme has been running. In 1990, i.e. at the very beginning of its implementation, the assistance was mainly aimed at material supplies.

In successive years, technical assistance was foremost in the form of advice, training, transfer of agricultural know-how, organisation and management designed to foster an understanding and implementation of the principles of the market economy (Appendix No 1 – Table No 1). Since 1998 the Phare programme has become oriented "*towards accession*" instead of the earlier approach of "*meeting the needs*" formulated by the candidate countries. The priorities for each country were laid down in the EU "Accession Partnership" document in response to which Poland prepared a "National Programme for the Adoption of the Acquis" containing an extensive Annex on the agricultural sector. The indicative list of projects and their budgets is included in Appendix 2 – Tables 2, 3 and 4.

In this light Phare 1997 became a bridge joining the old approach "meeting the needs" and the new one "towards accession".

#### **New Phare orientation in the years 1998 - 2002**

The new Phare orientation fell into three groups:

##### **1. Institution Building**

Support under this component had been granted since 2000 to projects aimed at adapting central and local government administrations to EU requirements. The Ministry of Agriculture and Rural Development was one of the beneficiaries of this part of the Phare Programme.

Projects falling within this group contributed to the development of human and institutional potential for the adoption of the *Acquis*. Information and data about support for the restructuring of agriculture and rural areas under the Phare Programme are included in Appendix 2 – Table 1.

##### **2. Social and Economic Cohesion (Phare SEC)**

The Phare Social and Economic Cohesion Programme was initiated in 2000, following the adoption of pre-accession assistance instruments implementing the regional development policy in Poland (under Agenda 2000).

By promoting economic mobility, programming the emergence of new jobs, solving social problems and developing infrastructure for business activity, Phare SEC aimed to reduce delays and inequalities in the development of regions and contribute to enhancing Poland's social and economic cohesion. The programme represented also a tool for fostering Poland's capacity to devise and implement operational programmes financed by structural funds (the European Regional Development Fund and the European Social Fund) under Objective 1 of the EU structural policy.

Apart from tangible effects, Phare SEC resulted in:

- increasing practical skills in programming regional development and devising operational programmes;
- increasing the awareness of regional policy principles among prospective beneficiaries;
- acquiring practical experience regarding an effective assembly of measures.

### 3. Crossborder co-operation (CBC)

Phare CBC was designed to promote co-operation between the border regions of central and eastern Europe and adjacent regions of the Community, and thus to assist border regions in overcoming developmental problems. The objectives of the programme corresponded to the goals of the INTERREG Community Initiative implemented in Member States. Phare CBC supported measures for improvement and development of infrastructure (including transport facilities), environmental protection, development of tourism, entrepreneurship and business co-operation. Support was also provided for initiatives aimed at developing human resources (education, training courses). Funds for small Euroregion projects were also available under the programme.

The following programmes have been implemented under Phare CBC: Phare CBC Poland – Germany, Poland – Czech Republic, Poland – Slovakia, and Poland – Baltic Sea Region.

Total support granted to Poland under Phare 1998 amounted to EURO 64.667 million, of which EURO 7.5 million was allocated for agriculture. A list and budgets of the projects concerned are included in Appendix 2 – Table 2.

The size of assistance increased considerably under Phare 1999, totalling EURO 213.5 million, of which EURO 27.6 million was allocated for agriculture.

The Phare 1998 and 1999 programmes were focused on the adjustment work strictly related to and arising from the priorities stipulated in the “Accession Partnership” and the commitments made by Poland under the “National Programme for the Adoption of the *Acquis*” (Appendix 2 – Tables 2 and 3).

Phare 2000 saw another increase of funds allocated to Poland. Total assistance under that programme amounted to EURO 484.36 million, of which EURO 43.6 million was earmarked for co-financing projects submitted by the MARD (a list and budgets of the projects concerned are included in Appendix 2 – Table 4).

Assistance under Phare 2001 remained at a level similar to Phare 2000. The total Phare 2001 budget for Poland amounted to EURO 468.45 million, of which EURO 32.92 million was earmarked for projects submitted by the MARD. The National Phare 2001 Programme was prepared on the basis of the Periodical Report of the European Commission for the year 2000, the general priorities of the 1999 Accession Partnership, and the "National Programme for the Adoption of the *Acquis*" which addressed the most important tasks facing Poland prior to the accession. The programme was focused on institutional development projects and investments aimed at strengthening Poland’s ability to adopt and implement the *acquis* in various sectors, including agriculture.

Within the Phare 2002 programme the agricultural sector received an assistance of EURO 35 million. Measures implemented under the Phare 2002 programme are convergent with the Action Plan prepared by Polish authorities in co-operation with the Directorate General for Enlargement. The aim of the above mentioned plan was to define a set of key projects to be undertaken and implemented in 2002 by Polish administration and jurisdiction bodies in order to strengthen their ability to implement tasks arising under the Partnership for Accession, negotiation commitments and EU assistance programmes for Poland.

Project proposals submitted for financing under Phare 2002 are specified in Appendix 2 – Table 6.

Phare 2003 was continuation of earlier measures for strengthening of Polish administration with a view to implementing tasks resulting from membership in the European Union.

### **3.3.2. The SAPARD programme as the instrument for supporting the development of agriculture and rural areas and building institutional potential**

The objectives, priorities and measures implemented under the pre-accession SAPARD programme were based on the analysis of the situation faced by Polish rural areas and the agri-food sector. SAPARD priorities included measures aimed at improving market efficiency, quality and health standards, and at providing resources for the preservation and generation of new jobs in rural areas. SAPARD was also a basic tool for achieving the adoption of the *acquis communautaire* associated with the Common Agricultural Policy (with an emphasis on the experience in building the paying agency), particularly in respect of the use of the Structural Funds after Poland's accession to EU.

In order to facilitate the adoption of the *acquis communautaire* and prepare agriculture and rural population to face the challenges associated with Poland's accession to EU, the following objectives have been identified for the SAPARD programme:

- strengthening of the competitiveness of the Polish agriculture and the agricultural and food processing sectors both on the domestic and foreign markets;
- adjustment of the agri-food sector to the sanitary, hygienic and quality requirements of the Single European Market;
- stimulation the multifunctional development of rural areas based on the development of technical infrastructure and the creation of opportunities for off-farm business activities.

The following measures allowed these objectives to be achieved:

Measure 1. Improvement of the processing and marketing of farm produce and fish products;

Measure 2. On-farm investment;

Measure 3. The development and improvement of the rural infrastructure;

Measure 4. The diversification of business activities in rural areas;

Measure 6. Vocational training courses;

Measure 7. Technical assistance.

On the 9<sup>th</sup> December 2003, the Team-SAPARD Monitoring Committee adopted the resolution on the withdrawal from further activities leading to accreditation of Measure 5 “Agri-environmental Measures (pilot projects)” of the SAPARD Operational Programme.

Poland signed four Annual Financing Agreements (AFA) with the European Commission:

- for the year 2000 on 29 March 2001 – for the amount of EURO 171,570,075;
- for the year 2001 on 6 June 2002 – for the amount of EURO 175,057,271;
- for the year 2002 on 3 April 2003 – for the amount of EURO 179,874,468;
- for the year 2003 on 4 June 2003 – for the amount of EURO 181,658,615.

On 2<sup>nd</sup> July 2002 the European Commission issued a decision to confer on Poland the management of funds within SAPARD pre-accession programme. Thus, the EU recognised the readiness of Polish institutions for the implementation of the Programme and the fulfilment by the ARMA of requirements binding on the SAPARD Agency under the multiannual financing agreement. The Commission decision concerned the implementation of the five out of seven measures envisaged under SAPARD (measures: 1, 2, 3, 6 and 7). The budget for these measures accounts for 87% of funds available under the programme.

On 14<sup>th</sup> November 2003 the European Commission published the decision on the conferral of the management to Poland of Measure 4 „Diversification of economic activities in rural areas”.

By 16<sup>th</sup> March 2004 there were submitted the total of 1,778 financial aid applications within the frames of Measure 1; 15,574 within the frames of Measure 2; 6,230 within the frames of Measure 3 and 7,495 within the frames of Measure 4.

Within the frames of Measures 6, there were finished 8 training projects, in which more than 6,000 farmers participated. At this stage tender procedure for realization of another 3 projects has been running.

As regards Measure 7, seminars and conferences for 8,000 potential beneficiaries of SAPARD Programme have been completed.

In the frames of Measure 3 *Development and Improvement of Rural Infrastructure*, where the beneficiaries might include municipalities, associations of municipalities and poviats (districts), 6,230 applications were submitted. Considering that there are 2,489 municipalities (*gmina*) in Poland, the number of the submitted applications showed that the interest in SAPARD assistance had been considerable. The total amount of eligible applications within Measure 3 exceeded significantly financial allocation AFA for years 2000 – 2003. By 19<sup>th</sup> January 2004 the utilization of funds was 212% and the verifying process was still running. The dynamic increase in pace of submitting new applications for assistance under Measure 2 “Investments in agriculture holdings” (while only 413 applications were submitted till 31<sup>st</sup> December 2002, this figure increased to 7,034 by 19<sup>th</sup> January 2004), where beneficiaries might include farmers, demonstrated that individual farmers were increasingly interested in financial assistance and better prepared to absorb it.

It was found while implementing the programme that certain of its arrangements had to be modified, particularly those limiting the scope of fund use by farmers. The programme was modified accordingly. Some of these modifications, accepted by the Team Committee Monitoring SAPARD Programme in December 2002, have been in force since 30 July 2003. Further modifications, approved by the Committee in June 2003 and endorsed by the European Commission decision of 1<sup>st</sup> August 2003 came into force 24<sup>th</sup> October 2003.

In August 2003 commenced the implementation of the project “Mid-term evaluation of the SAPARD Programme in Poland for the implementation period 2000-2003”. The final report was sent to European Commission on 19<sup>th</sup> December 2003.

In Poland, the SAPARD Programme contributed to initiating the implementation of tasks related to structural support for agriculture and rural areas in conformity with the existing EU system. It resulted in creating an institutional system and preparing personnel and procedures conforming to EU standards. The experience and skills thus acquired would be helpful in implementing agricultural and structural policies after accession.

The Sectoral Operational Programme Restructuring and Modernisation of the Food Sector and Rural Development continues to implement relevant measures undertaken within the SAPARD Programme.

## **CHAPTER 4. STRATEGY, OBJECTIVES AND PRIORITIES FOR THE RESTRUCTURING AND MODERNISATION OF THE FOOD SECTOR AND RURAL DEVELOPMENT**

### ***4.1. Agricultural and rural development strategy within the framework of NDP***

The **National Development Plan 2004-2006 (NDP)** is a strategic document which defines the most important objectives and priorities for economic development of Poland upon accession to the European Union.

The strategy proposed therein does not relate merely to the several years following EU accession but it also addresses challenges which will be still be there to be faced during the next planning period, at least until 2013.

The strategic objective of the National Development Plan consists of the *development of a competitive economy based on knowledge and entrepreneurship, capable of long-term, uniform growth ensuring increased employment and enhanced social, economic and physical cohesion with the European Union at the regional and national level.*

Pursuant to the National Development Plan 2004-2006, transformations in agriculture and rural development form one of the axes of the social and economic development of Poland.

The social and economic significance of agriculture in Poland is very high. According to the 2002 Agricultural Census, 18% of the total economically active population is employed in agriculture, although the share of the sector in the GDP is relatively low (less than 3%). The analysis of the current situation in agriculture indicates the necessity to restructure and modernise the sector. These are inevitable processes that will only be accelerated by Poland's accession to the European Union. Due to the accession and the need for Polish agriculture to function in the Single Market, it is necessary to enhance the competitiveness of Polish agriculture while reducing employment within the sector.

Rural development in Poland is closely related to the situation in agriculture and its transformation trends. 44.5% of employed rural inhabitants work in agriculture. Economic development processes tend to concentrate within highly urbanised centres where access to infrastructure (broadly understood) and highly qualified labour force is better. This means that in principle, the development prospects of rural areas are worse than those of urban centres and due to this fact the strategy with regard to the measures undertaken should be aimed at including these areas in the cohesion policy.

Poland has defined the following objectives for the rural development in Poland:

1. development enhancing the attractiveness of rural areas for inhabitants and entrepreneurs;
2. strengthening economical sustainability of the farming sector while preserving the environment;
3. increasing competitiveness of the food processing sector by improving food quality and adapting supply to market requirements.

Enhancing the attractiveness of rural areas as places to live, work and engage in business activities is a precondition for ensuring the even social and economic development of the country and preventing polarisation between the regions. The improvement of the competitiveness of rural areas requires measures aimed at enhancing technical and social infrastructure, creating better conditions for the development of agriculture and business (in sectors related to agriculture as well as non-agricultural) and the promotion of cultural, natural and landscape values of rural areas.

The development of agriculture and rural areas and particularly of business activities in rural areas is conditional upon the level of development of technical and social infrastructure. Enhancing national as well as regional and local infrastructure also creates conditions for increased regional cohesion. Due to the limited financial capabilities of local government authorities, the current amount of investment does not ensure the proper development of rural areas.

Investments in infrastructure will be implemented primarily on the basis of the funds from the European Regional Development Fund within the framework of the Integrated Regional Development Operational Programme. Measures related to *Local Development*, including those aimed at the improvement of local road, energy supply – especially renewable energies, as well as water supply and sewerage infrastructure and the provision of technical infrastructure for new investments, will be significant in this respect. The implementation of local solutions facilitating the residents' access to the Internet and other information technologies will also play an important role. Local interventions will be complemented by a set of regional measures implemented within Priority I of the IROP, i.e. *Extension and Modernisation of the Infrastructure Strengthening Competitiveness of the Regions* and the national-level measures of the *Transport and Maritime Economy Sectoral Operational Programme* (large transport infrastructure) that will indirectly affect the opportunities to run and develop business activity in rural areas. All investments related to the development of technical and social infrastructure in rural areas will also significantly contribute to improving the standards of living and working of rural residents.

Taking into consideration the problems of agriculture and rural areas discussed in Chapter 1 and 2 and the close relations between them, a multifunctional model of agricultural and rural development should be implemented in Poland. The basic assumption of this model is promoting the development of non-agricultural functions of rural areas. This model is compatible with the social and economic cohesion policy implemented by the Community, whose principal objective is the reduction of development disparities between individual EU regions and thus also the narrowing of the development gap that divides peripheral areas (including rural areas) from the so-called centres of development.

Support for business activity in rural areas will be especially important. Small and medium-sized enterprises that function or will be established in rural areas may contribute to the generation of new off-farm jobs. Financial support for small and medium-sized enterprises under the SOP *Improvement of the Competitiveness of Enterprises* will be directed primarily at measures related to strengthening their competitive position on the Single Market. Support will be granted for the implementation of investment, modernisation and publicity projects. Moreover, aid will also be directed at adjusting enterprises to environmental protection requirements (water and sewage management, air protection, industrial waste management).

Within ESF-funded Priority 2 of the Integrated Regional Operational Programme, *Strengthening human resources development in the regions*, several measures will focus especially on disadvantaged areas (in particular rural areas and areas of industrial restructuring). In the framework of Measure 2.3, *Vocational reorientation of persons leaving agricultural sector*, support will be offered to people intending to leave agriculture. Implementation of this measure will be closely linked with IROP Measure 3.1, and activities creating employment in rural areas through ERDF. In the framework of IROP Measure 2.1, farmers and households members may receive training for diversification of activities outside, but close to agriculture. The objective of Measure 2.2, is to increase access to upper secondary education for students from rural areas and access to tertiary education for students from disadvantaged areas (in particular rural areas and areas of industrial restructuring) In the framework of Measure 2.5, entrepreneurship will be promoted by providing comprehensive support for persons starting business activity.

Apart from that, small and medium-sized firms will indirectly benefit from a number of investments in the business environment. This support will facilitate their access to consulting, training, information and financial services. These measures have been included in the SOP *Improvement of the Competitiveness of Enterprises*, Priority I *Development of Entrepreneurship and Increasing Innovation Using Business Environment Institutions* and also within the framework of the *Regional Innovation Strategies* measure of the IROP.

Moreover, there are aid instruments for firms from specific sectors within the individual operational programmes, i.e. agri-food entrepreneurs (SOP *Restructuring and Modernisation of the Food Sector and Rural Development*), fishery sector enterprises (SOP *Fishery and Fish Processing*) and tourist enterprises (IROP).

The high rates of both registered and hidden unemployment in rural areas make it possible for the instruments that directly affect the labour market to become significant factors conditioning the improvement in employment situation in rural areas. Apart from the abovementioned measures related to the creation of new jobs in rural areas, a number of measures aimed at activating the unemployed will be initiated within the framework of the SOP *Human Resource Development*. This programme will be particularly oriented towards preventing and coping with long-term unemployment, equalising educational opportunities and developing human resources for enterprises.

Due to the fact that almost half of the working rural population engage in farming activities, preserving the competitiveness of this sector on the Single Market is one of the most important challenges that the Polish economy faces during the implementation of the NDP. Support for agriculture and rural development has been included in the SOP *Restructuring and Modernisation of the Food Sector and Rural Development*. Apart from measures contributing to enhancing the competitiveness and the adjustment of agricultural holdings, setting up young farmers or improving the agrarian structure, measures related to the diversification of agricultural activity, renovation of rural areas and the preservation of cultural heritage as well as small infrastructure investments linked to business activity in rural areas will be implemented. These measures include development of activities related to the production of biomass fuels.

Support for agriculture and rural areas is also included in the Rural Development Plan. Within the framework of the RDP, aid for semi-subsistence farms, farms located in less favoured areas, support for producer groups and agri-environmental measures as well as afforestation and early retirement measures are envisaged.

The transformation of the existing agrarian structure in Polish agriculture depends directly on non-agricultural employment opportunities. Therefore measures focused directly or indirectly on job generation will provide opportunities for the agricultural population to move to other sectors of the economy, hence providing conditions for transformations within the agricultural sector, particularly the reduction of hidden unemployment, the expansion of farm area, the modernisation of farms, the enhancement of competitiveness and the market orientation of production.

The multifunctional development of rural areas and agriculture should in the long term become as important as the efforts to maximise the economic impact of structural assistance through directing it to “leading” domains and areas.

#### ***4.2. State assistance for agriculture and processing sectors***

State assistance in the area of Agriculture over the years 2004-2006 will comprise subsidies and interest support for agricultural credits.

##### **4.2.1. Subsidies**

Subsidies for specific agriculture-related measures are granted pursuant to the ordinance of the Minister of Agriculture and Rural Development of 22 May 2002 on subsidy rates for operators implementing tasks for agriculture (Official Journal – Dz.U. No. 65, item 595 as amended). This ordinance was adopted in accordance with the authorisation given to the Minister under article 72 (5) of the law on public finances of 26 November 1998. The types of measures eligible for subsidy and the sources of funds for subsidies are provided for in the budget law for the year concerned.

The following measures will be subsidised from 2004 to 2006:

##### **1. Biological progress in vegetable production**

Subsidies will be granted, among others, for:

- implementation of tasks related to horticultural and agricultural plant production;
- maintenance of seed orchards, orchards and elite plantations;
- production and maintenance of virus-free nursery material;
- protection of plant gene resources.

##### **2. Biological progress in animal production**

Subsidies will be granted for tasks related to:

- farm animal breeding;
- assessment of production and breeding value of cattle bred through controlled reproduction, horses, sheep, goats, poultry, fur animals and bees;
- the keeping and making of entries into books and registers;
- collection and testing of blood samples to check origin;
- the keeping of bulls or their seed under bull assessment and selection programmes;
- the keeping of boars under boar assessment and selection programmes;
- the keeping of populations enjoying protection under programmes for protection of genetic resources of fish and farm animals.

##### **3. Combating infectious diseases in animals, monitoring tests of chemical and biological residues in animal tissues and in animal origin products, including tasks related to protection against bovine spongiform encephalopathy (BSE).**

Subsidies will be granted, among others, for:

- preventing, detecting and suppressing animal diseases, including tasks related to protection against bovine spongiform encephalopathy (BSE);
- purchase of pharmaceutical and disinfection agents;
- surveillance and vaccination of animals suspected of rabies;
- damages paid to animal owners in respect of animals killed on orders of the voivodeship veterinary doctor;
- tests to detect various chemical and biological residues in foodstuffs of animal origin and in tissues and body fluids of slaughter animals.

#### 4. Plant protection

Subsidies will be granted, among others, for:

- paying the costs of forecasting and advertising the dates for combating crop plant diseases and pests;
- quality control concerning plant protection agents and their residues in agricultural crops;
- paying the costs of testing harmful organisms which are obligatorily to be combated and of combating such organisms.

#### 5. Ecological farming

Subsidies will be granted to operators implementing the programme of converting their agricultural holdings to ecological production and to operators producing ecological products in ecological farms, which have a certificate of compliance.

#### 6. Monitoring of the access of Polish agri-food products to foreign markets and of import volumes.

Subsidies will finance the costs of preparing reports concerning the economic analysis of agricultural and trade policies, monitoring foreign agricultural markets and import volumes and prices.

Apart from the subsidies the rates of which and rules of granting are provided for in the above-mentioned ordinance of the Minister of Agriculture and Rural Development, state assistance will also be targeted at tasks for agriculture concerning:

1. Land survey and management for the purposes of agriculture. Subsidies will be granted, among others, for land consolidation and exchange, updating and control of land records, modernising record maps in the IT system, soil re-classification of drained, reclaimed and improved land, map-making for the purpose of renewing land records, preparation of agriculture management plans for municipalities, villages and agricultural holdings that take into account requirements related to the protection and improvement of natural environment and landscape and the protection of agricultural land.
2. Maintenance of water land improvement facilities. Subsidies will finance the maintenance and operation of basic water land improvement facilities.
3. Subsidising water companies implementing land improvement tasks.

#### **4.2.2. Interest rate support for agricultural credits**

In its negotiation position, Poland committed itself to continue to provide interest rate support in the years 2004-2006 for certain credits granted pursuant to the ordinance of the Council of Ministers of 30 January 1996 laying down detailed guidelines for action of the Agency for the Restructuring and Modernisation of Agriculture (Official Journal – Dz.U. No. 16, item 82 as amended) in respect of the investments which do not overlap with the objectives envisaged under the SOP and to terminate interest rate support for turnover credits granted pursuant to the law of 5 January 1995 on interest rate support for certain bank credits (Official Journal – Dz.U. No. 13, item 60 as amended) – the support for these credits will be provided only until the end of 2004.

### ***4.3. Objectives of the SOP restructuring and modernisation of the food sector and rural development***

The National Development Plan 2004-2006 determines the directions for the development of rural areas and forms the basis for the Restructuring and Modernisation of the Food Sector and Rural Development Sectoral Operational Programme.

The choice of the Sectoral Operational Programme objectives is the result of the analysis of the situation of the food sector and rural areas that has been presented in Chapters 1 and 2 of the Programme and also stems from the opportunities and threats to their development that have been identified. When setting the objectives, the extent to which they will be achieved through other community and domestic policies after accession has also been taken into account.

The choice of SOP Restructuring and Modernisation of the Food Sector and Rural Development objectives and instruments should be complementary to other policies and should be co-ordinated with them so as to ensure maximum achievement of the policy goals and the most cost effective use of public funds.

Using the above mention logic, criteria and the results of past analyses the following conditions must be taken into account in the selection of the objectives and instruments of the SOP Restructuring and Modernisation of the Food Sector and Rural Development:

1. The relationship between the successful development of broadly defined rural areas in Poland, the development of production and processing and the economic environment of agriculture is very strong. This results on the one hand from the relatively large share of the agri-food sector in incomes and employment and on the other from the existing comparative advantages in agriculture.
2. Facing new competition will diminish the opportunity for prompt use of the new potential resulting from the availability of EU markets. This situation naturally affects the choice of priority instruments for SOP "Restructuring and Modernisation of the Food Sector and Rural Development".
3. Criteria for the efficiency and effectiveness of use of EU funds for agriculture and rural development require concentration of several key instruments which offer opportunities for the full uptake of available funds and their effective allocation to beneficiaries to obtain multiplier effects. The rationality of this approach is confirmed by:
  - the trend to reduce the number of structural policy objectives under Agenda 2000;
  - the initially limited Polish experience in the implementation of EU instruments;
  - strict EU requirements in respect of implementation, monitoring and evaluation procedures; compliance with these requirements initially excludes the application of a broad range of instruments.

Neither the Council Regulation 1257/99 nor the regulation-based SOP Restructuring and Modernisation of the Food Sector and Rural Development provide instruments which would have a direct impact on open and hidden unemployment, one of the major problems of Polish rural areas. However, such instruments are provided in the remaining SOPs. The SOP Restructuring and Modernisation of the Food Sector and Rural Development provides measures which affect this problem indirectly and the application of which is additionally justified by the competitive conditions in which Polish agriculture will have to operate on the Single European Market between 2004 and 2006.

Therefore the following objectives were defined for SOP Restructuring and Modernisation of the Food Sector and Rural Development.

### **Objective 1. Increasing the competitiveness and sustainability of the agricultural sector**

Polish agriculture is characterised by its dispersed agrarian structure, surplus labour, poor education of farmers and underdeveloped market links. Since the early nineties, the opening and liberalisation of the Polish economy have exposed Polish producers to stronger competition. The accession of Poland and the incorporation of the Polish agri-food sector into the Single European Market will widen the marketing opportunities for Polish products but, at the same time, will intensify competition. The position of Polish farms will be jeopardised at the moment of accession by an inadequate adjustment of businesses to certain quality and safety requirements and the need for investments. EU commitments made under WTO and the expected direction of CAP reform will lead to a wider opening of the EU market to world markets and will force European farmers, including those in Poland, to increase their competitiveness.

Insufficient support for this sector during the first years after accession will result in a situation where weaker and unadjusted entities could disappear from the market, which could rapidly result in an increase in registered and hidden unemployment in rural areas.

In recent years a decrease in agricultural income has been observed – at present the income of farmers is more than 40% lower than that of off-farm employees. The improvement of income may be achieved, first of all, by a better use of means of production and then by diversification of production and associated activities, decreased production costs and modernisation of technology. Furthermore, taking into account the poor labour market and high unemployment in rural areas, measures fostering the generation of new jobs and self-employment are necessary.

The primary condition for farms to operate on the Single Market is the compliance of production conditions with food safety standards. Therefore, investment aimed at improving hygienic, sanitary and quality standards in food production as well as measures intended to improve environmental protection and animal welfare constitute a priority area of this programme.

Furthermore, the Polish agri-food sector is facing a new problem in the reorientation of producers towards quality and a quick response to changing and constantly growing market requirements. Adjustment of the range and quality of farm products on offer to market needs is a prerequisite for the improvement of the competitiveness of the agri-food economy.

The above mentioned facts impose the main policy objective for the years to come – the competitiveness of Polish agriculture must be closely associated with the competitiveness of the agri-food processing sector.

### **Objective 2. Helping the processing industry to improve its competitive position**

The food industry is one of the most important sectors of the Polish economy in terms of the volume of production sold, the number of plants and employment. Since the early nineties, the opening and liberalisation of the Polish economy have exposed Polish producers to stronger competition. The accession of Poland and the incorporation of the Polish agri-food sector into the Single European Market will widen the marketing opportunities for Polish products but, at the same time, will intensify competition.

Polish food processing industry is characterised by underdevelopment market links and the technology. equipment and know-how are inadequate.

It should be recognised that a number of plants will not complete their investments by the accession date and will be forced to operate only on the local market, which will make them less competitive.

Insufficient support for this sector during the first years after accession will result in a situation where weaker and unadjusted entities could disappear from the market, which could rapidly result in an increase in registered and hidden unemployment in rural areas.

Because of Poland's approaching accession to the European Union it is necessary to modernise the agri-food processing industry in respect of veterinary, health and environmental protection standards. This is particularly true in the case of the milk, meat and waste utilisation sectors, and, to a lesser extent, in the case of the poultry sector. Therefore, investment aimed at improving standards of food as well as measures intended to improve environmental protection and animal welfare constitute a priority area of this programme.

Due to the shortage of investment capital in the food processing sector the measures aimed at modernization and achieving compliance with EU standards must be supported with public funds and it must be posed the main policy objective for the years to come.

### **Objective 3. Strengthening multifunctional rural development**

According to the concept laid down in the Brundtland report and Agenda 2000, sustainable development means the right to satisfy development aspirations of the present generation without restricting the right of future generations to satisfy their development needs, and basically refers to the environmental aspects of economic development.

In more general terms sustainable development means the implementation of development policy in such a way as to ensure the long-term stability of social, economic and cultural structures within the ecological context. As far as rural areas are concerned, sustainable development is associated with a concept of multi-functionality, the provision of conditions furthering various economic activities carried out in such a manner as to protect the environment, the development of social and cultural functions, and the care for a decent standard of living for the inhabitants.

The basic function of agriculture consists in production of agricultural products. According to the model concept of European agriculture expounded in Agenda 2000, agriculture may also perform important roles in the environment and landscape protection, the preservation of the soil fertility, the abundance of habitats and biodiversity as well as the preservation of traditions and cultural heritage. The multifunctional concept of agriculture demonstrates the possibility of reconciling all these functions through the development of farm production in harmony with environmental requirements and landscape preservation, and through the undertaking of diversification oriented activities. The multifunctional development of agriculture is consistent with social expectations and, at the same time, is stabilising the economic functions of farms.

High unemployment (both registered and hidden) is the most sensitive socio-economic problem in rural areas. In recent years it has been increasing considerably. The general policy consists of creating conditions for increasing employment. It is particularly significant for rural development where the creation of new jobs is difficult.

Measures which are intended to strengthen the competitiveness of rural areas in terms of living conditions and economic activity ensure the sustainable development of these areas. At present, inadequate availability of the social and technical infrastructure and services is restricting the development of entrepreneurship and the reduction of unemployment. Improvement of the standard of living in rural areas is perceived as a direct objective and, at the same time, a condition for strengthening the economic and social functions of rural areas.

#### ***4.4. Priorities and Measures of the SOP restructuring and modernisation of the food sector and rural development***

Given the current situation in the agri-food sector, short programming period and limited amount of funds, EAGGF – Guidance Section funds should be focused on selected priorities and measures. The implementation of the goals set for the programme is conditional upon that.

Within the framework of the SOP Restructuring and Modernisation of the Food Sector and Rural Development, domestic and European Union (EAGGF – Guidance Section) funds will be allocated to three priorities.

##### **I. Supporting of changes and adjustments in agricultural and food sector**

The analysis conducted in Chapter 2 indicates the need to undertake restructuring and modernisation activities in the food sector in order to improve its competitiveness and profitability as well as to ensure the safety and proper quality of products. The need for transformation in the agricultural and processing sectors is caused both by internal factors: low efficiency, insufficient technical equipment, and external ones: the need to adjust to European standards and the conditions of competing in the Single Market.

Therefore support for development and adjustment processes in agriculture and processing through allocating the available funds for the following measures is a priority:

measures aimed at the improvement of agricultural structures, technical and organisational production conditions, improvement of product quality and the full adjustment of the foodstuffs sector to the legal and economic conditions of the Single Market while respecting environment;

measures aimed at improving the competitiveness of the products of the Polish foodstuffs industry in both domestic and foreign markets;

training and advisory measures that create conditions for the rational and complete utilisation of instruments available for agriculture and rural areas during EU integration.

The following measures will be implemented within the framework of priority I:

##### **Investments in agricultural holdings.**

The analysis of the agricultural sector indicates, among other things, poor technical equipment on farms and the lack of investment capital in the sector. The strengthening of the agricultural sector is one of the basic elements of establishing the social and economic stability in rural areas. Investment aid will be granted particularly in order to adjust agricultural production conditions to EU standards, stimulate improvement in agricultural product quality, introduce new technologies and shape production processes in compliance with environmental protection requirements. These investments are capital -absorbing and it is necessary to

introduce them on a large scale in Poland. Modernisation processes in agriculture will also result in the improvement of farmers' incomes and their working conditions.

#### Setting up of young farmers.

Structural transformations in the sector will be facilitated by the transfer of agricultural holdings to new owners with proper professional qualifications. Starting farming activity requires considerable financial expenditure, especially when the new holder intends to modernise the farm in order to adjust it to required standards or improve its competitiveness.

In order to enable young farmers to achieve the above objectives and therefore stimulate the required structural transformations in agriculture, it is necessary to commit public funds in order to cover the expenditure related to the takeover of farms and their modernisation by young farmers. Support will include the purchase of fixed and current assets for the commencement of production. Education and professional experience requirements will guarantee the proper use of this support.

The implementation of this measure will contribute to improving the competitiveness of Polish agriculture and thus to achieving the objectives of the SOP and the NDP.

#### Training.

The increased need for training in agriculture results from new market conditions created by Poland's accession to the EU. Due to the need to improve the competitiveness of the Polish agricultural sector and adjust farms to EU standards, action is required in order to enhance the qualifications of farmers and other persons working in agriculture or forestry. Training organised under this measure is intended to prepare farmers to undertake action in order to modernise their farms so as to achieve economic viability and meet EU standards. The raising of the level of knowledge and farming abilities will also enhance the efficiency of utilising aid granted for the development of agriculture and rural areas as part of the CAP, CAP accompanying measures and structural policies.

#### Agriculture advisory and extension service support.

One of the aid eligibility conditions with regard to the financial instruments of the Common Agricultural Policy, CAP accompanying measures and structural policies is submitting an application together with attachments. Both the preparation of appropriate documents and the implementation of projects may require not only agricultural knowledge, but also the acquaintance with fund obtaining procedures. For that reason the participation of professionals will be necessary. So support for agricultural advisors who provide services for farmers applying for financial aid from EU funds is very important and will contribute to the efficient utilisation of EU aid.

#### Improvement of the processing and marketing of agricultural products.

Processing agricultural products forms an important component of the labour market not only because of the direct employment it provides but also because of its influence on the profitability of agricultural holdings and preserving jobs in agriculture.

During the pre-accession period the adjustment of food processing to EU requirements and standards has commenced. These processes will continue after accession. The initial post-accession years will be the most difficult for processing because of the necessity to compete with EU processors and the modernisation which will have to be effected in parallel.

The implementation of required investments in agri-food processing plants involves considerable financial expenditure. Due to the shortage of investment capital in the processing sector, measures aimed at adjusting to EC requirements must be supported from public funds.

Therefore the Sectoral Operational Programme will contribute to supporting adjustment measures in the agri-food industry, aimed primarily at meeting EU food safety and environmental protection standards. Within the framework of this measure, investments aimed at market orientation of production, utilisation of existing market niches, creating new sales outlets, introducing new technologies as well as improving food safety and quality and protecting the environment are necessary. Support will be provided primarily to those sectors which applied for transition periods for adjustment: milk and meat processing.

The investments will also include the adjustment of the wholesale market infrastructure to wholesale trade in quality agri-food products as well as the adjustment of meat cold storage facilities and egg cleaning and sorting establishments. Specific objectives in relation to each sector of food processing eligible for support under SOP are listed in the Annex 3 to the Program.

This priority will be implemented in close connection with the measures available under the Rural Development Plan based on EAGGF – Guarantee Section funds.

## **II. Sustainable development of rural areas**

Retaining the social and economic cohesion of the country requires turning special attention to the development of rural areas. Currently the economic functions of these areas are linked to agriculture. The restructuring processes in the sector envisaged for the next years will involve the release of labour force, thus it is necessary to create conditions for the development of non-agricultural functions of these areas. Deficiencies concerning social and technical infrastructure in rural areas as well as an inferior human resource base compared to urban areas are factors that hamper economic development.

The concept of sustainable development of rural areas assumes the creation of proper conditions and stimulating various business activities (both in the production and trading sectors) in these areas and shaping these activities in a way that ensures the preservation of environmental and cultural values. The improvement in living conditions in rural areas through ensuring the access to necessary infrastructure and services for both residents and entrepreneurs will be conducive to the preservation and development of the economic and social functions of these areas.

This objective will be achieved at numerous levels through the operational programmes that implement the National Development Plan, including this SOP, as well as the Rural Development Plan.

The implementation of the priority Sustainable development of rural areas within the framework of the SOP Restructuring and Modernisation of the Food Sector and Rural Development will be effected through the implementation of the following measures:

### Restoring forestry production potential damaged by natural disaster and fire and introducing appropriate prevention instruments.

Considering the scope of intervention provided in the EU legislation as well as the result of damages of Piska Forest caused by a hurricane on 4th July, 2002, an additional measure has been included in the programme, namely the restoration of the forest production potential damaged by a natural disaster or fire as well as introduction of adequate prevention instruments in the area affected by damages.

### Land reparcelling.

Almost 20% of Polish agricultural holdings farm land divided into more than six plots. This applies to almost 40% of agricultural land in Poland. Moreover, almost 40% of farmland is situated more than 5 km from the farmstead.

Fragmentation of the structure of land in agricultural holdings, is one of the essential problems in Polish agriculture, meaning difficulties in production organisation and low farm incomes. Therefore the choice of this measure appears fully justified in Polish conditions. Land reparcelling also contributes to the sustainable development of rural areas – it creates more favourable conditions for farming and forestry by improving farm layout and equipping farmland with technical and social infrastructure facilities. This will contribute to the improvement of economic efficiency and productivity of farms and to increasing farmers' incomes.

#### Renovation of rural areas and preservation and protection of cultural heritage.

The insufficient level of development of rural infrastructure is one of the most important obstacles to the multifunctional development of rural areas and the development of non-agricultural business activity.

The Rural renewal and the preservation and protection of cultural heritage measure will benefit the development of social and technical infrastructure in rural areas especially with regards to modernization and equipping of cultural, leisure and sports facilities. The scope of investments eligible for support under that measure is limited to the non-profit investments in public places.

#### Diversification of agricultural and agriculture-related activities to provide multiple activities or alternative incomes.

The Diversification of agricultural activities and activities close to agriculture measure is intended for farms with small production capacity and considerable labour resources. It will result in the enhancement of competitiveness of these farms through more effective use of available resources, the reduction of hidden employment and the improvement of living conditions in rural areas. Under this Sectoral Operational Programme the support is limited, due to the nature of this measure co-financed from EAGGF according to the Council Regulation 1257/1999 and the Commission's guidelines. Broader scope of assistance for the entrepreneurship development might be foreseen by the SOP Improvement of the Competitiveness of Enterprises as well as by the Integrated Regional Operational Programme.

#### Agricultural water resources management.

A considerable part of water management facilities in Poland require reconstruction and modernisation. Over 2,000,000 ha of agricultural land require the regulation of soil water conditions. This work must be accompanied by projects related to the regulation of watercourses and the construction of canals as well as dams and water intakes.

The performance of this work is a precondition for the rational utilisation of means of production (e.g. fertilisers), stability and good quality of crops, improvement in the effectiveness and efficiency of agro-technical procedures as well as the protection of farmland against flooding. Proper water management will be also important from the point of view of landscape and environment.

Due to the considerable fragmentation of agricultural holdings in Poland, specific water management investments must be implemented as comprehensive projects both on state-owned and farmers' lands. The independent implementation of specific water management projects by individual farmers on their plots of land is impossible, since the basic objectives of specific water management would not be achieved.

### Development and improvement of the infrastructure related to agriculture.

The development of infrastructure is one of the most important factors stimulating the development of rural areas and it contributes to enhancing the attractiveness of a given area as a place to live and as a location for investments by small local and external enterprises. Access to basic utilities is a requirement in the civilised world.

Poland's integration into the European Union means the implementation of environmental protection, hygiene and production quality standards pursuant to Community regulations. Access to basic technical infrastructure is a precondition for meeting these requirements. Improving the level of modern technical infrastructure on rural areas (mainly water supply and sewage facilities) has a significant meaning for the environment protection.

Due to the above mentioned the technical infrastructure connected with agriculture will be supported in the framework of the Programme.

### LEADER + Pilot Programme.

The essence of the Leader Initiative is the creation of public-private partnerships for the creation and implementation of development strategies as well as the exchange and dissemination of experience. The encouragement to form local organisations and supporting them stimulate civic activity and the participation of local communities in the initiatives aimed at their development.

The LEADER + Pilot Programme makes it possible to complement mainstream programmes by implementing integrated area development strategies prepared and implemented by Local Action Groups.

It can be assumed that encouragement for the creation and testing of new approaches to the integrated and sustainable development of rural areas as part of the pilot programme will unleash the hitherto unused reserves of civic activity and contribute to a more rapid development of these areas.

Implementation of the measure Pilot Leader+ is aimed at preparation for launching the LEADER+ Community Initiative since 2007.

The measures planned under this priority will contribute to improvements with regard to spatial development and rural infrastructure, including resources linked to economic, social and cultural functions. The support granted will also directly contribute to the creation of new sources of income for rural residents.

### **III. Technical assistance for Operational Programme**

Support with regard to **Technical Assistance** is also envisaged within the framework of the SOP Restructuring and Modernisation of the Food Sector and Rural Development. The support is aimed at strengthening aid implementation, monitoring and control processes. Technical Assistance will be of crucial importance in the years 2004-2006 because during this period Poland will have to achieve and develop an institutional potential enabling it to efficiently manage structural programmes pursuant to EU requirements.

Taking the needs of the agri-food sector and rural areas into account as well as considering the support within the framework of other EU funds, the following level of co-financing for the implementation of priorities within the framework of the SOP Restructuring and Modernisation of the Food Sector and Rural Development is envisaged:

priority I Supporting of Changes and Adjustments in Agricultural and Food sector – EUR 839.2 million from EAGGF – Guidance Section funds;

priority II Sustainable Development of Rural Areas – EUR 335.5 million from EAGGF – Guidance Section funds;

Technical Assistance – EUR 18 million from EAGGF – Guidance Section funds.

The breakdown of EAGGF – Guidance Section funds available for Poland during the current programming period between individual SOP priorities results from the considerable needs of Polish agriculture with regard to adjustment. The funds for this purpose will originate primarily from the SOP Restructuring and Modernisation of the Food Sector and Rural Development (priority I). The development of rural areas (priority II) will also be supported to varying extents within the framework of other programmes, i. e. the remaining operational programmes as well as the Rural Development Plan.

The results of implementing the above priorities will be monitored by registering indicators described in Annex 4.

#### ***4.5. Relations between SOP and the instruments of the I and II pillar of CAP***

##### **4.5.1. Common Market Organisations**

Implementation of the Common Market Organisation in Poland will fundamentally change the institutional and legal framework and the economic conditions for the operation of the agricultural sector and will affect development of agricultural production and improve the agrarian structure. Essential changes in this area are:

- the incorporation of Polish agricultural markets into the EU single market;
- changes in the structure of products with supported prices, hence changes in the relative attractiveness of different sectors of production;
- introduction of direct support into agricultural production in the form of direct payments;
- introduction of production quotas, including primarily milk production, as well as tobacco and potato starch;
- changed (mostly more stringent) requirements in respect of food safety at farm and processor level;
- expansion of the administrative element in business activities in the sector, resulting from the introduction of new agricultural policy mechanisms (IACS, monitoring, market intervention system, etc.).

The accession negotiations, completed on 13th December, 2002 show that during the period of the implementation of the SOP *Restructuring and Modernisation of the Food Sector and Rural Development* (2004-2006), Polish agriculture shall be incorporated into CMO on conditions partially different from the current Member States, due to a transition period for full direct support to agricultural production and the Polish decision to use a simplified system of direct payments. The first element negatively affects the accession process, the second one has a positive influence since it gives more time for the agricultural sector to adjust to complicated and expensive implementation procedures. Production limits decided during accession negotiations, including most of all milk and sugar, represent a level which should not hamper restructuring processes to take place during the period of SOP implementation.

The above changes and new conditions of functioning for agriculture and rural areas in Poland, resulting from the introduction of the Common Market Organisation over 2004-2006, will have the following implications in terms of the objectives defined earlier.

The incorporation of Polish agriculture into the Single European Market and hence exposure to EU producer competition and increased export opportunities will foster market orientation of production and improvement of management efficiency. Obviously the pressure of competition on the Single European Market and the resulting new opportunities will become fully apparent in the long-term. In the short term possible risks concerning adjustment processes, related with distortions resulting from the fast increase of agricultural imports from the remaining Member States might be limited thanks to the incorporation of Polish agriculture to the general safeguard clause used in the first years of EU membership.

The necessity to meet the requirements of the *acquis* in respect of food quality and safety standards will foster enhancement of competitiveness in the single market. However, in the short-term implementation period of the *SOP* "Restructuring and Modernisation of the Food Sector", it will require very high capital expenditure, often beyond the potential and economic justification.

Similarly, integration into the Single European Market and the adoption of the EU support system will change the relative profitability of different sectors of production and will force structural adjustments. This will result in limited production of some commodities and the development of other goods, in compliance with the existing comparative advantages. The scale of these adjustments will be significant, resulting in the need to bear the respective costs associated with the reduction of production capacity in certain areas and the building up of production capacity in other sectors (a reallocation of resources).

An additional agriculture support stream in the form of direct payments and CAP accompanying measures will affect the level of living standards of the agricultural population (increased incomes), and non-agricultural rural population (increased demand for services in rural areas – the multiplier effect). Most probably, however, this potential will become evident later – during the immediate post-accession years the majority of the financial resources of farms, and also those from non-agricultural sources, will be allocated to investments in adjustment. Buying power will thus be reduced if there are reduced direct payments resulting from the introduction of the transition period.

Increased competition and adjustment pressure, particularly in the context of a different (lower) level of support compared with other farms in other countries of the enlarged EU, will cause the accelerated release of labour resources from agriculture, thus possibly causing a temporary growth of unemployment in rural areas, i.e. until employment opportunities increase in other branches of the economy.

In conclusion we may say that the adoption of the Common Market Organisation and the incorporation of Polish agriculture in the Single European Market will provide incentives to enhance the competitiveness of the Polish agri-food economy and the strengthening of its social functions, the advantages of which may become apparent in the long-term. However, in the short-term it will require greater effort from farms and agricultural and food processing plants as well as reduction in employment.

#### **4.5.2. Accompanying measures**

Upon accession Poland will have an access to four accompanying measures under the 2<sup>nd</sup> pillar of CAP (earlier pensions, agri-environmental programmes and afforestation, LFA farm support).

In the Accession Treaty European Commission suggested expansion of the range of related instruments to the new Member States. Related instruments would include additional ones for the implementation period of 2004-2006.

- support for semi-subsistence farms, which is to contribute to the acceleration of the farm restructuring process and new job generation;
- adjustment of farms to EU standards;
- support for agricultural producer groups (not included in market regulations);
- complement to direct payments;
- technical assistance.

Furthermore, the proposed funding level for these measures, amounting to 80% (national input – 20%) was higher than in the EU.

The RDP instruments complement the measures of SPO Restructuring and modernisation of food sector and rural development and are consistent with the defined objectives of Polish agriculture and rural development. (Annex 5)

Payments for farms situated in less favoured areas aim to equalise the farmers' incomes. This form of assistance favours the preservation of agricultural function and the continuity of farming as well as the promotion of production compatible with basic environmental protection principles. Environment-related objectives will be realised more broadly through the implementation of agri-environmental programmes. These programmes (obligatory in EU member countries) aim to encourage farmers to utilise production methods that contribute to the preservation of landscape values and the diversity of semi-natural habitats. Agri-environmental programmes are significant with regard to curbing the growth of intensive, high-input farming and giving the farmers an opportunity to increase their incomes. This happens not through maximising production profits but through providing services towards preserving the environment. Also the instrument concerning the afforestation of agricultural land is related to environmental issues; it aims to increase woodland area at the expense of low-value agricultural land. Farmers who decide to plant forest on their land will be eligible for payments compensating the income lost through excluding part of their land from production.

The system of structural pensions is an instrument contributing to the improvement of the agrarian structure by stimulating the establishment of larger farms. It is predicted that it will accelerate the generation change and favour the takeover of farms by young, qualified farmers.

Support for semi-subsistence farms is another instrument. Its objective is to alleviate the problems linked to the modernisation of agricultural holdings adjusting to the requirements of the Single Market. This instrument will be complemented by support for the adjustment of farms to community standards concerning environmental protection, hygiene and animal welfare. Agricultural producers will also receive support for the establishment and maintenance of producer groups, which will improve their position with relation to trading businesses.

The application of certain accompanying measures, such as structural pensions, LFA payments or semi-subsistence farm support may have a considerable effect in solving regional problems resulting from the fragmentation of the agrarian structure, the overpopulation of rural areas and the lack of capital.

Due to limited (as compared to the size of problems) financial possibilities, these instruments may have limited importance in the achievement of priority objectives of rural and agricultural development. This is why it is important to relate the accompanying measures with other agricultural policy instruments, implemented within CAP or SOP so as to benefit from multiplying effect in order to increase the marginal benefits of the policy implemented.

## **CHAPTER 5. MEASURES IMPLEMENTED BY SECTORAL OPERATIONAL PROGRAMME *RESTRUCTURING AND MODERNISATION OF FOOD SECTOR AND RURAL DEVELOPMENT***

### **5.1. Priority I - Supporting of changes and adjustments in agricultural and food sector**

#### **5.1.1. Investment in agricultural holdings**

##### **Priority: I – Supporting of changes and adjustments in agricultural and food sector**

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention area - 111**

**Legal reference:** Council Regulation (EC) No. 1257/1999, Art. 4-7, Council Regulation (EC) No. 1783/2003, Commission Regulation (EC) No. 817/2004, Art. 1-3,.

##### **Description of Measure**

This measure focuses on farm modernisation projects leading to the adjustment of farms to the principles of operation in the single market. Public funds will support investments focused on increasing farm income, enhancement of farm competitiveness, adjustment of the farm production profile, scale and quality to market demands, improvement of the food safety, improvement of animal welfare, environmental and working safety standards.

##### **Basic production sectors:**

The production sectors included in Annex 1 of the Treaty are eligible, with the exclusion of fishery and forestry.

##### **The scope of aid**

Financial aid shall be granted to:

- farm buildings construction, their modernisation or reconstruction leading to the improvement of their functionality;
- purchase or installation of machinery, equipment and instruments for agricultural production, conservation, storage and preparation of agricultural produce for sale;
- purchase of agricultural land if the purchase is part of the planned investment and is closely related to investment objectives (according to the Commission regulation (EC) No 1145/2003 of 27 June 2003 amending Regulation (EC) No 1685/2000 as regards the rules of eligibility for co-financing by the Structural Funds);
- purchase of livestock buildings or farm buildings for agricultural production, if the purchase is part of the planned investment and is closely related to investment objectives;
- establishment of perennial plantations;
- equipment of pastures;
- purchase of the basic herd of breeding animals, defined in the Programme Complement;
- construction, purchase and installation of field irrigation systems;

- investments for environmental protection and the improvement of animal welfare and hygiene standards in agricultural production;
- general costs – preliminary planning, including the preparation of technical and economic documentation of the undertaking.

### **Eligibility criteria**

Aid may be granted to investments in farms, which:

- meet economic viability criteria or will achieve economic viability upon the completion of the investment. Economic viability is defined by the economic size of the agricultural holding, calculated on the basis of the production structure (according to the types of conducted activities) and the gross margins of all agricultural activities (alternatively standard gross margins<sup>4</sup> or gross margins calculated individually for particular holding<sup>5</sup>);
- meet the minimum environmental protection, hygiene and animal welfare standards or, in case of newly introduced standards, will meet those standards upon the completion of the investment;
- are managed by persons with agricultural skills resulting from education or experience in farming.

Aid cannot be allocated to investments which will result in increased production without regular outlets. In quoted production areas where quotas are defined at farm level aid may be granted solely for investments corresponding to the granted production quota. In other sectors, where the planned investment is intended to increase production, it is required that either a sales plan or preliminary sales contract with the recipient of the entire volume of production to be sold by the farm with regard to the sector affected by the project be presented.

Project implemented under this measure can not be co-financed by other public aid.

### **The typology and level of aid**

Financial aid consisting in the reimbursement of part of the project expenditure incurred.

The maximum level of financial aid is:

(1) 50% of eligible costs

or

(2) 60% of eligible costs if the agricultural holding is situated in a less-favoured area

or

(3) 55% of eligible costs if the aid beneficiary is a young farmer (\*)

or

(4) 65% of eligible costs if the agricultural holding is situated in a less-favoured area and the aid beneficiary is a young farmer(\*).

(\*) In the framework of that measure the young farmer is a person, who:

- has set up the farm in a period not exceeding five years from the date of taking the individual decision to grant support under that measure;
- was under 40 years of age at the time of setting up.

Moreover, the maximum limit of financial aid which a single aid beneficiary may receive under this measure shall be defined in the Programme Complement.

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<sup>4</sup> see Annex

<sup>5</sup> Annex No 7

**Level of EU contribution**

Up to 35% of the total eligible cost.

**Aid beneficiaries**

Natural persons running agricultural activity or production in special areas of agricultural production.

Legal persons whose statutory aim is running agricultural activity and who run agricultural activity or production in special areas of agricultural production.

**Geographical range** – the whole country

**Expected results**

It is expected that approximately 17000 projects will be implemented within the scope of this measure. That number includes projects implemented on the farms of women farmers (about 3 000 projects).

About 5 000 projects implemented under this measure will include the investments aimed at meeting the minimum environmental protection, hygiene and animal welfare standards.

The share of young farmers in the total number of beneficiaries of that measure may reach approximately 25%.

It is expected that about 6 000 projects will be implemented in less-favoured areas and areas with environmental restrictions.

About 3 000 farms will achieve economic viability as a result of the projects implemented within the scope of that measure.

**Institutional System**

a) Managing Authority: MARD;

b) Implementing institution: Agency for Restructuring and Modernisation of Agriculture;

c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;

d) Aid beneficiaries: entities running agricultural activity or production in special areas of agricultural production – natural or legal persons;

e) Ultimate beneficiaries: entities running agricultural activity or production in special areas of agricultural production – natural or legal persons.

### **5.1.2. Setting up of young farmers**

**Priority:** I – Supporting of changes and adjustments in agricultural and food sector.

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention areas** - 112

**Legal reference:** Council Regulation No 1257/1999, Art. 8; Council Regulation (EC) No. 1783/2003, Commission Regulation (EC) No. 817/2004, Art. 4-5;

#### **Description of Measure**

Aid in the form of premium will be paid to young farmers who start farming on their own. Support granted under this measure will accelerate the process of generation exchange in the agriculture by providing the young farmers with financial means that enable them to take up independent agricultural activity and to modernise holdings that are taken over.

This will, in turn, contribute to enhancing the economic condition of these farms, in particular by adjusting their production to market requirements, improving production quality and utilising economically efficient technologies which comply with the occupational safety, hygiene, environmental protection and animal welfare requirements.

#### **Eligibility criteria**

Aid may be granted to a farmer, who:

- is under 40 years of age;
- undertook farm management for the first time during the last 12 months;
- has appropriate professional qualifications based on education or experience in farming or complete formation within 5 years;
- is the owner of the farm or a tenant on a state treasury farm;
- is insured with KRUS as the farm manager;
- commits himself to manage the farm for a period of at least 5 years following the payment of aid.

Additionally, the farm he/she took over must:

- meet the economic viability<sup>3</sup> requirements or fulfil them no more than 5 years after starting up;
- meet environmental, hygiene and animal welfare requirements or fulfil them no more 5 years after starting up.

#### **The typology and level of aid**

The aid in the form of a premium. The level of the premium will be established in the Programme Complement.

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<sup>3</sup> Economic viability is defined by the economic size of the agricultural holding, calculated on the basis of the production structure (according to the types of conducted activities) and the standard gross margins of all agricultural activities.

**Level of EU contribution**

Maximum 75% of the total eligible cost.

**Aid beneficiaries**

Young farmers starting agricultural activities for the first time.

**Geographical range** - the whole country

**Expected results**

It is expected that approximately 14 500 premiums will be granted to the young farmers within the scope of this measure. This number includes premiums granted to the young women farmers (about 4 000 premiums).

The number of premiums granted to the young farmers in the particular age groups is expected to be as follows:

- under 25 years of age – 2200 premiums
- between 25-30 years of age – 4350 premiums
- between 30-35 years of age – 3600 premiums
- between 35-40 years of age – 4350 premiums

It is expected that 6 000 young farmers will conduct their activity in less-favoured areas.

**Institutional System**

- a) Managing Authority: MARD;
- b) Implementing institution: Agency for Restructuring and Modernisation of Agriculture;
- c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;
- d) Aid beneficiaries: farmers;
- e) Ultimate beneficiaries: farmers.

### **5.1.3. Training**

**Priority:** I – Supporting changes and adjustments in agricultural and food sector

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention area** – 113

**Legal reference:** Council Regulation (EC) No. 1257/1999, Art. 9; Council Regulation (EC) NO 1783/2003, Art. 1 item 1; Commission Regulation (EC) No. 817/2004, Art. 6 and Annex II item 9.

#### **Description of Measure**

Projects consisting in the realization of vocational training courses for farmers and other persons working in agriculture, concerning the running of agricultural holdings and agricultural or forestry production, shall be supported under this measure. Vocational training courses will contribute to enhancing the knowledge and professional skills of the participants, which will enable them to manage agricultural holdings in a more effective way. The training courses will prepare farmers to undertake actions aimed at farm restructuring and modernisation, market orientation of production, observance of good agricultural practices and adjustment to EU standards with regard to environmental protection, agri-environment measures, including organic farming, production hygiene and quality, food safety and animal welfare. The training courses will also prepare farmers to conducting forestry economy properly.

Aid available under this measure will contribute to the enhancement of competitiveness and the increase in agricultural income, environmental protection, production hygiene and quality, animal welfare conditions and disseminating of good agricultural practices.

The outlined curriculum of training courses, approximate date their territorial scope and number of participants shall be established by the Managing Authority.

The participants of training courses shall be recruited by the aid beneficiary from among the interested potential ultimate beneficiaries of the measure.

Training courses organised under this measure are aimed at vocational improvement of persons involved in agriculture activities.

Instead, training courses concerning taking up additional activities close to agriculture by farmers and household members and, secondly, those ones which are aimed at qualifying farmers leaving agriculture for a new job, are envisaged in the framework of Integrated Regional Operational Programme, respectively under the measures 2.1 Development of competencies linked to the regional Labour Market needs and Life Long learning opportunities and 2.3 Vocational reorientation of persons leaving agriculture sector.

#### **The scope of aid**

The following costs shall be eligible for financial aid:

1. Costs related to the preparation and conducting of courses;

2. Costs of the purchase of equipment and teaching materials necessary to conduct the training course (up to 20% of the eligible costs described within point 1);
3. Operational costs related to the attendance and managing of the project (up to 10% of the eligible costs described within point 1).

### **Eligibility criteria**

The aid may be granted to the institution or entity engaged in training activities. The aid may be granted for the realization of projects compatible with the aims and the scope of the measure and requirements defined in the contest announcement.

Detailed eligibility criteria shall be laid down in the Programme Complement.

Aid for training activities may not be granted for the organisation of courses constituting part of the curriculum in primary schools, grammar schools, secondary schools, high schools or universities.

### **The typology and level of aid**

Financial aid consists in the reimbursement of 100% of the eligible costs incurred in connection with the realization of the project.

### **Level of EU contribution**

Up to 80% of total eligible costs.

### **Aid beneficiaries**

Institutions or entities (public or private) engaged in training activities - legal persons or entities without legal personality whose contractual, statutory or regular aim is conducting training activities.

Aid beneficiary will be selected in the contest procedure.

**Geographical range** – the whole country.

### **Expected results of the measure implementation**

It is expected that approximately 900 000 participants will attend the training courses conducted under this measure.

Assumed participation of women among ultimate beneficiaries – 30%.

Expected results of the measure by types of training fields:

<b>Field of training</b>	<b>Expected number of participants</b>
Preparation for qualitative reorientation of production	30,000
Preparation for the application of production practises compatible with the maintenance and enhancement of the landscape, the protection of the environment, hygiene standards and animal welfare	800,000
Acquisition of the skills needed to enable to manage an	60,000

economically viable farm	
Preparation for the application of forest management practises to improve the economic, ecological or social functions of the forests	10,000

### **Institutional System**

- a) Managing Authority: MARD;
- b) Implementing institution: Foundation of Assistance Programmes for Agriculture;
- c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;
- d) Aid beneficiaries: institutions or entities (public or private) engaged in training activities;
- e) Ultimate beneficiaries: farmers and other persons working in agriculture.

#### **5.1.4. Agriculture advisory and extension service support**

**Priority:** I – Supporting changes and adjustments in agricultural and food sector

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention area –**

**Legal reference:** Art. 33 g of the Accession Treaty

##### **Description of Measure**

The activities of agricultural advisory institutions or entities, consisting in providing advisory services concerning the utilisation of aid within the framework of the Common Agricultural Policy, CAP accompanying measures and structural policies.

Advisory and extension services, providing of which will be supported under this measure, embrace the following:

- support in preparing documents necessary to obtain the aid,
- advisory support necessary during the project implementation,
- organising of the group advisory for farmers,
- preparing advisory leaflets.

Implementation of this measure will enable to enhance the effectiveness of utilisation of financial aid directed to agricultural farms. This, in turn, will contribute to modernisation and restructuring of agriculture, to the improvement of the competitiveness of farms, to the increase in agricultural income, to the improvement of environmental conditions, agricultural production hygiene and quality, food safety and animal welfare conditions. The advisory assistance given during the projects implementation will also contribute to the disseminating of good agricultural practices.

##### **The scope of aid:**

The following costs shall be eligible for financial aid:

1. Costs related to the preparation of aid and payment applications, projects of undertakings and farm development plans and costs of advisory services provided during project implementation;
2. Costs of organising group advisory;
3. Costs of preparing advisory leaflets;

The maximum lump rates for particular advisory services will be laid down in the Programme Complement.

##### **Eligibility criteria**

The aid may be granted to the institution or entity engaged in agricultural or forestry advisory and extension activities.

The aid may be granted for the realization of projects compatible with the aims and the scope of the measure and requirements defined in the contest announcement.

Detailed eligibility criteria shall be laid down in the Programme Complement.

Entities that provide advisory services in connection with their activities related to the production of and trade in materials, substances and equipment for agricultural production are not eligible for aid under this measure.

### **The typology and level of aid**

Financial aid consists in the reimbursement of 100% of the eligible costs incurred in connection with the realization of the project.

### **Level of EU contribution**

Up to 80% of total eligible costs.

### **Aid beneficiaries**

Institutions or entities (public or private) engaged in agricultural or forestry advisory and extension activities - legal persons and entities without legal personality whose contractual, statutory or regular aim is conducting agricultural or forestry and extension activities.

Aid beneficiary will be selected in the contest procedure.

**Geographical range** – the whole country

### **Expected results**

It is expected that at least 1 600 000 applications for financial aid for farmers will be prepared with the help of advisors under this measure.

Assumed participation of women among ultimate beneficiaries - 10%.

Expected results of the measure by particular measures of the SOP, RDP and direct payments:

Aid instrument	Estimated number of prepared applications
Direct payments including payments under the RDP measure <i>Support for less-favoured areas (LFA)</i>	1,350,000
RDP measure <i>Early retirement</i>	50,000
RDP measure <i>Support for semi-subsistence farms</i>	35,000
RDP measure <i>Support for agri-environmental undertakings and animal welfare</i>	70,000
RDP measure <i>Afforestation of agricultural land</i>	13,000
RDP measure <i>Adjustment of agricultural</i>	50,000

<i>holdings to the EU standards</i>	
RDP measure <i>Support for agricultural producer groups</i>	170
SPO measure <i>Investment in agricultural holdings</i>	20,000
SPO measure <i>Setting up of young farmers</i>	6,000
SPO measure <i>Diversification of agricultural and agriculture-related activities to provide multiple activities or alternative income</i>	6,000

### **Institutional System**

- a) Managing Authority: Ministry of Agriculture and Rural Development;
- b) Implementing institution: Foundation of Assistance Programmes for Agriculture;
- c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;
- d) Aid beneficiaries: institutions or entities (public or private) engaged in agricultural or forestry advisory and extension activities;
- e) Ultimate beneficiaries: farmers and other persons working in agriculture.

### **5.1.5. Improving processing and marketing of agricultural products**

**Priority: I** – Supporting of changes and adjustments in agricultural and food sector

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention area** – 114

**Legal reference:** Council Regulation (EC) No. 1257/1999, Art. 25–28, Commission Regulation (EC) No. 817/2004, Art. 27-30, Treaty Concerning the Accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia to the European Union, Art.33 l (3).

#### **Description of Measure**

Projects related to the modernisation of agri-food processing plants, packaging eggs plants, meat freezing and wholesale trade in agricultural products will be implemented under this measure. The supported projects will be aimed at adjustment to the conditions of functioning in the Single Market through the enhancement of competitiveness by improvement in production quality, scale and profile of production, the reduction of costs as well as meeting hygiene, veterinary, environmental protection and animal welfare requirements.

Support shall be granted to projects that contribute to achieving at least one of the following objectives:

- improvement of sanitary and hygiene conditions of production;
- adjustment of production to market requirements and the utilisation of existing market niches;
- rationalisation of existing sales outlets and the creation of new ones;
- improvement in product quality;
- increase in the value added during production;
- reduction of adverse environmental impact;
- improvement of logistic structure;
- improvement of animal welfare;
- introduction of new production technologies and the modernisation of existing ones.

#### **Basic production sectors**

The production sectors covered by Annex 1 to the Treaty are eligible, with the exclusion of fisheries and forestry.

#### **The scope of aid**

The following investment costs are eligible for support:

- construction, modernisation or reconstruction of buildings and structures constituting the infrastructure of agricultural products processing plants, packaging of eggs plants, freezing and storage of agricultural products or wholesale trade in agricultural products;
- purchase or installation of machines or equipment for the processing, storage or preparation of products for sale, ensuring the quality and safety of food;
- purchase or installation of measurement and monitoring equipment and equipment used for controlling production or storage, including software;

- purchase of specialist means of transport;
- purchase or installation of equipment serving to enhance environmental protection;
- general costs such as the fees of architects, engineers and consultants, feasibility studies, the acquisition of patents and licences, limited to a maximum of 12% of the above mentioned eligible costs.

### **Eligibility criteria**

Aid may be granted to entities that are economically viable, i.e. they are capable of implementing the planned investment and engaging in further profitable market activities in the relevant sector.

The investment planned offers benefits to agricultural producers – the aid beneficiary must prove that he obtains raw materials under long-term contracts with agricultural producers.

In the case of investments assuming the increase of production capacities, granting aid is conditioned on proving the sales possibility of the planned production. The verification of this condition will be conducted on the basis of comparison between the sales plan presented by the applicant and the relevant sectoral study performed and regularly updated by independent experts.

Aid may be granted for the projects related to the processing and marketing of agricultural products covered by Annex I to the Treaty except for fishery and forest products.

Moreover, support cannot concern investments connected with processing of raw materials originating from third countries. In case of fruit and vegetable processing the support for plants, which process raw materials from third countries, is allowed provided that value share of it does not exceed 30 per cent of the total volume of processed raw materials. Then the level of aid is reduced proportionally to the declared share of raw materials from third countries.

Investments may not concern retail sales.

The granting of aid shall depend on the plant meeting hygiene, sanitary, veterinary, environmental protection and animal welfare standards. In the case of milk and meat processing plants that have applied for an adjustment period and have prepared individual remedial action schedules, these standards must be met upon the completion of project implementation.

### **The typology and level of aid**

Aid is granted in the form of reimbursement of up to 50% of eligible expenditure. The maximum amount of aid that may be granted to a single aid beneficiary under this measure shall be stipulated in the Programme Complement,

### **Level of EU contribution**

Up to 35% of total eligible cost.

### **Aid beneficiaries**

An entrepreneur engaging in the processing of agricultural products or the provision of services with regard to meat freezing and storage or packaging of eggs or wholesale trade in agricultural products.

### **Expected results**

It is estimated that support for processing and marketing of agricultural products will amount to 1000 projects, of which:

- a) in the milk processing - 150 projects;
- b) in the slaughtering and meat processing – 350 projects;
- c) In the fruit and vegetable processing – 220 projects;
- d) In the cereals processing – 50 projects;
- e) In the processing of potatoes for the production of starch and its derivatives – 20 projects;
- f) In the eggs processing – 20 projects;
- g) In hop processing – 15 projects;
- h) In honey processing – 10 projects;
- i) In the hemp and flax processing – 20 projects;
- j) In the eggs packaging – 80 projects;
- k) In the freezing and storage of agricultural products – 50 projects;
- l) In the wholesale trade – 15 projects.

Moreover it is expected that with regards to the investments related to environmental protection, in all sectors of processing and marketing of agricultural products listed in the Annex I of the Treaty, will be implemented about 250 projects.

Employment level in the supported plants will approximately stand at 60 000 jobs.

### **Institutional System**

- a) Managing authority: MARD;
- b) Implementing institution: Agency for Restructuring and Modernisation of Agriculture;
- c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;
- d) Aid/ultimate beneficiaries: entrepreneurs engaging in the processing of agricultural products or packaging of eggs or the provision of services with regard to meat freezing and storage or wholesale trade in agricultural products.

**Aid:** Aid granted under this measure concerns production sectors covered by Annex I to the Treaty.

## **5.2. Priority II - Sustainable development of rural areas**

### **5.2.1. Restoring forestry production potential damaged by natural disaster and fire and introducing appropriate prevention instruments**

**Priority II** – Sustainable development of rural areas

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention area** – 125

**Legal reference:** Council Regulation (EC) No. 1257/1999, Art. 29–30, Commission Regulation (EC) No 817/2004, Art. 34.

#### **Description of Measure**

The measure aims to restore forestry production potential in forest areas damaged by natural disasters or fires. The measure shall be implemented through projects related to restoring the economic, environmental and social functions of forests and the introduction of appropriate instruments that will prevent such damage in the future.

The measure will be implemented in the areas damaged by hurricane on 4 July 2002, and if any natural disasters should occur in other areas of the country during programme implementation, also in the affected areas.

Projects will be implemented as a composite unity both in public and private forests. Private forests will be included (upon the owner's application) in the entire projects implemented in a given area by relevant units of the State Forests National Forest Holding.

The scope of implemented projects will result from the *Concept for developing the area affected by the 4 July 2002 hurricane for breeding and protection purposes*. Above-mentioned strategy is fully compliant both with *State Forest Policy* and the guidelines of *Ministerial Conferences on the Protection of Forests in Europe* (MCPFE). For this measure embraces forests classified as threatened by fires, the implemented projects will include the creation of proper fire protection systems.

#### **Basic sectors of agricultural production**

The forestry sector is eligible.

#### **The scope of aid**

Work with regard to the management of forest areas related to the restoration of damaged forest ecosystems and forest infrastructure as well as strengthening the fire protection system shall be performed under this measure.

**Eligibility Criteria**

Projects implemented in forest areas affected by natural disasters or fires, listed in the Programme Complement, are eligible for aid.

**The typology and level of aid**

Financial aid consists in the full reimbursement of 100% of eligible costs.

**Level of EU contribution**

Up to 80% of total eligible costs.

**Aid beneficiaries**

State Forests National Forest Holding.

**Geographical range**

Forest areas damaged by natural disasters or fires, listed in the Programme Complement.

**Expected results**

It is expected that about 150 projects will be implemented under this measure. The projects will cover 33 000 ha of the forests within 15 forestry divisions.

**Institutional System**

- a) Managing Authority: MARD;
- b) Implementing institution: ARMA;
- c) Final beneficiary: ARMA;
- d) Aid beneficiaries: State Forests National Forest Holding;
- e) Ultimate beneficiaries: National Forests and private forests owners.

## **5.2.2. Land reparcelling**

**Priority:** II – Sustainable development of rural areas

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention area** – 1302

**Legal reference:** Council Regulation (EC) No. 1257/1999, Art. 33, Council Regulation (EC) No. 1783/2003, Commission Regulation (EC) No 817/2004,.

### **Description of Measure**

The objective of reparcelling activities conducted in areas of significant fragmentation and dispersion of agricultural holdings' lands is to improve the distribution of lands in individual agricultural holdings. A reduction in the number of agricultural plots within one agricultural holding leads to a higher farming efficiency due to: lower transport costs and facilitation of mechanisation processes of ground cultivation. Also under the reparcelling project will be realised the past reparcelling development compatibility with the environmental protection requirements, leading to adjustment of the real property's boundaries to the system of water management facilities, roads and topographic profile, which curbs the process of soil erosion. In the order to obtain the maximum economic efficiency of the measure, selection criteria will prefer a bigger average size of the farm in reparcelling project in relation to an average farm size in voivodship. Efficiency of implementation of this measure will be evaluated *ex post* by Internal Rates of Return (IRR).

### **The scope of aid**

The following activities will be financed under this measure:

- the drawing up of surveying and legal documentation;
- the post-reparcelling development linked to the organisation of production areas, including the development of agricultural transport roads, the arrangement of newly delimited plots making it possible for their new owners to utilise them, the correction of the course of water management ditches, the installation of culverts etc.

### **Eligibility criteria**

An application for land reparcelling submitted by the head of powiat and confirmed by at least 50% of the owners of agricultural holdings situated in the projected area or by the owners of real property whose total area exceeds 50% of the entire projected area.

Project implemented under this measure can not be supported by other public aid.

### **The typology and level of aid**

Coverage of the total eligible project costs.

### **Level of EU contribution**

Maximum 80% of total eligible costs.

**Aid beneficiaries**

Head of powiat (starosta) representing the owners of agricultural holdings.

**Geographical range** – the whole country

**Expected results**

As a result to the start-up of projects related to Land reparation, the agrarian structure will be improved in an area exceeding 42,000 ha. It is expected that the rate of land reparation will increase from approximately 8,000 ha per year (in year 2003) to approximately 14,000 ha per year.

**Institutional System**

- a) Managing Authority: MARD;
- b) Implementing institution: local government at the voivodeship level;
- c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;
- d) Aid beneficiaries: powiat authorities (starosties);
- e) Ultimate beneficiaries: farmers.

### **5.2.3. Rural renewal and the preservation and protection of cultural heritage**

**Priority:** II – Sustainable development of rural areas

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention areas - 1306**

**Legal reference:** Council Regulation No. 1257/1999, Art. 33, Commission Regulation (EC) No 817/2004.

#### **Description of Measure**

Support will be granted to implementation of the investment projects in rural areas.

The implementation of this measure is primarily aimed at:

- improving the living and working conditions in rural areas;
- enhancing the tourist attractiveness of rural areas;
- enhancing the attractiveness of rural areas for investors;
- satisfying social and cultural needs;
- developing the identity of rural communities and preserving their cultural heritage.

A significant part of this measure will be stimulating the activity of local communities and co-operation for the development and promotion of local social, cultural and landscape values.

#### **The scope of aid**

The following costs shall be eligible for financial aid:

- the work of designers, architects, monument conservation specialists and consultants related to the implementation of investment projects included in the application for financial aid;
- modernisation of public space;
- construction or modernisation of public infrastructure related to the development of tourist and cultural functions;
- modernisation and equipping of structures performing cultural, recreation and sports functions;
- renovation of structures typical for the tradition of regional rural construction and adapting them for cultural and social purposes.

#### **Eligibility criteria**

Aid may be granted to projects implemented in rural and urban-rural gminas, in localities with the population of no more than 5 thousand inhabitants.

The preparation of applications regarding rural renewal shall be initiated by village inhabitants and the applications shall be assessed by the local government at the village level. Applications shall be submitted by the local government at the gmina level. Investment tasks included in the application and described in the attachment to the application may be approved if they are consistent with the local development strategy for a given area or local spatial plan.

Projects submitted by culture institutions should be accepted by the local government authorities which were their founding organs. Moreover, in case of culture institution, it is required to submit the promissory note of Minister of Culture for co-financing the project.

**The typology and level of aid**

Level of aid will amount up to 80% of the total eligible costs. Detailed conditions of granting aid shall be defined in the Programme Complement.

**Level of EU contribution**

Up to 80% of total eligible costs.

**Aid beneficiaries**

Local government authorities at the rural and urban-rural gminas level.

**Geographical range** – localities of up to 5 thousand inhabitants in rural or rural-urban gminas.

**Expected results of measure implementation**

Under the measure, around 1200 projects will be implemented local government authorities at the gmina level.

**Institutional System**

- a) Managing Authority: MARD;
- b) Implementing institution: local government at the voivodeship level;
- c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;
- d) Aid beneficiaries: local government authorities at the gmina level, culture institutions;
- e) Ultimate beneficiaries: the inhabitants of localities with population of no more than 5 thousand inhabitants, belonging to rural or urban-rural gminas.

#### **5.2.4. Diversification of agricultural activities and activities close to agriculture activities to provide multiple activities or alternative incomes**

**Priority:** II – Sustainable development of rural areas

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention areas - 1307**

**Legal reference:** Council Regulation (EC) No. 1257/1999, Art. 33 (line 7); Council Regulation (EC) No 1783/2003, Commission Regulation (EC) No 817/2004

#### **Description of Measure**

This measure will support projects focused on the implementation of investments designed to promote additional agriculture-related activities by farmers, household members and legal persons.

The undertaking or development of additional activities that use the existing farm and regional resources and take market demand into consideration will generate conditions for the development of multi-functional, economically viable farms.

This measure will:

- contribute to the creation of alternative sources of income,
- promote a favourable public image of rural areas and agriculture,
- contribute to the preservation of natural resources in rural areas,
- facilitate access to services for farmers and other residents of rural areas,
- contribute to an increase in the profitability of production and services of the farm.

Meanwhile this measure provides support for natural persons (farmers and household members) and legal persons who undertake additional, complementary agriculture-related activities, under the IROP measure 2.5. *Entrepreneurship promotion* and measure 3.4. *Micro-enterprises* support for persons undertaking new business activities, including persons leaving agriculture is also envisaged.

#### **The scope of aid**

The following types of projects can be supported under this measure:

- rural tourism;
- services for tourism and leisure;
- services for agriculture and forestry (including services connected with agriculture, breeding of animals, along with veterinary activities, the hire, installation, maintenance and repairing of agriculture and forestry machines and devices);
- small scale processing of agricultural and food forestry products;
- direct sale of products, the majority of which originate from the farmer's own farm;
- activities related to the production of the fuels from biomass;
- handicrafts and craftsmanship;
- small services for the rural population;
- e-commerce - sale or promotion of agricultural products, goods and services, relevant to the scope of this measure, by internet).

The following expenditures shall be eligible for financial aid:

- the construction, reconstruction, extension or adaptation of buildings and structures;
- the purchase and installation of equipment, the purchase of machines and devices, including software;
- the purchase of means of transport (support will not be provided for passenger cars which are appropriate for the transport of less than 8 people including the driver);
- the purchase of animals contributing to the development of the leisure function of farms;
- development of land;
- construction services, transport, materials and equipment;
- general expenditure: preliminary planning including the development of technical and economic documentation for the project.

### **Eligibility criteria**

The aid can be granted to entities for the implementation of economically justified projects. Supported projects will be implemented in rural or urban-rural gminas in localities of up to 5 000 inhabitants.

Detailed eligibility criteria shall be laid down in the Programme Complement, according to the relevant gmina (tax income, unemployment) and agricultural holding characteristics.

Project implemented under this measure can not be supported by other public aid.

Projects, accordingly to its extent, will meet the requirements resulting from national and community regarding the standards in hygiene, food safety, environment protection and work safety.

### **The typology and level of aid**

The maximum aid level is 50% of the eligible cost of the project. The level of aid granted to a single aid beneficiary shall be stipulated in the Programme Complement.

### **Level of EU contribution**

Up to 35% of total eligible cost.

### **Aid beneficiaries**

Natural persons: farmers and household members and legal persons whose objectives include agricultural activities and which conduct such activities.

### **Geographical range - the whole country**

#### **Expected results**

It is expected that approximately 6450 projects will be implemented within the scope of this measure, including 5160 in individual agricultural holdings and 1290 in agricultural holdings held by a legal person.

Number of projects which will be implemented in each category:

- rural tourism - 1300;
- services for tourism and leisure - 970;
- services for agriculture and forestry (including services connected with agriculture, breeding of animals, along with veterinary activities, the hire, installation, maintenance and repair of agriculture and forestry machines and devices) - 750;
- small scale processing of agricultural and food forestry products - 550;
- direct sale of products, the majority of which originate from farmer's own farm - 620;
- activities related to the production of fuels from the biomass - 300;

- handicrafts and craftsmanship - 650;
- small services for the rural population - 1000;
- e-commerce - sale or promotion of agricultural products, goods and services, relevant to the scope of this measure, by internet) – 310.

It is expected that approximately 4000 units of new additional tourism accommodation will be created, and 9000 units of existing tourism accommodation will be modernised.

It is expected that approximately 7700 new jobs will be created.

It is expected that approximately 8300 jobs will be maintained.

### **Institutional System**

a) Managing Authority: MARD;

b) Implementing institution: Agency for Restructuring and Modernisation of Agriculture;

c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;

d) Aid beneficiaries: natural persons: farmers, household members and legal persons, whose objectives include agricultural activities and which conduct such activities;

e) Ultimate beneficiaries: natural persons: farmers, household members and legal persons whose objectives include agricultural activities and which conduct such activities.

### **5.2.5. Agricultural water resources management**

**Priority:** II – Sustainable development of rural areas

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention area** – 1308

**Legal reference:** Council Regulation (EC) No. 1257/1999, Art. 33, Council Regulation (EC) No. 1783/2003 Commission Regulation (EC) No 817/2004.

#### **Description of Measure**

Specific and basic water management projects as well as projects concerning the shaping of the longitudinal and transverse cross-sections and the horizontal layout of natural watercourses shall be supported under this measure if they contribute to the improvement of water conditions in the soil. Having regard to the fact that almost every Polish river is endangered with potential flood, scope of this measure will also include activities aimed at protection of arable land from floods.

Specific water management projects lead directly to a better use of means of production (for instance fertilizers), sustainability and quality of crops, greater efficacy and efficiency of agro-technical measures as well as to the protection of arable land against floods. However, the implementation of basic water management projects as well as the regulation of natural watercourses are pre-conditions for the implementation of specific water management projects. The former provide for the runoff of water from specific installations, storage and supply of water to irrigation facilities, and flood control measures on arable land.

Projects will be carried out in accordance with Polish Law, in particular:

- *The Water Law Act*, on the basis of permissions granted under the water law, which include the implementation of the following plans: water management plans, flood prevention plans, drought impact prevention plans and conditions on the use of water;
- *The Building Law* requires developers to obtain permission for the construction or modernisation of irrigation installations or to report such projects;
- *The Environmental Protection Law*, obliges the developer to assess the impact of a new development on the environment.

Moreover projects implemented under this measure will comply with Water Framework Directive 2000/60/CE river basin management approach.

In the case of projects comprising the construction of specific water management facilities, these laws will be taken into account during selection process.

Projects concerning the construction or modernisation of basic water management facilities and shaping natural watercourse shall take into account floods protection.

#### **The scope of aid**

Aid shall be granted to cover the following costs:

- the drawing up of technical documentation for projects;
- the construction or modernisation of basic water management facilities, in particular: regulatory structures, flood control structures together with access roads, dams, sluices, cascades, water intake structures, canals together with functionally related structures, pumping stations (excluding stations used for pressure irrigation), pipelines with

a diameter of at least 0.6 m, water reservoirs, structures preventing water erosion, access roads necessary for the proper utilisation of areas where water management projects have been completed, as well as projects related to the shaping of the longitudinal and transverse cross-sections as well as the horizontal layout of natural watercourses that are not included in water management measures;

- the construction or modernisation of specific water management facilities, in particular: ditches together with functionally related structures, pipelines with a diameter of less than 0.6 m, drainage systems, dykes in irrigated areas, gravity irrigation systems, erosion prevention systems as well as projects related to plant and agricultural improvement work as well as initial post-water management development.

### **Eligibility criteria**

Comprehensive investment (the project must include appropriate areas with abnormal water conditions or prone to floods).

According to Polish law, projects concerning the construction of specific water management facilities, will be implemented on demont of the land owners to conduct the works.

A declaration that the required contribution of 20% of investment costs will be financed by the owners of the agricultural land affected by the investment.

Project implemented under this measure can not be supported by other public aid.

The minimum value of project (on the basis of cost calculation) will be stipulated in the Complement to the Programme.

### **The typology and level of aid**

In the case of specific water management facilities, the maximum level of aid is 80% of the total eligible cost. In the case of basic water management facilities, aid shall cover the entire eligible costs of the project.

### **Level of EU contribution**

In the case of specific water management facilities, up to 50% of the total eligible cost (Council Regulation (EC) No. 1260/1999 Art. 29 par. 4(i)).

In the case of basic water management facilities, up to 80% of the total eligible cost (Council Regulation (EC) No. 1260/1999 Art. 29 par. 3a).

### **Aid beneficiaries**

Voivodeship Authority for Land Improvement and Water Facilities.

**Geographical range** – the whole country.

### **Expected results**

It is expected that approximately 800 projects will be implemented under the Agricultural water resources management measure, mainly protection of agricultural lands against floods.

It is expected that approximately 23,000 ha. will be reclaime during the period of programme implementation, under the construction or modernisation of specific water management facilities heading. About 590 km of river course will be regulated and about 540 km of flood banks, about 25 pumping stations and also approximately 12 million m<sup>3</sup> of water reservoir will be constructed or modernised under the construction or modernisation of basic water management facilities heading.

## **Institutional System**

- a) Managing Authority: MARD;
- b) Implementing institution: local government at the voivodeship level;
- c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;
- d) Aid beneficiaries: Voivodeship Authorities for Land Improvement and Water Facilities;
- e) Ultimate beneficiaries: farmers and the inhabitants of rural areas.

## **5.2.6. Development and improvement of the infrastructure related to agriculture**

**Priority:** Sustainable development of rural areas

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention areas - 1309**

**Legal reference:** Council Regulation (EC) No. 1257/1999, Art. 33, Council Regulation (EC) No. 1783/2003, Commission Regulation (EC) No. 817/2004,.

### **Description of Measure**

Under this measure, small projects aimed at improving the access to technical infrastructure for farmers (natural and legal persons) or the inhabitants of rural areas will be supported.

Public aid available under this measure will contribute to:

- enabling or improving the access of farmers to technical infrastructure;
- improvement in the condition of the natural environment and its protection;
- improvement in the sanitary and hygiene conditions on rural areas;
- an increase in agricultural income;
- improvement in agricultural production organisation

Individual projects implemented under this measure will be additional with regard to the projects implemented on a larger scale realised by the local government, co-financed from ERDF funds. Investments implemented under this measure will not support the production infrastructure in the agricultural holdings. Infrastructure projects implemented under this measure will not cause any damage to the environment and will take into account the respect and improvement of the environment.

### **The scope of aid**

The following costs are eligible for financial aid:

- construction or modernisation of internal roads that are not public roads;
- construction or modernisation of water supply facilities;
- construction or modernisation of sewage disposal and treatment facilities and facilities for recovery of sewage gas;
- construction or modernisation of energy supply networks and facilities including facilities using biomass energy potential.

### **Eligibility criteria**

Projects situated in rural or urban-rural gminas, in localities of up to 5 thousand inhabitants, will be supported.

Project implemented under this measure can not be supported by other public aid.

### **The typology and level of aid**

The aid level amounts up to 50% of the eligible cost of the investment. The maximum level of aid granted to a single entity shall be stipulated in the Programme Complement.

### **Level of EU contribution**

Up to 35% of total eligible cost.

**Aid beneficiaries**

Natural or legal persons engaging in farming activity.

**Geographical range** - the whole country

**Expected results**

Under the measure Development and improvement of the infrastructure related to agriculture around 12000 projects will be implemented. It is expected the following percentage of project types:

- construction or modernisation of internal roads - 10%;
- construction or modernisation of water supply facilities - 25%;
- construction or modernisation of sewage disposal and treatment facilities and facilities for recovery of sewage gas- 50%;
- construction or modernisation of energy supply networks and facilities - 15%.

**Institutional System**

- a) Managing Authority: MARD;
- b) Implementing Institution: Agency for Restructuring and Modernisation of Agriculture;
- c) Final beneficiary: Agency for Restructuring and Modernisation of Agriculture;
- d) Aid beneficiaries: natural or legal persons engaging in farming activity;
- e) Ultimate beneficiaries: see above.

### 5.2.7. Leader+ type measure

**Priority: II** – Sustainable Rural Development

**Structural Fund:** - EAGGF, Guidance Section

**Structural Fund Intervention Area:** - 1305;

**Legal Reference:** Council Regulation (EC) No. 1257/1999, (new Article 33); Commission Notice of 14 April 2000 (2000/C 139/05), Commission Regulation (EC) No. 141/2004

#### Description of the Measure

The aim of Leader + type measure is to stimulate local partners and get them involved in the process of creating and implementing territorial rural development strategies.

Leader + type measure will be implemented within two schemes.

Scheme I objective is to create ‘local action groups’ (LAG) - public and private partnerships and to prepare analyses related to development possibilities of rural areas initiated by local actors. On this basis integrated rural development strategies will be worked out.

In order to attain this objective, information, training and advisory activities will be undertaken under Scheme I, aimed at involving local partners in the process of devising development concepts for the area concerned and creating public and private partnerships.

Within Scheme II, LAGs with appropriate experience and administrative capacity to administer public funds will implement plans related to support for strategies realisation and rural areas promotion as well as animating the cooperation between local partners.

Scheme II will allow for implementation of complex and multisectoral projects taking into account *inter alia* development of tourism, protection and promotion of environment and landscape, historic and culture resources, promotion, development of regional products and training activities.

Integrated rural development strategies, prepared on the local actors’ initiative under Scheme I and implemented under Scheme II, will set directions for development of rural areas concerned.

The strategies should take into account at least one of the following:

- the use of know-how and new technologies to make the products and services of rural areas more competitive;
- improving the quality of life in rural areas;
- adding value to local products, in particular by facilitating access to markets for small production units via collective actions;
- making the best use of natural and cultural resources, including enhancing the value of sites of Community interest selected under Natura 2000.

Schemes I and II will be implemented separately.

The call for applications for Scheme II will start approximately one year after approval of the Programme.

## The Scope of Aid

### **Scheme I:**

- information, training and promotional activities designed to stimulate inhabitants and organisations active in rural areas into participating in the strategy planning process;
- preparation of rural development strategies and technical support for their preparation (analyses, expert appraisals, consultation support, studies, etc);
- advisory and experts services relating to LAGs creation (Local Action Groups).

### **Scheme II:**

- operational activities of the LAGs;
- promotion of and information on the assumptions and methods of implementing rural development strategies;
- training and advisory assistance in preparing and implementing projects that are compliant with a rural development strategy;
- preparation of analyses and documents related to the detailed planning of investments and creating new products and services in accordance with the assumptions of a rural development strategy;
- organisation of events aimed at promoting the region and its products, services, culture, art, etc.;
- cooperation and exchange of experience between LAGs (on the national and international level) with regard to implementation of strategies and organization of LAGs activities (management, monitoring etc.).

## **Eligibility Criteria:**

### **Scheme I:**

1. The aid may be granted to the entities statutorily responsible for rural development, including territorial self-governments (municipalities) and their associations.
2. Project covers the area of at least one municipality.
3. If more than one application is submitted for the area concerned, the applicants will be required to submit a declaration of co-operation in devising the integrated rural development strategy.

### **Scheme II:**

1. Aid beneficiary (a foundation, an association or a union of associations) meets the LAGs criteria, i.e. (a) its statutorily aim is rural development and (b) the economic and social partners and associations make up at least 50% of the partners involved in its decision-making body.
2. Plan dedicated to implement integrated rural development strategy covers the rural or urban-rural municipality(ies) area, for which the strategy was prepared.
3. The territory, where the plan will be implemented, covers a rural area with population between 10 000 and 100 000 inhabitants.
4. The territory, where the plan will be implemented, corresponds to the administrative

territorial division (on the municipality level).

5. The territory, where the plan will be implemented, is homogenous in natural (geographical), economic, cultural or historical terms.
6. The integrated rural development strategy submitted by LAG meets formal requirements and is consistent with a development strategy or a local spatial plan.
7. The implementing of two different plans in the same area is forbidden.

### **Selection criteria:**

The project selection criteria for both Schemes of Leader + type measure will be described in detail in the Programme Complement.

Contractors for Leader + type measure will be selected in accordance with competition rules.

The following criteria will be taken into account while the selection process for Scheme II:

1. The quality of the Integrated Rural Development Strategy.
2. The experience of the LAG to administer public funds.
3. Participation of women in the LAG's decision-making body.
4. Number and percentage of rural population in total population of the area where the plan will be implemented.
5. The tax revenue of municipalities, where the plan will be implemented, calculated per one habitant.

### **The type and level of aid**

The maximum aid is 100% of total eligible costs.

### **The level of EU contribution**

Maximum 80% of total eligible costs.

### **Aid Beneficiaries**

**For Scheme I:** self governments of rural and urban-rural municipalities or their associations, legal persons: foundations, associations, unions of associations and non-governmental organizations (other than those specified above).

**For Scheme II:** Local Action Groups (LAG), i.e. foundations, associations or unions of associations, meeting the eligibility criteria listed above.

**Geographical coverage:** Entire country

### **Expected results**

Under Scheme I at least 170 projects covering the area of approximately 500 municipalities will be financed.

Under Scheme II at least 40 plans covering the area of approximately 125 municipalities will be financed.

### **Institutional system**

- a) Managing Authority: MARD,
- b) Implementing Institution: Foundation of Assistance Programmes for Agriculture,
- c) Final Beneficiary: ARMA,
- d) Aid Beneficiaries:

- for Scheme I - rural and urban-rural municipalities or their associations, legal persons: foundations, societies and their associations and non-governmental organisations (other than those specified above),
  - for Scheme II – Local Action Groups (LAG),
- e) Ultimate Beneficiaries: inhabitants of rural areas.

### **5.3. Technical Assistance**

Technical Assistance funds shall be utilised to support the implementation system of the Sectoral Operational Programme *Restructuring and Modernisation of the Food Sector and Rural Development* as well as to disseminate information about the programme and promote it. Projects implemented under Technical Assistance should create conditions enabling efficient and proper utilisation of funds made available under the EAGGF – Guidance Section.

Projects providing technical, staff and expert support needed to perform tasks related to the management, implementation, monitoring and control of the programme for the institutions described as aid beneficiaries shall be co-financed under Technical Assistance. Also the operation of the Monitoring Committee and the Steering Committees, the conducting of programme audits and evaluation (including the ex-ante evaluation of the programme co-financed by EAGGF for the next programming period) and on-the-spot checks shall be supported. Advanced professional training for staff carrying out tasks related to programme implementation shall be possible within the framework of Technical Assistance.

Technical Assistance funds shall also be used to organise programme promotions serving to disseminate knowledge about the 2004-2006 SOP and to exchange experience on programme implementation. Moreover, information actions as well as consultation meetings concerning the assumptions for the next programming period shall be eligible for co-financing.

Measures planned under the Technical Assistance SOP are in line with and complement the measures of the “Technical Assistance” Operational Programme.

Three measures shall be implemented under the Technical Assistance SOP. The scope and amount of aid under individual measures has been established while taking into account the provisions of the Commission Regulation (EC) No. 1145/2003.

#### **5.3.1. Support for the programme management and implementation system**

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention area:** 411,413

**Legal reference:** Council Regulation (EC) No. 1260/1999, Art.23, Commission Regulation (EC) No. 448/2004, Rule No. 11.

#### **Objectives related to the Measure**

1. Improvement of the efficiency of institutions responsible for the management and implementation of the SOP.
2. Ensuring conditions for the effective operation of the SOP Monitoring Committee and the steering committees.
3. Support for audits and on-the-spot checks.

#### **The scope of aid**

The following expenditures shall be eligible for financial aid:

- expenditures associated with the operation of the Monitoring Committee and Steering Committees;

- salaries (including social security contributions) of the persons seconded or employed for the period of programme implementation to carry out tasks on the preparation, appraisal, selection and monitoring of the assistance and of operations, as well as persons employed to operate the committees;
- expenditures associated with conducting programme audits and on-the-spot-checks;
- expenditures on expert assistance concerning the preparation, selection, appraisal and monitoring of the assistance and of operations;
- other expenditures related with management, implementation, monitoring and control of the programme i.e. the costs translations, the preparation, printing and distribution of papers etc.(...);
- bank charges on accounts;
- expenditures on the preparation of programme documents for the future programming period.

### **The typology and level of aid**

Projects implemented under this measure shall be co-financed within the limit accepted by the European Commission, calculated pursuant to the provisions of Rule No. 11 of Commission Regulation (EC) No. 1145/2003.

### **Level of EU contribution**

Up to 75 % of total eligible costs.

### **Aid beneficiaries**

Institutions responsible for the management, implementation, monitoring and control of the SOP Restructuring and Modernisation of the Food Sector and Rural Development with respect to tasks performed in order to implement the programme:

1. Ministry of Agriculture and Rural Development (MARD)
2. Agency for Restructuring and Modernisation of Agriculture (ARMA)
3. Foundation of Assistance Programmes for Agriculture (FAPA)
4. Offices of the Marshal

### **Institutional System**

- a) Managing Authority: MARD;
- b) Implementing Institution: ARMA;
- c) Final Beneficiary: ARMA;
- d) Aid Beneficiary: MARD, ARMA, FAPA, Offices of the Marshal;

## **5.3.2. Institutional Development**

**Structural Fund:** EAGGF – Guidance Section

**Structural Fund intervention area:** 411, 412

**Legal reference:** Council Regulation (EC) No. 1260/1999, Art. 23, Commission Regulation (EC) No. 448/2004, Rule No. 11.

### **Objectives related to the Measure**

1. Improvement of the efficiency of institutions responsible for the management and implementation of the SOP
2. Improvement and adjustment of staff qualifications in order to better carry out tasks involving management, implementation, monitoring and control of the SOP.
3. Conducting programme evaluations.

### **The scope of aid**

The following expenditures shall be eligible for financial aid:

- expenditures on the acquisition and installation of equipment and acquisition of materials necessary for the implementation of the programme;
- expenditures on the acquisition and installation of computerised systems for management, monitoring and evaluation;
- expenditures on training courses designed to increase qualifications of people participating in the process of program implementation;
- expenditures on the acquisition of data necessary for the implementation and monitoring of the programme;
- expenditures on conducting programme evaluations.

### **The typology and level of aid**

Pursuant to Rule No. 11 of Commission Regulation (EC) No. 1145/2003, no limit is established for expenditures incurred under this measure.

### **Level of EU contribution**

Up to 75 % of total eligible costs.

### **Aid beneficiaries**

Institutions responsible for the management, implementation, monitoring and control of the SOP *Restructuring and Modernisation of the Food Sector and Rural Development* with respect to tasks performed in order to implement the programme:

1. Ministry of Agriculture and Rural Development
2. Agency for Restructuring and Modernisation of Agriculture
3. Foundation of Assistance Programmes for Agriculture
4. Offices of the Marshal

### **Institutional System**

- a) Managing Authority: MARD;
- b) Implementing Institution: ARMA;
- c) Final Beneficiary: ARMA;
- d) Aid Beneficiary: MARD, ARMA, FAPA, Offices of the Marshal.

### **5.3.3. Programme information and publicity**

**Structural Fund: EAGGF** – Guidance Section

**Structural Fund intervention area:** 411, 415

**Legal reference:** Council Regulation (EC) No. 1260/1999, Art. 23, Commission Regulation (EC) No. 448/2004, Rule No. 11.

#### **Objectives related to the Measure**

1. Providing the public with up-to-date information on the rules of granting aid under the SOP from 2004 to 2006 and on the progress in implementation of the programme.
2. Publicity concerning EC aid.
3. Promoting experience and best practices on the implementation of projects under the SOP.
4. Consultations on programme assumptions for 2007 to 2013.

#### **The scope of aid**

The following expenditures shall be eligible for financial aid:

- expenditures relating to the information and publicity seminars for potential aid beneficiaries;
- expenditures on the actions promoting best practices;
- expenditures relating to the preparation, printing and distribution of information and publicity documents and materials;
- expenditures on media publicity;
- expenditures on the extension and maintaining of web sites;
- expenditures relating to the preparation and production of information boards and signs;
- expenditures on the acquisition of the equipment and materials for promotion and information campaigns;
- expenditures on consultation and information seminars on operational programme assumptions for the next programming period.

#### **The typology and level of aid**

Pursuant to Rule No. 11 of Commission Regulation (EC) No. 1145/2003, no limit is established for expenditures incurred under this measure.

#### **Level of EU contribution**

Up to 75% of total eligible costs.

#### **Aid beneficiaries**

Institutions responsible for the management, implementation, monitoring and control of the SOP Restructuring and Modernisation of the Food Sector and Rural Development with respect to tasks performed in order to implement the programme:

1. Ministry of Agriculture and Rural Development
2. Agency for Restructuring and Modernisation of Agriculture

3. Foundation of Assistance Programmes for Agriculture
4. Offices of the Marshal

**Institutional System**

- a) Managing Authority: MARD;
- b) Implementing Institution: ARMA;
- c) Final Beneficiary: ARMA;
- d) Aid Beneficiary: MARD, ARMA, FAPA, Offices of the Marshal.

## **CHAPTER 6. IMPLEMENTATION SYSTEM**

### ***6.1. General Comments***

Management and implementation of the Sectoral Operational Programme *Restructuring and Modernisation of Food Sector and Rural Development* is subject to Council Regulation 1260/1999 of 21 June 1999 laying down the general provisions on the Structural Funds and Commission Regulation No 438/2001 of March 2001 laying down detailed rules for the implementation of Council Regulation No 1260/1999 as regards the management and control systems for assistance granted under the Structural Funds.

This Chapter contains arrangements with respect to the system of implementation of the Sectoral Operational Programme *Restructuring and Modernisation of Food Sector and Rural Development* pursuant to requirements set forth in Article 18.2 (d) of Council Regulation No 1260/1999 of June 21, 1999. General information concerning the Community Support Framework (CSF) Managing Authority, Paying Authority, operational programmes Managing Authorities and relations between them are specified in the Community Support Frameworks.

### ***6.2. Competencies of bodies involved***

The Polish Government, represented by the Council of Ministers, has overall responsibility for the commitments embodied in the Community Support Framework and its correct and efficient implementation. In particular it will ensure the availability and system of access to the financial and other resources necessary to effect the measures described in the Sectoral Operational Programme *Restructuring and Modernisation of Food Sector and Rural Development*.

#### **6.2.1. Managing Authorities**

Management and implementation of the Community Support Framework is subject to Council Regulation 1260/1999 of 21 June 1999 laying down the general provisions on the Structural Funds and Commission Regulation No 438/2001 of March 2001 laying down detailed rules for the implementation of Council Regulation No 1260/1999 as regards the management and control systems for assistance granted under the Structural Funds. The Ministry of Economy, Labour and Social Policy is the Managing Authority for the Community Support Framework (CSF). It is responsible in particular for the following:

- ensuring overall co-ordination and progress in the implementation of the Community Support Framework;
- monitoring, in co-operation with the Paying Authority, the flow of funds necessary to implement the Structural Funds interventions effectively from the start of eligible expenditure;
- the transfer to the European Commission, in co-operation with the Paying Authority, of data on the progress in implementing the CSF and Operational Programmes;
- drawing up of annual reports on CSF implementation, forwarded for approval to CSF National Monitoring Committee and submitted to the European Commission;

- coordinating the preparation of the Programme Complements and their adaptation as necessary.

The CSF Managing Authority makes proposals, after approval by the CSF National Monitoring Committee, with regard to any changes and shifts of resources between priorities within Operational Programmes implemented within the Community Support Framework. The decisions are made jointly with the European Commission.

### **6.2.2. SOP Managing Authority**

The Ministry of Agriculture and Rural Development (MARD) is the Managing Authority for the SOP *Restructuring and Modernisation of Food Sector and Rural Development*.

The Ministry of Agriculture and Rural Development has been responsible for the preparation of this Programme and its Complement. The tasks of MARD as the Managing Authority include:

- ensuring the efficient and proper management and implementation of the Programme as well as its compliance with the specific requirements of Art. 34 of Council Regulation No. 1260/1999;
- ensuring the proper disbursement and management of EAGGF Guidance Section funds;
- ensuring that all institutions involved in the management of the Programme have technical and human resources enabling them to carry out the tasks entrusted to them from the moment Programme implementation starts;
- submitting applications for the payment of EAGGF Guidance Section funds to the Paying Authority according to the instructions prepared by the Paying Authority;
- implementation of a management and control system complying with the procedures stipulated in Art. 4 of Regulation No. 438/2001;
- chairmanship of the Programme Monitoring Committee and the management of its secretariat;
- ensuring efficient Programme monitoring;
- development of the Programme Complement, submitting it to the Monitoring Committee for approval and forwarding it to the European Commission;
- ensuring the preparation and implementation of an action plan concerning Programme information and publicity;
- approval of projects under the following measures: Training, Agriculture Advisory and Extension Services Support, LEADER+ Pilot Programme, Technical Assistance, Improvement of the processing and marketing of agricultural products;
- ensuring the availability of documents concerning the projects implemented under the Programme for at least 3 years from the date of the last payment made by the European Commission.

### **6.2.3. Implementing Institutions**

The immediate implementation of individual measures under this Programme has been entrusted to the Agency for Restructuring and Modernisation of Agriculture (ARMA), the Foundation of Assistance Programmes for Agriculture (FAPA) and voivodeship local government services (Offices of the Marshal).

<b>Measure</b>	<b>Implementing Institution</b>
Investments in Agricultural Holdings	ARMA
Setting-up of Young Farmers	ARMA
Training	FAPA
Agriculture Advisory and Extension Services Support	FAPA
Improvement of the Processing and Marketing of Agricultural Products	ARMA
Restoring Forestry Production Potential Damaged by Natural Disaster and Fire and Introducing Appropriate Prevention Instruments	ARMA
Reparcelling	Office of the Marshal
Renovation of Rural Areas and Preservation and Protection of Cultural Heritage	Office of the Marshal
Diversification of Agricultural and Agriculture-Related Activities to Provide Multiple Activities or Alternative Incomes	ARMA
Agricultural Water Resources Management	Office of the Marshal
Development and Improvement of the Infrastructure Related to Agriculture	ARMA
Leader + Pilot Programme	FAPA
Programme Management and Implementation System Support	ARMA
Institutional Development	ARMA
Programme Information and Publicity	ARMA

The tasks of Implementing Institutions include:

- receipt and evaluation of applications for financial aid;
- selection of projects or the preparation of project ranking list proposals;
- preparation and conclusion of contracts with aid recipients;
- receipt and verification of applications for payment, including the control of eligibility of the expenditure incurred;
- control of project implementation, including on-the-spot checks;

- collection of data related to Programme monitoring and the transfer of relevant reports to the Managing Authority;
- detection of irregularities and reporting them to the Managing Authority;
- preparation of periodic reports concerning the implementation of individual Programme measures and submitting them to the Managing Authority;
- participation in the information and publicity measures concerning the Programme;
- provision of information concerning the involvement of Community funds in the implementation of projects;
- storing all documents related to the implementation of projects for at least 3 years from the date of the last payment made by the European Commission under the Programme.

#### **6.2.4. Final Beneficiary**

Pursuant to Art. 9 (1) of Council Regulation No. 1260/1999, Final Beneficiaries are the bodies as well as public and private firms responsible for commissioning operations or, in the case of aid granted by bodies designated by the Member States, the Final Beneficiaries are the bodies which grant the aid.

Within the framework of the implementation system of the SOP *Restructuring and Modernisation of Food Sector and Rural Development*, the Final Beneficiary, pursuant to the second part of the definition, is the body that effect the payment of funds to the entity implementing the project (aid beneficiary).

The role of the Final Beneficiary for the individual measures of this Programme is played by the Agency for Restructuring and Modernisation of Agriculture (ARMA).

The tasks of Final Beneficiary include:

- verification and approval of payment orders;
- effecting payments to aid beneficiaries;
- booking payments;
- performing the certification of expenditures to the Managing Authority;
- submitting application for reimbursement, fund utilisation report and expenditure forecast to the Managing Authority;
- collection of data linked to Programme monitoring;
- detection of irregularities and reporting them to the Managing Authority.

In the case when the functions of the Implementing Institution and the Final Beneficiary are fulfilled by a single institution, the structure of this institution is designed in a way that ensures the separation of tasks linked to implementation and effecting payment.

#### **6.2.5. Steering Committees**

The following steering committees participate in the implementation of the SOP: the SOP Steering Committee set up at the central level and the Regional Steering Committees.

The SOP Steering Committee is set up by the Minister of Agriculture and Rural Development.

The SOP Steering Committee consists of representatives of the following institutions:

- central administration, particularly including: Minister of Agriculture and Rural Development, Minister of Economy, Labour and Social Policy and the ministers relevant with regard to the types of activities included in the Programme;
- other institutions participating in the SOP implementation system;
- voivodeship local government authorities;
- social and economic partners;
- organisations and professional self-government bodies;
- public agricultural advisory services;
- relevant scientific institutions.

The tasks of the SOP Steering Committee include:

- participating in the procedure of projects evaluation under the measures: Training, Agriculture Advisory and Extension Services Support, LEADER+ Pilot Programme and Technical Assistance;
- recommendation of the projects or lists of projects for implementation to the Managing Authority under the measures: Training, Agriculture Advisory and Extension Services Support, Improvement of the Processing and Marketing of Agricultural Products LEADER+ Pilot Programme and Technical Assistance;.

16 Regional Steering Committees that are shared between the SOP and the Integrated Regional Development Operational Programme participate in Programme implementation. The Regional Steering Committee is appointed by the Voivodeship Board. It consists of the representatives of the relevant Managing Authorities, voivodeship level government administration, local government authorities at all levels as well as the social and economic partners.

The task of the Regional Steering Committees under the SOP is the recommendation of project ranking lists to the Implementing Institution under the following measures:

1. Agricultural water resources management.
2. Land reparcelling.
3. Rural renewal and the preservation and protection of cultural heritage.

### ***6.3. Financial management and control***

The organisation of the system of financial management and control of EAGGF Guidance Section funds meets the requirements defined in Council Regulation No. 1260/1999 and Commission Regulation No. 438/2001. The responsibility for financial management is shared between the Paying Authority and the Managing Authority.

#### **6.3.1. Role of Managing Authority with regard to financial management and control**

In particular, the Managing Authority ensures that the institutions participating in Programme implementation are fully informed about the obligations concerning the financial management

of the expenditures co-financed with EAGGF Guidance Section funds. The Managing Authority also ensures the independence of the units involved in financial management from the units that manage the Programme.

The SOP Managing Authority is responsible for:

- ensuring that all institutions involved in SOP management and implementation keep separate accounting systems for EAGGF Guidance Section funds or a suitable accounting code for all financial transactions related to assistance;
- preparation of annual report on irregularities and submitting it to the Paying Authority through the CSF Managing Authority;
- performing the certification of expenditures to the Paying Authority;
- preparing and submitting application for reimbursement together with expenditure list to the Paying Authority;
- preparing forecasts of expenditures from the EAGGF and submitting them to the Paying Authority;
- implementation of an internal audit system and drawing up management and financial audit procedures;
- storing all documents related to Programme implementation for at least 3 years following the last payment made by the European Commission under the Programme.

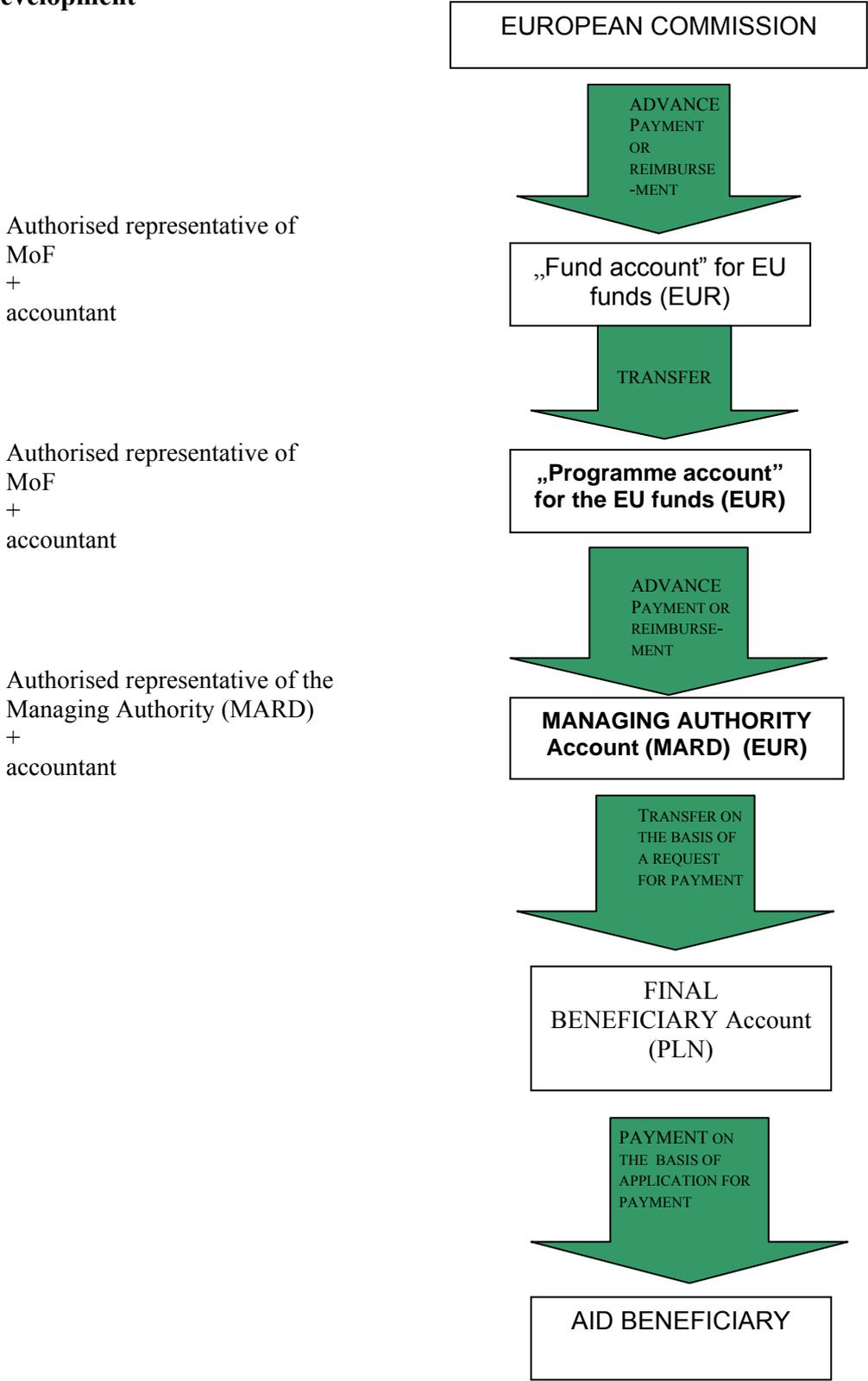
### **6.3.2 Role of the Monitoring and Control Unit**

The EAGGF Monitoring and Control unit, independent from the SOP Managing Authority, shall be established within the Ministry of Agriculture and Rural Development. Their operation will not in any way release the Managing Authority from its responsibilities according to the Regulations.

Its tasks within the framework of EAGGF include:

- monitoring and supervision of the correct application of rules concerning the eligibility of expenditure under EAGGF Guidance Section and national co-financing;
- cooperation with treasury control organs in order to conduct in – depth controls;
- preparation of regular reports according to the requirements of national management.

**Financial flow of EU funds in the SOP Restructuring and modernisation of food sector and rural development**



### **6.3.3. Role of the Paying Authority**

Pursuant to Regulation No. 438/2001, the role of the Paying Authority with regard to all structural funds is played by the Foreign Assistance Fund Department in Ministry of Finance.

The tasks of the Paying Authority include in particular the following:

- management of the account into which EAGGF Guidance Section funds are deposited;
- certification to the European Commission that expenditure declarations are prepared on the basis of reliable and verifiable documents;
- preparation of applications for the payment of funds in order to reimburse the costs incurred and submitting them to the European Commission;
- submitting to the European Commission – by 30 April of each year at the latest – the expenditure forecasts for the current year and the following year;
- collection of statistical data and financial information for the CSF Managing Authority and the CSF National Monitoring Committee;
- supervision of the efficient functioning of the monitoring database (SIMIK);
- preparation and supervision of financial management and control procedures;
- ensuring that payments to Final Beneficiaries and aid beneficiaries are effected in the shortest possible time stipulated by the procedures;
- coordination of the preparation of reports on irregularities.

### **6.3.4. Audit and control procedures**

#### **6.3.4.1. Winding Up**

The declaration on winding-up of the assistance in the SOP HRD, issued in accordance with art. 38.1 (f) of Council Regulation No 1260/1999 and Article 15-17 of CmR 438/2001 lies within competencies of the General Inspector of Treasury Control – a body which is independent from the Paying Authority, the Managing Authority and Implementing Institutions. The General Inspector of Treasury Control executes this task through an organisational unit in the Ministry of Finance that is Body for issuing declarations on winding-up of the EU assistance.

Body for issuing declarations on winding-up of the EU assistance issues the declaration based on:

- a) examination of the management and control systems in institutions involved in SOP implementation and management process,
  - b) findings of checks of 5% of expenditure already carried out by TCOs, and,
  - c) further sample checks of transactions, if necessary.
- (under art. 15-16 of Commission Regulation 438/2001).

Declaration will be drawn up on the basis of the indicative model in Annex III to Commission Regulation No 438/2001.

The Body for issuing declarations on winding-up of the EU assistance makes all necessary enquiries to obtain reasonable assurance that the certified statement of expenditure is correct and that the underlying transactions are legal and regular. Declarations will be accompanied by reports, which include all relevant information to justify the declaration. If the presence of important management or control weaknesses or the high frequency of irregularities

encountered does not allow to state validity of the request for payment of the final balance and the final certificate of expenditure, the declaration refers to these circumstances and estimate the extent of the problem and its financial impact.

The European Commission may ask Body for issuing declarations on winding-up of the EU assistance for further check be carried out with a view to the identification and rectification of irregularities within a specified period of time.

The Body for issuing declarations on winding-up of the EU assistance checks the operations based on a proper sampling method, with particular focus on:

- checking the effectiveness of the management and control systems applied in institutions involved in SOP implementation,

- selective checks, based on risk analysis, of certified expenditure at various levels concerned.

Selecting operation samples for examination, the Body for issuing declarations on winding-up of the EU assistance takes into account the following:

- the need to check operations of various types and values,

- every risk factor which was identified during FCO-effected examination,

- concentration of operations in certain institutions in a way which ensures examination of the Managing Authority, Implementing Institutions and each Final Beneficiary, at least once prior to winding-up the assistance.

Applying such an external audit, Body for issuing declarations on winding-up of the EU assistance checks, i.e.:

- practical application and effectiveness of management and control systems,

- in the case of a sufficient number of excerpts, compliance of these data with accompanying documents kept by the Managing Authority, Implementing Institutions, final beneficiaries and the remaining entities which effected such operations,

- the audit trail,

- in the case of a sufficient number of expenditure, whether their nature and period when they were incurred, meet the Community requirements and are consistent with specifications approved for the given operation and work actually done,

- the national co-financing component,

- whether operations were carried out in compliance with the Community requirements provided in Art. 12 of Council Regulation No 1260/1999.

Checks carried out by Body for issuing declarations on winding-up of the EU assistance should disclose whether any of the detected problems are of a systematic character, pose risk to other operations carried out by the same Final Beneficiary or administered by respective Implementing Institutions The Body also identifies the reasons for the occurrence of the situation and further examinations, which might be required or essential correcting or protecting measures.

Additionally the report contains statements whether Body for issuing declarations on winding-up of the EU assistance is ensured that the internal control procedures are theoretically sound and that they operate satisfactorily in practice. The report presents evidence collected by the Body for issuing declarations on winding-up of the EU assistance, indicating that throughout the audited period internal control and management control systems operated correctly, were applied in all the planned operations and lead to (possibly) corrective measures application.

The report takes note of all serious weaknesses detected in the functioning of mechanisms of controls, with special reference to those factors that may reduce the effectiveness of procedures of internal controls. These factors will be defined by the Body for issuing declarations on winding-up of the EU assistance.

#### **6.3.4.2. In-depth audit**

Treasury Control Offices carry out checks within the meaning of Articles 10 and 11 of Commission Regulation No. 438/2001 including, inter alia:

- verification of the effectiveness of the management and control systems utilised,
- sample checks based on risk analysis and expenditure declaration at different levels – these checks concern at least 5% of total eligible expenditures.

In-depth audit is carried out by 16 Treasury Control Offices. The TCOs report to the Bureau for International Treasury Relations at the Ministry of Finance, which is responsible for coordinating the audits, including the risk analysis and selection of a representative sample, uniform audit methodology, the systematic ordering of results and transferring them to the relevant national authorities and to the European Commission. The Bureau for International Treasury Relations reports to the Chief Inspector of Treasury Control and cooperates with OLAF and other Member States in order to safeguard EU interests.

#### **6.3.4.3. Internal audit**

Units responsible for internal audit have been established in all institutions that are involved in the implementation of the SOP and belong to the public sector. The internal audit unit is not involved in any operational activity of the public sector unit. It plays the role of an advisory body for the management of the institution, while at the same time ensuring the proper functioning of the financial management and control system.

The Chief Inspector of Internal Audit performs the tasks stipulated in the Public Finance Law with regard to financial control and internal audit. In particular, the Chief Inspector of Internal Audit is directly responsible to the Minister of Finance for financial control and the coordination of internal audit.

#### **6.3.4.4. Irregularity reporting**

All relevant bodies are responsible for detecting irregularities and notifying them to the Managing Authority, which on this basis will prepare irregularity report for the General Inspector of Treasury Control who delivers them to Bureau for International Treasury Relations with the copy to the Paying Authority. General Inspector of Treasury Control with assistance of the Bureau for International Treasury Relations informs the European Commission about irregularities on the basis of received (gathered?) information. The Paying Authority has overall responsibility for financial corrections and recovery of amount incorrectly paid. The institutions will comply with Regulation 1681/1994 and Article 8 of the Regulation 438/2001.

#### **6.3.4.5. Data gathering, transfer and monitoring**

Article 18 of Commission Regulation No. 438/2001 requires that a computer based data transfer and monitoring system be established for the exchange of data required to fulfil the management, monitoring and evaluation requirements with respect to EAGGF Guidance Section funds and other Structural Funds. The data transfer and monitoring system for Structural Funds and the Cohesion Fund in Poland is known as SIMIK. This system enables access to information on both financial and physical progress of Programme implementation.

The database operates on the basis of a separate, closed system of data transfer and information access that ensures maximum protection against unauthorised access and misuse of data.

Because the certification and authorisation of payments to the European Commission by the Paying Authority play a key role in the system of monitoring EU funds, the database is administered by the Minister of Finance (who fulfils the function of operator). The electronic transfer of data to the European Commission is effected by the Minister of Finance.

Final Beneficiaries that disburse aid co-financed by EAGGF Guidance Section funds to aid beneficiaries and Implementing Institutions constitute the lowest level of the computer based monitoring system (system terminal). All Implementing Institutions and Final Beneficiary feed data on individual projects into the system and verify them.

## **6.4. Monitoring**

### **6.4.1. Monitoring**

Monitoring of Sectoral Operational Programme Restructuring and Modernisation of Food Sector and Rural Development is the responsibility of the SOP Managing Authority under the control of SOP Monitoring Committees.

Monitoring is carried out under the partnership principle. Monitoring Committees shall be set up by the Managing Authority after consultation with the partners and in accordance with its own institutional arrangements and practice (on the basis of internal statute).

The composition of the Monitoring Committee shall promote the balanced participation of women and men. Subsequent changes in the membership or composition of the Committees should be accepted by the European Commission, subject to national legislation, without any requirement to amend the CSF or OPs.

Membership of the Monitoring Committees will comprise representatives of Ministries responsible for priorities realized within the Community Support Framework in particular the Ministry of Environment, representatives of social partners, voivodship self-governments and voivods and representatives of social-economic institutions (including scientific-research institutions, appropriate statutory body to represent equal opportunity and environment interests like the State Council for Environmental Protection). Representatives of the European Commission, and the European Investment Bank, when appropriate, participate in an advisory capacity in the committee. The Managing Authority for the Operational Programme will chair their respective Monitoring Committees.

Under Article 35 of the General Structural Funds Regulation, the Monitoring Committee shall satisfy itself as to the effectiveness and quality of the implementation of the Operational Programme. This will include, as appropriate:

- examining and approval of selection criteria for each measure,
- periodical review of progress with regard to achieving the specific objectives and results of the support under the EAGGF-Guidance Section;

- examining the results of implementation especially achievement of the specific objectives/targets appointed for different measures as well as any evaluations carried out during the programming period,
- approval and any adjustment of Programme Complement together with basic financial and physical indicators, that are to be used for monitoring of the assistance,
- examining and approval of the Annual Report and the Final Implementation Report,
- examining and approval of all proposals of changes to the content of the European Commission decision regarding the approval of the OP,
- proposing to the Managing Authority adjustments or revisions of the Structural Funds assistance, that enable achievement of the objectives or improvement of the assistance management, including financial management,
- approval of amendments arising from a proposal to the Managing Authority on its own initiative.

Each OP Monitoring Committee will decide the reallocation of co-funded expenditure between measures within their OP. Where a Monitoring Committee makes a decision to reallocate Structural Funds from one measure to another, the corresponding matching national expenditure will, in principle, also be reallocated: the rate of Community contribution can only be modified with the approval of the Commission. Any amendment to the contribution of the Funds and transfers among priorities within or between OPs is decided by the European Commission, in agreement with the Member State.

Each Monitoring Committee is chaired by a representative of the Managing Authority. The Monitoring Committee is set up no later than three months after the decision on the contribution of the Funds. Subject to compliance with the principles set out in the foregoing paragraph, each Monitoring Committee is responsible for drawing up its own rules of procedure and agreeing them with the Managing Authority.

The Monitoring Committee and the managing authority shall be responsible for an effective monitoring of the SOP (Article 36 of Regulation 1260/99). The CSF Monitoring Committee will pay special attention to the development of a co-ordinated approach across Operational programmes and their specific implementation systems. The Monitoring Committee may create special structures such as horizontal sub-committees for this task. Monitoring Committees may create permanent subcommittees and working groups (according to their needs) concentrated on monitoring interdisciplinary (horizontal) matters or according to specific needs of the OP.

Sub-committees anticipated to operate under the CSF Monitoring Committee will cover the fields of employment and human resources (ESF issues), environment, innovation and information society, regional policy and SMES. Other sub-committees may be created as required.

Horizontal sub-committees will include representatives of the CSF Managing Authority, Ministries concerned with the policy areas (particularly Implementing Institutions, social and economic partners and scientific or specialist functions).

#### **6.4.2. Quantification of objectives and monitoring indicators**

The Community Support Framework Managing Authority and the operational programmes Managing Authorities together with their Monitoring Committees pursuant to Article 36 of Council Regulation No. 1260/1999, carry out the monitoring of the EAGGF – Orientation Section intervention on the basis of a set of indicators. Basic monitoring indicators serve to measure the progress of operational programmes are presented in the appendix V, while the indicators that measure objectives for each measure will be placed in Programme Complement.

Criteria of indicators choice take into account rules recommended by European Commission (correctness, appropriateness, availability, reliability, measurement, comparability). The indicators will show:

- the specific targets, quantified where they lend themselves to quantification, for the Priorities and Measures and their mutual consistency;
- results, and as soon as practicable, impact at the appropriate level;
- the progress of the financing plan;
- statistical data.

Project data (and data on ultimate recipients for the ESF) are fed into the monitoring systems. The monitoring concentrates on the most essential data and due attention is paid to ensuring data quality. Data is collected on the basis of the application forms, statistical data, scientific research. In the decentralised implementation of programmes and projects, common data in all regions are documented in a standardised way. Consistency is ensured between the Community Support Framework, the Operational Programme, the Programme Complement, Application Forms, other forms and reports and the monitoring systems as far as possible. The National Evaluation Unit will use the databases for evaluation.

The baseline period, against which indicators are measured, is the year (or its last quarter) preceding the year when the programme, priority, measure or project started to be implemented and data accessible.



## **6.5. Evaluation**

Evaluation of effectiveness and impact of undertaken activities and progress in their execution both on the basis of specified physical and financial indicators as well as evaluation of the efficiency of the implementation arrangements is an inseparable element of the Community Support Framework required by Article 40-43 of Council Regulation No. 1260/1999.

### **6.5.1. Ex-ante evaluation**

An ex-ante evaluation of National Development Plan for the years 2004-2006 and operational programme was carried out by a group of international and Polish experts. This report is based on the Community guidelines, subject to European Commission Regulation 817/2004. It analyses starting incompliance and growth potential in Poland, coherence of adopted strategy with needs and development objectives presented in the OP and coherence between the OP and Community policies.

### **6.5.2. Mid-term evaluation**

Pursuant to Article 42 of Council Regulation No. 1260/1999 a mid-term evaluation shall examine the initial results of the assistance. Taking into consideration the short time of the Community Support Framework for the years 2004-2006, a mid-term evaluation of the programmes is not foreseen.

### **6.5.3. Ex-post evaluation**

Pursuant to Article 43 of Council Regulation No. 1260/1999, not later than three years after the end of the programming period, a final evaluation should be conducted. The ex-ante evaluation is the responsibility of the European Commission in collaboration with the Member State and the Managing Authority. The institutions responsible for the ex-post evaluation take the results of evaluation work carried out during the programming period into consideration.

The final (ex-post) evaluation is based on the Guidelines for the Evaluation of Rural Development Programmes 2000-2006 Supported by the European Agricultural Guidance and Guarantee Fund developed by the European Commission. It also takes into account the issues agreed between the European Commission and the Polish authorities. The final evaluation determines the results of the Programme on the basis of indicators that describe achievements with regard to attaining Programme objectives and analyses the impact of the Programme on the agri-food sector and on rural areas.

## **6.6. Programme information and publicity**

The Managing Authority shall ensure that the information and publicity requirements of Commission Regulation No. 1159/2000 are met. The measures envisaged in this respect are specified in the Programme Complement. The Operational Programme includes, under Information and promotion of the Programme measure (Technical Assistance), an allocation of funds to cover the costs related to Programme information and publicity.

Within the Managing Authority a special unit responsible for information and publicity has been appointed. The tasks of this units include primarily:

- providing information about the Programme and rules of granting aid under each measure
- initiating and organising additional publicity and information activities,
- playing the role of the main contact point for potential beneficiaries.

In particular, information should reach economic and social partners, organisations promoting equal opportunities for men and women, non-governmental organisations and the general public.

Apart from providing information for beneficiaries, information activities will include publicising the achievements of the Programme and emphasise EU contribution to the implementation of the measures undertaken.

Publicity and information measures are implemented by different instruments aimed at specific target groups, such as:

- electronic information system – information on calls for proposals, conditions of granting aid, eligibility and selection criteria, online advice, application forms, forum, technical advice, frequently asked questions,
- bulletins (published in printed or electronic form) for a wide range of recipients including information on conditions of granting aid, on calls for proposals, examples of best practices, articles including analyses, comments and opinions, etc.
- information and consulting or advisory points in each voivodeship, responsible for providing information about opportunities for utilising support, assistance to applicants in the preparation of their applications, providing information and technical advice.
- tools aimed at the general public, such as press articles, television and radio broadcasts, conferences, reports, brochures, etc.

SOP Restructuring and Modernisation of Food Sector and Rural Development information and promotion will be co-ordinated with the CSF promotion and information system.

### ***6.7. Programme consultation process***

The draft of the Sectoral Operational Programme was prepared on the basis of a series of seminars and workshops, the primary focus of which was the selection of Programme measures, the possible scope of support within the measures, financing level and the system of implementing institutions.

Representatives of the following bodies participated in the consultations:

- Ministry of Agriculture and Rural Development as well as other ministries (including the Ministry of Environment);
- Agency for Restructuring and Modernisation of Agriculture;
- Agricultural Property Agency of the State Treasury;
- Foundation of Assistance Programmes for Agriculture – FAPA;
- scientific institutes;
- National Agriculture and Rural Development Advisory Centre;

- agricultural self-government organisations – Chambers of Agriculture;
- agricultural institutions and organisations;
- non-governmental organisations, including those engaged in environmental protection activities;
- local government institutions;
- Voivodeship Offices.

The assumptions of the Operational Programme were presented during numerous meetings organised at the Ministry of Agriculture and Rural Development, at other ministries, in individual regions and also during a meeting with social and professional organisations that expressed their wish to create a rural community representation within the framework of the “National Partnership for Rural Development.”

### **6.7.1. Social consultation process under the Sectoral Operational Programme *Restructuring and Modernisation of the Food Sector and Rural Development***

The Sectoral Operational Programme *Restructuring and Modernisation of the Food Sector and Rural Development* 2004-2006 was subject to a process of social consultation. The starting point was the programme draft – June 2002 version. The primary aim of the consultations was collecting the comments and views of various partners and groups that would enable the formulation of an optimum operational programme for the food sector and strategic rural areas.

Several comments arose during the social consultation process and they were taken into account on a current basis during the work on the operational programme.

The main areas of change were as follows:

- a more thorough analysis from the strategic point of view of the statistical data included was conducted;
- reasons for the objectives adopted were given in detail and the established priorities were formulated clearly;
- experience gained during the implementation of pre-accession programmes was presented;
- the results of programme implementation were clearly presented;
- links with other operational programmes were presented;
- the descriptions of individual measures were amended.

The ex-ante evaluation of the programme was also taken into account during work on the SOP.

Bodies and institutions taking part in the consultation process made significant contributions to the work on the Programme. Many suggestions, proposals and remarks have been introduced into the final version of the SOP provisions. However, numerous remarks submitted during the consultation process have concerned detailed solutions regulated at the level of the Programme Complement rather than at the level of the Programme itself.

These remarks concerned the necessity of stating some issues more precisely, including definition of aid beneficiaries, eligibility and selection criteria, as well as concepts such as *economic viability*, *normal market outlets* etc. The necessity of unifying the appropriate SOP and RDP provisions and adjusting them to legislation in force (definition of farmer and agricultural activity, requirements regarding agricultural qualifications etc.) was mentioned. The representatives of potential aid beneficiaries, agricultural advisory bodies and local and regional government appealed for an increase in the amount of aid and / or support level, especially in the case of the following measures: *Investment in agricultural holdings*, *Setting up of young farmers* and *Diversification of agricultural and agriculture-related activities to provide multiple activities or alternative incomes*, referring to the high cost of carrying out

investment and adjusting to the EU standards. Furthermore, extension of the aid beneficiary groups (e.g. to legal persons under the measure *Diversification...*) and softening of the eligibility criteria, as well as extension of the scope of aid (e.g. to the cost of purchase of second-hand equipment in the case of investment-related measures and the cost of one's own labour) have been suggested. The majority of the above-mentioned comments have been incorporated in final structure of the Programme provided that they have complied with the aims and provisions of the respective UE Regulations as well as present rural development policy.

Moreover, the participants in the consultation process emphasized the need to take into account the experience of the implementation of the SAPARD Programme, simplifying implementation procedures and providing farmers with direct assistance consisting of the preparation of the applications and the design of projects.

Referring to the difficult financial situation of farmers, the lack of access to investment capital and its crucial influence on the utilisation of structural aid, representatives of the Voivode and Marshal's Offices, agricultural advisory and farmers' organisations and local and regional government proposed the softening of the practical implication of the rule relating to the reimbursement of costs incurred by introducing the possibility of settling project costs as project implementation advances.

Furthermore, regional governments at voivodeship level were able to express their opinion on fund allocation between the respective measures within the voivodeships and hence influence the priorities regarding the treatment of particular measures in the light of specific features of the regions. Suggestions of the Marshal's Offices have substantially influenced the final shape of the tables concerning financial allocation.

As far as scientific institutes are concerned, they contributed to the content of the analytical and strategic chapters, including SWOT analysis. Additionally, they took part in the works on the economic viability of the definition of agricultural holding.

Both essential remarks and suggestions as well as these amendments to priorities contributed to the definition of a final version of the Programme compatible with the *acquis communautaire*, national legislation and the needs of rural areas and the design of rural development.

The list of meetings, conferences and seminars devoted to the SOP *Restructuring and Modernisation of the Food Sector and Rural Development* has been included in Annex No. 6.

Work on the Programme Complement and the detailed programme guidelines is also subject to a social consultation process.

## **CHAPTER 7. COMPATIBILITY AND CONSISTENCY**

The Sectoral Operational Programme has been formulated respecting the provisions of the Treaty and Community policies.

According to Art. 12 of Council Regulation 1260/1999, programmes supported in the framework of the Structural Funds intervention will comply in particular with competition policy, environmental and sustainable development policies, and equal opportunities provisions.

In addition the rules concerning the award of public contracts as well as social cohesion policy and labour policy were also taken into account.

### ***7.1. Competition policy***

Measures to be co-financed within the Operational Programme for the activities linked to the production, processing and marketing of agricultural products listed in Annex I of the Treaty, are subject to the Articles 51 and 52 of Council Regulation (EC) 1257/99. As provided by these Articles, the aid granted within Sectoral Operational Programme will be approved by the European Commission as a part of programming referred to under Article 40 of Council Regulation (EC) No 1257/99.

Regarding the aid granted for production, processing and marketing of agricultural products listed in Annex I of the Treaty, which are financed exclusively from national funds, such aid will be notified to the European Commission as a state aid pursuant to the procedure laid down in the Regulation (EC) 659/1999 stipulating rules for application of Article 88 of the EC Treaty. In order to assure that the maximum allowed amount of aid is not exceeded, the investments financed within the SOP shall not receive any additional support from public resources.

Aid provided within Sectoral Operational Programme for activities other than the production, processing and marketing of agricultural products listed in Annex I to the Treaty shall comply with the de minimis rule or with one of block exemption regulations in accordance with Council Regulation (EC) no. 994/98 of 7 May 1998. In case aid provided within SOP for activities other than production, processing and marketing of agricultural products listed in Annex I to the EC Treaty does not comply within regulations, such aid will be notified to the European Commission as State aid pursuant to the procedure set out in Council Regulation (EC) 659/1999 laying down detailed rules for application of Article 88 of EC Treaty.

### ***7.2. Award of public contracts***

The operations financed by the Structural Funds will be carried out observing the Community and national rules regarding public tender on goods and services. The information about the tender will be published, including the information about the co-financing by the EU.

### ***7.3. Environmental and sustainable development policies***

Measures implemented under this Programme are in line with the principle objectives of the environmental and sustainable development policy, including the *Fifth European Community*

*Environment Programme: Towards Sustainability and the Sixth Environment Action Programme: Environment 2010, Our future, Our choice* (Decision no. 1600/2002/EC of the European Parliament and the Council of 22 July 2002).

Sectoral Operational Programme is also based on the European Union Sustainable Development Strategy. SOP clearly responds to the one of the major threats identified by the above mentioned document, which is the loss of bio-diversity and declining fertility of soil which eroding the viability of agricultural land. What is more, all measures implemented under the Programme will strictly comply with actions recommended in the Sustainable Development Strategy, foremost the Cohesion Policies that should improve their targeting of the least developed regions and those with the most acute structural problems – in particular the decline of the rural economy and the groups in society most vulnerable to persistent social exclusion.

Implementation of measures related to the protection of the environment will take place in accordance with EU requirements, and especially with Article 1 and 12 of the Council Regulation (CE) 1260/1999 of June 21, 1999 laying down general provisions on structural funds, which states that pursuing the objectives of the Treaty shall also contribute to i.e. protection and improvement of the environment and that operations financed by the Funds or receiving assistance from EIB or from another financial instrument of the Community shall be in conformity with the provisions of the Treaty, with instruments adopted under it and with Community policies and actions including the rules on environmental protection. In particular all operations undertaken under the SOP will comply with all obligations resulting from the Habitats and Wild Birds directive and with directive<sup>6</sup> 85/337/EEC as amended by directive 97/11/EC. Additionally, all realised actions must be carried out according to the Polish legislation on environment. In cases where applicable environmental Community legislation is not yet transposed into national legislation, the relevant EU directives shall directly apply until their effective transposition.

The Programme will influence the environment in a positive way thanks to its construction, conditions established for aid being granted and character of the eligible investments.

Within the modernisation of agricultural holdings and agri-food processing plants, the investments aimed at protection and improvement of environment will be co-financed. Moreover, conditions for obtaining aid upon measures: *Investments in agricultural holdings*, *Setting up of young farmers* and *Improvement of the processing and marketing of agricultural products* will require meeting standards in the field of environmental protection in the end of implementation of planned investment.

In the case of ventures, that could influence the environment substantially, it is obligatory to carry out the environmental impact assessment procedure. On the results of mentioned procedure depends enacting of proper decision ( building permit, water permit, decision of approval of land reparcelling or exchange). Essential element of this procedure is preparing of the environmental impact report. Drawing up reports obligation was introduced by Environmental Protection Law of the 27 April 2001 (Journal of Laws of 2001 no. 62, item

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<sup>6</sup> In relation to the Habitats and Wild Birds legislation Poland on the basis of the Accession Treaty is committed to comply with these directives by accession including the classification of Special Protected Areas under the Birds directive and the submission to the Commission of the national list of Sites of Community Importance under the Habitats directive. In addition Poland has given and undertaking to apply the protection foreseen under Article 6 of the Habitats directive on the date of accession.

627 an No. 115, item 1229 and from 2002 No. 74, item 676, No. 113, item 984 and No. 153, item 1271). Environmental impact report should include inter alia:

- description of planned venture (conditions of land utilisation, production processes, anticipated emission dimension);
- description of natural environment elements that could be influenced;
- description of analysed variant, including one consisting in the venture not to be undertaken and the most beneficial for the environment one, together with the environmental impact assessment of particular variants;
- justification of the chosen variant together with its environmental impact;
- description of anticipated substantial impact of the planned investment on the environment;
- description of anticipated actions aimed at prevention, reduction or natural compensation of possible negative environmental impact.

According to the Council of Ministers Regulation of 24 September 2002 (Journal of Laws from 2002 No. 179, item 1490), drawing up the environmental impact report is obligatory for investments connected with breeding animals in the amount exceeding 240 large units (LU). In some cases, the report is also required for ventures within the scope of:

- re-parcelling, exchange or parcelling of agricultural or forest land of an area not smaller than 50 ha;
- management of water resources in agriculture, including drainage, in the area not smaller than 20 ha;
- breeding animals in the amount not smaller 50 LU;
- breeding animals unfamiliar to indigenous fauna, in the amount of 4 dams or not smaller than 20 units, excluding fish and crustaceans;
- breeding fish in carp-ponds, if production exceeds 4 tons of fish from 1 ha of pond utilisable area and breeding fish in trout-ponds if production exceeds 1 t of fish at the intake of 1 l of water / 1 sec in the point of water intake.

Additionally, substantial part of the training, conducted under the relevant Measure 5.1.3 of this Programme, will be dedicated to the enhancement of the ecological consciousness among the farmers.

#### ***7.4. Socio - economic cohesion***

This Sectoral Operational Programme is planned to strengthen social cohesion by supporting rural society in terms of creating conditions for better incomes and living and working conditions as well as the promotion of rural areas.

As mentioned in point 6.4, at the level of the Programme Complement the Polish side will propose mechanisms to:

- distribute available funds to the regional level to avoid of imbalances in their absorption,
- decide via the regional governments on the proportion of funding assigned to particular measures,
- introduce certain eligibility criteria taking into account the different situations in each of the regions, especially in terms of agricultural structures.

### **7.5. Equal opportunities**

The measures of this Programme are in line with the *acquis communautaire* concerning equal opportunity and equality of men and women.

Eligibility criteria for this Programme were drafted in a manner designed not to discriminate or promote any gender. Meeting relevant requirements will decide whether or not support will be granted. This objective will also be considered during the preparation of the detailed rules for implementation. The Secretariat of the Government Plenipotentiary for Equal Status of Women and Men will be involved in consultation on the rules for implementation of the Programme to ensure that the equal status objective has been provided.

The monitoring will take into account the data showing the participation of men and women in this Programme. Participation of the representatives of both genders will be monitored within following Measures:

- *Diversification of agricultural activities and activities close to agriculture,*
- *Training,*
- *Investments in agricultural holdings,*
- *Setting up of young farmers.*

It is foreseen that, for existing structure of owners and managers of agricultural holdings, resulting from tradition, men will be dominating group among the potential beneficiaries of the Measures: *Investments in agricultural holdings* and *Setting up of young farmers*. Notwithstanding, in the case of investments consisting in farm modernisation or launching additional activity, all members of the farmer's family will benefit indirectly in result of completion of the investment which will have positive influence on the economic position of the entire family and improvement of working conditions.

The participation of women could be substantial in measures such as *Training* and *Diversification of agricultural activities and activities close to agriculture*, which is addressed to farmers' family members as well. In the case of diversification of agricultural activity and activity close to agriculture, some of the supported activities, such as farm tourism, handicrafts or small services, can be particularly attractive for women and foster their vocational activation.

The remaining measures, especially 'Development and Improvement of Technical Infrastructure in Agriculture' or 'Reparcelling' shall contribute to the improvement of living conditions and to the conducting of farm and farm related activity, as a result of which the benefits shall be shared by all the inhabitants of villages and rural areas

### **7.6. Labour policy**

Measures planned within the Programme are in line with the Community and national labour market policy.

The increase of employment is a priority for Poland. The SOP will contribute to achievement of this aim by supporting the multifunctional development of rural areas.

In fact, strengthening the competitiveness of the agricultural sector might be linked with the replacement of labour by capital. This means that „investment-oriented” measures might have a negative impact on employment. However, taking into account the existing hidden unemployment and relatively low costs of labour, it is foreseen that the envisaged

development of labour-intensive production might help to stabilise the rural labour market. Under the present circumstances, the risk of destabilising the balance of the labour market as a consequence of this Programme seems to be low and the principle of supporting better production conditions is of major interest.

#### ***7.7. CAP measures***

According to the rules of Council Regulation No 1257/1999, support under this Programme cannot cover measures supported by the other EU policies, especially those which are part of the Common Market Organisations.

In addition, according to Art. 37 of Council Regulation No1257/1999 the scope of this Programme will not concern measures to support research projects, to eradicate animal diseases and to promote agricultural products which are subject to CMO support.

## **CHAPTER 8. EX-ANTE EVALUATION OF THE SECTORAL OPERATIONAL PROGRAMME RESTRUCTURING AND MODERNIZATION OF FOOD SECTOR AND RURAL DEVELOPMENT**

The ex-ante evaluation was carried out in accordance with art. 40 and art. 41 of the Council's Regulation no. 1260/1999, and its subject were the draft of the Sectoral Operational Programme *Restructuring and modernisation of food sector and rural development* for years 2004-2006 (version dated November of 2002).

The ex-ante evaluation was performed by the group of international and Polish experts, specialising in issues relating to the agriculture and rural areas' development. Works were conducted in close co-operation with the future Managing Authority of the Community Support Framework under the Polish-French co-operation program Phare 2001 SPP PL01.01.14 (*Strengthening co-ordination and management capacities for structural funds*). A team of foreign experts was supplemented with the group of Polish experts representing various scientific centres.

The evaluation of SOP was carried out in relation to a few basic areas defined in the structural funds' regulations:

- The assessment of the internal coherence of documents, including the coherence of the diagnosis, demands and goals assigned, the coherence of priorities, implementation and financing systems;
- The evaluation of the external compliance of suggested objectives, priorities and measures with the community's policies, with national policies and the NDP strategy;
- The level, directions and concentration of expenditures suggested, including the co-financing from the domestic sources;
- The evaluation of the suggested institutional system ensuring the effective and efficient financial means' management.

Detailed results of the ex-ante evaluation are included in such documents as „The final ex-ante evaluation report referring to documents filed under the structural funds” – prepared by the group of French evaluators and the document made under the auspices of the Polish experts group chairman prof. Jerzy Wilkin - “The ex-ante evaluation of the SOP *Restructuring and modernisation of food sector and rural development*”.

Below there is a summary of ex-ante evaluation and information concerning the improvements satisfying the remarks of the evaluators.

### **The evaluation of SOP internal coherence**

#### ***1. Diagnosis, analysis of demands and objectives***

It was pointed out that diagnosis of economic, structural and production situation of the processing and agriculture is not sufficiently profound. Moreover, the priorities and the measures are not adequately resulted from the SWOT analysis. Besides, the content of SOP is not linked with other activities within the CAP (i.e. Rural Development Plan).

It was also underlined that, on the basis of analysis of the chosen objectives of the Programme, it is very difficult to find, which model of the agriculture is currently preferred, particularly when it comes to small agriculture holdings. It was also stressed that there is a need for better indication which of the farmer's groups and in which regions could take advantage in the largest extent from the support of the SPO.

The diagnosis part, the strategy and its links with other Community policies (I and II Pillar of the CAP, structural policy implemented on the basis of other than the EAGGF funds) were supplemented and improved.

Support of the development of the agriculture holdings within the Programme is concentrated on the entities which are economically viable and which are capable of executing the planned investment, which complies with the EU requirements and the derogation enshrined in the Accession Treaty. Additional impulse for the improvement of the economic and investment performance of small farms will be the introduction of support for semi-subsistence farms within the Rural Development Plan. That instrument was proposed by the EU side for new member states for the period of 5 years.

Taking into consideration planned implementation system of the SOP (which will be based on the SAPARD programme as far as division of the funds for Voivodships is concerned) it will be ensured that the funds will be channelled proportionally to all regions.

## ***2. Priorities and measures***

It was pointed out, that during the programming the sectoral approach was predominately taken while the rural development issues remained in the background. According to experts, it is necessary to define measures more explicitly, especially regarding the ultimate recipients (excessive aggregation of the beneficiaries) and the eligibility criteria. The evaluators group stated that concentration only on competitiveness issues can widen the gap among the incomes of the different groups of farms and processing plants in different regions. Experts suggested new scheme of priorities:

I – Support to competitiveness of agriculture.

II – Support to competitiveness of food sector processing and marketing.

III – Support to alternative means for agriculture and rural development.

The current version of SOP contains the proposed improvements within diagnosis and strategic part. In addition, the new Priority concerning support for rural areas was created. Under this priority there are following measures:

- diversification of agriculture activities and activities close to agriculture to provide multiple activities or alternative incomes;
- development and improvement of infrastructure related to agriculture;
- restoration forestry production potential damaged by natural disaster and fire and introducing appropriate prevention instruments
- renovation of rural areas and preservation and protection of cultural heritage.

The latter activities were supposed to be implemented in Integrated Regional Operational Programme, but taking into account possibility of better control over support from the EAGGF Fund, it was decided to transfer these measures to SOP. It should be also stressed that projected scope of implementation of the measure Renovation of rural areas and preservation and protection of cultural heritage will allow to prepare ultimate recipients and

Polish institutions to implementation of Community Initiative LEADER. The responsibility for current implementation of the measure is given to local government.

In general, the activities which are eligible for support under the EAGGF Fund – Guidance Section, the issues connected with support for rural areas have to be situated outside the presented programme. The SOP Restructuring and modernization of food sector and rural development is only one of elements which can influence the rural development. thus other instruments will be implemented in the following programmes:

- Rural Development Plan – The EAGGF- Guarantee Section;
- Integrated Regional Operational Programme, especially in the aspects of the infrastructure development in rural areas;
- activities concerning human resources development - supported under the ESF Fund, will be placed in the SOP Development of human resources and Integrated Regional Operational Programme;
- SOP Improvement of economy competitiveness.

The remarks, included in the ex-ante evaluation, regarding specification of eligibility criteria and description of the categories of ultimate recipients, will be the part of the Complement to the Programme.

### ***3. Financing***

Experts indicate that the issues connected with financial aspects of the Programme were presented only on the level of priorities, neglecting the level of the measures.

According to Council Regulation 1260/99, the operational programmes should indicate the financial allocations only on the level of priorities.

For the better management of the Programme Polish side will indicate financial allocations for each measure concerning the recommendations of local government authorities in different regions.

### ***4. Implementation***

It was pointed out that it was necessary to put a particular emphasis on the competencies and the scope of decentralisation within the institution responsible for implementation of the SOP.

The description of implementation system was improved in the current version of the SOP. Detailed issues will be included in the Complement to the Programme.

### ***5. Influence***

Experts pointed to the necessity of determination of influence of the SOP – first of all the number of farms eligible for particular measures was not assessed.

In the sixth chapter of the Programme currently assessed number of projects which could be implemented in the frames of particular measures was described, based on finally fixed (after the termination of accession negotiations) amount of funds for SOP financing, estimated division of funds between particular measures as well as assumed limits of aid amount in the frames of these measures.

## **Evaluation of the external document coherence**

### ***1. Job creation***

It was pointed out that the most important problem linked with hidden unemployment in rural areas was included in the diagnosis part but none of the measures reflects it. The above mentioned diagnosis assumes that GDP growth will allow to absorb decrease of unemployment in rural areas which will be the effect of intensification of agriculture production.

Taking into account the extent of activities supported, in accordance with Council Regulation 1257/99, by the EAGGF – Guidance Section and the range of unemployment (registered and hidden) in rural areas, it was stated that main instruments which could improve current situation were not included in the presented Programme. Moreover, it should be noticed that the impulse for transformation of agriculture area and employment structure (stressed in the SWOT analysis as the major weaknesses of agriculture sector in Poland) will be the possibility to transfer the labour force to other sectors of the economy, but it is strictly contingent on GDP growth.

It should be also emphasized that projected amount of allocations and timeframe for the implementation of the Programme will not allow to expect fundamental changes of the structure of employment in rural areas.

### ***2. Sustainable development***

It was pointed out that issues connected with sustainable development were included in the Programme but the priorities and measures did not reflect it. Evaluators stated that in the SOP the adopted issue of sustainable development was too narrow because of the negligence the social and the economic aspects of a balanced growth.

The issue of sustainable development is the introduction to the overall strategy under National Development Plan and it also exists in the other operational programmes and Rural Development Programme. That kind of approach is also visible within the presented Programme, which introduces the elements of support for economic development of agriculture and food sector, concerning the extension of agriculture activity i.e. small services, rural tourism etc. The crucial element of the Programme is support for training and agriculture extension service, which should be linked with improvement of access to expertise and information as to stimulating of economic activity among rural dwellers. Another important element of the Programme is the creation of the conditions for common activities of the rural communities for the sake of local development (measure Renovation of rural areas and preservation and protection of cultural heritage).

### ***3. Information society***

Experts pointed to the fact that issues connected with information society were not sufficiently developed. Only under the measure Diversification of agriculture activities and activities close to agriculture to provide multiple activities or alternative incomes the investments in the e-commerce issues were mentioned.

Within the measure Development and improvement of infrastructure related to agriculture which (currently included) there are activities supporting investments linked with wider

access to internet. It has to be emphasized that dissemination of information technology will be also made by supporting of purchase of modern gauging apparatus, production control equipment and software within the measures: Improvement of the processing and marketing of agriculture products and Investments in agriculture holdings. Besides, the measures of Training and Support of agriculture extension service contain the investments in modern technologies enhancing the process of creation information society.

#### ***4. Equal opportunities***

According to the group of evaluators the issues linked with equal opportunities were omitted in the SOP.

Chapter 7.5. concerning the problems of creating of equal opportunities for women and men was appropriately amended.

#### ***5. Management quality and effectiveness***

It was pointed out that the issues of management quality and effectiveness were neglected in the SOP.

Creation of relevant institutional framework and procedures is the principal element determining the implementation process of the SOP. The activities undertaken by Polish side in this respect are mainly based on the SAPARD programme experience.

### **Evaluation of the suggested financial framework**

#### ***1. Co-financing***

Evaluators are of the opinion that the level of private co-financing is overestimated – particularly as far as limited financial capacity of the farmers is concerned.

Financial framework of the Programme is based on the binding EU provisions (Council Regulations 1257/99, 1260/99). Additionally, it was properly aligned in accordance with Accession Treaty. These arrangements allow to raise the level of aid to agriculture holdings.

#### ***2. Long standing of programs***

Evaluators are not formulating recommendations in this area indicating that those questions were answered in SOP to a sufficient extent.

### **Evaluation of the implementation system**

Analysis included both the general proposal of the implementation system, as well as detailed solutions regarding the managing authority, intermediate bodies, and final beneficiaries and ultimate recipients and co-ordination mechanisms. It was stressed that in the scope of intermediate bodies the significance (i.e. public extension service) was diminished. Moreover, the experts outlined that the material was lacking a proposal of possible co-ordination of the activities supporting rural development which were placed in the different parts of the National Development Plan.

The details of the implementation system of the Programme will be described in the later stages of programming, especially during the creation of precise procedures binding the institutions which are supposed to implement the SOP.

The implementation scope of the programme does not cover the crucial system elements such as: the system of public extension service, veterinary inspection, construction inspection etc. The influence of the above mentioned bodies will be very important. However, these institutions will perform only an auxiliary role hence they are not included in the description of the institutional system in the Chapter 6.

## **CHAPTER 9. INDICATIVE FINANCIAL TABLE FOR THE SECTORAL OPERATIONAL PROGRAMME *RESTRUCTURING AND MODERNISATION OF FOOD SECTOR AND RURAL DEVELOPMENT***

Pursuant to article 29 (3) (a) of Council Regulation (EC) No. 1260/1999 Poland proposes the increased to 80 percent Community contribution with regard to some selected targeted measures of the SOP where special justification is given for the increased rate of Community intervention.

### **Training**

The average level of education of farmers in Poland is far below the level represented by workers in other sectors of the economy, especially in the urban sectors. According to 2002 Central Statistical Office data 50.2% of the persons managing the farms have no agricultural education at all (even the courses). Under new market pressures emerging after Poland's accession to the European Union, the low level of education of farmers and other individuals employed in agriculture will represent a barrier to adapting to Single Market requirements. Support for free vocational courses for farmers will be conducive to enabling them to adapt to the conditions of competition, upgrade farms, achieve economic viability and comply with standards in the area of environmental protection, production hygiene and quality, food safety and animal welfare. Especially training concerning environmental protection will be focal in the light of the EU priorities.

Support provided within the framework of *Training* corresponds to EU priorities for labour market and human resource development (life long learning), which is the base of the prosperous economy. This measure will provide equal opportunities in the field of education for men and women and reduce educational disparities between rural and urban areas by improving qualifications, knowledge and skills of agricultural population.

Training will contribute to the sustaining of employment, in rural areas. Moreover, by improving the chances of those still in agriculture, the training will prevent the exclusion of certain social group from labour market as social and geographical mobility in Poland is still weak.

Finally, financial constraints are also very important, especially the fact given the virtual impossibility to attract private funding to co-finance this measure.

### **Agriculture Advisory and Extension Service Support**

Given a poor level of farmers' education, the provision of advisory and extension is of paramount importance to Polish farmers if they are to improve their practices in line with the environmental, hygienic and economic requirements so as to ensure the best sustainable use of natural and human resources in fragile rural areas in Poland.

Tailor-made advice would allow the recipients to adjust their practices in accordance to their farm size, natural environment and, not least, local opportunities.

In addition, this measure will improve the absorption of the whole SOP, as well as the Rural Development Programme, especially its complex environmental components.

Experience shows that farmers are unable to pay for the advice due to their limited financial capacities, especially when the advice provided does not translate directly into additional profit.

### **Reparcelling**

Poland is characterised by a fragmented and dispersed agricultural land structure, especially in the South and East of the country, which result from historical causes (affranchisement), social structure (overpopulation) and inheritance system (physical division of the holding into individual plots) dating back hundreds of years. Support under the measure *Reparcelling* will improve the agrarian structure of Polish agriculture which is a very important aspect of the restructuring processes in agriculture.. For intervention will focus on areas characterised by a severely fragmented and dispersed agricultural land structure, which are located in less developed regions of Poland, aid provided under this measure will contribute to the geographical cohesion within the country. Furthermore, intervention in the field of land reparcelling corresponds to EU priorities in the area of environmental protection, the conservation of typical natural habitats and the preservation of landscape features by facilitating the implementation of environmental and soil-protection measures.

However, investments implemented under this measure are not revenue generating and have a long payback period, and hence cannot be accommodated by private owners, local government and state budgets. Considering above mentioned factors, the increased level of the Community contribution seems justified.

### **Agricultural Water Resources Management** (for basic collective water management facilities)

Water management has a particular impact on agriculture and environment. Secondly, as Poland is threatened by inundation, water management is of crucial importance for protection against flood.

Although, a significant area of farmland upon the Polish territory has no regulated water relations, which during years of unfavourable meteorological conditions, causes considerable losses, resulting from both floods as well as aridity. Furthermore, enhancement of water facilities will provide rural areas, in particular arable land, with proper protection against flood, thus aid to protect both human environment and natural habitats. The existing system of water facilities in Poland is lagging behind largely due to considerable underinvestment in the past and has to be substantially upgraded. Additional needs result from privatisation processes and division of former large state farms into smaller private entities. This calls for re-engineering of water management facilities.

However, investments in this field are expensive, and have a long investment period (typically, from 2 to 3 years). It is estimated that 2.5 million hectares of land need to have its water systems regulated. Thus necessary funds cannot be accommodated by local government and state budgets. On the other hand, the poor financial capacities of rural areas due to insufficient agricultural income and difficulties connected with attracting of private investors hinder implementation of such investments. Indeed, under these types of projects support is envisaged exclusively to installations of collective nature (such as regulatory structures, flood control structures, pipelines with a diameter of at least 0.6 m, water reservoirs, structures preventing water erosion, access roads as well as projects related to the shaping of the longitudinal and transverse cross-sections of natural watercourses) where it is impossible to attract private funding due to lack of perspectives for direct revenue. Therefore it seems justified to apply the increased level of the EU contribution, especially that the field of intervention under this measure corresponds to EU priorities in the area of environmental protection. .

### **Restoring Forestry Production Potential Damaged by Natural Disasters and/or Fire and Introducing Prevention Instruments**

Having regard to the importance of economical and environmental functions of the forests and losses caused by hurricane of July 2002, which has damaged vast forestry areas, measure directed to the damaged and potentially damaged forests and their protection should be treated as a priority, especially that forest coverage rate is lower than European average. This hurricane damaged some 33,000 hectares of forest. Damages have been the result of the force majeure which means that the current forests owners are not responsible for the losses. Intervention under this measure corresponds to EU priorities in the area of environmental protection and the conservation of typical natural habitats. This is one of the biggest forest area in Poland. These areas protect in a complex way the most precious river-basins such as: Krutynia basin, partly Pisa basin and reception basins of the following lakes: Beldanow, Nidzickie. There are also well preserved peatlands.

What is more, the above mentioned region is highly biologically diversified (13 habitats and 12 species *inter alia* otter, beaver). There still remains natural green complexes and lakes like: Warnoloty, Pogubie Wielkie. It should be underlined that part of that area is covered by the Mazurski Landscape Park with several reservations.

However, investments under this measure are not revenue generating and have a long payback period, and hence cannot be accommodated by local government, state budgets or private owners.

### **Renovation of Rural Areas and Preservation and Protection of Cultural Heritage**

Rural areas in Poland are lagging behind the urban ones in terms of human and physical capital. This is an effect of allocation of resources during the communist period, aggravated by transformation processes, which clearly have favoured urban, and especially metropolitan areas. Considerable investments are needed to contribute to the reduction of development disparities between rural and urban areas and thus improve the social, economic and spatial cohesion. This measure also corresponds to the EU priorities concerning environment and cultural heritage protection. This measure will finance only public facilities such as improvements of public space, tourist, cultural and recreation facilities as well as traditional regional rural structures.

Taking into account that intervention concerns public facilities and sites which are not eligible for investments generating any revenue, the attraction of private funds seems to be impossible. Moreover, the financial difficulties of local authorities can be important obstacle in the absorption of the structural aid. Indeed, the own revenue base of rural communities is on average up to 30 per cent lower than those in urban communities. This is the reason of desirable application of increased level of the EU financial contribution.

### **Leader+**

Support under *Leader+ Pilot Programme* is aimed at stimulation of local communities and getting them involved in the process of devising developmental concepts for the area concerned. Such impulse is very important because of the fact that social links and activities have been undermined during the previous period (before 1989). Thus the density of social institutions in rural areas should be substantially improved and the EU experience shows that the Leader is an effective tool in boosting rural communities.

However, confined financial capacities of rural communes (on average up to 30 per cent lower than the urban ones), hamper the implementation of such projects. Financial constraints are also reflected in the fact, that this measure cannot attract private funding. Indeed, support

is only envisaged to non-revenue generating actions, such as capacity building, operational activities of the LAGs, preparation of rural development strategies, training and advisory, and promotional events.

Furthermore, Local Action Groups can play important role in promotion of environmental protection standards, preventing of social exclusion and creating employment in rural areas. Finally, actions taken by local communities will contribute to the improvement of regional, national and European economic and social cohesion.

In view of the above, Poland proposes that the Community contribution to financing the measures described above be increased to 80 percent.

The contribution from the EAGGF – Guidance Section will be calculated in relation to the total public expenditure.

Indicative financial table by the priority of the Sectoral Operational Programme (commitments) in MEUR (in the prices of year 2004)

Priority/Year	Public										Private	Cohesion fund
	Total	Community contribution				Domestic public contributions						
		Total	ERDF	ESF	EAGGF	FIFG	Total	State budget	Local government budget.	Other (specify)		
<b>Priority I - Supporting of changes and adjustments in agriculture and food sector</b>	<b>1315291918</b>	<b>839189238</b>	-	-	<b>839189238</b>	-	<b>476102680</b>	<b>476102680</b>	-	-	<b>789474952</b>	-
2004	307278868	196051627	-	-	196051627	-	111227241	111227241	-	-	184437362	-
2005	439084663	280147030	-	-	280147030	-	158937633	158937633	-	-	263550880	-
2006	568928387	362990581	-	-	362990581	-	205937806	205937806	-	-	341486710	-
<b>Priority II - Sustainable development of rural areas</b>	<b>444857143</b>	<b>335500000</b>	-	-	<b>335500000</b>	-	<b>109357143</b>	<b>86857143</b>	<b>22500000</b>	-	<b>155857143</b>	-
2004	103926988	78379594	-	-	78379594	-	25547394	20290939	5256455	-	36411221	-
2005	148505919	112000143	-	-	112000143	-	36505776	28994589	7511187	-	52029628	-
2006	192424236	145120263	-	-	145120263	-	47303973	37571615	9732358	-	67416294	-
<b>Priority III</b>	<b>24000000</b>	<b>18000000</b>	-	-	<b>18000000</b>	-	<b>6000000</b>	<b>6000000</b>	-	-	-	-
Technical assistance												
2004	5606884	4205163	-	-	4205163	-	1401721	1401721	-	-	-	-
2005	8011928	6008946	-	-	6008946	-	2002982	2002982	-	-	-	-
2006	10381188	7785891	-	-	7785891	-	2595297	2595297	-	-	-	-
<b>Total SPO (Priorities in total)</b>	<b>1784149061</b>	<b>1192689238</b>	-	-	<b>1192689238</b>	-	<b>591459823</b>	<b>568959823</b>	<b>22500000</b>	-	<b>945332095</b>	-
2004	416812740	278636384			278636384		138176356	132919901	5256455		220848583	-
2005	595602510	398156119			398156119		197446391	189935204	7511187		315580508	-
2006	771733811	515896735			515896735		255837076	246104718	9732358		408903004	-
Total ERDF												
Total ESF												
Total EAGGF		1192689238			1192689238							
Total FIFG												

Deflator = 1,130288298

## ANNEX

### Annex 1

Table 1 Investments in farming, agri - food industry and agricultural services implemented under supervision of Agency of Restructuring and Modernisation of Agriculture (ARMA) in the period 1994-2001

<b>Lp.</b>	<b>Credit line</b>	<b>Number of credits</b>	<b>Amounts PLN th.</b>	<b>ARMA's aid PLN th.</b>
1.	General investments	77 797	3 435 746	982 214
2.	Sector investments	20 094	2 392 855	881 960
3.	Purchase of agricultural land	58 478	933 915	406 161
4.	Young Farmers Scheme	81 831	4 920 562	2 122 651
5.	Job creation schemes	3 491	443 739	102 107
6.	Credits for starting and increasing agricultural production	442	27 332	6 629
7.	Agricultural settlement	8	438	770
8.	Reimbursement credits to restart agricultural production after natural disasters	2 060	29 663	3 453
	<b>Total investment credits</b>	<b>244 201</b>	<b>12 187 249</b>	<b>4 551 855</b>

Source: ARMA's reports, Warsaw 2002

## Annex 2

Table 1. Phare aid to restructuring of agriculture and rural areas in Poland  
Financing Memoranda 1995-1997 in EUR ml

<b>Programmes and projects</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>Total</b>
Adjustment of agricultural legislation	0,5	0,6	1,5	2,6
Food quality control and veterinary and plant health services	1,0	1,7	2,7	5,4
Education in agriculture, research and extension services	0,5	0,855	-	1,355
Support to MARD policy and training staff on the issues of integration	0,8	1,2	0,7	2,7
Preparation of agriculture to CAP instruments	-	-	2,7	2,7
Promotion and monitoring agri-food trade as well as market information	1,2	0,7	-	1,9
Support to farmers' organisations	0,5	0,5	0,4	1,4
Land market and the establishment of land register	1,0	-	-	1,0
Development of wholesale markets	2,5	-	-	2,5
Support to marketing groups and rural cooperatives	1,5	-	-	1,5
Promotion and preparation of investment in the rural areas	0,5	1,045	-	1,545
Financial services for rural areas	1,5	-	-	1,5
TA for ensuring project durability	-	0,5	-	0,5
Monitoring, Aid coordination, Project management	1,5	0,9	-	2,4
<i>Total:</i>	<i>13,0</i>	<i>8,0</i>	<i>8,0</i>	<i>29,0</i>

*Source: Foundation of Assistance Programmes for Agriculture, Warsaw 1999.*

Table 2 - Phare 1998

No	Project title	Budget breakdown per project (MEUR)		
		Phare	Polish co-financing	Total
1.	PL9805.01 Institution Building of the Ministry of Agriculture for the Integrated Administration and Control System	2,3	0,5	2,8
2.	PL9805.02 Reform and strengthening of the veterinary administration	2,657	1,0	3,657
3.	PL9805.03 Implementation of an animals identification and registration system	2,5	2,5	5,0
	<b>Total</b>	<b>7,457</b>	<b>4,0</b>	<b>11,457</b>

Source: MARD

Table 3 - Phare 1999

No	Project title	Budget breakdown per project (MEUR)		
		Phare	Polish co-financing	Total
1	PL9906.01 Phyto-sanitary Administration for future external borders	5,5	2,12	7,62
2	PL9906.02 Veterinary administration at future external borders	8,15	6,95	15,1
3	PL9906.03 Joint Phare/EBRD dairy facility	8,0	8,0	40,0 <i>(w tym 24 - EBOR)</i>
4	PL9906.04 Preparation for the implementation of the Common Agricultural Policy.	5,9	2,4	8,3
	<b>Total</b>	<b>27,55</b>	<b>19,47</b>	<b>71,02</b>

Source: MARD

Table 4 - Phare 2000

No	Project title	Budget breakdown per project (MEUR)		
		Phare	Polish co-financing	Total
1	PL0006.01: rural development	2,0	0,83	2,83
2	PL0006.02: Institution building for agri-environment and afforestation	2,0	0,54	2,54
3	PL0006.03: Institution building for early retirement	2,0	0,6	2,6
4	PL0006.04: Veterinary system for laboratories and disease control	4,0	3,2	7,2
5	PL0006.05: Border Inspection Posts phase II	4,45	2,0	6,45
6	PL0006.06: Phytosanitary administration	4,0	0,92	4,92
7	PL0006.07: Food control administration	4,0	1,0	5,0
8	PL0006.08: CAP Common market organisations	9,55	7,55	17,1
9	PL0006.09: Preparation for selected CAP instruments	9,6	9,45	19,05
10	PL0008.03 Fisheries administration	2,0	0,7	2,7
	<b>Total</b>	<b>43,6</b>	<b>26,79</b>	<b>70,39</b>

Source: MARD

Table 5 - Phare 2001

No	Project title	Budget breakdown per project (MEUR)		
		Phare	Polish co-financing	Total
1.	PL0104.01 Fisheries market organization	3,82	1,69	5,51
2.	PL0104.02 Agricultural advisory system	4,5	0,75	5,25
3.	PL0104.03 Farm standards	2,0	0,5408	2,5408
4.	PL0104.04 Organic farming	2,5	0,6	3,1
5.	PL0104.05 Animal Feeds Control system	7,0	3,0	10,0
6.	PL0104.06 Europ classification of animal carcasses	2,0	0,671	2,671
7.	PL0104.07 Training for CAP	2,0	1,25	3,25
8.	PL0104.08 IACS and Animal I&R systems control	5,0	4,2	9,2
9.	PL0104.09 Implementation of FADN	2,1	0,7	2,8
10.	PL0104.10 Agricultural Information System	2,0	0,7	2,7
	<b>Total</b>	<b>32,92</b>	<b>14,1018</b>	<b>47,0218</b>

Source: MARD

Annex 3. The specific goals and effects of the impact of the support on the sectors concerned are the following:

#### 1. Milk processing

- The restructuring and modernisation of dairy processing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with sanitary, technological and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the conformity with sanitary and technological standards,
- the improvement in effectiveness of production process,
- guaranteed health safety of dairy products,
- modern logistics and production and distribution management control systems,
- rebuilding of warehouse facilities,
- the compliance of production with environmental protection standards,
- the concentration of raw material production, the establishment of co-operation between processing plants and raw material suppliers under cultivation contracts, strengthening the groups of raw material suppliers.

#### 2. Meat processing

- The restructuring and modernisation of slaughtering, cutting and processing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with structural and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the conformity with structural standards,
- the development of vertical integration between slaughter animal production and meat processing industries and the improvement in quality of raw material,
- the improvement of economic strength and of marketing, logistic and managerial potential of meat businesses,
- the compliance of production with environmental protection standards,
- the emergence of new meat market segments,
- the concentration of agricultural raw material production, the establishment of co-operation between processing plants and raw material suppliers under cultivation contracts, strengthening the groups of slaughter animal producers.

#### 3. Cereal processing

- The restructuring and modernisation of cereal processing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with sanitary and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the compliance of product health quality with quality standards under HACCP system,
- the compliance of production with environmental protection standards,

- the improvement in effectiveness of production process,
- the adoption of material and energy saving production technologies,
- the improvement in product distribution,
- the activation of mechanisms for marketing agricultural raw materials and the stability of supplies under cultivation contracts.

#### 4. Processing of fruit and vegetables

- The restructuring and modernisation of fruit and vegetable processing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with sanitary and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the compliance of production with quality standards under HACCP system,
- the compliance of production with environmental protection standards,
- an increase in the number of plants employing modern production technologies,
- an increase in the offer of highly processed products,
- the adoption of material and energy saving production technologies,
- the improvement in product distribution,
- the concentration of fruit and vegetable production, the establishment of co-operation between processing plants and raw material suppliers under cultivation contracts, strengthening the groups of fruit and vegetable producers.

#### 5. Processing of potatoes into starch and derivatives

- The restructuring and modernisation of potato starch production and/or processing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with sanitary and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the concentration of potato starch production,
- the compliance with environmental protection requirements,
- an increase in the offer of starch products in response to market expectations,
- the improvement in the turnover of raw materials and ready made products, the full mechanisation of warehousing processes in the area of trading, a complex computerisation of trade practices,
- the improvement in quality of raw material for processing,
- the concentration of starch potato production, the establishment of co-operation between processing plants and raw material suppliers under cultivation contracts, strengthening the groups of starch potato producers.

#### 6. Egg processing

- The restructuring and modernisation of egg processing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with sanitary, veterinary and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the compliance of product health quality with quality standards under HACCP system,
- the compliance of production with environmental protection standards,
- compliance of the production with veterinary standards,
- the reduction of production costs,
- the concentration of processing production,
- an increase in the concentration of egg sales,
- the full mechanisation of warehousing processes in the area of trading,
- the establishment of co-operation between processing plants and egg purchase and distribution businesses and raw material suppliers under cultivation contracts, strengthening the groups of egg producers.

#### 7. Hop processing

- The restructuring and modernisation of hop processing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with sanitary and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the adoption of material and energy saving production technologies,
- the compliance of production with quality standards under HACCP system,
- the compliance of production with environmental protection standards,
- the improvement in product distribution,
- the improvement in quality of agricultural raw material,
- the concentration of raw material production, the establishment of co-operation between processing plants and raw material suppliers under cultivation contracts, strengthening producer groups.

#### 8. Honey processing

- The restructuring and modernisation of honey processing and packing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with sanitary and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the compliance of production with quality standards under HACCP system,
- the compliance of production with environmental protection standards,
- the improvement in product distribution,
- the activation of mechanisms for marketing raw honey and the stability of supplies under cultivation contracts,
- the improvement in quality of raw honey material.

#### 9. Flax and hemp processing for non-nutritional purposes

- The restructuring and modernisation of plants involved in the processing of flax and hemp straw and seeds with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the adaptation of processing volumes and quality and product mix to market requirements,
- the upgrading and improvement of raw material production for processing,
- the improvement in effectiveness of flax and hemp production,
- the reduction of negative effects of processing on the environment,
- the stimulation of production initiatives in the agricultural sector,
- the emergence of alternative income sources in the agricultural sector,
- the activation of mechanisms for marketing agricultural raw materials and the stability of flax and hemp supplies under cultivation contracts,

#### 10. Meat freezing and storage

- The restructuring and modernisation of plants providing meat storage services for slaughter, cutting and processing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with structural and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- guaranteed health safety of frozen meat under HACCP system,
- the compliance with structural standards,
- the adoption of innovative technological solutions,
- the reduction of refrigeration and storage costs,
- the adoption of new technologies for packing stored products,
- the compliance of production process with environmental protection standards,
- ensuring technological continuity in the meat processing industry through the adoption of modern technologies for meat preservation.

#### 11. Wholesale markets

- The modernisation of wholesale market infrastructure and the rationalisation of distribution channels for agri-food products with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in the quality and scale of distribution, the cost reduction and the compliance with sanitary, veterinary and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the adaptation of wholesale market infrastructure to wholesale trading in agri-food products complying with market requirements regarding their volumes, quality, packaging and offer types,
- the achievement of a high organisational and technical standard of wholesale market infrastructure, providing a basis for comprehensive performance of statutory tasks,
- the assumption of an active role in trade in agri-food products through providing producer groups and non-associated producers with agricultural product processing services,
- the purchase of agri-food products contracted by wholesale market companies and subsequently processing and adapting such products to the requirements posed by internal and export markets,

- an increase in the income of agricultural producers, both those organised in groups and individual ones, due to the improvement of their market offer, better marketing opportunities and the prices of regional agricultural products,
- securing food safety in the foodstuff chain.

## 12. Egg packing

- The restructuring and modernisation of egg packing plants with a view to adapting them to Single Market conditions through improving their competitiveness, conditioned by an increase in production quality, the scale and profile of production, the cost reduction and the compliance with veterinary, sanitary and environmental protection standards.

The implementation of these goals will be conducive to the achievement of the following deliverables:

- the reduction of production costs,
- the compliance of product health quality with quality standards under HACCP system,
- the compliance of production with environmental protection standards,
- the concentration of processing production,
- an increase in the concentration of egg sales,
- the full mechanisation of warehousing processes in the area of trading,
- the establishment of co-operation between processing, purchase and distribution plants and raw material suppliers under cultivation contracts, strengthening the groups of egg producers.

Annex 4. Monitoring indicators at the priority level

Indicator	Values in base year	Base period	Source of data
<b>Priority I Supporting of changes and adjustments in agricultural and food sector</b>			
Dynamics of the production of agricultural products (in fixed prices, previous year=100)		2001 year	„Agriculture in the year 2001” Central Statistical Office
plant production	102,5		
animal production	108,6		
Average monthly income in households per person in PLN		2001 year	„Budgets of households in the year 2001” Central Statistical Office
Farmer households	497,54		
Worker households	683,07		
Number of individual agricultural holdings	1842,1	2000 year	„The characteristics of agricultural holdings in the year 2000” Central Statistical Office
Dynamics of the sold production of agri-food sector (in fixed prices, previous year=100)	101,3	2000 year	Statistical year-book 2001
<b>Priority II Sustainable development of rural areas</b>			
Average monthly income in households per person in PLN		2001 year	„Budgets of households in the year 2001” Central Statistical Office
Farmer households	497,54		
Worker households	683,07		
Level of unemployment in rural areas	17,2 %	III quarter of. 2002 year	Statistical Bulletin No 10/2002 Central Statistical Office

Annex 5. The compliance of Rural Development Plan instruments.

Instruments	Compliance with major objectives
1. Support for agri-environmental programmes	<p>Preservation of the landscape and natural environment in rural areas contributes to the maintenance of the <b>multifunctional character of agriculture</b> leading to the <b>sustainable development of agriculture and rural areas</b>.</p> <p>The natural landscape promotes rural areas and ensures <b>additional income to farms</b> in turn for environmental services, contributing directly to the <b>development and the improvement of living conditions and the economic and social functions of rural areas</b>. Therefore, measures implemented under this priority (under agri-environment) have a decisive significance for shaping an ecological, spatial, social and economic order of the country. Agri-environmental programmes are designed to support agricultural production methods compatible with the principles of environmental protection. In particular, they aim to promote sustainable agricultural production, maintain the countryside, improve the landscape, and provide incentives for the implementation of biodiversity. They are also consistent with objectives defined in <i>The National Strategy for the Protection and Sustainable Use of Biodiversity</i> (Ministry of the Environment, 2002).</p>
2. Early retirement	<p>The main objective of the early retirement system is to accelerate the replacement of farming generations and to improve the profitability of agricultural holdings. This instrument has also an important social impact: ensuring income for elderly farmers. Support to early retirement will improve the effectiveness of the agrarian structure as the farms will be taken over by persons who are professionally well trained, thus contributing to an enhancement of <b>farm competitiveness</b>.</p>
3. Support for LFA – less favoured areas and areas with environmental restrictions	<p>General objective of this measure is to prevent the depopulation of large sections of rural areas (less-favoured areas-LFA), maintaining their viability and counteracting the ecological degradation of agricultural land, particularly in the mountainous and upland areas and in the eastern and north-western parts of Poland. It would also contribute significantly for improvement of social and economical cohesion of the regional development in Poland.</p> <p>Support for LFA will facilitate the modernisation of agricultural holdings, since support for investments undertaken by farmers in less-favoured areas will be 10 per cent higher than normal, while young farmers taking over agricultural holdings will be entitled to an additional 5 per cent of financial support. By demanding the application of usual good farming practices, the instrument in question will also promote ecological awareness.</p>
4. Afforestation of agricultural land	<p>Farmland afforestation is essential particularly in terms of land use and environmental protection. It is geared to exclude poor soils from agricultural production, counteracting soil degradation thus improving the effectiveness of agrarian structure, <b>ensuring additional income</b> to farms, and hence <b>contributing to the enhancement of farm competitiveness and the improvement of living conditions and the development of rural areas</b>. A basis for planning activities in this area is the National Woodland Extension Plan adopted by the Council of Ministers in 1995 and modified in 2003.</p>

<p>5. Support for semi-subsistence farms</p>	<p>.Support for semi-subsistence farms aims at provision of financial aid for low-output and low-income agricultural holdings (not meeting viability criteria) in order to facilitate cash flow. In particular, it will be targeted at those holdings that risk losing financial liquidity and diminished income as a result of investments undertaken, even if these are small-scale investments. The beneficiary may be the owner of an agricultural holding classified as a semi-subsistence farm and likely to fulfil the viability criteria in future It offers farm modernisation opportunities and hence <b>improvement of their profitability</b>.</p> <p>This instrument allows the <b>enlargement of the market-oriented group of farms</b>.</p> <p>Semi-subsistence farm support will contribute to the <b>improvement of the living conditions and the development of rural areas and will significantly reduce rural unemployment</b>.</p>
<p>6. <u>Support for agricultural producers' groups and their associations</u></p>	<p>The main objective of that instrument is to support a process of consolidation under producers' groups and theirs' organisation, and achievement of improvement of agricultural products markets' organisation (as a result of enlarged power within those presenting supply, better adjustment of offer, quality and number of products to the market needs and increase of producers' responsibility for theirs production-linked decisions). Support is provided to producer groups established in order to jointly adjust production standards and to establish a system of joint sales of products.</p>
<p>7. Support for adjustment of agricultural holdings to the EU standards.</p>	<p>A statistical data analysis points out that agricultural holdings may be a source of threat to the environment. Rural households are equipped in wastewater facilities more rarely than those in town. Only one per three holdings is using legal waste dumps. Agricultural holdings are also a source of pollution coming from burning coke. It occurs that some production and service sites/facilities, dangerous for the environment, are located in the countryside. Additional pressure is created by housing and summer houses in protected areas, or areas that shall be protected. More dense net of roads and increased communication and transport has a negative impact on agricultural land, even by lowering the quality and quantity of agricultural products. The level of environmental standards, hygiene and animal welfare, if we take the standards hitherto obligatory in Poland as a basis for comparison, is higher in the EU. The adjustment to these more stringent standards means that the modernisation of production means in agricultural holdings, equipping them with new technology, and increasing expenditures in order to ensure proper sanitary standards in agricultural production, are necessary. These are expensive processes, particularly taking the difficult financial situation of agricultural holdings into account. This is why support under the instrument "Support for the Adjustment of Agricultural Holdings to EU Standards" will be an opportunity for those holdings.</p>

Annex 6. List of meetings, conferences and seminars devoted to the SOP:

1. *Conference starting the consultation process.*

**23.07.2002** – a meeting in order to sum up the work on the first version of the SOP *Restructuring and Modernisation of the Food Sector and Rural Development*. Representatives of the Ministry of Agriculture and Rural Development, a representative of the EU Representation in Warsaw, evaluators preparing the *ex-ante* evaluation and representatives of scientific institutes took part in the meeting. Altogether 30 persons attended.

The aim of the conference was the collection of views concerning the first version of the Sectoral Operational Programme. Several comments were voiced during the meeting, which were taken into account during further work. The comments related primarily to:

- lack of cohesion in the presented document – with regard to objectives, clearly distinguished priorities and costs;
- lacking analysis of regional differences;
- lacking analysis of accession's impact on the agricultural sector and the situation in rural areas;
- not enough attention was paid to the problem of unemployment in rural areas.

2. *Meeting for directors of Voivodeship Offices for the Implementation of Rural Area Activation Programme.*

**26.08.2002** – the assumptions of the SOP *Restructuring and Modernisation of the Food Sector and Rural Development* were presented and the system for implementing the measures of the programme was discussed. The meeting took place in Przysiek, 35 persons attended.

3. *Seminar regarding rural area development.*

**5.10.2002** — the assumptions of the SOP *Restructuring and Modernisation of the Food Sector and Rural Development* were presented in the context of environmental threats during a seminar organised by the IUCN with the participation of non-governmental organisations that engage in environmental protection activities. The seminar took place in Warsaw, 35 persons attended.

4. *Meeting devoted to current work on the Sectoral Operational Programme.*

**22.10.2002** – a meeting with deputy voivodes and directors from the MARD, FAPA and ARMA, devoted to issues related to the SOP *Restructuring and Modernisation of the Food Sector and Rural Development*. The meeting took place at the MARD, 38 persons attended.

5. *Consultation conference of the SOP Restructuring and Modernisation of the Food Sector and Rural Development.*

**28.10.2002** – a meeting devoted to the SOP *Restructuring and Modernisation of the Food Sector and Rural Development* and the Rural Development Plan, attended by 75 persons representing social, professional, industry and local government bodies. The meeting took place at the Ministry of Agriculture and Rural Development.

The results of the conference included comments offered before and after the meeting; they were taken into account during further work on the operational programme draft.

6. *Conference entitled “Municipal Infrastructure Projects Financed from EU Funds – the Example of Ireland.”*

**4.11.2002** – the assumptions of the SOP *Restructuring and Modernisation of the Food Sector and Rural Development* were presented. The meeting was attended by 88 persons who represented Offices of the Marshal, Voivodeship Offices, Agricultural Advisory Centres and the Union of Rural Communes of the Republic of Poland.

7. *Meeting devoted to research, development and new technologies in agri-food industry.*

**21-22.11.2002** – a meeting devoted to the discussion of current scientific issues, food safety research and the subject of reference labs with regard to agriculture and agricultural markets.

The presentation of assumptions and a discussion concerning the participation of employees of scientific institutes in further work on the SOP *Restructuring and Modernisation of the Food Sector and Rural Development*. The meeting took place in Puławy and was attended by around 40 persons (employees of scientific institutes and MARD representatives).

8. *Conference entitled “Agriculture and Nature – Limitations and Benefits for Farmers.”*

**26-27.11.2002** – the assumptions of the SOP *Restructuring and Modernisation of the Food Sector and Rural Development* were presented. The meeting was attended by representatives of the Ministry of Agriculture and Rural Development, the Office of the Marshal, Voivodeship Office and Chambers of Agriculture.

The conference took place in Olsztyn, around 200 persons attended.

9. *Presentation of a draft of the SOP Restructuring and Modernisation of the Food Sector and Rural Development.*

**28.11.2002** – the meeting was attended by around 70 persons, including representatives of the Ministry of Agriculture and Rural Development, members of Chambers of Commerce belonging to the Polish Chamber of Commerce (PCC) and members of other industry organisations operating within the food sector.

10. *Presentation of provisions of a draft of the First Sectoral Operational Programme Restructuring and Modernisation... and of the Programme Complement.*

**April-May and June 2003** – as part of the information and consultation campaign concerning the National Development Plan 2004-2006 organised by the Ministry of Economy, Labour and Social Policy in individual voivodeships, the Department of Rural Development of the MARD participated in the presentation of the provisions of the First Sectoral Operational Programme *Restructuring and Modernisation... and of the Programme Complement*.

11. *Consultations regarding the Sectoral Operational Programme and Programme Complement – measure descriptions.*

**25.03.2003** – the Department of Rural Development of the MARD, as part of the ongoing SOP and Programme Complement consultations with regard to measure descriptions, asked various recipients in writing for comments and remarks concerning the abovementioned documents. Numerous comments and suggestions were offered concerning amendments to the Programme by: Marshals of Voivodeships, Voivodes, Presidents of Chambers of Agriculture, Directors of National Agriculture and Rural Development Advisory Centres, Directors of Regional Agriculture and Rural Development Advisory Centres, Directors of Voivodeship Agricultural Advisory Centres and Directors of Agricultural Advisory Centres.

#### *12. Information seminars.*

**February-May 2003** – as part of the referendum campaign, the MARD organised information seminars, during which the SOP was presented. The seminars were attended by representatives of municipalities, powiats and non-governmental organisations, including those engage in environmental protection activities, as well as agricultural organisations and associations. During the meetings the participants could discuss and offer suggestions and comments regarding the documents presented.

#### *13. Framework Programme of Information and Consultation Meetings.*

**July-August 2003** – the Department of Rural Development of the MARD initiated the Framework Programme of Information and Consultation Meetings, which were organised in all voivodeships. The goal of those meetings was the discussion of individual measures of the first draft of the SOP *Restructuring...* and of the Programme Complement, particularly those measures that provoked the most questions from potential beneficiaries. The target groups of the meetings were representatives of central government authorities, local government authorities, Chambers of Agriculture, social and economic organisations, non-governmental organisations, including those engage in environmental protection activities, Agricultural Advisory Centres, schools and agricultural universities as well as the local media. Information materials concerning the SOP were distributed during the meetings.

#### *14. Consultations with the European Commission.*

**February 2003** – the first draft of the SOP formally submitted to the European Commission.

**April 2003** – the SOP Complement formally submitted to the European Commission.

**28.07.2003** – the Polish authorities received official comments of the European Commission regarding the SOP.

Working consultations with the European Commission (DG AGRI) followed.

**7.11.2003** – As a result of working arrangements between the MARD and DG AGRI, the second version of the SOP was prepared and formally submitted to the European Commission.

#### *15. Publishing the Programme on a website.*

The next step of the consultation process was the publication of the Programme on the MARD website; this fact was announced in the press, which allowed other organisations

(not on the list included in Annex No. 6) to acquaint themselves with the Programme and offer comments regarding its contents.

List of social and professional organisations that participated in the consultation process regarding the SOP *Restructuring and Modernisation of the Food Sector and Rural Development*.

No.	ORGANISATION NAME	ADDRESS
<b>Advisory organisations</b>		
1.	Krajowe Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich w Brwinowie	ul. Pszczelińska 99 05-840 Brwinów
2.	Krajowe Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich Oddział w Poznaniu	ul. Winogrody 63 61-659 Poznań
3.	Krajowe Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich Oddział w Krakowie	ul. Meiselsa 1 31-063 Kraków
4.	Regionalne Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich w Baszkowicach	73-134 Baszkowice
5.	Regionalne Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich w Częstochowie	ul. S. Wyszyńskiego 70/126 42-200 Częstochowa
6.	Regionalne Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich „Poświętne”	ul. Sienkiewicza 11 09-100 Płońsk
7.	Regionalne Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich w Przysieku	87-134 Zławieś Wielka
8.	Regionalne Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich w Radomiu	ul. Chrzanowska 16/18 26-600 Radom
9.	Regionalne Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich w Starym Polu	ul. Marynarki Wojennej 21 82-220 Stare Pole
10.	Regionalne Centrum Doradztwa Rozwoju Rolnictwa i Obszarów Wiejskich we Wrocławiu	ul. Zwycięska 12 53-033 Wrocław
11.	Dolnośląski Wojewódzki Ośrodek Doradztwa Rolniczego z s. w Świdnicy	ul. Wałbrzyska 25/27 58-100 Świdnica
12.	Ośrodek Doradztwa Rolniczego w Minikowie	89-122 Minikowo
13.	Ośrodek Doradztwa Rolniczego w Zarzeczewie	ul. Nizinna 9 87-801 Włocławek
14.	Wojewódzki Ośrodek Doradztwa Rolniczego w Lublinie z s. w Końskowoli	ul. Pomowska 8 24-130 Końskowola
15.	Ośrodek Doradztwa Rolniczego w Kalsku	Kalsk 91 66-100 Sulechów
16.	Ośrodek Doradztwa Rolniczego w Lubniewicach	ul. Osadników Wojskowych 25 69-210 Lubniewice
17.	Wojewódzki Ośrodek Doradztwa Rolniczego w Bartoszewicach	ul. Nowości 32 95-011 Bartoszewice
18.	Ośrodek Doradztwa Rolniczego w Krakowie z s. w Karniowicach	Karniowice 32-082 Polechowice
19.	Wojewódzki Ośrodek Doradztwa Rolniczego w Warszawie	ul. Ksawerów 8 02-656 Warszawa

20.	Wojewódzki Ośrodek Doradztwa Rolniczego w Łosiuwie	ul. Główna 1 49-330 Łosiów
21.	Wojewódzki Ośrodek Doradztwa Rolniczego w Boguchwale	ul. Tkaczowi 146 36-140 Boguchwała
22.	Wojewódzki Podlaski Ośrodek Doradztwa Rolniczego w Trzepietowie	18-210 Trzepietowo
23.	Wojewódzki Ośrodek Doradztwa Rolniczego w Gdańsku	ul. Św. Wojciech 293 80-001 Gdańsk
24.	Ośrodek Doradztwa Rolniczego w Bielsku - Białej	ul. Spiechowicza 24 43-300 Bielsko – Biała
25.	Wojewódzki Ośrodek Doradztwa Rolniczego w Modliszewicach	ul. Piotrkowska 30 26-200 Końskie
26.	Wojewódzki Ośrodek Doradztwa Rolniczego w Olsztynie	ul. Jagiellońska 91 10-356 Olsztyn
27.	Wielkopolski Ośrodek Doradztwa Rolniczego w Poznaniu	ul. Sieradzka 29 60-163 Poznań
28.	Ośrodek Doradztwa Rolniczego w Koszalinie	ul. Wł. Andersa 34 75-626 Koszalin
<b>Agricultural associations, societies and organisations</b>		
29.	Dolnośląska Izba Rolnicza	ul. Zwycięska 10 55-033 Wrocław
30.	Kujawsko – Pomorska Izba Rolnicza	87-134 Zławieś Wielka
31.	Lubelska Izba Rolnicza	ul. Pogodna 50a/2 20-337 Lublin
32.	Lubuska Izba Rolnicza	ul. Kożuchowska 15a 65-364 Zielona Góra
33.	Izba Rolnicza województwa Łódzkiego	ul. Duńska 1 91-204 Łódź
34.	Małopolska Izba Rolnicza	ul. Stefana Batorego 2 31-153 Kraków
35.	Mazowiecka Izba Rolnicza	ul. Żółkiewskiego 17 05-075 Wesoła
36.	Izba Rolnicza w Opolu	ul. Wrocławska 170 45-836 Opole
37.	Podkarpacka Izba Rolnicza	ul. Tkaczowa 146 36-040 Boguchwała
38.	Podlaska Izba Rolnicza	ul. 27 lipca 80 15-182 Białystok
39.	Pomorska Izba Rolnicza	ul. Powstańców Warszawy 28 83-000 Pruszcz Gdański
40.	Śląska Izba Rolnicza	ul. Grabowa 3 40-172 Katowice
41.	Świętokrzyska Izba Rolnicza	ul. IX wieków Kielce 3 25-516 Kielce
42.	Warmińsko – Mazurska Izba Rolnicza	ul. Partyzantów 24 10-526 Olsztyn
43.	Wielkopolska Izba Rolnicza	ul. Gołęcińska 9 60-626 Poznań

44.	Zachodniopomorska Izba Rolnicza	ul. A. Mickiewicza 41 78-383 Szczecin
45.	Federacja Związków Producentów Rolnych	ul. Wspólna 30 00-930 Warszawa
46.	Federacja Związków Pracodawców-Dzierżawców i Właścicieli Rolnych	ul. Wspólna 30 00-930 Warszawa
47.	Krajowa Rada Drobiarstwa- Izba Gospodarcza w Warszawie	ul. Czackiego 3/5 00-043 Warszawa
48.	Krajowa Rada Izb Rolniczych	ul. Wspólna 30 00-930 Warszawa
49.	Krajowa Rada Spółdzielcza	ul. Jasna 1 00-950 Warszawa
50.	Krajowe Stowarzyszenie Mleczarzy	ul. Hoża 66/68 00-682 Warszawa
51.	Krajowy Związek Rolników, Kółek i Organizacji Rolniczych	ul. Szkolna 2/4 00-006 Warszawa
52.	Krajowy Związek Spółdzielni Mleczarskich Związek Rewizyjny	ul. Hoża 66/68 00-950 Warszawa
53.	Polska Federacja Hodowców Bydła Mlecznego	ul. Sokołowska 3 01-142 Warszawa
54.	Polska Federacja Producentów Żywności	ul. Nowowiejska 1/3 lok. 17 00-643 Warszawa, tel. 825 02 17
55.	Stowarzyszenie Rzeźników i Wędliniarzy Rzeczypospolitej Polskiej	ul. Miodowa 14 00-246 Warszawa
56.	Związek Prywatnych Przetwórców Mleka	ul. Wspólna 30 Warszawa
<b>Non-governmental organisations</b>		
57.	Fundacja Edukacja dla Demokracji	ul. Podhale 5/30 00-252 Warszawa
58.	Fundacja Wspomagania Wsi	ul. Obozowa 20 01-161 Warszawa
59.	Komisja Krajowa NSZZ „Solidarność”	Pl. Czerwony 1/3/5 53-661 Wrocław
60.	Narodowa Fundacja Ochrony Środowiska	ul. Ciołka 13 01-445 Warszawa
61.	Niezależny Samorządny Związek Zawodowy Rolników Indywidualnych „Solidarność”	Pl. Dąbrowskiego 3 00-057 Warszawa
62.	Ogólnopolskie Porozumienie Związków Zawodowych	ul. Kopernika 36/40 Warszawa
63.	Lubuski Klub Przyrodników	ul. 1 Maja 22 66-200 Świebodzin
64.	Ogólnopolskie Towarzystwo Ochrony Ptaków	ul. Hallera 4/2 80-958 Gdańsk
65.	Polski Klub Ekologiczny „Koalicja na Rzecz Rozwoju Rolnictwa Ekologicznego”	05-400 Otwock skr. poczt. nr 8
66.	Polski Związek Producentów Eksporterów i	ul. Chałubińskiego 8

	Importerów Mięsa	00-613 Warszawa
67.	Polskie Towarzystwo Ochrony Przyrody „SALAMANDRA”	ul. Szamarzewskiego 11/6 60-514 Poznań
68.	Polskie Towarzystwo Przyjaciół Przyrody „PRO NATURA”	ul. Podwale 75 50-449 Wrocław
69.	Rada Gospodarki Żywnościowej	ul. Czackiego 3/5 00 – 043 Warszawa
70.	Związek Zawodowy Centrum Narodowe Młodych Rolników	ul. Nowy Świat 18/20 00-920 Warszawa
71.	Związek Zawodowy Pracowników Rolnictwa w RP, Zarząd Główny	ul. Jaracza 3/10 00-959 Warszawa
72.	Związek Zawodowy Rolnictwa „Samoobrona”	ul. Marszałkowska 84/92 lok. 121 00-514 Warszawa
<b>Scientific institutes</b>		
73.	Instytut na Rzecz Ekorozwoju	ul. Nabelaka 15/1 00-743 Warszawa
74.	Instytut Uprawy Nawożenia i Gleboznawstwa w Puławach	ul. Czartoryskich 8 24-100 Puławy
75.	Instytut Ekonomiki Rolnictwa i Gospodarki Żywnościowej	ul. Świętokrzyska 20 00-950 Warszawa 1 skr. Pocz. 984
<b>Offices of the Marshal</b>		
76.	Urząd Marszałkowski Województwa Dolnośląskiego	ul. Wyb. Słowackiego 12/14 50-411 Wrocław
77.	Urząd Marszałkowski Województwa Kujawsko - Pomorskiego	Plac Teatralny 2 87-100 Toruń
78.	Urząd Marszałkowski Województwa Lubelskiego	ul. Spokojna 4 20-074 Lublin
79.	Urząd Marszałkowski Województwa Lubuskiego	ul. Podgórna 7 65-057 Zielona Góra
80.	Urząd Marszałkowski Województwa Łódzkiego	ul. Sienkiewicza 3 90-113 Łódź
81.	Urząd Marszałkowski Województwa Małopolskiego	ul. Basztowa 22 31-156 Kraków
82.	Urząd Marszałkowski Województwa Mazowieckiego	ul. Brechta 3 03-472 Warszawa
83.	Urząd Marszałkowski Województwa Opolskiego	ul. Piastowska 14 45-082 Opole
84.	Urząd Marszałkowski Województwa Podkarpackiego	ul. Grunwaldzka 15 35-959 Rzeszów
85.	Urząd Marszałkowski Województwa Podlaskiego	ul. Legionowa 28 15-281 Białystok
86.	Urząd Marszałkowski Województwa Pomorskiego	ul. Okopowa 21/27 80-810 Gdańsk
87.	Urząd Marszałkowski Województwa Śląskiego	ul. Ligonia 46 40-037 Katowice
88.	Urząd Marszałkowski Województwa Świętokrzyskiego	Aleja IX wieków Kielc 3

		25-516 Kielce
89.	Urząd Marszałkowski Województwa Warmińsko - Mazurskiego	ul. Piłsudskiego 7/9 10-950 Olsztyn
90.	Urząd Marszałkowski Województwa Wielkopolskiego	Al. Niepodległości 15 61-713 Poznań
91.	Urząd Marszałkowski Województwa Zachodniopomorskiego	ul. Korsarzy 34 70-540 Szczecin
<b>Voivodeship Offices</b>		
92.	Dolnośląski Urząd Wojewódzki we Wrocławiu	pl. Powstańców Warszawy 1 50-951 Wrocław
93.	Kujawsko - Pomorski Urząd Wojewódzki	ul. Jagiellońska 3 85-950 Bydgoszcz
94.	Lubelski Urząd Wojewódzki w Lublinie	ul. Spokojna 4 20-914 Lublin
95.	Lubuski Urząd Wojewódzki w Gorzowie Wielkopolskim	ul. Jagiellończyka 8 66-400 Gorzów Wlkp.
96.	Łódzki Urząd Wojewódzki w Łodzi	ul. Piotrkowska 104 90-926 Łódź
97.	Małopolski Urząd Wojewódzki w Krakowie	ul. Basztowa 22 31-156 Kraków
98.	Mazowiecki Urząd Wojewódzki w Warszawie	Pl. Bankowy 3/5 00-950 Warszawa
99.	Opolski Urząd Wojewódzki w Opolu	ul. Piastowska 14 45-082 Opole
100.	Podlaski Urząd Wojewódzki w Białymstoku	ul. Mickiewicza 3 15-213 Białystok
101.	Podkarpacki Urząd Wojewódzki w Rzeszowie	ul. Grunwaldzka 15 35-959 Rzeszów
102.	Pomorski Urząd Wojewódzki w Gdańsku	ul. Okopowa 21/27 80-810 Gdańsk
103.	Śląski Urząd Wojewódzki w Katowicach	ul. Jagiellońska 25 40-032 Katowice
104.	Świętokrzyski Urząd Wojewódzki w Kielcach	Al. IX wieków Kielc 3 25-516 Kielce
105.	Warmińsko-Mazurski Urząd Wojewódzki w Olsztynie	al. J. Piłsudskiego 7/9 10-575 Olsztyn
106.	Wielkopolski Urząd Wojewódzki w Poznaniu	al. Niepodległości 16/18 61-713 Poznań
107.	Zachodniopomorski Urząd Wojewódzki w Szczecinie	Wały Chrobrego 4 70-502 Szczecin

## Annex 7. Fixing economic viability of the agricultural holding

Economic viability of the holding is determined on the basis of its economic size, which is assessed on the basis of a calculation of the standard gross margin (SGM).

Standard gross margins are fixed for particular agricultural activities using statistical data and results from surveys of agricultural holdings. In Poland the standard gross margins are calculated for each of four macro-regions over a period of three succeeding years. The methodology of fixing the SGMs has been established in Commission Decision 85/377 with amendments.

Standard Gross Margin is calculated separately for each of the agricultural activities. It represents the difference between the average value of gross production and the average value of the cost of that production.

The total value of SGM for a given holding is calculated on the basis of the SGM coefficients measured for particular activities. It is the sum of the values obtained for each activity by multiplying the size of a particular activity (the area of crops expressed in hectares, the number of animals) by the corresponding SGM coefficients.

The economic size of the holding is expressed in terms of ESU (European Size Units). It is obtained by dividing the total standard gross margin of the holding by the current value of 1 ESU. The value of 1 ESU is fixed by the European Commission and at the present time (in 2004) it amounts 1200 euro.