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## The response of farmers to SAPARD in the Lodz region

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### Abstract

The paper aims to improve our knowledge about the response of farmers to a new instrument of the rural development policy in the Lodz region in Poland. It seeks to explore the characteristic features of the agricultural holdings and their owners applying for public financial support in the framework of an EU pre-accession fund. The analysis might be useful from the point of view of evaluating the Special Accession Programme for Agriculture and Rural Development (SAPARD).

The paper departs from an in-depth analysis of the process of implementing SAPARD in Poland. The actual number of applications in each scheme across the regions will be compared to the initial assumptions. Considerable discrepancies among different regions regarding the number of applications lend to numerous explanations, some of which will be proposed in the paper.

Furthermore, the characteristics of farmers applying for SAPARD funds in the Lodz voivodship will be presented in detail. Close co-operation with the SAPARD Agency Regional Office has been established in order to collect and analyse invaluable original data, which include: the types and costs of the investments submitted for co-financing, the beneficiaries' profile, based on their age, gender, level and type of education as well as the size of and employment in their agricultural holdings. The research concerns 42 SAPARD applications submitted by farmers in the Lodz region during the first year of the programme implementation, i.e. since 17 July 2002. The data included in the application forms served as a basis for calculating descriptive statistical indices, which in turn, wherever possible, were compared with the relevant data for the entire farming population in the Lodz region. Therefore, the paper attempts to show who applies for SAPARD, and (implicite) who does not apply. This type of information seems crucial in assessing the correctness of the assumptions included in the SAPARD Operational Programme.

Finally, certain hypotheses will be formulated regarding the lower than expected take-up of SAPARD by farmers, which aggravates the chances of the Polish agri-food sector to compete effectively within the Single European Market after the accession of Poland to the European Union in 2004.

**Keywords:** SAPARD, investments in agricultural holdings, farmers' response, entrepreneurship, competitiveness, European Union enlargement

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## Introduction

One of the most fundamental barriers to the modernisation of the Polish agri-food sector is the shortage of capital, which could serve to finance investments, although in certain branches of the food-processing industry Foreign Direct Investments have played a positive role in this regard (Senior Nello 2002, p. 12-13). The key to success lies in the adoption of a strategic approach, the condition sine qua non of which is the availability of capital to make the necessary investments. The SAPARD programme attempts to provide a solution. Indirectly, it encourages the beneficiaries to create marketing strategies, which are invaluable as far as raising their competitiveness is concerned, especially taking into consideration the fact that mass production too often tends to prevail over targeting specific market segments (Viaene, Gellynck 1999, p. 126). The competitiveness should be understood as a sustainable ability to generate profits and to maintain one's position on the market (Martin, Westgren, Duren 1991, p. 1456-1464).

In the analysis of the investments generated with the aid of the SAPARD fund, we should bear in mind that the investment decisions depend on numerous factors, many of which are independent of the programme, like the current and expected macroeconomic situation and legal environment as well as the costs of bank loans and opportunity costs of investing the capital elsewhere e.g. in state obligations. The choice of an optimum business investment strategy depends not only on the goal of minimising transaction costs but also on approaches to manage risk and flexibility as suggested by real options theory as well as critical strategic objectives (i.e. exploration of new technologies and partners, exploitation of technological rents through market power, pre-emption and retaliation) (Pena 1999). It is worth noting that the EU aid programmes do not replace national policies, but only complement them. Specialists in the field of food-processing industry point out that the state should consider its engagement in the following domains: food aid programmes for the poorest strata of the society, promotion of Polish food abroad, better enforcement of existing regulations, increasing their flexibility, spreading information about the available opportunities (Urban 2002, p. 3-12). Furthermore, it ought to be emphasised that the policy of stimulating rural development should have a much broader scope than SAPARD measures which are being implemented in Poland. Many authors underline that the sectoral approach of supporting the agri-food system should be replaced by a horizontal, territorial-based policy of stimulating rural entrepreneurship (Kulawczuk 1995, p. 34-71; Bryden, Hart 2001; Leon 2000, p. 99-104). It is endorsed under SAPARD Measure 4 (Diversification of economic activities in the rural areas), which started to be implemented with an enormous delay

## The SAPARD implementation process

SAPARD applications started to be received by the responsible agency on 17 July 2002. Only farmers may submit their projects uninterruptedly, whereas the food-processing enterprises and the local authorities have had several periods during which they could apply. Until 30 May 2003, 4007 applications were deposited, with a majority of local infrastructure projects. The interest on the part of food-processing enterprises and farmers was lower than expected, though the trend is positive, possibly due to demonstration effects and information campaigns. Below are presented in a synthetic way the statistical analyses of the most important data on the implementation process among farmers.

**Table 1: SAPARD applications submitted by Polish farmers by the branch of activity**

Region	Index	Measure 2 applications submitted until 30 May 2003						
		Milk	Animals for slaughter				Agricul- tural diversifi- cation	Total
			Cattle	Sheep	Pigs and poultry	Subtotal		
Lodz	Sum	14	0	1	5	6	84	104
	Structure of the requested amount of money (%)	21.89	x	x	x	8.13	69.97	100.00
All 16 Polish regions	Sum	169	6	8	72	86	1401	1656
	Structure (%)	10.21	0.36	0.48	4.35	5.19	84.60	100.00
	Expected funds allocation (%)	55-65	x	x	x	25-35	5-10	100
	Average	10.562	0.375	0.5	4.5	5.375	87.562	103.5
	Median	5.5	0	0	4	5	62	94.5
	Standard deviation	18.155	0.719	1.095	3.307	3.403	69.712	72.336
	Minimum	0	0	0	1	1	19	24
Maximum	76	2	4	15	16	262	279	

Note: no data were available on the demanded sums of money by the branch of activity in Poland, the data for the Lodz region were collected by the Author on the basis of 42 applications submitted by farmers.

Source: own calculations on the basis of: Ministry of Agriculture 2003; Ministry of Agriculture 2002, p. 94; own research in the Regional Branch of the Agriculture Restructuring and Modernising Agency in Lodz.

It is worth noting that while the structure of the applications submitted by the food-processing enterprises is roughly consistent with the expected allocation of the SAPARD funds, farmers have shown their vivid interest in the scheme of the diversification of agricultural production, which was assumed to take only up to 10% of the available funds (table 1). The research study conducted by the Author in the regional branch of the implementing agency shows that 70% of the SAPARD funds requested by farmers concern the agricultural diversification scheme. Furthermore, this scheme accounted for 85% of all SAPARD applications made by Polish farmers

Until 30 May 2003, Polish farmers submitted 1656 SAPARD applications, but only 116 payments were executed due to the procedural requirements. The registered applications totalled less than 1/5 of the financial ceiling stemming from the SAPARD annual contracts for 2000 and 2001 only, whereas the executed payments accounted for less than 1.5% of the available funds (table 2). Comparable analyses for the remaining SAPARD measures (addressed to food-processing enterprises and local authorities) may be found in another paper (Bryla 2003c, p. 21-26).

**Table 2. The implementation process of the SAPARD programme among farmers in Poland until 30 May 2003**

Index	Submitted applications	Registered applications	Compliant with SA-PARD	A positive final evaluation	Contracts	Payment demands	Authorised payment demands	Executed payments
Number of applications	1656	1475	1425	1021	956	297	225	116
Share of submitted applications (%)	100.00	89.07	86.05	61.65	57.73	17.93	13.59	7.00
The requested amount of money (thous. zl)		64 601	62 641	44 999	42 126	12 621	9 608	5 040
Share of the requested amount (%)		100.00	96.97	69.66	65.21	19.54	14.87	7.80
Share of the financial ceiling (%)		19.04	18.46	13.26	12.41	3.72	2.83	1.49

Note: the financial ceiling stemming from the combined Annual Financial Contracts 2000 and 2001 for measure 2 was 339,372,878 zlotys.

Source: own calculations on the basis of: Ministry of Agriculture 2003.

There were considerable discrepancies among different Polish regions, regarding the number of applications not only in absolute terms, but also in relation to the number of agricultural holdings and the utilised agricultural area. For instance, in the Pomorskie voivodship, one SAPARD application came out of 620 agricultural holdings on average, whereas in Slaskie, almost ten times more farms were necessary in this regard. If we take into consideration the ratio of the number of applications to the utilised agricultural area, it is Swietokrzyskie and Malopolskie regions that are most active, and Zachodniopomorskie and Warminsko-mazurskie perform the worst (table 3). These discrepancies lend to numerous explanations.

**Table 3. Ratios of SAPARD applications by farmers to the number of agricultural holding and he utilised agricultural area across regions**

Voivodship	Number of applications per		Number of holdings per 1 application	UAA per 1 application
	1000 agricultural holdings	10000 ha of UAA		ha
Dolnoslaskie	0.461	0.493	2168	20265
Kujawsko-pomorskie	1.234	1.149	811	8706
Lubelskie	0.466	0.840	2145	11902
Lubuskie	0.983	0.850	1017	11767
Lodzkie	0.626	0.977	1597	10231
Malopolskie	0.577	2.249	1733	4446
Mazowieckie	1.027	1.389	973	7199
Opolskie	1.036	1.089	965	9185
Podkarpackie	0.216	0.765	4628	13078
Podlaskie	1.280	1.135	781	8812
Pomorskie	1.614	1.094	620	9145
Slaskie	0.180	0.566	5569	17679
Swietokrzyskie	1.601	3.668	624	2726
Warminsko-mazurskie	0.699	0.420	1430	23809
Wielkopolskie	1.021	1.007	980	9929
Zachodniopomorskie	0.678	0.386	1474	25898
Average	0.856	1.130	1720	12174
Median	0.841	0.992	1223	10080
Standard deviation	0.441	0.812	1417	6555
Minimum	0.180	0.386	620	2726
Maximum	1.614	3.668	5569	25898

Source: own calculations on the basis of: Ministry of Agriculture 2003; Main Statistical Office 2002, 2003b.

There exist strong correlations between the number of SAPARD applications by farmers across regions and the number of farmers assessing their holdings as having potential for further development, and the number of farms producing mainly for the market (table 4). It is significant that these correlations are much stronger than those between the number of SAPARD applications and the overall number of farms, if we ignore their development potential. Therefore, one may infer that SAPARD benefits mainly the best performing, optimistic and dynamic farmers.

**Table 4. Potential causes of the regional differences in the number of SAPARD applications submitted by farmers in Poland (correlation coefficients)**

No.	Correlation	r
1.	the number of applications and the number of holdings	0.5851
2.	the number of applications and the UAA	0.6641
3.	the number of applications and the value of fixed assets in agriculture	0.7490
4.	the number of applications and the value of agricultural investments in 2000	0.5744
5.	the number of applications and the average surface of an agricultural holding	-0.3108
6.	the number of applications and the region's share in marketed agricultural production	0.6715
7.	the number of applications and the number of holdings producing mainly for sale	0.7946
8.	the number of applications and the number of farmers assessing their holdings as progressing	0.8438

Source: own calculations on the basis of: Ministry of Agriculture 2003; Main Statistical Office 2002, 2003a, 2003b; Michna 2001, p. 56.

The success of the SAPARD programme will depend to large extent on the ability of all the interested parties to draw appropriate conclusions from their experiences by becoming 'learning organisations'. Everyone needs to learn quickly to adjust to the emerging circumstances. It is too early to evaluate the implementation process, but this quickness of reaction seems to be missing in almost the entire system, i.e. in the national and European institutions and among the potential beneficiaries (maybe with the exception of local authorities). This argument may be supported by numerous examples. Let me draw your attention to the extremely long accreditation and other administrative procedures linked to the management of the programme. For instance, on 18 December 2002, the Polish Monitoring Committee proposed certain changes regarding the co-financing level, eligibility criteria and financial limits, but they have not been implemented until the end of May 2003, even if no other administrative body involved expressed its clear opposition. It is also crucial that farmers understand the logic of the free market system and adopt a marketing approach to the management of their holdings. To put it crudely, they should become aware that one should sell to be able to produce, and not the other way round (Andrychowicz, Drygas, Lisztwan 2000, p.74).

## The characteristic features of farmers applying for SAPARD

It seems interesting to verify whether the profile of the actual beneficiaries of the programme resembles the characteristics of the average farmer. Therefore, some comparisons need to be made, especially regarding the holding size and such socio-demographic features, as gender, age, and the education level of the farmer.

According to the results of the research carried out by the Author, the average size of the agricultural holding of farmers applying for SAPARD in the Lodz region was 23 ha, and the median was 18 ha.  $\frac{3}{4}$  of the applicants' farms had more than 12 ha. The milk-producing holdings applying for SAPARD had as much as 39.1 ha on average, for pork and poultry producers it was 12.2, and for applicants aiming to diversify their production patterns, the average farm size reached 20.2 ha. This is significantly above the corresponding levels for all the farms located in this area. The agricultural census of 2002 showed that over 60% of agricultural holdings in the Lodz voivodship had less than 5 ha, and less than 6% had more than 15 ha (Main Statistical Office 2003b).

In the actual beneficiaries' holdings, the average employment of men was 1.33, whereas for women it was 0.74 of full-time employed persons. In holdings managed by farmers having only primary or vocational education it was 2.89, whereas farms belonging to persons with at least secondary education had a lower average employment level: 1.78, even if their size was almost the same. Therefore, we may expect that the efficiency of labour in the farms of

better educated applicants was significantly higher. If we only take the number of persons employed in all the farms under study without making the adjustments for the working time, it was 2.93. For the entire farming population in the Lodz region, no comparable data were obtained. However, the agricultural census showed that 183.9 thousand people were employed in their own agricultural holdings, 83.2 thousand of whom were women, while there were 209,679 farms in the Lodz region. We should also bear in mind that women staying on the farm devote to agricultural activities about 1 hour less per day than men.

The average age of the employed persons in the real beneficiaries' holdings was 38, and the applicants themselves were 42 years old on average. The programme requirements set the maximum age of applicants at 50, which was quite a serious restriction. Because of their age many Polish farmers may not pass their holding on to their inheritors (they are too young to be granted agricultural retirement pension in Poland), but their being over 50 eliminated them from participation in SAPARD. Some young farmers, in turn, were not able for the same reason to prove sufficiently long experience in managing a farm on their own (European Commission 2003, p. 50).

As far as the education level is concerned, out of the 42 applicants under study, 23 had secondary education, 8 graduated from a university or another higher-education institution, 7 had only vocational training, 3 completed their education at the primary level, and for 1 farmer no data was available. This structure of the educational background of SAPARD applicants was largely incompatible with the proportions observed in the entire farming population in the Lodz region or in Poland. The 2002 census painted not a very bright picture in this regard: 42% of Polish farmers had only primary education or even incomplete primary education, 36% ended their education with a vocational training immediately after the primary school, 19% had secondary education, and a mere 1.4% boosted a higher-education diploma. Therefore, the average SAPARD applicant is much better educated than the average Polish farmer.

It may be interesting to look at the correlation coefficients for selected features of SAPARD applicants and their holdings in the Lodz region (table 5). For instance, there is a fairly strong correlation between the size of the requested grant and the number of calculated full-time employees on the farm.

**Table 5. The correlation coefficients for selected features of farmers applying for SAPARD in the Lodz region**

No.	Correlation	r
1.	the size of the holding and the age of the applicant	0.1435
2.	the number of persons employed and the age of the applicant	0.2342
3.	the number of persons employed and the size of the holding	0.4445
4.	the number of calculated full-time employees and the age of the applicant	0.1949
5.	the number of calculated full-time employees and the size of the holding	0.4698
6.	the number of women employed on a calculated full-time basis and the size of the holding	0.2394
7.	the amount of the grant and the size of the holding	0.3670
8.	the amount of the grant and the age of the applicant	0.1363
9.	the amount of the grant and the number of persons employed	0.2878
10.	the amount of the grant and the number of calculated full-time employees	0.4552
11.	the amount of the grant and the number of women employed on a calculated full-time basis	0.3013

Source: own research in the Regional Branch of the Agriculture Restructuring and Modernising Agency in Lodz.

## **The financial aspects of SAPARD investments made by farmers**

The Author's research shows that the average total value of an investment submitted for SAPARD co-financing by farmers in the Lodz region was 90,577 zlotys (i.e. about 20 thousand €). 96.33% of it constituted the so-called net qualified costs, on the basis of which the actual subsidy is calculated. As far as the aid is concerned, it amounted to 42,687 zlotys on average, which accounted for 49.27% of the qualified costs due to the co-financing rules.

Only 23.43% of the total costs were covered by bank loans. It is worth noting that over half of applicants did not use a bank loan at all. Therefore, certain adjustments seem necessary so that the availability of external sources of financing should be improved. In order to improve the functioning of rural development programmes among Polish farmers, their access to bank loans needs to be facilitated.

The highest SAPARD subsidies were claimed by milk producers (49,068 zlotys). Farmers wishing to diversify their production received 41,816 zlotys on average, while pork and poultry producers got only 36,456 zlotys. Bank loans were the most popular among those applicants who wanted to diversify their production (25.77% on average).

Regarding the destination of the SAPARD-supported investments, it might be interesting to look at the following data. The structure of the value of investments for milk producers applying for SAPARD was the following: 22.4% for buying machines to produce and store fodder, 20.9% for animal waste management equipment, only 2.2% for machines to freeze milk, 21.7% for the extension of buildings, 9.7% for the modernisation of buildings, 12.5% for purchasing animals, and for 10.5% of the investment value the data were incomplete. If we take those SAPARD applicants who specialise in pork or poultry production, 62.8% of the total investment value is earmarked for new machines and equipment, 11.2% for waste management, and 26.0% for the modernisation of buildings. As far as the most popular SAPARD measure among farmers in the Lodz region is concerned, i.e. agricultural production diversification, it is worth noting that farmers plan to spend 91.3% of the funds on the development of horticulture, 6.8% on other kinds of plant production, only 0.2% on animal production, and 1.7% on the equipment used for the preparation of products for sale.

It may be interesting to point out that the proportion of the costs of the construction and modernisation of buildings in total investment value was extremely different for farmers than for food-processing enterprises in the Lodz region. The latter devoted to this end as much as 67.4% of the qualified costs, whereas new machines and equipment consumed only 29.4% of the SAPARD investments in the industry. Further research seems necessary to explain this curious discrepancy in the preferences of farmers and enterprises regarding their investment plans.

## **The impact of SAPARD on contractual vertical market channel integration**

Through measure 1, which is addressed to the food-processing industry, the SAPARD programme contributes to the development of backward contractual market channel integration (table 6). The establishment of a system of long-term contracts between the food-processing enterprises and farmers has clear advantages for both sides. It contributes to the stability of production on the part of farmers and to a consistent quality of the raw materials for the industry, which, unfortunately, is very often lacking any quality management system. For instance, only 4 enterprises under study had HACCP, whereas 22 declared that it was being implemented.

**Table 6. The expected impact of Measure 1 investments in the Lodz region on suppliers**

Index	Share of the raw materials purchased following long-term contracts	
	Now	Planned
	%	%
Average	63.615	75.455
Median	70	90
Standard deviation	36.677	30.606
Minimum	0	0
Maximum	100	100

Note: These data are based on the analysis of 34 SAPARD applications submitted by food-processing enterprises in the Lodz region.

Source: own research in the Regional Branch of the Agriculture Restructuring and Modernising Agency in Lodz.

The proliferation of long-term contracts will facilitate the introduction of a quality management system and increase the chances of both parties to survive on the highly competitive Single European Market. Besides, it is beneficial all over the world (Stewart 2001; Requier-Desjardins, Oisboucher, Cerdan 2003, p. 49-67). Nevertheless, one should not neglect potential threats posed by the contractual system, including overintensification of the agricultural production methods with an excessive use of chemicals and monoculture as well as possible abuse of the monopsonic position by the food processor (Vanclay 2003, p. 86). According to Boehlje (1999), the agri-food sector in the midst of a profound structural change based on: a) the transition from economic stages co-ordinated primarily by markets to tightly aligned food supply or value chains co-ordinated by negotiated linkages and b) the implementation of biological manufacturing and process control technology throughout the entire chain, enabling it to increasingly function as an assembly line.

## Hypotheses on the low SAPARD take-up among Polish farmers

The lower than expected take-up of the SAPARD funds by Polish farmers may stem from the following factors: too restrictive conditions of receiving the aid, regarding e.g. current production, co-financing rules; lack of one's own funds to finance the investment; too expensive bank loans; too complicated application form and procedure; too short deadlines for applications; insufficient level of education of Polish farmers; lack of experience in preparing business plans and bookkeeping; insufficient information about the programme; reluctance to form producer groups; improper functioning of agricultural counselling; a two-year delay in the implementation process (Bryla 2002).

Most of these obstacles were confirmed in the European Commission report (2003, p. 50-51). Based on contacts and enquiries with Polish farmers, the following main factors were identified as discouraging farmers from applying for assistance under the SAPARD programme: difficult financial situation of the agricultural holdings; costs of credits involving refunding; the fact that costs incurred are only reimbursed after completion of the project; lack of own funds; volatile situation on the market, apprehension relating to possible lack of outlets for given products; short project duration; low eligible initial and target production levels; low volume of financing; formal difficulties in collecting the supporting documents; difficulties in meeting the age, education, insurance or experience formal criteria; and the possibility of financing the project from other sources, like the national preferential credits.

More generally, the propensity to make investments has a strong correlation with the business outlook. If there is a boom, farmers tend to think that it will continue, therefore they invest more. If their expectations become less optimistic, they have a weaker propensity to invest. In order to generate new investments then, much stronger incentives are needed than



would have been necessary to sustain a favourable business outlook according to a leading Polish agricultural economist (Wos 1999, p. 20). By no means should the psychological factor be underestimated (Nuthall 2001, p. 247-262). Moreover, it seems very important to develop in Poland a habit and capacity of long-term planning and strategic thinking. The extreme economic and legal volatility so far has had a negative impact on these processes. The long-term programming procedures, which form the basis of almost all EU actions, have been lacking in the Polish socio-economic reality (Wilkin 2003, p. 51). This short-term approach reinforced by the lack of multiannual budgetary planning constitutes a significant obstacle to the development of the evaluation culture in Poland (Bryla 2003b, p. 311).

The scarcity of producer groups among Polish farmers deserves special attention as well. Well functioning cooperative institutions could have a considerable impact on the SAPARD take-up indicators. Therefore, it is absolutely crucial to identify the existing barriers to producer group formation. They may be divided into three categories: 1) mental, 2) economic, organisational and legal, and 3) related to the agricultural counselling system (Boguta 2003, p. 32-33). Precise definition of the conditions of the relationship between a producer group and its members would have to be established. Greater reliance on written contracts, inter-group co-operation, and involvement of the local authorities are also recommended (Witoslaw 2002, p. 112-118). Better information about the potential benefits of one's belonging to a producer group is hard to overestimate. A serious barrier to collective action by Polish farmers is the tradition of excessive independence, which is very well expressed by the overinvestment in specialist farming equipment, whereas it would be much more effective to agree on a common exploitation of machines (Chalupka 1999, p. 31-41). These problems inevitably lead us to the recently very fashionable concept of social capital. Let me only draw your attention to the excellent article discussing the link between the social capital and entrepreneurship and producer surplus (Westlund, Bolton 2003, p. 77-113). Finally, an interesting comparative study for cooperative movements in Denmark and Poland drawing on the concept of social capital was published recently (Chloupkova, Svendsen, Svendsen 2003, p. 241-252). It argues that the level of social capital is significantly higher in Denmark, because the original accumulation of social capital in Poland was destroyed by the communist system.

## Concluding remarks

It should be underlined that the SAPARD programme has a double objective. On the one hand, it aims to improve the situation of the agri-food sector in Poland in the wake of the accession to the European Union. On the other hand, it serves as a preparatory ground for the institutions which will be responsible for managing the EU structural funds inflow in future as well as for the potential beneficiaries of these programmes. The latter objective is often forgotten, although it seems much more important from the strategic point of view, as the scope of the transfers after the accession will largely depend on the effort invested into the absorption capacity building now (Guba 2001, p. 132). Let me go one step further: not only the Polish share in the next EU financial perspective (for 2007-2013), but also its size will be determined taking into account the effectiveness of this effort.

Last but not least, it is impossible to avoid asking the question what kind of public policies should be pursued in the agri-food system. Undoubtedly, the structural policy, which is exemplified by SAPARD, seems much more justified than the traditional Common Agricultural Policy, based on price intervention and production quotas (Bryla 2003a, p. 120-126). Nevertheless, one may ask if the agri-food system should enjoy *any* privileges at all. According to Caswell (1997), it is not different from other sectors of the economy and should have a comparable level of government policy involvement, with the public policy addressing only market failures and imperfections and rewarding public goods. It is hard to disagree in principle, but it seems extremely difficult to translate these ideas into practice. Regarding the EU context, it may be argued that even if certain policies are sub-optimal from the point of

view of the entire organisation, they may well be very beneficial for a given Member State thanks to the principle of solidarity.

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