

Regoverning Markets

Small-scale producers in modern agrifood markets

Innovative Policy

Poland

Government incentive schemes offering financial support for farmers' marketing organizations and the response: Example of how the law affects producer groups in Poland

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1 The situation before the introduction of the new government policy on producer groups

Polish agriculture has suffered for many years from numerous structural problems – manifested mainly in small farms – as well as a surplus of labour and lack of investment. The average size of agricultural holdings is 7ha; 31 per cent are smaller than 2ha. Only 59 per cent of Poland's farms produce either all or most of their output to be sold on the market. The value of these sales is very low: in the case of 30 per cent of farms their produce is worth less than €1,300 per year, and only 15 per cent of farms earn more than €5,200 per year from their produce (Halamska 2000: 14,16).

One possible effective response to this problem is the formation of farmers' cooperative organizations, which can help the farmers increase the volume of goods offered on the market, and save on transaction costs, as well as on the proportion of the profits conventionally retained by middlemen. Several authors discuss the advantage of cooperative organizations. Bonus (1986: 335), on the basis of analysis of historic data for Germany, states that the main benefit reaped by cooperatives is that transaction costs can be internalized, in a company jointly owned by the holders of transaction-specific resources. Cook (1995: 1155–1156) lists two justifications for forming cooperatives: individual producers need institutional mechanisms (1) to ensure fair and equitable commercial relationship between producer and purchaser and (2) to counteract opportunism and delays resulting from market failures. Depressed prices or market failures are an incentive for producers to initiate collective action. In the USA, the need for self-protection and even survival has frequently been the motive for taking the producer cooperation route in all types of agricultural cooperatives.

The cooperative movement in Poland, however, has a long but problematic history, which has led farmers to regard the idea of cooperation with disfavour. Chloupkova et al. (2003: 246) point out that the accumulation of social capital and the creation of local networks that characterized the Polish cooperative movement before the Second World War were destroyed by the communist regime, which restricted voluntary cooperation. The regime introduced a command-and-control system into cooperatives, which ran counter to their self-governing nature and eventually led to a lack of member involvement. Members were not able to make their own decisions, and even the heads of cooperatives were appointed by the state. As these new-style, socialist organizations grew in size, their members began to adopt a wage-earner mentality in relation to the enterprise and its property, which resulted in serious inefficiencies (p.249). A renaissance of the cooperative movement in Poland might have been expected after the

end of communism, but the lack of social capital and various other factors delayed its revival (p.250).

Brodziński (1999: 168) points out that Polish farmers who were formerly members of socialist cooperatives retain a distorted image of the cooperative movement. They associate cooperatives with a lack of control and with inability to influence decision-making.

Nonetheless, in the early 1990s the first farmers' cooperative marketing organizations, called 'agricultural producer groups', began to appear. Małysz (1996: 13–14) defines producer groups as bottom-up, voluntary organizations whose main purpose is to sell members' produce jointly. This enhances the members' position in the market and may lead to higher prices. Additionally, associated farmers may benefit from information- and knowledge-sharing within the group. Forming a producer group, however, does not imply a change in property rights. The farmers share the group's profits but they do not merge their farms.

2 Key elements of the lead-up to the launch of the new policy

In 1998 the Parliamentary Commission on Agriculture, Rural Development and Small and Medium Enterprises began work on new legislation to regulate the functioning of producer groups. At about the same time the government started drafting another piece of law on producer groups designed to facilitate the creation of producer group federations (Bulletins of the Prime Councils of Ministers 1998; Chronicles of the Parliament 2000). The introduction at this particular time of a legal definition of producer groups and of other laws regulating the sector was connected with the launch of the Special Accession Programme for Agriculture and Rural Development (SAPARD) Programme for Poland, covering the period 2000–06. The first measure set out in this programme, ‘Improvement in Processing and Marketing of Food and Fishery Products’, also included support schemes for producer groups (Polish Ministry of Agriculture and Rural Development 2004: 4).

3 The new policy on producer groups

The first law regulating the functioning of producer groups was passed on 15 September, 2000. It defines agricultural producer groups as organisations set up by agricultural producers, the main purposes of which are: introducing to the market agricultural products produced by individual farmers, adapting production to market requirements, improving farms' efficiency and quality of produce, and also protection of the environment. Producer groups can also establish unions of producer groups encompassing the following criterion:

- a) The group must conform to a structure defined by law.
- b) The group's membership must consist of producers of only one category of products or group of products as defined by current regulations (legislation introduced 3 February, 2005).
- c) The group must be engaged in an economic activity.
- d) None of the members may have more than 20 per cent of votes in the General Assembly.
- e) The main activity of the group must be the joint sale of products produced individually by member farmers.
- f) The minimum period of membership of a producer group is three years from registration with the provincial office.
- g) Members must sell all of their products that come under the category of products or group of products in respect of which they are associated in the group.
- h) The group must fulfil conditions regarding the minimum volume of products (depends on the category of products and group of products) produced by members and the minimum number of members (five, except for groups producing hops, for which the minimum is seven, and tobacco, 50) (Ejsmond and Milewski 2005: 54–55).

The law, however, does not designate any particular legal structure for the organisations (relevant legislation: Act of 15 September, 2000) Producer groups can therefore be of an informal character or can take any legal form of economic or social entrepreneurship defined in Polish law. The most frequent legal forms chosen by producer groups are: association, union, limited liability company and cooperative (Banaszak 2005: 2; Lemanowicz 2005: 101–2). Table 3.1 presents a brief comparison of these legal forms.

Table 3.1: Comparison of different legal forms available to Polish agricultural groups

Characteristic	Association	Union	Limited Liability Company	Cooperative
Legal foundation	Act of 7 April, 1989: Law on Association	Act of 8 October, 1982 on farmers' social and vocational organisations	Act of 15 September, 2000: Law on Commercial Companies	Act of 16 September, 1982: Law on Cooperatives
Purpose	Social	Social and vocational, but can also be economic	Any	Economic, but can also be social
Area of operation	No limitations	The territory of Poland	No limitations	No limitations
Members	Physical persons, or legal entities only as supportive members	Physical persons	Physical persons or legal entities	Physical persons or legal entities
Minimum number of members	At least 15 physical persons	At least 10 physical persons, of whom at least 8 run a farm	One or more	At least 10 physical persons or 3 legal entities; for agricultural production cooperatives at least 5 physical persons
Form of members' financial contribution	Membership fees	Membership fees	Share	Share
Minimum financial contribution per member	Not defined	Not defined	At least one share with minimum value 50 PLN (= €13 EUR)	At least one share, its value defined by the General Assembly
Participation in decision-making	Equal for all members	Equal for all members	Depends on the number of shares	Equal for all members
Participation in the accumulated capital	Equal for all members	Equal for all members	Depends on the number of shares	Depends on the number of shares
Members' liability	No liability	No liability	Up to the value of shares	Up to the value of shares

Source: adapted from Lemanowicz 2005: 102

Regulations on operational matters are appended to the law, defining the products or groups of products for which producer groups may be established.

Regarding support for producer groups, the legislation of 15 September, 2000 together with its later amendments enables all groups registered with provincial offices to obtain support in any of the following forms:

- a) an investment credit on preferential terms;
- b) credit provided by the Restructuring and Modernisation of Agriculture Agency;
- c) tax relief in connection with taxes on buildings owned by the group for up to five years from the date of registration with the provincial office;
- d) subsidies up to the value of 5 per cent of turnover in the first and second years, and then 4 per cent, 3 per cent, and 2 per cent respectively in the following three years, for groups with turnover of less than €1,000,000; for groups with turnover of more than €1,000,000 the relevant percentages for each of the first five years are 2.5 per cent, 2.5 per cent, 2 per cent, 1.5 per cent and 1 per cent respectively. However, the maximum value of subsidies a group can receive is €100,000 in the first and the second year, €80,000 in the third year, €60,000 in the fourth year, and €50,000 in the fifth year. Initially, the subsidies could be used only for administration purposes, but later amendments to the legislation removed this condition. The assistance is paid and managed by the Agriculture Restructuring and Modernisation Agency (Ejsmond and Milewski 2005: 53–6).

The conditions that groups of fruit and vegetable growers have to meet in order to obtain support were modified by the Act of 19 December, 2003, to conform with European Union (EU) legislation. Groups operating in this area, however, could still choose to be registered for obtaining subsidies under the law of 15 September, 2000 Act or the law of 19 December, 2003.

The December 2003 law lays down the following conditions for obtaining support:

- a) The group has to operate in one of the following categories of products: (i) fruit and vegetables, (ii) fruit, (iii) vegetables, (iv) produce for processing, (v) citrus fruits, (vi) nuts, (vii) mushrooms.
- b) Members may belong to only one organisation within each category.
- c) Members must sell the whole of their output through the organisation, apart from certain permitted exceptions.
- d) Members must be able to control the organisation along democratic lines.
- e) At least half of the group's revenue must come from joint sales of the members' products.

- f) The group must fulfil conditions regarding the minimum volume of products (100,000 produced by members and minimum number of members (five).
- g) The group must provide its members with adequately managed facilities for the storing, packing and marketing of their produce (Ejsmond and Milewski 2005: 56–57).

The two last conditions for obtaining support are those which particularly differentiate this December 2003 legislation from that passed in September 2000 (ibid.: 57).

4 The situation after the new policy was introduced

In Poland in 2003 there were about 700 producer groups, of which only about 30 fulfilled the requirements for obtaining subsidies offered by the government under the terms of the 15 September, 2000 Act (Banaszak 2005: 8). The number of groups eligible for subsidies and registered with the Provincial offices has been increasing, however. By 2005 there were already 102 such groups, of which 40 operated as unions, 30 as limited liability companies, 24 as cooperatives, and 5 as associations. Table 4.1 shows the types of agricultural production in which the groups were engaged.

Table 4.1 Number of registered producer groups in Poland

Type of product (in accordance with the list of products and groups of products as defined by law)	Number of groups registered with the Provincial Offices
Beef cattle	1
Pigs	22
Sheep and goats	1
Poultry	7
Rabbits	1
Poultry eggs	3
Milk	3
Cut flowers	1
Potatoes	2
Cereals	15
Rape and other oil seeds	1
Cereals and oil seeds	6
Sugarbeet	1
Hops	2
Tobacco	11
Fruit and vegetables	16
Fruit	4
Vegetables	2
Fruit and vegetables for processing	2
Total	102

Source: adapted from Lemanowicz 2005: 106

Additionally, in 2005 there were 30 groups producing fruit and vegetables registered under the 19 December, 2003 Act. The average value of sales of these 30 groups was equal to €1,464,508 (Lemanowicz 2005: 106–7). Owing to confidentiality regulations, comprehensive data on turnover and the amount of subsidies obtained for all the groups operating in Poland is not available.

Nevertheless, Lemanowicz (2005: 111, 116, 120) does provide some data on support made available to producer groups, even if only for selected forms of support and selected years:

- a) In 2004, banks working alongside the Restructuring and Modernization of Agriculture Agency provided producer groups with ten loans, subsidized by the Agency, for a total amount of €965,678.
- b) In 2002 the Restructuring and Modernization of Agriculture Agency subsidized 13 producer groups for a total amount of €218,263, giving an average of €16,789 per group; in 2003, 31 groups obtained subsidies totalling €625,342 (average €20,172 per group); in 2004, 61 groups obtained subsidies totalling €1,616,289 (average €26,496 per group).
- c) With regard to groups growing fruit and vegetables, in 2005 the Restructuring and Modernization of Agriculture Agency subsidized producer groups for a total amount of €653,552.

Lemanowicz (2005) presents empirical data on 279 members of 62 producer groups in five regions in Poland. As the main reasons for joining the group, the interviewees cited problems in finding markets (83.5 per cent of the interviewees), desire to exclude middlemen from the market (83.5 per cent), high production costs (71.7 per cent), volume of individual output too small (71 per cent), and limited access to market information (58.8 per cent) (p. 133). At the same time, the farmers highlighted the anxiety and fears they had had about joining the group. The largest proportion of respondents (82.3 per cent) indicated problems in adjusting to the required quality standards as their main anxiety when they became members of producer groups. Slightly fewer (81.7 per cent) referred to risks related to working with different people, 74.6 per cent to the need to introduce new production techniques, 65.7 per cent to uncertainty regarding the group's likely success, and 58.1 per cent to their limited financial resources, which could limit their ability to carry out the necessary improvements (pp.134–5).

Regarding the question of how well the legislation addresses farmers' anxieties about joining producer groups, the current legislation does not specify the purposes for which subsidies can be spent (Ejsmond and Milewski 2005: 56). Hence, it is up to the groups' management to address their members' concerns by making appropriate use of the funds received.

The emergence of producer groups and introduction of legislation to regulate their operations have been accompanied by support from a range of non-governmental bodies. One or two organisations, such as the Foundation Cooperation Fund (*Fundacja*

Fundusz Współpracy) and the Foundation for Rural Support (*Fundacja Wsparcia Wsi*) are offering training for producer groups (e.g., for their leaders) and producing publications related to the management of producer groups.

5 An indicative assessment of the costs and benefits of the new policy

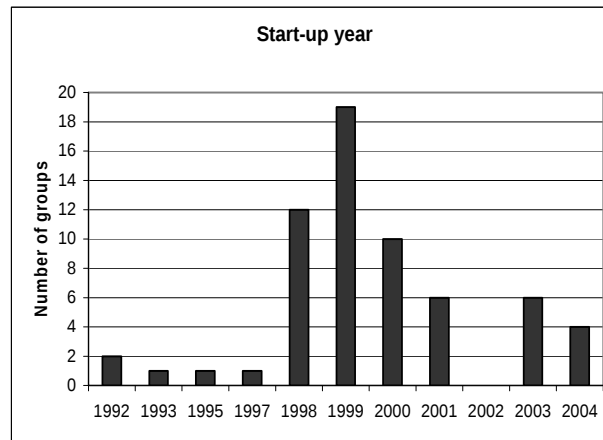
As already mentioned, there is no comprehensive data on producer groups for the whole of Poland; however, extensive research has been carried out on producer groups operating in Wielkopolska Province, in the western part of the country (Map 1). Wielkopolska has one of the highest numbers of producer groups of all Poland's 16 provinces (Lemanowicz 2005: 105).

Map 5.1: Poland and the Wielkopolska Province



Banaszak (2005) identified 55 functioning and 19 disbanded producer groups in Wielkopolska Province at the beginning of 2005. The author carried out structured interviews with leaders of 50 of the functioning groups and of 12 of the disbanded groups (p.8). Data on the groups' start-up years clearly shows that most of the groups were created in 1998 or 1999; that is, shortly before the first legislation on producer groups were passed (Figure 5.1).

Figure 5.1: Year in which producer groups started up (N=62)

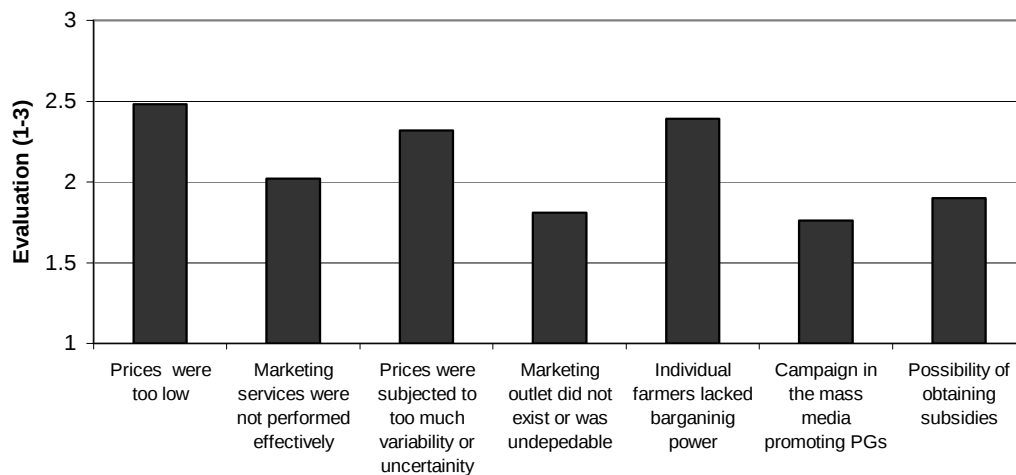


Source: Banaszak 2005: 11

We may suppose, therefore, that farmers and other agents involved in the establishment process, such as extension service staff and local leaders, expected the producer groups to benefit from the forthcoming law.

The data also shows that the availability of subsidies was a major motive for establishing producer groups for 22 per cent of the groups, and a less important motive for 11 per cent of the groups. Figure 5.2 compares the importance of this motive with other factors that led to the formation of producer groups.

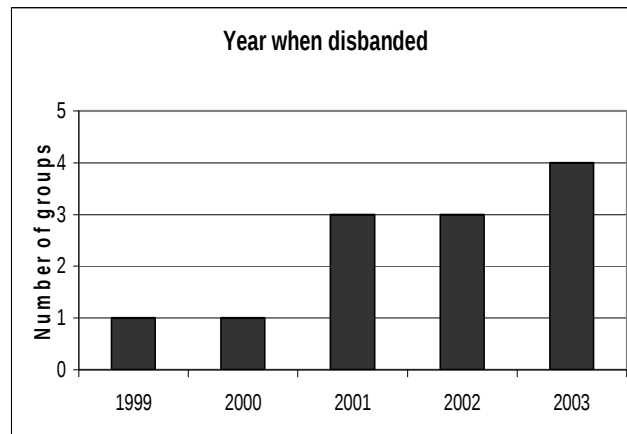
Figure 5.2: External factors leading to the formation of producer groups (N=62)
(scale of 1 to 3, where: 1 = not a factor, 2 = minor factor, and 3 = major factor)



Source: Banaszak 2005: 14

We may suppose, however, that the legislation passed in 2000 was not as favourable or encouraging as expected. Many groups disbanded soon after the introduction of the new law (Figure 5.3).

Figure 5.3: Year in which producer groups disbanded (N=12)



Source: Banaszak 2005: 11

Most members of functioning groups found the overall benefits of forming a producer group were: obtaining market information more easily and cheaply (question 12, mean answer = 3.60), using members' knowledge and skills in a more efficient way (question 15, mean answer = 3.52), and gaining greater bargaining power in relations with purchasers (question 3, mean answer = 3.38). With regard to members of groups that had been wound up, the responses showed that in many cases they were still in touch with each other, and some of them were benefiting from the contacts made while the group was operating. In other words, there is a continuing value to producer groups, even when they have formally disbanded, thanks to the networks that remain in existence. Half of the leaders of disbanded groups either agreed or partially agreed with the statement that the former group members still informed each other about different market opportunities (question 12, mean answer = 2.17) (Banaszak 2005: 22).

Table 5.1: Benefits of cooperation (N=62)

Question: do you agree with the following statements?	Replies (mean scores) (1 = strongly disagree, 2 = partly disagree, 3 = partly agree, 4 = fully agree)	
	Functioning groups (N=50)	Disbanded groups (N=12)
1. Our farmers are gaining higher prices for their output	3.12	1.17
2. Our farmers are earning higher profits	3.20	1.42
3. Our farmers have gained more bargaining power, are able to set higher prices	3.38	1.25
4. We have obtained access to some additional markets	2.88	1.25
5. We have excluded middlemen	2.56	1.33
6. Our farmers have gained more investment power	2.52	1.25
7. Our farmers are offering one another certain services	2.94	1.75
8. Our farmers are buying means of production cheaper	3.38	1.50
9. Our farmers have reduced their costs of output distribution	2.96	1.00
10. Our group have built a stable network of purchasers	2.68	1.00
11. Our group have negotiated long-term contracts	2.48	1.00
12. Our farmers are obtaining market information more easily and more cheaply (they inform each other about different opportunities)	3.60	2.17
13. Our farmers are saving time spent on organising supplies and sales	3.24	1.67
14. Our farmers are achieving greater efficiency in production	3.10	1.75
15. Our farmers use their knowledge and skills in a more efficient way	3.52	1.67
16. Our farmers have ended unnecessary competition between themselves	3.12	1.92
17. Our group have managed to provide greater security for transactions	3.12	1.00
18. Our farmers are maintaining profitability by obtaining subsidies for production	1.62	1.17
19. Our group have obtained some type of external support from the EU/central/regional/local authorities	1.48	1.00

Source: Banaszak 2005: 23

At the time of the interviews only 17 out of the 50 functioning groups (34 per cent) were registered with the provincial authorities, which is the first step a producer group has to take in order to obtain subsidies. The producer group leaders who were interviewed were quite critical of the legislation. The mean result obtained from questions on evaluating the law was equal to 2.47 (on a scale of 1 to 5, where 1 = negative, 2 = quite

negative, 3 = not sure, 4 = quite positive, 5 = positive). The most frequent cause of complaint about the regulations was that the law offers no preferential treatment for producer groups with regard to tax on their revenue, and the groups have to pay the same taxes as other business entities. Another reason for farmers' dissatisfaction was the excessive amount of bureaucracy and paperwork involved in applying for the subsidies, which seriously increases operating costs and is difficult for small groups to deal with. The interviewees also reported that the law is unclear and imprecise and there is confusion about it even among civil servants. The leaders were also unhappy about the regulation regarding what the subsidies may be spent on (at the time of the interviews, the funds could be used only for administration purposes, but this was changed by a subsequent amendment to the law), and the fact that there is a time lag (groups cannot receive subsidies until one year after registration with the Provincial office). Some leaders thought that it would be better if the support could be offered when groups start operating, as this would allow them to expand their activities right from the outset (Banaszak 2005: 27).

Despite criticisms of the legislation, the number of groups registered with the Wielkopolska Provincial office has been increasing. In April 2007 there were already 43 groups registered: 31 under the terms of the 15 September, 2000 Act, and 12 under the 19 December, 2003 Act. In the two years 2006 and 2007 the Restructuring and Modernization of Agriculture Agency paid out subsidies totalling more than €3.5 million to the groups operating in Wielkopolska Province (ARiMR 2007).

6 The conditions necessary for the policy to be replicated in other countries

The policy adopted in Poland towards farmers' cooperative organizations appears to be an effective way of encouraging farmers to increase their competitiveness in agricultural markets through cooperation. Such encouragement is often necessary, particularly in those transition countries where the idea of cooperation and cooperatives has been discredited by management failures that occurred in the sector in the pre-transition period. A very good solution seems to be to ensure that legislation regarding producer groups does not force farmers to adopt any particular legal form of enterprise, so that they can select whichever structure suits the amount of their invested capital and provides the required level of safeguards.

It is very important, however, to provide farmers with adequate information about the new regulations and with assistance from civil servants who can guide them through all the necessary procedures. The introduction of new legislation therefore should be accompanied by appropriate training of the civil servants who will be responsible for helping farmers in this respect.

Nonetheless, civil servants should not promise too much and should not over-encourage farmers to form producer groups, particularly if they have insufficient knowledge of farmers' ways of working or of the market. Banaszak (2006) shows that 50 per cent of groups that failed in Wielkopolska Province had been set up on the initiative of the extension service. At the same time, none of the groups classified as successful had been set up by this service (p.31). Banaszak and Beckmann (2006) highlight the crucial role of leadership in establishing producer groups and keeping them going. The key element in assisting the creation of successful cooperative organisations could therefore be the identification of local leaders and providing management training for them.

Additionally, as mentioned by Ejsmont and Milewski (2005), producer groups are economic agents which should be able to survive on their own in the market. The most important purpose of establishing a producer group should be to run an economic activity and not to obtain subsidies. The aim of subsidies therefore should be to help the groups to improve their position in the market, and not to finance their entire operations (p.51).

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Related Acts

Act from 15th September 2000, Ustawa o grupach producentów rolnych i ich związkach oraz o zmianie innych ustaw wraz z kolejnymi zmianami (Dz.U. 2000, Nr 88, poz. 983) with later amendments.

Act from 29th November 2000, Ustawa o organizacji rynku owoców i warzyw, rynku chmielu, rynku tytoniu oraz rynku suszu paszowego (Dz.U. 2001, Nr 3, poz.19).

Act from 19th December 2003, Ustawa o organizacji rynków owoców i warzyw, rynku chmielu, rynku tytoniu oraz rynku paszowego (Dz.U. z 2003, Nr. 223, poz. 2221 z póź. zm.) with later amendments.

Act from the 19 December 2003, further details at http://faolex.fao.org/cgi-bin/faolex.exe?rec_id=062716&database=FAOLEX&search_type=link&table=result&lang=eng&format_name=@ERALL

Act from 3rd February 2005, Rozporządzenie Ministra Rolnictwa i Rozwoju Wsi zmieniające rozporządzenie w sprawie wykazu produktów i grup produktów, dla których mogą być tworzone grupy producentów rolnych, minimalnej rocznej wielkości produkcji towarowej oraz minimalnej liczby członków grup producentów rolnych (Dz. U. z 2005, Nr. 30, poz. 258).

Regoverning Markets

Regoverning Markets is a multi-partner collaborative research programme analysing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets. The programme is funded by the UK Department for International Development (DFID), the International Development Research Centre (IDRC), ICCO, Cordaid, the Canadian International Development Agency (CIDA), and the US Agency for International Development (USAID).

Innovative Policy series

Innovative Policy is a series of short studies from the Regoverning Markets programme addressing a specific policy innovation in the public or private sector that improves the conditions for small-scale producers to access dynamic markets at national, regional and global level.

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