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The changes in financial support for agri-environmental programme in Poland

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Abstract: The membership in the European Union (EU) created favourable conditions for the implementation of the agri-environmental programme (AEP) in Poland. The AEP is the most important rural development measure in the UE (in terms of financial support). The goal of the paper is to assess the effectiveness related to the absorption of the funds for the AEP in Poland. That effectiveness was analysed in the context of the scope and the way in which Polish authorities took advantage of opportunities from the EU financial support which was available to be spent on that measure. The Author used descriptive and comparative analysis to show differences in absorption of financial sources in Poland and in the entire EU for three time periods chosen due to the stages of multiannual financial perspectives for the Common Agricultural Policy: 2004-2006, 2007-2013, 2014-2020. The effectiveness of absorption of the AEP is relatively low – especially in comparison to the groups of the EU member states divided due to the date of accession (after or before 2004). The share of expenditures on the AEP in Polish Rural Development Programme (in all discussed time periods) is one of the lowest in the EU. The effectiveness is also low when we take into account the relation of executed expenditures on the AEP to the allocations which were potentially available for it. It especially refers to the first period of the EU membership. In the second period the effectiveness was improved, but it was worsened again in years 2014-2020 as a result of decisions made by Polish authorities. The biggest possible part of funds for rural development was reallocated for direct payments and consequently the possibilities of further development in implementation of the AEP were strongly reduced.

Keywords: sustainable agriculture and rural development, Sustainable Agriculture, rural development, rural development measures, agri-environmental programme

JEL codes: O130, Q15, Q180, Q570.

1. Introduction

An integration of sector policies with environmental policy is one of the most important principles referring to the European Union’s (EU) activities at the matter. Considering connections between common agricultural policy (CAP) and environmental policy, it could be stated, that the principle
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contributes to sustainable development of agriculture. In that context, it is worth to describe implementation of the agri-environmental programme (AEP), which is the most important measure within II pillar of CAP in terms of the value of financial support (as it is shown below). That measure is based on subsidies for farmers who deliver environmental services connected with their agricultural production. These services are additional to the basic environmental standards which have to be met according to so called cross compliance\(^1\). They are obligatory for all receivers of direct payments from the I pillar of CAP and for the receivers of chosen measures in the II pillar.

The goal of the paper is to assess the effectiveness related to the absorption of the funds for the AEP in Poland. That effectiveness was analysed in the context of the scope and the way in which Polish authorities took advantage of opportunities from the EU financial support, which was available to be spent on the AEP. The absorption was conditioned by institutional and financial aspects, so both of them were taken into account. The Author used descriptive and comparative analysis referring to the way in which the AEP was and is being implemented in Poland and in the entire EU. The comparative analysis is used to show differences in absorption of financial sources in Poland and in the entire EU for three time periods chosen due to the stages of multiannual financial perspectives for the CAP: 2004-2006, 2007-2013, 2014-2020. The effectiveness of absorption was also assessed taking into account relation of the allocations which were actually spent on the AEP to the quotas which were potentially available for it. The investigation was based on the results of studies of literature (information and statistical data on the direction and extent of the implementation of the agricultural policy instruments) and on empirical studies (interviews in the Ministry of agriculture and rural development, Ministry of environment, IRWiR - PAN\(^2\), IERiGZ\(^3\), Agricultural Advisory Centres). The time interval is 2004–2020 – form the Poland’s accession to the EU to the CAP financial perspective for years 2014-2020.

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\(^1\) Cross-compliance standards consist - among the others – of basic requirements aimed at soil and water protection. Some of them are also favorable for nature conservation.

\(^2\) IRWiR – PAN – Instytut Rozwoju Wsi i Rolnictwa, Polska Akademia Nauk (Polish Academy of Sciences – Institute of Rural and Agricultural Development).

\(^3\) Instytut Ekonomiki Rolnictwa i Gospodarki Żywnościowej Państwowy Instytut Badawczy (Institute of Agricultural and Food Economics, National Research Institute).
2. The structure of the CAP funding in Poland

The AEP and other measures connected with environment protection are financed from the II pillar of CAP (rural development). Consequently, the value of expenditures for these measures in particular countries result from decisions made at Community level - on the shares of II pillar in overall CAP funding (fig. 1) - and from decisions of Members States related to shaping of their RDPs - Rural Development Programmes (section 3). Discussed interrelations are presented on figure 1.

Formally, the structure of expenditures in Poland in years 2004-2006 was more favorable for the II pillar than at the EU level. It was due to the fact, that according to a pre-accession agreement, in the new Member States (EU 10) much larger part of the CAP expenditures was spent for rural development than in the old member states (EU 15). That was a result of decisions made at Community level. In practice, in Poland that structure occurred to be not so beneficial for II pillar, because 20% of expenditures within Polish RDP 2004-2006 were reallocated for direct payments (Kociszewski, 2013: 224-235).

Figure 1. The scheme of decision making connected with expenditures on agri-environmental programmes in the European Union

Consequently, according to the author’ calculations, the share of II pillar in overall CAP spending in Poland (fig. 2) was lower than in the whole group EU 10, where it was 56%. That was a result
of decisions made by Polish authorities. The argument of the reallocation was that, the II pillar measures are more difficult in implementation than direct payments and Polish administration was not adequately prepared to absorb them. That is the manifestation of the lack of political will to prepare agricultural agencies to lead in rural development measures in advance (before accession). It diminished possibilities of effective wide range implementation of the AEP in the first period of the EU membership.

Figure 2. The shares of two pillars in overall CAP expenditures in the EU and in Poland (%)

![Bar chart showing the shares of two pillars in overall CAP expenditures in the EU and in Poland (%).](chart.png)

Source: (Kociszewski, 2015: 167-177).

In the next period of the EU membership (2007-2013) the allocation for the II pillar in the EU 12\(^4\) remained relatively bigger than in the EU-15. In Poland, the overall CAP expenditures nominally increased by 49.7% per year compared to years 2004-2006. Thanks to that, the value of the II pillar amounted 13,4 euro billion. The share of rural development in total CAP allocation for Polish agriculture slightly declined because the support in I pillar was increased in larger proportion than in the II pillar. Nevertheless, the financial sources which could be spend on the AEP were much bigger than in years 2004-2006. That was the result of decision made at the Community level.

In years 2014-2020 - as a result of agreement on the EU budget and on CAP reform\(^5\) - formally, the shares of both pillars in overall CAP allocation remained almost the same as in the

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\(^4\) Bulgaria and Romania joined the European Union.

\(^5\) In years 2014-2020 overall CAP expenditures amount 408,31 billion euro (nominally). Circumstances connected with shaping of the newest version of CAP are described in another paper (Kociszewski, 2016).
previous period. That structure remained almost the same only on the surface because the reform enabled practical deep reduction in the II pillar. All member states have possibility to destine 15% of its value for direct payments. Furthermore, the countries where these payments per hectare are less than 90% of the average in the entire EU, can reallocate additional 10% of the funds for rural development (Regulation 1306/2013). As a result, in Poland the entire possible part of II pillar (25%) is being spent in the I pillar (MRiRW, 2013). The allocation for Polish RDP amounts 8,6 euro billion nominally from the EU budget plus 4,9 billion euro of national funding (MRiRW, 2016: 29) - 13,5 euro billion altogether (12 euro billion in real terms 6). It is 26,8% of the entire CAP allocation for Poland (Kociszewski, 2014: 124-157.). In practice, the real value of the II pillar is reduced by 5,76 euro billion (by 43%) in comparison to the value of previous period. Consequently, the structure of CAP expenditures is much less favourable for rural development and for the AEP than previously. On the other hand, it is worth to underline, that as a result of CAP reform from 2015, 30% of direct payments are destined for so called “greening” - for three environmental measures, which are obligatory for farms bigger than 10-15 ha. Thanks to that, formally in EU 28 overall CAP expenditures for environment protection have been increased by 71 billion euro7 in comparison to the financial perspective for years 2007-2013. However, we should remember that the requirements of “greening” are less restricting than within the AEP (Kociszewski, 2015). Furthermore, they are not binding in small farms, where direct payments do not create any incentives for the provision of environmental services. They are rather a kind of social support. For these reasons, the Author concentrated on the measure which is directly and effectively targeted on environment protection (the AEP).

3. Effectiveness of financing the agri-environmental programme.

As it was described in the previous section, the financial solutions at the EU level created favorable conditions for implementation of rural development instruments, however these possibilities were diminished as a result of decisions of Polish authorities. They also refer to the allocation for the AEP.

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6 To calculate the real value (in 2011 prices), the EC applies deflator 1,125 (European Commission, 2013).
7 The support for environment protection was increased by 83,3 billion euro in the I pillar and decreased by 12,3 billion euro in the II pillar at the same time (Kociszewski, 2016).
In the pre-accession period the pilot version of the programme was cancelled within pre accession instrument called SAPARD\(^8\). Consequently, Polish administration did not implement pilot version of the AEP in advance and did not prepare to implement the programme in a large scale in years 2004-2006. Due to decisions of the Agency for Restructuring and Modernisation of Agriculture (ARiMA), it resulted in reduction of the allocation for the AEP in the first version of RDP and in further cuts of the spending in the first period of the EU membership. As a result, its implementation was delayed and the planned expenditures for it were reduced ten times in that period. Finally, the Ministry of Agriculture and Rural Development (MARD) decided to reduce the financial support for the programme from primarily planned 349 euro million (280 euro million from the EU budget) to 209 euro million (167 euro million from the EU budget) - by 40\% in comparison to the primary version of RDP 2004-2006\(^9\) (fig. 3). It was the biggest reduction among all the measures in the RDP 2004-2006. The AEP’s share in the total value of the official II pillar (table 1) was decreased from almost 7\% (according to the plan from 2005) to 4,2\% in 2008. The share in real II pillar (excluding direct payments from the allocation for RDP) was decreased from 8 to 4,8\%. Taking into account the presented changes it could be stated, that in the first period of membership effectiveness of absorption is low. The relation of the expenditures which were actually spent on the AEP (0,21 euro billion) to the allocation originally planned to be spent in the version of RDP from 2005 (0,35 euro billion) is 60\%. When we compare the allocation spent on the AEP to the amount which was potentially available for it (0,45 euro billion), the effectiveness of funding appears to be smaller and it is 47\%.

As a result of presented cuts in financial support, the programme turned out to be the sixth instrument in Polish RDP in terms of the financial value, while it was the most important instrument of rural development at the level of the EU as a whole. Its share amounted to 41.7\% of the expenditures for rural development within the CAP (26.1\% of the entire allocation and II pillar – both sections of EAGGF)\(^10\) (European Union, 2006). In new member states (EU 10) these shares were 18\% (in the RDPs) and 13\% (in II pillar) (Konecny, 2004).

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\(^8\) SAPARD (Special Accession Programme for Agriculture and Rural Development) had to prepare Polish administration to rural development measures during pre-accession period.

\(^9\) Author’s own calculation based on data from different versions of RDP 2004-2006 (MRiRW, 2005a) (MRiRW, 2008)

\(^10\) Until 2006 only the Guarantee section of EAGGF was formally included in the CAP. The Guidance section was one of the structural funds and was outside that policy. From 2007 both sections were incorporated into the CAP as II pillar.
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<td>Allocation (euro billion, current prices)</td>
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<tr>
<td>The plan from 2005</td>
<td>0.35</td>
<td>0.28</td>
<td>0.45</td>
<td>0.36</td>
<td>0.21</td>
<td>0.17</td>
<td>0.25</td>
<td>0.20</td>
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<td>The potential value**</td>
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<td>Total* EU</td>
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<td>The plan from 2008</td>
<td>0.17</td>
<td>0.12</td>
<td>0.25</td>
<td>0.20</td>
<td>0.20</td>
<td>0.15</td>
<td>0.20</td>
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<td>The potential value**</td>
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</tr>
<tr>
<td>The share in official II Pillar***</td>
<td>6.9%</td>
<td>8.9%</td>
<td>4.2%</td>
<td>4.9%</td>
<td>13.7%</td>
<td></td>
<td></td>
<td>15.2%</td>
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<tr>
<td>The share in real II Pillar****</td>
<td>8%</td>
<td>-****</td>
<td>4.8%</td>
<td>-****</td>
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</table>

*The sum of expenditures from EU budget and domestic sources.
**The potential value was calculated assuming that 20% of II pillar was not reallocated for direct payments) and that allocation would be divided among all the rural development measures in a proportion fixed in the version of RDP 2004-2006 published in 2005 (MRiRW, 2005a).
***The official II pillar (4.05 euro billion from EU budget) includes both sections of European Agriculture Guidance and Guarantee Fund (EAGGF) and allocation for direct payments financed from the RDP 2004-2006 (0.56 euro billion from EU budget) (MRiRW, 2005a; MRiRW, 2005b).
****The value of the real II Pillar (3.49 euro billion from EU budget) was calculated as the difference between expenditures from official II pillar (4.05 euro billion from EU budget) and allocation for direct payments financed from the RDP 2004-2006 (0.56 euro billion from EU budget). Direct payments are excluded because they are I pillar instrument in fact.
*****Without reallocation of a part of the RDP 2004-2006 (0.56 euro billion from EU budget) for direct payments, there would be no difference between official and real II Pillar.


The share of the AEP in the Polish RDP (4,2%) can be compared with the similar indicators in the Czech Republic (49%), Hungary (41%), Estonia (30%) or Slovenia (30%) (Konecny, 2004). The last country introduced its national AEP just three years before accession, inspired by the policies of neighbouring Austria, which contributed 66% of the CAP expenditures to the second pillar, and 59% of its value for AEP at the time. (Konecny, 2004). Poland and Latvia in this regard were at the last place during the first period of the EU membership.

In years 2007-2013 the allocation for the programme was increased by 310% (per year) in relation to the previous period (fig. 3). That increase was much more dynamic, than in the value of the entire Polish RDP (52,8% per year) and in overall CAP allocation for Poland (almost 50% per year). The total value of the funding was increased to 2,3 billion euro (1,84 billion euro from the EU budget). Thanks to that, the share of the AEP in the RDP increased from 4,2% to 13,7%. In
discussed period the whole value of expenditures for the AEP was executed, so the effectiveness of absorption was 100%.

Figure 3. The changes of the expenditures for the AEP in Poland from UE budget (euro billion, current prices)

*In years 2014-2020, the allocation consists of the expenditures for the EACP and the financial support for organic farming.

Source: Author’s own elaboration based on data from MRiRW (2005a; 2005b; 2011, 2014).

The programme was at the third place in terms of the financial value among all measures in Polish RDP. However, it was still a lower position than in all groups of Member States: in EU 27 (23,1%), in EU 15 (27,8%) and in EU 12 (16%), where seven countries spent on the AEP the greater part of the II pillar than Poland (including Czech Republic 29,2%, Slovenia 27,1%, Hungary 22,6%)\(^{11}\) (European Union, 2012). The AEP continues to be the most important rural development instrument at the Community level, and that is why the effectiveness of funding could be assessed as low in comparison to the other EU member states.

In years 2014-2020, the name of AEP was changed into Agri Environment Climate Measure (AECM). That change is the manifestation of strengthened connection between the CAP and the newest solutions of the EU environmental policy - with the priority of climate change mitigation. Besides, the special measure aimed at support for organic agriculture was separated from the previous AEP (table 2). That is why, in that elaboration its value from years 2007-2013 is compared to the sum of allocation for the AECM and for organic farming support in years 2014-2020 (fig. 3). In Poland both these measures are financed by 1,315 billion euro nominally (1,17 billion euro

\(^{11}\) Author’s own calculation based on data from European Commission (2012).
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in real terms) from the EU budget (table 2). Together with domestic expenditures the value of support amounts 2.07 billion euro nominally (1.84 euro billion in real terms). Its share in the whole allocation of Polish RDP (15.2%) is bigger than in years 2007-2013 (13.7%). It is because the value of financial support (in real terms) for discussed measures has been decreased in less proportion (by 36.4%) than the real value of whole RPD (by 43%).

Table 2. Financial support for agri-environmental measures in Poland in years 2014-2020 (euro billion)

<table>
<thead>
<tr>
<th>The measure</th>
<th>The support from the EU budget</th>
<th>Entire public support - including domestic expenditures</th>
</tr>
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<tbody>
<tr>
<td>AECM</td>
<td>0.87</td>
<td>0.78</td>
</tr>
<tr>
<td>Organic farming</td>
<td>0.44</td>
<td>0.39</td>
</tr>
<tr>
<td>Total</td>
<td>1.31</td>
<td>1.17</td>
</tr>
</tbody>
</table>

Source: Author's own elaboration based on data from MRiRW (2016)

The AECP, together with subsidies for organic farming, is on the fourth place in terms of the financial value among all measures in Polish RDP (PROW 2014-2020) while in entire EU still have the first place in that classification - 22.7% (European Commission, 2016). They have the first place in Czech Republic - 53% - (European Commission, 2016a), second place in Slovenia 31.5% (European Commission, 2016c) and in Hungary 20.3% (European Commission, 2016b).

If 25% of the second pillar value was not removed to the first one, the allocation for rural development measures from the EU budget would amount 11.46 euro billion nominally (10.19 euro billion in real terms). In such case the expenditures for the AEP and organic farming would potentially amount 1.39 euro billion from the EU budget in fixed prices (13.7% of the II pillar). It would be 24.5% less than in the previous period of membership. The relation of the expenditures officially planned for the AEP (1.17 euro billion) to the potential allocation (1.39 euro billion) is 84%. In that dimension the effectiveness of absorption is worse than in year 2007-2013 but better than in years 2004-2006. It means that the reduction of funding results both from the change in the structure of the CAP expenditures at Community level (Regulation 1307/2013) and from decisions made by Polish authorities. The real value of expenditures for the AEP together with related measures was possible to be maintained in comparison to the previous period even under the
conditions of the present shape of the RDP - if their share in Polish II pillar was increased to 25.3%. The decisions of Polish authorities were different and consequently the possibilities of further development in implementation of the AECP were strongly reduced.

5. Conclusion

The EU membership created and continues to maintain favourable conditions for the implementation of actions fostering Agriculture Sustainable Development. It refers to the AEP (nowadays the AECP together with support for organic farming), which is the most important rural development measure in the UE (in terms of financial support). Implementation of those instruments in Poland should be assessed critically in the light of the opportunities coming from the EU membership. The effectiveness of absorption of the programme is relatively low – especially in comparison to the discussed groups of the EU member states. The share of expenditures on the AEP in Polish RDP (in 2004-2006, in 2007-2013 and in 2014-2020) is one of the lowest in the EU. The effectiveness is also low when we take into account the relation of quotas which were actually spent on the AEP to the allocations which were potentially available for it. It especially refers to the first period of the EU membership. Polish agencies and other institutions connected with agriculture and with environment protection were too weak to prepare to implement a pilot version of the AEP. Besides, there was a lack of political will to spend bigger part of the CAP funds for environment protection. It resulted in limited possibilities of absorption in years 2004-2006. In the second period of membership much more funds were available for the RDP including the AEP and that was the result of decision made at the Community level. The effectiveness was improved in years 2007-2013, but it was worsened again in years 2014-2020 because according to the results of CAP reform and due to decisions of Polish authorities the biggest possible part of funds for rural development was reallocated for direct payments. One more time, the bargaining power of big agricultural producers’ lobby and related political parties occurred to be more important than protection of environment.

To improve absorption of the funds for the AECP there is a need to change the way in which Polish rural policy is curried out. It refers both to international and domestic level. The first aspect is connected with negotiations on the shape of the CAP for years 2020-2027. Polish authorities should stop to place emphasis on the structure of the system of subsidies which is more favorable
for the I pillar. For long term sustainable development of Polish agriculture with many small and medium-sized farms better solution would be the reorientation into stronger support for environmental measures of rural development. They should be more effectively implemented in Poland, so Polish rural agencies should be prepared for adequate activities. Besides, there is a need to coordinate agricultural and environmental policies – according to the principle of integration.

**Literature**


Zmiany finansowego wsparcia programów rolnośrodowiskowych w Polsce

Streszczenie


Słowa kluczowe: zrównoważony rozwój rolnictwa i obszarów wiejskich, rolnictwo zrównoważone, instrumenty rozwoju obszarów wiejskich, program rolnośrodowiskowy.