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## PRODUCER GROUPS, COOPERATIVE BANKS AND SUSTAINABLE DEVELOPMENT IN RURAL AREAS OF POLAND

### 1. Introduction

The main goal of this paper is to present the importance of producer groups and cooperative banks in the sustainable development of rural areas in Poland. The analysis shows that both producer groups and cooperative banks play a major role in agricultural progress. Yet, in Poland the potential of these organizations is not adequately utilized because of insufficient support and promotion (in the case of the former) and regular changes in the law that have often limited their development (in the case of the latter). However, the latest data prove that the situation of cooperative banks is improving very fast. Thanks to appropriate policy and a consolidation process they have retained their market position, despite being faced by competition from big commercial banks and other institutions like Poczta Polska (Polish Post), which recently started to provide financial services, and Spółdzielcze Kasy Oszczędnościowo-Kredytowe (Cooperative Savings and Credit Bank).

### 2. The Common Agricultural Policy

Recent changes in the Common Agricultural Policy (CAP) of the EU are aimed at shifting more money to rural development, which is consistent with the major rationale for intervention in this sector, *i.e.* the existence of positive externalities and public goods thanks to agricultural production. Nevertheless, the vast majority of funds are still spent on market support. The EU's budget totals EUR 116 554 million in appro-

priations for commitments and EUR 106 300 million in appropriations for payments [General budget, 2005, 4]. Table 1 shows slightly different numbers, although they are taken from the same document [General budget, 2005, 6]. No matter what figures are used in calculations, the share of the appropriations for commitments to agriculture and rural development in the EU's total budget has varied between 42.6% and 43% in recent years. In the last decade there have only been small changes in spending on agriculture and rural development. A much faster reduction in farm subsidies took place in the previous decade. At the beginning of the 90s CAP accounted for about 2/3 of the budget [Fischler, 2004]. It is worth noting that the budget itself is not large when compared with Gross Domestic Product (GDP) or Gross National Income (GNI). Appropriations for payments amount to 1.09% of the total GNI of the member states GNI (ESA 95) in 2005.

**Table 1.** Appropriations for commitments in 2000–2006

	2000	2001	2002	2003	2004	2005*	2006*
Agriculture	41 738	44 530	46 587	47 378	49 305	51 439	51 587
– excluding rural development	37 352	40 035	41 992	42 680	42 769	44 598	44 610
– rural development and supporting measures	4 386	4 495	4 595	4 698	6 536	6 841	6 977
Total appropriations for commitments	93 792	97 189	100 672	102 145	115 434	119 419	120 876

\* at 2005 prices

Source: General budget, 2005, 6.

The biggest achievement of the latest CAP reform passed in Luxemburg on 26th June 2003 was the replacement of the standard system (support dependent on the level of production) by the introduction of Single Farm Payments. As a result the support that distorts trade the most will be decreased by 70% and export subsidies by even 75%. Nevertheless, the level of payments to rural areas is still low – only EUR 6 841 million in 2005, *i.e.* 13.3% of total expenditure on agriculture within CAP. Unfortunately, the positive impact of the Luxemburg reform on the possibilities for sustainable development in rural areas of Poland will be limited. The reduction of payments to large farms (those receiving above 5 thousand euros of support a year) will range from 3% in the year 2005 to 5% in 2007. A proposal of a 19% reduction for farms receiving above EUR 50 thousand a year was rejected. Also the reforms of agricultural markets

will not contribute to sustainable development. Quite the opposite – the competitiveness of Polish milk and rye producers may strongly deteriorate. In addition, the preliminary project of reforming the sugar market is not good either for sugar factories, usually operating close to rural areas, or farmers. Taking into account that a lot of sugar factories have been closed in Poland and the unsatisfactory results of accession negotiations (low A and B quotas), further restriction on the sector will be a threat to the sustainable development of agriculture and rural areas in our country. The same applies to other quotas and limits on agricultural production discussed by Szydło [2004, 219–227]. In the face of integration with the EU and liberalization of food markets (WTO talks), both producer groups and cooperative banks should play a major role in the integration of farmers. Without strong development of both these collective activities, fast modernization of the sector and rural areas will not be possible.

### **3. The situation of Polish agriculture and the need for setting up producer groups**

Polish agriculture still lags behind. Farms and food production in most EU countries are at much higher level of development. There are several reasons for this. First, the farming sector in Poland is characterized by the existence of a large number of farms. According to GUS in 2003 there were 1956.1 thousand farms with at least 1ha of land utilized for agricultural purposes. Structural changes occur very slowly, as in six years (1996–2002) the number of farms fell by only 4.4% (90.7 thousand). In some countries like Denmark, Belgium, Sweden and Finland the process of polarization of farms is faster than in our country, even though the structure of their farms is far more favourable. In the years 1996–2002 the number of the biggest farms (above 20 ha) increased by 27.6 thousand, that is by about 31%, so in 2002 they accounted for only 6% of all farms. In 1999 farms of 20 ha or more accounted for only 36% of the total agricultural area, while in EU-15 it was 78.9% [Poczta, 2000].

Second, only 3.3% of agricultural land belongs to the first and second class, however the poorest soil (class V and VI) constitutes 34% of the land [Głowacki, 2002, 108]. The share of particular classes in the year 2000 amounted to: 0.4% in class I, 2.9% in class II, 22.7% in class III, 39.9% in class IV, 22.6% in class V and 11.4% in class VI.

Third, the level of support to agriculture measured by the Producer Support Estimate, in which assistance is calculated as a percentage of gross agricultural revenue, is much lower than in most OECD countries (Table 2).

**Table 2.** Producer support estimate (percentage of value of gross farm receipts) in 2003

NZ	AU	PL	USA	Mex	SK	Tur	
2.45	4.07	8.72	17.98	18.84	20.86	26.37	
HU	CZ	OECD	EU15	Jap	Kor	Nor	CH
26.6	27.47	31.71	37.36	57.63	60.48	72.41	74.07

NZ – New Zealand, AU – Austria, PL – Poland, USA – United States, Mex – Mexico, SK – Slovakia, Tur – Turkey, HU – Hungary, CZ – Czech Republic, Jap – Japan, Kor – Korea, Nor – Norway, CH – Switzerland

Source: OECD FACTBOOK, 2005.

The reduced competitiveness of Polish farmers may have an adverse effect on the possibilities of sustainable development of rural areas. According to GUS farm income has constantly decreased over the years. Along with the fall in income there has been a fall in investment, which has caused sharp depreciation of farm machinery. The data clearly show that a large majority of producers are too weak to successfully compete with strongly subsidized and relatively rich EU farmers. Obviously, the promotion of producer groups and cooperative banks could strengthen the position of Polish farmers.

More and more agricultural produce is supplied to big, usually multi-national, supermarkets. Bielski [2004, 22] states that their share in the Polish food market is 25%. In developed countries their market position is even stronger. Their share in the retail market varies between 51% in Germany to 80% in France and almost 100% in Switzerland [Boguta, 2001, 51]. Therefore, further expansion of supermarkets in Poland is feasible. As a result the market for agricultural produce from small and medium sized farms will shrink even further. A farmer has little strength to negotiate good contracts with suppliers (*e.g.* producers of fertilizers) and buyers of agricultural produce. As a consequence the prices of agricultural produce are increasing much more slowly than the prices of goods and services purchased by farmers (Table 3).

Research carried out by Lemanowicz proved that joining a producer group helps to shorten distribution canals and reduce the number of in-

**Table 3.** Index of price relations ("price gap") of sold agricultural products to purchased goods and services

1996	1997	1998	1999	2000	2001	2002	
previous year = 100							1995 = 100
96	95.8	91.4	91.5	103	97.5	90.9	70.2

Source: GUS, 2003.

intermediaries in selling goods. Hence, a farmer's profit margin could substantially increase. The share of food processing plants in farmer's distribution canals increased from 44% to 55% after joining a producer group. Another positive outcome was a sharp fall in the number of private intermediaries from 27.5% to 12.7% and a decrease in the share of products sold via street markets – by 4.9 percentage points to 4.1% [Lemanowicz, 2004, 109].

Promotion and support of producer groups could reduce the inequality between cities and rural areas, as structural changes in farms, such as an increase in the acreage of farms, are occurring slowly in Poland. Due to high unemployment, excess farm workers cannot find jobs in nearby towns and even cities, which leads to severe problems with hidden unemployment. According to Sokołowska [2002] 20% of farm workers are in fact redundant. Other economists estimate the hidden unemployment rate as 1 or even 1.4 million. Official data (registered or the LFS unemployment rate) do not recognize this issue. Among farmers and their families the latter amounted to only 8.7% in the third quarter of 2004, while amongst non-farm workers in rural areas it reached 27.5%.

On account of the matters already discussed sharing the costs of expensive equipment or other kinds of investment in farms within a producer group is a rational response to the needs of farm restructuring. It is worth noting that agriculture is one of the most capital intensive sectors. To illustrate this point, the cost of maintaining one's own Bizon Rekord combine harvester (costing about 200 thousand zł) is only cost effective for farms of at least 100 ha [Bielski, 2004]. Taking into account the latest Narodowy Spis Powszechny (National Agricultural Census), there were only 7.42 thousand such farms in 2002 (in 1996 the number was even lower, 6.6 thousand). As a consequence, collective action may benefit all members of a group.

The degree of depreciation of fixed assets in agriculture, hunting and forestry is much higher than in the economy as a whole. It amounts to 62% for buildings and structures, 77.5% for machinery, technical equipment and tools and as much as 93.5% for transport equipment [Mały Rocznik Statystyczny, 2003]. At the current level of investment the sustainable development of agriculture in Poland is not possible (table 3).

The fall in the real interest rate has not had much influence on the level of investment. It is still quite low (Table 4), although there seems to be some chance of double digit investment growth in the economy as a whole in 2005. Some problems in transferring EU funds to Polish farmers slightly constrained the predicted boom in agricultural investment at the end of 2004. Additionally, the level of prices of fertilizers has dramatically increased since accession on May 1<sup>st</sup> 2004.

**Table 4.** Indices of investment outlays (constant prices) in 1996–2002

	1996	1997	1998	1999	2000	2001	2002		
	previous year = 100							1995 = 100	2000 = 100
Total	119	122	115	106	101	90.5	90	147	81.5
Agriculture, hunting and forestry	130	96.5	83.1	102	96.4	89.8	95.6	88	85.8

Source: Mały Rocznik Statystyczny, 2000, 2001, 2002, 2003, 2004.

#### 4. Legal basis for the functioning of producer groups

The functioning of producer groups in Poland is regulated by the act of 15<sup>th</sup> September 2000 on producer groups and their organizations as published in Dziennik Ustaw 2000, No. 88, Item 983 [Dziennik Ustaw, 2000a] and the act of 29<sup>th</sup> November 2000 on the organization of the markets for fruit and vegetables, hops, tobacco and dry fodder [Dziennik Ustaw, 2003b]. The former act was amended by the act of 28<sup>th</sup> November 2003 [Dziennik Ustaw, 2003c] and the act of 18<sup>th</sup> June 2004 [Dziennik Ustaw, 2004]. The former regulation of 15<sup>th</sup> March 2001 ceased to be binding with the coming into force of the regulation of 4<sup>th</sup> July 2003 on the specification of produce and groups of produce, for which producer groups can be created, the minimal annual quantity of food production on the market and the minimal number of members of producer groups [Dziennik Ustaw, 2003a].

#### 5. Financial support to producer groups

Support is conditional on being entered into the register by the voivode (head of regional government administration). This is an administrative decision, so there is the possibility of appeal.

Producer groups that were registered before 1<sup>st</sup> May 2004 are granted support from the state budget via ARiMR (Agency for Restructuring and Modernisation of Agriculture). It amounts to [see [www.arimr.gov.pl/docs/edukacja/gpr\\_umowa.doc](http://www.arimr.gov.pl/docs/edukacja/gpr_umowa.doc)]: in the first year – 5%, in the second year – 4%, in the third year – 3%, in the fourth year – 2%, and in the fifth year – 1% of annual net receipts from the sale of produce from the farms belonging to a producer group. Additionally, there are two limits on support. First, the support cannot be greater than the administrative costs of a group. Second, it cannot exceed [see [www.arimr.gov.pl/docs/edukacja/gpr\\_umowa.doc](http://www.arimr.gov.pl/docs/edukacja/gpr_umowa.doc)]: in the first year – 80- times, in the second – 64-times,

in the third – 48-times, in the fourth – 32-times, in the fifth – 16-times an average monthly wage without profit payments. The level of wages is published by the chairman of GUS (Central Statistical Office). The average wage amounted to 2546.14 zł in the fourth quarter of 2004.

According to the aforementioned act of 15<sup>th</sup> September 2000 r. (Article 23) producer groups may receive preferential investment credits. The interest rate is set at  $L$  of the rediscount rate (now 6.5%). Thus the cost of capital for producer groups is quite low, about 1.6% a year. Payment of the debt can be delayed (max. 2 years). The borrowing period cannot exceed 8 years. Additionally, maximally 70% of the value of an investment project can be financed by credit. There is also a limit for the total credit – 16 million for meat and 8 million for other production.

It is worth noting that even farmers not belonging to producer groups can buy machinery or land using preferential credit. Low interest credit can be granted to young farmers. Relatively low interest rates in Poland mean that the cost of capital is no longer perceived as the most limiting factor in the development of farms. It is possible that profitability and potential demand for extra produce are more important. Therefore, the sustainable development of agriculture cannot be achieved without a good and stable financial perspective.

The results of empirical research carried out by Lemanowicz on 62 producer groups in Poland show many positive effects of belonging to a producer group [Lemanowicz, 2004, 103–115]. Farms in these producer groups were much more market orientated than an average Polish farm. Their market production totalled 3900 zł/ha in 2002, *i.e.* almost twice as much as on an average farm – 2007 zł in 2002 [GUS 2002]. In the farms examined there was an increase in crop acreage for all types of production after joining a producer group. This amounted to [Lemanowicz, 2004, 107]: 18% for fruit and vegetables (average farm area 13 ha), 11% for pigs (average area 29 ha), 21% for cows – dairy (average area 29 ha), 12% for cereal (average area 37 ha), 10% for poultry (average area 11 ha), 7% for hops (average area 11 ha), 6% for herbs (average area 6 ha). Similarly, there was an increase in both the average size of farm and acreage in all these five voivodeships (provinces) (Table 5).

Unfortunately, the number of producer groups is still very low. Despite the clear advantages of joining a producer group farmers are still reluctant to participate. Lack of promotion and a low level of support are to blame for this situation. At the beginning of 2002 there were only 7 registered producer groups, 50 more were waiting for registration [Papuga 2002, 17]. Since then little progress has been made. In July 2004 only 76 producer groups with 12 377 members were operating (less than 1% of farms that applied for direct payments – see Table 6).

**Table 5.** The change of farm area after joining a producer group

Province	Average size of farm (ha)	changes in the acreage (%)
Świętokrzyskie	16	10,1
Podlaskie	27	27,3
Kujawsko-pomorskie	33	11,6
Lubelskie	20	16
Mazowieckie	12	10,5

Source: Lemanowicz, 2004.

**Table 6.** Specification of producer groups in Poland (31st July 2004)

Product	Number of groups	Number of members	Product	Number of groups	Number of members
Fruit	4	98	Poultry	5	68
Fruit and vegetables	13	205	Milk	2	36
Fruit and vegetables for processing	2	451	Cattle	1	5
Vegetables	3	33	Sheep	1	53
Potatoes	1	29	Pigs	10	1 062
Sugar beet	1	23	Rabbits	1	12
Cereal	18	430	Herbs	1	16
Tobacco	9	9 766	Flowers	1	9
Hops	2	73	Total	76	12 377
Eggs	1	8			

Source: MRiRW (Ministry of Agriculture and Rural Development).

Since the end of July 2004 there has been only a small increase in the number of producer groups. The latest data of May 2005 show that there are 105 producer groups uniting 17 thousand farmers and operating according to the act of 15<sup>th</sup> September 2000 on producer groups and their organizations. In addition, there are 38 preliminarily recognised producer groups and their organizations and 22 producer groups of fruit and vegetables established in accordance with the aforementioned act of 15<sup>th</sup> September 2000.

Unfortunately, there is only a small chance that support from the EAGGF Guarantee Section from Plan Rozwoju Obszarów Wiejskich (Development Plan for Rural Areas), Działanie (activity) 7 will prompt a sharp increase in the number of producer groups. In the years



2004–2006 the budget for such activities amounts to EUR 25.4 million, 80% of which, *i.e.* EUR 20.2 million comes from the EU. Nevertheless, producer groups that were set up before 1<sup>st</sup> May 2004 cannot benefit from the programme. Moreover, the maximum limit of support is not high enough (although higher in the case of “new” producer groups). In the first and second year assistance to producer groups set up after accession cannot exceed EUR 100 thousand, in the third – EUR 80 thousand, in the fourth – EUR 60 thousand and in the fifth – EUR 50 thousand a group. Taking the data on producer groups discussed above and the average turnover generated (3900 zł/ha), the optimum acreage of a group that will enable to receive all payments will be 3076.9 ha and the optimal turnover EUR 3 million.

According to “Plan Rozwoju Obszarów Wiejskich na lata 2004–2006” (the Development Plan for Rural Areas) support can be granted for setting up and the administrative costs of producer groups for the first five years of their existence. Unfortunately, funding is only transferred to the groups 60 months after receiving entry into the register. In practice, in the opinion of Zofia Szalczyk, a producer group will receive help one and a half years after establishment at the earliest. During this period farmers have to spend their own funds. In consequence only 20 groups filed an application for support [Komisja Rolnictwa i Rozwoju Wsi No. 264, 25.05.2005].

## **6. Cooperative banks and their influence on sustainable development**

Cooperative banks are regulated by The Cooperative Banks, Affiliation and Affiliating Banks Act dated 7.12.2000 and amended 27.06.2003 [Dziennik Ustaw, 2000b] and The Bank Law dated 29.08.1997 [Dziennik Ustaw, 1997] with later amendments. Due to these regulations, there are some major differences between cooperative banks and other, commercial banks that have the form of a joint stock company.

First, the capital requirements for cooperative banks are much lower than for other banks. The level of funds that a cooperative bank affiliated to an affiliating bank is required to hold is set at EUR 300 thousand. By the end of 2005 these funds must increase to EUR 500 thousand and to EUR 1 million by the end of 2010. The final capital threshold, however, was relaxed by EU despite objections from cooperative banks.

Second, decisions in cooperative banks are reached by a simple majority of votes, irrespective of the share of capital owned by a person or

a group. In joint stock companies, on the other hand, it is the amount of share capital that counts. Thus, the decisions made by a cooperative bank are usually more balanced than those made by a commercial bank which aims mostly to increase the level of profit from invested capital.

Third, shares in a cooperative bank cannot be sold to a third person in the secondary market (shares can only be cancelled). As a result short term investment – speculation (as in the case of joint stock companies or limited liability companies) is not possible.

Because of these differences, the shareholders of cooperative banks are not so interested in increasing the capital of a bank, as they can only benefit from dividends. Paying excessively high dividends, in turn, could constrain investment in new banking products like e-banking. Therefore, the growth of capital should be a result of an increase in the number of members and retention of profit. Because of these regulations, there could be mounting pressure to increase dividends. However, the membership of many Polish cooperative banks is dispersed so that members do not have much influence on bank managers. Hence, there is a different kind of danger – inadequate supervision (the case of Dolnośląski Bank Regionalny and Bank Spółdzielczego Rzemiosła). DBR's initial loss of 12,5 million zł turned out to be much higher. After audit it was shown to exceed 90 million zł [Pokojska, 2004, 14].

Another characteristic feature of cooperative banks is their local character that contributes to the sustainable development of Polish agriculture and rural areas. Their functioning is limited to a *powiat* (administrative unit – there are 308 *powiats* in Poland, they are the medium level of the 3 levels of local and regional government) in which a bank has its headquarters and to the *powiats* in which it had agencies at the time when the act of 7<sup>th</sup> December 2000 came into force. This act enables to increase the range of functioning to neighboring *powiats* with the consent of the bank that associates smaller cooperative banks. The specific legal regulations mean that cooperative banks are inherently orientated towards sustainable development. Members and workers of co-operative banks are usually strongly linked to local communities.

In the process of reforming Polish cooperative banking a two-tier structure was created. There are now three cooperative banks that associate smaller banks. Bank Gospodarki Żywnościowej S.A. (BGŻ) that had the function of being a central bank for co-operative banks is no longer in this structure and is now a joint stock company. Yet, many cooperative banks still have some shares in BGŻ. After years of painful restructuring (the number of banks fell from 1653 in 1993 to 1295 in 1997 and to 597 in 2004) the financial situation of cooperative banks has much improved. To meet the obligation set by the first two capital thresholds

a lot of banks had to be taken over. In the future further takeovers will take place as more than half of these banks (57%) have not yet reached the third threshold (Table 7).

**Table 7.** Breakdown of the number of cooperative banks according to the size of funds held

Funds held in thousands of euros	December 2000		September 2004	
	Number of banks	Percentage (%)	Number of banks	Percentage (%)
less than 100	50	7.4	—	—
100–200	55	8.1	—	—
200–300	44	6.5	—	—
300–400	187	27.5	16	2.7
400–500	90	13.2	56	9.4
500–600	60	8.8	63	10.6
600–700	39	5.7	67	11.2
700–800	36	5.3	55	9.2
800–900	29	4.3	51	8.6
900–1000	21	3.1	35	5.9
>1000	69	10.1	253	42.4

PLN/EUR exchange rate of 29 December 2000

Source: Sytuacja finansowa, 2004, 70.

Despite growing competition co-operative banks have not lost their market share. Quite the opposite, they have managed to slightly strengthen their position. But still their strength is limited, especially in comparison to foreign banks. Cooperative banks own only 5.3% of the banking sector, while commercial banks which have a majority of foreign capital own as much as 67.8% (Table 8).

In the years 1997–2003 the assets of cooperatives banks more than doubled (from 11.3 bln zł to 25.7 bln zł.). Surprisingly, the dynamics of growth in commercial banks was lower (an increase from 236.4 bln to 463.6 bln zł).

The expansion of co-operative banks is clear when analyzing the changes in the number of employees – growth from 25.7 thousand in 2000 to 27.4 thousand in September 2004, while in contrast there was a fall in employment by more than 20 thousand (to 121.7 thousand) in commercial banks. Correspondingly, the number of outlets of cooperative banks increased from 2.7 to 3.3 thousand, whereas in commercial banks this number fell from 11.5 to 8.5 thousand.

**Table 8.** Structure of ownership of the banking sector in Poland

	1997	1998	1999	2000	2001	2002	2003
Commercial banks	95.5	95.7	95.8	95.8	95.4	95	94.7
1.1. With majority of state capital	49.3	45.9	23.9	22.9	23.5	25.1	24.2
1.2. With majority of private capital	46.2	49.8	71.8	72.9	71.9	69.9	70.3
a) Polish	30.9	33.2	24.6	3.4	3.2	2.5	2.5
b) Foreign	15.3	16.6	47.2	69.5	68.7	67.4	67.8
Cooperative banks	4.5	4.3	4.2	4.2	4.6	5	5.3

Source: NBP (Polish National Bank).

More evidence for the recovery of the sector analyzed is given by the profit and loss account. The aggregate net profits for the three biggest and at the same time affiliating banks, *i.e.* Bank Polskiej Spółdzielczości, Gospodarczy Bank Wielkopolski and Mazowiecki Bank Regionalny, amounted to 127 million zł in 2004. But still the net profits in commercial banks was even greater. For example PKO BP had profits of 1 514.4 million zł, Bank Pekao 1 343 million zł, Bank BPH 788.3 million zł, and BZ WBK 444.5 million zł. These differences only results from size differences, as capital adequacy is similar in both commercial and cooperative banks.

## 7. Conclusions

One possible solution to the problem of the low number of producer groups in Poland is an increase in support granted to such groups, especially in the first quarters or even months of functioning when they face their biggest difficulties. The European Parliament recognises the need for greater support and in one of its resolutions urges the European Commission to double assistance to producer groups in the new member states [Komisja Rolnictwa i Rozwoju Wsi, No. 263, 19.05.2005]. It is also necessary to equalize the level of assistance given to producer groups that were set up before and after May 1<sup>st</sup> 2004. At the moment producer groups that were established before accession receive much less support. Hence, unification in this area is vital. However, it will not be easy because "old" producer groups already receive support in the form of preferential credit. This support should cease when a group wishes to come under EU regulations. Another obstacle to progress is farmers' aversion to collective action. According to Roman Sass, farmers find it difficult to choose a leader from among themselves [Komisja Rolnictwa i Rozwoju Wsi, No. 264, 25.05.2005]. On the other hand, in most cases they cannot

afford to hire a professional manager. Government agencies like ARiMR (the Agency for Restructuring and Modernization of Agriculture) and CDRs (Agricultural Advisory Centres) should concentrate more on the promotion of producer groups. Selection and training of local leaders is also of much importance, as it will contribute to higher utilization of Leader+ (one of four initiatives financed by EU structural funds aiming to assist rural actors to consider the long-term potential of their local region).

In the years of slowdown in the economy from 2000 to 2003 cooperative banks performed better than the much bigger commercial banks. Cooperative banks provide services for over 10 million customers. Members and customers of cooperative banks are mainly individuals and small and medium sized enterprises. Four banks, *i.e.* Bank Polskiej Spółdzielczości, Mazowiecki Bank Regionalny, Gospodarczy Bank Wielkopolski and BGŻ accounted for about 86% of credit given to farmers [Top Agrar Polska, 2005, 16]. Affiliating banks seem to be well prepared for future challenges. GBW SA was third in the ranking "Best banks 2005" published by "Gazeta Bankowa" (category: "Specialized banks – smaller"). All these data prove that cooperative banks will continue to play a big role in sustainable development in Polish rural areas and there is no need for big changes in either the organization or functioning of cooperative banks in the foreseeable future.

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