

## TRANSFORMATION OF STATE FARMS IN POLAND: OWNERSHIP PATTERNS

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### INTRODUCTION

The process of systemic transformation in Poland has caused a breakdown and liquidation of state-owned farming which, over a forty years period represented a major constituent part of the Polish landscape, in particular in 11 northern and western voivodships. As a consequence of these changes, 230 *gmina* (communes) – those where state farming used to dominate – require a total restructuring of rural regions, whereas further 585 *gmina* where the share of the state sector in agriculture was significant – should also be included in the general strategy of rural development.

The transformation of state agriculture in Poland differs fundamentally from the de-collectivisation of agriculture as carried out in other post-socialist countries of East-Central Europe, namely:

- it includes neither restitution of property nor reprivatisation;
- it includes only state-owned agriculture, and not co-operative property;
- it is a regional, and not a nation-wide process;
- it does not include the whole sector of agriculture. (In fact, it concerns only one fifth of arable lands, one fifth of global agricultural production and one fifth of the total agricultural output.)

It should, however, be emphasised that the process of restructuring and privatisation of the state sector of agriculture involved 4.5 million hectares of land – an area much larger than the territory of Belgium, somewhat smaller than the territory of Holland, or approximately half the size of the Czech Republic.

One should also point out that state-owned farms (PGR), apart from their main function, namely agricultural production, used to fulfil other important tasks. They created an infrastructure and settlement network in rural areas, developed social and cultural activities, provided jobs for 440,000 people. As the livelihood basis of 2 million people – the employees and their families – state-owned farms contributed in one way or another to socio-economic development.

State-owned agriculture accounted for a substantial share of the total output of farm products. In particular, it was important with respect to the supply of oil plants, grains, potatoes, meat, milk as well as in the production of qualified seeds and animals kept for breeding. In the years 1986-1990, with 19% of the total farming land in Poland, the state sector accounted for 18% of the total agricultural output, over 18% of the gross final use production and 21% of the marketable production. Although

farming land on state farms was showing less productivity (i.e. the value of total production per hectare) than on private farms, with respect to the yields of marketable agricultural produce the situation was the opposite.

A measure of the role performed by state agriculture in 1991 was the share of its deliveries in the so-called centralised purchasing system of agricultural products. State farms supplied 64.8% of rape, 38.0% of grain, 30.9% of potatoes, 24.5% of pigs, 20.0% of cattle, 14.3% of milk, 13.5% of sugar-beet, as collected in the system.

The "shock therapy" rules introduced by Leszek Balcerowicz allowed little possibility of a gradual adaptation of the centrally-planned economy to market economy; the volume of state farms production rapidly diminished and social consequences of the breakdown became drastic. The total area under crops decreased in the years 1989-1993 by 39.5%; the area of grain cultivation went down by 19.1%, potatoes by 16.7%, sugar-beet by 36%, and rape by 70%. Animal production also decreased significantly. The cattle stock decreased by 60%, cows by 56%, pigs by 52%, and sheep by 80%. The production of milk decreased by a half, the sale of cattle by 70%.

Large areas of fallow land, some 300,000 unemployed; unused farm buildings suffering devastation; huge liabilities exceeding the value of working assets and at times the value of state subsidies; half of the total farm land under provisional management; these are among the measurable consequences of the political changes.

While the picture presented above is an objective representation of reality, its negative features are also results of the generally disadvantageous economic situation in the period during which the restructuring and the ownership transformation of agriculture took place. The state sector of agriculture, a beneficiary of governmental subsidies, was not prepared to face the revolutionary transformation. Through the liberalisation of prices for agricultural products (1989) and the introduction of market economy rules (early 1990), all the structural and social weaknesses of state farms came to light. The most severe problems included: inefficiency of organisation and central managing systems; over-employment; over-investment (especially with respect to building infrastructure); an overburden of social functions. State farms have proved not very resistant to the changes of basic economic parameters. In the years 1990-91, as a result of introduction of high interest rates on credits, the financial liabilities of state farms grew rapidly, which additionally had a negative impact on their situation. In 1992 further difficulties appeared, mostly of an agrotechnical nature, resulting from the limitation of mineral fertilisation and liming, and the reduction in the use of qualified sowing grains and pesticides. The decrease of rentability of plant production on poor soil or soil difficult to cultivate resulted in large areas of land in state farms lying fallow.

#### ***TRANSFORMATION STRATEGY: CREATIVE DESTRUCTION OR A CHANCE FOR IMPROVING AGRICULTURE MANAGEMENT?***

Privatisation strategy, as applied to state-owned agriculture, can be evaluated from two different perspectives. According to the first, privatisation is a process based upon a political doctrine. State farms as an element of the socialist, privileged sector, had to

be liquidated in shortest possible time. According to the other perspective, state farms, with all their structural and economic characteristics, were incapable without state subsidies of adapting to the rules of market economy. The transformation which took place was only a consequence of this fact.

Without going more deeply into the question of which of the assumptions presented above was actually applied to set the transformation process in motion, it should be emphasised that neither of them was based upon rational premises, nor they considered socio-economic consequences, the eventual territorial disintegration of state farms, the size of market demand for land etc.

There is little doubt, however, that the pure political objectives and the neo-liberal economic policy applied brought about the rapid bankruptcy of state farms. Their liquidation did not have to comprise an autonomous goal, one justifying the rule: privatisation for privatisation's sake. Conversely, it should follow from rational objectives of a general agricultural development policy.

There is no credible answer to the question whether state farms had actually a chance of surviving and adapting to the rules of market economy, as they have not been given such a chance.

It should, however, also be emphasised that in 1989 – as well as at present – there were neither theoretical models nor practical solutions concerning the transformation of centrally-planned economy into market economy. The dispute still continues between adherents of the “invisible hand” of the market and those of state interventionism, between adherents of the “shock therapy” and followers of the evolutionary transformation path, between liberals and the followers of Keynes' theory, between adherents of the classic market economy and those of the social market economy.

According to the assumptions underlying “shock therapy”, as introduced by Leszek Balcerowicz, socialism cannot be an effective economic system – in spite of changes in its structure. This thesis was in fact confirmed over time and through the experiences of other post-socialist countries.

Controversial, however, is the question of the effectiveness and legitimacy of the liberalisation pattern applied, and carried through radically, as the only existing form of transition to market economy.

The privatisation of state agriculture proved to be a difficult undertaking. Contrary to initial assumptions, it has not been a quick process; it has so far brought no radical changes in the size structure of farms. In addition its economic consequences have been not as significant as they were expected to be. Instead, privatisation resulted in a complete destruction of local economy in large regions of Poland, creating the painful problem of structural unemployment.

#### ***TASKS OF THE AGENCY FOR TREASURY AGRICULTURAL PROPERTY IN THE PRIVATISATION OF STATE FARMS***

An important factor which created foundations for the regulation of the transformation of agriculture was the law introduced on October 19, 1991, the Act on

Management of Landed Properties Belonging to the Treasury, and the creation of the Agency for Treasury Agricultural Property on January 1, 1992.

The Agency is a trust institution charged by the Treasury with executing the property law with respect to state property in agriculture. The Agency accomplishes these tasks through self-financing; its elementary source of income are dues in virtue of sale and rent-charge for lease and utilisation of property being part of the Treasury Agricultural Property Fund.

Beginning on January 19, 1994, the Agency has carried out its activities on the grounds of the above-mentioned law, amended on December 29, 1993, based upon the parliamentary document: *Foundations of the socio-economic policy for rural areas, agriculture and food industry until the year 2000*. The Agency is charged with tasks which would improve the size structure of farms. It is also to support the Fund in taking over all the state farming land, and gradually developing a management policy with respect to this land.

The restructuring and privatisation of the property, having been taken over, now proceeds generally along two paths. The first one consists of transforming the state farms or their constituent parts into new economic subjects – Treasury-owned farms managed by leaseholders, administrators and joint stock companies owned by the Agency, which could independently function within the rules of taxation and market economy. The size of these farms is to be determined on the grounds of restructuring programmes and should guarantee an effective use of farm buildings and other fixed assets.

The second path consists of initiating the process of land turnover – its sale to owners of family farms, in order to create new private farms and increase the size of the existing ones.

Privatisation, i.e. change of ownership, takes place only in the case of sale, or, gradually, in the case of leasing of land. Otherwise, only the user changes while the land still remains property of the State, represented by the Agency. If the quality of land makes it unprofitable for cultivation, it is possible to turn over the land, free of charge to State Forests, to afforest the land or leave it in fallow. Farming land and other assets can also be transmitted to the communes (*gmina*) and used for infrastructure investments.

The diversity of solutions concerning the restructuring and the management of property and the variety of subjects taking part in the privatisation process should contribute to a rational and a reasonably rapid transformation of state agriculture.

### **THE PROCESS OF RESTRUCTURING AND PRIVATISATION OF STATE-OWNED AGRICULTURE**

#### ***Property transfer***

The transfer of property to the Treasury Agricultural Property Fund constituted the first step of restructuring and ownership transformation in state agriculture.

Since the establishment of the Agency until the end of 1996, the total area of all 1,666 liquidated state farms, covering 3,750,000 hectares, was transferred to the Fund. At the same time, 570,000 hectares of land belonging to the State Land Fund (PFZ) – a resource created in the communist days and constituting farmland ceded to the state by farmers in return for retirement pensions – as well as 186,000 hectares of land belonging to other users, was taken over by the Treasury Agricultural Property Fund.

The total area of land transferred to the Fund, according to official records, amounted to 4,506,000 hectares; of which 3,804,000 hectares consisted of farming land, 328,000 hectares of land under water (lakes and ponds) and 146,000 hectares of forests.

The largest area of farming land has been transferred to the Fund in the Olsztyn voivodship (402,000 hectares) and Szczecin voivodship (382,000 hectares), the smallest area in the voivodships of Bielsko-Biała (6,000 hectares), Ostrołęka and Łódź (7,000 hectares each). In 11 voivodships of Western and Northern Poland the total of 2,900,000 hectares of farming land (77.5%) has been transferred from 1,190 state farms (72%; *Figure 1*).

The transfer of property from state farms and the State Land Fund to the Agency, and the process of their restructuring differed with respect to time and space. It took the shortest time to convert state farms in the first half of 1993. Beginning in late 1993, the Agency has been taking over more and more devastated property and derelict farming land, waste land, farms which were heavily indebted, with usually discontinued animal production.

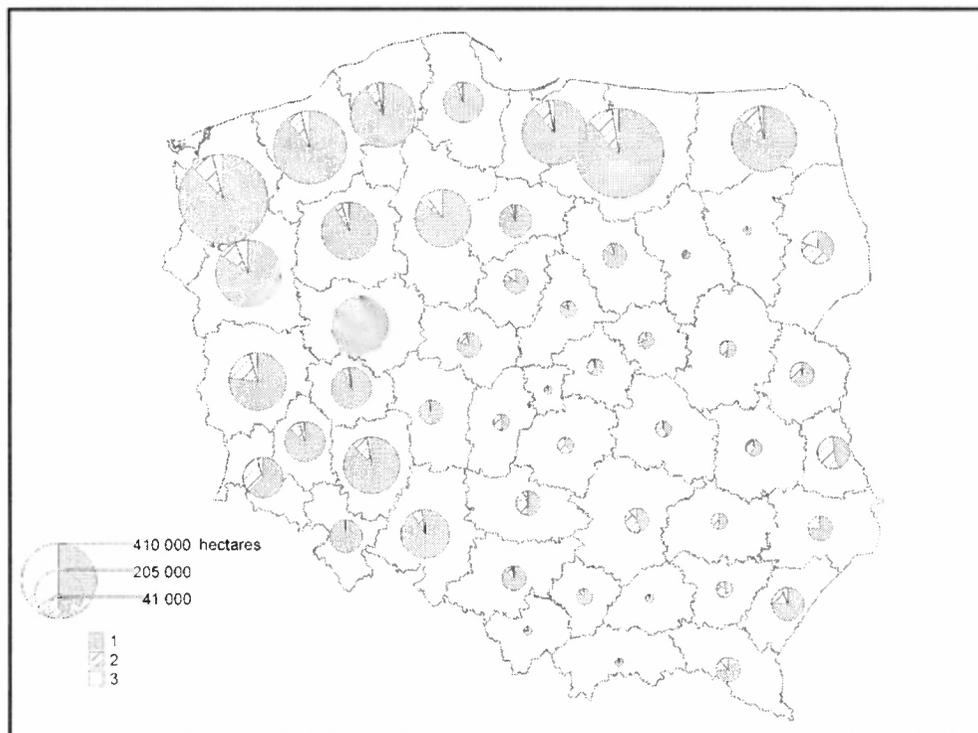
Along with the farming land taken over from the state farms, the Agency has received other components of their property, such as housing estates with related infrastructure, workers' flats (330,000), farm buildings (mostly accommodated large-scale farming, presently to a great extent out of use and subjects to rapid deterioration), storage, commercial and industrial buildings, as well as monumental objects (such as palaces, parks, manorial estates).

The value of land taken over by the Agency amounted to 7.04 billion PLN, i.e. approximately 2 billion USD. The value of land was specified as the average price of land sold by the Agency in 1996 which made 1,874 PLN (530 USD) per hectare of land.

The net book value of all fixed assets of state farms amounted to 7,303.4 million PLN, whereas the value of working assets totalled 1,295.5 million PLN. The total value of property of state farms taken over by the Agency (farming land, working and fixed assets) amounted to 15.63 billion PLN, i.e. 4.46 billion USD.

Along with the rights and duties related to the transferred property, the Agency was burdened with debts. On June 30, 1995 the liabilities of the Agency amounted to 2.1 billion PLN and exceeded the value of the working assets by 0.75 billion PLN. This means that every hectare of land taken over was on average equalled a burden of 538 PLN.

**Figure 1**  
*Agricultural land taken over by the Agency for Treasury Agricultural Property,  
January 1, 1997*



*1 – land taken over from the state farms, 2 – land taken over from the State Land Fund, 3 – land from other ownership*

### **Property management**

According to the law, in order to support the effective and rational use of land accumulated by the Fund, an appropriate administration policy has to be developed. To implement this goal as many as 1,739 programmes have been introduced, concerning the restructuring of the Fund's property and aiming at preparation of a possibly broad and differentiated offer of sale and lease of the land. This policy was aimed at expanding the output potential of the existing private farms and stimulating the formation of new ones.

The most preferred development is the sale of land or its free-of-charge transfer or apportionment to companies belonging to the Agency. This way, the total of 526,000 hectares, i.e. 12% of the land taken over, was allocated by the management by the end

of 1996. The remaining part, i.e. 3,980,400 hectares of land, still belongs to the Agency and is either leased, temporarily used, given in tenure, or its future appropriation is still not settled. (Figures 2, 3)

#### *Sale*

By the end of 1996 the Agency had sold 432,000 hectares of land, 83% of which had belonged to state farms. The land has predominantly been purchased by private farmers. Of the total of 53,000 transactions concluded, 28,500 (53%) were contracts for the purchase of plots of land smaller than 1 hectare, 18.8 thousand (35%) for 1-10 hectares and 6,000 agreements (12%) concerned pieces of land between 10-100 hectares. Only 480 sale contracts concerned units of over 100 hectares; these, however, constituted as much as 43.3% of the total land area sold (389 hectares per contracts on the average; Figure 4).

The relatively small demand for the land of former state farms stems from such factors as lack of capital, low rentability of agricultural production, and high concentration of the farm land available in the regions where relatively large private farms predominate. Foreign investors have purchased, despite low prices of land (though with strict regulations), only 150 hectares of land (0.03%); out of this the plot of 60 hectares has been sold for the purpose of constructing a General Motors factory. A larger area of land, almost 14,000 hectares, has been purchased by commercial companies with minor shares owned by foreign capital.

Despite preferential prices and other privileges, only 207,000 flats have been sold by the end of 1996 out of the total of 330,000 units taken over by the Fund. In general, only a rather small fraction of non-productive assets of the former state farms have so far been sold by the Agency.

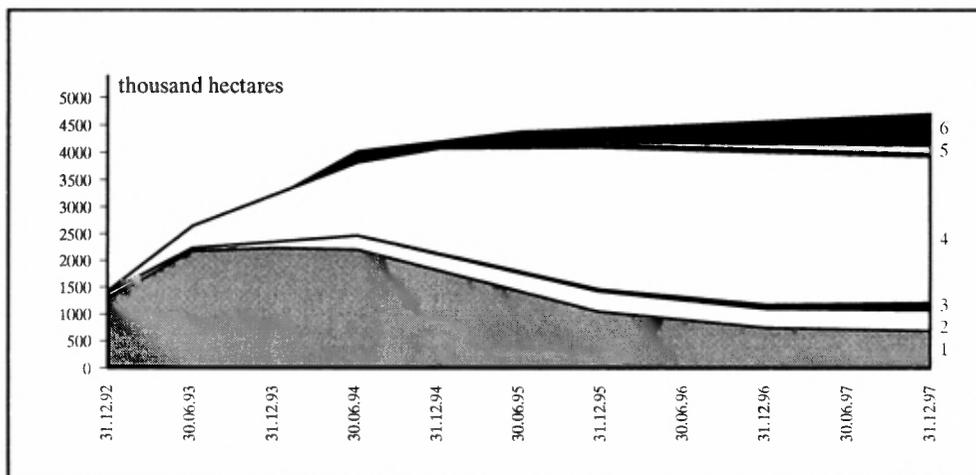
#### *Free-of-charge transfer*

85,000 hectares of land have been transferred, free of charge, to other subjects: 39,000 hectares to State Forests, 28,000 hectares to the Church (represented by legal persons), 7,000 hectares to communes. The latter have also taken over the total of 946 flats.

#### *Leasing land*

A much more effective way of managing the land of former state farms, without changing its owner, proved to be land lease. By the end of 1996, 171,000 lease agreements had been concluded, concerning 3,433,000 hectares of land (76.2% transferred land), of which 3,139,000 hectares consisted of land of former state farms. With respect to agreements concluded, the dominant type of plots leased, were units smaller than 1 hectare (48% of all agreements), as well as plots in the size of 1-10 hectares (40% of all the agreements; Figure 5).

**Figure 2**  
*Use of land at the disposal of the Agency, 1992-1997*



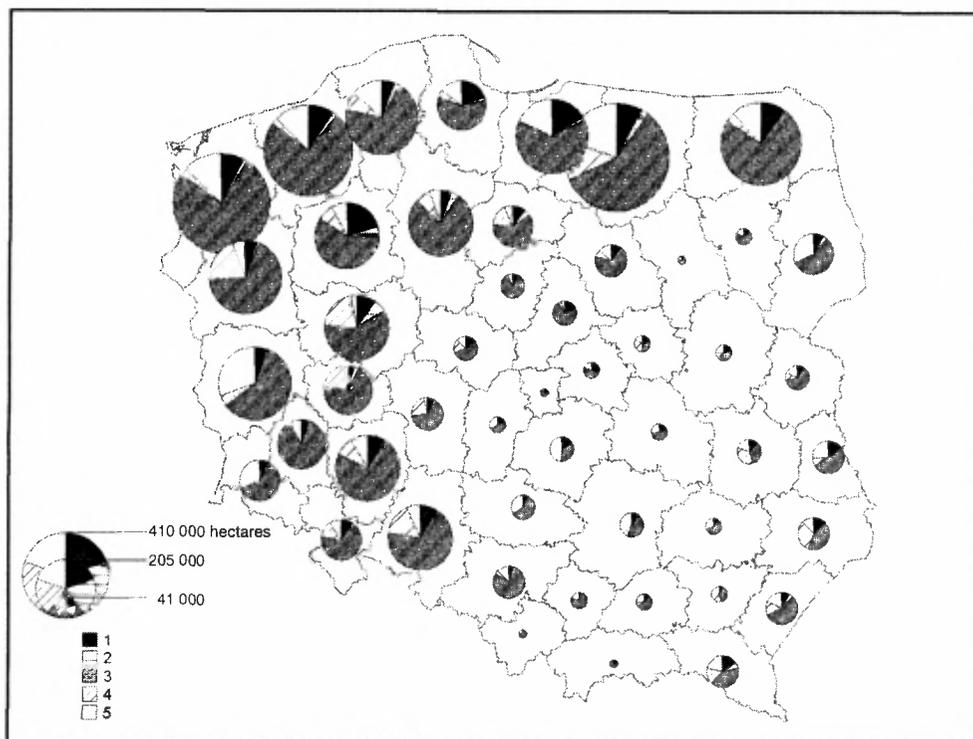
1 – land sold, 2 – land rented out, 3 – land administered, 4 – land under temporary management,  
 5 – land left fallow to be put in use later on

These two categories constitute only 7.3% of the total area of leased land. According to the policy applied, an increase in the size of family farms was to be given priority. It turned out, however, that only one fifth of the land was leased to farmers who owned less than 100 hectares of land. Out of the remaining 80% of the land leased, large farms were created: 1,748 farms of the size of 500 hectares and above, and 483 farms of the size of 1,000 hectares and more. The average size of land leased to a farm covering an area of 100 hectares or less was 4 hectares, whereas land properties larger than 100 hectares received on average 492 hectares of leased land.

The average duration of a lease agreement is 12 years. The leasers of properties of the size of 100 hectares and more are obliged to purchase the movable assets. Apart from that all leasers have to pay rent-charge for using the land, which on average constitutes the equivalent of 1.6 quintals of wheat per hectare.

Land is not only leased to private farmers; employees' companies – where the largest shares belong to the former managerial staff – also participate in the use of land (726 companies use 20% of the total land leased). Other actors include non-local companies, mostly banks and consortia, rarely individual investors. Foreign investors constitute a small group of land leasers, their number being larger, however, than it is in the case of land purchase. Foreign firms which invest in land lease are mostly companies with a large share of foreign capital (201 lease contracts with respect to 93,000 hectares), as well as companies with a rather small share of foreign capital (187 contracts with respect to 84,000 hectares of land). Considering the agreements concluded,

**Figure 3**  
*Use of land at the disposal of the Agency, January 1, 1997*



1 – land under temporary management and land left fallow to be put in use later on, 2 – land administered,  
3 – land under management and long-term tenure, 4 – land rented out, 5 – land transferred free of charge,  
6 – land sold

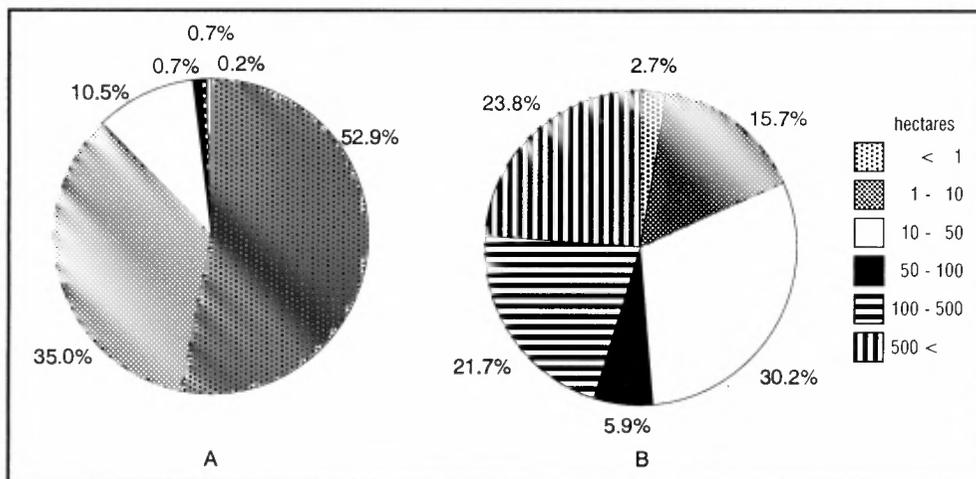
companies with German, Danish, Dutch, British and French capital are the most numerous.

By the end of 1994 a systematic increase of the area under lease had taken place (with a small number of contracts terminated), while in the years 1995-96 the expansion of leased area became smaller and the process of return of leased farm land became more intense.

#### *Treasury policy regarding land administration*

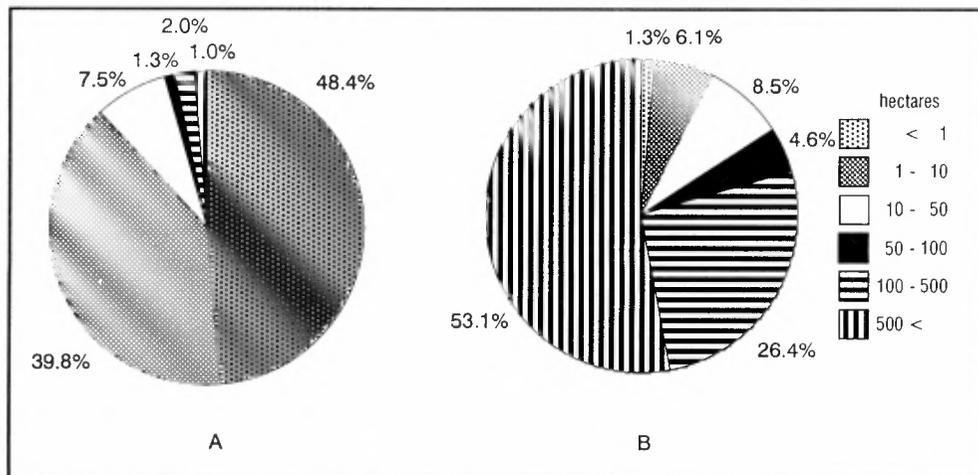
Administration of land represents a type of agreement, the objective of which is the improvement in the management of farms belonging to the State Treasury. According

**Figure 4**  
*Agricultural land sold from the reserves of the Agency*



*A – according to the number of contracts, B – according to the area groups*

**Figure 5**  
*Agricultural land rented out from the reserves of the Agency*



*A – according to the number of contracts, B – according to the area groups*

to the assumptions of the Agency for Treasury Agricultural Property, the administration contracts are always of temporary character and will in future be replaced by sale or lease. Therefore, this form of transformation has seldom been applied; its implementation is preceded by an allocation by tender which proves that there are no potential buyers or leasers of the property. By the end of 1993 only 42 contracts concerning the administration of 92,796,000 hectares of land were concluded. Not till the law (introduced on December 29, 1993), was amended, initiating changes which put land administration on the level compatible to sale and lease, did this form of property management – successfully applied in Poland of the inter-war period – become more popular.

According to the data recorded at the end of 1996, the total of 199 farms were in the above category including: 132 agricultural farms and 29 fishery farms. These farms were using the property of the Treasury Agricultural Property Fund: 268,000 hectares of land, 40,000 hectares of lakes, 12,000 hectares of ponds. Also other properties, such as commercial and industrial buildings, as well as manorial estates and palaces (347 in number), were also managed under administration contracts.

#### *One-person companies of the Agency for Treasury Agricultural Property*

State farms which maintained animal or plant production, considered of importance to biological progress in agriculture, as well as other, highly effective farms with large, integrated territory, were transformed into one-person companies represented by the Agency.

The Agency apportioned 6,000 hectares of land to the companies; in particular built up land and other assets. 283,000 hectares of land (10% of the total leased land) were leased by the companies. Of these companies 38 specialise in plant production, 65 in animal production, 3 companies train racehorses and 37 commercial companies carry out various agricultural, commercial and manufacturing activities.

#### *Management and long-term tenure*

Some parts of the land still being property of the Treasury (65,000 hectares) were converted by the Agency to state institutions with no separate legal status (42,000 hectares), as well as to State Forests and National Parks (11,000 hectares). 13,000 hectares land were given in permanent tenure.

#### *Farms under temporary management*

In 1994, for the first time since the establishment of the Agency, owing to changes in land management, the area of land under temporary management and awaiting development was smaller than the area of land under fixed management. The former area, however, was still half the size of the territory of the Netherlands, which gave no reason for satisfaction. Five years after the breakdown of the centrally-planned system,

the appropriation of land of the former state farms was still not settled, which contributed to a growing deterioration of the national property. By the end of 1996, decisions about the appropriation of 719,000 hectares of land (16% of land taken over by the Agency) were still to be taken.

### ***CONSEQUENCES OF PRIVATISATION OF STATE FARMS***

The restructuring and privatisation of state farms has so far not resulted in fundamental changes in Polish agriculture. As a consequence of the above-mentioned processes, the share of farm land as state property has only slightly decreased, whereas the corresponding share in terms of land management has decreased by 6.7% (19.8% in 1989). Nor has size structure of private farms changed radically. The size of private farms has increased mainly in the northern and western regions of Poland – where large private farms had already existed, before the systemic transformation took place.

Owing to the sale and lease of farming land (the plots smaller than 100 hectares) about 215,000 farmers had the opportunity to enlarge the area of their farms by an average of 4 hectares. The sale and lease of land blocks of the size of over 100 hectares led to the establishment of 5,700 farms belonging to individuals as well as legal persons (this includes companies of the Agency for Treasury Agricultural Property) of the average area of 480 hectares approximately. The average size of the territory of converted state farms exceeded 2,200 hectares. It is estimated that the transformation of these farms has allowed to maintain about 100,000 jobs – almost one quarter of the total employment in state farms as of 1989.

Therefore the ownership transformation of state farms has caused a significant loss of employment. Approximately 260,000 people have lost their jobs (180,000 before the process of restructuring had actually began). The concentration of unemployment in the northern and western regions constitutes a serious social, economic and moral problem. With the liquidation of state farms in these regions, the former employees and their families have lost the only possibility of earning their living. Support in the form of unemployment benefits, as well as various policy measures aiming at employment growth and increasing labour participation have mitigated the problem only to some extent.

The economic and financial condition of large-size farms that have emerged out of the former state farms is highly differentiated. Although some of the new farms have earned some profits over the last three years, and continue the process of adaptation to market economy, the majority faces serious difficulties. The problem concerns in particular those farms which are based on the lease of land. A number of farms in this category now seek new external investors (including foreign investors); they require further restructuring and new forms of management. In general, while Treasury-owned farms are still yielding losses, one-person companies of the Agency and those farms under temporary administration have yield the profit of 80 million PLN in 1996. A large fraction of these farms should to be privatised in the future through lease of land.

Treasury-owned farms under temporary management, on the other hand, continue to bring financial loss.

As a result of the conversion and liquidation of state farms, a significant diminishing of cultural and educational activities in the rural areas has taken place. Nurseries and kindergartens were closed down, and so were libraries, cultural, recreational and sport facilities. In regions with a large share of state farms, these facilities constituted an important and often the only available network of social infrastructure and contributed to social security and the development of social and cultural activities among the inhabitants of numerous communes. The separation of the sphere of social services from the sphere of economic activity, and the lack of resources needed for the maintenance and preservation of public services have created a social and cultural gap – a change for the worse in the living conditions of the local population in the rural areas.