



# Leasing of agricultural land versus agency theory: the case of Poland

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## Abstract

**Motivation:** Agency theory examines relations between entities as contract relations, like land owner and tenant. Polish farmland market and its ‘rules of the game’ are still changing after political transformation. Decisions and actions presented by both parts of the lease contract seems to be easier to understand, explain and predict with the research instrumentality of new institutional economy, especially agency theory. Agency relationship is the issue studied by the economists many times, but there is a need to complete it with examples, researches and practical implications.

**Aim:** the determination of the significance of the lease in Polish agriculture with the use of agency theory.

**Results:** Use of the analytical apparatus of agency theory allowed for the indication of critical elements in the lessee/ lessor relation. One of the most important elements of contract specification is the remuneration transferred as part of the relation. Payments in the market of leasing deriving from the Agricultural Property Agency are regulated by the institution of the lease fee. On the other hand, in the case of leases between neighbours, there are both financial instruments (e.g. settlement of tax, resignation from land subsidies for the benefit of the land owner, rent) and non-financial ones (e.g. equivalent in agricultural products, services performed with mechanical equipment, household care). The results



of the study have shown that financial forms are the most popular form of payment; most indications referred to resignation from land subsidies (59.6%).

*Keywords:* agriculture lease; agency theory; contract  
*JEL:* D82; L51; Q15

## 1. Introduction

If economic theories were evaluated in terms of popularity, neo-constitutional theories would definitely be deemed ‘fashionable’ today. The fact of the Bank of Sweden’s Prize in Economic Sciences in Memory of Alfred Nobel being awarded to O. Hart and B. Holmstrom in 2016 testifies to this. The jury recognized the contribution of the scientists to the development of the economy via the creation of new theoretical tools which are valuable for understanding actual contracts and institutions, as well as the potential traps when designing contracts. The clarification of how a principal should construct an optimum contract was also appreciated, balancing the relations between risk and relevant stimuli, which B. Holmstrom managed to accomplish by using the basic dependency model between the principal and the agent (Nobelprize, 2017).

What is more, J. Laffont and D. Martimort (2001, p. 11) also noticed that the phenomena occurring in the economy are examined by numerous economists via the perspective of motivation and stimuli: hard work, manufacturing products of expected quality, science, investments, and saving. Therefore, the agency relation is considered a common fact of economic life. A lessee may be called an agent of a land owner, doctors may be called agents of patients, and Members of Parliament may be called agents of voters. It is commonly believed that with the use of this theory, it is possible to understand the actual nature of market transactions (Iwanek & Wilkin, 1998, p. 124). This trend currently offers extensive possibilities of using cognitive tools in numerous modern economic relations, whereas its application seems to be particularly promising in reference to the issue of agricultural leases. An agricultural lease represents a very important form of ownership and structural transformation in agriculture. In relation to the above, the objective of the article is the determination of the significance of the lease in Polish agriculture with the use of agency theory.

The article consists of four parts: methodology and scope of study, literature review, study results and assumption. In first part authors provide general information about used secondary data and specification of own studies. In literature review agency theory is presented in a land tenancy context. Typical for the PAT elements, like: information asymmetry, preferences with respect to the risk or conflict of interest are described on specific examples from the Polish agricultural land market and lease contracts. Main section, study results, provides detailed analyses about application of agency theory in farmland contracts. At the beginning authors describes in general land lease market in Poland and its changes in time. Next, own studies are elaborated. At the end

reader can find some discussion of the results with propositions of implications and recommendations for policymakers and suggestions for future research.

## 2. Methodology and scope of study

The article is of a theoretical and empirical nature. The theoretical basis is primarily provided by a review of the literature encompassing publications devoted to agency theory, legislative acts pertaining to leases, as well as domestic and foreign scientific studies. Statistical data are derived from the Agency of Agricultural Property of the State Treasury (Agencja Własności Rolnej Skarbu Państwa — AWRSP, later the Agricultural Property Agency — Agencja Nieruchomości Rolnych, ANR or Agency). The time range of the analysis encompassed the years 1992–2015. The bottom border of the study period was designated by the beginning of operation of the Agency of Agricultural Property of the State Treasury. The empirical section was prepared on the basis of results of our own studies<sup>1</sup>, performed in 2014 in line with methodology prepared in the Institute of Economic and Regional Policy on a group of 68 agricultural lessees<sup>2</sup>. The studies primarily encompassed the area of Warmia and Mazury Province, which was considered representative for the issue in question due to the fact that the surface area of land leased from the Agency constituted approx. 12.5% of total cultivated land (above the average value for the country) in 2014 (ANR, 2016; GUS, 2016b); over 50.0% of cultivated land was, in the prior economic system, state property (extensive possibility of offering land for lease) and the basic economic activity in the region relies on agriculture — in 2014, the share of agriculture, forestry, hunting and fishing in the generation of gross added value amounted to 6.1% in comparison to the national average on the level of 2.8% (GUS, 2016a). The performed study was aimed at providing answers to the following questions: how are contract terms shaped in lease agreements, what are the stances of lessees, and which factors are conducive to the emergence of information asymmetry and building positive relations between the parties to the agreement?

## 3. Agency theory and leasing in the light of literature review

Agency theory examines relations between entities as contract relations. The agency relation is always present when the situation of one person depends on the activities of another person. The individual who performs such activities

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<sup>1</sup> The study was conducted as part of the M.A. thesis of A. Zielińska *The Significance of Leases in Polish Agriculture in the Context of Agency Theory* [Znaczenie dzierżawy w polskim rolnictwie w kontekście teorii agencji], prepared in the Institute of Economic and Regional Policy, thesis supervisor: Assoc. prof. R. Marks-Bielska. The defence took place at the Faculty of Economics, University of Warmia and Mazury in Olsztyn, 24.06.2015.

<sup>2</sup> Remaining in a lease relationship, both individual farmers and, operating upon the principle of a different legal form, managing farms, taking into account the members of the Federation of Employers-Lessors and Farm Owners Association.

is the agent, and the other party dependant on the activities of the agent is called the principal (Pratt & Zeckhauser, 1985, p. 2). The agency relation occurring between the above-listed parties, as determined by S. A. Ross (1973, p. 134), is one of the oldest and most extensively codified modes of social interactions.

In the agency relation the principal plays the role of an entity who delegates a specific task to the other party, at the same time providing this party with specific rights necessary to make decisions. The justification for entrusting the agent or agents with specific tasks is the willingness to save on transaction costs when accomplishing objectives that are too costly (Kassim & Menon, 2003, p. 122) for the principal or too difficult to manage from the principal's perspective. The agency relation enables the principal to procure knowledge, experience and the agent's time, and in this manner maximises the utility function for the principal (Jaremen & Nawrocka, 2015, pp. 405–416). In the case of leasing, the role of the principal in Poland is substantially performed by the Agricultural Property Agency, and other institutions such as municipalities, parishes, forest inspectorates, etc. and private land owners (Kurowska et al., 2016, s. 76; Marks-Bielska & Zielińska, 2014, pp. 57–71). It has to be emphasised that one principal may have multiple agents. A good example is the Agricultural Property Agency, which leases land to numerous farmers.

Apart from the above-mentioned situations, it can be noted that the appearance of contracts results in the establishment of relations not only between the principal and the agent, but it is also the cause of cooperation among principals. An example here is provided by the associations of employers, e.g. the Federation of Employers-Lessors and Farm Owners. As a standard, the agent is on the other side of the agency relation. This is an entity operating on behalf of and for the benefit of the principal, performing activities agreed in a contract. However, it has to be noted that the agent acts in line with its own preferences and potential (Mulawa, 2014, p. 43).

In the case of an agricultural lease, the agent is most often identified with a farmer — either a natural person or a legal entity. Nevertheless, it has to be remembered that the entity playing the role of an agent in one situation may act as a principal in another situation. This is confirmed by the example of the Agricultural Property Agency — for the farmers leasing land from it, it plays the role of the principal. On the other hand, the tasks implemented by the Agency were entrusted to it by the state. The occurrence of such a relation is also indicated by misuse on the part of employees of the Agricultural Property Agency, which took place in reference to land used groundlessly, for which they collected subsidies from EU funds (Marks-Bielska & Zielińska, 2016, pp. 141–157), which testifies to information asymmetry and conflict of interests. Furthermore, the Agricultural Property Agency implements tasks of managing and using the State Treasury land contained in the act, and in this case the act plays the role of the contract (Act on the management of agricultural property of the State Treasury, 1991). Analogously to principals, agents may also cooperate, which is exemplified by trade unions. Summing up, it has to be shown

that the agency relation should not only be analysed in a horizontal approach between the principal and the agent, but also taking into account the entire network of mutual and often complex dependencies. The complexity of the agency relation is presented in scheme 1.

In the course of the formation of the principal/agent relation, at least two problems appear. The first occurs when the objectives of the principal and the agent are in conflict, and the principal is not able to verify whether the agent is behaving properly (from the point of view of the contract that they concluded). The second problem is the issue of risk distribution. This derives from the fact that the ordering party and the contractor, on account of natural differences in their positions, may represent various stances towards risk and, therefore, prefer various manners of applied technologies, plant farming, etc.

The first problem is the consequence of information asymmetry between the principal and the agent. Its occurrence is most often related to two issues: furtive activities of the agent which refer to the situation when the principal does not observe the activities, but only sees their result, or hidden information, when the principal notices the agent's activities, but does not observe the external factors that determine them (Czarny & Miroński, 2005, p. 157). A specific example of furtive activities of the agent is the so-called temptation of abuse, which causes a transfer of the risk of potential losses onto the principal in a situation when the agent makes decisions aimed at accomplishing its own profits, and at the same time exposing the principal to excessive losses. The temptation of abuse may occur when the following premises have been met: the utility of both sides of the contract depends on the activities of the agent; the principal may only monitor the results of the agent's activities (but does not see the agent's activities); the agent's decisions are not optimum in the Pareto sense, i.e. it is impossible to improve the situation of one entity without aggravating the situation of another entity (Piotrowski, 2014, pp. 99–113). As noted by Kata (2011 p. 130), the occurrence of moral risk is related to the period after conclusion of the contract.

On the other hand, the example of hidden information before conclusion of a contract may cause negative selection. Negative selection takes place when better informed entities, yet of lesser credibility, displace other market participants, preventing the conclusion of optimum contracts. However, it may turn out that in certain situations it may be profitable for the agent to disclose specific information, hardly available for the principal. This phenomenon, known as signalling, allows the agent who has a product or a service of above-average properties to avoid a 'detrimental' market mechanism (Wilkin, 2016, p. 183). The mode of preventing information asymmetry on the side of the principal may be, on the other hand, so-called sorting (also known as discrimination), which is aimed at differentiating two types of agents in the market and admitting to cooperation only those groups that fulfil specific criteria (Kivistö, 2007, p. 20; Maskin & Tirole, 1990, pp. 379–409). In reference to leasing, the example of sorting is provided by the criteria of participation in a limited tender

addressed to individual farmers. The definition of this group of entities was specified in the amended act on the management of agricultural property of the State Treasury of 19 October 1991<sup>3</sup>; this solution has greatly limited the number of entities admitted to procedures. This allows for guaranteeing, to a greater degree, that the land from the Agricultural Property Stock of the State Treasury is entrusted to entities which are intent on performing actual agricultural tasks.

The conflict of interest between the principal and the agent is also reflected in different preferences with respect to the risk influencing the premises of the concluded contract. It is believed that the standard situation for the problem of the agency is when the principal's attitude to risk is neutral, whereas the agent is characterised by aversion to risk. This justifies the fact that the principal may frequently diversify his risk to a greater degree than the agent, e.g. a land owner may lease land to several farmers, yet a farmer — due to economic reasons — will be interested in the lease of land located in closest vicinity. In the case of the agent's minimum impact on the results and great aversion to risk, his remuneration will be of fixed value.

## 4. Results

Two dominant groups of lessees can be indicated in Poland, depending on the origin of the land leased by them: i.e. land from the Agricultural Property Agency — in this case, we are talking about lessees of state land and lessees of private land, when the owner of the land is another farmer, most often a neighbour, a friend, or a family member. Land subject to lease may also be the property of a forest inspectorate, a parish, a municipality, a school, etc. (Marks-Bielska, 2013, p. 795; Marks-Bielska & Babuchowska, 2013, p. 83; Marks-Bielska & Zielińska, 2014, pp. 57–71). In the case of a lease between neighbours, no detailed data are available as in the case of leases from the Agricultural Property Agency; however, it is estimated that among individual farms in general, approx. 20.0% of farmers work on their own or leased land, which is the most frequent phenomenon on farms with relatively large surface areas. In the group of farms with a surface area above 20 hectares, over a half of farmers farm their own land and leased land. The following regularity is also noticeable: economically strong farms, oriented at cash crops, accumulate leases from owners of land who treat their land primarily as a place of settlement and a source of self-supply (Sikorska, 2016, p. 37).

In recent years the role of leasing has decreased (the share of leases of cultivated land in the period between 2002 and 2014 dropped by almost half, from a level of approx. 11.5% to 5.8%), even though it still forms an important instrument enabling the conduct of agricultural activity (chart. 1). The causes of this tendency are varied. On the one hand, along with Poland's accession to the European Union, land started to be perceived as an investment, which

<sup>3</sup> As a result of the Act on suspension of sale from the Agricultural Property Stock of the State Treasury and amendments of other acts (2016).

was influenced by direct subsidies. This state of affairs could have also been influenced by farmers' fears of an increase in land prices and the willingness to purchase at better prices. Numerous authors also list the uncertainty of leasing related to the state's agricultural policy and the policy of the Agricultural Property Agency (Dzun & Józwiak, 2009, pp. 73–92; Jarka, 2010, pp. 47–56; Marks-Bielska, 2008, pp. 291–299; Suchoń, 2008, pp. 53–75). In this period the authorities started to reduce the number of lease contracts by proposals of pre-emptive rights. This was justified by the fact that a significant number of contracts refer to small-area plots (Babiak, 2010, p. 208). Reduction of lease by assigning land to permanent disposal, e.g. sale is a manner of limiting transaction costs. Their emergence results from outlays of work incurred by the employees of the Agricultural Property Agency, costs of owner supervision or correspondence that accompany the servicing of a significant number of small-area lease contracts (Marks-Bielska & Kisiel, 2013, p. 83). Simultaneously, the largest surface of properties from the Agricultural Property Stock of the State Treasury under lease, i.e. 2.93 million hectares, was recorded in 1996. Thence, this was the last year when a smaller area 'returned' from lease in comparison to the area that was leased. Interest in leases, greater than interest in purchase of land, at that time resulted from the fact of lesser requirements with respect to the involvement of the necessary capital. The number of years of payment of rent to balance the purchase price of land was relatively small in 1996, i.e. 29.2 years (a value below 30 years was accomplished once again only in 2007) (Jankowiak et al., 2009, p. 76), which testifies to the relative price attractiveness of purchasing in comparison to leasing, yet on the other hand, agricultural farms in this period were characterised by economic weakness. It may also be concluded that in the perception of farmers, the purchase of land could be related to greater risk. Leases of land from the Agricultural Property Stock of the State Treasury play an important role in Polish agriculture.

In spite of a drop in the surface area of land from the Agricultural Property Stock of the State Treasury under lease, it is necessary to emphasise its positive contribution to the development of agriculture. As noted by Majchrzak (2013, pp. 63–82), leasing is an important factor in the functioning of large surface area farms — its share increases along with the growth of the general surface of a farm. What is more, as noted by Dzun and Józwiak (2009, pp. 73–92), leasing is a very important aspect increasing the economic size of farms; thence, it improves the possibility of competing in the market.

Analysis of secondary data allows for showing that leases significantly impact the area structure of agricultural farms. On the other hand, this is an example of an area where a classic principal/agent relation may be observed. In this place, my own studies will be presented, whose scope refers to: forms of settlement for neighbour's lease, preferences with respect to the length of the lease, stances of lessees, drawbacks and discouraging factors as aspects conducive to the emergence of information asymmetry, and advantages and positive stimuli as factors shaping the desired dimension of relations between the parties to the lease.

The group of examined lessees was represented by 68 people who included individual farmers (77.0%), representatives of companies involved in agricultural activities and cooperatives. In the structure of farmed land, the respondents had land leased from the Agricultural Property Agency, land leased between neighbours, and land from both sources. The examined lessees were primarily users of farms with a surface area from 100.1 to 1,000 hectares (33.8%). The least numerous was the group of lessees managing the smallest farms — below 10 hectares (2.9%) and the largest ones — 1,000.1 hectares (5.9%). The surface area within a range between 10.1 and 100 hectares was managed by 29.4% of respondents, and 27.9% managed a surface area between 50.1 and 1,000 hectares.

One of the key elements contained in a lease contract is the defined manner of calculation of receivables and their value. In the case of the Agricultural Property Agency, the amount of the lease fee on cultivated land is determined as the ‘monetary equivalent of the value of wheat specified in tables of lease fee rates from cultivated land, constituting an annex to the regulation, depending on the type and the class of soil and its location’ (Regulation of the Minister of Agriculture and Rural Development, 2016). Apart from the manner of lease fee calculation, related subjects include the criteria for choosing the lessee. Until the moment of entry into force of the Act on the suspension of the sale of property from the Agricultural Property Stock of the State Treasury and amendments of certain acts of 14 April 2016, the main criterion, after the fulfilment of formal requirements, was the amount of the lease fee. In line with the provisions of the regulation, the choice of the most beneficial offer may be conditioned, in particular, by: the distance of an agricultural farm of a tenderer from the disposed property of the Stock, the surface area of agricultural land purchased or leased from the Stock, and the intensity of animal production at the tenderer’s farm (Suchoń, 2016, pp. 49–64).

In the market of private leasing, payments are made in various forms. The frequency of indications for individual forms of payment among the respondents is presented in chart 2. Among the interviewed lessees, the most frequent form of settlement was resignation from direct subsidies (58.6%) with which land owners are vested. The commonness of this method may indicate aversion to risk on the part of the land owners, as this form of settlement guarantees revenue in spite on the profit from crops of the lessee. A frequently used manner was also settlement of the tax on behalf of the owner (48.3%) and rent expressed in monetary terms (24.1%) indicated in the ‘other’ category. Least significant was settlement via transfer of crops (6.9%) and services performed with the use of machines (3.4%). It is worth mentioning that 44.8% of respondents indicated a combination of 2 or 3 forms of settling payment for leases. Therefore, it can be noted that the financial methods are selected most often also in the private market. Furthermore, both resignation from subsidies as well as tax settlement may be determined as a certain form of fee — in both cases the land owner deprives the lessee of a fixed portion of income. The frequency of indications for individual forms of payment among the respondents is presented in chart 2.

Apart from determining the manner of charging and the value of receivables for the land owner, an equally important issue in the contract is the duration of the lease. The results of my own studies indicating preferences in this respect in the case of leases from the Agricultural Property Agency and private leases are presented in chart 3. The respondents' greatest interest with respect to leases from the Agricultural Property Agency referred to the period of 30 years (48.5%). In the next place, unlimited period of time was preferred (33.8%), whereas lessees who held leases from the Agricultural Property Stock of the State Treasury constituted as many as 82.6% of the group that declared this indication. Therefore, persons leasing land from the Agricultural Property Agency prefer long-term contracts. Among indications pertaining to private leases, the most popular answer was the period of 10 years (38.3%), and subsequently up to 30 years (33.3%) and an unlimited period of time (25.9%). The less frequent preference for long-term contracts in the case of contracts between neighbours may be related to the low degree of formalisation that characterises these contracts. In the case of the Agricultural Property Agency, the position of the lessor has been favoured for a long period of time in the relevant regulations. Before the amendment of the act on the suspension of the sale of property from the Agricultural Property Stock of the State Treasury, and on amendments in certain acts of 14 April 2016, the principle of concluding contracts for a period up to six years was functioning, with a possibility of extending the contract for a subsequent six years (Marks-Bielska & Zielińska, 2014, pp. 57–71). As a result of changes, these principles became closer to the preferences presented by the respondents. The term of new contracts should amount to, in principle, 10 years (Regulation of the President of the Agricultural Property Agency on the disposal of free..., 2016). Moreover, the contract may be extended for 15 years for persons running a family farm, or eight years for entities who are not persons running family farms (Regulation of the President of the Agricultural Property Agency on the principles..., 2016). The fact of delegating care over land and its use for the purpose of drawing specific benefits may give rise to the principal's (lessor's) fears that the lessee will not always proceed in line with the terms of the contract. This results from the information asymmetry existing between them. Conduct compliant with the principles of agency theory may be, in this case, an attempt at monitoring the lessee's activities in order to verify the correctness of contract implementation and, if necessary, to undertake relevant steps, e.g. breaking the contract. Structured control takes place in the case of the Agricultural Property Agency. In 2015, as part of owners' supervision, the employees of the Agricultural Property Agency performed a check of approx. 5,500 contracts, as a result of which irregularities were ascertained in approx. 19.0% of contracts with respect to the implementation of contract terms (ANR, 2016, pp. 66–67). Activities resulting in violation of the terms of contracts and, in contrast, encouraging compliance with them have varied sources. Their significance, in the opinion of interviewed lessees, is presented in table 1.

Among respondents with leases from the Agricultural Property Agency, the group of the most important factors conditioning correct implementation of terms of the contract included: care for crop quality (70.6%) and care for maintaining land in good condition (52.9%), thence categories influencing the soil production potential, which are reflected in potential profits. Among factors resulting from contract characteristics, the most important was extended period of contract (37.3%). Therefore, the contract characteristics are a secondary issue in relation to the benefits which the institutional lessee sees in proper cultivation. On the other hand, a short period of contract implementation (51.1%) and no feeling of ownership (33.3%) 'encourage' to the greatest degree the lack of compliance with the terms of the contract. The conclusion that may be drawn from the above data is the fact that the formal aspects of a contract, such as its term, degree of formalisation, and the rights of the lessor in the form of control possibilities play a role of more strongly discouraging agents in a situation when the functioning of such aspects is adverse rather than constitute encouragement in a situation when their level is satisfactory for the lessees.

Stances with respect to leases between neighbours are slightly different. These lessees indicated care for crop quality (51.7%) as the most encouraging factor in complying with contractual terms, similarly to lessees from the Agricultural Property Agency, even though the share of this factor was not so important for them. In the second place, almost a half of the respondents (46.4%) mentioned care for good relations with the land owner. The frequency of indications of this factor may be related to the fact that the land owner is most often a neighbour, a friend or a family member, thence a person with whom relations are maintained on an every-day basis. The fact that violation of the terms of the lease contract could aggravate the relations in this area of life constitutes an important stimulus to keep the obligations in the contract intact. On the other hand, the informal character has the strongest negative impact on people remaining in the private lease relation (53.8%). This opinion was expressed by 84.6% of respondents who had least formalised contracts (oral contracts). The situation may cause insecurity about whether the contract will be terminated suddenly or whether its terms will be changed to the detriment of the lessee.

The lessor, entering into relations with the lessee, delegates tasks, which is the cause for the emergence of the agency relation. In line with agency theory, it is necessary to assume the occurrence of information asymmetry and various perception and distribution of risk between the parties to the contract. The shape of the relations and the level of information exchange between the lease parties is influenced by the perception of drawbacks and advantages of the lease by the lessee. Table 2 presents the results of studies pertaining to the perception of advantages of this form of land management by the respondents. According to the analysis of the results of the author's own studies, the most important advantage of leasing for the lessees is the possibility of expanding the farm (76.1%). Very similar importance was also assigned to the possibility of the pre-emptive right (70.1%). Most frequently (42.4%) this answer was indicated by the re-

spondents who held over 75.0% under lease in total used land. This may be justified by the fact that farms with a high share of lease function in the environment of a relatively higher level of risk than farms with the majority of ownership, whereas purchase of leased land contributes to its minimisation. Therefore, reinforcement of this element in the above-mentioned amendment of 14 April of 2016 is to be evaluated positively. In line with the new provisions, the lessee is vested with the pre-emptive right to purchase property from the Agricultural Property Stock of the State Treasury if the lease lasts at least 3 years (Suchoń, 2016, pp. 53–75). The interviewed group of respondents often treat leasing as a temporary form of land management which is going to be transformed into property in the future. This is evidenced by the fact that as many as 53.7% of the respondents also perceive the beneficial financial aspect of leasing, i.e. no necessity of incurring significant costs as in the case of land purchase. This may be interpreted in a manner that they see the opportunity for alternative assignment of financial assets to other investments on the farm.

Reinforcement and maintenance of positive factors pertaining to leasing on the part of lessors — the Agricultural Property Agency or private land owners — should also be accompanied by a reflection and reaction to the perception of drawbacks of this form of land management. Drawbacks pertaining to leasing in the opinion of agents are presented in table 3. The interviewed group of lessees deemed uncertainty of farming (77.3%) as the greatest drawback of leasing. In the next place, the possibility of exclusion of land (53.0%) was listed. The uncertainty of farming may result from a conviction about the instability of the institutional framework regulating the lease; one of its examples could have been the act on 30.0% exclusions. Frequently selected drawbacks also include difficulties with respect to investments and renovations (53.0%) for which the approval of the lessor has to be procured, which would indicate that in the opinion of agents the waiting time for decisions is too long and/or it is difficult to receive a positive decision for an application. The aspect of investments and renovations was mentioned most often by entities holding more than 75.0% of leases. The group of lessees for whom leased land constitutes less than 25.0% of the farming area indicated no possibility of inheritance as the most important drawback (43.9%). This testifies to the importance, in particular among owners of relatively small farms, of affiliation to land and the possibility of transferring it to secure the wellbeing of offspring. People managing larger areas of land with a greater share of leases often perceive their farms as more like companies. For lessees whose share of leases does not exceed 50.0% of the surface area, the element of conflict with the land owner is also important (70.0% of indications in this group), which reflects one of the main premises of agency theory.

## 5. Discussion on the results

Leasing, irrespective of the source of origin, exerts a positive impact on the land structure. Farms which have leases as part of their resources are characterised



by a greater surface area, which is confirmed by the results of the author's own studies. This testifies to the significant role of the institution of leasing in the disposal of land, enabling the conduct of the commodity economy.

Use of the analytical apparatus of agency theory allowed for the indication of critical elements in the lessee/ lessor relation. One of the most important elements of contract specification is the remuneration transferred as part of the relation. Payments in the market of leasing deriving from the Agricultural Property Agency are regulated by the institution of the lease fee. On the other hand, in the case of leases between neighbours, there are both financial instruments (e.g. settlement of tax, resignation from land subsidies for the benefit of the land owner, rent) and non-financial ones (e.g. equivalent in agricultural products, services performed with mechanical equipment, household care). The results of the study have shown that financial forms are the most popular form of payment; most indications referred to resignation from land subsidies (59.6%). In line with agency theory, this may mean a neutral stance towards risk on the part of the land owner. Another important issue in the relation of lease parties is the term of the lease contract. Preferences with respect to the period of time for which the contract is concluded, revealed in the course of the study, clearly show that the lessees of land from the Agricultural Property Stock of the State Treasury prefer longer periods of time, which allows for greater identification of the lessee with the property and reduces the risk of opportunistic activities.

Therefore, it has to be noted that agricultural leasing should be a supported solution for the disposal of land from the Agricultural Property Stock of the State Treasury, as well as neighbourhood leases. It does not require the involvement of any significant capital (such as purchase of land), allowing for alternative assignment of funds to other investments, but it is also a fixed source of income for the state budget.

## 6. Conclusions

The shape of the concluded lease agreements currently is influenced not only by economic conditions, but also the history of Polish agriculture and elements specific to the agency theory, such as: relation to risk and access to information. Institutions that shapes the agricultural land market in Poland should include these elements in their decisions and actions. One of suggestions, resulted from use the agency theory in lease contracts analyses is duration of the contract. The shorter the contract period is, the potentially greater asymmetry of information and the temptation of abuse, as evidenced by the preference of long-term contracts concluded with Agricultural Property Agency. Lower interest in long-term contracts in the case of a lease between neighbours can be partly explained by low degree of its formalization. Formal frames of the contract supports the creation of transparent conditions of this relationship, such as risk distribution, the scope and the method of monitoring the activities of the les-

see. Mentioned examples of the agency theory implications in agricultural lease helps to understand how necessary is to determine the appropriate ‘rules of the game’. Those rules — the institutional legal framework that would facilitate the proper functioning of leases, should promote a sense of stability by long-term lease contracts, encourage its formalization, but also help in the exchange of information and creation the institutions (formal and informal), that support and educate both parties of the contract.

Solutions offered by decision-makers should be based on extended analyses. The analysis of experience and practices from other countries can add significant value in this context. The review of other systems that regulates the agricultural land market should also be supplemented with more detailed research among tenants in Poland. Further, the research should be supported by the analysis dedicated to principal side in the contracts. In the case of the Polish market, the research can face some difficulties related to the volatility of regulations in the agricultural land market.

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## Appendix

**Table 1.**  
**Determinants of compliance/lack of compliance with provisions of a lease contract from the Agricultural Property Agency and private leases**

Lease from the Agricultural Property Agency				
No.	Factors motivating compliance with the contract	Percentage of indications ( $N_1$ )	Factors discouraging compliance with the contract	Percentage of indications ( $N_2$ )
1	fear of the possibility of checks/penalty from the Agricultural Property Agency	17.6	small probability of checks/penalty on the part of the Agricultural Property Agency	8.9
2	care for crop quality	70.6	maintaining land in good agricultural condition is a secondary issue when applying for direct subsidies, and it is difficult for authorities to verify	15.6
3	care for maintaining land in good condition	52.9	short term of lease contract	51.1
4	extended period of the lease contract	37.3	lack of feeling of ownership (I only take care of the aspects that result from the contract)	33.3
5	formal character of the lease contract	29.4	other (conviction that it is impossible not to comply with the terms of the contract)	8.9
6	other (possibility of buyout in the future)	2.0	–	–
Lease between neighbours				
No.	Factors encouraging compliance with the contract	Percentage of indications ( $N_3$ )	Factors discouraging compliance with the contract	Percentage of indications ( $N_4$ )
1	fear of the possibility of checks/penalty on the part of land owner	14.3	small probability that the land owner will be willing to perform checks	30.8
2	care for crop quality	57.1	the owner is probably not aware that he may check the lessee's activities	15.4
3	care for maintaining land in good condition	32.1	informal character of the contract (refers to absence of a contract confirmed by a notary/ in a Municipality Council)	53.8
4	care for good relations with the owner	46.4	other (conviction that it is impossible not to comply with the terms of the contract)	7.7
5	other (possibility of further cooperation)	3.6	–	–

Note:

Lessees chose more than 1 answer in some cases.

$N_1$  — 51 (number of respondents leasing land from the Agricultural Property Agency who provided answers).

$N_2$  — 28 (number of respondents leasing land from the Agricultural Property Agency who provided answers).

$N_3$  — 28 (number of respondents holding private lease who provided answers).

$N_4$  — 26 (number of respondents having private lease who provided answers).

Source: Own preparation.



**Table 2.**  
**Advantages of leasing in the opinion of lessees**

No.	Advantages	Percentage of indications
1	possibility of exercising the pre-emptive right	70.1
2	possibility of extending the surface of a farm	76.1
3	possibility of setting up a farm	34.3
4	opportunity to farm land which is cheaper than purchase	53.7
5	possibility of procuring exemption from rent	10.4
6	possibility of exemption from agricultural tax	19.4

Note:

The respondents could choose more than one answer.

N — 67 (number of respondents).

Source: Own preparation.

**Table 3.**  
**Drawbacks of leasing in the opinion of lessees**

No.	Drawbacks	Percentage of indications
1	farming insecurity	77.3
2	possibility of excluding a part of land	53.0
3	difficult investments/renovations	53.0
4	no return of incurred outlays in the case of resignation from purchase due to unforeseen events	51.5
5	necessity of paying the lease fee	25.8
6	manner of charging the lease fee	22.7
7	no possibility of inheritance	43.9
8	possibility of conflicts with the land owner	30.3
9	unwillingness with respect to the control rights of the land owner	9.1
10	no act pertaining to lease	22.7

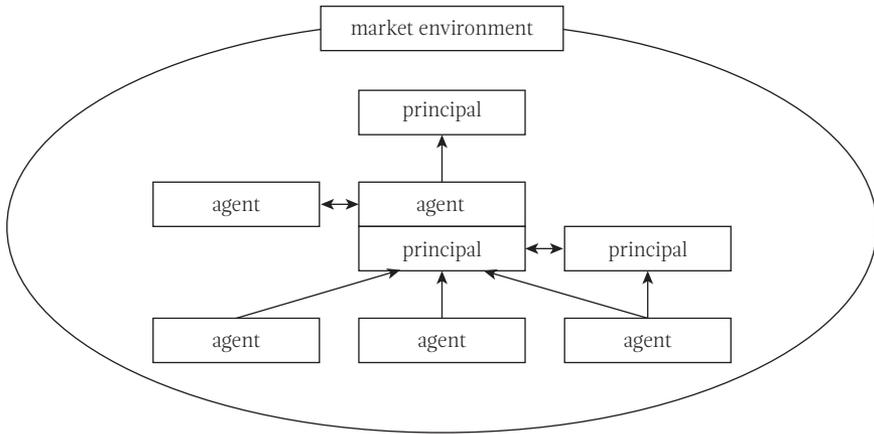
Note:

The respondents could choose more than one answer.

N — 66 (number of respondents).

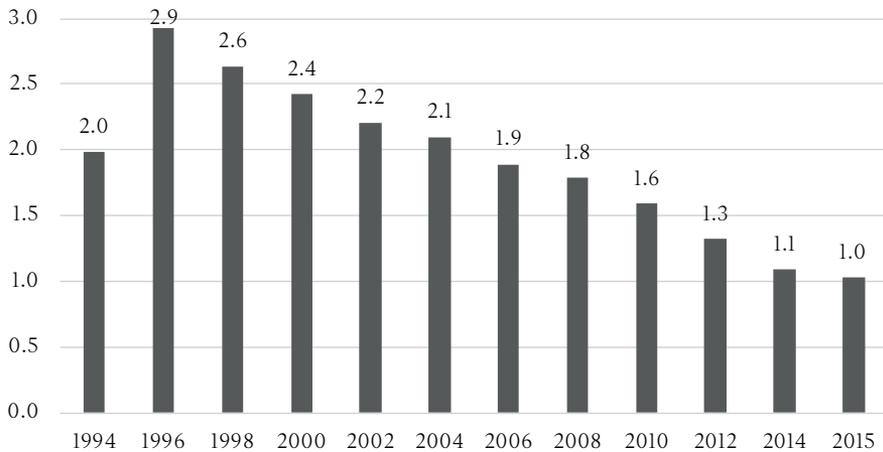
Source: Own preparation.

**Scheme 1.**  
Dependencies in agency relation networks



Source: Own preparation based on reference literature on the subject and observations from performed studies.

**Chart 1.**  
Area of land leased from the Agricultural Property Stock of the State Treasury between 1994 and 2015 (in mln hectares)

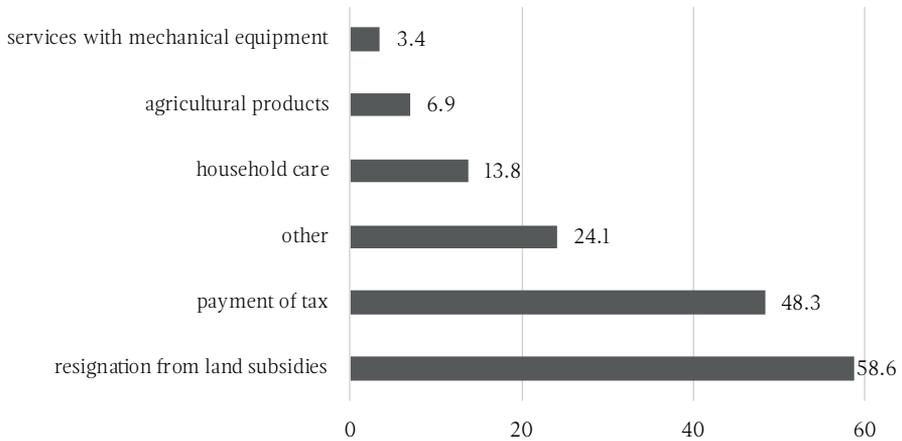


Source: Own preparation based on ANR (1994–2016).



Chart 2.

## Forms of settlement for leases between neighbours (in %)



Note:

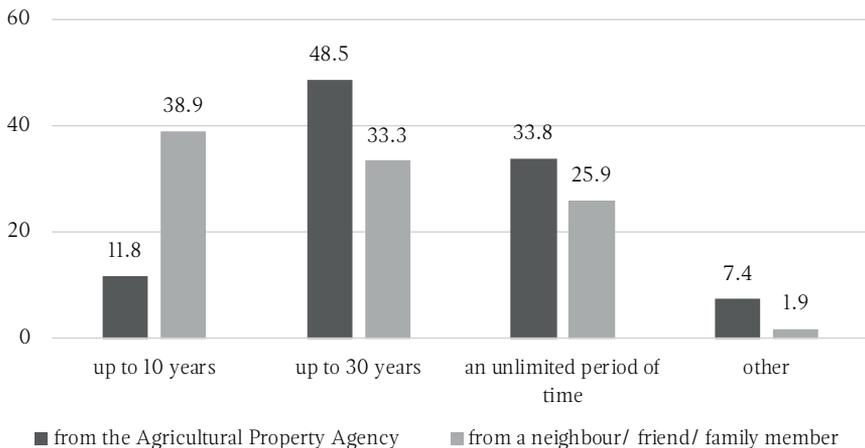
Examined respondents could select more than one form.

N — 29 (number of entities with private lease only and both private and institutional leases).

Source: Own preparation.

Chart 3.

## Preferences with respect to the length of leases (in %)



Note:

Lessees could speak in both cases, irrespective of the type of lease held.

N<sub>1</sub> — 68 (number of respondents who revealed preferences with respect to leases from the Agricultural Property Agency).

N<sub>2</sub> — 54 (number of respondents who revealed preferences with respect to private leases).

Source: Own preparation.