ECONOMIC AND SOCIAL ASSESSMENT OF THE USE OF STRUCTURAL FUNDS IN THE CREATION OF THE DEVELOPMENT OF “SMALL” FARMS IN POLAND

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Abstract. Irrespective of various definitions, we can certainly say that Polish agricultural farms are “small” compared to units from western European countries. The main aim of the article is to provide information about the number of farms and the types of investments made within the framework of actions addressed to “small” farms in the RDP 2004–2013 (2014–2020) and evaluation of the effectiveness of disbursing public means for this purpose. As evident from the analysis in 2004–2006, under the RDP, operation was introduced aimed at “Support for semi-subsistence farms”. From a perspective of disbursing public funds, it is possible to assess the economic effectiveness of this action as very small. In the new term financing (2014–2020) we are dealing with an obvious promotion of small and medium sized farms. However, there is concern about the economic rationale of this approach.

Keywords: small farms, agricultural, structural funds, economic efficiency

INTRODUCTION

As regards the topic discussed in this paper, an attempt to define the “small” farm will be of key importance. This is relatively difficult as the relevant literature fails to provide unequivocal guidelines. As emphasized by J. Zegar “There is no definition of a small farm. Several basic criteria exist that may be used to separate a seemingly small farm from other holdings, primarily including: the size of the farm, the production volume (global production, commercial production), the added value, the destination of the production, labor inputs, and the livelihood” (Zegar, 2012a). Similar conclusions are presented by A. Czyżewski and S. Stępień who find that “The diversification of the agrarian structure in EU countries and elsewhere in the world makes it impossible to provide an unambiguous definition of a small farm. There are multiple answers to this question, depending on its context. (…) The adopted criteria for defining small farms are usually met by family holdings. However, this is a highly heterogeneous group” (Czyżewski and Stępień, 2013). Whatever criteria are used to separate the “small” farms, there is every indication that they are very numerous in Poland compared to Western European countries, and therefore it is advisable to create development scenarios for them. A matter of particular importance is to consider the support programs for this group of operators: what are the eligibility conditions and do they help moving in the desired direction of development? The situation is complicated as the industrial agriculture paradigm, assuming the elimination of economically weak (small) operators, is no longer deemed reasonable in the EU. Instead, the recently adopted concept is based on sustainable development. As emphasized by Holger Rogall “The issue of sustainable development economics focuses on the question of how to reach sufficiently high ecological, economic,
and socio-cultural standards within the boundaries of the earth’s carrying capacity for people today and future generations; thus establishing intra- and inter-generative principles of justice. The sustainable development economics is not a static theory; it recognizes the need to discuss its cognitive interests” (2010). The sustainable development economics includes many questions which still need to be addressed (e.g. replacing the growth paradigm with the sustainability paradigm; shifting from “homo economicus” to another dimension of humanity). The EU countries (including Poland) propose to follow the development programs put forward in strategic roadmaps based on the sustainable development theory. In Poland, the “Strategy of sustainable development of the agriculture and rural areas for 2012–2020” was adopted in 2012 (Uchwala…, 2012) which refers to the guidelines set forth in the Commission Communication entitled “Europe 2020: A strategy for smart, sustainable and inclusive growth” (Komunikat..., 2010). In the above context, answers could be sought to the question on the role of “small” farms which are generally, by nature, less economically competitive than well run large holdings. On the other hand, agricultural activities in small farms help preserve the viability (prevent the depopulation) of rural areas and support folk culture.

PURPOSES AND METHODOLOGY

The purposes of this paper come down to: 1) assess the procedures for applying for support from European funds for the development of “small” farms under the 2007–2013 RDP; 2) present statistical data on the number of farms and types of investments made as a part of measures aimed at “small” farms under the 2007–2013 RDP and assess the effectiveness of public spending dedicated to that purpose; 3) assess the financial support for “small” farms from the 2014–2020 financial perspective, 4) make theoretical model-based considerations on the development direction of “small” farms in Poland. Relevant literature and legal acts will be studied in order to achieve the above-listed goals. Statistical information from the Central Statistical Office and the Agency for Restructuring and Modernization of Agriculture will be the source of data. The subject matter of model-based considerations will be a quite typical “small” family farm, located in the northern part of the Mazowieckie voivodeship, engaged in vegetable production and cattle breeding.

SUPPORT FOR “SMALL” FARMS FROM EUROPEAN FUNDS IN 2004–2013: THE IDEA BEHIND, PROCEDURES AND TYPES OF INVESTMENTS IMPLEMENTED

The first aid program which included a measure aimed directly at the group of farms that could be referred to as “small” was the 2004–2006 RDP. That measure was “Support for semi-subsistence farms,” aimed at improving the investment capacity of semi-subsistence farms which, as a consequence, should boost the economic potential and improve the income situation (Raport końcowy..., 2009). The group eligible for financial support were farmers who had been running an agricultural holding with an economic size of 2 to 4 ESU for no less than 3 years prior to applying for support, or who became owners of such farms through inheritance. The support was a yearly bonus of EUR 1250 disbursed for 3 years. Afterwards, the farmer was required to report the attainment of objectives declared in the farm development plan (Zbiorcza..., 2007). A total of 157,656 farmers benefited from the “Support for semi-subsistence farms” measure. More than PLN 1.3 billion was disbursed to the beneficiaries by the end of 2008. The total area of agricultural land of farms benefiting from the aforesaid measure was around 1 million ha. Half of them were farms with an agricultural area ranging from 5 to 10 ha (Raport końcowy..., 2009). The purchase of agricultural machinery or livestock was the intermediate target chosen by around 75% of the beneficiaries. Nearly 100% (99.68%) declared that the support would contribute to the restructuring of the farm’s agricultural activities (Klepacka, 2009). Thus, a question arises whether a farm with an economic power expressed as a standard gross margin ranging from PLN 9,800 to PLN 19,600, having purchased selected machinery or a tractor, could become a commercial farm over the 2006–2008 period. As this is virtually impossible, some doubts may arise as to the effectiveness of the aforesaid measure.

The Rural Development Program implemented over the 2007–2013 period did not include any direct measures aimed at “small” (semi-subsistence) farms. However, it does not mean they were unable to benefit from support programs for farm restructuring. They used such measures as “Setting up of young farmers” and “Modernization of farms.” The purpose of the “Setting up of young farmers” was to stimulate structural changes by
facilitating the acquisition or establishment of farms by young people with adequate professional capacities. The group eligible for aid were adult natural persons under 40 on the day of submitting the aid application. The access criterion was the farm’s agricultural land area which, upon completing the investment, should be equal or greater to the average agricultural land area in Poland or in the voivodeship concerned. The second restriction (strongly correlated with the farm’s agricultural land area in the case of typical farming) was the minimum economic size of 4 ESU. The expected aid was a bonus (in an initial amount of PLN 50,000, increased to PLN 75,000 in 2010) aimed to facilitate the investment process to new farm owners. 25,403 agreements worth a total of PLN 1.8 billion were implemented under the “Setting up of young farmers” measure (by the end of 2014). The following production profiles were prevalent in the farms covered by aid programs: mixed production (41% of farms), vegetable production (37%), and milk production (11%). Nearly 27% (5,510) of farms were set up as a result of handing them over to young farmers by persons applying for early retirement. A very large group of holdings run by young farmers were farms with a size of up to 4 ESU (8,562 farms, 34% of the total population) while there were 16,940 farms with a size of up to 8 ESU (67%). As regards the agricultural land area, farms below national average (10.48 ha) had a share of 18% while farms with an area of up to 20 ha represented 79% of the total population. This clearly shows that “small” farms were very active in gaining access to funds under this measure. As a part of the measure considered, young famers usually invested in mobile equipment: 6,651 investments worth a total of PLN 521.5 were implemented (1,926 agricultural tractors, 9,438 agricultural machines). Investments in buildings were definitely less popular: 456 investments worth a total of PLN 35 million were implemented (Zbiorcze..., 2015).

Table 1. Selected information about the subprograms in the Rural Development Programme 2007–2013, which indirectly could have financed “small” farm

<table>
<thead>
<tr>
<th>Specification Wyszczególnienie</th>
<th>Setting up of young farmers Ułatwienie startu młodym rolnikom</th>
<th>Modernisation of farms Modernizacja gospodarstw rolnych</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of farms using</td>
<td>25 403</td>
<td>52 840</td>
</tr>
<tr>
<td>Liczba gospodarstw korzystających</td>
<td></td>
<td></td>
</tr>
<tr>
<td>including farm: 10.5 ha</td>
<td>4 573</td>
<td>6 125</td>
</tr>
<tr>
<td>w tym gospodarstw: do 10,5 ha UR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,5–20 ha UR</td>
<td>20 068</td>
<td>14 607</td>
</tr>
<tr>
<td>Financial resources used together (zł)</td>
<td>1 819 525 000</td>
<td>9 464 685 909</td>
</tr>
<tr>
<td>Łącznie wykorzystane środki (zł)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Types of investments and their valuable structure Rodzaje inwestycji i ich wartościowa struktura</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of movable fixed assets (including tractors and machinery) (items)</td>
<td>19 542</td>
<td>426,5 tys.</td>
</tr>
<tr>
<td>Zakup sprzętów ruchomych (w tym ciągników i maszyn) (sztuk)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings (tys. m²)</td>
<td>132,3</td>
<td>4218,5</td>
</tr>
<tr>
<td>Budynki i budowle (tys. m²)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other: the establishment of perennial plantations (ha)</td>
<td>656</td>
<td>–</td>
</tr>
<tr>
<td>Inne: założenie sadów lub plantacji wieleletnich (ha)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Under the 2007–2013 RDP, the “Modernization of farms” was a measure available only to economically viable farms with a minimum size of 4 ESU, run by duly qualified persons. The purpose of that measure was to increase the farms’ cost-effectiveness through an improved use of productive inputs, including by introducing new production technologies, improving the production quality, diversifying the agricultural activities, and harmonizing the conditions of agricultural production with the requirements for environmental protection, production hygiene and animal welfare. Aid was granted for investments in the modernization or development of primary vegetable or animal production, except for forestry and fishery production. By the end of 2014, 66,077 operations worth a total of PLN 9.5 billion were approved for implementation under the “Modernization of farms” measure. The largest part of farms covered by support were holdings with an area of 10–20 ha (27%), 20–30 ha (21%) and 30–50 ha (20%). Even though the minimum economic size was restricted to 4 ESU, farms with an area of up to 5 ha and up to 20 ha represented, respectively, 3% and 39% of the farms covered by aid. Similarly to measure 112, investments in mobile equipment enjoyed the highest popularity: 108,597 investments were implemented (worth a total of PLN 18.5 billion), including 39,384 investments in agricultural machinery and tractors and 51,277 investments in agricultural machinery and tools. Also, there were 3,727 investments worth PLN 830 million in the construction or upgrade of buildings (Zbiorcze..., 2015).

It seems that aid focused on the development of non-agricultural economic activities should be an important part of support for small farms. Under the 2007–2013 RDP, that type of aid was available as a part of measure 311 “Diversification into non-agricultural activities.” The purpose of that measure was to finance the setting up or development of non-agricultural activities or activities related to agriculture by the farmers, their spouses or household members, which was supposed to affect the creation of non-agricultural sources of income. The group eligible for aid were natural persons insured pursuant to the Act on social insurance for farmers of December 20, 1990 as a farmer or as his/her spouse or household member. The maximum amount of aid granted to one beneficiary in a farm during the term of the Program could not exceed PLN 100,000. By the end of 2014, 15,827 applications for a total amount of PLN 1.4 billion were approved for implementation as a part of the “Diversification (…)” measure. Most of the operations involved services for farms or forestry (10,001 operations, 70%), services provided to the public (1,491 operations, 10%) as well as tourist services and services related to sports, leisure and recreation (1,000 operations, 7%). The beneficiaries of this measure created 10,555 non-agricultural jobs in rural areas, including 9,101 permanent jobs and 1,454 seasonal jobs (Zbiorcze..., 2015).

Based on the analysis, it may be concluded that farmers were very active in accessing funds for the development of their own farms. Modernization activities were mostly focused on purchasing tractors and agricultural machinery. Undoubtedly, modern agriculture is largely based on machinery and tractors but the question arises whether that path of investments matches the intended objectives and provides measurable benefits to farmers and taxpayers? Due to complicated clearing procedures for the applications, simple investments were the preferred option: it was better for the farmers to purchase a superfluous tractor than to build a barn.

**SUPPORT FOR SMALL FARMS FROM THE NEW 2014–2020 FINANCIAL PERSPECTIVE: STRENGTHS AND WEAKNESSES OF THE PROGRAM**

In Poland, the “Strategy of sustainable development of the agriculture and rural areas for 2012–2020” was adopted in 2012 (Uchwala..., 2012). Accordingly, the primary purpose of implementing the strategy is to enhance the quality of life in rural areas and to effectively use the resources and potentials, including in the agriculture and fishery sectors, for the sustainable development of the country.” The key responsibility is to take specific measures contributing to the implementation of the adopted strategy. In that context, the problem of “small” farms operating in various parts of Poland becomes clearly noticeable. As they usually demonstrate poor economic performance, they are regarded as a handicap to the ambitious visions of the development of the Polish food industry. Having in mind the experience from the previous programs, what are the support mechanisms intended for this group? First, note that the Act on “payments within direct support systems” of February 5, 2015 gives preference to small and medium-sized operators (Ustawa..., 2015). As provided for in the Act and in subsequent relevant regulations of the Minister...
of the Agriculture and Rural Development, farmers who work up to 10 ha of arable land shall not be required to report environmentally-friendly areas and to diversify their crops in order to obtain the “greening” payment (farms with up to 15 ha of arable land shall be released from the obligation to report environmentally-friendly areas). Also, there is an “additional payment” available only to farms with up to 30 ha of arable land. Similarly, the subsidies for certain species of livestock give preference to small herds (small farms). Cow premiums were introduced for farmers who had at least 3 cows when submitting the relevant applications. In 2015, the cow premium was PLN 314.28, and could be disbursed for up to 30 cows on the holding. Additionally, subsidies for other bovine animals were proposed. In 2015, they were disbursed at a rate of PLN 261.37 per livestock unit (http://www.arimr.gov.pl). Note that the subsidy could only be disbursed to owners of no less than 3 and no more than 30 bovine animals. Sheep premiums were available to farmers rearing at least 10 female sheep aged 12 months or over as at May 15 of the year concerned (no upper limit was specified). Also, goat premiums were introduced for farmers rearing at least 5 female goats (the upper limit was not specified either).

Additionally, a special category of “payments for small farms” was introduced to the legislative solutions for direct payments under analysis. It is granted in an amount of up to the equivalent of EUR 1,250 in zlotys to farms declaring their intent to be considered as a “small farm” in the direct payments scheme. The advantage of joining the scheme consists in administrative simplifications: releasing from the obligation to implement greening practices without losing the right to greening payments; exemption from audits due to cross compliance; exemption from administrative sanctions, if any, for the failure to declare all agricultural parcels in the farm. In summary of the above, it may be concluded that the adopted direct payments scheme gives preference to small and medium-sized holdings. Important simplifications of administrative procedures are particularly noticeable in farms with up to 10 ha of arable land, which is a step in a reasonable direction. The planned production support (mainly in the area of animal production) also gives preference to small farms (e.g. rearing from 3 to 30 cows). The advantage of this approach is an attempt to motivate the farmers to continue rearing these animal species despite other discouraging aspects (e.g. price or distribution conditions). However, on the other hand, this raises the question of whether there is any sense in supporting the continuation of such operations carried out on a very small scale, especially in the era of agricultural policy globalization and liberalization at the EU level (which could also involve free trade with the US in the near future, with no administrative or customs barriers). Would it not be better to allocate scarce public funds to measures contributing to the development of farms well positioned to successfully operate and compete in the difficult European market? These are complex questions because people (families) running “small” farms also need to be taken into account. Nevertheless, it would be fair to develop solutions that help improve the economic performance and trace a path to modernization of farming facilities and to future self-sufficiency for the family.

One of the important programs providing for specific measures conducive to changes in Polish rural areas is the “2014–2020 Rural Development Program.” It involves the implementation of six priorities set for the Community policy for the development of rural areas in 2014–2020 with reference to objectives of the Europe 2020 strategy and to those set in the Polish “Strategy for the sustainable development of rural areas, agriculture and fisheries in 2014–2020.” As regards small farms, the “Restructuring of small farms” measure was implemented, enabling access to support in the amount of up to PLN 60,000. Specific conditions must be met, including: 1) the applicant must be a natural person fully insured pursuant to regulations on social insurance for farmers, as a farmer engaged only in agricultural activities; 2) the farm’s economic size (SO) must be below EUR 10,000; 3) the implementation of the business plan should result in increasing the farm’s economic size to 10,000 EUR or more, at least by 20% of the initial size; 4) income and expenditure records must be kept by the farm (2014–2020 Rural Development Program). The proposed guidelines give rise to many doubts, e.g.: 1) What was the basis for setting the upper limit of standard output at EUR 10,000? 2) Why is the standard output required to increase only by 20% as a result of program implementation when it is known that the modernized farm will still be unable to generate enough income to support a family and accumulate capital? 3) What is the reason behind the record-keeping requirement, and who will audit the records (administrative costs)? 4) Is there a need for a detailed business plan if the cost figures are not prescriptive (it is reasonable to let the officials
interpret the parameters at their own discretion)? We believe the bureaucratic procedures in every support program should be minimized and cannot be open to interpretation by persons in charge of assessing the projects.

POTENTIAL PATHS OF DEVELOPMENT FOR SMALL FARMS IN POLAND IN VIEW OF THE “RESTRUCTURING OF SMALL FARMS (2014–2020)” MEASURE (AS ILLUSTRATED BY THE EXAMPLE OF FARM X)

In Poland, “small” farms are diversified in terms of resources (land, buildings, machinery and equipment), production activities and life goals of family members. Therefore, it is quite difficult to trace the potential development paths on an a priori basis. The subject of this analysis is a purposefully selected farm from the northern part of the Mazowieckie voivodeship run by an extended family. The farmer’s wife is employed outside the farm; the farmer runs the farm and works casually at construction sites; the farmer’s father and 3 children aged 7 to 13 are also involved (as and if possible) in the farming activities.

Six dairy cows are kept on the farm. The milk is sold to a dairy through the intermediary of a neighbor who has more livestock and owns a cooling tank. The farm owns basic farming equipment and 9 ha of agricultural land with crops intended for animal feed. The farmer is interested in accessing a subsidy of PLN 60,000 as a part of the “Restructuring of small farms” measure.

Three modernization paths are considered for this farm (Table 2). The first one is the easiest from the farmer’s perspective and bears the lowest risk of failure. With 3 more cows, the production will reach the minimum level required in order to be eligible for financial aid. While increasing the cow population to 9 and selling milk to a dairy through the intermediary of a neighbor will not contribute to generating enough income to support the family and make on-farm investments, it could supplement the incomes earned outside the farm. Purchasing a tractor subsidized at 50% is the easiest thing to do as it does not involve any administrative risks (the farmer submits one purchase

<table>
<thead>
<tr>
<th>The direction of modernization</th>
<th>Types of investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small changes that increase the required minimum value of production</td>
<td>Purchase of tractor for 120,000 PLN (financial support in the amount of 60,000 PLN) and increasing the number of cows to the required minimum (purchase of 3 cows)</td>
</tr>
<tr>
<td>Changing the direction of production for cattle beef and more time working outside the farm</td>
<td>Purchase of tractor for 100,000 and the expenditure for the modernization of livestock building in the amount of 20,000 PLN (financial support in the amount of 60,000 PLN). The sale of cows and purchase young cattle beef breed</td>
</tr>
<tr>
<td>Shorten the distribution chain through direct sales of milk produced</td>
<td>Purchase of equipment to sell milk and modernization of livestock – expense 120 000 PLN (financial support in the amount of 60,000 PLN) and increasing the number of cows to the required minimum (purchase of 3 cows)</td>
</tr>
</tbody>
</table>

Source: own elaboration.

Table 2. Possible directions for the restructuring of farm X based on „Small Farm Restructuring” action from RDP 2014–2020
Tabela 2. Potencjalne kierunki restrukturyzacji gospodarstwa X zgodnie z działaniem „Restrukturyzacja małych gospodarstw” z PROW 2014–2020
The second modernization path considered would boil down to changing the production profile, i.e., switching from milk cows to beef cattle. While this solution contributes to a reduction of the workload on the farm, it demonstrates a weakness when it comes to the cash-flow situation. Note that the farmer would need to wait for around 18 months for the first income from the sale of animals. This implies looking for a full-time job outside the farm (which is usually impossible due to unavailability of vacancies in the locality) and managing family responsibilities (childcare). The third development option is to directly sell whole milk produced on the farm with the use of a milk dispenser machine. For the farmer, this solution means shifting from the production of raw materials sold on a massive scale to the production and sales of a finished product. The price of whole milk that could be obtained on the market would be higher than that offered by the dairy through the intermediary of the neighbor. The problem with the last modernization scenario for the “small” farm considered is the high economic risk resulting from the difficult estimation of demand for products sold with a milk dispenser machine. So which of the modernization paths is the best option for the farm? To answer that question, the objective (which is the grant of a subsidy in the amount of PLN 60,000) needs to be taken into account. Due to limited risk and the ability to discontinue the agricultural production relatively easily if the family members decide to follow other goals (the subsidized tractor can be sold after five years), the first path should be considered optimal. But then, the following question could be asked: is this the optimum solution from the broad social perspective? Scarce public funds will be allocated to the purchase of a tractor produced in the locality and buy a tractor. Note however that this option does not contribute to creating new non-agricultural jobs in Poland. From the social perspective, the best solution is to support “small” farms in their activities which consist in shortening the marketing chain and manufacturing natural (low-processed) finished food products. We believe the modernization of “small” farms should be focused on shortening the marketing chain and on promoting cooperation between farmers. It should be emphasized that the purchase of a tractor by a “small” farm (demonstrating low production volumes of primary products sold on a massive scale) will not make it easier for the farmer to reach the national average level of incomes.

SUMMARY AND CONCLUSIONS

1. “Small” farms exist in Poland. Therefore, it is necessary to create development scenarios for them and to propose mechanisms supporting the desired changes. From 2004 to 2006, the “Support for semi-subsistence farms” measure was implemented under the RDP. From the perspective of efficient use of public funds, it demonstrated a poor economic performance. Generally, the restructuring of small farms did not take place.

2. The subsequent edition of the RDP (2007–2013) did not include any measures aimed directly at “small” farms. However, it does not mean they were left with no support. According to statistical data, a large part of funds was allocated to small farms under the “Setting up of young farmers” and “Modernization of farms” measures.

3. The new financing horizon (2014–2020) clearly promotes small and medium-sized farms. Farmers who work up to 10 ha of arable land shall not be required to report environmentally-friendly areas and to diversify their crops in order to obtain the “greening” payment (farms with up to 15 ha of arable land shall be released from the obligation to report environmentally-friendly areas). Also, there is an “additional payment” available only to farms with up to 30 ha of arable land.

4. Although support for small farms was clearly provided for in the 2014–2020 RDP, many doubts arise as to the requirements to be met and the outcomes of financial resources used. Legitimate concerns have arisen about the increasing bureaucratic burden and complicated procedures which will make it significantly more difficult for the farmers to understand and use the EU funds.

5. The main objective of this model-based analysis was the application of the “Restructuring of small farms” measure in a model farm. The authors conclude that the optimum solution from the farmer’s perspective will be to meet the minimum program requirements and buy a tractor. Note however that this option does contribute neither to a durable restructuring of the farms nor to the creation of non-agricultural jobs. Therefore, the authors believe the modernization of “small” farms should consist in shortening the marketing chain and promoting cooperation between farmers rather than focusing on an “illusive restructuring.”

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EKONOMICZNO-SPOŁECZNA OCENA WYKORZYSTANIA FUNDUSZY POMOCOWYCH W KREOWANIU ROZWOJU „DROBNYCH” GOSPODARSTW ROLNICZYCH W POLSCE


Słowa kluczowe: drobne gospodarstwa, rolnictwo, fundusze strukturalne, efektywność ekonomiczna

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