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THE SIGNIFICANCE OF FINANCING FARMS WITH PERSONAL EQUITY IN THE OPINION OF INDIVIDUAL FARMERS IN POLAND

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Abstract. The aim of this research was to present the role and significance of financing with equity capital on individual farms in Poland. The research was carried out with the use of an interviewer questionnaire on a group of 100 farmers running individual farms as well as keeping the agricultural accounts in the FADN system. The research was conducted in the Mazowsze. Limitation of financing of the operational and investment activity only to the equity capital, in the opinion of farmers, contributes to less dynamic development of agricultural production due to a lack of sufficient equity resources for the purchase of machines and devices. The farmers included no requirements concerning warranties and guarantees in the situation of financing with a loan as the most significant advantages of financing with equity capital. Most farmers allocated the saved financial surplus to current or planned investments, assessing such financial strategy as the average level of risk. Such approach to self-financing of the activity was assessed by farmers as average in the context of the effectiveness of using equity capital.

Keywords: equity capital; farms; FADN; sources of financing

INTRODUCTION

This article presents opinions of individual farmers on the subject of financing the activity of individual farms with their equity capital. The farmers assessed the role of internal financing of farming activity. The aim of the research was to identify the determinants of a conservative approach of farmers to involvement of borrowed capital. Farmers assessed the risk and effectiveness level of using their equity capital. Due to the highest availability of a financial surplus in current financing of farming activity, its intended purpose was studied over a short and long period of time.

The results of the research were obtained with the use of an interviewer questionnaire concerning sources of financing. The published results are original and constitute a part of the conducted research concerning the capital structure of commercial farms. The obtained results confirmed the dominating role of self-financing of farming activity. The conducted analysis revealed a discrepancy within the scope of allocating the financial surplus and opinions concerning the advantages and disadvantages of financing with equity capital, taking into consideration the agricultural type, the economic strength, and the area of agricultural land of farms.

THE ROLE AND SIGNIFICANCE OF EQUITY CAPITAL IN SMALL BUSINESS ENTITIES

The possession of capital is desired since it enables activity which results in an increase or performance of

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a specific function that assures its return. Capital, from a financial perspective, is defined as collected financial resources involved in business activity constituting the source of financing the assets (Chojnacka, 2012). The capital enables the purchase of production factors necessary for provision of goods and services (Działo and Mielewski, 2005). In smaller size enterprises of the agribusiness sector, the cash conversion cycle is more strongly connected with the capital than assets structure. Capital is a stream of financial resources of a specific value flowing into an enterprise and enabling the financing of operational and investment activity. Capital resources determine the production potential through determining of the possibility of investing in fixed and current assets (Bojańczyk, 2012). The factors characterising capital include e.g. its components, structure, level of liquidity, and sources of origin.

Dividing the capital of a business entity with regards to the right of ownership, it is possible to distinguish equity and borrowed capital. Another division of capital, from the financial perspective, takes into consideration its sources of origin and divides them into internal and external. Internal financing is often the same as self-financing and is understood as the process of financing from retained profit, from created long-term reserves, and from transformation of assets. External financing is the inflow of financial resources from outside of the enterprise. According to the hierarchy of the sources of financing, the management first decides to use internal sources of financing and if they are not sufficient, they satisfy the demand with external sources of financing (first through increasing of operational liabilities). In small business entities, first the management chooses own sources of capital, which include savings, and then retained profit (Hamilton and Fox, 1998).

The equity capital in business entities performs the incorporation, financing, guarantee, compensating, measurement and representative function (Chojnacka, 2012). According to Dziawgo and Zawadzki, the functions of the equity capital may also include the informative function (Dziawgo and Zawadzki, 2011). Walczyk (2007) also includes a working function of equity capital, which means that the capital constitutes the basis for accomplishment of operational tasks and investment projects. Moreover, Dudycz (1999) mentions the following functions: enterprise security and initiating. Another division of the functions of equity capital was presented by Jerzemowska (1996) including the learning and informative function, the income and motivation function, the planning and settlement function as well as the control function.

According to Ou and Haynes (2006), equity capital in small business entities plays a more important role than in large enterprises, which results from significance of the conducted activity for the owner's family, the stage of development and preferences concerning risk. The positive features of equity capital include financial stability and influence on increase in financial liquidity, whereas it is obtained without any obligatory interest and specific time of involvement. The capital provides information on the size of a guaranteed base in the event of any unexpected losses. Moreover, according to Dobbins et al. (1992), equity capital is involved for an unspecified period of time, which constitutes a basis for establishment of ownership relations resulting in the right to share the profits. Another advantage of equity capital is a possibility of further indebtedness of a business entity in a situation of increasing the value of its equity capital (conditions the credit rating). Together with higher return on equity in relation to the costs of debt handling, the safety of financing with borrowed capital increases (Jaskowska, 2005). Disadvantages of the equity capital include generation of losses resulting from low effectiveness and bad management of the sources of financing. Ineffective use of internal sources of financing by enterprises may result in a necessity to increase the borrowed capital (Frelinghaus and et., 2005). Nevertheless, most frequently, it is small business entities that limit the use of external sources of financing, treating them as the last resort (Daskalakis et al., 2013).

The possibility to increase equity capital in an enterprise is often limited, which may constitute a barrier for increase of competitiveness in a situation of no resources for investment and a conservative strategy of activity financing. Moreover, equity capital is characterised by higher cost of involvement and high risk for providers of this capital, whereas the cost of this capital is not included in tax deductible expenses (Gos, 2012). In small enterprises, the disadvantages of financing with equity capital also include the coercion of personal involvement and often devotion of the owners' savings. A situation like this may also be considered an advantage due to higher motivation to achieve success (Alińska et al., 2008).

EQUITY CAPITAL IN AGRICULTURE

The possibilities of creating equity capital in enterprises of the agricultural sector are low, which is connected with low profitability of this capital and its significant differentiation (Gołaś, 2009). The characteristic features of capital in agriculture, according to the theses proposed by Kulawik, include high level of dependence of agricultural production on natural conditions, domination of the land in the production factors resource, a moderately small scale of activity and personality of borrowers (Kulawik, 1995). Thus, the characteristics of farms should also be assessed from the perspective of possessed land resources being a basic production factor of these units. Both on farms and in agricultural enterprises with a higher share of the equity capital in liabilities, the use of land resources was found to be more effective. This influences the reduction of both the natural and economic risk, thereby strengthening the financial position of a farm by ensuring its financial liquidity.

Equity capital is connected with the farm in a permanent and long-term manner. The possibility to allocate the resource to any purpose may be considered its characteristic feature. Nevertheless, the cost of involvement of this capital is not equal to zero, which results from the fact that its level is at least equal to the cost of financing with the borrowed capital due to the fact that the financial surplus results in reduction of unpaid debt (Lee et al., 1988). Farmers usually apply a cautious financial strategy deciding to use mainly their equity capital and then preferential long-term loans. This is the result of preferences resulting from the system of values of the management of business entities aiming at retaining the economic and legal independence (Mielechowicz, 2003). Thus, farmers involve mostly their own resources to carry out new investments, which is connected with no effect of the financial leverage (Gołaś and Paszkowski, 2010). Therefore, changes in the production process and investment structure are conditioned by availability of capital, which, especially on small farms, constitutes a strong barrier for development (Poulton et al., 2010).

Losses of equity capital on farms most frequently occur in a situation of taking the resources exceeding the obtained income for private purposes. The consequence of such actions is a failure to recreate the assets, which results in insufficient amount of cash.

One of the basic decision problems in financial management is shaping of the sources of financing, which is important in agriculture due to long capital turnover connected with the natural production process. The necessity to make current expenses connected with the purchase of seeds, fertilizers, and pesticides determines the freezing of these resources for a longer period. A situation like this is, in particular, burdened with higher risk in the case of small farms, which do not have any possibility of financing with borrowed sources of financing. Thus, the marginal cost of capital is higher in the case of small rather than big farms. This is the result of larger effort of the farm management to improve the effectiveness related to implementation of investments (Hazell et al., 2010).

Using specific proportions between equity capital and borrowed capital is necessary if farm management wants to retain solvency and reliability. The capital structure is also influenced by other external factors, which include e.g. production capacity, capital and human resources, sources of competitive advantage, quality and quantity as well as structural aspects. However, the significant role of equity capital in capital structure of Polish farms set the aim of the research that include the farmers' opinion about main internal sources of financing their operating activity.

DATA

Research with the use of an interviewer questionnaire was conducted in 2011 on a group of 100 farmers[1] running individual farms in the Farm Accountancy Date Network[2] (FADN) system in the Mazowsze. The location of the research was selected due to the central position in Poland and the average conditions for

[1] The groups of 100 objects, farms were selected randomly among agriculture holdings that were cooperating with Mazovia Agriculture Advisory Center. The sampling was conducted by layered proportional method which takes into account the economic power, types of farming and the cropland areas of farms in research population.

[2] FADN is based on the accountancy data coming from the accounting records. Compared to the financial accounting, the management model provides more accurate reflection on the situation in the agricultural holding. FADN is the database in which data are collected according to uniform principles, and where the included holdings form a statistically representative sample of commercial agricultural holdings, operating in the European Union (Floriańczyk et al., 2014).

agricultural activity compared to other regions separated in the FADN system. The Mazowsze belongs to region C characterised by medium-sized farms with an average level of production intensity (Osuch et al., 2004).

The FADN data is gathered by the Institute of Agricultural and Food Economics – the National Research Institute in cooperation with Agricultural Advisory Centre. The scope of FADN observation includes commercial farms having a significant share in creation of the added value in agriculture. The farms considered to be commercial are those included in the group of farms producing, in a certain FADN region or the country, at least 90% of the value of Standard Gross Margin[3].

The farms were divided according to three criteria[4]. The first criterion is the area of agricultural land (AL), which was determined based on the intervals used in the FADN system presented in the results of standard farms[5]. In order to maintain a similar size in the studied groups, the smallest and the largest area intervals were combined. The first group includes farms with the AL area of 5–10 ha, the second 10–20 ha, the third 20–30 ha and the last one above 30 ha (created by combination of the groups of large and very large farms). The studied sample did not include farms having less than 5 ha of AL. The classification of farms according to the agricultural types was based on the terms and the division adopted by the FADN. The study distinguishes four main agricultural types, whereas the last one (named "other") is made of two agricultural types of remaining farms. The description uses numbers assigned to individual agricultural types: 4 – animals fed in a grazing system[6], 5 – animals fed with concentrated feeding stuff (grainvores)[7], 7 – mixed livestock[8], 8 – various crops and livestock together (mixed type)[9], the 'other' group includes farms of field crops type[10]. The division of farms according to ESU takes into consideration the limits of this criterion adopted in the FADN standard results[11]. The research distinguishes four economic size groups: 2–8 ESU (created by combining the groups of very small and small farms), 8–16 ESU, 16–40 ESU and above 40 ESU (created by combining the groups of big and very big farms).

Farmers, as a part of the conducted interviewer questionnaire, could indicate more than one advantage as well as disadvantage of financing the activity with their equity capital. In the question concerning assessment of the financial surplus and its intended use, the farmers could also distinguish more than one decision connected with the use of these resources. Assessment of the risk level in the case of self-financing and the effectiveness of capital involvement was made by indicating only one answer.

RESULTS

The opinions of farmers concerning the negative aspects resulting from financing of the activity with their equity capital were relatively diversified (Table 1). A situation like this, in most farmers' opinion, reflects the impossibility of quick development of the farm and purchase of modern machines (80% of indications). Most indications of this opinion were recorded on farms with 16–40

[3] Standard gross margin (SGM) is the surplus of the value of output of given activity over the value of direct costs in conditions of production, which are average for a given region.

[4] According to the first criterion (agriculture area) the number of farms in each group amount respectively: 12, 44, 19 farms, in the second criterion (agriculture type): 20, 18, 37, 16, 9; and the third division (economic size unit) 31, 31, 31 and 7.

[5] The division of farms according to agriculture area: very small < 5 AL, small 5 ≤ AL ≤ 10, medium – small 10 ≤ AL ≤ 20, medium – large 20 ≤ AL ≤ 30, large 30 ≤ AL ≤ 50, very large AL ≥ 50.

[6] In the "4" group of farms – animals fed in a grazing system type included following agriculture subtype of production: specialist dairying, specialist cattle-rearing and fattening, cattle-dairying, rearing and fattening combined and sheep, goats and other grazing livestock.

[7] In the "5" group of farms – granivores type included following agriculture subtype of production: animals fed with concentrated feed system, pigs, fattening, sows, gilts and fattening pigs.

[8] In the "7" group of farms – mixed livestock type included following agriculture subtype of production: mixed livestock – mainly grazing livestock, mixed livestock – mainly granivores.

[9] In the "8" group of farms – mixed crops and livestock type included following agriculture subtype of production: field crops-grazing livestock combined and various crops and livestock combined.

[10] In the farms classified as "other" group included following agriculture subtype of production: specialist cereals – oilseed and protein crops, field cropping, mixed cropping, specialist horticulture, various permanent crops combined and specialist fruit and citrus fruit.

[11] The division of farms according to economic size unit: very small ESU < 4, small 4 ≤ ESU ≤ 18, medium-small 8 ≤ ESU ≤ 16, medium large 16 ≤ ESU ≤ 40, large40 ≤ ESU ≤ 100, very large ESU ≥ 100.

ESU (90.3%), while 57.1% of indications were recorded on farms with the most beneficial situation. With an increase in the AL area of farms, the significance of this limitation increased from 75% on those with the area of 5–10 ha of AL to 84% on farms with the largest area. According to the criterion of the agricultural type, diversification in answers on the subject of this limitation was relatively large, especially between the types "granivores" (88.9% of indications) and "various crops and livestock together" (68.8%). This was the result of a different production technology, capital intensity, and productivity of the land resources between these farms. An even larger limitation in financing of the activity mainly with the equity capital is a possibility of carrying out of only small investments (on average 87% of indications). The unanimity of opinions within this scope in individual groups of farms was relatively close. On farms with the area above 10 ha of AL, such an opinion was expressed by 88–90% of farmers, while within the agricultural types by 81–85% of farmers, whereas only in the case of the "mixed livestock" type 89.2% of indications were recorded and in the case of "other" type – 100% of indications. The farmers from farms classified according to the economic power criterion were exceptionally unanimous within this scope (86–87% of indications). This might mean that there are not enough equity capital resources for investment needs in spite of a diversified level of the economic power among the individual groups of farms. This may be the result of a constant lack of sufficient own financial resources (on average 74% of indications). This concerned, in particular, the farms with the smallest area (83.3% of indications), whereas on the biggest ones, 52% of farmers pointed out to this limitation, which is connected with their generally stronger economic power. Within this criterion, a significant decrease in indications to this limitation was recorded together with an increase in economic power of a farm, from 83.9% on the economically weakest farms to 14.3% in those with the most beneficial situation within this scope.

The constant lack of sufficient cash resources was mentioned by farmers running farms of the "animals fed in a grazing system" type (90% of indications), whereas this opinion was expressed to a smaller extent by farmers on farms of the "animals fed with concentrated feeding stuff" type and the "various crops and livestock together" type (50–56% of indications). An important consequence of financing the activity with the use of the equity capital is the necessity to make limited purchases of resources for current agricultural production, which was mentioned by 50% of farmers. Such a limitation of financing the activity with the equity capital was the least significant in the case of farms with the area above 30 ha of AL (36%) and the "animals fed with concentrated feeding stuff" type (33.3% of indications). On the other hand, the farmers running farms of the "animals fed in a grazing system" type (60% of indications) and the economic power of 8–16 ESU (58.1% of indications) found this aspect the most significant. The farmers also pointed out the negative aspects of financing the activity mainly with their equity capital as contributing to stagnation of the farm (35% of indications) as well as the failure to use the possibility provided by the EU aid funds (30% of indications). This opinion referred mainly to the farms with the largest area as well as those of the "other" agricultural type (44.4% of indications). Only 17% of respondents, on average, pointed out to too high cost of the equity capital, which referred, in particular, to farms with the highest economic power (42.9%).

The advantages connected with financing of farming activity with equity resources include no necessity to fulfill the requirements concerning guarantees and warranties in the situation of using a loan (76% of indications), flexibility in using of the financial resources for any selected purpose (71%), and lack of problems with accumulation of the financial resources for repayment of credits and loans (70%) (Table 1). The largest share of indications referred to the lack of necessity to provide guarantees and warranties for banks, which occurred in all farms that were the strongest economically (100% of indications), while in the farms with the largest area – 88% and the "animals fed with concentrated feeding stuff" type – 88%. On farms grouped according to the economic power criterion, this factor was indicated by over 70% of farmers from the group with ESU above 8.

The flexibility of using resources for any selected purpose was assessed as the least important advantage of financing with the equity capital on farms with the smallest area (41.7%). On the other hand, this condition was considered important for farmers from farms with the area of 20–30 ha of AL (89.5% of indications). Assessment of problems with accumulation of financial resources for the purpose of repaying the debt was considered an important advantage in financing with the equity capital on farms of the "animals fed with concentrated feeding stuff" type (88.9% of indications). The least

Table 1. The significance of financing farms with the equity capital in farmer's opinion (%)
Tabela 1. Znaczenie finansowania kapitałem własnym w opinii rolników (%)

Specification Wyszczególnienie	Agriculture land (ha AL) Powierzchnia (ha UR)				Agriculture type Typ rolniczy					ESU Wielkość ekonomiczna (ESU)				Average Średnia
	5–10	10–20	20–30	>30	4	5	7	8	other	2–8	8–16	16–40	> 40	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Disadvantages of financing of the farm activity with equity capital – Wady finansowania działalności gospodarstwa środkami własnymi														
a) a constant lack of sufficient equity financial resources ciągły brak wystarczającej ilości własnych środków pieniężnych	83.3	81.8	78.9	52.0	90.0	50.0	83.8	56.3	77.8	83.9	77.4	74.2	14.3	74.0
b) a possibility of carrying out of only small investments możliwość realizacji jedynie niewielkich inwestycji	75.0	88.6	89.5	88.0	85.0	83.3	89.2	81.3	100.0	87.1	87.1	87.1	85.7	87.0
c) the necessity to make limited purchases of resources for current agricultural production dokonywanie na własny koszt ograniczonych zakupów środków do produkcji	50.0	56.8	52.6	36.0	60.0	33.3	59.5	50.0	22.2	51.6	58.1	41.9	42.9	50.0
d) the impossibility of quick development of the farm and purchase of modern machines brak możliwości szybkiego rozwoju gospodarstwa i zakupu nowoczesnych maszyn	75.0	77.3	84.2	84.0	85.0	88.9	75.7	68.8	88.9	77.4	77.4	90.3	57.1	80.0
e) financing the activity mainly with their equity capital is contributing to stagnation of the farm ograniczone własne zasoby finansowania przyczyniają się do stagnacji gospodarstwa	33.3	40.9	15.8	40.0	45.0	27.8	35.1	25.0	44.4	41.9	29.0	41.9	0.0	35.0
f) there is a need to borrow money from family and friends zapożyczanie się u rodziny i znajomych	16.7	9.1	5.3	8.0	5.0	5.6	10.8	12.5	11.1	12.9	9.7	6.5	0.0	9.0
g) no effective use of obtained funds from European Union nie wykorzystywanie możliwości jakie dają pomocowe środki Unii Europejskiej	16.7	18.2	42.1	48.0	10.0	33.3	32.4	37.5	44.4	9.7	41.9	35.5	42.9	30.0
h) too high cost of the equity capital zbyt wysoki koszt własny	16.7	13.6	21.1	20.0	10.0	33.3	10.8	12.5	33.3	12.9	9.7	22.6	42.9	17.0
i) I do not see any disadvantages in the financing with equity capital nie widzę żadnych minusów w finansowaniu działalności kapitałem własnym	0.0	0.0	5.3	4.0	5.0	5.6	0.0	0.0	0.0	0.0	0.0	3.2	14.3	2.0
Advantages of financing of the farm activity with equity capital – Zalety finansowania działalności gospodarstwa środkami własnymi														
a) lack of the necessity to cooperate with a bank brak konieczności współpracy z bankiem	58.3	15.9	36.8	44.0	15.0	38.9	32.4	43.8	33.3	35.5	22.6	38.7	28.6	32.0
b) no additional financial burden connected with higher interests brak konieczności płacenia wysokich odsetek przez wiele lat (brak dodatkowego obciążenia finansowego)	58.3	34.1	47.4	64.0	40.0	66.7	32.4	50.0	77.8	45.2	48.4	45.2	57.1	47.0

Table 1 cont. – Tabela 1 cd.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
c) lack of problems with accumulation of the financial resources for repayment of credits and loans brak zmartwień związanych z ciągłym gromadzeniem odpowiedniej ilości pieniędzy na spłatę rat kredytu	75.0	68.2	63.2	76.0	50.0	88.9	70.3	75.0	66.7	74.2	64.5	71.0	71.4	70.0
d) no necessity to fulfill the requirements concerning guarantees and warranties in the situation of using a loan brak wymagań związanych z gwarancjami i poręczeniami	66.7	72.7	73.7	88.0	70.0	88.9	73.0	81.3	66.7	67.7	74.2	80.6	100.0	76.0
e) lack of the necessity to perform a detailed business plans related to the investment brak konieczności wykonywania szczegółowych biznesplanów związanych z inwestycją	33.3	47.7	36.8	32.0	25.0	50.0	45.9	25.0	55.6	45.2	38.7	35.5	42.9	40.0
f) flexibility in using the financial resources for any selected purpose dowolność w przeznaczeniu pieniędzy na wybrany cel	41.7	77.3	89.5	60.0	80.0	77.8	70.3	68.8	44.4	64.5	77.4	71.0	71.4	71.0
g) the equity capital is a cheap and safe source of financing kapitał własny jest tani i bezpieczny	33.3	25.0	36.8	40.0	30.0	33.3	43.2	18.8	11.1	25.8	38.7	32.3	28.6	32.0
h) maintaining financial independence of the farm utrzymanie niezależności finansowej	8.3	25.0	42.1	40.0	40.0	27.8	24.3	31.3	33.3	25.8	32.3	32.3	28.6	30.0
i) limited equity resources are sufficient for funding stable development of the farm ograniczone własne zasoby finansowania w całości wystarczają na stabilny rozwój gospodarstwa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
k) I do not see any advantages in the financing with equity capital nie widzę żadnych plusów w finansowaniu działalności kapitałem własnym	8.3	0.0	0.0	0.0	0.0	0.0	2.7	0.0	0.0	3.2	0.0	0.0	0.0	1.0

Source: own elaboration.
Źródło: opracowanie własne.

serious problems with accumulation of cash for the purpose of repayment of credit liabilities occurred on farms of the "animals fed in the grazing system" type (50%).

Farmers in the studied population, least frequently indicated the financial benefits of financing the activity only with equity capital connected with lack of the necessity to cooperate with a bank (32%) as well as retaining the financial independence (30%). Maintaining financial independence is the least significant benefit in financing with equity capital on farms with the smallest area (8.3%). Assessment of equity capital as a cheap and safe source of financing occurred on average in 1/3 of farms. The share of these answers was the highest on farms with the largest area (40% of indications) as well as the "mixed livestock" type.

The financial surplus obtained from the conducted activity was used by 55% of farmers to finance another investment (Table 2). The management also pointed out to using the financial surplus to subsidize the sources of capital of the investments that are currently being carried out (43% of indications) in order to improve the effectiveness of the involved capital. On farms with the smallest area, 75% of farmers pointed out to the lack of financial surplus from the conducted activity. The share of these answers showed a decreasing tendency together with the increasing area of AL. This suggests a stronger

Table 2. The evaluation of internal sources of funding farms performance (%)
Tabela 2. Przeznaczenie i ocena zaangażowania wewnętrznych źródeł finansowania w gospodarstwach (%)

Specification – Wyszczególnienie	Agriculture land (ha AL) Powierzchnia (ha UR)				Agriculture type Typ rolniczy					ESU Wielkość ekonomiczna (ESU)				Average Średnia
	5–10	10–20	20–30	>30	4	5	7	8	other	2–8	8–16	16–40	>40	
Financial decision related to the surplus of financial sources Decyzje finansowe dotyczące występującej nadwyżki gotówki														
a) the financial surplus did not occur nie występuje nadwyżka gotówki	75.0	22.7	10.5	4.0	15.0	15.8	16.7	31.3	11.1	41.9	19.4	9.7	0.0	22.0
b) the financial surplus is being used to subsidize the investments that are currently carried out dodatkowa gotówka angażowana jest w aktualnie realizowaną inwestycję	25.0	34.1	52.6	60.0	55.0	52.6	50.0	43.8	22.2	19.4	54.8	48.4	71.4	43.0
c) the financial surplus is used to finance another investment nadwyżka pieniężna przeznaczana jest na kolejną inwestycję	8.3	52.3	47.4	88.0	55.0	57.9	61.1	43.8	55.6	29.0	54.8	77.4	71.4	55.0
d) the financial surplus is used for purchase of the land nadwyżka pieniężna przekazana jest na zakup ziemi	0.0	6.8	21.1	16.0	5.0	5.3	16.7	12.5	44.4	6.5	12.9	9.7	28.6	11.0
e) financial surplus is place in the bank or/ and in securities lokuję nadwyżkę pieniężną w banku i/lub w papiery wartościowe	0.0	9.1	21.1	20.0	5.0	5.3	11.1	12.5	33.3	12.9	12.9	9.7	28.6	13.0
f) the financial surplus is used for consumption wydaję na własny cel prywatny, na konsumpcję	0.0	20.5	31.6	12.0	25.0	21.1	16.7	0.0	55.6	22.6	16.1	12.9	28.6	18.0
g) the financial surplus is used for lease of additional agriculture land wydzierżawiam dodatkową ziemię	0.0	4.5	5.3	4.0	10.0	10.5	5.6	0.0	11.1	6.5	0.0	6.5	0.0	4.0
The risk assessment of conducted activity while financing with the equity capital Ocena ryzyka w finansowaniu działalności gospodarstwa jedynie ze środków własnych														
a) very high – bardzo wysokie	0.0	4.5	5.3	8.0	0.0	0.0	5.6	6.3	0.0	3.2	3.2	6.5	14.3	5.0
b) high – wysokie	8.3	18.2	10.5	12.0	10.0	10.5	16.7	6.3	11.1	6.5	12.9	22.6	14.3	14.0
c) average – średnie	41.7	31.8	31.6	12.0	30.0	31.6	16.7	37.5	44.4	29.0	35.5	22.6	14.3	28.0
d) low – niskie	8.3	29.5	15.8	36.0	20.0	21.1	22.2	31.3	22.2	25.8	29.0	22.6	28.6	26.0
e) very low – bardzo niskie	41.7	15.9	36.8	32.0	40.0	36.8	38.9	18.8	22.2	35.5	19.4	25.8	28.6	27.0
The effectiveness assessment of conducted activity while financing with the equity capital Ocena efektywności zaangażowania kapitałów własnych gospodarstw														
a) very high – bardzo wysoka	0.0	2.3	5.3	0.0	5.0	0.0	5.6	0.0	0.0	3.2	0.0	3.2	0.0	2.0
b) high – wysoka	0.0	20.5	21.1	32.0	10.0	10.5	16.7	18.8	11.1	9.7	19.4	35.5	14.3	21.0
c) average – średnia	75.0	47.7	68.4	64.0	75.0	78.9	55.6	56.3	88.9	51.6	64.5	61.3	57.1	59.0
d) low – niska	16.7	29.5	5.3	4.0	10.0	10.5	22.2	25.0	0.0	32.3	16.1	0.0	28.6	17.0
e) very low – bardzo niska	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.2	0.0	0.0	0.0	1.0

Source: own elaboration.
Źródło: opracowanie własne.

and more stable financial situation of farms where the dominant production factor is the land bringing a constant income from the production.

In the group of farms with the area above 30 ha of AL, farmers decided to allocate the financial surplus to another or current investment (respectively 88% and 60% of answers). This suggests gradual accumulation of the financial surplus in order to secure liquidity and carry out investments planned in the future. High share of answers concerning allocation of the financial surplus to current or future investments also referred to farms of the "mixed livestock" type (respectively 50% and 61.1%). This may suggest the stage of carrying out the developmental undertakings on these farms as well as the lack of possibility to obtain capital from other sources. This contributes to delays in accomplishment of the investment processes and reduction in competitiveness of these entities. On farms of the agricultural type classified as "other", the highest share of answers was recorded with regard to allocation of the financial surplus to purchase of land, which amounted to 44.4%. This may suggest the necessity of increasing the scale of production and effectiveness of managing the resources of production factors. Development of the conducted activity through purchase of the land indicates that farmers from this group implement a strategy of stable development.

On the economically weakest farms, 41.9% of farmers pointed to no financial surplus, whereas in the group above 40 ESU the problem did not occur. On farms with the highest ESU, the generated financial surplus was allocated to carrying out of the current investments and the following developmental undertakings, whereas the share of these answers was the same (71.4% of indications). This results from the adopted strategy of self-financing of the implemented investments which are connected with accumulation of the financial resources for this purpose.

Farmers assessed the risk of conducted activity while financing with the equity capital as average (28% of indications). This opinion may be connected with the adopted strategy of minimizing the share of borrowed capital in the total assets, resulting from high operational risk of agricultural production. This may also result from limited access to borrowed capital. The highest share of answers classifying the operational risk as "average" was recorded on farms of the "other" type (44.4% of indications). This suggests a different risk assessment of farmers who carry out unidirectional plant production compared to other production types. This may be the result of a diversified influence of natural conditions of the operational activity and a different length of the operational cycle as well as the production technology itself. On farms with the area of 10–20 ha of AL, the share of farmers' answers assessing the risk of financing with the equity capital as "high" amounted to 18.2% and was the highest in the studied population. On farms with the largest area, 36% of farmers assessed the risk as "low", while in the group with the smallest area – 41.7% referred to answers "very low" and "average". This indicates a diversified approach to risk assessment with regards to the scale of activity. On farms with the economic power of 2–8 ESU, the risk of financing with equity capital was considered "very low" by farmers (35.5% of indications). In the economically strongest group, the highest share of farmers' answers concerned "very low" and "low" risk of financing the activity with equity capital (28.6% of indications). This is connected with a possibility to generate higher operational surplus from the conducted activity.

The effectiveness of using equity capital in financing of the farm development was assessed by over half of farmers as "average" – 59% of indications and "high" by 21% of farmers. This assessment is dominant on all farms, regardless of the adopted criterion of their grouping. The answers concerning the "average" effectiveness dominated on farms with the smallest area 5–10 ha of AL (75%) and those of the "animals fed with concentrated feeding stuff" type (78.9%). On farms with the area above 30 ha of AL, the largest share of answers referred to obtaining of the "average" effectiveness of using equity capital (64% of indications). In the group of farms of the "mixed livestock" type, 55.6% farmers pointed to the "average" effectiveness of using their own financial resources. On the economically weakest farms, there was a high share of indications of farmers who described the effectiveness of their own resources as "average" – 51.6% and "low" (32.3% of indications). In the group of farms with the economic power of 16–40 ESU, the most farmers assessed the effectiveness of using their equity capital as "high" (35.5% of answers). In the assessment of these farmers, this may suggest a profitable use of the possessed resources in this group of farms. This may result from increased profitability of production and improvement of the financial situation of these farms. The economically strongest farms achieve the highest competitive advantage over other farms due to higher effectiveness of using the equity capital.

CONCLUSION

The aim of this research was to present the significance of financing with equity capital in the opinion of farmers. Although equity capital is the main source of financing the activity of farms in Poland, farmers also perceive the disadvantages of this type of financing. Limitation of financing only to equity capital contributes to less dynamic development of agricultural production due to lack of sufficient own resources for the purchase of machines and devices. This suggests high capital needs within the scope of planned investments. This is connected with the necessity to limit the speed of development in the situation of a conservative approach to financing of farms. In the opinion of farmers, the advantages of using their equity capital include no necessity to fulfill the requirements of guarantees and warranties as well as no necessity to accumulate cash for repayment of credit liabilities and allocating the resources to any selected purpose. The equity capital, in the opinion of farmers, enables them to retain the independence of the farm. The dominant role, in the opinion of farmers, was the financial, guarantee, and initiating function of the equity capital.

On farms with the largest area, the main disadvantages of financing only with own (personal) resources included no possibility to carry out investments of a higher value or to develop quickly through the purchase of modern machines and devices. Among the advantages of own (personal) capital, farmers pointed out the lack of requirements referring to obtaining of guarantees and warranties. Farmers from these farms invested the financial surplus or accumulated it for investment purposes, which is reflected in low or very low assessment of the risk of such financial strategy. Such an approach to management of the internal sources of financing, in the assessment of farmers, was characterized by average effectiveness. This suggests a purposeful choice of such sources of financing that enable limitation of the risk at the expense of lower effectiveness. On farms with the smallest area, farmers pointed out the lack of sufficient amount of financial resources and the possibility of dynamic development. Financing with equity capital, in their opinion, may determine limitations in development.

On farms focused on livestock production, there was no uniform assessment of financing the operational and investment activity with equity capital. On these farms, financing with equity capital was assessed as insufficient due to the lack of the possibility to purchase machines and devices for faster development. A similar level of indications was recorded in this area on farms of the plant production type. Diversification of opinions between these farms was visible within the scope of the role of the financial function of the equity capital. The function was assessed as important on farms focused on animal production. Moreover, in these entities, farmers more frequently assessed the effectiveness of using the equity capital as average, whereas in the other groups of farms, a similar share of answers characterized the assessment of low effectiveness. This results from higher insensitivity of production and shorter operational cycles.

The cash surplus, as the most easily available source of financing farms, was allocated to investments, mainly in entities with the highest economic power. On economically weaker farms, the financial surplus was absent or was allocated mainly to consumption or private purposes. On these farms, the risk of financing with equity capital was assessed as very low, whereas in the economically strongest ones, the dominant assessment was such with low or very low risk. This suggests the perception of more serious dangers and disadvantages of financing with the equity capital by farmers conducting the activity on a larger scale. The division with regards to the economic power of farms did not significantly diversify the assessment of the effectiveness of using equity capital. The advantage of financing the economically weakest farms with own (personal) sources of capital, in the opinion of farmers, is the lack of additional financial burden, whereas in the strongest ones – lack of the necessity to obtain finances from outside. This suggests an important role of self-financing of farms in the opinion of farmers.

The limitation of this study is a lack of statistical analyses. Further research will include statistical analysis based on the FADN financial data to identify the significant determinates of the equity capital value and adopted self-financing strategy by farmers.

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ZNACZENIE FINANSOWANIA KAPITAŁEM WŁASNYM GOSPODARSTW W OPINII ROLNIKÓW INDYWIDUALNYCH W POLSCE

Abstrakt. Celem badań jest przedstawienie roli i znaczenia finansowania kapitałem własnym w indywidualnych gospodarstwach rolniczych w Polsce. Badania przeprowadzono z wykorzystaniem kwestionariusza wywiadu na grupie 100 rolników prowadzących indywidualne gospodarstwa rolnicze oraz prowadzących rachunkowość rolną w systemie FADN. Badania przeprowadzono w 2011 r. w województwie mazowieckim. Ograniczenie finansowania działalności operacyjnej i inwestycyjnej jedynie do kapitału własnego w opinii rolników przyczynia się do mniej dynamicznego rozwoju produkcji rolnej, z uwagi na brak wystarczających środków własnych na zakup maszyn i urządzeń. Do najistotniejszych zalet finansowania kapitałem własnym rolnicy zaliczyli brak konieczności spełniania wymagań dotyczących poręczeń i gwarancji w sytuacji finansowania kredytem. Większość rolników wygospodarowaną nadwyżkę pieniężną przeznaczała na bieżące bądź planowane inwestycje, oceniając, że jest to strategia finansowania o średnim stopniu ryzyka. Takie podejście do samofinansowania działalności było przez samych rolników oceniane jako średnie w kontekście efektywności wykorzystania kapitału własnego.

Słowa kluczowe: gospodarstwa rolnicze, nadwyżka pieniężna, finansowanie wewnętrzne

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