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Supply chain restructuring and its impact on farmers' income - the evidence from the dairy sector in Poland

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Supply chain restructuring and its impact on farmers' income - the evidence from dairy sector in Poland.

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Abstract

Supply chain restructuring and its impact on farmers' situation have become the subject of vast interest among agricultural economists. However, there have been relatively few studies trying to quantitatively assess this issue. This paper analyses the impact of supply chain modernisation on dairy farmers in Poland. It is shown that joining the modern marketing channel positively affects farmers' incomes. The decision to enter the modern channel is crucially dependent on access to funds and facilitated by having larger cow herds.

Keywords: supply chain restructuring, dairy sector, Poland.

Conclusions

In response to dynamic and thorough transformations taking place in the Polish dairy sector the paper aimed at analysing determinants of market channel choices of dairy farms. Moreover, it attempted to investigate what impacts this choice may bring about as regards farmers' financial situation and their behaviour.

Entering the modern marketing channel (MMC) seems to be conditioned by the exogenous rather than endogenous factors. Neither human capital nor households' initial physical capital endowments are the decisive factors. It is rather access to funds that would allow for undertaking necessary adjustments. Given that farms' financial capital endowments are limited, the marketing channel choice is crucially dependent on having access to external funds. Therefore, the role of dairy processors, actively assisting farmers and stimulating the restructuring is difficult to overestimate.

Further, joining MMC is facilitated by having herds of larger size and improved cow breeds. No systematic evidence for small farmers' being excluded from MMC was found, though it seems that the smallest ones (having less than 5 cows) are

marginalized through having no access to external funds.

Entering MMC positively affects farms' financial situation. This effect has been found for all farms regardless of their size. For the smallest ones, however, the impact is of lesser magnitude. Households supplying MMC experienced also much faster development than their counterparts from the traditional marketing channel (TMC).

Finally, changing the channel also influences the level of farms' specialization. Farms delivering to MMC tend to concentrate on milk production. However, these are mostly larger farms (having more than 10 cows). Small farmers and those who remained in TMC tend to search for off-farm sources of income. Apparently, this strategy does not allow them to reach the level of revenues enjoyed by larger farms. Therefore, there is a strong need for development of non-agricultural income sources in rural areas in order to improve welfare of the smallest farms and consequently to encourage and enable less efficient farmers to quit milk production.