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## **FINANCIAL SUPPORT OF THE EUROPEAN UNION IN THE PROCESS OF MODERNIZATION OF AGRICULTURE IN POLAND**

*The integration of Poland and the European Union has substantially changed the conditions for the functioning of Polish agriculture, among others, financing for development and modernization. The aim of the study is to present and assess the level of financial support of the European Union in the process of modernization of farms in Poland. It points out the significant role of public support under the EU funds in the modernization of agriculture in Poland.*

**Key words:** *EU funds, modernization, investments.*

**Introduction.** The problem of modernization of agriculture is one of the key issues of agricultural policy of each country. The pace and extent of implementation of modern solutions in farms is the basis for improving the effectiveness of management and maintenance of a sustainable competitive advantage. Another factor forcing the modernization of agricultural holdings is an increasing consumer demand for quality and food safety, and also the requirements for environmental protection and animal storage conditions.

The process of modernization of productive structures in agriculture is associated primarily with the implementation of technical progress which is usually related to the need to incur capital expenditures. The problem in the implementation of the investment is to raise capital to finance them. Due to imperfections in capital markets, the access to external sources of financing for development and modernization of farms can be difficult [Kataria, Curtiss, Balmann 2012, Petrick 2004, Barry, Bierlen, Sotomayor 2000, Hubbard, Kashyap 1992, Stigliz, Weiss 1981]. The consequence of market failure is the justification for the active role of the state in the economy, which is manifested in agriculture by agricultural policy.

The aim of the study is to present and assess the level of financial support of the European Union in the process of modernization of farms in Poland.

**Material and methods.** The empirical material were data from the reports on the activities of the Agency for Restructuring and Modernisation of Agriculture (ARMA) related to payments made under the activities financed by the European Union for the modernization of agriculture for the period from 2004 to 2013. The analysis involved the following activities launched after Polish accession to the European Union:

1. under the Sectoral Operational Programme (SPO 2004-2006) *Restructuring and Modernisation of the Food Sector and Rural Development 2004-2006*:

- measure 1.1 *Investment in agricultural holdings*,

- measure 1.2 *Setting up of young farmers*,
- 2. under the Rural Development Plan (RDP) 2004-2006:
- measure 6 *Meeting the EU standards*,
- 3. under the Rural Development Programme (RDP) for 2007-2013:
- measure *Modernisation of agricultural holdings*,
- measure *Setting up of young farmers*.

The study also included data from the Central Statistical Office on the level of investment outlays in agriculture for the years 2004 to 2012.

**Results and researches.** Polish agriculture is characterized by many structural deficiencies such as: high employment rate, low efficiency of work and land, unfavourable agrarian structure and low income from agricultural activity. The necessary structural changes are a long and difficult process. Integration with the EU and covering of Polish agriculture with the CAP helped to accelerate the process [Wigler 2012]. After the Polish accession to the European Union access to funding opportunities for the development and modernization of agriculture from public funds increased substantially.

In the first period of Polish membership in the European Union (2004-2006) farmers could benefit from the Sectoral Operational Programme (SPO 2004-2006) *Restructuring and Modernisation of the Food Sector and Rural Development 2004-2006* and Rural Development Plan 2004-2006. Under the SOP direct support modernization of agricultural holdings was measure 1.1 *Investment in agricultural holdings* and measure 1.2 *Setting up of young farmers*. In turn, within the framework of the RDP 2004-2006 it was measure 6 *Meeting the EU standards*. In the next budget period in 2007-2013, within the Rural Development Programme (RDP) for 2007-2013 farmers could benefit from the measure *Modernisation of agricultural holdings* and *Setting up of young farmers*.

As part of the activities *Investment in agricultural holdings* support was given to projects related to modernization of farms, leading to their adaptation to the conditions of the functioning of the Single Market of the European Union. Public funds were granted to investments aimed at improving the profitability and competitiveness of farms, adjusting the profile, scale and quality to the market needs, increasing food security, improving animal welfare, environmental protection and occupational safety. The aid consisted of refinancing of the cost of the project and the value of the aid could not exceed the amount of 300 thousand PLN. The level of financial assistance amounted to a maximum of:

1. 50% of eligible costs or
2. 60% of eligible costs if the agricultural holding is situated in a less-favoured area or
3. 55% of eligible costs if the aid beneficiary is a young farmer or
4. 65% of eligible costs if the aid beneficiary is a young farmer and the agricultural holding is situated in a less-favoured area.

Under the measure *Setting up of young farmers* assistance in the form of a premium will be paid to young farmers (up to 40 years of age), who began running the farm alone. This action was intended to accelerate the exchange of generations in

agriculture. Its idea was to transfer to young farmers a premium in the amount of 50 thousand PLN.

In turn, under the Rural Development Plan 2004-2006 farmers could benefit from the measure *Meeting the EU standards*. This was to facilitate the adjustment of farms to EU standards in the field of environmental protection, public health, animal health and welfare producing animals. Standards specifying the conditions of agricultural production, introduced in the adjustment of Polish law to EU requirements required of Polish farms additional projects. In the case of low-income and those of agriculture in Poland, and thus the lack of own capital investment, it was necessary to provide public funds to farms to help them make adjustments necessary from the point of view of the law and the public interest. Support in order to help achieve the standards required under Community law helped to achieve the following objectives: faster implementation of Community standards required by Member States and compliance with these standards by the farmers. The amount of support under this measure could not exceed the equivalent of 25 thousand EUR annually per household. Support was paid in the form of a lump sum payment based on the cost of standard, defined for each project. In the case of investments for a period of two years - the support was paid in the amount of 50% of the payments per year. Under this action financial support for the following investments was granted:

- farm equipment facilities for the storage of natural fertilizers (environment): impermeable manure slabs; impermeable tanks for liquid manure and slurry,
- dairy farms adaptation to EU standards in terms of public health (veterinary requirements): equipped in milk cooling tank and milking systems; the water supply system for cows,
- adjustment of egg laying hen farms (animal health and welfare). - appropriate size and furnishing of boxes (cages).

In the next budget period, farmers in Poland could benefit from financial support in investing activities related to the process of modernization of farms with measures *Modernisation of agricultural holdings* and *Setting up of young farmers* under the Rural Development Programme for 2007-2013. Measure *Modernisation of agricultural holdings* was a continuation of an *Investment in agricultural holdings*. In turn, for the measure *Setting up of young farmers* in the years 2007 - 2013 the value of the bonus was increased from 50 thousand PLN to 100 thousand PLN and a requirement was introduced that at least 70% of the premium will be granted for investments in the farm.

The planned budget of SPO *Restructuring and Modernisation of the Food Sector and Rural Development 2004-2006* amounted to 1 784 million EUR, of which 33.8% was allocated to measure 1.1 *Investment in agricultural holdings*, and 9,7% to the measure 1.2 *Setting up of young farmers*. In turn, the budget of Rural Development Plan 2004-2006 amounted to 2 866.4 million, of which measure 6 *Meeting the EU standards* accounted for 6.8%. The budget of the program next Rural Development Programme for 2007-2013 amounted to 7 187 million, of which for

measure *Modernisation of agricultural holdings* 24.8% was allocated and the measure *Setting up of young farmers* - 5,8%.

Comparing the value of payments made under the analyzed activities for the period from 2004 - 2013 as compared to the value of investment in agriculture (Table 1) it can be seen that with their assistance over 45% of the investment was financed (precise calculation is not allowed by the lack of statistical data on outlay investment in agriculture in 2013). These data indicate the importance of aid in the process of modernization of agriculture in Poland.

Table 1

**The level and form of support for investment activities with public funds against the capital investment in agriculture in Poland [million PLN]**

Years	Investments in agriculture	Form of support				
		SPO Restructuring and Modernisation of the Food Sector and Rural Development 2004-2006		Rural Development Plan 2004-2006	Rural Development Programme for 2007-2013	
		Measure 1.1 Investment in agricultural holdings	Measure 1.2 Setting up of young farmers	Measure 6 Meeting the EU standards	Measure Modernisation of agricultural holdings	Measure Setting up of young farmers
2004	2 155,4	} 2 418,5	} 707,6	} 2 437,5		
2005	2 398,0					
2006	2 958,6					
2007	3 554,9					
2008	3 929,1				} 7 969,3	} 1 595,1
2009	3 710,3					
2010	3 716,0					
2011	4 283,9					
2012	4 492,7					
2013	no data					

Source: own calculations

**Conclusions.** The financial assistance of the European Union is an important element supporting the process of modernization of agriculture in Poland. In the case of very limited opportunities to accumulate funds for farms, accelerating the process of modernization of agriculture requires the transfer of public funds. This allows for intensifying structural changes in agriculture, improving management effectiveness, increasing competitiveness, but also for meeting the standards of the European Union. An important problem in the process of obtaining financial resources from EU funds is the ability to absorb them. In case of the discussed measures financial assistance in the form of an investment subsidy is available after the project only. This requires a commitment of own funds or possession of credit to obtain the loan. So access to such

forms of assistance is usually possible for households with more economic potential and better managed. This support can therefore stimulate competitiveness and contribute to improving the efficiency mainly strongest farms.

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