

# THE IMPORTANCE OF FINANCIAL SUPPORT FOR POLISH AGRICULTURAL HOLDINGS UNDER COMMON AGRICULTURAL POLICY

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*The research objective was to determine the changes within financial support provided for the Polish agricultural holdings under the Common Agricultural Policy (CAP) and to recognize the impact of subsidies on the level of incomes of agricultural producers. To meet this objective, the research was based on information on the instruments of financial support under CAP applied in years 2004-2013 and on figures from more than eleven thousand agricultural holdings included in the accounting system under Polish FADN from years 2004-2009. The analysis of results confirmed a significant influence that CAP has on operational activities of Polish agricultural holdings. All forms and measures of support are being applied, although to varying degrees and in different fields. To ensure effective regulation over the next years it is necessary to provide for further improvement of community support frameworks and the instruments applied.*

## ***Financial support, agricultural holdings, Common Agricultural Policy***

**Introduction.** Agriculture as a sector of national economy has limited potential in terms of its ability to accumulate, which is due to specific agricultural production and its associated risks. On the one hand, long production cycles require to precede with the supply of financial capital, on the other, they extend the period of an expected return on investment. Free circulation of capital is in itself interconnected with a low rate of return. Furthermore, high capital intensiveness contributes to the imposition of fixed cost on agricultural holdings. As a result, the risks of fluctuations in sales and prices are amplified and there can be observed an enlarged exposure to negative impacts of inflation [6, p. 12-17].

Support for agriculture and rural development is one of country's economic policies. Its aim is to improve the efficiency and competitive strength of Polish agricultural holdings. When financing their agricultural activities, the farmers make use of the equity capital, and its share being high, the farmers' dependency on other providers of capital is reduced.

Bank loan is one of significant sources of external financing. With regard to agriculture, its function is to provide income, stimulate the growth and restructuring. In this respect financial support is represented by the interest-rate subsidy for farmers, owing to which they have access to the so called preferential loans. The above-mentioned loans were introduced in 1993 to be

subsequently revised through the years due to changing number of available credit lines and their intended targets [3, p. 155-156].

Upon Polish accession to the EU there occurred a new instrument of financial support in regard to Polish agriculture resulting from the implementation of the Common Agricultural Policy within the EU. These are the funds provided under direct payments as well as under the structural funds and the cohesion fund.

The research objective was to determine the changes within financial support provided for the Polish agricultural holdings under the Common Agricultural Policy (CAP) and to recognize the impact of subsidies on the level of incomes of agricultural producers. To meet this objective, the research was based on information on the instruments of financial support under CAP applied in years 2004-2013 and on figures from more than eleven thousand agricultural holdings included in the accounting system under Polish FADN (Farm Accountancy Data Network) from years 2004-2009. The analysis does not include the data from the later period due to the change of typology for agricultural holdings and methodology for collecting information. The examined period was divided into two sub-periods: years 2004-2006 and 2007-2009, for which the average values of variables were determined in order to eliminate, at least partially, any changes resulting from short-period business fluctuations on agricultural markets. The research applies the division of the agricultural holdings into economic size classes and types of production.

**Results and discussion.** Upon Polish accession to the EU, Polish agriculture received financial support following different community support frameworks. The Agency for Restructuring and Modernisation of Agriculture (ARMA) became the mediator, coordinator and controller of introduction and implementation of these programmes. After 2004 Polish farmers could apply for the financial aid for the implementation of chosen activities selected in the Sectoral Operational Programme (SOP) The SOP comprised five sub-programmes, of which the one called "Restructuring and Modernisation of the Food Sector and Rural Development 2004-2006", SOP for Agriculture in short, proved to be the most important for the agriculture. It aimed at improving competitiveness and sustainable and balanced growth of the agricultural sector, helping the processing industry and strengthening multifunctional rural development. Under this programme, as on 30 June 2009 89.4% of funds were allocated to support changes and adjustments in the agri-food industry, 8.9% for the sustainable development of rural areas and 1.7% were used for technical assistance (Tab. 1). Until 2012 the amount of costs actually incurred and certified by ARMA, which were eligible under SOP for Agriculture, was PLN 6.87 billion, out of which 4.53 billion were from the EU budget.

The Rural Development Plan was another Community Support Framework which was introduced after Polish accession to the EU. It was being implemented in years 2004-2006 and, similarly to SOP for Agriculture, it was co-financed by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF). Two strategic objectives were set

there: sustainable development of rural areas and improving the competitiveness of the agri-food economy.

### **1. Implementation of SOP „Restructuring and Modernization of the Food Sector and Rural Development 2004-2006 as of 30.06.2009.**

Priority/Measures	Number of applications submitted	Amount of the payment executed in PLN million	% of limit used
Supporting of changes and adjustments in agricultural and food sector	63 086	4 828.3	99.4
Sustainable development of rural areas	12 180	480.3	91.0
Technical Assistance	514	91.1	93.8
<b>Total</b>	<b>75 780</b>	<b>5 399.7</b>	<b>98.5</b>

Source: based on [http://www.arimr.gov.pl/uploads/media/0510\\_SPO\\_rolny.pdf](http://www.arimr.gov.pl/uploads/media/0510_SPO_rolny.pdf)

### **2. Implementation of Rural Development Plan, 2004-2006 as of 31.12.2008.**

Measures	Number of decisions issued/agreements concluded	Amount of the payment executed in PLN million	% of limit used
Early retirement	52969	2083.1	65.3
Support for semi-subsistence farms	106518	1312.7	57.5
Support for farming in lessfavoured areas (LFA)	2033683	3690.7	95.9
Supporting agri-environmental actions	71628	812.4	86.5
Afforestation of agricultural land	5869	383.6	56.7
Adjustment of agricultural holdings to EU standards	70517	2427.5	68.2
Agricultural producer groups	62	24.2	13.4
Technical assistance	38	108.3	96.7
<b>Complements to direct payments</b>	<b>4 187 240</b>	<b>2866.0</b>	<b>99.7</b>

Source: own elaboration based on data from MARD [7].

According to the data from the Ministry of Agriculture and Rural Development (MARD) as on 31 December 2008, 13.7 billion PLN were paid under this programme, out of which 26.9% were allocated to support farming in less-favoured areas, 26.9% for supplement to area payments and 4.2% for technical assistance. Considerable subsidies have also been paid for meeting the EU standards by agricultural holdings (17.7%) and early retirement (15.2%).

In 2007 the Rural Development Programme 2007-2013 took the lead over the Rural Development Plan 2004-2006. According to the objectives set by the reform of policy with regard to rural areas this programme is funded by the European Agricultural Fund for Rural Development (EAFRD). The main objective of the Rural Development Program for 2007–2013, similarly to the

preceding programmes, is to improve the competitiveness of the agricultural holdings, to improve the environment and the quality of life in rural areas It also aims at strengthening positive effects of the measures taken under the Rural Development Programme 2004-2006 and under SOP for Agriculture continuing to provide for most financial aids.

### **3. Implementation of Rural Development Programme, 2007-2013 as of 19.07.2013.**

Axes/Measures	Number of decisions issued/agreements concluded	Amount of the payment executed in PLN million	% of limit used
1. Improving the competitiveness of the agricultural and forestry sector	182436	21813.3	70.0
2. Improvement of the environment and the countryside	4993227	15443.2	73.2
3. Quality of life in rural areas and diversification of rural economy	36472	7977.6	49.0
4. LEADER	24464	1306.7	34.8
5. Technical assistance	2090	512.5	46.2
<b>Total</b>	<b>5238689</b>	<b>47053.4</b>	<b>64.8</b>

Source: based on data from MARD [2].

Under the Rural Development Program for 2007–2013 the bulk of funds were allocated to improve the competitiveness of the agricultural and forestry sector and subsequently to improve the environment and the countryside. The funds used for supporting farming in the mountain areas and other less-favoured areas amounted to 17.3% and those for early retirement 16.3%. A large percentage of funds were directed for modernisation of agricultural holdings (14.9%) and for agri-environmental programme (13.6%).

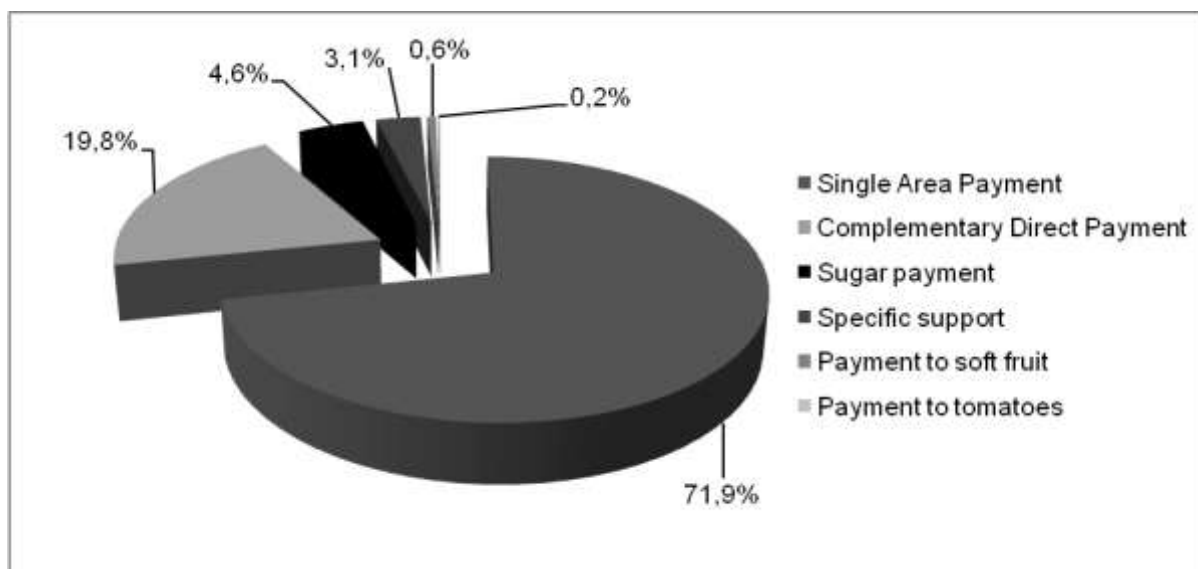
Nevertheless, direct payments, funded under the first pillar of the EU CAP, remain the most important instrument of financial support for the Polish agricultural holdings since 2004. Poland, like most new EU member states, decided to choose SAPS (Single Area Payment Scheme). Payments under this scheme are paid per ha of UAA maintained in good agricultural condition as on 30 June 2003. The level of the unit rate of the single area payment (SAP) is obtained by dividing the country's annual financial envelope, which is established for each country on the basis of historical production volume. The level of this type of direct payments benefited by Polish farmers increases annually, in line with the so called phasing-in mechanism. At the same time Complementary Area Payments (CAP) financed from the country's budget are being applied in Poland. They are paid in several sectors like: staple crops (among other: cereals, oilseeds, protein crops) hops, potato starch, tobacco, plants for feed cultivated on permanent pasture (animal payment - paid since 2007).

Since 2006 a separate sugar payment is also paid from the EU budget and since 2008 - a tomato and soft fruit payment. These types of payments

have been introduced as a result of the reforms in the markets of sugar, fruit and vegetables. Since 2012 soft fruit payment is paid decoupled from production. Furthermore, since 2010, following the entry into force of the final provisions of the review of the Common Agricultural Policy (Health Check), the so called specific support has also been implemented in Poland and it is paid in form of:

- special area payment for the cultivation area of grain legumes and small seed legumes,
- payment for cattle,
- payment for sheep,
- payments to high-quality raw tobacco (since 2012).

In 2012 the bulk of funds were directed to the farmers in form of a single area payment - 71.9% (Fig.1). The share of complementary area payment, covering mostly staple crop groups and animal payments, exceeded 19.8%. Sugar payment and specific support hit a decidedly lower percentage (4.6%) and (3.1%) respectively.



### 1. The share of payments in the total direct support for farmers in 2012

Source: own study based on MARD.

In line with the FADN methodology, subsidies for operating activities in years 2004-2009 covered the majority of support categories directed to agricultural holdings under CAP, subsidies for investments and payments for cessation of farming activities excepted. They included the following payments [4, p.12]:

- subsidies for plant production - compensation, area payments, set-aside subsidies, and the remaining subsidies for the plant production;

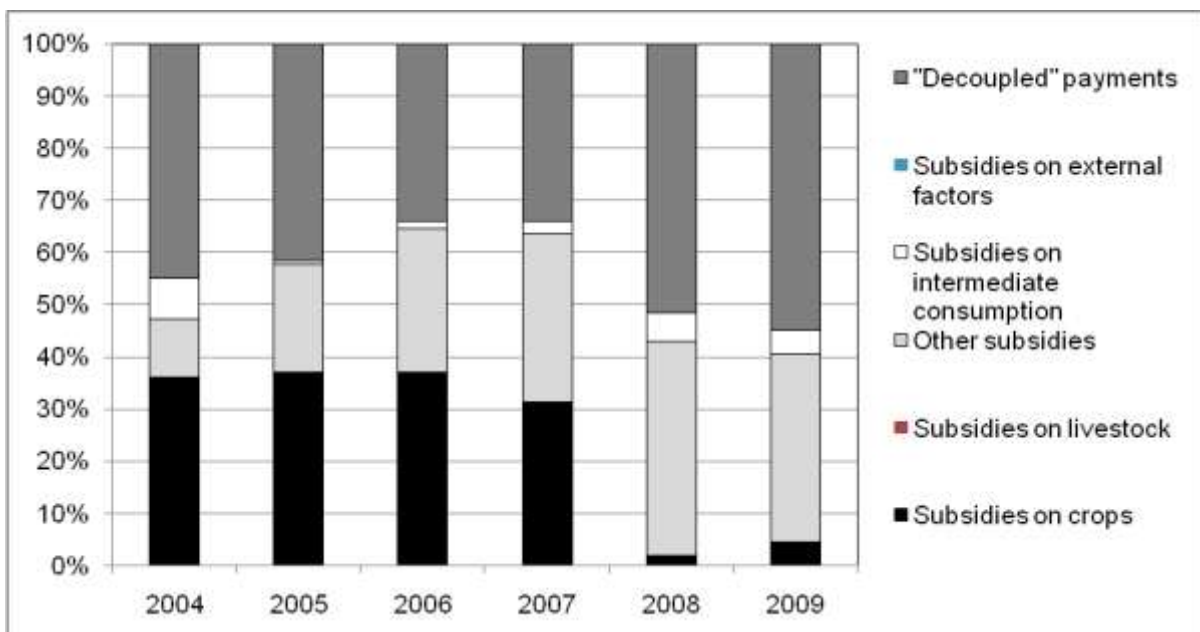
- subsidies for animal production - subsidies for animals and for products of animal origin and the remaining subsidies for animal production;

- the remaining subsidies/payments - agri-environmental subsidies, subsidies for the less-favoured areas (LFA) and other;

- subsidies for rural development;

subsidies for intermediate consumption;  
 subsidies for external environmental costs;  
 decoupled payments - single area payment (SAP), additional support resulting from the modulation of direct payments.

Three types of aid prevailed in the subsidies structure: decoupled payments, payments for plant production, and specifically in years 2008-2009 the remaining payments which at that time "absorbed" a large part of payments for plant production (Fig. 2). Subsidies for animal production and subsidies for external environmental costs represented in practice a marginal number.



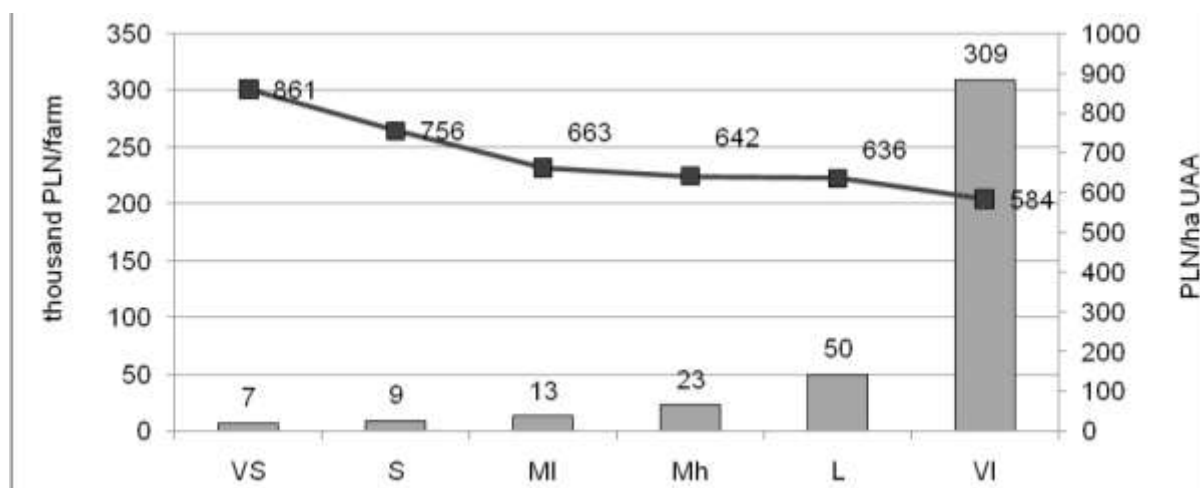
## 2. The structure of subsidies for operating activities in farms keep stock accounts in the Polish FADN

Source: own study based on FADN data.

In years 2004-2009, among the agricultural holdings under consideration an average aid was 12.3 thousand PLN for an agricultural holding per year. The level of revenues of direct financial support depended primarily on the size of the agricultural holding. The number of hectares with different types of payment entitlements was of a smaller importance. Consequently, considerable differences in the amount of benefits occurred, depending on the size of agricultural holdings (Fig. 3). The smallest agricultural holdings (small and very small FADN economic size classes) benefited from considerably lower than the average financial aid and in medium-size agricultural holdings the benefits were comparable. In turn, in larger agricultural units the payments significantly exceeded the average, even 25-fold in the largest holdings.

During the period under consideration, the agricultural holdings from the FADN trial were receiving on average 700 PLN per ha of UAA. In this perspective, although the differences in the amount of benefits between particular economic size classes were not huge, they were noticeable. The amount of payment was inversely correlated with the size of an agricultural

holding. As the size of agricultural holdings kept augmenting, the rates of subsidies for ha of UAA were falling. The reason for this was a different structure of subsidies in large agricultural holdings with the prevalence of single area payments and complementary area payments and a far lower rate of payments supporting farming in the mountain areas and other less-favoured areas (LFA).



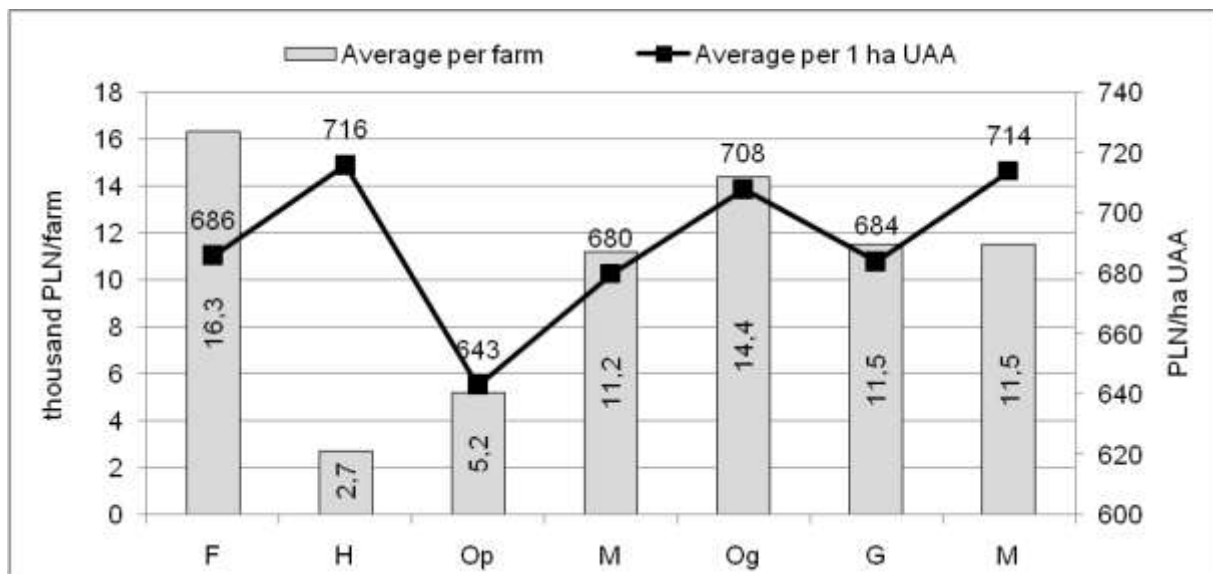
### 3. The average size of farm payments per 1 ha UAA and farm in 2004-2009 according to economic class FADN

Explanations: Vs – very small, S – small, MI – medium low, Mh – medium high, L – large, VI – very large.

Source: own study based on FADN data.

Marked differences were also observed between the agricultural holdings of different types of production. In years 2004-2009 the biggest payments for an agricultural holding were received by these units which specialised in plant production (over 16 thousand PLN a year on average) and those keeping pasture animals (14 thousand PLN). Beneficiaries specialising in horticultural crops and in permanent orchard crops (3-5 thousand PLN on average) received the smallest aid per holding. Payments in the other types of agricultural holdings, those of mixed production profile included, ranged from 11 to 12 thousand PLN. The highest revenues in vegetable farms and in those specialising in the pasture animal production owed to the size of these agricultural holdings. Both in the former as in the later, the production was based on sufficiently large acreage of arable land and grasslands. Additionally, the group of agricultural holdings with animals was marked by separate payments for cows and for sheep.

The highest rate of payment per ha of UAA applied to horticultural farms and to holdings keeping pasture animals. In the former group this involved a greater contribution of payments of higher rates per ha of UAA, and in the later separate animal payments (Fig. 4). Lower rates of benefits per area unit hit those groups of agricultural holdings in whose structure prevailed single and complementary area payment.

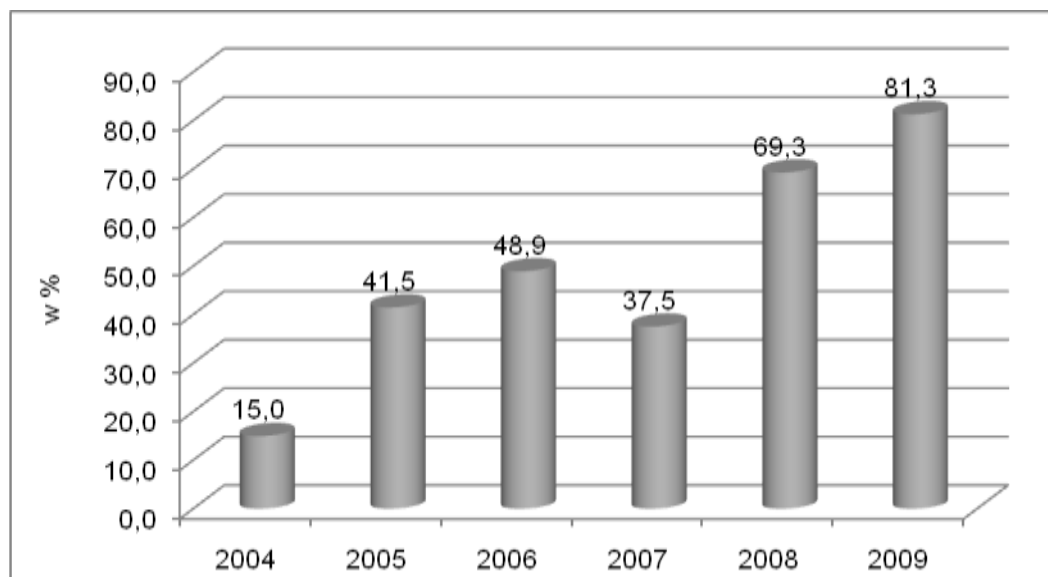


**4. The average size of farm payments per 1 ha UAA and farm in 2004-2009 according to type of farming**

Explanations: F - Fieldcrops, H - Horticulture, Op - Other permanent crops, M - Milk, Og - Other grazing livestock, G - Granivores, M - Mixed.

Source: own study based on FADN data.

Following dynamic increase in the level of subsidies granted to farmers in years 2004-2009 under CAP, their impact on income dynamics was also systematically increasing in the agricultural sector. During the first year after Polish accession subsidies for operating activities constituted 13% of farmers' revenues, whereas in years 2005-2008 this share amounted to 52% and in 2009 it exceeded 80% (Fig. 5).

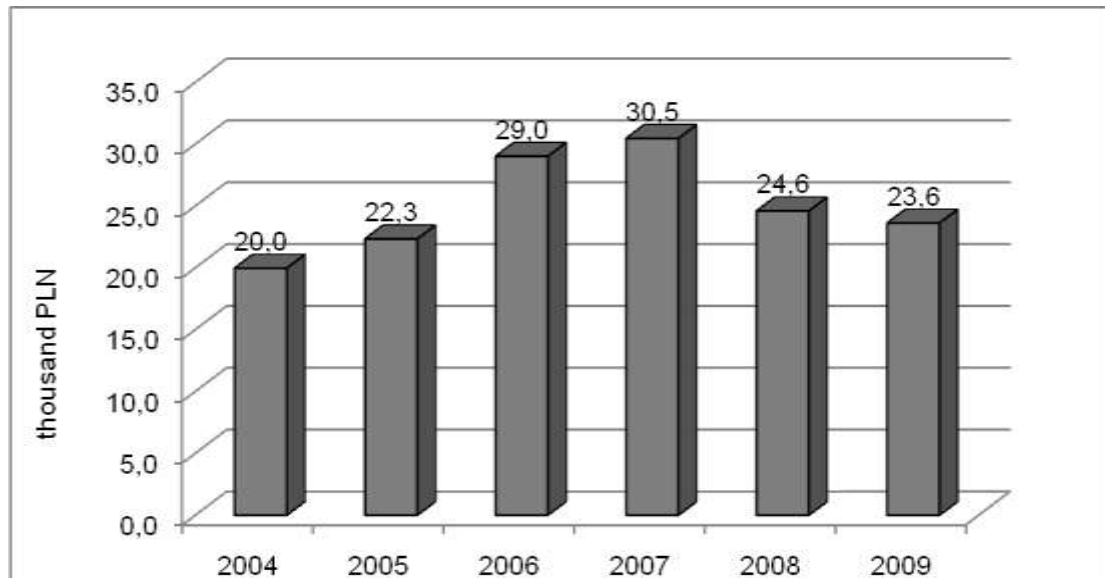


**5. The ratio of subsidies for operating activities to family farm income**  
 Source: own study based on FADN data.

Indicators to measure the production and costs incurred had a relatively lower impact on the revenue situation of agricultural holdings in years 2004-



2009. Revenues were growing at that time slightly faster than costs of production as a result of technological development, higher effectiveness, substituting cheaper means of production for the more expensive ones and also due to improvement of the agrarian structure of holdings [1, p. 120]. The increase in revenues was also triggered by favourable "price scissors" index and by favourable euro exchange rate that conditioned the actual aid granted.



### 6. Family farm income

Source: own study based on FADN data.

A steady, upward trend in agricultural producers' income which was observed in the first years following the integration was inhibited after 2007 (Fig.6). In years 2008-2009 an average farm income was lowered by 12% per year on average. This was effected by market downturn reflected in the slowdown in both production and the course of trade and caused among other things by a significant increase in the manufacturing costs. A similar trend was reported with regards to the incomes of family-based agricultural holding per one full-time employed person. However, during all the years under consideration an average income received by one agricultural holding was definitely lower than the average net monthly salary in the national economy (by 1/4 on average).

**Conclusions.** Support for the development of agricultural holdings was deemed advisable and expedient by many developed and developing countries, Poland included. Therefore, for many years Poland implements the policy intended to improve the competitiveness of agricultural holdings as well as efficiency and production quality. Since Polish accession to the EU farmers can dispose both of national aid (mostly in form of preferential loans) and of partly EU aid (SOP, RDP 2004-2006, RDP 2007- 2013 programmes). The aid is targeted to enhance the competitive strength of agricultural holdings by ways of their modernisation and changes of social structure and areal structure in the countryside. All forms and measures of support are being applied, although to varying degrees and in different fields.

The analysis of FADN data shows that financial aid for Polish agricultural holdings granted from the EU budget contributed to the increase in agricultural income. This resulted mainly from the introduction of single area payment. However, the importance of this aid for different groups of agricultural holdings varied depending on the size of agricultural holdings and their operations. In the largest agricultural holdings the rates of subsidies per ha of UAA were lower but in total they benefited from the greatest financial aid. A different situation was observed in small agricultural holdings where the subsidies, owing to their scope, served rather as social support.

Different subsidies being granted for different crops and animals, Common Agricultural Policy has also an impact on production decisions. The highest subsidies per ha of UAA were observed to be granted in horticultural farms and in holdings keeping pasture animals. Lower benefits marked these groups of agricultural holdings in whose structure prevailed single area payment. The analysis of results confirmed a significant influence that CAP has on operational activities of Polish agricultural holdings. To ensure effective regulation over the next years it is necessary to provide for further improvement of community support frameworks and the instruments applied.

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