

Absorption of EU funds by farmers in a small farm region

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Abstract

The paper assesses the participation of farmers from regions of small-farm agriculture in the absorption of EU funding, as well as their preparation to the realization of activities within the framework of the SOP and RDP programs in 2004-2006. The study shows that farmers were active in seeking financial support for their agricultural and extra-agricultural activities within the programs realized by the end of 2006. It was made possible thanks to help and support provided by local institutions, mainly, as farmers themselves say, by employees of the ODR Agricultural Advisory Centres. Thanks to the knowledge and experience of ODR advisors many farmers augmented their earnings, implemented investment projects and other innovative changes in their farms.

Key words: regional policy, EU funds, farmers, Common Agricultural Policy

1. Introduction

Integration with the EU imposes a need to adjust Polish agriculture and rural areas to European requirements, while it also opens the possibilities for farmers to avail themselves of various instruments of economic support for such processes.

After joining the EU, the conditions of Polish food production economy underwent a fundamental change. The EU membership resulted in its covering by all instruments of *acquis communautaire*, including the laws and obligations resulting from CAP (*Common Agricultural Policy*) regulations, regional, structural policy. In consequence of joining the EU the internal market became opened and access was gained to the market of 400 million consumers, as well as to funds for development of agriculture and rural areas many times higher than before. Food production economy became a beneficiary of the EU joining [4].

After joining the EU, Poland has been able to utilize funds for support of the development of agriculture and rural areas from three sources: domestic funds, pre-access funds and from the EU programs available for EU member countries. Polish farmers may utilize many instruments of support. It creates a need for monitoring of correct utilization of those funds, because many farms are over-invested or mis-invested. The problem of the assessment of functioning of programs connected with financing of development of agriculture and rural areas during the period of 2004-2006 becomes an important question.

In this context the objective set for this present study is the assessment of the activity of farmers in utilizing the available EU funding over 2004-2006 in the small-farm region. The geographic extent of the study covers the area of three provinces (voivodships): Małopolskie,

Podkarpackie and Świętokrzyskie, as dictated by the intention to show the studied issues in the region where small, semi-subsistence and economically-weak farms dominate (see Picture 1). The questionnaire-and-interview surveys were carried out in the first quarter of 2007, on a sample of 856 farmers from the area of the above mentioned three provinces, including 300 farmers from Podkarpackie and 278 farm owners each from Małopolskie and Świętokrzyskie. The study was performed within the framework of the research project, titled: "Role of local institutions in the transformation of small-farm agriculture (after Poland's joining the European Union)" financed by the MiNiSzW (Ministry of Science and Higher Education) within own grant: No. N114 009 31/2320, Headed by Dr Adam Czudec, Prof., UR Rzeszow University, Dept. of Economy, realization started in 2006. Among others the researchers wanted to learn the opinion of farmers in the question of searching and using the possibilities of getting financial subsidies for business activity within various forms of financial support from the EU funds.

With due account of the resources of production factors in agriculture, the character of agricultural structure, the level of employment and work (*labour*) costs and the effectiveness in agriculture, as well as on taking into account the geographic arrangement, Poland may be divided into 4 agricultural macro-regions. Macro-region of agriculture and rural areas is a set of regions with a distinct character of agrarian structure and a state of rural population density different from those the remaining regions [7]. Regional differentiation of agriculture and rural areas determines the need to use in-many-respects different agricultural policy towards individual macro-regions. It applies in particular to financial support from public funds. Macro-region I comprises provinces (voivodships) of south-eastern Poland, i.e. Podkarpackie, Małopolskie, Świętokrzyskie and Śląskie. It is the macro-region with over-populated rural areas and agriculture of small-farm agrarian structure. The average area of farm in those provinces (voivodships) does not exceed 5 ha of arable land, and they have merely 1.5% of farms with area larger than 15 ha of arable land.

Picture 1. Location of provinces (voivodships), covered by the study, in the country



Source: Author's representation

Except for Śląskie province, rural population is in the majority in each macro-region. The small-farm structure is characterized by weak bonding of farms with the market and semi-subsistent style of farming (high percentage of self-sufficient farms). Revenues from farm are the main, or the only, source of support for just 23.1% of farmer's families, whereas for over 40% the revenue comes from pensions, old-age pensions and social benefits. The key problem of agriculture in this macro-region I are ample resources of labour in farms, which, combined with small scale of production of average farm, leads to very low earnings/revenues of farmers [6]. Agriculture in the area of Podkarpackie, Małopolskie and Świętokrzyskie provinces, i.e. in the Macro-region I requires external financial support for processes of its transformation and development.

2. Forms and scope of support for agriculture with and from EU funds in 2004-2006

After joining the EU, i.e. from May 1, 2004, Polish agriculture and rural regions have been significant beneficiaries of the instruments of Common Agricultural Policy (CAP) and the EU structural policy. The main source of support for agriculture and rural regions is the European Agriculture Guidance and Guarantee Funds (EAGGF), consisting of Guarantee and Guidance sections. Activities within the Pillar I of the CAP, i.e. direct payments, market payments (market intervention, export payments and storage activities), as well as instruments supporting the development of rural areas within the Rural Development Plan (RDP) are co-financed from the Guarantee Section. The Guidance Section on the other hand supports the structural activities of the CAP. The Sectoral Operational Program (SOP) – „Restructuring and modernization of food sector, as well as rural development and agriculture” is the program document for the realization of that support.

The following four groups may be distinguished among all instruments used in the EU to support agricultural farms [3]:

- direct payments (Pillar I of the CAP),
- funds for market intervention (Pillar I of the CAP),
- accompanying funds within the Rural Development Program (Pillar II of the CAP),
- structural funds.

Correct utilization of the possibilities to support Polish agriculture from the EU funds shall ensure an improvement of competitiveness of Polish agriculture, increase in the number of workplaces on rural areas, and thus to reduce the unemployment rate, as well as ensure sustainable development of rural areas in environmental, social and economic terms.

Utilization of EU funds within the framework of RDP and SOP programs is a challenge faced by the organizations/units responsible for implementation of programs as well as their recipients. Attitudes and knowledge of these subjects shall constitute a potential vital for attaining success.

According to data from the ARiMR Agency for Modernization and Restructuring of Agriculture in Warsaw, activity 3 „Support for agricultural activity on less favoured areas (LFAs)” enjoyed most interest as evidenced by the growing number of applications filed in consecutive years of program realization. As many as 628 762 farmers filed applications in Poland in 2004, 708 675 farmers in 2005 and 717 620 farmers in 2006. In Podkarpackie 38 654 applications were filed in 2004, 43 105 a year later and 43 319 in 2006. In Małopolskie and Świętokrzyskie: 48 831 and 34 024 applications, respectively, were filed by farmers in the first year after EU joining (2004), 56 065 and 36 118 applications, respectively, were filed in 2005, as well as 55 811 and 36 548 applications, respectively, were filed in 2006. Many applications were filed also for remaining activities. Within the framework of Sectoral Operational Program (SOP) activity 1.2 „Facilitating of set-up for young farmers” enjoyed the highest interest – that regional envelope, i.e. the limit of fund

granted for individual provinces, was used up earliest. Other popular activities were: activity 1.1 „Investments in agricultural farms”, and activity 2.4 „Differentiation of agricultural/semi-agricultural economic activity (on rural areas). In the majority of activities, farmers utilized practically all funds available in the programs. Within the SOP, farmers used to maximum the funds granted within regional envelopes, and many farmers interested in gaining financial subsidies could no longer get them because of fund exhaustion.

Similar was the situation in Rural Development Plan (RDP). In activity 2 „Support for semi-subsistence farms” and in activity 6 „Adjusting of agricultural farms to EU standards” farmers’ interest exceeded by far the financial resources.

3. Utilisation of EU funds by farmers in small-farm region

The level of farmers’ activity in applying for EU financial support depends on many inherent (farm-specific) factors, both those affected by the farmers themselves and those resultant from the economic situation of the country. Those inherent (farm-specific) limiting factors include:

- low education of farmers and personality specifics connected with it,
- unfavourable economic situation of farms,
- poor farm-to-market bonding,
- lack of the ability to access and use properly the available information about aid programs,
- mistrust and interest in using assistance from local advisory, financial institutions, etc.

Men dominate among the surveyed farm owners as they make up nearly 70% of all farmers in the study. It should be mentioned that, in comparison to other farmers in the small-farm macro-region, the surveyed group of farmers had better education – nearly 41% of the surveyed have high-school education (compared to 23,3% in the macro-region, and 25,1% in the country), whereas 14,4% of the respondents had university level education (against 4% in the macro-region, and 6,1% in the country). As few as 10,3% respondents have elementary education, compared to 45,1% farmers with elementary education in the macro-region, across Poland it is at the level of 35%. The average age of surveyed farmers is 44 years and it is lower than the statistic average age of farmers in the macro-region, which is 48 years.

The surveyed farmers are quite active applicants for the EU funding – as many as 538 of them (i.e. 62,9% of all surveyed) declared that they availed themselves of the funding available within Rural Development Plan (RDP) and SOP programmes over the period of 2004-2006 (Table 1). In Podkarpacie 178 farmers, i.e. 59,3% of those surveyed, utilised EU funding. In Małopolskie 178 farmers (64,0%) and in Świętokrzyskie – 182 farmers, i.e. 65,5% of those surveyed declared the same.

Table 1. Utilisation of EU financial subsidies by surveyed farmers during the period of 2004 - 2006 (in %)

Item	Program/Activity	Total	Provinces ('Voivodships')		
			Podkarpackie	Małopolskie	Świętokrzyskie
Pre-accession programs (2002-2004)					
1.	SAPARD	6,1	3,7	6,8	7,6
Activities realized within the RDP framework (2004-2006)					
1.	structural pensions	0,5	0,3	0,7	0,4
2.	support for semi-subsistence farms	28,9	29,7	26,6	30,2
3.	support for agricultural activities on less favoured areas (LFAs)	28,7	31,7	29,5	24,8
4.	support for agricultural-environment and improved wellbeing of animals	21,6	21,7	17,3	25,9
5.	Afforestation of agricultural land	0,9	1,3	0,7	0,7
6.	Adjusting of farm to the EU standards	6,0	7,3	5,8	4,7
7.	Groups of agricultural producers	-	-	-	-
Activities realized within SOP (2004-2006)					
1.	Investments in agricultural farms	7,5	5,0	9,0	8,6
2.	Facilitating of set-up for young farmers	3,5	2,3	4,3	4,0
3.	Differentiation of agricultural/semi-agricultural economic activity (on rural areas) to ensure alternative sources of revenue	1,9	1,0	2,9	1,8

4.	Other , including: development and amelioration of technical infrastructure, improving of agricultural produce processing and marketing, preserving and protection of cultural heritage, management of agricultural water resources	1,1	0,3	1,1	2,2
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Source: questionnaire survey

Activities within Rural Development Plan (RDP) enjoyed most interest among farmers, mainly the support for semi-subsistence farms as well as support for agricultural activities on less favoured areas (LFAs). Under SOP Plan, most applications of surveyed farmers were filed for investments in agricultural farms.

Data from the Agency for Modernization and Restructuring of Agriculture indicate that, countrywide, farmers from Podkarpackie province filed the least applications for direct payments in 2004. However, in 2006 the number of farms applying for payments in Podkarpackie grew by more than 6% in comparison to 2004 (Table 2).

Table 2. Percentage of farmers availing themselves of direct payments over 2004-2006

Province (‘Voivodship’)	2004		2005		2006	
	A*	B**	A	B	A	B
Podkarpackie	72,6	79,3	80,3	82,3	79,2	83,0
Małopolskie	73,0	75,5	79,5	80,9	77,7	81,3
Świętokrzyskie	80,4	77,3	85,3	82,0	83,8	83,1
(whole) Country	79,8	77,5	84,7	81,8	83,6	82,5

* A – Applications for direct payments filed with departments of Agency for Modernization and Restructuring of Agriculture in Warsaw as reported of 24th July 2007,

** B – Farmers availing themselves of direct payments, as reflected in survey questionnaires

However, the results of (authors’ own) questionnaire survey show that in Podkarpackie, out of the three analysed provinces, the highest percentage of persons/farmers availed themselves of direct payments. Besides, the surveyed farmers were asked what for they spend the funds received as direct payments (refer to Table 3). Nearly 70% of surveyed farmers spent funds received as direct payments for current needs of their farms, like: fuel purchases, mineral fertilizers, plant protection agents/chemicals, etc.

Table 3. Expenditure of funds received as direct payments (in %)

Expenditure:	Podkarpackie (N=249)	Małopolskie (N=226)	Świętokrzyskie (N=231)	Total (N=706)
1. Current farm needs like: purchase of fertilizers, plant protection agents/chemicals, fuel., etc.)	64,9	64,8	78,0	69,1
2. Family needs (living charges, consumption expenses)	12,1	12,5	9,9	11,5
3. Investment (purchase of machines, equipment, modernisation of buildings)	21,5	20,6	9,6	17,3
4. Other	1,5	2,1	2,5	2,1
T o t a l	100,0	100,0	100,0	100,0

N- number of farmers, who availed themselves of direct payments over 2004-2006

Source: questionnaire study

When analysing expenses of farmers from individual provinces, it should be mentioned that most money for investments in farms is allotted in Podkarpackie, and the least money in Świętokrzyskie province.

4. Institutional assistance in utilising the EU funds, as farmers see it

Obstacles on the way to obtaining financial support from the EU funds by rural inhabitants are, among others: lack of capital, difficult procedure and lack of ideas for development. Overcoming the hazards and creating possibilities of full utilisation of EU funds in agriculture and rural areas requires activity on the part of government administration, self-

governments, beneficiaries, media, banks and non-government organizations [2]. Only farms capable of competing, with suitable price and product quality, will be able to survive on the EU agrarian market. In the future, beside a sector of economically-strong farms, which satisfy the majority of demand of farm produce, weak, semi-subsistence farms of size-reduced structure may still survive [1]. Research by other authors [5, 9, 10] also show that, in the future, Polish agriculture will be characterized by a dual road of development. It will consist in part of the farms adopting production methods which ensure mainly high economic effectiveness, while respecting just the basic environment protection requirements, and some part of farms choosing methods more friendly for environment/ecosystem, and ensuring a utilization of available environmental, social and cultural assets. Therefore, it is important that these farms are able to utilize their possibilities to apply for financial subsidies from EU funds in maximum degree.

Thus, an important role falls here to local institutions, which, through swift and correct information and consulting may assist farmers in applying for EU funding. In the survey farmers were asked if they used assistance of local institutions when applying for the EU funding. As many as 175 farmers (i.e. 58,3%) in Podkarpackie, 178 (64%) in Małopolskie and 180, i.e. 64,7% in Świętokrzyskie province replied in the affirmative. Respondents indicated mainly the assistance rendered to them by ODR Agricultural Advisory Centres, 56,1% in Podkarpackie, 59,4% in Małopolskie and 61,1% of those surveyed in Świętokrzyskie. The assistance consisted mainly on providing direct advising in filling in application forms and plans (e.g. in agro-environmental programs) as well as and business plans. Opinions of surveyed farmers suggest that other institutions, which services were found useful for farmers applying for the EU funding were ARiMR (Agency for Modernization and Restructuring of Agriculture), Forestry Administration, Commune Offices and Agricultural Chambers.

Agricultural advisory services are much needed in rural areas and, after Poland's joining the EU the expectations concerning advisory-service range and methods underwent a significant broadening. Wide access to information has significant effect on making decisions concerning farm running, undertaking extra-agricultural activities and seeking the EU funding. The information is provided for farmers mainly through advisory-service employees. The organizational structure of Agricultural Advisory Centres extends to local level, and that is why, through their advisors, they offer assistance to farmers in making decisions connected with running of business activity, but, most importantly, offer help in filling in the application forms. Generally, the knowledge of advisors has most effect on the amounts of funding gained within the framework of financing of activities within individual programs. It was confirmed by the research conducted by Miś and Walenia [8].

Thanks to numerous trainings and direct advising and help in preparing individual applications organized by employees of ODRs (Podkarpackie Agricultural Advisory Centre, Małopolskie Agricultural Advisory Centre and Świętokrzyskie Agricultural Advisory Centre) farmers did not encounter problems in filling in application forms. As for SOP (*Sectoral Operational Program*), the largest barrier for farmers in program realization was the lack of own funds needed for financing of investment projects. The program and its activities required that, at first, farmer should realize investment project by his/her own means and only then could receive a partial compensation of the costs incurred. Compared to other provinces, Podkarpackie province was the second best in the country in terms of the number of applications accepted for PROW 5 „Afforestation of arable areas”. In the SOP (*Sectoral Operational Program*) on the other hand, the possibility of getting financial subsidy to a project under application was restricted by the limit of funds available within the framework of individual activities, defined by the Country Steering Committee.

In the following years farmers will be able to avail themselves of the activities available within the Rural Development Program for 2007—2013. Preparing of farmers to the new

programming period is presently one of the major challenges faced by local institutions, especially those offering advisory services. The Rural Development Program for 2007—2013 substitutes two programs realized over 2004-2006: the SOP (*Sectoral Operational Program*) „Restructuring and modernization of food production sector as well as the rural development in 2004-2006”, as well as the „Rural Development Program (RDP) for 2004-2006”. Its main objective is the promotion of sustained development of rural areas all over the country. In the RDP 2007-2013, the major stress is put on the environment protection on rural areas. A separate environmental axis and the level of its financing were defined in the Program.

4. Conclusion

While becoming the element of agricultural sector of EU member countries, Polish agriculture gained access to many aid mechanisms resulting from CAP (Common Agricultural Policy). These activities comprise direct support for farmers’ earnings (direct payments), intervention on agrarian market in order to keep up reasonable prices, as well as rural development programs (e.g. support for semi-subsistence farms, agro-environmental programs, etc.).

Undoubtedly the realization of EU programs (RDP and SOP) in 2004-2006 is a precious experience for their beneficiaries as well as for institutions engaged in program processing. It remains to be hopeful that in the future the small-farm agriculture regions and their farmers will be able to utilise structural funds available from EU still more effectively.

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