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REGIONAL DIVERSITY IN ABSORBING THE EU FUNDS SUPPORTING TRANSFORMATION AND DEVELOPMENT OF AGRICULTURE IN POLAND

1. Introduction

The condition of progress in adjusting Polish agriculture to requirements of a modern agricultural market is a modification of the EU aid allocation, too much of which is currently used for consumption and too little for farming improvement. It is essential to perform the evaluation of the agricultural policy, paying special attention to the issue concerning benefits of the current EU fund use model to the modernization of the agricultural structure. The evaluation of this sphere should also include the analysis of spatial allocation of EU funds supporting agriculture development, which is essential in the context of the regional diversity of agriculture and, as a result, the need for stimulation of different development paths for this sector.

Currently formed Common Agricultural Policy (CAP) shows that rules of convergence as well as durable and balanced development are more and more evidently adopted by the European Union [Adamowicz 2008]. The position of agriculture in processes of socio-economic development should be examined from the point of view of this sector transformation consistency with wider regional development processes, including endogenous potential of this sector, deriving from, among other things, its agricultural structure [Ślusarz 2005].

At the same time, agriculture transformations should lead to decent income for economically active farms, due to agricultural production and financial support received in exchange for delivery of specific public goods to society (environmental protection, biodiversity, preservation of countryside landscape and culture, organic food). Other development direction should be applied to agriculture in mountainous regions, fragmented or holding human resources surplus, and other farms operating

on a large scale. The EU funds, available to farmers as part of CAP instruments, create a unique chance for stimulation of transformation processes and agriculture development in Poland.

In the years 2004-2006 two programmes, complementary to each other, were put into practice: Rural Development Plan (RDP) and Sectoral Operational Programme “Restructuring and modernization of the food sector and rural development” (hereinafter referred to as SOPR). A combined expenditure for realization of those programmes in 2004-2006 amounts to 5347 million euro.

In EU policy, concerning countryside and agriculture, two groups of instruments can be distinguished. The first group includes instruments used for supporting the market policy as well as the income of farms, applied as part of CAP 1st pillar. This includes export subsidies, storage of agricultural products, supporting prices of agricultural products and direct subsidies [Czykier-Wierzba 2005]. The second group of instruments is aimed at supporting rural development (CAP 2nd pillar). Aside from payments for farms in less-favoured areas (LFA), other instruments of this pillar support (Figure 1):

- a) transformations and increase of the rural sector competitiveness,
- b) sustainable and multifunctional development of rural areas.

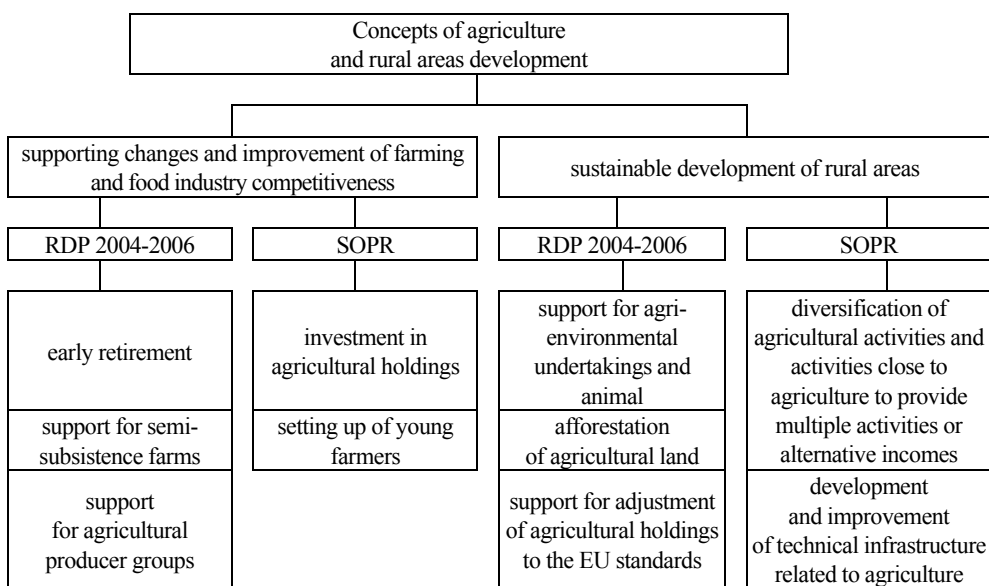


Figure 1. Support of transformations and farm development from EU funds, programming period 2004-2006

Source: own elaboration.

The five year period that has passed since EU funds first began supporting Polish farming justifies performing the analyses and forming conclusions regarding the use of those funds by native agricultural producers.

In this context, this study subject is the analysis of a spatial diversity of EU funds, destined for transformations and agriculture development in Poland, in the agricultural region system of FADN (Farm Accountancy Data Network). This analysis not only aims at regional evaluation in terms of making the most of the opportunity created by EU funds for the sectoral development, but is also an attempt to look at EU agricultural policy instruments from the perspective of their contribution to the creation of different development paths for agriculture, being subject to, among other things, its agricultural structure. The lack of this kind of influence can be proved by the fact that, in the regional view, similar differences in EU fund absorption are present regardless of EU aid nature and purpose fulfilled by a particular instrument.

2. Regional diversity of agriculture and the level of EU fund absorption

Different kinds of views are used for the analysis of agriculture regional diversity in Poland. One of the most universally used in literature and economic practice is the division of agricultural regions according to FADN needs [*Wyniki standardowe...* 2006]. This division includes 4 regions, i.e. (Figure 2):

1. **Pomorze and Mazury** (the region that includes the following provinces: Lubuskie, Zachodniopomorskie, Pomorskie and Warmińsko-Mazurskie);

2. **Wielkopolska and Śląsk** (Opole, Dolnośląskie, Wielkopolskie and Kujawsko-Pomorskie provinces);

3. **Mazowsze and Podlasie** (Łódź, Mazowieckie, Podlaskie and Lublin provinces);

4. **Małopolska and Pogórze** (Śląskie, Świętokrzyskie, Małopolskie and Podkarpackie provinces).

High agriculture diversity in Poland, as well as the specificity of regional socio-economic structure determine the need for following different development paths (models) in this sector, both regionally and locally. Generally, two variants can be distinguished here, i.e. the path of agribusiness development as well as balanced and multifunctional development.

The first of the above mentioned paths includes development of connections between agriculture and those sections of economy which participate in production and distribution of produces and food products. This is determined by modernization and increase in the farm's production potential as well as promotion of cooperation among farmers, which should lead to the creation of agricultural structures that are economically strong, marketable and able to compete on national and international markets. The path of balanced and multifunctional development should create

favourable conditions for creation and strengthening of units which will provide support for farming families, not only by means of agricultural production but also through diversification of agricultural activities and budget subsidies received in exchange for a delivery of specific public goods to society [Czudec et al. 2008].

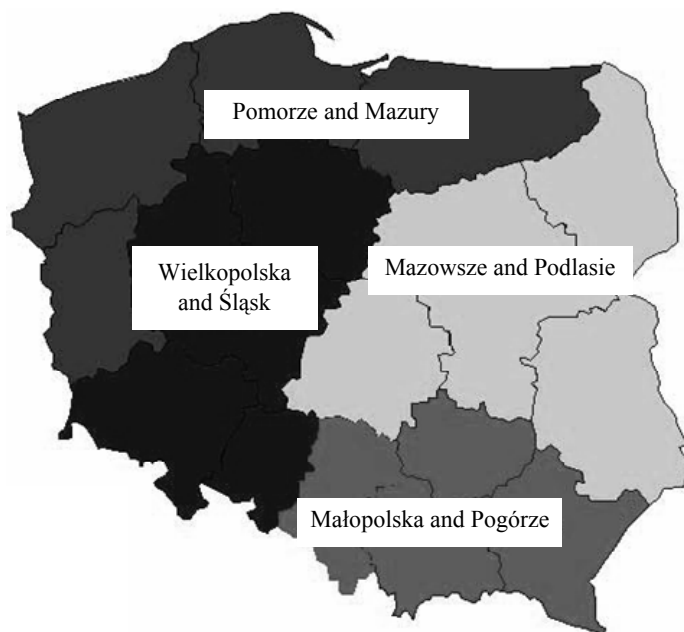


Figure 2. Division of agricultural regions in Poland according to FADN

Source: own elaboration.

Table 1 presents the selected parameters which define the economic strength and developmental potential of the agriculture in individual rural regions. As can be clearly seen, the greatest agriculture concentration is situated in the Pomorze and Mazury region. Farms of relatively largest arable land areas function in this region. Compared to other regions, there are advantageous relations between a work factor and the land in agriculture, which leads to the best farming economic efficiency in the country. Relatively, the greatest percentage of the farms based on agriculture constitutes in Wielkopolska and Śląsk as well as Mazury and Podlasie regions, whereas Małopolska and Pogórze region is characterized by the most fragmented agricultural structure and substantial labour resources in agriculture.

Individual financial instruments, as part of EU funds supporting the agriculture, play more or less distinct role in the above described paths of this sectoral development. The data concerning the amount of submitted applications and the

Table 1. Chosen agriculture characteristics of agricultural regions in Poland
(statistical data for individual farms of over 1 ha AL)

Detailed list	Average farm area in ha AL	Percentage of farms of over 15 ha AL	A share of employment in agriculture in the total employment (%)	Workers on 100 ha AL	Percentage of farms with over 8 ESU	Farms obtaining income only or mainly from agricultural activities (%)
Pomorze and Mazury	15.5	24.5	10.5	7.7	15.9	48.5
Wielkopolska and Śląsk	11.3	19.0	15.1	9.6	18.1	53.0
Mazowsze and Podlasie	8.4	13.0	27.6	15.8	13.3	46.0
Małopolska and Pogórze	4.3	2.2	22.1	21.4	2.5	20.6
Poland	8.0	11.5	17.0	13.1	10.4	40.1

Source: the study based on the data of Main Statistical Office in Warsaw [*Charakterystyka gospodarstw...* 2008].

amount of received payments show farmers' initiative in acquiring those funds. In order to conduct a comparative analysis, these data were related to the number of farms and arable land area in the corresponding regions. The two types of EU fund absorption factors in the individual measures have been presented. The value of Wa_1 and Wa_2 factors at the level of 1.0 indicates the country's average level of EU fund absorption, while $Wa > 1.0$ indicates that farmers' initiative in acquiring EU funds is higher than country's average.

Early retirement and complementary to it in SOPR measure 1.2. *Setting up of young farmers* belong to the instruments which should fully support transformations of the agricultural structure. However, statistical data indicate that the lowest level of farmers' interest in structural rents programme was in the region with fragmented agriculture (Małopolska and Pogórze). This is reflected in both the number of applications per 1000 farms and the absorption factor Wa_1 (Table 2).

As part of RDP 2004-2006, 53.6 thousand of farms were assigned as well as an arable land acreage obtained this way by successors or other users for their farm enlargement constitutes 3.82% of total arable land in the country. This percentage exceeded 4.2% in the regions characterized by a relatively better agricultural structure. Whereas in the region of fragmented agriculture it was 2.47%. On average, a half of land assigned in the country as part of the measure *Early retirement* was taken over by new owners. In the region Pomorze and Mazury the share of land handed over this way was 58%, while in the region Małopolska and Pogórze only $\frac{1}{3}$ of land was assigned in exchange for rents and therefore received by new owners for farm enlargement, and the remaining part was only given to successors. It is of the benefit to that farm's viability but it does not improve the agricultural structure.

The region of the fragmented agriculture (Małopolska and Pogórze) is no match to other regions of the country in terms of allocation of EU funds from measure

1.2 *Setting up of young farmers* (Table 2). It is reflected not only in the absolute values concerning the number of signed contracts and amount of financial means granted, but also in the relative values such as absorption factors (Table 2). The best, in terms of absorption, of the means from this measure were Wielkopolska and Śląsk as well as Pomorze and Mazury regions.

Table 2. The use of EU funds for agricultural transformations of farms and generational changes (based on status on 30.09.2008)

Detailed list	Poland	Agricultural regions			
		Pomorze and Mazury	Wielkopolska and Śląsk	Mazowsze and Podlasie	Małopolska and Pogórze
1) <i>Early retirement</i> from RDP 2004-2006					
Number of applications per 1000 farms	32	36	45	36	19
Payment PLN/ha AL in region	149.7	87.3	148.6	173.0	160.7
Factor Wa_1^*	1.00	1.10	1.39	1.12	0.59
Factor Wa_2^{**}	1.00	0.58	0.99	1.16	1.07
Number of farms handed over	53644	5282	13494	25058	9810
Area of farms handed over in relation to total AL in the region (in %)	3.82	3.08	4.23	4.41	2.47
Land handed over for farm expanding (in %)	49.3	58.0	53.9	47.2	33.8
2) SOP – Measure 1.2: <i>Setting up of young farmers</i>					
Number of applications for 1000 farms	11	17	17	12	4
Payment PLN/ha AL in region	50.8	39.1	55.9	55.9	42.5
Factor Wa_1^*	1.00	1.55	1.59	1.07	0.41
Factor Wa_2^{**}	1.00	0.77	1.10	1.10	0.84

* Wa_1 – region's share in the total number of submitted applications/region's share in a total number of farms.

** Wa_2 – region's share in the amount of realized payments/region's share in the total AL area.

Source: the study based on the data of ARMA (Management Information System ARMA, Agency for Restructuring and Modernisation of Agriculture, Warsaw 2008).

The measure 2 RDP 2004-2006 *Support for semi-subsistence farms* was well received among farmers in the country. This measure has incorporated very well into structural conditions of the fragmented agriculture. Every 10th farmer in Małopolska and Pogórze region and every 8th in Mazowsze and Podlasie region benefited from this programme (Figure 2). The number of applicants was much higher but means planned for years 2004-2006 were used up after a dozen or so weeks of application submission. Results of the survey carried out in South-East Poland [Czudec et al. 2008] indicate that among farmers, which made use of this measure, in the years 2005-2007 2/3 (64.9%) conducted undertakings aiming at the increase of farm productive resources. Among them, 31% constituted the increase in acreage (mainly by lease, but also by purchase), 19.4% was invested in building

or expansion of livestock facilities, 22.7% increased primary livestock by purchase, but the most, i.e. 44.2% constituted the purchase of farming machines.

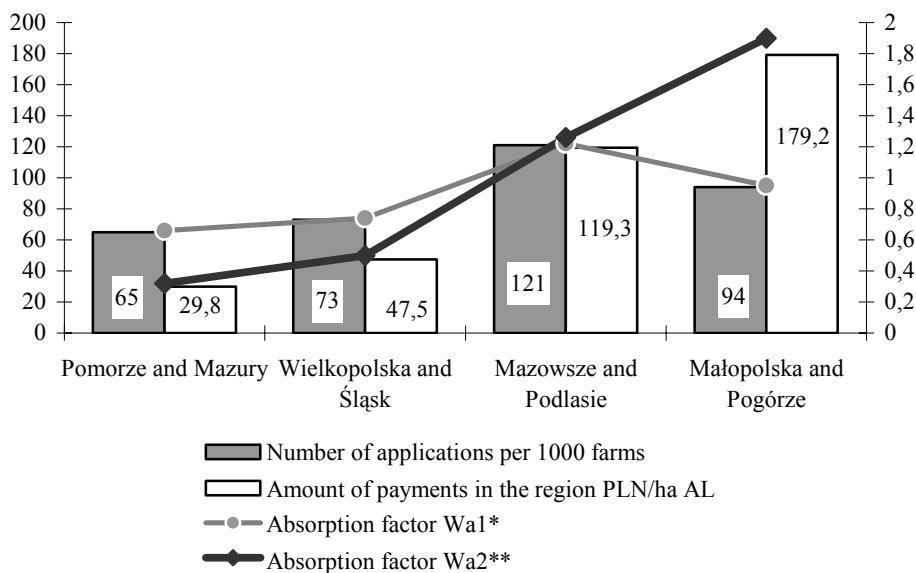


Figure 3. The level of EU funds absorption by farmers within the framework of the measure *Support for semi-subsistence farms*

Source: as table 2.

The resources from grants did not cover the full cost of those undertakings but they functioned as a multiplier. Often, farmers would not decide on this type of investments without them. In this aspect, those resources supported accumulation of farmer's own funds and their use for developmental undertakings. Therefore, the implementation of this measure is beneficial to structural transformations and development of semi-subsistence farming which is at present mostly in the eastern and south-eastern parts of the country. However, the scale of the support, expressed by the number of grants (170 thousand in the country) and their amount per farm (in the 5-year period – equivalent to 6250 euro), does not allow to expect that the effect of this programme will be a very significant one.

For the economy, it is important that the provided subsidy gives as strong as possible stimulus to the development. A greater money multiplying effect is created by those donations which payment depends on the investment of beneficiaries' own resources. This characterizes especially the subsidies for investments. Depending on the character of the investment, the share of private resources in the classified cost fluctuates between 35 and 65% [Wigier 2007].

In the years 2004-2006, the investments support was performed within the framework of the measure 1.1 SOPR *Investments in agricultural holdings*. The scope of support included the projects which contributed to the improvement of farming competitiveness. Financial means could be destined for investments related to farming modernization, aiming at the increase of agricultural income and improvement of production conditions.

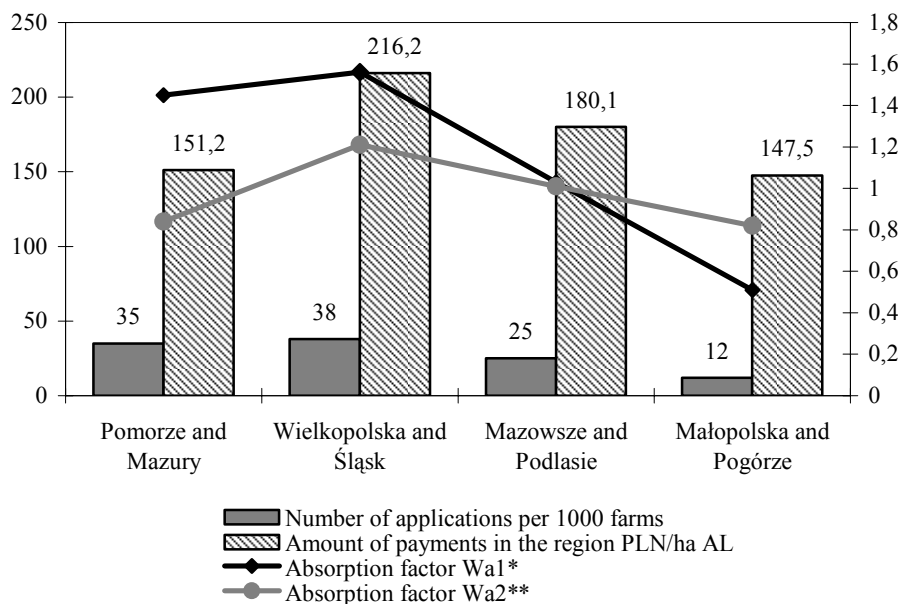


Figure 4. The level of EU funds absorption by farmers within the framework of the measure *Investments in agricultural holdings*

Source: as table 2.

In the view of agricultural regions a great diversity can be observed in the scope of acquiring this type of funds (Figure 4). According to data presented by ARMA (a status on 30.09.2008) in the framework of the measure 1.1, on average there are 24 farms per 1000 agricultural holdings in this country that signed contracts and are benefitting from this kind of support. In Małopolska and Pogórze region, this rating amounted only to 12 farms, while the best in this aspect was Wielkopolska and Śląsk region with the rating of 38 farms.

The realization of financial undertakings was also a subject of the funding within the framework of the measure 6 RDP 2004-2006 *Adjusting farms to EU standards*. However, this measure should be numbered among instruments that were aiming at supporting the balanced development of rural areas. The purpose of this financial aid was adjusting farms to effective EU standards in the scope of

environmental protection, public health and wellness of animals. Definitely, less interest in financial means from this measure was displayed by the farmers from the south-eastern region of Poland, whereas the highest interest was shown by farmers from regions where the animal production determines a marketable value of farms. It will be enough to mention that within this programme in the provinces of Kujawsko-Pomorskie and Mazowieckie, farmers submitted over 13 thousand applications in each, in Wielkopolska Province over 15 thousand, while in the whole of south-eastern region 3.5 thousand applications were submitted [Wieliczko 2008].

The agri-environmental programme is a measure aiming at balanced development of the agriculture by means of protection of natural resources as well as the increase in biodiversity and preservation of traditional breeds (measure 4 RDP 2004-2006). This programme seems to be directed particularly at medium size farms and even small ones, the users of which are inclined to involve farm resources (especially work) in multifunctional actions, allowing supplementing income from traditional agricultural production with payments for public goods (positive externalities) delivered to the society by means of agricultural and environmental activities. However, the statistical data prove that the agri-environmental programme's influence depends on the acreage – the bigger area the greater effect. If we assume that 100% constitutes an area where the programme was implemented, then the higher value of absorption is in provinces with farming operated on a large scale, i.e. Zachodniopomorskie (14.6%) and Wielkopolskie (11.2%). Values for south-eastern provinces are appropriately: 5.41% Podkarpackie, 2.56% Małopolskie and 3.45% Świętokrzyskie. While the area of agricultural land supported by the programme with relation to agricultural land in total amounts to, for example, 4.39% in Małopolskie Province and 16.19% in Zachodniopomorskie Province.

Małopolska and Pogórze region is determined by a high number of farms benefitting from the package S02 *Organic farming* within the framework of this programme in the country. Among the whole of farms in the country which receive financial support from this package funds, farmers from the south-eastern region of Poland constitute 37.5% of their number, while their share in payments on this account amounts to 20.1%.

Within the framework of the measure 5 RDP *Afforestation of agricultural land* almost 24.5 thousand applications were submitted throughout the country (by 30 September 2008). This measure was met with the greatest interest from farmers of the Pomorze and Mazury region, in other regions, EU funds absorption from this measure remained on a similar level (Figure 5).

Relatively, the slightest differences between the regions occur in connection with the range of EU fund absorption within the framework of the measure 2.4 SOP *Differentiation of agricultural activity...*, which is also prolonged in RDP 2007-2013. Its main aim is to support an undertaking or development of additional activity related with the use of farm resources (especially labour), thereby creating

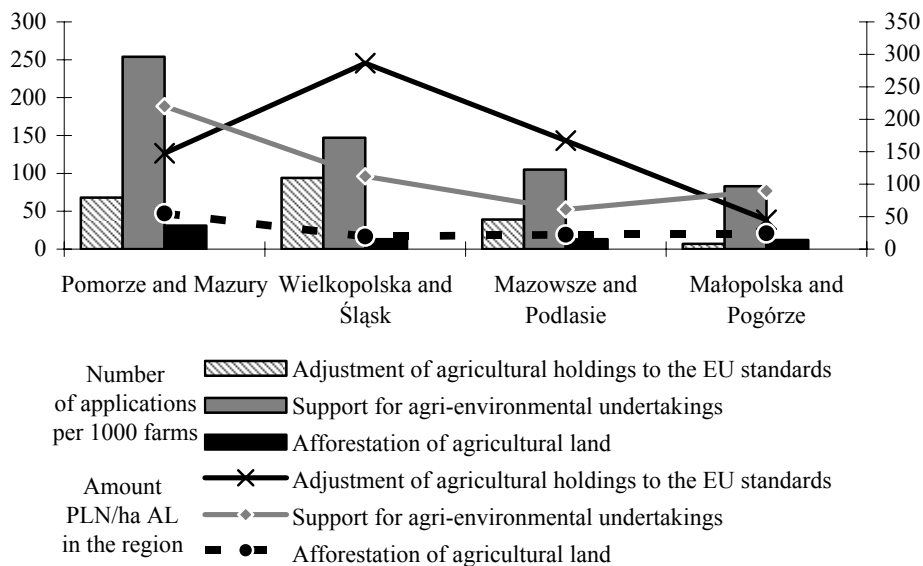


Figure 5. Amount and value of applications within measures supporting sustainable development of agriculture

Source: as table 2.

favourable conditions for development of multifunctional and economically durable agricultural holdings. This instrument seems to be particularly important for transformation of fragmented agriculture. In this context one can assess that Małopolska and Pogórze region in comparison to other agricultural regions should participate more actively in a public fund allocation within the framework of this measure.

3. Conclusions

1. The performed research indicates high regional diversity in the absorption level of EU funds supporting transformations and agriculture development in Poland. Similarly to the instruments supporting agricultural income (direct subsidies and LFA payments), pro-developmental funds are concentrated in the regions characterized by a favourable agricultural structure and economically strong farming. This situation can increase the regional discrepancies within the agriculture development, underdeveloped regions with fragmented and economically weak agriculture to further depreciation of this sector.

2. Discrepancies in the EU fund use by individual regions are similar, regardless of the aim which individual instruments are supporting. Regions which, within the country, are characterized by stronger agriculture, i.e. Pomorze and Mazury as well as Wielkopolska and Śląsk are excessive in both the absorption of funds for

improvement of agriculture competitiveness and structure and in the majority of measures supporting balanced development of agriculture and rural areas. Differences are particularly visible in the use of EU funds supporting investment undertakings in agricultural holdings.

3. Farmers from South-East Poland (Małopolska and Pogórze region) are equal to farmers from other parts of the country only in the EU funds absorption from the measures that do not require implementation of costly developmental undertakings and at the same time incorporate into the specificity of fragmented agriculture (*Support for semi-subsistence farms, Afforestation of agricultural land, Organic farming package*).

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