

POLISH EXPERIENCE FROM THE TRANSFORMATION PERIOD AND THE EU MEMBERSHIP, FUTURE CHALLENGES AND STRATEGIES FOR SMALL FARM HOLDERS

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Abstract

The costs of structural transformation and adaptation to the EU requirements resulted in exclusion of small agricultural producers from the market in Poland. Due to the socio-economic role of these farms, it is crucial to search for solutions and development models for these farms. The purpose of this study is to present changes, which have occurred in the Polish agriculture during the transformation period and EU membership, with particular consideration given to small farms. Moreover, the challenges facing these farms in the nearest years and potential strategies to support their future development are shown. It was concluded that solutions to improve the competitiveness and profitability of small farms are needed. The support of investments seems to be the most significant help in improving the financial situation of small farms. Moreover, more effective incentives to cooperate within various forms of producer organisations are desirable, which increase the bargaining power of small producers in relation to other participants of the food chain. Finally, relevant legal regulations to support small producers are essential in order to boost their activity on the local markets.

Key words: Polish agriculture, small farms, structure of family income, utilised agricultural areas,

INTRODUCTION

Poland is a good example of a country, which in the last twenty five years has undergone a dynamic transformation from the centrally planned economy to the market economy, integrating effectively with the more advanced economies of the European Union (EU) countries. The transformation period in the 1990's and particularly the EU membership since 2004 have significantly modernised Polish agriculture. However, beneficiaries of those

changes were mainly farmers from productive farms selling their produce on the market and additionally using national and EU support to a much wider extent than farmers from small farms. Holders of small farms cannot compete in the market due to their low economic efficiency, significant numbers of workers on the farm and high diversification of agricultural production. These farmers are often quite advanced in years, less educated than farmers from commercial farms and are facing a lack of active successors.

Despite the fact that the number of small farms still accounts for more than 50% of all farms in Poland, insufficient attention is paid to them within the framework of the EU policies, particularly the Common Agricultural Policy (CAP). A simple limitation of the number of small farms is often considered as the main objective of restructuring activities for the agricultural sector. In the light of significant economic and social functions performed by small farms, it is necessary to change this approach and to search for solutions and development models for these farms, taking into account the specific nature of agriculture in a given country.

The purpose of this study is to present changes which have occurred in the Polish agriculture during the transformation period and EU membership, with particular consideration given to small farms. Moreover, the challenges faced by these farms in the nearest years and potential strategies to support their future development are shown.

DEFINITION AND IMPORTANCE OF SMALL FARMS IN POLAND

In the literature on the subject we may observe great diversification as regards the concept of a small farm. When adopting the criterion of area, small farms should be defined as those with less than 2 or 5 ha of UAA (utilised agricultural area). Regarding the criterion of standard output (SO), farms can be divided into very small, obtaining SO below EUR 8 thousand and small, receiving SO of EUR 8-25 thousand per year. While taking into account the criterion of the market share, semi-subsistence farms are usually distinguished, which provide less than 50% of the manufactured production to the market [Family Farming, 2014].

Small farms have predominated in the Polish agrarian structure for many years. Table 1 shows changes in the share of small farms in relation to the total number of farms, between 1950 and 2010, on the basis of data mostly from agricultural censuses (the last one in 2010).

Table 1. Share of small farms in Poland in selected years (%) [Pietrzak and Walczak, 2014]

Years	1950	1960	1980	1990	1996	2002	2010
Number of farms of less than 5 ha	50.9	55.0	55.7	52.8	55.3	58.7	55.3
Share of UAA* owned by these farms	24.0	26.7	26.7	23.1	20.0	19.1	16.3

*UAA – utilised agricultural area

Small farms represent the social model of agriculture, which also dominates in the EU and should co-exist with other, more market-oriented models of agriculture, particularly since they play a crucial role in the Polish economy. Among their economic functions, the following could be mentioned:

- small-scale, diversified agricultural production;
- employment for persons who, due to their age or limited education, cannot find jobs outside agriculture,
- meeting specific consumer needs, e.g. production of organic food or foodstuffs produced using traditional methods.

In turn, social functions of small farms include preservation of tangible and intangible values of folk culture, a buffer protecting the local population against poverty (agricultural production provides resources of basic food products, and sometimes also small income), environmental benefits without over-exploitation of resources and management of the rural landscape.

TRANSFORMATION CHANGES IN THE POLISH AGRICULTURE

After World War II, Poland belonged to those Eastern bloc countries with the largest number of privately-owned farms. Attempts to enforce the collective farming system and the fiscal state system caused further fragmentation of farms. The continuity of the archaic agrarian structure was a consequence of the unsolvable dilemma in the Polish agricultural policy: how to increase productivity of Polish agriculture to maintain food exports, a major

source of foreign currency, how to guarantee food security for the rapidly growing population of the country, while at the same time preventing the economic strengthening of the private sector in agriculture. The strategies aiming at the elimination / reduction in size of private land property, changing over time, lost with the economic realities and imposed a flexible agricultural policy in relation to the peasant economy. As a consequence, farmers did not demonstrate any market-oriented initiative in the socialist command-and-quota economy and expected support from the state.

The collapse of Communism in Poland in 1989 changed this situation. Replacing the centrally planned economy with the market economy system resulted in reduced economic support of the state for farms and enterprises. Due to the deregulation of food prices, farmers were the first to be exposed to the market mechanisms. However, the initial improvement in real farm income did not last long. The early 1990's saw a significant decline in the income of farmers. The reasons may include the rapid rise in credit costs, difficulties in selling produced agricultural products and the limited popularity of farmers' organisations. As a result, while in the postwar period of 1945-1989 agriculture had to pay a substantial part of costs associated with the industrialisation of Poland, in the transformation period of 1990-2002 structural transformations were largely financed also by farmers as a strong mechanism of income redistribution from agriculture to other branches of the national economy was in force [Woś, 2004].

The late 1990's were dominated by an adaptation to the European Union requirements and changes in the structure of the Polish agri-food sector due to the membership in the EU, as well as inclusion of that sector into the Common Agricultural Policy. Those changes transformed Poland from a country importing food in the structural transformation period to a major food exporter, mostly to the European markets.

However, the costs of structural transformation and adaptation to the EU requirements resulted in exclusion of small agricultural producers from the market. In accordance with the demand logic of the market economy, the processing industry and large retailers expect from agricultural producers: a) appropriate and improving quality of production, b) adequate production volume, and c) timely delivery. Hence, an increasingly lesser proportion of income of small farm holders is obtained from agriculture. Table 2 shows the structure of family income from semi-subsistence farms in 2005, and, for comparison – from commercial farms.

Table 2. Structure of family income in analysed groups of farms in 2005 (%) [Józwiak, 2013]

Type of farms	Share of family income from:		
	work outside farm	pensions	agriculture & services*
Semi-subsistence	48.1	28.6	23.3
Commercial	11.1	11.3	77.6

*services – transport, machine lending, agritourism, others

FUTURE CHALLENGES AND STRATEGIES FOR SMALL FARM HOLDERS

The number of small farms is decreasing gradually both in the EU and in Poland. These farms may slowly disappear, losing in the competition with the more commercial use of land for agricultural and urban purposes or the introduction of wildlife reserves in their place.

The following possible courses of action could be indicated for small farm holders [Report, 2014]:

- development by enlarging their area and increasing their production, so as to become a regular market participant;
- continuation of their activity in combination with changes through diversification of income sources, and therefore taking additional directions of production, which will provide new income or partial employment outside the farm;
- liquidation as a result of transferring land to other farms, while holders retire or take another form of employment;
- remaining in the existing form and then being taken over by the next generations as a result of a lack of employment opportunities and other sources of income.

The main challenges for small farms in the future will be connected with access to basic inputs, such as land and capital, and an inferior bargaining position in the food chain than that of other market participants. The introduction of appropriate financial engineering instruments in a form of e.g. microloans, interest rate subsidies for loans, finance lease, payment of the first instalments, credit guarantees or other activities aimed at supporting investment in farms would be a significant help in improving the financial situation of small farm holders. It is important for institutions at the regional and local levels to be involved in this process.

Changes are also needed within the framework of EU policies, including CAP, which supports mainly large farms or those with a significant historical production volume. Consequently, many small farm holders are struggling to gain access to the EU programmes,

being unable to meet the eligibility criteria concerning their own finance contribution or necessary potential, or due to their low credit worthiness or its lack. The Polish Rural Development Plan for the years 2014-2020 includes some instruments, such as e.g. support for the reorganization of small farms, development of agricultural services and small enterprises in rural areas, or start-up companies outside agriculture.

Moreover, it seems necessary to provide more effective incentives for small farm holders to cooperate within various forms of producer organisations, which increase the bargaining power of small producers in relation to other participants of the food chain, mainly processing industry and retailers. This cooperation may also enhance their competitiveness by introducing innovative solutions in the production and small farm management.

Additionally, relevant legal regulations to support small producers are essential. Polish farmers will be able to process own products and sell them on the local markets thanks to the Act on direct sales, which is to come into force from 1 January 2016. Currently, if they want to sell agricultural products, they need to register a business and comply with the sanitary requirements. The Act will allow them to sell products up to the value of EUR 150 thousand a year as part of the lump-sum tax, without a registration.

CONCLUSIONS

Small farms will continue to dominate in the agrarian structure of Poland for many years. Due to their socio-economic roles, solutions to improve their competitiveness and profitability are needed. The support of investments seems to be the most significant help in improving the situation of small farm holders. Moreover, more effective incentives to cooperate within various forms of producer organisations are desirable, which increase the bargaining power of small producers in relation to other participants of the food chain. Finally, relevant legal regulations to support small producers are essential in order to boost their activity on the local markets.

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