

Direct Payments as a Form of Small Farm Support in Poland

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Abstract. The aim of the study is to present the basic rules for granting direct payments in Poland, as well as to determine the directions for the distribution of these funds in the group of small agricultural holdings from the Lesser Poland Province, actively using the CAP funds. Direct payments were one of the first instruments to support Polish agriculture, which was implemented just after Poland's accession to the European Union. They were introduced in Poland in the form of the so-called single area payment schemes (SAPS). A review of studies on the directions of using funds obtained under direct payments by small agricultural holdings indicates that they usually constitute a source of financing current expenditure and purchases of revolving production means. In the presented research the authors focus on the selected group of small agricultural holdings, showing pro-development orientation. The results of the research showed that the funds from direct payments were used primarily by the surveyed small farmers to finance investments on the farm and production expenses related to agricultural activity. To a small extent, these funds were used for current expenses of households. It can be stated that farmers who receive investment subsidies in the framework of CAP programs are more willing to spend funds from direct payments on development activities and treat direct payments as the source of investment financing, complementary to the subsidies.

Keywords: Direct Payments, Small Farms, Common Agricultural Policy.

1 Introduction

The state's agricultural policy is a way of influencing the development of agriculture. It shapes economic and social relations in agriculture and creates links between this sector and the whole economy. It is one of the forms of state intervention in a functioning market mechanism. The reason for this intervention is the specific characteristics of agricultural production, which relate both to individual factors of production, the state of agriculture, as well as production time. These features have the character of objective conditions and are associated with the specificity of the agricultural sector. They also concern the occurrence of market failure, as well as the need to redistribute income, because the agricultural sector is characterized by lower profitability, and part of the value added generated by agriculture is captured by non-agricultural sectors.

Intervention policy towards agriculture is implemented in the European Union primarily in the framework of the common agricultural policy. One of its basic objectives is to provide agricultural producers with an adequate level of income. Currently, the level of agricultural income is determined more and more by cash transfers implemented under the common agricultural policy, especially through direct payments. Direct payments were introduced into agricultural legislation in 1992 as part of the reform of the Common Agricultural Policy (the so-called Mac Sharry reform). The concept of this system was based on the striving to eliminate the dependence between the size of agricultural production and the amount of financial support for farmers. Initially, direct payments were limited in scope and were not used in all sectors of common agriculture. Over time, however, this range was systematically extended to include new products. As a result of successive reforms carried out since 2003, the so-called "Separation of payments from production" has been introduced (what means that the relationship between direct payments for farmers and the type and quantity of products produced by them has been abolished), more stringent rules for environmental protection and animal welfare have been introduced, which farmers must comply with in order to obtain payments, as well as changes in the rules distribution of financial resources were made. In addition, since 2015, economically active farmers in the European Union are covered by the mandatory payment system used in all EU countries, and they also have access to voluntary schemes, if they exist at the level of a given country [10]. It is worth noting here that as a result of successive reforms of the Common Agricultural Policy, direct payments became an important instrument of this policy, responsible not only for the support and stabilization of agricultural income, but also the maintenance of agricultural land in good agricultural culture, consistent with the idea of environmental protection, compensation costs related to fulfilling community requirements (in terms of quality and production methods) related to the supply of non-productive public goods, ensuring equal conditions of competition within the single agri-food market, as well as a tool helpful in meeting new challenges related to the protection of natural resources, climate change, water management, biodiversity or renewable energy [3,12].

Direct payments play a significant role in shaping the economic situation of farming families in Poland, as evidenced by the relationship between the total number of agricultural holdings, the number of registered producers, i.e. holdings that can apply for direct payments and the number of applications submitted. Most applications are submitted in provinces with the most fragmented agriculture structure [13]. Numerous studies conducted in Polish agricultural holdings indicate two significant results of direct payments. Firstly, they undoubtedly contribute, albeit to varying degrees depending on the size of the farm, to an increase in the income of Polish farmers. Secondly, taking into account the results of research on the directions of the use of direct payments by farmers, it is indicated that they are largely social. While in large-scale agricultural holdings they affect capital accumulation and, consequently, investment, in small agricultural holdings they usually constitute a source of financing current expenditure and purchases of revolving production means, such as plant protection products or animal feed [4, 7, 8, 9, 13, 17]. Therefore, it is important to precisely identify the directions of using funds obtained under direct payments,

especially in the group of small agricultural holdings, which dominate in the area structure of Polish agriculture.

2 Purpose and Methodology of Research

Issues related to the distribution of funds coming from direct payments by farmers owning small agricultural holdings were discussed by various authors whose research indicated that these funds are rarely spent on investment purposes related to the development of a farm. In the presented research the authors focus on the selected group of small agricultural holdings, showing pro-development orientation. The aim of the study is to present the basic rules for granting direct payments in Poland, as well as to determine the directions for the distribution of these funds in the group of small agricultural holdings, actively using CAP funds for investment purposes.

The study uses the results of surveys, which were carried out in 2016 in the group of small agricultural holdings from the Lesser Poland Province, which in the years 2004-2015 received direct payments and at least once received investment support within the framework of the following CAP programs:

- Sectoral Operational Program "Restructuring and Modernization of the Food Sector and Rural Development 2004-2006";
- Rural Development Plan 2004-2006;
- Rural Development Program 2007-2013.

In order to obtain a representative sample the stratified random sampling technique was applied. The stratifying feature was the number of small farms located in a given poviat of the Lesser Poland Province. In the survey the proportional allocation was applied, what means that in the sample each stratum had a representation proportional to its share in the population. In order to estimate the minimum sample size the following formula was used [16]:

$$n = \frac{\frac{1}{4} \cdot N}{N \cdot \frac{d^2}{z_{\alpha/2}^2} + \frac{1}{4}}$$

where:

N - the size of the population to which the inference applies,

d - statistical error,

$z_{\alpha/2}$ - value of a random variable Z with a standardized standard distribution for which

$P(|Z| \leq z_{\alpha/2}) = 1 - \alpha$

It was assumed that the maximum statistical error may be $\pm 5\%$ and it will be calculated with the confidence level $(1 - \alpha)$ equal to 0.9. The necessary minimum sample size was set at 266 small farms, and the research covered finally a representative group

of 296 small agricultural holdings from the Lesser Poland Province. The sampling scheme, which was used, and a sufficiently large sample size guaranteed the representativeness of the survey's results, what means that the conclusions based on the research can be applied to the entire surveyed population of small farms from the Lesser Poland Province, active in the field of obtaining EU funds [18].

The delimitation of agricultural holdings is made according to various criteria, and in the European Union many attempts are made to define the category of a small farm [6,15]. However, there are large differences between individual Member States, which means that none of the definitions can be considered as commonly used [5,11]. For research purposes, a small agricultural holding was defined as agricultural holding with the agricultural area of 1 to 5 ha at the moment of conducting the research. This assumption, however, caused, that also low-scale but specialized agricultural holdings were surveyed. However, when analyzing the problem of the state of agriculture and agricultural holdings in Poland, it is necessary to take their area size into account, as it is currently largely at the discretion of the production and economic capabilities of many agricultural holdings.

Small farms in Poland have a dominant share in the structure of agricultural holdings. In 2016 in the country there were 737.2 thous. farms with an area of 1 to 5 ha of agricultural land, which accounted for 52.3% of all agricultural holdings. Spatial distribution of small farms shows large variations, hence their share in the total number of farms in particular provinces of Poland is in the range of 27.0% - 80.9%. The highest share of small farms is in the Lesser Poland Province, where there are 113.2 thous. farms with such a small area [2]. The selection of the territorial scope of the research was therefore deliberate, because the Lesser Poland Province belongs to regions in Poland that have the most fragmented agrarian structure. Agriculture in this region is characterized by a large spatial diversity, which is determined to a large extent by the natural conditions prevailing there. The best soil and climatic conditions occur only in the northern and central part of this Province. In the southern part, usually mountainous, none of the elements of the natural environment is conducive to the agricultural economy [19].

In order to determine, what the funds from direct payments were allocated for, three groups of expenses were distinguished:

- production expenses related to current agricultural activity, which include the purchase of plant protection products, fertilizers and feed as well as other current expenditure,
- investment expenses, which include expenditure on the construction, renovation or modernization of farm buildings, purchase of tractors, agricultural equipment and machinery, purchase of land or animals and other investment expenditure,
- current expenditure of the farmer's household, i.e. non-production expenditure, intended for consumption purposes.

3 Basic Rules for Granting Direct Payments in Poland

In 2014-2020, there are basically two direct payment schemes in the European Union. The first one is the basic payment system (BPS - Basic Payment Scheme), which is used in the EU-15 and in Croatia, Malta and Slovenia. In this system, payments are granted to the farmer on the basis of its rights. The second direct payment system is the Single Area Payment Scheme (SAPS). In this system there are no payment entitlements, and the single area payment rate is calculated by dividing the annual national financial envelope, determined for each country by the area of eligible land. It is possible to use the same types of payments in the SAPS system that are used in the basic payment system.

The SAPS binding in Poland consists of compulsory and voluntary elements. In 2018, the following types of payments are implemented in Poland under direct payments [14]:

- uniform area payment,
- payment for greening,
- payment for young farmers,
- additional payment,
- payments related to production:
 - animal production sector: cattle, cows, sheep, goats,
 - plant production sector: leguminous plants for grain, forage plants, sugar beets, starch potatoes, tomatoes, strawberries, hops, flax and fibrous hemp,
- transitional national support (non-production tobacco payment).

The rates for specific payments are calculated as the quotient of the annual financial pool for a given payment and the number of hectares or animals eligible for a given type of payment in a given year. A condition for granting appropriate assistance is also possession of at least 1 ha of eligible lands. The minimum area of a single agricultural parcel, which may be covered by area payments, is 0.1 ha. In the case of support linked to livestock production, no surface criterion is required, but the payment amount must be at least EUR 200. Payments may also cover areas occupied by landscape elements located within the areas declared for payment.

Direct payment support may be granted to a person who actually uses the land, maintains it in good agricultural and environmental condition (in accordance with the standards) and complies with the cross-compliance requirements. This support is granted to those areas of agricultural land that are used throughout the calendar year (with some exceptions) to conduct agricultural activity or mainly agricultural activity. In addition, under the new regulations, applications for area-related payments, i.e. applications for direct payments and area payments under the RDP (i.e. agri-environmental, organic, LFA and afforestation payments), is submitted in electronic form from 2018. Direct payments are not intended for persons who are only owners of land and are not intended for persons who are only owners of land and do not run agricultural activities on them.

In the direct payment system obligatory in Poland, i.a. the so-called degressivity, which consists in reducing the payment by 100% of the surplus of the uniform amount of the area payment over 150,000. euro. Support under direct payments is directed only to the so-called professionally active farmers, and the payment in this respect is not due when the conditions required to obtain them have been artificially created (e.g. by artificially dividing the farm). As part of this support system, standards and cross-compliance requirements are still in force, but since 2015 the cross-compliance principle has reduced the number of requirements and standards in the field of good agricultural culture.

In Poland, under the direct payment system, farm owners can use flat-rate direct payments, which in the new system are called payments for small agricultural holdings. To this payment system, all farmers could voluntarily join in 2015, while farmers receiving no more than EUR 1,250 per farm for direct payments were included in the system automatically, unless they did not agree. Resignation from this type of support is possible, but there is no possibility of re-participation in this system. Under the small farm scheme, the amount of support is determined for each farmer individually as the sum of all payments to which the farmer would be entitled if he remained in the standard system but cannot be more than EUR 1,250 per farm. Every farm can join the system for small agricultural holdings, because there are no restrictions, e.g. in the area of arable land, and farmers participating in this system are exempt from the control of standards and requirements of the cross-compliance principle, as well as from the obligation to apply greening practices.

4 Directions of Distribution of Direct Payments by the Surveyed Agricultural Holdings

In Poland in 2004 - 2017, in each campaign, the number of decisions issued on the granting of direct payments was about 1.4 million. In 2017, the amount of payments reached over PLN 14.5 billion, more than twice as in 2004. Over the period 2004 - 2017, the total amount of cash disbursed under direct payments totaled approximately PLN 162.5 billion. These measures contribute to increasing the production capacity of some agricultural holdings, their modernization, and provide financial resources for the farmer and his family. The amounts of payments made in Poland in the years 2004 - 2017 are presented in Table 1.

The research on the directions of the use of funds from direct payments was conducted among small agricultural holdings, active in the field of obtaining EU funds. Therefore, there were agricultural holdings surveyed, which in the years 2004-2015 received direct payments, and at least once received a subsidy as part of investment measures of the CAP programs implemented in these years. Among the surveyed farmers from the Lesser Poland Province, men dominated, representing nearly 80% of respondents, and the largest age group of respondents were people aged at least 40 years - nearly 73%. The largest group among the surveyed agricultural holdings were agricultural holdings with the area of agricultural land in the range of above 4 to 5 ha, whose share in the study sample amounted to nearly 57%, and agricultural holdings in

the range above 3 to 4 ha, whose share amounted to almost 27%. Therefore, the research involved mainly relatively large small agricultural holdings. The surveyed farms were characterized by a very high fragmentation of plots being part of the farm, and the majority of surveyed farmers (95%) managed exclusively on their own land. In all surveyed agricultural holdings, except for a single case, plant production was carried out. Among the dominant crops, i.e. those with the greatest economic significance for the farm, respondents named cereals, ground vegetables, and crops under covers. Definitely less surveyed farmers ran animal production because only 27.0% declared that they were farming animals.

Table 1. The amount of payments under direct payments in 2004-2017 [PLN].

Year	The amount of payments under direct payments in 2004-2017 [PLN]
2004	6 342 733 900
2005	6 692 219 912
2006	8 202 460 106
2007	8 281 213 405
2008	8 588 832 797
2009	12 150 746 274
2010	12 582 592 251
2011	14 139 698 673
2012	13 734 502 420
2013	14 133 300 833
2014	14 186 691 022
2015	14 314 971 032
2016	14 624 039 591
2017	14 568 703 192
Total	162 542 705 409

In the years 2004-2015, as many as 219 farmers out of the surveyed 296, i.e. 74.0%, expended part of the direct payments received for investments that were carried out on agricultural holdings. The percentage of farmers allocating funds for selected categories of investments is presented in Figure 1.

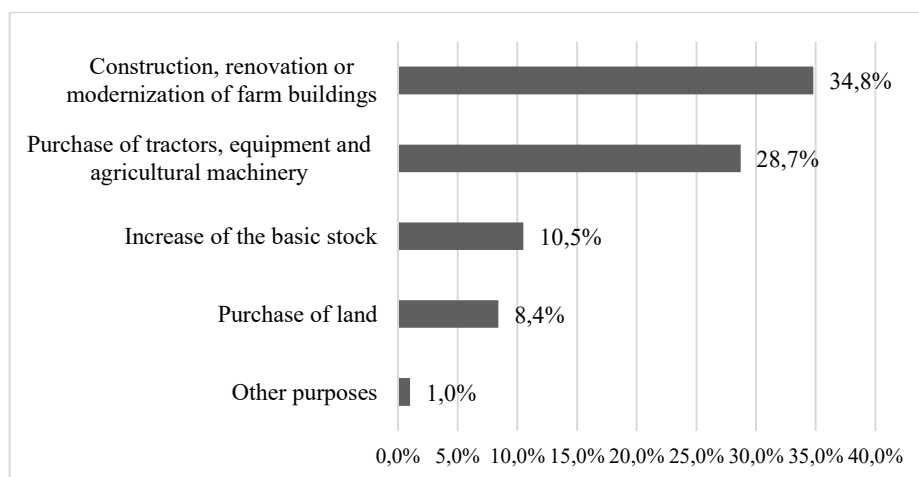


Fig. 1. The percentage of farmers allocating funds from direct payments for selected categories of investments in the years 2004-2015.

Most often, funds from direct payments were earmarked for the construction, renovation or modernization of farm buildings (nearly 35% of surveyed farmers), as well as for the purchase of tractors, equipment and agricultural machinery (nearly 29% of surveyed farmers). Another 10.5% of respondents allocated these funds to increase the basic stock, 8.4% for the purchase of land, and 1% for other purposes, e.g. purchase of seedlings. It should be noted that 10% of surveyed farmers allocated direct payments for investment expenditures covering two different categories of investment outlays, of which it can be concluded that they implemented more than one investment or carried out more complex projects covering different categories of investment expenditures. 4.0% of respondents spent direct payments entirely on investments in an agricultural holding.

Funds from direct payments were also allocated by 95.6% of farmers in whole or in part for current expenditures related to agricultural activity conducted in a given agricultural holding (Figure 2). 70.0% of the respondents spent direct payments on both: investments on the farm and expenditures related to the current activity of the agricultural holding, another 14.5% spent direct payments partly on the current activity of their farm and partly on the current consumption of the household, and 11.2% allocated direct payments only to the current expenditures of the farm.

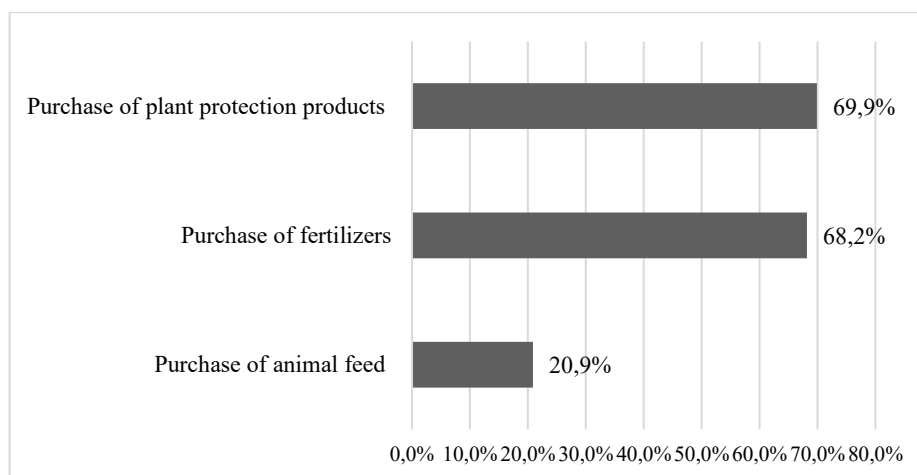


Fig. 2. The percentage of farmers allocating funds from direct payments for production expenses related to agricultural activity in 2004-2015.

In the case of financing expenses related to the current activity of the farm, respondents most often indicated that direct payments served as a source of financing for the purchase of plant protection products (69.9%), fertilizers (68.2%), and animal feed (20.9 %).

It should be noted that not all funds obtained from direct payments were spent by the surveyed agricultural holdings for the purposes of agricultural activity. Over 15% of respondents indicated that part of these funds was allocated to the current expenditure of their household, but only in one case the total amount was allocated for this purpose.

The surveyed farmers were also asked to indicate the most effective CAP instruments that favor the development of small agricultural holdings. The most effective instruments include primarily investment aid (subsidies for investments), which was indicated by 76.4% of respondents. It should be emphasized that almost one third of the surveyed farmers (31.8%) considered direct payments for such an instrument.

5 Conclusions

Direct payments were one of the first instruments to support Polish agriculture, which was implemented just after Poland's accession to the European Union. Direct payments in the form of so-called simplified payment system for agricultural land (SAPS) were introduced in Poland, which means that payments are granted in proportion to the area of cultivation, and do not depend on the size of agricultural production. Since 2004, these payments have been gradually increasing according to the so-called the phasing-in principle, i.e. the rule of gradually reaching the full amount of payments.

In the years 2004-2017, Polish farmers received support in the form of direct payments in the amount of over PLN 162 billion. The surveys carried out in 296 small

agricultural holdings from Lesser Poland Province, which in the years 2004-2015 received direct payments, and at least once received a subsidy in the framework of investment measures of the CAP programs implemented in these years, showed that the funds from direct payments were used primarily to finance the investments carried out on the farm, as well as production expenditure related to agricultural activity. Investments financed from direct payments related mainly to the construction, renovation or modernization of farm buildings, as well as to supplementing and modernization of the machine park. Funds from direct payments were relatively rarely allocated for the purchase of land, which may be result of objective premises, which include difficulties with the purchase of land in the vicinity of the farm or very high and constantly increasing land prices.

Some part of funds from direct payments were also allocated by almost every farmer for current expenditure related to agricultural activity conducted in a holding, mostly on plant protection products, fertilizers and feed. To a relatively small extent, these funds were used for current expenses of farmer's households, what means that they are not mostly intended for consumption purposes. The research results show that among small agricultural holdings there are also those that do not treat direct payments primarily as a source of additional income for the household but use them for the development of the farm. It can be stated that the farmers who receive investment subsidies in the framework of CAP programs are more willing to spend funds from direct payments on development activities and treat direct payments as the source of investment financing complementary to the subsidies. It is highly probable that such an approach will occur in the case of development-oriented small farms located in the whole Poland.

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