

## **THE FINANCIAL SUPPORT OF AGRICULTURAL PRODUCER GROUPS**

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**Abstract.** In this article problems were introduced on functioning of agricultural production groups which are established to improve the processing and marketing of farm goods. After fulfilling certain conditions, each group may apply for the financial support from the EU and domestic funds. They might be spent on administration or management. Since the new regulation was implemented the number of groups has been growing.

**Key words:** agricultural production, producer groups, Rural Development Program, agricultural cooperative, limited liability company.

### **INTRODUCTION**

The agricultural production can be run both by an individual farmer or a group of farmers (cooperative). Its legal rules were implemented 8 years ago and were based on the Act of 15 September 2000 on Agricultural Producer Groups and Associations [Ustawa... 2000]. The main aim of this regulation was to convince farmers to organized in the legal or “commercial structures” that help them to increase their income from the farming. That might be obtain by reducing the production costs, improving the quality, or adjustment agricultural production to its continuing process of specification.

There are many conclusive arguments to set up an Agriculture Production Groups (APGs). First of all it allows to adjust the production quantity to the current market conditions and needs, what is very important in the matter of food overproduction in EU. It lets to improve the processing and marketing of agricultural products<sup>1</sup>, enhance the competitiveness of the Polish agricultural sector through the market orientated production, adjust the entities operating in the agricultural sector to the EU requirements on

hygiene and food safety, modernizes the farm holdings, allows the better usage of the means of production, reduces the production costs, its proper market orientation as well as diversifies the activities and production planning. It has a very positive influence on natural environment protection.

Such a group can be set up and registered only according to the special procedure. Its main rules and functions are determined by obtaining the legal personality and covering certain conditions that are mentioned in the basic regulation.

Since the first implementation of special regulation on agricultural the APGs, some financial support has been offered to farmers. The aid was dual. Each group could receive the support for its governing (administrative purposes) or activities but only if they passed the legal premises. For the last few years the support was modified. Nowadays new period of its implementation starts. Therefore a question arises if and what kind of financial support stimulates the eager to create new groups? Are Polish farmers interested in such legal environment to cooperate and start partnerships?

Consequently, the aims of this paper are:

- 1) to estimate the legal situation and possibilities of setting up the APGs,
- 2) to investigate the different kinds of financial support that farmers can apply for in the matter of their activities within agricultural producer groups,
- 3) to evaluate and estimate its potential profitability and its influence on the number of registered groups.

The paper's structure is divided according to the aims. The divagations start from the brief history of the producer groups before the Polish accession to EU. Those historical conditions definitely had influenced on later activities among the farmers. Then the paper considers the legal aspects of running the group and a specially its setting up and registration. Finally it has to be mentioned about the different kind of support for farming the group may obtain for its activities. The dissertation is enriched in some statistics that come from the Agency of Restructuring and Modernization of Agriculture (ARMA) and the National Court Registration. The conclusion consists of the evaluation of the factual legal provisions and economic situation within the existing producer groups in Poland.

## **THE FORMATION OF AGRICULTURAL PRODUCER GROUPS IN POLAND – HISTORICAL ASPECTS**

The Polish tradition of cooperation among the farmers is long. First cooperatives were the most popular legal form. The reason of such motives can be found in the first regulation that implemented the basics rules for its running. There were two regulations: the Act of 17 February 1961 on Cooperatives and its Associations [Ustawa... 1961], and the Act of 18 February 1982 on Cooperatives' Law [Ustawa... 2003 a].

The cooperative was one of the most popular way to organize people to fulfill the national production plan before the 90s. After the change of political, economic and social system in Poland its role decreased.

The process of revitalization and forming new producer groups started in the years 1992-1993. At the beginning it was very slow and mostly unformed. Farmers were not very interested in any kind of partnerships. The most important problems related to the

limited interest in establishing producer groups and the functioning of these groups was or is caused by many factors. One of them is the lack of experience with group activities. That kind of the cooperation under the certain conditions was unknown. Another problem was the farmers' low awareness of advantages resulting from common action. They had negative experiences with agriculture cooperatives from the years 1948-1990. Of course for running a company – even a group – one needs financial resources. So the lack of funds to start efficient economic activity was another problem. A further factor concerned the difficulties with concluding contracts, resulting from the unwillingness on the part of some customers to conclude contracts with groups.

### THE LEGAL ASPECTS OF CREATION OF AGRICULTURAL PRODUCER GROUPS

As it was mentioned, the basic regulation concerning APGs, that influenced the production came in force in 2000. Its implementation was a result of the acceleration of the legal and economic adjustments of whole Polish agriculture to EU standards.

According to the law [Ustawa... 2000], the group can be set up by natural person, legal person (entity) and legal entity or commercial company without a legal personality status. All of them have to run a farm or a special section of agricultural production which is defined and mentioned in the Act of Agricultural Taxation [Ustawa... 2000]. The members-initiators have to perform some legal duties. One of them is to choose the proper legal form for its company. Each group is run as a legal person [Łobos-Kotowska 2003].

There are a few legal forms that can be chosen, like limited liability company, joint stock company, union, association or co-operative (Fig. 1).

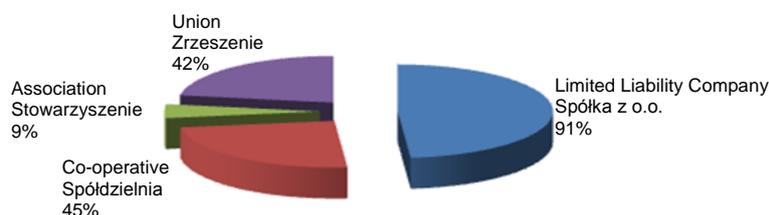


Fig. 1. The structure of the legal forms among the agricultural produced groups (years 2000-2007)

Source: drawn on the basis of information obtained from National Court Registration.

Rys. 1. Formy prawne prowadzenia grup producentów rolnych (lata 2000-2007)

Źródło: opracowano na podstawie informacji z Krajowego Rejestru Sądowego.

The groups can be established only for some agricultural products or groups of products. They are listed in the Act of 4 July 2003 [Ustawa... 2000]. There are more than 30 products and groups (Table 1). Among them are: horses, cattle, pigs, poultry, fish, goats, rabbits, sheep, hen eggs, cow milk, honey, fresh and cut flowers, potatoes,

Table 1. The list of the goods for which the group can be set up, its minimal annual production (t, ha, PLN) and minimal number of producers

Tabela 1. Lista produktów, dla których może być założona grupa producentów rolnych; minimalna roczna produkcja (t, ha, zł) oraz minimalna liczba członków

| Products and group of products<br>Produkty i grupy produktów | Minimal annual production (t, ha, PLN)<br>Minimalna roczna produkcja (t, ha, zł) |  |  |  |
|--|--|--|--|--|
|  | małopolskie, podkarpackie, śląskie, świętokrzyskie                               | lubelskie, lubuskie, mazowieckie, opolskie | dolnośląskie, kujawsko-pomorskie, podlaskie, pomorskie, warmińsko-mazurskie, wielkopolskie, zachodniopomorskie | minimal number of producers<br>minimalna liczba członków |
| Horses – Konie   | 40   | 80   | 120  | 5  |
| Beef – Wołowina  | 100  | 200  | 300  | 5  |
| Pigs<br>Trzoda chlewna                                       | 2 000  | 4 000                                      | 6 000  | 10   |
| Sheep, goats<br>Owce, kozy                                   | 200  | 400  | 600  | 5  |
| Poultry – Drób   | 500 000  |  |  | 5  |
| Rabbits – Króliki  | 4 000  |  |  | 5  |
| Fish – Ryby  | 30 t   |  |  | 5  |
| Eggs – Jaja  | 500 000 PCS.   | 1 000 000                                  | 1 500 000  | 5  |
| Cow's milk<br>Mleko krowie                                   | 300 000 l  | 600 000 l                                  | 900 000 l  | 10   |
| Honey – Miód   | 100 000 PLN  |  |  | 5  |
| Flowers – Kwiaty   | 800 000 PLN  |  |  | 5  |
| Potatoes<br>Ziemniaki  | 1 000 t  | 2 000 t                                    | 3 000 t  | 10   |
| Grains – Zboża   | 400 t  | 800 t                                      | 1 200 t  | 10   |
| Oil seeds<br>Rośliny oleiste                                 | 300 t  | 600 t                                      | 900 t  | 5  |
| Grains and oil seeds<br>Zboża i oleiste                      | 500 t  | 1 000 t                                    | 1 500 t  | 10   |
| Fruits – Owoce   | 200 000 PLN  |  |  | 5  |
| Vegetables<br>Warzywa  | 200 000 PLN  |  |  | 5  |
| Fruits and vegetables<br>Owoce i warzywa                     | 200 000 PLN  |  |  | 5  |
| Tobacco leaves<br>Liście tytoniu                             | 1 000 t  |  |  | 50   |
| Hops – Chmiel  | 60 ha  |  |  | 7  |

Source: Rozporządzenie... [2003].  
Źródło: Rozporządzenie... [2003].

grains, oil seeds, fruits, fruits and vegetables, vegetables, tobacco lives, hops, etc. The mentioned regulation besides that, determines minimal, annual value of the market production for individual voivodeships and minimal number of its members related to each agricultural product or groups of products, which is required in the establishment process.

The members-initiators, on the basis of art. 3 of regulation [Rozporządzenie... 2003], have to sign the contract of partnership (in the case of limited liability company it is a contract, but in the case of cooperation, association and union the statute). In the founders act must be mentioned such data as: the members' supply of production means, the rules of common use of the equipments, the methods of the goods' promotions, their storage, confectionary and standardization. Besides they have to agree the production's conditions, a specially its quality and quantity. What is important – each group can be set up by the minimum five persons. It is caused by the rule that none can have more than 20% of the companies share and voices on the general meeting.

In addition in the matter of limited liability company such factors must be set as: the rules of shares' movements, in order to avoid taking them over by the persons who does not fulfill the requirements. In each contract of partnership members have to commit themselves to belong only to one producer group – art. 4 section 1 point 3 of the regulation [Ustawa... 2000]. A member can not belong to many groups that were established for the same commodity or group of commodities. However, a farmer who produces within his farm some products that are considered as market production (i.e. grain and oil seeds, milk, etc.) may be a member of the other group that was established for such a commodity. Mentioned obligations must appear in the contract or the statute. Members are obliged to purchase all products they have obtained by the group. All the exclusions must be fair and obvious. Besides, they have to inform the group about their quantity of the production and obtained prices for sale outside of the group.

Each group has to be registered. It must apply to the local authority (marshal of a province) according to the companies seat, for enrollment to the national list of the APGs. In the application must be mentioned: the basic data of the producer, its procurators, the act of the founders, the list of the members, certificate of affiliation to one group, plan of its activity for the next five years, etc. The entry has the power of administrative decision and the registration is open. When the group is recognized as a legal entity it runs the group as an enterprise.

The group's activities are controlled by the local authority according to the companies seat – see act. 12 [Ustawa... 2000]. They have to be submitted within the six months at the end of fiscal year (marketing year) the annual financial reports.

## **THE FINANCIAL SUPPORT FOR AGRICULTURAL PRODUCER GROUPS**

From the moment the regulation on the APGs has been implemented, they may attempt for financial support for its foundation and running. Each time the aid is granted on the basis of application, it has to be submitted to the Agency of Restructuring and Modernization of Agriculture.

There are three stages of support. First one considers the aid, which was financed from the Budget, and it was offered between mid October 2000 and the end of April

2004 – the day of Polish accession to EU. Second stage started on 1st May 2004, when Poland became a full member of European Community. It let Polish farmers anticipate the support mentioned in the Rural Development Plan for 2004-2006. The aid was granted from the Guarantee Section of The European Agricultural Guidance and Guarantee Fund (EAGGF) and partly from the Budget. This stage ended on 31st on December 2006.

The last stage started on 1st January 2007 and has been financed from the sources of European Agricultural Fund for Rural Development (EAFRD) within the Rural Development Program for 2007-2013. It will last till 31st of December 2013. As before, the support for agricultural producer groups will be subsidized from the Budget.

According to the evaluation of the different stages of support, must be concluded that on the basis of the article 18 [Ustawa... 2000] each group could receive the add only for its establishment (i.e. notary fee, court fees, operational program) and its administration (i.e. salaries, insurance fee). Mentioned support was offered according to the applications only for 5 years. It reached 5%, 5%, 4%, 3%, and 2% for the 1st, 2nd, 3rd, 4th and 5th year respectively for the annual income from the purchases of goods for what group was established. It could not exceed its foundation and administration costs. Besides it could not be higher within the five years than 80-times, in the next 64-times, 48-times, 32-times and 16 times of average monthly salary.

In addition, each group could apply for the preferential investment credit. Its annual interest was equal to 0.25 of rediscount rate on the same conditions as regular investment credits in agribusiness.

In the first year of the binding, only 8 groups were registered. According to the National Court Registration till the end of 2002 the number increased up to 27, and till 2004 up to 60. Within the first stage of support 76 groups were established (Fig. 2). The add amounted to PLN 8 277 thousands and was distributed among 102 groups (data published on the ARMA website).

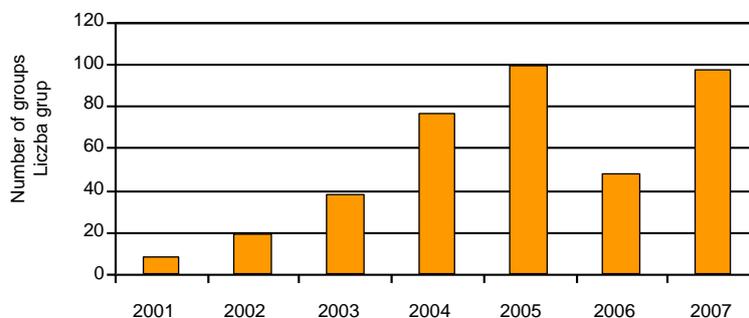


Fig. 2. The number of the registered Agricultural Producer Groups 2001-2007

Source: drawn on the basis of information obtained from National Court Registration.

Rys. 2. Liczba grup producentów rolnych zarejestrowanych w latach 2001-2007

Źródło: opracowano na podstawie informacji z Krajowego Rejestru Sądowego.

The support system was changed in 2003 on the basis of the Act of 28 November on support for rural development by the Guarantee Section of The European Agricultural Guidance and Guarantee Fund (EAGGF) [Ustawa... 2003 b]. This act has determined the tasks of all persons and organization units that are involved in rural development.

On the day of accession described rules for the support were repealed. However all groups that were registered before 30th of April 2004 received the add on previous conditions. The principles for obtaining the loan were maintained.

Former support for establishment of producer groups granted in above-mentioned measure was replaced with Measure 7 Support for the APGs under the Rural Development Plan for 2004-2006. The application process and special condition for granting were implemented in the Act of 19 October 2004 on special measurements on granting the financial support for Agricultural Producer Groups covered by Rural Development Plan [Rozporządzenie... 2004].

Implemented support was granted in order to facilitate the setting up and administrative operation of producer groups for the purposes of: adapting the production and output of producers who are members of such groups to market requirements; jointly placing goods on the market, including preparation for sale, centralisation of sales and supply to bulk buyers and establishing common rules on production information, with particular regard to harvesting and availability. The groups could be allowed the grant both for the administration costs, as well as for any priority target, i.e. investments [Wiatrak 2006].

The support was granted as a flat-rate aid in annual instalments for the first five years following the date on which the producer group was recognised. It was calculated on the basis of the group's annual marketed production, up to the ceilings which was a percentage of marketed production during the first five years following recognition 5%, 5%, 4%, 3%, and 2% for the 1st, 2nd, 3rd, 4th and 5th year respectively for marketed production up to EUR 1 000 000, and 2.5%, 2.5%, 2.0%, 1.5% and 1.5% for the 1st, 2nd, 3rd, 4th and 5th year respectively for marketed production exceeding EUR 1 000 000. The amount of add could not exceed in respect of each of the first five years the amount of 100 000 EUR for the 1st and 2nd year, 80 000 for 3rd, 60 000 for 4th and 50 000 in the 5th year [Wsparcie grup... 2007].

In total the Agency paid 6900 mln PLN and till 31st July 2007 total limit of payments within Rural Development Program for years 2004-2006 amounted 6400 thousands EURO (data published on the ARMA website). 102 applications were submitted and 14 151 thousands PLN were paid.

According to the current Rural Development Plan 2007-2013 which is based on the Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) [Rozporządzenie... 2005] and on the Act of 20 April 2007 on special measurements on granting the financial support for Agricultural Producer Groups covered by Rural Development Plan 2007-2013 [Rozporządzenie... 2007] support continues. It shall be granted in order to facilitate the setting up and administrative operation of producer groups. Its purposes have not changed (i.e. adapting the production and output of producers, jointly placing goods on the market, including preparation for sale, etc.). The support shall be granted to producer groups which are officially recognized by the Member State's competent authority by 31 December 2013.

The government since 1 January 2007 abolished groups' income tax and land tax, as another way to encourage Polish farmers to work within the enterprises. In the first case it considers the tax of the marketed production for which the group was set up. It refers only to the expenses made for purchase of production means, trainings, etc. The second, applies to the buildings in which the agricultural production is held. Those buildings may be used only for agricultural purposes such as purchase, storage, confectionary, standardization, that are mentioned in the act of the founders (statues or contract).

Nowadays, according to the National Court Registration there are 187 groups. This is a total number of the administrative decisions that were issued since 2000. It means that among them there are groups that exists no more. So the real number varies.

Among all groups there are 91 limited liability companies, 9 unions, 42 associations and 45 co-operatives (Fig. 1). The farmers very often choose the first legal form because it is easy to set up and it is safe for shareholders [Waśniewski 2003]. They will not be liable for the obligations of the company.

The largest number of groups consisted of the producers of grains and oil seeds (35 groups), live pigs and fresh meat (22), grains (21), live pigs (20), live poultry (12), fruit and vegetables (12) (Fig. 3).

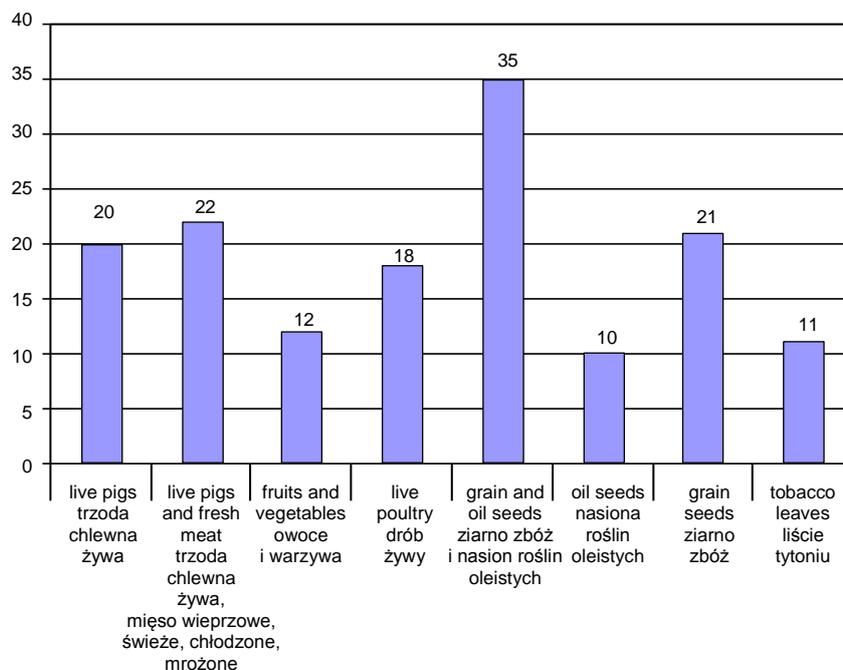


Fig. 3. Different products for which the Agricultural Producer Groups were established

Source: Drawn on the basis of information obtained from National Court Registration.

Rys. 3. Rodzaje produktów, dla których powstały GPR

Źródło: opracowano na podstawie informacji z Krajowego Rejestru Sądowego.

The layout of the groups is unequal (Fig. 4). According to their location within the voivodeships 32 were registered in Wielkopolska. Within total production in this area 17 groups are involved in the production of pigs, fresh and frozen meat, 4 for live pigs and 3 for milk (Fig. 5). The second place is taken by Kujawsko-Pomorskie province where 27 groups were established and then Dolnośląskie province with 25 groups. But there is only one group operating in Śląskie province, established for live pigs, fresh and frozen pig meat.



Fig. 4. The distribution of agricultural producer groups in Poland  
Source: drawn on the basis of information obtained from National Court Registration.

Rys. 4. Rozmieszczenie grup producentów rolnych w Polsce  
Źródło: opracowano na podstawie informacji z Krajowego Rejestru Sądowego.

Unfortunately over half of the groups did not sell their products through the group itself. Some groups declared that, though such sales were made, they seldom account for 100% of products. Most often the declared common sales are in the range of 20-40% of products relevant for a given group, produced in the agricultural holdings run by group members. Over half of the groups engage in common purchases of production means. Only 5-10% of the groups own common facilities and equipment for product storage, washing, cleaning, sorting and packaging [Rural Development Plan 2004-2006].

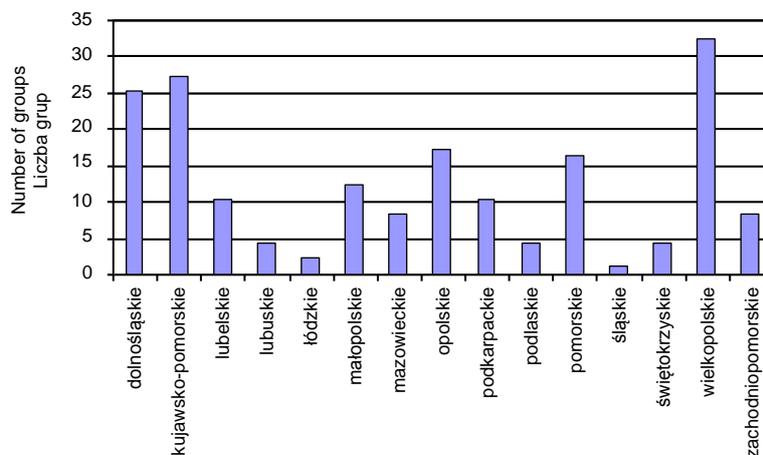


Fig. 5. The number of Agricultural Producer Groups in Poland  
Source: drawn on the basis of information obtained from National Court Registration.

Rys. 5. Liczba założonych grup w poszczególnych województwach  
Źródło: opracowano na podstawie informacji z Krajowego Rejestru Sądowego.

## CONCLUSIONS

The agricultural production within the producer groups seems to be profitable for farmers. From the legal point of view, all the regulations are simple, easy to follow by the members-initiators, and stable. Only fruit and vegetable producers should fulfill more restrictive criteria. This is caused by the common regulation in this sector. Unfortunately the past experience does not stimulate the willingness of the farmers.

However, recently bigger interest of farmers might be seen in running the APGs. It is observed in the number of applications in 2007. According to data received from all provinces there were 95 groups registered last year. It lets us state that the financial support offered within the Rural Development Program 2007-2013 and some tax allowances convince and encourage farmers to set up commercial activities.

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## **FINANSOWE WSPARCIE FUNKCJONOWANIA GRUP PRODUCENTÓW ROLNYCH**

**Streszczenie.** Alternatywą prowadzenia indywidualnej produkcji rolnej jest łączenie się kilku rolników w tzw. grupy producentów rolnych, które działają w ramach różnych form prawnych. Podstawy prawne zakładania i ich funkcjonowania zostały określone przez ustawodawcę już osiem lat temu. Każda grupa może ubiegać się o wsparcie finansowe na prowadzenie swej działalności. Zakres tej pomocy na przestrzeni lat ulegał zmianom. Celem niniejszego opracowania jest zarówno ocena sytuacji prawnej i możliwości powstawania grup producentów rolnych, jak i wskazanie rodzajów pomocy finansowej przeznaczonej na ich zakładanie i prowadzenie. Rozważania obejmują także próbę estymacji wpływu pomocy na powstawanie i rozwój grup producentów rolnych.

**Słowa kluczowe:** produkcja rolna, grupy producentów rolnych, Program Rozwoju Obszarów Wiejskich, spółdzielnia rolnicza, spółka z ograniczoną odpowiedzialnością

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