

NON-AGRICULTURAL BUSINESS ACTIVITY IN THE OLECKO DISTRICT

Roman Kisiel[✉], Natalia Jarzębowicz

University of Warmia and Mazury in Olsztyn, Poland

Abstract. This article analyzes the multifaceted nature of non-agricultural business activities engaged into by farmers in the Olecko district, based on a survey with 240 farm owners running a non-agricultural economic activity. Carried out in 2Q 2016, this study revealed a correlation between the number of businesses and the farm size. Small and medium farmers are more willing to engage into non-agricultural activities. The largest group of respondents (67%) were traders. The analysis found that the ability to leverage the farm's endogenous business potential is primarily inhibited by legal over-regulation and bureaucracy in economic procedures (68.75%).

Keywords: rural areas, non-agricultural business activity, entrepreneurship, additional income sources

INTRODUCTION

The economic, social and ideological transformation of the Polish economy in the 1990s resulted in increased export and import volumes (opening to foreign markets) which helped improving the competitiveness and innovativeness of businesses. Meanwhile, the importance of agricultural holdings has gradually declined, as reflected by their decreasing share in GDP. The economic transformation also impacted the productivity of the agriculture, contributing to the stabilization of the economy as a whole. It also became a determinant of the development of non-agricultural business activities engaged into by Polish farms. Non-agricultural business activity

was defined in the Act of December 20, 1990 on the farmers' social security scheme. Pursuant to Article 5a thereof, a person engaged in such activity shall mean a farmer or a member of his/her household (natural person) engaged in economic activity on the territory of the Republic of Poland while also conducting agricultural activities. Non-agricultural business activity cannot be characterized as managing an agricultural holding in the strict sense. Its essence is to be active in such sectors as trade, services, manufacturing and processing. Each of these activities is a core for the development of additional fields of farming activity in rural areas. Increasing the population's professional activity contributes to reducing the disparities between areas at different levels of economic development. The links between urban and rural areas remain noticeable, as reflected by their mutual impact on their development levels.

MATERIAL AND METHODS

The main purpose of this paper was to demonstrate the multifaceted nature of non-agricultural business activities engaged into by farmers in the Olecko district. Consequently, a direct survey was conducted with the use of a questionnaire with 240 farm owners engaged into non-agricultural business activities in 2Q 2016.

A different number of respondents from specific municipalities of the district were covered by the survey. The population of the Olecko municipality had the largest share (66.67%), followed by the municipalities

[✉]prof. dr hab. Roman Kisiel, Economic and Regional Policy Department, University of Warmia and Mazury in Olsztyn, M. Oczapowskiego 4 St., 10-719 Olsztyn, Poland, e-mail: kisiel@uwm.edu.pl

of Kowale Oleckie (14.58%) and Wieliczki (12.5%). Residents of the Świętajno municipality had the lowest share among the respondents (6.25%). The largest number (50%) of respondents were aged between 30 and 49. Persons aged 50 to 59 (30.42%) and 60 or more (16.25%) also represented a large part of the sample. The 18-29 year olds were the smallest group among entrepreneurs (3.33%).

When it comes to schooling background, people with vocational education had the largest share (42.09%). Holders of university degrees were the smallest group (2.5%).

NON-AGRICULTURAL BUSINESS ACTIVITY AS A VARIABLE DETERMINING THE DEVELOPMENT OF RURAL AREAS

The multi-functional nature of agricultural activities may be extended by leveraging both the endogenous and exogenous potential of Polish rural areas. However, in order to modify the functions and tasks of the agricultural sector, an in-depth structural transformation must take place. Therefore, support from institutions engaged in the development of rural areas is essential. The number and diversity of economic functions of rural areas may be increased by diversifying the economic activity and by no longer following the rural development scenarios based on the need to exploit agricultural raw materials as a condition for the profitability of agricultural production (Kłodziński, 2014).

In Poland, over 84,000 people (i.e. 22.11% of the total farming population) run a non-agricultural business activity while being covered by the farmer's social security scheme (KRUS)¹. The increased number of non-agricultural businesses has a favorable impact on the development of the local infrastructure. With alternative activities which provide the rural population with an additional source of income, social and economic progress becomes a noticeable factor in reducing gaps in income levels between various social groups. Also, as local companies become more numerous, they improve their competitive edge (Brodzińska, 2002).

In order for the activity of the rural population to become more polyvalent, institutional support (i.e. support from government authorities) is strongly needed. For the entrepreneurs, a greater involvement of government in

the development of rural areas would mean an easy access to financial and business consultancy institutions and to education which is the main condition for bring supply into line with demand on the labor market (Gotkiewicz et al., 2000). By identifying the trends followed by the local market, it becomes possible to pinpoint the needs and expectations of potential consumers. Also, creating an innovative form of activity enables flexible adjustment to the structure of the economy. As the agricultural producers become aware of the surrounding market, their companies become more competitive and innovative by being able to analyze the global trends in the manufacturing, service and distribution sectors (Wiatrak, 1998).

In Poland, rural areas are characterized by a relatively high business fragmentation. Therefore, most of the companies are SMEs. With an excessive dispersion of business activity, these regions are poorly responsive to changes in the economic situation. As a consequence, they do not adapt well to the evolving market conditions. In turn, areas with characteristics conducive to the development of the SME sector are more responsive to market changes and shocks resulting from unexpected economic disturbance (Niedzielski, 2000).

CONDITIONS OF AND BARRIERS TO THE DEVELOPMENT OF ENTREPRENEURSHIP IN RURAL AREAS

An entrepreneur is required to be reasonable and to efficiently use the available resources and productive inputs. As an individual, he/she should demonstrate creativity and willingness to change his/her current ways of functioning. Entrepreneurship also means a set of behaviors, helping others, and using one's own interpersonal skills, decision-making and technical skills (Ostrowski, 1999).

The development of rural areas, including through the entrepreneurship of the rural population, is a slow process which requires large expenditures. The agriculture is profitable mainly because of state financing and protectionism. The drivers of rural entrepreneurship are the demographic structure (population growth) and geographic and natural conditions (Kamińska, 2006). It is indisputable that the biological inseparability of the agriculture from the natural environment becomes a spontaneous reason to start a non-agricultural business. The isolation of highly urbanized areas from provincial areas makes the gap between them even wider and reflects

¹ As at the end of 2Q 2016, Insurance Office, KRUS Headquarters.

the farming ethos rooted in history (Fedyszak-Radziejowska, 1992).

The conditions of and barriers to the development of entrepreneurship in rural areas may be presented in several aspects. It is possible to identify economic factors as well as factors related to the endogenous potential of the agriculture. From the company's profitability perspective, lower operating costs are the most important condition for engaging into a non-agricultural business activity. Both the costs of accessing the investment space and the costs of purchasing the productive inputs are lower due to the proximity of production resources. The high transparency of the market (due to consumer demand) and the small distribution area of products and services make it possible to flexibly and effectively address the needs of prospects. Note however that the rural population is unable to wholly implement their plans for non-agricultural business activities because of limited availability of funds. An additional obstacle is the knowledge, information and know-how flow between the companies due to poor technical development of rural areas. Poor professional skills of the rural population generate additional training costs, and the slow modernization of agricultural labor methods does not keep pace with the development of the technical infrastructure (Rosner, 2000).

CONDITION OF AND DEVELOPMENT OUTLOOKS FOR NON-AGRICULTURAL BUSINESS ACTIVITY IN THE OLECKO DISTRICT

In the Olecko district, the number of non-agricultural businesses depends on the land area owned by the

entrepreneurs. Considering the size of farms in the Olecko district, it may be concluded that the farms with an area ranging from 5 ha to 19.99 ha (46.67%) and from 1 ha to 4.99 ha (36.67%) are prevalent. All municipalities of the Olecko district demonstrate a similar area structure of farms; only in the Wieliczki municipality, there was one respondent with a farm over 100 ha (Fig. 1).

Note that the largest part of the population engaged in non-agricultural business activities hold a small or medium-sized farm. Therefore, the individual's belief that the production capacity of his/her farm is not fully tapped could play an important role when making the decision to start a business.

According to the analysis of types of non-agricultural business activities engaged into by the Olecko district residents, most of the respondents are active in trade (67.08%), processing (17.08%), services (14.17%) and manufacturing (1.67%). Interestingly, in all municipalities, trade has the largest share in the mix of non-agricultural business activities. Meanwhile, the Świętajno municipality demonstrates a balanced structure of non-agricultural industries, with a domination of service businesses. This is because service delivery requires smaller investments compared to capital-intensive industries such as manufacturing. Because of their concerns for profitability and the need to incur important initial expenditure, entrepreneurs active in manufacturing are the smallest group (1.67%) (Fig. 2).

Due to significant fragmentation of farmland covered by this study, the largest number of respondents declared to run a non-agricultural business on their own (40.83%) without the involvement of any third parties. The employment figures in the Olecko district were

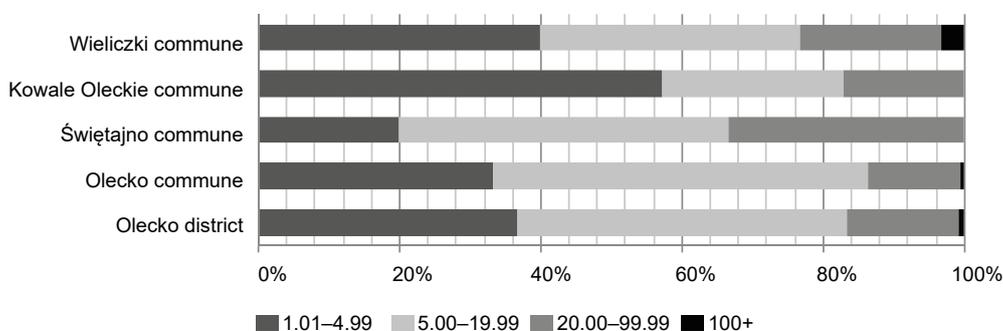


Fig. 1. Size of surveyed farms
Source: own research.

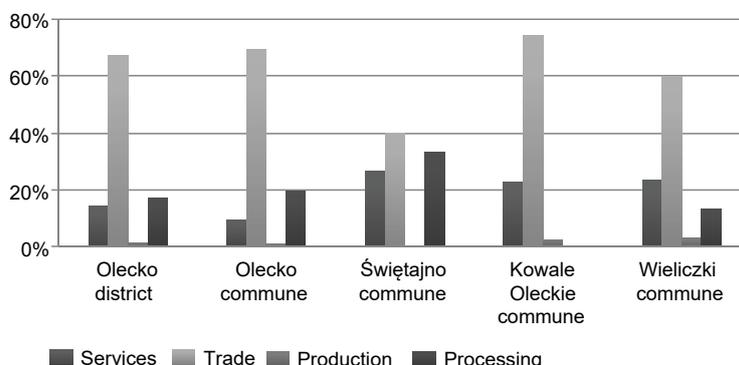


Fig. 2. Non-agricultural business activity
Source: own research.

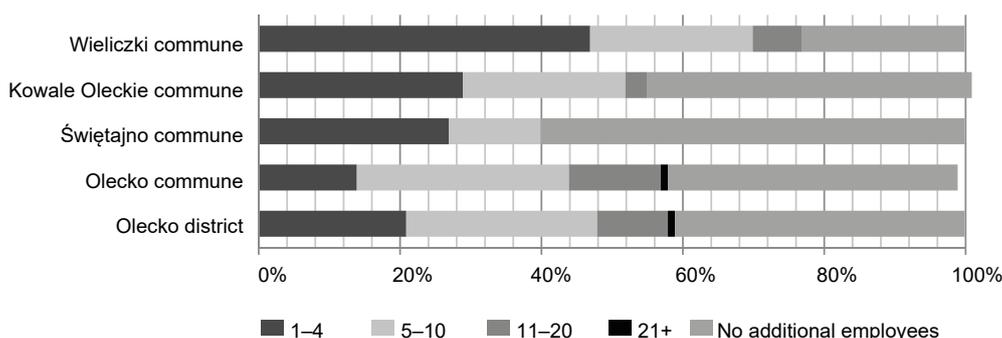


Fig. 3. The size of employment in non-agricultural companies in the Olecko district
Source: own research.

5 to 10 persons (27.08%) and 1 to 4 persons (21.25%). A small share of farms with more than 21 employees, especially in the Olecko municipality (0.84%), could also be observed. This is because farms over 100 ha are located in that area. Thus, a relationship exists between farm size and employment figures (Fig. 3).

When asked about the reasons for engaging into non-agricultural business activities, 31.67% of the respondents declared to have inherited their farm. Their business skills and the willingness to prove them in a non-agricultural activity also played an important role (25.42%) (Fig. 4).

In the Wieliczki municipality, the decision to run a business was mostly influenced by friends (80%). Respondents of the Kowale Oleckie municipality cited their family ties and the reliance on the opinion of

family members as an important reason for starting a non-agricultural business. As a consequence, 60% of respondents from that municipality declared their decision to launch a non-agricultural business to be mainly inspired by their family. In turn, in the Świętajno municipality, the importance of all analyzed determinants of entrepreneurship was rather equal. However, the intent to earn more, improve one's own economic situation and counteract local unemployment (26.67% each) were the most important reasons.

Non-agricultural business activities become an engine that aligns the demand and supply in the labor market. However, running a business involves the need to incur financial expenditure. When asked of the main source of funding their non-agricultural activity, the respondents provided quite similar replies (Fig. 5).

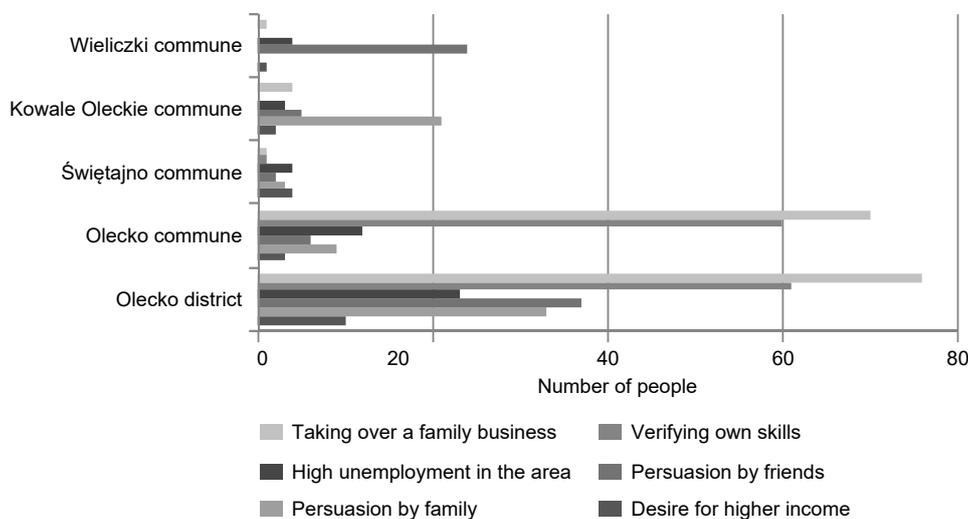


Fig. 4. Determinants of non-agricultural business activity
Source: own research

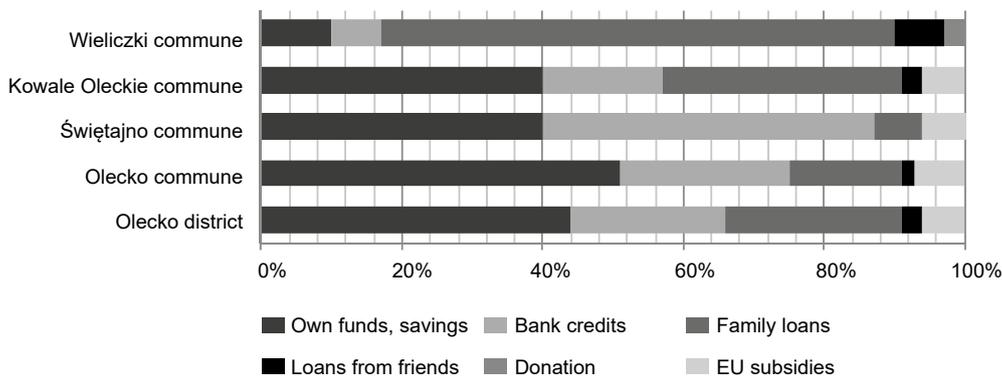


Fig. 5. Main sources of financing non-agricultural economic activity
Source: own research.

Residents of the Olecko district mostly relied on their own funds (43.75%). Money borrowed from the family (25.42%) and bank loans (22.08%) also played an important role. Specific sources of financing demonstrate a homogenous pattern of fund use in the municipalities covered by this survey. However, in the Wieliczki municipality, family loans were used relatively more frequently (73.33%). While this could result from strong family ties and traditions, it was often caused by a relatively low creditworthiness of small farms. What is worrying is that only 5.83%

of the Olecko district population accessed EU funds at early development stages of their businesses. This could result from the unawareness of available sources of financing for rural projects, or from the fear of excessive bureaucracy involved in accessing additional funds. Also, based on the replies provided by the residents of Wieliczki and Kowale Oleckie municipalities, it may be concluded that they demonstrate limited confidence in banking institutions and therefore rely on other sources of business financing, including savings and family loans.

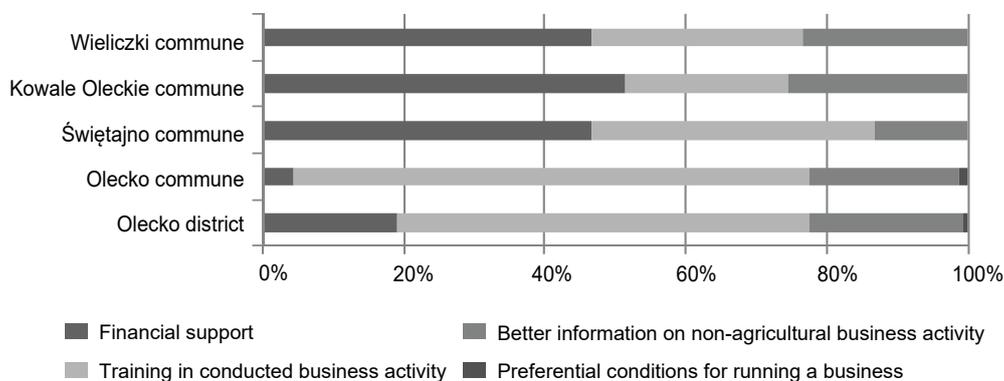


Fig. 6. Type of expected institutional assistance
Source: own research.

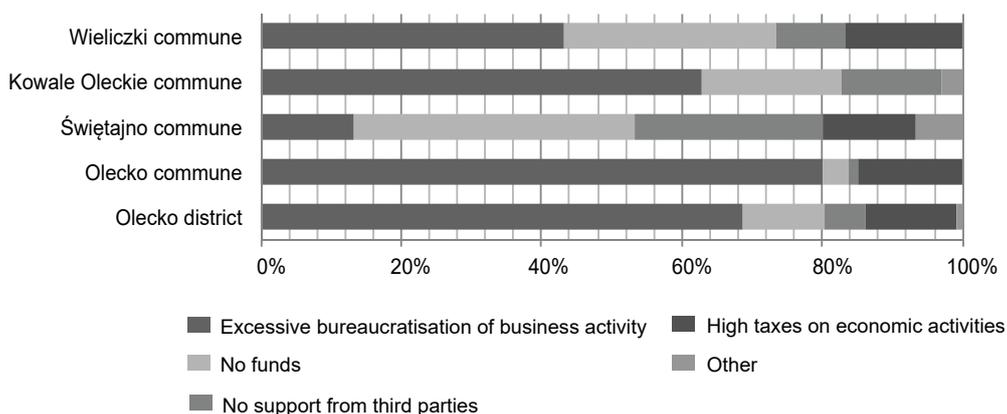


Fig. 7. Factors inhibiting the development of non-agricultural economic activity
Source: own research.

The condition of rural entrepreneurship, as depicted in this paper, may suggest the need for institutional assistance and legislative amendments regarding supporting and running business activities in rural areas. Even though very few rural inhabitants have accessed or are accessing EU funds, as much as 70% of the respondents believe that EU subsidies play an important role in project implementation.

As shown by the results of this study, rural areas require preferential development conditions. It is necessary to provide support and create optimum business conditions. The activities and initiatives taken by local and state authorities integrally affect the development of rural entrepreneurship. However, the respondents found the activity of local government authorities to

be inappropriate and not aligned with the needs of the local market actors (55.42%). When asked about the expected institutional support, the respondents most frequently indicated the need for professional training (58.33%), education and improved flow of information on potential business projects (21.67%) and financial aid (19.17%) (Fig. 6).

Other barriers to the development of local entrepreneurship were as follows: excessive bureaucracy involved in non-agricultural business activities (68.75%), high taxation of economic activities (12.92%) and limited accessibility of funds (11.67%) (Fig. 7).

From the economic standpoint, profitability and efficient business operations are the things that matter. The respondents from the Olecko district believe a key

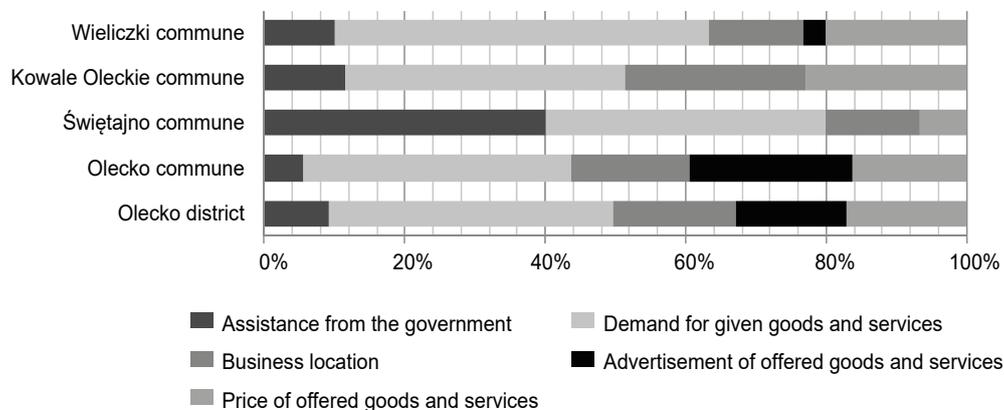


Fig. 8. Aspects determining the profitability of non-agricultural economic activity
Source: own research.

role is played by demand for the products and services offered (40.42%). This is the driving force for the production and competitiveness of local companies. Other important factors are company location (17.5%), market price of goods and services (17.08%), advertising and marketing (15.83%) (Fig. 8).

CONCLUSIONS

1. Based on this survey, it may be concluded that the Olecko district population exhibits a relationship between the number of non-agricultural activities and the area of the farm. Small and medium farmers are more willing to engage into non-agricultural business activities. The largest numbers of farmers engaged into additional economic activities were reported in the Olecko (66.67%) and Kowale Oleckie (14.53%) municipalities.

2. The largest group of respondents (67%) are active in the trade sector. In every municipality, trade activities have the largest share in the total number of businesses. Equally large groups of farmers engage into processing (17.08%) and service (14.17%) businesses. This could result from low capital requirements or from the limited production capacity of their companies.

3. In the Olecko district, 40.38% of the population declared be self-employed. A high differentiation of results was observed in the Wieliczki municipality, characterized by a 46.67% share of entrepreneurs with up to 4 employees under an employment contract. This could be because large farms are located in this area, and the

local population is more willing to engage into non-agricultural activities.

4. The ability to leverage the endogenous potential of the Olecko district is inhibited by legal over-regulation and bureaucracy in economic procedures (68.75%). Other barriers to entrepreneurship include fiscalism (12.92%) and limited investment funds (11.67%). The ambitions of the population of the Olecko district are reflected by the willingness to continue their non-agricultural business activity (88.75%) and to enhance the territorial coverage of the distribution of their goods and services (83.75%).

REFERENCES

- Brodzińska, K. (2002). *Przedsiębiorczość i innowacyjność właścicieli gospodarstw rozwojowych w rolnictwie*. In: A. Lewczuk (Ed.), *Przedsiębiorczość w rolnictwie i na obszarach wiejskich*. Olsztyn: Wyd. CROW UWM.
- Brodziński, Z., Gotkiewicz, W., Szalkiewicz, W. (2000). *Dodatkowe i alternatywne źródła dochodu na obszarach wiejskich*. Olsztyn: Wyd. CROW UWM.
- Fedyszak-Radziejowska, B. (1992). *Etos pracy rolnika. Modele społeczne a rzeczywistość*. Warszawa: Wyd. IRWiR PAN.
- Kamińska, W. (2006). *Pozarolnicza indywidualna działalność gospodarcza w Polsce w latach 1988–2003*. Warszawa: Wyd. IGiPZ PAN.
- Kłodziński, M. (2014). *Przedsiębiorczość pozarolnicza na wsi w procesie wielofunkcyjnego rozwoju obszarów wiejskich*. *Więś Roln.*, 1(162), 97–112.

Niedzielski, E. (2000). *Przedsiębiorczość gospodarcza i bezrobocie na obszarach wiejskich*. Olsztyn: Wyd. UWM.

Ostrowski, L. (1999). *Przedsiębiorczość rodzin chłopskich nie związana z rolnictwem*. Warszawa: IERiGŻ.

Rosner, A. (red.). (2000). *Lokalne bariery rozwoju obszarów wiejskich*. Warszawa: Wyd. FAPA.

Wiatrak, A. P. (1998). Podstawy regionalnej polityki wiejskiej. *Wiś Doradz.*, 4, 19–22.