Agricultural producer groups in Poland
as a tool of sustainable development of rural areas

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Abstract: The need of a new approach to development of rural areas is being broadly discussed on the international level. In the United States this concept is known as the new rural policy, whereas among European members of the OECD as the new rural paradigm. What connects these two is the necessity of creating and establishing adequate relations between rural and urban economies as well as perceiving the development of rural areas as an element which to a large extent determines regional development as a whole. In this context, one has to consider the aspects of entrepreneurship in rural areas. Therefore, producer groups, strongly promoted and supported within the European Union’s Common Agricultural Policy, especially in the new EU member states, are an essential element of the concept of sustainable development as well as the new paradigm for rural areas. The general aim of the paper is to present the essence of producer groups activities and results of empirical research conducted by the author in Poland between June and September 2009. Empirical studies refer to the impact of economic performance of producer groups on local development. The author aims at applying the approach of new institutional economics, especially when investigating hybrid organisations. The presentation of empirical results will be also supplemented by statistical analysis.

Keywords: sustainable development, sustainable rural development, sustainable agriculture, new rural paradigm, agricultural producer groups, hybrid organizations, horizontal integration, new institutional economics

1. Introduction

The agricultural sector in highly developed countries is not perceived any more through its production functions, whereas promoting the concept of sustainable development focuses today on its other features. Most research studies in Europe take into consideration endogenous
relations (multifunctional agriculture, agricultural entrepreneurship, living conditions in rural areas etc.) which are more and more often regarded as an opportunity for sustaining development that would be environment- and farmers-friendly (see: Woś and Zegar, 2002; Kłodziński, 1996; Duczkowska-Małysz, 1996; Adamowicz, 2005). Sustainable development of agriculture cannot be supported and achieved without taking into account a great deal of external factors such as innovation systems, knowledge based economy or regional specialisation.

At the beginning of the 1990s, when the process of transition in Poland started, deep socio-economic changes in agricultural sector became a serious challenge. Domestic farms were with the challenge of adjusting to the new market environment. However, during the two last decades the progress in this matter has been rather slow. It seems that suitable organizational structures in domestic agribusiness which would enable farms to operate effectively are still lacking. One of the methods of mitigating the agrarian issue is to strengthen horizontal integration in this sector, especially in countries where agriculture is mainly characterized by farm fragmentation and low productivity. That is why for the last 10 years the concept of cooperation among farmers as agricultural producer groups has been intensively promoted in Poland. The main goal of this “new” idea of farmers’ cooperation is to replace the socialist model of agricultural production cooperatives.

Poland’s accession to the European Union and the necessity of adapting domestic agriculture to the European Union’s Single Market was a reason for the Polish government to support intensification of integration among farmers. The lack of this kind cooperation may have resulted in reduced benefits related to the support from the Common Agricultural Policy (CAP) and impeded competitiveness of domestic agribusiness compared to the intensity of cooperation among farmers from “old” EU-members. It is worth noting that the idea of agricultural producer groups (APGs) refers strongly to the concept of sustainable development in agriculture or even sustainable rural development. It covers economic, social and environmental goals, whereas the most important element remains this first one (Lemanowicz, 2005: 75-76).

The general aim of the paper is to present producer groups activities and results of empirical research (surveys) conducted by the author in Poland between June and September 2009. Empirical studies refer to the impact of economic performance of producer groups on the local development. The author aims also at applying the approach of new institutional economics,
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especially when investigating hybrid organisations. The presentation of empirical results is also supplemented by statistical analysis.

The general purpose of the conducted research was to test the following hypothesis: integration processes contribute to the improvement of economic effectiveness in domestic agriculture and at the same time they stimulate positive structural changes. The main goal was to identify, then to analyze and to evaluate the most significant factors which determine horizontal integration processes in Polish agriculture, taking as an example agricultural producer groups.

For sampling, all registered APGs (which were set up from 2001 to 2008) operating in Poland were considered (514 APGs). The sampling frame was the formal register of Polish agricultural producer groups and the provisionally recognised register of Polish fruit and vegetables producer groups. For collecting research results a survey was conducted (electronic forms were sent by e-mail to Polish APGs). The questionnaire included 108 variables and demographic questions and was sent 3 times to potential respondents between July and September 2009. The final size of the sample was 44 items which were widely diversified: data were collected from organizations operating in 15 provinces, producing different agricultural outputs and associating 2,408 members.

2. Sustainable agriculture and rural development

The need to include environmental aspects to national and sub-national economic strategies has caused that the concept of sustainable development in agriculture has increased in importance. The main goal of this idea has been to link both economic (improvement of the competitiveness of agricultural sector and the assurance of proper income level for farmers), social as well as environmental aspects for rural development. After a few decades of implementing and promoting this concept and conducting research in this area, an attempt to evaluate the impact of this idea on the transfiguration of modern agricultural sector and rural policy goals in developed countries should be made. Additionally, last turbulences on international commodities markets, for example the food price surge 2007/2008, make the interest in agricultural and rural issues increase (Headey and Fan, 2010; Headey, 2010; Bouis, 2008; Braun, 2008).

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1 This paper includes only selected results of the whole research.
In the 20th century industrial agriculture was a dominant system which was developed mainly in contemporary developed countries. This system was also implemented in developing countries, leading to the improvement of their food self-sufficiency. Nowadays one can say that conventional agriculture (especially in highly developed countries) loses its role and significance. In order to minimize negative environmental effects and regional food oversupply related to industrial agriculture, in some economies campaigns promoting sustainable and organic agriculture or integrated farming have been launched (Wilkin, 2008: 9-20; Duczkowska-Małysz, 2008: 21-44).

Nowadays sustainability has become an attribute of the rural development. This concept is the main condition which needs to be taken into consideration when goals and direction in agrarian and rural policy are being defined. Sustainable development is an on-going stopping process which is not defined by permanent goals or specific instruments. It is a process stimulating positive changes by learning and adapting those effects (Adinyira et al., 2007: 18–19). One can also suggest that the combination of economic, social and environmental aspects is the best direction in the development of modern agricultural sector. It is important to keep in mind that the acceptance of this kind of strategy should not be a barrier limiting the conversion to higher level of economic development. However, experts from this discipline are not unanimous whether so strong and dynamic economic growth is possible when environmental aspects are being put on the first place, which is suggested by the impossibility theorem (see: Daly, 1993: 267-274).

It should also be kept in mind that the concept of sustainable development implies net benefits from economic activity. Resources are not being used in the most short-term effective way, but they are utilized optimally which allows for renewing them in the long term. That is

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2 Integrated farming is an agricultural system which allows for obtaining both environmental and economic goals. This is possible thanks to the usage of modern production and management methods in the agriculture, but it is also important that this system accepts the aims discussed. Sometimes it is called as a holistic systemic approach to the development of agricultural sector (it realizes sustainable development goals and provides a counterbalance between small-sized and large industrial farms which usually benefit from economies of scale). Organic farming is one of the forms of agriculture focusing mainly on the natural aspects of agricultural production (this system does not influence the ecological balance and corresponds with sustainable development goals, whereas the productivity remains lower than in other systems). It is expected that organic agriculture will allow the existence of family-owned and relatively small-sized farms which could concentrate on the production of high-quality goods. It seems that in the mid and long-run perspective integrated farming will have much more chances (considering economic aspects) to develop than organic agriculture (Zimny, 2007; Baum, 2007: 20-22).
why farmers who accept the assumptions and directives of sustainable agriculture should be prepared to accept lower current incomes.\(^3\)

In spite of many advantages of this approach it should be considered whether it is possible (in practical and common usage) to achieve aims of profitable agriculture (which aims at maximising profits or farmer income) and environmental protection simultaneously. It seems that the best conditions for this exist in countries where the consumer income level is high enough so that quality of agricultural outputs, food safety (appearing in the form of green consumerism) and/or attention paid to the environmental protection are more important for choice while doing shopping. In the globalized world putting emphasis on the need of maximising profits from economic activity is contradictory to the concept of sustainable agriculture, which will not endure without public support. Private property rights and free market pressure contribute to the growth of productivity, for example by reduction of transaction costs in the process of exchange. However, it should be remembered that this simplistic approach concentrates just on the positive aspects of full market liberalisation (which is a unilateral approach) and is related to the short-term orientation on current profits. The market appraises goods being bought by consumers, focuses on short term gains and omits or does not prize public goods adequately (Zegar, 2006: 133).

The main reason which leads farmers towards industrialization and intensive farming is the possibility of obtaining satisfactory profits in the short term. Using this kind of farming methods have an impact on the quality of agricultural outputs as well as on such issues as degradation of biodiversity, migrations from rural to urban areas or ageing of rural population. That is why implementing the concept of sustainable development without public support is hardly possible. Basing just on the market mechanism would be possible if strong market institutions existed and were able to mitigate negative effects of environmental external costs and to make farmers take into consideration all the consequences of their economic decisions for next generations (Platje, 2004: 7–8).

The issue of the new approach to rural areas is being broadly discussed on the international level. In the United States this concept is called and known as the new rural policy, whereas among European members of the OECD as the new rural paradigm. What connects these

\(^3\) It does not refer, however, to the long term profits which are obtained both by farmers (for example the possibility of reducing production costs) and society (food safety, sustainable rural development).
two is the necessity of creating and establishing adequate relations between rural and urban economies as well as perceiving the development of rural areas as an element which to large extent determines regional development as a whole (Just, 2007: 3–4). This new concept of rural development focuses on space/territory rather than on specific agricultural subsectors as well as on the growth of rural entrepreneurship together with diminishing role of subsidies (OECD, 2006: 16).

In the new rural paradigm (see Table 1) agriculture is one of the elements of rural development and that is why it does not concentrate on such goals as the growth of farmers’ income or agricultural productivity. This new concept indicates that an emphasis should be put on the strengths of rural areas and their effective usage. It is different from approaches to regional or local development applied before because it does not attempt the issue of equalizing chances by instruments whose main aim was to support weaker regions. Analysis of differences between the old and new approach to rural development shows that the most important issues are decentralization or strengthening of local governments and other stakeholders. In this context one has to consider the aspects of local entrepreneurship in the rural areas. Therefore producer groups, strongly promoted and supported within the Common Agricultural Policy (CAP), especially in the new EU member states (including Poland), are an essential element of the concept of sustainable development as well as the new rural paradigm.

Nowadays, the issue of agriculture is being considered as a part of rural development strategy and sustainable development in agriculture is very often included to the concept of sustainable rural development. This approach is being applied in numerous programmes and strategies. One can also notice that latest reforms of the CAP or even Draft Strategy for Sustainable Rural Development, Agriculture and Fisheries for 2011-2020 (Ministerstwo Rolnictwa i Rozwoju Wsi, 2010) of the Polish Ministry of Agriculture and Rural Development respond to this paradigm.

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4 The multifunctionality in the agriculture still plays an essential role and it concentrates also on the local cooperation between different actors. It should create foundations for improvement of the competitiveness of a region.

5 The CAP reform of 2003 was oriented to the new rural paradigm. Of course, the old market instrument still existed in order to subsidize the EU agricultural sector, but the most important object of the CAP reform has become how to get the proper balance between the competitiveness of EU agriculture on the global level and the necessity of environmental protection (see Just, 2007: 9). Moreover, one can expect that the EU financial framework 2014-2020 will include a new goal for the CAP which is food security.
Table 1. The New Rural Paradigm

<table>
<thead>
<tr>
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<th>Old Approaches</th>
<th>New Approach</th>
</tr>
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<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Equalisation, farm income, farm competitiveness</td>
<td>Competitiveness of rural areas, valorisation on local assets, exploitation on unused resources</td>
</tr>
<tr>
<td><strong>Key target sector</strong></td>
<td>Agriculture</td>
<td>Various sectors of rural economies (e.g., rural tourism, manufacturing, ICT, industry, etc.)</td>
</tr>
<tr>
<td><strong>Main tools</strong></td>
<td>Subsidies</td>
<td>Investments</td>
</tr>
<tr>
<td><strong>Key actors</strong></td>
<td>National governments</td>
<td>All levels of government (supranational, national, regional and local), various local stakeholders (public, private, NGOs)</td>
</tr>
</tbody>
</table>

Source: (OECD, 2006:15).

3. The role of agricultural producer groups for sustainable development in agriculture

According to organization theory horizontal integration can be defined as a process of merger of economic organizations which operate at the same stage of production or distribution. Horizontal integration in agriculture means a process of establishing economic linkages between farms producing the same category of agricultural products. However, in this case a full (capital) integration does not come into effect. It means that only selected activities, i.e., common sale, common marketing or promotion are being merged (Kapusta, 2008: 289–290).

On the microeconomic level the main goal of horizontal integration (for example in the form of agricultural producer groups) is to increase the agricultural productivity in cooperating farms by reduction of transaction costs and to improve the competitive position on the market. Promoting cooperation among farmers on a domestic level helps to achieve the goals of sustainable development. It should be emphasized that the main aim of agricultural producer groups is not the growth of amount of agricultural outputs produced in member farms, but the expectation that by strengthened cooperation among farmers they will be more active and strongly linked in a food chain and this will result in higher incomes.

Polish agricultural producer groups can be included to the functional type of horizontal integration. One can say that the main goal of APGs is marketing of produced outputs. APGs can be also described as umbrella organizations. The analysis of their activity makes it justified to use
a statement that these groups operate as hybrid organizations. According to Ménard (2006: 29-31), hybrid organizations are based on agreement among autonomous business entities regarding common running business. It is important that these entities share just some of their assets and they coordinate decisions in few areas of business, for example common sale of agricultural outputs produced in member farms, common purchase of inputs or common use of the same brand.

In the mid-1990s in Poland the problem of low intensity of formal cooperation among farmers was noticed (at the same time economic conditions of farms were becoming worse and worse). Meanwhile, the lack of efficient organizational structures hampered the creation of other market institutions for domestic agriculture such as commodities exchange or wholesale markets. This became a significant barrier for development of the agricultural sector, especially when Polish government made decision about the accession to the European Union where the stage of farmers’ integration was and still is much more advanced than in Poland. It should be added that in the EU the concept of cooperation between farmers in the form of APGs has been supported since the end of 1970s. Nowadays, in the EU-15, agricultural producer groups which operate in the fruit and vegetable sector are the sole organizations which are able to get financial support though its market-management scheme. Promoting the idea of APGs was mainly related to the process of strengthening the market position of farmers who were dominated by business entities operating in the food processing sector. Meanwhile, the improvement of farmers’ integration was supposed to accelerate the growth and influence the shape of agrarian and rural policy in the EU. Moreover, socio-economic goals which these organizations are aiming at are being used to promote environmental-friendly production methods in agriculture or wastewater and solid waste management (for example: precision agriculture, integrated production system or regenerative agriculture; Jeżyńska, 2008: 167–168).

Polish law referring to the issue of APGs was introduced in September 2000 (Dz.U. 2000, Nr 88, Poz. 983). It is important that these new rules did not introduce a new category of legal/artificial entity to the Polish business. According to the Polish law, APGs can be set up for the following purposes: adaptation of agricultural outputs to market requirements; improvement of economic efficiency in member farms; planning agricultural production together with enhancing its quality and quantity; supply concentration and environmental protection.
By the end of 2010, 623 agricultural producer groups operated in Poland. In the beginning, when the APG’s legal framework was enforced, the dynamics of establishing new groups was very low (particularly from 2001 to 2006). Since 2007 a more intense growth of APGs has been noticed (each year more than 90 groups have been registered; see Figure 1). In 2010 the number of farmers, who cooperated within the APGs, was 22,407, whereof 58% of their members were tobacco manufacturers. Comparing the number of APGs members with the number of farms (which were and are able to produce for the market) one can say that the level of cooperation among those farms was very low and reached just 3%. Preliminary analysis allows to presume that despite 10 years since the APG’s law was introduced (which enabled promoting and supporting this idea) the formal cooperation among Polish farmers has been still on an inadequate level.

Figure 1. Number of registered agricultural producer groups in Poland (2001-2010)

Source: author’s own calculations based on data from from the Ministry for Agriculture and Rural Development

Analyzing the geographical dispersion of APGs in Poland it can be observed that the highest number of these organizations in 2010 (see Figure 2) could be found in the Greater Poland, Kuyavian-Pomeranian and Lower Silesia Voivodeships. The relatively high number of APGs in these provinces can be connected with such factors as: tradition of cooperation between
farmers, structure of farms, natural conditions and type of agricultural production in these regions.

Considering the type of agricultural products produced by APGs in 2010, they produced mainly cereals and oilseeds (the share in total production of APGs was about 25%). The next most often type of production for which there organizations were created were pigs and poultry (both had about 19% share in total number of groups).

**Figure 2. Polish agricultural producer groups in 2010 (voivodeship)**

Source: author’s own calculations based on data from the Ministry for Agriculture and Rural Development

4. The impact of Polish agricultural producer groups on local development

In the theoretical considerations relating to agricultural producer groups one can find the supposition or even claim that they should have positive impact on the sustainability of rural development and the sustainability of agriculture. However, it is difficult to indicate which elements need to be included to evaluate their influence (see Baum, 2008). This paper is based on the assumption that goals which should be achieved by these groups will be evaluated from the perspective indicating in what way they have an impact on local sustainable development. These objects are (see Baum, 2003: 7):
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1) improvement of the quality of agricultural outputs,
2) improvement of the household welfare:
   a) increase of APG members’ income,
3) improvement of local social capital:
   a) increase of trust among farmers,
   b) common use of knowledge among members,
   c) growth of local activity,
   d) higher number of professional seminars for APG members
4) development of technical infrastructure,
5) local development:
   a) increase of entrepreneurship,
   b) level of local unemployment,
   c) improvement of contacts with local governments,
   d) improvement of services provided by local agricultural advisory centres,
   e) higher number of local events.

In Figure 3, the frequency of the respondents’ answers concerning changes they noticed and could attribute to the activity of APGs are presented. The highest number of positive answers was related to the improvement of the household welfare (variable: income increase; 79%), improvement of the quality of agricultural outputs produced in APG member farms 88.6% (these implications need be linked with other results of this research which are not presented in this paper, for example using more advanced agricultural methods of production or higher investments in APG member farms). Moreover, respondents very often indicated (93%) that relations between farmers (APG members) have improved thanks to the cooperation and specific invisible asset of mutual trust. It seems that this is an essential factor which favours local integration. Common cooperation also helps to diffuse knowledge among members of APGs, both thanks to the self-help and the possibility of participating in various professional seminars. These positive changes suggest that cooperation among farmers contribute to the improvement of farmers’ professional qualifications and enforcement of more advanced agricultural production on the farm level. What is also interesting, 50% of respondents said they noticed a lower level of

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6 Similar conclusions are supported by analysis of the empirical results which are not presented in this paper.
unemployment, whereas only 39% of them claimed that local entrepreneurship was significantly higher (for example new local shops). Not so many respondents (little less than 30%) observed positive changes in the area of technical infrastructure and improvement of contacts with local governments.

Figure 3. Socio-economic impact of agricultural producer groups (percentage shares).

| Higher number of local events | 56.8 |
| Improvement of agricultural advisory centers | 45.5 |
| Improvement of contacts with public administration | 31.8 |
| Lower level of local unemployment | 50 |
| Improvement of local entrepreneurship | 38.6 |
| Development of technical infrastructure | 31.8 |
| Higher number of professional trainings | 63.6 |
| Stronger commitment in local development | 54.5 |
| Common use of knowledge | 93.2 |
| Increase of the trust level among farmers | 90.1 |
| Increase of farmer's income | 97 |

Source: author’s own research

By analyzing how strong the impact of these variables was (Figure 4) it can be argued that in the respondents’ opinion it is on a very low or even minimal level (on a scale from 0 (lack of change) to 7 (very strong change) the arithmetic average for all variables was 1.82, implying a lack of change – the value for variables “income” and “outputs quality” was not included). Basing on the results of this research, it can be assumed that present development of agricultural producer groups in Poland has a minimal impact on positive local structural changes in rural areas. In the respondents’ opinion the most positive, though low level of changes could be observed for variables related to the 3rd goal – improvement of local social capital (the arithmetic average for the variables from this category was 2.95).

The low level of technical infrastructure development can be related to just few functions which are realized in agricultural organizations (most Polish APGs – over 60% - arrange only common purchase of agricultural inputs, common transport of goods to buyers or common sales).
Analysis of research results shows that most groups (about 70%) do not own common capital, for example warehouses. The lack of investment in common assets stems from the characteristic features of hybrid organizations. Keeping property rights to farms by farmers who cooperate within the APGs seems to be a very attractive side of horizontal integration, but on the other hand this is also a strong barrier for getting financial support from a bank (it is difficult to indicate which farms should establish a mortgage).

Figure 4. Socio-economic impact of agricultural producer groups (mean).

Scale – 0 – lack of change, 7 – very strong change.

Source: author’s own research

5. Concluding remarks

From the presented results of the empirical research is may be concluded that agricultural producer groups can lead to positive structural changes in rural areas. Moreover, the fields of impacts which were analyzed in this paper have, in the author’s opinion, a lot in common with the concept of sustainable rural and agriculture development. It should be emphasized that changes which were noticed characterize different levels of this impact. Nowadays, the relatively most positive impact of the activity APGs is being identified on the individual farm level. The
second area where these changes can be observed is the competitive market position of APGs. All in all the cooperation among Polish farmers has had positive impact on social capital, especially in area of trust between APG members.

In the author’s opinion the sequence of noticed changes seems to be correct and coherent with the new rural paradigm which supposes that initiatives of farmers (or other local actors) focusing on the strengths of a region and cooperation between local entities will allow the implementation of the concept of sustainable rural development. Analyzing the empirical results of research one can say that present benefits from Polish APGs activities are rather limited. The main reason for this situation is the starting phase of development as far as these organizations are concerned and the lack of stable position on the market.

It should be also emphasized that creating effective institutional structures in the agricultural sector is not an easy and quick process. It requires not only time, but also strong and efficient public financial support. Since Poland accessed the European Union, domestic agricultural producer groups have had the opportunity of getting financial support from the Common Agricultural Policy instruments (Rural Development Plan 2004-2006, Action 7: support of agricultural producer groups; the Rural Development Programme for 2007-2013, Axis 1: improvement of the competitiveness of the agricultural and forestry sector, Action: agricultural producer groups) and domestic subsidies (preferential credits/loans).

In the long term perspective it is important to keep this financial support for the benefit of such organizations in the next EU financial framework 2014-2020. The lack of financial encouragement can weaken the dynamics of creation of these business entities (nowadays the main stimulating factor remains financial help). As far as changes on international agricultural commodity markets and the issue of food security are concerned it is necessary to reform the CAP. The instruments supporting agricultural producer groups in new member countries favour structural changes in rural areas and that is why in the author’s opinion they should be maintained in the next EU budget.

Literature

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Ministerstwo Rolnictwa i Rozwoju Wsi (2010). Projekt Strategii zrównoważonego rozwoju wsi, rolnictwa i rybnictwa.


Grupy producentów rolnych w Polsce jako instrument zrównoważonego rozwoju obszarów wiejskich

Streszczenie


Słowa kluczowe: zrównoważony rozwój rolnictwa, nowy paradygmat rozwoju obszarów wiejskich, grupy producentów rolnych, organizacje hybrydowe, integracja pozioma rolników.