

AGRICULTURAL SOCIAL INSURANCE FUND BUDGET FINANCING IN POLAND IN 1996-2016

Andrzej Czyzewski¹, professor; **Anna Matuszczak**², PH.D, associated professor

^{1,2}University of Economics and Business, Department of Macroeconomics and Agricultural Economics

Abstract. The aim of the article is to assess the Polish agricultural budgets in terms of size and structure of the funds allocated to the social policy benefiting farmers in Poland, in the form of expenses on Agricultural Social Insurance Fund (ASIF). The article also features a comparison of social security systems for farmers in selected EU countries. The study is a synthesis of many years of work of the authors related to ASIF in the agricultural budgets.

Key words: ASIF, budgetary expenses, the EU.

JEL code: H55, H29, H60

Introduction

The Act of 20 December 1990, which established the Agricultural Social Insurance Fund (ASIF), allowed to take over the distributed earlier duties relating to farmer social insurance and to undertake new tasks, hitherto unrealized by any insurance institution in Poland. From that point on, the agricultural insurance system became significantly more similar to the employee insurance system. Thus, the gap has been filled with regard to the category of benefits and the rules for their granting to individual farmers. At the same time, it created a significant commitment to the agricultural and food sector, which had to carry the state budget load. It is also worth mentioning that in the transition period after 1989, agriculture and the Agricultural Social Insurance Fund took over a large part of the cost of social and economic changes. From the non-agricultural sectors, during processes of employment restructuring, peasant-workers were fired in the first place. Then, they were acquired by the sector of agriculture and rural areas. These people, going back to their own, even small farms did not procure the status of the unemployed in line with the applicable laws, and thus did not receive appropriate benefits. ASIF took over the burden of insurance and security for such people. It is also worth noting that during the transformation of the Polish economy particularly benefits paid in the initial period by the Agricultural Social Insurance Fund were in a provision of basic social support for the existence in rural areas, not only for agricultural pensioners, but also for peasant families.

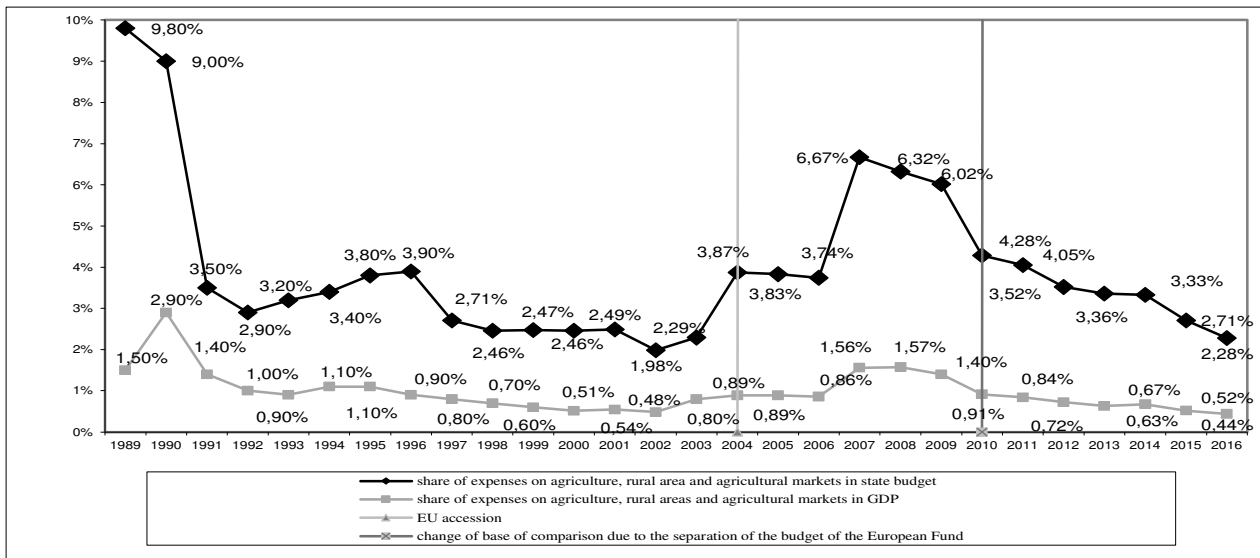
The aim of the article is to assess the Polish agricultural budgets in terms of the size and structure of the funds allocated to the social policy for farmers in Poland, in the form of expenses on ASIF in 1996-2016. The authors recognise a clear dilemma of the budgetary and economic policies in this scope, namely the competitiveness of social expenses (ASIF) to support structural changes in agriculture and rural areas. The second part of the article features a comparison of the systems of social security for farmers in selected EU countries. Source materials coming from the budget laws and methods of analysis of the structure and dynamics as well as regression were used.

Agricultural Social Insurance Fund in the period before Poland's accession to the EU

An analysis of the share of expenditure on the agricultural sector in the state budgetary expenses in the researched period indicates that EU integration was crucial to changing trends in the perception of decision-makers in terms of its financing. By 2003, opinions on Budget Acts gave rise to pessimism. There were reasons to believe that the irrational deterioration of the economic situation since 1997 has placed agriculture in the face of an increasing crisis. In fact, since the beginning of the economic transformation in Poland, it was difficult to recognize that agriculture was a priority in the policy of the government (Czyzewski, Matuszczak, 2014). As indicated in Figure 1, the share of expenditure on the agricultural sector in budgetary expenses exhibited a stagnation with dangerous falls, similarly to 2002 to below 2 % (Fig. 1). It can be

considered that the average share of expenses on the agricultural sector in the researched period at the level of 2.36 % illustrated the approach to agricultural policy at that time. After a relatively good situation for agriculture in 1991-1997, there was a clear breakdown in funding purposes of the agricultural budget. Additionally,

there were times when budgetary funds were not isolated or used for the implementation of many previously adopted purposes. Omissions, which were made over the years, evidenced progressive marginalization of development issues of agriculture, rural areas and agricultural markets in future state budgets.



*Comparisons to the previous years relate to the provisions in the Budget Acts.

**Expenditure on the agricultural sector covers the period from 1989 to 2000 including expenditure for: the Ministry of Agriculture and Food Economy, Agricultural Market Agency, Agency for Restructuring and Modernisation of Agriculture, the budgets of provincial governors in the scope of agriculture and specific provisions. After 2000, the expenditure was allocated for Agriculture, rural development and agricultural markets along with the budgets of provincial governors and specific provisions excluding funds for co-financing and pre-financing of goals and programmes of the EU and ASIF.

*** In 1989, the GDP amounted to PLN 118.318.7 billion, while the budget expenses total was PLN 18.204.1 billion and the expenses for the agricultural sector were PLN 1.782.5 billion, hence the high share of sectoral spending in the state budget expenses. These values were similar in 1990.

Source: authors' compilation based on the Enforcement of Budgetary Acts for 1996 (pp. 2/8), 1997 (pp. 2/8), 1998 (pp.2/9), 1999 (pp.2/8), 2000 (pp.2/14), 2001, 2002, 2003, 2004, and A.Czyzewski, *Opinia o budzecie na lata 2002-2016, Dzial Analiz i Opracowan Tematycznych Kancelarii Senatu RP*.

Fig. 1. The share of expenditure on agriculture, rural development and agricultural markets in the budgets of the state and GDP in 1989 and 2016 (in %)

By 2003, the economic situation of farms with regard to the non-agricultural environment didn't improve, on the contrary, a civilization gap for most of them grew and degradation deepened.

The projected expenditures in the budget acts were not able to alleviate the fundamental problems of agriculture and rural areas in Poland, such as even the disparity of income, education or the state of social infrastructure. However, the biggest problem was the lack of systemic solutions to support structural changes in the analysed sector, which indirectly could create an opportunity of increasing the income of agricultural producers.¹

The investment processes weren't supported enough, which weakened the processes of reproduction in agriculture by means a low rate of assets. There was no chance for the implementation of a rule, which worked out in highly-developed countries: through income growth and investment in agriculture and rural areas the pace of structural changes would speed up. Therefore, it was difficult to talk about adapting agricultural structures to the requirements of a modern market economy.

farmers' ability to compete on the domestic and foreign markets depended on the above situation. As a result, farmers, through the mechanism of the market, executed (in the form of primary income) approximately 75 % -77 % of generated gross added value. Taxes and applicable benefits corrected the value to 2/3. This means that about 33 % of added value was taken over by the non-agricultural part of the economy. (Czyzewski, 2001).

¹ Economic instability influenced the development process of the sector, which was reflected also in the income situation of farmers. The

A special position in the structure of expenditure in state agricultural budgets is taken by the Agricultural Social Insurance Fund (ASIF) – firstly, those are nominally the biggest expenses, secondly, they are subject to significant changes (Fig. 2).

Before the Polish accession to the EU, the share of expenditure on agriculture and food economy, together with the Agricultural Social Insurance Fund, in total, amounted to 3.8 % in 1991 and as much as 9.5 % in 1992 – especially without changing their level in subsequent years.

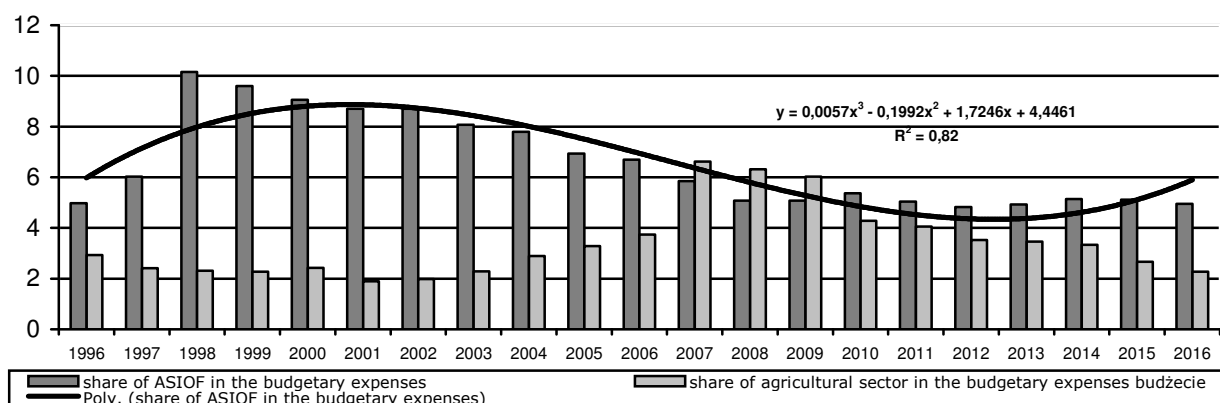
Also, the proportion of expenses on agriculture and food economy and the Agricultural Social Insurance Fund in 1990-2002 significantly increased in favour of social expenses. Already in 1992, this share was 2.3 times greater than expenses on agriculture and food economy, to grow in the next few years at a similar level. Since 1997, there has been a growth observed to 2.5 fold; in 1998, to 3.2 fold; in 1999, to 4.1 fold; and in 2002, up to 4.4 fold (Czyzewski 1997-2014) (Fig. 3). This is a meaningful evidence of a high and sustained socialization of budgetary expenses on agricultural population and postponing the problem of restructuring Polish agriculture in the pre-accession period. The issue of pension insurance of farmers moved forward before the budget expenses. More and more often it happened at the expense of structural transformation of agriculture and food economy.

Unfortunately, this was not an alternative. Consideration of a dilemma whether to socialize the agriculture budget or support structural changes in the sector, was a mistake.

For a long time, both phenomena should be supported by doing it consistently, yet reasonably, and not by substituting expenses on structural transformation of agriculture and rural areas with social expenses. Unfortunately, the growing of provisions for the Agricultural Social Insurance Fund in absolute values, has become necessary because they resulted from many years of inaction and negligence, and were the price of structural transformations' postponing in Polish agriculture and rural areas. At the same time, the social costs of the lack of restructuring of the agricultural and food sector grew due to the long-term insufficiency of farms.

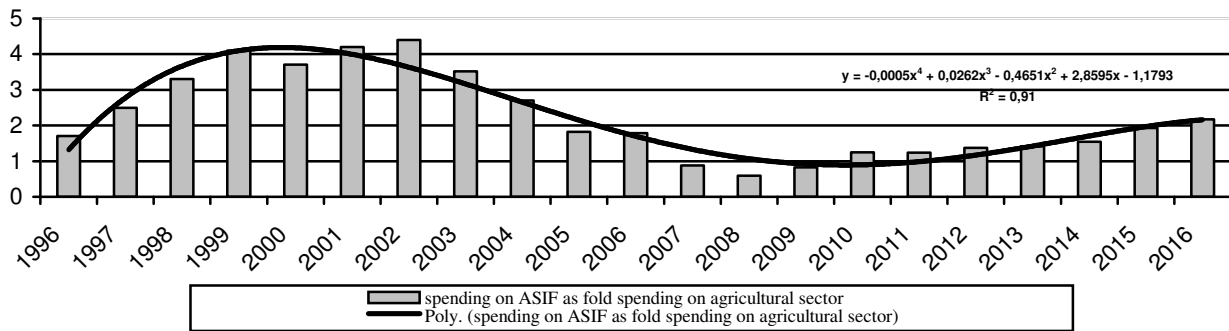
ASIF after Poland's accession to the EU

Immediately before Poland's accession to the EU, it was said that the Polish agriculture and rural areas have already passed the period of the so-called "constructive destruction". Since 2003, there has been a clear "bounce back" in the form of a permanent, real growth in budgetary expenses on the agricultural sector, which changed the previous trend (Fig. 1). For the first time, there was a chance to directly improve the income situation of domestic agricultural producers and reproduction processes in their farms.



Source: authors' compilation based on the Enforcement of Budgetary Acts (see Fig. 1)

Fig. 2. Expenditure on agriculture and food economy and the Agricultural Social Insurance Fund in 1996-2016, in million PLN as a share of budget expenses in total (in %)



Source: authors' compilation based on the Enforcement of Budgetary Acts (see Fig. 1)

Fig. 3. Expenditure on ASIF as a multiplicity of the limit of expenses on agriculture, rural development and agricultural markets in 1996-2016

As it has been mentioned above, even in 2002 the share of expenditure on agriculture, rural development and agricultural markets in budgetary expenses amounted to 1.98 %, so it can be assumed that in the period prior to Poland's accession to the EU, this share has reached an average level of nearly 5 %. This considerable increase was due to the need for increasing domestic financing (in the scope of cooperation and pre-financing), to make it possible to obtain EU funds. A higher growth rate of expenditure on the agricultural sector is also noticeable as compared to the national budget (although the latter also "accelerated", which was related to the fact of initiation of an upward phase of the business cycle). The clear decrease of expenses on the agricultural sector since 2010 is largely apparent due to the previously mentioned fact that expenses on agriculture, rural development and agricultural markets that year included the amount associated with the loan for CAP pre-financing. Since 2010, the separation of that amount as part of BGK results in the inability of direct comparisons of expenses for different purposes before 2010. However, it should be clearly emphasized that since accession to the EU, there has been a clear sustainable and real growth in budgetary expenditure on the agricultural sector, which reverses the current trends, as it was mentioned above. Naturally, it is also an undisputed determinant to improve the income situation of farms and support their reproductive capabilities.

Also for ASIF, 2003 was a turning point because of the noticeable change in the proportion of the share of expenditure on agriculture, rural development and agricultural markets, as mentioned above. We note a decrease in the share of expenditure of a social nature. While in 2001-2002, as mentioned above, it was more than 4.4 times higher than expenses on the development of the agricultural sector and rural areas, this ratio decreased to 3.5 times in 2003, and since 2007, for the first time in the researched period, this Figure was below one, i.e. in 2008, it was 0.59, while in 2009 – 0.83. Hence, it may be said that 2003 brought an inhibition, or it even started to reverse the trend of socialization of budget expenses in favour of the increase in expenses on structural transformation of agriculture and rural areas. We can also observe a significant change in 2010, which results mainly from accounting issues (i.e. the creation of the European Budget Funds), but the subsequent years have shown a relative stabilization of expenses on Agricultural Social Insurance Fund as to their level. The proportion of expenses on Agricultural Social Insurance Fund and the other on agriculture, rural development and agricultural markets after 2010 again slightly reopened up to expenses on ASIF. It should be noted, however, that in the period immediately pre-accession, i.e. in 2001-2002, expenses on ASIF were over four times higher than on agriculture, rural development and agricultural markets (Fig. 3). In 2009-2016, this share

amounted to an average of ca. 145 % in relation to expenses for agricultural purposes. This also shows that the role of expenses on ASIF in Polish agricultural budget in the long term, relatively decreased. Over the past 18 years, the share has declined by nearly one half, while after 2008 it was at an average of 5.11 % of expenses on agriculture, rural development and agricultural markets. We should also add that in the pre-accession period, i.e. in 1998-2004, this share fell by 1.46 %, while over the next 12 years after Poland's accession to the EU (2004-2016) by further 2.62 %. Hence, one may claim that stimulation of economic functions of the Polish agricultural budget has continued for several years. However, recent years (2011-2016) brought a relative increase in the volume of expenses on ASIF, which on the one hand, suggests that this level approached the critical threshold of socially determined expenses and on the other hand, that this kind of socialization of expenses from the national agricultural budget does not limit its function of pro-development due to an active role in this respect when it comes to the European Funds Budget and growth of GDP.

Comparison of social insurance for farmers in selected EU countries

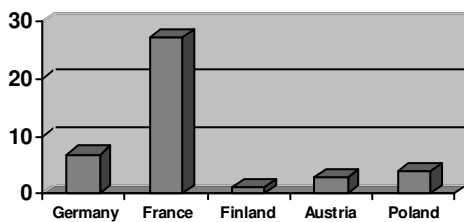
The separate system of farmer social security existing in Poland is not a European exception. In at least seven EU countries, there are similar social insurance schemes for farmers. Apart from Poland, these countries include Germany, Austria, France, Finland, Greece and Luxembourg. As you may see, at least three of these countries can be included amongst the leading EU producers of agricultural raw materials due to the volume of production, as well as the potential of their generation resources (Musial 2014).

We should also point to the absolute annual number of budget support for social insurance systems for farmers. The Polish contribution from the budget is one of the lowest and it has amounted to an average of PLN 16.6 billion in the last 10 years. It's nearly the same amount as in Austria and seems somewhat less than the amount in Germany (Fig. 4) (Piatkowski 2000). Nevertheless, it should be noted that in the relative dimension, the share of funding social insurance schemes for farmers in the analysed countries is quite different. The largest relative share of funding social insurance premiums is in Poland and France (95 % and 82 %), the lowest – in Germany (65 %) (Fig. 5).

Comparison of social insurance schemes for farmers in selected EU countries

	France	Germany	Austria	Finland	Poland
Personal scope	Farmers and relatives working on the farm, workers employed in the agricultural sector of their family.	Farmers and their families, foresters and their families.	Farmers and their families, foresters and their families	Farmers, foresters, fishermen, reindeer owners and their families, artists and scientists who have received a grant or a scholarship.	Farmers and relatives working on the farm.
Method of determining premiums	On the basis of the income of the last 3 years, income calculated based on flat rates for individual crops and livestock, flat-rate wages for managers and employees.	On the basis of total income, which is the basis for taxation with income tax.	On the basis of the so-called unit value of the farm and the insurance rate. The revenue office calculates the unit value taking into account the size of the farm, soil quality, location. Actual income.	On the basis of crop area and forest areas.	On the basis of the base pension (10 % of the pension) plus additional % for farms above 50 ha.
Retirement age	60 years for women and men. From 2018 - 62 years and a full premium period or 67 years.	65 for men and women, the target is 67.	60 for women, 65 for men, eventually equalizing the age to 67 years	65 years for women and men, there is a proposal to raise to 68 years	60 for women, 65 for men, with the possibility of extending the working time
Minimum contribution period	38 years for those born before 1945 and later period increases up to 41 years for those born in 1952, and later	15 years old and transferring the farm onto a new user and completed 65 years	45 years	40 years	25 years and the retirement age or 30 years for people five years younger than retirement age who stopped farming

Source: authors' compilation based on (ENASP 2015) and (Pawlowska-Tyszko, Soliwoda)

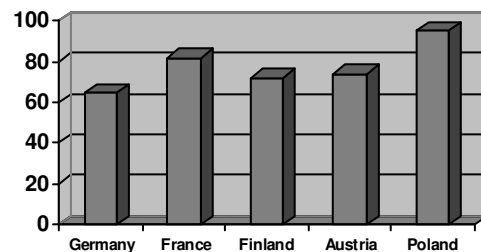


Source: authors' compilation based on data from (ENASP 2010)

Fig. 4. The amount of funding of social insurance systems for farmers in countries belonging to the European Network of Agricultural Social Protection Systems in 2009 (in billion EUR)

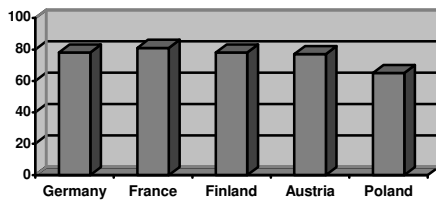
It should also be added that in the analysed countries, a significant share of state subsidy is allocated for funding pension benefits. However, the Polish social security system for farmers compared to other countries forming the European Network of Agricultural Social Protection Systems (ENASP) benefits from state

subsidies to farmers' pensions in the smallest extent. The largest share of subsidies to pension occurs, among others, in France (Fig. 6) (Pawlowska-Tyszko 2011).



Source: as in Fig. 5.

Fig. 5. The share of funding of social insurance systems for farmers in countries belonging to the European Network of Agricultural Social Protection Systems in 2009 (in %)



Source: authors' compilation based on data from national statistics systems of social security and data from (ENASP 2010)

Fig. 6. Share of funding pension benefits from the social insurance of farmers 2009 [%]

Systems of social security of farmers in the EU countries vary in terms of organization, but their shape invariably affects the processes of demographic change among the rural population. At the same time, the most important issue related to the reform of the current system, should be the problem of linking the size of paid insurance premium for pension with the level of income on the farm. The key aspects to efficient functioning of the system also include active life expectancy and the length of the contribution period enabling to obtain a pension in full. Both aspects of the system, that are important from the point of view of the agrarian and social policy, are facing each other in opposition: the acceleration of change in population in agriculture through the use of a system to promote the transition to early retirement means for the beneficiary that there is a shorter premium payment period, which raises the need to reduce the amount of paid benefits, or a need of involving state budget funds in the form of a supplement to the expected amount of pension entitlement. In view of the projected decline in the working population in all EU countries, and growth in the working age population above 65 years, we are currently moving away from systems that support the acceleration of generations among farms to systems that promote flexible level of retirement age.

Final conclusions

1) The farmer social security played a key role in the analysed period as part of a social policy towards rural areas and agriculture. **It served**

a positive role in supporting farm incomes in difficult conditions associated with side effects of economic transformations. Farms took over the burden of maintaining the family members **with the risk of the** worsening phenomenon of unemployment in rural areas.

- 2) The flow of transfers due to **ASIF** is a specific channel for the flow of budgetary funds in the Polish conditions, which is more than a social development. One should be aware that these measures did not allow for extended reproduction, and only held back the existing structures. Benefits of **ASIF**, however, had a significant impact on agricultural income, and thus enabled many farming families to acquire a permanent source of income in the form of pension benefits.
- 3) The financial situation of the agricultural and food sector changed shortly before accession to the EU (2003-2004), and this status is currently continued, which created prerequisites for a breakthrough in agricultural policy in Poland in connection to Poland's membership in the EU. The share of expenses on agriculture, rural development and agricultural markets **increased** in the total **budget expenditures**. At the same time, there has been a tendency to limit socialization expenses for their growth on the structural changes in rural areas.
- 4) After Poland's accession to the EU, there has been a gradually progressing rationalization of the national agricultural budget that consists of reducing its social functions to stimulate the economy. After 2010, this process has reached a relative stabilization in connection to reaching the critical threshold of ASIF socially determined expenses. The increase in economic benefits from the cost savings of **ASIF** is becoming increasingly doubtful.
- 5) Considering the dilemma whether to support structural changes in agriculture and rural areas at the expense of reductions in expenses on **ASIF** is a wrong approach.

Nowadays, similar proportions should be retained as to doing both, consistently, though reasonably and not to substitute expenses on structural transformation of agriculture and rural areas with social expenses.

A separate social insurance system for farmers in Poland is not **unique** in the EU. Effective, efficient and independent functioning of the general system of separate **social insurance systems** for farmers was noted in such countries as Germany, France, Austria, Finland, Greece and Luxembourg. Their different scope, method of determining premiums, type of guaranteed benefits, the expected retirement age of the beneficiaries, the minimum contribution period were shown. All of these **systems have been functioning** for years, have an established

position and there are no talks about their liquidation, as they effectively fulfil the aims of the society. In Poland, there can be no liquidation of the ASIF system, as there are no premises or no economic and social conditions for any alternatives. However, there is a need for gradual changes in relative levels of premiums and benefits, in order to make them similar to the relation occurring in highly developed countries of the EU.

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