

# Diversification of farm business

## *Diverzifikácia podnikania na pôde*

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**Abstract:** One of the measures of the Sectoral Operational Programme Agriculture and Rural Development is focused on the diversification of agricultural activities. The analysis of the measure showed the greatest interest in financial support among the subjects aimed at agritourism and rural tourism. The field of tourism dominates also among the number of the approved projects. The share of other diversification activities is very low. The analysis of other profitable activities in the Farm Structure Census and Farm Structure Survey by the type of activities shows that the total number of agricultural enterprises with other profitable activities decreased in 2005 compared to 2001 and 2003. The total amount of agricultural enterprises with other profitable activities in the Slovak Republic reached 3 219 in 2001, 4 465 in 2003, and 2 066 enterprises in 2005. In 2005, the number of the enterprises increased in the field of craft industry, wood processing, fishery, generating energy from renewable resources and contracted work.

**Key words:** sustainable rural development, diversification of rural economy, other profitable activities, Sectoral Operational Programme, agritourism, rural tourism

**Abstrakt:** Jedno z opatrení Sektorového operačného programu Poľnohospodárstvo a rozvoj vidieka sa zameriava na diverzifikáciu poľnohospodárskych činností. Analýza opatrenia ukázala, že najväčší záujem o finančný príspevok pochádza od subjektov zameraných na agroturistiku a vidiecky turizmus. Táto oblasť takmer výlučne dominuje aj medzi počtom schválených projektov. Ostatné diverzifikačné aktivity sú zastúpené iba v minimálnej miere. Analýza iných zárobkových činností poľnohospodárskych subjektov podľa druhu vykonávanej činnosti zo Štrukturálneho cenzu a Štrukturálnych zisťovaní fariem ŠÚ SR ukázala, že celkový počet podnikateľských subjektov s inými zárobkovými činnosťami v roku 2005 oproti rokom 2001 a 2003 poklesol. V SR v roku 2001 iné zárobkové činnosti vykonávalo 3 219 podnikateľských subjektov, v roku 2003 – 4 465 subjektov, v roku 2005 iba 2 066 subjektov. Počet podnikateľských subjektov sa v roku 2005 zvýšil pri remeselných činnostiach, spracovaní dreva, chove rýb, výrobe energie z obnoviteľných zdrojov a zmluvných prácach.

**Kľúčové slová:** udržateľný rozvoj vidieka, diverzifikácia vidieckej ekonomiky, iné zárobkové činnosti, Sektorový operačný program, agroturistika, vidiecky turizmus

One of the important pillars in the EU structural policy is the support to rural development with focus on the improvement of life quality and the preservation of sustainable development in rural areas through diversification of rural economy. According to Buchta, Rentková (2007), the economic transformation so far has had a varied impact in regions. Dynamic development poles emerged and regional disparities tended to increase.

The Common Agricultural Policy has played an important role in addressing the economic, social and environmental issues in rural areas of the EU.

The decline in employment mostly affected rural areas. Quality of life may be improved and new job opportunities may be created through diversification in economic activities of agricultural and non-agricultural nature, such as the development of agritourism and rural tourism, craft industry, production of non-food products, retail sector, generation of energy from renewable resources, expansion of non-agricultural production, etc. The development of tertiary sector may help to increase competitiveness, as well as the attractiveness and number of visitors to rural areas.

This article investigates the possibilities for diversification of business in rural areas. The research into diversification was split into two parts; hence the article is also divided in two parts. Part one describes the analysis of projects under the Sectoral Operational Programme, Agriculture and Rural Development (SOP AaRD) targeting diversification in the regional breakdown on the NUTS III level. Part two of the article describes the analysis of development in other types of profitable operations for businesses in the Slovak Republic, based on the Farm Structure Census and the Farm Structure Survey (Statistical Office of the SR).

## METHODS

The data processed in the first part of this article mostly came from the information monitoring the system and internal statistics of the Agricultural Payment Agency. An analysis of the situation was made for the purposes of the qualitative and quantitative evaluation of projects under the Agriculture and Rural Development measure in the Sectoral Operational Programme with focus on diversification of agricultural activities in rural areas.

Second part has identified the data with focus on the diversification of economic activities based on the data in the Farm Structure Census 2001 (Statistical Office of the Slovak Republic) and Farm Structure Survey 2003, 2005 (Statistical Office of the SR). The completed analysis provides an evaluation and comparison of businesses with other profitable activities in 2001, 2003 and 2005.

The solution relied on research methods of compilation, selection, synthesis and analysis. Research methods consisted of the mathematical and statistical

analysis of data and the comparisons on the NUTS III level. The available software products were used to process the information. The outputs were presented in the graphical form.

## RESULTS

### Diversification of agricultural activities under the SOP AaRD measures

The development of agritourism and the diversification of economic activities are encouraged by the Sectoral Operational Programme Agriculture and Rural Development 2004–2006, in the Sub-measure No 2.3.2., titled Diversification of Agricultural Activities. The following activities are supported within this measure: Construction, reconstruction and refurbishment of recreation and accommodation facilities; reconstruction of the existing agricultural and forestry facilities into agritourism facilities, construction, reconstruction, refurbishment of production and sales facilities, production and processing of traditional materials and products, etc.

### *Approved projects in 2005*

As a part of the Measure 2.3.2. – 68 projects were approved in 2005, in the amount of SKK 567.8 million from public sources. Of those, 10 projects (6.8%) were completed by the end of 2005.

The highest number of projects applying for contributions for the diversification of agricultural activities was presented by farming companies (27 projects, 40%) and by private farmers (23 projects, 34 %). In average, 1.3 applications fell on one beneficiary. Most projects were submitted by subjects in the Žilina

Table 1. Draw-down of subsidies by 31 December 2005

Region	Number of projects	Draw-down (1 000 SKK)	Draw-down (%)	Draw-down per project (SKK)
Trnava	13	133 586	23.5	10 275 832
Trenčín	9	90 933	16.0	10 103 666
Nitra	9	36 543	6.4	4 060 288
Žilina	15	122 480	21.6	8 165 333
Banská Bystrica	11	66 182	11.7	6 016 583
Prešov	4	71 259	12.5	17 814 674
Košice	7	46 872	8.3	6 696 050
Total	68	567 855	100.0	8 475 446

Source: APA, own calculations

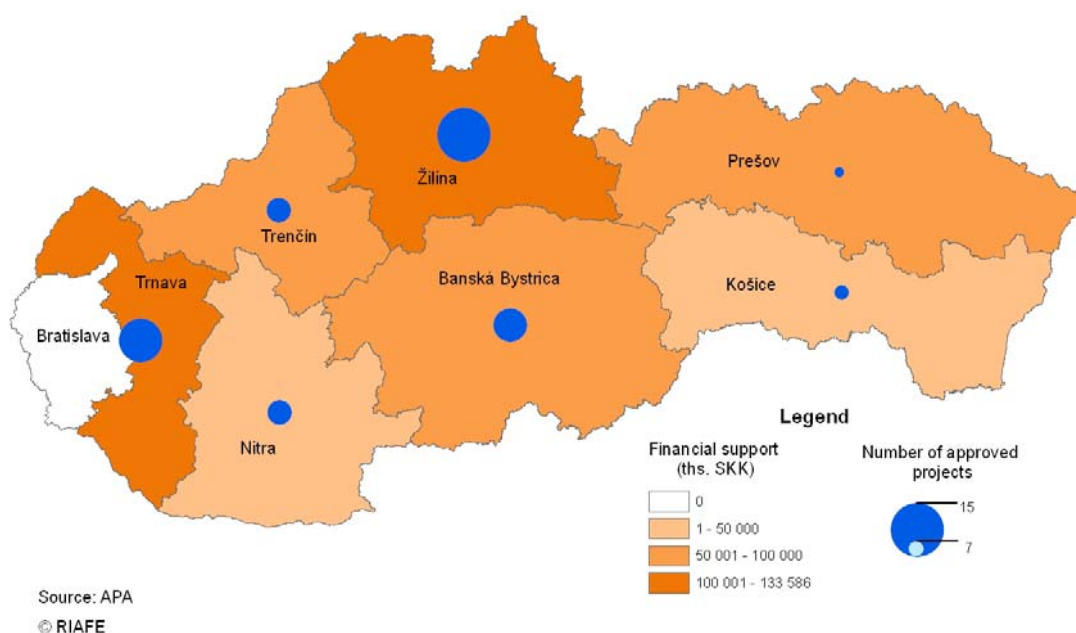


Figure 1. Approved investments for the Sectoral Operational Programme – Agriculture and Rural Development in the Measure 2.3.2 according to regions in 2005

(15 projects, 22%) and Trnava regions (13 projects, 19%). In breakdown by districts, most projects were submitted by subjects in the Martin and Dunajská Streda districts (7 projects each) (Table 1).

Also, the regions of Trnava and Žilina received the highest subsidies in the Slovak Republic. Almost one fourth (SKK 133.6 million) of the approved public finances was paid out to the Trnava region for diversification purposes and SKK 122.5 million (21.6% of public resources) were paid to the Žilina region (Figure 1). The main bulk of resources was paid to the Dunajská Streda (SKK 70.6 million) and Nové Mesto nad Váhom districts (SKK 65.5 million). Almost half of the funding was paid to the farming companies (SKK 262 million) and one third went to private farmers (SKK 183.7 million). One project received in average of SKK 8.35 million.

In order to compare the data with the Farm Structure Census (Survey), similar categories were created for the diversification activities. These have shown that up to 94% (or 64 of all projects) focused on the sector of agritourism and rural tourism. Agritourism and rural tourism includes construction and conversion of facilities into weekend houses, boarding houses, agritourism, horse-riding, hunting areas, and agritourism services associated with winter sports. Other categories only included 4 projects. The projects in the Nitra region focused on crafts and generation of energy from renewable resources. Support was paid out to the projects dealing with processing of wood and agricultural products.

#### ***Approved and implemented projects in 2006***

As a part of the measure focused on diversification of agricultural activities, only 17 projects were approved in 2006, in the total amount of SKK 145.6 million from public sources. 2 projects were completed by December 31, 2006.

Most of the projects (7 projects or 41%) were prepared by private farmers. In breakdown by regions, one fourth of projects came from the Banská Bystrica and one fourth from the Trenčín region. The highest number of projects (3) was prepared in the district of Nové Mesto nad Váhom (Table 2).

The largest public funding contribution was paid out to the regions with the highest number of projects. SKK 44.6 million (30.6% of the total volume of public funding) was approved for the Trenčín region, SKK 26.6 million (18.3%) for the Žilina region, and SKK 25.6 million (17.6%) for the Trnava region (Figure 2). In breakdown by districts, the main bulk of financing was approved for the districts Nové Mesto nad Váhom (SKK 27.4 million) and Martin (SKK 25.6 million). As regards the legal forms of business, almost half of the financing was earmarked for private farmers (SKK 70.6 million).

Most numerous in 2006 were the projects in the category of agritourism and rural tourism. This category included 80 projects, i.e. 94% of all projects. Only 5 projects in Western Slovakia fell into other categories. Similar to the previous year, the remaining projects focused on craft activities, generation

Table 2. Approved projects in 2006

Region	Number of projects	Draw-down (1 000 SKK)	Draw-down (%)	Draw-down per project (SKK)
Trnava	2	25 640	17.6	12 820
Trenčín	4	44 663	30.7	11 166
Nitra	2	20 278	13.9	10 139
Žilina	3	26 600	18.3	8 867
Banská Bystrica	4	23 054	15.8	5 763
Prešov	1	3 019	2.1	3 019
Košice	1	2 379	1.6	2 379
Total	17	145 632	100.0	8 567

Source: APA, own calculations

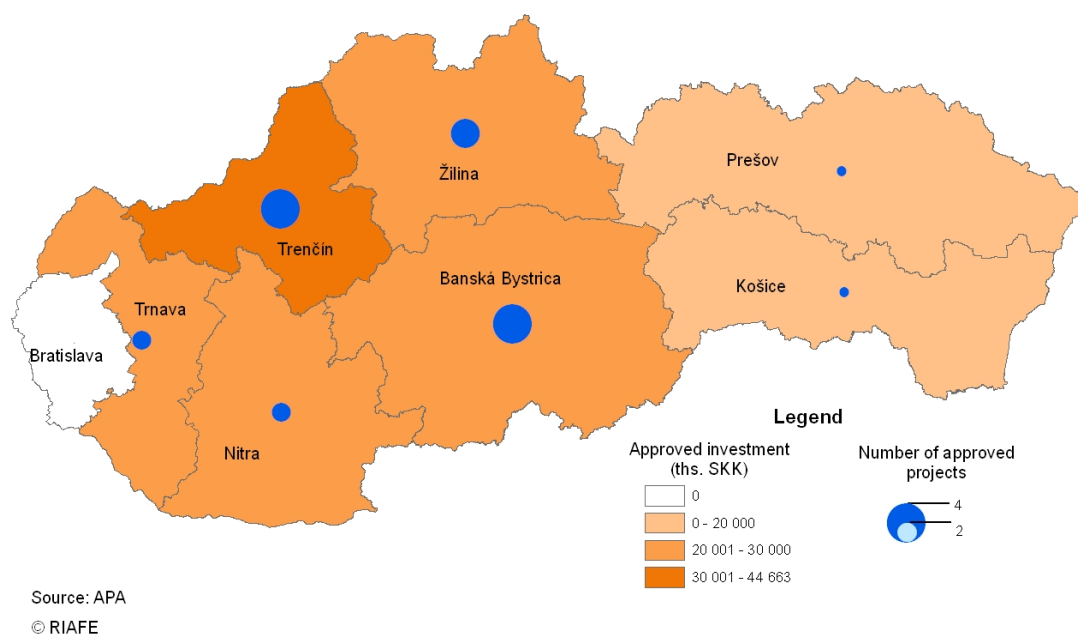


Figure 2. Approved investments for the Sectoral Operational Programme – Agriculture and Rural Development in the Measure 2.3.2 according to regions in 2006

of energy from renewable resources, processing of wood and agricultural products.

### ***Implemented projects in 2005–2007, in total***

As part of the Measure 2.3.2. – 76 projects were implemented by December 31, 2007, with SKK 374 million paid out from public sources.

On the regional level, most projects came from the Žilina (21%), Trnava (18%) and Banská Bystrica regions (18%). Due to the small number of projects, the Prešov region recorded the highest draw-down per one project. In breakdown by regions, the largest contribution in absolute terms from public sources was paid to the Trnava (23%) and Trenčín (13.8%) regions.

In total, most projects were focused on agritourism and rural tourism (94%). Agritourism and rural tourism thus have the dominant position among the diversification activities in rural areas. Only 5 projects in Western Slovakia fell into other categories (Table 3).

### **Other profit activities of agricultural subjects**

The analysis of other profit activities by agricultural subjects was used to evaluate and to compare the number of businesses by the type and legal form of operation in the Slovak Republic, in 2001, 2003, and 2005, based on the data from the Farm Structure Census 2001 and on the Farm Structure Survey 2003

Table 3. Draw-down of subsidies by 31 December 2007

Region	Number of projects	Draw-down (1 000 SKK)	Draw-down (%)	Draw-down per project (SKK)
Trnava	14	109 240	29.2	7 803
Trenčín	9	68 504	18.3	7 612
Nitra	11	38 852	10.4	3 532
Žilina	16	48 825	13.1	3 052
Banská Bystrica	14	50 594	13.5	3 614
Prešov	5	50 045	13.4	10 009
Košice	7	8 011	2.1	1 144
Total	76	374 072	100.0	4 922

Source: APA, own calculations

and 2005 (Buday et al. 2008). Other profit activities include economic activities other than farming operations, although they are directly related to the farm and have an economic impact on the farm (agritourism and rural tourism, craft activities, processing of agricultural products, wood processing, fish keeping, generation of energy from renewable resources, contracted work, and others).

In total, some 3 219 businesses carried out other profit activities in 2001. In 2003, this grew up to 4 465 businesses (increase by 39%) and in 2005 the number fell down to 2 066.

According to Gecíková (2005), the introduction of new technologies, the change in ownership and addressing the issue of excessive employment in agriculture has made it possible to release labour force in this sector.

In breakdown by the legal form of business, the most numerous businesses that provided other profit activities were private farmers – 1 103 in 2001 and 1 111 in 2003, followed by cooperatives – 693 in 2001 and 1 014 in 2003, sole traders who also work as private farmers – 661 in 2001 and 984 in 2003, limited liability companies – 1 005 in 2003 and 465 in 2001, joint stock companies – 173 in 2003 and 143 in 2001, and sole traders – 102 in 2003 and 97 in 2001. Other legal forms of business were represented by 1–32 subjects in 2001 and by 1–23 subjects in 2003. In breakdown by the legal form of operation, the highest share in other profit activities in 2005 was held by sole traders who also worked as private farmers – 681, followed by private farmers – 417, limited liability companies – 385, cooperatives – 373, sole traders – 98, and joint stock companies – 65.

Table 4. Number of agricultural subjects with other profit activities in the Slovak Republic, in 2001, 2003, and 2005

Self-governing region	2001		2003		2005	
	share of subjects (%)	number of entities	share of subjects (%)	number of entities	share of subjects (%)	number of entities
<i>Bratislava</i>	5	167	7	318	6	117
Trnava	20	658	15	659	14	288
Trenčín	7	236	7	303	9	177
Nitra	22	703	18	785	19	394
Žilina	8	246	9	420	9	180
Banská Bystrica	12	393	17	771	18	363
Prešov	13	431	16	714	15	306
Košice	12	385	11	495	12	241
SR total	100	3 219	100	4 465	100	2 066

Source: Statistical Office of SR; own calculations

Other legal forms of business were represented by 1–9 subjects in 2005 (Table 4).

Other profit activities by the type of activity: In 2001, some 62 businesses operated in Slovakia in agritourism and rural tourism. Compared to 2001, the year 2003 saw a substantial increase in the number of businesses active in agritourism and rural tourism, to 168 (by 171%). However, compared to 2003, their number dropped down to 151 in 2005 (decline by 10%), although it was higher by 144% than in 2001.

In 2001, the total of 13 businesses in Slovakia carried out craft activities. Compared to 2001, this number increased in 2003 by 269% to 48 businesses. Compared to 2003, their number increased to 89 in 2005 (increase by 85%) and compared to 2001, this number increased by 585%.

In 2001, the total of 455 businesses dealt with processing of agricultural products. Compared to 2003, this number increased in 2001 to 776 businesses (increase by 71%). Compared to 2003, there was a substantial decline registered in 2005, to 294 (by 62%) and by 35% against 2001.

In 2001, the total of 37 subjects in the Slovak Republic were active in the wood processing business. Compared to 2003, this number increased in 2001 to 66 businesses (increase by 78%). In 2005, this increased to 92 businesses, which represented an increase by 39% against 2003 and by 149% against 2001.

The total of 9 businesses operated in fish keeping in 2001. Compared to 2001, this number slightly rose in 2003, to 11 (increase by 22%). Compared to 2003, the number of businesses in 2005 again increased to 18 (increase by 64%) and compared to 2001, this number increased by 100%.

In 2001, there was no single subject in Slovakia dealing with the generation of energy from renewable sources. In 2003, however, there were two businesses active in this area. In 2005, the number of businesses grew to 12 (increase by 500% against 2003).

In 2001, some 191 businesses provided contracted work. In 2003, their number increased by 126%, to 432, and to 544 in 2005 (26% increase against 2003 and 185% increase against 2001).

The number of business that provided other activities stood at 2,452 in 2001, 2,962 in 2003 (increase by 21%), and it declined to 866 in 2005 (i.e. decline by 71% against 2003, and by 65% against 2001).

## CONCLUSION

In 2005–2007, the SOP AARD 2004–2006 supported projects that were mostly targeted at one function in the tertiary sector – agritourism and rural tour-

ism – and thus failed to support a wider economic potential of rural areas. Babinský (2000) states that rural tourism and agritourism is one of the measures that may help to diversify economic activities in rural areas and to create job opportunities and additional income. This sector also creates many new job opportunities and thus contributes to the growth in employment on the local level.

The total amount of agricultural enterprises with other profitable activities in the Slovak Republic reached 3 219 in 2001, 4 465 in 2003, and 2 066 in 2005. The number of businesses in 2005 grew in the fields of craft activities, wood processing, fish keeping, generation of energy from renewable resources and contracted works.

The breakdown of businesses with other profit activities in 2001 was as follows: other activities 76%, processing of agricultural products 14.1%, contracted works 6%, agritourism and rural tourism 1.9%, wood processing 1.2%, craft activities 0.4% and fish keeping 0.3%. None of the businesses was active in the generation of energy from renewable sources.

The breakdown of businesses with other profit activities in 2003 was the following: other activities 66%, processing of agricultural products 17.4%, agritourism and rural tourism 3.8 %, contracted works 2.2 %, wood processing 1.5%, craft activities 1.1%, fish keeping 0.2%, generation of energy from renewable sources 0.04%.

The breakdown of other activities in 2005 – 42% of the total number of businesses with other profit activities, contracted work 26%, processing of agricultural products 14.2%, agritourism and rural tourism 7.3%, wood processing 4.5%, craft activities 4.3%, fish keeping 0.9%, generation of energy from renewable sources 0.6%.

The analysis of other profit activities gives an overview of the diversified economic activities by businesses, according to the data of the Statistical Office of the SR.

The results found in both parts may serve as a source of information on the diversification, allocation and development of business activities of agricultural subjects, and may be used to resolve other tasks regarding the diversification of business in rural areas.

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