

Development of selected financial indicators for agricultural enterprises in the Slovak Republic

Vývoj vybraných ukazovateľov finančnej situácie poľnohospodárskych podnikov v Slovenskej republike

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Abstract: Except of 2001 and 2002, the agriculture has produced losses of SKK 38.8 billion over the entire process of transformation. The losses in agriculture were caused by major disparities between the price of supplies to agriculture and prices of agricultural products, plus the restrictive subsidy and loan policy adopted in the early years of the economic reform. The economic situation has improved over the last two years. This was caused by the increase in subsidies, as well as by the continuing restructuring process (sales and liquidation of dubious assets, optimised production), reduction in numbers of loss-making enterprises, by growth and increase in efficiency of production and due to a substantial increase in earnings of many partnerships. However, even despite the positive trends current financial position of most agricultural enterprises does not meet the requirements for development in agriculture, with the rate of TFA (tangible fixed assets) depreciation achieving 50% (of that, depreciation of machinery stands at 70%). The earnings are moderate even in profit making enterprises, with 75% of those enterprises making only up to SKK 1.5 million in earnings.

Key words: economic results, profit, loss, prices, subsidies, tax, loans, depreciation of assets

Abstrakt: Poľnohospodárstvo počas celého transformačného procesu, až na roky 2001 a 2002, bolo stratové so súhrnnou stratou 38,8 mld. Sk. Stratovosť bola spôsobená výraznou cenovou disparitou medzi cenami dodávok do poľnohospodárstva a poľnohospodárskymi výrobkami, reštriktívnou dotačnou a úverovou politikou v začiatkoch reformy. Ekonomická situácia sa za posledné dva roky zlepšila, okrem zvýšenej dotačnej podpory aj vplyvom pokračujúcej reštrukturalizácie (odpredaj a likvidácia dubiózneho majetku, optimalizácia výroby), ústupom hospodárenia stratových, resp. úpadkových podnikov, oživením a zefektívením výroby a výrazným zlepšením hospodárskeho výsledku v obchodných spoločnostiach. Aj pri pozitívnych tendenciách finančná pozícia väčšiny poľnohospodárskych podnikov v súčasnosti nie je adekvátna potrebám rozvoja tohto odvetvia, keď opotrebovanosť HIM dosahuje 50 % a z toho opotrebovanosť strojov 70 %. Úroveň hospodárskeho výsledku nie je významná ani u ziskových podnikov, pretože 75 % z nich dosahuje zisk len do 1,5 mil. Sk.

Kľúčové slová: ekonomické výsledky, zisk, strata, ceny, dotácie, daň, úvery, opotrebovanosť majetku

INTRODUCTION

Since 1990, Slovak agriculture has been a loss-making industry. After a substantial economic decline in 1991 and 1992, when almost 90% of the enterprises made a loss, the situation has gradually improved until 1997 as a result of the adopted measures. In 1998, however, the amount of loss has increased and this situation continued to prevail by as late as 2000. The effects of increased subsidies provided to alleviate the aftermath of drought in 2000 were only mirrored in the earnings in 2001 when the agricultural sector made profit for the first time during the economic transition. The industry has again recorded profit in 2002, although the earnings were lower than the year before. Over the last few

years, the portion of profitable enterprises has raised, even though their earnings were largely unimportant, with 75% of profitable enterprises making a profit of up to SKK 1.5 million.

MATERIAL AND METHODS

In order to achieve the planned objective, we had to utilise the available multi-annual data (1991–2002) provided by the Slovak Statistical Office, and mainly by the Central Database maintained by the Ministry of Agriculture including detailed data on agricultural enterprises. The collection in question represents about 894–1 200 enterprises – legal entities with 20 and more workers. En-

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terprises may be sorted by organisational structure, core business and by differentiated natural conditions of farming.

The collection is representative enough since it includes enterprises that have used about 75–81% of the agricultural land in the respective years. The analysis used economic relations and numerical calculations of the assessed indicators.

RESULTS AND DISCUSSION

Economic results

The economic results of Slovak agriculture after 1990 (Table 1) were affected by a number of factors, which were subsequently offset by the respective measures.

- The reasons, which affect the economic development:
- one of the major loss-making factor has been a substantial disparity between prices of agricultural products and of supplies in agriculture. Since 1990 until now, the prices of supplies in agriculture have risen by 360% and prices of agricultural products increased by 180%. The increase in prices of supplies, even with the economy of scale applied, has withdrawn over SKK 11 billion from the agricultural sector;
 - reduction in subsidies from SKK 17.5 billion in 1990 to the current SKK 7.8 billion has caused a substantial reduction in capital balance;
 - restrictive loan policy and prices of loans resulted in the drop in loans' volume from SKK 13 billion to SKK 5.9 billion in 2002;
 - measures targeted to improve employment in rural areas have caused the costs to increase, especially in the first years of the reform.

Measures targeted to alleviate the unfavourable development:

- taxes: tax exemptions on payroll and benefit tax granted in 1992 and additional tax exemptions introduced since 1993 (reduction in income tax rate, tax holidays applicable to income tax – five years for newly registered farmers, reduction in land tax rate, exemption on road tax for vehicles used in agriculture, and, in 1996, introduction of a claim to return a portion of excise duty on diesel oil, reduced excise duty on mineral oils as of 2003);
- loans – the following schemes were established: institutional scheme of guarantees in the SGDB, reduced rates on operation loans, financial scheme (SSFAFI) to support investment plans, better conditions of subsidies - making funds available to provide loans for operation and investments, approval by the parliament of the Act on Goods and Warehouse Bonds;
- in 2000, address of the risks in agricultural production by an ad hoc subsidy granted from the state budget, in addition to budgetary funds scheduled for agriculture (SKK 3 billion);
- improved wage costs by gradual layoffs reducing the labour in agriculture from 300 000 to the current 100 000.

Earnings by form of business

Before 1992, there were no significant differences in performance of agricultural co-operatives (ACs) and state-owned farms (SFs) in terms of results per hectare of agricultural land. However, with the inception of partnerships in 1992, the gap in performance in individual types of businesses has increased (Table 2).

Over the entire course of reform, the worst performance was that of SFs. This was largely caused by the pre-pri-

Table 1. Development of economic results in agriculture in SKK billion (current prices)

Indicator	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Income	47,5	44,6	52,2	57,4	55,3	57,5	61,4	57,5	54,4	56,7	62,7	62,3
Costs	59,1	54,9	59,3	60,8	58,1	60,1	62,3	59,0	56,4	57,3	62,1	62,0
Earnings	-11,6	-10,3	-6,8	-3,4	-2,8	-2,6	-0,9	-1,5	-2,0	-0,6	0,6	0,3

Source: Slovak Statistical Office, MoA, Information sheets, CD released by the RIAFE

Table 2. Earnings by organisational structure of business, in SKK/hectare a.l.

Form of business	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Agricultural co-operatives	-5 260	-4 388	-1 634	-1 175	-964	-756	-499	-914	-1 012	-830	59	-208
Partnerships	–	–	224	847	58	-96	265	-158	-293	123	662	853
State farms	-5 629	-5 363	-3 191	-2 706	-2 523	-4 540	-3 367	-2 698	-1 755	–	–	–
PFs*						-365	1 854	788	800	246	30	790

Source: CD released by the MoA, RIAFE

* including personal benefits

vatisation agony and by extending the period of privatisation, and also by the fact that the new partnerships, which emerged from SFs and some ACs, took most of the valuable assets. On the other hand, the original businesses were left over with old debts owed to banks and other creditors, as well as with transition obligations owed to shareholders. At present, the extent of farming in state-owned businesses is negligible.

Except of 2001, most of the ACs reported losses over the period. The current rate of profitability even in profitable ACs, does not cover the reproduction needs. Despite that being the case, this form of business makes up for the decisive portion of production (62%) and added value (69%) in the industry.

The best results have been achieved by partnerships. This is attributable to better conditions of their inception, especially due to the fact that the new companies did not take over old debts and due to the positive impact of adjusting entries on the acquired assets.

PFs use about 7% of a.l. and according to the statistics data, their production share runs up as high as 30% (including self-supplies). The number of private farmers increased in the early nineties, and the next wave of growth could be expected when Slovakia integrates into the EU when the subsidies are expected to increase. The population in rural areas, including but not limited to areas with worse natural conditions, may increase once the infrastructure will have been completed and the charges payable for exclusion of land from agricultural land fund, for the purposes of residential development, will be abolished. The key factors in rural area will be the social situation and unemployment growth. These will cause the population to extend self-supplies, and to use other than

production potential of rural areas. This will partially offset the income of primary agricultural activities.

With regard to the economic trends in agriculture and its differentiation, one also needs to take into account the enterprises in decline, which account for about 10–15% of the total number of enterprises. These are highly loss-making enterprises with negative impact on the overall performance in agriculture. The enterprises were unable to accommodate to the new economic environment and with the decline in production, there is little chance of them being able to pay their debts, and the enterprises mostly survive due to the exploitation of assets acquired in the past years, as proved by the substantial decrease in their equity. Most of these enterprises are located in areas with worse natural conditions, that being yet another cause of their unfavourable economic development. The number of loss-making enterprises is on the decline and mostly partnerships and private farmers take over their land.

The results in differentiated conditions of farming

Most of the agricultural enterprises (67%) make business in worse natural conditions (WNC), using 75% of the agricultural land. The development of economic indicators under differentiated natural conditions has shown that compared to the average performance of the Slovak agriculture, the enterprises which farm under WNC achieve by 25–35% worse level of the decisive economic indicators (converted to 1 hectare of a.l.). Compared to areas with better natural conditions (BNC),

Table 3. Economic indicators of farming results under different natural conditions, in SKK/hectare a.l.

Indicator		1996	1997	1998	1999	2000	2001	2002
LPP	Earnings	119	759	–490	–557	–467	1113	668
LPG 16–20	Percentage of enterprises							
	– profit-making	72	78	59	61	50	79	77
	– loss-making	28	22	41	39	50	21	23
	Income costs	99.7	98.3	101.1	101.4	101.1	97.7	98.7
	Added value	13 167	13 549	12 738	12 042	8 868	13 289	13 445
	Total assets	62 417	62 943	63 858	59 577	56 087	59 686	63 566
	Equity	35 397	34 244	36 998	37 070	36 038	37 328	39 273
WNC	Earnings	–1 266	–730	–673	–704	–515	–24	–25
LPG 1–15	Percentage of enterprises							
	– profit-making	46	51	53	50	54	70	73
	– loss-making	54	49	47	50	46	30	27
	Income cost	105.6	102.9	102.7	103.0	102.0	99.9	100.0
	Added value	4 790	4 831	4 646	4 176	3 343	4 778	5 362
	Total assets	44 631	42 814	40 872	38 612	37 725	38 432	39 253
	Equity	26 859	24 626	24 330	24 705	23 963	23 506	23 789

Source: MoA Information sheets, CD released by RIAFE

the difference increased to almost 50–60%. In average, the enterprises farming under WNC continued to generate loss, except of 2001. This was happening despite the continuing reduction in losses. On the whole, however, the decisive volume of loss generated by these enterprises had a negative impact on the average results in agriculture, even though the proportion of profit making enterprises to the loss making ones was more favourable, both in the case of BNC and WNC. Since 2000, the earnings were on the rise in both groups of natural conditions (Table 3).

While income in BNC ranged from SKK/ha 39 249 to SKK/ha a.l. 44 160, the income in WNC amounted to SKK per ha 22 525–27 445, and the overall BNC costs were higher by 59.5%. The production costs were higher in WNC, with average costs of SKK 102.7 per SKK 100 of income, which was by 2.8% higher than the costs in BNC enterprises. Demanding agricultural technology operations, especially on heavy soil prevailing in these areas, caused the higher income costs in WNC. While the WNC income has stagnated over the last 2 years, BNC income has risen over the period, as a result of the improved subsidy support, especially in 2000, when the subsidies for BNC were lower by mere 12.8% than WNC subsidies. In average, the subsidy support of farming in WNC over the last 6 years came up to be higher by 53% than the support of farming in BNC, as a result of prevailing subsidies slated for compensation of WNC.

Assets and investment

The value of total assets is an important indicator, which reflects the financial situation in agriculture. Since 1990, the value of total assets has been decreasing, along with the decline in equity, with the exception of 2001 and 2002, when the value of total assets has risen due to support policy measures aimed at making funds available for investment. Despite the fact that the assets of agricultural enterprises are the prerequisite of their future competitiveness, the value of fixed assets, mainly buildings and animals, continues to decline in the long run, as a result of sales, liquidation and seizures. Although the structure of fixed assets gained a positive momentum over the last few years in favour of increase in the value of machinery, the renewal of assets is inadequate, with the rate of depreciation standing at almost 50%. This condition has been largely caused by the financial situation in most of the agricultural enterprises.

Financial cash flow

The high insolvency has been a lingering problem in agriculture. This is especially the case with primary insolvency, which applies to most of the agricultural enterprises with total payables exceeding the volume of receivables by 2.3 times (Table 4).

Table 4. Development of receivables and payables, in SKK billion

Indicator/years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Receivables total	9.6	11.9	11.5	10.1	11.4	12.6	12.6	11.2	9.2	8.5	8.6
of which: overdue	5.7	6.3	6.2	6.1	6.2	6.7	6.6	6.1	4.7	3.9	3.4
Payables total	33.4	34.1	35.4	27.3	29.7	29.2	27.0	22.7	18.7	19.2	18.3
of that: overdue	10.6	11.9	11.9	10.5	10.2	10.1	8.8	8.2	6.1	6.0	5.3

Source: Slovak Statistical Office, Poľ P3–04, Prod 3-04

Table 5. Debt indicators, in %

Form of business	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<i>Total charge on assets</i>												
Agriculture, total	21.4	26.2	35.4	38.6	42.0	40.3	42.7	40.3	35.9	34.0	34.7	34.3
Co-operatives	22.7	28.5	39.8	43.4	46.2	39.4	36.2	32.9	28.9	26.1	25.5	25.3
Partnerships	–	–	51.8	51.6	45.9	53.83	66.1	61.8	57.8	54.8	55.2	52.3
– state farms	15.3	18.6	18.9	20.5	23.6	27.0	32.2	–	–	–	–	–
<i>Credit exposure on assets</i>												
Agriculture, total	12.6	12.0	11.0	11.2	11.5	11.4	11.8	10.3	7.9	7.0	7.8	8.8
Co-operatives	13.3	12.9	11.5	11.7	11.7	10.9	10.0	8.6	6.7	5.8	6.1	6.6
Partnerships	–	–	10.2	11.4	10.8	14.5	17.5	15.3	11.5	10.1	11.5	13.3
– state farms	8.7	9.1	9.4	9.5	11.0	10.7	14.3	–	–	–	–	–

Source: 1991–1992: Úč. 4A-02 funds, 1993–2002: MoA Information sheets, CD released by the RIAFE Bratislava

The agricultural enterprises hold a large amount of receivables owed by the processing industry. The capital investment which initially appeared as a reasonable method of settlement between the agricultural production and processing industry, ended up with negligible amounts of invested capital. This was caused by the lack of interest on the part of processing plants to share the business with financially weaker partners in agricultural production. The capitalisation of debts appeared as an unrealistic option with regard to the fact that some enterprises, such as those purchasing agricultural products, and other processing plants owing money to agricultural enterprises filed for bankruptcy. Many processing businesses were taken over by foreign investors and the pressure of financially strong companies has been on the rise.

The overall charge on assets of agricultural enterprises has risen from 21.4% in 1991 to 34.3% in 2002. The highest debt was recorded by the partnerships (55.2%). This relates to their better access to the loans (Table 5).

CONCLUSION

Since 1990, important structural and economic changes took place in agricultural enterprises. The process of transition and the accepted measures, especially the restrictions on subsidies and loans, as well as inadequate price coverage of costs resulted in reduction of funds and had a major impact on losses in the industry until 2000. Agriculture made profit for the first time in 2001. This was made possible by additional funds, such as the loss and damage compensation resulting from climate effects in 2000. The industry has again recorded a profit in 2002, although lower than in 2001. In the past, the agricultural enterprises addressed their financial needs by reducing the operation and investment costs. Later on, this has resulted in lack of nutrients and poor renewal of fixed capital. With growing availability of loans, the use of subsidy support, including interest rate subsidies, and

decline in the costs of loans, a certain potential for investment activities was unlocked in the recent years.

Additional measures, such as the amended Act on Bankruptcy designed to make the respective procedures available in agriculture, introduction of the system of special funding conditions – creation of new and extension of the existing loan schemes with state guarantees, interest rate subsidies, measures to address old debt issues (in co-operation with the banking sector) have largely improved the situation, despite the fact that the financial position of more than a half of agricultural enterprises is inadequate due to the low yield on capital investment and may not cover the requirements of the industry. The current level of economic results, even in profitable enterprises, is insignificant, as 75% of such enterprises achieved profit worth less than SKK 1.5 million.

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