

# Diversification into non-agricultural activities under the conditions of Slovakia

## *Diverzifikácia smerom k nepoľnohospodárskym činnostiam v podmienkach Slovenska*

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**Abstract:** The paper analyzes the diversification into non-agricultural activities in the Slovak agriculture. It describes the diversification activities according to the Farm Structure Survey. In 2007, every third farm performed other gainful activities. The paper analyzes the public expenditures paid to the diversification in the pre-integration and post-integration period and reveals the covering of the beneficiaries in the past and new programming period. The conclusion presents the attitudes and opinions of the Diversification Measure beneficiaries connected with the evaluation of the implementing means and other aspects joined with the implementation of diversification activities within the sectoral programme documents.

**Key words:** diversification, European funds, sectoral programme documents, beneficiaries' opinions on diversification, impacts and effects of diversification

**Abstrakt:** Príspevok sa zaoberá analýzou diverzifikácie smerom k nepoľnohospodárskym činnostiam v poľnohospodárstve Slovenska. Popisuje diverzifikačné aktivity podľa cenového zisťovania. V roku 2007 každá tretia farma vykazovala iné zárobkové činnosti. Analyzuje verejné výdavky po integrácii a poukazuje na prekrývanie beneficiarov z minulého a nového programového obdobia. Na záver uvádza postoje a názory beneficiarov opatrenia na diverzifikáciu spojené s odnotením dopadov týchto prostriedkov a ďalších aspektov spojených s implementáciou diverzifikačných aktivít v rámci príslušného rezortného programového dokumentu.

**Kľúčové slová:** diverzifikácia, eurofondy, rezortné programové dokumenty, názory beneficiarov na diverzifikáciu, dopady a efekty diverzifikácie

Generally, the idea of the adequate diversification portfolio decreasing the loss contingency is accepted in the economy. According to Szentivány (2004), "the diversification of production, i.e. cultivation of various commodities at the same time, in particular by producing commodities with different price and production risks, reduces the income variability in agriculture. Diversification by increasing the share of income from non-agricultural activities (wage income from other activities, investment income, lease income, property income, social transfer) in the total receipts of farming households has become a more common phenomenon". Diversification of agricultural activities has improved the economic opportunities

and social conditions of rural inhabitants. In the new Rural Development Programme of the SR 2007–2013 (RDP 2007–2013), the support of diversification and improving the rural life concentrates into the Measure 3 (diversification, encouragement of rural tourism activities, basic services for rural population, village renewal and development, training and information) and into the Measure 4 (Leader).

According to the "Rural Development in the European Union, Statistical and Economic Information, Report 2006", almost 31% of farmers have other gainful activities apart from the agricultural ones. The percentage over 50% is higher in many countries and regions (particularly in Slovenia, Sweden, Cyprus, Malta and

in Germany). Up to 87% of employment and 95% of the added value in the predominantly rural areas come from non-agricultural fields in the EU-25.

Špička and Picková (2007) stated that the diversification had developed in the EU-27 as a whole in 2003–2005. In terms of other gainful activities, processing of farm products, agritourism and contractual work are the most common activities within the EU-27. The interest of agricultural enterprises in realizing other gainful activities intensifies with the increasing area and economic size of holdings in the major countries.

## AIM AND METHODOLOGY

The paper aims to analyze the diversification into non-agricultural activities and to create the information database which enables to support the new forms of non-agricultural enterprising by providing the alternative to the agricultural employment and resulting in a balanced rural and regional development. Diversification leads to variable alternative income resources by setting up the supplementary (non-agricultural) production and by keeping or even forming the new jobs. The paper analyzes the diversification activities coming from the Farm Structure Survey and analyzes the diversification implementation in the sectoral programme documents in the pre-integration and post-integration period. Moreover, the analysis contains personal attitudes and opinions of the measure beneficiaries centred on the diversification support in 2004–2006, that were obtained by an interview.

## RESULTS AND DISCUSSION

### Analysis of diversification activities from the Farm Structure Survey

Compared to 2003, the diversification activities increased from 34.2% to 35.2% in all legal forms in 2007 concerning the Farm Structure Survey. The activities were spread more by legal persons (52.8%) than by the registered natural persons (30.1%). In 2007, every second legal person and every third natural person in agriculture showed some other gainful activities. In 2007, every third farm (35.2%) of the total 8,900 farms (legal persons and registered natural persons) had other gainful activities (Table 1). However, diversification activities in the legal persons' farms were almost two times higher than in the farms of the registered natural persons. A slightly higher share of diversification was registered in the low production regions where it is economically necessary to add other gainful activities to the agricultural production. Moreover, a higher share of diversification activities by legal persons is influenced by the higher economic power of the major corporations.

In 2007, farms of legal persons apparently predominated over the farms of natural persons in all diversification activities except handicraft with the balanced proportion. The most predominating diversification activities of legal persons (Table 2) were sale of agricultural products for energy production (10.3 times more by legal persons than by natural persons), processing of farm products (3.1 times more) and contractual work (3 times more).

Table 1. Share of other gainful activities by regions (legal and natural persons, in total)

Indicator	Year	Region								SR total
		BA	TT	TN	NR	ZA	BB	PO	KE	
Farms of legal persons and registered natural persons, in total	2003	399	1 384	470	2 097	628	1 312	839	1 081	8 210
	2005	402	1 429	503	2 145	846	1 611	916	1 125	8 977
	2007	389	1 230	525	1 907	973	1 711	1 037	1 162	8 934
Farms of legal persons and registered natural persons with other gainful activities, in total	2003	182	426	180	478	200	513	492	337	2 808
	2005	81	234	120	331	127	270	257	183	1 603
	2007	144	346	232	706	242	409	800	270	3 149
Share (%)	2003	45.6	30.8	38.3	22.8	31.8	39.1	58.6	31.2	34.2
	2005	20.1	16.4	23.9	15.4	15.0	16.8	28.1	16.3	17.9
	2007	37.0	28.1	44.2	37.0	24.9	23.9	77.1	23.2	35.2

Source: Farm structure survey, Statistical Office of SR

Regions: BA = Bratislava, TT = Trnava, TN = Trenčín, NR = Nitra, ZA = Žilina, BB = Banská Bystrica, PR = Prešov, KE = Košice

Table 2. Share order of farms with other gainful activities of the total farms (legal and natural persons) in 2007

Diversification activities	Order	Share (%) of farms with other gainful activities of the total legal persons farms	Order	Share (%) of farms with other gainful activities of the total natural persons farms	Relation of legal persons share to natural persons share
Other	1	33.7	1	20.5	1.6
Contractual work	2	18.7	2	6.2	3.0
Sale of agricultural products for energy production	3	11.3	7	1.1	10.3
Processing of farm products	4	10.3	3	3.3	3.1
Agrotourism and rural tourism	5	4.2	4	1.6	2.6
Wood processing	6	2.4	6	1.4	1.7
Handicraft	7	1.5	5	1.5	1.0
Production of energy, from renewable resources, for sale	8	0.8	9	0.1	8
Fishery	9	0.4	8	0.2	2

Source: Farm structure survey, Statistical Office of SR, calculations of authors

The most common diversification activities are concentrated in the productive regions as follows:

- Processing of farm products
- Contractual work
- Sale of agricultural products for energy production

And in the less productive regions:

- Agritourism and rural tourism
- Wood processing

The structure of diversification activities in all enterprises recorded the shift from the supplementary gainful activities connected with agricultural production (these activities represented 60% of the total diversification activities in 2003) to the diversification based on the support of developing factors which used to be of an agricultural character (other gainful activities connected with agricultural production represented only 24% of the total diversification activities of the analyzed farms in 2007).

#### Analysis of public expenditures into the diversification-oriented projects

In the pre-integration and the shortened budgetary period, the diversification was financed from the programmes SAPARD (Measure 4a), the Sectoral Operational Programme Agriculture and Rural Development (SOP ARD) 2004–2006 (Measure 2.3.2) and the Rural Development Plan 2004–2006

(Measure 10). There were 125 approved projects in diversification which contracted SKK 947 million in the programme documents. In percentage, the contracted public expenditures for diversification represented only 3.7% of the total contracted public resources from these three documents. However, the total eligible costs including private financing were SKK 1.894 millions. The highest share of the contracted public expenditures for diversification was allocated in the SOP ARD 2004–2006 (SKK 735 million, i.e. 7.6% of the total approved resources in the programme).

The development of the total costs drawn for diversification in the SAPARD programme, the SOP ARD 2004–2006 and the Rural Development Plan 2004–2006 is to be seen in the Figure 1. In last three years (2006–2008), the expenditures for diversification accelerated significantly (they were 3.4 times higher than in 2003–2005) and were increasing year on year. The highest amount was drawn in 2008 (SKK 275.5 million), particularly due to the SOP drawing.

In the new programme period 2007–2013, € 122.16 million (SKK 3.68 billion) are planned to be allocated (the limit of public expenditures) into the diversification of non-agricultural activities that is 4.8% of the total public support (limit) set in the programme. Public expenditures with private financing of the beneficiaries are supposed to be € 244.32 million (SKK 7.36 billion), i.e. 3.6 times more than in the pre-integrated and the shortened budgetary period.

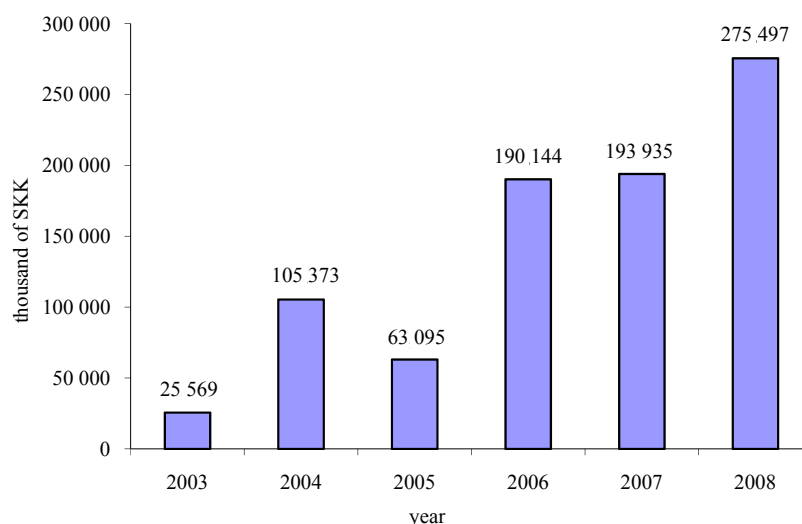


Figure 1. Annual drawing in diversification from the Sapard programme, SOP ARD 2004–2006 and Rural Development Plan 2004–2006, in thousand of SKK

Source: APA, own calculations

A great project potential of diversification has appeared in the new programme period where 271 projects for diversification have been submitted in the amount of € 127.9 million (SKK 3.85 billion). The amount of public expenditures for the submitted projects exceeded the diversification limit by 5%. It is obvious, that the diversification activities have a strong position and great potential of realization in the new perspective business plans.

#### Analysis of the RDP 2007–2013 projects in the Measure 3.1 “Diversification into non-agricultural activities”

There were 271 submitted projects which amounted to € 127.9 million (SKK 3.85 billion) by the end of 2008. The limits of public expenditures are € 122.16 million for the period of 2007–2013. The public expenditures in the submitted projects exceeded the total limit for diversification by € 5.7 million (SKK 171.6 bil-

lion, i.e. by 5%). There were 10 approved projects from 271 submitted ones. The approved projects amounted to € 12 266 071 (SKK 369.5 billion), i.e. 10% of the public expenditure limits for 2007–2013. Most projects were great investments (biogas plants). 271 projects were requested by 260 enterprises, of which 119 (46%) were business companies, 100 (38%) private individual farmers and 41 (16%) cooperative farms (Table 3).

Almost half of the projects (47%) of business companies requested the absolute majority (€ 67.2 million, i.e. 53%) of the total requested public resources. Private farmers requested 31% and cooperatives 17%. Moreover, projects of the business companies obtained the highest average public resources per one project. As regards the business companies, the average value of one project is by one third higher in comparison to the average of individual farmers. Compared to other legal forms, business companies invest in financially demanding projects requesting more finances for co-financing.

Table 3. Requested public resources in submitted projects by legal forms

Number of submitted projects			Amount of requested public expenditures (€)				Amount of requested public expenditures (1 000 SKK)			
trading companies	co-op farms	private farmers	trading companies	co-op farms	private farmers	total	trading companies	co-op farms	private farmers	total
128	43	100	67 222 109	21 558 149	39 076 916	127 857 174	2 025 133	649 461	1 177 231	3 851 825
Average public expenditure per 1 project			525 173	501 352	390 769	471 798	15 821 353	15 103 739	11 772 312	14 213 377

Source: APA, calculations of authors

Table 4. Enterprises applied for projects from the RDP 2007–2013 Measure 3.1 which had already benefited from the SOP ARD, by legal forms (overlapping of subsidies)

Legal form	Number of enterprises	Projects in Measure 3.1, RDP 2007– 2013		Projects of SOP 2004–2006	
		submitted projects	requested financial support of the public expenditures (1 000 SKK)	number of projects	approved contribution from SOP (1 000 SKK)
Trading companies	41	44	706 381	63	657 178
Cooperative farms	24	25	397 027	41	258 483
Individual farmers	28	28	428 802	39	257 599
Total	93	97	1 532 210	143	1 173 260

Source: APA, calculations of authors

#### Applications for non-repayable financial contribution for diversification overlapped in the RDP 2007–2013 and the SOP ARD 2004–2006

Most overlapped applications for non-repayable financial contribution (NrFC) in the new RDP 2007–2013 and SOP ARD 2004–2006 are to be seen in the business companies. The applicants for the diversification contribution from the RDP 2007–2013 were using a high amount of public resources from the SOP ARD in the past programme period. At present, the high concentration of the potential and past beneficiaries of the project (investment) subsidies is evident (regardless of the beneficiaries' legal

form). Only the particular group of beneficiaries is highly active, the rest seems to be more passive. The concentration tendency is proved by 93 enterprises, that had already received SKK 1.17 billion from the SOP ARD and now they request 42% of the total limit set for diversification for the whole new programme period. The fact is that former beneficiaries of the SOP ARD would obtain almost half of the resources reserved for the Measure 3.1.

As mentioned (Table 4), 93 enterprises (36% of the total 260 applicants) asking for the non-repayable financial contribution in the Diversification Measure of the RDP 2007–2013 had already been beneficiaries of some measure from the SOP ARD 2004–2006. These 93 enterprises obtained 143 projects amounting

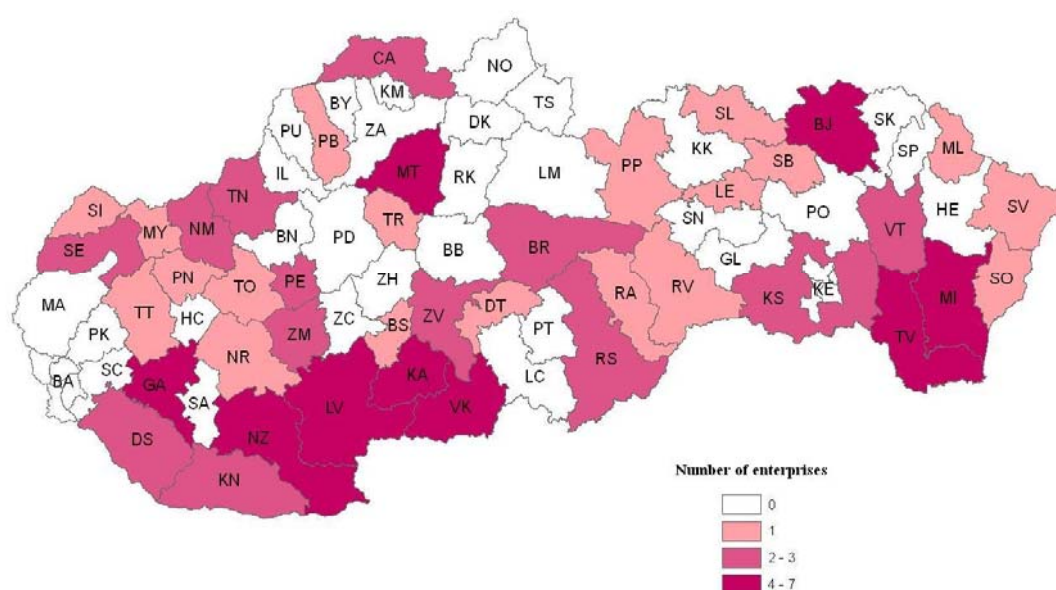


Figure 2. Applicants for non-repayable financial contribution from the RDP 2007–2013 (Measure 3.1) which had already benefited from the SOP ARD (any measure)

to SKK 1.17 billion (€ 38.9 million) from the SOP in the last programme period. In terms of the spatial view, mainly the enterprises from districts of the South-Western and South-Eastern Slovakia were highly overlapping in both programme documents. On the contrary, the overlapping was absent (with some exceptions) in the Northern part of Slovakia (Figure2).

### Attitudes and opinions of the beneficiaries on the Diversification Measure in the SOP ARD

The evaluation and attitudes regarding the implementation of the SOP ARD were realized via standardized questionnaire sent to all beneficiaries of the SOP ARD. Only the diversification-centred beneficiaries were selected from the filled questionnaires. There were 23 responding beneficiaries of the total 64. The spatial view displayed the predominance of enterprises from the Western Slovakia and a minimal number of respondents from the Eastern Slovakia. Almost two thirds of the respondents (65%) stated that an external consultant had been involved in the project preparation and only the one third of enterprises developed the project alone. There were 82% of respondents who declared that they had applied for the non-repayable financial contribution in the new RDP 2007–2013. This information confirms the former conclusions about the high number of overlapping beneficiaries from the SOP ARD and the RDP 2007–2013.

Detailed reactions of the respondents are divided into three parts:

(1) Evaluation of impacts and effects

(2) Reasons of applications for subsidies

(3) Information, understanding and bureaucracy

The selected responses divided into the appropriate fields were as follows:

### Evaluation of impacts and effects

Regarding the question how the diversification has influenced employment, two thirds of respondents replied that the contribution had supported forming new jobs and one third stated that the subsidies had helped to stable the current or to slow down the decreasing employment. On the contrary, supporting of the diversification activities did not lead forming of any redundant employment needing to be dismissed. The positive influence on new jobs creating and employment is really apparent.

The respondents were asked the question: “How did the contribution influence the business economics, according to you?” All responses should have been marked with 1 to 3 points (1 meaning – significant influence, 2 – slight influence, 3 – no influence). The responses were ordered by the average score which evaluated the responses by points. The closer to 1 the score was, the more positive responses were noticed; and by contrast, the closer to number 3 the score was, the more negative responses were noticed. The responses about the contributions’ influence are to be seen in the Table 5 along with the average score and the order of intensive influence.

The beneficiaries of the Measure 2.3.2 (Diversification) considered the “increasing competitiveness of enterprise” and “making the market access easier” as the most influencing factors. On the contrary, the

Table 5. Influence of subsidies for diversification on the business economics (responses of respondents)

Factors of influence	Respondents of the diversification measure	
	score	factors order
Improved and modernized material-technical conditions and enterprises technology, supported the implementation of new technologies and innovations	1.38	4
Supported the increasing labour productivity	1.75	7
Supported the increasing competitiveness of enterprises	1.25	1
Supported the increasing capacity of production	1.63	6
Improved the quality of products	1.75	8
Supported the increasing revenues (incomes) of enterprises	1.38	3
Improved the economic results of enterprises	1.50	5
Improved the effectiveness of processing and sale	2.00	9
Made the market access easier for enterprises	1.38	2

Source: RIAFE survey

subsidies influenced “improving the effectiveness of processing and sale” the least. By various measures, the subsidies influence was evaluated differently. The complex evaluation indicated that the influence intensity was individually differentiated according to the measures and could not be generalized for the whole programme.

The answers to another question, if the European funds should support the economically vital enterprises only or whether the economically weak enterprises should be supported as well, were as follows: more than three quarters of the respondents (83%) said the economically vital enterprises should have been the supported primarily. The economically weaker enterprises should be supported on the condition that they are able to guarantee the conditions set in advance. Supporting the economically vital enterprises only was not registered in the responses.

### **Reasons of applications for subsidies**

Almost two thirds (61%) of enterprises declared that the disapproved projects would have been realized later or in a smaller extent and one third (35%) would have not realized them at all. There was only one holding which decided to realize the project even if it were not approved. The respondents obviously preferred the importance of subsidies for the realization of projects in their attitudes.

One third (35%) of the respondents stated that they had applied for the contribution because of no other financial source. The rest (65%) declared that there was another source of financing available but with less attractive conditions or there was not an adequate source of co-financing for them. Reasons in the applications for non-repayable financial contribution varied a lot but most respondents preferred the subsidies attractiveness.

The question “What were the financial resources of your investment?” was answered as follows: almost two thirds (61%) of enterprises declared the source of financing as the combination of the non-repayable financial contribution from the public resources and bank credit (loan) and one third (35%) used own financial resource for co-financing the diversification activities.

### **Information, understanding and bureaucracy**

More than two thirds (70%) of the respondents considered the publicity and information about the SOP subsidies as good, of which 13% as very good.

One quarter (26%) of the responding enterprises was just satisfied with the provided information. In general, the publicity and information was assessed as apparently positive by the measure beneficiaries.

On the other hand, two thirds of the respondents (65%) considered the implementation process of diversification as very bureaucratic and administration-demanding, of which 22% as a very much bureaucratic. In the view of bureaucracy and administration demands, only one third considered the process normal. The negative evaluation about bureaucracy and administration demands predominated in the responses what was also consequently seen in the verbal responses in the final complex assessment.

### **CONCLUSION**

Diversification of rural economy forms the basic aim in order to preserve and improve the balanced job opportunities and social conditions of rural population. It aims at supporting the development of new enterprising forms providing the alternative to the agricultural employment, thereby forming the new jobs in rural areas. In 2007, every third farm (35.2%) of the total 8 900 farms (legal persons and the registered natural persons) had other gainful activities. However, diversification activities in the legal persons' farms were almost two times higher than in the farms of the registered natural persons. In the pre-integration and the shortened budgetary period (2003–2008), the diversification area absorbed SKK 947 billion from the European funds. However, the total eligible costs including private financing of the beneficiaries amounted to SKK 1,894 billion. The great project potential of diversification has appeared in the new programme period, where 271 projects for diversification have been submitted in the amount of € 127.9 million (SKK 3.85 billion). The amount of public expenditures for the submitted projects exceeded the planned diversification limit by 5%. The applicants of the diversification contribution from the RDP 2007–2013 were using a high amount of public resources from the SOP ARD in the past programme period. At present, the high concentration of the potential and past beneficiaries of the project (investment) subsidies is really evident. The former beneficiaries of the past programmes would obtain almost half resources reserved for the Diversification Measure in the RDP 2007–2013. Regarding the question how the diversification has influenced the employment, two thirds of the respondents replied that the contribution had supported forming of new jobs.

The positive influence on new jobs creating and employment is really apparent. Almost two thirds of enterprises gave a vague answer that the disapproved projects would have been realized later or in a smaller extent and one third (35%) would have not realized them at all. Two thirds of the enterprises co-financed the investment through bank credits and one third used their own financial source for co-financing the diversification activities. As regards the bureaucracy and administration demands, the implementation of the Diversification Measure was assessed as strongly negative.

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