# Analysis of selected financial and investments problems of private farms in Slovakia

## *Analýza vybraných finančno-investičných otázok súkromne hospodáriacich roľníkov na Slovensku*

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**Abstract:** The focus of this article is on the emerging private farming in Slovakia, mainly on newly re-established class of private farms. The aim is to analyse the wants and the needs and the current situation of farming entities represented through the sample of 412 farmers spread in two production areas in South and Northwest Slovakia. In the questionnaires, farmers were asked not only about the objectives but as well about their subjective feelings of their current situation in terms of economy, their life standard and their planes to the future.

**Key words:** farmers, finances, profitability, investments, credit, interest

**Abstarkt:** Príspevok analyzuje vybrané problémy hospodárenia skupiny súkromne hospodáriacich roľníkov. Rozoberá finančnú situáciu domácnosti SHR ako neoddeliteľnú súčasť tohto typu hospodárenia. Ďalej sa analyzuje postoj farmára k získavaniu úverov pre poľnohospodárske účely a taktiež jeho záujem o rozšírenie svojich poľnohospodárskych aktivít spolu s ochotou investovať dodatočné vlastné zdroje do tejto činnosti. V závere sú prezentované výsledky komparácie ziskovosti farmy v odlišných obdobiach, zhodnotenie investičnej činnosti analyzovaného súboru, úverových zdrojov a podmienok v porovnaní s celkovým stavom na Slovensku.

**Kľúčové slová:** súkromne hospodáriaci roľníci, financie, ziskovosť, investície, úver, úrok

## INTRODUCTION

Considering agrarian policy, private farmers are one of the most important groups working on agricultural land. Their overwhelming number out of the number of the entities farming in Slovakia is in contrast to their share in the cultivated land, which is trivial. Their position is relevant not only because of quantity but especially because of the emphasis put on them in the Common Agricultural Policy (further only CAP).

As Slovakia is one of the European Union (henceforth EU) candidates , analysis of the existing trend becomes interesting. Even more interesting is the prognosis of future development based on the expectations of private farmers. Explaining some of the trends and expectations of private farmers in Slovakia is the aim of this paper.

## OBJECT AND METHODOLOGY

The basic purpose of this paper is to obtain primary information about the situation of Slovak farmers and their households as a whole. The analysed data were acquired from the Phare-ACE survey realized in 2000, the data about year 1999. The survey was based on a random sample that had to be representative of the classes surveyed and targeted two classes of production areas (Bielik 2002). The list of individual farms was obtained from the Central Statistical Office (SU SR – Infostat). The list is based on activities (farming), not ownership of agricultural assets (land ownership). The methodology of selection is based on Sarris (1999). Analysing and comparing was done by simple statistical methods.

## RESULTS AND DISCUSSION

As we signified, one part of the project was realized through the Phare-ACE was aimed at private farmers. The survey was done on a sample of 412 farmers randomly selected from 2 different production areas. First of them is the area of Southwest Slovakia, representing the most productive agricultural part of Slovakia, because of the climate and quality of the soil. Second area is, from the point of agricultural production, marginal, localized in Northwest Slovakia. In the first group (stratum 1 – S1), there were 327 private farmers selected, in the second group (stratum 2 – S2), 85 farmers. These numbers represent a ratio of the total numbers of private farmers operating in these areas.

Since we are examining private farmers, that is group of special significance considering its non-production

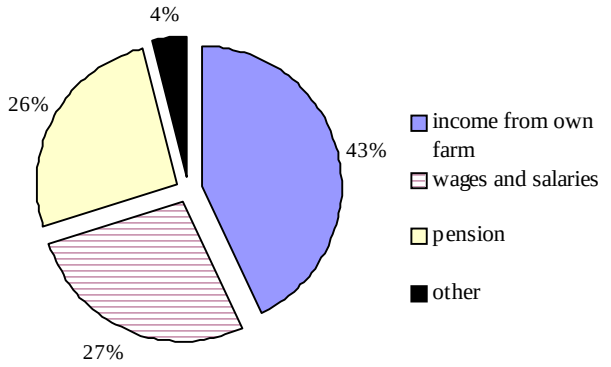


Figure 1. Most important sources of income

Source: own calculations based on Phare–ACE P97-8158-R survey

functions, and having a special status that farming has in the Slovak countryside, we did monitoring of complete households, not only of private farmers themselves.

Particularity of this form is that we cannot strictly differentiate between households and the production of the farm, as part of products ends on the tables of their families. Especially for small farms, considering their production quantity, there is a typical high share of the in-kind consumption. Because of this, it is hard to register real outcomes of husbandry.

Estimates of the Research Institute of Agricultural and Food Industry Economics (VÚEPP) are that around 13 thousand private farmers, that is more than half of them, practice farming as a side-job. Only 15% of respondents practice farming as a side-job in our sample.

As Figure 1 shows, the most important source of income for 43% of respondents is income from own farm, second most important are wages and salaries (27%) and pension (26%).

Figure 2 shows differences between the selected production areas. Figure 2 analyses the most important sources of income again, based on production area differences. As the graph shows, 51.1% of Southwest Slovakian farmers draw their income from own farm as the most important income of the household. On the contrary, for 48.2 Northwest Slovakian farmers, pension is the most important source of income and revenues from farming form the most important income only for 15.3% of the sample. This result issues from the differences in the intensity of farming in these regions. There is shown a bigger interest to farm in the Southern region, in the most productive agricultural part of Slovakia, naturally because of the rate of return, as well as of the bigger farming revenues and income to the household.

It is interesting to discover how farmers perceive their present economic situation in comparison to 1995 and 1989 (Figure 3). More than half (53%) of the farmers in the Northern area (S2) consider their household situation in 1999 worse as in 1995, and only 9% consider their situation as better (1% of them much better). The rest of the farmers (28% in S2 and 20% in S1) think that their economic situation is the same as in 1995. Interesting are the differences between areas, when financial situations are considered as better by 30% of the sample (much better by 2% from that) in the Southern part of Slovakia (S1). Not applicable was the question for respondents who started farming after1995.

This is different in the case of the present situation in comparison to 1989 (Figure 4). Almost half (47%) of the respondents in stratum 2 consider their present situation as worse, 13% as much worse and 19% as better. 25% of the stratum 1 consider it as worse and 11% as much worse in the Southern part. As we expected, as better consider their financial situation more respondents in south. 39% answered, that financial situation is better in 1999 in comparison to 1989 (for 7% much better).

Creation of own sources is not sufficient to cover the producing process costs in agriculture, mainly because of the price disparity, low liquidity and negative profitability of capital. One of the possible solutions could be

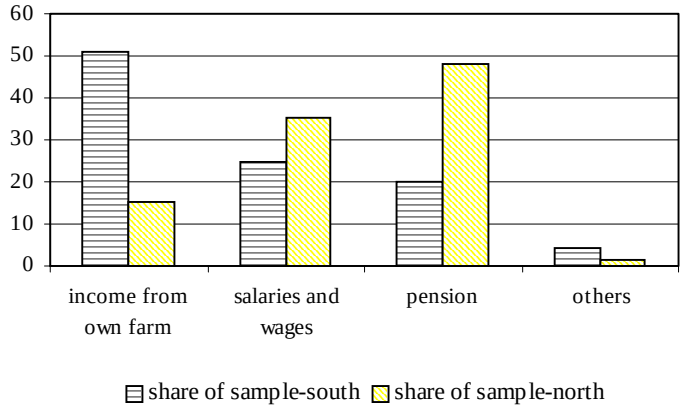


Figure 2. Most important sources of income

Source: own calculations based on Phare–ACE P97-8158-R survey

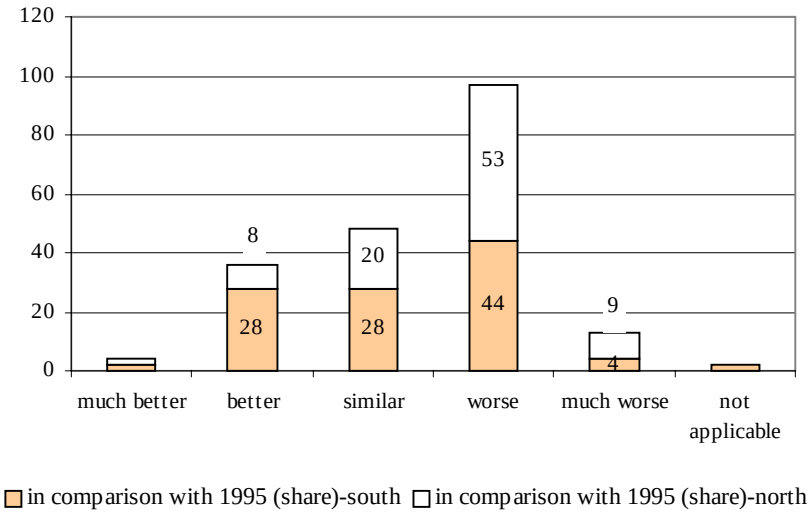


Figure 3. Evaluation of financial situation of household in 1999 (in comparison with 1989)

Source: own calculations based on Phare–ACE P97-8158-R survey

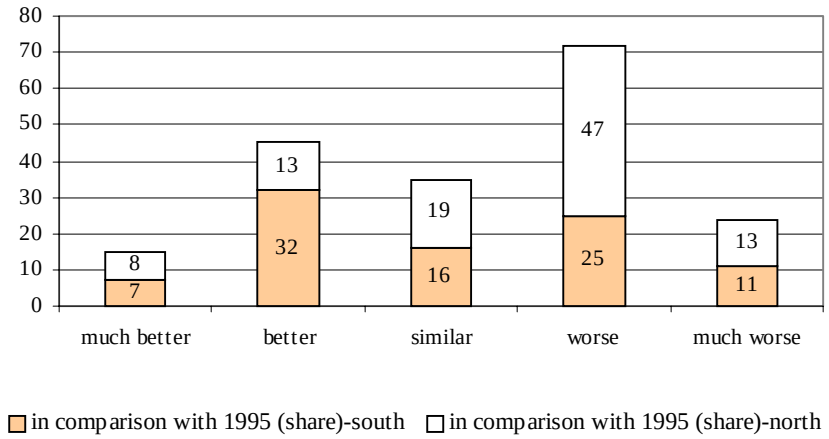


Figure 4. Evaluation of financial situation of household in 1999 (in comparison with 1995)

Source: own calculations based on Phare–ACE P97-8158-R survey

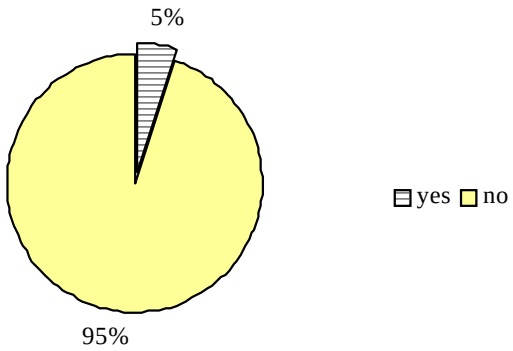


Figure 5. Interest of households to obtain credit

Source: own calculations based on Phare–ACE P97-8158-R survey

to obtain credit from a bank. The financial institutions consider agricultural sector as highly risky, mostly from the viewpoint of returns of costs. This risk is higher in the case of individual farms due to their size. Interesting is the position of farmers to obtaining credit. Figure 5 demonstrates the farmers interest to obtain credit for agricultural purposes for the common interest rate. 95% of asked farmers said no. The fact is, that in the Northern area nobody was interested in obtaining a credit.

As the following analysis of survey data shows us, the interest to expand agricultural activities was expressed by 55% of farmers from the Southern region and 45% of the Northern region (Figure 6). The question is, that if 95% of sample has no interest in obtaining credit (Figure 5), what sources could they finance this intention from.

Regarding interest: the most frequent reason for no interest to expand theirs activities was the fact of low

profitability (33.9% of sample), than the fact of high age (32.6%).

Coming back to the question of covering expansion of agricultural activities, another source except credit might be the use of own resources. 56% of the respondents said, that they would use the prospective additional own resources in agriculture (Figure 7). Specifically 60.9% of them would invest this money to agricultural machinery, 20.6% to buy agricultural land, 5.6% of farmers would invest into agricultural buildings, 4.7% into greenhouses, 4.3% into manufacturing equipment and 3.8% would buy animals.

27% of private farmers would primarily utilize those additional resources outside agriculture (Figure 7), 9% would deposit the additional money to the bank or would invest in the financial market.

Following the survey, the willingness to invest additional own sources into agricultural production is high (Figure 7), but forming of additional funding is connected to profitability of the farm. In the given state (1999), we can judge again by the farmers' comparison to year 1995 (Figure 8). The situation is about the same as in the case of the households' economic situation in the same period (Figure 3). We can see again the close connection between farm and household, but in this case, the influence of other non-agricultural activities of farmers is eliminated. Up to 54% of farmers in the Northern and 36% in the Southern part cite that their farm profitability is worse in year 1999 than in 1995, and only 8% reached better results (S2), out of it only 1% much better. A little bit better is the situation in stratum 1, where 17% cite that their farm profitability is better, or for 2% much better.

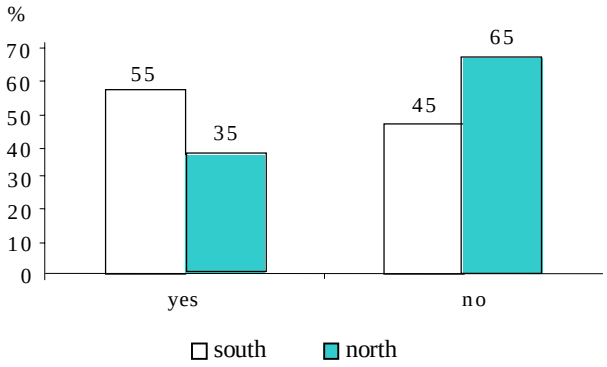


Figure 6. Interest to expand agricultural activities

Source: own calculations based on Phare–ACE P97-8158-R survey

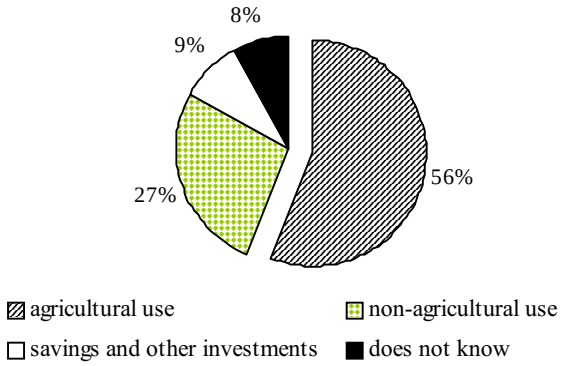


Figure 7. Use of additional financial sources

Source: own calculations based on Phare–ACE P97-8158-R survey

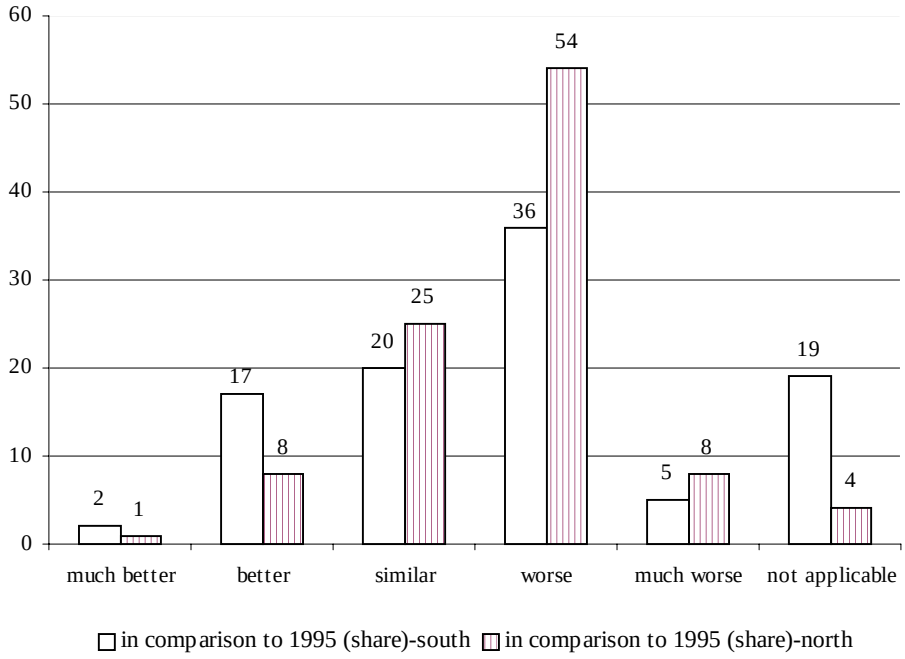


Figure 8. Profitability farm in 1999

Source: own calculations based on Phare–ACE P97-8158-R survey

These results reflect low productivity and jump in costs after price liberalization, when since 1990 (Bielik 2000) input prices increased 4-times, and farm prices only 1.4 times. This is very closely related to low capital equipment and to low rate of innovation and investments and absence of selling support from the side of the government.

If 39% of the Southern and 19% of the Northern area farmers saw their 1999 household situation better than in 1995 (Figure 3) and in 19% respective 9% (south-west) of cases profitability was higher in the same period, we can assume, that this was caused by the non-agricultural activities. Back to the question on expansion of agricultural activities. In average, 45% of farmers are interested in it, but 95% of them do not want credit under the present conditions. The fact is that the financial market, as we know it from market economies, was not known to the Central and Eastern European countries before 1990. There were no commercial banks, only state owned ones. The transition of the whole economy needed, besides other conditions, establishment and development of commercial banking, which has not yet been done in a satisfying ratio. Newly established banks were often not able to fulfill functions of commercial banks as in the developed market economies. This was caused by several reasons i.e. lack of authority, lack of skills, and frequent changes in legislation. These facts, together with the old burden of the pre-transformation credits (never properly treated, without sufficient attention) are the reasons why Slovak agriculture is in present negative situation. Agribusinesses are treated differently from other branches of economy by banks. They have worse access to credit, interest rates are higher for them , their classification is qualified more strictly and they must guarantee credits on higher rate.

Trend in supplying credit, their amount, interest rate and other conditions are shown by Table 1. As the table documents, opening up credits decreased year-by-year . The biggest tumble was registered in 1999, when it went down by 28.5% and so interests from credits went down by 31.6%. Average interest rate fluctuated. After the incipient decrease in 1996 (what was called out mostly by degrease of discount rate in that period of time), it started to increase. In 1999, there turned out certain stabilisation followed by a positive trend. In 1999, the average interest rate fell down to 16.5%.

Following the problems around credits and interest rates, we analysed investments of private farmers and their households. From the investigated sample of 412 farmers, not more than 22% spent money for one of the following items: Investments together were 59 606.4 thousand Slovak crowns (Sk), then average investment per farmer was 144.6 thousands Sk. Investments to the basic producing factors are considered as a main factor of growth and development. Only 18% of sample spent money for that sort of equipment in 1999. Private resources supplied 90% of these investments. But also an overwhelming proportion from the total spent money was used for this aim (agricultural equipments), 24 154.9 thousands Sk. If we take into consideration the total acreage of the sample (17 807.45 ha a. l.), the average investment per hectare was 1 356.5 Sk. Animals were bought by 22% of respondents for 4 017.6 thousands Sk, withal the primary source of covering (70%) were own resources. Agricultural land was bought by 4% of the sample, and all investments were covered by own private sources. Financial assets spent on buying agricultural land were altogether 6 000.5 thousands Sk. 8% of respondents invested to reconstruction of apartment or house, (7%) invested in buying a car or vehicle (6 928 thousands Sk). Agricultural buildings and greenhouses were enlarged by 5% of farmers and they invested into this 2 738 thousands Sk. All mentioned investments were mostly covered by own private resources (from 70% to 100%), by loans from relatives (up to 15% of respondents), credit, as source of covering investment, was exploited by about 0.5% of farmers. Subsidies and leasing were mentioned equally rarely.

In the time of the survey, 8% of farmers had unpaid loans. Total sum of short-term loans (up to 1 year) was 1 613 thousands Sk. The total sum of mid-term loans (1–3 years) was 3386 thousands Sk, long-term (3 and more years) 5 188 thousands Sk. Interest rates for farmers ranged from 1.5 to 23%. Average interest rate was 11.94% (Table 2). In comparison to Slovak average, this was by 4.5% lower. This difference was probably because of the non-bank credits, i.e. loans from friends and relatives, processors etc. where interest was only symbolic or it

Table 1. Development of open up credits conditions in agricultural branch

| Year | Credits | Annual change | Interests | Annual change | Discount rate | Annual change | Average interest rate | Annual change |
|---|---|---|---|---|---|---|---|---|
| | (mil. Sk) | (%) | (mil. Sk) | (%) | (%) | (%) | (%) | (%) |
| 1995 | 13 560 | – | 2 169 | – | 11.00 | – | 16.00 | – |
| 1996 | 12 324 | –9.12 | 1 877 | –13.46 | 8.80 | –20.00 | 15.20 | –5.00 |
| 1997 | 12 137 | –1.52 | 1 881 | 0.21 | 8.80 | 0.00 | 15.50 | 1.97 |
| 1998 | 9 889 | –18.52 | 1 701 | –9.57 | 8.80 | 0.00 | 17.20 | 10.97 |
| 1999 | 7 071 | –28.50 | 1 163 | –31.63 | 8.80 | 0.00 | 16.50 | –4.07 |

Source: Information Papers CD MP SR, VÚEPP and own calculations

Table 2. Credit activity of the sample

| | South | North | Sample together |
|---|---|---|---|
| Average interest rate (%) | 9.7 | 16 | 11.9 |
| Short-term loans | * | * | * |
| Credits (Sk) | 1 500 000 | 113 000 | 1 613 000 |
| Credits per ha agricultural land (Sk/ha) | 90.3 | 97.2 | 90.8 |
| Mid-term loans | * | * | * |
| Credits (Sk) | 3 301 020 | 85 000 | 3 386 000 |
| Credits per ha agricultural land (Sk/ha) | 198.8 | 73.1 | 190.6 |
| Long-term loans | * | * | * |
| Credits (Sk) | 5 035 000 | 83 000 | 5 188 000 |
| Credits per ha agricultural land (Sk/ha) | 303.3 | 71.4 | 292 |

Source: own calculations based on Phare–ACE P97-8158-R survey

was a part of a contract, paid through products, not in cash.

## CONCLUSION

Farming is one of the most complicated types of entrepreneurship. Besides production, there are also different other functions, especially the nowadays emphasised non-production functions of agriculture, i.e. landscape preserving functions, demographical allocation of population, ecological and other. Experiences from other market economies showed, that the family farm is probably the most efficient way to do this, on the lowest social costs. But to reach this, it needs specific conditions guaranteed by state, especially in the case of Slovakia, where there was almost no private farming by the end of 1990.

In conclusion, we stress the role of the state support for this kind of business because the results of our research that are partially presented here show that the sector is in red numbers and , moreover, the economic situation of majority of the active private farmers is worsening. In the context of the accession of Slovakia into the EU, the new agricultural policy should deal more with the creation of healthy environment and to prepare better conditions for private farmers.

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