

Analysis of financial support influences on management of agricultural enterprises

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Abstract

The paper deals with monitoring of a height, a structure and impact of supports in frame of exercitation of EU CAP on income from operations of selected Czech agricultural enterprises. The selection of enterprises has been implemented on base of differentness in the enterprise form, in the acreage of managed farm land and a differentiation of the enterprise subject. From a comparison of volume and structure of the supports it results that an agricultural cooperative uses a wide spectrum of particular types of subsidies, which is caused by a big acreage of almost 7 800 ha with orientation to both the plant and the animal productions. Similar situation is in the valued joint-stock company. Without received subsidies the economy of private farmer would be unprofitable in both the years. In monitoring it was proved that differentiation of enterprise activity in form of raw material process in excess of framework of agricultural basic industry decreases dependence of the income from operations on obtained financial means in form of supports. From the mentioned facts it is obvious that the received financial subsidies significantly positively influenced the operating results of all agricultural enterprises where the basic activity subject is plant and animal production.

Pieces of knowledge introduced in this paper resulted from solution of an institutional research intention MSM 6046070906 „Economics of resources of Czech agriculture and their efficient use in frame of multifunctional agri-food systems.“

Key words

Common agricultural policy, financial support, direct payments, income from operation, loss, profit, agricultural enterprise.

Anotace

Příspěvek se zabývá sledováním výše, struktury a působení podpor v rámci uplatňování SZP EU na výsledky hospodaření vybraných českých zemědělských podniků. Výběr podniků byl proveden na základě rozdílnosti v podnikatelské formě, ve výměře obhospodařované zemědělské půdy i diferenciaci předmětu podnikání. Ze srovnání objemu a struktury podpor vyplývá, že zemědělské družstvo využívá široké spektrum jednotlivých typů dotací, což je způsobeno velkou výměrou téměř 7800 ha s orientací jak na RV, tak na ŽV. Obdobně to platí i pro hodnocenou akciovou společnost. Bez přijatých dotací by bylo i hospodaření soukromého zemědělce v obou sledovaných letech taktéž ztrátové. Sledováním se prokázalo, že diferenciacie činnosti podniku v podobě zpracování suroviny nad rámec zemědělské prvovýroby, snižuje závislost výsledku hospodaření na získaných finančních prostředcích v podobě podpor.

Z uvedených skutečností je zřejmé, že přijaté finanční podpory měly výrazný pozitivní vliv na výsledek hospodaření všech hodnocených zemědělských podniků, kde základním předmětem činnosti je rostlinná a živočišná výroba.

Poznatky prezentované v článku jsou výsledkem řešení výzkumného záměru MŠM 6046070906 „Ekonomika zdrojů českého zemědělství a jejich efektivní využívání v rámci multifunkčních zemědělskopotravinářských systémů“.

Klíčová slova

Společná zemědělská politika, finanční podpora, přímé platby, výsledek hospodaření, ztráta, zisk, zemědělský podnik.

Introduction

Principles and forms of realization of the Common Agricultural Policy have developed and gradually changed throughout its existence. For Czech agriculture these rules acted already for two budget periods, for short 2004 – 06 and the whole period 2007 – 13. For both the periods there were and are hold partly unchanging rules but some forms of application have changed also according to circumstances. The aid system applied by the CAP of EU influences in a significant way the economic situation of agricultural enterprises.

“Accession to the EU and the introduction of CAP support, and in particular the direct payments per hectare have improved the market conditions in the CR and have increased farm incomes” (Latruffe, Davidova, 2007).

Proposed reform measures of the CAP from 2003 concerned also areas of provided aids. A transition from price support and a high intervention into the market mechanism towards the direct help – it was planned to decrease prices and their approximation to the world prices and providing of direct compensations with an emphasis on the Less Favoured Areas (LFA). The decrease in prices should have happened in the sector of cereals, beef meat and milk products; during the first half of new decade by 10 to 30 %. A fall of market incomes will be compensated by direct payments separated from production (decoupled payments). The direct payments will be accompanied by two new elements (Neumann, 2004):

- a) degressivity – a gradual decrease of direct payments at time
- b) modulation – a determination of maximal payment per farm or a progressive decrease of payments per tonne or hectare according to growth of total payments per one farm.

The degression and modulation principle will start to refer to new member state when their direct payments reach the level of direct payments in the original EU 15 member states.

The European Union declared at a meeting in Dauha that it did not want to abandon the possibility to keep a certain support. Most of member states wishes to preserve the union intervention system. The reason is a sustenance of farmer incomes, a market stabilization and a maintenance of the traditional function of European agriculture – the maintenance of rural landscape. Without subvention for example agrarian production in mountainous Austria or in unfavourable climate of Scandinavian states

(Štolbová 2007) would not be sustained.

In Germany, “direct payments currently make a great contribution to agriculture incomes. The absence of direct payment, therefore, would cause a huge income gap, particularly in extensive livestock farms” (Uthes at al, 2011).

Different amount of subsidies according to the type of farming together with increasing subsidy rate may influence the type of farming. Therefore, it may cause a paradox that the structure of subsidies according to the type of farming will stimulate products that are currently suppressed. The difference in subsidies in comparison with the largest producers with a similar structure of agricultural production is significant for the Czech Republic and it is possible to compare it to the increase of the SAPS by 75 % (Střeleček, Zdeněk, Losová 2009).

The results indicate that the current subsidies have an impact on the stability of the farmers’ income. Partially or fully decoupled payments serve as a “financial pillow” increasing the level of the farmers’ income and extending the farmers’ decision-making possibilities. Furthermore, the current subsidies reduce the variability of the farmers’ income. The current subsidies are a suitable complement to other commonly used risk management tools primarily designed to reduce the farmers’ and farm income variability (Špička, Boudný, Janotová 2009).

For example, “under the past Common Agricultural Policy (CAP) olive oil subsidy regime, farmers were eligible for subsidies on the basis of amount of olive oil produced. This led to an intensification of production and negative environmental effects on sloping land, such as loss of biodiversity and more soil erosion. In 2004 the olive and olive oil regime changed, with integration of support to olive farmers in the Single Payment Scheme (SPS). From 2006 to 2013 farmers receive a constant amount of subsidies, based on the average amount they received in the 4-year reference period 1999–2002. This paper shows financial results for four major types of olive groves: traditional, organic, semi-intensive and intensive. It shows that without subsidies only intensive farms are now financially viable, and that traditional and organic farms, even with present subsidies, have to deal with returns to labour below local wage rates.” (de Graaff, Kessler, Duarte, 2011)

This paper deals with the possible impact of one RDP measure – the reduction of LFA payments according to farm size. Taking into account the variety of regions in Europe and the different

situations at national level, it is difficult to provide a single guideline to solve the problem. Implementation without a deep analysis could lead to undesirable consequences. A specific adjustment to the situation of the given country will be advisable (Štolbová, 2007).

The paper deals with the employment of decoupled direct payments as the model of targeted lump-sum financial transfers to the farmers. It considers whether decoupled payments may alter producers' resource allocation over time and lead to effects on production. Decisive topics of influence through which decoupled payments as an instrument of income redistribution could affect production through recipient' decisions in both short and long time horizons are bringing to the attention as follows: wealth and investment effects, sector consolidation and payment basis effects in the framework of agricultural policy (Bečvářová, 2007).

Mosnier et al. (2009) dealt with whether implementation of the CAP MTR, (involving decoupled payments reduced by "modulations" and subject to cross-compliance measures) can be effective in improving the environmental impact or arable farming. Decoupling and modulation result in a fall in the total gross margin of around 3 %, principally because of the 5 % modulation rate, while "buffer strips" requirement leads to a further decrease of around 1 %. Moreover, this requirement improves the environmental indicators at the farm level.

To successfully obtain supports in frame of the CAP of EU, farming subjects have to meet conditions of environment protection, food safety, health and animal welfare as well as safety and protection of health in work (cross compliance conditions). Beside that they have to maintain all agricultural land in good farming state (GAEC's - Good agricultural and environmental conditions).

The present philosophy of the common agricultural policy develops in a different direction than at time of its origin. Newly, direct payments stimulating intensive ways of farming have to be replaced by certain payments for so called services of agricultural sector exercised in a public interest, i.e. food safety, conservation of nature and landscape maintenance, preservation of the countryside as a cultural heritage. A presumption is that European farmers will not rely only on financial supports.

"It will, of course, be some years before farmers adjust to the new support arrangements: it takes time to assess the changes, and their implications for the farm business; and it would be understandable

if many farmers initially adopted a "wait to see" stance, worried that if they did make early changes without fully understanding the ramifications, they might prejudice their eligibility for Single Farm Payment" (Tranter et al., 2007).

Aim and Methodology

The aim of this paper is an analysis of influence of financial supports in frame of EU CAP application on operating results of selected Czech agricultural enterprises. Fulfilment of the aim is realized by means of an analysis of height and structure of the provided financial supports from both sides the resources of the European Union and the national resources. The analysis is focused on two groups of entrepreneurial subjects: a group of legal persons and a group of natural persons. It is dealt with a cooperative, a joint-stock company, a limited company and enterprises of private farmers. An evaluation is made over the years 2006 and 2007. The data were obtained from accountancy of agricultural enterprises, a reviews of SZIF ČR (State Agriculture Intervention Fund of the Czech Republic), and other public available information on entrepreneurial subjects. For possibility of comparison the data on subsidies and the achieved incomes are recalculated per ha of managed agricultural land. The subsidies are analyzed according to particular forms, their height and impact on the income of enterprises.

Results and discussion

Particular supports have their rules and conditions under which they are provided. Subjects applying for the supports bound to keep these rules and conditions. Their observance is subsequently controlled by a payment agency that is the State Agricultural Intervention Fund of the CR and other institutions.

Characteristics of selected enterprises

An activity subject of the valued agricultural cooperative is agricultural production, miller's trade, and providing of various services for agriculture and outside it. The agriculture cooperative manages c. 7 800 ha of agricultural land and raises 817 pieces of cattle.

The decisive enterprise subject of the joint-stock company is agricultural production, both the plant and animal ones. It manages on 2000 ha of agricultural land. It keeps only cattle with all age categories of animals.

The activity subject of the limited company is fruit growing, purchase of goods in order to sell them,

and cereal bar production, which became the main aim of the company. It can be said that a structure of the enterprise is differentiated; therefore it is not dependent only on the agricultural production. The company manages on of 250 ha of agricultural land of which a large part are plantations of fruit trees, and a small part is the acreage of arable land where cereals for production of cereal bars are grown.

Private farmers evaluated in a group farm on an area from 117 to almost 2000 ha of agricultural land. Tree of the groups practice only a plant production without differentiation of the activity subject. Farmers under No. 2 and 3 deal also with the animal production. It is possible to state that the valued farmers use above all production factors characteristic for agricultural primary production.

Analysis of structure and extent of spent financial supports

Spending of financial supports is divided according

to a financing source into supports paid by means of SZIF and supports from a budget of the Ministry of Agriculture of the CR. The structure and height of particular types of supports in the monitored enterprises is shown in the table 1 and 2.

From the table 1 of comparison of subsidy volume and structure it results that the agricultural cooperative uses a wide range of particular kinds of subsidies that is caused by a large acreage of 7 800 ha of agricultural land and by orientation to both the plant and animal productions. In a low rate, this farm also spends endowments from a budget of the Ministry of Agriculture of the CR (MZe ČR). The enterprise size enables to realize projects in frame of the Operational Rural Development Programme. The most significant role in endowment volume is taken by Unified payment per area SAPS and the National Supplemental Payments TOP-UP. The total volume of provided subsidies per ha of agricultural land is 6 670 CZK (2006) and 6 630 CZK (2007).

Enterprise	Data comparison for 2006/2007 (thous. CZK)	State Agricultural Intervention Fund (SZIF)						MZE	Other	In total without reconstructions
		Unified payment per area (SAPS)	Separated payment for sugar (SSP)	TOP-UP	LFA	AEO	Reconstruction of operating facilities (OP)			
agri-coop	2 006	19 693	341	17 129	3 009	6 992	6 109	718	4 336	52 218
	per ha (7823.74 ha)	2.517	0.044	2.189	0.39	0.89	0.78	0.09	0.55	24 624
	2 007	21 425	344	14 921	3 644	6 090	2 730	503	4 055	50 982
	per ha (7676.46 ha)	2.791	0.044	1.943	0.474	0.793	0.355	0.065	0.528	23 163
limited company	2 006	631	0	6	0	2 275	1 968	5 563	1 040	9 515
	per ha (250.68 ha)	2.517	0	0.024	0	9.075	7.851	22.191	4.148	37.95
	2 007	698	0	4	0	2 167	1,953	1 097	1	3 967
	per ha (250.08 ha)	2.791	0	0.015	0	8.665	0.007	4.386	0.002	15.87
Inc.	2 006	5 049	0	4 954	0	1 910	0	238	1 226	13 377
	per ha (2006 ha)	2.517	0	2.47	0	0.952	0	0.18	0.61	6,67
	2 007	5 629	0	4 587	0	1 950	2 700	99	1 196	13 461
	per ha (2017ha)	2.791	0	2.27	0	0.966	1.338	0.04	0.59	7

Source: Final accounts for 2006, 2007 of agricultural enterprises.

Table 1: The structure and height of particular types of supports in the big enterprises.

Enterprise	Data comparison for 2006/2007 (thous. CZK)	State Agricultural Intervention Fund (SZIF)						MZE	Other	In total
		Unified payment per area (SAPS)	Separated payment for sugar (SSP)	TOP-UP	LFA	AEO	Reconstruction of operating facilities (OP)			
1.	per ha (155,17 ha)	2.517	0.00	2.23	0.00	0.00	0.00	0.00	0.416	5.17
	per ha (155,14 ha)	2.791	0.00	1.81	0.00	0.00	0.00	0.00	0.85	5.39
2.	per ha (2751 ha)	2.52	0.00	2.11	0.00	0.59	0.00	*	*	5.22
	per ha (1987 ha)	2.79	0.00	2.32	0.00	0.33	0.00	*	*	5.43
3.	per ha (319 ha)	2.52	0.00	2.45	0.00	0.43	0.00	*	*	5.41
	per ha (319 ha)	2.79	0.00	2.21	0.00	0.43	0.00	*	*	5.44
4.	per ha (168ha)	2.52	0.00	1.69	0.00	0.95	0.00	*	*	5.17
	per ha (168 ha)	2.79	0.00	1.76	0.00	0.95	0.00	*	*	5.52
5.	per ha (117 ha)	2.52	0.00	2.09	0.00	0.52	0.00	*	*	5.16
	per ha (117 ha)	2.59	0.00	1.77	0.00	0.52	0.00	*	*	5.10

Notice: * impossible to find out

Source: Final accounts for 2006, 2007 of agricultural enterprises.

Table 2: The structure and height of particular types of supports in private farmers.

The height of subsidies per ha in 2006 matches with values showed in a collection of cooperatives in the CR over this year and it was slightly below this level in 2007 (Green Report 2008). The height of operating costs per 1 ha of agricultural land is according to the Profit and Loss Statement 34 315 CZK (2006) and 29 545 CZK (2007). The share of subsidies in operating costs moves about 20.29 % (2006) and 22.8 % (2007). The total volume of direct payments for the mentioned enterprise was c. 47 mil. CZK in the given period. The possibility of influence of a measure modulation of direct payments on the total extent of possible paid subsidies for large agricultural enterprises was highlighted by Štolbová (2007).

The valued joint-stock company has a substantially smaller acreage that the mentioned cooperative. Also the number of used endowment titles is lower. The total extent of operational supports is for both the valued years balanced and amounted to 6 670

CZK per ha of agricultural land. In comparison with data in the Green Report (2008) it is dealt with approximately by 300 CZK higher sum in 2006 and vice versa in 2007 by this sum lower that the collection showed.

In case of the limited company, which specializes in fruit growing and production of cereal bars, there was an evident difference from typical agricultural enterprises in rate of received subsidies in 2006 when the subsidies from MZe budget, the Operational Rural Development Programme, subsidies for agri-environmental measures, have a substantial influence; and where an important item was also the insurance of plant production from PGRLF. Significantly less amount money was spent for a unified payment per area and supplemental payments TOP-UP. From EU resources, 42,44 % was drawn in 2006 from the total financial means and the rest from national resources. In 2007, a rate of spent subsidies changed; 27.84 % of finances

flew from CR resources and 72,15 % already from the EU means. The height of obtained means per ha of agricultural land amounted to 38 660 CZK (2006). In 2007, there was a fall to height of 15 870 CZK/ha which was only 41 % of the foregoing sum.

The valued private farmers who manage outside the LFA areas, used subsidies in form of the unified payment per area, the subsidiary payment TOP UP and payment for agri-environmental measure. With exception the farmer No. 1 it was not able to find out an extent of other supports. The total values of proven subsidies in the mentioned years moved in a range 5 100 to 5 440 CZK per ha of agricultural land and for all subjects it was relatively balanced (table 2). It is dealt with a lower sum than the Green Report (2008) presents in regard to a missing share of the national subsidies. After the analysis of accounting documents for the farmer No. 1, the amount of expenditures to secure incomes was expressed in the value 14 558 CZK/ha (2006) and 18 337 CZK/ha (2007).

From the realized analysis a consistent result ensues with which Špička, Boudný, Janotová (2009) present that the operational subsidies have a direct influence of stability of agricultural incomes. Also it is obvious from the analysis, presented also by Střeleček at al (2009), that the height and structure of the supports can be partially connected with the production orientation.

For comparison, “direct payments play an important role in the financial viability also of organic farms in both Western and Eastern European countries. The level of specific support for organic farming is put into perspective, as other support payments and

market returns contribute larger shares to total farm revenue in all the countries analysed. Modelling analyses show that support payments will continue to play an important role in the profitability of organic farms in Western Europe after implementation of the 2003 reform of Common Agricultural Policy in the EU” (Offermann et al, 2009).

Influence of financial supports on income from operations

From the gained data it is possible to express the influence of subsidies on income from operations in particular enterprises. In particular kinds of subsidies it is possible to express in numbers their influence on operating income from operations, so consequently also the influence on the total income from operations over the common activity of the firm in the monitored accounting period. Within accounting of financial supports, mostly these supports are included in the operational yields of enterprises. Payments in frame of operational programme used for investments then decrease an input value of this long-term property. Return premiums of consumption tax for diesel oil then decrease consumption of material and energy. The influence of operational subsidies on incomes from operations of the monitored enterprises is shown in the table 3.

In expression of the influence of received subsidies on RV (resultant value) in absolute value it is necessary from data showed in the Profit and Loss Statement to deduct the sum given for particular years from the value of other operational yields and to add sums decreasing costs for material consumption. After the adjustment, the shown

"Adjustment of income from operations (thous. CZK)"	2006				2007			
	operating income from operations with subsidy and supports	operating income from operations with subsidy and supports per ha of agricul. land	operating income from operations without subsidies and supports	operating income from operations without subsidy and supports per ha of agricul. land	operating income from operations with subsidy and supports	operating income from operations with subsidy and supports per ha of agricul. land	operating income from operations without subsidies and supports	operating income from operations without subsidy and supports per ha of agricul. land
Agricultural cooperative	547.00	0.07	-51701.00	-6.61	14788.00	1.93	-36394.00	-4.74
Limited company	9447.00	37.69	5482.00	21.87	9447.00	37.78	4723.00	18.87
Private farmer	221.08	1.42	-585.30	-3.77	659.58	4.25	-177.42	-1.14
Joint-stock company	1306.00	0.65	-12071.00	-6.01	3248.00	1.61	-12913.00	-6.40

Source: Final accounts for 2006, 2007 of agricultural enterprises.

Table 2: The influence of operational subsidies on incomes of the monitored enterprises.

income – a profit of the cooperative in amount of 547 thous. CZK changed to a loss from operational activity in height of -51 701 thous. CZK (2006) and in 2007 the profit 14 788 thous. CZK changed to the loss -36 394 thous. CZK.

Similar relations were hold also in the valued joint-stock company where the reached positive operating incomes in both the monitored years after deduction of received subsidies changed in significantly negative.

The evaluated private farmer carries business on base of trade license. An accounting is kept by form of tax accounts where it is possible to find out only incomes and expenditures connected with the business and the value of enterprise value. Without received subsidies its economy would be unprofitable in both the monitored periods.

From the mentioned facts it is obvious that the received subsidies have absolutely fundamental influence on the resultant value of the agricultural cooperatives whose basic activity subject is the plant and animal production.

The limited company is characteristic by diversified structure of its activities. The main aim of the firm is production of cereal bars and their sale which supports fruit production and brings a decisive part of incomes. After the adjustment of operating income from operations there is an obvious difference from other enterprises specialized on agricultural production when the operating income from operation remains positive in the value 5 482 thous. CZK (2006) and 4 723 thous. CZK (2007). This proves that the differentiation of activity of the

enterprises reduces dependence of the income from operations on received financial means in form of supports from outside-plant resources.

Conclusions

From the comparison of volume and structure of financial supports it results that the agricultural cooperative used a wide spectrum of particular types of subsidies which is caused by a large acreage of almost 7 800 ha with orientation to both the animals and the plant production. The total volume of provided subsidies per 1 ha of agricultural land was 6 670 CZK (2006) and 6 6630 CZK (2007) and represented a full fifth of expenses incurred for agricultural production in the enterprise. Similar results are hold for the valued joint-stock company.

Without the received subsidies in 2006 and 2007, the farming of the private farmer (where only accounting data were at disposal) would be also loss-making in both the monitored years. The observation proved that differentiation of the enterprise activity in form of processing of raw material in excess of the frame of agricultural primary production decreases dependence of the incomes from operations on received financial means in form of supports. This enterprise was profitable even without subsidies in both the monitored years.

From the mentioned facts it is evident that the received financial subsidies had a positive effect on the income from operations of all valued agricultural enterprises where the basic subject of activity is the plant and animal production.

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