FINANCING AGRICULTURAL ENTERPRISES IN POLAND

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Introduction

Fixed assets coming from different sources are necessary for enterprises to carry out their economic activity. The highest financial reliability, stabilization and sovereignty is assured by financing the assets with equity capital. It allows maintaining financial liquidity even if unpredictable periodical disturbances, which cannot have been prevented, occur. The disturbances can follow from reductions in revenue from sale due to recession or an emergence of a more resourceful entrepreneur. Capital financing from its own sources makes the company completely independent from the willingness of creditors to lend and then refinance the credits obtained. Also, there is no need then to pay interest on loans, and the enterprise and its owners have got the whole profit made at their disposal. A high share of equity capital in assets financing also informs creditors up to what sum of money the company can take financial consequences in the case of a loss.

In practice it is insufficient to use equity capital only. Quite often making use of foreign sources is a condition of starting up a specific business or developing its operation. What is significant, too, is the fact that while determining income being the basis for income tax determination, interest owed to creditors as tax deductible expenses is taken into account whereas the interest on the equity capitals involved in the company’s operation is not. Thus, an effective cost of involving foreign capital is lower than the due interest because its amount reduces the basis for income tax imposed.

The work’s aim is to assess the status and changes in the sources of financing assets of companies connected with agriculture. The research problem undertaken was studied on the basis of accessible literature sources on the subject and numerical data from the Main Statistical Office (GUS). The research subjects were enterprises belonging to section – agriculture according to the Polish Classification of Activities (PKD)(Regulation …, 2004) developed on the basis of the Nomenclature of Statistical Classification of Economic Activities in the European Community published by EUROSTAT. The research comprised economy entities keeping an account book in which the number of employees exceeds 9 persons. The assessment of financing was done on the basis of indices of structure and dynamics. The research period included the years 2000–2004. The results of analyses are presented by means of the tabular and descriptive technique.

Sources of enterprise financing

From a classical point of view enterprise financing means raising capital which reflects sources of fixed assets financing and is identified on the side of liabilities in the balance of an economy entity. Considering an ownership aspect of
this capital one can enumerate equity and foreign capital. Equity capital consists of means introduced and left at disposal of the enterprise while it is operating. This capital opens the door for enterprise to conduct economic activity constituting the basis of its economic and legal independence. Depending on the organizational and legal form of the company, the capital may assume different names, like for example seed capital (joint-stock company and limited liability company), founding capital (state company) or resource and shareholder funds (co-operative). In turn, foreign capital is a total of financial means left at disposal of a company by its creditors. A characteristic feature of foreign capital is the fact that the company can have an access to it for a limited period of time, which means that it must be returned at the maturity date. In general, the capital is necessary to finance the company’s operation because it broadens its financial base and enables it to extend its activity (Dębski, 2005).

Taking into account other criteria of division of company financing sources – the origin of capital – one can enumerate own and foreign internal and external sources. A company can use internal sources only after starting up its operation and funding certain financial surpluses which will suffice to finance its current and developmental operation. The capital can come from both property transformations (current income, sinking fund, selling unnecessary property) and capital transformations (retained earnings). The source of enterprise foreign capital are in general basic segments of financial market such as: money market, capital market and credit market (Siudak, 2001).

Yet another criterion of division of enterprise financing sources is the length of the period in which the means from those sources are made available. According to this criterion the sources of financing can be long-term or short-term. The period of one year has been assumed as a pre-arranged dividing borderline. Means made available for the period of not more than one year are called short-term, whereas the means accessible for more than one year are called long-term. Long-term financing sources include: investment credit, loan, leasing, issue of bonds, venture capital and secularisation. In contrast, sources of short-term financing comprise: obligations towards suppliers (trading obligations), employees and budget as well as banks, including long-term loan and credit instalments due to be paid in a given turnover year (Gabrusiewicz, 2005).

Managing sources of enterprise financing comes down to choosing between internal and external financing, and, within it, between equity and foreign long-term or short-term capitals.

Factors influencing the capital structure

The structure of financing sources is influenced by a number of macroeconomic factors such as: overall economic situation on the market or an interest rate, and microeconomic factors including: the kind of enterprise and of activity carried out, as well as financial policy of the board (Olzacka, 1993).

The following factors are mentioned among the factors most strongly influencing decisions made by the enterprise management pertaining to the capital
structure: economic risk understood as uncertainty of the future profit and financial
elasticity, that is ease in obtaining credits on easy terms. What is also important is
the structure of assets and company fixed assets growth as well as the nature of
sale and the level of its profitability (W ersty, 1993). If the assets possessed are
easy to sell, possibilities of obtaining a credit are higher compared to the situation
when a company has got specific property elements which are difficult to sell. Also
businesses which develop dynamically make more use of foreign capital than
companies characterized by insignificant growth or undergoing stagnation. As us-
ing credits is connected with the need of their prompt repayments, which in turn
requires adequate incomes, companies with stable sales and assured incomes may
more decidedly use foreign capital than firms whose sales are not stabilized and
exposed to marked fluctuation. Practice shows that high profitable enterprises usu-
ally finance their own activity with their own capital because then they can allocate
a large part of income to increasing this capital, and thus limit to the maximum the
use of foreign capital. Such an approach to the role of foreign capital as a source of
economic activity financing should be accepted as justified under the conditions of
inflation.

Rules of enterprise financing

The most important rules of enterprise financing come down to two tiers: pertaining
to the relation between equity and foreign capital, and to the structure of
fixed assets and capitals. The first rule comes down to a thesis that the ratio of eq-
uity and foreign capital should be like 2:1 (Waśniewski, 1975). The second rule
consists of two elements: ‘a golden financial rule’ and ‘a gold balance rule’ which
follows from the first one. The sooner rule assumes that capital cannot be tempo-
 rally associated with a given assets component for a longer period of time than the
length of the period of its stay in the company. The latter rule requires that fixed
assets be also long-term financed by entrepreneur’s capital while current assets
should be financed by foreign short-term capitals. In a long run, it is recommended
that current assets be also financed by net working capital which is a surplus of
fixed capital (equity capital and long-term liabilities) over the value of enterprise’s
fixed assets (Sierpińska, 1997).

Choosing an optimal structure of capitals cannot consist solely in determin-
ing the appropriate debt rate but it also requires considering financial effects of
raising foreign capitals from various sources. Financial policy of enterprise’s man-
agement should assure maximizing the owners’ (shareholders’) benefits by e.g. an
increase of profitability rate of equity capitals (funds), and guarantee an appropri-
ate level of current and future financial fluidity as a result of limiting risks of its
loss to the limits recognized as sensible.

In economic practice enterprises increase liabilities by means of applying
the so-called “pecked up order of financing” (Pluta, 1995). According to this pro-
cedure an enterprise most common retains profit to finance its development. Next
it decides to increase foreign capitals and only after using these possibilities, when
the enterprise has got very effective investment projects, are the shareholders willing to increase equity capitals.

The structure of capitals and its effective utilization may bring benefits to the owners in the form of financial lever. Obtaining a positive effect of financial lever depends on meeting two basic conditions. First, a positive effect will occur only when the whole fixed assets’ profitability will be higher than the interest rate of foreign capital. Otherwise the profit made by the foreign part of capital will be lower than the due interest which will absorb the additional part of profit made by the equity capital, thus lowering its profitability.

The second condition is preserving the appropriate capital structure. Too high a share of foreign capital in fixed assets may yield an increase in the costs of this capital. Increasing indebtedness of the foreign capital results in creditors striving to get an additional bonus reward for the risks connected with it, which in turn is reflected in an increasing interest rate of credits. It weakens a positive effect of financial lever to the total disappearance of this effect (Bień, 1995). Using foreign capitals is also associated with other threats. The amounts of credit and loan repayments should not exceed the enterprise’s financial resources so as not to weaken financial fluidity. A high share of foreign capital also constitutes a threat to financial and economic independence.

Due to different possible long-term variants and service costs it is not possible to formulate any rules as to desired relations between equity and foreign capital. Under conditions of market economy the proportions are determined by acts of choice, made according to the rule that an enterprise should borrow much enough to make the largest benefits on increasing the debt, but not that much to lose credit rating and enter the road of bankruptcy.

Assessment of the structure of financing agricultural enterprise

The level, structure and dynamics of changes in the capitals of Polish agricultural enterprises in the years 2000–2004 are presented in table 1. The studies carried out have shown the development of agriculture-related enterprises resulting from an increase in their assets. It is proven by an over 41% increase in the sources of financing in the examined period. The development of enterprises was financed first of all with equity capitals which increased by over 57% at almost unchanged level of foreign capital. Significant was the role in assets’ financing of the equity capitals whose share increased from 72% in the year 2000 to slightly more than 80% in the year 2004. Such a change indicates a decrease of Polish agricultural enterprises’ indebtedness, and thus an increase in their self-financing and strengthening their financial position. The examined enterprises had small debts and the relation of equity and foreign capitals in the year 2000 was a little over the standard and amounted to 2.5:1. In contrast, in successive years its level was higher than the standard proportion and was 4.4:1 in the year 2003 and 4:1 in the year 2004, respectively.
Table 1. Level, structure and dynamics of capital changes  
(Personal…, 2005)

<table>
<thead>
<tr>
<th>Specification</th>
<th>Years</th>
<th>Dynamics 2004/2000</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2003</td>
</tr>
<tr>
<td>Equity capital</td>
<td>13653</td>
<td>72.0</td>
</tr>
<tr>
<td>Foreign capital</td>
<td>5313</td>
<td>28.0</td>
</tr>
<tr>
<td>Capital in total</td>
<td>18948</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 2 presents results of research on the structure of equity capitals. Among them there were distinguished the following capitals: core, and supplementary capital, net financial result from the previous years, and the turnover year result. Throughout the whole period what is characteristic is the dominance of core capital whose share increased in the equity capital by nearly 76% in the year 2000 and over 84% in the year 2004. What is worth noticing is a clear decrease in the supplementary capital from 13.6 % to 10.4%, respectively. It is obviously connected with negative financial results and the need to cover the loses. Over the whole examined period there was present a non-accounted for loss from the previous years, which in the year 2004 ate up over 3% equity capital. However, there improved current financial results of the examined agricultural enterprises, which was revealed in a slight positive share of financial result of the turnover year in the equity capital (apart from year the 2003 when the agricultural enterprises were characterized by a financial loss).

Table 2. Level, structure and dynamics of equity capital changes  
(Personal…, 2005)

<table>
<thead>
<tr>
<th>Specification</th>
<th>Years</th>
<th>Dynamics 2004/2000</th>
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<tr>
<td></td>
<td>2000</td>
<td>2003</td>
</tr>
<tr>
<td>Equity capital in total, of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- core capital</td>
<td>10335</td>
<td>75.7</td>
</tr>
<tr>
<td>- supplementary capital</td>
<td>1861</td>
<td>13.6</td>
</tr>
<tr>
<td>- net financial result from previous years</td>
<td>-589</td>
<td>-4.3</td>
</tr>
<tr>
<td>- net financial result of the year</td>
<td>622</td>
<td>4.6</td>
</tr>
</tbody>
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Table 3 presents research results on the structure of foreign sources of agriculture enterprises financing in Poland. It is worth noticing that a decrease in the level of long-term liabilities in financing enterprise assets by nearly 16% has been recorded. Despite a drop in the total amount of long-term indebtedness, the level of credits and loans in the years 2000–2004 increased by over 50%. It is connected with large investment outlays incurred by agricultural enterprises on fixed assets modernization as a result of Poland’s accession to the European Union.
What is also visible is a marked increase in short-term liabilities by about 11%. Among short-term non-foreign sources of assets financing there was observed a slight increase in the level of credits and loans (by 7.5%) and a significant increase in the status of public and legal liabilities on account of taxes, tariff and insurance instalments (by 186.5%). In contrast, a slight decrease in the level of contractor liabilities on account of supplies and services (by 3.3%) took place.

In the structure of foreign capitals short-term financing sources predominate and their share in the examined period increased from 61.5% in the year 2000 to 67.8% in the year 2004’ the most important were the liabilities on account of supplies and services. Their share in short-term liabilities throughout the whole period was at a similar level of 22–23%. What was also significant was the share of working credits and loans. A three fold increase (by 10.1 per cent point) in the share of taxes, tariff, and insurance in the structure of foreign capitals of the examined agricultural enterprises is worth stressing, too.

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<td></td>
<td>mln PLN</td>
<td>%</td>
<td>mln PLN</td>
<td>%</td>
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<tr>
<td>Long-term liabilities,</td>
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<td></td>
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<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- credits and loans</td>
<td>2046</td>
<td>38.5</td>
<td>1752</td>
<td>36.3</td>
</tr>
<tr>
<td>Short-term liabilities,</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- credits and loans,</td>
<td>664</td>
<td>12.5</td>
<td>1223</td>
<td>25.3</td>
</tr>
<tr>
<td>- on account of supplies and</td>
<td>3267</td>
<td>61.5</td>
<td>3076</td>
<td>63.7</td>
</tr>
<tr>
<td>services,</td>
<td></td>
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<td></td>
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<tr>
<td>- on account of taxes, tariff and</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Foreign capital in total</td>
<td>5313</td>
<td>100.0</td>
<td>4828</td>
<td>100.0</td>
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</table>

**Conclusion**

In the structure of sources of financing Polish agricultural enterprises equity capitals have dominated and their role has been increasing. In the structure of equity capitals core capitals of the owners dominate. What is noticeable is a decrease in the role of supplementary capitals. The financial result is a marked but not very significant part of the company’s financing. Its meaning is weakened by loses which are non-accounted for. Short-term liabilities dominated in the structure of foreign sources of financing. The role of long-term forms of financing decreased over the whole period. The share of bank credits was not significant in enterprise development financing. However, enterprises used merchant credits. Moreover, the role of budget debts is increasing. To sum up, it can be concluded that, despite an access to different sources of financing, Polish enterprises connected with agriculture to a low extent make use of instruments of money and capital market.
References


ŽEMĖS ŪKIO ĮMONIŲ FINANSAVIMAS LENKIOJE

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Santrauka

Darbo tikslas yra finansinių lėšų šaltinių pokyčių Lenkijos įmonėse, užsiimančiose žemės ūkiu, įvertinimas. Finansavimo šaltinių struktūroje dominavo paprastosios akcijos (be nustatytos dividendų) kapitalai, įskaitant ir pagrindinius savininkų kapitalus. Tarp užsienio kapitalų dominuoją trumpalaikių įsipareigojimų, daugiausia prekiautojo paskolos forma. Nepaisant priėjimo prie įvairių finansavimo šaltinių galimybių, Lenkijos įmonės, susijusios su žemės ūkiu, tinkamai nesinaudoja jiems suteikiamomis piniginėmis ir kapitalo rinkos galimybėmis.

Lėšos, šaltiniai, pokyčiai, įsipareigojimai.