

Financial Procedures in Agricultural Integration

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Abstract

The agricultural production holds risk, uncertainty that has an effect both on the earnings of the growers of the basic material, and the processors. The earnings are determined by the relation of the expenses and the incomes, so the reduction of the costs of the financing is a request at each side. This effects a bilateral interdependence on the field of production and financing both in the relation of producer and processor and in the organizations of the producers, that's importance is increasing through the WTO obligations of the EU, and the growing contention. The integration can be a reasonable answer to this problem.

There are two basic forms of the integration. The first is horizontal integration that realizes homogeneous activities (like production of poultry). The second is vertical integration that connects the activities that follow each other on the vertical axis of the production of product. These systems are usually regulated from the end-product.

The integration can play an important role in terms of financing the production. This role points beyond financing only from internal sources, because this needs far bigger amount of capital in system of integration (many grower face usually one producer), or in an organization that is similar to integration. The processor can imply a guarantee for the actors of the market (e.g. input suppliers, banks) in relation of the grower's liquidity. The system of integration can acquire additional advantages in the field of transactions with the suppliers, because huge orders can gain price reduction, and so the reduction both of the growers' and integration's costs. The processor can be an important guarantee for the banks, so the growers get a better estimation when considering credit (loan) costs, so this can also effect the reduction of the production's cost.

The division of these advantages among the actors of the integration is more complex question. The growers of the raw material have disadvantage towards the processor because of its dimension, and its role (similar to a monopoly) in buying up the raw material. As a consequence the integrator (processor) aspires to get more and more from the implicit financial benefits of the integration. The interest of the growers' is in contradiction with this, but they can just intervene this to happen if they enter into alliance with each other like in the frame of a horizontal integration. With this the enclosed frames of the vertical integration can be softened, and reduce the risk coming from the monopoly of the processor, because they can behave more independently when laying up supplies, and so motivate the processor for dividing the benefits more equal.

Because the sugar industry offers complex solutions of the production financing, in my study I introduce possibilities of financing the production of the integration with the help of mathematical models across an example from the sugar industry, in the case when the growers work together in a horizontal integration in the frame of the vertical integration and search for possibilities to subtend the accessible favours to other production lines.

Key words: vertical integration, horizontal integration, advantages of the huge size, production financing

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