

ANALYSIS OF FINANCIAL FLOWS IN FOOD INDUSTRY ENTERPRISES

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In the present study it was used the analysis of food industry and the financial flows generated by them. The analysis was based on information from the financial statements of these entities, and the study of evolution: food industry output, number of enterprises and employees in food industry, import and export of food production. Following the undertaken analysis are highlighted some shortcomings and made some concrete proposals need to be considered in the sustainable development of the food industry.

Key words: financial flows; food industry; food industry output.

În cadrul prezentului studiu s-a recurs la analiza întreprinderilor din industria alimentară și a fluxurilor financiare generate de acestea. Analiza s-a fundamentat atât pe informațiile din Rapoartele Financiare ale acestor entități, cât și pe studiul evoluției volumului producției industriei alimentare, numărului de întreprinderi și angajați în industria alimentară, importului și exportului producției alimentare. Ca urmare a analizei întreprinse sunt evidențiate unele carențe și formulate propuneri concrete, necesare de a fi luate în calcul la dezvoltarea durabilă a industriei alimentare.

Cuvinte-cheie: fluxuri financiare, industrie alimentară, volum al producției industriei alimentare.

В рамках данной статьи автор осуществил анализ пищевой промышленности и финансовых потоков, генерируемых ими. Анализ был основан как на информации из финансовой отчетности предприятий пищевой промышленности, так и на эволюции ряд показателей таких как: объем производства пищевой промышленности, количество предприятий и работников в пищевой промышленности, импорт и экспорт продуктов питания. После проведенного анализа выделены недостатки и сделаны конкретные предложения, которые должны быть учтены при устойчивом развитии пищевой промышленности.

Ключевые слова: финансовые потоки, пищевая промышленность, объем производства пищевой промышленности.

JEL Classification: G30; F3; F4; F14; Q17.

Introduction. The level of economic development of a country influences directly financial management decisions within the enterprise. Usually, economic growth contributes to enhancing the welfare of population, consumption and consequently demand. In order to achieve these goals, enterprises increase their production capacity to sell more in order to meet increasing demand. All these help to boost borrowing of funds and demand for financial resources from economic agents.

The economic growth is a process of increasing the national economic dimensions based on combination and more efficient use of factors of production, process determined, on the one hand, by a series of direct factors as quantity, structure and quality of human potential, natural resources, capital etc., on the other hand, by a set of indirect factors as scientific and technological progress, rate of investments, international economic changes etc.

In contrast, the economic downturn is a process of contraction of economic dimensions of a certain country and is manifested by a lower efficiency of use of available resources and a lower gross value added. The evolution of a country's economy influences directly other sectors of national economy and determines the business prospects in a certain society for a significant period of time.

Basic content. It must be mentioned that the evolution of the Moldovan economy, over the last five years, according to the National Statistics Bureau, is supported by an increase approximately in all branches of the national economy. In particular, gross domestic product (GDP) increased in 2014

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compared to the previous year (2013) to 10.94% (111,501 mil. lei: 100 510 mil. lei x 100 -100) and 55.11% (111 501 mil. lei: 71 885 mil. lei x 100-100) compared to 2010 (Figure 1).

In general, a stable macroeconomic environment of a country, external conditions, economic growth, banking sector stability and, not least, increase in population's welfare constitute factors that influence development of the most important sector of national economy, namely industrial sectors within that country.

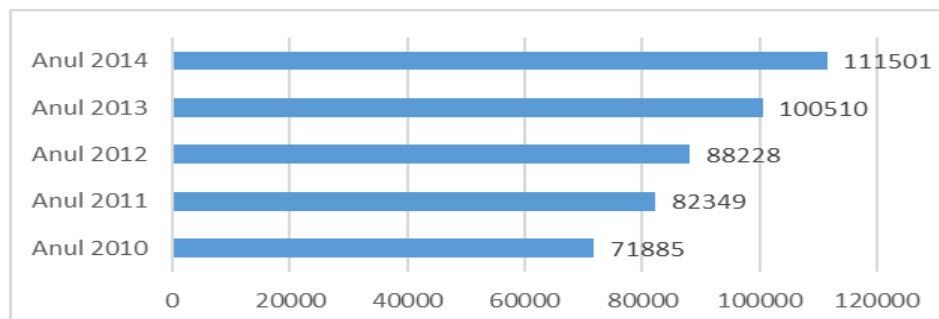


Fig. 1. Evolution of GDP in current prices in the period 2010-2014, mil. lei

Source: Prepared by author based on National Bureau of Statistics data.

In the Republic of Moldova, on the background of national and international turbulences that have materialized into decreasing intensity of economic agents' activity, income reduction of both the individuals and the legal entities, significant drop in imports and remittances, freezing investment projects, instability of the banking system especially during the years 2013-2014, the appearance of a functional stability was preserved as a subject of active interventions of the National Bank of Moldova and attracted financing from the International Monetary Fund.

In this study, the food industry enterprises were selected for analysis of financial flows. The reasoning selection from all areas of activity of the domestic industry, the choice of the food is dictated by the following factors:

- the food industry is one of the main sectors of national economy directly involved in ensuring food security of our country, in the formation of export potential and has a positive impact on the dynamics of country's economic growth. Currently in the domestic economy, food industry brings together dozens of sub-sectors, the most important being the production of meat products, wine, sugar, dairy products, oils and fats, bakery, confectionery etc.;
- the food industry is not monopolized, such as the electricity;
- the majority of food businesses are found approximately in the same external conditions for development;
- food industry is in a slump for a long time, which worsens the unfavorable external economic situation linked to the global financial crisis in 2008-2009 and the crisis in the domestic banking sector in 2013-2014.

In addition, it should be mentioned that like any other industry, the food industry is inherent in a lot of features. In particular, products manufactured by food companies belong to the group of essential goods and therefore are in constant demand (for food budget is consumed half of the revenue of the country's citizens). The sector is closely related to agriculture; respectively the increase of the efficiency of enterprises' operation in the food industry is impossible without solving also the problems/challenges that are present in agriculture. As a final link of the technological chain, the food sector must provide better storage and processing of agricultural production, transforming it into high quality goods. However, the issue of compliance with quality and environmental safety of food products for the domestic economy remains quite acute. Unfortunately, both, for the domestic producers and consumers the price continues to be the most important, but not the quality of served food products. Security standards laid down in state standards remain unchanged, but because of inefficient state control, the domestic products of low quality continue to be produced and the semi-finished products of dubious quality are still imported.

The importance of this sector to the national economy results also from the share held by food production volume in overall industrial output. Although during the years 2010-2013 there were positive trends of increased food production, yet its growth in recent years has been quite modest (Figure 2).

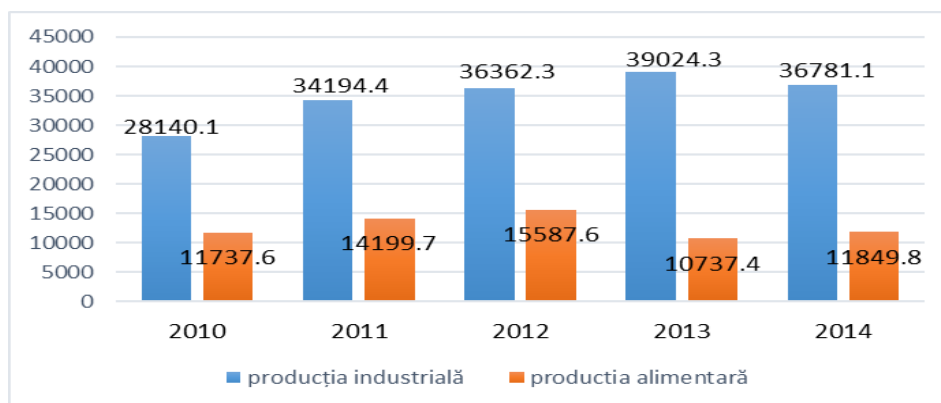


Fig. 2. The evolution of the food industry production during the years 2010-2014, mil. lei

Source: Prepared by author based on National Bureau of Statistics data.

In particular, in 2013 compared to 2012, the food production volume increased by 7.32%, but in 2012 compared to 2011 – by 6.34%. Furthermore, during these periods the food industry increased production due mostly by higher prices, and less because of higher production volumes. Compared to the previous year (2013) in 2014 was a decrease in the volume of food production from 39 024.3 mill. to 36 781,1 mill. lei or 5.75%.

It also notes that if in 2010 the production of the food industry had a share of 41,71% of country's industrial production ($11736,6 : 28140,1 \times 100$), then in 2012 it increased to 42.87%. However, from 2013 there had been noticed a slowing position of food production industry in the total sum of overall industrial production, so this year the food production industry had a share of only 27.51% of the country's industrial production. Although in 2014 compared to 2013 the situation had slightly improved (food production had a share of 32.22%), though the position of food production in total industrial production was below the 2010 level.

Among the main *objective factors* that caused the reduction of production volume of the food industry in the analyzed period may be mentioned:

1. loss of traditional markets in CIS countries;
2. reduction in agricultural productivity, which reduced the supply base of raw material for food industry enterprises;
3. obsolete technologies also as a result of the high production costs, and therefore a lack of competitiveness;
4. increase in raw material prices as a result of reduced agricultural productivity and outdated technologies;
5. increased competition from foreign producers that was imposed because of their relatively low cost (especially producers in Ukraine) or the promotion and imposition of trademarks (producers from EU countries).

Likewise, can be mentioned a series of *subjective factors* that contributed to the contraction of the food industry in recent years, such as:

- lack of success of the privatization program, which has failed to bring the financial resources for boosting the production in the former Soviet enterprises in the food industry;
- poor preparation of the management teams in most businesses in the food industry;
- inconsistent public policies that have not supported the industrial production, but only some individual companies.

As a result of the over 300 industry enterprises producing wine in the former MSSR, today are viable only less than 90. From about 100 businesses and production departments of canned food industry, today operates only about 80. Large zoo technical complexes had practically disappeared, being replaced with farms where the livestock is much smaller, based more on principle of existence, and not scientifically organized processes.

To this end, the finding is that in the food industry in the period 2010-2014 it had been showed a negative trend of reducing the number of businesses and employees within them (Figure 3). Thus, if in 2010 were active 1487 food industry enterprises, with a headcount of 32,611 people, in 2014 the number of businesses dropped to 1202 units or with 19.17% and the number of employees decreased to 25 006 persons or with 23.32%.

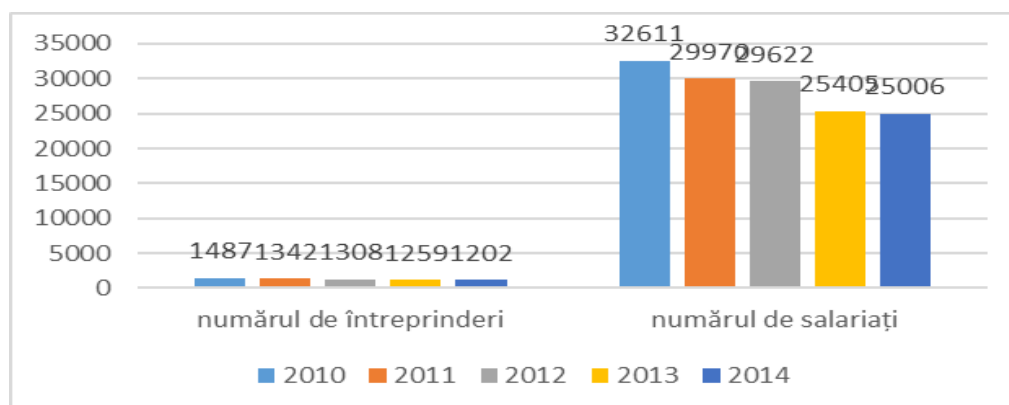


Fig. 3. The evolution of businesses and employees in the food industry in the period 2010-2014 in Moldova

Source. Prepared by author based on National Bureau of Statistics data.

Among the reasons of reduction of number of enterprises and number of employees it can be mentioned the fact that most businesses (about 98%) in the food industry are part of small and medium enterprises and as a result they are not able to resist to the external challenges of the autochthonous national economy in the past years. In our opinion, only large enterprises have the resources needed to implement modern technologies, advertising campaigns for promoting their own products, and not the least, to compete effectively with imported food products. Small business cannot develop new technologies, implement projects to promote on the international markets, benefit from economies of scale, after which all manufacturers of modern economies are running. Thus, without a sufficient number of large enterprises, a sector of the economy tends to be eliminated and lose the competitive battle.

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Structurally, the food industry is still dominated by a few sectors such as wine production, milk production, meat production and meat products, sugar, vegetable preservation and production of bread and pastry (Table 1).

Table 1
The evolution of the main production sectors of the food industry in the period 2010-2014

	2010	2011	2012	2013	2014
Food and beverage, total mill. lei, including:	11738	14200	15588	16223	11850
- Production, processing and preserving of meat and meat products	1474	1925	2435	2645	2895
-processing and preserving of fruit and vegetables	1043	1822	1608	1775	1893
-manufacture of vegetable oils and animal fats	997	1306	1625	477	721
-manufacture of milk products	1249	1391	1534	1706	1995
-production of mill products	152	225	219	310	184
-production of bread, bakery products and pastry cakes and fresh pastry	1115	1304	1370	1494	1153
-production of sugar	1058	1096	936	1383	1176
-manufacture of cocoa, chocolate and sugar confectionery	481	543	546	606	633
-manufacture of distilled spirits	511	604	925	1036	972
-production of wine	2023	2074	2315	2674	2246
-manufacture of mineral water and soft drinks	324	397	401	374	424
-manufacture of food products	1152	1338	1478	1744	1567
Food and Drinks Industry, total, %, including:	100.00	100.00	100.00	100.00	100.00
-production, processing and preserving of meat and meat products	12.56	13.56	15.62	16.30	18.43
-processing and preserving of fruit and vegetables	8.89	12.83	10.32	10.94	9.97
-manufacture oils and vegetable and animal fats	8.49	9.20	10.42	2.94	8.08
-manufacture of dairy products	10.64	9.80	9.84	10.52	11.84
-manufacture of mill products	2.65	2.82	2.66	1.91	2.55

	2010	2011	2012	2013	2014
-manufacture of bread, bakery products and pastry cakes and fresh pastry	9.50	9.18	8.79	9.21	9.78
-manufacture of sugar	9.01	7.72	6.00	8.52	9.92
-manufacture of cocoa, chocolate and sugar confectionery	4.10	3.82	3.50	3.74	5.34
-manufacture of alcohol drinks	4.35	4.25	5.93	6.39	8.20
-manufacture of wines	17.23	14.61	14.85	16.48	14.95
-manufacture of mineral water and soft drinks	2.76	2.80	2.57	2.31	3.58
-manufacture of other food products	9.82	9.41	9.50	10.75	13.22

Source: Prepared by author based National Bureau of Statistics.

If wine production in recent years experienced a significant decline, other sectors have recovered, but under the influence of price increases and less due to higher production volumes. In particular, in 2014 over the previous year food industry as a whole in 2013 recorded a decrease in production volume by 26.96%. The production volume has decreased on particular activities: production of milling with 40.65%, bread and bakery products – by 22.82%, wine production – by 16.00%, manufacture of drinks – 6.18%.

At the same time there has been an increase in the output of the food industry in the following activities: manufacture of oils and vegetable and animal fats – by 51.15%, manufacture of dairy products – by 16.94%, producing mineral water and soft drinks – by 13.37%, production and processing of meat and meat products – 9.45%, processing and canning of fruits and vegetables – 6.65%, manufacture of cocoa, chocolate and sugar confectionery – 4.46% etc.

It should be mentioned that while the trends of decrease in the share of production sector in the food industry and industrial production noted a loss of food business position in the local market compared to importers. Imports of cheaper food has complicated the situation further to the food industry.

Thus, in 2010-2013 imports of food production increased from 309 mill. USD in 2010 – 403 million. USD in 2014 (Figure 4).



Fig. 4. The evolution of import and export food production over the period 2010-2013, mill.

Source: Prepared by author based on National Bureau of Statistics data.

At the same time export of food production has increased from 317 mil. USD in 2010 – 427 million. USD in 2014. If food production in 2010 had 20.56% ($316\,942.1 : 486.6 \times 100\,1541$) of total exports, then export food production in 2014 is only 17.60% ($427\,293.5 : 2428303 \times 100$) of total exports.

In 2013 food exports were lower than imports, which also affected much of the industry outlook. Considering the low competitiveness of the food industry barriers for exports to Russia, Belarus and Kazakhstan we believe that in coming years the gap between imports and exports may increase to imports. Overall the food industry over the past five years has lost importance and related economic flows have decreased as a percentage of total financial flows in the economy.

Conclusions. Food industry enterprises had hard times during this period. Competition with foreign producers, the loss of traditional markets, the lack of a clear strategy to promote its products, increasing production costs due to high prices of energy products caused the industry to lose of its importance. As a result the financial sector in the country has significantly reduced agri-food sector's funding as sector fragmentation, lack of competitiveness has increased funding risks. Thus, in addition to operational issues, food industry enterprises were faced with major funding problems.

Focusing on a detailed analysis of the agrifood sector in Moldova, we conclude the following difficulties:

- a) low level of modern technology for food processing;
- b) low processing and, consequently, low efficiency;
- c) lack of processing capacity;
- d) inaccessible capital for restructuring and upgrading of processing;
- e) low degree of vertical and horizontal integration between process and primary production;
- f) the absence of implementing food safety standards and food quality standards;
- g) the low level of implementation of modern management and marketing methods;
- h) limited access to developed markets;
- i) competitive advantage related to lower labor costs will gradually decline, so will be a need to increase productivity.

To address these difficulties Moldovan government adopted a Decree No. 1149 on 05.10.2006 Industry development strategy for the period until 2015 “and the decision on 04.06.2014 nr. 409, “On adopting the national strategy for agricultural development and country for the years 2014-2020”, under which it is proposed to be launched processes of restructuring and modernization of food sector, with additional financial support to strengthen vertical and horizontal integration and implementation of food safety requirements and quality food. These activities will involve financial support for investment in processing facilities, modern buildings, modern production lines, including all infrastructure support” [45]. In the documents data is indicated that because of the lack of conformity of significant elements of agricultural and food processing sector with EU requirements on food safety and quality requirements of the domestic food sector, it limits access to European Union markets.

However, EU standards and other international standards for food safety is a precondition for successful global trade of agricultural products and placing high value on international markets Large investments will be needed to modernize production technologies in line with EU requirements, as it was done in the new Member States. Current shortcomings in food safety management system of the country is the most serious impediments to access and presence of Moldovan agricultural products more competitive in international markets, and national public health considerations.

Food Safety Strategy and the new legislation initiated the transparency and credibility of the system. At the same time, to identify the resources needed for investments laboratory in accordance with the development strategy of the system of laboratories in the food and feed chain in Moldova for the period 2013-2015. Also, border inspection posts and other infrastructure will demand for significant investments to be equipped according to EU requirements.

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