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Farm Growth and Liquidity Constraints in Slovenia

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During the second half of the twentieth century, the number of farms has declined sharply in developed countries. Similar phenomena were observed in Central and Eastern European countries after transition. Corollary to the decrease in the number of farms, there is the increase in the remaining farms' average size. The issue of farm size growth refers specifically to that of structural change, which is an irreversible change in the agriculture. In some countries, the underdeveloped capital market and asymmetric information problems affect the farm choice between the use of internal or external finance to promote growth; in such cases, all firms do not have the same access to external capital markets. For farms that face capital market constraints in their ability to raise funds externally, cash flow can represent almost the only way to finance growth. There is increasing literature on the relationships between financial constraints and investments. Other strand of the research focuses on the growth of farms. However, literature on the role of liquidity constraints to farm growth dynamics is almost non-existent. Thus, the aim of the paper is to investigate the relationship between financial constraints and farm growth for Slovenian farms between 2007 and 2015 using Farm Accountancy Data Network datasets.

We use input-oriented farm size measures including land and labour, because they are less susceptible for random shocks as output indicators. We employ dynamic panel model controlling for time fixed effects, farmer specific variables – including age, education and gender – and total agricultural subsidies. We use cash flow as a proxy for financial constraints. Contrary to theoretical expectations, the cash flow negatively influences the farm growth in small farms, while it has positive impacts on the growth of large farms. The role of farmer specific variables is limited; the effects of age and education are insignificant, while male managed farms are growing faster. The impacts of subsidies are also mixed; they have positive impacts on land growth and negative effects on labour growth. This finding suggests possible substitution of labour with capital and changing type of farming from more labour intensive to more land extensive cultivation practices.

Keywords: farm growth, farm size, liquidity constraints, dynamic panel model

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