

Support for the food industry in the Slovak Republic

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Abstract

The food industry plays an important role in economic policy, and its development is dependent on agricultural productivity. Agricultural productivity may become a key issue in the future, because it is necessary not only to produce more, but also to produce in a sustainable manner. The purpose of this paper is to examine the opportunities for food enterprises to participate in calls and support programs approved by the Government of the Slovak Republic in current strategic plans, as well as the provision of subsidies for green investments in food enterprise innovation, and an examination of the publication of non-financial information on efforts to build the food industry in the Slovak Republic under the conditions of sustainable development set out in the annual report in accordance with Act No. 431/2002 Coll. on Accounting, as amended (Accounting Act), because the food industry currently requires changes toward modernisation, innovation, and transformation of production with a more efficient use of resources in order to ensure sufficient food for the population in the context of sustainable development.

Keywords: *European Green Deal, food industry, sustainable development, annual report, investment*

JEL Classification: *A12, M21, O31*

1. Introduction

Promoting environmental entrepreneurship in the food industry is essential because food businesses must develop their ideas, thoughts, and visions with the goal of providing enough food for people while being conscious of the environment. Food companies are changing their attitudes not only as a result of legislation or the implementation of environmental management measures, but also as a result of consumer pressure. Consumer pressures from the external environment are driving the need for the current food industry to invest in modernisation, innovation and transformation of production to use resources more efficiently. Because the transition to more resource-efficient production requires increased investment, not every enterprise is capital-ready to transition from conventional to more resource-efficient production in the context of sustainable development. It refers to all stages of the process, including design, construction, maintenance and delivery of solutions to the customer (Akyazi, Goti, Oyarbide, Alberdi & Bayon, 2020). Sustainable consumption and production is one of the goals of sustainable development as an important global market (Ivančáková, 2021).

The food processing industry is recognized as a major buyer of agricultural commodities from both domestic and international markets, ensuring their processing, production, and participation in food supply to the population. To ensure that more people have enough, better quality, and healthier food, as well as a gradual shift in consumer attitudes toward environmental protection, food businesses must implement a variety of measures and processes to transform production in order to achieve sustainability, efficiency, and environmental

protection, and thus they must develop green innovation practices to meet stakeholder expectations. (Soewarno, Tjahjadi, Fithrianti, 2019).

1.1 The European Green Deal and the Slovak Republic

Climate change and environmental degradation pose an existential threat to Europe and the world. To address these threats, the European Green Agreement will transform the EU into a modern and competitive, resource-efficient economy. (European Green Deal, 2021) The European Commission is committed to achieving climate neutrality by 2050. Under the EU Council's Green Deal, all European Union measures and policies contribute to the Green Deal objectives (European Green Deal, 2022). In its Communication, the European Commission announced initiatives in a number of policy areas, including:

- European climate legislation,
- EU Biodiversity Strategy 2030,
- Farm-to-table strategy,
- European Industrial Strategy and Action Plan for a Circular Economy,
- Just Transition Mechanism,
- Secure supply of clean and affordable energy,
- Sustainable and smart mobility,
- Renovation Wave,
- Forestry strategy.

The different initiatives of the European Green Deal are not mutually exclusive. On the contrary, they complement each other in terms of supporting the food industry in reflecting current food themes, with the farm-to-table strategy taking the center stage.

Farm-to-table strategy

The farm-to-table strategy should help bring healthier and more sustainable food. (RTVS, 2021) The farm-to-table strategy reflects the European Union's goal of achieving climate neutrality by 2050 by transitioning the current EU food system to a sustainable model. In addition to food safety and security, the European Union establishes the following goals as part of the strategy:

- ensuring that there is **enough affordable and nutritious food** within the limits of the planet's resources,
- ensuring **sustainable food production** by, among other things, significantly reducing the use of pesticides, antimicrobials and fertilisers and expanding organic farming,
- promoting more sustainable **food consumption and healthy eating habits**,
- reducing **food loss and waste**,
- fighting food **fraud** in the supply chain,
- improving **animal welfare**.

The EU food system ensures fresh and safe food for everyone in the European Union. Food production is not only a vital service but also a source of income. The agriculture industry is an important sector, bringing food security, but it also has a significant impact on the environment, with around a third of global greenhouse gas emissions coming from food systems, according to a report by the Intergovernmental Panel on Climate Change (IPCC). In addition, the current food model is having a detrimental impact on people's health, with more than 50% of adults in Europe being overweight, hence the objective of changing the way food is produced and consumed in Europe to reduce the environmental footprint of food systems,

strengthen their resilience to crises, and at the same time ensure that healthy and affordable food is available for everyone now and in the future.

A sustainable food system seeks to protect the nature and biodiversity of the European Community and therefore some of the proposed Green Deal initiatives are presented as complementary. The farm-to-table strategy is aligned with the EU's 2030 biodiversity strategy. The farm-to-table strategy and the EU's 2030 biodiversity strategy share the objectives of reducing pesticide and fertiliser use, restoring farmland and water management.

In October 2020, the Council adopted conclusions on this strategy, setting the goal of creating a European sustainable food system from production to consumption. The conclusions contain a threefold political message from the Member States, which agreed to guarantee:

- access to sufficient and affordable food while contributing to the EU's climate neutrality by 2050,
- fair income and strong support for primary producers,
- global competitiveness of EU agriculture.

In the context of supporting the development of food businesses under the conditions of the concept of sustainable development, the Government of the Slovak Republic in the field of support for research, innovation and other innovative solutions Strategic Plan of the Common Agricultural Policy for 2023 - 2027 and also supports businesses through various European Union research and innovation programmes.

1.2 Strategic plan of the Common Agricultural Policy for the period 2023 - 2027

For the further development of food production in Slovakia, it is necessary to create a Strategy for the development of the food industry until 2030, with regard to the entire food vertical. However, in terms of the development of the entire food sector, it is necessary to set policies on the basis of a comprehensive picture of the overall state of the sector, and at the same time for individual food sectors. (Strategické priority, 2020) In February 2022, the Government of the Slovak Republic approved the Strategic Plan of the Common Agricultural Policy for the years 2023 - 2027 (strategic plan of the CAP), which was submitted by the Ministry of Agriculture and Rural Development of the Slovak Republic. The CAP Strategic Plan is the basic strategic document of the Slovak Republic, on the basis of which the European Union's support from the European Agricultural Fund for Rural Development (EAFRD) and the European Agricultural Guarantee Fund (EAGF) will be implemented. (MPSR, 2022)

The Strategic Plan leads to the implementation of the 2030 Agenda for Sustainable Development through the achievement of general economic, environmental and social goals. The strategic plan takes into account and sets priorities to support the sustainable development of agriculture, food, forestry and rural areas in the Slovak Republic, while the new common policy of the European Union has three main objectives, to which the Slovak Republic will contribute (MPSR Communication, 2022), and to:

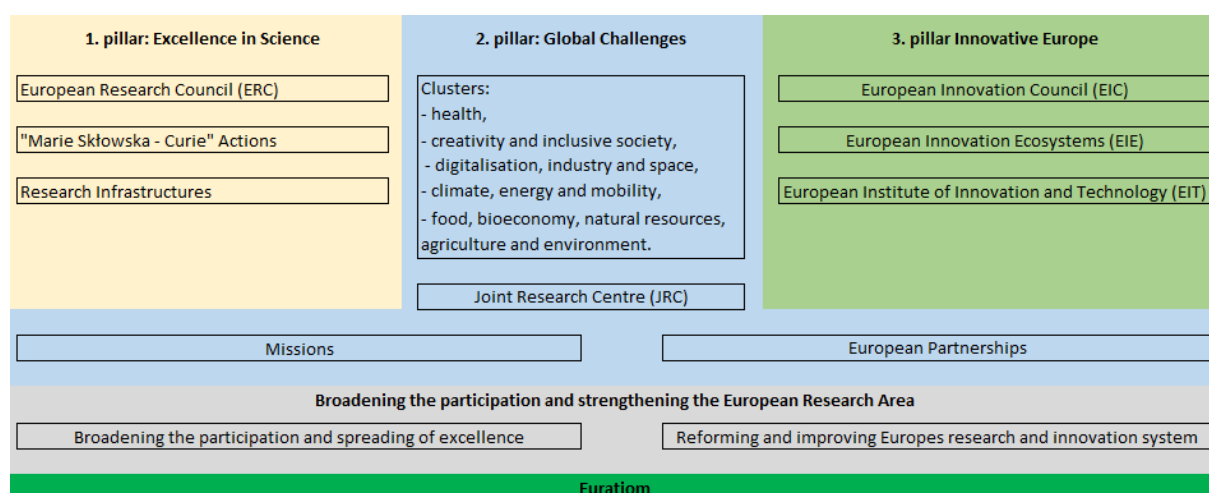
- a smart, competitive, resilient and diversified agricultural sector that guarantees long-term food security,
- protecting the environment, including biodiversity and climate action, and achieving the Union's environmental and climate objectives,
- strengthening the socio-economic structure of rural areas.

1.3 Promoting innovation Horizon Europe 2021-2027

The government also supports local businesses through various European Union programmes for research and innovation. One of the programmes is the European Union's 9th Framework Programme for the period 2021 to 2027. Horizon Europe builds seamlessly on Horizon 2020, which is one of the most important programmes funding projects in science, research and innovation in the European Union between 2014 and 2020. In order to prepare Horizon Europe, the outcome of the strategic planning exercise has been translated into a Strategic Plan (2021-2024) for the submission of proposals for the first four years of Horizon Europe (2021-2027). It is the document "Towards a first Strategic Plan for Horizon Europe" that explains the process of developing the first Strategic Plan and provides the basis for the Horizon Europe Work Programmes.

Its main objectives are to strengthen the EU's science and technology base and the European Research Area (ERA); to strengthen Europe's innovation capacity, competitiveness and employment; to meet citizens' priorities and sustain our socio-economic model and values. Particular reference can be made here to the manifestation of the objectives and vision of the European Green Deal, the digital transition, the transition to sustainability and the recovery from the COVID-19 crisis.

The new programme will be implemented through three main pillars, namely Excellent Science, Global Challenges and Innovative Europe (Schema 1).



Schema 1: Pillars of Horizon Europe

Source: ERAPORTAL, 2022

Under each pillar of Horizon Europe, objectives are defined:

- 1. Excellence in Science "pillar"** - aims to support investigator-led research projects through the European Research Council (ERC), fellowships and staff exchanges under Marie Skłodowska-Curie Actions, and investment in world-class research infrastructures (including e-infrastructures).
- 2. Global Challenges and the Competitiveness of European Industry" pillar** - this pillar aims to support EU policies and the Sustainable Development Goals, supported by EU and Member State policies through the activities of the Joint Research Centre (JRC). The second pillar is divided into 6 categories (clusters):
 1. health,
 2. culture, creativity and inclusive society,

3. civil security for society,
4. digitalisation, industry and space,
5. climate, energy and mobility,
6. food, bioeconomy, natural resources, agriculture and environment

Pillar 2 includes an emphasis on food safety (soil health, food and

healthy oceans, seas, coastal and inland waters). Horizon Europe supports and

European partnerships and strengthen the European Research Area (ERA). The following two European Partnerships are relevant for food safety:

- Candidates for partnership in healthcare,
- Candidates for partnerships in food, bioeconomy, natural resources, agriculture and environment.

3. the "Innovative Europe" pillar supports solutions that contribute to building market and innovation-friendly ecosystems. It will aim to make Europe a key player in market-creating innovation through the European Innovation Council (EIC) and the European Institute of Innovation and Technology (EIT) to promote the integration of actors with the common goal of developing innovation in research, higher education and business. The pillar also includes the European innovation ecosystems area, which serves to strengthen the connectivity and performance of Europe's research and innovation environment.

2. Data and Methods

In this paper, we focused on the possibilities of supporting food industry enterprises in Slovakia in the field of innovation and possible investments under the conditions required by sustainable development in all its areas, because agricultural productivity is currently increasing, but at the expense of the resources provided by nature to mankind. It is the funds from subsidies, calls for investment that can help food businesses to improve their production in the context of sustainable development. The purpose of this paper is to examine the opportunities for food enterprises to participate in calls and support programmes approved by the Slovak government in current strategic plans, as well as the provision of subsidies for green investments in food enterprise innovations, as well as an examination of the disclosure of non-financial information on efforts to build production beneficial to environmental protection in annual reports in accordance with Act No. 431/2002 Coll. on Environmental Protection (Accounting Act) as amended.

3. Support for Slovak food businesses

The provision of a subsidy is a process in which the provider of the subsidy and the applicant for the subsidy, who is also the recipient of the subsidy, act together. This can be used to designate the food business as both the applicant and the recipient of the subsidy. The disclosure of information by a food producing company about its involvement in challenges, support programmes, research on increasing productivity in order to protect the environment for future generations is important information for various business partners who also subscribe to the conditions of sustainable development, but also for food consumers.

3.1 Accounting treatment of subsidies granted to food businesses

Together with the support programmes of the Slovak Republic, food processing enterprises have the opportunity to apply for subsidies for R&D, innovation and green investment projects if they meet all the conditions related to the subsidy (Sklenka et al., 2019).

The entitlement to the subsidy is a receivable for the entity, i.e. the food business. If a food business becomes eligible for a given subsidy on the basis of a decision of the competent authority which grants the subsidy. In the case of subsidy accounting, the procedure is followed in accordance with the provisions of § Sec. 52a and Sec. 52b of the Ministry of Finance of the Slovak Republic Measure No. 23054/2002-92, which establishes details of accounting procedures and the framework chart of accounts for entrepreneurs accounting in the double-entry bookkeeping system, as amended (Accounting Procedures, 2002). The subsidy can be provided from the state budget, from the funds of the European Union, from the budget of a municipality, city, self-governing region. From the point of view of the provider of subsidies, the accounts for accounting for subsidies are also arranged in the framework chart of accounts for entrepreneurs, namely:

- 346 - Subsidies from the state budget,
- 347 - Other subsidies (Accounting procedures, 2002).

The entitlement to the subsidy shall be booked by the entity on the basis of an internal accounting document on the Debtor side of the account 346 - State budget subsidies or 347 - Other subsidies by a corresponding entry in the relevant revenue account of account class 6 - Revenue or in account 384 - Deferred income. When the funds in the bank account are received, the receivable for the grant entitlement is extinguished. (Sklenka et al., 2019) The accounting cases in the context of entitlement to a subsidy are shown in Table 1.

Table 1: Procedure for accounting for entitlement to a subsidy

| Accounting case | Debtor | Credit |
|---|-----------|-----------|
| Entitlement to a subsidy from the state budget (from the municipal budget) | 346 (347) | 6xx, 384 |
| Acceptance of subsidies to the bank account from the state budget (from the budget of the municipality) | 221 | 346 (347) |

Source: Accounting procedures, 2002

The further accounting treatment of the grant entitlement depends on the purpose of the grant, whether the grant was made for an asset, distinguishing between a grant for depreciable fixed assets or a grant for non-depreciable assets, or whether the grant was made to reimburse costs.

3.2 Disclosure of information on green investments in the annual report

Disclosure of information on the provision of sufficient food for human consumption with regard to environmental protection should be published by individual food businesses in the Slovak Republic in their annual report. Corporate social responsibility in events is truly impactful and innovative (Košíčiarová & Kádeková, 2020). The conditions of disclosure of information to users and its content are regulated by the provisions of Sec. 20 of Act No. 431/2002 Coll. on Accounting, as amended. The information disclosed in the annual report may be financial but non-financial in nature. Non-financial information can also include information on green investments, information on new trends in the food industry, information on projects in which the food company has been involved, information on innovation-friendly

ecosystems, transformation of production to more environmentally friendly production, integration of new technologies into production that meet the concept of sustainable development, information on innovative sustainable solutions, or what funds from calls for proposals from the subsidy provider the food company has received to support its business. The obligation to prepare an annual report under the Accounting Act is limited; not every entity is obliged to prepare an annual report, but only those entities that meet at least two of the conditions at the date on which the financial statements are prepared and for the immediately preceding accounting periods (Accounting Act, Sec. 19 (1)). In recent periods, pursuant to Act No 198/2020 Coll. of 9 July 2020 amending certain acts in connection with the improvement of the business environment affected by anti-pandemic measures to prevent the spread of the COVID-19, the size criteria for the audit of commercial companies and cooperatives have increased. For the accounting period beginning on, or after 1.1.2021, the criteria have been increased, namely:

- total amount of assets exceeds € 3 000 000,
- net turnover exceeds € 6 000 000,
- average number of employees exceeds 40.

And for the accounting period beginning on, or after 1.1.2022 have increased as follows:

- total amount of assets exceeds € 4 000 000,
- net turnover exceeds € 8 000 000,
- average number of employees exceeds 50.

Some accounting entities on the territory of the Slovak Republic are required to prepare an annual report within the narrower scope of disclosure of information, which, according to the Accounting Act, Sec. 20 (1) (a), (b), (c), (d), is, for example, information on the entity's development, the entity's state, and the significant risks and uncertainties to which the entity is exposed. Such information shall be provided in the form of a balanced and comprehensive analysis of the state of affairs and a forecast of developments and shall include relevant financial and non-financial indicators, including information on the impact of the entity's activities on the environment and on employment, with reference to the relevant figures in the financial statements, events of particular significance occurring after the end of the financial year for which the annual report is made, the expected future development of the entity's activities and the cost of research and development activities.

In addition to entities that prepare an annual report within the narrower scope of disclosures, there are also entities that disclose non-financial information within the broader scope of disclosures in the annual report. Those public interest entities (other than a entity defined in Sec. 17b) that also disclose non-financial information in the broader scope of disclosure in the annual report shall disclose information on the development, conduct, position and impact of the entity's activities on environmental, social and employment issues, information on respect for human rights, and information on the fight against corruption and bribery (hereinafter referred to as the "social responsibility area"), indicating according to the Accounting Act, Sec. 20 (8):

- a) a brief description of the business model,
- b) a description of, and the results of, the entity's application of its corporate social responsibility policy, including the due diligence procedures applied,
- c) a description of the principal risks of the entity's impact on the area of social responsibility arising from the entity's activities that could have adverse consequences and, if appropriate, a description of the business relationships, products or services that the entity provides and how the entity manages those risks,

- d) significant non-financial information about the entity's operations by activity,
- e) a reference to information on the amounts recognised in the financial statements and an explanation of those amounts in terms of the effects on the area of corporate social responsibility, if applicable.

4. Conclusion

Providing enough food for the population in a sustainable way is becoming a major goal for food businesses, and communicating that a food business is committed to innovative and resource-efficient sustainable production practices is becoming increasingly important. More importantly, not only for the various suppliers of raw materials and agricultural products who also believe in sustainable development, but also for buyers of food products and, ultimately, for consumers who believe in environmental protection and the preservation of natural resources for future generations. The Accounting Act is one of the sources of non-financial information disclosure that allows food companies in the Slovak Republic to inform about their activities based on the concept of sustainable development in the sense of Slovak legislation in the narrower, but also in the broader scope of disclosure of this information.

Despite the fact that the Government of the Slovak Republic has approved support programmes in the field of research, innovation, and innovative solutions for enterprises in the food industry, they are insufficient, and it is necessary to provide even more support to improve their position on the market and functioning, because they are the main carrier and strategic link in the overall economy of the company.

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