The present and future of small farms in Romania

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ABSTRACT
Small-sized farms have a significant share in Romania's agriculture, as a result of the specificity of land restitution to former owners in early 1990s. Although the total number of agricultural holdings in Romania was down by almost half a million in the last decade, it remains one of the highest in the EU countries and reveals the social, subsistence character of a large part of agricultural holdings. The paper attempts to evaluate the situation of small farm sector restructuring after applying Measure 141 referring to the support to semi-subsistence farms from NRDP 2007-2013 and the Life Annuity national scheme. At the same time, starting from the Commission's proposal for the post-2013 period on the support to small farms under the form of a lump sum payment ranging from 500 to 1000 euro, a series of calculation variants are made in order to see whether this measure would be financially attractive for small-sized farms in Romania. The main conclusion of the study could be that the process of small farm consolidation and its integration into the market economy structures would be quite slow, due to the extremely large number of small farms and to their safety net role for the extremely poor rural population, whose survival depends on the operation of the small plot of land into ownership.

Keywords: *small farm, CAP Reform, Romania*

INTRODUCTION

Romania is the country with the most fragmented agrarian structure in EU-27, with 32.2% of the total number of EU farms and 7.7% of the utilized agricultural area. Land restitution to former owners and their heirs, initiated in the early 1990s featured certain peculiarities that favoured the present fragmentation. The most important characteristic was the limitation of restituted land area to 10 ha per family; this situation was corrected only in the years 2000 and 2005. The total area restituted to the 3.8 million beneficiaries of Law 18/1991 (land restitution law) was 9.3 million ha. On the other hand, this law, by the modality it regulated the legal circulation of land, practically blocked the land transactions until 1997. In the year 1998, the agricultural land market was liberalized while maintaining certain conditions (for instance, an upper limit of 100 ha imposed to the land areas into ownership), and in 2005 this was fully liberalized for the Romanian citizens. In spite of all the legislative improvements throughout the years and the measures applied to stimulate the average farm size increase, the land consolidation process is very slow and probably Romania will have a mostly dispersed agrarian structure many years from now.

MATERIALS AND METHODS

The paper investigates the small farm sector evolution in Romania, using as data sources the two agricultural censuses that took place in the years 2002 and 2010, as well as the farm structure surveys in the years 2005 and 2007. The role of small farms is investigated from the perspective of the subsistence and semi-subsistence economy for ensuring food security and welfare for the small rural holdings. The data source is the Family Budget Survey, in order to reveal the importance of own resources for meeting the consumption needs of rural households and for their incomes. At the same time, the financial support to small farms is investigated, in the post-accession period, under the two pillars, i.e. SAPS payments and the support through the measures under the National Rural Development Program. The results obtained by the application of the Life Annuity Scheme are presented, focusing on the possible land consolidation effect and land transfer from elderly to young land owners. The data used in this analysis came from the official sources of the Ministry of Agriculture and of the Agency of Payments. As regards the perspectives of small farms in the budgeting period 2014-2020, the last part of the study makes an evaluation of the possible budgetary effects in the case of a simplified small farm scheme application in Romania, through an annual lump sum per farm.

1. THE ROLE OF SMALL FARMS

Although the total number of agricultural holdings in Romania was down by almost half a million in the last decade, from 4.48 million registered by the 2002 census to 3.85 million according to the 2010 census (Table 1), it remains one of the highest in the EU countries and reveals the social, subsistence character of a large part of agricultural holdings.

Table 1. Evolution of agricultural holdings in Romania in the last decade

	2002	2005	2007	2010
Number of holdings (thousand)	4 485	4 256	3 931	3 856
Utilized agricultural area (thousand ha)	13 931	13 907	13 753	13 298

Source: Romanian Agricultural Census 2002 and 2010, Farm Structure Survey 2005 and 2007, National Institute of Statistics (NIS), Bucharest

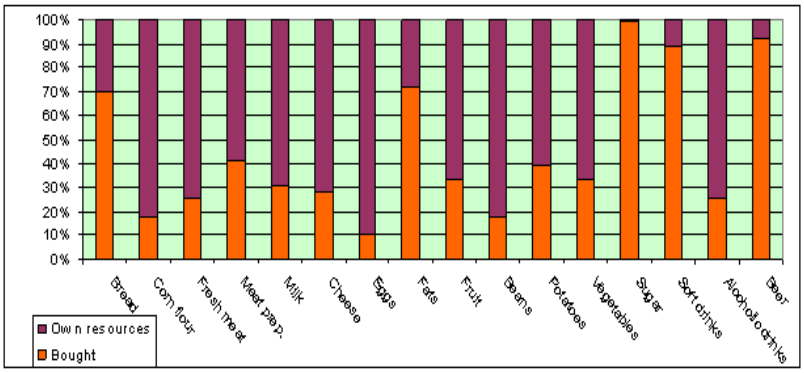
The 2010 Census reveals a picture of the Romanian agriculture under a too slow restructuring process. The average agricultural area of a holding was 3.4 ha, non-specific for a country with a significant size of agricultural land area. The result of the too slow transformations of the farming sector is highlighted by the fact that about one-third of the registered holdings in the European Union in 2010 are found in Romania. Of course, a significant part of these are merely subsistence holdings: about 75% of the registered holdings utilize an agricultural area smaller than 2 ha (however, the area of all these 2.8 million holdings represents 13% of the total utilized agricultural area at national level).

At present, Romania does not have a clear definition of the small farm yet, but for the purpose of this analysis we can take into consideration the holdings under 5 ha and even those under 10 ha. The 3.5 million holdings under 5 ha accounted for 93% of total number of holdings, and they operated almost 30% of the utilized agricultural area at national level. About 98% of holdings were under the 10 ha threshold, with about 39% of utilized area. The small holdings are obviously non-legal entities. In the year 2010, there were about 30 thousand legal entity holdings in Romania, with an average area of 190 ha each. By contrast, the 3.8 million non-legal entity holdings had an average area of 1.9 ha.

If we leave aside the 3 million subsistence holdings of Romania, the interest in increasing small farm competitiveness presupposes to focus on the 866 thousand holdings with an economic size over 1 ESU (according to the data from 2007). The integration of these holdings on the market represented and continues to represent a challenge, as long as 64% of these mainly produced for self-consumption, and 35% mainly for direct sales.

The main function of (subsistence and semi-subsistence) small farms is to ensure a certain social protection for the rural people who worked on the former cooperative farms and whose pensions are not sufficient for a decent living. However, these small holdings cannot lead to the increase of professional farmers' welfare, many of them being also dependent on the agricultural services performed by the owners of agricultural equipment.

Graph 1: Origin sources of food consumption on rural household



Source: Family Budget Survey, NIS, 2009

Although marginalized by the national and European agricultural policies (Ghib and Villemin-Ciolos, 2009), the small farms have a social buffer, which enabled Romania to go through the difficult period of the 1990s without social disturbances, when the disindustrialization resulted in premature unemployment that found an attenuation in the subsistence farming practice. In addition, these farms contribute to Romania's food security, if we take into consideration the high share of self-consumption on the rural holdings. Another benefit, this time from the territorial point of view, is represented by the presence of these farms mainly in the hilly and mountain areas, being the main players of local economy in these areas. In the present conjuncture of the prolonged economic crisis, the economic behaviour of the small farms can be also taken into consideration, which, although having a lower productivity, ensure a stable production, due to production diversification. Thus, while the very large-sized farms from Romania are generally specialized in the production of small grains and oil crops, the very small farms feature a strong diversification: they mainly cultivate maize (as a grain crop), used in the people's food and also for feeding animals, and also a multitude of crops that are used as food for people, such as: beans, potatoes, pumpkins, vegetables, fruit. At the same time, most small farms also raise animals: 1-2 dairy cows, poultry, several sheep or goats. Thus, in the countryside, people's food mainly comes from the production of small peasant household farms. These products are no longer marketed, but they are used as self-consumption. Thus, according to the Family Budget Survey (NIS, 2009), on the rural households, about 66% of total food consumption expenses is represented by the value of self-consumption. Practically, on these households, only those foodstuffs that cannot be produced on the respective household are bought, i.e. sugar, oil, certain alcoholic and non-alcoholic beverages. That is why, it is

considered that small farms have an important social role in Romania, although they represent a constraint to the development of high productivity agriculture; however, they represent an important factor in ensuring food security for the population, mainly in the rural area, where about 45% of the country's population lives (Alexandri, C., 2001).

2. SUPPORT TO SMALL FARMS

Although throughout the European Union (EU) the 2007 Farm Structure Survey revealed that there were only 13.7 million holdings, the CAP direct payments (2009 data) were received by only 7.8 million beneficiaries. The difference is made by the subsistence farms, which generally are out of the strict interest of the Common Agricultural Policy. A more rigorous delimitation of subsistence farms, made by Eurostat using the economic size of holdings, consider that the subsistence farms are those farms with an economic size less than 1 ESU. However, these farms (about 6.3 million) account for 47% of the agricultural holdings, 23% of the labour force employed in agriculture and 7% of the agricultural area, per total EU. In Romania, the respective shares of the subsistence farms are much higher: 78% of total holdings, 57% of the labour force and 31% of agricultural area.

2.1. Pillar 1 (SAPS)

For providing the direct payments to farmers, Romania opted for the simplified SAPS scheme, with the lower limit of holding of 1 ha, and the lower limit of parcels on holding of 0.3 ha. Thus, the total number of direct payments beneficiaries exceeded 1 million in each year of the period 2007-2010, but more than 80% of beneficiaries were farmers with less than 5 ha (Table 2), who owned about 20% of the eligible agricultural area for direct payments.

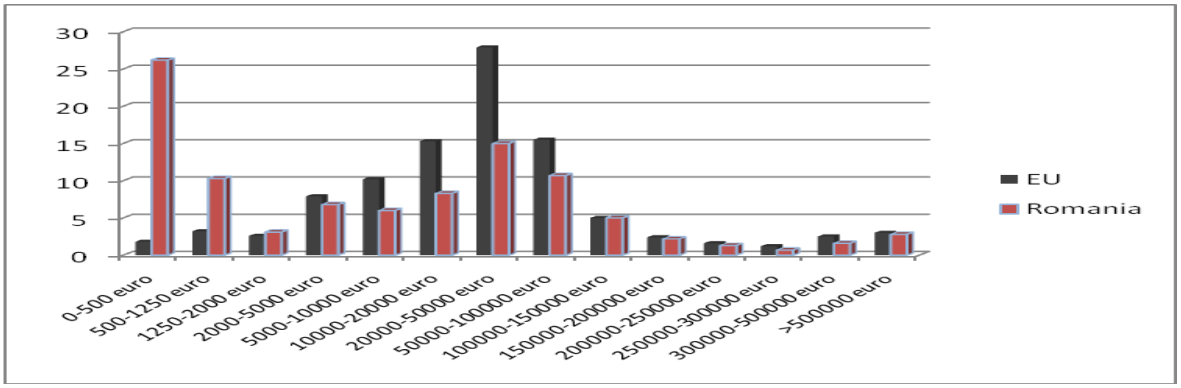
Table 2. Number of small farmers beneficiaries of direct payments (SAPS), per payment application years

	Year 2007	Year 2008	Year 2009	Year 2010
No. farmers with 1 – 5 ha	1 000 096	915 897	857 101	879 380
No. farmers with 5 – 10 ha	162 039	141 603	134 442	137 316
Total number of farmers benefiting from SAPS scheme	1 236 844	1 130 964	1 057 947	1 092 672

Source: Agency of Payments and Intervention in Agriculture (APIA)

The analysis of the beneficiaries and corresponding eligible areas for area payments (from EU funds), starting from the detailed data of 2009 payments per Member State, reveals the extremely peculiar situation of Romania from the perspective of beneficiaries' distribution, where a huge number of farmers (almost one million) received less than 500 euro direct payments from EU funds.

One can notice from Graph 2, the difference between the direct payments distribution by categories of beneficiaries in Romania and the EU-27 average. In Romania, 86% of farmers receive direct payments ranging from 0 to 500 euro, and the total amount received by this group of farmers represents 26% of the received direct payments in Romania. In EU-27, on the average, the farmers who receive direct payments from 0 to 500 euro represent 37% of total, and the total amount received by these represents only 1.8% of the direct payments at EU-27 level.



Source: EC, Agricultural Policy Perspectives ,Member States factsheets - March 2013

Graph 2. Share of total value of direct payments, by groups of beneficiaries, according to the size of payments (%), in the year 2011

Pillar 2

Among the measures under Axis 1 of the National Rural Development Program for the period 2007-2013, two transitory measures are found, introduced in the special rural development regulation for the New Member States who joined the European Union in 2004 and 2007. These are the measures 141 "Support for semi-subsistence farms" and 142 "Setting-up of producer groups", meant to speed up the integration of lower-sized farms on the market, resulted from the restructuring of agricultural sectors in the former socialist countries. By Measure 141, support is provided to semi-subsistence to get restructured individually, on the basis of a development plan that presupposes a better integration on the market, while 142 provides support for a collective activity of integration on the market, through the common marketing of products. The two evolution paths can remain separate, but they can be also combined: theoretically, it is desired that the beneficiaries of support for the semi-subsistence farms are members of a producer group, and thus their opportunities for a stable presence on the market increase.

Table 3. Cumulated situation of projects submitted for support through the transitory measures (June 2012)

Measure code	Number of submitted projects	Number of selected projects	Number of contracted projects	Value of contracts (mil. EUR)	Effected payments (mil. EUR)
141	64722	48512	46070	345.5	97.2
142	40	40	34	5.0	0.7

Source: Management Authority NRDP

Measure 141 provides support to the agricultural holdings whose production mainly goes to self-consumption, which also sell part of their production, in order to have their production restructured in the sense of a higher integration on the market. The eligibility conditions for Measure 141 are linked to the beneficiary's status (natural person up to 62 years old, who must become certified natural person until signing up the funding decision) and to the holding characteristics: holding registered in the Agricultural Registry, with an economic size ranging from 2 to 8 ESU, which sells part of the obtained agricultural products. This adds to submitting a business plan of a 5-year period (period for which the support is received). From the business plan, a 20% increase of the marketed production must result after the first 3 years, and an increase by 3 ESU of the economic farm size, eventually as a result of certain investments.

A relevant issue for the difficulty in the identification of a viable formula of Measure 141 implementation, which should have positive effects on the long run, is represented by the obligation of beneficiaries' registration as certified natural persons. It is clear that this registration offers the possibility of proving with invoices the increase of marketed production, but the commercial behaviour imposed to these (minority) farms is in contradiction with the prevailing current practices of a non-formalized economy, and the 1500 EUR / year support might not compensate the difficulties that the certified natural persons might face when selling their production.

However, Measure 141 is a measure that is in great demand: the number of its beneficiaries increased from about 16 thousand in late 2010 to about 46 thousand in June 2012. Out of the beneficiaries in 2010, 76% were holdings under 5 ha, 15% holdings with 5 – 10 ha, and 9% holdings over 10 ha, from which it results that small farmers are interested in their integration on the market.

2.2. The Life Annuity Scheme

The Agricultural Life Annuity is a national scheme, funded from the state budget, which was introduced in the year 2005 for the agricultural land concentration purpose, as it is explicitly stated in the law, having in view Romania's agriculture modernization by the establishment of efficient holdings. Actually, the natural persons aged over 62 years who owned agricultural land areas up to 10 hectares (land areas that were not the object of sale/purchase transactions after 1990), could receive until the end of their lives a sum of money guaranteed by the state, if they sold or leased out the land into their ownership. In the case of sale, the amount received annually was the equivalent of 100 euro for each hectare, and in the case of land lease, 50 euro. When the respective person entered this scheme (and became a renter), he/she could have into ownership only 0.5 ha agricultural land, in other words he/she quitted the agricultural activity.

The amounts due to these agricultural renters were paid from the state budget through a National office organized within the State Domain Agency, which had offices in each county; these offices were also in charge of keeping an evidence of renters and checking up the files. The first files for receiving life annuity were submitted in late 2005, and by the end of the year 2009, when the receipt of files was stopped, the number of beneficiaries had reached about 90 thousand persons. As a scheme introduced in the pre-accession period, the *Life Annuity* scheme benefitted from the possibility of continuation for a period of three years from Romania's accession to the EU, without the obligation to get it in line with the EU legislation of state aid. After the three years, the scheme was stopped, which meant that no new files for new agricultural renters were received, but the payments for the already registered persons at that moment continued to be received, and they will be received until the current beneficiaries' death.

The *Life Annuity* scheme, by the land area that was ceded by its beneficiaries, totalling 82 436 ha sold land and 247 184 ha leased out land, contributed to the adjustment of farm structure (diminution of the number of holdings from 1 to 10 hectares in size), as well as to updating the cadastre and to land lease formalization, by concluding contracts and their registration. Thus, the *Life Annuity* scheme proved to be a simple and robust measure, adapted to the Romanian agriculture situation. Taking into consideration the fact that the scheme still targets over 500 thousand beneficiaries of direct payments, owners of about 2 mil. ha (see Table 4), its continuation – under the form of a mechanism funded according to the state aid legislation – can contribute to farm structure adjustment, while also having a social role.

Table 4. Land area owned by individual farmers and their number, by age categories (2010)

Age category	< 30 years	30-40 years	40-50 years	50-60 years	60-70 years	> 70 years
Number of farmers (thousand persons)	10.2	74.4	141.3	231.8	292.6	351.4
Agricultural area (thousand ha)	92.9	524	909.7	1154.6	1175.4	1134.1

Source: APIA

3. SMALL FARM FUTURE IN THE POST – 2013 PERIOD

Among the issues focused on by the European Commission's Communication of 2010 on the Common Agricultural Policy towards 2020, the small farm issue can be also found, for which a simple scheme was proposed, specific only to the small farmers, which should replace the current system of direct payments to these farms, in order to improve their competitiveness and increase their contribution to maintaining the vitality of rural areas, while reducing bureaucracy. The proposal was welcome at European level by the representatives of different organizations, from farmers' associations to think-thanks and national governments. The Ministry of Agriculture and Rural Development from Romania expressed more than once its support for introducing a support scheme dedicated to the small-sized farms, also in Romania's Position on the Future Common Agricultural Policy after 2013.

We shall next present a few results concerning the effects of this proposal application (Giurca, D. Alexandri, C., Rusu, M., 2011), contained in a study elaborated within the European Institute of Romania.

As we have mentioned, the Commission's proposal on the small farm scheme envisages the replacement of the payments per hectare by an annual lump sum per farm and the simplification of conditionality with regard to the respect of good agricultural practices for receiving direct payments in the future CAP (EC, 2011). The main provisions of the small farm proposal refer to the sum to be paid, namely:

- The sum should not exceed 15% of the average value of payments per farm at national level or
- The sum should correspond to the direct payment per hectare multiplied by the number of hectares, which can be maximum 3 ha.

What would be Romania's options in the case of this scheme?

If we have in view the first criterion of appurtenance to the scheme (15% of the average value per farm at national level), we can notice that in Romania, in the year 2017, the average payments per farm, at national level, would be those from Table 5 below. The data on the farm structure are those extracted from (APIA) database for 2010.

Table 5. Possible payments per hectare and per farm in Romania in the year 2017

	UM	Status Quo (current legislation)	COM proposals, 2017 (Annex II)
Eligible area (2010)	hectares	9611790	9611790
Number of farms (2010)		1115756	1115756
National ceiling	thousand euro	1780410.0	1939357

Euro/ha		185.2	201.8
Euro/farm		1595.7	1739.2
15% of payment per farm		239.4	260.7

Source: based on the Proposal for a Regulation of the European Parliament and Council for establishing rules for direct payments to farmers through support schemes under the Common Agricultural Policy ANNEX II National ceilings mentioned under Article 6 and Regulation 73/2009

In the year 2009, according to the Commission's data, the average payment per farm in Romania was at the lowest level among the EU-27 countries. In the year 2009, the maximum level of payment per farm was 20950 euro in Spain, and the minimum level was 493 euro, in Romania.
The payment per farm, in the year 2017, would be about 1739 euro/farm, and 15% of this amount is about 260.7 euro/farm, hence less than 500 euro/farm, which is the minimum amount provided for in the scheme.
However, according to the Commission's proposal, the minimum level of single farm payment should not be lower than 500 euro/farm. And again we have the problem of the category of farms that could join this scheme. Rationally we think that the farms that would accept the scheme would be those that following the option for a payment of 500 euro/farm would get more money than in the case of receiving the direct payments per hectare.
As a result, we consider that this scheme could be attractive for the farms with 1 – 3 hectares. According to APIA data for 2010, about 650 thousand farms would fall into this category, and the area operated by these would total 1198 thousand ha.
Several variants of payments to small farms are presented below:
Variant 1 (reference variant), contains the situation in which the scheme for small payments is not applied and the small farms receive payments per hectare according to the national ceiling for the year 2017;
Variant 2 – when all farms from the segment 1-3 ha adopt the payment per farm of 500 euro;
Variant 3 - 75% of farms receive 500 euro per farm and 25% receive payments per hectare corresponding to the year 2017;
Variant 4 – the farms from the segment 1 - 2.5 ha receive the payment per farm of 500 euro and those from the segment 2.5 - 3 ha opt for the payment per hectare.
Table 6 is a synthesis of the results from the 4 investigated variants.

Table 9. Funds received by the small farms under the 4 previously investigated variants – thousand euro

Size category	V1 (reference)	V2	V3	V4
1-1.5 ha	51371.5	105489.5	91960.0	105489.5
1.5-2 ha	60739.8	87507.5	80815.6	87507.5
2-2.5 ha	67017.4	75003.5	73007.0	75003.5
2.5-3 ha	62603.0	57010.0	58408.3	62603.0
Total	241731.8	325010.5	304190.8	330603.5
% of national ceiling allocated to the payment of 500 euro/small farm	12.5	16.8	12.6	13.8

Source: own evaluations based on APIA data,2010

We can notice that the small farms would get the greatest amount of money in the situation when the segment 1 – 2.5 ha opts for the single farm payment (500 euro), and the farms from the class

2.5 – 3 ha for the payment per hectare. It is obvious that these simulations are only orientative, as in the case of small farms there will also be other factors that will determine the decision to participate to the single farm payment scheme, among which the farmer's age will be a most important factor.
Under Variant V 4, the segment of farms 1 – 3 ha receive an extra amount of about 89 million euro compared to Variant V I, and the farms from the category 2.5 – 3 ha do no longer lose money compared to Variant V 1. We can also notice how much profitable to small farms is the participation to the small farms scheme (500 euro/farm) mainly for the farms from classes 1 – 1.5 ha and 1.5 – 2 ha.
We consider that in the countries where the segment of small farms is significant, the percentage stipulated in the Commission's legislative proposal should be extended towards 15%, as farms from larger size categories (4, 5 ha) may also adopt this simplified formula, mainly in the situation of elderly farmers, who cannot farm their land properly any longer. Romania should militate to obtain this and find allies among the member states with similar structural problems.
Introducing the scheme for the small farms is particularly important for Romania as it represents a precondition for the application of the farm exit measure – included in the regulation proposal for rural development, Pillar 2, by which the farms included in the scheme have the possibility to receive a compensation if they give up land operation in the period 2014 – 2010. The effect of this farm exit measure would be the diminution in number of semi-subsistence farms that receive direct payments.

CONCLUSIONS

a) After the agricultural land restitution process that began in the year 1991, Romania probably has the most fragmented agrarian structure in Europe, the Romanian farms representing about 30% of the total number of EU farms.
b) The farm consolidation process is extremely low, the average farm size increasing almost insignificantly in the last eight years, from 3.1 ha in 2002 to 3.4 ha in 2010.
c) The main support instrument for the restructuring of the small-sized farms into commercial farms was Measure 141 from NRDP 2007-2013, supporting semi-subsistence farms (defined as having an economic size from 2 to 8 ESU), benefiting about 46 thousand farms by June 2012, i.e. two-thirds of the proposed target.
d) The application of the Life Annuity national scheme (2005-2009) devoted to the elderly farmers who want to exit the farming activity was mildly successful. The land area released by the beneficiaries of the scheme totalled 82.4 thousand ha sold land and 247.2 thousand ha leased out land. It is considered that the continuation of this scheme in the period post 2013 would prove to be beneficial.
e) The Commission Proposal for the post-2013 period on the support to small farms under the form of a lump sum payment ranging from 500 to 1000 euro seems to be beneficial for Romania. The segment for which this measure may become very attractive is the segment of farms with 1 – 3 hectares, consisting of about 650 thousand farms (58% of the farms eligible for direct payments) operating 1.2 million ha (12% of the eligible area). A recent Romanian study indicates that in the situation of this scheme application, the small farms would receive more money and the administrative costs generated by the check-up and control procedures of the Payments Agency would be consistently lower. A problem that appears in Romania refers to the fact that if all the farms under 3 ha applied for this scheme, the payments allocated to them would reach

14%-16% of the national ceiling for direct payments, thus more than the 10% threshold proposed by the European Commission for the small farms. There is a proposal to raise the 10% threshold proposed by the Commission for the payments allocated to the small farms towards 15% of the national ceiling for direct payments.

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