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Diversification strategies in small farms in Italy

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Abstract

Using the data gathered by the Business Survey on Agriculture survey on a stratified random sample of Italian farm businesses below 4 European economic size units as a case study, this paper explores the diffusion of diversification strategies among small farms. The analysis has shown that more than a half of small farms is adopting some form of diversification. Small farms are more strongly involved in pluriactivity, while their involvement in broadening and deepening strategies appears only marginal. This latter result is partly due to the underevaluation of diversification caused by the lack of detailed statistical information about diversified activities used by farms, and, partly, due to the structural characteristics of small farms. Smaller farms are usually characterized by a lack of capital; as a consequence they can often redeploy only their labour off the farm. The characteristics associated with the targeted group of farms show that small farms using broadening strategies present much better economic results than conventional small farms. More specifically, farms using broadening strategies appear to be the winning ones in terms of net farm income per family working unit.

Keywords and [JEL codes](#): Q12, R29, L25

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1. INTRODUCTION

In Italy, according to the 2000 National Census, the 82,2% of the total number of farms has an economic dimension lower than 8 ESU (the European standard unit for the economic size of farms) and produce the 16.5 % of total Standard Gross Margin (SGM). This is quite astonishing if one thinks that 8 ESU is roughly equal to 10.000 euros, that is well below the average Italian retirement income (12.000 euro). On the other extreme, only 9,5% of the total farms is above 16 ESU (average annual income higher than 19.000 euro) while produce the 73.5% of SGM. 1% of these farms is above 100 ESU.

Such data depict a rather polarised structure of the Italian agriculture, with two well defined poles at the extremes and a “grey area” in between, with farms that tend to move closer to one of the two poles according to the market trends and the policy support orientation.

Such picture clearly shows how Italy is a interesting case for studying the role of small farms in the development process of agriculture. Italian economic and physical farm structure, in fact, differs quite substantially from that of other large European countries, recalling a dualistic structure common to other Mediterranean countries and, to some extent – even though for totally different reasons – to some new Member States.

The debate about figures, performance and future of Italian small farms is very intense. Part of this debate focuses on the proper definitions of these farms (Henke, 2007; Sotte, 2006). Are they to be considered proper “enterprises”, responding to the logic of the market? Or rather are they just a residual feature of the past and will they eventually disappear? Do they play a specific role in the agricultural activity and in rural areas, more in terms of environmental protection, rural livelihood and landscape care, rather than in terms of productivist goals? From the operational point of view in Italy starting from year 2002 the threshold of 4 ESU (around 4800 euros of SGM) has been fixed: farms having an economic size above 4 are defined commercial while those below are defined small.

One of the main problems dealing with small farms is that they are often neglected by statistical surveys. As a consequence they tend to “disappear”. The rationale of this exclusion can be found in the economic and productivist criteria of approaching the primary sector and in the marginal contribution of small farms. As an example, the EU universe of farms used by Eurostat excludes very small farms, as well as the FADN sample. On the other hands, if one has in mind the increasing non-productivist goals of farms, maybe small farms have a role to play in the arena.

A large part of the debate on small farms has been focussed, in Italy as well as in other European countries, on the development pathways of these farms. A great concern in the Seventies had been arisen about their surviving process, moved by the fear that in a relatively short amount of time many small farms would have disappeared, given also a lack of generational turn-over. Subsequently, many studies in the early Eighties showed how pluri-activity was one of the responses featured by many small farms to secure themselves a future.

As a consequence, many of them became progressively deactivated and taken over by contractual workers, while others were used for residential or non-economic purposes; nonetheless, thanks to the off-farm activities, farmers into pluriactivity were able to integrate agricultural incomes and survive, often gaining new momentum and a new role in the rural areas.

Starting the second half of the Nineties, studies about multifunctionality have investigated other processes of farm transformation that include the possibility of producing non commodity goods and services. Most studies have focussed mainly on the multifunctional role of larger farms, investigating the modes of internalisation of new functions joint to the food production within a wider diversification process of the farm revenues¹. Focussing on small farms, such opportunities can be often limited by the size itself and by the limited entrepreneurial skills of the actors involved. In other words, small farms might contribute to some of the multifunctional practises more in a unconsciously way than as a result of a specific farm strategy pursued in order to differentiate activities and incomes with the final goal of surviving in the long run and reduce their marginality.

This paper focuses on the diversification process in the small Italian farms moving from the three categories that have been firstly introduces by the work of Van Der Ploeg and Roep (2003): deepening, broadening and regrounding. These categories include the possible transformation pathways for farms according to the logic of multifunctionality, but it has been mostly applied to larger farms. As a consequence, in this paper we will focus on the small Italian farms to see if there is any evidence that they are able to follow the same diversification pattern and to what extent. In other words, we will analyse if the process of diversification along the road to multifunctionality is also viable for small farms and if multifunctionality is a possible option for them to diversify and survive in the longer run.

2. COMMERCIAL AND SMALL FARMS IN ITALY: EVIDENCES FROM THE RICA-REA SURVEY

2.1 The RICA-REA survey

The Business Survey on Agriculture – the RICA-REA survey – focuses on the economic performances of Italian agricultural holdings. Responsible of RICA-REA survey are the Italian National Statistical Office – ISTAT – and the Italian National Institute of Agricultural Economics – INEA. In particular, ISTAT is responsible for methodological issues and INEA is

¹ For a recent survey of the literature on multifunctionality see for example Van Huylenbroeck *et al.* , 2007.

responsible for data collection. Parts of the survey network are also Regions and Autonomous Provinces. Data are annually collected according to FADN (Farm Accountancy Data Network) methodology for the bigger farms (RICA) and using the REA (Farms Economic Results) questionnaire for small farms. Observation field for the REA survey are farms having less than 4 ESU (European Size Unit) with at least one hectare of Utilised Agricultural Area (UAA) or a turnover of more than 2,066 euros. Observation field for the RICA survey are commercial farms having more than 4 ESU (European Size Unit). Units are sampled using a stratified random sample design to satisfy both FADN and ESA '95 regulations. Sample design variables are location, economic activity and ESU. The data are collected on a sample of around 23,000 farms. To comply with the National Accounts needs the main structural variables are observed on each unit as well as economic variables (cost and revenue structure, labour cost, contributions, changes in inventories, re-uses, non marketed goods). All in all, the data collection on smaller farms well address the objectives of the in-depth economic analysis.

2.2 Commercial and small farms in Italy

The 2006 sample of the RICA-REA covers 23.336 holdings. They represent a population of approximately 1.6 million farms, more than half (55%) of which is composed of small farms.

The dominant organizational form in the Italian farm population is that of sole ownership that covers more than 97% of total farms and more than 99% of small farms (Table 2.1). Given family farms² cover almost all the population of small farms, in the following analysis we will focus on this type of farms only.

Table 2.1

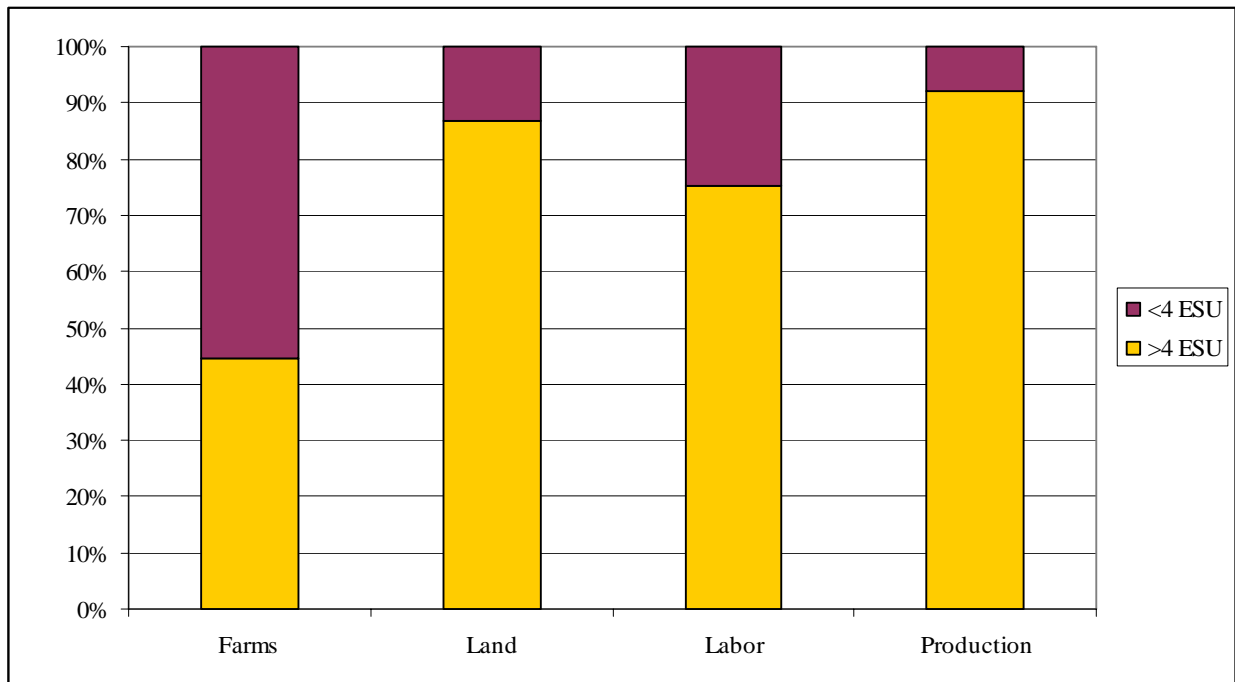
Total and small farms by legal status, Italy 2006

Legal status	Total farms	%	Small farms	%
Sole ownership	1,603,791	97.23	908,753	99.43
Partnership	37,493	2.27	2,518	0.28
Corporation	3,896	0.24	1,092	0.12
Other	4,326	0.26	1,566	0.17

² In this paper we define family farms as the sum of “sole ownership” and “partnership” categories.

Figure 2.1

Number of farms, UAA, days of work and production of commercial and small farms, Italy 2006.

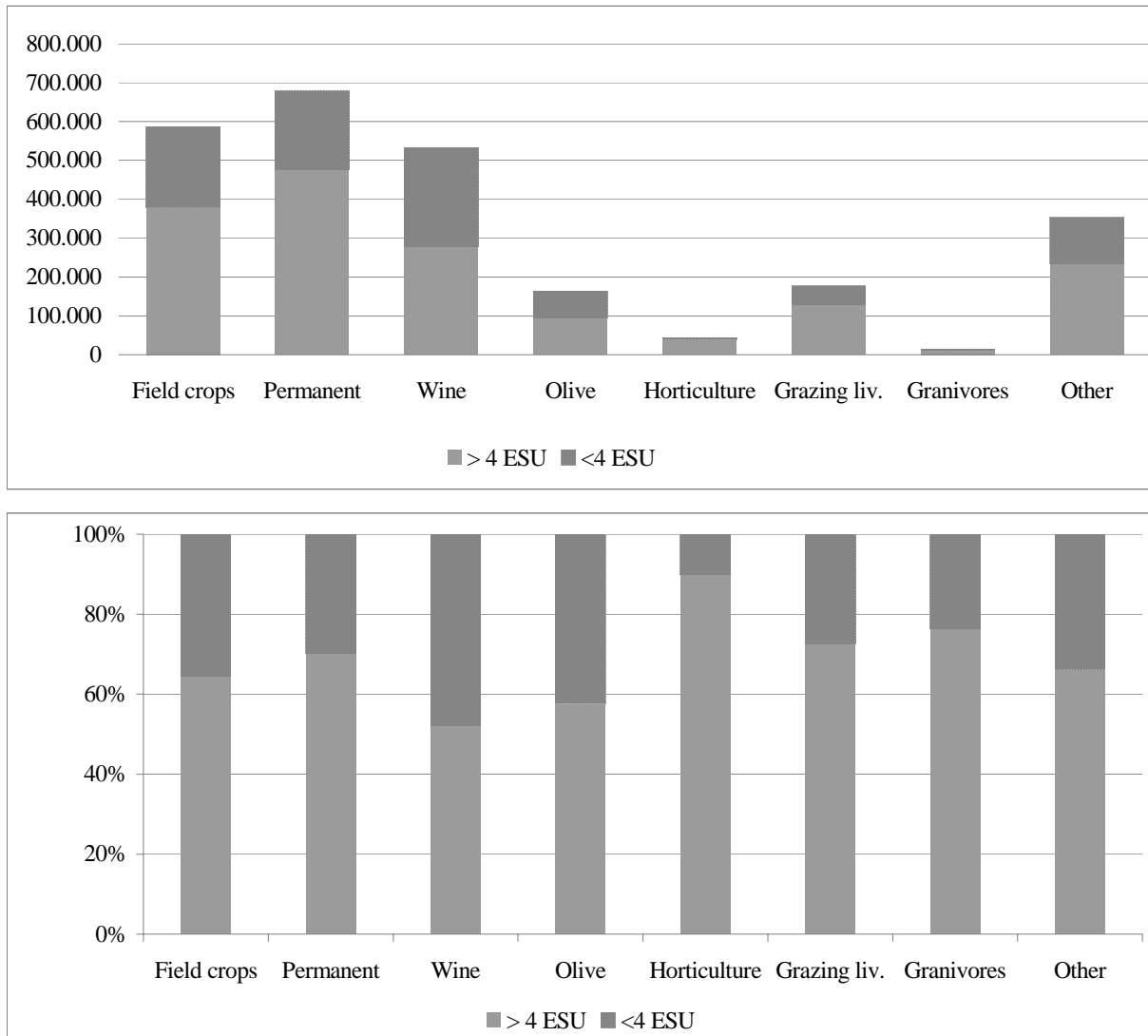


The data reported in Figure 2.1 show that the small farms (below 4 ESU) are preponderant in numeric terms while they use only the 13% of total utilized land and 24.7% of total days of work, and they produce less than 10% of total Italian agricultural production³.

³ The value of output produced is given by the sum of the following items: turnover, output produced for own final use, changes in inventory, total reuses.

Figure 2.2

Commercial and small farms by farm type, Italy 2006 (euro and %).



As for the distribution by farm type (Fig. 2.2) small farms are relatively more important in the wine and olive sectors, while, contrary to what would be expected, they do not cover a high share of the total production in the horticultural sector. In the wine and oil sectors such behavior may be due to the fact that the industrial trajectory of development coexists with the more traditional family-based mode of production. On the contrary, in the horticultural sector, usually more integrated into the agro-industrial *filière*, the industrial mode of production fits the need of standardizing products and reducing costs better than traditional small-scaled production.

In Tab 2.1 the structures of revenues of commercial (above 4 ESU) and small farms are reported. Commercial farms are characterized by a higher share of revenues originating from livestock activities (23.1%), while small farms feature a relevant share of self-consumption (15.9%). On the whole, for both categories of farms the proper farming activities are still by far the dominant source of revenues, while the diversification activities represent a marginal share

of revenues. It is worth noting that, contrary to what expected, the share of agri-tourism is larger for commercial farms than small ones, due to the fact that the size and the little amount of resources (labour, capital) of small farms act as a limiting factor and, in fact, prevent the uptake of this activity.

Table 2.1
Commercial and small farms by structure of revenues.

	Small farms (%)	Commercial farms (%)
Livestock	2,12	23,08
Crops	80,85	73,38
Agri-tourism	0,02	1,03
Contractual work using equipment of the holding	0,72	0,41
Aquaculture	0,00	0,00
Landscape maintenance	0,08	0,06
Self-consumption	15,90	1,19
Other revenues	0,31	0,85

3. DIVERSIFICATION STRATEGIES IN SMALL FARMS

According to most of the studies on multifunctionality, the process of farm transformation can take three directions: a *deepening* path, a *broadening* path and a *regrounding* path⁴. The deepening process includes all those activities that have to do with the production of “new” agricultural goods (organic farming, traditional products etc.) or with the incorporation of different stages of the *filière* into the primary activity (direct sale, on-farm processing, and so on). The broadening path includes new on-farm activities that are not directly linked with the production of agricultural products (agri-tourism, social farms, therapy farms, and so on). Finally, regrounding refers to the re-definition of the input output relationships in the farm and include the pluri-activity and the so-called “economical farming”, that is the reduction in the use of purchased inputs.

The way and the extent larger farms move along these paths have been investigated in many recent works. Less investigated is the capacity of the small farms to follow the same paths and activate a process of diversification and reallocation of internal resources. According to Bowler (1992), the process of decline of small farms is very much tied to the capital-generating potential, so that a reverse evolution of farms, from marginalisation to a viable agricultural

⁴ These categories coincide to a large extent with those proposed by Meert *et al.* (2005). They focus on three possible paths of positive evolution for the small farms.

enterprise, is unlikely, due to the competition with larger farms and the lack itself of capital. However, if farms exit from the pure productivist track and diversify their activities following the aforementioned paths, they can find a way to reverse the decline and reposition themselves in a new multifunctional dimension.

The REA survey provides information revealing the presence of some multifunctional diversification strategy (table 3.1). More specifically, the survey collects information about the presence of revenues from agri-tourism, aquaculture, landscape conservation and from contractual work using equipment of the holding. In addition the category “other revenues” refers to leasing of land and building, renting of machinery, etc. These revenues refer to the use of the farm resource pool in production activities other than the traditional agricultural ones (i.e. production of food and fibres), as a consequence they indicate the interest of the farm in broadening its product mix and expanding in high-growing non-agricultural productions. The information about deepening strategies is limited to two voices: on farm processing and the participation in agro-environmental measures of the Common Agricultural Policy (CAP) offering payments mainly in favour of the adoption of organic farming and low impact technologies. These three activities indicate an effort towards the enhancement of the quality of the food products and of the value added produced on farm. In this sense they deepen the interest in the production of food and fibres as a means to create income from the use of farm-firm’s resources. Unfortunately, farms’ efforts in the field of product differentiation are underestimated, given only the efforts of farms participating in agri-environmental measures are observed, while there are no information about the use of organic certification among non participating farms as well as about the adoption of other quality strategies such as, for example, the use of certification of origin (PDO). Finally, the only indicator of regrounding directly available in the REA survey is that referred to the pluriactivity of the farm household, while there are not direct indicators of the use of strategies directed to contain production costs and dependence on external inputs.

Making use of all the indicators described above, farms can be divided in broadening, deepening, regrounding and conventional farms, where this latter group consists of all farms not making use of any diversification strategy (tab. 3.1).

Deepening is the most widely diffused form of income diversification in small farms households, followed by pluri-active farms. It is worth noting that pluriactivity is more important in small than in commercial farms. Indeed, one every two small farm households has at least one member working off farm, while in the whole sample the percentage is only 37%.

Broadening is the least important diversification strategy in terms of diffusion in both small and commercial farms⁵. However, contrary to pluriactivity, this latter strategy is more diffused in commercial rather than in small farms. As mentioned earlier in the case of agri-tourism, the

⁵ Such results can be due to the fact that the REA survey is designed primarily to address the objective of estimating the economic results of small farms rather than the farm characteristics that are at the base of them. As a matter of fact, when information about is available it results that broadening interests around 40% of total farms, at least in the commercial ones (Henke, Salvioni, 2008).

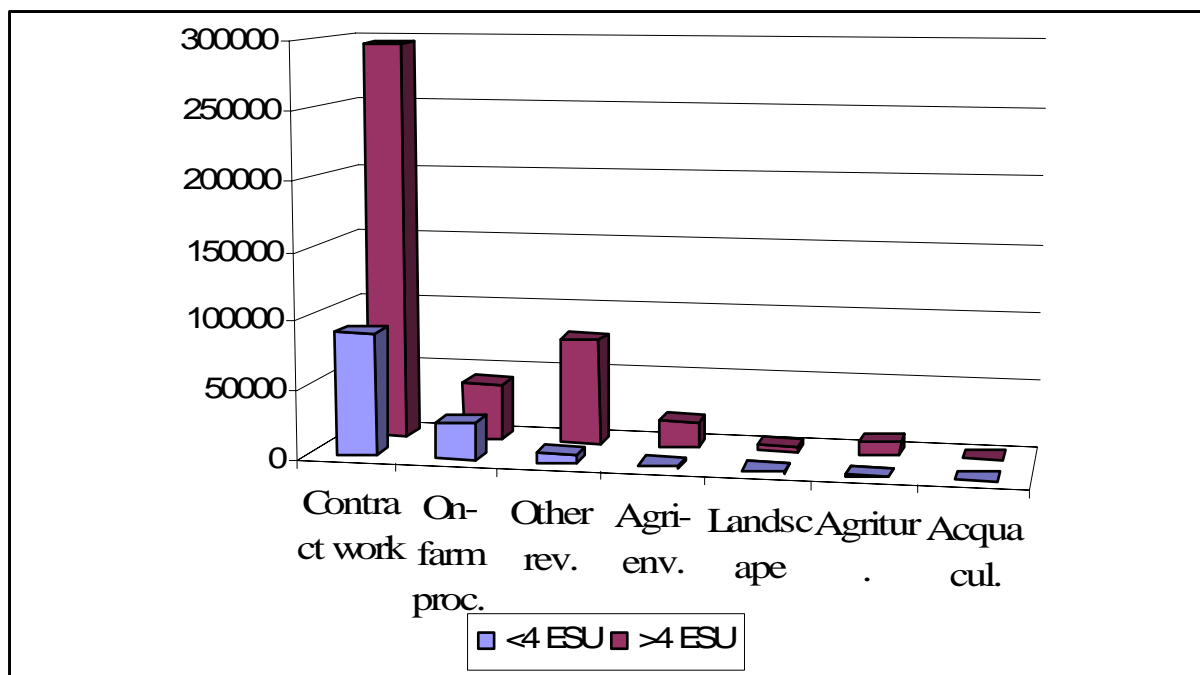
reason may be found in the small physical dimension of these latter category of farms that acts as a limiting factor.

Table 3.1
Broadening, deepening and regrouping in small farms

	Conventional	Broadening	Deepening	Regrouping
Agri-tourism		X		
Aquaculture		X		
Landscape maintenance		X		
Contractual work		X		
Renting of land, buildings and machinery		X		
On farm processing			X	
Participation in Agri- environmental measures of the CAP		(X)	X	
Pluriactivity				X
Total small farms	195,135	96,201	511,512	456,719
TOTAL	286,185	353,761	1,041,566	607,667

Figure 3.1

Number of diversified farms per diversification activity, Italy 2006.



The data reported in Figure 3.1 provide a more detailed information about the diffusion of single diversification activities. The data show that contract work is the most diffused diversification strategy both in small and commercial farms. On farm processing is the second most important differentiation strategy in small farms, followed by renting of land and machinery. These three first activities are the more traditional diversification strategies used in the farm sector, this may explain their relatively higher diffusion. The participation in agri-environmental measures, that is in the CAP programs granting payments to farms adopting organic farming, low impact technologies and producing nature conservation services, as well as the activities in the field of landscape conservation and in agri-tourism, and aquaculture are very scarce both in small and commercial farms.

In table 3.2 the profiles of both conventional and multifunctional small farms are presented.

Table 3.2

Profiles of conventional and multifunctional small farms, Italy 2006.

Variable	Units	Conventional	Broadening	Deepening	Regrounding
Holdings	N.	195,135	96,201	511,512	456,719
Upland	%	21.17	6.93	16.47	19.27
Hill	%	23.62	5.57	14.13	13.88
Plain	%	55.21	87.50	69.40	66.85
Total Agricultural Area (avg.)	Ha	2.30	3.82	2.56	2.14
Utilised Agricultural Area (avg.)	Ha	1.18	2.75	2.15	1.39
Total Annual Working Units (avg.)	Units	0.30	0.51	0.35	0.28
Family Annual Working Days (avg.)	Units	0.30	0.33	0.33	0.27
Female holders	%	3.17	3.78	1.82	0.03
ESU (avg.)	Euro	1.80	6.80	2.80	1.70
Net farm income	Euro	1,824	6,249	1,887	1,125
Net farm income per ha	Euro	1,544	2,274	877	810
Net farm income per total AWU	Euro	6,169	12,372	5,332	4,056
Net farm income per family AWU	Euro	6,169	18,786	5,696	4,189

The group of small farms making use of broadening strategies are characterized by the largest physical and economic dimension in the population of small farms. They are mainly located in the plains, and are concentrated in the North-East regions of the country. It is also worth noting that they show a very high percentage of female holders. Their net farm income per unit of land is much higher than that recorded in the other targeted groups. At the same time, their high net farm income per family work unit indicates this group as the most successful in terms of returns to the farm household resources.

The small farms making use of deepening strategies are slightly larger than the conventional farms and smaller than the broadening ones. The presence of female holders is much lower than the conventional and broadening farms. They are mainly located in the North-East region and in the plains. The net farm income per unit (profitability) of land is remarkably lower than the conventional farms and even more in the case of broadening farms. Such result is not in line with what expected, given that this group includes farms active in on-farm processing and

organic farming, and both these activities usually increase the value of outcome. The return to the household resources, that is the net farm income distributed to the family members working on farm, is slightly smaller than in the conventional farms. As a consequence, deepening strategies do not appear to be as successful as the broadening ones.

Pluri-active farms are the smallest farms among those in the targeted groups. They show the worst performance and, in particular, returns per unit of land and per unit of family labour are by far the lowest than those recorded in conventional farms. However, this is not necessarily a symptom of poverty of the farm household as usually assumed within the productivist paradigm (Marsden and Sonnino, 2008). In fact, they may be retirement, hobby or lifestyle farms, i.e. farms who adopt farming as a hobby and that do not rely on the sale of food and fibres for economic survival, as their main source of finance is off-farm income (Wilson, 2008). Hobby and retirement farmers usually do not need to maximise profits to ensure survival of the farm (Gasson, 1973; Harper e Eastman, 1980), so that they can focus on agricultural land as a consumption good – for example for residential purposes – rather than as a production asset. In conclusion, they are farming for quality of life.

4. CONCLUSIONS

This paper presents an analysis of the diffusion of diversification strategies among small Italian farms. We first evaluated the diffusion of single diversification practices and related them to the categories of broadening, deepening and pluriactivity recently proposed by the literature on diversification and multifunctionality. We then analysed the farm specific attributes that characterize conventional farms and those involved in each of the three targeted diversification strategies.

The analysis has shown that more than a half of Italian small farms is adopting some form of diversification. Small farms are more strongly involved in deepening and in pluriactivity, while their involvement in broadening strategies appears only marginal. This latter result is partly due to the characteristics of the database used and, partly, to the structural characteristics of small farms. Smaller holdings usually feature a lack of capital; as a consequence the on farm excess of labor is more easily absorbed by redeployment of household labor resources off farm rather than starting a new activity on farm that would require unaffordable investments.

The characteristics associated with the targeted group of farms showed that small farms using broadening strategies present much better economic results than conventional small farms. More specifically, farms using broadening strategies appear to be the winning ones in terms of net farm income per family work unit.

Small farms represent a specific feature of the European model of agriculture. In Italy they are a significant share of the total farm population, even though their contribution to the economic feature of the sector is rather limited. According to the productivist model, these farms are doomed to disappear sooner or later. As a matter of fact, they may follow alternative post-

productivist development strategies based on the production of secondary goods and positive externalities. In the paper we showed that a number of successful Italian small farms are involved in developing processes along the lines of broadening. Additional research is needed to assess the impact of these diversification strategies on farm income and farm household welfare.

Moving from our preliminary results, some considerations about public support policy can follow. In particular, it is worth stressing how most of support granted under the first and second pillar of the CAP on one side contributed to stop the process of abandonment and exit of small farms from the agricultural sector but, on the other side, kept small farms trapped in the a steady, often marginal, condition. For example, first pillar policies result in little lump-sum payments that integrate the farm household income up to the a surviving level, but that kind of integration does not allow farms to become independent from the welfare redistribution sphere, to reverse marginalization and to solve the chronic low income problem. At the same time, structural policies proved to be ineffective in overcoming the structural arrears typical of many small farms and in adjusting them to modern standards and techniques.

Finally, policy oriented towards diversification within the second pillar might have had a better result, were they not so poor in terms of financial resources, complex in terms of accessibility and were more resources devoted to improve farmers' skills to deal with production and markets, especially with those distant from the local ones.

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