THE GROWING IMPORTANCE OF ACTIVITIES DIVERSIFICATION FOR ENHANCING FAMILY FARMS COMPETITIVENESS

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Abstract

Family farms are the most significant development entities of rural areas. The welfare of the rural population depends on the success of their business operations and ability to survive in the market. Bearing this in mind, it is necessary to find ways and create the adequate conditions to activate development potentials.

The objective of this study is therefore to systematize potential sources of farm households’ income, with special emphasis on how and why they diversify their income and activities.

Results of the research unambiguously show that diversification of income and activities are now integral part of business activities of numerous farms. No doubt, importance of diversification will increase in future period, considering that more dynamic development of farms is not possible without engagement of all potentials at their disposal.

Key words: diversification, competitiveness, family farms.

Introduction

A powerful incentive to revitalize the rural areas and implement the modern concept of rural development comes from the process of joining the EU. This problem was neglected for many years, regardless the importance on the overall development of the Republic of Serbia. As stated by Bogdanov Natalija and Stojanovic Zaklina (2006) it was not before 2005, when considerable efforts have been made in the direction of institutionalization and establishment of integral state policy in this field, although regional aspects of the agricultural production and heterogeneous aspect of rural area have always been emphasized in strategic documents and plans which related to development of agriculture. The consequence of long-term developmental degradation of rural areas is significantly lagging in structural adjustment to European solutions and practice. With regard to the diversity of developmental potentials access to its activation can not be uniform. Therefore, there is no doubt that the planning and implementation of rural development will be complex and lengthy process that will require cooperation and partnership of public, civil and business sector at the local, national and regional level.

In this regard, special attention has to be paid to family farms, as the most significant development entities of rural areas. The welfare of the rural population depends on the success of their business operations and ability to survive in the market. Although they still exist on market, many of them will not be able to transform to the commercial farms.
Therefore, special attention must be focused on finding ways for improvement of their position. As stated by Todorovic et al. (2008), it is apparent that significant resource reserves are present on the family farms, and these resources have not been sufficiently utilized. Bearing this in mind, it is necessary to find ways and create the adequate conditions to activate development potentials. In this way family farms will become competitive, their business profitable and living conditions of households will be better. Such farms will be able to invest in new knowledge, innovation, modern technology, equipment and marketing and successfully deal with the globalization of world economy.

The objective of this study is therefore to systematize potential sources of farm households’ income, with special emphasis on how and why they diversify their income and activities.

Material and method of the study

For the purpose of this research, besides collected information on registered agricultural households on the territory of AP of Vojvodina, also research results obtained by other authors were used, in order to perceive the investigated problems to the fullest. Main limitation of this and similar researches, as stated by Bogdanov Natalija et al. (2008) is absence of universally defined indicators and parameters, which would describe certain indicators related to interpretation of the condition in rural areas, communities (absence of statistical definition of rural areas, insufficient typology of rural households, especially households with farm, etc.). These limitations derive from complexity of problems of rural development, national/local specificities, statistical-methodological inconsistencies, etc.

Results and discussion

Carried out research unambiguously confirms that diversification of income generated on family farms is more rule than exception: almost all observed farms generate income from multiple sources. This is a consequence of the fact that farm owners, in conditions when they are facing difficulties in agricultural sector and permanent decrease of income, start to search for new ways to increase income, and one of the ways is engagement in activities which would supplement or replace income generated in agriculture.

For more complete perception of this occurrence, it is necessary to systemize potential sources of income on family farms (Figure 1):
The largest number of Serbian family farms has more sources of income, income outside agriculture, income from sale of agricultural products, as well as retirement pensions. However, the significance of different sources of income is not the same for family farms, and varies according to region and production direction.

Considering that research included family farms located in low land region, one of major determinants of their income is size of used area, and this imposes the problem of unfavourable ownership structure (Graph 1).
**Graph 1** - Ownership structure of registered agricultural households on the territory of AP of Vojvodina in year 2008.

Source: Author’s calculation based on data from Ministry of Finance of Republic of Serbia - Treasury (06.05.2008.)

In the structure of registered agricultural households on the territory of AP of Vojvodina in observed period, small farms are predominant – farms with land property below 5 ha make 56% of total number of registered farms, whereas the share of farms with land property of over 10 ha is 18.5%. This is extremely unfavourable ownership structure considering that these are farms located in low land region. Unfavourable ownership structure is general problem present at the level of Republic of Serbia. According to research results obtained by Bogdanov Natalija and Bozic Dragica (2005) in ownership structure of farms in the Republic of Serbia, predominant are small farms, since small farms with below 3 ha of land make 60.2%, whereas farms with over 10 ha make only 5.6% of total number of farms. Considering the decisive significance of ownership structure for efficiency of operation in agriculture, it can be concluded that it is very difficult to remain competitive and survive on the market with conditions of increasingly stronger competition with such unfavourable ownership structure.

It is clear why family farms generate significant part of income from off-farm sources. As illustration of this occurrence is data on labour engagement of owners of registered agricultural households on the territory of AP of Vojvodina (Graph 2).

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1 According to Census 2002, number of agricultural farms in Republic of Serbia was 778.891.
Analysis of registered agricultural households in regard to work activity of the farm owners shows that in the observed period in AP of Vojvodina, most of farm owners (54%) were engaged in other activities, beside agriculture. Also, the highest share of farm owners engaged in other activities beside agriculture was the highest in case of small farms, as a rule.

According to Ellis (1993), diversification of income is a model for which family farms decide when their main motive is to increase i.e. maximize profit. Such farms determine, as their development strategy, maximum employment of family members (daily wages, over time engagement, production specialization or production diversification – depending on the resource at their disposal). Through diversification of income, some of the farms manage to accumulate capital (saved money, acquired knowledge and skills, physical capital, realized social and business contacts) which enables them to carry out higher diversification phase – diversification of activities.

However, in order for diversification of activities to be carried out, it is necessary to fulfil at least two requirements: existing opportunity on one side and time at disposal on the other. Role of the owner of family farm is to recognize new development possibilities as

Graph 2 - Work activity\(^2\) of owners of registered agricultural households on the territory of AP of Vojvodina in year 2008.

Source: Author's calculation based on data from Ministry of Finance of Republic of Serbia - Treasury (06.05.2008.)

\(^2\) Work activity of owners of agricultural farms can be: **engaged exclusively in agriculture**, **agricultural is predominant activity** (more than 50% of time), **agriculture is additional activity** (less than 50% of time) and **pensioner** (in case of lack of formal status of pensioner, persons older than 65 years of age are categorized in this category).
they occur and find the way to best utilize them. In this way, prerequisites are created for improvement of competitiveness of the farm. Issue of time at disposal is related to farm size and nature of production. If time at disposal and farm size are taken into consideration, it becomes apparent that possibility to engage in other activities decreases with the increase of the farm size. Majority of family members which are active off the farm are from small farms, and with the increase of the farm size number of family members with off farm activities decreases. Beside the farm size, time at disposal also depends on the nature of production, which is only partially reflected in the farm size. Some productions are more labour intensive than others, some require daily engagement, whereas others have seasonal character. Therefore, observed farms were categorized according to criteria of production direction. In this way three major types of farms were identified: farms of field crop direction, vegetable-field crop direction and livestock direction. It was established that production direction greatly influences the amount of time remaining for engagement in other additional activities throughout the year. Therefore, it is not surprising that on farms specialized in production of milk or vegetables, it is significantly harder to be engaged in additional activities compared to farms specialized in field crop production.

In the analysis of time distribution and labour dynamics according to months of the year, Muncan et al. (2008) came to conclusion that on family farms included in the research, labour peaks were in April and October, considering that these are the months of intensive field crop activities, and only in case of farms of over 45 ha, for October, and over 70 ha for April (Graph 3).

Graph 3 - Labour dynamics according to months of the year at farms of field crop direction
Also, it is obvious that there is time at disposal for other activities on these farms, which, as already stated, is one of the main conditions for diversification of activities. With the increase of farm size, also the number of active family members who are working full time on the farm increases, and number of family members who are actively employed off their own farm is decreasing. This fact induces a conclusion that the biggest farms have deficit of labour, whereas small farms are not able to employ fully all active members on the farm, and some of them are forced to find jobs and work off the farm i.e. search for additional sources of income generated by work off their own farm. Engagement of unused labour for some additional activities has very favourable impact on total income generated by the farm. Considering that to be competitive, among other things, means to efficiently utilize own resources, in this way the competitiveness of family farms is increasing. Money income generated off the farm is the highest in small farms and is very important for their survival, whereas with the increase of the farm size, the amount of income generated off the farm decreases as well as its significance.

**Conclusion**

In conditions of constant growth and increase of competition on domestic and World market, identification and analysis of specific development limitations of family farms and objective perception of their needs and development potentials, should contribute to creation of new, valid mechanisms and strategies for starting of the process of improvement of their performances. More dynamic development of family farms is not possible without engagement of all potentials at their disposal, which is why the importance of diversification will increase. One thing is certain, it is currently integral part of business activities of numerous farms. Creation of space for engagement in other activities, along with engagement in agriculture, will in future period ensure competitive advantage for family farms in the region. Beside that, favourable influence of income generated from off-farm sources on improvement of general position of family farms confirms that „part time“ farms are more competitive in relation to other farms. This conclusion speaks in favour of general thesis that „part time“ farms are those with better standard of living, better educational and age structure of family members in relation to other types of farms and can be considered as carriers of the progress, technical-technological and other innovations in rural communities.

**Literature**


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