Diversification as a Survival Strategy for Marginal Farms
An exploratory research

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Abstract

One of the common strategies in rural development programmes is to support the adoption of new on-farm activities. The rationale behind this is that farm diversification is a way to assure an appropriate level of income for the farmers. Through interviews with 49 relatively small farmers, the possibilities for diversification as a survival strategy are assessed. The analysis is mainly based on a classification of development pathways by Bowler (1992).
Few forms of diversification appear to be successful as a survival strategy in case of economic problems. Only off-farm employment seems to be effective in this respect. The introduction of new activities on marginal farms is hampered by lack of financial and human capital.
On the other hand, diversification is often found on small farms without financial problems. This is an indication that on-farm diversification is able to stabilize the household income and to avoid financial problems when it is used as a preventive strategy.

Key-words : farm diversification, poverty, farm strategies, rural development

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1. Introduction

Even in an urbanised region like Flanders, where the relative amount of farmers is very low and still declining , a lot of farm households face income problems (Van Hecke, 1999). Based on available figures, it is estimated that about 22% of farmers have a yearly income lower than € 20,000 per labour force unit. These farms can be roughly classified into two categories :

- farms that are too small or farms that have a structure that is insufficiently adjusted to modern standards and techniques ;
- farms getting into problems because of bad financial management and/or accumulation of debts

This distinction implies a different approach and possibly different strategies to reduce marginalisation and even poverty. Rural development programmes and accompanying measures of the CAP often focus on these marginalised farms by supporting on-farm diversification activities. As shown in Meert et al. (2001), strategies can be developed in the sphere of the market, redistribution or reciprocity. The first try to increase market participation, the second try to redistribute the overall economic growth and the third category is based on non-market exchanges.
The main question is of course if supporting on-farm diversification strategies can be succesful in alleviating financial problems and poverty. In this paper, the results of an explorative research on survival strategies of 49 households are reported and interpreted. The strategies can be classified into two groups : on-farm and off-farm strategies (Table 1).

Table 1. Possibilities for survival strategies within the concept of economic integration.

	Market		Redistribution		Reciprocity	
	On-farm	Off-farm	On-farm	Off-farm	On-farm	Off-farm
Within agriculture	e.g. intensification, diversification, crafts, innovative marketing, debt rearrangement, selling property,…	Payed labour on other farm	Investment support, other governmental support measures		Cooperation with other farmers, financial aid from others	Financial aid for non-agricultural activities
Outside agriculture	Recreational, educational or care supply	Non-agricultural employment, leaving the sector, household economy	Support measures linked to environmental measures	Support from public social services, caritative aid	Financial aid for non-agricultural on-farm activities	Social exchange within the local community, withdrawal from social networks, taking advantage of others

In this paper first the impact of the strategies on the household income and the sustainability of the farm itself are analysed. Next it is investigated if the adoption of new on-farm activities, eventually in combination with off-farm employment can assure an acceptable and stable income for marginal farm households. The research is mainly qualitative and explorative of nature, especially because of the small sampling size and way of sampling. However, this does not prevent to derive a number of interesting conclusions concerning the possibilities of diversification in rural poverty alleviation.

2. Methodology

The research methodology consisted of (2-3 hours) in-depth interviews with a number of farmers in 4 selected areas. The selected areas are situated in the peri-urban areas around Brussels and Ghent, two major Belgian cities. The sampled areas have a mixed rural-urban character and are comparable with respect to the dominant type of agriculture, which is (milk or beef) cattle breeding combined with arable farming. In a first stage, local key persons having a good knowledge about the agriculture in the region were contacted to review regional problems and to obtain reliable references about farmers with financial problems. This allowed to find in each selected area some good examples of marginal farmers. To be able to compare the situation of these farmers with farmers running equal-sized farms without financial problems, additional farms were visited, selected on the basis of

their economic size, expressed in Gross Standard Margin[1] (GSM). This parameter can be regarded as an indicator of a farm's potential to generate a certain level of household income. Three classes are considered :

- farms with a GSM < € 20,000. Small farms are theoretically too small to provide the income for one person, meaning that in order to survive, the income has to be supplemented with other sources ;
- farms with a GSM between € 20,000 and € 40,000. These are farms situated at the margin of survival, in particular when an entire family has to depend on the farm income solely;
- farms with a GSM > € 40,000 are farms able to generate sufficient income in agriculture.

Because of reasons of comparison, the additional farms were mainly selected from the first two groups. The underlying idea was to detect survival strategies, which ought to be prominently present among very small farms.

In total 49 interviews have been realised equally distributed over the four regions. Although it was originally hypothesised that the region could have an influence on the strategies applied, this turned out not to be the case. Therefore in this paper no further distinction has been made between the different regions, although some of the variables may be related to the geographic situation of a farm (e.g. proximity to the city).

Two kinds of survival strategies were distinguished :

- survival strategies at household level : this covered mainly activities situated in the redistribution and reciprocity spheres, such as savings on the household expenses, dependance on social security and the withdrawal from social networks ;
- survival strategies at professional level : strategies mainly situated in the market sphere. They can be regarded as different development paths for small family farms.

In this paper we will mainly focus on the latter strategies. By relating the farm survival strategies with explanatory and descriptive variables, as well as to the global socio-economic context of the household, we will try to obtain insights in the importance of farm diversification for the security and the stability of the household income.

3. Income indicators

One of the most difficult aspects of this kind of research is to have reliable data or indicators on income and financial problems. In particular because we had no access to it or because it concerned farms without an economic or fiscal accounting. This is due to the fact that in Belgium farms are exempted from keeping an accounting system because of the existence of a specific taxation system for agriculture. The declarations of the interviewed farmers on their income proved to be vague and unreliable. Also, housing condition, in poverty research often used as an indicator, was in this case no reliable indicator, depending on many other household characteristics than the income alone. Therefore different indirect indicators on the income are used in the empirical analysis :

[1] The Gross Standard Margin is defined as the value – expressed in monetary terms – of the gross margin corresponding with the average situation of a certain region (Belgium is considered as one region) for every specific agricultural production.

A first indicator is based on how the farmers interpret themselves their financial situation and income. Four household categories are created (Table 2), by comparing the current and past (compared with 10 years ago) financial situation of the household:

Table 2. Classification and categorisation of the farm households interviewed according to the interpretation and evolution of the financial situation (between brackets the number of cases encountered)

		CURRENT SITUATION	
		Bad/problematic	**Good financial situation**
PAST SITUA-TION	**Good financial situation**	'In regression' (4)	'Established integration' (30)
	Bad/problematic	'Continuously problematic' (9)	'Problem solvers' (6)

As can be seen from Table 2, about two third of all interviewed farms do not perceive their past and current situation as bad or problematic. These households can be categorised as well integrated. Apparently they have applied correct and successful strategies to survive on relatively small farms. Six households regard their actual situation as good, but admitted to have got serious financial problems in the past. They have been able to overcome the situation by applying adapted strategies and can be typified as problem solvers. For 13 households (about 25% of the interviewed cases), the actual situation is problematic. For 4 of them this is a decline in comparison with the situation in the near past, while the other 9 can be classified as continuously problematic.
These figures have to be relativised, because it was often difficult to interview the farmers who, according to the key persons have financial problems. In a number of cases this was even impossible. This explains why the group of farmers with a presently sound financial situation are in the majority.

A second indicator used to assess the financial situation is the estimated calculated household income. Based on the amount of animals and crops sold during the last season, and taking into account additional incomes and social payments, the household income is estimated. This income is reduced with payments on loans for farm (or other) investments and other costs are also taken into account. Household income is preferred to farm income, as in most cases no strict separation can be made between the firm and the household. On the basis of this estimated income (on which unavoidably large error exists), the households have been classified into two categories, comparing them with a perceived poverty income threshold (Van den Bosch, 1997). This threshold is adjusted for family composition and corrected for inflation. On the total of 49 farms, 32 farms are classified below this income standard if only the strict farm income is taken into account. However, when additional income sources are added, only 11 of the investigated households are estimated to have an insufficient income.
This indicates the importance of additional income sources. In Figure 1, a picture is given of the average composition of the total household income for both categories

farmers who consider their income having decreased are indeed in a problematic situation.

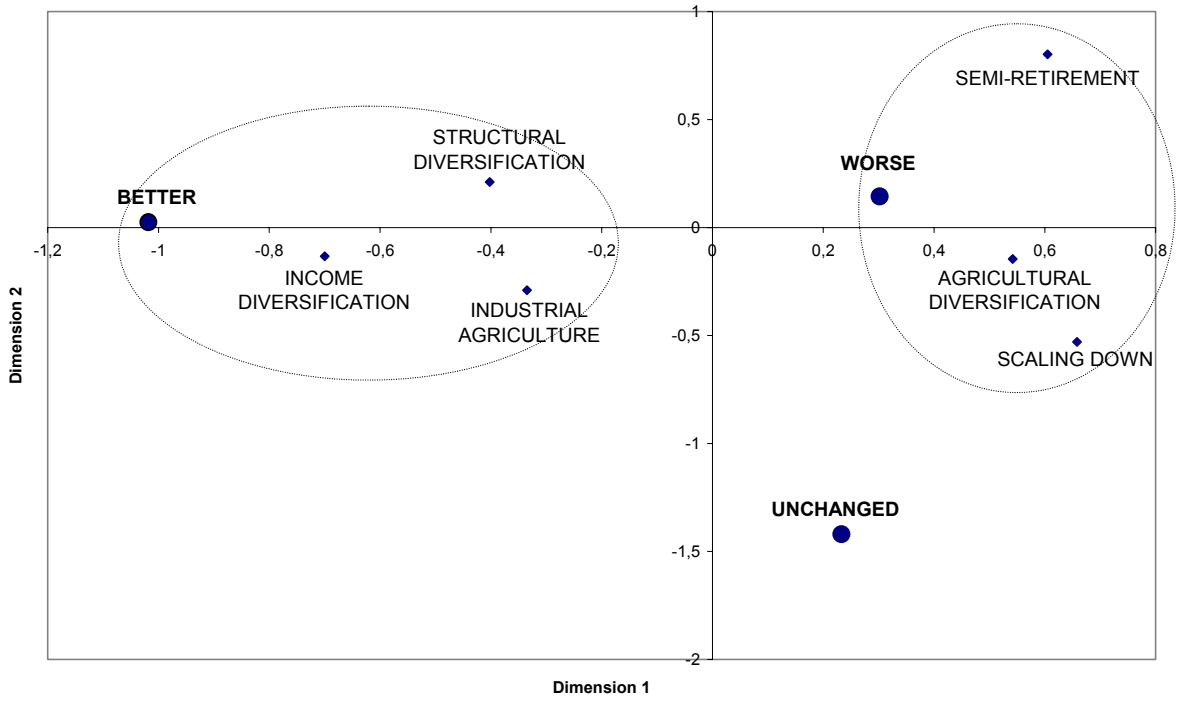

Figure 4. Homogeneity analysis applied to development pathways and income indicators

Although only 25% of the farmers observed is classified as being in a financially marginal situation (Table 2), a majority of the farmers (35 out of 49 respondents) consider their income being reduced over the last 10 years.
However, Figure 4 indicates that in particular structural diversification and the combination with off-farm employment are the most successful strategies. But as already demonstrated in Figure 2, for most of these farms, the non-farm activities are not a stage of leaving agriculture, but rather a search for additional income to be able to continue the farming activities.

Off-farm employment has become a necessity for many of the observed farms. When a regular job is taken up, it easily accounts for more than 50% of the household income (see Fig. 3). But the farmers interviewed with an off-farm income, kept on investing money in their agricultural activities, trying to establish some growth.
Bryden (1992) already emphasized some important factors that are linked with taking up off-farm employment. Some of these factors (such as e.g. the link with thesituation on the local labour market) could not be tested because of the small amount of observations, but many others were confirmed by this test group. Off-farm employment is mainly hampered by :

- not being married (lack of labour and/or a strong dependence of the farm on one person) ;
- the low education of the farmer but even more the low education of his/her spouse ;

- the absence of a successor (off-farm labour is taken up to ensure the future of the farm in families with a successor) ;
- a closed structure with respect to property and decision power. A lot of smaller farmes were almost completely owned by the farmer's family, tightening the personal attachment to the farm. External capital is often absent or avoided in investments;
- the older age of the farmer (although the presence of older children can compensate for this disadvantage) ;

Our observations confirm that off-farm employment often appears to be the 'easiest' solution for a farm household to keep the family income stable and sufficient. Most of the interviewed farmers that score positively on the criteria mentioned (especially young and better educated farmers) have in fact already made the decision and found a job outside the farm. Important prerequisites however seem to be a good social network (Fig. 2) and a sufficient labour surplus.

Fig. 3 also shows that diversification strategies associate with a sufficient and stable income. Farms interviewed applying income or structural diversification mostly belong to the 'established integrated' or 'problem solvers' group. However, one has to keep in mind that associative pattern techniques do not allow to unambiguously discern causes and consequences. Many forms of diversification require investments that can only be carried by economically well-functioning firms. In that respect we believe that diversification must rather be considered as a preventive rather than as a remediating strategy.
Off-farm employment (or more general 'other gainful activities') seems to be a more feasible pathway for a broader group of marginal farm households. The main constraint for this strategy is the average education of the farmer. Without additional education, some farmers do not possess the required skills to get a regular job.
Age is another very important factor. None of the three forms of diversification appear to be well suited for the older group, although they constitute the most vulnerable group concerning household income. For this group a better social security system seems the only solution.This is one of the adverse effects of a historically grown difference between retirement systems of self-employed and wage-earning persons. In particular for small marginal farms, with few own resources (land, knowledge,…) this can result in poverty at the moment of retirement, forcing them to supplement their pension by the continuation of farm activities.

6. Conclusions

In this paper the possibilities of pluriactivity to solve income problems of small and medium-sized farms have been analysed. The importance of the additional income generated by new activities is highly diversified, but for an important number of the farms interviewed it is a key factor to survive or to avoid household poverty. Therefore, rural development programmes encouraging this kind of activities may be regarded as a good opportunity to avoid financial problems in agriculture. But diversification alone is insufficient to deal with marginalisation problems because for some groups. In particular those who are already in a problematic situation, such as single or older farmers lacking the necessary human and social capital resources, need other strategies (at household level or in social provisions) to survive.

Within the observed strategies, a clear difference has to be made between preventive and curative strategies. Both situations need a completely other approach. Possibilities for curative strategies are limited, mainly because capital-intensive activities are not feasible for households facing debts and in many cases lacking any savings. Apart from off-farm employment, which is a feasible strategy for a lot of housholds, good opportunities are the on-farm selling of farm products or the renting of land or buildings.
Preventive strategies are less limited, provided the necessary investment can be carried and the farmer is not too risk-averse. These strategies often are ensuring the future of the small farm business, which is contradictory to the sometimes postulated theory that alternative activities are a first step towards leaving agriculture. Rural development programmes could stimulate these preventive diversification strategies, not only through financial support for innovation, but also by increasing the access to information and education or by other transaction cost reducing activities.

Income diversification strategies (off-farm employment or the combination of farming with a non-farm business) seems to be the strategy which is most widely applicable. The additional income can in many cases constitute the basic and stable part of the household revenue, and form the basis for keeping the farm activity. A determining factor for off-farm employment seems to be the education of the farmer and his/her spouse. Therefore the promotion and support of additional training possibilities, aimed at the conventional labour market, should be an essential part of any policy dealing with rural development and poverty alleviation in agriculture.

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