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# **Romania: Large Semi-subsistence Farm Sector, Result of Wrong Strategic Approach?**

**LUCIAN LUCA**

Institute of Agricultural Economics, Bucharest, Romania, E-mail: luca@iea.ince.ro



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**„What was expected, what we observed,  
the lessons learned.”**

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## ABSTRACT

The paper discusses the influence of main strategical approaches to the agricultural structures, trying to identify between the causes of the semi-subsistence farming in Romania, the bias to large farms support of the agricultural policies in the transition period. The 2002 Agricultural Census data, followed by 2005 Structural Survey data, offer the opportunity for an objective analysis that could change the direction of the Strategy plan developed for rural development programming period 2007-2013, as in scenarios presented in last part of this paper.

**Keywords:** semi-subsistence farms, transitional measures, Romania.

## 1. INTRODUCTION

The restitution of agricultural land in private ownership started in 1991 and was conducted in successive waves as the legal framework was changing over the time. The process involved about 5 million people and transferred into private ownership 14,156.0 thousands hectares of the country's 14,717.4 thousands hectares of agriculture land. The process is still ongoing as there are many litigations and disputes over locations and boundaries but a large percentage of owners received their land and property titles.

Currently, the main issues in Romanian Agriculture are: a very large sector of subsistence and semi-subsistence agriculture (made up of small individual holdings), poorly equipped, with a relatively low yield, making an incomplete use of the owners' work and using most of the production of their own consumption. This situation is counterweighted by the large commercial holdings (legal persons), made up of concessioned or rented plots, which are relatively well equipped. The intermediate sector, that of commercial family holdings (larger individual farm) is not very much developed, as compared to the situation in other EU member states.

The average areas of the two types of holdings, individual and legal persons, shows the distance between the two agricultural models in Romania. The average agricultural area used by an individual holding increased in 2005 against 2002 from 1.73 ha to 2.15 ha. Over the same period, the average areas used by legal persons dropped by more than 10 ha, from 274.4 ha to 263.1 ha. The average national used area by an agricultural holding was 3.27 ha.

## 2. STRATEGIC APPROACHES AND EMPIRICAL DATA ON STRUCTURAL CHANGES

First and very influential strategic approach of Romanian transition was a 1990 one (*Outline strategy of implementing the market economy in Romania*), produced with a large participation of over 500 experts. In that document, the main issue in agriculture field was the private property rights on agricultural land, followed by price liberalisation of agricultural products and foreign trade liberalisation. Unfortunately, mentioned strategy proposed a limited privatization/restitution of land and a delay in price liberalisation. If the land restitution in 1991 it was better than initial proposal, as result of political and economical pressures, it was still incomplete, and suffered two major improvements in 2000 and 2005. Agricultural price liberalisation and foreign trade liberalisation were achieved only in 1997, when started a first policy of supporting family farm (with limited effects). After a break in

period 2001-2004, this policy was relaunched in 2005 with ambition to become the main point on political agenda of agriculture sector.

The agricultural structure of Romania is currently different from both the average one of the old member states (EU15) and from the one of the NMS, through the majority number of farms, the reduced physical and economical size (Table 1).

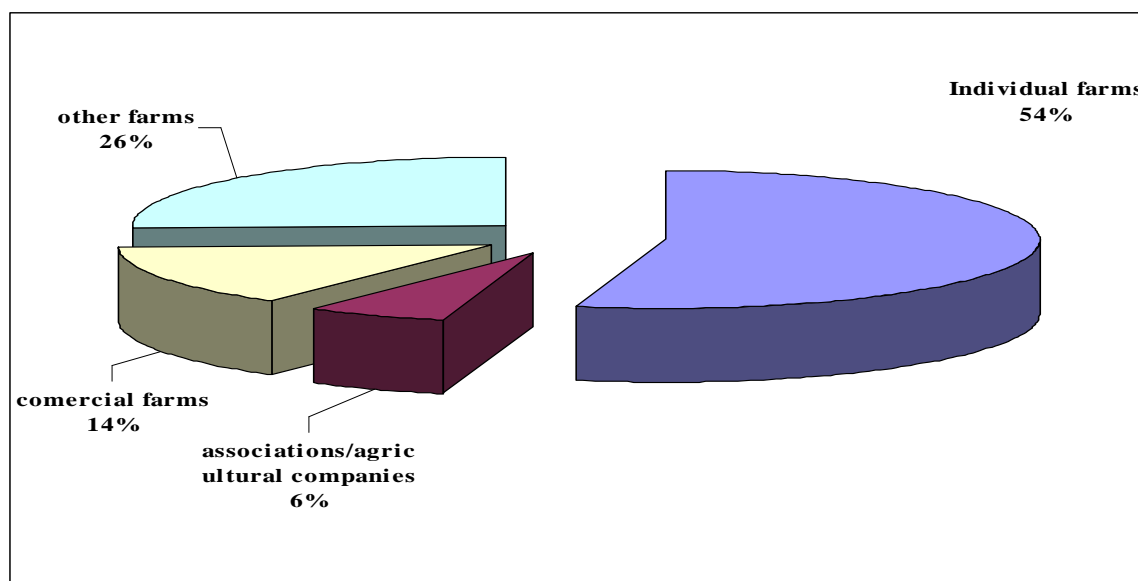
**Table 1. Size of farms in Romania, EU-15 and NMS-10**

States	Physical average size of farms (ha)	Economic average size of farms (ESU)
<b>Romania</b>	3.1	1.1
<b>EU-15</b>	20.2	20.7
<b>NMS-10</b>	8.3	3.5

*Source: Rural Development in The European Union. Statistical and Economic Information. Report 2006, EU, DG Agri 2006*

The data collected through the 2002 Agricultural Census brought certain general classification with reference to the number of farms, the economic size or the type of activity (production orientation). Figure 1 presents the magnitude of the main categories of exploitation registered by 2002 Census.

**Figure 1: Shares of agricultural areas owned by the main types of farms**



*Source: based on the General Agricultural Census 2002. General data, INS 2004*

A classification of the Romanian farms as function of the production orientation and economic size, produced by EUROSTAT on the basis of 2002 Census data evidences the following situation: -the big farms with reference to the economic size, over 40 ESU, are mainly specialized in cereals cultures, oilseed plants and protein plants; -the small farms (households), less than 1 ESU, are specialized in animals eating grains ( pigs, poultry) and in combinations of animals and field cultures; -subsistence farms, between 1 and 40 ESU, are specialized in growing pigs, poultry sometimes in combination with different cultures (at the

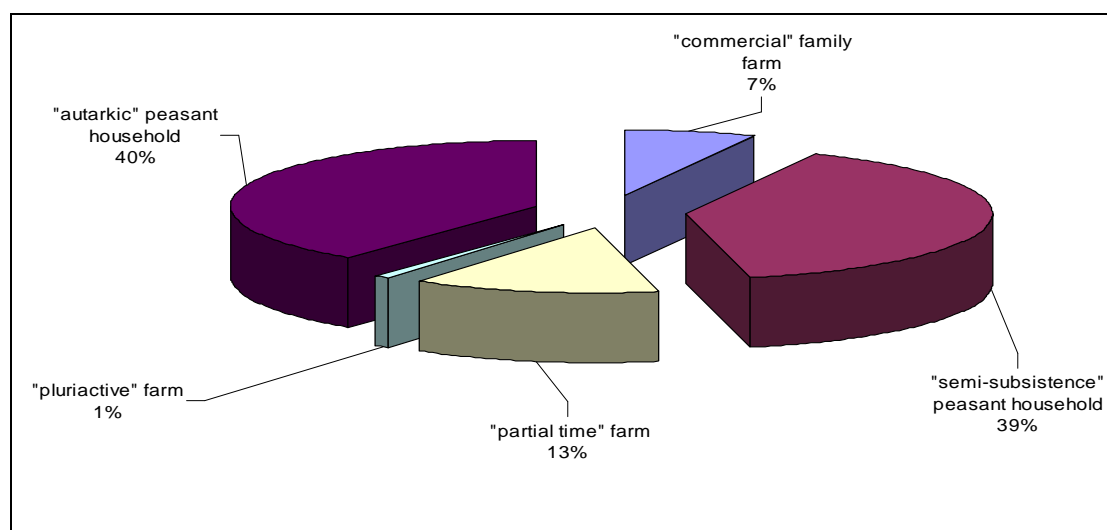
lower layer of the interval) and specialized on fruits, cows, field cultures, sometimes vegetables (at the upper layer).

With all the methodological limits imposed by a certain delay in the gathering the analyse instruments of the farms (Farm Accounting Data Network ), the image of the farm typology presented above is the first one with reference to Romania and evidences a certain predictable characteristic of the small size farms: a combination of the vegetal culture activities and animal farming, the so called “traditional multi-culture”, typical for the rural household.

### 3. THE DOMINANCE OF SUBSISTENCE AND SEMI-SUBSISTENCE FARMING IN INDIVIDUAL FARM SUB-SECTOR

The relation market-farms could be synthesized by the the agricultural census. The combination of more sources is a delicate operation, with a certain impact on the credibility of the results. Though, at the first sight the most interesting novelty of the Agricultural Census 2002 was the unexpected share (45%) of the surface owned by the big farms (public administration units and commercial companies) from the perspective of characterizing the Romanian agricultural structure, more important can be the information on the integration on the market of the agriculture practiced in the individual farms, as there is the potential of the development of the rural zone. Figure 2 combines the information from more answers of the 2002 Census and proposes a picture of the individual farms (from the market relation perspective)...

**Figure 2: Weight of agricultural areas worked by the various type of individual farms**



*Source: Data processed based on the General Agricultural Census 2002. General data, INS 2004*

The sheer size of the problem of peasant agriculture that needs to be tackled is impressive. A typology of the 4.4 million of the individual farms (occupying 8.4 million ha, which means more than half of the arable area) shows that traditional peasant households (autarchic and semi-subsistence) represent the vast majority among these individual units and in terms of area, allowing little room for around 92 thousands farms producing for the market.

The two different categories must be treated differently by using different strategies: the first ones with “autarchic” characteristics might benefit from a life annuities approach or early

retirement, and the semi subsistence types might benefit from a strategy of funds allocation in order to support the investments and the change of the technologies.

The peasantry character of the semi subsistence farms is an important issue for the intervention measures on this type of exploitation in the effort to integrate them on the markets and the state action should focus both on the assistance for investments and on the regulation of the agricultural markets (outputs and inputs) in order to assure a normal functioning and a stable frame in order to encourage the decision to invest in the potentially viable farms.

The extent of the semi-subsistence at global level nowadays is given by the less developed economies of the third world. Nonetheless, it is present, more or less marginally, in the developed countries as well (even in the EU-15 e.g. in Greece, Italy, Portugal and NMS-10 e.g. Poland, Latvia). The number of holding under 1 ESU in Romania is 3.02 million (71% of the total farms), compared with 1.39 million in Poland (56% of total farms). Focusing on holdings of at least 1 ESU, there are some differences, especially on tractor use and ownership (Table 2).

**Table 2. Main characteristics of farm structure in Romania and in Poland, 2005**

<b>Characteristics of agricultural holdings &gt;1 ESU</b>	<b>Romania</b>	<b>Poland</b>
<b>Number of holdings (million)</b>	1.24	1.08
<b>AWU (million persons)</b>	1.36	1.7
<b>Agricultural area (million ha)</b>	10.3	13.1
<b>Average area per holding (ha)</b>	8.4	12.1
<b>Production for own consumption (% of holdings)</b>	69	21
<b>Holdings using a tractor (%)</b>	69.9	95.2
<b>Holdings with their own tractor (%)</b>	8.9	79.9
<b>Holding with another activity than agriculture (%)</b>	32.3	5.9
<b>Average size of dairy cows herde (haed /holding)</b>	1.6	4.4

*Source: Farm structure in Romania - 2005, Statistics in Focus. Agriculture and Fisheries, 60/ 2007, Farm structure in Poland - 2005, Statistics in Focus. Agriculture and Fisheries, 10/ 2006*

## **4. RESTRUCTURING OF SEMI-SUBSISTENCE FARMS**

### **4.1. Sapard and agricultural investment policy**

The main objective of the current government's agricultural policy (after 2004) is to "stimulate the transformation of peasant households into commercial family farms". The means by which it will be implemented are: the encouraging of land consolidation through exchanges and free market transactions, support for investment in livestock farms, and the introduction of life annuity for old peasants who give up their land.

Although at the end of 2005 the forecasts regarding the absorption capacity for the funds allocated through Sapard was not too optimistic, the funds were entirely committed in 2006, 5

months before the deadline – 31 of December 2006, contracting and spending the committed amounts is to be done gradually.

The measure 3.1 (investments in agricultural farms) of Sapard that has a direct and important impact on the agricultural structures, 3.2 (producers groups) and 4.1 (professional) can have a direct impact. Unfortunately, not all of these measures have been directly applied from the beginning and the final evaluation detailed in function of the sub-measures is not available for the moment. Nonetheless, by the end of 2004 there have been stipulated 198 projects (almost half for “arable farms”, therefore the big farms). The centralized data on the 15<sup>th</sup> of September 2006 concerning the measures proved that though the allocated amount had all the chances of being completely spent (under the rule  $n+2$ ), the number of projects was less than expected by ex-ante evaluation of the Sapard, indicating the same tendency to big investments for the farms than expected in accordance with the agricultural structure of Romania. The Romanian agricultural farms that have been the potential beneficiaries of the Sapard program were those farms which had a certain financial standing that allowed the assurance of the financing of the investments projects (the co-finance part for the beneficiary and the pre-finance part from the public funds- European or national).

“Farmer” program, adopted in 2005 is a national program which promote and support investments in agriculture and in processing, storing, preservation and marketing sectors, as well as in other sectors connected to the specific of agricultural activities. The fund set up by Ministry of Agriculture, for implementing “Farmer” program, is carried out through banks and financial institutions, selected through a public bidding process.

This has represented an important crediting instrument for investments in agriculture and implicitly rural area (with an advantageous interest rate of 5%). The purpose of this program was to initiate a new activity in the rural area by attracting funds for investments, from loans for investments and co-financing for Sapard program.

In general, for most of medium and small sized farms as well as for the medium and small sized processing enterprises, the reduced capacity to co-finance was the main limiting factor, which slowed down the absorption of the Sapard funds, especially in the first period of the programme implementation.

Some results of the rural EuroBarometer, produced in Romania in 2002 and 2005 on representative samples at national level for the rural zone, evidence certain concerning attitudes of the rural population (the current farmers) in connection with the entrepreneurship spirit and with the intention of passing from the traditional agriculture, of semi-subsistence, to modern, commercial one.

If the delayed development of the rural area is generalized and within a slightly improvement (only 11% of the respondents had a someone in the family who had a business in 2005, close to the 7% in 2002), the intention of developing a business in the next five years was only 11% in 2005, almost the same as that of 9% in 2002.

More concerning seems to be the attitude towards the changing of the status of the agricultural household (rural) into commercial family farm, only 10% of the respondents express a different intention for the next five years in the 2005 research, a situation comparable with that of 2002 (9%).

The positive side is represented by the fact that 10% of about 4 millions households stand for more: 400.000 future farms. The problem would be that changing from intention to practice seems difficult as long as in the three years passed between the two surveys the farms that already consider themselves commercial increased only from 1% in 2002 to 2% in 2005.

#### 4.2. Scenarios for semi-subsistence farm restructuring in Romania

The assistance for the semi-subsistence farms within the new member states was introduced as a specific measure through article 33b of Regulation C (EC) 1257/1999, included as a consequence of the negotiations and signing of the Adhesion Treaty. The two main objectives were: the facilitation of the issues related to the competitive pressures of the single market and the encouragement of farms restructuring that was not economically viable.

The new Regulation (EC) 1698/2005, regarding the assistance for rural development offered by EAFRD, kept the transitory assistance measure. The general frame of providing assistance is mainly the same, with the increasing of the annual ceiling up to 1500Euro/ farm, but without explicitly requiring the details of the business plan of the necessary investments. The difference could be important, as it offers freedom to the small farms to improve the technologies only by the purchasing of technology – bearing inputs (seeds, manure, fertilizer, pesticides, and artificial insemination), without transferring important financial resources in comparison with their turnover. Furthermore, it is suggested that the volume and the duration of the assistance can be lower than the maximum levels (1500/Euro/ year for 5 years), offering to the decision makers the flexibility of interventions adapted for each member state.

If one could consider that the semi subsistence farms are the ones comprised in the range 1 to 40 ESU, Romania should pay attention to the setting of the lower level of the range rather than to the upper one (Table 2).

**Table 2. Romanian farms classification by legal personality and economic size**

<b>Economic size (ESU)</b>	<b>&lt;1</b>	<b>1-&lt;2</b>	<b>2-&lt;4</b>	<b>4-&lt;8</b>	<b>8-&lt;16</b>	<b>16-&lt;40</b>	<b>40-&lt;100</b>	<b>&gt;=100</b>
<b>Total farms (1000)</b>	3273.1	865.5	268.5	51.6	12.6	6.7	3.9	3.0
<b>Natural persons (%)</b>	99.7	99.7	99.5	97.9	89.1	60.3	29.4	8.7
<b>Legal persons (%)</b>	1.2	0.3	0.5	2.1	10.9	39.7	70.6	91.3

*Source: Structure of agricultural holdings Romania 2002, Statistics in Focus. Agriculture and Fisheries, XX/ 2005*

It is very important to establish if the over 800 thousand farms between 1 and 2 ESU will be excluded or not. On the other side, only the farms with sizes between 2 and 4 ESU are so many (over 250 thousand) that it should be taken into account the limit of 2 ESU. The establishment of an upper limit will generate other frustrations, and the farmers will be tempted to adjust their economic and financial situations in order to be included in the interval. Notwithstanding, taking into account that this situation is targeted towards the natural persons, one could consider that for the size classes of over 8 ESU the agricultural activity is mainly orientated towards trading, as long as there are farms organized as legal persons.

When generating the scenarios concerning the assistance for the semi-subsistence farming, the definition of the farm is the key element as in the case of Romania the great number of the



existing agricultural farms makes that every choice suppose the management of a process of high sizes. The scenarios drafted within table 3 estimate the global number of the potential beneficiaries and propose some appropriate eligibility conditions.

**Table 3: Scenarios regarding the support for the semi-subsistence farms**

<b>Scenarios</b>	<b>Potential beneficiaries</b>	<b>Eligibility</b>
<b>S1</b> Supporting small farms	Farms of 1-4 ESU Approx. 1.1 mil. farms	Natural persons Brief business plan Focus on new technologies
<b>S2</b> Supporting medium farms	Farms of 4-40 ESU Approx. 70 thou. farms	Natural persons Detailed business plan Focus on farm specialisation
<b>S3</b> Supporting all individual farms	Farms of 1-40 ESU Approx. 1.2 mil. farms	Natural persons Standard business plan Focus on financial indicators
<b>S4</b> Supporting medium-small farms	Farms of 2-8 ESU Approx. 320 thou. farms	Natural persons Detailed business plan Focus on the relation with the market

In the case of the scenario directed towards the small farms (S1), the conditions of eligibility will have to be adapted to the available poor means, and the big number of potential beneficiaries should lead to the decrease of the annual value of the support, probably to 1.000 Euro/ exploitation, or even lower. This would be a decision that would reduce the potential frustrations of the more than 4 ESU owners. In addition, there should not be imposed to this farms that within the business plan to introduce the investments. The measure would have a strong social impact and would not be wrong due to the poor condition of the Romanian rural households. In order to achieve the objectives, there would be essential the prove of the capacity of integration on the markets, reduced to the limit to the capacity of selling the farm-produced products. This condition is valid for the other scenarios and the evaluation after the three years from receiving the assistance should refer to this aspect through delivery documents; the agricultural producers should be proud of their sold production. Such approach would cover a significant part of the Axis 1's budget, fact that would not be in the favour of other measures, even if for this type of assistance would apply only 1/3 of the potential beneficiaries.

If the medium farms (S2) were encouraged, then the annual assistance could be allocated to its maximum value of 1500 Euro/ exploitation. Within the farms having an average size of 9 hectares of the group of 4-8 ESU size, the 30.9 hectares of the 8-16 ESU group and the 141 hectares of the 16-40 ESU could emerge a certain good competition and the funds could be crucial to some investments acting as an impulse to the introducing of innovation into production. Anyway, the requirement of selling a more and larger part of the production should become an eligibility condition (long-term contracts, production groups). Furthermore, the specialization of the production should be included in the business plan. The requirement regarding the evaluation after the three-year period could lead to the growth of the economic size of the farm.

The scenario S3, that proposes competitiveness among all the farms having sizes between 1 and 40 ESU, could produce a rapid restructuring of the semi-subsistence sector by imprinting an impulse to the creativity of the farmers from the different size classes. The high competitiveness with regard to the limited funds could lead to an effervesce of the transform and the assistance would be regarded as a prize. There should be a certain standard business plan in order to assure the correctness in choosing the beneficiaries and that proposes the transform of the agricultural activity into a business. The weak point is the difficulty of evaluating proposals with a large range of results.

The assistance for the medium small farms (S4), having a size between 2 and 8 ESU, has the advantage of managing a relatively homogenous segment of the farms (4.9 hectares for the 2-4 ESU and 9.4 hectares for the 4-8 ESU group) and with a reasonably number of potential beneficiaries: about 320 thousand farms. This scenario could be considered the most realistic, as the number of assistance proposals is expected to be more than 1/3 of the number of potential beneficiaries. It is similar to the approaches of other member states applied after 2004. Typical for Romania, where the relation market-farm is less developed, should be the emphasis that the business plan will put on the selling of the production and not on the investments. Therefore, becoming a member of a producer group is very important for these farms and could give an impulse to the producers groups, especially within the context of a more stable context on the agricultural integrated markets.

## **5. CONCLUSION**

Romanian tradition (with its agricultural and social routines) has a strong influence on the agricultural relations after the restitution of the property, especially because after the beginning of the transition the resources allocated to the development of the rural area, in general, and to the development of the agricultural sector in particular, were reduced, except for the last years, when the Sapard program had an important contribution, along with some national measures of smaller proportion. The results of these efforts seem not have achieved the critical mass in order to change the perception and the condition of the delayed Romanian agricultural structures.

The Romanian agriculture urgently needs to modernize the farms and the Axis 1 measures of EAFRD can sustain these requirements. If within the EU-15 member states the transition from peasant like agriculture to the modern one was long, Romania, more than the other NMS must adapt more rapidly to the competitiveness requirements and quality standards of production imposed by the farmers of Europe. The key transformation is represented by the passing to a specialized and intensive production system generally focused on animal farming in parallel with the adapting to the European rules and the integration of the agricultural worth within the industrial society. Therefore, Romania needs a program that provides a national pattern to selected measures of EAFDR.

Besides the administrative and measures' management issues from an institutional point of view, the success of the "assistance to the semi subsistence farms" measure is conditioned on the markets integration. Therefore, certain proposal concerning the demands' prerequisites like the long-term contracts or adhesion to the producers groups (that implies the observation of the sanitary, veterinary and environmental norms) can be taken into account. Briefly, the tendency towards rationing the agricultural practices in order to assure integration on the agricultural markets that support the sustained development of the agriculture.

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