**Family Farming: a Europe and Central Asia Perspective**

Background Report for

*Regional Dialogue on Family Farming: Working towards a strategic approach to promote food security and nutrition*

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**List of Abbreviations**

AWU Annual Work Unit

CIS Commonwealth of Independent States

COFAMI Encouraging Collective Farmers Marketing Initiative

EC European Commission

ECA Europe and Central Asia

EEA European Environment Agency

EU European Union

FF Family farming

FSS Farm Structure Survey

FWU Family Work Unit

GBP Pound Sterling

GDP Gross Domestic Product

ha hectare

INTAS International Association for the promotion of cooperation with scientists from the independent states of the former Soviet Union

IYFF International Year of Family Farming

MS Member State

NGC New generation cooperative

NGO Non-governmental organization

NMS New Member State

OECD Organization for Economic Co-operation and Development

R&D Research and development

RDEE Research and development, extension and education

RISE Rural Investment Support for Europe

SFC Support for Farmers’ Cooperatives

SME Small and medium sized enterprise

SSF Semi-subsistence farm

UAA Utilized agricultural area

UNEP United Nations Environment Programme

USAID [United States Agency for International Development](http://www.usaid.gov/)

USD US Dollar

VAT Value Added Tax

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## Executive Summary

*Family Farms and Family Farming*

A family farm is an agricultural holding which is *managed and operated* by a household and where farm labor is largely supplied by that household. Normally, the family farmer is a sole holder, often (but not always) registered for statistical and policy purposes as a farmer but not constituting a legal business entity.

Family farming incorporates farms of many different types and sizes, with both full- and part-time farmers, and farmers with and without other gainful activities. Some are specialized commercial business operations, while others produce mainly to satisfy household food needs, the so-called semi-subsistence farms (SSFs). In the more developed countries in the Region (and elsewhere in Europe and Central Asia, though to a lesser extent), there are also small “hobby” or “lifestyle” holdings, belonging to families with substantial non-agricultural income.

In family farming, farm ownership is combined with managerial control by the so-called principals, who may be the farmer alone, the farmer and spouse, or the farmer and son(s)/daughter(s). What is unique for this organization of agriculture is that these principals are related by kinship or marriage. Another unique feature is residence - the household lives on the farm or in a nearby village, and therefore family farmers populate rural areas even the remotest ones.

Even though family farmers often own their land, they can operate on rented land or with a combination of owned and rented land. The share of rented land in total utilized agricultural area is high in the EU New Member States (NMSs) and some of the countries of the Commonwealth of Independent States (CIS), where the land reforms of the 1990s resulted in highly fragmented land ownership, and the organization of a viable farm requires the leasing of land from many other small landowners, or from the state.

Family labor is usually used in farm production. However, some members of farm families often have other gainful activities, and/or the farm is run by a part-time farmer. In such cases, family labor may play only a minor role, at least in terms of income.

In general, family farmers use their own physical capital (e.g. buildings, machinery). However, some small farmers, particularly in the EU NMSs and the CIS, have no or very little own capital: the only physical asset which they own or operate is a small area of agricultural land. Such farmers may employ machinery contractors rather than using family-owned machinery, and/or engage neighbors to cultivate their lands.

Family farmers in Europe are central to the agricultural industry and rural economy. In 2010, in the EU28 there were 11.9 million family farms, 7 million of which were in the NMS13. They accounted for 97 per cent of farms in the EU28, including 99 per cent in the NMSs. However, many family farmers are small; in 2010, in the EU28 there were 5.7 million farms of 2 ha or less. Romania alone contained 2.7 million such farms.

Many of the small family farmers are semi-subsistence – they sell less than 50 per cent of their output and use the remainder for consumption within the farmer’s extended household. In 2010 in the EU28 there were 6 million SSFs most of which (4.1 million) were smaller than 2 ha. SSFs are unevenly located in the EU – they are concentrated in the NMSs and the Southern MSs of the EU15 (Greece, Italy and Portugal).

Family farms are the main agricultural employer. A large proportion of rural populations depends for their livelihood on family farms. Women are central where labor input is concerned, but much less so where the role of farm manager is concerned.

The significance of family farming in Central Asia and the other CIS countries is directly affected by the legislation and policy implementation concerning land reforms and privatization. Family and corporate farms co-exist and have a different balance in Russia, Western CIS and Central Asia. Family farms are overwhelmingly the predominant farm structure in the Caucasus.

Across the ECA Region, there are millions of people who operate household plots, and are usually not treated as “farmers”. The exclusion of household plots from family farming for statistical and policy purposes may lead to substantial underestimation of the food security and poverty mitigation functions of family farming in the ECA Region.

*The Characteristics, Values and Roles of Family Farming*

Family farmers are resilient. The flexibility of family labor to changing technological, economic and social circumstances, on and off the farm, contributes to their persistence. Cultural attachment to farming and land, particularly on long-owned family holdings, also plays a major role.

Family farmers adopt various strategies to build resilience and adaptation capacity, in particular diversification to agricultural and/or non-agricultural enterprises and pluriactivity, and avoiding committing a large share of resources to one activity. In some countries, but not everywhere, family farmers are more active in diversification than corporate farms registered as legal entities.

Family farming is a model to achieve sustainable growth, food security and mitigation of rural poverty. Family farming, even on a small scale, including SSFs and household plots, is an important factor in mitigating rural poverty.Without incomes from the household plots, many rural households in Russia would not be able to afford even the basic national food basket.

Family farming is the main contributor to food security, in its role as the essential agricultural producer in ECA. Family farms enhance food security through: a) agricultural production and agricultural trade; b) production of diverse crop, livestock and horticulture products that can satisfy the diverse dietary needs for an active and healthy life; c) production of safe food of good quality; d) sustainable use of natural resources thus building a basis for future food security; e) income generation allowing more vulnerable households to have access to food.

Family farmers contribute to the sustainability of agricultural systems. They often operate mixed farming, which is probably better for the environment because it is, at least partially, a closed system. Small-scale mixed farms could be also considered a positive externality *per se* as they create a landscape characterized by smaller farm fields with greater length of field boundaries which increase the value of habitats and biodiversity.

Family farmers enhance the vitality of the rural economy and preserve traditional cultures. The existence of family farms, particularly small-scale ones, is a significant part of national cultural heritage, customs, dress, music, cuisine and habitats.

Despite these socially valued functions, family farms, and in particular small-scale ones, are often constrained in their access to land, physical and financial capital, and to markets. The modern food supply chain may prefer large corporate farms in order to save on transaction costs and achieve more consistent quality of supply.

Another challenge faced by family farmers is that in many ECA countries the population of farmers is aging. This is particularly the case in the EU, both in EU15 and NMSs. However, in some other ECA countries, e.g. Kosovo, Turkey and Central Asia countries, the farming and rural populations are in general young. The unfavorable demographics in some ECA countries make the issue of succession central to the future sustainability of family farming.

*Policies for Family Farming*

#### The policy environment differs in different ECA sub-regions. In the EU15, agricultural policy over decades has been tailored to, and has reinforced the overwhelming predominance of, family farms. These policies have increasingly benefited larger family farms rather than smaller ones, for which they are either out of reach or only marginally useful.

In the EU NMSs, since accession with the implementation of Pillar I single area payments and Pillar II rural development measures, the CAP has transformed agricultural policy. Appreciation of the substantial presence of SSFs in the NMSs is recognized in a special Pillar II measure to support the commercialization of NMS SSFs undergoing restructuring.

In the CIS countries, post-communist transition policies have varied widely. In some countries, smaller family farms have not been of major policy interest, and large farms and downstream processing enterprises have often remained state-owned or state-dominated. However, in others, such in the Caucasus, where family farms prevail, they are a more central focus of policy concern.

The large range of policy instruments available to governments can be categorized as: a) legislation and regulation; b) market and marketing policy; c) income support; d) research and development, extension and education; e) rural development and environmental conservation; f) social policy instruments; g) policy-making and rent-seeking.

Policies and policy administration for land rights is crucial for family farming, since secure land tenure – whether ownership or lease/rental – is necessary for successful investment and succession. While the cadastral system is satisfactory in many EU countries, the situation in several CIS countries is much more uncertain, with unfinished or not fully implemented land reform legislation.

A particular area of legislation as it affects family farmers as a group is that governing the formation and operation of cooperatives. In some countries, laws and regulations apply specifically to agricultural cooperatives; in others, such legislation applies to all cooperatives, e.g. in manufacturing and retailing as well as agriculture. Some countries have no legislation for cooperatives, since they are treated as normal corporate bodies.

Policy instruments for market and income support can become highly costly, while doing little for small family farmers who do not produce much for the market and find it difficult to claim direct income support even when this is available. However such instruments strongly support larger commercial family farmers, increase their liquidity, facilitate access to external finance, and smooth household consumption.

There are compelling arguments in favor of government intervention in agricultural research, development, extension and education, both in terms of the economic rates of return to be expected from such investment, and in terms of future food security and environmental protection at local, national and global levels. The highly fragmented nature of much farming in the ECA Region, with no strong farmer associations in many countries, supports the “market failure” argument that public funding for these activities should be available, e.g. for state research institutes, state advisory services, agricultural colleges, and often state experimental stations. In the present climate of hard constraints on government budgets, there is the option of public-private partnership.

Societies in several of ECA countries are largely traditional. In intra-household division of tasks and time allocation, females are often confined to housework and child care. In order to change this situation, there is a need for information and awareness campaigns about the potential contribution of women to household incomes and food security.

Various measures can improve the supply of female labor. Publicly provided education, and vocational and farm management training of women, can increase their employability. One of the major policy instruments to empower women is micro credit, which can be used to buy/rent land and other assets necessary for farming or for a non-agricultural business.

*Farmer Associations*

Family farmers often form agricultural cooperatives, producer groups, farmer associations, or collaborative networks, in order to take advantage of scale economies in farm production, in input purchasing, in product marketing and in political influence. Such associations can reduce costs, increase revenue, or enlarge farmers’ knowledge through mutual contact.

The main ways in which farmers collaborate to improve on-farm efficiency are through production associations, sharing the use of machinery and storage, coming together to share labor (often for livestock management or crop harvesting), or learning about new farming techniques via mutual observation and conversation.

The role of cooperation in capturing more value added can be either by reducing the costs of inputs via input supply associations - or by increasing the prices received for outputs via marketing associations; both are cases of service associations. Across the EU27 as a whole, agricultural marketing cooperatives account for a substantial market share, especially for dairy (over 50 per cent) and for olives, wine, fruit and vegetables (around 40 per cent).

Many rural organizations in the ECA area are termed “cooperatives” but do not fully observe cooperative principles, e.g. there may be non-active or retired member-owners, control may be exercised more by hired managers than by members or board directors, and benefits may be shared by employees or by other market agents.

Alternative forms of farmer association include limited companies (investor-owned firms) in which farmers are shareholders. So-called “vertical” producer groups can be organized by an external party such as a supermarket chain or product processor which brings together a number of farmers, often to ensure common observance of management and quality standards. There are also examples of “innovative” and “micro” clusters formed by farmers supplying specialist or local markets.

The legislative and policy framework may encourage or discourage farmer associations, whether co-operative or other, in various ways, such as the degree of legal certainty, the impact of tax or subsidy arrangements, and indirect support such as administrative assistance.

*Summary and Key Issues for Discussion*

A range of potential policies can be used to increase the sustainability of family farmers. The prioritisation of these policies may differ in different countries and sub-regions according to the specific conditions.

* *Improved access and reliable title to land and natural resources.*
* *Dissemination of market information in ways accessible to family farmers.*
* *Protection for family farmers from unfair treatment by large input suppliers, and food processors and retailers*.
* *Support for the promotion and marketing of agricultural products, including traditional, or local, or niche products.*
* *Financial support enabling investments to increase the adaptive and innovative capacity of family farms.*
* *Public investments in rural physical infrastructure to facilitate access to markets and the mobility of family farm labour for farming and non-farming occupations.*
* *Support for environmental protection and environmental sustainability of family farmers.*
* *Support for cooperatives and other types of farmers' organizations, at national and local levels, helpful to family farms in terms of marketing power and input purchase.*
* *Support for female members of family farm households, whether for farming or non-farming activities.*
* *Public funding of agricultural research and development usable by family farmers.*
* *Education and training*

*In addition, efforts should be made by FAO and its partners in the following areas:*

* *Improved statistics on farm structures and farm household incomes, in order to monitor the development of different types of family farm, their sources of income and food security situation, and their policy needs.*
* *Annual monitoring of agricultural policies as they affect family and non-family farming and farmers.*

## Introduction

The year 2014 is the International Year of Family Farming (IYFF) - an excellent opportunity to increase the awareness of the central role which family farming plays in the world’s agriculture, forestry and fisheries, and in rural development generally. As emphasized by FAO, “*at the country level, both in developing and developed countries, Family Farming is the predominant form of agriculture in the food production sector”*.Moreover, family farms are a multifaceted phenomenon – a production-oriented organization, but also a social and ecological unit.

Family farming must strike a balance between tradition and innovation, and aim at economic, social and environmental sustainability. To millions of farmers in the FAO Europe and Central Asia (ECA) Region, it provides virtually the sole household income stream, which may be substantial from large family-owned holdings attracting significant state support, or meagre from small land holdings (owned or rented) of a semi-subsistence nature. For many other family farm households, with other gainful activity, it is either the main or supplementary source of income. Family farms in ECA provide an uninterrupted flow of produce to local, regional, national, and world markets, and are therefore a key contributor to food and nutrition security.

In collaboration with the World Rural Forum, the International Cooperative Alliance and the World Farmers Organization, FAO plans to hold a series of regional dialogues to enhance local, regional and global discussions on family farming, including small-scale farming. The outcomes of these regional dialogues will set the ground to provide a regional overview of family farming issues that will be addressed in the IYFF Global Dialogue to be held in Rome in 2014.

This background paper aims at facilitating the Regional Dialogue for Europe and Central Asia, and the preparation of the outcome document. It is based on literature review and statistical research, and focuses on three key aspects of family farming and the policy environment in which it operates:

* Its importance and role in the ECA Region, and its contribution to food security and sustainable agricultural development.
* The policy environment in which family farming operates, and existing programs and strategies in support of or biased against family farms.
* The role of producer organizations and cooperatives in ensuring sustainable and efficient family farming.

These three aspects are developed in the succeeding chapters, followed by the formulation of issues for discussion. Each chapter concludes with highlighs and specific questions for discussion.

The paper provides several examples illustrating the issues surrounding family farming by sub-regions, including: the European Union (EU)15 - the so-called “old” EU Member States (MSs); the EU New Member States (NMSs); EU candidate and potential candidate countries; European and Central Asian members of the Commonwealth of Independent States (CIS); and other countries in the ECA Region. These examples are used to demonstrate the wide diversity of family farming existing in ECA.

## Chapter 1: Family farming – the bloodstream of agriculture

### 1.1 The diversity of family farms

In the context of the IYFF 2014, FAO has proposed broad principles that define family farming (which includes all family-based agricultural activities): “*a means of organizing agricultural, forestry, fisheries, pastoral and aquaculture production which is managed and operated by a family and predominantly reliant on family capital and labor, including both women’s and men’s. The family and the farm are linked, co-evolve and combine economic, environmental, social and cultural functions”* (FAO, 2013)*.* These principles are translated by FAO into a rigorous definition which can be used for statistical and policy purposes across regions and over time: *“A family farm is an agricultural holding which is managed and operated by a household and where farm labor is largely supplied by that household.”*

Family farming is an umbrella concept which incorporates farms of many different types and sizes, with both full- and part-time farmers, and farmers with or without other gainful activities. Some are specialized commercial business operations, while others produce mainly to satisfy household food needs, the so-called semi-subsistence farms (SSFs). The “family” associated with such farms may extend well beyond the farm residence, to urban relatives who share in certain labor tasks (e.g. harvesting) and receive a part of the farm’s output. In some countries in ECA, particularly in the CIS, the concept of “individual”, “peasant” and/or “farmer’s farm” is used, mainly to draw attention to the new farm structure that has emerged from the process of agricultural de-collectivization in the 1990s. These “peasant”, “individual” or “farmer’s farms” are also encompassed in the group of family farms.

More complex is the issue with household plots and their owner-operators. Most often, persons with only household plots are not treated as “farmers”. However, the contribution of these plots to food security at the household level and in the mitigation of rural poverty is huge. Moreover, these plots are not negligible as a source of income. For example, in Russia the incomes from household plots narrow the income gap between rural and urban households, particularly for low-income groups (Oglobin and Brock, 2006). In Ukraine, much private farming is very similar to household plot production, but private farmers are registered as a business, while households with plots are not (USAID, 2005a). Usually families use household plots to produce for subsistence needs and to market any surplus. From this point of view, they are not in principle different from SSFs. Although little reliable statistical information exists on these non-registered household plots, their exclusion would mean that the role of family farming in the ECA Region might be grossly underestimated.

In the EU15 (and elsewhere in ECA, but to a lesser extent), there are also small “hobby” or “lifestyle” farm holdings, often owned by a relatively high-income family for residential and lifestyle purposes, while the agricultural output is of secondary concern and land may be used for extensive production and/or landscape activities, or farmed conventionally by a neighboring farmer. Other hobby farms are operated by lower-income families, as a weekend, holiday or retirement location, or as a deliberate lifestyle choice, driven by ideals of self-sufficiency and sustainability. In these cases also, the household’s economic welfare does not depend primarily on the farm production, and family members have other sources of income. However, hobby farms form part of the local agriculture, e.g. in landscape and social terms, and sometimes they provide neighboring professional farmers with income from technical or caretaker activities.

#### Features distinguishing family farms from other forms of organization of agriculture

In devising a definition for family farms, FAO developed a thorough literature review about revolving themes and characteristics of family farms (de la O Campos and Garner, 2012). Here only some of the key aspects of the family farms are discussed.

There are several features that characterize family farms, although one alone is rarely good enough to represent the wide variety existing in reality in different regions and countries. Such features include the freedom resulting from self-employment, and the continuity of the family farm through inter-generational succession. To these, it can be added that, in family farming, farm ownership is combined with managerial control by the so-called *principals* (Gasson and Errington, 1993) who may be the farmer alone, the farmer and spouse, or the farmer and son(s)/daughter(s). What is unique for this organization of agriculture is that these principals are related by kinship or marriage. Another unique feature is often residence - the household lives on the farm or in a nearby village, and therefore family farmers populate rural areas, even the remotest ones.

From a sociological perspective, family farming is associated with *family values*, such as solidarity, continuity and commitment. Family farming is more than occupational choice; it reflects a lifestyle based on beliefs and traditions about living and work (Council of the EU, 26 July 2013).

Box 1.1: The value of the farm to farming families

Farms are symbolic for farming families, and include the land, the animals, the machinery and the farm house. Farm livestock, especially the dairy herd, symbolizes years of hard work and family tradition in breeding lines and developing the business, using other forms of capital. These capital assets have either been owned (through retained earnings and profits) or borrowed, usually through loans or using consultants to ‘borrow’ their expertise (cultural capital). Symbolic capital is important for farmers’ individuality, independence (being one’s own boss) and self-sufficiency (Glover, 2013).

Some other features of family farming require more nuanced discussion, as there has been adaptation of family farms over decades to changes in economic circumstances, in opportunities for non-agricultural jobs and in the use of the land rental market. These are discussed in turn.

##### Ownership of production factors – land, labor and capital

###### Land

Even though family farmers often own their land, they can operate on rented land or with a combination of owned and rented land. For example, in the EU NMSs and some of the European countries of the CIS where the land reforms of the 1990s resulted in highly fragmented land ownership, and the organization of a viable farm requires the leasing of land from many other small (and often absentee) landowners, the share of rented land in total utilized agricultural area is high. In some countries of Central Asia, e.g. in Tajikistan and Uzbekistan, where private ownership in land is not recognized, and in Turkmenistan where although it is legally recognized it is not enforced in practice, the state leases land to farmers, (Lerman and Sedik, 2009). Cultivating rented land is also widespread in some of the EU15 MSs. Figure 1.1 presents the shares of the rented land in some of the EU15 countries and NMSs. It can be observed that in countries such as the Czech Republic and Slovakia, where much agriculture was fully decollectivized after the collapse of central planning, the share of rented land is high, whilst in Poland and Slovenia, where small-scale agriculture survived communist period, the share of rented land is much lower.

Figure 1.1: Share of rented land in total utilized agricultural land, 2005 (%)

Source: Based on data from Swinnen and Vranken (2008).

Land-owning family farmers possess not only a productive asset, but also have some security that can protect them in cases of market shocks and economic recessions. The collateral may also give them better access to credit than workers/members in other types of farm organizations, e.g. corporate farms.

###### Labor

Family labor is usually used in farm production, and this fact has been widely employed as an explanation of the survivability of family farms. When a farm uses family as opposed to hired labor, the farmer and the family members are directly interested in the final results of the farming operation: they are the so-called “residual claimants”, after others such as input suppliers and land-owners (where land is rented) have been paid (Allen and Lueck, 1998). Because of this incentive (and perhaps because lack of effort can be discouraged as part of normal family life), family farm workers usually need less monitoring for effort and initiative. This saves substantial costs that otherwise have to be borne by the farmer to monitor hired wage workers who are scattered across farm fields in crop production, and operate in some isolation in livestock production.

However, some members of farm families often have other gainful activities, and/or the farm is run by a part-time farmer. In such cases, family labor may play only a minor role, at least in terms of income returns. At the extreme, as pointed out by Brookfield and Parsons (2007), there are farms *“in which family ownership is in some measure fictional, family members being merely prominent shareholders. Farms in this group employ labor and are rarely family operated; most employ a manager”.* However, although such extreme cases may exist in practice, generally family farming involves the use of considerable family labor, at least by the farmer him or herself.

The use of family or non-family labor also depends on the crop/livestock choice and whether the farm is organic or conventional. Organic farming is much more labor-intensive, and more often requires non-family hired members. In Germany, organic farms have been reported to employ 12 per cent more workers per ha than conventional farms; for Denmark, this difference was two times (Santos and Escalante, 2010).

Variety in the ECA Region in terms of the use of family labor is huge. In countries where family farms are large, e.g. the UK, hired non-family workers are widely used. In countries with a prevalence of small farmers, e.g. Greece, Romania, Moldova, and EU candidate and potential candidate countries in South East Europe, the labor is mainly family. For example, in Ukraine, within the group of so-called small commercial farms, only 6 per cent did not employ any family labor in 2011. Overall, even in the most developed countries in the ECA Region with predominantly large farms, family labor input is high.

###### Capital

In general, family farmers use their own physical capital, accumulated through savings and short- and long-term loans. This capital includes fixed assets such as farm buildings, farm machinery and equipment, and storage facilities. The capital intensity of agricultural output (i.e. the ratio of capital to land and labor) differs, and there are relations of substitutability and complementarity with land and labor.

However, some small farmers, particularly in the EU NMSs, the candidate and potential EU candidate countries, and the CIS, have no or very little own capital: the only physical asset which they own or operate, apart from hand tools, is a small area of agricultural land. They almost have no internally accumulated savings, and the rural financial system may perceive them as high-risk borrowers. Thus, they do not have access to external funding and as a result have little capacity for productive investments. In farm operations, they may employ machinery contractors rather than using family-owned machinery, and/or engage neighbors to cultivate their lands. Another way used in ECA, e.g. in Russia, for agricultural machinery procurement is through leasing, often at rates subsidized by the government.

Farm operation and management

Another feature that characterizes family farming is that the family, or a family member, manages the farm. Although some large “family” farms in EU15 may use a hired professional manager, the operation of the farm by a member(s) of the family is typical of family farming. Family management is not solely driven by economic considerations, or at least not always. Non-economic motives related to family traditions, social and cultural objectives are often strongly interwoven into the family farm management, especially for longer-term decision-making.

Legal status

Normally the family farmer is a sole holder, often (but not always) registered for statistical and policy purposes as a farmer but not constituting a legal business entity. This clearly differentiates family farming from other types of farm organization, e.g. producer cooperatives widely spread in the EU NMSs such as Bulgaria and Hungary, the various types of corporate farms that cultivate more than 90 per cent of agricultural land in e.g. the Czech Republic and Slovakia, or the mega-corporate farms in Russia and Ukraine. In the EU15, many non-family farms are run by non-governmental organizations (NGOs) such as schools, religious or environmental bodies, or food retailers. The sole holder is also differentiated from partnerships when, for example, two or more individuals or families are farming together.

However, some family farms may register as family-run corporations in order to utilize tax advantages and limit liability to risk. In many cases, although incorporated (and so separated in official statistics), they are not different from family farms concerning family labor and management input.

### 1.2 Significance of family farming in ECA today

In the world today, 3 billion people live in the rural areas, and the majority of them are involved in agriculture, predominantly in family farming. Many are very small farmers. “*Currently there are 1.5B women and men farmers working on 404 million small-scale farms of less than 2 hectares*…” (Final Declaration, 2011). In ECA, one-third to one-half of the people live in rural areas, and this share is nearly two-thirds in Central Asia where agriculture and activities directly linked to farming, e.g. processing of farm produce and services to agriculture, account for 30 per cent of Gross Domestic Product (GDP). Everywhere in ECA, with the exception of the EU15, farm structures and the co-existence of family farms with producer cooperatives, corporate farms, or the so-called “agricultural enterprises”, is a legacy issue resulting from the previous system of collectivized agriculture.

Below, statistics and factual information about the EU are first presented, separately for the EU15 and the NMSs. This is followed by information concerning the significance of family farming in other ECA countries, with typical examples by sub-region. However, it should be noted that data outside the EU is scarce, and that available information is often incomplete, inconsistent or does not allow cross-country comparisons.

#### Family farming in the EU

*Almost in its totality, agriculture in Europe is organized in family farms.* In 2010, in the EU28 there were 12 million farms, and predominantly – 7 million – in the NMS13 (Eurostat Farm Structure Survey (FSS), 2010). We did include Croatia in these statistics, although the country joined the EU in 2013. As stated in the previous section, one of the characteristics to classify a farm as a family one is for it to be organized as a sole holding. According to this criterion, 97 per cent of farms in the EU28 are family farms, including 99 per cent in the NMSs and 94 per cent in the EU15 (Table 1.1). Apart from France, everywhere else in the EU family farms account for more than 85 per cent of all farms. In the NMSs, the lowest share of family farms is in the Czech Republic (87 per cent) due to the high importance of corporate farms (Table 1A in the Appendix).

Table 1.1: Numbers and share of family farms (sole holders) in the EU, 2010

|  |  |  |  |
| --- | --- | --- | --- |
| EU MS groups | Total number of farms and number of family farms (sole holders) | | |
| Total number of farms | Number of family farms (sole holders) | Share of family farms in the total number of farms (%) |
| NMS13 | 7,022,510 | 6,960,650 | 99 |
| EU15 | 5,225,530 | 4,924,380 | 94 |
| EU28 | 12,248,040 | 11,885,030 | 97 |

Source: Eurostat, FSS (2010).

*Family farms are the main agricultural employer*. According to the EU Agricultural Census, around 25.5 million persons were engaged in agriculture in the 28 EU MSs in 2010. Of this total, 24 million were engaged in family farms (sole holders’ farms), including 23.4 million family labor: the farmer, the spouse and other family members, including persons of retirement age who still work on the farms (Eurostat database). Therefore, a large number of rural populations depend for their livelihood on the family farms

Some of these persons were only engaged part-time in farming. Table 1.2 presents labor in full-time equivalents, measured for all people engaged in farming - total labor - in Annual Work Units (AWU), and for family labor in Family Work Units (FWU). On average, in the EU28, 90 per cent of labor is family, including 95 per cent in NMSs and 83 per cent in EU15 (Table 1.2). With the exceptions of Denmark and the UK, more than three-quarters of labor used by the EU family farmers is the labor of the farmer and other family members (Table 2A in Appendix).

Table 1.2: Total labor and family labor directly employed on the family farms in the EU, 2010

|  |  |  |  |
| --- | --- | --- | --- |
| EU MS groups | Family farms | | |
| Total labor directly employed on the farm (AWU) | Family labor directly employed on the farm (FWU) | Share of family labor (%) |
| NMS13 | 4,611,520 | 4,383,140 | 95 |
| EU15 | 3,954,350 | 3,292,820 | 83 |
| EU28 | 8,565,870 | 7,675,960 | 90 |

Source: Eurostat, FSS (2010).

*Women’s labor contribution is substantial,* but less so when the role of the farm operator/manager is concerned. If in the EU28 the female share is 57 per cent of all family members’ labor, their share as sole holders who work on the farms is only 30 per cent (Table 1.3). There are striking differences in some MSs both from the group of NMSs and from the EU15, e.g. in Bulgaria 23 per cent of sole holders are women, but females account for 70 per cent of the family members working on the farm. In Croatia, these proportions are 22 and 65 per cent respectively, in Slovakia 18 and 59 per cent, in Denmark 9 and 72 per cent and in the Netherlands 6 and 63 per cent. Women are central where labor input is concerned, but much less so where the role of farm manager is concerned.

Table 1.3: Number of persons engaged in family farms by gender in the EU, 2010

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| EU MS Groups | Sole holders working on the farm | Share of females (%) | Labor force - members of sole holders' family | Share of females (%) | Regular labor force | Share of females (%) |
| NMS13 | 6,565,260 | 32 | 6,685,110 | 61 | 13,334,820 | 47 |
| EU15 | 4,919,490 | 27 | 4,652,170 | 52 | 10,009,170 | 39 |
| EU28 | 11,484,750 | 30 | 11,337,280 | 57 | 23,343,990 | 43 |

Source: Eurostat, FSS (2010).

The lower importance of women as managers of the family farms holds for all age groups (Figure 1.2). Their role increases slightly with age to above 40 per cent in the NMSs but rises more for the group at retirement age - 65 years or above.

Figure 1.2: Proportion of holder-managers by gender and age group in the EU, 2010 (%)

Source: Eurostat, FSS (2010).

*Family farmers are users and custodians of agricultural land.* Altogether in the EU28 family farmers cultivate 143.5 million ha or 66 per cent of the total Utilized Agricultural Area (UAA). The concentration of agricultural land in some NMSs in producer cooperatives and corporate farms has resulted in a lower proportion of land cultivated by family farms in the NMSs than in the EU15 – 59 and 69 per cent respectively (Table 1.4)

Table 1.4: Utilized Agricultural Area under all farms and under family farms in the EU, 2010 (ha)

|  |  |  |  |
| --- | --- | --- | --- |
| EU MS Groups | UAA in all farms | UAA in family farms | Share of UAA in family farms (%) |
| NMS13 | 62,601,810 | 37,112,440 | 59 |
| EU15 | 154,609,700 | 106,373,630 | 69 |
| EU28 | 217,211,510 | 143,486,070 | 66 |

Source: Eurostat, FSS (2010.

*However, large cross-country differences exist.* Considering the huge number of family farmers, it might be expected that everywhere they should cultivate the largest part of UAA. However, the design and implementation of agricultural reforms often brought about the persistence of large corporate farms. Although the numbers of corporate farms are small in relation to family farmers, they control the largest part of UAA in Bulgaria, the Czech Republic, Hungary and Slovakia in the NMSs, and in France amongst the EU15 (Figure 1.3).

Figure 1.3: Share of utilized agricultural area under family farms in the EU and some other European countries, 2010 (%)

*Many family farmers are pastoralists.* In order to compare different livestock, a notional unit called a “livestock unit” (LSU) is used by Eurostat. To calculate livestock units, a range of weights are applied to the various types of farm animal to provide figures that are equivalent to one adult dairy cow. On this basis, EU28 family farmers had 96 million LSU in 2010 – 71 per cent of all LSU in the EU (and 74 per cent of LSU in the NMSs).

In summary, *family farmers in Europe are central to the agricultural industry and rural economy – as employers, land users and pastoralists*. However, many of them are small, scattered in rural areas including in the remotest ones, and struggle to make a living from a tiny piece of land.

*Small and fragmented farms prevail in most of the EU NMSs and the southern EU15*. In 2010, in the EU28 there were 5.7 million farms of 2 ha or less. Romania alone contained 2.7 million such farms (Table 3A in Appendix). Farms smaller than 2 ha accounted for 48 per cent of all family farms in the EU28, including 58 per cent of the farms in the NMSs. In 2010, they utilized only 4.3 million ha of agricultural land, or only 5 per cent of the UAA under family farms, but engaged 2.3 million full-time employed, or 27 per cent of labor in full-time equivalents (AWU); this proportion reached 35 per cent in the NMSs. These statistics reveal two salient features of small-scale farming in the EU: first, that it is very labor-intensive, with a high labor-to-land ratio of 0.55 full-time employed per ha; and second, that it is socially of key importance, providing income and keeping millions of farmers and their households in rural areas, which without the contribution of the small-farm sector might well have been further depopulated (Davidova *et* *al*., 2013). In several NMSs - Bulgaria, Croatia, Cyprus, Hungary, Malta, Romania and Slovakia, farms of 2 ha or less have the largest share in the family farm size distribution, measured in ha, reaching 87 per cent in Malta and 81 per cent in Bulgaria (Figure 1.4).

Figure 1.4: Proportion of family farms according to the farm size in hectares in the total number of family farms in some NMSs, 2010 (%)

Source:Authors’ calculations using Eurostat FSS 2010 database.

A similar size distribution is also typical of the Southern EU15 countries, whilst large family farms prevail in the North-West of Europe.

*Many of the small family farmers are semi-subsistence* – they sell less than 50 per cent of their output and use the remainder for consumption within the farmer’s extended household. In 2010 in the EU28 there were 6 million SSFs most of which (4.1 million) were smaller than 2 ha. SSFs are unevenly located in the EU – they are concentrated in the NMSs and the Southern MSs of the EU15 (Greece, Italy and Portugal), and currently they are almost non-existent in the rest of the EU15. Four countries – Hungary, Italy, Poland and Romania – harbor 85 per cent of all SSFs in the EU. Many of these farms have little productive capacity but they are important for the food security of households, particularly of the poor ones. From this point of view *their social importance is much higher than their agricultural one*.

#### Beyond the EU

Whist the information about family farms in the EU, discussed above, is more systematic across MSs and over time, outside the EU in the ECA Region the information is more patchy and anecdotal.

##### South East Europe

In **Serbia**, family farms own 84 per cent of total UAA, but changes in farm structure are on-going. The number of farms is decreasing, and average farm size increased to 9.6 ha UAA in the north of the country, and 3.6 ha in the south. The faster growing group of farms are those with 20 ha or more. Small family farms with 10 ha or less operate 44 per cent of UAA, and own the majority of livestock and orchards.

In **Albania,** during the period 1990–2004, 564,000 ha of agricultural land - equal to 98.9 per cent of land planned for distribution - were privatized. As a result, around 450,000 family farms were created, but they are very small: on average 1.3 ha. The total number of farms is gradually decreasing, mainly due to out-migration and the enlargement of some farms that take over the land of others, but the average size remains small, and ownership is fragmented (Sutton *et al*., 2013).

Small family farms are also the prevailing farm structure in the **Former Yugoslav Republic of Macedonia**. Around 80 per cent of agricultural holdings are estimated to be between 2.5 and 2.8 ha on average, but they are often fragmented into several plots. Family farms operate either on owned or leased land. There are still agrocombinats left over from the previous system but they are mostly not operating or are in the process of privatization. Pastures are still state-owned (EC Agriculture and Rural Development).

##### CIS countries

The main factors that have directly shaped the farm structure and the significance of family farming in Central Asia and the other CIS countries are the legislation and policy implementation concerning land reforms and farm restructuring. Some other factors have had a more indirect impact, i.e. the degree of food security, the development (or otherwise) of a general welfare system, and the provision of services (health, education, child care) to the rural population. The combined effect of these factors has brought about different paths of development of family farming in CIS sub-regions (Table 1.5). Family (individual) and corporate farms co-exist and have a different balance in Russia, Western CIS and Central Asia. Family farms are overwhelmingly the predominant farm structure in the Caucasus.

Table 1.5: Sub-regional importance of individual and corporate farm structures in CIS countries

|  |  |  |  |
| --- | --- | --- | --- |
|  | Central Asia | Caucasus | Russia, Western CIS |
| Dominant form of organization of agriculture | 1/ individual  2/ corporate | Individual | 1/ corporate  2/ individual |
| Land under individual farms (%) | 71 | 97 | 34 |
| Share of agricultural output produced on individual farms | 88 | 97 | 62 |

Source: Lerman (2012).

On average, family farms in CIS countries are small – 5 ha or less. At the extreme is Georgia, with an average family farm size of less than1 ha.

**Moldova**

Differently to the EU NMSs, the countries in South East Europe and several of the CIS countries, non-family farming in Moldova, organized in agricultural enterprises, is still an important user of agricultural land. At the beginning of 2012, 39 per cent of agricultural land was under the control of agricultural enterprises and other institutions (Statistica Moldovei, 2013). Peasant (or “farmer’s farms”) accounted for 29 per cent and household plots for 15 per cent.

**Ukraine**

In Ukraine, at the beginning of 2013, small land-owners (peasants and householders) owned 27 million ha of the national total of 41.5 million ha of agricultural land (thus 65 per cent) but leased out 17.3 million ha. Household plots and family farms account for almost half of gross agricultural output. Nearly 75 per cent of all persons engaged in agriculture work on household plots are women, mostly of an economically active age.

**Central Asia**

The five Central Asian counties have a total agricultural area of about 306 million ha, of which pastures account for about 266 million ha. Pastoralism is of particular importance in these countries, but pastures generally remain in state ownership.

**Tajikistan**

The prevailing farm structure are the *dekhan* (peasant) farms and household plots. However, there are various organizational forms of *dekhan* farms – individual, single-family, extended family, collective (families without kinship relation) and corporate (producer cooperatives and companies) (Lerman and Wolfgramm, 2011). Extended family *dekhan* farms are similar to partnerships. In addition, there are also household plots. One important point is that the *dekhan* farms and household plots have different specialization. While *dekhan* farms mainly specialize in crops, including cotton, household plots specialize in livestock.

Production decisions in individual and family farms are taken in almost equal proportions unilaterally by the head of the farm who is often the head of the family (45 per cent), or jointly by the members of the family (48 per cent). There is a clear gender imbalance in the farm decision-making. Female heads are less than one-fifth of the individual and single-family *dekhan* farms. The proportion of women as heads of corporate farms is higher (28 per cent). Tajikistan exemplifies the deeply rooted tradition that the man heads the family and the farm.

**Kyrgyzstan**

As a result of agricultural reforms and privatization of farm assets, there was a dramatic shift in the balance between collectivized agriculture, organized in collective and state farms, and family farming in the form of household plots and peasant farms. Just before the political and economic reforms in the 1990s, 98 per cent of arable land was under collectivized forms of farming. After privatization, the share of the 1,200 agricultural enterprises, successors of the former collective and state farms, decreased to 25 per cent of the arable land, the remainder being cultivated by family farms, including household plots (Lerman and Sedik, 2009). The process of creation of new family “peasant farms” brought about a sharp decrease in the average farm size from 15 ha in the mid-1990s to 3 ha at the beginning of the 2000s. Thus, the developments in the 2000s were in the opposite direction to the normal pathway of structural change.

From the agricultural and production point of view, family farming in Kyrgyzstan is of key significance for livestock production. Almost 100 per cent of livestock are in household plots and family farms.

**Turkmenistan and Uzbekistan** have not formally recognized private ownership in land. However, they have allowed a shift from collective farming to family lease holding, which is the tenure structure of farms (Lerman, 2009). This may be defined as a *hybrid* stage along the way from collective towards family farming. The family operates the land but under many imposed restrictions. Having reliable data on the importance of these arrangements is difficult since in the official statistics it is not counted as family tenure.

The government still intervenes in key industries. For example, in Uzbekistan it controls the investments and capital flows in the raw cotton market. USAID (2005) points out that, due to the emphasis particularly on cotton, “*rights associated with land appear to be distorted to accommodate the industry and to maintain government control over one of the main production element of the national economy”*.

**Issues highlighted**

* Family farming is an umbrella concept which incorporates farms of many different types and sizes, with both full- and part-time farmers, and farmers or farm households with or without other gainful activities. Some are specialized commercial business operations, while others produce mainly to satisfy household food needs, the so-called semi-subsistence farms.
* Family farmers in Europe are central to the agricultural industry and rural economy – as employers, land users and pastoralists. However, many are small, are scattered in rural areas, including in the remotest ones, and struggle to make a living from a tiny piece of land.
* The main factors that have directly shaped the farm structure and the significance of family farming in Central Asia and the other CIS countries are the legislation and policy implementation concerning land reforms and farm restructuring. Family (individual) and corporate farms co-exist and have a different balance in Russia, Western CIS and Central Asia. Family farms are overwhelmingly the predominant farm structure in the Caucasus.
* The exclusion of household plots from family farming for statistical and policy purposes may lead to substantial underestimation of the food security and poverty mitigation functions of family farming in the ECA Region.

*Issues for discussion*

* Are household plots included in family farming, and should they be included, or treated separately for policy purposes?
* What significance (if any) in family farming should be placed on family members living elsewhere, perhaps in cities or in foreign countries, and the flow of remittances?

## Chapter 2: Family farming - strengths, values and challenges

### 2.1 Resilience and flexibility of family farming

*Family farmers are resilient*. Like other farmers, family farmers operate under conditions of risk and uncertainty typical of the agricultural industry. They face and absorb extreme climate (drought, floods) and market (price) shocks, but family farmers in particular are noted for *preserving their structure, functions and identity* (Darnhofer, 2010).

It is widely acknowledged that *family farms are often more resilient than large corporate farms* (Council of the EU, 26 July 2013). For example, they can adjust family labor input to the changing market conditions more flexibly than corporate farms. More often than corporate farms, they practise mixed farming, and in this way they spread risk across both crop and livestock markets.

Family farmers use various strategies to build resilience and adaptation capacity, in particular:

* diversification to agricultural and/or non-agricultural enterprises and pluriactivity, and
* avoidance to the commitment of a large share of resources to one activity.

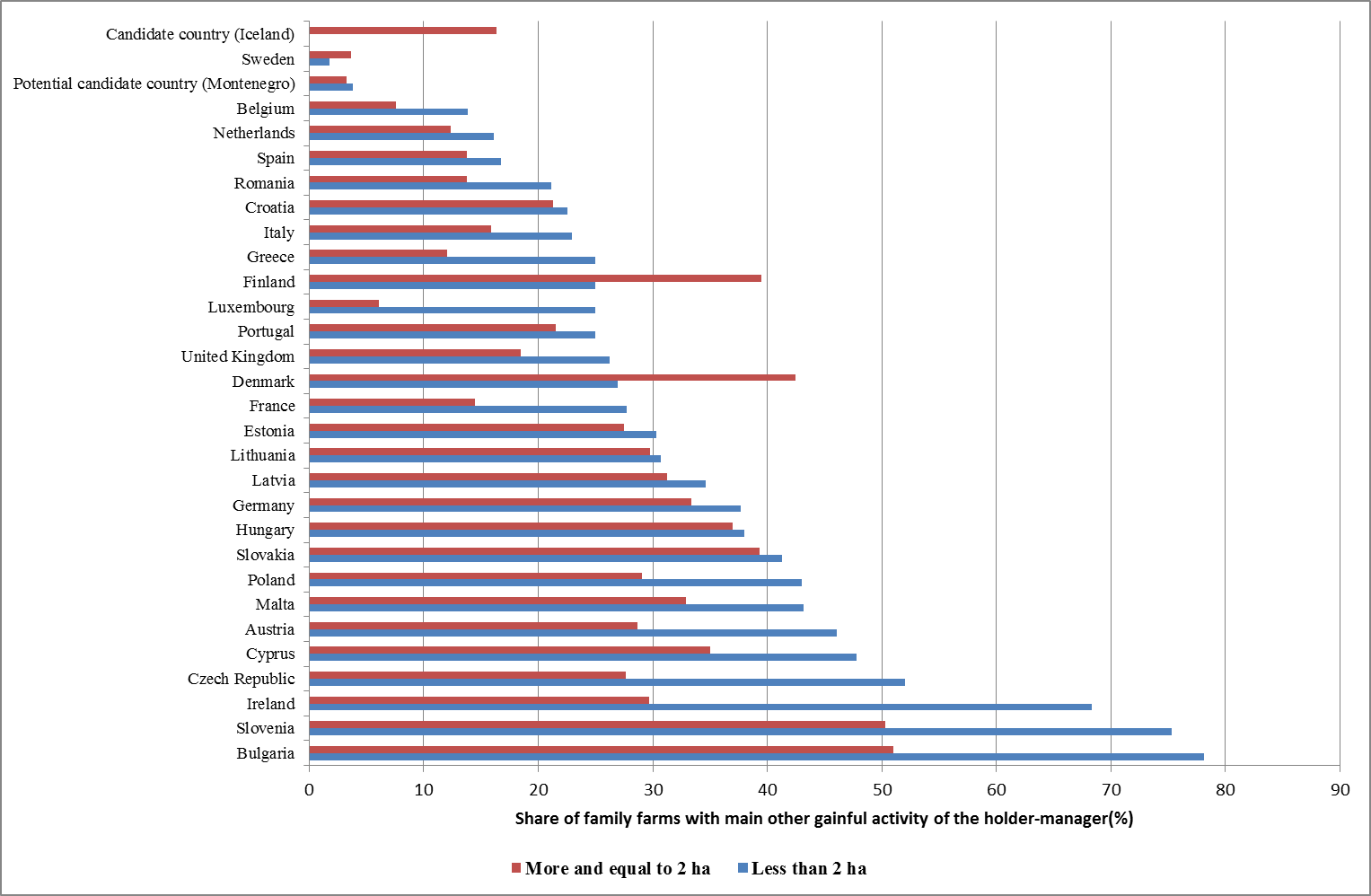
*Diversification* is usually undertaken: (i) to smooth fluctuations in farm incomes, (ii) to increase living standards (financially or otherwise), and/or (iii) to cross-subsidise farm operations. Some farmers diversify on-farm, either to some food processing activities to add value to agricultural products or to use the physical assets e.g. for farm tourism or trading purposes; others diversify off-farm, or (more often) other family members do so.

For some countries, family farmers are more active in diversification than corporate farms registered as legal entities. For example, it was reported that in Romania 37 per cent of farm households had another activity beyond the primary production of food and fiber, while this proportion was only 30 per cent for legal entities (Alboiu *et al*., 2011). However, the situation is not identical across countries, and in many cases corporate farms are more capable of diversifying due to their larger physical and human capital, e.g. in Lithuania.

For small farmers with very little assets and poor access to credit, the main tendency is to diversify income sources through off-farm employment. Many farmers, particularly those with an agricultural area under 2 ha, have diversified to such an extent that the non-farm activity has become more important than farming in respect to working time devoted to it. Thus, they have a so-called *main other gainful activity*.

In Figure 2.1, countries are arranged according to the share of holders of small family farms who have such an activity. With a few notable exceptions, e.g. Denmark, Finland, Iceland and Sweden, everywhere in the EU a larger proportion of small family farmers have a main other gainful activity than larger farmers. First, often they cannot generate enough income from farming to maintain the family, and second, the small farm may not provide enough work to occupy the working time of the holder-manager. In Bulgaria, Ireland, Slovenia and the Czech Republic, more than 50 per cent of small family farmers have a main non-farm activity. Davidova *et al*. (2013) note that the high proportion of small-scale farmers who have such an activity may be due (to an extent) to hobby farming, particularly in the higher-income EU15 countries.

Figure 2.1: Proportion of family farmers with other main gainful activity of the holder-manager, EU MSs and some candidate and potential candidate countries, 2010 (%)



Source: Eurostat, FSS (2010).

Box 2.1: Good Practice: diversification of a semi-subsistence farmer in Poland

This case study involves a small farm of 3.2 ha producing mainly for subsistence, marketing only excess supply. Though the income from sales varied, it was generally low, and this was a factor – alongside previous experience in the non-farm retail trade – in the decision to open a farm shop. Before opening the shop itself, the head of the household set up a stall selling groceries in the local market. This experience acquainted him with market and legislative requirements, necessary in the setting-up of a stall, and helped reduce the transaction costs associated with the business start-up. His spouse had previously worked in the confectionery trade, and she utilised this experience by making confectionery which could be sold directly to customers in the shop. The possibility of selling their own meat was also considered, but they considered the investment required to meet regulation standards ‘uneconomic’, due to the small scale of their production.

The farm is located in a village with a main road passing through, and close to a bus stop, and thus it is readily accessible: customers find the farm shop convenient to use as they do not need to make a special journey to reach it.

The main factors affecting the successful diversification in this case were: previous retail experience, the availability of space which could be converted into a shop, and the location of the farm on the main road making it readily accessible to customers (Chaplin, 2003 in ENRD, 2010).

*Family farmers are cautious managers*. In order to minimize price risk, farmers often try to avoid committing a large proportion of resources to one activity. Furthermore, most of the changes they undertake on their farm are small-scale, to avoid large and risky investments. They adopt the so-called *bricolage* approach (using what is close to hand), based on detailed knowledge of available resources and tools. Those who have access to external funding still tend to avoid taking out large loans; they try to keep debts at a reasonable level in relation to farm assets (Darnhofer, 2010).

Box 2.2: Adaptation through the “bricolage” approach: an example from Austria

“Bricoleurs use resources with which they are intimately familiar to address new tasks as challenges, and they use resources that are available on their farm, e.g. tools, materials, buildings. These available resources are adapted and reorganized as needed. For example, one farmer decided to keep animal husbandry, but to switch from dairy cows to pigs. He thus had to adapt the internal structure of the animal housing. To avoid large investments and limit cash flow, he cut trees from his own forest and used the wood to make the necessary changes. This meant the piggery was not exemplary, but the compromises and the use of on-farm resources limited the cash needs and thus the commitment to this one activity. If pig rearing and marketing prove successful, improving the design of the piggery (e.g. to facilitate work flow) and up-scaling is still an option the farmer might pursue”(Darnhofer, 2010).

### 2.2. Structural change and adjustment patterns of family farmers

Structural change can be defined as the process of *“recombining and redeploying the resources used in agriculture”* ([Lobley *et al.*, 2002](#_ENREF_81)). In parallel with the application of new technologies and equipment, changes in the mix of land, labor and capital used in farm production usually lead to increased competitiveness and efficiency. From this point of view, structural change is a positive and politically desirable development. At the farm level, structural change is most often linked to the mechanization of farm operations, increased use of purchased inputs, and greater farm specialization. Notwithstanding country diversity in terms of structural change, Blandford and Hill (2005) have identified two general patterns: first, reduction in the agricultural labor force, and, second, fewer farms, associated with increased average farm size.

The main drivers of structural change are:

* technological progress;
* market forces (e.g. prices of inputs and agricultural products);
* policy reforms;
* legislation.

There is also a link between *macroeconomic conditions and the speed of structural change in agriculture*. The macroeconomic environment affects the opportunities for farm labor to find work and income in non-agricultural sectors. During periods of economic growth and low unemployment, labor is “pulled” out of agriculture, thus accelerating the adoption of labor-saving technologies and structural change. During economic recession, as currently observed in the Southern EU MSs and some NMSs, labor is “pushed” back to agriculture, and farming serves as a buffer against urban unemployment (Davidova *et al*., 2013).

Two additional factors are specific for the ECA Region. In recent decades, the main driver of the changes in the farm structures in the EU NMSs, the EU candidate and potential candidate countries in South East Europe, and CIS, have been *the economic reforms* across all sectors. Institutional reforms to reinstate private property rights in land and privatize non-land farm assets have played a central role.

Another factor which affects the rate of structural change in agriculture, and is specific to part of the ECA Region, is *accession of a country to the EU*. EU membership and adoption of the Common Agricultural Policy (CAP) can have different consequences for structural change in different countries, depending on the initial farm structure, the land tenure system and the level and type of pre-accession support to agriculture. For example, in Slovenia and Romania, single area payments to farmers under the CAP Pillar I seem to have slowed down structural change, and small farms remain strongly represented in their farm structures. In Malta, the number of small holdings has even increased, since some tiny holdings, which had not produced or sold much prior to accession, have registered as farms in order to become eligible for CAP payments.

The following Table 2.1 exemplifies structural change between 2003 and 2010 in terms of full-time labor equivalents, measured in AWU. The important message revealed by the data is that after 2003, on average, the highest rate of labor exit from farming was recorded in the NMS12, and particularly in the smallest holdings of less than 2 ha, i.e. in countries and farms where it is expected that agricultural labor has been underemployed – too many people trying to generate incomes from too small land plots.

Table 2.1: Changes to labor directly employed by all family farms and by family farms smaller than 2 ha between 2003 and 2010, by EU MS groups (in thousand AWUs)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| EU MS groups | In all family farms | | Change 2010/2003 (%) | In small family farms less than 2 ha | | Change 2010/2003 (%) |
| 2003 | 2010 |  | 2003 | 2010 |  |
| EU27 | 11,884 | 8,395 | -29 | 3,818 | 2,281 | -40 |
| EU15, including | 5,405 | 3,954 | -27 | 1,066 | 716 | -33 |
| EU15 North-West\* | 2,135 | 1,604 | -25 | 143 | 86 | -40 |
| EU15 South\* | 3,270 | 2,351 | -28 | 924 | 630 | -32 |
| NMS12\*\* | 6,479 | 4,440 | -31 | 2,752 | 1,565 | -43 |

\*EU15 North-West comprises all the EU15 countries except Greece, Italy, Spain and Portugal; EU15 South comprises Greece, Italy, Spain and Portugal.

\*\*There is no data for Croatia for 2003.

Source: Authors’ calculations using Eurostat FSS 2003 and 2010 database.

The exit of labor from agriculture is often associated with part-time farming, which is becoming more and more typical in Europe. Often (though not always, especially in the EU15), *part-time farming is related to a survival strategy* by households who use non-farm income to support their farm operations. This is particularly true for small farms. Therefore, the exit of labor from family farms does not necessarily correspond to the disappearance of these farms, and can indeed have the opposite effect – *making them more resilient* (Davidova *et al*., 2013). This is confirmed by the lower decrease of the number of farms (Table 2.2).

Table 2.2: Changes to the number of all family farms and family farms smaller than 2 ha between 2003 and 2010, by EU MS groups (%)

|  |  |  |
| --- | --- | --- |
| EU MS groups | All family farms | Family farms smaller than 2 ha |
| EU27 | -21 | -25 |
| EU15, including | -18 | -21 |
| EU15 North-West\* | -22 | -40 |
| EU15 South\* | -16 | -19 |
| NMS12\*\* | -23 | -27 |

\*EU15 North-West comprises all the EU15 countries except Greece, Italy, Spain and Portugal; EU15 South comprises Greece, Italy, Spain and Portugal.

\*\*There is no data for Croatia for 2003.

Source: Authors’ calculations using Eurostat FSS 2003 and 2010 database.

After 2005, the sovereign debt crisis and economic recession in several European countries brought about a striking feature of structural change in the EU, i.e. stability in the number of SSFs, which declined overall by only 1 per cent between 2007 and 2010. However, this average change hid two different developments: a decline of 5.7 per cent in the NMSs, and a substantial increase of 35 per cent in the Southern EU MSs. The hardship stemming from the economic recession is a major factor contributing to the relative stability and in some cases the proliferation of SSFs, even in relatively high-income countries in the ECA Region.

Box 2.3: Effects of economic recession on structural change in agriculture

Southern European countries (Portugal, Spain, Italy, Cyprus and Greece), i.e. those countries hit hardest by the debt crisis, show relatively low rates of decline in the number of holdings, while Ireland and Malta are the only countries where farm numbers have increased. This may stem from a lack of other, more profitable, employment opportunities, or from an absence of potential new investors in agriculture (and/or lack of the capital required for setting up). It could also reflect a general tendency to maintain farms as a form of safety net during difficult times (EC, 2013).

*Family farming is flexible and adjusts to structural change.* Hawkins *et al.* ([1993](#_ENREF_67)) identify three types of family farmer adjustment patterns: 1. engagement in agriculture; 2. disengagement from agriculture, including exit; and 3. stability. Disengagement is typical for smaller farms (in this particular study of Western Europe found to be around 13 ha). Various paths may characterize disengagement: exit due to retirement, increased pluriactivity or closure of production enterprises due to lack of profitability ([ENRD, 2010](#_ENREF_30)).

We suggest four possible pathways for the universe of family farms: commercial and SSFs, large and small-scale:

1. **Growth** (and often further commercialization and intensification) through absorption of the land and non-land agricultural assets of other family farms exiting farming due to financial difficulties or the lack of a successor.
2. **Disappearance** due to absorption into larger commercial farm holdings, or to land abandonment, particularly in remote areas with less favorable agricultural conditions.
3. **Transformation** of semi-subsistence farms into commercial ones via greater market integration, a process usually supported by agricultural and rural development policy measures.
4. **Continuation** of the *status quo* concerning agricultural activities even in the small-scale family farms and SSFs through (a) diversification with on- or off-farm enterprises; (b) non-agricultural wage employment and part-time farming; or (c) “forced” re-entry of successive family generations due to the lack of alternative income sources under the conditions of underdeveloped rural economy.

Each pathway has different importance in different ECA countries depending on the overall structure of economy and agriculture, and the ease or difficulty of farmers’ access to land, other resources and markets.

Box 2.4: Family farm development paths - Slovenia

All development paths are present in Slovenian circumstances, but the prevailing path of structural adjustment differs among regions.

The disappearance of small and SSFs occurs more often in remote rural areas, usually characterized by marginal conditions for mechanized agricultural production. There, apart from leaving agricultural production and transferring land to larger commercial farms, undesirable structural developments can be perceived in terms of the permanent abandonment of agricultural land, and loss of output.

In more accessible rural areas, family farms are often sustainable, although with modified work organisation or marketing strategies. As a rule, these farms have narrowed down their agricultural production portfolio, mainly by shifting to less labor-intensive products.

In peri-urban fringes, some family farms - even some small and SSFs - manage to add value to their agricultural production by adopting innovative marketing channels.

In areas hit by economic crisis and facing difficulties on local labor markets, small-scale and subsistence agricultural production occurs as a “distress-push” strategy to improve the income status of rural households. (Erjavec and Juvančič, Interview report Slovenia, in Davidova *et al*., 2013).

### 2.3 The values and roles of family farming

This section focusses on the values of family farming as a model to achieve sustainable growth, food security and mitigation of rural poverty.

In the first place, *family farming plays an important* *welfare function* and providesa main source of income to millions of farming households and to rural areas in general. Often small-scale and semi-subsistence farming is perceived to be related to poverty (e.g. Mathijs and Noev, 2004). In fact, *family farming, even the small-scale one including SSFs and household plots, is an important factor in mitigating rural poverty*.

For example, Möllers and Buchenrieder (2011) studied household incomes of small family farmers in Croatia, before the country’s accession to the EU, in two regions – one agricultural (Bjelovar-Bilogora) and the other peri-urban (Zagreb). The income from family farming contributed, on average, above one-third to household income in the peri-urban region and 56 per cent in the agricultural region. For the full-time farmers, this proportion in both regions, on average, reached 68 per cent (the remainder was accounted for either by government transfers, i.e. pensions, or by the income of farm household members having off-farm jobs). A study of the impact of subsistence production on incomes and poverty of 660 agricultural holdings in Bulgaria, Hungary, Poland, Romania and Slovenia, found out that subsistence production contributed more than 50 per cent to the incomes of poor households in Romania, and was able to lift nearly 9 per cent of the studied households out of poverty (Davidova *et al.*, 2011).

Family farming is important for household incomes outside Europe as well. A survey in 2011 of *dekhan* farms in 17 districts in the four provinces in Tajikistan reveals that farming (sales plus consumption of own production) contributed 55 per cent of the household incomes; in some provinces this proportion was above 70 per cent (Lerman and Wolfgramm, 2011). Estimates of the contribution of household plots to rural incomes in Russia revealed that without farm income 40 per cent of the studied rural households would not have been able to afford even the basic national food basket (Oglobin and Brock, 2006).

Family farming, including household plots, mitigates rural poverty not only in the poorer parts of the ECA Region but also in the Southern EU15 countries, which have relatively high incomes.

Box: 2.5 Welfare function of small-scale farming in the EU Southern Countries

Much farming in Greece, Italy and Portugal is characterized by steep and dry land, often located in the remoter and mountainous areas, where it is difficult to achieve economies of scale… Even if vast infrastructure investment, i.e. in irrigation schemes in arid land, or communication networks took place, the rather sensitive Mediterranean terrain hardly lends itself to intensive farming practices. In these areas, economic activities alternative to farming are often scarce and scattered, the chance of finding a job is low, and unemployment is high. In addition to this, the so-called Mediterranean model of social welfare, strongly based on pensions rather than social assistance, makes family self-reliance very important in matters of social care and material support. Under these circumstances, farming is often the only, or at least an important, source of household income. In particular, farming is often used to top up the low incomes of retired workers (Salvioni *et al*., 2014).

*Secondly, family farming is the main contributor to food security*, in its role as the essential agricultural producer in the ECA Region. Family farms enhance food security through: a) agricultural production and agricultural trade; b) production of diverse crop, livestock and horticulture products that can satisfy the diverse dietary needs for an active and healthy life; c) production of safe food of good quality; d) sustainable use of natural resources thus building a basis for future food security; e) income generation allowing more vulnerable households to have access to food. Thus once again, *family farming is not part of the problem, but part of the solution, of achieving food security*.

The increase in the contribution of family farming to food security requires, among other things, the following: a) technical change in the supply side (e.g. drought resistant seeds, improved animal health and vaccination, improved management of natural resources, e.g. pastures and water, adaptation to climate change); b) commercialization of SSFs so they can contribute more to agricultural growth; c) improved food safety through traceability back to the primary producer; d) institutional improvements, e.g. risk management to alleviate the food insecurity linked to price shocks, and farmers’ integration in the supply chain. The positive effect of family farming on food security can be multiplied by investment in global public goods, namely agricultural research and development. At the same time, it would also be increased by the adoption of existing improved inputs and farming techniques, which is not always the case.

Box 2.6: Effect of farm characteristics on technology adoption

Many farms today produce less food than they are capable of, simply because they do not make use of enhanced seeds and cropping techniques that are currently available. At the farm level, farm characteristics often play a significant role in determining the degree of technology adaption, and consequently in determining actual increases in yield and productivity. For example, in the field crops sector, small farmers may be less likely to invest in machinery than big farms because of their lack of access to capital and perhaps the lack of collateral necessary to secure the capital. Some countries with an atomised farm structure may also lack a well-functioning credit market. In addition, some productivity-increasing enhancements may not necessarily call for high investment in capital but farmers on rented land may be less likely to adopt these measures (for example, to use irrigation systems) (Meyers *et al*., 2012).

The application of innovations is influenced by individual characteristics of farmers or their family, the structural peculiarities of the farm, market conditions and general (cultural and institutional) circumstances under which the farm operates. Taking all this into consideration, joint efforts should be targeted at vocational training of farmers, knowledge transfer, support for structural investments, promotion and better use of agricultural and food production, the creation of new ways to sell products in the market (e.g. short food supply chains) and the diversification of income (Council of the EU, 26 July 2013).

*Thirdly, family farmers contribute to the sustainability of agricultural systems.* FAO defines sustainable agricultural development as *"the management and conservation of the natural resource base, and the orientation of technological and institutional change in such a manner as to ensure the attainment and continued satisfaction of human needs for present and future generations. Such development ... conserves land, water, plant and animal genetic resources, is environmentally non-degrading, technically appropriate, economically viable and socially acceptable"* (FAO, 1995). Family farmers can act as important contributors to sustainable agriculture although they often need support, advice and incentives to change their farming practices to more environmentally sustainable ones, e.g. to adopt cost-effective practices to become more energy-efficient or to improve manure management. RISE (2009) points out that not only the natural environment is at stake, but also “*our cultural heritage is threatened by economic development and changes in technology and scale of farming*”.

Jointly with the production of agricultural output, farming produces positive (e.g. landscape conservation, soil preservation) or negative effects (e.g. nitrate leaching from arable and horticultural land). For example, it has been reported that in many ECA countries overgrazing has resulted in erosion and desertification (UNEP-EEA, 2007). Both environmentally positive and negative effects are not planned by the farmers; they are *externalities*, a by-product of farming. Family farmers provide positive externalities for free, and the whole society benefits from them; in other words, family farmers provide *public goods.*

The conventional wisdom is that the impact on the environment (positive or negative) and its intensity differ depending on the different types of farms. The type of farm production (e.g. crops, livestock, mixed farming) is a significant determinant of the type and nature of any environmental impact, with mixed farming being a preferable option in view of delivery of environmental public goods. FAO points out that “*mixed farming is probably the most benign agricultural production system from an environmental perspective because it is, at least partially, a closed system. The waste products of one enterprise (crop residues), which would otherwise be loaded on to the natural resource base, are used by the other enterprise, which returns its own waste products (manure) back to the first enterprise. Because it provides many opportunities for recycling and organic farming and for a varied, more attractive landscape, mixed farming is the favourite system of many agriculturalists and environmentalists* (de Haan *et al*., 1997).

Another farm characteristic that affects the impact on the environment is the farm size. It is frequently correlated with input intensity and the diversity of production. An extensive review by the Organization for Economic Co-operation and Development (OECD) of the literature regarding the relationship between farm characteristics and environmental effects identified a link between intensive production techniques, normally employed by larger commercial farms, and this category includes corporate farms, and the loss of biodiversity (OECD, 2005). For instance, small-scale family farms and SSFs produce a range of crops and animal outputs in order to meet their households’ dietary needs. From this point of view, they provide richer farmed biodiversity than corporate farms. For example, it is reported that SSFs in Romania produce a variety of crops, from maize (which is used both for human and animal food) to potatoes, beans, vegetables and fruits, and most have 1 or 2 dairy cows, a few poultry, and several sheep or goats ([Alexandri and Luca, 2012](#_ENREF_2)). Small-scale mixed farms could be also considered a positive externality *per se* as they create a landscape populated by smaller farm fields with greater length of field boundaries – hedges, banks, stone walls etc. This increases the value of habitat, biodiversity and cultural landscape (Davidova, 2011). In many areas a landscape managed by small family farms employing traditional technologies, e.g. haystacks, is felt to increase its quality.

On the other hand, large commercial operations, including corporate farms, are specialized in order to exploit economies of scale and comparative advantages. Thus, they bring much less biodiversity and to a great extent contribute to the disappearance of the traditional cultural landscape. Despite this, large commercial family farms may also contribute to environmental sustainability. Larger-scale farms appear more likely than smaller operations to take positive environmental action, and more frequently to adopt explicit conservation practices and to join agri-environmental schemes in countries where such schemes exist, which is not the case in all ECA countries outside the EU (OECD, 2005).

Regardless of the farm characteristics, site-specific characteristics (e.g. soil structure, moisture levels) and a farmer’s personal inclination often overshadow the effect of other farm characteristics.

Box 2.7 Good practice: New environmental schemes in Lithuania proposed by the Lithuanian Fund for Nature (an NGO) and the Ministry of Environment

**Investment program, including:**

Establishment of pasture in abandoned or former pastures; purchase of cattle for grazing; reconstruction of small water bodies; planting of vegetation (orchards) strips in the fields; clearing bushes and scrub; clearing of unwanted reed bed; construction of accession roads; purchase of special equipment and techniques for cutting and biomass removal from the fields; eradication of invasive species.

**Landscape stewardship schemes, including:**

Extensive management of meadows; extensive management of wetlands; management of woodland pastures and forest meadows; management of slopes of mounds, hills, other steep slopes, shorelines of water bodies; management of “small” nature elements, e.g. landscape trees, stone piles, springs etc.; planting nectarifeous plants, either strips or fields within arable land.

**Habitat management schemes, including:**

Management of extensively grazed meadows and shorelines; management of extensively grazed wet meadows; management of extensively grazed or lately mown meadows; management of semi-intensively grazed meadows; management of lately and rarely mown wet meadows and wetlands; management of dry and sandy meadows; management of other less favored areas (Zableckis, N. Presentation in Budapest, 7 April 2013).

Many alternative approaches to conventional agriculture have been developed in order to achieve environmental sustainability. One of them is *organic farming*. Organic farming does not use nitrogen fertilizers and is thus much less energy-intensive than conventional agriculture. It also does not deplete the soil organic matter (the humus). Soils with higher organic content are not only more fertile but also more resilient to adverse climate conditions, e.g. drought. There are also economic benefits for farmers as normally organic products command a price premium.

Organic agriculture is at the early stages of development in the East European and Central Asian parts of ECA Region (UNEP, 2011). It is most developed in Moldova, where it accounts for 1.9 per cent of agricultural land (over 32 thousand ha) and 11 per cent of agricultural exports. The vision of a growing sector in future is reflected in the establishment of a Department for Organic Agriculture and Renewable Resources within the Moldovan Ministry of Agriculture. Also the Government tries to facilitate the sales of organic vegetables on the domestic market by providing a 20 per cent marketing subsidy. Organic farming is also of growing importance in Uzbekistan, where it accounts for around 10 thousand ha and involves more than 800 farmers in organic cotton production. Organic production exists at different stages of development in Russia, Caucasus and the remaining countries in Central Asia, and of course in the EU.

Box 2.8: Good Practice - Organic Walnuts, Moldova

Nova Nut is a German-Moldovan joint venture for organic walnuts, where the German partner is engaged in the marketing and the Moldovan partner in the supply. They have contracted 2,152 farmers, most of which just have a few trees. With a good tree yielding around 100 kg, a farmer with three trees can earn around US$600 per year, a substantial contribution to the family’s livelihood in a country as poor as Moldova. In order to reduce certification costs – which otherwise would be prohibitive – the operators maintain a group certificate with an internal control system, by which they themselves visit all farmers and make inspection reports. The external certification body verifies the efficiency of this internal control. Total production is 300 tonnes of kernels graded into many different qualities and vacuum packed (Gherciu, 2010 in UNEP, 2011).

*Fourthly, family farmers enhance the vitality of the rural economy and preserve traditional cultures*. As pointed out above, significant numbers of farmers, including small-scale ones, engage in other gainful activities that may be particularly important for their household livelihoods but in addition generate welfare for the non-farm population and economy, and help to maintain rural populations in remote areas.

Family farmers are also a cultural asset in rural areas. They supply a cultural landscape, as defined by Hodge (2000), encompassing the economic activities and the associated “culturally and historically” social structures. The existence of family farms, particularly the small-scale ones, is a significant part of national cultural heritage, customs, dress, music, cuisine and habitats (Davidova, 2011). In some places, where there is demand for rural tourism, family farmers may provide not only accommodation, but catering and crafts using typical local traditions. Below are two examples of good initiatives in the area of rural tourism.

Box 2.9: Successful intermediation effort in Lithuanian farm-stay tourism

The non-governmental organisation Lithuanian Countryside Tourism Association unites over 1,000 businesses in Lithuania providing countryside (farm-stay) tourism services. The NGO is active in promotion, training and lobbying on behalf of Lithuania’s countryside farm-stay owners. In 2003 the NGO implemented an innovative e-business online tool – a special search engine allowing users to browse through the Lithuanian farm-stays and craftsmen activities within a 50 km radius according to their preferences. The implementation of this tool has resulted in a significant increase of (especially foreign) farm-stay travellers visiting Lithuania (EC, e-business w@tch)

Box 2.10: Making the connection between good food, good farming practices and good holidays – Wales (UK)

Bio-Hotels are part of the wider interest in agri-tourism and food tourism. Organic agri-tourism brings these ideas together. It is where farm-based tourism combines with the appreciation and consumption of organic produce and where the accommodation provider recycles wastes, uses renewable energy and applies methods of carbon reduction. Organic agri-tourism links tourism, food production and the environment. It can create new markets for organic food, and it has the potential to change people’s dietary choice towards fresh organic food (Organic Centre Wales, 2011).

### 2.4 Challenges faced by family farmers

Despite all the above socially desirable functions, family farmers face multiple challenges in the competitive globalized economy: from uncertain and inadequate land tenure to poor access to markets; from marginalization in modern food chains to lack of information and advice new inputs and technologies.

#### Access to resources and markets

In order to be sustainable, family farmers need access to land, water, physical and financial capital. In countries where family farmers co-exist with large corporate farms, the former are often disadvantaged in competition for resources, particularly if they are small-scale. Corporate farms may distort the competition for land, particularly of good quality, and they can thus influence land rental prices and rental contract conditions. Swinnen and Vranken (2008) found that family farms in the Czech Republic were paying €5 or 15 per cent higher rents per ha than corporate farms. The situation in Slovakia was similar: family farmers were paying €7 or 45 per cent more per ha than corporate farms in that country.

Another important factor for family farmers to develop and thrive is *access to credit*. It is well-known that agricultural credit markets are imperfect. In such a market, the borrower receives a certain amount of money in exchange for a promise to repay the money sometime in the future. This transaction involves risk, which may be high in agriculture due to the biological nature of the production process, exposure to pests, diseases and climate shocks, and substantial lags between investment and output. And the risk is even higher when the borrowers are small farms which are costly for lenders to monitor since they are scattered across rural areas. Therefore, family farmers work within credit constraints, a situation which often impedes investments in technological improvement and farm growth. This is not only the case in the low-income countries in the ECA Region. For example, a study of 178 French farms producing cash crops concluded that two-thirds were credit-constrained in the short run and all in the long run (Blancard *et al*., 2006). A comparison of the financial behaviors of corporate and family farms in Hungary indicated a slightly less cautious behavior by corporate farms in comparison to family ones as they invested more in less favorable financial situations and with higher CAP subsidies (Bakucs *et al*., 2009). The authors concluded that corporate farms operated with softer budget constraints.

Family farmers face constraints not only in input but also in output markets. A great number of small family farmers are semi-subsistence, and thus only partially market-integrated. They face *barriers to accessing markets*. One of the main barriers are the “transaction costs” and their inability to meet agricultural standards required by the buyers. Transaction costs refer to the expenses incurred in economic exchange, of which the main forms are: the search for potential partners, gathering information about prices, bargaining and contract enforcement costs. Transaction costs also refer to the time and financial costs of travel to market, which can be particularly high for small farmers in remote areas (ENRD, 2010). A survey of SSFs in five EU NMSs – Bulgaria, Hungary, Poland, Romania and Slovenia, which account for 93 per cent of all SSFs in the NMSs and 80 per cent of those in the whole EU28 – indicatesthat farmers perceived the main impediments to accessing markets as the low level of their existing technology and their lack of contracts with buyers (Davidova *et al*., 2011).

#### Access to advisory services

In all countries in the ECA Region, there is some provision of advisory services. However, this is often not targeted to the issues of family farmers, and particularly those of small-scale and semi-subsistence farmers. In the EU, it has been reported that during the period 2007-2013 farm advisory systems had a relatively narrow focus and served the needs mainly of large family and corporate farms, which are anyway the major beneficiaries of direct payments under the CAP’s Pillar 1 (Davidova *et al*., 2013). These payments are conditional on meeting various requirements, and standards for good agricultural and environmental practice (e.g. prevent soil erosion, maintain soil organic matter and soil structure, avoid the deterioration of habitats, protect and manage water), the so-called cross-compliance. Moreover, these direct payments are linked to agricultural area, and small and semi-subsistence farmers often receive no such payments since they fall below minimum criteria in terms of land area or the amount of annual payment. Thus, the advisory system does not provide the advice needed by small-scale and SSFs to facilitate them in accessing resources, new technologies and markets.

#### Access to adequate research and development

Agricultural research and development has led to the availability of larger machines and buildings, which are not only more efficient in themselves (e.g. in the use of fuel), but strongly encourage the exploitation of scale economies, i.e. larger enterprises, fields and farms. Most new farm equipment is designed for medium- or large-scale farming rather than small-scale operation. Even operational practices required by policy such as land mapping, livestock tagging, and market labelling involve expenditure of effort and money which is more easily afforded by larger units.

By contrast, much if not most new agricultural technology does not lead to lower-cost or higher production in small-scale farming, with some exceptions such as new crop varieties and mobile phones, where scale is largely immaterial, except proportionally. A further factor to be considered is that the installation and efficient use of much new technology usually requires advice and often occasional servicing by supplier agents or experts such as engineers, agronomists or veterinarians. Farm visits by such personnel are expensive (unless made by state-paid extension services, but they are seldom experts in a particular technology or machine type), while visits by the farmer to service points can be time-consuming and costly. The net result is that *larger farms, including non-family ones, may become more efficient over time as they take up technological innovations, while small-scale family farms have more limited opportunities to do so* (Davidova *et al*., 2013).

#### Weak bargaining power in the food chain

The agricultural industry is atomistic. Even large family farms have weak market power if they act individually, particularly in the modern food chain with concentrated food retailing in supermarkets and globalized procurement policies. Sometimes smaller family farms are excluded from the standard contracting and food value chain, simply because of the high transaction costs for downstream enterprises in entering into contracts and enforcing them amongst a high number of small family farmers. Although the situation is gradually improving, corporate farms are still a preferred contract partner since they can supply larger quantities and can usually maintain a more stable quality.

A study of dairy farmers in some CIS countries confirmed that corporate farms are preferred to household farms by milk buyers, with the extreme situation in Ukraine where none of the surveyed dairy farmers had a contract with their main buyer (Table 2.4). Having a contractual relationship not only helps family farmers to commercialize and receive a constant revenue flow, but also gives access to services provided by buyers, e.g. inputs, specialist storage, veterinary support, know-how and quality control.

Table 2.3: Type of contractual relationship between farmers and their main buyer, selected CIS countries, 2005 (%)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Country | Farm structure | Written contract | Oral contract | No contract |
| Armenia | Total\* | 38.0 | 36.0 | 26.0 |
| Moldova | Households (small family farms) | 19.0 | 52.9 | 28.1 |
|  | Corporate farms | 90.9 | 9.1 | 0.0 |
| Ukraine | Households (small family farms) | 0.0 | 0.0 | 100.0 |
|  | Corporate farms | 78.6 | 10.7 | 10.7 |

\* In Armenia, all are households (small family farms).

Source: INTAS project (2007).

One of the promising outlets for small farmers is the short food chain and particularly direct sales to customers e.g. on farmers’ markets. However, there is not always demand for the products of small-scale farmers’, particularly in rural areas with low purchasing power where population is not able to pay a premium for local fresh produce.

**Box 2.11 Short supply chains**

Experiences in Hungary highlight some of the difficulties of direct marketing for small and SSFs. Attempts to create new farmers’ markets in the countryside have been rather unsuccessful, as inhabitants or their relatives produce similar products to what is on offer in such markets, and purchasing power is low. The most successful farmers’ markets, in terms of raising sale prices, have been in Budapest, amongst middle-class “concerned consumers”. There is thus often a mismatch between the location of farms most in need of adding value (i.e. remote rural areas) and market potential (i.e. significant numbers of consumers with both interest in high-value products and sufficient income to purchase them). Similar problems prevail in Romania (Gorton *et al*., 2014).

#### Demographics and succession

##### Demographics

In the EU, both in the EU15 and the NMSs, farming population is ageing. Figure 6 presents the proportion of family farms run by a farmer older than 55 years of age. The farms are divided according to land area above and below 5ha.

Figure 2.2: Proportion of family holdings larger and smaller than 5 ha run by a farmer older than 55 in selected EU Member States, 2010 (%)



Source: Bailey and Suta (2014).

Almost everywhere, more than half of family farms smaller than 5 ha are run by farmers older than 55. In Cyprus, and particularly in Romania where the number of family farms is the largest in comparison to any other EU MS, more than 60 per cent of both smaller and larger farms are run by old farmers. The small proportion of old farmers in Poland may be due to their national farmers’ pension scheme in combination with the implementation of the EU early retirement measure (Bailey and Suta, 2014). The unfavorable demographics in some ECA countries make the issue of succession central to the future sustainability of family farming.

However, in some ECA countries, e.g. Kosovo, Turkey and Central Asia countries, the farming and rural populations are in general young, which is an advantage for the future of family farming***.***

##### Succession

As mentioned, one of the unique characteristics of family farming is the transfer of farm ownership and farm operation through successive generations. Succession of management is the ultimate test for the family farm, since it can trigger the adoption of new technology, the consolidation/or fragmentation of agricultural land, and the restructuring of farm enterprises. The retirement and succession decisions of family farmers depend on:

a/ personal preferences for retirement, e.g. according to age;

b/ the availability of a suitable and willing successor;

c/ optimal timing from the point of view of the successor (Kimhi and Lopez, 1999).

If the farmer decides to retire too early, the farm may be left to an inexperienced successor who cannot sustain the competitive pressure from more efficient family farmers or corporate farms. If it comes too late, the farmer may be left without a successor since all the children may have left the farm, and often the rural area, for non-agricultural employment which they are unwilling to give up.

However, in several ECA countries, in particular outside Western Europe, poverty and food security considerations may divert the farmer’s attention away from the optimal time for retirement. Salasan and Fritzsch (2009) describe how in Romania*“…elderly people, after retiring or losing employment, start agricultural work. Since it can be assumed that they do not embark upon such difficult work without necessity, it can be concluded that there are social reasons for this phenomenon. Most pensioners have small pensions or even no pensions at all, but they do have a small agricultural property which could provide significantly for their subsistence needs. The property over that land seems to work as insurance for them. The employment structure supports this conclusion. While for non-agricultural occupations the share of employed persons decreases sharply for people older than 54, it remains high for agricultural activities.”*

**Issues highlighted**

* The persistence of family farming in the ECA Region can be ascribed to several factors, but primarily the flexibility of family labor to changing technological, economic and social circumstances, on and off the farm. Cultural attachment to farming and land, particularly on long-owned family holdings, also plays a major role. A rising phenomenon amongst higher-income groups is “hobby” and “lifestyle” farming by families with substantial non-agricultural income.
* The legal context, in particular inheritance law and the post-communist policy reforms, have had a major influence on the structure of family farming in the ECA Region.
* Technological change in agriculture (and outside, e.g. in downstream food processing and food retailing) encourages the exploitation of scale economies.
* Four pathways of development of family farms in the face of structural change are: growth, disappearance, transformation and continuation. Each pathway may have different importance in different ECA countries and/or in different regions within an individual country.
* Family farming contributes to the mitigation of rural poverty, food security, sustainability of agricultural systems and vitality of rural economies. Despite these functions valued by the society, family farms, and in particular the small-scale ones, are often constrained in their access to land, physical and financial capital, and to markets. The modern food supply chain may prefer large corporate farm in order to save on transaction costs and achieve consistent quality.

*Issues for discussion*

* Are farm diversification and part-time farming stepping-stones out of agriculture, or are they ways to cross-subsidize family farms and increase their resilience, and thus their continued existence?
* What types of new technologies, inputs and advice can serve the needs of the small-scale family farmers, and increase their incomes and sustainability?
* Is there any inconsistency between the objectives of productive and efficient farming systems, and the achievement of environmental sustainability?

## Chapter 3: Is the policy environment conducive to family farming?

Policies with regard to family farms should aim at maintaining and enhancing their positive functions, as discussed in the previous chapter, i.e. poverty eradication, food security, and economic, social and environmental sustainability.

The policy environment differs in different ECA sub-regions. In the EU15, agricultural policy over decades has been tailored to, and has reinforced the overwhelming predominance of, family farms (Christiaensen and Swinnen, 1994), within a context of continuous state intervention and support. These policies have increasingly benefited larger farms rather than smaller ones, for which they have been either out of reach or only marginally useful (Davidova *et al*., 2013). In the EU NMSs, major changes to political processes and structures, as well as land restitution and market orientation, took place as part of the transition agenda of the 1990s, and since then the CAP has transformed agricultural policy before and after accession.

In the CIS countries, post-communist transition has varied widely, but policy has often been inconsistent, progressed unevenly and the reforms have been limited, not least for agriculture, where large farms and downstream processing enterprises have often remained state-owned or state-dominated. The creation of family farms has not been a policy priority in all of the CIS countries. However, in the Caucasus, family farms prevail, and are a more central focus of policy interest. In others, such as Uzbekistan, despite considerable land and other reforms, family farms operate within a strongly state-dominated structure, e.g. marketing quotas for crops such as cotton (Veldwisch and Spoor, 2008).

Other ECA Region countries exhibit an equally wide range of general and agricultural policies. Norway, Sweden and Finland have a highly family-focused agricultural structure, often allied to forestry assets and/or enterprises. Turkey also has a predominance of family farms, but its primary strategy is one of general economic development, and its agricultural policy was re-oriented in the 2000s towards EU norms (Tanrivermis and Bulbul, 2007).

In general, policies are intended to achieve an outcome required by society, although political and stakeholder opinions differ as to what is “required”. Policies are implemented through a variety of instruments (often called measures). The large range of policy instruments available to governments can be categorized as:

* Legislation and regulation
* Market and marketing policy
* Income support
* Research and development, extension and education
* Rural development and environmental conservation
* Social policy instruments
* Policy-making and rent-seeking

The rest of this chapter discusses each of these categories in relation to the sustainability of family farming in the ECA Region.

### 3.1 Legislation and regulation

#### Land tenure

As discussed in Chapter 1 of this report, the type of land tenure held by farmers has a crucial influence on the structure and management of farms, e.g. the size and fragmentation of holdings, and on the owning, renting, purchase and sale of land, which (amongst other factors, such as the availability of capital and family labor) determines the flexibility of family farming. Indirectly, land tenure affects investment in, e.g. drainage and irrigation, and thus the types and levels of farm production. Insecurity of land tenure tends to inhibit land investment and care (e.g. as regards soil improvement) since long-term returns cannot be reliably estimated by the farmer. It also prevents the raising of finance on the basis of land ownership as collateral. For these reasons, and also in some countries and periods the need to consolidate holdings, most governments have tried to establish a reliable legal framework, including a cadastral system, in *which property rights are clearly defined, and a land market can operate efficiently*.

In the EU15, land ownership and rights are long-established, and in most of the NMSs post-communist land restitution has by now been largely completed, even if not resulting in optimal farm structures. Despite this, in each EU MS there is legislation to prevent extreme land fragmentation, and to protect the rights of the small owner-operators, land tenants and non-farming landowners (Swinnen *et al*., 2013). For example, legislation protects farm tenants in Belgium and France, providing for contracts for a minimum of nine years. Tenants also have a pre-emptive right to buy their rented agricultural land if it is for sale (Ciaian *et al*., 2012). Moreover, land laws often provide for relocation to create conditions for farm consolidation.

In some NMSs, legislation bans foreigners to purchase agricultural land during a transitional period of seven years after EU accession (12 years in Poland). Similar restrictions exist in the EU candidate countries in the South East Europe, e.g. in the Former Yugoslav Republic of Macedonia and Turkey. However, in many CIS countries, the land tenure situation has not yet settled down, with ongoing debate about, for example, the freedom of family farmers to buy and sell land. For example, Ukraine extended the moratorium on the sale of agricultural land, originally imposed until 1st January 2008, until January 2016 (OECD, 2013a).

Below are three examples of legislative approaches to private property rights in land, which affect differently family farming.

Box 3.1: Land tenure legislation in three CIS Countries

**Uzbekistan**

The legal foundation for all land tenure in Uzbekistan is contained in three key documents: a) the Constitution; b) the Land Code; and c) the Civil Code. Rights associated with land appear to be distorted to accommodate the cotton and wheat industry and to maintain government control over one of the main production elements of the national economy. In both theory and practice, land reform in Uzbekistan does not contemplate the privatization of land in the near future, but only of enterprises, buildings, or movables. The tenure structure of farms remains leasehold, and is allocated by tender (USAID, 2005b).

**Azerbaijan**

Azerbaijan adopted a broad-based land privatization agenda. Land was transferred from the collectives to fully autonomous privately owned holdings, while common practices elsewhere in CIS were the leasing of land by the state or the imposition of crop production quotas. Also, land in Azerbaijan was distributed to individual families rather than to corporate or cooperative farms as in other CIS countries. Additionally, land was fully transferable and could be sold, rented or leased without restrictions (which was not the case in some CIS countries) (World Bank, 2008).

**Russian Federation**

The Russian Constitution establishes the principle of private ownership of land, but does not provide any procedure for the transfer of land, historically owned by the state, into private ownership, and there are contradictions between current laws. Practice varies between regional and local levels (Sagaydak and Lukyanchikova, 2012).

#### Succession Legislation

One of the defining characteristics of the family farm is that such farms are “*units of inheritance or succession within the family or household*” (de la O Campos and Garner, 2012). The legal framework of succession is important in order for young generation to be able to take over the family farm in an orderly manner. Apart from farm assets, there are frequently several other important aspects to succession, such as liability to taxation (on the value of property transferred, or on future income from farming), transfer of eligibility for subsidy payments, entitlement to grazing or marketing rights, and participation in farmer associations.

Legal institutions concerning farm succession can have a key impact on the consolidation, or conversely on the fragmentation, of land and farm assets. For example, the *Code Napoleon* inheritance system, which requires assets to be passed to all children in equal shares, has led to a prevalence of small farms, and fragmented holdings (scattered fields) in many EU MSs.

Box 3.2: Law on succession

**Germany**

The fundamental law on successions involves equality of all heirs. However, in the pursuit of structural improvement and farm viability, a number of Federal and Länder laws depart from this principle and allow the succession to the farm of a single heir, providing that financial compensation is made to his co-heirs. Such compensation is based on farm turnover rather than value. A fairly common route to successions is that the successor works on the farm for a number of years before entering a formal contract of take-over. An additional period of training at agricultural college ensures that young German farmers are relatively experienced before entering a take-over. The handover period normally involves the successor leasing the land from his parents until their death, in return for a monthly rental and benefits in kind. It is necessary to provide for the co-heirs, and the parents usually undertake to compensate them at some stage in the passing-over process, leaving the successor to farm relatively free of debt.

**Denmark**

Farmers’ sons generally buy out their parents over a long period, at a discount of up to 20% of the market price. As a consequence, young farmers often have to take off-farm employment to meet repayments and to compensate for low incomes and high debts. As farm succession to owner-occupied land implies large capital transfers, the state assists in the process by loan capital schemes, whereby the first five annual payments are paid by the government (Gibbard, 1997).

From the point of view of gender equality, the status of female descendants is particularly important. In many countries, sons or other male descendents have traditionally received priority in inheritance, whether equally as in the Napoleonic Code or under the English system whereby the oldest son is entitled to the land in undivided form. In either case, daughters, and women generally, were, and in some countries still are, disadvantaged as inheriting a farm.

#### Cooperative Legislation

A particular area of legislation, as it affects family farmers as a group, is that governing the formation and operation of cooperatives. In some countries, laws and regulations apply specifically to agricultural cooperatives; in others, such legislation applies to all cooperatives, e.g. in manufacturing and retailing as well as in agriculture. Some countries have no legislation for cooperatives, since these are treated as normal corporate bodies.

In the EU, even though competition law normally prohibits producer groups as leading to undue market exploitation, there is a general presumption in favor of recognized “producer organizations” (POs) in sectors such as fruit and vegetables, and dairying. The current CAP reforms (for the CAP after 2013) give an even stronger role to POs, and extend them potentially to all farming sectors. There is no special treatment for family farms – all appropriate “legal entities” (producers) are eligible as PO members – but the advantages of cooperative-type organization (see Chapter 4) are more important to such farms than to large corporate farms.

Almost all CIS countries have cooperative legislation. In most of these countries, this legislation is general, but in several countries, including the Russian Federation, Ukraine and Uzbekistan, there is a specific law on agricultural cooperatives. In several cases (e.g. Ukraine), the co-operative law provides for membership not only by individual producers but also by other legal entities.

One of the most fully-fledged cooperative laws is in Moldova, under the general umbrella of consumer cooperatives. It includes articles such as those on voluntary membership, democracy, equality and non-discrimination, and collaboration for development. Members of the cooperatives cannot be legal entities, but the legislation allows for the creation of legal entities by the cooperatives (Altshul, 2001).

Legislation in Russia provides for two types of cooperatives related to farming. The first is the Law on Agricultural Cooperation (1995). It emphasizes voluntary membership and focusses on a joint productive or other business activity and on joining property shares which individuals received due to privatization of land and non-land assets of previous kolkhozes. This type of cooperative is treated as a “*business organization*”. The other type is different in this respect. The Law on Horticultural, Gardening and Dacha Non-Commercial Associations of Citizens (1998) does not prescribe business activity but mainly covers mutual support for members in solving common social and economic objectives in the field of *horticulture, gardening and maintaining dacha.* This example indicates that households are not treated as farmers although the law supports their objectives in the areas of horticulture and gardening.

#### Other Regulation

Further areas of legislation and regulation affecting agriculture cover matters such as land use planning, animal health, food safety, environmental pollution, and labor health, safety and wages. These regulations apply to family farmers but often exclude small farms, e.g. as regards conditions of employment. However, in the light of food scares in recent years, universal registration of livestock, and supervision of local food production and processing, have become more necessary, and even small family farms have had to engage for these purposes. As regards environmental control, particularly in the EU, small farms are often exempted from onerous (to both sides, farmer and administration) inspections, but their contributions to maintaining mosaic-like landscapes and biodiversity are often neglected (i.e. not protected through regulation, nor rewarded via payments).

### 3.2 Market and marketing policy

Governments frequently intervene in agricultural product and input markets, usually for reasons of food security, trade balance or farmer incomes. Where such market intervention means – as it usually does – support for output prices via border measures, supply control (quotas) or price subsidies, and subsidized input costs, farmers benefit in proportion to their sales and purchases respectively. This automatically favors large family farms over small ones, especially semi-subsistence farms who do not sell much output.

Governments can also try to make agricultural markets operate more efficiently by promoting the exchange of information about price, quality, future demand, etc., and by supporting the adoption of market-friendly measures such as cooperative marketing and market information systems. These efforts are likely to favor family farming, especially small-scale family farms, over large corporate farms which have better private access to such information, and do not need the scale economies which are otherwise unavailable to small farms. On the other hand, attempts to stabilize market prices confer benefits in proportion to the quantity of output sold (or input purchased), i.e. they benefit larger farms. An exception may be recent proposals in the EU to promote “risk management instruments” such as income insurance and “contractualization” (greater use of written contracts, and new collective bargaining powers) within the reformed CAP, even though these proposals have been criticized on economic grounds (Tangermann, 2011).

Within the *credit markets*, grants or interest-rate subsidies for investment on and off farms are often offered by governments in the hope of kick-starting profitable activity. This policy support can be offered directly to individual farms (usually through a state agency), or indirectly via intermediate organizations such as banks. However, these grants and loans are often subject to various conditions that family farms, especially small ones, find hard to meet, e.g. complex application procedures, high co-financing requirements and payment minima, and long-term commitments. Moreover, in countries where a large part of agriculture is still in state or state-controlled hands (e.g. Belarus, Ukraine), family farms have to compete with the agricultural enterprises which have more educated managers with better understanding of how to apply for credit. Thus, family farms are often at a major disadvantage, especially when land cannot be used as loan collateral.

Most of the ECA countries use a wide range of market and marketing instruments to support their agriculture; some also provide important services to the sector as a whole.

Box 3.3 Agricultural policy measures in Kazakhstan and Ukraine

**Kazakhstan**

Kazakhstan uses both input and output subsidies. Concerning output, there are per tonne payments for livestock products and per hectare payments for the so-called “priority crops”, including grains, oilseeds, sugar beet, forage crops, horticultural crops, cotton and potatoes. On the input side, there are fertilizer and other chemical subsidies, control of prices of diesel sold to agriculture, and concessionary credit, e.g. for sowing and harvesting. However, since 2009, concessionary credit has been reoriented to state-supported investment projects, and this disadvantages family farms. In order to support mechanization, the government provides concessional finance for machinery leasing at highly advantageous rates, e.g. 4-9 per cent per annum compared to 22-25 per cent charged by commercial companies. Both family farmers and agricultural enterprises enjoy tax concessions.

An important policy component in Kazakhstan is the delivery of general services to the whole agricultural sector, including water management, publicly funded projects to upgrade the irrigation system, research and development, and agricultural education. In order to increase the market efficiency and to support marketing activities, the government finances an Agricultural Market Information System. The state has also established and equipped veterinary laboratories (based on OECD, 2013b).

**Ukraine**

Ukraine’s principal instruments of support in 2010-12 were input subsidies. The bulk of this support was based on the budgetary revenue foregone, i.e. specific procedures to use the Value Added Tax (VAT) due from agricultural producers and processors. Tax preferences to agricultural producers are another type of support based on budgetary revenue foregone. Concessionary credit is used for both short- and long-term loans. Investment grants are used for purchase of complex machinery, establishment of greenhouses and renovation of livestock complexes.

Ukraine also uses a range of market price support instruments. These include tariff protection, non-tariff trade regulation, and various forms of domestic price measures, such as minimum reference purchase prices, direct state purchases, and loans against pledged grain. Another measure of price support is the sugar quota with a minimum in quota prices for sugar beet and sugar (based on OECD, 2013a).

More indirectly, governments can try to encourage foreign and domestic investment by means such as lower corporate taxation. However, as found for Russia, Ukraine, Tajikistan and Uzbekistan, the “impact of a fiscal measure is limited as long as the countries do not first tackle their institutional problems” (Swinnen and Van Herck, 2011), while Kadina and Jakubiak (2008) report for Ukraine, Moldova, Kyrgyzstan and Georgia that “the volatility of the political and economic environment, ambiguities in the legal system and corruption are the most important constraints” on inward investment. Thus, the stability of the macroeconomic and legal environment seems more important than specific policy measures for taxation preferences.

### 3.3 Income support

Low and unstable farm incomes are a perennial policy concern, but not one which governments can easily address, for both budgetary and administrative reasons. In effect, policy intervention for income objectives is a form of social security, for which other measures, such as unemployment pay and universal state pensions, normally exist. However, special arrangements are sometimes set up for farmers. For example, in Poland family farmers benefit from a special pension scheme. They are exempt from pension contributions on farming activities and contribute only around 5 per cent to their pensions. Early retirement payments have been available (but not universally adopted) in the EU for several decades.

In the EU, the problems of market support have led to the transformation of the CAP since the Agenda 2000 into two components (“Pillars”). The first, and financially largest, component makes payments directly to farmers on a variety of bases ranging from farmed area to “historical” levels of subsidy, but the payments are “decoupled” from current levels and mix of farm production. The distribution of these payments between Member States (MSs) and amongst farmers has given rise to considerable policy discussions over recent years, based partly on the lack of any clear justification for such payments on “public good” grounds (e.g. environmental services), and partly on unfairness (since income “need” is not a criterion). Efforts to meet these objections have led to several additional measures, including environmental “cross-compliance” requirements in order for the farmer to receive the payment. With the current reforms for the CAP, the payments will be restricted to “active” farmers in order to exclude both corporate entities with primary interests outside farming, and “sofa” farmers who receive payments but do not use the land for agricultural production. However, such efforts have generally been weak and/or ineffective, since the influential larger farmers (both family and corporate) resist the potential loss of support. Whilst these payments go to family farms, they disadvantage the small ones. For example, only 30 per cent of the family farms in Romania can get these payments (Alexandri and Luca, 2012): the others are too small to be eligible.

Of special importance to small family farmers in the EU is the “Small Farmers Scheme” to be introduced within the post-2013 CAP. Under it, a farmer may choose to replace all other CAP direct payments and coupled support by a fixed lump-sum annual payment between €500 and €1000 (€200 for Cyprus and Malta). Though administratively costly to set up, it is expected that the scheme will reduce “red tape” in the longer term, and provide a more effective way to support small farms. “*The objective of the scheme should be to support the existing agricultural structure of small farms in the Union without countering the development towards more competitive structures*” (European Commission, 2011).

Switzerland operates a farming income support system similar to that of the EU, while Turkey used the direct income support in the 2000s to smooth the consequences for farmers’ incomes of the agricultural policy reform consisting of removal of input and output subsidies. This income support was received by family farmers, although, on average, it did not fully compensate for falling incomes (Burrell and Kurzweil, 2009).

An *ad hoc* type of income support operated by most governments from time to time is the provision of *disaster relief payments*, made to compensate farmers for losses from drought, flood, livestock disease, etc. Again, unless such payments are limited in amount per farm, they are likely to benefit larger farms proportionately more than smaller ones, especially when claim procedures are taken into account.

### 3.4 Research and development, extension and education

There are compelling arguments in favor of government intervention in agricultural research, development, extension and education (RDEE), both in terms of the economic rates of return to be expected from such investment and in terms of future food security and environmental protection at local, national and global levels, e.g. to address climate change. The focus of agricultural RDEE has broadened from simple land productivity to societal concerns, e.g. food safety, environmental sustainability and the creation of capacity to adapt to climate change.

The highly fragmented nature of much farming in the ECA Region, with no strong farmer associations in many countries, supports the “market failure” argument that public funding for these activities should be available, e.g. for state research institutes, state advisory services, agricultural colleges, and often state experimental stations. Many countries indeed operate some or all of these options as a matter of agricultural policy, though in different ways, such as under different Ministries (e.g. Agriculture, Education, or Environment), and/or with different payment regimes (free for farmers, or with payment of levies or fees).

In recent decades, large, often international, corporations have more and more advanced modern agricultural production technology, e.g. new seeds and livestock breeding, field machinery, genetic modification, and data management. Moreover, the underestimation of food security concerns in the 1980s and 1990s – and other pressures, such as tight state budgets – led many governments to withdraw partly from these activities, via reduced funding and the privatization of state facilities. While food price spikes in the 2000s have partially refocused attention, these moves have generally disadvantaged small family farmers who buy and sell in small quantities and are thus relatively unattractive to commercial enterprises.

#### Extension Services

There is a general consensus that agricultural extension (advisory) services are necessary to help farmers achieve national goals of food security, sustainable natural resource management and satisfactory rural livelihoods. Without such services, the results of research and development (public or private) are unlikely to be taken up by many farmers. Moreover, such services form a useful conduit for the speedy communication of problems and needs from the farm level to the R&D one.

Until the 1980s, nearly all countries in the ECA Region possessed a substantial state-run farm extension service as an agency of their Ministry of Agriculture, often alongside an agricultural education system. However, the drive for privatization of many public services since the 1980s, and increasing pressures on state budgets, especially in the eastern part of the ECA Region, has led to the reduction and sometimes virtual disappearance of such state services. An area of exception is sometimes veterinary services, where regulation to prevent and control livestock disease is considered essential.

One of the long-term experiences with the *privatization of state farmer advisory* *services* is in the UK, where a private company (ADAS Ltd) was set up in 1997 in England and Wales, and a college-based service was commercialized in Scotland. This has resulted in much competition over a wide range of information and advice supply, both between these companies themselves, and with private agents, both individual and companies. Farmers must now assess advice alternatives, and can spend much time in compiling information from different sources. Private farm advice is also available in most other EU countries, often alongside a state-supported system. In poorer countries in the ECA Region, privatization may deprive family farms of advice since farmers may not be willing to pay for advice while they struggle to purchase the most necessary inputs for farm production.

An alternative that can smooth the burden on farmers is a *subsidized advisory service*, with part of costs paid by the farmer and the rest by the state. In Estonia, where such a system has been gradually introduced, farmers must be officially registered to be eligible for the subsidy, and must utilize an approved advisor from a widely available list. Originally, if satisfied with the quality of work, the farmer paid his or her share, and the advisor received the remainder from the state. Recently the system has changed, and the farmer now pays the whole fee and then requests reimbursement (Kreen and Loolaid, 2004). This system has several strengths: it introduces a market element through choice of advisor, and farmers have control over the quality of service, since if they are not satisfied they do not submit a report which is the basis for the advisor to be paid. It also splits the financial burden between the state and the users, and as a by-product results in a register of advisors and farmers.

In order to improve advice to farmers in the area of innovation and to speed up the adoption of new technologies, the EU has proposed the expansion of the role of the Farm Advisory Systems and the establishment of a European Innovation Partnership for “Agriculture Productivity and Sustainability”.

Concerning education, the need for setting up knowledgeable young farmers, increased mobility of family labor and equity considerations create strong arguments in favor of public education – whether “one-off”, course-based, or “life-long” – available to all farmers. In the face of government budget constraints, one solution is *public-private partnership*. For example, the FAO Investment Centre and EBRD have discussed the potential benefits of such partnerships in agribusiness education in Russia (FAO Investment Centre/EBRD Cooperation programme, 2011). This could be a win-win situation for all involved: private companies gain improved access to research findings; individuals receive training and education more related to practice and the needs of employers; and educational institutions pursue new programs of higher appeal to students and employers.

### 3.5 Rural development and environmental conservation

#### Rural Development

It is increasingly recognized that agriculture alone cannot support a modern and prosperous rural economy. The response has often been to encourage various forms of “diversification”, i.e. the adoption of new enterprises both on and off farms. Popular directions include organic (biological) farming, local food processing, tourism, and craftwork. Such innovations can provide family farm households with alternative sources of income, as well as increased social interaction. Policy measures include short-term annual production subsidies, business start-up or expansion investment grants for accommodation and equipment, and advice and training in appropriate skills, e.g. in food processing, or product or service marketing.

In the EU, such initiatives have been supported – under the general Lisbon Strategy for job creation and competitiveness – within national or regional Rural Development Programmes covering agricultural adjustment and agri-environmental measures as well as non-agricultural rural support. The relevant CAP measures are aimed at “improving the quality of life in rural areas and encouraging diversification of economic activity”. Under the well-known “bottom-up” LEADER approach, Local Action Groups design and operate local development strategies for agriculture and the rural economy in their own area. In the future, Member States will be required to design measures under six broad “priorities”, including “Promoting social inclusion, poverty reduction and economic development in rural areas”. Small farmers will be able to receive business start-up aid up to €15,000, and young farmers will be eligible for a combination of measures including start-up grants up to €70,000, general investments in physical assets, training and advisory services.

As discussed by Dwyer (2014), rural development measures within the CAP tend to favor larger farmers over smaller ones. Dwyer concludes that the reformed CAP for the period after 2013 *“offers more scope for funding tailored to the specific needs of small and semi-subsistence farms, but there is no guarantee that this will translate into more cost-effective Rural Development Programmes, and [there is] concern that such developments may be disincentivised by other aspects of the approach”*, such as excessive programming rules and monitoring requirements.

Rural development policy in CIS appears to be much less developed. There also little research into rural development initiatives, formal or informal. This is one area where future policy research should focus.

#### Environmental conservation

Since farming occupies a large proportion of total land in most ECA countries, policy measures to influence farmer behavior are important to conserving natural assets such as soil, water, biodiversity and landscape. Where farming practices endanger these assets, an obvious step is regulation, e.g. prohibition of activities such as over-grazing, the use of dangerous chemicals, tree-felling, etc. In extreme cases, such as areas of very high-quality natural value, farming and farmers may be excluded, partially or wholly. However, such regulation is difficult and costly to operate, and may run counter to the habits and culture of local family farmers. A more promising but expensive approach is to pay farmers to conserve the environment, or in other words to pay them for the provision of *public goods*. The EU, and a few other ECA countries, have adopted this approach, but, apart from budgetary cost, there is a need to establish appropriate targets and criteria. Often, particularly in areas populated by small family farmers, it may be more effective and more efficient to engage family farmers as a group to conserve the environment in a particular area, such as a watershed.

Increased awareness and skills development in maintaining biodiversity through decentralized initiatives is an alternative to the traditional agri-environmental policies discussed above. For example, some parts of the ECA Region have very rich forest biodiversity which has disappeared in other parts characterized by larger-scale and more intensive farming. The nearby communities are engaged, through government and NGOs actions, to preserve this unique richness.

“*Central Asia holds an amazing array of ecosystems but one of the most fascinating is the ancient forests of fruit and nut trees. They are not only diverse habitats full of wildlife but they support local communities… FFI {Fauna and flora International} and our partners are helping the local forest service and communities to plan together to protect and manage the forests. Through seminars, events and publications we are raising awareness of the global importance of the forests and the conservation issues, as well as developing practical solutions to address threats, such as solar cookers and heaters. We are also supporting grassroots initiatives to engage school children in setting up nurseries to grow threatened trees for planting in the forest*” (<http://www.fauna-flora.org/explore/central-asia-fruit-nut-forest/>).

### 3.6 Social policy instruments

The agenda for policies to deal with social issues (e.g. age, ethnicity, housing, education) is a wide one, but particular emphasis in agriculture has been put on *tackling discrimination by gender* (FAO, 2011). In order to improve the gender balance in family farming, especially in regard to farm management positions and off-farm wage employment, there are several requirements as regards various types of access:

* to land and other natural resources; this not only provide women with the primary factors of production but also improves their access to loans to invest in activities on- or off-farm;
* to physical farming resources, e.g. equipment and transport;
* to intangible assets such as networks which provide technical and market information, and tend to boost the political voice of female farmers;
* to education and training (FAO, 2009; Bjørkhaug and Wiborg, 2010).

Societies in several of the Central Asia countries, and in EU candidate and potential candidate countries, are largely traditional. In intra-household division of tasks and time allocation, females are often confined to housework and child care. In order to change this situation, there is a need for *information and awareness campaigns* about the potential contribution of women to household incomes and food security. Since this type of policy aims at cultural change, it may not have an immediate effect but can improve the gender balance in the longer run.

Various other measures can improve the supply and demand of female labor. On the supply side, the first concerns skills and education. Publicly provided education, and vocational and farm management training of women, may increase their employability. Education increases the number and types of jobs for which women are qualified. As a result, they can earn better wages or self-employment income. In order to allow women to move to more active employment positions, there is a need for improved public service infrastructure in rural areas, particularly *child care services* (e.g. nurseries).

On the demand side, in many countries in the ECA Region, particularly the low-income ones, there are no or very few non-agricultural jobs in rural areas. Grants to provide seed money to micro enterprises that can create jobs may increase the demand for female labor. In the Czech Republic, Hungary and Poland, the critical policy measures contemplated by farmers to start a non-agricultural enterprise and create jobs have been found to be start-up grants, followed by loan guarantees and interest-rate subsidies (Chaplin *et al*., 2004).

One of the major policy instruments to empower women is *micro credit*, which can be used to buy/rent land and other assets necessary for agricultural production or for a non-agricultural business.

Box 3.4: Two success stories: Microfinance

**Bosnia and Herzegovina**

Milena Regoje lives in the village of Vojkovici in a rural part of the Republic of Srpske with one husband, four children, three cows and 27 sheep. In her smallholding, she grows tomatoes, potatoes and peppers. Hay is stacked up in the garden to provide winter feed. When Mrs Regoje decided to switch from breeding pigs and chickens to cows and sheep, she bought one cow on her own. When she wanted to buy two more cows, she turned to loans from EBRD client MI-BOSPO, a microfinance institution set up in Bosnia and Herzegovina in 1996 with the specific aim of supporting women entrepreneurs in the wake of the devastating three-year war. MI-BOSPO has provided some €230 million in 216,927 loans to 74,024 women over the last 17 years. The average size for a MI-BOSPO loan is just €1,100.

The Chief Executive Officer, Nejira Nalic, explained that it is not MI-BOSPO finance alone that supports women developing their enterprises: *"This is not just about money. We are also a trusted friend during the difficult times"* (Williams, A., 2013).

**Azerbaijan**

In 2000, ACDI/VOCA – an economic development organization – created in Azerbaijan a micro-credit institution CredAgro, funded by a USAID grant. It has disbursed loans to farmers and SMEs related to agriculture which would otherwise be unable to access funding from the commercial banking system. By the end of a 5.5 year programme, the funded projects created 18,000 full- or part-time jobs of which women filled 22 per cent. In 2010 the micro finance institution (renamed as OJSC KredAqro) had 13 branches across the country and over 13,700 active borrowers (ACDI/VOCA <http://www.acdivoca.org/site/ID/azerbaijanCredAgro>).

In some countries, women-only or women-targeted organizations have emerged, often with their own communications media such as journals, websites and meetings. Sometimes, academic institutions or farmer unions hold special initiatives of this type. For example, the Women’s Food and Farming Union was created in England in 1979. Members work voluntarily to lobby Government, have representation at national and local level, on advisory panels and industry forum, work to influence decisions, and to get a fair deal for producers and consumers.

### 3.7 Policy-making and rent-seeking

As reflected in the IYFF itself, family farming generally enjoys a high reputation in political circles. The extent to which this translates into active participation by family farmers in the design and implementation of policy depends on the stability and professionalism of farmer associations and unions. Where effective, political pressure can result in significant policy benefits to producers (mostly transferred from consumers in the form of higher food prices or from taxpayers via the state budget). Economists term these benefits as a form of “rent”, which farmer organizations seek, or defend, having gained it in the past from successful lobbying.

Large producers have an advantage in this area because they are not too numerous, are often acquainted with each other, and are likely to be more educated. Also, they often have better information about current and potential agricultural, rural and regional policy measures. In comparison, holders of semi-subsistence and small farms do not appear as an effective interest group at national level. They are significant in number, but spatially scattered, heterogeneous and often have low levels of education and limited connections.

In the EU as a whole, the COPA-COGECA organization (<http://www.copa-cogeca.eu>) represents a longstanding policy-making actor pair (for individual producers and cooperatives respectively) which has access to the European Commission, Council and the European Parliament. It operates on payments made by national farmer organizations.

In EU MSs where there are specific small farmer organizations, their interests are better represented. In Italy, *Coldiretti* (with more than 1 million members) aims to support and protect family farmers and traditional rural values which have suffered due to changes in rural life as a result of the industrial and post-industrial stage of development. There are also several other organisations in Italy that try to promote “peasant farming”, e.g. the Italian Rural Association actively supports the policy interests of small farmers within the CAP (Davidova *et al*., 2013).

In CIS and other non-EU countries, policy-making seems unduly affected by non-family farm policy actors, as expressed by Anderson and Swinnen (2009): *"Opportunities for rent seeking from distorted policies inhibit policy reform, as the few who benefit disproportionately from the existing distortions lobby strongly for their continuation. This applies to various policies, such as cotton regulations in Central Asia, grain trade regulations in Ukraine, and Russia, and water policies in Central Asia."*

**Issues highlighted**

* In all ECA Region countries, government policies continue to operate (intervene) in the agricultural sector, often to a significant effect, e.g. on prices. These tend to favor large family and non-family (e.g. corporate) farming over small-scale farming, due partly to size effects (policy benefits being roughly proportional to output and/or land area), and partly to access problems (eligibility, application procedures).
* Policies and policy administration for land rights is crucial for family farming, since secure land tenure – whether ownership or lease/rental – is necessary for successful investment and succession. While the cadastral system is satisfactory in many EU countries, the situation in several CIS countries is much more uncertain, with unfinished or unenforced land reform legislation.
* Policy instruments for market (price) and income support can become highly costly, while doing little for small family farmers who produce little for the market and find it difficult to claim direct income support even when this is available to them.
* State support for agricultural research, development, extension and education is widely justified but needs to be targeted to address the most important economic, social and environmental problems neglected by private efforts. These problems are highly likely to include education and training for members of smaller family farm households – both male and female – in a number of areas, including farming practices and business management, product marketing, diversification skills and policy awareness. In CIS countries, rural development research often seems lacking.
* Similarly, policy for environmental conservation needs to target the most outstanding problems of this nature, e.g. particular habitats and their wildlife species, or areas of touristic interest. However, such policy measures are unlikely to succeed unless local farmers – almost certainly in groups – are closely involved in their design and implementation, and unless small farmers are included regardless of holding size.

*Issues for discussion*

* How can agricultural policy be designed so as not to disadvantage family farming in favor of large corporate farms?
* What types of farm development support best suits family farms, and what types of income support (if any) should be available to poor and often remote family farm households?
* Does the move towards policy support for “territorial rural development” rather than the sectoral approach advantage or disadvantage family farms and farming, e.g. by placing agriculture amongst several other sectors, encouraging economic diversification?
* What are appropriate approaches and balances of agricultural education for disadvantaged groups such as farm household women and young entrant farmers?
* The main focus of policy research in the academic literature has been on land rights rather than food security, farm succession, market regulation, income support, or rural development. What are the priorities for family farm research?

## Chapter 4: The family farmer is not alone – the role of networking and cooperation

Except for purely subsistence farming, which is very rare in the ECA Region, the typical family farmer has several economic and other relationships outside the farm itself. These may be in group form, as in producer associations of various kinds, or they may be one-to-one, e.g. with a buyer or an advisor. They may be in various directions, e.g. vertical (upstream or downstream in the physical flow of inputs and outputs) or horizontal (services supplied to and by other farmers). They may involve formal membership or contracts, or be informal networks. A large commercially oriented family farm is more likely to have several types of external links, and to have more choice in selecting and utilizing them, than a small and partly self-subsistence family farm, but their importance to the economics of the farm is not dependent on farm size.

The structure and conduct of these external family farm relationships – e.g. whether they are restricted or widespread, short-term or long-term, and whether they operate smoothly or intermittently – are important to the success of family farming. This chapter discusses these links, focusing on *agricultural cooperatives, producer groups, farmer associations, collaborative networks* and similar organizations. Such groups are often formed to adjust or formalize many one-to-one links, e.g. to re-balance market power between family farmers and large-scale buyers, or to reap the benefits of association in terms of scale efficiencies, and information transfer.

### 4.1 The potential benefits of association

The potential benefits to a family farm of cooperation – whether formal or informal – include (Banaszak, 2012):

* better market position and higher output prices;
* lower prices of the means of production (inputs);
* easier and cheaper access to information (technical, market or policy);
* lower investment costs and better opportunities for obtaining capital (credit).

The benefits may be summarized as improving on-farm efficiency, capturing more value added by the primary producer, and exerting policy power.

The main ways in which farmers *collaborate to improve on-farm efficiency* are through production associations, sharing the use of machinery and storage, coming together to share labor (often for livestock management or crop harvest), or learning about new farming techniques via mutual observation and conversation.

The role of cooperation in *capturing more value added* can be either by reducing the costs of farm inputs via input supply associations, or by increasing the prices received for farm outputs via marketing associations; both are cases of service associations (Cobia, 1989).

*Exerting policy power* by representing the interests of their members to governments has been a frequent motivation in forming associations, particularly amongst family farmers. Often, this is done through “umbrella” organizations, such as a cooperative federation. For example, the COPA-COGECA organization (www.copa-cogeca.be) at EU level has been a powerful voice for several decades on behalf of farmer unions and agricultural cooperatives.

### 4.2 Agricultural cooperatives and alternatives

One of the most widespread forms of farmer association, found in most ECA Region countries, is the agricultural cooperative. A true cooperative fully observes each of the following principles (Dunn, 1988):

* user ownership: the cooperative is owned by the people who use it;
* user control: the cooperative is controlled by the people who use it;
* user benefits: the benefits generated by the cooperative accrue to its users on the basis of their use.

The extent to which the above principles are safeguarded by legislation varies widely from country to country, and can be analyzed in at least three areas: organizational law (e.g. on member entry and exit), taxation, and competition law (van der Sangen, 2012).

Many rural organizations in the ECA Region are termed “cooperatives” but do not fully observe these principles. For example, there may be non-active or retired member-owners, control may be exercised more by hired managers than by members or board directors, and benefits may be shared by employees or by other market agents such as intermediate service suppliers to the cooperative. It should also be noted that land reform in many Eastern European and Central Asian countries has involved the dismantling of state-dominated cooperatives which were formed during the process of socialization, and has left a heritage of distrust. According to Lerman 2012), “*there is a strong resistance to the entire notion of cooperatives among the rural people in the region, motivated by the long negative experience with Soviet-era collectivization*”.

The size and nature of cooperatives are affected by various external forces, such as:

* changing demographics, e.g. farmer ageing, or an increasingly dualistic farm structure;
* technological innovation, e.g. in machinery, bioengineering and communications;
* industrialization and globalization of the food chain;
* new policy measures, e.g. higher environmental and food-safety standards.

#### Alternatives to cooperatives

Types of group alternative to cooperatives are often used. These can range from formal companies (“investor-owned firms”), in which members are shareholders, to informal networks amongst neighboring or similar farmers. Companies may be set up or taken over by cooperatives themselves in order to secure or expand their operations without complicating or endangering their cooperative status.

Another vertical form of farmer association may be created when a powerful external party such as a supermarket chain or product processor brings together a number of farmers, often to ensure common observance of management and quality standards. In the Baltic region, examples of “innovative clusters” and “micro-clusters”, created to add value to production (e.g. of cheese, cherries, usually local) supplied to specific food retailers, have been reported amongst farmers as well as other small and medium-sized enterprises (SMEs) (BASAN, 2004).

The research project COFAMI (Encouraging Collective Farmers Marketing Initiative) identified a variety of such initiatives in nine EU MSs plus Switzerland. Based on case studies, the project concluded that new types of such initiatives are to be “*understood as active farmers’ responses to the differentiation in food markets, changing societal demands with regard to rural areas and a growing policy attention for more integrative rural and regional development strategies. Many recent* [initiatives] *can be understood as multi-purpose networks that combine product marketing with collective learning, and collective strategic action with other actors as consumers, food chain partners, societal organizations, policy institutions, agricultural advisory services etc.*”

In some countries, credit unions, sometimes formed under anti-trust banking legislation, or emerging from voluntary village-level savings initiatives, have been formed to make finance more accessible to small farmers and households. These may operate independently, usually raising funds from large banks or donors at advantageous interest rates, or as an off-shoot of a normal cooperative. Their success relies on greater knowledge of farming conditions and peer-pressure on members to repay loans.

### 4.3 Country evidence

The following sections describe some available evidence on farmer networking and cooperation in the ECA Region. Because of the large number of countries in the region, and the many different aspects for possible discussion, it is not possible to present a comprehensive description. In addition, there is no comprehensive information, country by country, about farmers’ cooperation and its role as a support structure for family farming. For these reasons only the leading characteristics observable within various groups of countries are presented below.

In nearly all cases, the numbers, types and performance of formal farmer associations depend on the historical context, e.g. whether cooperatives have been a longstanding national feature; whether they have been subject to light or heavy state attention via legislation, funding or even management; and/or whether they were state-dominated in communist times (and therefore now suffer from distrust), or have been taken over by corporate interests. In some countries, cooperatives are a widespread economic feature beyond farming and exercise significant political influence, while in others they are confined to agricultural activities.

#### The EU

The European Commission has recently commissioned a large-scale study “Support for Farmers’ Cooperatives” (SFC), resulting in reports for each EU Member State, for eight commodity sectors and a number of other aspects of cooperation in the EU (Bijman *et al*., 2012). Focusing on marketing cooperatives, the SFC study found that, across the EU27 as a whole, agricultural cooperatives accounted for a substantial market share, especially for dairy (over 50 per cent) and for olives, wine, fruit and vegetables (around 40 per cent) (Figure 4.1)[[1]](#footnote-1). A major exception was sheep (and goat) meat, where the share was under 5 per cent.

Figure 4.1: Market share of cooperatives per sector, EU27, 2010



Source: Bijman *et al*. (2012)

Figure 4.2 shows the relative importance of cooperatives in EU Member States, based onthe estimated market share of all cooperatives at farmgate sales weighted for eight sectors. High levels (over 50 per cent) are shown for Austria, Denmark, Finland, France, Ireland, Malta, the Netherlands and Sweden, but low ones (under 25 per cent) for the United Kingdom and the NMSs (where data is available). It may be generalized that *agricultural exporting countries and regions tend to have higher levels of marketing cooperatives and cooperative-type organizations than importing ones.*

Figure 4.2: Market share of marketing cooperatives by EU MS, weighted for 8 commodity sectors



Source: Bijman *et al*. (2012).

The SFC study Final Report concluded that: “*Farmers’ cooperatives* [in the EU] *play an important role in helping farmers to capture a higher share of the value added in the food supply chain in all Member States*”, but that there were “*no clearly established links between the (current) support measures for farmers’ cooperatives and the market share of these organizations*” (Bijman *et al*., 2012, Executive Summary).

Box 4.1: Scotland: the ANM Group

This farmer-owned organization – one of the largest in the United Kingdom – began in 1872 with the Aberdeen Cattle and Farm Produce Association Ltd, formed to compete with other auction companies operating in the area at the time. Since then, the Group (which now owns 4companies) has taken over many competitors in Scotland, and has extended its operations to property valuations, leasing, meat processing, event catering and electronic auctioneering (which it pioneered). Currently, it has about 7500 farmer-shareholders, and operates a loan scheme offering attractive interest rates to members who make loans to the Group.

Over the years, several smaller livestock markets have been closed, and today the Group operates from only three major centers, the main one built with EU aid at a cost of about Euro 10 million and housing, in addition to covered auction rooms (the largest in Europe), a range of enterprises including banks, feed and machinery companies, and offices of the national farmer union.

In recent years, the Group has faced difficult conditions in the meat sector, and the Board (all local farmers, mainly from large family farms) has reacted by determined rationalization, including the sale of most of its meats division companies*.* The Group has annual sales of GBP150 million, an asset base of around GBP30 million, and shareholder funds in excess of GBP17 million. In 2012, it made a small trading loss ([www.anmgroup.co.uk/index.php](http://www.anmgroup.co.uk/index.php))

The situation in Southern Europe and in the New Member States is varied. For example:

In **Greece**, Kasimis and Papadopoulos (2013) report that “*clientelism and corporatism have led to the collapse and bankruptcy of farmers’ cooperatives and organizations*”. This negative view is shared by Iliopoulos (2012) in the SFC group of studies.

In **Romania**, the number of cooperatives appears to be falling over the last decade despite new laws (2004 and 2005) (Calinescu, 2012). Of 108 cooperatives in 2005, 77 cultivated land, 17 had a mixed activity and 12 were specialized in animal breeding, while none appeared to provide inputs, process or market products.

**Poland** still suffers from the unwillingness of small farmers to cooperate outside the extended family.

Box 4.2: Poland

Small-scale family farmers in Poland confront the growing power of processing and retail sectors resulting from, among other things, intensive foreign direct investment in the food industry and retail sectors, and integration with the European Union. There have been also growing concerns related to potential negative impact that supply chain modernization may have on small farmers’ access to the market.

Despite potential gains, Polish farmers and rural inhabitants cooperate formally in conducting business with non-relatives only to a small extent. An example of this negative attitude to cooperation is the small number of producer organizations in Poland. Data and opinions on social capital and co-operation collected from 245 farm households in villages in three Polish regions indicate that small farmers have rarely participated in formal co-operation. They mainly co-operate informally, not to decrease market disadvantage or to increase sales, but to offset their lack of capital and to improve access to machinery. The majority of formal producers’ organizations are in regions with a high share of larger and more commercial farms (Northern and Western Voivodships), while formal co-operation has been less widespread in regions dominated by small farms (Central and South-East parts) (Wołek and Milczarek-Andrzejewska, 2008).

#### *Beyond the EU*

##### South East Europe

In this sub-region**,** the formation and maintenance of farmer associations has been problematic due to unstable political conditions, unrealistic expectations, and unsatisfactory financial results. According to Zivkov (2013), current cooperatives in South East European countries can be classified into several groups:

* “old pseudo” cooperatives possessing farmland and run by employees largely to produce from that land;
* “private pseudo” cooperatives operating in fact as companies run by non-farmers, and focusing almost exclusively on purchasing cereals and industrial crops;
* “true” modern cooperatives, some owning considerable property (e.g. storage), which are however small in number and significance.

There are a number of problems facing the development of cooperatives in South East Europe: legislation which does not separate trade from property (thus discouraging investment), the existence of pseudo-cooperatives, unwillingness to move out of the grey (e.g. VAT-exempt) area, the lack of encouraging government signals, and simple defense of the *status quo*.

According to Zivkov (2013), **Croatia** has a well-developed Agricultural Chamber whose foundation, role, activity, status, membership and funding is settled by law. However, its basic roles – representative, advisory and developmental – are for now only partially accomplished, partly because a significant number of farmers think that the Chamber is politicized, and as a result they develop their own representative organizations. The new (2011) Law on Cooperatives means that cooperatives now act as companies, and so can prevent members from buying or selling independently.

In **Serbia,** the most important organization is the Serbian Farmers’ Association, which was established from existing associations in 2008 and the 100 P+ Club, which focusses on training. Good examples of well-established relations between SME processors and small family farms have been found in dairy, meat, fruits, vegetable and grain supply chains, but do not exist in the sugar and vegetable oil supply chains. In the absence of a new law on cooperatives, “new generation cooperatives” (NGCs) were nevertheless emerging by 2007, characterized by high entry payments, restricted membership, and tradeable delivery rights (Ševarlić *et al*., 2007). The NGC model focusses on *added value via vertical integration* rather than marketing raw commodities or supplying inputs as did the traditional cooperatives.

##### CIS countries

In **Moldova**, after agricultural state enterprises, *kolkhozes* and interfarm enterprises were broken up, by 1999 there were 572 cooperatives and 229 peasant farm associations. However, the land reforms did not stipulate the creation of agriculture service cooperatives, which were regarded as “*extremely necessary in the first stage of privatization”* (Dumitrshko in Tanic, 2000). Some farmer groups for input (e.g. machinery) purchase and for production, processing and marketing were started, and sought government assistance, but the disintegration of market structures (e.g. for exporting to Russia) forced many family farmers to lease land to the local collective/corporate enterprise, and/or to remain highly semi-subsistent. More recently, some umbrella or federation organizations have played an influential part in policy-making, and cooperatives have preferential access to a number of government subsidy programs. However, commercial engagement in value chains through marketing and input supply remains low, despite considerable donor (mainly EU) support (Millns, 2013).

In **Georgia**, according to Gogotishvili (in Tanic, 2000), there was little effort to support inter-farmer cooperation and collaboration, but by 1999 several farmer associations and cooperatives were created. In policy terms, the Georgian Farmers' Union is the predominant organization representing private farmers, but mostly the larger and more successful ones. The majority of small-scale family farms are still poorly organized, partly due to farmers’ resistance. The central government plays a very minor role in farmer organization development (despite the need for less erratic financial support, clearer legislation, more favorable tax treatment), and local authorities are only marginally involved. In 2013, the government intends to support a national awareness campaign to promote effective farmer cooperation, accompanied by a training and development program (Millns, 2013).

In **Ukraine**, agricultural service cooperatives are legally registered organizations under the Cooperative Law, and facilitate bulk input purchase or machinery services. Marketing cooperatives are quite successful in the sphere of raw milk products, but not in others. A cooperation development program was adopted in 2009, but did not receive sufficient financing. The Ukraine Tax Service prefers to tax cooperatives as limited liability companies, which significantly reduces the benefits transferable to members. A number of other constraints include: low levels of credibility between agricultural producers and processors; lack of incentive mechanisms for developing extended value chains; limited market infrastructure; processor satisfaction with the existing system; non-compliance of products produced by separate small producers with new agro-food market requirements; and cooperative members not using the cooperative as sole selling agent.

Informal organizations (often in the form of marketing groups) are more common in Ukraine for household producers and small family farmers. Often, farmers with a commercial sales focus specialize in production of a certain product (potatoes, cucumbers, tomatoes, onions, strawberries, apples, etc.) and work together in small informal groups (five to ten members) to be able to sell larger quantities to a trader or to supply markets in other regions of Ukraine at higher prices and/or lower transport costs. As such informal groups maintain control over their own products, they usually do not suffer from the constraints facing the marketing service cooperatives.

The gender dimension of participation in Ukrainian producer organizations demonstrates limited access for women-producers into formal producer organizations. This is especially unfortunate in the case of Ukraine, where women have better education and health, as well as much higher life expectancy than for men.

In **Kyrgyzstan**, a FAO report has emphasized that “*only a few* [processing] *enterprises found a possibility to work with the small-scale farmers*”, while “*many enterprises operate through the intermediaries or procurers, which collect produce from the small-scale farmers and sell in bulk to the enterprises or large-scale farmers*”. The following factors were found to contribute to successful cooperation between small-scale farmers and processors (e.g. the Galenfarm and the Agroplast enterprises, which process, respectively, medicinal herbs and juice, jam, vegetables, salads and tomato paste):

* The major actors being the main engine of the value added chain (“a chain is pulled from the front instead of pushing it from behind”).
* A partnership based on mutual economic benefit and trust, sometimes established via consulting agencies and projects, e.g. with the support of international organizations.
* The willingness and ability of the small-scale farmers to join into groups to organize product supply, facilitate purchasing and deliver agricultural inputs.
* Government action in providing market information, establishing quality standards, supporting small and medium-sized enterprises, and building small-farmer capacity (training in business planning, marketing, etc., in addition to technical agronomic training).

In **Turkey**, the state has adopted a paternalistic role for cooperatives for almost a century, which has delayed their development into self-responsible mature entities (Okan and Okan, 2013). Despite this, there are success stories.

Box 4.3: A Success Story: the Bademli Arboriculture Cooperative, Izmir, Turkey

|  |
| --- |
| The Bademli Agricultural Development Cooperative was established in 1968 in line with Law No. 1163 with a group of villagers in the plant nursery business, a traditional income-generating activity for the area since 1940. Today it is a successful cooperative with its 300 members and 97 employees (3 consultants). It meets 65 per cent of Turkey’s seedling demand. Its success derives from an experienced management structure that has worked closely with its members since inception, and has adapted to market forces and guided members’ production to keep pace with such demand. Over time, the cooperative has diversified its activities to olives and olive oil production and then to milk production and milk processing. Providing services and materials to the public and private urban landscaping sector is a major strength. It is also active in providing technical assistance for climate change to both members and the broader national and international markets.  Net income from sales in 2011 was about USD 8 million. While the number of seedlings produced by the members individually prior to the establishment of the cooperative was around 100-150 thousand, current production is around 8 million, sold both nationally and internationally (to Uzbekistan and Azerbaijan). The seedlings are bare-rooted or poly-tubed to allow year-round sales and use. The olive oil venture began with dry pressing in 1975 and has expanded to a 60 ton/day modular system continuous pressing line that also produces organic olive oil as boutique production. The cooperative also exports olive oil to Russia. Milk produced by the members is handled in a 35 ton/day fully integrated cold chain at the end of which lie high-quality various cheeses, butter and yogurt that are very much in demand. All foodstuffs have ISO 9001 and 22000 certification. Good Agricultural Practices (EU-GAP) is well adopted and the cooperative provides training on this topic together with organic agriculture. A rare asset of the cooperative is a tissue culture laboratory that is used to clone new and Ministry-certified varieties of fruit and ornamental trees under the supervision and with the support of Aegean University Horticulture Department. (Summarised from Okan & Okan, 2013). |

**Issues highlighted**

* Family farmers often form groups such as agricultural cooperatives, producer groups, farmer associations, collaborative networks, in order to take advantage of scale economies in farm production, in input purchasing, in product marketing and in political influence. Such associations can reduce costs, increase revenue, or enlarge farmers’ knowledge through mutual contact.
* Cooperatives – at least in name if not always fully following cooperative principles – are a common form of association. In the EU, they account for 40-50 per cent of total farm markets, but in the central and eastern parts of the ECA Region they suffer from competition from corporate and ex-collective farms, distrust arising from the pre-reform experience, and a number of more recent failures.
* Alternative forms of farmer association include limited companies (investor-owned firms) in which farmers are shareholders, and “vertical” producer groups organized by an external party such as a supermarket chain or product processor which brings together a number of farmers, often to ensure common observance of management and quality standards. There are also examples of “innovative” and “micro” clusters formed by farmers supplying specialist or local markets.
* The legislative and policy framework may encourage or discourage farmer associations, whether co-operative or other, in various ways, such as the degree of legal certainty, the impact of tax or subsidy arrangements, and indirect support such as administrative assistance.

*Issues for discussion*

* Are family farms disadvantaged within cooperatives? Should they focus on their own cooperative-type organizations, or join, and seek to exert major influence within, producer organizations which contain larger corporate farms?
* What types of producer associations offer most advantages to family farms, e.g. marketing cooperatives, advice and extension networks, machinery rings?
* What legislative framework should exist for agricultural producer organizations, e.g. specific to agriculture, or more general? What types of support (financial, advice, infrastructure) should be provided by the state?
* Given the importance of female labor and young farmers’ contribution to the sustainability of family farming, how can women and youth be assured of an appropriate role in producer associations. Should they form their own organizations?
* What is the farmers’ opinion – for or against cooperation? Is there a difference in the attitude to cooperation between small (sometimes semi-subsistence) and large commercial family farmers?

## Chapter 5: Summary and key issues for discussion

Some potential priorities that should assist in designing and operating policy conducive to family farming, including small-scale holdings, are listed below for discussion. The list is not exhaustive, but attempts to cover several areas, including: market information and marketing support; enabling investments; environmental sustainability; cooperatives; research, education and advice; and support to inter-generational transfers. The ranking of these priorities may differ in different countries and sub-regions according to the policy needs.

* *Improved access and reliable title to land and natural resources.*

Although not all family farms are capable of agricultural expansion, due to lack of skills or financial capital amongst household members, or scarcity of available land in their neighbourhood, those that can develop their enterprises should not face barriers arising from uncertain property rights and undue restrictions on land rental. Improved access to land and secure tenure of that access is crucial to the sustainable development of family farming, especially when faced with corporate enterprises or state agencies with better legal and financial resources. A comprehensive and efficient cadastral system with transparent entitlements to land is fundamental. So also are equivalent systems for water for irrigation or livestock use, and for grazing rights, along with adequate monitoring systems – perhaps undertaken by farmers themselves acting on behalf of the relevant authority – to ensure fair usage.

* *Dissemination of market information in ways accessible to family farmers.*

Although rural communications have improved markedly with the advent of mobile phones and (in some areas) broadband, such infrastructure needs to carry information about market prices, product standards, policy measures, weather, etc., so that farmers of all types can react and anticipate developments as best they can. Such information is a “public good” essential to the operation of competitive markets and thus to the expected economic efficiency. In some countries, state agencies provide such information directly, while in others cooperatives adapt and target publicly available data for their members. In any case, the nature and style of dissemination neds to suit small as well as large family farmers.

* *Protection for family farmers from unfair treatment by large input suppliers and food processors and retailers*.

Small (and some large) family farmers frequently suffer from the selling and purchasing behaviour of the monopolies and oligopolies which they face in buying their inputs and selling their products. While family farming is inherently atomistic and localised in nature, national and international food chain trade agents are often much larger in scale, and have better access to information, enabling them to exploit their dominant market position *vis-à-vis* family farmers. To some extent, farmer associations such as cooperatives can combat these disadvantages, but governments can take further measures, such as the appointment of a market regulator with power e.g. to alter terms of contracts, to fix compensation or fines for unfair treatment, or to assist market entry by potential competitors.

* *Financial support, enabling investments to increase the adaptive and innovative capacity of family farms.*

As with physical inputs, the supply of credit to family farms may be inefficiently restricted by the anti-competitive practices of its suppliers, i.e. banks. Governments can help in various ways, e.g. grants and low-interest loans, loan guarantees, clear legislation for activities of micro credit organisation and credit cooperatives.

* *Public investments in rural physical infrastructure to facilitate access to markets and the mobility of family farm labour for farming and non-farming occupations.*

Where roads and telecommunications are poor, the time and cost of access to markets are major burdens on farms remote from urban areas or processing points. Moreover, farm household members cannot find worthwhile outside employment if this is only available at excessive time and cost. Large corporate farms usually have better access to facilities and markets through more frequent trips made by their personnel, or bigger storage facilities. By improving rural infrastructure, governments can help family farms both to develop their off-farm contacts, and to diversify their sources of income.

* *Support for environmental protection and environmental sustainability of family farmers.*

Most countries have laws, monitoring systems, land holdings (e.g. national parks) and sometimes direct grants and subsidies for environmental protection, though their success in combating loss of biodiversity and traditional landscapes is mixed. Given the widely shared belief that family farming ensures long-term and innate care for the countryside, it is worthwhile to ensure that such farms are not disadvantaged by such arrangements, e.g. by environmental payments going mainly to large farms, or by excessive application of environmental conditions on small farms. Often, it may be more effective and more efficient to engage family farmers as a group to conserve the environment in a particular area, such as a watershed.

* *Support for cooperatives and other types of farmers' organizations, at national and local levels, helpful to family farms in terms of marketing power and input purchase.*

Cooperatives and other forms of farmer association help family farms to rebalance market power upstream and downstream from the individual farm level, and, where appropriate, to share the efficient use of farm equipment through, e.g. machinery rings. Farmer networks can do much to disseminate knowledge amongst members. Governments can set clear signals for the creation and maintenance of such associations through legislative, financial and other means. However, it is essential that associations are left clearly in the hands of the farmers themselves, with governments confining themselves to support rather than control.

* *Support for female members of family farm households, whether for farming or non-farming activities.*

Specific organisations for female members of family farm households are a feature of highly developed countries, though they seldom compete directly with mainstream farmer associations. Rather, they target the provision of useful knowledge amongst women and girls, and the promotion of female “models” following successful careers from a family farm base. Governments can support such organisations indirectly by providing information and basic administrative support. More fundamentally, they can ensure that inheritance, land tenure and tax systems do not discriminate against female household members.

* *Public funding of agricultural research and development usable by family farmers.*

There has been a tendency for agricultural research and development (R&D) – especially when undertaken by private corporations – to result in size bias in new technologies, which only larger farms can easily adopt. Public funding for R&D should attempt to correct this bias by focussing on R&D, and its dissemination through extension and education, which is usable by small family farms as well. Such technologies may include new varieties of seeds and livestock, or electronic equipment available in cheap and small-scale forms.

* *Education and training*

Almost by definition, family farming limits the personal experience of its labour force unless measures are taken to widen the general knowledge and enlarge the skill sets of its members. This is particularly important for young farmers and women who are often disadvantaged*.* Both technical and business advice is required, whether for farming itself, or for diversification possibilities.

* *Facilitation of intergenerational transfer*

In several parts of ECA Region farming population is aging and many family farmers are at retirement age. Advice and policies are required to facilitate the early retirement of elderly farmers, so as to allow the setting-up of young farmers, both women and men.

In addition, efforts should be made by FAO and its partners in the following areas*:*

* *Improved statistics on farm structures and farm household incomes*

In order to monitor the development of different types of family farm, their sources of income, food security situation and their policy needs, it is necessary to have internationally comparable statistics in the Europe and Central Asia Region.

* *Annual monitoring of agricultural policies and rural development as they affect family and non-family farming and farmers.*

Agricultural policies involve a wide range of possible instruments and they vary enormously in different ECA countries and sub-regions. For example, they cover support and regulation for farm and non-farm diversification, agri-environmental conservation, rural infrastructure investment and maintenance etc. Annual policy monitoring is necessary for the assessment on whether policies are conducive to family farmers or they are biased towards the needs of the large corporate farms.

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# Appendix

Table A1: Numbers and share of family farms (sole holders) by EU MS, some candidate and potential candidate countries, 2010

|  |  |  |  |
| --- | --- | --- | --- |
| Country | Total number of farms and number of sole holders | | |
| Total number of farms | Number of family farms (sole holders) | Share of sole holders in the total number of farms (%) |
| **NMS13, including** | | |  |
| Bulgaria | 370,490 | 365,110 | 99 |
| Croatia | 233,280 | 231,070 | 99 |
| Cyprus | 38,860 | 38,390 | 99 |
| Czech Republic | 22,860 | 19,780 | 87 |
| Estonia | 19,610 | 17,890 | 91 |
| Hungary | 576,810 | 567,630 | 98 |
| Latvia | 83,390 | 81,820 | 98 |
| Lithuania | 199,910 | 199,240 | 100 |
| Malta | 12,530 | 12,280 | 98 |
| Poland | 1,506,620 | 1,502,470 | 100 |
| Romania | 3,859,040 | 3,828,350 | 99 |
| Slovakia | 24,460 | 22,190 | 91 |
| Slovenia | 74,650 | 74,430 | 100 |
| **EU15, including** | | | |
| Austria | 150,170 | 141,480 | 94 |
| Belgium | 42,850 | 38,600 | 90 |
| Denmark | 42,100 | 40,120 | 95 |
| Finland | 63,870 | 57,600 | 90 |
| France | 516,100 | 365,500 | 71 |
| Germany | 299,130 | 273,030 | 91 |
| Greece | 723,060 | 722,400 | 100 |
| Ireland | 139,890 | 139,560 | 100 |
| Italy | 1,620,880 | 1,603,710 | 99 |
| Luxembourg | 2,200 | 2,060 | 94 |
| Netherlands | 72,320 | 68,140 | 94 |
| Portugal | 305,270 | 297,380 | 97 |
| Spain | 989,800 | 929,690 | 94 |
| Sweden | 71,090 | 65,850 | 93 |
| United Kingdom | 186,800 | 179,260 | 96 |
|  | | | |
| EU candidate (Iceland)\* | 2,590 | 2,190 | 85 |
| EU Potential candidate (Montenegro)\* | 48,870 | 48,820 | 100 |

\* There is no comparable information on the other EU candidate and potential candidate countries.

Source: Eurostat, FSS 2010.

Table 2A: Share of family labor in the total labor directly used in the family farms by EU MS, some candidate and potential candidate countries (%)

|  |  |  |  |
| --- | --- | --- | --- |
| Country | Family farms (sole holders) | | |
| Total labor directly employed on the farm (AWU) | Family labor directly employed on the farm (FWU) | Share of family labor (%) |
| **NMS13, including** |  |  |  |
| Bulgaria | 359,710 | 336,770 | 94 |
| Croatia | 171,220 | 167,560 | 98 |
| Cyprus | 16,260 | 12,870 | 79 |
| Czech Republic | 30,470 | 24,040 | 79 |
| Estonia | 14,400 | 13,340 | 93 |
| Hungary | 345,820 | 325,050 | 94 |
| Latvia | 78,430 | 70,590 | 90 |
| Lithuania | 129,450 | 119,840 | 93 |
| Malta | 4,440 | 4,290 | 97 |
| Poland | 1,855,920 | 1,795,630 | 97 |
| Romania | 1,514,480 | 1,428,710 | 94 |
| Slovakia | 17,450 | 15,770 | 90 |
| Slovenia | 73,470 | 68,680 | 93 |
| **EU15, including** |  |  |  |
| Austria | 105,580 | 96,370 | 91 |
| Belgium | 50,430 | 46,170 | 92 |
| Denmark | 45,940 | 29,950 | 65 |
| Finland | 50,160 | 45,170 | 90 |
| France | 356,270 | 303,220 | 85 |
| Germany | 408,710 | 331,020 | 81 |
| Greece | 427,210 | 354,440 | 83 |
| Ireland | 164,300 | 152,570 | 93 |
| Italy | 909,300 | 758,370 | 83 |
| Luxembourg | 3,170 | 2,710 | 85 |
| Netherlands | 126,840 | 95,550 | 75 |
| Portugal | 327,870 | 294,420 | 90 |
| Spain | 686,340 | 563,680 | 82 |
| Sweden | 45,290 | 38,920 | 86 |
| United Kingdom | 246,940 | 180,260 | 73 |
|  |  |  |  |
| EU candidate (Iceland)\* | 3,170 | 2,580 | 81 |
| EU potential candidate (Montenegro)\* | 46,540 | 46,390 | 100 |

\* There is no comparable information on the other EU candidate and potential candidate countries.

Source: Eurostat, FSS 2010.

Table 3A: Small and semi-subsistence farms in the EU MS, some candidate and potential candidate countries

|  |  |  |  |
| --- | --- | --- | --- |
| Countries and groups of countries | Family farms equal or smaller than 2 ha | SSFs | |
| Total number | Smaller or equal of 2 ha |
| **NMS-13** | **4,021,620** | **5,110,610** | **3,467,070** |
| Bulgaria | 294,450 | 177,250 | 162,550 |
| Croatia | 122,240 | 114,100 | 73,890 |
| Cyprus | 28,620 | 20,200 | 18,770 |
| Czech Republic | 1,940 | 2,200 | 490 |
| Estonia | 2,150 | 5,890 | 1,030 |
| Hungary | 412,250 | 453,670 | 367,410 |
| Latvia | 9,500 | 58,870 | 8,960 |
| Lithuania | 32,300 | 114,090 | 23,790 |
| Malta | 10,640 | 6,520 | 6,220 |
| Poland | 355,110 | 510,840 | 171,490 |
| Romania | 2,723,530 | 3,589,530 | 2,608,070 |
| Slovakia | 8,660 | 13,020 | 6,950 |
| Slovenia | 20,230 | 44,430 | 17,450 |
| **EU-15** | **1,713,290** | **845,160** | **659,580** |
| Austria | 15,350 | 0 | 0 |
| Belgium | 3,720 | 0 | 0 |
| Denmark | 420 | 0 | 0 |
| Finland | 1,130 | 0 | 0 |
| France | 63,070 | 20,200 | 10,100 |
| Germany | 12,830 | 0 | 0 |
| Greece | 367,020 | 118,760 | 116,970 |
| Ireland | 2,190 | 0 | 0 |
| Italy | 816,650 | 645,390 | 484,830 |
| Luxembourg | 190 | 0 | 0 |
| Netherlands | 7,280 | 0 | 0 |
| Portugal | 151,750 | 57,290 | 44,170 |
| Spain | 267,060 | 3,520 | 3,510 |
| Sweden | 320 | 0 | 0 |
| United Kingdom | 4,310 | 0 | 0 |
| **EU-28** | **5,734,910** | **5,955,770** | **4,126,650** |
| EU candidates (Iceland)\* | 20 | 0 | 0 |
| EU potential candidate (Montenegro)\* | 35,260 | 37,350 | 27,800 |

\* There is no comparable information on the other EU candidate and potential candidate countries.

Source: Eurostat, FSS 2010.

1. According to COPA-COGECA, EU agricultural cooperatives account for over 50% of agricultural input supply, and over 60% of the collection, processing and marketing of agricultural products ([www.copa-cogeca.be/cogecahistory.aspx](http://www.copa-cogeca.be/cogecahistory.aspx)). [↑](#footnote-ref-1)