DETERMINANTS OF FARM HOUSEHOLD DIVERSIFICATION

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Abstract

A characteristic of farm households that participate in non-agricultural activities, whether on- or off-farm, is their heterogeneity. Thus any analysis of the factors enhancing/limiting diversification has to take into account both the farmer who has chosen alternative ways of using the available resources, the household where the next generation chooses to follow a career outside farming (whether for reasons of lack of opportunity in the family farm business, as a transitional option as part of a strategy for intergenerational transfer, or for other motives of a social or economic nature), and the businessman or wealthy individual who has bought a farm for financial or environmental or social reasons. While the main policy interest is in those families already in agriculture that use diversification as a reaction to the longer-term trends to which agriculture is exposed and to economic shocks, in particular those resulting from policy reform, the presence of other forms of diversified households should not be forgotten. The literature on agricultural adjustment suggests that at the farm household level the main factors affecting change and adaptation, of which diversification forms a part, are as follows: human capital characteristics, the nature of the farm and farm business, the external environment. These three general headings are used to discuss the evidence regarding the factors explaining farm household diversification patterns. It should be noted that not all the factors listed under the three headings were found in the reviews nor did all the reviews necessarily distinguish or prioritize the most important factors.

Key words: rural economy, farm household, diversification

A characteristic of farm households that participate in non-agricultural activities, whether on-farm or off-farm, is their heterogeneity. Thus any analysis of the factors enhancing/limiting diversification has to be capable of embracing both the farmer who has chosen alternative ways of using the available resources, the household where the next generation chooses to follow a career outside farming (whether for reasons of lack of opportunity in the family farm business, as a transitional option as part of a strategy for inter-generational transfer, or for other motives of a social or economic nature), and the businessman or wealthy individual who has bought a farm for financial or environmental or social reasons. There were taken into account those families already involved in agriculture that use diversification as a reaction to the longer-term trends to which agriculture is exposed and to economic shocks, in particular those resulting from policy reform, the presence of other forms of diversified households should not be forgotten.

MATERIAL AND METHOD

The literature on agricultural adjustment suggests that at the farm household level the main factors affecting change and adaptation, of which diversification forms a part, are as follows:

The nature of the farm and farm business, including its capital base and access to borrowing, the size of farm, its profitability, land type and related enterprise pattern, etc.

Human capital characteristics, including age, experience, education, training and personal qualities such as the attitude to risk, intelligence, and motivation.

The external environment in which the farm is situated, which includes proximity of potential demand for diversified output and ease of access to these markets, off-farm employment opportunities, formal and informal local networks, good infrastructure in the form of transport (especially where consumers are required to visit the farm site) and IT facilities.

These three general factors are used in this section to discuss the evidence presented in the thirteen country reviews regarding the factors explaining farm household diversification patterns. It should be noted that not all the factors listed under the three headings were found in the reviews nor did all the reviews necessarily distinguish or prioritise the most important factors. As a result, the findings may not apply to all countries

A mix of these factors is present in any individual farm situation. At a general level, some

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encourage any form of diversification activity, others discourage any activity. Some factors encourage specific diversification activities while being a disincentive to other forms.

RESULTS AND DISCUSSIONS

One of the common human capital characteristics noted in many of the studies was the importance of business skills such as those associated with human resource management, networking and market development including research, marketing and customer relations. These skills are often lacking in farmers who have worked by themselves for many years and/or have been price takers for the primary agricultural products they have been farming.

Another common explanation given for farm household diversification was that such activities are driven by a financial motivation, whether to increase farm household income, maintain farm equity, provide for retirement, and/or ensure family succession.

Off-farm income is generally seen as a means of smoothing out household income flow, in the United States, which is often viewed as inadequate and/or unstable. In Austria it has been noted that part- time farming dominates in less-favoured and mountain areas (more than 70% of total land area), where the average output per farm is 20% less than in non-mountainous areas due to low productivity and other factors.

Also noted in the studies are non-economic motivations. In developed countries among to the general societal trend towards dual incomes, casualisation of work, and individualisation – even of the nuclear family household – are factors explaining an increase in diversification and pluriactivity on farms. Social motivations appear to be relatively more important in terms of farm tourism, where contact between farm households and others is perhaps at its closest.

Polish authors noted that farmers are a traditional group with strong fears about change and about the future. The increasing diversity of farms has given rise to multiplier effects. A more recent studies noted that the drive for many farm women and men to work off-farm, and/or develop alternative enterprises, may be stronger than ever, despite relatively high levels of farm income in recent years, driven by personal fulfilment and the entrepreneurial ethos of farm families to fully utilise farm and household resources and labour.

Another common feature across the country reviews is the role of farm household women in the development of alternative income-generating activities, whether on-farm enterprises or off-farm employment. In Germany direct marketing and work related to agri-tourism are important activities of farm women, while an increasing number of women take up off-farm work in order to contribute to farm household income. In contrast to the core farming operation, women had a high involvement in alternative enterprises in other countries, in many cases as the major operator or as a joint operator with their male partner. It was evident that women operating enterprises had a high degree of motivation and considerable satisfaction from their work. In Canada, there is a relatively higher level of participation in value-added activities in farms where the person responsible for the farm operation was a woman. A study on employment in rural areas of EU countries reports that it is often the female who initiates and engages in on-farm alternative activities.

The impact of education is a human characteristic mentioned in more than one studies. In developing countries there are strong positive relationship between education and both non-agricultural wage employment and self-employment. Schooling of household members is negatively correlated with rural households' participation in agriculture, but positively correlated with non-farm activities. Similarly, the Polish studies notes that income outside agriculture was mainly sought by farm household members with secondary, post-secondary and basic vocational training. In Canada some authors (Alasia et al., 2007) found that participation in off-farm work is influenced positively by higher levels of education, but other studies (Howard W., Swidinsky, 2000) report a negative impact on off-farm employment, although for those farmers who do work off-farm, education increases the number of hours worked off-farm. However, education had a positive influence on the likelihood of farmers' engagement in value-added activities.

The most common factor in relation to the nature of the farm presented in the studies concerned the influence that farm size has on the participation of farm households in diversification activities. In Austria, for example, small farms are more frequently engaged in full-time alternative off- farm and on-farm activities. In contrast, part-time activities taking place on a regular or seasonal basis are more attractive for large farms. The Canadian studies reported that value-added activities tend to be especially important for operators of small farms, with larger farms having a lower probability of participation in off-farm employment. The Australian studies noted that 14-25% of the total revenue of smaller wineries was from cellar door sales, and merchandise, restaurant and accommodation revenue, compared

with 2.2-4.5% on average for larger wineries. However, the UK studies (DEFRA, 2007) noted that diversification is not restricted to the smallest farms; an element of pluriactivity is found across the farm size spectrum, and at the top end it is often found that farming is only one of a portfolio of business interests that extend across several economic sectors, and these are not necessarily closely related to agriculture, forestry or the food sectors.

The type of farm enterprise also has an effect on diversification possibilities. The Canadian studies noted that dairy production (used as a proxy for labour intensive activities) had a negative effect on the probability of farmers' participation in off-farm work. This was supported by the Australian studies which explained that off-farm employment (both for farm operators and spouses) tends to be lower for those involved in industries with greater on-farm labour requirement, such as dairying. The German studies suggested that traditional farm holidays can be expected to be less successful and are indeed not really an option in rural areas characterised by intensive agricultural production and large farms. Alternatively, the Canadian studies noted that farmers are more likely to participate in value added activities related to production of perishable products such as fruit and vegetables.

A few country studies paid attention to the possible effects of farm structure and ownership on diversification. In Canada it has been noted that farms that employ non-family labour, requiring the operator to be present to supervise farm work, limit the ability of the farmer to participate in off-farm work. The UK studies commented on specific issues faced by tenant farmers such as the difficulties in accessing capital, as they do not have the collateral available to farmers who own their own land, and problems with their tenancy agreements, in that these may carry restrictions on land use. It also noted that a change of occupancy (within a family by succession, or by sale) can lead to farms becoming pluriactive, for example, when new entrants have established careers in other sectors and have accumulated resources that enable them to buy farm real estate and to continue their previous career.

Talking about the external environment, a common factor noted was the location of the farm. Studies made in USA declared that the most important determinant of the ability of US farmers to diversify their operations and to find off-farm employment is degree of rurality as measured by the remoteness of the location from urban areas and population density. However, the impact of location of diversification is not a straight forward issue, involving two issues: distance and geography.

The country studies also demonstrated that the disincentives associated with location can be reduced overtime through improved accessibly in terms of both transport and communication links. Faster and cheaper transport has played an important role in closing the distance between rural and urban areas while the internet has been successfully used to market both agricultural products and non-agricultural products.

Other studies also point out the role of organisational development in overcoming barriers associated with location. An Italian case study referred to a national consortium (Anagritur), which monitors and co-ordinates the activities promoted by the three single national agri-tourism farm associations. They provide fiscal, legal and economic advisory services, but the most important activity is probably the promotion activity by Internet.

A number of the studies note the importance of consumer demand, particularly in relation to farm tourism services. A comprehensive interview study with guests and potential guests in Austria found that the main reasons for going on farm holidays are to enjoy good homemade food, to relax in the countryside and to experience farm life.

CONCLUSIONS

The findings indicate the importance of off-farm rather than on-farm activities in terms of non-agricultural diversification activities undertaken by farmers,. In most countries for which information is available, off-farm activities are the main source of non-agricultural income for farm households, but there is little information on the type of activity (except that it is often a salaried activity); on which household member is engaged in off-farm activities; or on the regional location of the activity. In terms of on-farm activities, they consist of moving up the value chain through further processing or direct selling of primary production, using existing farm household resources (either land, labour or capital), to move into contracting, forest production, or services. With the exception of farm tourism, evidence indicates that there has been little diversification into new areas. This is not a surprising result. It is easier and to use existing resources and skills in a familiar endeavour than to develop a whole new service. However, it is possible that new diversification activities are not yet identified in statistics.

Efforts are being made to monitor the extent to which farm households are engaged in on-farm

non-agricultural activities, in particular in European Union member countries, but information on the level of income generated by these activities is very limited. Income from these activities is difficult to track because they are classified differently in different sources of data and across countries. Related, non separable activities, such as on-farm processing of agricultural products and farm tourism are only a small share of on-farm non agricultural activities. The main source of on-farm non agricultural income is contract farm work, which is included in agricultural services or farm income depending on the country. According to micro-economic sources, letting farm buildings and land is also a significant source of income for farm households. This is not considered as belonging to the agricultural sector, and is therefore not included in macro-level agricultural accounts.

It seems to be difficult to generalise about the challenges of income diversification for agricultural holdings because they have a strong regional character or lie in the characteristics of the farm or farm household. In terms of the farm household, a financial motivation appears to be the strongest driver for diversification in general, although social motivations are shown to be important for farm tourism. However, it appears that weak business skills are limiting the extent of diversification. Women play a more important role in the diversification of the farm into non-agricultural activities than in the primary agricultural activities.

In terms of the size and type of farm operation differences also appear. In general, off-farm diversification activities are undertaken to a larger extent by smaller farms, for which they are more financially important. A number of factors would explain this including the existence of less utilised farm resources and greater financial pressure. Small farms are also perhaps more represented in the type of farm operations more likely to diversify, producing for example horticultural products and more attractive than large-scale, industrialised farms.

A range of policy measures have been introduced in various OECD countries to assist farm household diversification into non-agricultural activities. These measures have involved grants, training and facilitation. The diversity of these measures reflects not only differences in policy objectives and country approaches but also differences in terms of the obstacle or barrier that the policy is trying to overcome or correct for.

In conclusion, diversification of farm households into other activities on and off the farm affects the rural economy, by raising the level of farm income and the viability of farms (OECD, 2003) and thus affecting farm households' consumption of local goods and services, and the provision of agriculture- related amenities. But the relationship is a two-way one, whereby those farm families depend on the existence of a healthy and diversified rural economy, which provides off-farm work opportunities as well as the economic, social and cultural services that attract and retain people in rural areas.

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