

## DIVERSIFICATION OF AGRICULTURAL ACTIVITIES IN THE CONTEXT OF SUSTAINABLE RURAL DEVELOPMENT

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### Abstract

Recognizing the challenges the rural areas are facing, the European Commission and OECD agree with the fact that the term "rural" is not synonymous with decline. Globalization, increasing accessibility and new patterns of migration provide new development opportunities for rural areas. A large number of rural regions have been able to capitalize on their public or quasi-public goods, such as clean environment, attractive landscapes and cultural heritage (including foodstuff).

A healthy and diversified rural economy provides employment opportunities outside the farm too, as well as social, economic and cultural services that attract and keep individuals in rural areas.

Diversification of activities of agricultural farms with non-agricultural activities has a significant effect on the rural economy, by increasing farm incomes and farm variability, thus affecting the consumption of goods and local services by farms, as well as the provision of agriculture related services (OECD, 2009).

In Europe one can notice increasing diversification of rural areas: in 2007, 35% of European farmers had an economic activity other than agriculture, this percentage is exceeding 50% in many countries and regions (especially in Slovenia, Sweden and Cyprus); 82% of the employed labor force and 95% of value added in areas predominantly rural of the EU-27 came from non-agricultural sectors, which means an average annual increase of 1.8%, respectively 2.7% between 2000 and 2006 (OECD, 2009).

**Key words:** rural development, agriculture, diversification of production

### MATERIAL AND METHOD

This paper aims to highlight and present the followings:

- Analysis performed by various authors, on specific features of different rural areas;
- Analysis of investment strategies in rural areas;
- Classification of activities to diversify rural household income;
- Analysis of social stratification pyramid by occupational categories;
- Scenarios of diversification of economic activities in rural areas;
- Mechanisms for implementation of diversification of activities.

### RESULTS AND DISCUSSIONS

In mountain areas the private property has been preserved, they were not collectivized during socialism. In these areas, although population density is generally lower, the cohesion between people is higher. The economy in mountain areas is directed towards agriculture (especially animal breeding), forestry and, occasionally, mining. Rural households are characterized by pluri-activity, services being practiced as a second activity.

In a field research conducted between 2007 and 2008 to identify the investment strategies of the Romanian rural communities, it was concluded that there are differences between rural the mountain, plain and hill rural areas. Research results show that topographical differences mean different resources and different growth potential, which do not have a clear impact on population's investment strategies (Chitea, 2008).

Table 1

Type of rural area	Investment options for rural population							
	Opțiuni de investiții (% gospodăriilor care au ales-o ca primă opțiune)							
	Plant cultivation	Animal breeding	Agricultural equipment	Food products processing	Grocery stores	Mixed stores	Agri-tourism guesthouses	Others
Plain	26.9	16.6	11.6	2.3	12.7	7.3	4.3	18.3
Hill	17.4	11.5	6.0	3.9	11.5	6.4	13.9	29.4
Mountain	8.1	13.1	9.1	6.2	10.4	5.4	33.5	14.2

Source: Chitea, 2008

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In the plain and hill area the vegetal production is the first option that most households would invest money into, while in mountain areas the first investment option is represented by agri-tourism guesthouses. From Table 1 it can be concluded that:

- Individual households would invest in the agricultural sector in the following percentages: 57% in plain areas, 39% in hill areas and 37% in mountain areas;
- Vegetal production is more important in the plain areas and animal breeding in mountain areas;
- Agri-tourism is seen more as an opportunity in the mountains, but there are no large differences between different areas, as far as the share of those who would invest in grocery stores is concerned;
- Those who choose non-agricultural activities are generally the younger respondents

(under 40 years) and for the older respondents the share of investment in agriculture is higher.

The location of the holding plays an important role in determining the degree of diversification of activities. In general, the further the holding is located from an urban area, the less opportunities for farm diversification towards non-agricultural activities exist.

While such diversification varies from one household to another, in each country, the higher share of income from non-agricultural activities is generally associated with higher welfare. In almost all cases, the richer households in rural areas have a high level of income, the most important share of income coming from non-agricultural activities. Also, richer households have a higher share of individuals specializing in non-agricultural activities (Davis and col., 2007).

Table 2

**Classification of activities for diversification rural households' income**

Location	Area	Production factor		
		Land	Activity	Capital
On farm	Agriculture	Cultivation of special plants, production of organic and biomass materials	Direct sells and contracts (plant cultivation, etc.)	Processing of agricultural products (curd, wine, olive oil)
	Other areas	Forestry, wind turbines, recreation and aquaculture	Handicraft, tourism, snow excavation, etc.	Production of energy out of biomass, wood processing
Off farm	Agriculture	Renting to other farmers for agricultural production	Occupation in another farm	Buying new land
	Other areas	Renting lands for forestry, wind turbines	Professor, nurse, clerk, etc.	Incomes from investment, retirement funds

Source: OECD

Agriculture Cultivation of plants on a farm special production of organic materials and direct sales and contracting biomass (plant cultivation, etc.) Processing of agricultural products (cheese, wine, olive oil).

Other areas of Forestry, wind turbines, leisure and Crafts aquaculture, tourism, digging snow, etc.. Energy production from biomass, wood.

Apart from renting Agriculture farm to other farmers for agricultural production to another farm Employment buying new land.

Other areas renting land for forestry, wind turbines teacher, nurse, clerk, etc. Income from investments, pensions.

When referring to diversification of non-agricultural activities by farmers, the conclusions of OECD (2009) indicate the higher importance of off-farm activities compared with those on the farm.

Farm activities are linked to the value chain of primary production, such as: processing and direct sale of agricultural products or the use of farm resources: land, labor or capital.

Apart from tourism, little diversification in new areas has been highlighted.

Diversification of rural economy does not mean complete abandonment of farming activities. Most rural households in most countries maintain agricultural activities, while participating in other activities off the farm (Davis and col., 2007).

The rural economy is poorly diversified in Romania and it depends too heavily on agriculture, which in turn is dominated by subsistence farming and semi-subsistence farms, producing mainly for own consumption and only marginally for the market. (Dumitru and col., 2004; Toderoiu, 2006; Gavrilesu and Giurca, 2000).

Romania differs from other countries in Central and Eastern Europe (where agriculture has lost its importance after 1990) in that here, after

1990, agriculture has become an "occupational buffer", which has absorbed a large share of the labor force laid off from industry and mining during the transition period (Dumitru and col., 2004).

Between 1990 and 2000 a dual rural economy has been developed: State commercial farms on one hand and a large number of subsistence farms on the other.

Fragmented production structure leads to difficulties in selling agricultural products. The sector for processing agri-food products hesitate to buy from a large number of small producers, for at least two reasons: because of higher transaction costs and the lack of homogeneity of quality of raw materials purchased. The difficulties in marketing the agricultural production have increased and worsened the situation of many semi-subsistence farms (Oțiman, 2007; Dobroteanu, 2008; Toderoiu, 2006; Râmniceanu, 2004).

Sandu (2005) has analyzed the social stratification of the rural population, based on income and the supply of long-term use goods and concluded that the social pyramid, by occupational categories, looks like this:

- At the base are the farmers, they are the poorest class. Farmers and inactive population represent almost three quarters of the rural population over 15 years;

- At the top of the pyramid is the "thin layer" of managers, specialists and technicians, representing about 2%;

- The middle layers are the remaining people employed in non-agricultural activities and the commuters.

In Romania, rural development and agricultural development are closely connected, but this sector alone cannot solve the economic problems of rural areas (Dumitru and col., 2004).

The complex development of rural areas, in order to stabilize employment, is required.

To increase productivity and competitiveness of agriculture it is essential to reduce farm labor and develop alternative economic activities in rural areas (Dumitru and col., 2004; Toderoiu, 2006). From vegetal production, labor should migrate to the field of animal husbandry, food processing and other economic and social activities.

Competitiveness of Romanian agricultural products depends on their quality, therefore, it necessary to harmonize the Romanian quality standards with those of the European Union and to improve the quality of agri-food products sold (Istudor and col., 2006).

The structure of agricultural production must be changed and diversified, because grains, corn

and sunflower are grown on surfaces too large (Zahiu and Lazarus, 2000). The development of fruits and vegetables sector could contribute to economic diversification of rural areas, to increased added value, as well as to and increased and stabilized rural incomes. Wine production could be competitive on the EU market, if the quality would be improved (Istudor and col., 2006). By determining the appropriate types of cultivation, farmers could achieve higher production in the same area, using less labor for improving competitiveness and achieving a higher profit.

As forms of diversification, we consider that:

- Organic farming can be an alternative with multiple benefits for sustainable development of Romanian rural areas and a way of capitalizing the resources of local communities. In particular, mountain areas have good conditions to practice organic farming. This can lead to diversification of employment and to gaining additional income for small individual farms.

- Another important aspect is the agri-food economic integration (Zahiu and Lazarus, 2000) and reducing the food chain from farmer to consumer, by getting the industry closer to agri-processing, as close as possible to the two extremes in the food chain (Chitu, 2005).

- The agricultural activities upstream and downstream (requests for inputs, food products storage and processing, maintenance and repairman of agricultural equipment, agricultural services) should be brought closer to farmers, in rural areas.

- The SMEs from food industry, as well as those from the marketing of agricultural products and promotion of traditional food products and beverages, may contribute to agricultural development and labor absorption.

- The crops of biodiesel and biomass energy could be another opportunity to develop the competitiveness of agricultural holdings.

- Afforestation of agricultural areas of low productivity, degraded lands or areas prone to erosion is another type of diversification of rural economy.

- Manufacture of textiles, clothing and footwear, are alternative economic activities that can be organized in rural areas.

- Rural tourism and agri-tourism are other opportunities for economic diversification with high potential in Romanian rural areas.

- Stressing the importance of agriculture for the rural economy, Manole and col., (2007) considers that the most important services to be developed in rural areas are the agricultural

services, such as: services for maintaining soil quality, plant protection, insurance services for food safety, mechanization of agriculture, advisory services for farmers, risks insurance, supply of agricultural raw materials, retail sale of products and provision of credits.

Currently, these diversification activities are implemented through the "rural development policy" developed for the 2007 – 2013 programming period, namely through the so-called "rural development measures" under the National Rural Development Program – NRDP.

Table 3

**Situation at July 15th, 2011 on the state of implementation of measures to diversify the rural economy**

Measure	Submitted projects		Selected projects		Signed contracts / financing decisions		Payments made
	No.	Public value	No.	Public value	No.	Public value	Public value
312	6,533	890,539,765.96	2,357	311,752,580	2,073	284,341,255	95,643,213
313	1,697	284,112,695.07	1,079	186,180,999	879	149,824,734	12,041,068
TOTAL	8,230	1,174,65,461	3,436	497,933,579	2,952	434,165,989	107,684,280

Source: GDRD - MA NRDP

Axis III - "Improving the quality of life in rural areas and diversification of rural economy" of NRDP has sustainable development of rural economy as overall objective, by encouraging non-agricultural activities, in order to increase the number of jobs and additional income. The measures that meet the concept of "diversification" are presented in Table 3, respectively:

- Measure 312 - "Support for the establishment and development of micro-enterprises", with a corresponding public contribution of EUR 395, 147, 628;
- Measure 313 - "Encouragement of tourism activities", with a corresponding public contribution of EUR 544, 222, 774.

In table 3 we present the implementation status of these two measures, on July 15<sup>th</sup> 2011, by number of projects and amounts allocated.

**CONCLUSIONS**

The economy in mountain areas is directed towards agriculture and forestry, occasionally to mining, households are characterized by pluri-activity.

The topographical differences mean differences in various potentials, which do not have a clear impact on investment strategies.

The rural economy is poorly diversified in Romania, it depends too heavily on subsistence and semi-subsistence agriculture.

The social stratification of the rural population shows farmers as the poorest category, which represents three quarters of the rural population over 15 years.

The structure of agricultural production must be changed and diversified, in order to contribute to economic diversification of rural areas and to increase value added.

If agriculture is important for the rural economy, we must develop services for agriculture.

Up to date in Romania, about one third of the funds for measures to diversify the rural economy have been accessed.

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