Who becomes a farm manager in Romania? A study of the life annuity program
Marie Luce Ghib

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This paper is based on preliminary research in the context of a Ph.D. prepared at the CESAER, in Dijon. The Ph.D. is being prepared under the supervision of three professors: Jean-Pierre Boinon and Marielle Berriet Solliec (professors at the CESAER) on the French side and Paun Ion Otiman on Romanian side (director of the Institute of Agricultural Economics of Bucharest and professor at the USAMV of Banat in Timisoara). This Ph.D. pursues the question of farm mutations in Eastern European countries, more specifically in Romania, with renewed tools like the newly available data from the general census in 2002 and the Farm Structure survey of 2005. The context of EU membership application is also a very interesting field in terms of the evaluation of agricultural and rural public policies. 

This paper is based on administrative data from the « renta viagera » office but also on data from the national center for statistics. We examine the policy in regards to tendencies observed in Romanian Structure.
Who becomes a farm manager in Romania? A study of the life annuity program.

Marie-Luce Ghib, Cesaer, Centre d’Economie et Sociologie appliquées à l’Agriculture et aux Espaces Ruraux (INRA-Enesad)

Abstract:

Romanian agriculture still bears the marks of the country’s former land policies. In the context of a strong political will to stimulate the land market and to encourage competitiveness by modernizing production systems, a specific national policy was implemented in 2005: the life annuity subsidy. This consists in a subsidy paid to elderly farmers who commit themselves to stopping their agricultural activity. The present paper reports the first impact analysis of this measure. We analyzed the context of the implementation of the policy and use its apparent failure to underline the process of delayed entries in agriculture, a characteristic of Romanian farm structure and farm transmissions. We based our analysis on the latest available data on farm structure (2002 and 2005).

Key words: life annuity program, land policy, retirement, farm succession, Romania
The so called “transition” period in Romania has not yet ended, almost 20 years after the revolution, particularly in the agricultural sector. A major retrocession of land property was implemented after the revolution and is still visible in terms of plot size division. The retrocession process has been blamed for causing a delay in the land market phenomenon. The law which established the right to sell land dates only from 1999. Today, the land is split into a multitude of small parcels and a large number of Romanians still work in agriculture: 36% of the active population as opposed to an average of 15% in the other new European Union member states. This patchwork of small farms is perceived as a factor slowing down improvement in Romanian agriculture and preventing the country from fully benefiting from its widely recognized agro-climatic potential (Cotea, 2003).

The optimal size of agricultural holdings is a source of debate, notably in terms of the possibility of return to scale in agriculture (Boussard, 1987).

In addition, this retrocession participates in the economic absorption of the social consequences of the post-communist transition (Pouliquen, 2001). At the same time, what Alain Pouliquen qualifies as "neo-peasant microfarms" are part of the Obstacles to a global economic revival (Alexandri and al., 2003). He linked during this period, over-employment in agriculture and hidden unemployment (Pouliquen 2001); we will focus here on the relationship between over-employment and retirement in the agricultural sector.

In the eyes of many observers, peasant agriculture is a primitive production system; for others it is a modern tool with agro-environmental and socio-economic characteristics which enable it to respond to the social and environmental challenges posed by the new EU (Darrot and al., 2005; Berriet-Solliec, 2002).

In this paper, we will evaluate farm structure using the new data from the 2002 census (INS, 2003) and the 2005 Farm Structure Survey (INS, 2006(a)). We will particularly look at holding size in terms of agricultural land. We will also examine production destination and farm manager age. We will then compare the expected results of the life annuity program and the first administrative data concerning the program. The apparent failures point to certain difficulties in the implementation of the program. After a short field survey, we will discuss in some detail one hypothesis for the program’s relevancy in light of “delayed entries” in agricultural activity. By means of national data comparisons on farm managers and urban-rural migration, we will demonstrate that Romania exhibits a specific transmission modality.

**Farm structure in terms of plot size and farm manager composition**

Thanks to the 2002 General Agricultural Census and the 2005 Farm Structure Survey, we can use recent data to learn more about the structure of farms in Romania.

According to the Farm Structure Survey of 2005, Romanian farm structure appears to be dual (Table 1) with a large number of farms on very small plots (an average of 2.15 ha) and a few farms ranging widely in terms of land area (an average of 263 ha). More than 4 million individual holders currently cultivate 65.5% of the total agricultural surface and only 18,000 of legal status occupy the other 34.5%.

**Table 1: Farms structure in terms of UAA class**

<table>
<thead>
<tr>
<th></th>
<th>Number of holdings</th>
<th>UAA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0-5 ha</td>
</tr>
<tr>
<td><strong>Individual holdings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,103,404</td>
<td>99.6 %</td>
</tr>
<tr>
<td><strong>Farms with legal status</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>17,843</td>
<td>0.4 %</td>
</tr>
<tr>
<td></td>
<td>2,242</td>
<td>12.6 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,121,247</td>
<td>100 %</td>
</tr>
<tr>
<td><strong>Total UAA</strong></td>
<td>13,906,701</td>
<td>100 %</td>
</tr>
</tbody>
</table>

* farms using agricultural area
UAA: Utilised Agricultural Area
Source: ASA 2005 (INS, 2006(a))
The land retrocession process is primarily responsible for this structure. But the farm structure was maintained in response to the significant recession in the industrial sector after the revolution and maintained after the economic crisis in 1997. People lost their jobs and found it difficult to obtain new employment. Many of these people were oriented to a pre-retirement program and went back to the rural areas in order to cultivate plots for subsistence purposes.

Table 2: Description of Romanian farm structure in terms of status and destination of production

<table>
<thead>
<tr>
<th></th>
<th>Number of farms</th>
<th>Average area used</th>
<th>Agricultural area used</th>
<th>Selfconsumption &gt; 50% of the total production</th>
<th>Direct sales &gt; 50% of the total production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual farms</td>
<td>4,23,889</td>
<td>99.6%</td>
<td>2.15 ha</td>
<td>9,102,018</td>
<td>65.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,444,757</td>
<td>81.3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>693,917</td>
</tr>
<tr>
<td>Farms with a legal status</td>
<td>18,263</td>
<td>0.4%</td>
<td>263.08 ha</td>
<td>4,804,683</td>
<td>34.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,833</td>
<td>21.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9,525</td>
</tr>
<tr>
<td>total</td>
<td>4,256,152</td>
<td>3.27 ha</td>
<td>13,906,701</td>
<td>3,448,590</td>
<td>81.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>703,442</td>
</tr>
<tr>
<td>Sources: ASA 2005 (INS, 2006 (a), (b))</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The duality of the Romanian agricultural system is clearly visible in the destination of the production. For more than 80% of individually held farms, over 50% of the production is destined for self-consumption, compared to 21% of the production on farms with a legal status. And inversely, only 16% of individual farms sell more than 50% of their production, compared to 52.1% on farms with a legal status. The proportion of subsistence farming is preponderant and linked to the on-going difficulties in the economic context.

In 2002 and 2005, elderly farm owners were identified as the largest category of subsistence farmers. According to Eurostat 2005, no less than 45% of Romanian farmers are over 65 years old.

Figure 1: Farm Managers by age in 2002

Source : From, Eurostat, 2005
The life annuity program and Romanian choices

The life annuity program was created in this context. The first objective of the government was to decrease the active population in agriculture to the level of 15% of the total population as in other European Union new member countries. This meant a reduction of 2 million people in agriculture, and a wide reorganization of rural communities as well, as job opportunities were mainly concentrated in the urban areas. To reach this objective, the government, pushed by the Commission and the World Bank, implemented the first policies for land reform and the acceleration of farm transmission. The life annuity program was one of the most important measures taken. The conditions of eligibility for the indemnity were defined thus: being over 62 years old, owning land surface totaling not more than 10 ha, and reducing the farming activity to 0.5 ha for self-subsistence purposes by renting or selling land. The amount of the indemnity was fixed at 100 euros per year in the case of a sale and 50 euros per year in the case of leasing until the death of the landowner. The life annuity program is a structural policy tool according to definition formulated by Allaire and Daucé (1995): i.e. it acts on the dynamics of the structure and results from the fact of obstacles to land mobility and to the professional mobility of farmers. A structural policy aims to promote new models, perceived as more profitable ones, for farming companies. Policies based on income compensation for farmers in financial difficulty are social policies generally designed to encourage farmers to stop agricultural activity.

Tools similar to the life annuity program have been implemented in other EU countries. In Romania, implementation took place in a context of specific conditions, objectives and processes which are not necessarily comparable to those in other EU member states.

Established in 2005 along with another program of the ministry of agriculture “Fermierul”, the life annuity program aimed to stimulate the land market and to facilitate the reorganization of the very compartmentalized land by releasing elderly owners’ lands (Dumitru and al., 2004). In view of these objectives, the conditions stipulated the age of the holder (minimum 62 years old), the maximum size of the owned land before the request (maximum 10 ha), the date or means of acquisition of the land (law 18/1991, 1/2000 or previous), the amount of land retained after the request (maximum 0.5 ha for self-subsistence purposes only).

The ministry wanted to encourage new farming models and tried to stimulate the land market (Aliantei, 2004). With this measure, the ministry expected to obtain several objectives:
- increased production by the sale of arable lands abandoned by elderly urban landowners,
- structural change encouraged by stimulation of the land market through the release of farm land belonging to elderly farmers demographic renewal, assuming that new landowners would be younger, whether from the same family or not.

Transmission of the farm in this context is assumed to be a transmission of land property, or transmission of land management by official renting. Young people are known to invest more in their professional activity than older people (Butault and al., 2003). This is why they were encouraged to become the official managers of their farms.

Expected efficiency of the measure:
At the beginning, the ministry wanted to specifically target the population of agricultural pensioners who were still landowners or/and workers. In this context, the goal was centered on the welfare of this category of the population, given the inadequacy of retirement pensions. The expected amount for the indemnity was also greater. It later appeared another categories of pensioners, who benefited from retrocession and who could no longer work on their land: those living in urban areas, those of advanced age, those with health problems...

The consequences of the measure were neglect of the land and increase in wild land. The ministry choose to enlarge the target population in order to resolve the different issues and, at the same time, changed the nature of the objective from structural change/welfare to structural change/production.

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1 For further discussion concerning the amount of the life annuity see Alexandri, 2004
Finally, the population targeted by the life annuity program is composed of landowners who are still working on their land: more than 1.5 million people, according to the General Agricultural Census as well as land-owners who no longer more work their land, and may be living in urban areas, possibly leasing their land. Consequently, only complex investigations of cadastral data would provide us with the exact number of targeted individuals for the second category of landowners. As precise monitorisation is not possible, the ministry decided to decrease the previous amount of the subsidy.

We base our analysis on only those people working their land and we assume that in the next five years, 1.9 million people could apply for the program. Using the mean of 2 ha per holding, it seems that potentially 3.8 million ha could be released of the total 13 million ha of Romanian UAA. Potentially, one third of the UAA could thus begin a restructuring process.

In fact, the first results show a disappointing number of applications: 35,000 cumulated applications as of 3rd July 2007. In 2005, there were a very few number of applications, due to the delayed implementation on the part of the administrative agencies. In 2006, 25,304 applications were registered among the various locations. The internal objective-line for 2007 is to reach 70,000 applications at the end of December.

Another important result of this first investigation is the large proportion of landowners who chose to lease their land: an average of 85% of the land is ceased under a renting contract, whereas only 15% of landowners decided that selling their land was the more interesting option. In trying to understand these results, we have pinpointed the following obstacles:

- inadequate information: the measure was promoted by the media, but the agents responsible for its implementation did not have the possibility to organize the meetings needed to assure the success of the program.
- property rights are still not clarified in several cases, and people cannot prove their ownership of the land.
- transaction costs for the selling contract option have been identified as the main obstacle for the developing of land market, combined with the low land prices they discourage potential buyers
- in the context of modest retirement pensions and the small average size of farms (2.15ha), the amount of the indemnity seems to be too low to be an incentive, self-consumption being a very important part of the income for rural population (Duma and al., 2005)
- the last hypothesis is linked to transmission modalities: we wanted to understand what the rules for effective and official transmissions are. Many rural families are practice cohabitation of generations: elderly people live with one or more of their children and sometimes with their grandchildren. The cost of living independently is too high for young people (Duma and al., 2005). This cohabitation is the basis of a hidden pre-transmission of Romanians farms. The elderly are still the land-owner but their children are already working on the land. In this context, we assume that the decisions are not totally in the hands of young generation until the real transmission occurs. Yet we do not know when and how the real transmission occurs in the sense defined above.

In order to clarify these institutional rules, we carried out a field survey of 35 elderly landowners. We then verified our hypothesis by using national data.

**Outcomes from the field survey:**
The subjects were chosen according to their eligibility for the life annuity program (Ghib 2007). We chose 50 people from the registry of agriculture at the local level. We finally met 35 people, as 5 people had died, 3 people refused to participate in the survey and others were absent. Our subjects were all over 62 years old and owned at least 0,5 ha of arable land.
None of them were engaged in the life annuity program although 2 heard about it, but were not very well informed of the modalities. Moreover, 17 people had partially anticipated the transmission of their land, in 11 cases by giving the management to a family member and in 6 cases, by an official renting act with an exterior party.

**Figure 2:** Family situation under farm management status

Without surprise, anticipated transmissions seem to depend on the age and gender of the land owner. Older people and women seem more likely to cede the management of their land, but such arrangements still remain informal.

Generally, the transmission is not planned to occur before the death of the owner. Only two people began the transmission process while still living, but this was under a care-contract and motivated by serious health issues.

In addition, the plans for transmission concerned the subjects' children. We met only two people who gave their land to their grand' children or planned to do so. Cohabitation is the rule for a large majority of our sample and only 4 people did not have their children in the nearby village or town.

Children are almost all involved in an activity other than agriculture and if they are only farmers, they often own their own tractor.

To conclude, for a majority of our sample, agricultural activity is engaged in only for personal consumption.

Our sample is to small to lend itself to any statistically relevant analysis and our previous observations are valuable in terms of simple description. But we can try to elaborate some hypotheses to be tested:
- people officially obtain the status of farm manager late in life
- transmission occurs with the parents death or as a result of serious health issues.

In the following section, we report further investigations based on national data: including the Agricultural General Census, and the Farm Structure Survey.

**Subsistence activity in agriculture and its link with retirement**

In order to verify these empiric observations, we constructed a comparison by age for farm managers between 2002 and 2005. Data are from the 2002 Agricultural General Census and the 2005 Farm Structure Survey. The result is the map of entries into and exits from agricultural activity by age.
We began with the 2002 farm manager population. We know the age distribution of this population in 2002. We projected this distribution in 2005, and corrected it by an estimation of people deceased during the three year lapse. (INS, 2006(d)). Finally, we compared this distribution to those establish in 2005 by the Farm Structure Survey.

**Figure 3:** Differences in distribution of farm manager age ASA 2005 and RGA projected-corrected

This comparison shows early exits of farm managers between the ages of 28 and 37, as net entries took place in general starting from the age of 58. The Romanian dynamic reveals a different phenomenon than the one expected: delayed entries. Agricultural activity did not attract young people, at least they were not immediately managers of the exploitation. In addition, data shows that new manager are generally over the age of 40.

This comparison was made using data from the farm structure survey concerning only 8% of farms. The results were later extrapolated. The goal of the Farm Structure Survey was to provide representative information on orientations in productions and on the economic dimension of farming. Farm manager age was not taken in account to build the survey. Consequently, these results can only be considered as indications of the current process requiring confirmation by further investigations. For this reasons, we studied analyses of ‘internal migration between urban and rural areas’ between 1996 et 2006.

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2 For more about rural and urban area definiton in Romania see Emsellem, 2002
Figure 4: rural-urban/ urban-rural migration ratios by age

Sources: from INS, 2006(c)

Chart 3 displays rural-urban, urban-rural migration ratios by age. The use of a ratio remove the number effect of migrants. Actually, we know that younger people are more likely to migrate than their elders. Thus, during these10 years, 77,000 people in the 20-39 age group moved per year, compared to 30,000 for the 40-59 group and 8,500 the over 60 age group. In addition, the closer the age group is to the value 1, the more equal the migrations between rural and urban areas are. The higher this ratio is, the stronger the group's preference to migrate towards an urban area. Inversely, when the ratio is close to 0, the majority of people involved migrate towards rural areas.

As a result, people between the ages of 20-39 migrate mainly towards urban areas. Older people migrate mainly towards rural areas. We can suppose a life cycle determined by employment and residency. The development of cities and their expansion into rural areas may explain part of the migrations, with residential purpose. However, in the Romanian context a large number of rural inhabitants engage in agricultural activity, (85% of rural area inhabitants are involved in agriculture, at least as a second activity (Guvernul României, 2007)). Correspondence between migrations and entries in agricultural activity, even of small plots, is strongly plausible.
It concurs that entry into agriculture is linked to retirement or to the freeing up of the family house or land after the death of parents or when a parent faces serious health problems.

Conclusion

As we have seen, we need to distinguish the different modalities of transmission. Informal transmission does not allow young people to invest in the farm as they are not the owners of the land and cannot make major decisions on their own. Although anticipated transmissions appear to be frequent, they generally concern people over 40 years old, as young people seem unlikely to attain and retain the status of farm manager.
The dynamics we have outlined seem to be a reproduction of farm structure by a reproduction of living conditions (inadequate retirement pensions) and production systems. We can suppose that these practices participate in the general structural immobility, which hampers modernization of the agricultural sector, notably because older people are marked by a lower propensity to invest.
References


