

## STUDY ON THE ROLE OF LAND LEASING IN INCREASING THE SIZE OF AGRICULTURAL HOLDINGS

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### Abstract

*In the past, the constitution of the private land ownership right was the main desideratum of the agrarian reforms of the last decades, while the present route aims to increase the size of the agricultural holdings by initiating the lease process regarded as a classic form of exploiters acting as a contractor for the Romanian agrarian relations. This objective necessity of restructuring the state units and of the performance of the agricultural activity resides in the wide range of activities on the land market that concentrates around the regime of the land property in order to correctly appreciate the transactions in the lease market. The present paper aims to analyze the role and importance of land leasing by studying the average size of the agricultural exploitation of the last decade, registered at the level of the development area South-Muntenia, especially in Calarasi county. The result of the present research serves to demonstrate the role of the lease, which the lack of agrarian policy cannot prove its effectiveness having a non-stimulatory character for the owner.*

**Keywords:** *agrarian reforms, land leasing, land ownership*

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### Introduction

Developing a well-functioning land lease market is one of the most sustainable ways to increase the allocation of factors and increase the efficiency of land use in rural areas of developing countries (World Bank 2007, Otsuka 2007). In most of these countries, land reform is difficult to implement due to various political changes, and the purchase and sale of agricultural land is very restricted. By comparison, a land rental market is relatively easy to formulate. This is especially true in an emerging country that is experiencing a rapid increase in the number of migrants and workers. If the households of these off-farm workers no longer fully utilize their land because there are fewer family members available, then the land transactions from these households to more capable farmers not only increase the efficiency of land use, but also accelerate the employment of farm workers. from the rural area.

The transition of agriculture from the former socialist countries to the market economy brings into question the much-debated issue regarding the superiority of large or small agricultural production. The mercantilists were partisans of the small holding, considering it capable of

maximum intensity. The physiocrats, a part of the English classics and the Marxists support the superiority of the large holding, the only one able to obtain an economic surplus for the existence of the society. The economists who are adept at the middle situation consider that in a healthy state medium-sized farms must predominate, and very large farms, like very small ones, should be just an exception. Each category of farms has advantages, but also disadvantages. Therefore, the discussion of the absolute superiority of one or the other is largely dogmatic. In practice it must be taken into account not only the economic criterion, but also the social and ecological one, not only the private economic interest, but also the national economic interest, the abundance or rarity of the factor of natural production, the number of the population, the traditions, etc. In any case, the small production in agriculture has survived for several centuries, despite the changes that have taken place. It has resisted in the socialist economy and resists also in the market economy [Popescu, 2001, 86]

At first glance, it would seem that family farms need to be small or medium-sized. Following the same logic, we could consider that all large and very large farms have a capitalist character, based on the labor employed. Analyzing the situation in the countries developed from an economic point of view, however, we find that this judgment is increasingly contradicted by reality. In these countries, family farms, which are predominant in agriculture, can no longer be considered as small and very small farms. Facilities the economic dimension of agricultural holdings 125 very high technique here allows to obtain a substantial level of labor productivity, so that a single family can work several tens and even hundreds of hectares. In this way, the family farms, both by the size of the surface and by their economic power, move more and more to the group of the upper-middle, large and very large, and on the national level trend shows an increase in the average size of agricultural holdings.

The objective of this study is to identify the role that the agricultural land leasing process has in increasing the size of agricultural holdings and to base a theoretical model of agricultural household to test the hypothesis that increasing land leasing transactions and developing a leasing market can modify the income of the farm. . In the first section of the paper will be highlighted the structure of agricultural holdings by number, the agricultural area used and the situation of eligible and ineligible agricultural holdings for the purpose of leasing and Section II aims to solve the weaknesses of the sector by transforming the development opportunities into economic projects that minimize the risks. various threats identified through a SWOT analysis of agricultural holdings sector.

In order to obtain a better perspective on the possibilities of improving the efficiency of the economic model which is based on minimizing costs and maximizing the effects by increasing the average size of agricultural holdings by lease, the data analysis provided by the National Institute of Statistics and data has been used as a research method and Food and Agriculture Organization of the United Nations.

### **The analysis of agricultural holdings**

The situation of the Romanian agricultural holdings denotes the need for a structural adjustment policy, according to the model of the EU one, to promote the family-friendly, economically viable farm. Aware of the need for such a policy, the political decision makers recently initiated a rather ambitious program for the modernization of the agricultural production structures. The legal framework for the support and development of agricultural holdings is provided by the Government Emergency Ordinance no.

108/2001 regarding agricultural holdings, approved by Law no. 166/2002, together with the Methodological Norms of application, approved by GD no. 49/2002 and completed by GD

no. 734/2002. Under these normative acts, the Ministry of Agriculture, Food and Agriculture Forests support, through various means, the establishment of efficient agricultural holdings, through forms of professional association and production, compatible with those existing in the Community. European, including through the implementation of Phare rural development programs. The main element of novelty brought by the normative acts mentioned above aims to establish minimum dimensions for agricultural holdings. These minimum dimensions, provided for in article 5 of GEO no. 108/2001 and modified by Law 166/2002, are differentiated by sectors of agricultural production and by relief areas. For example, for the vegetable sector, farms that cultivate cereals, technical and medicinal plants, the minimum size it is 110 ha in the plain area and 50 ha in the hill area. Farms that meet the minimum set sizes are considered commercial farms. They benefit from the direct support of the state, through financial facilities for investments and product subsidies. The farms with dimensions below the limits provided for in art.5 of GEO 108/2001 are considered family farms.

Land reform, including the transfer of land to private property and individual use, as well as the abolition of large inefficient agricultural structures, was one of the tasks of the famous more difficult of transition for all the countries of Central and Eastern Europe. Romania should not be an exception. There have been wide changes in agricultural structures in the country, but the task of creating one agricultural system capable of producing internationally competitive products has not yet ended.

During the communist period, Romania's agriculture was organized mainly in state farms (IAS) and agricultural cooperatives, which, on the eve of the transition, in 1989, controlled more than 85% of the total agricultural land. Despite the forced collectivization of 1949-1950, private agriculture never disappeared and it was represented by a multitude of small individual households and plots next to the farm, on which the rural population, in large numbers, cultivated about 15% of the agricultural land. chosen for subsistence.

69 The land use structure changed substantially during the decade of transition. The area of agricultural land of individual farms increased from 15% in 1989 to almost 55% in 2002, of which an estimated 5% is cultivated jointly, in different informal family associations without legal personality. The cooperative sector has completely disappeared: agricultural production cooperatives (as well as some state farms) have been transformed into different legal entities, which today control about 45% of the agricultural land, including private companies and the remnants of the former state sector.

The analysis of agricultural holdings and agricultural areas used in Romania reflects the dual structure of agriculture, where about 55% of agricultural areas are used by the individual sector and households, the remaining 45% being used by different categories of legal entities. However, it does not include land that is not registered as farms or farms. After more than a decade of transition, Romania's agriculture is characterized by the existence of agricultural holdings that can be classified into two organizational forms. The individual sector or agricultural sector comprises 4.5 million agricultural holdings with an average size of 1.73 ha, which exploits almost 55% of the total agricultural land. This is the main component of the private agriculture sector in Romania. However, out of the number of farms mentioned above, approximately 185,000 farms registered by the General Agricultural Census in 2002 are exclusively livestock farms and do not cultivate agricultural areas.

The tendency to increase the average size is naturally accompanied by another tendency – that of reducing the total number of agricultural holdings. The respective reduction is based on the disappearance of an important number of small, economically viable farms each year. However, this process was favored by the strength of the western economy, which was able to provide jobs and sources of income in other non-agricultural branches to farmers who left agriculture.

The phenomenon of reducing the number of farms and increasing the average size of a farm is found, with different intensity, in most countries of the world. He is more pregnant in the latter half of the twentieth century and, especially, in the United States America and Western Europe.

Regarding the current situation of agricultural exploitations in the territory of Romania and for a better understanding of the factors that can determine the increase of the average area, a detailed analysis of the sector, evidenced by a comparison between 2013 and 2017, is considered necessary.

In 2017, the number of agricultural holdings was 3422 thousand, lower by 5.7% compared to the one registered in the Structural Survey on Agriculture 2013, and respectively by 11.3% compared to the General Agricultural Census 2010:

- the number of agricultural holdings without legal personality was 3396 thousand, 5.7% lower than in 2013

- the number of agricultural holdings with legal personality was 26 thousand, with 6.4% less than in 2013.

The utilized agricultural area of the agricultural holdings was 4.2% lower than the one registered in the Structural Survey on Agriculture 2013, and 6.0% respectively compared to the General Agricultural Census 2010.

**Table 1. Comparative situation of the agricultural area used, by main categories of use, in 2013 and 2017**

Surface indicators	u.m.	Total holdings Agriculture		Farms without legal personality		Farms with legal personality	
		2013	2017	2013	2017	2013	2017
Number of holdings Agriculture	thousands	3630	3422	3607	3396	28	26
The agricultural area used	thousands of hectares	13056	12503	7271	6927	5785	5576
- arable land	thousands of hectares	8198	7814	4558	4254	3640	3560
- pastures and meadows	thousands of hectares	4398	4246	2315	2291	2083	1955
- permanent crops	thousands of hectares	302	301	240	240	62	61
- family gardens	thousands of hectares	158	142	158	142	-	-
The agricultural area used what comes back on an average farm	ha	3,6	3,65	2,02	2,04	207,49	213,64

*Source: INS 2016*

The used agricultural area that returned on average on a farm has not changed significantly since 2013 when the registered value reached 3.6 ha compared to 2017 when it was 3.65 ha  
Data analysis by category of agricultural holdings:

- the used agricultural area that returned on average on a farm without legal personality was 2.04 ha, compared to 2.02 ha in 2013
- the agricultural area used that returned on average on a farm with legal personality was 213.64 ha, compared with 207.49 ha in 2013.

The number of agricultural holdings with less than 1 ha used agricultural area is decreasing and the number of very small agricultural holdings, which have used an agricultural area up to on 1 hectare, it decreased in 2017 compared to 2013 with 173 thousand agricultural holdings, respectively by 8.9%. The number of very small farms decreased to those who used an agricultural area of less than 0.3 ha, with a share of about 27% of the total agricultural holdings with agricultural area used.

In 2017, from the point of view of the way of holding the used agricultural area, the surfaces in property including the common land (61.4%) and the leased ones (28.7%) recorded the most important weights, without significant changes compared to 2013.

In 2017, the used agricultural area owned by agricultural holdings without personality legal accounted for 42.5% of the entire agricultural area used, while on agricultural holdings with legal personality it represented 18.9%.

**Table 2. Caption (Farms with agricultural area used and agricultural area used by macro-regions and development regions in 2017)**

Indicators		Number of holdings Agriculture	The agricultural area used
U.M.		thousands	thousands of hectares
Macroregion 1	Nord-Vest	476	1783
	Centru	323	1513
Macroregion 2	Nord-Est	708	1909
	Sud-Est	394	2065
Macroregion 3	București-Ilfov	20	64
	Sud Muntenia	669	2115
Macroregion 4	Sud-Vest Oltenia	529	1480
	Vest	223	1574

*Source: INS 2016*

From the data presented, it appears that both the number of farms with agricultural area used and the agricultural area used are distributed according to the specific area.

It is worth mentioning that in the two macro-region two are the most agricultural holdings (33.0%) and they have the largest agricultural area used (31.8%). As regions of development, in the first places, from in terms of the number of agricultural holdings, the North-East and South Muntenia regions were located, with 21.2% and 20.0% respectively, and in terms of the agricultural area used, the South Muntenia regions (16.9% ) and South-East (16.5%).

It should be noted that the form of the statistical data published in the RGA did not allow the identification of holdings that do not meet the size criterion of the plots, but the differences are not very large. In the case of units with legal personality, they are even insignificant. The analysis according to the legal form of organization indicates that 53% of the eligible OR is to be held by the individual agricultural holdings formed by the coming into force of the land laws. These are usually businesses that are based on family relationships and family

resources. The capital invested in the agricultural business is the property of the family members, and they carry out economic activities, production, processing, marketing, etc. The third potential beneficiary of SAPS are the commercial companies established on the basis of Law 31/1991. These generally come from the transformation of the former state agricultural enterprises (IAS) sector. Throughout the transition period, they have faced restructuring and privatization processes. The critical attitude towards them was a constant: there is a diffuse state of ownership challenges in these farms and although the decision-making act was decentralized the managerial responsibility was diluted. The unfavorable economic results obtained were an eloquent proof in this aspect. In this category, private equity firms that work, in most cases, both agricultural land owned and areas taken into lease and concession. The agricultural companies also known as associations with legal personality or formal agricultural associations established on the basis of Law 36/1991 operate 975,545 ha (7%) of the eligible OR. Although the area it has exploited has decreased from that exploited in the early nineties (1.9 million hectares), they still occupy an important place in Romanian agriculture. At the beginning of the process of restitution of agricultural land many natural persons - new owners opted for the association. The association represents, in essence, a transitional form of management, until the issuance of the titles of property and the formation of the land market, a specific form of capitalization of the capital, which replaces the normal relations of lease of the land, a form of land fund management, determined by the pauperization status of the land owners. (Davidovici, 2002).

## **SWOT Analysis**

### **Strong Points:**

- The high agricultural potential of Romania
- Still large share of the rural population
- Allocation of significant financial packages for the development of agricultural holdings
- Financial stability regarding the allocation of European funds
- The prices of agricultural and agri-food products are at a high level
- Attracting young people to productive agricultural activity for the market in the coming years
- The Romanian market for agricultural and agri-food products has the prospect of further absorbing an increase in domestic agricultural production
- Increasing foreign and national direct investments
- Existence of a wide range of traditional products (1500 registered nationally)
- The existence of marketing networks for large farms
- Development of supermarket chains
- Organic farming in development
- Great potential for renewable energy

### **Weaknesses:**

- Maintaining the breaking down of properties, large number of small farms, subsistence;
- Remaining uncultivated land.
- Inadequate agricultural land taxation system

- Existence of operating megastructures that constitute a brake on the establishment of farms of dimensions compatible with those existing in the EU15
- Lack of legislation and systematization programs of localities and organization of agricultural lands, dysfunction in the cadastral relation - rural development
- Old age of people working in agriculture
- Rural overcrowding with low occupancy
- Lack of qualified personnel for the food industry, qualified personnel for the operation of complex machines, technicians, managers
- There have not been defined the types of farms, peasant households, which want (argued) to be differentiated through public policies
- The state does not have operational structures through which to intervene efficiently to correct market imbalances and malfunctions
- Non-involvement of private producers' associations for taking over local public responsibilities
- Absence of processing activities in the rural area
- A significant share of the market belongs to ambulance traders, evaders, who do not comply with the minimum food safety requirements.
- Reluctance to the association for capitalizing on the production obtained in agriculture. The legislation of agricultural cooperation, confused and unstimulating

#### **Opportunities:**

- Important financial allocation for Romania under the CAP
- The agricultural and agri-food market - favorable in terms of prices, for agricultural producers
- Possibilities of developing some transformation and distribution activities in the rural area
- Accelerating the equipping of rural space with European type infrastructure
- The existence of a specific demand within the European common market can stimulate the development of niche products
- Economic and political issues regarding migration could encourage some young people to return to the country to develop their own small businesses
- Public and political awareness of the importance of agriculture as a factor of internal security, promotion of Romanian agricultural products

#### **Threats:**

- Increased costs with agricultural inputs (fuels, chemicals for fertilization and treatment), as well as the costs of bank loans
- Continuing the establishment of operating megastructures
- Increasing the degree of non-utilization of the labor force in the rural area
- The tendency of the political environment at European level to weaken the political and financial support of the CAP
- European administrative and procedural restrictions (Community rules)

- The monopoly policy of some trading companies (cereals, vegetables) or large processors of raw materials (milk) that occupy considerable segments of the market
- Maintaining part of the non-fiscal economy

## Conclusions

Eligibility of land for support after accession. In addition to the general principle of eligibility already established (a farmer / farmer using an area greater than or equal to one hectare that must be grouped into parcels of at least 0.3 hectares) exists a number of characteristics that confer this status in accordance with EU regulations and which need to be clarified as urgently as:

- Defining the "list of good agricultural and environmental practices"; In this regard he authorized institutions must collaborate and define these criteria for Romania. Establishing the size of areas unfit for agricultural activities and identifying them as urgently as possible (eroded land, severely polluted, rocky slope, dry riverbed, alkaline soil are just a few of the areas the characteristics of lands unfit for agricultural production).
- Clear definition of terms: agricultural area, used agricultural area, unused agricultural area especially of their contents, and their relation to the common system / nomenclature of definitions used by agencies monitoring (Payment and Intervention Agency, Integrated Administration and Control System)
- Redefining the term of agricultural exploitation. It is necessary to clarify the eligibility from this point of view. The most eloquent example following the analysis carried out on the basis of RGA data is the so-called "units of public administration" in the category of units with legal personality that could be some of the main beneficiaries of the single payments on the surface . Although they represent only one tenth of the total number of eligible farms, they operate almost 22% of the total agricultural area used. The characterization of this category on the brain is referred to for the first time in the RGA and the clarification of the eligibility terms for direct payments on the lands exploited by this category could be a difficult but necessary operation. Without knowing clearly what is the content of these indicators and terms the action of identifying the agricultural area used eligible for support and its monitoring after accession will be lacking in accuracy.

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