WELLSO 2016 - III International Scientific Symposium on Lifelong Wellbeing in the World

Wellbeing of Rural Areas and Family Farming in the Agro-Industrial Economy

Natalia Veretennikova, Irina Petinenko, Natalia Redchikova*, Stepan Levin

*Corresponding author: Natalia Redchikova, natako@yandex.ru, +7-903-954-0778

aTomsk State University, 36 Lenina Avenue, Tomsk, 634050, Russian Federation, rector@tsu.ru, (3822) 529-852

Abstract

The present paper discusses pacing institutional factors for ensuring the sustainable rural development as a cornerstone of socioeconomic wellbeing. Systematic problems rural population continually faces in the present-day living environment are identified: the sustained reduction in the number of manpower employed in the agricultural industry, the decline in living standards of the rural population, the environmental deterioration. It has been ascertained that the crucial institution of the agro-industrial production is a family-based production; therefore, the wellbeing of rural areas strongly depends on the degree of family farming development in Russia. The paper specifies institutional peculiarities of the Russian family farming. Among them we can mention: the integral institutional system governing the functioning of family farms is still being established, the family farming functions on the foundation of specific human capital assets, the family farming basically relies on the labor of its owners, the family farming heads so far exhibit insufficient experience and differences of their social status, the structure of land resources used by family farms is notably heterogeneous and varying, the prevailing strategy of the family farming lies in enhancing economic efficiency through withdrawal of investments, family farms face problems of selling their products as they continually come in conflict with distributing trade networks. In conclusion, the necessity for institutional changes in the business environment of family farms is substantiated.

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Keywords: Socioeconomic wellbeing; rural development; family farming; agro-industry; institutional environment; the Russian Federation.

1. Introduction

The current stage of rural development in Russia features a number of certain tendencies both arising in parallel with relevant global trends and stemming from the specifics of the Russian economy and agro-based food markets. First and foremost, a decrease in the rural population is observed as well as the sustained reduction in the number of manpower employed in the agricultural industry. Whereas
in 1990 the specific amount of the country’s rural population constituted 26.3 per cent, in 2015 it went down to 25.9 per cent (Federal State Statistic Service, 2015). There is presently an upsurge in the migration outflow from rural areas. Recent country-folk polls have shown that, if the current trend persists, 50 per cent of the young will seek to leave the countryside where they reside now. As a result, the rural population makeup is predominantly represented by small settlements; among 153 thousand rural settlements, 12 per cent have no residential population at all, two thirds have population less than 200 people, and only 2 per cent have population over 2 thousand (Government of Russian Federation, 2015).

Since early 1990s, the annual average growth rate of labor productivity has amounted to a mere 2.2 per cent, whereas developing nations have shown a sharp increase therein. It is largely due to the use of out-of-date and worn-out equipment, its wear rate continuously increasing, i.e. from 32.7% as of 2010 to 36.6% as of 2014. The agricultural production now exhibits a large number of loss-making farming organizations, though their number has been recently going down, i.e. from 41.7% as of 2005 to 26.4 as of 2014 (Federal State Statistic Service, 2015). The rate of employment in main industries of rural economy (farming, hunting, forestry, fishing, and fish-breeding) over the period of 2000 to 2013 has descended from 49 % to 23% of total rural employment as of 2014. The remuneration of late years in the farming was twice as small as the average for the economy (Government of Russian Federation, 2015). Such a low wage level in the formal sector is one of the reasons behind the deficiency of 500 people in common agricultural occupations to include milkers, multiskilled operators, combine operators, welders, machine attendants and other skilled and unskilled laborers. Every fifth employed operator today is a retiree; every fifth milker is a vet retiree (Mukhanova, 2015). Experts have lately marked a tendency towards a decline in living standards of the rural population, e.g. in 2013 the poor family rate went beyond 40% of the total number of poor families in the RF, the rural population therewith amounted to 25.9% of the total RF population. Consequently, there shows the apparent degradation of human resources in rural areas, alongside with that, if labor is hired on a rotational basis, the increased social strain is observed.

The Post-Perestroika years aggravated the problem related to the availability and quality of social services: since 2008, the school number in rural areas has decreased by more than 12 thousand; the number of health clinics has fallen by 65 per cent as against 2000; since 1990, the number of cultural establishments has lowered by 23 %. Rural settlements lately have also experienced the environmental deterioration (wind and water erosion, soil and water contamination, depletion of forests), 35.2 thousand thereof (78 per cent of all such settlements) had 0 to 50 dwellers. As of January 01, 2011, the number of rural villages not provided with hard-surface access roads was on the order of 45 ths (Government of Russian Federation, 2015).

According to our reckoning, the aforesaid issues related to the assurance of welfare in rural areas can be resolved on the back of arranging for effective farming, friendly environment for the country people, and upholding the rural lifestyle, i.e. developing the family farming as the institutional structure that is most inherent in the agro-industrial production.
2. Research questions and methods

The scientific literature to date has not come up with a precise and unambiguous definition of the family farming. Various aspects governing the evolution of the agro-industrial production as well as specific forms of its organization were theoretically backed up in papers by Russian researchers of the early XX century (L. Kritsman, N.D. Kondratiev, N.P. Makarov, A.V. Chayanov, A.N. Chelintsev) and contemporary economists (I.D. Afanasenko, V.F. Bashmachnikov, I.N. Buzdalov, V.I. Kudryashov, A. A. Nikonov, V.V. Milosrdov, V.N. Ozhereliev, A.V. Petrikov, R. E. Praust, E.V. Serova, V.A. Tikhonov, V.Ya. Uzun, G.I. Shmelev, et al.) as well as in research works by foreign scientists (G. Altetmar, M. Bakkett, S. Blegborn, E. Castle, J. Scott, G. Yorren, T. Hedges, et al.).

According to the FAO experts, the analysis of the family farming uses different terms (“family farming”, “family farm”, family agriculture”) which regards the family as the owner and manager, the investor and daily-breeder, etc.; this range of opinions though does not reflect all the diversity of the notion in question (Garner & Campos, 2014). The peculiar characteristics of the family farming indicated by researchers are as follows: the head acts both as an owner and as a manager; the business relies on the kinship relations; the business is based on joint assets of the family members; the family members labor collectively; the ownership and control of property are transferred to the offspring; the family members reside at the farm (Sottomayor et al., 2010).

The FAO experts suggest that the family farming should be reckoned as a variation of the farming enterprise, i.e. “the way of organization…, effected and managed by the family and primarily based on the labor of family members. The family and the farm are interrelated; they develop interactively and thereat combine economic, environmental, social and cultural functions.” (FAO, 2014). The plus side of this definition lies in highlighting the informal nature and functions of the family farming, though the emphasis made solely on the family nature of farming does not account for peculiarities of its economic behavior. (Corsi, 2015).

The RF legislation fails to clearly define the family farming as an institution (RF Federal Law, 2003): a) it equates the family farming with the peasant farming; b) it fails to point out the essential feature of such farming represented by the family-based production; and c) it gives no definition to the “family farming” term itself. Domestic scientific publications of nowadays also offer a considerable number of definitions which either equate notions of “family farming” and “peasant farming” or cite the definition stated in the relevant law (Zubrenkova, & Fedotova, 2015). The experts of the Russian Association of Rural and Farm Enterprises and Agricultural Cooperatives (AKKOR) suggested legislatively establishing the term “family farming enterprise” to incorporate the following features: it includes members of the same family; members of the farm personally contribute to production and commercial activities; it corresponds to a microenterprise as to the farm staff count and volume of proceeds; members of the farm live where they work; no farmwork is hired (Resolution of the All-Russian Applied Science Conference “Economic Effectiveness and Social Significance of the Family Farming”, 2014).

The difference in theoretical approaches to defining essential characteristics of the family farming, along with ambiguous views on its place in the institutional environment of the Russian agro-industrial production, necessitates a thorough analysis of this farming pattern. For the purposes of our research,
the family farming shall be considered as a self-developing dynamic form of the family labor organization in the agro-industrial production system that aids to keep the family solvent, to actualize the countryfolk potential for entrepreneurship, and to maximize the income gained from the realization of the eco-product in line with the country’s existing needs.

3. What is family farming in Russia today?

3.1. Statistics

The FAO experts consider the small family farming to be a prevailing farm pattern in the agro-industrial production system. Among a total of 570 million farms counted in the world economy, more than 90 per cent represent small family farms (Lowder et al., 2014).

Family farms in the Russian economy were established at the initial stage of reforming the country’s agriculture, i.e. 5% of peasants came from kolkhozes (collectively owned farms) and sovkhozes (state owned farms) and started up the first 50 ths family farms on 1 % of the country’s total farmland (Poshkus, 2005). The first farmers were actors who, on the one hand, carried values and traditions of the peasantry, but, on the other hand, welcomed market standards.

As of January 01, 2015, the Russian Federation listed a total of 216.1 ths farms of which 122.9 ths (57 %) were registered to do business as self-employed entrepreneurs (heads of farming enterprises), 19 % as LLCs (limited liability companies), and the remaining 24 % as agriculture-oriented individual enterprises. For the time being, farmers secure about 1.7 million rural jobs in the country (Government of Russian Federation, 2015). Although the RF statistics do not provide for the family farming as a separate class, according to the findings of related scientific research, over 95 % of farms in the RF are family-owned (Resolution of the All-Russian Applied Science Conference “Economic Effectiveness and Social Significance of the Family Farming”, 2014).

It should be noted that, though since 1997 the number of farms has been on a considerable decline made up at 24.3%, in the past decade they have shown the highest growth rate in regard to labor productivity and output of the agricultural product, the latter having increased since 1999 by a factor of 7.1. At the same time, private households demonstrated the setback in their production rate; this instability proved to be incidental to agricultural organizations as well where only a twofold increase is observed as against 1999 (see Table 1).

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<th>Table 1. Indices of Agricultural Production by Types of Enterprises in Russia (at constant prices; percent of previous year).</th>
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<td>Agricultural enterprises</td>
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Note: The above data are listed inclusive of the Republic of Crimea and the city of Sevastopol. The year 2015 cites tentative data. Compiled by: Federal State Statistic Service

In the present-day environment, the structure of the family farms lacks uniformity: 79 % of farms were formed by villagers 90 % of which had been previously employed in the formal sector of rural industries; 21% of family farms are managed by citizens 55 % of which keep on living in the city. It is noted that 10% of farming citizens are going to wind up their businesses. It also should be noted that
56% of farmers are male; for the most part, heads and members of farm households are of active working age: 12% - under 20 yo; 16% - 20 to 30 yo; 32% - 30 to 40 yo; 28% - 40 to 60; 12% - over 60 yo (Gubin, 2012).

3.2. The Internal Institutional Environment of the Russian Family Farming

The internal institutional environment of the Russian family farming exhibits heterogeneity and inconsistency.

1. The development of farming takes place against a background of reviving the farming traditions lost in the previous years, strengthening interactions between farmers from both formal and informal institutions of the market, i.e. the integral institutional system governing the functioning of family farms is still being established. Therefore, it is of immediate relevance to build up and enhance the corporate culture of farming as an indispensable condition for the family farming development since it will: a) determine a social status and occupational specifics; b) ensure the high level of resilience and development in the future; c) contribute to the original, off-the-beaten-path development of the rural social network.

2. The family farming functions on the foundation of specific human capital assets. The human capital in the rural sector features the following specifics: it forms and develops within the limits of a certain rural region; its development depends heavily on network interconnections between rural areas (Svistunova, 2012); the individual undergoes the continuous renewal of his/her implicit knowledge (experience, skills, culture of occupational thinking, intuition) resulting from the synthesis of genetic inheritance, education and acquired life experience (Yuriev, & Kasaeva, 2014); the human capital is also predicated upon the national culture, national traditions, and folk culture; the living environment enables the human capital reproduction with no additional costs incurred.

The rural sector transformation exerted a contradictory influence on the formation of the farming human capital that resulted in the evolution of certain traits: «…1) on the social plane, alongside with the emersed feelings of social isolation and estrangement accompanied by the deterioration in the metal and psychic wellbeing, there arose some civic consciousness (independent contacts with market agents, product selling skills, comprehension of business planning, lost opportunity and profit); 2) on the spiritual plane, there occurred strongly pronounced self-dependence, self-reliance, appreciation of the state and partner functions; 3) on the sociocultural plane, there emerged distinctive groups that had benefited from the privatization process, e.g. some families snatched fertile land, farming equipment and other advantageous assets and fortified all that with their willing hands, high capacity for work and what is known as “go-go spirit” (Veliky, 2007). Accordingly, the marked income differences and social stratification of the rural community (adapted and unadapted entities, the elite and outcasts, native villagers and former citizens, actors of small and large businesses) formed the so-called “specific” human capitals with their inherent cultures the actors of which use particular behavioral strategies, i.e. the specific capital of the family farming, the specific capital of the community household, the specific capital of the agricultural enterprise, etc.

3. The family farming basically relies on the labor of its owners that preconditions immense incentives as to the eventual outcome of labor and enables the considerable saving in material resources
consumption. As a rule, farmers do not assess their labor inputs since the latter cost them mere nothing in monetary terms. This holds true especially for the marginal regions where it is unfeasible to measure alternative costs of labor as formal employment (Corsi, 2015). At the same time, 12 per cent of family farms use hired farmwork (1 to 3 workers), 88 per cent of hired workers therewith are employed informally to do seasonal work (Gubin, 2012). As a rule, the extent of hired farmwork depends on a specific activity. For instance, organic farms in Germany hire by 12 % more workers per hectare than the county’s regular farm households. (Bogdanovsky, 2012).

4. The family farming heads so far exhibit insufficient experience and differences of their social status: a) only 45 % of such farms are managed by people with practical experience in this field and higher or secondary professional agricultural education, permanently living in the village; b) approximately 18 to 20 % are the so-called “elite” farming households headed by representatives of different political and economic levels who back up their business contracts with informal agreements concluded with the regional and local authorities that gives rise to various selective advantages; c) regular small-size farming households (farmland of 10 to 13 ha) headed by the former intelligentsia of the rural community count within 10 to 12 %; d) farm households run by people with no knowledge and experience in the agriculture constitute 8 to 10 % of the total amount (Metelskaya, 2005).

5. The structure of land resources used by family farms is notably heterogeneous and varying: land allotments, privately owned lands, and medium-term rented lands (41.9 % of the total used land area as of 2009). Of the latter, 91 per cent are natural rents. 5 per cent of farms put their land out to lease, usually on a barter transaction basis. In this regard, some extension of land lease relations is expected since the owned land enables solely the reproduction on a simple scale. The research carried out in the Tambov region during the period of 2001 to 2014 identified the following trend observed in the farming households under study: the land fund demonstrated an increase only in the percentage of rented land (by a factor of 1.41) whereas the percentage of the remainder land was on the decline. (Sazonova, & Saazonov, 2015).

6. For the time being, there is virtually no business planning that brings about an increase in transaction costs as costs of business contact coordination.

7. The prevailing strategy of the family farming lies in enhancing economic efficiency through withdrawal of investments, i.e. transferring the material and technical resources from one trade to another one that promises higher profitability (Kataev, 2007). The said strategy generally rests upon informal practices used by farmers to adapt for the shifting socioeconomic environment. It should be noted that such informal practices are well established in the peasant farming, they make for cutting down its transaction costs and ensuring its resilient and dynamic properties as well set the socioeconomic trend that consists in keeping the family viable on the basis of reproducing the specific human capital. So we cannot subscribe to the statement that informal interactions come out of sheer necessity and are practiced only by family farms that failed to succeed in building formal relations (Plotnikov, 2006). It should be emphasized that informal economy provides the framework for the risk hedging system with a view to sustaining vital functions of both the family and the local rural community in conditions of minor support from the state.
The social studies conducted in the RF give evidence that informal practices tent to be, so to speak, spatially localized, i.e. they are much frequently used by the rural community (for reference, 46 % in cities vs. 87.4% in villages) (Samsonov, 2011). Informal relations show through, first, network interactions (reciprocal, re-distributional), and second, informal practices that imply combining the formal agricultural activity with the secondary hidden employment (e.g. seasonal work, employment in other branches, etc.).

The practical application of the development strategy has some constraints, e.g. when exercising the right of succession that involves issues of heritability and continuity in the enterprise management. In terms of continuity in the enterprise management, the family farming has the advantage of other enterprises as the members of the family are taught in actual practice from an infant. However, the inheriting meets with a hurdle since the determining asset is the land, and its devolution to different owners limits the positive scale effect (Corsi, 2015).

8. The family farming features low marketability as registered in the pertinent monitoring conducted during 2001 to 2012 that identified the following factors: a) the agricultural product (about 27.6%) needs to be exchanged on a nonequivalent swapping basis for seed grains; b) the in-kind rent payments for land allotments constitute 16.1% of the total output produced; c) the production and household consumption within the farm is on the average 5.3% of the total output produced (Sazonov, 2015).

9. Family farms face problems of selling their organic products as they continually come in conflict with distributing trade networks (size and terms of delivery, payment of bonuses, inclusion of VAT, etc.). Consequently, family farms seek to build up “short food supply chains” in order to get more closely connected with the consumer. For example, there occurred farmers’ stores, fairs and marketplaces, weekend bazaars, etc. The situation is adversely affected by the existing disparity in prices as the farmer situated at the beginning of the processing chain loses profit. By way of an alternative, efforts are being made to build up special distributing networks for the sale of farmers’ organic products which include, inter alia, plans for selling via the Internet.

10. The monitoring of the family farming has shown its financial imbalance. The level of profitability as to before-tax income with no subsidy assistance has the negative value of 1%, for the period of 2010 to 2014; with subsidy assistance, it amounted to mere 11% (Epstein, 2015). At the same time, to enable the reproduction even on a simple scale, it is necessary to have profitability on the level of 15.1 to 35%, whereas the reproduction on a progressively increasing scale calls for the level of profitability exceeding 35%. (Anichin, & Elfimov, 2015). Besides, it has been observed that family members aged 18 to 25 tend to avoid directly participating in the rural labor that makes prerequisites for the associated membership; however, according to the look-ahead analysis, they are most likely to retain their concernment due to the ties of kinship or get engaged in the rural activities in the long term.

3.3. The part of the Family Farming in the Russian Rural Sector

As of today, the part of the family farming in the Russian rural sector is not significant yet that can be mainly explained by the following factors:
a. Difficult attraction of credit resources (even on a short-term basis), credit rates are unacceptably high so borrowing farming households amount to less than one per cent (except for the federal district of Northern Caucasia where it runs to 5.5%).

b. Disparity in prices.

c. Inadequate involvement into the system of integration interactions in the rural market.

d. Insufficient support from the state. The RF government expenditures annually allocated to support the rural sector amount barely to 9 dollars per a hectare of cropland that is nearly 40 times less than in the USA. In the USA, the state support furnished to agricultural producers constitutes up to 60% of their income, the relevant percentage amounts to 75% in Japan and within 70 to 80% in the countries of European Community, whereas in Russia it counts below 10%. (Sidorenko et al., 2016).

Besides, the most part of the state agricultural subsidies (98%) are intended for large businesses and only 2% go to small rural businesses. (Uzun et al., 2014).

4. Conclusions

The development of the family farming presents some increased internal and internal risks: first, we observe the distortion of traditional values and standards not well established in farming households; second, the human capital quality of farmers does not fully enable them to actively participate in market relations; third, the aggressive external institutional environment intensifies the tendency towards increasing transaction costs, expanding the survival strategy scope and encouraging informal employment.

Therefore, it becomes essential to develop the effective mechanism facilitating the sustainable development of the family farming within a certain rural area to ensure the welfare of its population. The principal criteria for evaluating the effectiveness of the said mechanism should include: sustainable rural development; increased individual income of the county-folk; declined unemployment; innovative technologies introduced as the result of increased investments in the rural sector, enhanced financial solvency and profitability of family farms; evolving agro-industrial integration; increased tax revenues to the rural budget owing to the enhanced competitive ability of the family farming.

Establishing the effective mechanism for securing the sustainable development of the family farming shall be founded on essential institutional changes in the agro-industrial production system. These institutional changes will contribute to the consistent correlation of formal and informal institutions (the latter include traditions and values of the peasantry) coordinating interactions between actors of the agro-industrial production. According to our reckoning, the main ways to improve the institutional environment of the agro-industrial production shall involve: a) establishing the effective mechanism for protecting the landowner’s rights; b) assuring the compliance of legislative standards and regulations with the essentials of the family farming; c) modifying the institutional paradigm of the Russian state agricultural policy to enable the innovative development of the rural sector; d) forming and developing agro-industrial clusters in the capacity of the institutional structure furthering efficient interactions between family farms and other actors of the agricultural business.
References


