The Business Return Evolution of Big Farms in Southern Romania

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Agriculture on large farms = financial performance? Trends in the profitability and the impact of subsidies upon a group of large farms

• The paper analyses the main financial results of 32 big farms covering 83,300 ha in 2010, located on the most fertile farmland in southern Romania.
• Each indicator is tracked from 2010 till 2017 and then summed up to the level of the 32 farms;
• The analysis is made on the aggregated level.
• We analyze: assets, capital, debts,
• income, turnover, expenses,
• net profit,
• subsidies, number of employees,
• profitability and productivity,
• Conclusion
Introduction

Farm structure in Romania

• Tracking the agricultural farm activities, provides data used arguing and guiding agricultural policies.

• Romania had 13.93 million ha of utilized agricultural area (UAA)

• And 4.30 million agricultural farms! 3,24ha/farm!

• Only 4,681 are agricultural companies over 100 ha.

• They operate 3.063 million ha of UAA, (22% of the total, mostly arable land). 654 ha/ farm!

<table>
<thead>
<tr>
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<th>Area, thou ha</th>
<th>Total yield, thou t</th>
<th>Average yield, t/ha</th>
</tr>
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<tbody>
<tr>
<td>Corn</td>
<td>2402</td>
<td>14326</td>
<td>5.96</td>
</tr>
<tr>
<td>Wheat</td>
<td>2138</td>
<td>9877</td>
<td>4.62</td>
</tr>
<tr>
<td>Sunflower</td>
<td>986</td>
<td>2913</td>
<td>2.95</td>
</tr>
<tr>
<td>Rapeseed</td>
<td>598</td>
<td>1672</td>
<td>2.80</td>
</tr>
<tr>
<td>Barley</td>
<td>482</td>
<td>1857</td>
<td>3.85</td>
</tr>
<tr>
<td>Potatoes</td>
<td>168</td>
<td>3129</td>
<td>18.63</td>
</tr>
<tr>
<td>Soybeans</td>
<td>151</td>
<td>365</td>
<td>2.42</td>
</tr>
</tbody>
</table>
Large farms versus small farms

Source: https://www.google.ro/maps/@44.5752453,25.7650399,10248m/data=!3m1!1e3
RESULTS AND DISCUSSION
Evolution of the areas for which subsidies were received, ha

- Slight tendencies to concentrate farms (2010-2012, then 2013-2016)
- The UAA declined to 94.3% (massive losses of land, (5,882 ha, in 2013 and 2,123 ha, in 2017).
- The average UAA decrease from 2,603 ha to 2,454 ha.
- Companies’ fragmentation, loss of contracts with the land owners, acquisition of land from land owners and possible problems with the subsidies payments agency.
Current and fixed assets evolution, Mil. Lei

- In adjusted series, the assets have risen, 74.4% the current assets and 76.4% the fixed assets;
- Thus, the total assets have increased by 75.2%.
- Intensification of farm activity through modernization, farmers are turning towards new technology, which is implicitly more expensive.
- Diversification in activity, which is also justified by a similar increase in income and expenditures.
- Reduction in the saleability of farms; (increased capital needs and relatively specialized assets).
- Shrinkage of attainability for farms as businesses (the need for extra capital).
- In terms of area, the assets growth is larger, 185%.
- Current assets grew faster! Possible increase in the assets rotation speed?
The capital has had also an upward trend, much more accelerated than assets, progressive increases.

- In 2017 the capital was 3.6 times higher!
- Confirm the intensification and diversification.
- The capital per hectare increased almost four times, from 1,574 to 6,026 lei/ha.
- The farms have used their higher cash flow to supply their capital needs.
- The indebtedness rate decreases from 78.9% to 63.5%; (the rate of debt growth is lower than that of capital).
- Obvious accumulation of capital, a decrease in liabilities, as farm activity is funded more and more from cash reserves.
Turnover (subsidies included) and income evolution, Mil. Lei

- Farm turnover and income rise but slightly below the assets.
- Turnover rises by 70.3% but revenue increases only by 63.8%.
- Reduction of debt and a rise in financial income, a consequence of better cash flow.
- The hypothesis of the intensification and probably the diversification of farm activity is confirmed.
• Expenses are rising, similar with turnover growth, 170%.
• In 2011 and 2016, which faced very high income, expenditures were also higher than the average.
• Romania’s recent history, the studied period, was the best for the agricultural output; it confirms that with higher incomes, implicitly expenses increased.
• Romania is a net exporter of cereals and oilseeds; some of the farms in the group are known as direct exporters.
The profit depend on the climate and the market context.
2011 it was very profitable years, three years of declining profit (2012-2014).
From 2015 the profit rose, 2017 the most profitable.
Throughout the period, the upward trend of profit is kept.
The cumulative losses - none of the farms had losses in 2011 and 2016.
These profits have fueled the reduction of indebtedness.
Profitability dynamics (%)

- The profitability of capital \( \frac{Profit}{Total\ capital} \times 100 \) is decreasing;
- The progressive increase of capital in relation to the lower net profit growth.
- The profitability of expenditure \( \frac{Profit}{Total\ expenditures} \times 100 \) is on an upward trend, indicating, overall the increase in efficiency of large farms activities alongside intensification and diversification.
Employees and productivity

- The diversification hypothesis is also supported by the increase in the number of employees, from 1,208 in 2011 to 1,672 in 2017; this increase comes mostly from the first three years, the next five years remaining relatively the same.

- The productivity of employees (income per employee per year), stays flat or even decreases slightly.

- The farmers are making efforts, intensifying and diversifying farm activities to maintain / increase employee productivity.
To assess the importance of subsidies for farms, we have put in the same graphic the average value of subsidies and profits per hectare.

There is an increasing trend for subsidies and net profit per hectare, more pronounced for Profits than Subsidies.

In four years out of eight, the subsidy is higher than the profit per hectare and in two years they are almost equal.

Romanian farms are strongly dependent upon subsidies.

The possible reduction or capping of subsidies would directly affect the profitability of the farms.

Remember: the study group contains 32 large and very large farms, with areas served between 500 and 11000 ha, 80000 ha in total, some of which are direct exporters of agricultural products, grains and oilseeds especially, located on the most fertile land, in southern Romania.
Conclusion

• Large farms in Romania have undergone a capitalization process.
• They have invested in fixed assets and have intensified and diversified their activity in parallel with reducing their need for loans and their indebtedness.
• Their need for capital is rising, but their business attractiveness and saleability is decreasing.
• The number of employees rose with the diversification of the activity and the productivity of the employees (net profit/employee) is increasing.
• Operating subsidies are on the rise, the farms are more and more dependent upon them and any future slowdown in subsidies will directly affect profitability.
• The farm businesses are working with low profit margins, a sign of high competition in the sector, but profitability and productivity are rising in the last few years, a sign of increasing farm efficiency and specializing in their management.
Thank you for your attention!