



Republic of Serbia

Ministry of Agriculture,
Forestry and Water Management



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SMALL RURAL HOUSEHOLDS IN SERBIA AND RURAL NON-FARM ECONOMY



2007

Natalija Bogdanov

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AND
RURAL NON – FARM ECONOMY**

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Belgrade 2007

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Publisher

UNDP Serbia

For more information, please contact:

United Nations Development Programme

Internacionalnih Brigada 69

11000 Belgrade, Serbia

Editor

Nenad Moslavac

Poverty Reduction and

Economic Development

UNDP Serbia

ISBN 978-86-7728-046-8

Translation

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Cover Design

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MASSVision d.o.o.

Kneginje Ljubice 12

11000 Belgrade, Serbia

Graphic Design and Prepress

MASSVision d.o.o.

Printed by

DIS PUBLIC d.o.o. Belgrade

200 copies

Belgrade, 2007

Contributors to the publication

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Economic Development Cluster

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Suggested citation

Bogdanov, Natalija (2007) Small Rural Households in Serbia and Rural Non-Farm Economy,

Beograd: UNDP Serbia [Internet] Available at: www.undp.org.yu

SMALL RURAL HOUSEHOLDS IN SERBIA AND RURAL NON-FARM ECONOMY was prepared on the basis of carried out needs assessments of small rural households and local rural stakeholders, outsourced to the Strategic Marketing Research Agency (SMMRI Group) in 2006. The final field research data, stakeholder analysis, interviews, and other information on the relevant subject was further collected, interpreted and compiled into a final report. The author of the final report is Prof. Dr Natalija Bogdanov, from the Faculty of Agriculture of University of Belgrade, who was engaged as Senior Rural Development consultant for UNDP in Serbia. This publication includes and acknowledges the comments and contributions of UNDP Rural Development Task Force in Serbia and UNDP Poverty Reduction and Economic Development Cluster, Sector for Rural and Agriculture Development of the Ministry of Agriculture, Forestry, and Water Management of the Republic of Serbia, and from other stakeholders who were directly or indirectly involved in the final review of the document. The research project implementation and preparing of the publication was financially supported by the Austrian Development Agency and UNDP in Serbia.

The opinions presented in this publication are those of the author and do not necessarily reflect the views of the United Nations Development Programme.

FOREWORD

An analysis of the needs of small rural households, which gave incentives for writing this significant book, is the first of such analysis in Serbia. In-depth approach of the study and applied methodology presented through the results, enabled an assessment of the importance of the non-agricultural segments of rural economy, of which we know very little. This publication should assist in bringing to an end the negative attitude towards the phenomenon of eclecticism in the rural economy. It will also amply viewing the diversification of agriculture and its multifunctional roles, as well as the diversification of rural economy outside the farm, as an opportunity for the revitalization of Serbian rural areas. The Serbian village requires this in order to be excluded from any discourse of the poverty as a rural phenomenon. The Serbian society, however, needs this in order to preserve its health and culture and its natural resources. At last, Serbia as a state is in a need of such work, in order to establish a support system, which will enable a better life for its entire population.

I hope that we will continue successful cooperation with UNDP in establishing theoretic baselines for the development of rural Serbia and materialize it through thriving development projects on its entire territory. The Ministry of Agriculture, Forestry and Water Management is decisive in accepting full responsibility for mobilizing the complete administration, all its resources and bodies and providing support to the development of rural areas, which will return their dignity and place in society where it undoubtedly belongs.

Dr Suzana Đorđević-Milošević,

*Assistant Minister for Agriculture and Rural Development
Ministry of Agriculture, Forestry and
Water Management of the Republic of Serbia*

FOREWORD

One of the overall activities of the United Nations Development Program, falling under the key objectives of the Millennium Development Goals, is the fight against poverty. Poverty, as such, is present in many aspects of today's world and it affects both the urban and the rural population. In Serbia, it is clear that poverty is markedly greater among the rural population compared with the urban population. Thus, opportunities for helping rural households to have a better and more sustainable livelihood must be sought and used.

This study focuses on rural development, and in particular on small rural households, and gives recommendations as to what measures should be taken in order to improve the status of rural development in Serbia. It specifically focuses on small rural households since they represent a large percentage of the Serbian rural population.

One conclusion of the study is the importance of diversification of activities, and therefore of income, is important for small rural households. This is supported by comparative analyses from countries in the region, and from new EU members. This diversification brings favorable impacts in particular among vulnerable groups such as the impoverished, youth, and women. The study also highlights the important impact that rural non-farm economy development may have on rural development, and on the reduction of rural poverty.

Among the recommendations of the study are to promote the local community participation and cooperation in rural development efforts, and to increase the knowledge available to rural households through well-thought educational programs and innovative approaches. The recommendations should be of special importance for rural development stakeholders such as the Government, donors, non-governmental organizations, the private sector and local authorities.

The project of Small Rural Households in Serbia was initiated as a response to the request of the Ministry of Agriculture, Forestry and Water Management. The publication and the research study were undertaken jointly by the Ministry and UNDP, with funding from the Austrian Development Agency.

I would like to take this opportunity to thank all the members of the UNDP Rural Development Task Force, the members of the Donor Group on Agriculture and Rural Development, and the Sector for Agriculture and Rural Development of the Ministry of Agriculture, Forestry, and Water Management for participating in the project and in the development of the publication.

I hope that this publication will help to all who are concerned about rural development in Serbia to work towards inclusive growth within rural development, and to help create sustainable livelihoods for the rural population. I trust that our joint rural development programming and partnerships will continue to be nurtured and contribute to a better life for the people living in small rural households and rural communities in Serbia.

Lance Clark

*UN Resident Coordinator and
UNDP Resident Representative*

ACKNOWLEDGEMENTS

The author of this publication expresses the genuine gratitude to Mr. Nenad Moslavac for the extraordinary assistance and cooperation during the whole period of implementation of the „Need Assessment Analysis of Small Rural Households in Serbia and Rural Non Farm Economy“. Mr. Moslavac, programme manager of UNDP has been engaged as the focal point for Rural Development within the Poverty Reduction and Economic Development (PRED) Cluster, a department of UNDP in Serbia, but also he is working towards his MSc degree at Imperial College London, Department of Agricultural Science, of the University of London in UK. Therefore, his devotion, responsibility, and enthusiasm on the subject were an indispensable inspiration and assistance to the author at all stages. Nenad's creativity and invaluable support is due to all respect. The author would like to express the highest appreciation to the UNDP CO Serbia, and especially to the PRED Cluster for having the confidence in her and giving her the privilege to work on the research which implied high professional challenge, valuable experience and knowledge gained throughout the implementation.

For the very useful suggestions in the systematization of the text and final interpretations of the research results, the author credits the reviewers Mr. Paul Keating (of the Irish LEADER Support Unit and Sustainable Rural Development Department of the Tipperary Institute, Ireland) and Mr. Martin Turner (Senior Research Associate of the Department of Geography and Assistant Director at the Centre for Rural Policy Research of University of Exeter, UK). Their suggestions and comments significantly improved the final form of the publication and contributed to the systematical outline of the work. The great admiration of the author belongs to Dr Sophia Efstratoglou (Professor at the Agricultural University of Athens, Greece) with whom it was a pleasure to corporate and whose immense experience and in-depth knowledge helped in understanding and interpreting of the rural development indicators in Serbia. Author is grateful to Dr Panagiotis Kolyris (Rural Development Expert on Support to a Rural Development Programming and Payment System - EU funded project managed by the European Agency for Reconstruction Project in Serbia) for his assistance in the interpretation of the European rural development policies towards the EU Candidate Countries.

Author would like to show appreciation to the team of the research agency „Strategic Marketing“, and especially to Ms. Hana David for her serious and responsible approach to the conducted field research and large data which had to be professionally processed. The persistence and detailed approach to the task, significantly added to the quality and reliability of the field research conclusions. Finally, the author especially appreciates expressed patience and understanding of the task complexity.

Prof. Dr Natalija Lj. Bogdanov

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ACRONYMS

AAEA – American Agricultural Economists Association

ADA – Austrian Development Agency

BSRS – Bureau of Statistics of the Republic of Serbia

CAP – Common Agricultural Policy

CEEC – Central Eastern European Countries

CIS – Commonwealth of Independent States

DFID – Department For International Development

DFRS – Development Fund of the Republic of Serbia

DP – Domestic Product

EAA methodology – Economic Account for Agriculture

EAAE – European Association of Agricultural Economists

EAR – European Agency for Reconstruction

EARDF – European Agriculture and Rural Development Fund

EEC – European Economic Community

ESU – European Size Units

EU – European Union

EUROSTAT – Statistical Office of EU

FADN – Farm Accountancy Data Network

FAO – Food and Agriculture Organisation

GDI – Gender-related Development Index

GEM – Gender Empowerment Measure

GNP – Gross National Product

GTZ – German Agency for Technical Cooperation

HDI – Human Development Index

HPI – Human Poverty Index,

ILO – International Labour Organisation

IPA – Instrument of Pre-accession Assistance

IPARD – Instrument for **Pre**-accession Assistance for **Rural Development**
 IR – **I**ntermediate **R**ural
 ISIC – **I**nternational **S**tandard **I**ndustrial **C**lassification
 ISPA – Instrument for **S**tructural **P**olicies for **Pre**-accession Assistance
 LAG – **L**ocal **A**ction **G**roup
 LDC – **L**ess **D**eveloped **C**ountry
 LEADER – **L**iaison **E**ntre **A**ctions pour le **D**eveloppement d'**E**conomie **R**urale
 LFA – **L**ess **F**avoured **A**reas
 LFS – **L**abour **F**orce **S**urvey
 MAFWM – **M**inistry of **A**griculture, **F**orestry and **W**ater **M**anagement
 NES – **N**ational **E**mployment **S**ervice
 NGO – **N**on **G**overnmental **O**rganization
 NUTS – **N**omenclature of **T**erritorial **U**nits for **S**tatistics
 OECD – **O**rganisation for **E**conomic **C**o-operation and **D**evelopment
 PAIS – **P**roposal on **A**gri-**E**nvironmental **I**ndicators
 PHARE – **P**ologne, **H**ongrie Assistance à la **R**econstruction **E**conomique
 PPS – **P**robability in **P**roportion to **S**ize
 PR – **P**redominantly **R**ural
 PSE/CSE indicators – **P**roducer **S**upport **E**stimates, **C**onsumer **S**upport **E**stimates
 PU – **P**redominantly **U**rban
 RD – **R**ural **D**evelopment
 RNFE – **R**ural **N**on-**F**arm **E**conomy
 RSD – **S**erbian **D**inar
 SAPARD – **S**patial **A**ccession **P**olicies for **A**griculture and **R**ural **D**evelopment
 SFRY – **S**ocialist **F**ederal **R**epublic of **Y**ugoslavia
 SGM – **S**tandard **G**ross **M**argin
 SME – **S**mall and **M**edium **E**nterprises
 UNDP – **U**nited **N**ation **D**evelopment **P**rogramme
 UNDP – **U**nited **N**ations **D**evelopment **P**rogram
 UNICEF – **U**nited **N**ations **C**hildren's **F**und
 USDA – **U**nited **S**tates **D**evelopment **A**id
 WCDE – **W**orld **C**ommission on **E**nvironment and **D**evelopment

CHAPTER I

INTRODUCTION

1. INTRODUCTION

One of the central challenges facing European agriculture and regional development policy relates to the social and economic viability of rural areas. This challenge begins at the level of the individual farm household, extends to the broader rural community and ultimately looks to the future of regions which are predominantly rural in character. The aging population and declining economy which characterizes rural regions throughout Europe, and not **only peripheral rural regions**, is now compounded by concerns related to the degradation of the environment and landscape. This creates a complex mix of competing policy priorities and necessary economic restructuring within European countries often resulting in negative consequences for rural communities.

Countries in transition, where agriculture and rural regions were marginalized and exploited for decades by the previous economic system, are now confronted with a similar problem: how to ensure the long-term sustainability of rural regions and provide favorable conditions for their development within the overall economic system? This explains why towards the end of the twentieth century, the concept of rural development has become important to both the more developed European countries and the countries in transition. The primary policy focus for rural development is no longer simply to overcome regional developmental disparities, but rather the new policies are concentrating on defining efficient mechanisms which can provide coordinated development, integrating agriculture and other aspects of the rural economy. **These policies must adhere to the principles of sustainable development and consequently improve living standards and the quality of life for the population while maintaining environmental integrity.**

Historical and cultural heritage, social structure, the level of economic and social development, as well as other relevant parameters differ significantly between European countries. Hence there are significant differences in goals, institutional and financial support and general concept approaches to rural development across the continent. This highlights an importance to learn from the experience elsewhere in order to develop a unique program addressing the specific needs of rural Serbia.

Current social and economic changes in Serbia have a highly complex influence on the agrarian sector and rural regions. In the recent past, the government's primary attention was directed at the problems of organization, institutionalization and structural adjustment of the agrarian sector. The core economic and social problems of rural regions failed to be addressed and no mechanisms were created which would encourage the potential of these regions. However, the experience from a

number of countries shows that agriculture can no longer be seen as the „engine of growth“ for rural development; instead a wide spectrum of activities based on the broader potential of rural regions must be initiated and nurtured. This is a subtle but significant change in emphasis and one which requires the Serbian government to define appropriate policy (not only agrarian) as a matter of priority. **Such policy should aim to curtail negative demographic and economic trends and ensure the preservation of our rural natural and cultural heritage.**

A significant number of farm holdings in Serbia will never be transformed into commercially viable enterprises based solely on food production. This is because of their limited potential in terms of scale, the strength and flexibility of the work force and the limited availability of additional assets and capital resources. On the other hand, past experience shows us that farm holdings will not simply die out as part of the natural process of development. **Small farm holdings may decline, as a consequence of national economic trends, but this decline is inevitably slow and dependent on multiple factors.** New development concepts, in particular the multifunctional agriculture and rural development, promote resistance function of rural areas, importance of preserving natural environment, biodiversity, ethnological ambiance and alike. Therefore, the small rural farm and non-farm households are forming important subjects, regardless of the possibility to commercialize their products and services.

Within Serbia this category of households is numerous and from social and economic aspects highly vulnerable. Economic and social security for these households, especially in a transition period can be further jeopardized by inappropriate development choices and priorities at national, regional and local level. In view of the importance and current economic position of this category of households, an objective assessment of their social and economic prospects may not only prevent potential decline resulting from government policy, but can also place them in a position as important agents in the development of the rural economy.

1.1. The Project's Goal and Significance

The project „Needs Assessment of Small Rural Households in Serbia“ was carried out in cooperation with the Ministry of Agriculture, Forestry and Water Management (MAFWM) of the Republic of Serbia and the United Nations Development Program (UNDP) in 2006/7 with the financial support of the Austrian Development Agency (ADA) and UNDP.

The project was designed to analyze **key socio-economic indicators of small rural households** in Serbia with the aim of identifying what **possibly needs to be improved in their economic performance to benefit from diversified rural**

economy. The identification of specific developmental limitations of small rural households and objective assessment of their needs and developmental capacities may contribute to the creation of **suitable mechanisms and strategies to reduce rural poverty.**

The project's main goals are:

1. To provide a valid, documented and analytical basis for public debate on the Serbian rural economy, with special attention to the position and prospects of small rural households.
2. To help the government to shape strategies/policies in the sphere of rural and regional development and poverty reduction.
3. To assess the circumstances of small rural households and formulate recommendations for the creation of different developmental programs and future interventions.

Achieving these goals may be crucial in playing a part in formulating rural development policies which should help to reduce rural poverty as well as to encourage socio-economic development of rural regions in general. The project targeted small rural households with latent developmental potential which can be stimulated when provided with appropriate conditions for alternative activities and income diversification.

1.2. Research Undertaken

Interpretation of the research is divided into several separate areas. Thereby, basic concepts and theoretical divisions receive more attention than is usually the case in similar studies. The reason for this was the fact that many solutions and concepts related to rural development and the rural non-farm economy were not widely known and understood in Serbia. The lack of more comprehensive research into this sector has in the past, resulted in „diverse“ interpretations of different concepts and policy solutions in scientific and professional publications, with limited reference to existing research, policy and practice in other countries. This publication attempts to correct some of these failings.

Chapter on *Conceptual issues* (chapter II) – give a short history of concepts and policies, with relevant examples from current practical and theoretical interpretations of rural development policy. This chapter introduces basic elements of European rural development policy, EU policy for candidate countries and current European policy related to rural development in Serbia and future candidates countries. This chapter also gives an overview of definitions related to RNFE, presenting clearly

I the basic assumptions on which the RNFE is based and identifies factors affecting the development of the rural non-farm economy. The previous and current policies related to rural development in Serbia, as well as basic quantitative and qualitative indicators related to the socio-economic structure of rural regions in Serbia are interpreted and described.

Chapter on *Research results* (chapter III) – gives a detailed results of the survey carried on small rural households and local decision makers. The results are grouped in describing: household potentials, possible diversification of income and activities, social partnerships, rural life and business environment. The results have been regionally interpreted, according to the defined stratum.

II The final chapter on *Conclusions and recommendations* (chapter IV) – offers conclusions about the potential and limitations of small rural households and their surroundings so as to encourage the development of local economy through diversification of activities.

The relevant statistical data and other sources used in the publication are comprised in *Annexes*.

III 1.3. Research Methodology and Data Sources

1.3.1. Research Methodology

Following the set objectives, the research consisted of several phases, each with its own methodological approach.

IV **The first phase** of the research consisted of:

- Analysis of available statistical data (published and internal) relating to the significance and position of rural households within the national demographic and/ or regional aggregate, with special attention to small rural households. This served to define and structure a sample on which the field research was to be conducted.
- V • Analysis of the main spatial, demographic, economic, agricultural, and infrastructural indicators related to rural areas in Serbia. This analysis and regional comparisons served as a basis for structuring a regional sample as well as for the interpretation of macroeconomic environments of certain types of rural areas in Serbia.
- R • A survey of other studies of similar or relevant subject matter as well as the government strategies concerning this issue.

The second phase was devoted to the definition of field research methodology. In the process of defining research methodology several possible conceptual approaches were considered. Methodological dilemmas resulted from the following:

- So far, there has not been similar research in Serbia conducted on a statistically relevant sample or based on a singular methodology; consequently previous experience and lessons from domestic research cannot be used (or cannot be safely relied upon).
- A number of indicators, instruments or mechanisms applied in European practice when creating development policies are not recognized or not applied in Serbia. Therefore, the comparison of a number of indicators is difficult or requires indirect interpretations.
- Participatory methods and techniques are immanent to this sort of research. However, the conclusion was that participatory methods would not suit the set objectives, bearing in mind the level of generality and the scope of the research. The participatory methods have been applied in the part of research related to the situation in rural areas, but covering a smaller area. The research techniques on which these methods are based (modeling, visualization, verbalization etc.) are not suitable for the creation of comparable indicators for various selections of respondents. Also this approach is very expensive, particularly on such a large sample. With these issues the participatory method is considered as having serious disadvantages (Brown et al. 2002).

The „needs assessment“ method was chosen as a suitable methodological approach for the field research together with a combination of techniques inherent with this approach. The analysis of needs assessment is a commonly used tool when defining policies and development strategies. This method is also used in research related to specific development problems of rural areas (the position of vulnerable groups, the condition of infrastructure, health services, education, telecommunication, etc.).

Needs Assessment is most often defined as a systematical process of collecting information, which is used for:

- Identification of gaps between the achieved results or current situation and desired or projected results;
- Ranking of prioritized needs and/or marked gaps;
- Choosing the most significant problem to be solved.

Another definition states that Needs Assessment is a systematical effort to assemble thoughts and ideas from very different sources about specific aspects of a problem under discussion.

In order for this methodological approach to produce the desired effects, it is recommended to formulate it in a way that serves the purpose of research and its objective. From a practical point of view this is difficult because a universally accepted research system for such participatory techniques does not exist. Instead, it should be adjusted to specific circumstances, available resources, purpose and the aim of research. Broadly speaking, answers expected by this research were as follows:

- What is the current situation?
- Which thoughts/feelings are related to it?
- What are the causes of the current situation?
- Which situation would be optimal, desired or acceptable?
- Which solutions could contribute to the improvement?

Techniques used in this process were the standard techniques for participatory methods (and their combinations): interviews, direct observations, focus groups with a facilitator, questionnaires, tests, consultations with relevant individuals (according to their position in the decision-making hierarchy, special knowledge and the influence they have), review of relevant literature, studies, case studies etc.

During **the third phase** the field research was conducted by surveys that were carried out among rural households. Structured interviews were also used with local decision-makers as well as the participants in decision-making processes related to the issues in this area. The survey was carried out by the outsourced marketing agency „Strategic Marketing“ during December 2006.

In **the fourth phase** an analysis was made of all collected data and the results were examined in a systematic form, leading towards a suitable form for further dissemination and distribution.

1.3.2. Data Sources

For the purpose of this project and research itself, numerous sources of data and documentation have been used. The main limitation of this and similar research is a lack of universally defined indicators and parameters which describe certain components of rural development policy. These limitations result from the complexity of the rural development problem, national/local specific features, and statistical-methodological inconsistencies and so on. In the attempt to overcome these problems as much as possible, the following principles have been used¹:

1. Indicators relating to rural regions are interpreted on the basis of OECD definitions of rural areas, and wherever it was possible, on the basis of available national statistics.
2. Where statistical information did not allow such groupings, the data was interpreted according to the definition of a rural area as used in Serbia – this is highlighted in the text.

The choice of this approach was motivated by the desire to provide future researchers with a valid methodological basis to compare results and ensure the highest possible comparability of data from international research in this area.

1.1.1.1 Secondary data sources

Sources of secondary data were as follows:

The Census of population, households and flats from 2002 (Bureau of Statistics of the Republic of Serbia – BSRS):

- Population, books 2,4,5, 6,7,11,14,15,19 and
- Agriculture, books 1,2,3

Statistical annuals (Bureau of Statistics of the Republic of Serbia):

- The Statistical Annual of Serbia, 2005 and 2006
- The Municipalities in Serbia, 2005

Surveys:

- The survey on labor force, 2005
- The survey on household consumption, 2005

Other source material is taken from relevant documents and similar researches carried out in other countries, particularly those in neighboring countries with a similar agrarian and rural structure. Their experience and the theoretical frameworks they applied during the process of adjustment to European policy and practice within a semi-subsistence context served as a constructive lesson for this study².

Documentation sources were downloaded, wherever possible, from the web-sites of official institutions: ministries of the Government of the Republic of Serbia, the European Commission, etc.

1.3.2.2. Primary Research

Substantial primary research was undertaken in the course of this study. Field research was conducted by carried out survey among rural households. Structured interviews were also used with local decision-makers as well as the participants

in decision-making processes related to the issues in this area. The field survey was carried out by the outsourced marketing agency Strategic Marketing during December 2006.

The analysis of small rural households:

- The survey was carried out on a nationally representative sample (please see Annex 1, Map 2a) which comprised of 1,043 households;
- The defined geographic regions within the national sample were:
 - Flatland regions,
 - Hilly and mountainous regions and
 - Regions that enclose major economic centers within their surroundings;
- A selection of villages was made from within a polling station territory of a (around 200 households) with the probability in proportion to size - PPS within chosen municipalities;
- The selection of households was made according to the random steps method from set addresses (simulation SPSWoR of sample scheme);
- The respondent was the member of a household who made the major expenditure and investment decisions. This person is not a priori head of a household (does not have to be the owner of land).

The analysis of stakeholders: Representatives from local government, business sector/entrepreneurs and NGOs were included in the analysis through the structured interviews. The analysis comprised of 100 interviewees from 33 municipalities in Serbia, equally distributed over the defined rural regions (Annex 1, Map 2b). The selection of municipalities within a region was made by a random choice method. The representatives of three decision-making groups were interviewed within each municipality:

- Business sector - companies whose field of work is related to agriculture, food industry, input trade or agricultural products, and/or collective farms;
- Non-governmental sector - NGO, whose activity is related to the environmental issues, cultural heritage, tourism, education, and/or social work;
- Local government - a person in charge of economy or/and agriculture in the municipality.

The results obtained in this phase of the research have been statistically processed (graphics and tables) and published in two separate documents³.

1.4. Summary

1. Agrarian sector and rural areas in transition process

According to the past experience, the reform of the agrarian sector is one of the key and most complex issues in the process of transition. In addition to changes in the ownership structure and the privatization of processing capacities, the reform of the agrarian sector also includes the establishment of an environment favouring the new and completely different economic and business structures. This is the reason why transition, especially in the early years, is closely connected with social tensions and developmental inequalities. If they are not coordinated, such complex processes result in strong social implications, jeopardising the development potential and the quality of life in rural areas.

2. Sustainable rural development

Transitional states whose economic system was based for decades on marginalization and exploitation of agriculture and rural areas are faced with the problem of how to ensure long-term sustainability of rural resources while exploiting their potential for economic development. In rural areas of many transitional countries, privatisation of cooperatives and state-owned agricultural enterprises lead to unemployment among the rural labour force, with few alternative sources of employment and minimum opportunities for generating new jobs.

3. Rural non-farm enterprise

The diversification of rural economy and the income of the rural population have been for several decades important elements of state policies directed at agricultural and rural population. As a rule, these strategies to a certain extent mean further decline in the agriculture and food production, as basic functions of rural areas. RNFE exerts strong direct and indirect influence on overall economic growth by creating the opportunity for greater accessibility of a wide range of products and services in rural areas.

4. The vulnerability of small farm holdings

The problem of the vulnerability of small rural households in the period of transition has been recognized by the European rural practice through the experiences of new member states. Accessional and transitional support programmes (SAPARD and later IPARD), aided the transformation of these households into sustainable market-oriented farms.

Rural households with modest potential for development nominally make up the majority of the overall number of households in Serbia. In rural areas of Serbia (defined

I according to the OECD methodology), there are 1,365 million households, which is 54% of the total number of households in Serbia. There are 328,000 households up to 3 ha, which is 56% of the total number of landholdings in rural areas. Their socio-economic position in transitional conditions is extremely vulnerable and complex. High risk of further income decline is presented by: growing competition on domestic and foreign markets, strengthening of the bimodal agricultural structure, reduced employment opportunities and opportunities for generating external income, the decline of rural areas and the lack of institutional system.

II 5. Integrated rural development policy of Serbia

III Rural areas in Serbia cover 85% of its territory and 55% of its population, forming 41% of the GNP of the state. The economic structure of rural Serbia is highly dependent on the primary sector and depletion of natural resources. Most strategic documents recognize that rural areas have pronounced poverty and considerable limitations to development; however, rural development policy has not yet been formulated in a single official document. Since 2005, the Sector for the Agricultural and Rural Development of the Ministry of Agriculture, Forestry and Water Management had the jurisdiction over the rural development. The adopted Strategy for the Development of Agriculture contains basic conceptual issues relating to the rural development policy. In the recent years, the programmes supporting rural development in Serbia followed the SAPARD program of measures.

IV 6. Diversification and restructuring of employment

V The diversification of activities (employment) of the rural labour force shows that the dominant part of active rural population in Serbia, 45%, works in agriculture. With such high dependence of rural population on employment in agriculture, Serbia ranks among the most agrarian states in Europe. The heterogeneity of natural potentials in Serbia, coupled with the vitality of basic resources, private ownership over land and experience in establishing business connections are some of the essential preconditions for the diversification of rural economy which have not been fully taken advantage of. In general, the problem of employment in rural areas of Serbia boils down to two aspects: lowering the unemployment rate of rural population on one hand and, changing the existing employment structure with high dependence on employment in agriculture on the other.

R 7. Farmers capacity for development

The study of key socio-economic indicators of small rural households in Serbia, outlining their potential for increased performance within a diverse rural economy showed that the value of labour is rated low as a resource by the small rural

households in Serbia and that those households' members do not recognise their additional skills and competence. Consequently, households are unable to recognise the opportunities for the engagement of their members in other activities in the household or the community. For small rural households available land is the principle guarantee for food security. Only a small number of them see the land as representing capital. Physical capital of the household (buildings, equipment, machines) is generally modest for the average or below average households and it is little used for earning additional income (hire/rent, or use for providing service to other parties).

8. Encouraging Rural entrepreneurship

Income of small rural households in Serbia is diversified into income from employment other than agriculture, income from sale of agricultural produce and income drawn from pensions. All listed characteristics of the diversification of the activities of rural population in Serbia provide strong and convincing support to the thesis by Davis and Pearce,(2001) concerning the nature of the impact of distress push factors in rural non-farm economy. A small number of households drawing income from their own business show that rural areas in Serbia still do not favor the more intense development.

9. Co-ordination

According to the findings of the study, present cooperation between local decision-makers is insufficient, uncoordinated and sporadic. In most strategic documents by local self-governments, plans and programmes of the business sector and the NGOs, small rural households have not been recognised as a vulnerable or as an important segment.

10. The future of full-time, part-time and the non-farming communities

Nearly 50% of the households see their future outside of agriculture and in „off-farm“ activities. Those involved exclusively in agriculture, or in agriculture with an additional income, see their future mainly in obtaining income from farming. Households which draw income from other sources do not exhibit readiness to become involved in agriculture or to invest in a business related to a farm.

11. Services and local resources

The observed rural population showed an obvious dissatisfaction with the availability and quality of rural services, especially in regards to the health care and cultural life in villages. Households expressed dissatisfaction with utility services and rated them over other services. Nevertheless, rural households rated the lack

of organization of economic infrastructure and social capital as a lesser problem, which is attributable to their lack of knowledge of such services, rather than to the lack of a need for them.

12. Obstacles to activating state support

Although households hold the state and the government responsible for their situation, responses obtained show that respondents themselves did not put enough effort in improving their status and position. Lack of information, difficult access to advisory services, low level of personal initiative and the lack of local administration capacities are the main obstacles to the more active use of state support funds.

13. Recommended Structured Measures

The results of primary and secondary research undeniably show the need for the introduction of a series of simultaneous measures and activities which should be taken in order to improve the present position and the perspectives of small rural households in Serbia. In general, such measures should aim at two key objectives:

- the increase and the diversification of the income of small rural households and
- the reduction of nominal and covert unemployment of members of these households.

The following activities need to be undertaken for the achievement of these goals:

- a. Creating adequate information basis for a valid, scientific and professional interpretation of the state of affairs in rural areas,
- b. The introduction of institutional and administrative mechanisms for the creation and implementation of strategies and rural development programmes from local to the national level,
- c. Creating regional and local development strategies,
- d. Building up local cooperation between all stakeholders,
- e. The development of rural non-farm economy,
- f. Revitalization of rural infrastructure and other services,
- g. The development of rural financial market,
- h. The development of agriculture.

CHAPTER II

CONCEPTUAL ISSUES

2. CONCEPTUAL ISSUES

2.1. Rural Development and Rural Policy

2.1.1. General Introduction to the Rural Development Policy

The concept of rural development can be found in the theory of economics and economic practice over several previous decades. Rural development originated as a response to the problems connected with *intra* and *inter* regional inequalities in the degree of economic development and it has served as a (suitable) concept for a more complex analysis of development potential within rural areas (Bogdanov N. 2003). Rural development can be regarded as (Harriss J. 1982):

- Development policy managed by the state;
- A broader process of change in rural communities in which state interventions may or may not be present.

It follows from the above that the very term rural development relates to interventions which are of broader character than simply rural development itself, and simultaneously to the process of change in rural communities which is not always directly influenced by the state.

2.1.1.1. Poverty and Rural Development

Some authors⁴ advocate the theory that **rural poverty, rather than developmental inequalities** creates the necessity for a rural development policy. These authors perceive **rural underdevelopment**⁵ as the basic factor of overall underdevelopment of Less Developed Countries (LDCs). World Bank data, according to which, the rural population comprises three quarters of 1.3 billion people who live on „less than one dollar a day“, as well as FAO data which states that three quarters of the 800 million people and more who are malnourished consist of rural people, are often quoted to support this thesis. In LDCs, however, the implications of rural poverty are wider in relation to the rural environment itself, and they generate complex external effects, the foremost being towards the population of urban environments (metropolises). Dynamic migrations to urban centers create in LDCs significant pressure on the labour market and shift the centres of poverty to urban areas. Apart from the abovementioned distortions, national and global effects impact on these migratory flows. Effects such as exhaustion of water reserves, changes in biodiversity and climate and etc., should not be forgotten.

However, rural poverty is not purely a LDCs phenomenon. De Janvary A., Murgai R., Sadoulet E. (2002) advocate the position that **the necessity of rural development policy from the aspect of More Developed Countries (MDCs) is also to reduce rural poverty**. In the context of more developed countries, rural poverty manifests itself in the relatively lower income *per capita* in rural environments *vis-a-vis* the national average and urban settlements⁶. In developed countries, poverty which is highly concentrated in certain regions creates social exclusion, causes poorer education and a reduction in development opportunities, similar to the situation in urban ghettos.

The authors conclude that **the need for rural policies, both in more developed and less developed countries, arises from the different nature of the intensity of poverty and its influence in rural and urban areas, which causes consequences in the sense of degradation of the natural environment and negative economic and social implications for metropolitan areas**⁷.

2.1.1.2. A framework for rural development

The methodological and analytic framework for scientific study and implementation of rural development can be reduced to several dimensions: regional (spatial), social and economic. The concept and essence of all three aspects of rural development are very complex; therefore, defining universal development models and policies which would be acceptable for the majority of regions or countries is impossible (Bogdanov N. 2003).

Nevertheless, the dynamic changes in „metropolis – periphery“ relationship and the growing dichotomy between urban and rural areas have made it necessary to define a clearer conceptual framework for the rural development policy. Experiences to date in creating and implementing of the rural development policy confirm that this procedure unfolds through several logical phases (Bogdanov N., Stojanović Z. 2006):

- Defining rural areas, i.e. definition of rurality,
- Defining types of rural areas with relatively homogenous characteristics,
- Creating specific development policies for each area,
- Defining indicators for evaluation of the effects of rural policies.

Each of these actions is methodologically very complex and limited from two perspectives:

- Limitations which result from heterogeneous social, economic and natural-geographical (spatial) characteristics of the area which need to be adequately taken into account;

- Internationally recognized priorities and adopted standards which must be respected with the purpose of comparing.

One of the central problems is defining, accepting and standardizing the indicators for monitoring the circumstances in rural areas. From the first definition to the current one the concept of *rurality* has been made more extensive and more profound. Originally, a rural region was viewed as a residual of an urban center. Nowadays, predominant opinion is that a rural region represents a territorial unit with one or more small/middle-sized towns surrounded by large area of open space, with a relatively low population density and regional economic structure, which reflects the situation of a certain labour market (Bogdanov N., Stojanović Ž. 2006). This entity can include villages, small towns and regional centers. The term „rurality“ relates to the specific set of characteristics, which could not be used as criteria in defining of rural areas. It is important to note that the definition of rural areas differs among countries and it also differs among European member states. The most often used criteria are the population density and the population size of the settlements. However, it is possible to use also other criteria to define the rural area, such as those relating to the territorial and/or sectoral characteristics.

OECD defines rural areas as those communities (NUTS V level) that their population density is below 150 persons per km². Based on this delineation of rural areas, OECD has also developed a typology of rural areas (at NUTS III or NUTS II level), which characterizes rural regions as Predominantly Rural (PR), Intermediate Rural (IR) and Predominantly Urban (PU).

European Union applies OECD's definition for European rural areas. In the recent EU report on „*Rural Development in the European Union: Statistical and Economic Information*“ (EU Commission, 2006), the OECD definition is used for the comparative analysis of the socio-economic situation of rural areas in the Member States. In the past for defining rural areas, the European Commission has also used the population density criterion, but at lower level <100 persons per km² (EU Commission, 1997).

The World Bank published in 2000 the „*Rural Development Indicators Handbook*“, which brought together a large set of statistical indicators at regional (international) and national levels⁸. The indicators chosen were largely compatible with the disaggregated Analytical tools of Human Development⁹ which were defined in 1990 by the UN for the purpose of monitoring quality of life and social differences in certain parts of the world (HDR – Human Development Report). The EU PAIS Project (PAIS – Proposal on Agri-Environmental Indicators) had a goal to assist in formulating and unifying indicators for monitoring the state in the agri-environment, with the focus on environmental indicators, agricultural practice and rural development¹⁰. The indicators of rural development chosen for this document were grouped in three separate units: social welfare, economic performances and population and migrations¹¹.

2.1.2. Rural Development Strategies

In the rural development strategies, there are three conceptual approaches that have been shaped theoretically thus far:

- strategies focused on sectors (the sector approach);
 - strategies focused on the rural environment (the spatial approach); or
 - strategies focused on the population
1. **Strategies focused on sectors** (the sector approach). The sector – exogenous – approach to rural development dominated strategies during the 1960s and in the beginning of 1970s. The basic principles related to a high volume economy (productivism) and concentration of resources. The development conceptions of the day pushed the expansion of urban economy, and the rural sector acted as a food and raw materials „supplier“ (Lowe P.). Rural areas had an inferior position in these conceptions deeply aimed at the growth of productivism. Rural Development policy goals were modernisation and specialisation of agriculture, as well as stimulating mobility of the agricultural workforce and capital. Key policy elements in the agrarian sector were radical land reforms (foremost in developing countries and neo-industrial Asian countries), as well as diffusion of technological innovations brought about by the Green Revolution.
 2. **Strategies focused on the rural environment** (the spatial approach). The rural development policy based on the spatial approach is justified by heterogeneousness of space and its potential, links between metropolises and the provinces, unwanted consequences of economic growth and changes for certain areas. The territorial approach has been present in the European rural development policy since the 1980s when there was a turn from exogenous towards endogenous development conceptions. The key principle behind these models is the reliance on local development potential and their innovative parts – local structures and members of local communities (Lowe P.). Limiting factors are insufficient local capacities, i.e. social capital structures and the capability of including into development activities. The strategies based on the spatial approach stressed construction work and raising the quality of overall local resources – institutions, infrastructure, knowledge and networks.

The neo-endogenous development models over the 1990s concentrated on the local territory. These models were aimed at utilising the local physical and socio-cultural resources. According to this approach, the development policy is defined by needs, capacities and perspectives of local factors, and the basic principle and *modus operandi* is participatory action and partnership, which includes public stakeholders, private entrepreneurs and volunteers.

3. Strategies focused on the population. Theoreticians generally agree that the concept of rural development based on human potential does not present a suitable approach, considering the great mobility of the educated and well-qualified workforce. The potential risk that this approach causes is seen in the risk of experts, after having been trained and educated by their community, simply migrating with their knowledge and skills to the cities, where there are more advantageous economic prospects. However, the innovation introduced with this approach related to the stressing of the following values:

- Local experience and traditional knowledge,
- Farmer participation in research and technical innovation,
- „Individual“ farmer agenda for the development of agriculture.

This approach relied on farmers' „talents“, which would be used for planning, researching and managing structures. This presented a definite obstacle when the development of the poorest inhabitants of rural areas was in consideration.

The abovementioned strategies were particularly reflected in policies applied during the 1970s, at the time when state-based interventionism was defining feature within the agrarian sector. The influence of approaches such as the „Green Revolution“, „Integrated Rural Development“ and „Existential Needs“ was markedly reduced over the following phases and policies, mostly because of the influence of market liberalisation on the reduction of state interventions and the role of the state. Nevertheless, some of the ideas and approaches created during that period have remained at the base of development policies of today, such as:

- Millennium development goals are based on the approach of solving „existential needs“; the leading challenge there is how to solve the most basic needs of the poor;
- Various NGO projects utilise the approach of „Integrated development“, lobbying for a more efficient coordination of social services, state role in setting priorities and interventions.

The reason to implement basic principles of the approaches mentioned is based on the proposition that the problem is not in the goals which are set, but rather the approach to rural development which must be process-oriented so as to improve efficiency of the interventions and to reduce the implementation costs.

After several decades of actively implementing rural development policy, there is still no consensus in respect to many of the key issues of its operationalisation. Attempts at scientific systematisation and interpretation of various approaches, implementation mechanisms and effects and etc., remain at a theoretical and subjective level.

Box 1. Differences in approach to the rural development policy

Differences in approach to the rural development policy are most obvious in the results of research conducted during 2001 by AAEA, USDA and the participants of the 73rd seminar of EAAE *European experiences in rural development policy* (Ancona, Italy). The research was conceived with the idea that experts in this problem must answer (through a survey) the following questions: who needs help, what are the basic problems and goals, which policy is the most effective and who can implement it.

Priority users of the rural development policy. With a sweeping majority (75%), the American experts feel that priority users of rural development policy must be poor inhabitants of rural areas. As much as one third of them estimated that the equality of the position of all inhabitants has low priority. Europeans see farmers as the priority users of the policy, which seems understandable, considering the elegant solution (implemented from Agenda 2000) of redirecting market support to the „second pillar“ of the Common Agrarian Policy. It is evident for both areas (America in particular) that low priority is assigned to nature lovers and future generations in rural areas, which is explained by the fact that in this category they tend to perceive urban population and „their nostalgic vision of rural areas“.

Priority goals of the rural development policy. Consensus on priority goals of rural development among American experts is exceptionally high and is to a large part focused on the *High quality of life of the rural community* and *Full employment of the rural population*. What is also notable is the significance of preserving the rural environment and biodiversity, while all other goals were ranked at less than 50% of the priority ones. In Europe, however, the heterogeneousness of response is far greater: equal importance was ascribed to the high quality of the rural environment and the life of the rural community. Apart from these two goals, preserving rural areas was also ranked high.

The most efficient strategies of rural development. Americans recognise *The Development of Local Management Structures* and *Investment into Human Resources* as the most efficient development strategies, both of which are essentially conceptions linked to the populace. Aside from that, American experts also evaluate as efficient the strategies of improving rural social and communal structures, protection of the environment etc, which are essentially based on the spatial approach. Europe has a more unified distribution of answers on the efficiency of strategies: European experts evaluated a range of strategies as efficient, from those aimed at strengthening local initiatives and partnership, through improving social, economical and physical infrastructures, to protecting the product's geographical origin (ten solutions offered in total, six of which are based on space, two linked to the population and two to sector policies).

Source: Dries L., Hartell J., Kilkenny M. 2003

All of the above indicates that the rural development problem is a complex one, with complex factors which affect it. Differences in approach are closely linked to specific development goals and certain area interests.

What is implied in contemporary positioning of rural development policy is that rural areas may grow on the basis of Balanced Regional Development Policy and simultaneous reliance on variations in agrarian structure, industrial policies, policies of tertiary sector development, health and infrastructure policies and the environmental protection policy in a particular region.

2.2. European Rural Policy

*„European Rural Development policy is a living policy, born of political decision-making processes and of its implementation on the ground. The political and legal texts surrounding it reflect **what can be done and what should be done rather than a detailed exposition of what it is.** This reflects as well the diversity of approaches across the European Union“.*

D. Ahner, in Rural Development and Agenda 2000

The concept of rural development entered into EU countries' practice through agrarian and regional development policies. Agriculture and regional inequalities in economic development are mentioned in the first constitutional acts of the EEC (Rome agreement, 1957). In principle, four phases in the development of the concept of rural development can be distinguished:

2.2.1. The First Phase – The Mensholt Plan

The first phase encompassed the period from the EEC constitution and formulation of Common Agrarian Policy – CAP mechanisms to the second half of the 1970s. This period was distinguished by widespread support to the development of agriculture and growth of its productivity. In the beginning of 1970s, after the introduction of the EEC Structural Agrarian Policy (the *Mensholt* plan – 1968), three directives were adopted; they were linked to the development of agriculture and creation of an atmosphere conducive to the conception of rural development. These directives referred to:

- Farm modernisation through help-investments to maintain income parity with other economic sectors (Directive 72/159)
- Farm amalgamation programme and reduction in the number of employee (Directive 72/160)
- Advisory services, training, education (Directive 72/161).

I Effects of these measures were extremely modest (Terluin, I., 2001). The number of employees in agriculture was negligibly reduced, since the directive was passed at the time of economic recession. Very few farm holdings profited from the farm amalgamation, and the attempt at restructuring the advisory services was not particularly successful, since other national and EU programmes had priority over this problem. Much better results followed after the adoption of the Regulative (355/77) which referred to the support for processing and marketing of agricultural, forestry and fishery products.

II 2.2.2. The Second Phase – CAP Reform

III The second phase began in the second half of the 1970s and lasted to the end of 1980s. The development of rural areas and agriculture was seen in the context of regional and interregional development policies. By expanding the EEC with relatively poorer countries (Greece, Spain and Portugal at the beginning of 1980s), more attention was paid to the regional development inequalities. At the same time, during the 1970s, many passed measures referred to the specific development issues and the regional problems. One of the most important directives from this period is the LFA¹² Directive (287/75), passed with the idea of keeping the population and preserving villages in areas where land potential was less valuable, i.e. where agriculture is under a great influence of adverse natural factors. Also significant for that period (starting with 1978) there were regional programmes to accelerate agricultural development in the Mediterranean region, as well as integral programmes (including also sectors other than agriculture) which have begun since 1980.

IV The EU Commission started in 1983 a radical reform of the CAP, which resulted in „The Green Paper“. „The Green Paper“ was aimed at improving the efficiency of the agrarian sector, especially small farms and young farmers, but also at preserving natural resources and the environment¹³. This document is significant inasmuch as it represents an important signal of distancing EU agrarian policy from productivism and opening up space for affirmation of integral rural development. These commitments were confirmed with the 1992 *McSharry* reform of the CAP, where support for production was partly separated and the significance of preserving nature through two or three accompanying measures which related to the environment (Regulation 2078/92), forestation (Regulation 2080/92) and early retirement of farmers (Regulation 2079/92) was underlined.

V 2.2.3. The Third Phase – Agenda 2000

R The third sub-period began during the 90s with the commencement of discussions about the reform of CAP under the influence of EU expansion with new member

countries and WTO demands. An integral policy of rural development which would enable maximum synergy and balance in agricultural development and other activities in rural areas was proposed during the preliminary discussions. With the „Cork Declaration“ in 1996 (Plumb 1996), it was foreseen that the policy of rural development should be based on an integral approach to all activities, economic diversification, managing natural resources and to encompass the sectors of services, tourism, recreation et al. The proposed policy of rural development was multi-disciplinary and multi-sectored, with a pronounced territorial dimension.

EU Rural Development policy defined in Agenda 2000 was called „the second pillar“ of the CAP. This policy was based on the following principles:

1. multi-functionality of agriculture – the changed position of agriculture in conditions of food hyper-production implied the necessity of developing services in villages;
2. multi-sector and integral approach to rural economy which meant the diversification of activities, creation of new sources of income and employment opportunities as well as the preservation of rural resources;
3. flexibility of sources for rural development – based on self-help and decentralisation, partnership on local and regional levels;
4. transparency in creating and managing development programmes.

Measures of the rural development policy (Regulative 1257/99) encompassed, in addition to structural measures of the agrarian policy, joint measures defined by the *McSharry* reform, as well as a series of measures intended for promoting integral rural development (entitled „33 joint measures“). Support mechanisms (measures, amounts and ways of calculating) were defined, and priorities separated regionally with the purpose of decentralisation, flexibility and increasing efficiency.

In principle, over several decades, rural development in EU countries has conceptually been changed in several important principles (Table 2.1):

Table 2.1. Changes in rural development policy

Area:	Shift from	- towards
General developmental measures	Encouragement of inward investments (exogenous development model)	Enhancing local development potentials (endogenous development model)
Agricultural Structural Policy	Productivity growth (productivism)	Multi-functionality (post-productivism)
Coverage of policy	Sector	Territorial
Governance	Top-down	Bottom-up

Source: Terluin I. (2001)

2.2.4. European Agricultural Fund for Rural Development – Fourth Phase

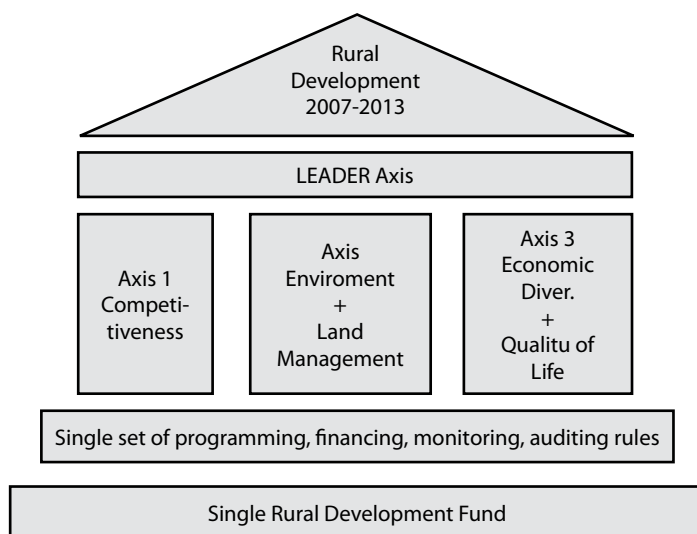
The new rural development policy defined in the *Reform of the Rural Development policy 2007-2013* (EU Commission 2005) is in concordance with the declaration of Guidelines for Sustainable Development¹⁴. Beside that, it also reflects the approaches contained in the Lisbon¹⁵ and Göteborg declarations connected with economic, ecological and social elements of sustainable development. Three basic principles of the rural development policy in the period to 2013 are:

1. Increasing the competitiveness of the agricultural sector;
2. Improving the environment and countryside through support to land management;
3. Improving the quality of life in rural areas and promoting diversification of activities;

Co-financing rural development is focused on jointly harmonised EU priorities which have been shaped into these three principles. This approach allows enough flexibility to member countries to establish at regional levels a balance between the sector and territorial dimensions in choosing appropriate measures.

The framework being adopted within the European Agriculture and Rural Development Fund – EARDF uses four axes as illustrated in Figure 2.1. This highlights the single, simplified, overarching funding mechanism.

Figure 2.1. Rural development funding mechanism (2007-2013)



Source EU Commission DG Agri

The figure shows the three „vertical“ axes which constitute the areas of intervention and the horizontal „LEADER“ axis which relates to a specific methodology of delivery, outlined later in this chapter.

Axis 1 – Competitiveness: While agriculture is increasingly losing importance as a predominant activity in a growing number of rural areas, it still matters a great deal for the management of the EU territory, for its contribution to rural economies, and for supplying food and public goods and services. This is why efficiency and competitiveness remain key aims while taking into account the diversity of agricultural potential in different rural areas, especially in the new Member States whose rural areas will continue to undergo far-reaching structural change. Competitiveness requires that a reasonable balance is found between farm viability, environmental protection, and the social dimension of rural development.

MEASURES UNDER THE COMPETITIVE AXIS 1

Human resources:

- Vocational training and information actions
- Young farmers
- Early retirement
- Use of advisory services (including for meeting standards)
- Setting-up of farm management, relief and advisory and forestry advisory services

Physical capital:

- Farm /forestry investments
- Processing/marketing
- Agricultural/forestry infrastructure
- Restoring agricultural production potential

Quality of agricultural production and products (2003 CAP reform):

- Meeting standards temporary support
- Food quality incentive scheme
- Food quality promotion

Transitional measures:

- Semi-subsistence
- Setting-up producer groups

SCOPE OF THE AXIS

Funding Share	Minimum 15%
EU co-financing rate	Maximum 50/75%
Territorial Application	All rural areas

Within this axis, as special measures for **new member countries**, special transitional measures have been foreseen:

1. support for semi-subsistence farms undergoing restructuring,
2. setting up of producer groups,
3. provision of advisory services (only for Bulgaria and Romania for the period of 3 years).

Box 2. Special support measures for semi-subsistence farms in New Member States

Special support measures intended for semi-subsistence farms undergoing restructuring (art. 34) are based on the following:

1. Definition of Semi Subsistence: Agricultural holdings which produce primarily for their own consumption and also market a proportion of their output
2. Flat rate income aid up to 1,500 € per holding and for a maximum of 5 years
3. No restrictions on use of funds. This is an income support payment, not an investment aid.
4. Conditions: The submission of a business plan is necessary.
5. After 3 years an assessment of the progress with respect to the business plan will be made. If problems occur the payments will be suspended.

MEASURES UNDER LAND MANAGEMENT/ENVIRONMENT AXIS 2

Sustainable use of agricultural land:

- Mountain LFA
- Other areas with handicaps
- Natura 2000 agricultural areas
- Agri-environment/animal welfare (compulsory)
- Support for non-productive investments

Sustainable use of forestry land:

- Afforestation (agricultural/non-agricultural land) Agroforestry Natura 2000 forest areas
- Forest environment Restoring forestry production potential Support for non-productive investments

SCOPE OF THE AXIS

Baseline (agriculture)	Cross-compliance
Funding Share	Minimum 25%
EU co-financing rate	Maximum 55/80%
Territorial Application	All rural areas

Axis 2 – Land management/environment – Payments under axis 2 aim at ensuring the delivery of environmental services by agri-environment measures in rural areas, and preserving land management (including areas with physical and natural handicaps). These activities contribute to sustainable rural development by encouraging the main participants (farmers, foresters) to continue with land management so as to preserve and enhance the natural space and landscape. This means protecting and improving the environmental resources, and ensuring the sustainable use of forestry resources. Such measures also help prevent the abandonment of agricultural land through financial incentives to compensate for natural handicaps or handicaps resulting from environmental restrictions. Co-

financed activities should clearly target EU priorities such as combating climate change, enhancing biodiversity and water quality, or reducing the risk or impact of natural disasters.

Axis 3 – The wider rural economy – A central objective of axis 3 is to have a ‘living countryside’ and to help maintain and improve the social and economic fabric, in particular in the more remote rural areas facing depopulation and in the peri-urban areas. Investment in the broader rural economy is vital to increase the quality of life in rural areas via improved access to basic services and infrastructure making for an enhanced environment. Making rural areas more attractive to their inhabitants also requires promoting sustainable growth and generating new employment opportunities, particularly for young people and women, as well as facilitating the access to up-to-date information and communication technologies. On-farm diversification towards non-agricultural activities, assistance for off-farm activities, and strengthening the links between agriculture and other sectors of the rural economy play an important role in this.

MEASURES UNDER QUALITY OF LIFE AXIS 3

Quality of life:

- Basic services for the rural economy and population (setting-up and infrastructure)
- Renovation and development of villages, protection and conservation of the rural heritage
- Vocational training
- Capacity building for local development strategies

Economic diversification:

- Diversification to non-agricultural activities
- Support for micro-enterprises
- Encouragement of tourism activities
- Preservation and management of the natural heritage

SCOPE OF THE AXIS

Implementation	Preferably through local development strategies
Funding Share	Minimum 15%
EU co-financing rate	Maximum 50/75%
Territorial Application	All rural areas

The LEADER approach (Axis 4) The Leader model is to be continued and consolidated at the EU level. Each programme will contain a Leader axis to finance:

- Implementation of local development strategies through a Leader approach to contribute to the achievement of the objectives of one or several of the three thematic axes;
- Inter-territorial and trans-national cooperation between LAGs;
- Capacity building and functioning of LAGs.

SCOPE OF THE LEADER AXIS 4

Implementation	Leader approach for selected territories within the scope of the 3 thematic axes
Funding Share	Minimum 7% Reserve 3% of overall EU RD funding (excluding modulation)
EU co-financing rate	Maximum 55/80%
Territorial Application	All rural areas selected territories

2.2.5. LEADER – Origins and Background

LEADER (**L**iasion **E**ntre **A**ctions pour le **D**eveloppement d'**E**conomie **R**urale) is a Rural Development Programme part-funded by the European Union. LEADER was launched in 1991 by the then Commissioner for Agriculture, Ray MacSharry. The need for measures aimed at addressing rural decline and out-migration had been apparent for some time, particularly in countries such as Ireland and Portugal where rural populations and economy were in continuous and chronic decline.

LEADER I was launched as a pilot initiative aimed at facilitating economic and social regeneration in rural areas. The programme sought to do this through promoting the development of local territorial development strategies that would be:

- innovative,
- integrated,
- participative.

Crucially, the territorial development strategies and plans should be developed at local level and should involve local actors in their development. Furthermore, the actions that resulted from these strategies would be decided upon and approved at local level, albeit within a framework that was agreed at EU and at national levels.

While the EU provides substantial core funding for LEADER, national governments also contribute, as does the private sector as well, through the matching funding requirement for the projects. This co-financing mechanism ensures both national and local commitment to the programme and to the individual projects.

2.2.5.1. The LEADER Method

Since the original LEADER I pilot programme (1991-1994), there have been two successor programmes, LEADER II (1994-1999) and LEADER+ (2000-2006). There have also been national programmes that adopted the LEADER approach, such as the National Rural Development Programme in Ireland.

The future of the LEADER method has been reinforced by the emphasis being placed on it in the European Agriculture and Rural Development Fund and the EU Strategic Guidelines for Rural Development as well as its central role in member states National Rural Development Strategies (2007-2013). The nature of the LEADER approach to rural development has remained fundamentally unchanged over this period and is based on what are known as the specificities of LEADER as outlined in Table 2.2.

Table 2.2. The specificities of the LEADER method

The local features (These features are represented by the local group and by the local development strategy)	Area-based approach	As opposed to a sectoral approach, development is focused on a specific territory, on a better use of endogenous resources, on integration of local activities, on common identities and on a shared vision for the area.
	Bottom-up approach	The active participation of all interested people and organisations in planning, decision making and implementation of social and economic development.
	Local group (partnership approach)	Temporary coalition of individual persons or collective bodies, based on a contract binding all partners under the same conditions and for the same purpose.
	Innovation	To give new answers to existing problems of rural development, which provide added value and increased territorial competitiveness.
	Multi-sectoral integration	Both the combination of activities of different economic sectors or public and private activities in one project, and the strategic coherence between different projects in respect to a common vision.
The trans-local features (These features emerge from interactions between local groups and between their respective strategies)	Networking	The capacity and readiness for collective action together with other independent actors for a common purpose.
	Trans-national cooperation	Cooperation of an indefinite number of LEADER groups located in at least two Member States for jointly designing, producing and marketing goods or services.
The vertical feature (This feature is represented and implemented by the programming authority. It provides the governance frame in which the local groups carry out their activities)	Decentralised management and financing	Apart from Operational Programmes, the Member States were free to choose the intervention mode called „global grant“, which is characterised by the transfer of the budget for the local action plan to the local partnership. The local group is entitled to allocate the funds to project promoters according to rules set by the national or regional programme administration.

Source: EU Commission, 2003

2.2.5.2. Local Action Group (LAG)

The most important mechanism for the delivery of LEADER at local level is what is described as a Local Action Group or LAG. LAGs are representative of the

various social, economic and political sectors in local areas and it may take different organizational form, depending on country legislation.

The management of the LEADER programme at local level by Local Action Groups (LAGs) comprises a number of elements:

- Each LAG must define its geographic area of operation, encompassing a coherent region with between 5,000 and 150,000 inhabitants.
- All LAGs operate to a pre-approved strategic plan for their areas. These multi-sectoral plans must be developed locally and then submitted for approval to the relevant national authority.
- The LAGs are then responsible for the implementation of these plans over the duration of the LEADER programme.

The work of the LAG is overseen by a Board of Directors that must be comprised of a partnership of community, state and private-sector interests (i.e. members of the local and business communities, local government, social partners, representatives from state agencies etc). It is required to have a majority of board members drawn from the non-statutory sector. The Directors of the LAG are responsible for governance and management of the programme at local level, and for grant approval. These duties should be carried out in accordance with the Programme Operational Rules and the local strategic plan. The day-to-day implementation and delivery of the Programme itself is the responsibility of the LAG staff.

LAGs have evolved into different legal formats in different countries – limited companies in Ireland, non-profit consortia in Italy, inter-municipal associations and nature parks in France, but also cooperatives, associations and joint-stock companies in other parts of Europe.

2.2.5.3. Local Development Plans

The structure of the plan is clearly defined in the guidelines developed at European and national levels and is required to address a number of local development **measures**, as well as measures aimed at enhancing co-operation with other regions.

A broad selection of the locally focused measures is as follows:

- Training
- Analysis and Development (commission of feasibility studies, plans, resource audits, development of prototype products and services)
- Innovative rural enterprises, craft enterprises and local services/facilities
- Exploitation of agriculture, forestry and fisheries products

- Enhancement of natural/built/social/cultural environment
- Environmentally friendly initiatives
- Animation and capacity building. This is described as „the stimulation and development of community groups through effecting attitudinal change in general and in stimulating enthusiasm and developing skills and resources so as to promote enterprise and employment“ (LEADER II Ex Post Evaluation Report).
- Rural and Agri-Tourism.

It should be noted that many countries have restricted these measures to reflect national or regional priorities and to complement other programmes they may have in operation.

2.3. EU Rural Development Policy towards Candidate Countries

In the process of preparing Central- and East-European countries to join the EU three aid transfer mechanisms, which directly or indirectly touched on the problems of rural development, have been formulated:

- PHARE (Regulative 3906/89)¹⁶,
- ISPA (Regulative 1267/99)¹⁷ and
- SAPARD (Regulative 1268/99)¹⁸.

2.3.1. SAPARD

In the field of rural development, contrary to most other EU policies, candidate countries had the possibility to gain experience in creating and implementing their own programmes by way of a co-financed accession instrument SAPARD (Bogdanov N. 2004). SAPARD is the first programme through which the EU demonstrated its resolve to help, through accession programmes, access of agriculture and rural areas of Central and Eastern Europe Countries (CEECs) to EU unified space and policy. EU priorities for providing support through SAPARD measures were defined as:

- Increasing market efficiency;
- Accepting EU quality standards and health security, to facilitate the new members gaining an equal participation in the unified market, and establishing adequate border control; and
- Support for the creation of new job opportunities in rural areas¹⁹.

SAPARD offered candidate countries fifteen measures for the improvement of rural development (compared to twenty two contained in the EC 1257/99 Regulative for member countries). From the fifteen measures offered, eleven were used for member countries as well, while the four remaining measures related to the specific problems of the new member countries. Candidate countries received the opportunity to resolve some of their key institutional problems through the pre-accession mechanism (SAPARD).

Specific measures for candidate countries defined by SAPARD related to the following:

- improving quality control, veterinary protection, plant quarantine protection, consumer protection;
- establishing production associations;
- establishing and improving land registers;
- technical assistance for measures contained in rural development plans.

Candidate countries chose ways to direct funds into the development of agricultural estates, processing and marketing, rural infrastructure and diversification. Having in mind that some of the inherited solutions from previous systems in transitional countries were unsuitable, specific measures for candidate countries were aimed at resolving such institutional and organisational problems. Aside from that, EU demands from candidate countries within the area of rural development were much less explicit and rigorous when compared to other areas.

2.3.2. Background to the Instrument of Pre-accession Assistance (IPA)

Aimed at simplifying systems of outside assistance, and maximising the impact of funds through streamlined administration, control, reporting and policy evaluation, the European Commission made a decision that all pre-accession funds (PHARE, ISPA, SAPARD and CARDS) be replaced by a new one – an Instrument of Pre-accession Assistance – IPA²⁰. IPA defines the *volume* and *type* of support intended for the Western Balkan Countries in the period of 2007-2013. From the aspect of availability of funds, the West Balkan countries are divided into two groups:

- candidate countries for membership in the EU (Turkey, Croatia and Macedonia);
- potential candidate countries for membership in the EU (Serbia, Montenegro, Bosnia and Herzegovina and Albania).
- IPA contains five components which will be available to candidate countries; the first two of which can also be used by potential candidate countries for membership in the EU, including Serbia:

1. Support for the transitional process and building institutions,
2. Support for establishing cross-border cooperation,
3. Support for regional development policies,
4. Support for human resource development,
5. Support for rural development.

Box 3. Assistance under the IPA

1. Support for the transitional process and building institutions – relates to harmonising with the *acquis communautaire* and helping to build administrative and other state capacities. Apart from this, this component is aimed at strengthening democratic institutions and rule of law, state administration reform, respect for human and minority rights, strengthening the civil society, helping economic growth, education reform, protection of the environment, as well as improvement of regional cooperation and equal regional development of states beneficiaries of financial funds.

2. Support for establishing cross-border cooperation – relates to funding cross-border cooperation projects between institutions from border regions of one country with institutions from border regions of the neighbouring country (whether that neighbouring country is a member of the EU or not) in fields the countries themselves define as priorities.

3. Support for regional development policies – intended for building infrastructure, projects to protect the environment etc. This type of assistance will be available only for candidate countries, so that they can prepare for implementation and management of cohesion policies.

4. Support for human resource development – has the aim of preparing candidate countries for programming, implementation and management of the European Social Fund within the European Employment Strategy. In using these funds, candidates will respect EU goals connected with social inclusion, education and training, gender equality etc.

5. Support for rural development – intended for candidate countries with the purpose of preparing for implementation and managing CAP. The goal is to contribute through this type of assistance to sustainable development of the agricultural sector and rural areas and enable successful implementation of the *acquis communautaire* in all of its sections.

Source: IPA Council Regulation No 1085/2006

http://ec.europa.eu/enlargement/financial_assistance/index_en.htm

Potential EU candidate countries will be able to use funds for the first two components; there will also be an option to finance programmes/projects related to the remaining three components using the first component funds. In practical terms, this means that potential candidate countries, by supporting the transitional process, are left the option of defining their own national priorities in fund use from a list of options (Kolyris 2007). The total amount of aid is 11.468 billion euros with a precondition that the recipient country has candidate status and an established decentralised system of managing funds.

Table 2.3. IPA – Planned assistance for potential candidates, 2007-2013 (in million Euro)

	Population	2007	2008	2009	2010	2011	2012	2013	Total
Serbia	8.0	113	138	117	159	234	233	220	1214
Kosovo and Metohija	1.8	25	31	26	35	52	52	49	270
Montenegro	0.6	10	12	10	14	21	21	20	108
Albania	3.2	45	55	47	63	94	93	88	485
Bosna i Herc.	4.1	59	71	60	82	119	118	113	622
Total	17.8	252	307	260	353	520	517	490	2699
Per capita (€)		14.16	17.25	14.61	19.83	29.21	29.04	27.53	

Source: <http://www.esiweb.org/>

The Republic of Serbia currently has the status of a potential candidate in the process of European integration, and it manages EU funds in a centralised manner (through European Agency for Reconstruction – EAR)²¹.

The new pre-accession instrument, in addition to demanding the introduction of appropriate structures for managing EU funds, also demands sufficient financial resources from the national budget to support projects financed under the IPA programme. IPA rules of conduct, which are being prepared by the European Commission, will also establish the required ratio for co-financing projects financed from the IPA programme. The established ratio will be drawn from the national budget. Support priorities and areas of action for individual countries are established by the Multi-year Indicative Programme Document for the period from 2007 to 2009²².

The focus of support to rural development in the IPA programme has not been changed from that previously used under SAPARD. Basic goals have been kept and defined as:

- Contribute to the implementation of the *acquis communautaire* concerning the Common Agricultural Policy;

- Contribute to the sustainable adaptation of the agricultural sector and rural areas in the candidate country.

Box 4. Measures of rural development foreseen by IPARD

Measures of rural development foreseen by IPARD have also been sorted into „three axes“ and they relate to:

Axis 1 – Improving market efficiency and implementing Community standards

- Investments in farms to restructure and upgrade to the EU standards;
- Supporting setting up of Producer groups
- Investments in processing and marketing of agriculture and fishery products to restructure and upgrade to the EU standards;

Axis 2 – Preparatory actions for implantation of the agri-environmental measures and Leader

- Preparation to implement actions designed to improve the environment and the country side
- Preparation of local private-public partnerships to implement local development strategies;

Axis 3 – Development of rural economy

- Improving and developing rural infrastructure;
- Development and diversification of rural economic activities;
- Improvement of training;

Technical assistance

In order to improve the efficiency of the funds used, and based on the experiences of SAPARD in defining support measures, there was a tendency to concentrate on the following goals:

- More targeted focus on the EU acquis demands, directed at market efficiency, quality standards and health security.
- Concentration of support measures for the basic priorities (from 16 measures in SAPARD to 9 measures within IPARD – Instrument for Pre-accession Assistance for Rural Development).

2.3.3. Accessing IPA Funds

As part of the process of making IPA funds available and their use approved, the candidate counties are asked to fulfil the following preconditions:

- Establish appropriate national structures capable of defining strategies, programmes, organising and controlling distribution of conditions for use of IPARD programme;
- Increase knowledge and transparency of the agricultural situation and rural areas (status inventory, estates registry, land register, price statistics, analyses of the most important sectors);
- Begin defining the National Rural Development strategy with the participation of other public partners and civil society;
- Establish basic state bodies such as veterinary and environmental protection services;
- Stimulate the organisation of civil society into different forms: farmers, the business sector, environmental protection, local rural development associations;
- Support initiatives to improve access of farmers and those starting businesses in rural areas to the money market (these measures have not been foreseen with the IPARD programme);
- Establish advisory and expert agricultural services (these measures have not been foreseen with the IPARD programme);
- Try to gain as much experience in well formulated pilot projects.

In response to the demands placed on the potential user countries for IPA programme funds, the Serbian government prepared the needs estimate for IPA funds in the period of 2007-09 in 2007. This encompasses all sector priorities foreseen by Serbia's strategic documents. The key priorities are as follows:

1. economic growth, employment growth and education;
2. the state administration reform;
3. protection of the environment;
4. infrastructure development and

5. rural development.

Since this document identifies inter-sectoral priorities and since it will be revised yearly, like the Multi-Year Indicative Programme Document, this document will represent one of the key steps in the process of programming for IPA in the future.

2.4. Rural Areas and Rural Development Policy of Serbia

2.4.1. Rural areas of Serbia

From the administrative point the Republic of Serbia is divided into 24 districts (excluding Kosovo and Metohija and the City of Belgrade) which function as de-concentrated extensions of the central government. While major changes have recently taken place within central and municipality levels, no significant changes occurred at district level. Each district consists of several municipalities²³. Major disadvantages of this kind of the regionalization are huge differences in the size of individual districts and/or municipalities, insufficient internal homogeneity of the districts/municipalities, the lack of respect for demographic, geographic, and economic criteria and disrespect of functional relations within the administrative units.

The rural areas of Serbia are characterized by the diversity of natural, infrastructural and other conditions for agricultural production and the development of other economic activities, market proximity and conditions for marketing their products, as well as by varying size and morphology of villages and towns. Differences are noticeable in their social development, demographic and cultural characteristics, and are also reflected in work efficiency and the quality of life. Anyhow, statistically precise **definition of rural settlements in Serbia** does not exist in practice. The classification of settlements as urban, rural and mixed was used in Census conducted in 1953, 1961 and 1971 year. The size of the settlement and the ratio of agricultural compared to the total population were used as the criterion. Unfortunately, this approach was abandoned and in the Census conducted in 1981, 1991 and 2002, the classification of settlements was:

- urban and
- other settlements.

The division into urban and other settlements in Serbia, found in the Census from 1981 to 2002 was based on the municipal decisions whereby municipalities give a settlement the status of a town. It is enough for a settlement to have a general urban plan to be given the status of an urban area by a decision of the Municipal Assembly. All settlements that have not been proclaimed towns are otherwise classified as other. Statistical criteria are here obviously not respected. This is a complex problem from a methodological point of view and all research into rural regions is highly risky when it comes to the interpretation of the results.

The set of statistical indicators used to describe rural areas in Serbia is very modest in terms of annual and especially periodical (monthly or quarterly) statistical publications (Bogdanov N., et al 2005). Observational units which form the basis

on which indicators for rural areas are derived (on the observation level NUTS V – settlements) are as follows: a resident (a person inhabiting a rural area), a household and a farm holding. The most inclusive data on rural areas comes from the *Census of population, households and flats* and the *Census of agriculture*, which are conducted simultaneously. From a practical standpoint, this means that the basic indicators on rural areas can be reviewed only from a ten-year time distance. Finally, statistical or administrative classification, does not match the actual functional region classification, which makes it more difficult to comprehend some of the significant economic aggregates (Table 2.4.).

Table 2.4. Administrative division of the territory of Serbia

EU	Administrative division of Serbia	Constrains
NUTS I	Serbia	<ul style="list-style-type: none"> • Most of the indicators are not in alignment with the international standards. • At the national level, most of the relevant indicators are non-comparable with the period prior to 2000. • Environment, social capital, daily migrations, SME, and similar indicators are not tracked statistically, nor they are comparable within the various existing data.
NUTS II	Vojvodina, Central Serbia, Kosovo and Metohija	<ul style="list-style-type: none"> • The data for Kosovo and Metohija were not included in the Serbian statistics since 1999
NUTS III	Districts (Northern Bačka, Southern Banat.)	In Serbia, excluding Kosovo and Metohija, there are 24 districts + Belgrade territory. As far as rural development and policy are concerned, it is important to stress that there are no elected representatives of the governmental authority, no funds, no executive authority for implementing policy measures.
NUTS IV	Municipalities (Bač, Ada, Sremska Mitrovica...)	In Serbia excluding Kosovo and Metohia there are 165 municipalities. Some 4-5 districts were declared municipalities after the 2002 census and for this reason there is a lack of the data needed for the comparison study.
NUTS V	Settlements - villages	The total number of settlements in Serbia, excluding Kosovo and Metohija, amounts to 4718. Of that number 181 settlements have the status of an urban settlement, i.e. city, and 4537 are rural settlements (Census 2002)

Source: author's systematization

In order to overcome these methodological limitations, and to present data which will be much more comparable with other countries, for the purpose of this study wherever it was possible the OECD criterion of rurality has been applied in defining what rural areas are. **The essential disparity regarding the statistical classification on urban and other settlements currently applied in Serbian statistics lies on the fact that the Serbian definition de facto excludes most**

municipality centers from rural settlements, whereas the, OECD definition, excludes from rural areas the whole municipal territory, if its population density is above 150 residents per km².

2.4.2. Main Characteristics of Rural Areas in Serbia

Rural areas²⁴ cover 85% of the territory of Serbia with 55% of the population creating over 40% of the DP of Serbia (Tabela 2.4.). The population density in rural areas is 63 inhabitants per km² and below the national average by one-third. The population is relatively stable; in the period 1991 – 2002 it dropped by 2.5% below the national average. Considerable change has occurred when compared with historic trends in the rural population and labour force of Serbia from the 1990s:

- Migration from villages to cities which, in the second half of the 20th century, brought about the drop in rural population and demographic drain in villages of certain regions, was stopped or considerably slowed down;
- Reversible migrations from villages to cities which is characteristic of transitional states, were reported in Serbia as well. These processes are explained by deep economic crisis and the closing down of large industrial complexes. This led to principal growth in rural population being recorded in suburban and rural areas surrounding larger industrial centres. In addition, a large number of refugees and internally displaced persons from the territory of former Yugoslavia in 1990s also settled in rural areas²⁵.

Among the many factors explaining these demographic changes, the primary one certainly relates to workplaces closures and reduced opportunities for employment in cities. Restitution of land in the course of transition in Serbia did not greatly affect the return of population to rural areas, as was the case in other Euro-Asian transitional states (Macours K. 2005).

Unlike some neighboring transitional countries (Albania), in Serbia external migration was characteristic for highly educated workforce, and did not significantly affect rural areas. On the other hand, internal seasonal migration of agricultural workers from the south to the north was halted by the exclusion of Kosovo and Metohija from the economic and social system. The ensuing deficit was made up by „gray market labour“ from Romania in the border areas of Vojvodina.

The economic structure of rural areas of Serbia depends largely on the primary sector and the exploitation of natural resources. Traditional, mono-functional agriculture is still dominant with Serbia ranking among the most agrarian states in Europe. The range and vitality of natural resources, the private ownership of land and experience in business cooperation, are some of essential preconditions for the

Table 2.5. Main characteristics of rural areas in Serbia²⁶

	Serbia	Total Urban	Total rural
1. Geographical characteristics			
Area, km ² , 2004	77508	11556	65952
Number of settlements, 2004	4715	811	3904
2. Population and human development indicators			
Population (Census 2002)	7498001	3336341	4161660
% Change in population 2002/1991	98.96	102.42	96.35
Density	97	289	63.10
In or out migration rate	1.48	3.63	-0.14
Age structure (%)			
• Under 15 years of age	15.69	15.10	16.17
• Over 65 years of age	16.54	15.36	17.49
Aging rate	1.05	1.02	1.08
Educational structure of the population over 15 years of age (%):	100	100	100
• Incomplete education	21.84	14.01	28.19
• Primary education	23.88	20.41	26.69
• Secondary education	41.07	47.21	36.09
• Higher and high education	11.03	16.05	6.95
• Unknown	2.18	2.32	2.07
3. Employment			
Employment by sectors (%):	100	100	100
• Primary sector	23.36	11.25	32.98
• Secondary sector	30.08	29.32	30.69
• Tertiary sector (including public sector)	43.76	56.74	33.44
• Unknown	2.80	2.69	2.89
Total economically active population	3398227	1527319	1870908
% Of the unemployed, total	22.22	23.33	21.32
Total of economically active women	1474242	697866	776376
% Unemployed women, total	24.22	25.08	23.44
Rate of activity	53.76	53.95	53.61
Rate of employment	41.81	41.36	42.18
4. DP (for 2004)			
DP (mill. EURO)	14102	8334	5768
% Primary sector in DP	19.33	10.23	32.48
% Secondary sector	39.48	38.34	41.12
% Tertiary sector	40.79	50.99	26.06
% Public sector	0.40	0.44	0.34
% Agriculture, hunting, forestry, water management	16.33	7.01	29.81
DP per capita Serbia = 100%	100.00	132.82	73.69

Source: Bogdanov N. (2007): „Regional Dimensions of Rural Serbia“, draft version, for Baseline Analysis Report for Rural Development Programming, EU Project „Support to a Rural Development Programming and Payment System“, Belgrade

Calculated by the author on the basis of the Statistical Yearbook Municipalities in Serbia, 2005 and internal data of the Statistical Office of the Republic of Serbia

diversification of the rural economy. These have not yet been put to good use in Serbia. The large share of DP held by the agriculture, processing, mining and energy industries is coupled with the low share held by the tertiary sector is characteristic of the economic structure of rural areas in Serbia. Serbia's performance with respect to diversification is comparable to that of the surrounding countries (Davis J.R., Bezemer D. 2004), since it is under the influence of almost identical factors:

- unfavourable position of the agrarian sector and rural areas in developmental policies and set courses,
- low asset accumulation capabilities of rural households,
- unfavourable capital market and uncertain investment environment,
- limited market for the placement of produce and services by rural areas,
- inadequately educated human potential with low level of private entrepreneurship and other.

Table 2.6. Main characteristics of rural areas of EU and Serbia

	EU countries	Serbia
1. Basic features		
Socio-economic structure	<ul style="list-style-type: none"> • 18% of total population in EU lives in predominantly rural areas • 8% of economically active population is employed in agriculture • 20% of active rural population working in agriculture 	<ul style="list-style-type: none"> • About 55% of Serbian population live in rural areas • about 33% of those employed are working in the primary sector • 75-80% of active rural population is somehow involved in farming
The state of agriculture	<ul style="list-style-type: none"> • High productivity • Well equipped farms with average size of 20 ha • Support to agriculture since 1960s. 	<ul style="list-style-type: none"> • Low productivity, small farms (3,5 ha), poorly equipped with low use of inputs • Low and uncertain governmental support
Rural infrastructure	<ul style="list-style-type: none"> • Well developed 	<ul style="list-style-type: none"> • Poor infrastructure (economic and social)
Economy structure	<ul style="list-style-type: none"> • Economic activities are diverse • New rural businesses are created 	<ul style="list-style-type: none"> • Economic activities poorly diverse • Insufficiency in rural business, low level of social services
2. Development potential		
Human resources	<ul style="list-style-type: none"> • High level of local resources 	<ul style="list-style-type: none"> • Low level of local capacity , education and initiative
Education, vocational training	<ul style="list-style-type: none"> • Since the beginning 1970s supported from CAP • Well developed advisory service 	<ul style="list-style-type: none"> • Focused on farmers technical skills • Lack of training in management and marketing • Recently new form of education (specific topics)
Cooperating association	<ul style="list-style-type: none"> • Setting up of partnership • Network of projects 	<ul style="list-style-type: none"> • Without partnership, only individual projects • Small progress in setting-up producers groups and association

	EU countries	Serbia
Local community	<ul style="list-style-type: none"> • Developed profit organizations and Local Action Groups • Innovative and effective local entrepreneurs and authorities 	<ul style="list-style-type: none"> • Small influence and power of local community and informal groups • Ineffective decision making process (top-down), low entrepreneurial capacity
3. Programs and financial support		
Funds, Financial sources	<ul style="list-style-type: none"> • Structural Funds and LEADER I, II, LEADER+ • National programmes 	<ul style="list-style-type: none"> • Donation, pilot projects • Slight amount of money from Community (Municipality) budget (mainly for communal infrastructure)
Actors	<ul style="list-style-type: none"> • Governmental institutions • Science /Research • Powerful non-governmental sector • Local action groups 	<ul style="list-style-type: none"> • In MAFWM since 2005 established department for rural development • NGO (small influence and funds) • Local entrepreneurs and authorities (only in communities which has innovative local authorities)
4. Priorities in development		
Main rural development objectives	<ul style="list-style-type: none"> • Competitiveness of agriculture • Environment protection by reform of farming practices • Multi-functionality 	<ul style="list-style-type: none"> • Increasing productivity • Trade, processing, SMEs
Aim on medium-term	<ul style="list-style-type: none"> • Diversification of economic activities 	<ul style="list-style-type: none"> • Developing of infrastructure • Strengthening institutions and organizations of all actors
Strategies components and respectable factors	<ul style="list-style-type: none"> • Focus on viability of local community, by mobilization of local potentials • Development of local sector of services, private-public partnership and network 	<ul style="list-style-type: none"> • Focused on SMEs and rural tourism • Poor funds and financial support • Low level of employment and possibilities for new business opportunities • local actors without initiative

Source: Bogdanov, N. (2005), Arcotras (2006)

Labour productivity in rural areas is 26% below the national average indicating considerable lagging. Differences in productivity and the economic structure are equally obvious between rural and urban areas as well as between individual regions, i.e. types of rural areas (Annex 2, Table 1).

The main differences in the socio-economic situation between rural areas in Serbia and in the EU are given below. We can see that rural areas in Serbia are lagging behind in development, but possess important development potential.

The National Human Development Report for 2005 by the UNDP Serbia, among other key issues, recommended that the development strategy for the country should be continued. An adequate agricultural and rural regional development policy, improved SME support, the establishment of producers' associations, the improvement of primary and industrial processing of agricultural products as well as their marketing should contribute to the alleviation of rural poverty and to an increase of income of the rural population.

2.4.3. Regional Development Disparities and Rural Poverty in Serbia

Main development indicators in Serbia for 2004, following HDI methodology, showed that, according to HDI, Serbia lags behind other states in the region (excluding Albania)²⁷. Comparison of HDI by districts for 2002 and 2004 indicates that HDI increased in only 50% of districts, while in 12 districts the situation has somewhat deteriorated. Disaggregated HDI on the level of the district (Annex 1, Map 3) also points to the polarization of development between districts covering urban areas and their surroundings and predominantly rural districts. Using again international comparisons to present disparities within Serbia, it is concluded that only three districts (the City of Belgrade, Južno-bački – with Novi Sad -, and Nišavski) belong to the range of the high human development countries, while the rest of the country is in the middle human development range²⁸.

In 2002 the national poverty line in Serbia was set at \$2.4 a day by a consumer unit for an average four-member household²⁹. On the basis of this value of poverty line, there are approximately 800,000 poor people in Serbia, that is, 10.6% of the population. At that, in urban areas there are 7.8% of the poor and 14.2%³⁰ in rural areas. Accordingly, poverty in Serbia can be considered a predominantly rural phenomenon, owing to faster growth of real salaries and pensions which make up the dominant source of income of urban population. In addition, as compared to urban poverty, poverty of rural population is much deeper and severe³¹. The most extensive study of rural poverty so far was conducted in 2003 and main conclusions were (Ersado L 2006):

- 1 Rural vulnerability in rural Serbia are estimated and decomposed into poverty and risk. While poverty is the major contributor of rural vulnerability in Serbia, risk also contributed to rural households' perceived vulnerability. The fact that poverty accounts for such a high share of the vulnerability suggests that the characteristics of those who are observed to be poor are strikingly similar to the characteristics of those who are estimated to be vulnerable, whether they are currently poor or not.
- 2 Households and regions with greater share of their livelihood sources depending on agricultural activities are more at risk of vulnerability and poverty than those with significantly higher share coming from non-agricultural sources.
- 3 High level of human capital such as educational level of household heads significantly decreases household vulnerability and poverty. Households with a member having higher than secondary education face significantly lower vulnerability than those with lower educational attainment.
- 4 Household demographic composition also matters: larger households with more elderly members are more vulnerable and are more likely to be poor. Aging

population and reduced pool of active workers and the opportunity to generate income, compounded with low educational attainment, significantly aggravate rural poverty in Serbia.

- 5 Employment in the informal sector leads to less vulnerability and poverty, as does the number of household gainfully employed.
- 6 Rural poverty and vulnerability is strongly associated with asset ownership and access to markets to mobilize them in time of need. Families with higher value of durable assets are significantly less vulnerable.
- 7 Aggregate variables such as geographic location and topography, drought and access to communications services are significantly correlated with household vulnerability and poverty. Over 43 % of rural residents in Southeast Serbia are vulnerable compared to only about 11 % in Vojvodina. Thus vulnerability in Southeast Serbia is almost fourfold compared to that in Vojvodina.
- 8 Finally, vulnerability in rural Serbia is strongly associated with extreme weather conditions and topography. Areas with mountainous topography appear more vulnerable, possibly owing to inaccessibility to vital physical and social infrastructure. This supports the observation that areas with poor access to communication infrastructure such as roads are more vulnerable.

Table 2.7. Poverty rates of working population (>16 years)

	2003	2004	2005
Employer	1	5	2
Employee	7	8	6
Individual farmer	14	20	13
Independent business activities	9	6	5
Unpaid, helping family member	16	33	18
Unemployed	16	17	18
Housewife	14	18	18
Pupil/student	14	13	9
Retired / Pensioner	8	9	6
Unable to work	17	21	27
Others	17	14	18
Average	11	12	11

The group of indicators also confirms the higher level of poverty between rural, especially agricultural population, compare to urban. Namely, data of Household

Budget Survey from 2002 to 2005 indicates that individual farmers have some of the highest poverty rates within the labor force.

Unpaid labour force is mainly included within the farm members. This category, as it may be observed, belongs to the poorest of population in Serbia. Therefore it may be concluded that rural farm population belongs to the poorest socio-economic category of Serbia. Having in mind the lack of relevant and reliable data, the only sensible explanation for the high rate of poverty within the agricultural population may be observed in the diminishing Agricultural Production Index. Such trend is the output of unfavourable weather conditions which influence the agricultural production and reflects on the next calendar year's income of the agricultural population.

2.4.4. Former Policies on Regional/Rural Development in Serbia

Serbia has a relatively long tradition of policy in the area of rural and regional development. The experience dates from the era of the SFRY when there were pronounced regional disparities in the development of the republics. This was characterised by heterogeneity in natural resources as well as in the productive, economic and organizational structure of agricultural production. However, long tradition does not necessarily mean that policies in this area had a clearly focused vision for development. The mechanisms for the implementation of policies related to rural and balanced territorial development were not sufficiently coherent, stable and sustained. Thus their combined effect failed to create a significant impact. Generally speaking, this developmental dimension was pushed to the margins, being viewed as an auxiliary, rather than a constitutive part of other policies and development programmes. Rural areas were always viewed as a problem, rarely as a resource. Extensive development and the prevalence of sectoral over structural and spatial criteria over a decades long period contributed to:

- uneven development,
- poor regional distribution of economic activity and population,
- deep polarisation of development between individual areas, as well as between municipal centres and their rural hinterlands.

Various methods of support to rural/regional development were used in the SFRY. What they all had in common was that there was no stable development model, even in the period preceding the economic and political crisis in the state. Modest targetted funds were often allocated without economic framework and transparent procedures. Sector-oriented development and investment policies marginalized agriculture, although lip service was paid to the significance of the sector.

I As for funding, financial policy always favoured state/socially owned enterprises over private landholdings which had limited access to the financial market. In general, the support to rural development in the former period focused on agriculture and more specifically, the income of farmers. Other forms of support to the development of villages or marginalized areas were far more modest, lacking continuity, and therefore with limited effects. The following text lists main programmes and sources of financing for agriculture and rural development in Serbia until the end of the 1990s.

II **Fund for the development of undeveloped regions of the SFRY** was set up in 1965 and was active until its dissolution. This fund was explicitly intended to support less developed areas – Bosnia and Herzegovina, Montenegro, Macedonia and Kosovo and Metohija. At its peak, the Fund mobilised 2% of the GNP from more developed republics which set aside a fixed part of their social budget for it. Federal budgetary reserves were also oriented towards raising social expenditure in poorer republics. These programmes were not especially aimed at rural areas, rural population or agriculture. Special funds and incentives for agriculture did not exist before early 1970s. Credits were allocated on general banking terms, without taking into consideration specific requirements for financing agriculture. Social enterprises and cooperatives were favoured with respect to access to credits and state support.

III **„Green Plan“.** In the early 1980s, due to close cooperation with the OECD and with the aid of international funds, large investment projects were launched aiming to improve productivity on farmsteads. Investment into farming was allocated through state enterprises and cooperatives since only the farmers who cooperated with them qualified for credit. Large sums directed into agriculture through the „Green Plan³²“ undoubtedly contributed to its intensification and to the strengthening of farms. Favourable credits intended for private farmers for agricultural buildings, equipment and machines were financed from this fund³³. Such policy was almost identical to the one conducted by the EU at the time concerning the support to agriculture. In the same period, as the result of social and economic liberalization, the autonomy of lower levels of decision-making (republics, regions, provinces and municipalities) strengthened. Decentralization of government and the autonomy as to setting developmental priorities contributed to the improvement of rural utility infrastructure as well as the operation of social and community institutions. Together with the rise in productivity and the standards of farming landholdings, the above measures positively affected the quality of life and socio-economic stability of rural areas.

IV **Programme for Enhancing Agricultural Production and Rural Living Standards.** In 1988 the „Agrobanka“ and the „Cooperative Association of Serbia“ put together the „Programme for Enhancing Agricultural Production and Rural Living Standards“

which has been continued since 1992 as the *Programme for the Revitalisation of the Villages*. The funds were used for programmes aimed at: the development of agricultural production, for repair shops for farm machinery, for the production of high quality foodstuffs, the development of crafts, processing medicinal herbs and forest fruits, handicrafts and rural tourism as well as for building community infrastructure. The priority for the use of funds was given to beneficiaries whose programmes were placed in hilly and mountainous regions and on the territories of undeveloped municipalities. Priority was also given to farm workers under 40 years of age as well as to those who provided employment for a larger number of workers and produced high quality organic food. The beneficiaries of credits could be farming landholdings – persons engaged in farming, agricultural cooperatives and enterprises registered for farming. Depending on the programmes they applied for, and the territory where they resided (undeveloped, hilly and mountainous territories as well as other areas), the applicants contributed to the financing of programmes up to 20 – 80%.

The Fund for the Development of the Republic of Serbia was established in 1992. The funds were used for financing programmes directed at the economy and regional development, supporting small and medium sized enterprises, export incentives, financing economic liquidity measures as well as financing the regular activities of the Fund itself. Among the programmes financed from the fund, priority was given to programmes intended for agriculture and food processing³⁴.

The Law on the Use of the Funds from the Agrarian Budget was adopted in the Republic of Serbia late in 1995 and came into force in 1996. The Agrarian Budget constituted a part of the overall budget of the Republic of Serbia aimed at providing stable sources of financing to support agriculture and rural areas. From the very beginning, the Agrarian Budget comprised a separate budgetary line for providing incentives intended for rural revitalisation. In the first years (1996, 1997) funds for these purposes made up as much as 10% of the total budgetary funds; the amount later went down and was stopped in the year 2000. Since the measures for the support of rural development are quite heterogeneous, with various implementation models and systems, the above allocation of funds by no means represents the complete amounts spent for these purposes. Apart from the funds from the Agrarian Budget, state support to rural areas was distributed through other budgetary lines and various funds, bumping up the indicated amount considerably.

However, in the conditions of thriving black economy and monetary disturbances in the nineties, it is certain that the funds for the reduction of regional developmental disparities, as well as those intended for agriculture and rural development were implemented through procedures and mechanisms lacking in transparency. This is the reason why the effects of the above measures undertaken in the nineties remained limited.

2.4.5. Current Policies in the Area of Rural Development in Serbia

At this time rural development policy has not been articulated in an official document. Certain aspects of rural development were dealt with partially, with varying degrees of focus, under several national strategies. The documents dealing with or touching upon rural development in Serbia are listed below.

The Strategy for the Development of Agriculture was adopted in July 2005. The main programme principle of the Strategy is that in the implementation of agricultural policy emphasis should be placed on investment into farming landholdings, rather than on the producer's income, as was the case in the past. Such policy is justified by the fact that supporting investment creates conditions for the rise in competitiveness and advancement of a landholding over a longer period of time. The part of the Strategy relating to rural development emphasises the commitment of the Ministry of Agriculture, Forestry and Water Management to ensuring that key models and principles of the European policy are applied appropriately to the national specificities of Serbia. In this respect, the Strategy calls for:

- the creation of appropriate social and economic conditions in rural areas securing their contribution to the economic growth of the country;
- the rural development policy which observes territorial specificities;
- the categorization following the EU model relating to less favourable areas (LFA) for production and taking this fact into account when creating agricultural policy measures.

Since 2005, rural development has been within the jurisdiction of the Sector for Rural and Agricultural Development of the Ministry. The sector is made up of three parts: Department for Rural Development and Advisory Services, Department for Genetic Resources, and Department for Organic Production. The main obstacle to the more effective operation of the sector lies in poor delineation of institutional competencies and inadequate administrative capacities. Another limiting factor is the fact that developmental programmes for rural areas need to be coordinated among several ministries (of agriculture, culture and sport, trade and tourism), local institutions and individuals. This is difficult to achieve due to the lack of effective mechanisms for such co-ordination and integration.

The Strategy for the Regional Development of the Republic of Serbia for the Period 2007 – 2012 was adopted in January 2007. This is the first document relating to the regional development in Serbia which deals with developmental priorities and the way they are to be realized in a consistent and time bound manner. The Strategy addresses the specific problems of rural areas and obstacles to their development, as well as identifying vulnerable areas within individual regions.³⁵ In respect to

unbalanced regional development, the Strategy calls attention to the fact that rural areas lag behind in basic developmental parameters: demographics, economic structures, human development, infrastructure, economic development and similar. The document does not however discuss the development potential of individual rural regions or their specific problems in harnessing this potential.

While the defined goals of the Strategy also do not treat rural areas as a separate priority, the proposed mechanisms of implementation do include solutions which are positive for them.

The Poverty Reduction Strategy of the Government of the Republic of Serbia was adopted in 2003. This is a comprehensive developmental document and part of the social development strategy is dealing with the causes as well as the consequences of poverty. It places strong emphasis on the depth of the problem of rural poverty as a separate phenomenon in Serbia and draws attention to the severity of rural poverty in comparison with urban poverty. The reasons for this disparity, as outlined in the document include the fact that, for the most part, there is no income security for the rural population during the period of transition. This results in severe lagging behind, in respect to rural incomes, when incomes are compared with the urban population. In terms of territory, South-Eastern and Western Serbia stand out where the rural population makes up 25% of the poor in Serbia. According to the Strategy, the reasons for the underdevelopment and backwardness of rural areas include: population drain, interregional demographic differentiation, fragmentation of communities in undeveloped areas and unfavourable demographic and educational structure of the rural labour force.

The Poverty Reduction Strategy incorporates separate goals and strategic objectives aimed at the reduction of rural poverty. These goals not relate only to poverty, but call for concerted effort in other economic sectors and areas – stimulating employment and improving living standards of rural populations. The realization of these goals will involve activities aimed at improving agricultural production and organization, upgrading rural infrastructure, professional development for the workforce as well as the improvement of the content, and quality of, and access to, education for rural dwellers.

The National Employment Strategy (for the Period 2005 – 2010) was adopted in 2005 and, in line with the goals of the Lisbon Declaration, it is oriented towards the establishment of an effective labour market, capable of meeting developmental needs of the country. The Strategy views the labour market at the regional level (the existing administrative division of Serbia into districts), as well as by vulnerable populations. Although it is maintained that the Strategy is compatible with the *Poverty Reduction Strategy* which places strong emphasis on rural areas, the National Employment Strategy does not touch upon rural workforce or the labour market in rural areas as a problem in itself. Reduced opportunities for employment or retraining, low mobility of rural labour force, unfavourable qualification structure and similar issues were not discussed in this document.

The Strategy for the Development of Tourism of Serbia (for the Period 2005 – 2010) was adopted in 2006 and presents another set of short and medium-term economic measures planned by the state and local administration. These were identified on the basis of the existing conditions, the anticipated impact of current policy on tourism in Serbia as well as changes in the world tourist market. Among numerous goals, the Strategy sets rural tourism among its medium and long-term development objectives. Rural tourism is seen as important auxiliary economic sector which will improve and secure the sustainable development of rural communities. The main objective of rural tourism is to generate additional income of rural population, covering a range of tourism attractions, services and secondary activities provided by the rural population and private households. The Strategy maintains that the promotion and development of rural tourism will directly contribute to balancing the overall economic development of the country as well as reducing inequalities in the distribution of resources between urban and rural areas.

As referred throughout this publication, the challenges posed by rural development need to be addressed through complex processes of socio economic development. However, in some documents of essential importance for the rural development of Serbia (Strategy of development of small and medium sized enterprises and entrepreneurship, the Protection of the Environment, Economic Development, Education, Information Society, Social Welfare and many others), specific problems and importance of rural areas are not recognized. None of the above documents specifically addresses rural problems with special attention. Neither do the targeted strategies recognize the direct effects on rural development policies and vice-versa. The reason for this is that development problems have been defined exclusively from an urban perspective and have not dealt with rural areas in an appropriate manner.

In Serbia at present, there is a lack of coordination in the adoption and implementation of systemic and strategic policies, most notably those relating to rural development. In the process of planning and directing state subsidies there is still no system in place for coordination between the numerous institutions and agents involved in different aspects of rural development. In order to make progress in the area of rural development there is a need to decentralize institutions, adopt and/or harmonize legislation, advance knowledge and develop/coordinate support programmes. This should be done with the assistance of domestic and foreign funds. In order to provide active support to rural development, Serbia needs to intensify decentralization processes in such a manner that the process of transfer of certain powers is accompanied by strong support at the local level. Despite good initiative at the national level and active financial support by the state, current setbacks are the consequence of the lack of decentralized support systems and the lack of integrated institutional networks that need to address the problems. In order to ensure cost-efficient use of the approved funds, it is necessary to build up the capacities of

the rural development sector at the local level, most notably to enable local self-government and NGO sector to take active part in the process³⁶.

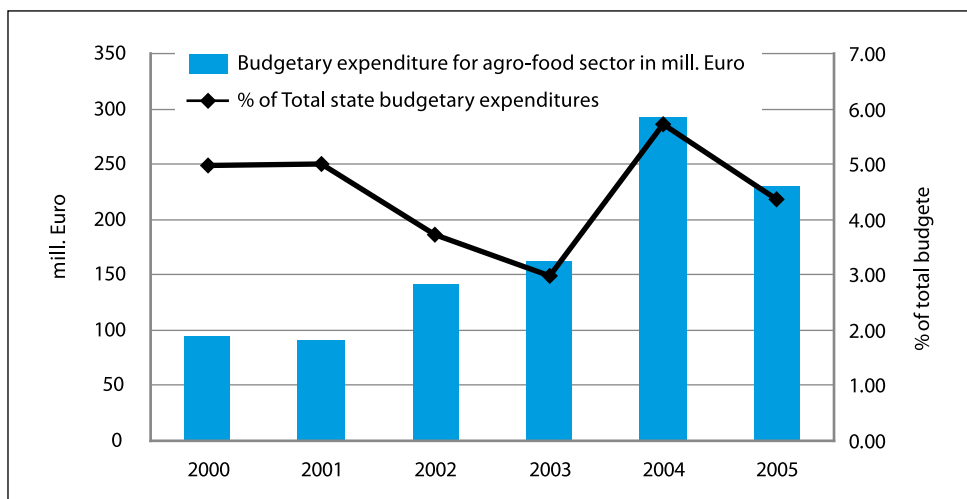
In February 2002, the Parliament of Serbia approved the new Law on Local Self-government and the new Ministry for State Administration and Local Self-government. In terms of staff, technical equipment and organization, local administration is still equipped to actively assume its new role. Although there is an appropriate legal framework in place, the participation of the civil society and the business sector in the development of local development plans is limited. In most municipalities capacities for participatory planning and implementation of state services³⁷ are either inadequate or completely lacking.

2.4.6. Financing Agriculture and Rural Development in Serbia

Since the introduction of the restrictive credit and monetary policy in Serbia in 1994 and a change in priorities of the financial policy (agriculture lost its status as priority sector), the domestic agrarian economy was left without any dedicated and secure financing source (Bogdanov N. at al 2006). The Agrarian budget, established in 1996, as part of the total budget of the Republic of Serbia was aimed at subsidizing agriculture and broader rural development in Serbia. During the 2004 several attempts have been made by the MAFWM and the Ministry of Finance to establish the credit system in Serbia. As conclusion, the current agricultural finance originates from the following main sources: MAFWM, Commercial banks, leasing companies and development funds.

2.4.6.1. Agrarian Budget

Graph 2.1. State budgetary expenditures and the share of agriculture in the total budget



Source: Bogdanov N., Božić D., Munćan P. (2006)

I The budgetary expenditures for agriculture and rural development in Serbia since 2000 year were raised but so was the share in the total budget of Serbia. Considering the complexity of the process of institutional adoption and the step by step transfer of competencies from the federal to the republic level and within the Republic Ministries, the rise was not a dynamic one as shown in Graph. 2. 1. That is why the sources of other ministries which were spent for the agriculture, slowly were transferred within the frame of Agrarian budget and the budget was gradually increased.

II Since 2004 strategic assignments and implementation mechanisms have been major turning points in the agricultural policy of Serbia in comparison with the preceding period. The agricultural policy thus reformed contributed to:

- Increased budget resources for agriculture as well as their share in the total budget of the country.
- increased competitiveness between commercial family farms
- a more efficient mechanism of implementation contributing to encouraging investments rather than encouraging income
- significantly diverse measures of budget expenditures.

III The Ministry of Agriculture supported the following projects through rural development programmes in 2004 and 2005:

- the projects for revitalisation and construction of rural infrastructure (reconstruction and extending the local roads network, electrification, water management and sewage);
- the support to the diversification of rural economy through the advancement of agro-eco-tourism, traditional crafts and food processing;
- support to young farmers for capital investments (for irrigation systems, livestock, greenhouses, facilities for mixing animal feed, machines, silos, packing equipment and similar).

IV
V
R Generally, structural support to agriculture has increased and move that directs public resources towards on-farm investments to improve productivity and ultimately competitiveness. The structural support program provides farmers and processors with up to 50 percent reimbursement for various investments such as on-farm equipment and machinery, quality enhancing equipment, food safety and quality systems (i.e. HACCP, ISO 9000), and expenditures for new orchards and vineyards. A separate rural development grant program was introduced and offers up to 60 percent co-financing to a range of rural stakeholders for various activities that aim to improve rural areas, marginalized or less favoured areas

(LFAs). Grants are provided to rural households for alternative sources of income such as equipping houses for rural tourism, conservation and promotion of rural traditions, as well as to local governments for capacity building to develop rural development plans and for rural infrastructure projects (reconstruction of village roads, electricity and water supply systems). This program also includes agro-environmental measures such as support for waste management and agricultural practices that reduce erosion.

Significant portion (almost 50 per cent) of the structural support is directed to addressing structural constraints of sector, linked with land consolidation. The structural support program includes a early retirement scheme by providing incentives to aging farmers to free their land for younger farmers, a measure which complements the on-going land consolidation support and a new measure assisting with land renting.

In the Programme for Rural Development for 2006, the Ministry placed more emphasis on the diversification of rural economy. In addition to the measures supporting rural development in general, special programmes were put together relating to rural development in marginalized and areas of environmental protection. The support was intended for the heads of farming landholdings, but it also impacted on those who returned to marginalized areas. The incentives for rural development in 2006 were meant for:

- The advancement of agricultural production on family landholdings;
- Diversification of activities on farms or their surroundings for securing alternative sources of income;
- The advancement of marketing and the promotion of rural areas;
- Renewal and strengthening rural infrastructure;
- Building up capacities for work on rural development and support to organizing rural population for joint activities.

Basically, the incentives for the development of marginalized areas and areas of environmental protection favors areas in which rural economy is unstable due to territorially specific factors limiting the development of agriculture. In addition, these incentives are also intended for areas where the protection of natural resources limits the intensification of agriculture. They also target those areas where social problems are pronounced – demographically vulnerable areas, as well as those exhibiting high unemployment rate, severe poverty and similar. For the first time, the measures for supporting rural development in 2006 included the social component of care for older rural population, implemented through programmes of support to non-commercial landholdings³⁸.

Incentives to agriculture and agricultural development from the agrarian budget can be classified into the following³⁹:

- Measures of market-price policy
- Measures of structural support, conditional-rural development
- Measures of support to general services in agriculture

Table 2.8. Budgetary support to agriculture and rural development of Serbia (in million EURO)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total state budget	1,896	2,169	1,531	1,830	1,910	1,810	3,796	5,440	5,108	5,261
Budgetary expenditure for agro-food sector*	158.6	143.3	90.9	89.1	95.1	90.4	141.5	162.1	292.9	230.2
Agricultural Budget - % of total of which:	8.4	6.6	5.9	4.9	5.0	5.0	3.7	3.0	5.7	4.4
Budgetary market price support measures										
– premium for milk production	44.4	40.1	31.5	30.8	42.9	39.0	42.8	44.6	44.9	37.7
– premium for crop production	27.3	24.6	5.3	6.9	0.0				35.7	17.3
– premiums for wheat purchase							7.1	3.3	27.3	12.2
Direct payments										
– Investment support for planting new vineyards and plantations of plums							2.3	2.1	1.3	5.0
– Premium for crop production (per ha of sown area)						14.3	19.0	38.6		0.1
Input subsidies										
– Refunding for production and supply of quality breeding animals	10.0	9.0	7.8	4.3	3.6	2.3	3.6	4.1	5.5	4.9
– Refunding for fertilizers and Diesel fuel									15.7	4.9
Farm investment support										
– Support for upgrade milk quality									12.3	9.7
– Expanding agricultural households and improving chemical quality of the land								9.7	5.1	5.8
– Support for mahanization and equipment									51.4	9.1
– Added measures for increase farm productivity									0.6	0.9
Processing industry support										
– Export incentives					4.7	4.6	14.5	6.9	8.3	9.8

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Infrastrucrure										
– Agricultural land planning	0.0	5.3	3.3	2.2	1.0	0.7	1.0	1.4	5.1	1.0
– Multi-purpose water use	0.0	20.1	13.4	13.1	11.2	6.8	23.7	29.2	31.3	38.9
– Farm Registrar										
Research, education extension										
– competent agricultural services		2.9	2.2	2.0	2.0	1.0	1.8	1.8	3.3	
– measures for plant protection									2.0	1.5
– promoting livestock breeding		5.7	6.2	5.5	6.6	2.5	2.5	2.3	1.6	1.5
– animal health protection		11.5	8.1	7.3	7.6	13.5	15.1	16.1	31.1	9.1
Other support to agro food sector										
– Forestry and hunting		4.3	3.1	7.7	7.6	2.2	2.3		4.6	4.8
– Rural revitalisation	15.9	14.4	6.7	6.0	4.6				6.1	9.1
– Other measures and actions**	61.1	5.4	3.3	3.4	3.4	3.5	6.0	2.1	1.0	4.3
– measures for support farm modernization (machinery, equipment) - credits										42.5

* Excluding salaries and social benefits of the Ministry staff and the dues

** Including the following measures: The support to the control and eradication of harmful weeds and pests, Soil analysis and recommendations for fertilizing, Maintenance and sustainable use of genetic resources, professional agricultural service, the registry of agricultural landholdings, incentive funds for the introduction and certification of food safety systems. for years when they were not entered as separate items in the agrarian budget

Source: Bozic D., Bogdanov N. (2006) – The author's calculation on the basis of the data in the Law on the Use of the Agrarian Budget Funds (of 2002), the Law on the Budget, the Ministry of Agriculture, Forestry and Water Management.

The above data points to the nominal increase of the support to agriculture and the rise in the share of funds for rural development in the total budgetary expenditure. However, this must be taken with a certain amount of reserve since there has been a re-allocation of budgetary lines in favour of the agrarian budget, as well as the transfer of competencies from federal to republic institutions.

2.4.6.2. Availability and performance of credit facilities

Credit provision is a key consideration for any dynamic and adaptable sector of a country's economy. It facilitates day-to-day production, helps producers to make adjustments to changes in domestic and international demand for their products, and to adopt new, more productive, technologies. Credit enables expenditures to be made on the resources essential for short-term and long-term economic benefit, all in advance of the expected income flows that will cover the costs and assure profits. While in the past credits for farmers were difficult to obtain in Serbia, currently

various funds and banks have reconsidered their access and have created credit products oriented especially for the agricultural sector.

There are several financial sources for crediting agriculture and encourage the development of enterprises in rural areas (Bogdanov N., at al 2006):

Credits of the MAFWM – The MAFWM has been crediting farmers since 2004. The funds derive from the agrarian budget. These credit lines to farmers are highly subsidized, and are provided through the banking sector. Commercial banks are managing the credits, which is important in order to start building-up the credit history of individual farmers. There are two types of credits: short-term credits (up to one year) and medium-term credits (up to 5 years):

- *Short-term credits of the MAFWM* are intended to be used as working capital, mainly for the procurement of necessary farm inputs (seeds, fertilizers, fodder etc.). According to the latest experiences, the structure of the approved short-term credits is as follows: (i) credits for livestock production development (ii) machinery purchase and (iii) construction of smaller greenhouses.
- *Medium-term credits of the MAFWM* are approved for a 5-year period with a one to three year grace period, depending on the purpose for which the credit is granted. Credits are approved for the construction and purchase of irrigation systems and equipment, purchase of agricultural machinery, establishment of orchards, construction of larger greenhouses and livestock production⁴⁰.

Credits of commercial banks – There are about 25 banks in Serbia providing agricultural credits applying different conditions for different purposes.

- *Conditions of short-term credits* for the agriculture sector did not differ much between the commercial banks. Short-term credits were intended for the purchase of input and the preparation of commodities for export and for ensuring liquidity.
- *Medium-term credits of business banks* were primarily intended for the purchase of agricultural machinery and other equipment, followed by the purchase of basic flock.

Leasing companies – An act of the Republic of Serbia regarding financial leasing was adopted in May 2003. Since 2005 the conditions for leasing have been favourable with a 3% annual interest rate for agricultural machinery and 5% for other leasing facilities.

Development funds – Agriculture is one of the priority target groups of the Development Fund of the Republic of Serbia (DFRS) established in 1992. In 2005 the Development Fund was financing 234 projects in the field of agro-industry, according to the programme for financing small and large-scale enterprises. The value was more than 36% of the total amount of the resources approved for supporting the development of SMEs. DFRS finances inter alia programs in the field of economic

and regional development, support of SMEs and export promotion. The financing programme included:

- Crediting small and medium enterprises – investments with the aim of encouraging the harmonization of regional development. The share of the Fund in the preliminary value of the investment and interest rate depended on the degree of development of the region (community) evaluated with respect to national income. The Fund participated with 40% of the resources with an annual interest rate of 5% for communities having an income over 70% of the average for the Republic whereby the share of participation was 80% and a 1% annual interest rate for communities with an income less than 30% in relation to the average in the Republic.
- Crediting private shops and entrepreneurs – Credits for encouraging production and small entrepreneurs (especially in the field of fading handicrafts) were approved with the objective of enhancing the development of small enterprises.
- Employing workers – micro-credits. The Programme for employing workers left without a job in the process of transition was intended to approve micro-credits (amount in dinars equivalent to 5000 to 20000 Euro) to persons registered as unemployed at the National Employment Agency.

Municipal budget and funds – local self-government in many municipalities of Serbia sets aside a part of their budget for promoting the development of agriculture and/or the construction of rural infrastructure. Farmers and municipalities are the beneficiaries of these funds. Funds are allocated through public contests or directly, according to the set priorities.

The Fund for agricultural development of Vojvodina was established in 2001. It extended credit with one year grace period, repayment period to 3 years at a 2.5% interest rate. From 2002 there has also been the Fund for development of Vojvodina. The proceeds of privatization make up 50% of the source of capital. The main objective of the Fund is the development of SMEs, farms and private initiative. About 60% of the total amount of the credit is for the agro industry.

Although more than 110 thousand farmers opened bank accounts during 2004-2005, Serbian farmers use very little credit from the banking system. This is generally due to two types of constraints to credit flows, namely 'internal' constraints, resulting from the lack of demand within the farming system, and 'external' constraints, resulting from outside factors restricting the access to credit:

- *Limited trust in the banking sector* and non-bank financial institutions among the farmers as a result of previous bad experience from „pyramid“ schemes in the pre transition period.

- *Lack of experience and expertise among farmers in developing and presenting business plans* – business plans are generally of poor quality. The advisory sector has insufficient expertise to offer farmers any help in this field, and so they engage private advisers to develop business plans. Donors, in association with the Ministry of Agriculture, have held seminars for farmers and advisers on the agricultural economy, including business plan development but these have been sporadic.
- *Market interest rates are too high* and usually are indexed to the Euro (especially for mid and long- term credits). Business banks offer enormous credit lines with relatively high interest rates (hidden or open) under the conditions of increased future financial demand.
- *Inadequate legal protection and loan guarantees* (incomplete land registration, non-existing credit history). The use of farmland as collateral in Serbia is limited by inadequate registration evidence. The market for land is still quite lean due to the structural weaknesses of land ownership, fragmentation of ownership, incomplete titling and the fact that land registration books are not updated⁴¹.
- *Uncertainty relating to markets* for agricultural produce presents a major constraint for commercial banks' broader provision of credit to agricultural producers. Both the non – harmonized legislation and the underdeveloped futures market of agricultural produce have contributed to the fact that commodity notes are not sufficient to guarantee credit approval in domestic lending practice. The Act on public warehouse receipts of agricultural produce and the Act on commodity notes for agricultural produces are in the process of adoption.
- Relatively small loan size required from the private sector associated with relatively *high fixed cost* of establishing and monitoring it. As the new generation of small farmers has neither credit history, nor knowledge as to how to write business plans, private banks are likely to incur higher costs when extending credit to farmers as compared to other businessmen.
- *Lack of expertise* in the banking sector for appraising agricultural business plans. Several banks have separate sectors for agriculture and pay special attention to continuous education of their employees. They are mainly interested in large enterprises and farms, while their interest for cooperation with small producers is negligible.
- *The lack of investment credit* in the Serbian economy generally. There is a shortage of long-term sources of funding. One of major constraints to economic development of Serbia is posed by the shortage of favorable crediting sources.

Incentives for extending credit to agriculture have been improved, but, without appropriate institutional and organizational involvement, progress will be slow. Rural

bank infrastructure in Serbia suffered from inadequate rural financial services. There are no networks of cooperatives or other commercial institution that could offer the broad range of financial services required.

2.5. Rural Non-Farm Economy

2.5.1. RNFE – General Outline

Since the beginning of the 1970s, a considerable number of expert and scientific papers dealt with the significance of the Rural Non-Farm Economy (RNFE) in rural development. Rural non-farm economy can be defined in many different ways; a large number of different definitions and taxonomies explaining this concept's individual elements exists in literature. **RNFE is most commonly defined as a set of economic activities in rural areas other than activities connected with production of primary agricultural products**⁴² (Lanjouw J., Lanjouw P., 1997). **The rural non-farm economy does, however, encompass activities connected with agriculture, such as food processing, other kinds of small businesses, income from social transfers, interests, dividends, rents and remittances from part or full-time employment in urban areas** (Davis J., Pearce D., 2000)⁴³.

Increased interest in the theory and practice of RNFE has become apparent since the diversification of the rural economy was adopted as an important element of state policy. This new policy focus was targeting both the agricultural and the broader rural population. Agriculture and food production are not the only functions of rural areas; and the wide spectrum of other social and economic activities aimed at nurturing rural populations and establishing stability in rural households has been pursued for several decades through the development of a rural non-farm economy⁴⁴.

In many parts of the world there is a growing gap between the rural population and the natural resources available to provide sustainable living conditions. Available natural resources are dwindling, especially in developing countries. In a climate of increasing uncertainty the lifestyle of much of the rural population, as well as their incomes, are radically changing for the worse. Alongside the growing problem of depopulation of rural areas (or the reduced rate of population growth), employment in rural areas is in decline without significant ability to adapt to changing circumstances. Therefore, rural population are forced to find strategies to overcome these income risks. As a rule, all of these strategies imply – to a lesser or greater extent – a distancing from agriculture and food production as the basic functions of rural areas. In that sense, the migration into the urban areas is a possible strategy only for the part of rural population which has comparative advantages in the work skills or in accumulative capital. The migration is not the solution for the other (larger) part rural population, i.e. it does not represent

an option for a part of the population which does not want – or can not – leave their surroundings because of socio-economic factors. In such circumstances, the development of the non-farm economy has shown to be a suitable instrument for providing adequate living conditions for those who are unable to sustain themselves by farming alone or do not see their future in farming for whatever reason.

RNFE as a developmental concept resolves key problems in most rural areas by:

- absorbing labour surpluses and reducing hidden unemployment;
- reducing risk for agricultural holdings involved in activities supplementing or replacing the agricultural income;
- securing survival for households where agricultural production has been destroyed or endangered;
- contributing to the increased use of comparative advantages that rural areas offer (natural and physical resources, location, labour expenses etc);
- contributing to accelerated economic growth of rural areas;
- improving overall quality of life, products and services in rural areas.

Apart from this, RNFE has a strong, both direct and indirect influence on overall economic growth through a wide spectrum of services and activities connected with agriculture. Experiences of many developed countries provide substantiated assurances that diversification of the economy of rural areas can:

- accelerate the growth of local economy,
- reduce the gap between rural and urban areas and
- act positively on reducing rural poverty.

These experiences are significant for post-socialist transitional countries with a high rural population to total population ratio, and with expressed rural poverty. It has been confirmed so far by scientific methods, as well as by practices, that the development of the rural non-farm economy is a basic factor for providing rural employment and income (Bright *et al.*, 2000; Davis J., Pearce D., 2001). This is the reason why this concept has become a priority for (reform) governments, donor programmes, NGOs etc.

2.5.2. Policies and Typologies Connected with the RNFE Concept

Policies connected with the RNFE concept most frequently have the purpose of enlarging overall non-farm production in rural areas, creating a larger number of more diverse workplaces, as well as enlarging productivity and household income⁴⁵. It is essential for policy makers to see the following:

- who the potential participants in this process are;
- what are the reasons for their interest in RNFE;
- which options are available to them, and of these which have limitations;
- do they choose non-farm activities because of their household's economic progress or decline;
- why do they leave or abandon a business;
- what the risks are etc.

Based on these factors, appropriate strategies will be chosen to help the more economically challenged in providing them with easier access to activities not purely linked to the farm holding and agriculture. The rural non-farm economy offers great possibilities – from those who require significant funds, a solid education and labour skills and favourable access to credit, to those aimed at self-employment and products less demanding in the sense of investments.

2.5.2.1. Implementing a RNFE approach

In view of the theoretical-methodological interpretation of concepts connected with RNFE there are many dichotomies which need to be taken into account in empirical studies. Distinctions which are particularly important for interpreting certain conceptual approaches are as follows (Barrett C.B., Reardon T., 2000):

1. Choosing the location of activities: at the farm holding and out of it;
2. Choice of sectors within RNFE: production or services;
3. Income type: earned or unearned;
4. The kind and origin of unearned income: compensations, pensions, dividends, interest or rents. It is very important to perceive this kind of income, since it often remains hidden and non-evident in empirical studies;
5. The kind and origin of non-farm income: income from employment outside agriculture, income of non-agricultural enterprises or unearned income;
6. Choice of rural space, i.e. location: orientation towards the narrowest local milieu or migration. Removal from home may entail migration within the country or abroad. This factor is significant as a measure of household dependency from the local economy. Not even local involvement in itself is not sufficiently demarcated, in the sense of limitations in perceiving it as local: (a) In a house or on a farm; (b) removed from the house locally, with the following sub-categories (i) village vicinity or wider vicinity of the rural area, (ii) the nearest town, (iii) a town in the vicinity;

7. The form of engagement: self-employment or wage earning. This distinction is practically based on the functional difference in work engagement of the rural population.

To estimate a household's ability to join the processes of diversification, it is essential to review all of the factors stated. They all have an important role in affecting household and individual decisions and therefore **knowing their influence is more important than classification and typology**.

Beside the abovementioned factors, there are also objective criteria which are of crucial importance in choosing a developmental approach, many reflecting the difficulties in estimating available potential for diversification (Barrett C.B., Reardon T., 2000), such as:

- The amount of disposable capital – it is not always precisely known (i.e. disposable, used, available land);
- It is difficult to measure the worth of capital for which there is no local market;
- Some resources are common with other households and it is difficult to determine the proportional share of every one of them;
- Some of the basic resources, especially those connected to human potential, are difficult to estimate and quantify, i.e. the workforce ability and skill, social capital in the sense of influence to the environment;
- It is difficult to quantify the quality of potential (in surveys and similar status overviews) for some resources which are of great significance (land, cattle);
- There are activities in which several members of one household are included and thus it is difficult to determine the contribution of each individual;
- Certain activities take place in the domain of the grey economy or illegal activities, and therefore households are reluctant to state them;
- Income varies depending of its source (non-monetary incomes, barter etc), thus rendering comparisons and gathering representative and reliable data on income sources difficult.

All of the problems and limitations referred to in researching strategies which households and individuals choose in order to diversification their economic activities are made additionally complex by specific national/regional/local limitations⁴⁶.

2.5.2.2. Framework for understanding motive/ability to diversify

The most general framework for understanding diversification to non-farm activities can be found in the distinction between two comprehensible processes which take place in parallel:

- **Diversification model I** – within which the more advanced parts of the rural community use new developmental options and opportunities which present themselves, and take part in them (*demand-pull*); This diversification model emerges as a consequence of introducing marketing or technological possibilities which create preconditions for the potential increase in labour productivity and farm holding income.
- **Diversification model II** – within which the economically disadvantaged are forced to seek employment outside the farm as a survival strategy (*distress-push*). This diversification model emerges in environments defined by high risk, imperfection of market mechanisms, and a high level of hidden unemployment, economic destitution and household impoverishment. This scenario is often characterised by participation in activities which are less productive than typical agricultural production and motivated by the need to reduce further decline in income.

These two models most often function in parallel.

Table 2.9. Push and pull factors of diversification

„Push“ factors	„Pull“ factors
<ul style="list-style-type: none"> • Population growth • Increase Scarcity of arable land and decreasing access to fertile land • Declining farm productivity • Declining returns to farming • Lack of access to farm input markets • Decline of the natural resource base • Temporary events and shocks • Absence or lack of access to rural financial markets 	<ul style="list-style-type: none"> • Higher return on labour in RNFE • Higher return on investments in the RNFE • Lower risk of RNFE compared to on-farm activities • Generation of cash in order to meet household objectives • Economic opportunities, often associated with social advantages, offered in urban centres and outside of the region or country • Appeal of urban life, in particular to younger people

Source: Davis J., Pearce D. 2000.

If observed from a regional point of view, *distress-push* diversification is dominant in areas characterised by one of the following properties: geographical isolation, undeveloped physical infrastructure, low human potential level, undeveloped market, areas poor in resources, endangered environment, devastated economic system or agriculture. Contrary to this, *demand-pull* diversification is possible in locations where technological innovations (connected with agriculture or other activities) are available, where the transfer of knowledge and implementation of technical innovations are more dynamic and where there is a developed market or a strong link to other countries outside the local economy (Davis J., Pearce D., 2001).

If observed, however, from an intraregional point of view, *distress-push* diversification attracts less developed and poorer households (with a lower income). These households choose non-farm activities which are on average less profitable (in the sense of labour

productivity), while *demand-pull* diversified activities usually require larger investments and are suitable for more affluent farm holdings. Essentially, this means that poorer households choose and prefer diversification. This takes them in the direction where their non-farm income is much more dependent on wages or salaries, more affluent households have larger developmental possibilities and they diversify their income in their own enterprises or business. Therefore, in regions where there is a relatively larger number of poorer households, the *distress-push* diversification model is more common in relation to *demand-pull*. If the income differences between households are greater, the models of diversification will be more observable. If *distress-push* diversification is dominant, we can expect that poorer households are more involved in diversification than the rest, and vice versa. In case of predominant *demand-pull* diversification, larger income households deal in non-farm activities more than the rest. The link between re-investing into diversification and income resilience of households included in such activities has been confirmed in many researches to date. Such a theoretically shaped framework has also been confirmed in geographically different rural areas and different models of rural development (Start D., 2001).

Perceiving differences between *demand-pull* and *distress-push* diversifications on all levels and in all aspects in which they manifest themselves, is a useful way to perceive the economic significance and relevance of the rural non-farm economy. In many developing countries (especially South-Asian), *demand-pull* diversification caused a significant economic growth in the rural economy, in the sense of increased efficiency (Haagblade S. et al., 2002). Contrary to this, in many transitional economies, diversification is the consequence of reduced household income – i.e. *distress-push*; it takes place in conditions of „primitive economy“ and leads to reducing added value in the local economy (Ellman M.J., 2000).

2.5.2.3. Diversification of Income and Activity

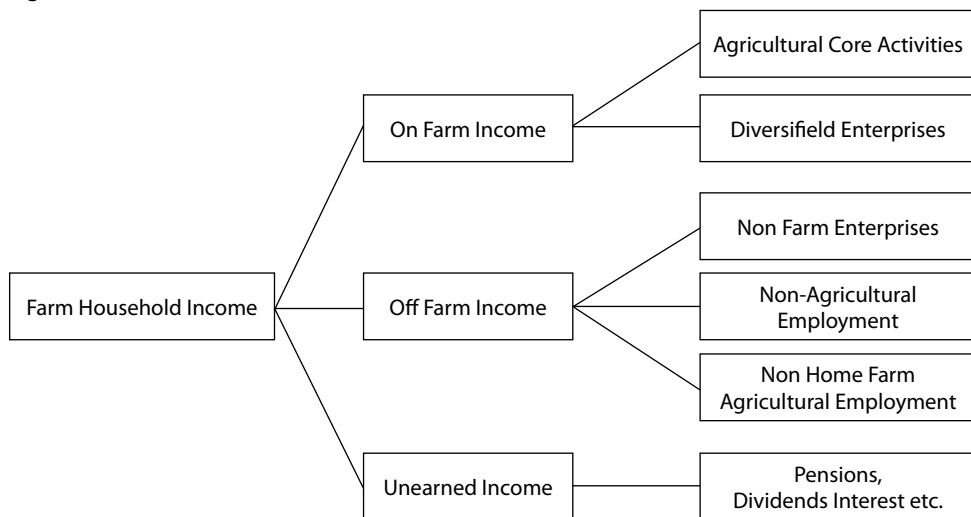
According to literature on farm holding economy, two basic pillars of diversification can be identified:

- Diversification of income – characteristic for the period of capital accumulation, which does not only imply physical capital, but social, informational etc. as well.
- Diversification of activities – usually appearing in later phases, when the appropriate capital distribution was performed.

The scope of diversification of income is illustrated in Figure 2.2. and, according to literature, starts with the hypothesis that those who choose it are motivated by maximising profits, while diversification of activities is caused by the comparative advantages of household members with a pronounced initiative towards diversification (Ellis, 1993). Income diversification *per se* does not exclude diversification of activities,

but there is a dynamic process between them during which they overlap and appear simultaneously. Henceforth, for many poorer rural households, accumulation of capital is a consequence of diversification of income and not the goal of income diversification. Based on what is said, it can be considered that there are two stages in the diversification process, which are not always distinct, but are crucial:

Figure 2.2. Potential sources of income



Source: Davis and Pearce (2001)

- The first is one in which the income is the dominant motive and which is firmly connected to satisfying basic household needs. This phase is dominant for as long as satisfying primary needs is the chief priority and it is reflected in a lower level of income.
- Once the income overcomes the level of the necessary existential minimum, a certain amount of capital (financial, educational, physical) can be accumulated. This capital enables the diversification of activities to become a more important motive, creating the conditions for household members to activate their comparative advantages, choose special activities and satisfy their needs where this is possible.

Apart from the aforementioned, it is interesting to note the systematisation of diversification, based on types of activities in which the rural population is involved.

This division includes three distinct models (Davis J.R., Bezemer D., J. 2004):

- **Internal diversification** relates to those who choose another, additional job in the same place, whether their primary occupation is agriculture or something

else (e.g. farmers with an additional occupation outside their own farm for which they are paid in cash). This is common in cases where there is a low level of initial capital (human or financial), or among a rural population unprepared for the risk of entering any new activities.

- **Ebb-diversification** is characteristic for persons whose secondary occupation is in the agrarian sector. These persons are not in a situation to cover basic needs with their non-farm income, and they are pushed to a partial or total return to farming⁴⁷.
- **Flow-diversification** relates to persons who have a primary activity in farming and an additional one in non-farming activities. These persons have a better-higher financial and/or human capital, they are better trained and equipped to use market and innovation possibilities for diversification.

2.5.2.4. Factors Which Influence the Diversification of the Rural Economy

Factors which influence the diversification of the rural economy are numerous and very complex, and so there is a large number of taxonomies and systematisations describing and analysing them. The most general separation is on the factors which internally impact the household workforce (starting from the household/entrepreneur), and on those of a more general level, i.e. external origin (starting from the local surroundings – village/region). According to Davis J. R. and Bezemer D. (2004) main factors enabling household and enterprise diversification include the following:

Factors which influence the diversification of household and entrepreneur/individual activities are:

- **Motive.** The individual's or household's choice to participate in the non-farm economy requires the fulfilment of two preconditions simultaneously: motivation on the one hand, and the ability to provide a sustainable and lucrative life for themselves and/or members of their household on the other.
- **Larger initial capital** (land, cattle, real estate) and a higher income level increase possibilities to invest in education or better means of production. Larger initial capital is important because markets – especially the credit market – are very poor or nonexistent in many undeveloped areas. Therefore, initial capital and income level are key factors which can stimulate specialisation into much more productive activities.
- **Market access.** Lack of a market or its poor organisation in a region (e.g. land or credit market) is one of the important limiting factors against applying RNFE concepts. Rural, especially poorer populations with a lower level of social, financial or human potential have a difficult access to the market. This factor does not include just the market for product placement, but also the availability of factors

such as transport, infrastructure and telecommunications, information sources etc. This is the reason why many authors note that the unfavourable position of poor rural population is the reason why they access the key market with so much difficulty and that without external assistance, they are not able to overcome the position (poverty) in which they find themselves.

- **Human potential** (age, skills, education) makes possible a wide set of employment and entrepreneurial options for individuals and households. A higher level of education positively correlates with broader options for diversification and it is of higher significance for women than it is for men. As a matter of fact, if the level of acquired women's vocational skills is higher, the men rarely diversify their activities and continue to work within their basic profession. Nevertheless, the participation of women in non-farm activities is more sensitive to a financial shortfall in a household than that of their husbands.
- **Gender equality** – In some societies and communities, gender presents a significant limitation for workforce access to non-farm activities. Hence, the marginalisation of women could be caused by their reduced working options or the denial of possibilities to advance their own skills and abilities. The position of youth is also sensitive in view of these segregations. They are the ones who migrate, seasonally or permanently, to the urban centres, unlike the older population and women who are less mobile.
- **Social capital.** The presence of adequate social potential and/or network also increases possibilities for individuals and entrepreneurs.

Factors which influence the growth of RNFE at local/regional level. The development of the rural non-farm economy is one of the basic aspects of local economic growth. Economic growth, through increasing diversification, can be incited with:

- increased proportion of out-of-farm activities;
- increased diversification of the farm sources of income, and
- changes in distributing diversified sources of income.

All of these factors lead to a larger or smaller income inequality among members of the local community. Factors which stimulate diversification at local/regional level are mostly the same as those which stimulate economic growth, which actually means that diversification can be observed in the context of endogenous growth theories. Factors which are particularly relevant, according Davis J. R. and Bezemer D. (2004) are as follows:

- **Local natural and physical resources** – Even though production is determined by resources, this capital is not necessarily a limiting factor in the sense that it determines the choice of models of growth. The manner in which resources are

being used significantly influences growth, but economic growth is not a measure of disposable resources.

- **The quality of local authorities** (corruption, assistance programmes, consistency of policy and its implementation). It is common that the state and local authorities remain insensitive towards the rural non-farm economy for a long time, and that they are focused on farm – i.e. sector – policy. In the hierarchy of policies which target the rural non-farm economy, local initiative is always more important than state policy and state programmes (Haggblade et al., 2002). Local policy is, as a rule, less focused on developmental dichotomies within urban environments; local government representatives know their specific rural potentials better and they are more efficient in operationalization of programmes they have created themselves.
- **Local physical and communal infrastructure**, including road network, telephone lines, social services etc. are important aspects of RNFE and its overall growth.
- **Ties to the city area, strength of ties to the city.** Economic growth of rural areas is most frequently dependent on ties to urban centres. These ties can manifest themselves either by supplying inputs, consumable goods, income of residents employed in urban centres or income realised by selling products in town.
- **Trade and regional growth.** Opinions differ in respect of the significance of trade for local economic growth. Some authors underline this factor as highly significant for economic growth. On the other hand, there are opinions that the development of product chains and local business partnership (social capital) is of a larger influence and impact on local economic development with a longer and more sustainable effects.
- **Social capital.** The power to decide on important segments generating overall economic growth, and thus RNFE as well, is not incorporated solely in state administration and formally established economic structures but also in the local private sector and civil society (including cooperatives, NGOs and production associations). A decentralised decision-making process alongside an efficient and adequate institutional environment is an important assumption for implementing RNFE concepts. The institutional environment powerfully influences the household's choice of living strategies, determining their approach or their use of a large number of resources (natural, economic and social capital).

2.5.3. RNFE and the Transitional Countries

A significant portion of the rural population's income in developing countries comes from non-farm activities. Results from various research projects in Asian, African and Latin American countries speak in support to this claim; according to them, 30-

50% of the rural population's income comes from activities outside agriculture⁴⁸. These conclusions are also relevant for post-socialist European and Asian countries in which the percentage of the rural population within the total population remains high. Economic growth and reduction of poverty are important developmental goals for these countries. Another, no less important factor is the significant attention donor aid programmes paid to the problem of sustainable rural development in transitional countries. International organisations (World Bank, DFID, UNDP, UNICEF, GTZ etc.) were most involved in poverty reduction strategies within the region.

Box 5. Rural poverty in Euro-Asian transition countries

IFAD study (2002) «Assessment of Rural Poverty in Central and Eastern Europe and Newly Independent States» note as particularly vulnerable following groups:

- **Farmers in upland and mountainous areas.** Often, entire mountain communities live in conditions of extreme poverty with insufficient food to meet their biological needs. Farmers in these areas have few opportunities to generate off-farm income and face severe marketing constraints because of their isolation.
- **Rural wage earners.** Due to the small size of farm holdings, most rural people must generate a large share of their income through off-farm activities. Depending on the assets they possess, families that rely on wage income are often poorer than farmers because they do not produce their own food.
- **Rural women.** Transition has had an especially high price for gender equality and women now make up a large percentage of the rural poor. Whereas men often migrate to the cities in search of employment, women are left to care for children on the farm and become trapped in subsistence production.
- **The elderly.** Elderly and retired people also account for a large share of the rural population in most countries. Although elderly people were often the prime beneficiaries of land restitution programmes, many are no longer capable of farming and find themselves in a particularly tragic situation.
- **Ethnic minorities.** New state borders, the creation of new majority-minority relations and sharp competition for reduced resources have together served to divide societies along ethnic lines. Especially for minorities who worked in collective agriculture, access to land was often lost through the reform process.
- **Internally displaced persons and refugees.** While not a traditional IFAD target group, the high number of refugees and internally displaced people in the CEN region calls for recognition of the special circumstances that leave them without assets or traditional social support networks, if only to maintain stability and prevent further conflict.

I
II
Even though the literature abounds in analyses of the transitional period and restructuring the agrarian sector in Eurasian countries, it was not until recently that more attention was paid to the rural non-farm economy and that the researches focused on this segment. Unfortunately, comparison between results from certain studies and research is minimal, as they are mostly field study results with differently selected samples, different definitions of basic statistic indicators etc. (Davis J., Pearce D., 2001). What is certain is that transition – especially over the first years – is closely linked to social tensions and developmental inequalities. Eurasian countries are no exception to this rule, and so characteristics of rural poverty can be seen among CEEC, Balkan and CIS countries⁴⁹. Measured according to the cost of living, between 25 and 33% of the population of these countries lives in conditions of permanent poverty and about, 10% of the population lives in conditions indicative of extreme poverty.

III
The IFAD study also states that most poor rural households in the region have to diversify their income sources because agriculture cannot provide adequate income to cover basic consumption needs. As a consequence, at least one household member works off-farm locally, in urban centres or abroad. For that reason, most rural poor in the region could be considered neither full-time farmers, nor full-time wage labourers, but rather a combination of both. While diversification of income helps minimize risk, high dependency on remittance income is a clear indication of poverty and the low income from farming.

IV
V
Therefore, in initial years of transition, households are forced into a non-farm economy for several reasons: poverty, a rise in unemployment in urban centres, reduced agricultural incomes, low competitiveness of small farm holdings in conditions of liberalisation of the economy etc. Nevertheless, it is not always simple to determine whether *demand-pull* or *distress-push* factors are shifting the farm economy towards a non-farm economy in transitional economies. For instance, from the experiences of Czech Republic and Romania, Davis and Pearce (2000) state that the entrepreneurs of these countries most often joined the non-farm sector for *demand-pull* reasons. On the other hand, Chirca and Tesliuc (1999) state that the motivation of most Romanian households to engage in the non-farm economy was more out of necessity than recognising profits – which indicates the *distress-push* factor.

R
As for other countries, it is difficult to estimate the share of income from the non-farm economy within the total farm holding income of European farmers because sufficiently precise statistic base does not exist. Unwillingness by members of the rural population to state their income is a generally known limitation in this research, which further questions these results. According to some estimates, around the middle of the transition period, households in CEEC earned 30-50% of their income from non-farm activities (Davis J. R., Gaburici A., 1999).

In many rural areas of transitional countries, the privatisation of cooperatives and state-owned agricultural companies provided unemployment for the rural workforce. This reduced chances for alternative employment of the rural population to a minimum. Aside from that, privatisation of companies in rural areas negatively influenced investments into social capital like schools, health care institutions etc. while, on the other hand, the municipal administration faced a lack of financial and institutional capacities to run social institutions.

The rural non-farm economy has been recognised as an active measure of rural development within SAPARD measures. Also, the LEADER programme and similar programmes of different member states provide examples of policies for local economic growth which supports the growth of the agricultural and non-farm sectors, while simultaneously influencing the reduction of poverty in transitional countries.

Basic lessons and experiences from European transitional countries is that the following factors have a major effect in improving the rural economy:

- improving the level of knowledge;
- rural physical infrastructure;
- access to the financial and land market;
- adequate business environment for the development of SMEs;
- Vertical and horizontal decentralization of decision making process and strengthening local entrepreneurs. The influence of local stakeholders is important and the significance of the rural non-farm economy must be recognised primarily by the policy makers and political decision makers.

Lack of information about RNFE, diversification of activities and rural population incomes makes decision-making difficult and limits the choice of having an adequate development policy in all transitional countries.

2.5.4. Diversification of Activities and Income of Serbian Rural Population

Formal labour market in Serbia is characterized by high rate of unemployment, large hidden unemployment, low share of employment in private sector and very low mobility of the workforce. Official unemployment rates, although based on different sources – internationally comparable Labour Force Survey conducted by the Republic Statistical Office (LFS) and the records of the National Employment Service (NES), show the rise in total unemployment over the course of the last number of years.⁵⁰

Table 2.10. Unemployment rates in Serbia

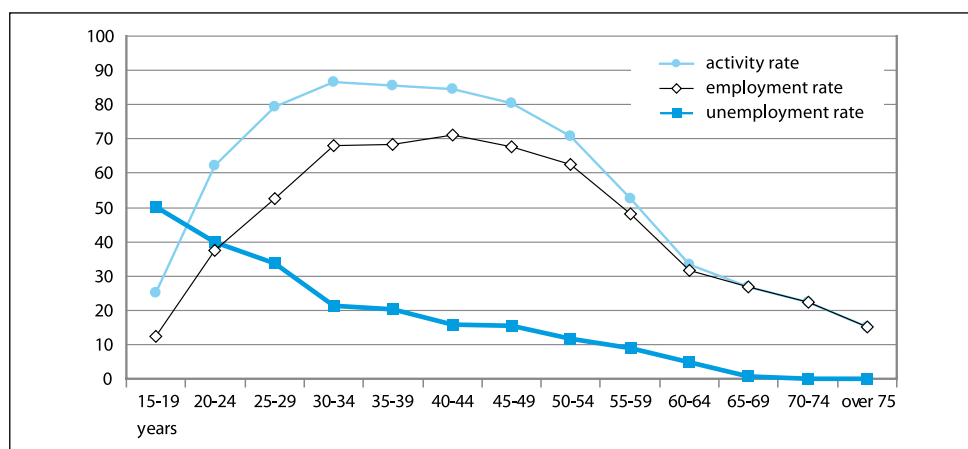
	2000	2001	2002	2003	2004	2005
NES*	25.6	26.8	29.0	31.7	29.1	30.0
LFS**	12.1	12.2	13.3	14.6	18.5	20.8

*NES – National Employment Service- The rate was calculated as ratio between the number of the unemployed and the sum of employed and unemployed persons

**LFS – Labour Force Survey – The rate was calculated as ratio of unemployed and active population

Employment structure and basic characteristics of labour force in rural areas of Serbia are similar to those in other transitional countries: age and education structure are unfavourable compared to those of the general population; the rate of unemployment of active working rural population is higher, employment is high in primary and low in tertiary sector (Table 2.5.).

The necessity for creating of adequate opportunities for the diversification of rural economy has been recognised in many strategic documents and developmental programmes in Serbia (as it has been elaborated more in depth in the sections 2.4.5. and 2.4.6). On the other hand, the data relating to economy structure of the rural areas indicate on still rather high dependence of agriculture. The manufacturing sector, some other economic branches and the service sector are still underdeveloped in rural areas, as it is the private sector as well. Besides in agriculture, it is only recognised in the trade sector. The main limitation for the more intensive development of services and processing is obviously influenced by the non-favourable financial market (as the field research results are showing). However, other factors of the wide spectrum are influencing the development as well, as it is typical for many transitional countries.

Graph 2.2. Employment and activity of rural population by age⁵¹

Source: Labour Force Survey, 2005

The Graph 2.2. shows that position of the young rural population on the labour market in Serbia is characterised by the substantially higher unemployment rates and comparatively lower employment rates in relation to the total rural population. The unemployment rates of those up to 25 years of age are nearly three-fold higher in comparison with the average. On the other hand the employment rates and the share are 2.5-fold lower than the average for all the age groups.

The lack of adequate statistical databases makes the study of the diversification of the income of rural households more difficult. For the purposes of this study, the achieved level of diversification of rural economy in Serbia can be viewed through the diversification of the labour market and the diversification of the income of rural households

2.5.4.1. Diversification of activities of rural labour force

A large portion of rural population in Serbia (45% of employed rural population) works in agriculture (Table 2.11.). With such high dependency of the rural population on the employment in farming, Serbia ranks among the most agrarian states in Europe. Apart from agriculture, rural workforce is engaged in food processing industry (over 16%), wholesale and retail trade (10.2%), building construction (5.8%) and transport (4%). State administration, education, health care and social welfare also account for over 3% of the share of the employed rural population. Taking into consideration the small number of workplaces in these sectors (owing to the fact that social welfare institutions and other services are not well developed in rural areas), such low share is expected⁵². Present employment structure is the result of insufficiently diversified economic structure which still to a large extent relies on agriculture and food processing industry (Table 2.5 and 2.6).

Labour force in rural areas is mostly employed in activities which require male labour force (construction building, transport, partly food processing industry) as well as the workers with relatively low qualifications. As a support to this, the data confirms that in the rural employment structure, nearly 50% of the employed have secondary education (in Serbia, persons who have completed three-year vocational secondary schools fall into this category) Table 2.12. A workforce with such limited qualifications certainly does not meet the requirements of the modern technology era. Investors are reluctant to put in money where there are not well trained staffs available. Conversely, educated people are less likely to settle down in rural areas without an attractive economic environment and job opportunities suitable to their specific needs and preferences.

Within the private farming sector, there are about 600 000 private farms with less than 5 hectares of land. Because of their small size, most of these farms produce for their own household consumption and sell only a small proportion of their output

(“subsistence farmers”). Consequently, many private farm families are heavily dependent on off-farm sources of employment and income (as it is indicated in IFAD, 2002).

Table 2.11. Employment structure of rural workforce by sectors of activity⁵³

	Total number of those employed		Employment structure by sector	
	Serbia	Rural regions	Serbia	Rural regions
Total	2 733 412	1 250 660	100	100
Agriculture, forestry and water management	635,363	561,302	23.24	44.88
Fisheries	2,091	1,075	0.08	0.09
Ore and stone excavation	32,965	16,263	1.21	1.30
Processing industry	497,436	203,847	18.20	16.30
Electrical energy, gas and water production	57,000	19,474	2.09	1.56
Civil engineering	166,534	72,512	6.09	5.80
Retail and wholesale, mending and repairing	406,705	128,059	14.88	10.24
Hotels and restaurants	80,010	23,574	2.93	1.88
Traffic, storage and telecommunications	152,820	49,930	5.59	3.99
Financial transactions	43,504	5,386	1.59	0.43
Real estate, leasing	69,826	10,471	2.55	0.84
Governmental institutions and social security	159,430	39,550	5.83	3.16
Education	143,416	39,064	5.25	3.12
Health and social security	158,571	43,401	5.80	3.47
Public, social and other service	120,761	35,321	4.42	2.82
Households with employed persons	5,356	1,432	0.20	0.11
Extra-territorial organizations and bodies	1,624	0	0.06	0.00

Source: Labour Force Survey, 2005

The findings of the Census of 2002 confirm that most labour force engaged in agriculture in Serbia falls within the category of the labour force producing for their own needs (75%), while only 20% of those involved in farming produce for the market (Table 2.13.). The participation of women agriculture labour force which is participating in producing for the market is extremely low (26.1%), and that has been registered in other transitional countries as well. (IFAD 2002). The remaining 5% work in jobs requiring manual labour (employees).

During the 1990s due to the long-term economic recession and encouragement of informal economic activities from the part of the government the share of grey economy in Serbia was until today somewhat greater in comparison with some

other countries in transition. Obviously, a part of the rural population earns its income in the grey zone considering the low qualification structure and narrow possibilities of employment in other sectors. These forms of a labour engagement (re-selling of agriculture products, work of rural women in urban households, etc.) are characteristic for those layers of rural population which has the least of physical and other capital.

Table 2.12. Educational structure of rural population in employment by sexes⁵⁴

	Employed Rural population					% Female of total
	Total	Male		Female		
		total	structure %	total	structure %	
Total	1250660	781503	100	469157	100	37.51
Without education	39912	12949	1.66	26963	5.75	67.56
Non finished elementary school	203703	111889	14.32	91814	19.57	45.07
Elementary school	320038	204694	26.19	115344	24.59	36.04
Secondary school	608764	407767	52.18	200997	42.84	33.02
College	42263	25116	3.21	17148	3.66	40.57
Faculty	35979	19086	2.44	16891	3.60	46.95

Source: Labour Force Survey, 2005

Table 2.13. Active agricultural population according to professional skills

	Total Serbia	Male		Female	
		No	%	No	%
Workers in agriculture–producers for the market	107,407	79,377	73.9	28,030	26.1
Agricultural producers meeting own needs	397,278	208,475	53.1	188,803	46.9
Workers in agriculture for jobs requiring physical strength	24,551	17,738	72.2	6,813	27.8

Source: Census of population, households and housing, 2002

All of the stated indicators of the rural labour force confirm the limited employment possibilities especially for youth and women. The lack of work opportunities and the reduction of the possibilities in finding an employment are the key features of the rural labour market. The agriculture itself based on the small family farming and with the low productivity and low market surpluses, has the characteristics of the natural production and it is not in condition to assure adequate income.

2.5.4.2. Diversification of the Income of Rural Households

The only reliable indicator of the income of rural households is the data on the available and spent funds of a household which have been published since 2003 for urban and other households and it is on the basis of the survey by the Republic Statistical Office⁵⁵. The Table 2.14. shows the structure of income of rural households according to the latest available data.

Table 2.14. The structure of income of rural households ⁵⁶

Sources of income of rural households	Serbia	Central Serbia (excluding Belgrade)	Vojvodina	Belgrade
Salaries and wages	35.6	32.9	31.6	57.4
Cash benefits from government organizations	24	27.1	19.1	21.3
Cash benefits from non-government organizations	0.9	0.7	1.8	0
Remittances from abroad	1.8	2.7	0.9	0
Income from agriculture, hunting and fishing	24.8	27	28.3	5.2
Earnings in kind	0.2	0.3	0.1	0.2
Transfers and gifts in kind	1	0.8	1.7	0
Transfers in kind from abroad	0.1	0.2	0.1	0
Other income (rent, interest, savings and similar)	11.6	8.3	16.4	15.9
Total	100	100	100	100

Source: Statistical Yearbook of Serbia, 2006

The findings show that the largest part of total income of rural population in all areas constitutes the income from works, from which follows the income from agriculture. Such data is showing that there is unbalanced relationship between those who are employed in agriculture (45%), and of the total household income gained from agriculture (45%). Therefore, the achieved productivity of agriculture is rather low. The main difference which can be observed between areas concerns the share of government cash benefits⁵⁷ and other income. Financial state benefits form a larger part of the total income of households in Central Serbia compared to Vojvodina, where other income (rent, interest and savings) is exceptionally high.

Looking at the workforce with respect to business ownership (Table 2.15.), 23% of the rural population of active age (15-64 years old) is self-employed, 14% are family workers, while 62% is formally in the employment of other parties.

Table 2.15. Employment structure of the rural workforce by sectors and the type of employment

	Total number of those employed		Employment structure by sector	
	Serbia	Rural regions	Serbia	Rural regions
Total	2 733 412	1 250 660	100	100
Agriculture, forestry and water management	635,363	561,302	23.24	44.88
Fisheries	2,091	1,075	0.08	0.09
Ore and stone excavation	32,965	16,263	1.21	1.30
Processing industry	497,436	203,847	18.20	16.30
Electrical energy, gas and water production	57,000	19,474	2.09	1.56
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Hotels and restaurants	80,010	23,574	2.93	1.88
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Financial transactions	43,504	5,386	1.59	0.43
Real estate, leasing	69,826	10,471	2.55	0.84
Governmental institutions and social security	159,430	39,550	5.83	3.16
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Health and social security	158,571	43,401	5.80	3.47
Public, social and other service	120,761	35,321	4.42	2.82
Households with employed persons	5,356	1,432	0.20	0.11
Extra-territorial organizations and bodies	1,624	0	0.06	0.00

Source: Labour Force Survey, 2005

The rarest type of employment of the rural population (3%) constitutes a private business with employees. By sectors, most of the employed under such conditions are in trade (39%), agriculture (28%) and industry (13%). Private businesses with no high labour are owned by 20% of active rural population, predominantly in agriculture (76%) and a modest number in trade and construction. In general, the above data means that **only 7% of the active rural population is self-employed (with or without the engagement of other employees) in non-farming activities**. Such data can be considered as an objective measure of the lack of entrepreneurship in the rural economy of Serbia⁵⁸.

According to the Census of 2002, non-agricultural farms⁵⁹ have become the dominant farm group with 62% share in the Serbian farms, while the number of the agricultural farms (deriving income only from agriculture) and of the mixed farms (deriving income from agricultural and non-agricultural activities) account for 17.8% and

16.4% respectively (Table 2.16.). In comparison with 1991 there was a significant reduction of mixed farms (for 10%) as well as of agricultural holdings (8%).

Table 2.16. Farms by farm size and income sources

Farm size	Farms								
	Total	Agricultural		Mixed		Non-agricultural		Without income	
		No.	%	No.	%	No.	%	No.	%
Up to 5ha	604417	81770	13.53	77910	12.89	421715	67.77	23022	3.81
5.01 to 10	131407	40647	30.93	36793	28	50530	38.45	3438	2.61
10.01 to 20ha	36772	13672	42.14	11337	30.95	11107	25.53	656	1.36
Above 20.01 ha	6300	2655	42.1	1950	31	1609	25.5	86	1.4
Total	778,891	138,738	17.8	127,990	16.4	484,961	62.3	27,202	3.5

Source: Bogdanov N., Bozic D. (2005)

Such type of changes in the social-economic structure of farms, illustrates that the farm polarization is present, when observing the source of income and the reduction of agricultural dependence. This indicator needs to be interpreted more carefully than what is the usual practice. In fact, the criterion of selection of farms is the economic structure of household members, which de facto includes the urban households which may have farms. Thereof, the diminution of the number of agricultural and mixed farms may be the consequence of the household division, old households' dying-off without having successors, and similar factors. It is especially due to the non-diversification of the agricultural farm income and to the lessening of dependence on the agricultural.

CHAPTER III

RESEARCH RESULTS

3. RESEARCH RESULTS

3.1. Basic Concepts and Definitions

3.1.1. Rural households

The study focuses on rural households⁶⁰, regardless of whether they belong to a certain socio-economic category as defined by income source. Similar research most often uses division of rural households into those with a farm holding and the others. Households with agricultural potential are considered as farm holdings and they are classified according to income sources into agricultural, mixed and non-agricultural⁶¹.

For the purpose of this study the research was not strictly limited to households with farm holdings but to⁶² ok into consideration other households of modest economic income in rural areas. This approach was applied for several reasons:

- The initial hypothesis was that living and working conditions in rural areas are equal for all households of modest potential, regardless of their socio-economic category (i.e. utility and social infrastructure, access to information and market etc.).
- There is another argument which supports the hypothesis that rural households of modest potential could be considered to a certain extent as a homogeneous group. That is, that for most of them, agriculture, although not main or single field of work, significantly reduces overall household expenditures.

In rural regions of Serbia as defined by OECD methodology, there are 1,365 million households (Table 3.1.), which make up 54% of the total number of Serbian households. Out of the total number of households in rural regions, 583,000 (or 43%) of them have farm holdings. There are 328,000 farm holdings of up to 3 ha in size which accounts for 56% or the total number of households in rural areas.

The above data shows that within the total number of households, regardless of their income sourced statistic category, there are a significant number of rural households with modest resources.

With respect to income sources, the largest percentage (around 60%) of farm holdings in rural areas of Serbia belongs to the non-agricultural farm holdings category (Table 3.2). In addition to this, almost 2/3 of farm holdings smaller than 3 ha do not have an agricultural income (belongs to the category of non/agricultural

farm holdings). Considering the fact that small farm holdings have a smaller share of agricultural income, in conditions of reduced employment opportunities and income vulnerability of the rural population, their existence poses important questions about the rural economy and overall local development.

Table 3.1. Socio-economic structure of farm holdings in Serbia

	The number of house holds	The number of farm holdings								
		Total	Agricultural*	Non-agricultural**	Mixed***				without income****	
					Total	with income from both agriculture and non-farm work	with income from agriculture, non-agriculture and personal income	with income from agriculture and personal income		
All households										
Serbia total	2521190	778891	138738	484961	127990	51569	52538	23883	27202	
Rural areas	1364927	582778	113664	347359	100253	39412	42811	18030	21502	
% rural areas	54.14	74.82	81.93	71.63	78.33	76.43	81.49	75.49	79.05	
Households with ownership up to 3ha										
Serbia		469220	50428	352722	47407	20918	17706	8783	18663	
Rural areas		328073	39400	239755	34693	15097	13552	6044	14225	
% rural areas		69.92	78.13	67.97	73.18	72.17	76.54	68.81	76.22	
% of total number of farm holdings in Serbia		60.24	36.35	72.73	37.04	40.56	33.70	36.78	68.61	
% of total number of farm holdings in rural areas		56.29	34.66	69.02	34.61	38.31	31.66	33.52	66.16	

***Agricultural holdings** are those where all income is derived from individual agricultural workers on the holding. .

****Non-agricultural holdings** are those where income is derived from a member, or members of the household who do not work in agriculture or they do but outside their own or family holding, or income comes from a pension, other possessions, social welfare or some other source of regular income.

*****Mixed farm holdings** are those where income comes both from agricultural and non-farm sources.

******Farm holdings without income** are those where the income source is unknown or it comes from supporters (including legal entities) that do not belong to the household.

Source: BSRS (2002)

Table 3.2. The structure of farm holdings in rural areas in Serbia, based on income sources

	The number of farm holdings	Farm holdings according income sources%			
		agricultural	non-agricultural	mixed	without income
All farm holdings	582778	19.50	59.60	17.20	3.69
up to 3 ha	328073	12.01	73.08	10.57	4.34

Source: BSRS (2002)

3.1.2. Small rural households

There is not a common definition of a small rural household, a small farm holding or „semi-subsistence“ farm. The concept of a small farm holding is commonly used to refer to a semi-subsistent agricultural holding. Even though the concept of a small farm holding with semi-subsistence is universally accepted in EU policy and in the measures of support to rural development, there are no clear cut definitions and boundaries. In practice some countries have defined which farm holdings belong to this group according to their specific characteristics and the type of agrarian and rural structure. According to the relevant literature, there are several criteria that can be applied when determining *semi subsistence* farms.

- The first criterion is a simple one, the size of a farm holding. The size of a farm holding is expressed here in terms of physical dimensions - such as hectares or the number of head of cattle. Limitations to this approach are numerous - this way it is impossible to determine the influence of specialization or production orientation, as well as the influence of other factors significant for a competitive farm position (soil quality, cattle breeds, the quality of human resources etc.) Moreover, countries and regions differ in their perception of "large" or "small" farm holdings with regard to the structure of agricultural land and the distribution of land categories (intensive/natural pastures etc.).
- The second criterion is based on the proportion of products for market sales and products consumed on the actual farm holding. This criterion is practically related to farm profit which is very hard to determine without a proper data base. Tax records or various registration forms submitted by farm holdings to the National Ministries are usually used for this purpose.
- Diversity in production and production structure on the whole, is applied as a special criterion in defining the size of a farm holding (whether a farm has one-crop economy or not, whether it has orchards and vineyards or some other intensive agricultural branch, whether cattle breeding is represented and of what type it is). In a practical sense this criterion means that economic measures are used as a basis for the definition of farm sizes. To determine the

I economic size of farms the concept of Standard Gross Margin (SGM) is used, which is expressed in terms of European Size Units (ESU). **The SGM of a crop or livestock item** is defined as **the value of output from one hectare or from one animal less the cost of variable inputs required to produce that output**. The SGM represents a measure of farm specialization which shows an output value per capacity unit (hectare or cattle). The total sum of those values is equal to the economic size of a farm holding, on the basis of which their numerical values can be compared⁶³.

Box 6. Definition of small farms in EU

II Within the EU there is not a common definition for an agricultural holding and each Member State has its own definition reflecting its agricultural structures.

III However, generally speaking agricultural statistics within the EU refer to farm holdings with more than 1 ha agricultural land size. In addition, the Directorate-General of Agriculture and Rural Development (DG VI) has defined what a *commercial agricultural holding* is. In this case a commercial farm is a farm producing on a yearly basis agricultural products of a total Gross Standard Margin over 2 European Size Units (ESU)*.

IV This definition is applied for all farms and Member States which have a distribution of their farms by ESU size. Also farms followed by the FADN Network are the only farms of an economic size over 2 ESU. However in any Member States, particularly in the Southern Mediterranean where small scale of farming prevails, National Statistical Services provide a definition of farm based on the size of the land owned and/or rented.

* One ESU is equal to 1200 Euro

V In the Council Regulation (EC) 1257/1999 (Article 20), on rural development, the European Commission introduced the concept of „Semi-Subsistence farms“ for the new Member States that have a large number of farms that produce for their own consumption market part of their production (Annex 1, Table 1 and Annex 1, Map 4). These farms are supported with 1,500 Euros assistance annually, under the condition that they submit a farm plan which will make their farm viable after a three year support period. Each new Member State developed its own definition of „Semi-subsistence farm“.

R At this time Serbia does not have adequate databases, which would allow the classification of farm holdings according to their size on the basis of sufficiently

Box 7. Defining Small Farms in USA

The „small“ farms definition is problematic. A variety of small farm definitions have been used over time. In both 1977 and 1983, Congress legislated definitions of small farms that reflected existing conditions. The 1977 definition simply defined a small farm as any establishment with sales less than \$20,000. Currently, \$50,000 is more commonly used as the dividing point between very small and larger farms, reflecting inflation and growing farm productivity over the years. The 1983 definition focused on farm households with low income that depended on farming for their living. However, farm operator households now have an average income on a par with the U.S. average and many rely heavily on off-farm income.

Almost all farms are „family“ forms in that they are run by individuals or their immediate families. The Small Business Administration considers forms small businesses when they have less than \$500,000 in gross sales, except for cattle feedlots which can be as large as \$1.5 million. If USDA followed this definition, 98 percent of farms would be included as small businesses.

Much ERS analysis defines „small“ farms as those with sales under \$50,000. The farm may be small because it is primarily a residence, or because it is being scaled down for retirement, or it may be a limited-resource operation without access to additional resources to grow. Most people with this size farm have other sources of income, but for some operators, the farm may represent a significant portion of household income or a significant source of employment.

The National Commission on Small Farms expanded the definition of small farm to include farms with gross sales of \$50,000 to \$250,000. The reasoning was that on most of these additional farms, day-to-day labor and management were provided by the farmers and/or the farm families, who own the product and own or lease the productive assets.

Source: Farm & Rural Communities, Agricultural Outlook/May 1998, Economic Research Service/USDA <http://www.ers.usda.gov/publications/agoutlook/may1998/ao251e.pdf>

transparent criteria (FADN system⁶⁴). Therefore it was decided that this analysis should focus on rural region farm holdings, which fulfill the following requirements:

- to have at least 3 members. This limit was set so as to avoid the inclusion of single person households and aged households into the analysis.
- to have at least one member aged 25 to 55. The purpose of this criterion was to focus on households with a younger labor force

- which have no more than one member with permanent employment. It was assessed that households with incomes from more than one permanently employed member in rural regions of Serbia, cannot be considered as a vulnerable social group or a risky category.
- the area of intensively used land (including a lease), cannot exceed 3ha. Using the total area of agricultural land as a limit was deliberately avoided. Meadows and pastures are not relevant for some households, for they are not exploited. Therefore, households in Serbia often cannot provide precise data on the size of this kind of land.
- not to have more than a total of 10 head of small farm animals (sheep, pigs, goats) and 2 head of cattle.
- to own a flat or a house in a village in which they live.

Rural areas

As it is explained earlier in the previous chapters there is no statistically precise definition of rural areas in Serbia. In order to prevail over these methodological constraints, and present results which will be much more comparable with other countries and also with further research on similar topics, for the purpose of creating representative sample for field research the OECD criterion of rurality has been applied in defining what are the rural areas.

When structuring the sample for this research, municipality centers belonging to the rural areas were excluded. This means from a practical standpoint that the survey was carried out **in the villages belonging to rural municipalities.**

The heterogeneity of rural areas of Serbia is also respected in the structured sample of field research. The typology of rural areas applied for sample structuring and the interpretation of results was based on the results presented in the *„Report on selecting pilot rural regions in Serbia for rural development programming purposes“* (Efstratoglou S., Bogdanov N., Merediht D. 2006). This typology is the result of cluster analysis which observed around 40 indicators relevant to rural development in the territory of 129 rural municipalities of rural areas in Serbia (Annex 1, Map 1). The choice of indicators for cluster selection was made in accordance with PAIS methodology. The defined types of rural areas, clusters, were: flatland region, hilly and mountainous region and the region encompassing major economic centers with the surroundings.

3.2. Results From The Survey Carried Out on Small Households

The detailed results of the survey carried out on small households are presented to UNDP in January 2007 in the report „Needs Assessment of Small Rural Households in Serbia“, which was prepared by the research agency Strategic Marketing. The results of this research are presented in the report with tables and graphs. For every entry (answer) the average for the national sample level is given, as well as the obtained results in accordance with the defined variables:

1. Demographic characteristics of the head of a household (gender, age, education);
2. Household type (the equivalent of statistical definition, defined in accordance with income sources of household members – Table 2.16.);
3. The main source of household incomes - subjective assessment;
4. The significance of agricultural incomes - subjective assessment;
5. The perception of household future - subjective assessment;
6. Region.

According to the survey results based on the statistical definition of household type and the subjective assessment of household incomes, an importance of agriculture and the perception of their future, the socio-economic structure of small rural households in Serbia looks as in Table 3.3.

This structure significantly differs from the distribution of households in accordance with income resources based on the official statistics (Table 2.16.). Accordingly in the 2002 year Census, farm holdings in rural regions of Serbia made up 19% of the total number of households and non-agricultural holdings 60%, whereas mixed households made only 17% of total number. There are two reasons to these differences:

The official statistical definition of rural areas being dissimilar to the definition applied in this research. In addition, the survey was carried out in the settlements outside the municipality centers, so it was exclusively directed to village populations, therefore the percentage on non-agricultural households is less.

Another reason is the fact that the owners of a great number of farm holdings are not inhabitants from the rural area, do not work in agriculture or do not use their land (inaccessible, of poor quality, unresolved ownership issues etc.). The official statistic registers these holdings as non-agricultural, and the real information on the

farm structure according to the source of income is slightly changed (as mentioned in the Chapter 2.5.4.2.).

Table 3.3. Structure of surveyed households per defined variables (%)*

	Statistical definition			Subjective assessment										
	Household type			Main source of household incomes			Importance of income form agriculture			Perception of household future				
	Agricultural	Mixed (Part-time)	Non-agricultural	Agriculture	small business or employment	Pension and/or social payment	Main income	Additional income	Do not have income from agriculture	Agriculture	Agriculture and additional job	Small business	Employment	Do not know
Hilly and mountainous regions	33	35	22	18	36	44	18	33	42	23	37	44	32	36
Flatland regions	29	32	51	33	35	32	33	37	32	29	21	29	41	32
Surrounding major economic centers	38	32	27	49	29	24	49	30	26	49	42	27	27	33
Serbia	38.6	48.9	12.5	27.1	52.4	19.5	27.1	28.6	43.3	19	10.1	11.3	39.5	20.2

* Base – all households

3.2.1. Human and Physical Resources of Small Rural Households

3.2.1.1. Demographic Structure and Human Potential of Households

Human resource potential is looked into in this survey from several aspects:

1. One part refers to analyzing general **demographic parameters of decision makers** in a household. This part of analysis had the objective of identifying differences in gender, age and educational structure of household decision makers, since a large number of results were interpreted according to their personal observations. Thus, demographic characteristics of heads of households (respondents) are a relevant parameter in inferences on household perceptions.
2. The other part refers to **demographic characteristics of small rural household members**, especially from the aspect of vitality and quality of rural work force. The objective of this part of analysis is to determine whether there is adequate human potential for diversification of rural economy in certain types of rural households and at the level of analyzed regions.

Household decision makers are mostly household members between the ages of 40 and 54, and members older than 55. Younger persons make household decisions in only 25% percent of instances. The low representation of the young in decision making is partly related to their education levels. The persons having completed secondary education see their future in employment outside the household, and prefer not to be involved in managing the household if that is not necessary. In addition, one of the reasons of unfavourable age structure of household decision makers is most certainly of sociological nature and in relation with patriarchal family relations.

The share of women in running a household stands at 13%. **Women as decision makers are present in households with no male head⁶⁵, as well as in households where a man has regular employment outside the household.** Female household decision makers are much younger than male heads of households. As heads of households, women are especially present in lowland region (24% of the total number of surveyed households in this region). Heads of households, and women particularly so, are persons of modest level of education – even 42% of decision makers are at primary educational level, or lower.

Household members About 70% of the members of small rural households are made up of persons of working age (between 15 and 65).

- The share of persons below 15 years of age is larger than the share of persons over 65 years of age, which makes the population ageing rate of these households more favourable than the average one in rural areas⁶⁶. Among the younger rural population (19-25 years of age), 27% are full-time students, and 40% unemployed. The percentage of young people between the ages of 19 and 25 tying their status exclusively to the household (as homemakers or farmers) stands at 15%. Only 18% of the young people have work – whether under employment contract or not.
- Gender structure of household members indicates a larger presence of men in relation to women (52% to 48%). The thesis of feminization of rural areas, due to migrations of male labour force to towns in order to find work, is it is recorded in IFAD (2002) for other transition countries, does not confirmed in Serbia. The official results of the Census indicate an even distribution of population in terms of gender (50:50). However, this is not in line with the Survey results. Allowing for methodological differences, the result indicating a higher share of males appears to be the objective depiction of the state of affairs, since work opportunities for female work force are significantly reduced in rural areas, and thus women choose permanent migration as the solution to their status. Such a conclusion is further supported by the fact that, generally, female members of

rural households have somewhat lower education levels than the male ones, so that the more educated women have (probably) left rural areas.

- According to the household types, the educational structures of the members significantly differs:
- I 1. **Mixed households have a more favourable educational structure when compared to other types of households.** This conclusion is highly indicative and points to the already recognized notion that mixed households are the ones with better living standards, better education and age structure of their members, compared to other household types in rural surroundings⁶⁷. Hence, these agricultural holdings are the bearers of progress, technical, technological and other innovations in rural areas. The fact that educational and qualification structure of mixed households is more favourable in comparison with other types of rural households shows that emigrational and demographic changes in rural areas of Serbia during the previous decade were not so dynamic as to influence changes in basic social and economic characteristics of household members.
 - II 2. **Non-agricultural households have younger members, but they do not have a more favourable educational structure in comparison with other household types.** Therefore, households without an agricultural holding cannot *a priori* be considered a more progressive part of the rural community. Socio-economic and demographic characteristics of members of the non-agricultural households are quite heterogeneous. This group is mostly made up of uneducated people, field hands, unskilled workers having been laid off, etc.
 - III 3. **Percentages of persons being educated and of the unemployed are lower in households, whose basic activity is agriculture, perceiving their future in agriculture or in additional work at the agricultural holding.** It is a known fact that high dependence on agriculture entails a lower unemployment rate. But that in itself could not be considered as a positive point, since often, especially in cases of undeveloped and poorer agricultural holdings, it gives rise to hidden unemployment. With regard to small rural households surveyed, considering their limited resources (land), there is a quite serious danger of hidden unemployment.
 - IV 4. **Highly educated population is poorly represented in the total number of small rural household members.** Generally, a more educated workforce can hardly be expected to remain in rural areas with no attractive economic surroundings. In case of small rural households, physical, social or financial capital resources are assumed not to have been sufficient to provide adequate satisfaction to the more educated members, or, on the other hand, due to such restrictions, the households could not contribute to raising the educational level of their members.
 - V
 - R

Table 3.4. Demographic parameters of small rural household members broken down by household type and regions

	Serbia	Household Type			Region		
		Agricultural	Mixed	Non-farm	Hilly-mountainous	Flatland	Surrounding major economic centers
Age structure of household members (%)**							
up to 14 years	17	17	16	23	15	18	19
15-24	15	14	16	17	15	18	14
25-49	36	37	36	40	38	38	35
50-64	18	19	19	14	17	18	19
65+	12	13	13	7	15	8	14
Educational structure of household members (%)*							
No education	7	9	6	10	8	4	10
Up to 8 years primary school	41	45	39	38	45	36	43
Secondary vocational (up to 3 years)	24	22	26	25	20	29	24
Secondary vocational (up to 4 years) or grammar school	23	21	24	23	22	28	19
Post-secondary/ higher education	4	3	5	4	5	4	3

**base – all household members

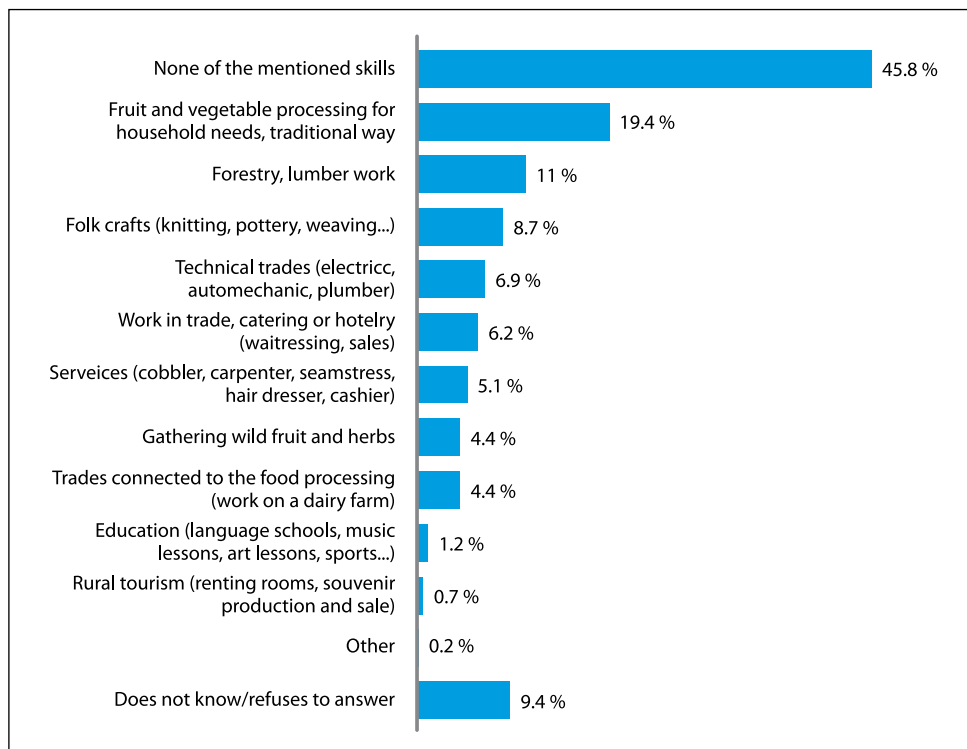
* base – all household members >15 age

- The surveyed persons stated that **63% of small rural household members do not have additional qualifications or skills which would enable additional income.** An estimate like this seems to be very harsh and leads to two assumptions in the interpretation of these answers:
 1. that households inadequately assess their own workforce and their capabilities,
 2. That the surveyed persons were not able to notice the opportunities of including their own members in other activities of the household or of their community.

By interpreting the results according to the defined variables, it is concluded that the more distant the household is from the agriculture, the less it is able to perceive the abilities of its members to take part in agricultural and farm activities. The households with either no income from agriculture or with only additional income from it are the ones seeing their perspective in finding employment outside agriculture, or even in starting up their own businesses, and believe their members to have less specific knowledge and fewer skills. A possible background for this attitude is that the respondents give preference

to formal education over skills and other competences. They see their perspective in the activities they were educated for and have little knowledge of the possibilities of improvement of their other competences. Knowing that the households that plan ahead perspective in finding employment or starting their own businesses have a more favourable educational structure, a conclusion like this is well-founded.

Graph 3.1. Household members with enough knowledge, experience or skills to earn an income*



* Base - Total population of household member over 15 years of age

- The majority of those stating that they have certain knowledge and skills, mention fruit and vegetable processing, forestry, folk crafts, technical crafts and work in trade and catering (Graph 3.1.). More often it is the women who have additional skills and knowledge in vegetable and fruit processing and folk crafts. Men say that they could take up forestry, lumber work and technical crafts. The younger population (from 18 to 25) much less often have skills in traditional crafts (fruit and vegetable processing, lumber work, folk craft); more often they have skills in services (trade, catering etc.). Regionally, vegetable and fruit processing as a skill is more present in region surrounding major economic centres, lumber work and folk crafts in hilly-mountain region, and services are mostly mentioned in flat region⁶⁸.

3.2.1.2. Employment and Diversification of Activities in Rural Workforce

The percentage of employed household members⁶⁹ who receive income for their work is 23.4%. Including the number of farmers (14.7%) the employment rate is 38%, which is an amount approximate to the officially registered employment rate in the rural areas of Serbia.

Table 3.5. Small rural household member activity by the type of household and region*

	Serbia	Household type			Region		
		Agricultural	Mixed	Non –agricultural	Hilly– Mountainous	Flatland	Surrounding major economic centers
Basic activity of household members*							
Employed Full-time	16.0	10	20	17	15	19	15
Work outside Employment	05.9	3	8	10	4	9	6
Self-Employed	01.4	1	1	2	2	1	1
Farmer	14.7	29	6	3	13	10	21
Unemployed	18.8	20	16	27	20	23	14
Retired	12.4	8	17	7	14	10	13
Housewife	19.6	20	19	21	21	17	21
Child, Pupil, Student	09.9	8	11	10	10	11	8
Living Abroad	00.6	1	0	1	1	0	0
Other	00.7	1	0	2	1	1	1

*Base – household members over 15 years of age.

- **The percentage of women employed outside the household is two times lower compared to men, and three times lower in comparison with the officially registered employment level for women.** The smaller presence of women in the labour market is the consequence of lack or insufficient offer of adequate jobs. The long term scarcity of appropriate jobs for female workforce and their exclusion from the labour market is the reason for as many as 40% of the women stating that they are housewives, as opposed to only 18% saying they are unemployed⁷⁰.
- **The most frequent occupations of the employed rural population are:** workers, manual or construction workers, field hands, drivers, jobs related to technical trades, salespersons, or employees in hostelry and catering. A small percentage is employed as civil servants or in the activities of the tertiary sector.

- **Out of the total number of the employed, only 14% have an additional job.**

Persons with lower educational levels (either the primary school, or secondary vocational school) usually have additional jobs, unlike the more educated population. Members of mixed households and households where additional income is earned through agriculture, more often have additional jobs. In 36% of the cases those jobs are connected to agriculture or manual labour, and are performed seasonally. Highly educated people have additional jobs less often, which could be interpreted as the result of fewer chances for their engagement in rural communities, and also as a consequence of a shortage of jobs appropriate for their qualifications. The other reason could be higher incomes, so the more educated population have no need for additional activities, which is the case only if they have succeeded in using their comparative advantage and demonstrating their abilities in a satisfactory manner.

All the above mentioned work and employment performances of small rural household members show that what dominates in the rural areas of Serbia is the diversification of income, not of the activities. Knowing that the predominant type of diversification is income diversification, it is obvious that this is a diversification of the type called **distress push**. For most households, as will be seen further on, the level of income diversification reached is still insufficient to meet and exceed basic household living needs and thus allow for a more significant accumulation. In theory, this situation is characteristic of the initial phase of diversification. However, households in rural areas of Serbia have had their income diversified in this way for several decades already, and **it is not logical that the realised accumulation was not enough to attain a more significant presence of activity diversification in rural areas**. Even more so, because of the tradition of private holdings, experience in the market operations, cooperation, etc., have been present in Serbia. The logical explanation is that the saving capability of (not only small) rural households has completely disappeared during 1990s, and that households lost their accumulated income in the situation of several years of instability in the agricultural sector.

3.2.1.3. Physical Capital

The physical capital of small rural households can be seen in land resources, livestock, machinery and facilities at the disposal of the households (Table 3.6.). The objective of this part of the analysis was to assess the physical resources of the households that may be utilized in the income earning process.

- In 87% of the cases the surveyed, the households either have or use the land for agricultural purposes. The average size of the agricultural holding is 1.96 ha of agricultural land and 0.60 ha of forest land. Only 60% of the total area of the

agricultural land (1.16 ha) is used for intensive agricultural production (arable land) while the remaining areas are natural sources for fodder (grassland and meadows).

- Farm holdings where additional income is derived from agriculture and where the perspective is seen in employment of their own members or in private business have, on the average, a larger estate, but a more unfavourable structure of land use than the agricultural holdings controlling larger areas of arable land, orchards and vineyards. Compared to holdings in the areas more suitable for agricultural production, the holdings in mountainous regions have a larger average size. These differences have been confirmed by other research⁷¹ and are caused by two factors:
 1. For decades the applicable law specified the maximum land size, permitting larger land property for holdings in mountainous areas;
 2. Bearing in mind highly dynamic migrations from hilly-mountainous areas, there was no division of holdings into smaller properties, as was the case in other parts of the country. Certainly, the lack of labour caused part of the land to stay uncultivated, abandoned, inaccessible, so the information about the size of the accessible land per holding should be interpreted as uncertain.
- **Small rural households are not actively incorporated into land market.** Only 3% of the total number of holdings leases their land, and 6% take land on lease from others. On the other hand, 13% of the holdings do not cultivate their land, particularly due to the poor fertility and quality of soil, the lack of funds, etc. **For small rural households the available land is, primarily, a guarantee of food supplies for these holdings, and functions as capital in very few instances.**
- Of all the surveyed households, 84% raise poultry, 72% swine, and a half raise cattle. **Households have their basic facilities for keeping farm machinery, livestock and crops. However, they have next to none of other facilities to be used for the development of small business or additional work at the land** – 3% own an apartment in the city, 4% own an additional housing facility which could be used for rural tourism, only 9% have a storing facility, and 5% suitable premises for a craft shop, office or business premises, and only fewer than 1% own a silo and cold storage. The respondents themselves assess the condition of their facilities as average. The best assessed facilities in terms of their condition are town apartments, storage premises and cold storages.

The interpretation of this assessment of quality of these facilities needs to be undertaken carefully – it is quite possible that holdings evaluate their more valuable objects subjectively, i.e. that they overestimate their real value and condition.

Households rarely lease the facilities they own⁷². **Lack of economic activity, investment, absence of economy of scale, etc, result in insufficient utilization of the said facilities, and make them unattractive assets.**

Table 3.6. Physical capital of small rural households by type of household and region*

	Serbia	Household Type			Region		
		Agri-cultural	Mixed	Non-agri-cultural	Hilly-moun-tainous	Flat-lands	Large econo-mic centres
Total land area owned (including forest land) – average per household							
Ares	258	312	216		367	134	261
% holdings leasing their land	3.3	2	5		2	4	3
% holdings taking lease on the land	6.4	8	7		6	6	7
% holdings not cultivating their land	12.5	14	15		18	5	14
% households with machinery							
Lorry	5.6	9	5	1	3	5	9
Van	4	4	4	4	4	3	6
Motor-cultivator	28.8	35	31	1	33	12	41
Tractor	46.3	63	44	3	56	32	51
Combine harvester	3.1	4	3	1	3	3	3
Other agricultural machinery	38.7	53	36	4	42	30	44
Equipment	21.1	28	20	3	13	26	25

*Base – all households

- Households where the main source of income is agriculture and which see their future in agriculture generally own agricultural machinery. The evaluation of the state of their equipment is mildly positive. The holdings estimate that their **more expensive agricultural machinery** (trucks, combine harvesters) is in a **better condition than the less expensive machinery** (attachable machines). An interesting fact is that households from flatland regions, as the agriculturally most intensive region, have the worst machinery and equipment, including there also the number of tractors⁷³. The holdings in regions of large economic centres are better equipped than in other areas⁷⁴.

Physical and human resources of small rural households are quite modest, even according to the assessment of their very owners. An external reason can be found in a long-term absence of favourable terms for loans, and unavailability of funding. Internal reason is certainly the lack of motivation to invest into machinery, equipment or the expanding the land by lease in unstable economic circumstances.

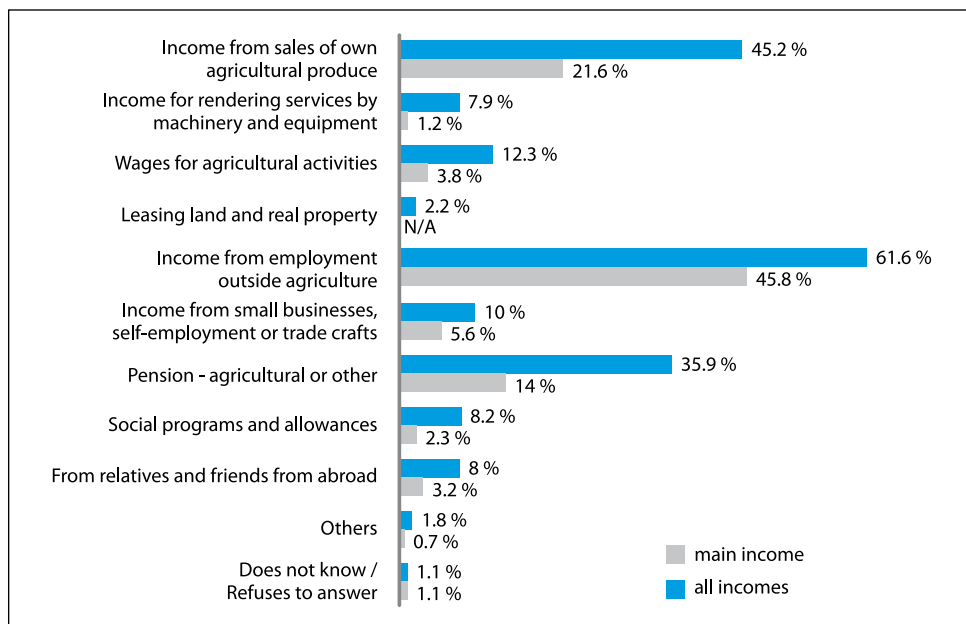
3.2.2. Sources of Income and Their Diversification

3.2.2.1. Gross Household Income

The largest number of small rural households has income outside agriculture, earned through sale of agricultural products, and also retirement pensions. The relevance of these incomes to the household is not equally distributed, however – **the income outside agriculture is by far the most important household income.**

- **Income from employment makes up the largest part of income and for the majority of households it is the main source of income (Graph 3.2.).** This income is characteristic of the households where the decision maker is a younger person (25-50) and a more educated person (with secondary education at least). This income comes from very different sources, and, apart from full-time employment, includes also work outside employment and other activities based on which the holding members realize their steady or temporary income⁷⁵. Having in mind that only 23% of the household members are employed, this high ratio of the income outside agriculture could be interpreted in several ways:

Graph 3.2. All realised income and main household income*



*Base – all households

- I 1. Since it is a subjective assessment of households, it could be assumed that their assessment includes the security factor – salaries, for these holdings, represent a certain and regular source of income, and that is why they are thus assessed.
- II 2. Limited resources of households and a low amount of capital result in the fact that other potential sources of income have not been activated to a satisfactory degree, or that there are no objective conditions for that. Unstable market for agricultural produce, inadequate competitiveness of small holdings, inadequate and insufficiently specialised production structure etc., influence such decrease in the relevance of agricultural income in comparison with other, regular income.
- III • Income from employment outside agriculture is by far the most important income for mixed households. Although 60% of mixed households have agricultural income (including both services and leasing), it represents the main source of income for only 15% of holdings. This leads to the conclusion that mixed holdings are no longer in the phase which was a characteristic one during the 1990s. At that time, agriculture was the main source of income of these households because of low salaries of the employed members and social insecurity. For mixed holdings, agriculture is certainly a factor of social security and food supply, and a resource providing them with the initial capital and thus a comparative advantage over the others.
- IV • **Regional differences in the relevance of income sources for households** are highly noticeable.
- V 1. **Employment outside agriculture and small businesses**, as a main source of income, are more important for the hilly-mountainous and flatland regions when compared to the regions around large towns. Factors of influence for such a state of affairs are quite contradictory :
 - Unfavourable natural conditions, low productivity levels and overall underdevelopment of agriculture in hilly-mountainous areas cause small holdings to have an almost exclusively natural production, with insignificant market surplus and the resulting agricultural income.
 - Lesser significance of agricultural income in households in flatland region could be explained by higher salaries when compared to others. Since the opportunities of earning and receiving income through other activities are in place, agricultural income is less relevant for these households in comparison with the income coming from other sources.
- R 2. In regions of large economic centres, **agriculture and agriculture-related activities** (wages and services rendered by the machinery) are the main income for

the 40% of households, which is a very high ratio. Great importance of agriculture in this region is influenced by a larger number of agricultural holdings than in other regions.

3. In hilly-mountainous areas, **allowances from relatives from abroad**, or children living in towns, are more often the source of income than in other areas. The region includes the territory of Serbia wherefrom young workforce either migrates abroad for seasonal work, or to urban centres, and this phenomenon can be thus interpreted as well.
- **Households with female heads of households more often have their main income from social security benefits and allowances**, as is also the case with households with no land. Pensions are the main income for as many as 14% of households. These are the households where decision makers are more than 55 years old, whose members are rarely employed, with a lower educational level and with no clear vision of their perspectives.

All the mentioned characteristics strongly and convincingly confirm the *Davis and Pearce, 2001* theory about how the distress push factors cause the diversification of income into agricultural income, employment income and pension income. A small number of households with an income from their own businesses show that rural areas in Serbia still have a background which is not suitable for a more intensive development of entrepreneurship and affirmation of comparative advantages of human potentials. The income structure of small rural households in all three regions illustrates that diversification was forced by the necessity of reducing income risk, i.e. distress push factors. Moreover, this also confirms the accuracy of the hypothesis which was the basis for this research – that the characteristics of the socio-economic model of small rural households in Serbia are highly analogous, and that the differences between the regions are smaller than in the models of functioning for larger households.

3.2.2.2. Agricultural Income and Its Structure

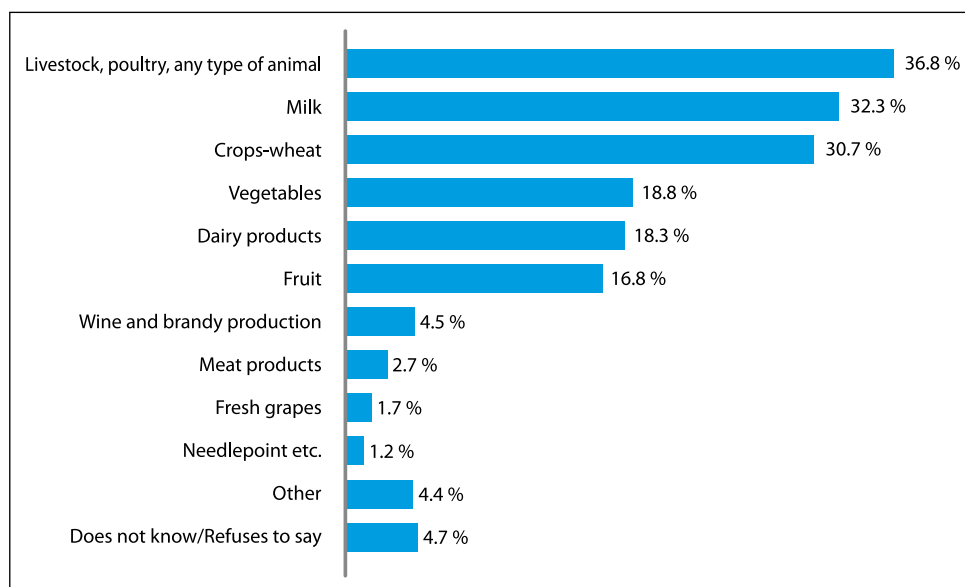
Although only about 26% of households consider the income they receive from agriculture to be their main income, 68% of households stated that they had income from agriculture. This confirms the thesis that agriculture is an important ‘shock-absorber’, a ‘buffer’ for the socio-economic stability of small households, reducing the risk to which they are exposed.

- The income sources from agriculture vary significantly according to the household type and region.
1. **Wages** are mentioned as a source of income by 12% of small rural households, and for 4% of them this is the main income of the household. Wages and social

programmes allowances are usually mentioned where the decision maker is a woman. Incomes coming from sale of their own produce are mentioned less often in these households than in those with the male decision maker. This result creates a dilemma about the socio-economic position of women – household decision makers. There is not much available information about the functioning of such households, but judging by the results it can be inferred that this is the case of socially vulnerable households

2. **Rendering services by using agricultural machinery**, renting the equipment, and wages as sources of income are more present in flatland region than in other regions. The reason is the deficit of the work force during the seasonal demand peaks in the agriculture of Vojvodina, resulting in 6% of households in this region with wages as the main source of income.
3. **Sale of agricultural produce** has mainly or exclusively been the activity of agricultural holdings, those whose main and/or only source of income is agriculture, and who see their perspective in additional agriculture-related business. Market surplus and the level of marketability of production of small rural households are insignificant, bearing in mind their limited potentials. Holdings with income from sale of agricultural produce (46% of them) make income by selling wheat and livestock produce.

Graph 3.3. Households with income from sale of agricultural produce*



* Base – households with main income from agriculture (47% of total sample)

4. Households where women and younger household members are decision makers in the majority of cases **sell** processed foods and additionally processed produce (cakes and pasta, meat products, preserved fruit and vegetables, etc.). Households in the vicinity of major economic centres sell more processed products (as well as livestock and fruit) than households in other areas.⁷⁶
5. The often mentioned attitude that barter is present to a large degree in the agriculture of Serbia was not confirmed by the survey among the small households. Namely, according to the results of the research, **only 2% of households paid for services received in kind**, with wheat, corn or other grains. Other products were not used in this kind of trade. This conclusion could be interpreted in two ways:
 - members of small households work more often as field hands than they hire help themselves, therefore there is nothing that they can pay for in kind. They pay for hiring machinery with their own work.
 - these households often cooperate with other, similar households, with no compensation for services rendered.

The mentioned results show that income from agriculture in small rural households is diversified, primarily depending on the available work force. Households with a farm holding, younger workforce, and finding agriculture to be an important source of income, diversify their activities at the farm holding in the direction of labour intensive produce. Thus, their income is partly protected against risk. On the other hand, specialization in the production process is lacking, as well as a more significant market orientation as a model of income diversification.

3.2.3. Social Partners and Cooperation

Local administration and local partnership represent key factors for successful application of development strategies and other aspects of interventions concerning quality of life in rural communities and the socio-economic stability of small rural households. It has already been mentioned that the local administration structure in Serbia does not have sufficiently developed human and technical resources to enable it to carry the burden of responsibility for local economic development.

3.2.3.1. Relevant Institutions – Importance and Cooperation

The institutions concerning themselves with rural areas and agriculture in Serbia lack tradition. Formally, trade unions and cooperative organisations have been present for a long time, but these institutions were „alienated“ from the farmers, politically manipulated, and with insufficient capacities to meet their needs. During the 1990s these institutions were shattered, and in the meantime a different organisational structure, or

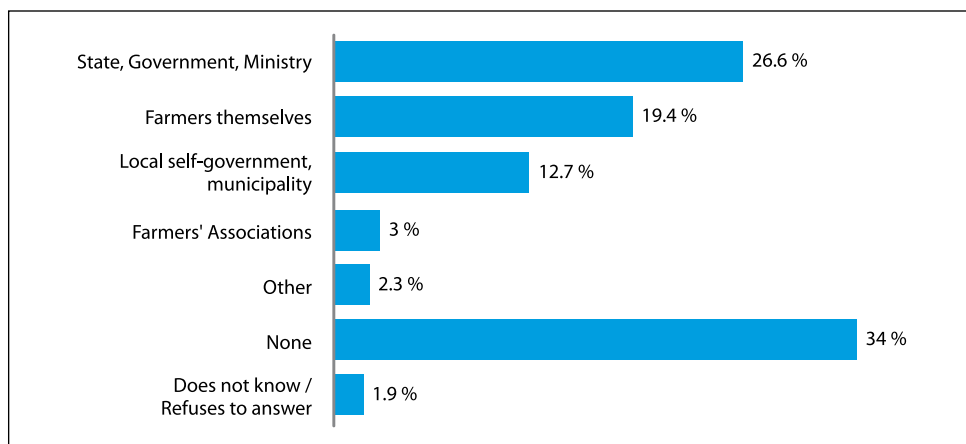
another way of cooperation that would have a significant influence in rural areas, was not established. As a social group, the farmers are still isolated, and their interests and needs are not sufficiently articulated through appropriate forms of organisation.

This research defines relevant groups of local decision makers in rural parts of Serbia as follows:

- I 1. **Representatives of the local self-government (municipal government).** This group comprises persons/services/departments responsible for agriculture, economy or agriculture, and rural development in municipality authorities. The organizational scheme of representatives of municipal authorities, in addition to the previously mentioned bodies and persons, in some municipalities includes also regional chambers of commerce, agencies for small and medium enterprises, employment services, social and pension insurance, as well as social work centres. Furthermore, funds for agricultural development are listed occasionally, as well as agricultural funds, advisory services/ agricultural institutes, etc.
- II 2. **Representatives of the business sector** – this group includes SMEs, trade companies, hostelry and catering companies, agricultural produce processing companies, producers' associations and cooperatives. According to their own words, their key contacts with the rural population are through providing market placement of agricultural products and employment for the rural population. Much less often do they invest into joint production, organize promotional activities for local produce or take part in promoting other local potentials.
- III 3. **Representatives of the non-governmental sector** – the NGOs in contact with the rural areas are, in most cases, engaged in humanitarian and social work, environmental protection, human rights protection, cultural heritage/identity protection, and problems of vulnerable social groups.
- IV • Cooperation between the local decision makers is inadequate, non-coordinated, and sporadic. According to the results of analysis of the representatives of local decision makers, one half of the business sector representatives have never cooperated with the municipal institutions, and 1/3 have no knowledge of their programmes or activities. The highly indicative fact is that the 90% of the business sector representatives have never had contact with the Chamber of Commerce or the Agency for Small and Medium Enterprises, and thus have had no experience in cooperation with these institutions. This result illustrates that the undeveloped economic infrastructure and social capital are problems not only of rural households, but of local decision makers as well.
- V • As the institution that **currently contributes the most** to betterment of life in rural households, the farmers mention the state and the Government (27% of responses). The second place is held by the farmers themselves, and then the R

local self-government. **It is indicative that even 1/3 (34%) of the respondents think that not a single institution does anything to improve the position of rural households.** This attitude of the respondents was largely confirmed by the results of the analysis of local decision makers' attitudes. Namely, local representatives of the authorities stated that the problem of small rural households and poverty in rural areas was mentioned in the strategic plans of 65% of the municipalities with strategic documents, while in 27% of the municipalities, these problems were not recognized⁷⁷. The majority of the local self-government representatives (60%) failed to explain what exactly the „direct“ handling of this problem means. Those who responded to this question usually mention various incentive programmes (agricultural development, youth employment). The indirect handling of these problems is taken to mean educational programmes by " of the respondents.

Graph 3.4. Institutions and groups currently doing most to improve the position of rural households (1 response)*:

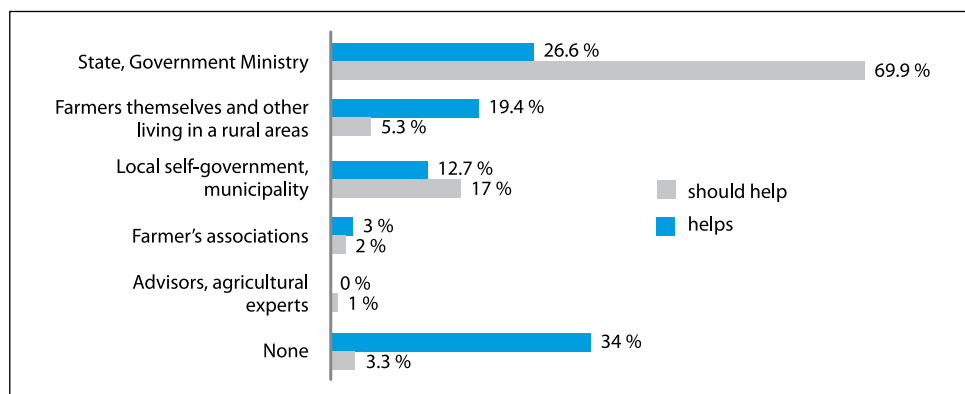


* Base – all households

- Few households have recognised as relevant factors for their position the following: producers' associations, farmers' associations (17%), local entrepreneurs (8%), advisors (8%), NGOs (4%), and, furthermore, recognized none of them as their primary partners. Local representatives of the business sector do not cooperate directly with small households, nor do they see their interest in that kind of cooperation. As a factor hindering a higher level of cooperation, both sides mention lack of interest, unreliability/distrust etc. The NGO sector cooperates with small rural households through programmes intended for financially deprived households, or through educational programmes for the young, for farmers, women and senior persons.

- Problems of the young in rural areas are also inadequately treated in municipality strategic plans. Municipalities whose programmes do include the problems of the young in rural areas usually address them through educational programmes related to agriculture, and through employment programmes. **The position of women in the local community is the problem least frequently directly approached in municipal strategic plans (35%), and it is never recognised as a problem with higher frequency than other problems (38%).** The direct treatment of this problem usually involves various educational programmes, increasing participation in social life, as well as motivating them to remain in rural areas.
- As the most responsible institution which **should do most** when it comes to improvement of the position of rural households, households almost exclusively, as their first answer, name the state and the government – 70% of all respondents. Local self-government is mentioned in 17% of the households, while other answers are present in a much smaller percentage.

Graph 3.5. Responsibility of the institutions for the position of small rural households*



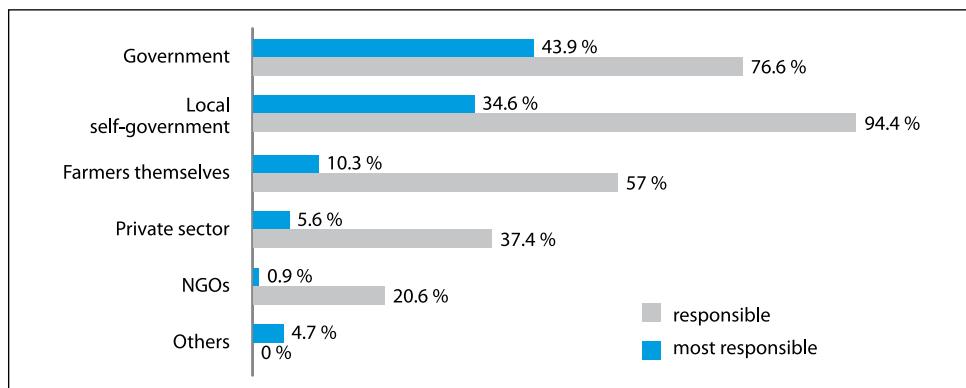
* Base - all households

- The mentioned comparison of expectations from the state and the assessment of how many the state authorities are momentarily doing for the farmers show a vast discrepancy. Practically, **not being able to recognise other relevant participants and social partners, the respondents transfer all the responsibility to the state.**

All the above mentioned demonstrates that households do not recognise their own responsibility for their present position, nor the ability to become active in improving their position in the future. The local self-government and the state, which are the decision making levels further removed from the farmers, are thought to be more responsible for the position of the farmers than the farmers themselves and their immediate local community .

- The majority of local decision makers believe that the local self-government should address the problem of rural households, but they, too, feel that primary responsibility lies with the Government (Graph 3.6).

Graph 3.6. Responsibility of the institutions for the position of small rural households*



*Base - local decision makers

It is interesting that for both of the problems, the state of affairs in rural areas and the position of small households, a small percentage of the respondents (about 10%) feels the primary responsibility to lie with the farmers themselves. This practically means that **farmers as a social and economic group are not sufficiently socially recognized, socially connected and institutionally organized in a way that they can influence their status and position. The farmers themselves assessed their own responsibility to be higher than seen by other potential partners.**

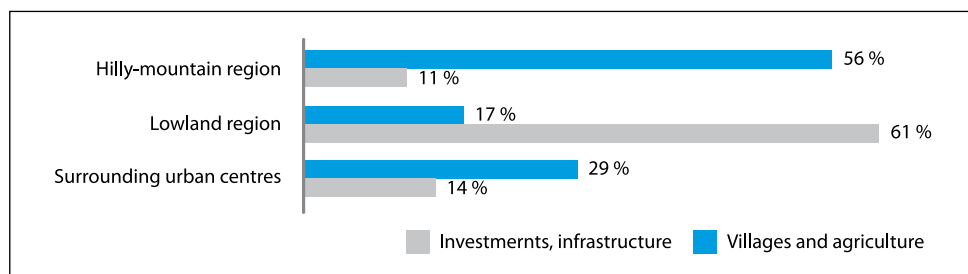
3.2.3.2. Development Programmes and Cooperation

The representatives of the local self-government and the NGO sector have been, by their own assessment, very active in initiating programmes for the development and promotion of local economy for the last 5 years. Nearly 90% of municipal officials and 70% of the NGO representatives declared that they have initiated programmes for improvement of local economy in the last 5 years. The majority of initiatives have been related to the following areas (Graph 3.7.):

- **Tourism, culture, environmental issues, rural areas and agriculture in mountainous areas were much more in the centre of attention of the local-self governments and the NGO sector when compared to the attention paid to other areas. Infrastructural investment projects are more often mentioned in the flatland region than in other regions.** Representatives of the local self-government more often dealt with infrastructural projects than other stakeholders, and the NGO representatives were more engaged in educational issues.

- Programmes for improvement of local economy were in 51% of the cases financed from municipal budgets. The municipalities in flatland region had a very high participation rate in funding the development projects in their territory. Other important sources of funding were the USAID, the NGO budgets, Budget of the Republic, ADF, EAR, Ministry of Agriculture, and many others. The business sector representatives also mention having taken part in the realisation of projects for local economy improvement, but the percentage here is much lower (25%).

Graph 3.7. Distribution of development programmes and activities of local decision makers*



* Base – NGOs and local self-government representatives

- According to the assessment of project participants, the most frequent obstacles for implementing the projects were insufficient funds (30%), poor cooperation with the local partners (16%), and lack of interest in the target group (13%).

Benefits to the small rural households from such initiatives of local decision makers are quite modest and inadequate for their needs and opportunities. The lack of funds and the non-existence of the market head the list of limiting factors for the development of small rural households, which clearly shows that they have not recognised their business and social partners in their immediate surroundings.

- Aid programmes to vulnerable population were present in Serbia at the beginning of 2000s, but **83% of the respondents state that since 2001 they have never asked for or received any kind of support (either from the municipality, foreign donations, NGOs). Twelve percent of them answered that they had tried, but failed to succeed, while only 6% maintain that they received assistance in either money or in kind.** Younger respondents, women and those seeing their future in development of an additional private business activity, mostly gave the answer that they had tried but failed to obtain aid. They usually received assistance from the municipality (33% households having received assistance), the State and the Ministry of Agriculture (24%), and various NGOs and foreign donors (34%) – the Merhamet, Red Cross, and Refugee Centre. Non-agricultural households received aid in goods, and the agricultural ones were given financial assistance. Among the other types of help that the households benefited from was scholarships for their

children. **The households in flatland region more often attempted to obtain various types of assistance, and were more successful in their attempts. The reason could be found in the higher share of refugee population in this area, and a more favourable age and educational structure of the population, more accessible and larger municipality funds, etc.**

- Association and business cooperation are the most often used mechanisms for overcoming unfavourable economic position of households with limited resources. Cooperatives and cooperative organizations have a long lasting tradition in Serbia, with different experiences during the last 150 years. The difficulties of redefining their status as far as organisation and ownership are concerned, during the period of transition, brought the activities of many of them to an end. In the meantime, much has been done to promote association and strengthening of the business cooperation, as well as to encourage farmers to join various professional associations, but only 37% of the respondents state that there is a cooperative in their village, 12% that there is an association of farmers, and 2% that there is some other professional association. Half of the respondents state that such a form of cooperation is non-existent in their village. All three types of association could be found more in flatland regions (in this region 71% of the respondents say that there is a cooperative in their village, 26% that there is a producer association, and 5% that there is some other type of association). **It is also of interest that women are also more familiar with the existence of various types of associations in the village.**
- However, membership in these associations is far from being widespread - only 9% of the respondents saying that there is a cooperative in their village are its members; similarly, 10% of respondents mentioning that there is a farmers' association in their village are its members. A large majority of the respondents, (about 1/2 of those saying that the relevant association exists) were ignorant of the activities of these associations. Members of cooperatives and associations believe that these associations work well in 15% of the cases and recognize the benefits of their membership, while about 20% of the households believe that the association exists only on paper or that there are not enough members in order for the benefits of association to be more clearly felt.
- As regards participation in social activities in the communities where they live, the members of small rural households have shown extreme passivity with relation to social participation – **91% of the members are not active in any of the offered organisations or social groups.** Other members usually mention a membership in a sports club, hunting club, and folk song and dance club. Women much less often take part in additional activities (96% of women are not involved in the additional activities). Younger people (up to 25) show a higher level of inclusion in some of the offered types of activities, as well as persons with education levels

higher than in the other population. Members of households in flatland region are about 5% more engaged in additional activities than the households from other regions of Serbia.

3.2.4. Perception of Households on Rural Livelihood

The household perception of the key questions of their living in the following part of this research was directed at the two topics:

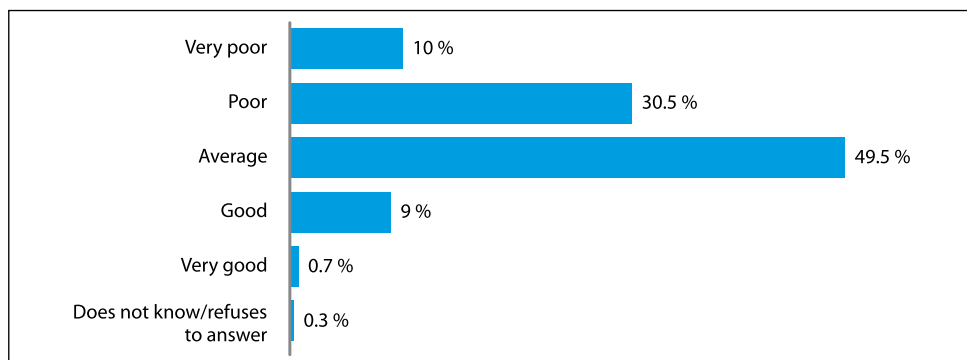
1. how they see their household in the present organizational-economic surroundings, and
2. how they see and assess the quality of life in rural areas.

3.2.4.1. Household Position and Prospects

The position of the households from the point of view of the respondents can be seen through several indicators:

1. Assessment of the standard of living
2. Assessment of potential
3. Assessment of household future prospects

Graph 3.8. Assessment of Household Standard*



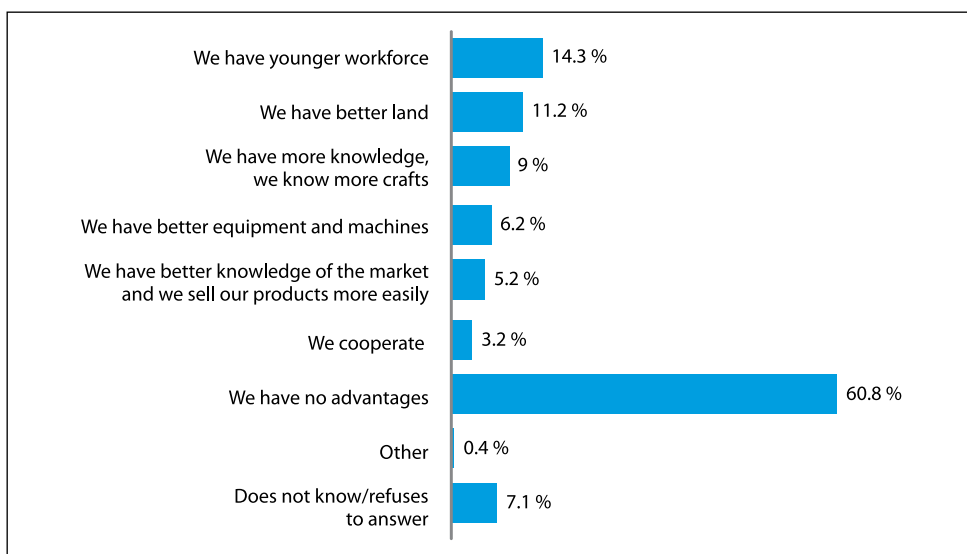
*Base - all households

- A majority of small rural households (50%) evaluate their **standard of living** as average. However, as many as 41% of households state that the living standard of their households is poor or very poor, while only 10% of households assess their household to be better than average (Graph 3.8.). A negative image of the present state of affairs and of future perspectives is most often present in households

where decision makers are over 50 years of age, households with no land and households in flatland region.

- The respondents perceive **developmental advantages and potentials of their own households** (similarly to perceptions related to workforce competences) in an extremely rigid manner (Graph 3.9.). The greatest number of respondents cannot name any advantages of their households in comparison to other households, or they have refused to state their opinion on the matter (even though the respondents could look at the card with a checklist of different advantages as a kind of reminder). The respondents of younger age categories (less than 40) more often than others believe that they do not have the potentials, or they did not know how to/ refused to answer that question.

Graph 3.9. Advantages and main potentials of households*



*Base - all households

The assessment of the importance of potentials is different for different types of households and regions, so that:

1. The households where agriculture is an additional source of income see the **younger workforce** as their advantage. The mentioned data may be compared to the data on the additional skills of workforce in the households where almost 50% of the respondents stated that their members have additional skills. The fact that 10% of households highly value these skills and knowledge as their main potential is not insignificant, and it signals that this resource may be activated if given appropriate support. Younger workforce as advantage is seen by the

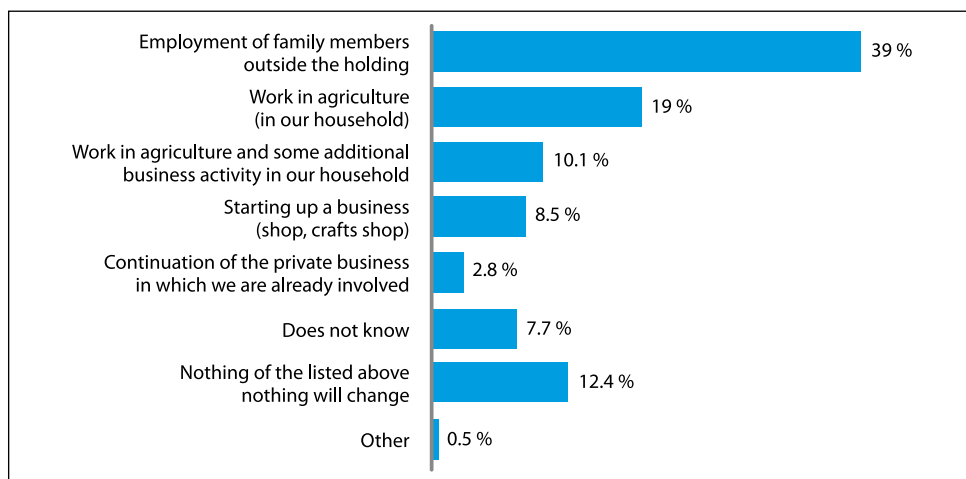
households in flatland region and by those with optimistic vision of their future – those expecting their economic status to improve in the future. These households more often than others see their future in starting up their own businesses and/or additional businesses.

2. **Better land** is perceived as an advantage by agricultural holdings, in particular by those believing that their future is in starting up an additional business activity on the holding. The households with optimistic outlook when it comes to their future economic position as well as holdings in the regions surrounding large economic centres also see land as their advantage (15%:7%). Households in flatland regions respect and value their land potential the least. Such an outlook is understandable, taking into account that households in this region are to a lesser degree dependent on agriculture.
3. Agricultural households and those perceiving their future in a business of their own, claim that their advantage is **better knowledge of the market** when compared with other types of households.

What is encouraging is the **optimistic prognosis related to the future position of holdings**. One third of the respondents believe that the situation will improve, one third believe that it will remain as it is, and less than 20% believe that it will turn for the worse. The observations about the position of holdings in the future differ to the extent that the households where decision makers are younger persons, and the households seeing their future in starting up a private business, express optimism more than the others. The depressive vision of future is characteristic of households where decision makers have lower educational levels.

1. **The households whose members are better educated see their future in employment outside agriculture or in starting up their own business.** Whether due to limited resources of the households, the current socio-economic status, or for other reasons, households with better educated members do not see their future in diversification of activities on the holding. They see their future **solely in starting up a private business or in employment**.
2. That future of households to be in employment of their members is much more often seen by female than by male decision makers in the household (48% compared with 37%), and by the representatives of households with younger and better educated population.
3. Agriculture, or agriculture with an additional business activity, is primarily seen as an advantage by the households already strongly dependent on agricultural income. **The households with income from additional sources do not show willingness to involve themselves in agriculture or to invest in a farm related business.**

Graph 3.10. Prospects of the households*

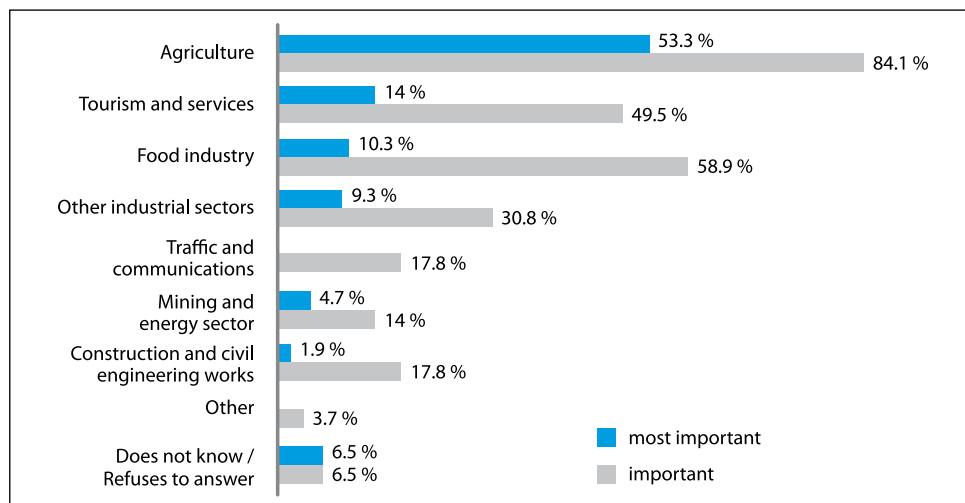


*Base - all households

4. The households without land are to a much larger extent unable to give assessment of their future (30% of these households not being able to state what they see as their future) and they are certainly the most sensitive category of households in rural environment.
- Those seeing the future of their households to lie in starting up a private business or an additional business along with the agriculture (19% of the total population) most often include the following in the list of businesses in which they could get involved: opening of a small craft shop (25% of such households), services rendered using the machinery and equipment (16%), trade, buyoff, business negotiations (13%), as well as a grocer's, boutique (11%). Rural tourism, food processing and finishing treatment, gathering and production of forest and medicinal herbs, are seen as their potential prospective business by 5-10% respondents seeking their future prospects in additional activities on the holding, or in starting up a private business. **These numbers are quite discouraging and reveal fairly small knowledge of the opportunities and/or modest potentials of the households preventing them from involving themselves in an aspect of rural economy diversification.**
 - Most representatives of local decision makers believe that agriculture is the most important business activity in their region (Graph 3.11.). Such a high level of dependence on agriculture, in view of the low efficiency of other sectors of economy, is only to be expected, and also is in line with macroeconomic parameters of the position and significance of agriculture in the economic structure of Serbian rural areas. However, it is interesting that, according to these responses, other industrial

sectors are ranked below tourism. Measured by statistical indicators, participation of tourism in the economic structure of Serbian rural area is relatively modest (not including Western Serbia). That is why the high ranking of tourism by the respondents reflects more the unused potential than the actual significance of this business activity for their municipality.

Graph 3.11. Importance of economic activities for the economic structure of rural areas*



*Base - all local decision makers

- Most local decision makers (95%) believe that their municipality is attractive for future investments. The attractiveness for investments is mostly explained by broad statements about versatile and mainly unused potentials, but also by tourism resources and the geographic position.

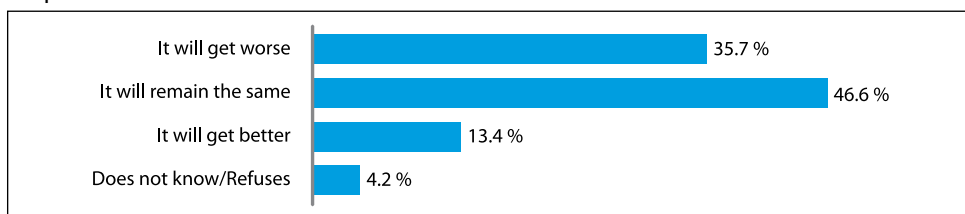
3.2.4.2. Quality of Life in Rural Areas, Social Services and Infrastructure

Quality of life in rural areas is observed through a number of parameters:

1. The respondents' own assessment
 2. Available rural services
 3. Rural physical infrastructure
 4. Ranking the problems of rural population
- Rural areas population are not satisfied with the **quality of life** in their communities⁷⁸. Such viewpoint has been overwhelmingly confirmed through a number of conclusions:

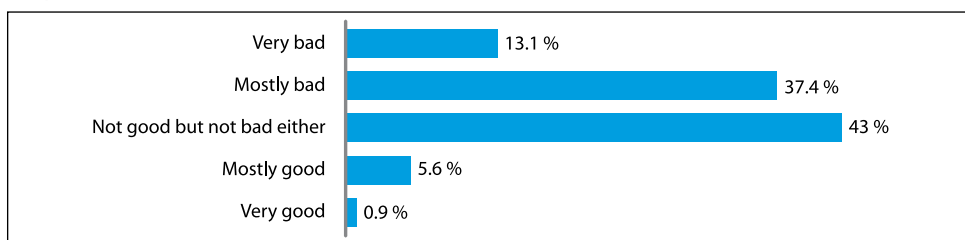
1. Negative assessments by the respondents were evenly distributed among the particular types of households and the types of local decision-makers, which means that there is a **high consensus** with regard to the dissatisfaction with the quality of life among rural population (Graphs 3.12. and 3.13.).
2. With regard to the quality of life in their communities, the respondents have expressed a much higher level of **pessimism** than with regard to the future prospects of their households. More than one third of households expect further worsening of the quality of life in rural areas, and only 13% expect improvement in the ensuing 5 years.
3. **Opinions of local decision-makers** and surveyed households with regard to the quality of life in rural communicates are identical.

Graph 3.12. Situation in rural areas*



*Base - all households

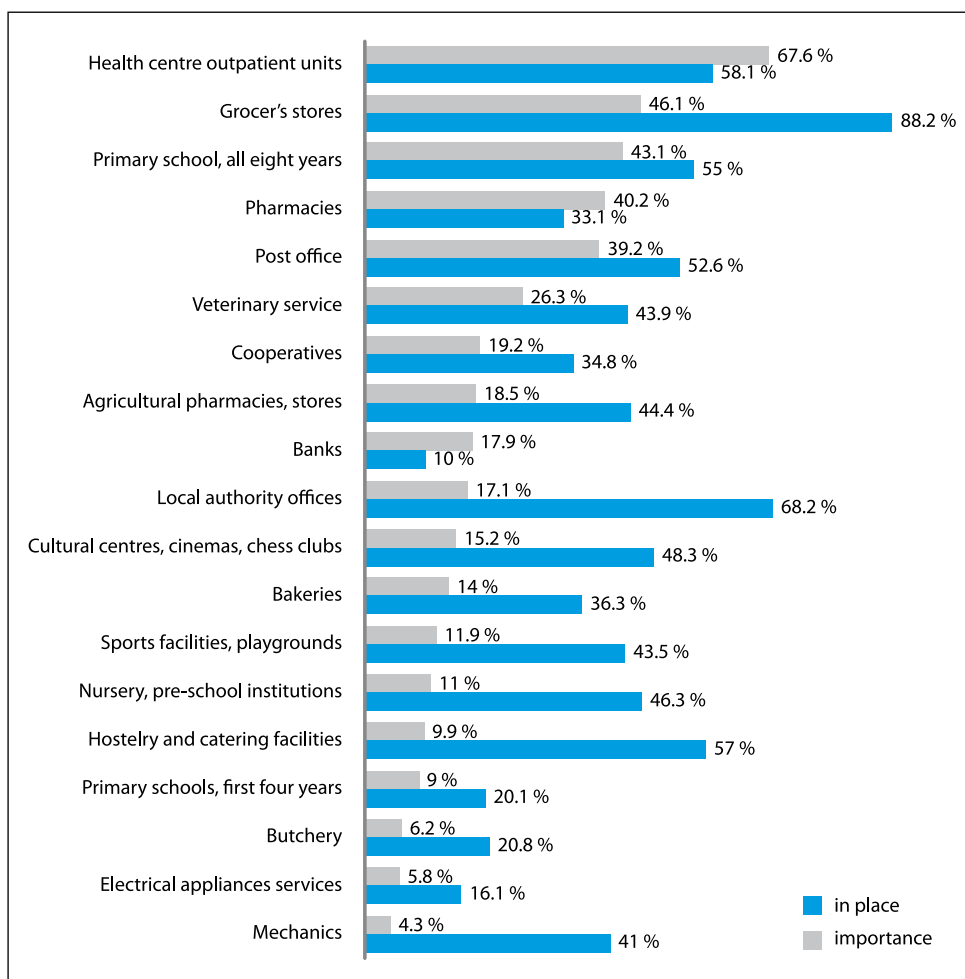
Graph 3.13. Situation in rural areas*



*Base - all local decision makers

- There are some differences with regard to both the importance and **availability of individual services and institutions** for the quality of life of rural population. Thus, for instance, availability of health care services (health care outpatient units and pharmacies) fails to meet the needs. A similar difference was noted in the availability of financial services (banks).
- From the above graph a conclusion may be drawn that rural services are satisfactorily developed considering that most respondents live in the places with priority institutions. However, the following conclusions suggest that the situation is not satisfactory:

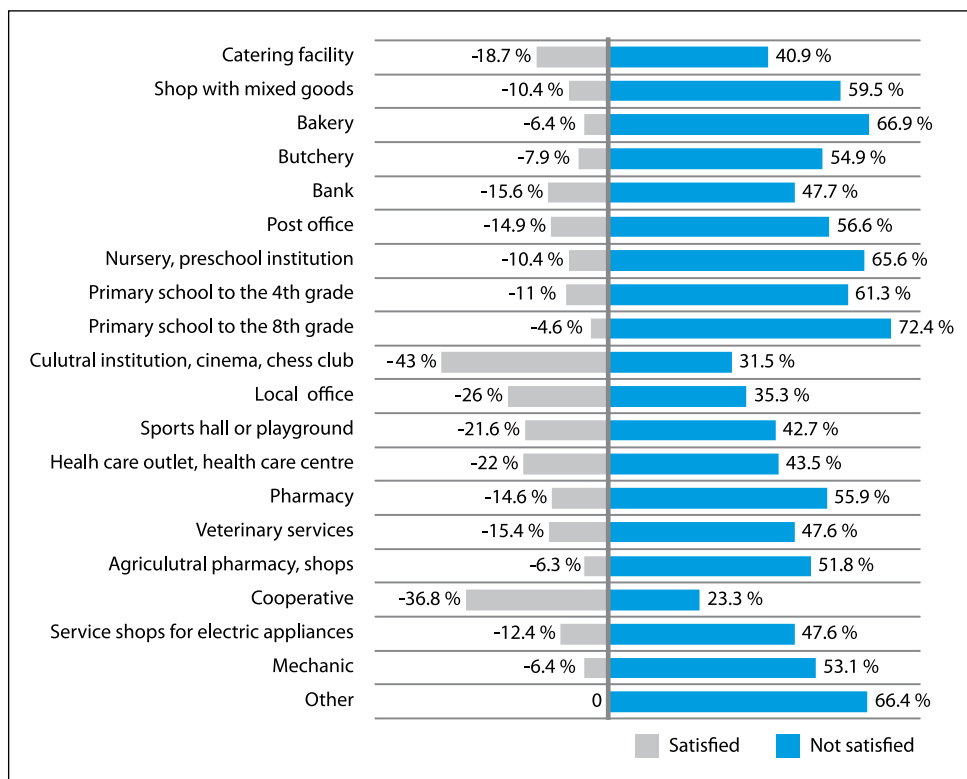
Graph 3.14. Availability and importance of rural services and institutions*



*Base - all households

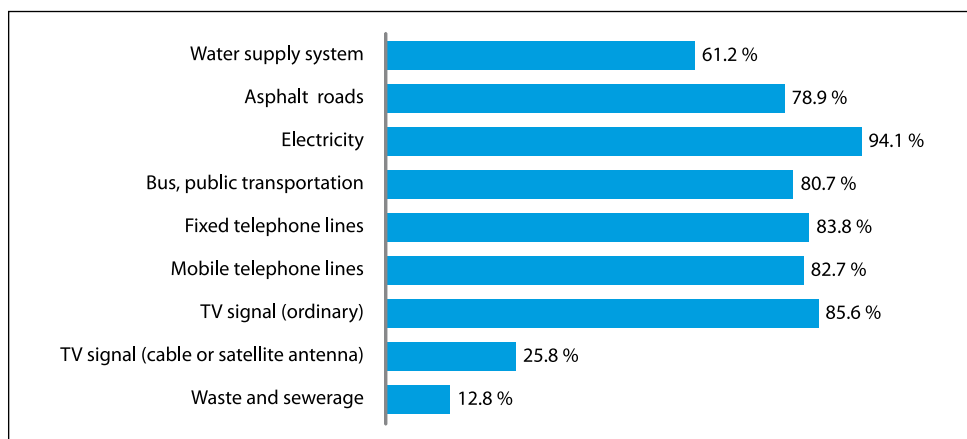
1. in the places where these institutions and services are available, there exists a certain dissatisfaction with the quality of services and organizational level of the service;
2. the highest level of dissatisfaction was expressed in connection with the available medical services and cultural life in rural area;
3. a high level of dissatisfaction with cooperatives arises from the absence of organised buyoff and sales of agricultural products. Traditionally accustomed to the cooperatives as synonymous for organised sales and guaranteed market, what the respondents are communicating to the cooperatives through their dissatisfaction is that they need such organised structures.

Graph 3.15. Satisfaction with available rural services and institutions*



* Base – all households

Graph 3.16. Availability of physical infrastructure

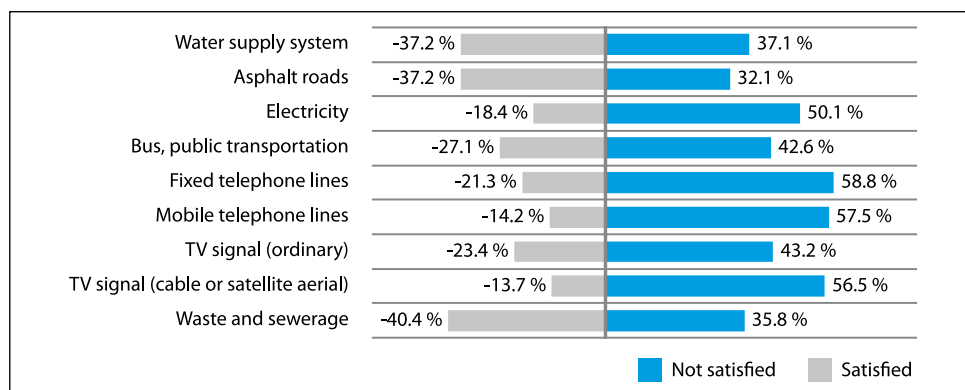


* Base – all households

- Current **availability of main utility systems**, as assessed by the respondents, is such that main utility systems are available in the percentage of rural settlements as shown in Graph 3.16.

Similarly to the previously mentioned situation concerning available social services, **rural areas in flatland region are better equipped with utility infrastructure** (not including landfills, which are available only in 10% of rural settlements)⁷⁹.

Graph 3.17. Satisfaction with available physical infrastructure



* Base – all households

- As assessed by local decision-makers, utility infrastructure is not adequately regulated in all parts of the territory of their municipalities. This largely coincides with the rural population assessments of the availability of utility infrastructure.

Table 3.7. Investments in the utility infrastructure (municipality self-government)

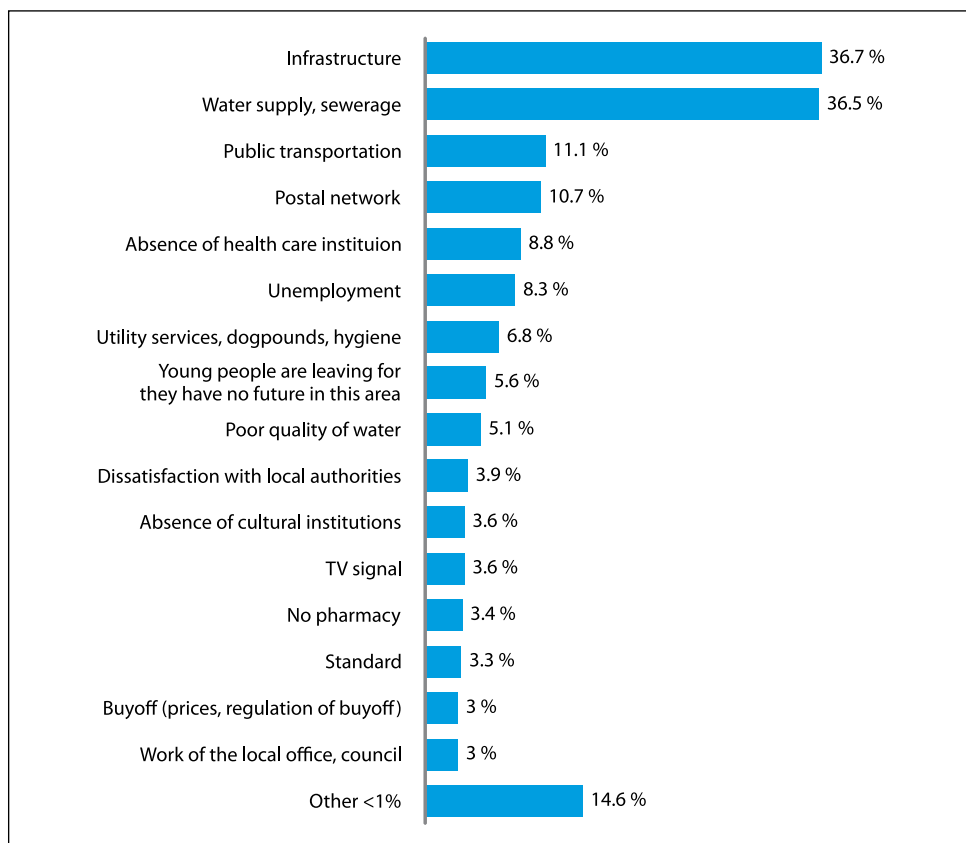
	Building of a new system, expansion of network	Rehabilitation	No investments	Does not know /refuses to answer
Water supply system	54%	43%	9%	14%
Sewerage	49%	14%	29%	23%
Electricity supply	49%	46%	11%	17%
Telecommunication connections	77%	31%		17%
Regulated waste disposal	23%	17%	57%	17%
Gas pipeline	20%	6%	57%	29%
Asphalt roads	57%	46%		17%

- Representatives of municipal authorities stated that, during the previous five-year period, investments in utility infrastructure were more focused on building

the new and expanding the existing system than on their rehabilitation. The investments aimed at building new systems or expansion of the network mostly pertained to the telecommunication systems, and the investments in gasification and solutions for regulated waste disposal were the least frequent ones. New utility systems have been built in the mountainous regions, and in the flatland areas they were mostly rehabilitated and reconstructed.

- With regard to the **priority problems of rural population**, a number of conclusions is indicative:
 1. Households expressed an incomparably higher level of dissatisfaction with utility problems than with the available services.

Graph 3.18. Priority problems of rural areas*



* Base – all households

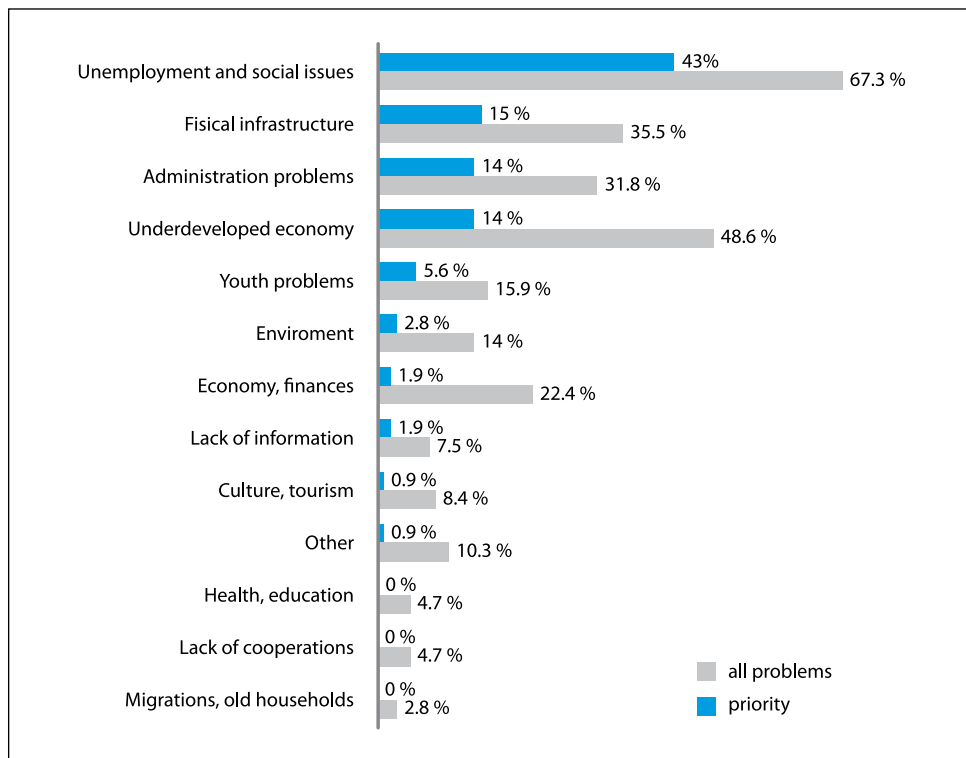
2. Additionally, absence of economic infrastructure or poor regulation thereof is, relatively speaking, assessed as a problem to a lesser degree. This is primarily a

consequence of their unfamiliarity with such services, rather than of the absence of need for them.

3. Regional differences are obvious, and they also suggest that a higher level of dissatisfaction is present in the households in lowland region, but also that the **nature of the problems facing the households in individual areas is different**. For the flatland area households, health care services are a greater problem than for households in the other regions, but their problems also include unemployment, standard of living, neglect of rural areas, absence of cultural events, and so on. Households in regions of large economic centres have more problems with the agriculture-related services. In addition to asphalt roads, they also have a greater need for better buyoff prices and cooperatives than the households in other parts of Serbia.
- **With regard to priority problems**, the viewpoints of the **representatives of local decision-makers** differ from the opinion prevailing among the rural population. This is how local decision-makers see the problems of rural population:
 1. Utility infrastructure is a lesser problem if compared with unemployment and economic underdevelopment, and the resulting social insecurity. Most respondents believe that economic problems are primary problems in the region where they live. Such a high concentration of responses reflects the actual situation in the economy of rural communities, and was to be expected.
 2. Even though infrastructural problems were highly ranked, as primary problems they appear in the answers of only 14% respondents. Also, **problems of elderly households, problems of the young people, cultural life, information and cooperation**, were only infrequently mentioned by the respondents as their primary problems, even in the relatively developed municipalities. One of the major problems of rural population, the establishment and availability of medical services, was not ranked as a priority by the representatives of local decision-makers.
 3. **Unemployment and social problems were mentioned as priority and major problems in their communities by local representatives in mountainous regions more often than in other regions**. From the perspective of different respondents, the findings showed business secretaries and municipal administrations mentioning the problem of unemployment and poverty more often than the NGO representatives. Utility infrastructure is seen as a major problem in their communities by the representatives of larger economic centres and by municipal administrations more often than by other respondents.
 4. **Economic and agricultural underdevelopment is recognised as a key problem in most of the municipalities in the regions with larger economic centres and by business sector representatives facing this kind of problems most frequently**. High ranking of the significance of economic problems was to be expected among

the respondents from this region – this region comprises larger economic centres concentrated in the areas around urban centres, where income from agriculture is of high relevance for the population in this area, as well as for the economic stability of the households.

Graph 3.19. Priority problems of rural areas*



*Base - all local decision-makers

5. Inefficiency of municipal administration, poor regulation of the procedures, and absence of transparency of operations, are all mentioned as major problems in their communities both by the representatives of lowland regions municipalities and the NGO representatives.

3.2.5. Business environment and economic infrastructure

Business environment and so-called social capital are important factors of the economic activities diversification and improvement in the rural areas. Accessibility of these factors to small rural households has been observed through the following parameters:

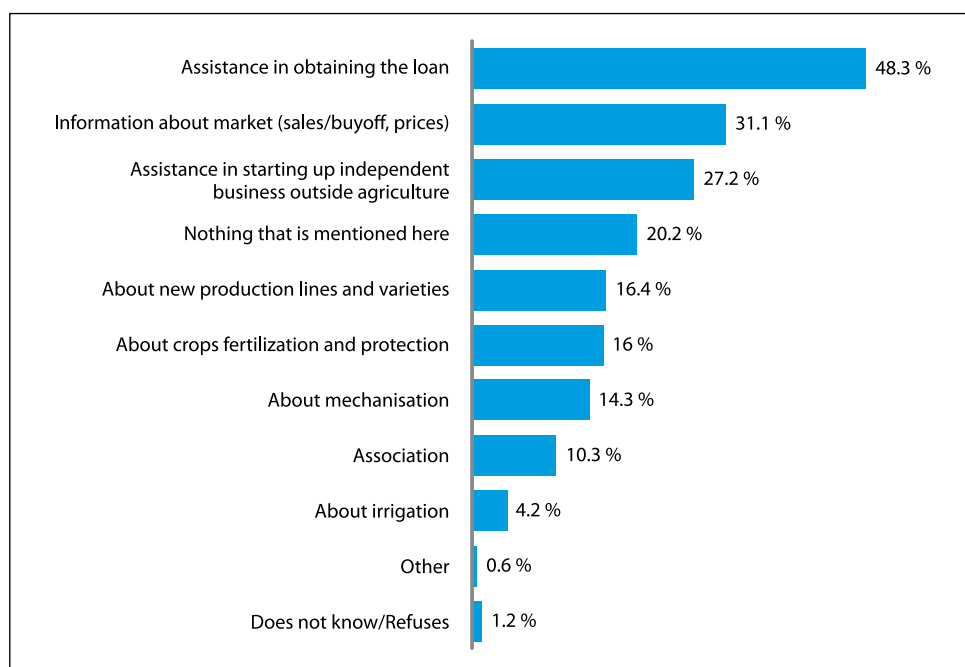
1. Sources of information and counselling services
2. National support programs
3. Market accessibility

3.2.5.1. Information sources and expert assistance in counselling - Extension Service

The need for information and counselling is highly ranked among all surveyed persons⁸⁰. However, some categories of surveyed persons differently assess their need for information and counselling services:

1. Households which are primarily focused on agriculture (their main incomes come from the agriculture and they see their future in agricultural activities) are to a greater extent interested in getting the aid in the form of loans, information about the market, about new production lines and varieties and about crops fertilization and protection.

Graph 3.20. Type of expert assistance*

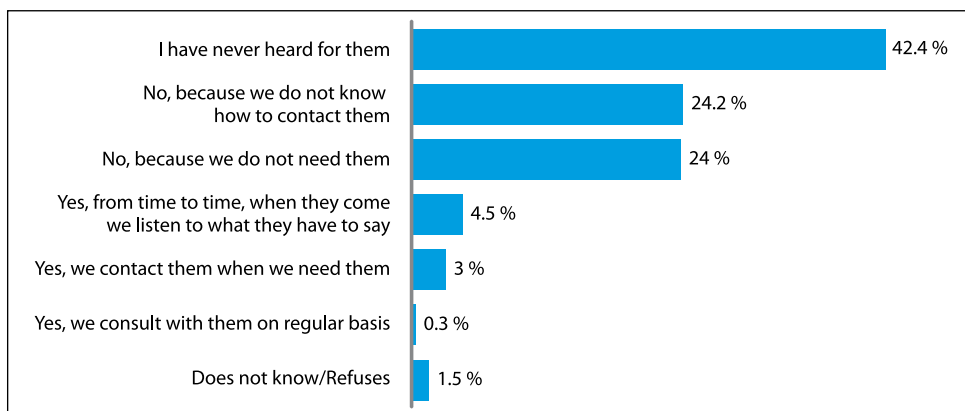


*The base – all households

2. Further education and assistance in starting up new businesses are required to the households which see their future outside the agriculture and farm holdings.

3. Non-agricultural households, households whose main income come from pensions, and the households which with regard to their prospects deem that they do not need any kind of assistance.
 4. Lesser need for further assistance was stated by the households in flatland region, which may be accounted for by greater accessibility of this service in such areas.
- However, regardless of the need for counselling services, small households in Serbia lack knowledge about them. The fact that only 8% of subject is in contact with the counselling services is to be expected considering the social-economic profile of the observed households. Much more important data is that **more than 40% of households are not aware that such services exist, and that further 24% has a need for such services but does not know how to acquire them.** The services provided by the counselling services are to a greater extent used by the surveyed with higher education level with whom the agriculture is main source of income and whose farm holdings are registered.

Graph 3.21. Does your household use the services of counsellors from the Extension service?

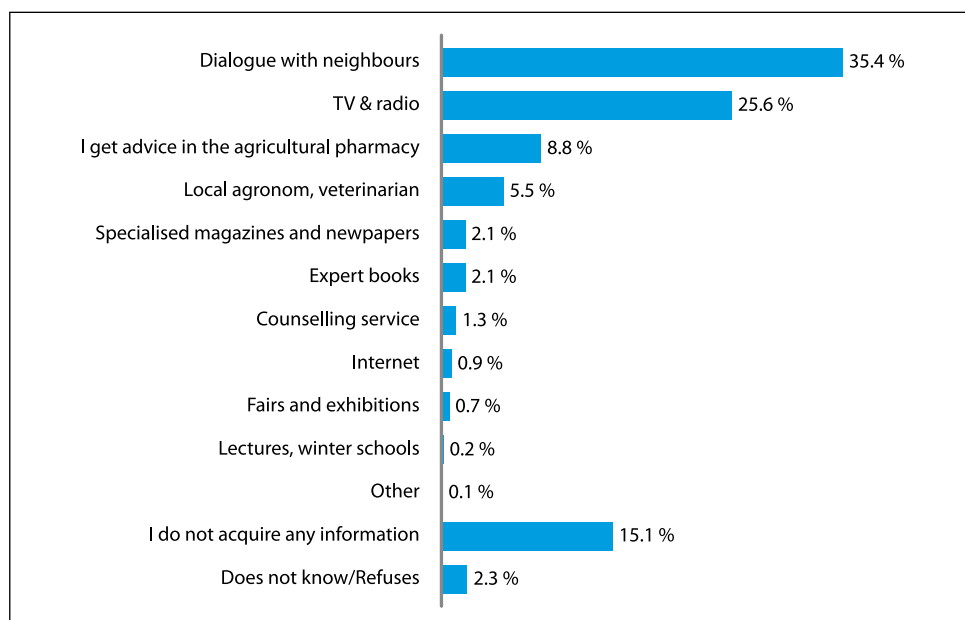


*The base – all households

- A half of all households acquires information in an informal manner (through dialogue with their neighbours) or do not acquire any information at all, regardless of the stated need for information with half of the surveyed.

It is beyond doubt that existing forms of information dissemination are not appropriate and that they require a much more dispersed system for transfer of information to the users. The existing system of agricultural advisory services inherited from the previous socially oriented system is limited mainly to providing services to agricultural complexes and cooperatives. The providers are often focused on government and donor contracted services which are not always demand-driven. Therefore, most farmers perceive little value in these services in general.

Graph 3.22. Usual information sources*



*The base – all households

3.2.5.2. State aid schemes

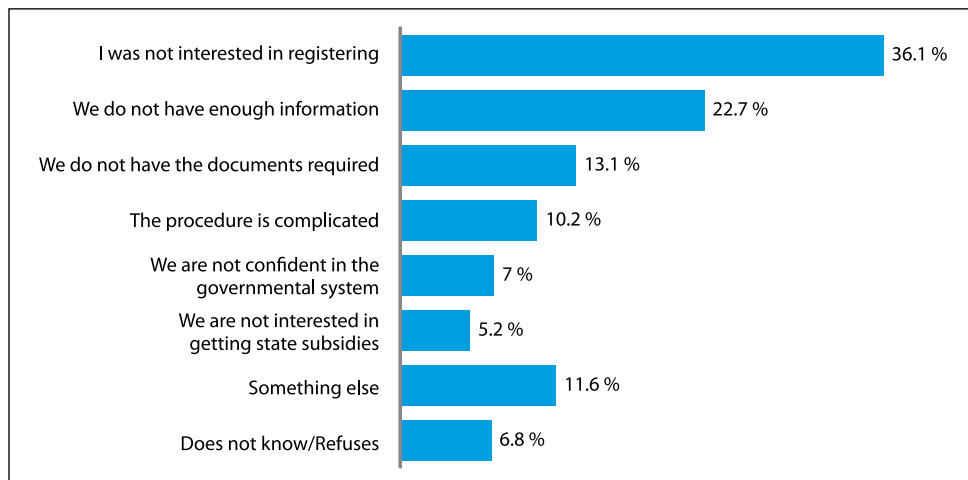
Since 2004, the state aid schemes in Serbian agriculture have been conditional on the registration of farm holdings. Out of the total number of households with farm holdings (87%), only 36% have registered their farm holdings. The share of registered farm holdings is higher in the case of agricultural farm holdings (42%) than in the mixed ones (33%) and it is by far higher in the region surrounding urban centres (52%) compared with the other regions and particularly with the mountainous region (24% of registered farm holdings). **The share of registered farm holdings in sample was close to the share of total number of farm holdings in Serbia which have been registered in the period after 2004. Therefore, the deviation from the average is not significant.**

Lack of information is more frequently stated as the reason for not registering the farm holding in the hilly mountainous region, while in the region of large industrial centres, more often than in other regions, the lack of the documentation required and the complicated procedure are stated as such reason.

The Serbian scheme of aid to the agriculture and rural area have in the recent period covered a wide range of support measures, including the programs for crediting the procurement of equipment, machines, livestock, raising of plantations, and similar.

Promotion of the registration of farm holdings and the support system was intense and it was devoted a great media attention. That is why it is **worrying that such a high percent of persons are either not interested in getting registered or lack information**. By comparing this absence of initiative and willingness to acquire the funds with the highly manifested need for financial assistance and problems of financial nature, the conclusion is drawn that the level of the initiative coming from households is extremely low.

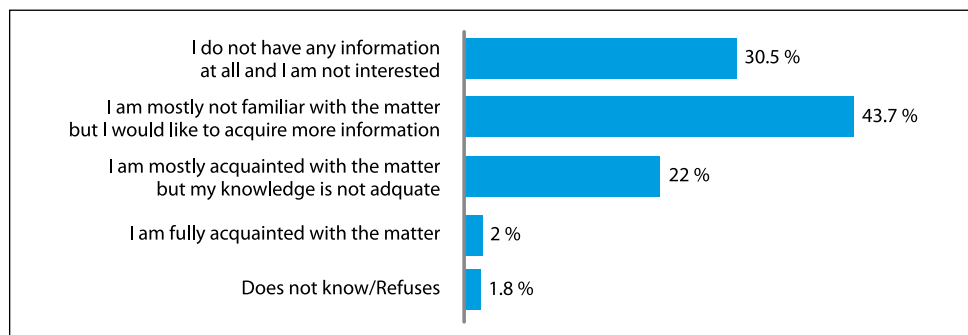
Graph 3.23. Reasons for not registering the farm holdings*



*The base – non-registered farm holdings

1. The surveyed who have registered their farm holdings more often believe that they are familiar with the aid schemes (30%) but it is indicative that as much as 18% of them assess that they know absolutely nothing about it.

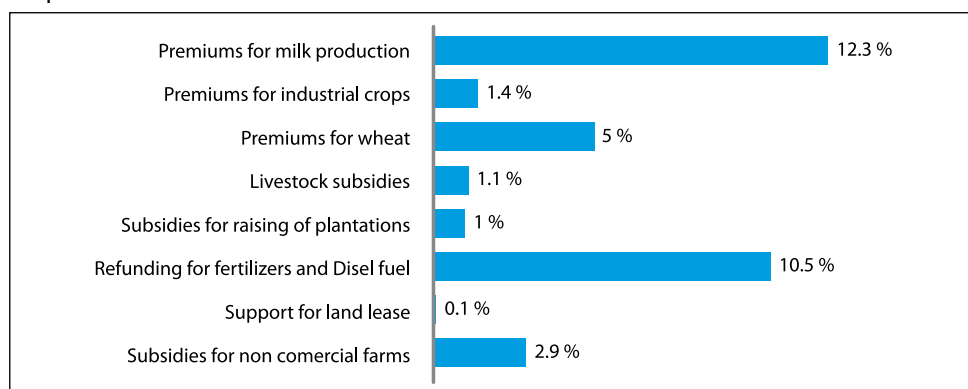
Graph 3.24. Familiarity with the state aid measures for agriculture (self determination)*



*The base – all households

2. The surveyed have heard for most of the current agricultural policy measures. Thus, 80% of the surveyed have heard for milk premiums, 69% have heard for subsidy for fuel and fertilisers, 63% for the premiums for wheat, 56% for the premiums for rape, sunflower, and soy. Between 40 and 50% of households have heard for the subsidies for rising of plantations, reproduction livestock and compensation to non-commercial farm holdings, while somewhat lower percent have heard for the support provided for land lease.
 3. The households which see their future in agriculture are in greater numbers informed about the individual programs. Also, with regard to the programs of awarding the premiums for wheat and industrial plants, the same is true for the households in the regions with intensive agriculture.
- However, a considerably lesser percent of households has used these programs: 12% of small rural households has used the milk premiums, 11% the subsidy for fuel and fertiliser, 5% for wheat premiums.
1. Different types of programs were to a much larger extent used by the households with primary focus on agriculture.
 2. In the region surrounding urban centres milk premiums were used more extensively (24% of small rural households of this region), while the premiums for industrial plants and wheat were more used by the households in the flat region.
 3. Support to the non-commercial households was used by 3% of households, and 1% of households used the subsidies for purchase of the livestock and the plantation raising each.

Graph 3.25. The use of state aid funds*



* The base – all farm holdings

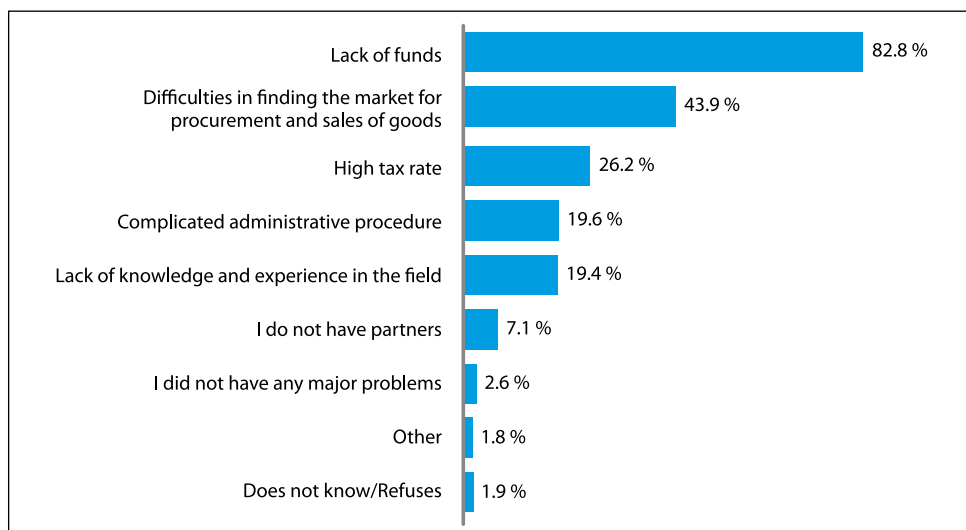
Even though the households mainly transfer the responsibility for their position to the local self-government and the Government, it is clear from the above stated

responses that the surveyed themselves have not done enough to improve their status and position. As much as 40% of the surveyed have practically of their own will declared that they are not interested in getting the assistance of this kind, regardless of the very much highlighted need for financial capital. Inadequate level of information, challenging access to the counselling services, low level own initiative, and absence of administrative local capacity are main obstacles for more active use of the state aid funds.

3.2.5.3. Market accessibility

- The commonest problem and obstacle for 22% of surveyed households which **have attempted to start up their own business** were stated to be the problems of financial nature and lack of market. That is why the financial reasons and the obstacles arising there from are the key problem in starting up new business activities and diversification of activities. There is no doubt that this situation **is a consequence of adverse circumstances in the capital market in general but also of the reluctance of small households to assume the debt risks.**
- Regardless of deeming that the lack of money is their main developmental obstacle and needing the information about financial conveniences, 1 of small rural households have never attempted to get a loan. Fourteen percent of households which have attempted to get a loan have failed and 12% was approved a loan. Also:

Graph 3.26. Problems and obstacles of the households which start up or already have a business of their own*

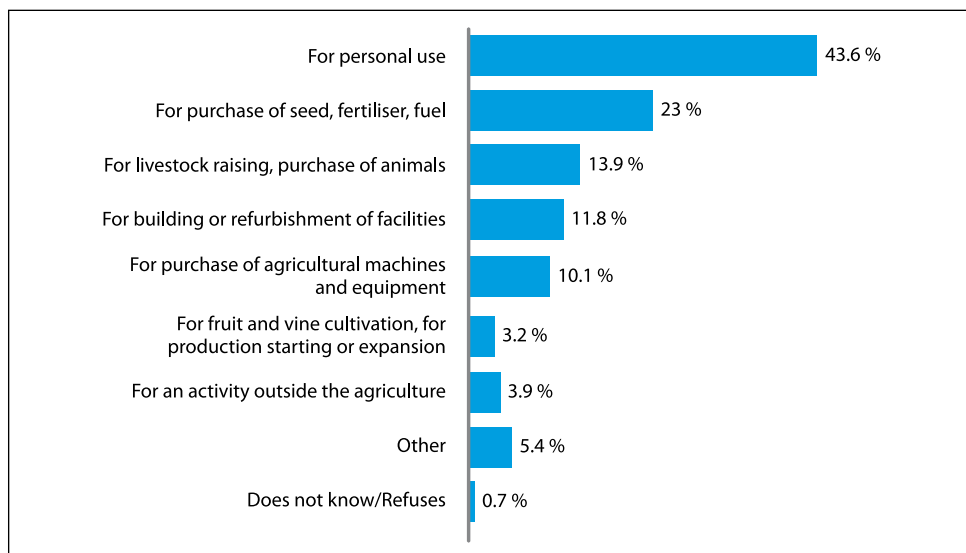


* The base - 22% of households

1. Loans were to a larger extent approved to (and applied for by) the households from flatland region where 18% of households have failed and 21% have succeeded in getting a loan.
 2. More active in their attempts to get a loan were the members of registered farm holdings – 19% of them have acquired loans and 19% have failed in their attempts to this end.
 3. Out of the total number of households which have acquired loans (12% of the surveyed), 71% have acquired a classic bank loan while 26% were approved loans subsidised by the government and 2.5% were approved municipality subsidised bank loans
- However, **a half of the loans they have acquired the farm holdings used for personal needs, meaning for non-production investments. The households whose main source of income is the agriculture have less frequently used the loans for personal needs (only 10% of these households).**
 - **The market absence** is seen by households as an important developmental obstacle. According to the findings of the survey, the households have predominantly sold their products to their neighbours or at the market (the village market or in the town)⁸¹.
 - The production agreed with the processors and wholesale buyers is almost non-existent which is understandable considering that these farm holdings, with small market surpluses, by their nature are not significant market producers. Moreover, even the larger market participants do not perceive small rural households as reliable suppliers. Absence of organised market channels for the trade in agricultural products is one of the restricting factors for the specialisation of production which is the only way to establish the economic stability and security of the farm holdings with lesser resources in agriculture.
 - Farm holdings in the flatland region have the marketability of their products many times exceeding that in other regions (not including production of fruits and vegetables in open space). Such conclusion was to be expected considering the production structure of agriculture in the regions in which the grain and industrial plants prevail.

Accessibility to the market of capital and commodities of small rural households is challenged due to their moderate potential which does not recommend them as reliable clients to the financial institutions, or as reliable partners to business sector. That is why small households remain isolated from any prospects of improving their income or standards, the incapability to start up the activities which would pull them out from such a position. The following data confirm the above conclusion:

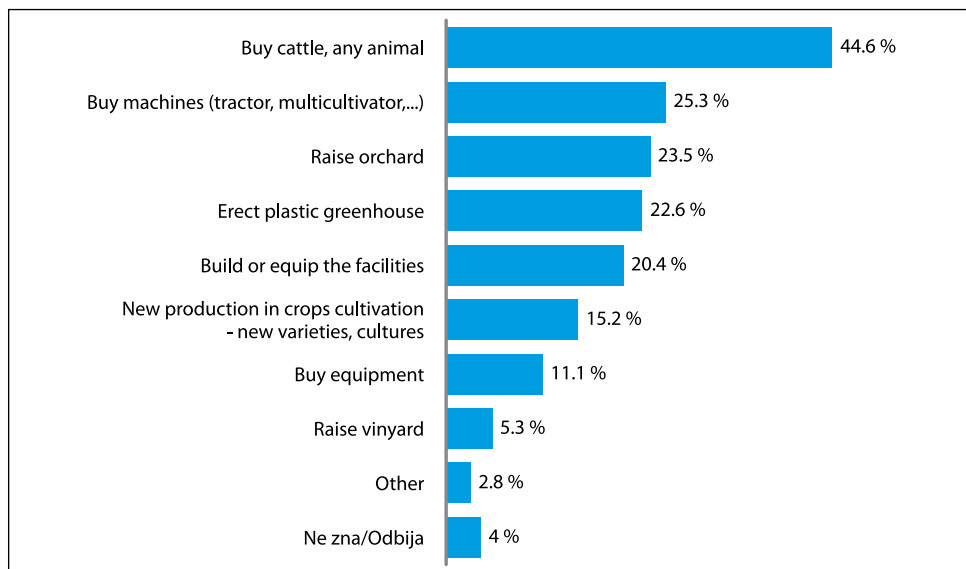
Graph 3.27. Intended purposes of the used loans*



*The base – the households which have used the loans (12% of total sample)

1. The share of the households which in the last 5 years⁸² have improved their agricultural production is worryingly small and account for only 20% of the total number of the surveyed.

Graph 3.28. Planned or realised investments in agriculture*

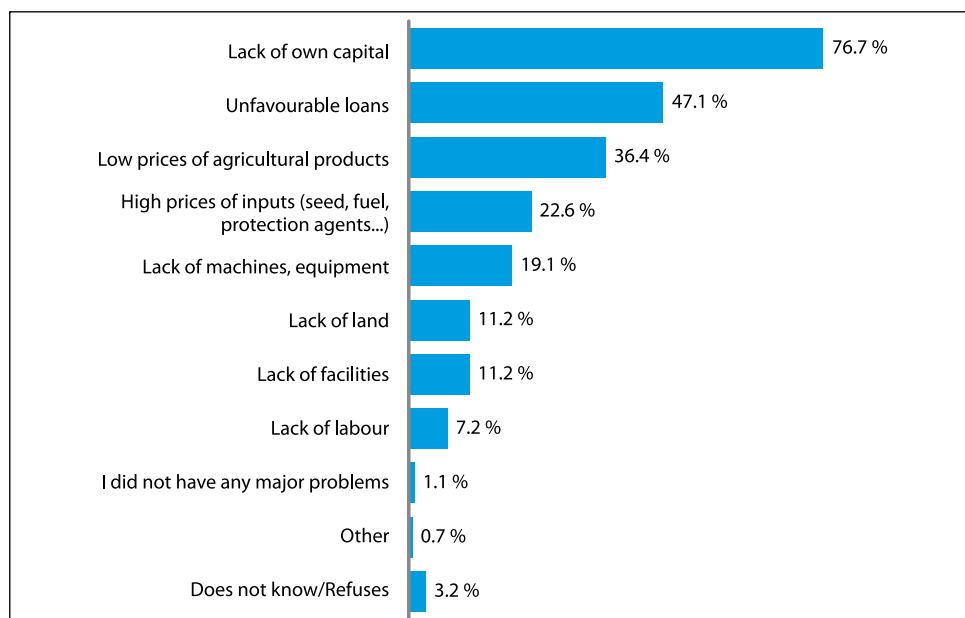


*The base – the households which have invested in Agriculture

2. Only 27% of registered households, 30% of those whose main income comes from agriculture, and every third household which sees its future in agriculture, has improved or made any modification to their production.
3. With regard to the plans for future investments in agriculture, only 35% of households intend to implement any changes or to invest. Increased interest for investment is not present with younger decision-makers compared with the older ones but such interest is more often expressed by the households which see their future in some additional activities on their farm holdings, the registered farm holdings, and the farm holdings from region surrounding urban centres.

The surveyed who said that they have improved or started up the agricultural production, or that they intend to do that - 38% of the surveyed, meant that they have made the investments for the following purposes.

Graph 3.29. Priority needs of the households which intensify the agricultural production



- This structure of responses is in line with the structure of the budget funds thus far invested in promotion of farm holdings in the form of loans or the Agricultural Ministry one-off funds. Livestock raising (purchase of livestock) is the most attractive option for the households in these regions. Besides the livestock raising, the households in flatland region have shown great interest to provide equipment for their facilities. The households in other areas give advantage to the purchase of machines and this is to be expected considering the long-term absence of the

incentives for these purposes and households' reduced economic power when it comes to investing in the machines.

- **Lack of own capital, unfavourable loans, and low prices of the agricultural products are perceived by the households as main challenges in starting up the agricultural production. The labour is perceived as an obstacle by 7% households only, which shows that the households have latent unemployment and surplus labour.** According to the small households, the most important factor required to start up production of a new culture or intensify the existing production is financial assistance in the form of loans, subsidies. The difference between the households which see their future in agriculture and the households which have started up a business on the farm holding or outside it, is that **the interest for education, information, cooperation is much lower.**

3.2.6. How to proceed?

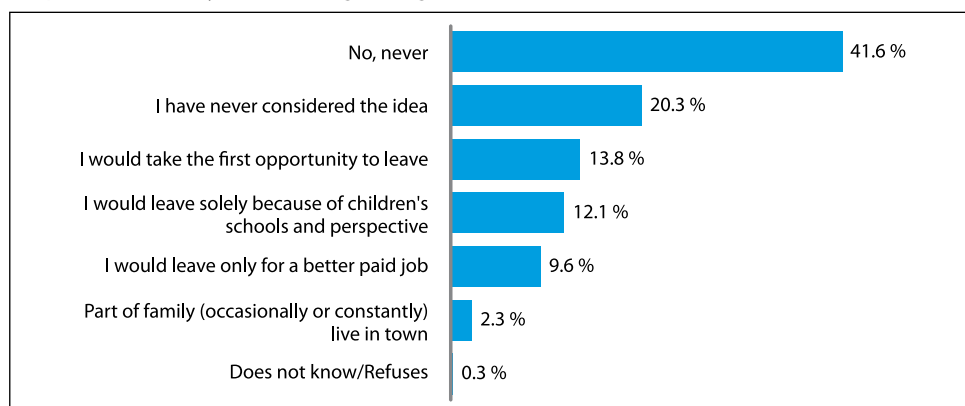
High dissatisfaction with their position, quality of life in rural area, and pessimistic vision of future for a half of households, do not constitute a reason to leave the rural area. Adding to this 20% of persons who have not complicated the idea, the conclusion is that more than 60% of the surveyed are not willing to migrate. This data must be interpreted with a dose of reserve because it is in actual fact the viewpoint taken by the head of the family and the opinion of younger generations was respected only commensurate to their representation in the structure of the surveyed.

The wish to migrate is more represented among the younger, better educated decision makers. The answer that they would take the first opportunity to leave is more often given by those surveyed who do not have the land and deem that the situation will only get worse in future. Contrary to them, the surveyed whose primary source of income is the agriculture, those from the region surrounding industrial centres and those who believe that the situation will get better in future gave the answer that they would never leave the place in which they live now.

Seen in terms of regions, the most loyal population of the area, the people least willing to migrate, are the inhabitants of region surrounding urban areas and largest economic centres. Close to 70% of them have never considered the idea to leave nor would do it, contrary to 58% of the heads of households in flatland region and hilly mountainous region. **The households most willing to leave the rural area are those in flatland region.**

The surveyed people have spontaneously mentioned the following three factors as the most important for the better life of their households: job opportunities outside agriculture (66% of the surveyed), accessibility to loans (57%), and regulation of the market (40%).

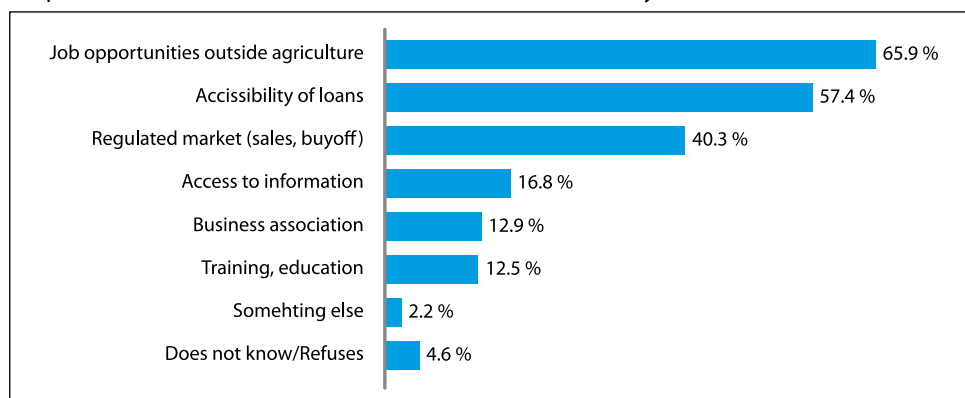
Graph 3.30. Would you be willing to migrate?*



*the base – all households

Job opportunities are much more frequently pointed out in the flatland region while the regularity of the market is more often mentioned in the region surrounding urban centres. Also, well-regulated market is much more frequently mentioned by those surveyed to whom the main source of income comes from agriculture and who see their future in agriculture, and least frequently in the flatland region households. Accessibility to loans is mainly mentioned by the households which see their future in starting up a private business or in the farm holding, or outside the agriculture. Those who plan to start up a private business outside agriculture also, above the average, mention business association and access to information.

Graph 3.31. What would most contribute to the better life of your household?*



*the base – all households

CHAPTER IV

CONCLUSIONS AND RECOMMENDATIONS

4. CONCLUSIONS AND RECOMMENDATIONS

4.1. Conclusions of secondary analysis (desk research)

1. Rural regions in Serbia take up 85% of the total territory, with 55% of the population living in them generating 41% of the country's GDP. The economic structure of Serbian rural regions is highly dependant on primary sector and still based on the exploitation of natural resources.
2. Research into progress on income diversification demonstrates that the earnings of those employed outside agriculture account for the largest part of total income, followed by income directly from agriculture. Diversification of activities (employment) of the rural workforce in Serbia shows that the highest percentage of the active rural population in Serbia (45%) works in agriculture. Such a high dependence of rural population on agricultural employment makes Serbia one of the most agrarian countries in Europe. The range and vitality of natural resources, the private ownership of land and experience in business cooperation, are among the essential preconditions for the diversification of the rural economy and have as yet been underutilized.
3. Most strategic documents recognize rural regions as regions with more pronounced poverty and severe developmental limitations, and yet a comprehensive policy for rural development has not been formulated in any official Serbian document to date. Certain aspects of rural development are mentioned separately in several national strategies, with a varying degree of importance ascribed to them.
4. Since 2005 the sphere of rural development has been under the jurisdiction of the Sector for Rural and Agricultural Development within the Ministry of Agriculture, Forestry and Water Management. The Serbian strategy for agricultural development covers basic conceptual issues connected to a rural development policy. In the period 2004-06 programs financed from the Agrarian budget concerning rural development were as follows: the projects to revitalize and construct rural infrastructure (reconstructions and expansion of local roads, electrification, water supply and sewage); support to the diversification of rural economy (agro-eco-tourism, traditional trades and food processing); support for young farmers, support to the organization of rural population and promotion of rural life.
5. There is no reliable system for the co-ordination of planning and directing resources from state aid between the numerous institutions and sectors involved

I in the various elements of rural development. Decentralization of institutions, adoption and/or harmonization of legislation, advancement of know-how and coordinating of support programs through local and foreign funds remains the precondition for efficient implementation of programs of support to rural development. To ensure active support to rural development Serbia must intensify the process of decentralization and do so in such a manner that the delegation of jurisdictions is accompanied by strong support at the local level.

- II 6. The employment problem of rural workforce in Serbia must be tackled from two sides:
- reduction in the unemployment of rural population and
 - change of present employment structure dominated by agriculture.

Both aspects are directly connected with the advancement of economic, social and communal infrastructure, especially in rural areas of economically backward regions. Employment problem in rural regions is exacerbated by a chronic lack of capital for starting up new production programs and necessary restructuring.

- III 7. Small rural households are highly represented in the social-economic structure of Serbian rural households. In Serbian rural regions (defined according to OECD methodology) there are 1,365 million households, accounting for 54% of the total number of households in Serbia. Farm holdings up to 3 ha in size, numbering 328,000, make up 56% of all farm holdings in rural regions. The process of transition and creation of new agrarian structures makes their social-economic position is highly vulnerable. Due to the resource limitations, these households are susceptible to a higher income risk.
- IV 8. The problem of vulnerability of small rural households during transition has been recognized in European rural practice through the experience of new member states. Accession and transition aid programs (SAPARD and IPARD), envisage special measures to help these households transform into market oriented households with sustainable potential.
- V 9. This experience is an important signpost to Serbia in the process of creation of a national strategy for rural development. The principle lesson to be learnt from the experience of other countries is that it is necessary to secure certain conditions in order to ensure rural development; these are as follows: the improvement of knowledge, of rural physical infrastructure, access to financial market, land market and adequate business environment for the SME development. The influence of local agents is important and the significance of rural non-farm economy must be recognized primarily by policy creators and decision makers.
- R

4.2. The Conclusions of Field Research

4.2.1. Human and Physical Resources of Small Rural Households

- Formal education of workforce in small agricultural households does not differ much from the rest of rural population. The level of additional knowledge and skills is rather modest and impractical for use in diversification of activities on the holding or outside it. Most households do not appreciate the significance of the work force as a resource, nor the value of additional skills and abilities of their members. This means that households are not able to recognize the possibilities for alternative employment of their members in other activities either in the household or outside it.
- The land that small rural households work on is the prime source of their food security. Only for a small number of households does land have a value as capital. Moreover, these households are seldom put on the land market. The physical capital of these households (equipment, facilities, machinery) is also modest, in average or below average state or repair, and is little used for the creation of additional income (for rental or offering service to other persons).
- Household members who are in employment account for 23.4% of the total. Only a small percentage of this number (1.5%) is self employed, running their own business. Employed household members seldom have additional paid activities. The less educated work force tends to have additional paid activities working as laborers.

4.2.2. Sources of Income and Their Diversification

- The majority of small rural households have income from employment outside agriculture, from the sale of agricultural produce and from pensions. Although only 26% of households see income from agriculture as their main income, 68% of them said that they created income from this activity. This confirms the thesis that agriculture is a significant buffer against social and economic instability of small household, which guarantees food security and reduces risks they will be exposed to without having farm.
- Of the total number of respondents with income from agriculture, more than one third sell cattle, milk or dairy products. The reason for high participation of cattle-raising in the income structure is that these farm holdings have a high level of hidden unemployment, not enough land to be competitive in crop-raising, little money for investing in labor-intensive crops on the one hand, and income security guaranteed by sale of cattle and dairy product on the other hand.

- A higher than average percentage of households in which a woman is a decision maker and where a younger household member is a decision maker, draw income from the sale of low-stage food processing. Such products include cakes, pasta, meat products, pickled vegetables and similar.
- Agriculture, or agriculture accompanied with some additional activities, is perceived as the main future prospect primarily by households who are currently drawing income from agriculture alone. Households who draw income from other sources do not show readiness to be engaged in agriculture or to invest in a farm related business.
- Within the structure of income of small rural households the most presented are the salaries, income from agriculture and pensions. Small number of households with an income from their own business shows that the entrepreneurship is not developed enough. In fact, the structure of income of small rural households (in all three regions) demonstrates that the reduction of income risks is still the primary reason for diversification. Such diversification of income model is in accordance with the conclusions of Davis and Pearce (2001) which state that in the unfavorable economic conditions distress-push factors are dominating.

4.2.3. Social Partners and Cooperation

- The cooperation between local decision makers is insufficient, uncoordinated and sporadic. Most strategic documents drafted by local governments, plans and work programs made by business sector and NGOs do not recognize small rural households. Hence, as many as one third of surveyed households believe that not a single institution is working on the improvement of their condition.
- The households can see neither their responsibility for the present state, nor their own ability to better their condition in the future. More often they see distant levels of decision making and responsibility, their local government and the State, as more responsible for their situation than the peasants themselves and their immediate environment (farm collectives, NGO, business sector).
- The benefit that small rural households enjoyed from the initiatives taken by local decision-makers is modest and inadequate to their needs and potential. A lack of means and access to markets were rated highly by small rural households among their development limitations, which clearly demonstrates that they did not recognize or not have potential business and social partners in their immediate surroundings.
- Small rural households are not involved in collectives and other organized forms of business cooperation nor do they show any interest in it. Members of these

households are rarely involved in social life of their village, except for sports clubs. Women are even more seldom active in any form of social association.

4.2.4. Perceptions of Households On Rural Livelihood

- Half of the surveyed small rural households (50%) assess their living standard as average. However, as many as 41% of them believe that their living standard is poor or very poor. What is encouraging is an optimistic prognosis concerning the future prospects of farm holdings. One third of respondents expect that their situation will improve, one third that it will stay the same and less than 20% that it will get worse.
- The respondents have a very limited view of the developmental advantages and potential of their household (similar to their assessment of work force abilities). The majority of the respondents could not think of a single advantage of their households over others or refused to answer this question.
- Rural people are not satisfied with their quality of life. They are clearly dissatisfied with accessibility and quality of rural services, especially health care and cultural facilities in villages. However, their dissatisfaction about communal problems is matched by dissatisfaction with the services aimed at addressing them. A lack of economic infrastructure, social capital or poor organizational capacity is seen as less of a problem. This is more the result of their lack of understanding about such resources than a lack of need for them.

4.2.5. Business Environment and Economic Infrastructure

- No more than 8% of the surveyed households have contacts with advisory services. This percentage is not worrying bearing in mind the insignificant share of agricultural income in total income of these households and their resource limitations. More important is the result that more than 40% of households are not aware of the existence of such a service, and that another 24% have a need for such services but do not know how to access them. Clearly, the present forms of information distribution are not adequate and a better system is required.
- Although most respondents tended to shift the responsibility for their situation onto the state and government, the answers given clearly demonstrated that the households themselves had not done enough to improve their circumstances. When asked about the current measures of agrarian policy, the respondents declared no knowledge of them. A significantly smaller percentage of households used the programs (the most used was milk premium – 12% of small rural household). Being poorly informed, difficulty in accessing advisory services, and

a low level of initiative and lack of local administrative capacities, remain the main limitations to a more active use of state aid resources.

- Although they see lack of money as their main development limitation and need information on financial subsidies, three quarters of small rural households never tried to get a loan.
- For the households who tried to advance their production through income diversification and starting up a new activity (22% of surveyed households) the key problems were a lack of money/loans and lack of market. The lack of capital, unfavorable loan conditions and low prices of agricultural produce are seen as main problems by those households who are tied to agriculture and see their future prospects in it.

In spite of severe dissatisfaction with their position, quality of life and pessimistic vision of future, half of the respondents did not see these factors as a reason for leaving the village. When we add another 20% of the respondents who never thought of leaving rural life, we come to the results that as many as 60% of the respondents are not ready to migrate.

As the most important preconditions for a better life the surveyed households see in the following:

- employment opportunities outside agriculture (66% of respondents),
- access to loans (57%),
- better organized market (40%).

4.3. Recommendations

It is evident that a series of simultaneous measures and activities are necessary to improve the current state of rural Serbia. This view is based on an analysis of existing policies and strategic documents in Serbia, the current conditions in rural Serbia, as well as its strategic importance in the economic structure of country. At local community level, the role of small holders in the economic life of rural communities is acknowledged, and the authors undertook an assessment of quality of life in rural areas and the socio-economic position of small rural households. Current trends of rural developmental policies in Europe and in countries going through a period of transition also provide valuable lessons for Rural Development in Serbia.

Broadly speaking, the range of remedial measures must be directed toward two main goals:

1. **An increase and a diversification in the income of small rural households**

2. A decrease in **nominal and concealed** unemployment of household members.

Measures necessary for the achievement of these goals can themselves be subdivided into a series of headings:

4.3.1. Reinforcing National Institutional Capacity

This study has outlined the history and highlighted many of the strengths and challenges faced by the range agencies involved in rural development in Serbia. In order to create and monitor effective and achievable impacts, a number of measures need to be put in place to reinforce national capacity:

A) The creation and maintenance of an comprehensive information base for a valid, scientific and expert interpretation of the rural situation.

Rationale for this measure

- a. Serbia does not currently have an accurate statistical representation of rural areas. This makes it difficult to compare indicators of rural development between selected municipalities nationally, or to gauge our performance on an international level. Such analysis is essential in order to measure progress in meeting rural development goals and in securing and distributing funds effectively.
- b. Available official statistics are insufficient and it is necessary to widen the scope of this information through additional research into households, farm holdings, the environment, infrastructure, etc.
- c. There is also a need to monitor and analyze the changes in demographic profiles in the period between Census periods.
- d. Data on additional activities of a rural labor force are not available from either the official statistical resources or the National Employment Service. Such information is critical in tracking employment and economic diversity in rural areas.
- e. Rural household income data is not broken down sufficiently to enable proper analysis of rural household types, territories etc.
- f. Data on the status of rural infrastructure and selected service is not currently available.
- g. The database on registered farm holdings of the Ministry of Agriculture, Forestry and Water Management is not available, which means that it is impossible to recognize the potential of these farm holdings and their relative significance for rural economy.

- h. Quality scientific research and expert documents on specific developmental questions are not undertaken in Serbia and could provide the evidence upon which rural policy could be based.

B) The establishment of institutionalized and administrative systems for the development and implementation of strategies and rural developmental programs from national to local level

Rationale for this measure

- a. The sector for rural development of the Ministry of Agriculture, Forestry and Water Management does not have the necessary human resources, organization and technical skills to bear the burden of the activities necessary for improvement and development of legal and institutional basis in this area.
- b. A national program of rural development containing the overall elements of policies and the analysis of relevant indicators has not yet been formulated.
- c. Inter-cooperation between the Ministries, though formally recognized through inter department groups, does not function and the absence of coordinated effort is evident and impacts negatively on our ability to generate and implement effective rural development policy.
- d. Evaluation of the effects of budget sources spent on rural areas and/or the encouragement of rural households has been hindered by the lack of more precise legislation and continuous support measures.
- e. The current mechanisms for the implementation of agricultural and rural developmental support have not been organized so as to provide efficient funds allocation.

4.3.2. Building Local Institutions

The lack of capacity and confidence in rural organizations has been illustrated in this study. This is reinforced by social change associated with the collapse of previous structures as well as migration and challenges associated with economic and social transition. In order to build strong rural communities and economies local institutions need to be rebuilt.

Strengthening of local cooperation among all participants

Rationale for this measure

- a. Districts in Serbia do not have the executive power, so coordination of local activities is not administratively organized and functions ad hoc; this must be addressed if responsibility for rural development is ever to be delegated to local institutions.

- b. Municipal government has a shortage of educated personnel and modest sources upon which it could place greater responsibility of the implementation of larger developmental projects in this area. They need to be adequately funded.
- c. Local Action Groups (LAG) are not significantly established and have no influence in local environment nor enough economic strength to take over the initiative for local development. Effort needs to be put into building a network of efficient and effective LAGs.
- d. The NGO sector is weak on economic programs and development, and more established on social and education issues. This imbalance needs to be addressed.
- e. Production and business connections, the same as non-profitable cooperation, are not sufficiently present in spite of numerous donors, local and other educational programs and marketing related to them. There is a recommendation to encourage business cooperation with direct technical and advisory help and to focus it on their specific needs.
- f. Strengthening of partnership between the public and the private sector. Changed economic and system conditions showed that there was a need to strengthen partnership relations between the public and the private sector so as to coordinate different interests of the business sector and local community development and to provide necessary local services. Projects should be encouraged with local community resources so that the structures of LAG strengthen and develop this way.
- g. Support to the development of an entrepreneurial local government. New legislation and the adjustment among EU countries local administrations with the assistance of donor support (i.e. programs, trainings and material-technical help), created the conditions necessary for functioning of entrepreneurial local government. Local government must take the initiative and responsibility for the local community development.

4.3.3. Local Economic Restructuring

The basis of the hypothesis being presented in this study is not only the potential but also the economic necessity for employment growth and diversification in rural areas. This can only happen as a result planned growth in new economic activity in parallel with the inevitable decline or stagnation of agricultural incomes.

A) The development of a rural financial market

Rationale for this measure

According to all research results, the financial market is the biggest limitation of a more expansive household development. With regard to this problem it is necessary to:

- a. Intensify activities in finding adequate models of financing, including non-banking institutions, leasing etc.
- b. Improve the accessibility of the financial market to small households including better information flow, technical help with business plans and assistance in the provision of risk-controlled loans.

B) The development of rural non-farm economy

Rationale for this measure

- a. More active support of small and micro companies in rural areas. This type of support should be directed towards the encouragement of entrepreneurs through the active help given to prospective individuals. This help concerns administrative problems when beginning new business, trainings in the domain of business plans, financial management and marketing knowledge.
- b. More active support of farm holdings for the diversification of production and rural household services. These programs must concern rural households, regardless of their owning land or not.
- c. Production should be encouraged towards new production lines, standardization and increase in products value (packing, processing and finishing touches). Services diversification should be encouraged by setting the example of innovative solutions. These programs must to a large extent, be adjusted to user needs and capacities.
- d. Small rural households should be given „tailor made“ advice and help so they would have easier access to market goods and services. These households do not possess the self initiative capacity, to interact and overcome their source limitations without external help.
- e. Intensive encouragement should be given to have new investments and to solve the problem of unemployment in undeveloped areas (these encouragements were introduced in 2006): direct fiscal encouragements, rapid repayment, assistance for concession investments, for retraining, professional rehabilitation, employment of disabled people, tax credit for investments in capital assets. For trading in free zones founded in undeveloped areas, additional exemptions are approved: special customs treatment and simplified customs procedures. Within the income tax, higher tax exemptions are ensured for the regions and jobs characterized by low salaries.
- f. A favorable business environment is closely related to the development of physical infrastructure, which is inadequate in great part of rural regions.

4.3.4. Developing Existing Resources

The development of alternative enterprises in rural areas must be based on the existing strengths and resources available to people living and working there. A vibrant agriculture sector is critical to the future of rural Serbia as is a balance between urban and rural population. Such balance in distribution can only be achieved in a sustainable way, at national and regional level, through increased economic opportunities and expectations of a high quality of life in rural areas.

A) The development of agriculture

Rationale for this measure

- a. Upgrading the current system of knowledge transfer and advisory services. Advisory services related to technical and technological knowledge and innovations, farm holding management, access to market, business planning must be upgraded in structure, quality and the way of dissemination.
- b. To boost technical and organizational help for the development of production associations and cooperation
- c. To improve the efficiency of the land market and land infrastructure. Large areas are not used at all or are not used rationally. To reactivate support for land amalgamation at the expense of renting so as to accelerate the restructuring of ownership.
- d. Help and education regarding quality standards, the standardization of quality and marketing characteristics of local products, the development of local brands.

B) Revitalization of rural infrastructure and other services

Rationale for this measure

- a. Rural infrastructure demands significant investments in new systems, in their revitalization, expanding and building. It is an important factor of rural population life quality and has a stimulating effect on potential investors. The greatest jurisdiction part in this area belongs to the municipal government, whose sources are insufficient for the necessary scope of investments.
- b. Encouragement of decentralization and privatization of rural services (i.e. those related to social welfare), which are deficit in rural areas.
- c. What must be introduced, in order to ensure maintenance of these systems, is the economical price of services such as a water supply system, waste materials storage, the use of water outside a household etc, for all of which the rural population is not ready.

- d. To engage unemployed rural labor force on public work related to the local infrastructure and social welfare.

4.3.5. Planning For the Future

The need to develop clear objectives and pursue them in a strategic manner is critical to the achievement of rural development goals. This is true at national, regional, local and indeed at household or individual business level. In this sector, possibly more so than most, all levels of planning need to be undertaken and complementary in so far as is possible.

Regional and local development strategies

Rationale for this measure

- a. Rural development strategy and the National program must acknowledge distinctive differences between rural region types of Serbia. The heterogeneous rurality of Serbia has not been emphasized enough in strategic documents. Diversities are argued only from the aspect of regional differences, not from the aspect of types of rural areas.
- b. According to the research results, regional and local development strategies should in future be much more focused on the needs of the local population and vulnerable social groups, including small rural households,
- c. Local development strategies must recognize local restrictions rather than follow established, successful development models from others experience.
- d. With regard to the heterogeneous nature of rural Serbia, development strategies must be directed towards one of the following groups:
 - **Social strategies** - suitable for areas with marked poverty trends, areas of small local sources and without the long-term development prospects-a significant part of hilly and mountainous areas of Serbia.
 - **Renewable strategies.** In areas with evident poverty tendencies, but with obvious local potential, primarily in human resources - parts of flatland regions and regions surrounding major economic centers.
 - **Strategies of development acceleration.** They are suitable for areas with favorable natural sources, human and economic potential that are efficiently used and parts of flatland areas, suburban areas, parts of highland areas with tourism potential should be promoted.

- **LEADER strategies.** The most developed areas, with good infrastructure in which diversification towards greater rural non-farm activities has already begun - parts of flatland areas and suburban areas.

When choosing a development strategy and planning development programs and support measurements, it is advisable to:

- a. Consult the experience of others and good lessons from policies and practices of other regions/countries,
- b. Consult scientifically processed theoretical generalizations related to regional and rural development,
- c. Respect the complexity of rural development issues and based on this the necessity for coordinated actions by several Ministry departments.
- d. With the regard to this it is advised to reconsider fundament dialectics pairs of development strategies⁸³.

4.3.6. Defining the Approach to Rural Development

Finally it is important that there is clarity as to the approach to be taken in addressing rural development in Serbia. The range and complexity of approaches has been reflected in the content of this report however the authors would recommend a middle path with respect to many of the approaches and to take what is best and most useful from each for application in the Serbian rural development context.

Exogenous vs. endogenous development

An exogenous development concept, in the context of this research, means that the employment growth in a certain area would be determined by external factors. In the case of an endogenous development model, internal factors and local sources are of vital importance for growth in employment. The experience we have had so far, shows that in conditions of an undeveloped regional economy, exogenous factors have greater significance and more noticeable effects at the beginning, whereas in latter stages the endogenous development model has better effects. Basically, the combination of both models can be considered as the optimal solution.

In the case of Serbia, from a practical perspective this means that the existent development level of most rural areas still demands external interventions on the rural employment growth, for local potential cannot endure this effort. In order to support this statement with more arguments, it is necessary to conduct further research in rural employment, labor and capital market in rural areas.

„Bottom up“ vs. „Top down“ development management

The difference between the Bottom up and Top down models results from the character and nature of key players in the process and the decision makers. Practically, top-down model is associated with strategies and programs whose main initiator is local government or an administrative organ of a sort. On the other hand, the Bottom up approach recognizes active participation of a *greater number of participants and various types of* decision-makers. The experience showed that over engagement of various participants is not always a favorable solution.

Decentralization of the decision-making system in the context of this research actually means the decentralization of local institutions and the decentralization of decisions made at the local level (horizontal and vertical). At this moment all decision-making levels are not ready enough. Decentralization of decision making system, funds and strengthening of all players, are necessary activities for preparation of the country for efficient utilization of expected funds (IPA).

The best effect in the conditions of undeveloped capacities, as they are in Serbia, is the combination of various participants, at least one of which is an institution (Chamber of economy, Regional governmental organizations, collective farms, municipality services etc.) Combination of a sort provides a synergy from its participants, one of which has a potential to mobilize local participants (i.e. NGO, business sector, small business entrepreneurs, advisers) and the other has potential to intervene at a higher level or an administrative level (Government, Ministry department, financial resources) and speak for local needs. What characterizes rural areas in Serbia (and undeveloped regions) is the deficit in local players capable of mobilizing modest human potential, as well as those (institutionalized) which could enable a firm contact with higher administrative levels.

Specialization vs. diversification

Diversification as a selected development model is about reducing the risk by dividing the activities over a greater number of sectors. Diversification actually requires engagement of all sources in the direction of employment growth. Specialization, on the other hand, means giving priority to one comparative advantage of an area, which will encourage competition. This means that specialization as a concept can lead to the employment reduction if it is focused on a sector which is not as desirable and as significant any more.

In the practice of rural development it happens that the rural economy becomes diversified when agricultural employment begins to drop. In many European areas there is a tendency of choosing to focus the economic development in several sectors, which is considered to be a new way of specialization. This specialization can produce two outcomes.

1. With the focus almost exclusively directed on the market and its requirements. This specialization is more suitable for more developed regions with a expansion market, with the industrial sector, service sector or tourism,
2. Towards relatively smaller dependence on market changes - which is a characteristic of less developed regions, where the specialization is directed to reducing fields of work (agro industry, textile industry etc.)

Such decisions and selections are often not made at a local-regional level, but from a much higher levels. Decisions of a sort can powerfully influence both the employment growth and the employment reductions in an area.

For rural areas of Serbia this dilemma is immensely significant. Its significance results from the extremely heterogeneous natural sources and other rural area potentials. Diversification of activities can with a great assurance be recommended as suitable concepts for hilly and mountainous areas with distinctive multifunctional potential.

At a household and farm holding level, particularly regions close to major economic and urban centers, an appropriate strategy is the diversification of products and of younger members activities (multi-activity.

The type of employment („Part time“ work and/or self-employment)

Vulnerable groups in rural areas (poor people, the young and women) are affected by unemployment that is not always regarded as such or it is concealed. Regional labor market policies must deal with such problems, as well as the specific needs of this population. The alternative employment options (the additional work, shorter work hours, self-employment etc.) would partly solve these problems. The multifunctional activities of the rural population have traditional roots in mixed households.

The effects of unemployment reductions in Serbia must be evaluated because of their influence on rural areas and the rural labor force. For more objective conclusions, it is necessary to conduct additional research into the rural area local labor market.

CHAPTER V

ANNEX

ANNEX 1, STATISTICAL INDICATORS

Table 1. Semi-Subsistence farming in EU in 2003 year (% of farms < 1 ESU)

Country	PR	IR	PU	MS value
Belgium	-	-	-	4.1
Czech Republic	37.4	46.4	16.2	43.3
Denmark	-	-	-	0
Germany	-	-	-	5.4
Estonia	55.3	61.9	56.8	60.5
Greece	-	-	-	20.6
Spain	-	-	-	14.2
France	-	-	-	7.8
Ireland	-	-	-	6.3
Italy	-	-	-	27.4
Cyprus	-	37.1	-	37.1
Latvia	58.5	58.2	0.0	58.4
Lithuania	65.3	70.4	-	67.2
Luxemburg	-	-	-	6.0
Hungary	76.8	84.8	72.0	79.2
Malta	-	-	33.6	33.6
Netherlands	-	-	-	0.2
Austria	-	-	-	19.1
Poland	45.3	56.8	74.1	51.4
Portugal	-	-	-	27.2
Slovenia	20.0	21.7	-	20.4
Slovakia	84.3	82.0	85.3	83
Finland	-	-	-	1.1
Sweden	-	-	-	11.3
United Kingdom	-	-	-	35.2
Bulgaria	76.4	75.8	86.3	76.4
Romania	70.3	76.8	87.5	73
EU 25	-	-	-	33.6
EU 15	-	-	-	19.0
NMS 10	55.6	61.5	69.7	58.5
EU 27	-	-	-	47.2

Source: EU Commission (2006b)

Table 2. Agricultural holding members according to activity and overall area of cultivated land

Property Size	Members total	Individual farmers		Active outside their agricultural holding		With income		Dependent/Supported	
		number	%	number	%	number	%	number	%
Total	2536378	454732	100	705070	100	526232	100	845238	100
Up to 1,00ha	647595	32205	7.08	241781	34.29	151235	28.74	221059	26.15
1,01-3,00ha	805338	111224	24.46	241641	34.27	179222	34.06	271773	32.15
3,01-5,00ha	452937	107320	23.60	106561	15.11	90386	17.18	147746	17.48
5,01-10,00ha	468314	145701	32.04	88885	12.61	81339	15.46	151314	17.90
10,01-15,00ha	162194	58282	12.82	26202	3.72	24050	4.57	53346	6.31

Source: Bogdanov N., Božić D. (2005)

Table 3. Agricultural holdings according to the number of individual farmers in Serbia

Agricultural holdings	1991.		2002.		Index 2002/1991
	number	%	number	%	
Total	997235	100.0	778891	100.0	78.1
Without individual farmers	503598	50.5	522103	67.0	103.7
1 Individual farmer					
Total	270385	27.1	119216	15.3	44.1
Younger than age of 60	144727	14.5	72678	9.3	50.2
60 and older	125658	12.6	46538	6.0	37.0
2 Individual farmers					
Total	154132	15.5	94795	12.2	61.5
Both younger than 60	69393	7.0	50738	6.5	73.1
1 Younger, 1 sixty and older	42628	4.3	18738	2.4	44.0
Both 60 and older	42111	4.2	25319	3.3	60.1
3 Individual farmers					
Total	45577	4.5	29030	3.7	63.7
All younger than 60	16788	1.7	15360	2.0	91.5
One 60 or older, two younger than 60	18349	1.8	8196	1.1	44.7
Two 60 or older, one younger than 60	9456	0.9	5154	0.7	54.5
All 60 and over	984	0.1	320	0.0	32.5
4 individual farmers and more					
Total	23543	2.4	13747	1.8	58.4
All 60 and older	116	0.1	25	0.0	21.5

Source: Bogdanov N., Božić D. (2005)

Table 4. Rates of activity, employment and unemployment of rural population according to gender and age

	Rural population over 15 years old								
	Rate of activity			Employment rate			Unemployment rate		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Total	55.4	67.2	44.0	45.1	57.3	33.2	18.7	14.7	24.5
15-19 years	24.9	30.9	18.4	12.4	16.9	7.5	50.2	45.4	58.9
20-24	62.3	73.2	50.4	37.5	47.9	26.2	39.8	34.6	48.0
25-29	79.5	91.3	66.3	52.6	70.2	32.9	33.8	23.1	50.4
30-34	86.4	97.3	75.0	68.0	84.5	50.7	21.4	13.2	32.5
35-39	85.7	93.4	78.4	68.3	81.2	56.4	20.2	13.1	28.1
40-44	84.6	95.6	72.5	71.3	84.2	57.1	15.7	12.0	21.2
45-49	80.2	91.5	67.5	67.8	81.1	52.6	15.6	11.3	22.2
50-54	70.7	84.3	56.0	62.5	75.4	48.4	11.6	10.5	13.5
55-59	52.7	70.3	36.7	48.0	62.2	35.1	8.9	11.5	4.4
60-64	33.2	43.7	23.3	31.6	40.3	23.3	4.9	7.7	0.0
65-69	26.9	33.8	21.5	26.8	33.4	21.5	0.6	1.1	0.0
70-74	22.4	29.0	16.5	22.4	29.0	16.5	0.0	0.0	0.0
75 and older	15.0	21.9	10.5	15.0	21.9	10.5	0.0	0.0	0.0
Working age persons (15-64)	66.7	78.1	54.8	53.0	65.5	39.9	20.6	16.1	27.2

Source: unpublished data based on a Labour force Survey, 2005, BSRS

Table 5. Structure of population aged > 15 according to education, activity and gender

	Rural population over 15 years old		
	Total	Employed	Unemployed
Total	100	100	100
Without education	7.4	3.2	0.9
Unfinished elementary school	21.4	16.3	4.7
Elementary school	27.7	25.6	21.6
Secondary school	39.1	48.7	67.1
University	4.2	6.3	5.7
Male			
Total	100	100	100
Without education	3.0	1.7	0.6
Unfinished elementary school	18.5	14.3	4.3
Elementary school	26.8	26.2	19.4

	Rural population over 15 years old		
	Total	Employed	Unemployed
University	4.6	5.6	5.1
Female			
Total	100	100	100
Without education	11.7	5.7	1.1
Unfinished elementary school	24.3	19.6	5.0
Elementary school	28.6	24.6	23.6
Secondary school	31.5	42.8	64.1
University	3.9	7.3	6.3

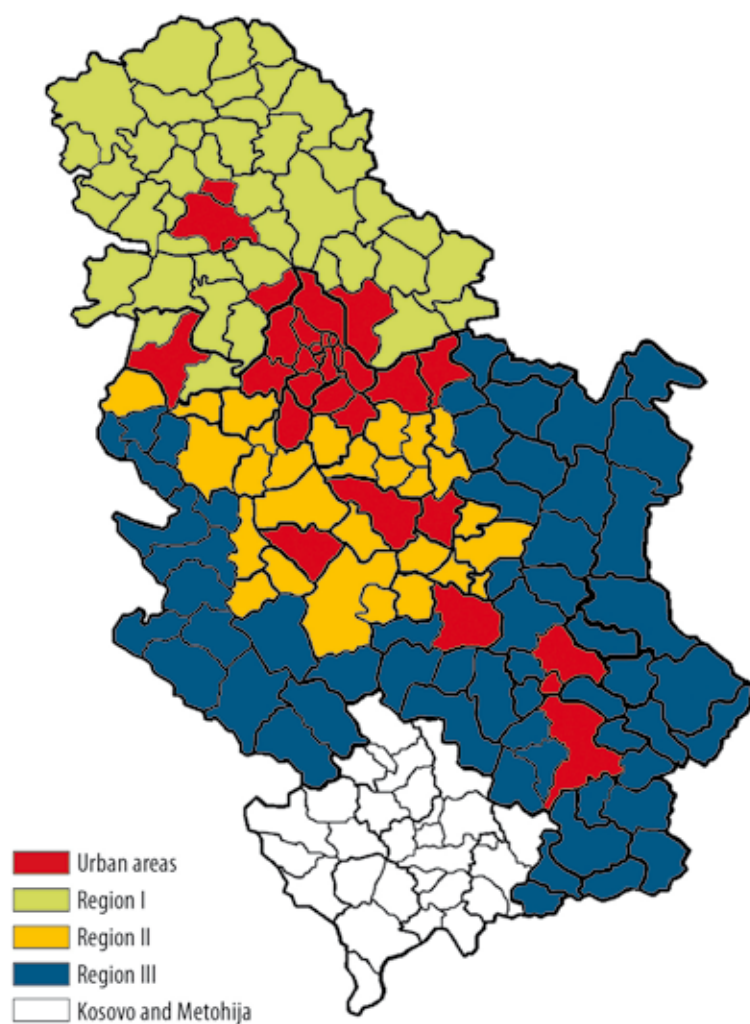
Source: unpublished data based on a Labour force Survey, 2005, BSRS.

Table 6. Employed rural population, according to employment status, form of property and gender

	Serbia	Rural areas
Total	2733412	1250660
Self-employed	563448	359510
With employed	115595	41277
Without employed	447853	318232
Employed workers	1950162	691775
Public sector	329271	135302
Private sector	863376	339174
State sector	651498	176808
Other property sectors	106016	40491
Helping household members	219802	199375
In agriculture	205992	194748
In other sectors	13810	4628

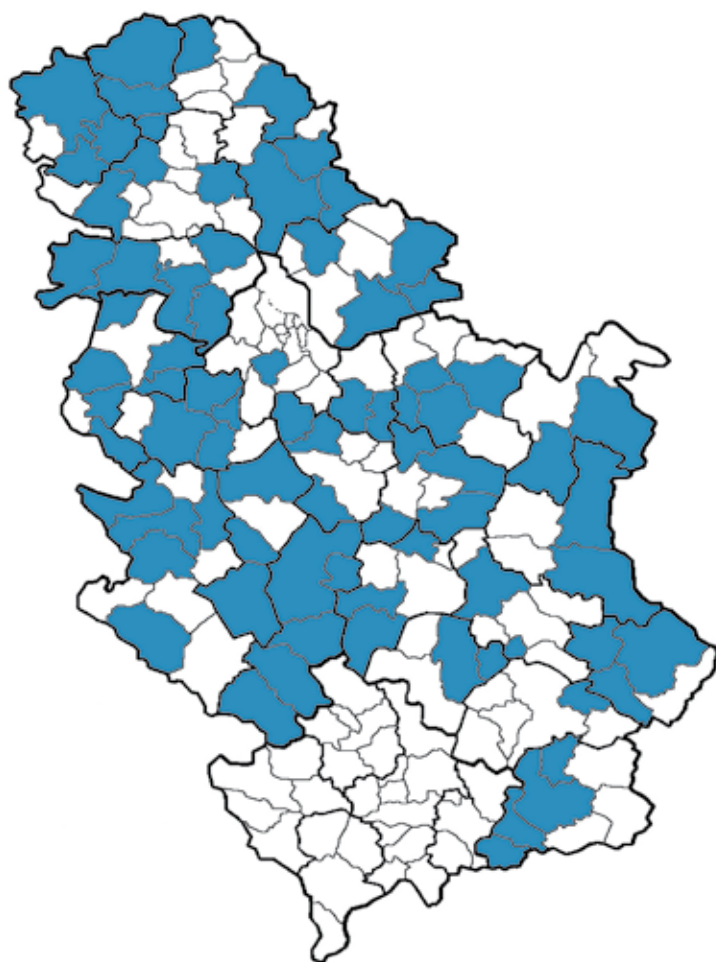
Source: unpublished data based on a Labour force Survey, 2005, BSRS

Map 1. Rural areas in Serbia defined according OECD criteria of rurality



Source: Efstratoglou S., Bogdanov N., Merediht D. (2006)

Map 2. Map of the Surveyed Municipalities – household sample



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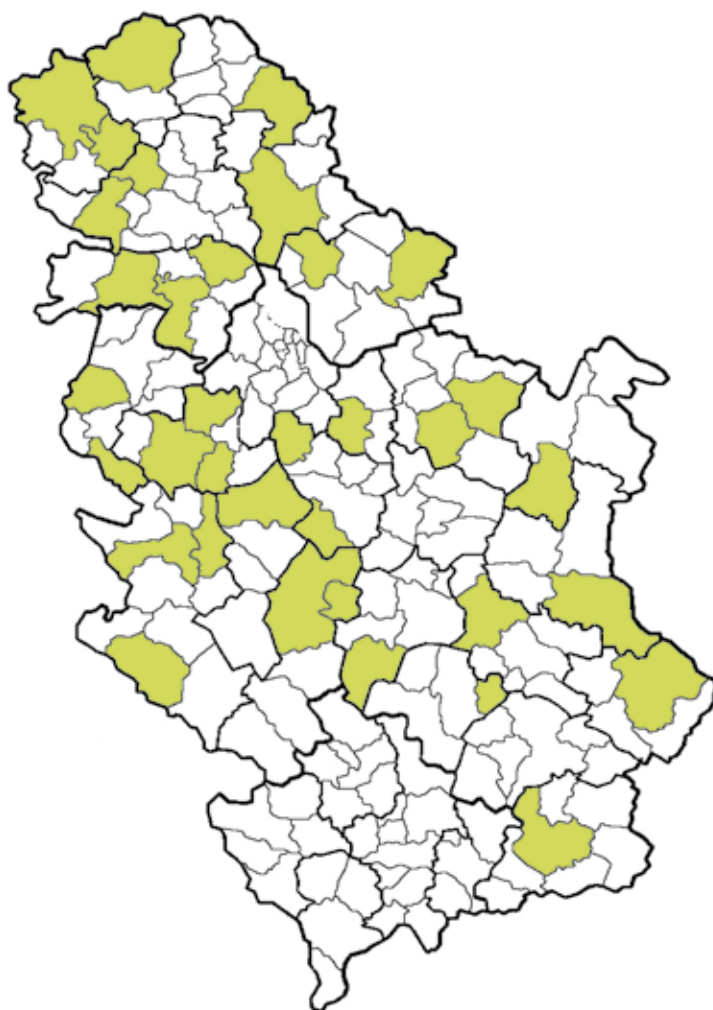
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Map 2a. Map of the Surveyed Municipalities – stake-holders sample



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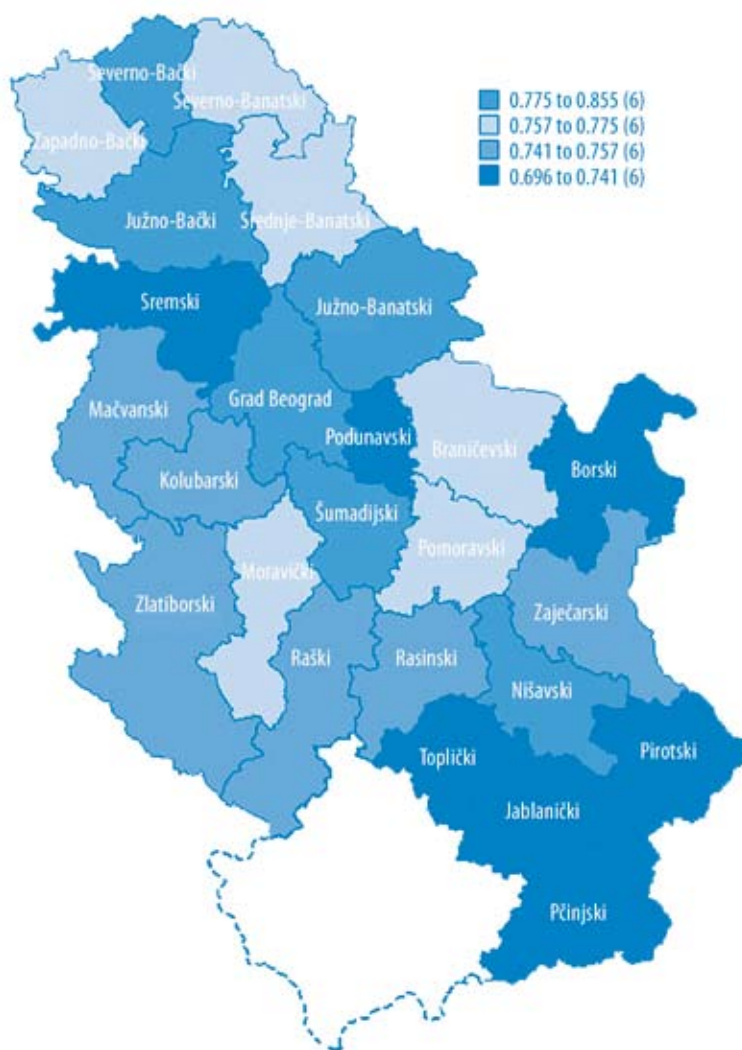
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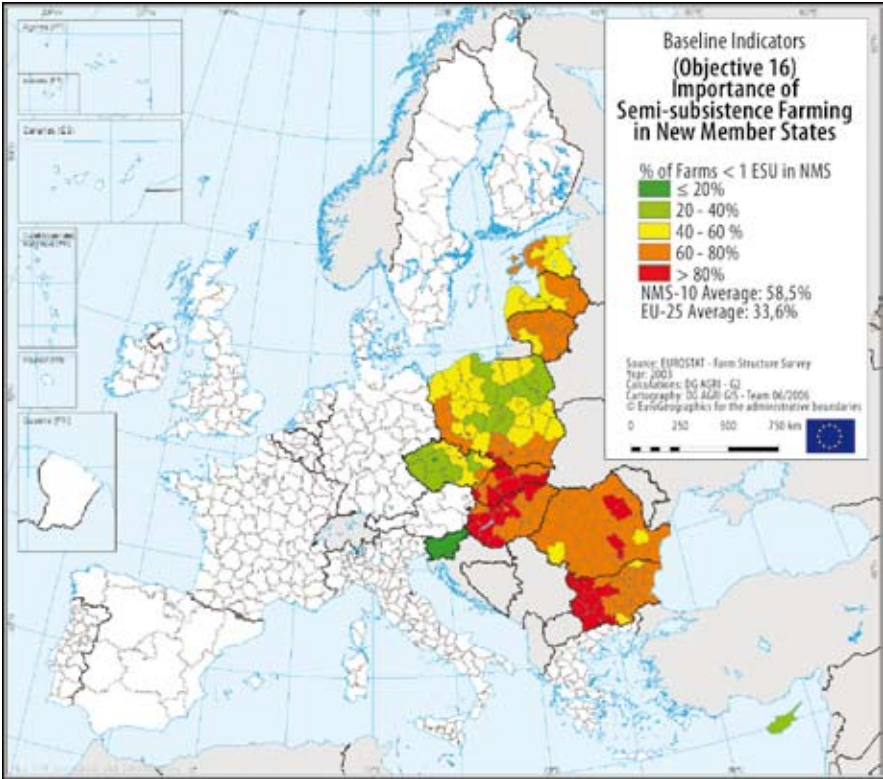
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Map 3. HDI by districts in Serbia



Source: UNDP (2006)

Map 4. Importance of Semi-subsistence farming in New Member States



Source: EU Commission (2006b)

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ANNEX 2, REGIONAL SPECIFICITIES

In this chapter the results of desk and field research are presented according three main types of rural areas, which are considered to be adequately homogeneous to represent the specificities and particularities of a specific type of rural area (Annex 1 Map 1). The analysis contains both quantitative analysis and qualitative evaluation of the basic characteristics of each region, along with elements of comparison of each examined region to national average of Serbia. The objective of this analysis is to review the existing situation and main trends in the economic and social aspects of the agricultural sector and in the rural areas. .

Table 1. Main characteristics of rural regions in Serbia

	Total rural	Flatland Region	Region of large economic centres and the surrounding area (peri-urban)	Highland Region
1. Geographical characteristics				
Area km2 (2004)	65952	20229	12642	33081
Number of settlements (2004)	3904	471	993	2440
2. Population and human development indicators				
Population (Census 2002)	4161660	1554209	1086278	1521173
% change in population 2002/1991	96.35	100.00	97.34	92.23
Population density	63.10	77	86	45.98
In or out migration rate	-0.14	5.81	0.43	-6.14
Age structure (%)				
• % younger than 15	16.17	15.91	15.70	16.78
• % older than 65	17.49	16.29	18.33	18.12
Aging rate	1.08	1.02	1.17	1.08
Educational structure of the population over 15 years of age (%):	100	100	100	100
• Incomplete education	28.19	24.16	28.67	32.02
• Elementary school	26.69	26.41	25.42	27.90
• High school	36.09	41.10	36.69	30.49
• College/University	6.95	7.53	7.29	6.11
• Unknown	2.07	0.80	1.94	3.48

	Total rural	Flatland Region	Region of large economic centres and the surrounding area (peri-urban)	Highland Region
3. Employment				
Employment by sectors (%):	100	100	100	100
• Primary sector	32.98	30.75	32.68	35.51
• Secondary sector	30.69	31.20	30.79	30.09
Tertiary sector (including public sector)	33.44	35.85	33.50	30.92
Unknown	2.89	2.20	3.03	3.48
Total economically active population	1870908	694518	508335	668055
% Of the unemployed, total	21.32	22.40	19.69	21.43
Total of economically active women	776376	282952	217735	275689
% Unemployed women, total	23.44	24.46	22.27	23.31
Rate of activity	53.61	53.14	55.43	52.77
Employment rate	42.18	41.23	44.51	41.46
4. DP (in 2004)				
DP (mill. EURO)	5767.12	2821.92	1438.36	1506.85
% Primary sector in DP	32.48	33.24	30.25	33.18
% Secondary sector	41.12	42.36	39.71	40.13
% Tertiary sector	26.06	24.14	29.67	26.21
% Public sector	0.34	0.27	0.36	0.47
% Agriculture, hunting, forestry, water management	29.81	29.93	28.19	31.13
DP per capita, Serbia = 100%	73.69	96.72	70.32	52.57

Source: Bogdanov N. (2007): „Regional Dimensions of Rural Serbia“, draft version, for Baseline Analysis Report for Rural Development Programming, EU Project „Support to a Rural Development Programming and Payment System“, Belgrade

1. Flatland region (Region 1)

Flat region stretches over the North of Serbia. The Province of Vojvodina is entirely in this region and the same is true for the rural municipalities in the North-West of Central Serbia (Macva). Compared with other rural regions in Serbia, this region may be deemed to be extremely homogenous in respect of its geo-morphological characteristics and natural resources. On the other hand, apparent are the significant differences in respect of economic structure and economic development which have increased since early 1990's: the Western part

of the region comprising the area of Bačka, Srem and Macva is generally more developed than the Eastern part – Banat.

1.1. Socio-economic structure

Demographic changes and human resources

The region is inhabited by 1,554 million people, or 37% of the rural population in Serbia. The difference in respect of the population density between the Western and the Eastern part of the region (Banat) is extremely large – 89:62 inhabitants/km². In the period 1991-2002, the number of inhabitants in the region remained unchanged. The increase of the number of inhabitants was noticeable in the North and South-West of the region, which is partly due to the immigration of refugees. The crucial factor influencing the high rate of immigration in this region is the extensive investment and economic attractiveness, good infrastructure and links with the two largest urban centres – Novi Sad and Belgrade. Considering that the region attracts younger labour from other regions, the aging index of population⁸⁴ is the most favourable compared with other types of rural region. On the other hand, the Banat part of the region and Macva are characterised by the extremely high aging rate of the population and apparent demographic emptiness.

Educational structure of the population aged 15 plus is more favourable than in other rural regions. The percentage of the population without primary education is smaller in this region than in other rural regions. The region traditionally boasts a well-regulated school network system and this has enabled better capacity for education of older population. Besides the formal education, the labour in this region has suitable skills and capacity for application of new production technologies. Availability of information and counselling services is greater and transfer of knowledge is better organised.

Official activity and employment rates of the population aged 15 years or more are relatively unfavourable in respect of other rural regions. From the statistical perspective, these indicators suggest that the situation on the labour market is unfavourable. Considering the level of economic development, this does not reflect reality. Such a situation can be explained by the more favourable educational structure of population which looks for a job in the business activities outside agriculture exclusively. That is why the percentage of the population who declared themselves as the agricultural population is lower.

The ratio between the economically active women and men is less favourable than in other rural regions. Relatively higher living standard of the population on one hand, and diversification on the other hand, contributed to the lesser need for work engagement of women in this region. This is confirmed by the data about high

representation of housewives in the structure of supported population in this region, which is above the average taking into account other regions.

The employment structure according to the sectors, in the region of highly intensive agricultural production, shows that high dependence on primary sector, i.e. agriculture, is still present. Almost 31% of the employed population works in agriculture. The employment in tertiary sector amounts to 20,28% and is higher than in other rural regions.

Economic structure

The region is the most economically developed rural region of Serbia. Its representation in the total DP of Serbia amounts to 20% of the Serbian DP, or 50% of the DP in rural regions. The DP per capita by 31% exceeds that in other rural regions.

The predominant importance in the structure of secondary sector is that of: food production, oil and gas production, chemical industry, textile industry, production of machines and appliances, and production of beverages. Engaged in these business activities is about 61% of the total number of companies and they employ about 65% of all the employed in the region. The importance of the agro-industrial complex is very high and is considered to be the leading economic activity of the region.

The most represented sector in the structure of this region's DP is the secondary sector which account for 42.36% of the total DP of the region. Some of the municipalities manifest exceptionally positive performances of the economic development in general and, accordingly, of the industrial sector productivity, which results from the specific position of a company.

Within the tertiary sector, of particular significance for the region are the wholesale and retail business activities, and transportation. The reason for this is the developed economic structure, considerable investment activity; high share of the region in the total Serbian imports (over 33%). Moreover, the region borders with four different countries (Romania, Hungary, Croatia, and Bosnia) and the most important trunk routes intersect in its territory.

Agriculture and processing industry

The region is characterised by extremely rich land potential. The share of productive land (agricultural areas + forests) in the total area amounts to 88.38%, out of which as much as 83.29% is accounted for by agricultural land. Available agricultural area per capita is 1.08 ha, and per the employee in agriculture - 10.37 ha, which is above the value in most of other regions. The favourable ratio between the labour and capital (land) enables exceptionally high productivity of work in this region.

The prevailing part of arable land (65%) in this region is used for grain production. Almost 85% of the total area under industrial plants in Serbia is the area sowed in this rural region. Production industrial plants takes place in large homesteads and is adjusted to the needs of processing facilities. Considering that the production chain has been upgraded after the privatisation was completed, producers and processors are linked through contractual agreements and the market is stable.

Vegetable production accounts for less than 5% arable area in the region, but nevertheless constitutes as much as a quarter of all area sowed to vegetables in Serbia. The market surplus is generated by larger homesteads which have appropriate machines and irrigation facilities, which are able to hire labour from outside, and which are situated in the areas with regulated market. The territory of the region boasts considerable facilities for fruit and vegetable processing, technologically equipped to respond to the demands posed by modern standards. Production of fruits is concentrated in the northern part of the region, and production of grapes is concentrated in three vineyards: Srem, Banat, and Subotica – Horgos sandland.

Considering its high production of grains, the region is the greatest producer of swine and poultry and accounts for 37% and 33%, respectively, in the total production of these kinds of livestock in Serbia. The ratio between the number of head of livestock and suitable land categories is less favourable than in other rural parts of Serbia. The region accounts for 21% of the total number of cattle in Serbia and only for 14% of the total number of sheep. Differences in respect of the representation of livestock raising in the production structure are highly accentuated in this region.

Structure of the farms

Within the last two decades this region has seen an extreme polarisation of the farms in line with the size of estate. Strengthening of the dual structure results from the two factors:

- Privatisation of large agricultural complexes which were much represented in the agricultural structure of this region (covering approx. 20% of total resources)
- Change in the age and social-economic structure of the members of homesteads.

Average size of the farm is 3.53 ha and is smaller than in other rural regions. Another distinguishing feature of the region is high representation of small farms – the farms covering 3 ha or less account for 66% of the total number of farms. The high share of small farms may be explained by the fact that, due to a relatively favourable infrastructural development and satisfactory level of social services in this rural region, a certain number of households, even though they would be considered to be homesteads according to the statistical definition, have only a residential function.

This is confirmed by the data about high and growing share of non-agricultural homesteads in the total number, which amounts to 62.5% in this region. The number of mixed homesteads (13% of the total number of farms) is considerably lower than in other rural regions and this is doubtlessly the consequence of the polarisation of homesteads in line with the source of income. On the other hand, the farms covering more than 10 ha account for as much as 30% of the agricultural area in the region. Also, 30% of Serbian farms covering more than 10ha are located in this region. Intraregional differences in respect of the farm structure are reflected in the greater average size of farms in the eastern part of the region.

Table 2. Structures of agricultural holdings per rural regions

	Srbija	Total rural	Flatland Region	Region of large economic centres and the surrounding area (peri-urban)	Highlands Region
Structure of the number of agricultural holdings					
Total number of farms	778891	582778	186988	162041	233749
Up to 1 ha	27.52	24.24	33	21.45	19.16
1 to 3 ha	32.72	32.06	30.14	33.73	32.43
3-10 ha	34.23	37.04	29.34	40.58	40.76
Over 10 ha	5.53	6.66	7.52	4.24	7.66
Structure of agricultural holdings according to size					
Agricultural land (ha)	2801690	2293267	660554	602562	1030151
Up to 1 ha	4.81	4.11	6.88	3.63	2.62
1 to 3 ha	19.03	17.15	16.87	19.48	15.97
3-10 ha	53.47	53.53	46.37	60.62	53.97
Over 10 ha	22.69	25.07	29.68	16.28	27.26
Socio-economic structure of agricultural holdings	100	100	100	100	100
Agricultural	17.81	19.5	21.57	19.59	17.79
Non-agricultural	62.26	59.6	62.51	56.33	59.55
Mixed	16.43	17.2	13.03	19.99	18.61
Without income	3.49	3.68	2.85	4.1	4.05

Source: Bogdanov N. (2007): „Regional Dimensions of Rural Serbia“, draft version, for Baseline Analysis Report for Rural Development Programming, EU Project „Support to a Rural Development Programming and Payment System“, Belgrade

Infrastructure and social services

The region is located at the intersection of most important trunk routes. In the territory of flat region, there are about 1500 km trunk roads, 2000 km regional

roads, and 25000 km local roads. Water transportation network is well developed and consists of 600 km of navigable canals in the Danube-Tisa-Danube system and the Tisa river. The two largest rivers, the Danube and the Sava, are navigable throughout this region.

A part of the territory, about 15% of rural settlements, is covered by the gas pipelines. On the other hand, the largest number of settlements (particularly in Banat) is not adequately supplied with drinkable water. The absence of landfills and unregulated disposal of waste, unregulated regime of underground waters, and poor protection against floods, are major infrastructural problems of the region.

Even the economic infrastructure and rural services are better developed than in other parts of Serbia. Among the main reasons that have had the impact on this is the fact that the social sector of agriculture was much more presented in this region than in other rural regions; therefore, the transfer of knowledge and production linkage were better organised than in the remaining rural territory. Private entrepreneurship has a long tradition, particularly in the South-Western part of the region where the municipalities have experience with promotion of private investments. Accessibility of financial market, information and counselling services is higher.

Tourism

Typical landscapes of the flats, large rivers, canals and lakes, the „Fruška gora“ National Park and Deliblate Sandland, rich and organised hunting areas, are the key part of the tourist offer of this region. The territory under special protection includes more than 200 natural goods which, as separate special units, cover approx. 5.5% of the total area of the region.

Marshland areas of this region are entered in the List of the Swamps of International Significance according to the Ramsar Convention. The Deliblate Sandland is located in the South-East part of the region and covers the area of approx. 29,000 ha. The latter is the largest oasis of the sandland-grassland and forest vegetation which dominated the Panonian flats. The Subotica-Horgoš sandland is the southernmost part of the sandland region between the rivers of Danube and Tisa, which extends from Budapest to Northern Bačka.

The hunting areas of the regions are rich in small and large game. Tourist offer of the region also include the spas (Kanjiža, Vrdnik, Slankamen, and Melenci) whose potential is actively exploited.

1.2. Findings of field research

Main findings of field investigation, which differ from national average and considerably deviate from other regions, are shown in the table below.

Small households	
Heads of families	<ul style="list-style-type: none"> • Younger than in other families, • Better educated • 1/3 is employed, which is more than in other regions, • Women are more represented (1/4).
Human resources	<ul style="list-style-type: none"> • Average number of the members of households is smaller, • Members of the households are younger, and • Better educated • They have additional skills pertaining to the tertiary sector
Employment:	<ul style="list-style-type: none"> • A greater number of employed members of small rural households • The lowest number of agricultural workers • The largest number of the unemployed • The largest number of seasonal workers
Households	<ul style="list-style-type: none"> • 20% small rural households does not have the land • 33% of the small farm holdings is registered • 43% declared that they were not interested in registering (they were not interested in agriculture) • There are more non-agricultural households
Agriculture	<ul style="list-style-type: none"> • Average size of the estate is 134 ares, out of which 90% is arable land • They lease the land more often, • They rarely neglect the land
	<ul style="list-style-type: none"> • They produce industrial crops and cereals and sell them to cooperatives and processors • They raise livestock less often than other households • On average, they have the facilities and equipment available • They have less machines than others (tractors are worn out)
	<ul style="list-style-type: none"> • Structure of income from the sales of agricultural products: the employment is 19:49 • More households to whom daily wages are the main income (6%) • Income from agriculture is generated through the sales of crops cultivation products
Potential	<ul style="list-style-type: none"> • They see their key potential in younger labour • They are most dissatisfied and the greatest pessimists in respect of their future prospects • They more often see their future prospects in employment outside the farm • They have less than others improved their agricultural production by introducing new varieties or products • Main obstacle for more intensive involvement in agriculture is lack of land
Partnership	<ul style="list-style-type: none"> • They assess the life in rural area more negatively than other regions • They assess that the institutions that do most for rural households include agricultural workers association and local entrepreneurs • They mention the associations and entrepreneurs as responsible for the position of households and more rarely than others recognise their own responsibility • They have asked for outside assistance more frequently than others • Association and cooperatives are more accessible to them and they are more often the members thereof • Greater activity of members in the social life of the rural area

Information	<ul style="list-style-type: none"> • Less than a half deem that they need assistance to acquire loan and to a greater extent than others they believe that they do not need any assistance. • To a greater extent than others they assess that they have no need for counselling services. • They more often than others use fairs and exhibitions as the source of information • They assess their knowledge of state aid less favourably than others • They have used the state aid more often than others, for field crops • They have used loans more often than others
Life in rural area	<ul style="list-style-type: none"> • They have been extremely unhappy with the life in rural area in the period of preceding five years and they are less proud of their region • Rural services and institutions are more often accessible to them but, to a greater extent than the others, they lack banks and pre-school institutions. • Banks, post offices, sports halls, and health care centres are the services whose operation they evaluate with lowest marks. • They are extremely unhappy with utility services, in particular with water supply, sewerage, absence of landfills. • To a greater degree than the others they would take the first opportunity to leave.
Future	Precondition for their better life as much as 2/3 of the surveyed see in their employment
Local decision makers	
Problems and plans	<ul style="list-style-type: none"> • Main problems: inefficiency of municipal services, finances and economy • They see the responsibility in municipal and Republic authorities only • Developmental strategies are in place in most municipalities • Agriculture is here the priority and key resource more rarely than in other areas • And more often the field that needs to be linked with other economic sectors • Agriculture and rural development are to a lesser degree recognised as specific problems in the developmental strategies • One third of municipalities does not have the agricultural budget (to a lesser degree than in other regions) • Small homesteads and underprivileged rural population are not recognised as specific problems • Plans for the ensuing year are to a higher degree than in other regions focused on strengthening of partnerships, utility infrastructure, and to a lesser degree to the social programs • Problems of the rural area rarely include the ensuing year in their priorities • Underprivileged rural population in short-term plans is included in the programs of social assistance • Position of women is recognised to a greater extent than in other regions and direct programs are related to the education and assistance in finding employment
Potential of local economy	<ul style="list-style-type: none"> • Utility infrastructure in rural environment is relatively well developed • Investments in the recent period were predominately made in rehabilitation of the infrastructure • The most important economic activities are agriculture, food industry, and traffic and communication • They to a lesser extent than the others expect the expansion of business activities within this sector • They do not rank tourism as a sector of any considerable importance • They mention a small number of tourist resources but assess that their significance is high • The activities on promotion of local economy were related to the local events and assistance to cultural and artistic societies • They do not see the local products and tradition as the significant resource and potential • They see their specificity in their predisposition for multifunctional development • They see particular appeal for investments in their territory in its geographical position • Compared with the others, they are least proud of their natural and tourist potential and most proud of their human relationships

Activities	<ul style="list-style-type: none"> • According to their own assessment, they have less frequently than the others initiated local developmental projects • The municipality has more often used its developmental funds than in other regions • Lesser number of projects related to rural development • Projects focused on educations • Most often, local partners were the restricting factors
Quality of the life in rural area	<ul style="list-style-type: none"> • They are extremely unhappy with the unemployment and operation of local self-government and less than others they are unhappy with the infrastructure • They assess the existing living standard more favourably than the others • They see developmental obstacles in the local self government and lack of investments
Partnership	<ul style="list-style-type: none"> • All partners, outside consultants included, took part in the definition of developmental strategies • Structure of municipal representatives is more dispersed – better organised • NGOs with a wide range of activities • Business sector is linked to the trade and processing of agricultural products • NGOs work to a lesser extent on the problems directly linked to the rural development and municipal authorities and business sector have a lesser knowledge of NGO activities • Cooperation between the municipality and NGOs predominantly rests on financial assistance and less frequently on partnership • Quality of cooperation is highly evaluated • Municipalities have cooperation with business sector less often than in other regions • They see the Republic Government much less frequently as responsible for quality of the life in rural area and much more frequently than others they see the responsibility of the farmers and the private sector • They attribute the responsibility for the position of small households to the farmers and to the Republic and Province Governments

Based on the findings of field investigation and analysed statistical indicators, the restricting factors and advantages of the region were determined in view of inclusion of small rural households in the rural non-farm economy.

Strengths	Weaknesses
Labour and decision-makers in the household are better educated and younger.	Low level of the initiative for any kind of diversification of activities, not including the employment
Labour has additional skills for involvement in the tertiary sector	Low evaluation of local potential and resources
Developed utility infrastructure	Inadequate focus of local decision-makers on the problems of rural regions and small households
Diversified and well-integrated economic structure of the region	Rural services are inappropriate for the needs of small households (education, counselling, information)
Accessibility of financial market and information	Unused possibilities for cooperation between local decision-makers
Administrative facilities are built	
The households have recognised their own responsibility for existing situation in rural areas and the position of small households	

2. Region of large economic centres and the surrounding area (Region 2)

The region in a geographical sense comprises the Northern parts of Central Serbia, Šumadija, a part of Macva and Stig. The region abuts Serbia's main urban province, which is significantly reflected in the regions industrial structure and social-demographic parameters. It occupies 16.31% of Serbia. Regarding the natural-geographic conditions, the region is comparatively homogenous – rolling-hilly relief dominates with mountains on the Western and Southern region borders.

2.1. Socio-economic structure

Demographic changes and human potential

There are 1.082 million people or 15 % of the overall population of Serbia living here. The average population density is higher compared to other rural regions in Serbia. The region is favoured compared with other parts of Central Serbia. Between 1991 and 2002 a slight population decrease of 2.5% was registered. The region is the only rural region of Central Serbia with a positive immigration rate (0.43). The population is increasing in the Northern parts of the region and is influenced by the concentration of population around large towns near urban centres within the region. In addition to positive migratory changes, the region is characterized by a high rate of population ageing (as high as 1.17 in this region).

The region has the lowest unemployment rate in Serbia, due to proximity to urban areas and a significant concentration of large towns within the region's territory. The employment structure indicates a comparatively smaller primary sector (32.68%) compared to other rural areas of Central Serbia. 28% of the total number of employees in the Serbian rural areas tertiary sector is employed in this region.

Industrial structure

The region generates 10% of Serbia's DP and 25% of the DP of the rural areas. The realized DP per capita in this area is 30% lower than the national average. Interregional DP per capita differences are lower than in other regions, which indicates the homogeneity of the area economic structure. From the national perspective, this area contributes about 30% of DP of the rural area tertiary sector.

The most significant primary sector activity in the region is agriculture. The municipalities situated among urban centres are prominent because of their high primary sector productivity, particularly in agriculture. Their production structure is dominated by vegetables, fruit production and livestock and has been adjusted to the

consumer requirements from the large urban centres which have higher standards and a different demand structure.

Within the region's DP structure, the secondary sector represents 40%, or 1% of the DP of the rural areas secondary sector or 10% of Serbia's DP. The main industries include chemical, food, machine production and textiles. The industrial sector is well developed and represented companies are mostly privatised. Parts of the region, particularly those areas situated on major crossroads have a well-educated young workforce, are attractive for investments and register buoyant economic growth. Therefore one of the region's industrial features is a high DP within the tertiary sector. This area is responsible for 28% of the rural areas tertiary sector DP, and over 31% of the DP is due to transport and related industries. The geographic location with large urban centres and major Central Serbian roads, enables a dominance of the tertiary sector within the DP structure. In addition there is tourist potential in the area (Divčibare, spas) that further influences the tertiary sector DP.

Agriculture and food industry

Agricultural areas account for 64% of the total area and that is 10% higher compared to other rural areas of Central Serbia. Disposable agricultural areas per capita are 0.75 ha while they represent 6.39 ha per employee in the agricultural sector, which is significantly lower than the national average. Despite a more unfavourable relationship between the workforce and land, the area has a high agricultural work productivity compared to other rural regions of Central Serbia. Land productivity (expressed as DP per ha of agricultural areas) is exceptionally high here.

Most of the arable land (60%) in this area is used for cereal growing. Since there is a high concentration of livestock in the region most cereal growing is for this use, particularly in the Western part. 30% of the orchards and vineyards in Serbia are represented in this region. Favourable natural conditions result in a high production of fruit and grapes, particularly in the Northern part of the region. The largest part of Serbian export raspberry production, an important fruit for that reason, comes from this area. A young labour force on small farm holdings make their basic income by producing raspberries.

The region stands out because of its high share of the total number of livestock in Serbia. The region produces 24% of the Serbia's total cattle production. In addition, 30% of the total number of sheep in Serbia comes from this region, which represents the highest value compared to other rural regions. Finally, the region has the largest concentration in Serbia of swine, 1.31/ha of ploughed land. Small farm holdings as well raise livestock and their income is made by selling milk which often represents the basic or only regular household income.

Food industry in the region is well developed and represents a significant part of the industrial potential. Abattoirs, fruit and vegetable processing factories, mills and dairies are most obvious in the food industry structure here.

Farm structure

The region is characterized by a large number of farms with an average size below the national average (smaller than 3 ha). As well, another significant difference to other rural regions is an exceptionally low presence of farms larger than 10 ha. The greatest concentration of farms, 60% of the total is within the 3-10 ha category. Compared to Vojvodina, this region is characterized by a high presence of mixed farm holdings and a smaller number of non-agricultural holdings.

A large number of mixed households (a reason why there is an unfavourable relationship between the land and number of employees) is a result of large towns and urban centres in the vicinity. Farm holdings in this region became smaller as a result of land division (as it is case in Vojvodina) but significant income diversification by family members into agricultural and non-farm sectors did not occur as it did in Vojvodina. Since income from employment other than within the agricultural industry was insufficient or too insecure for a farm holding livelihood, there was no exodus to towns so that agrarian population was growing.

Tourism

Basic tourist potential of the area centres on parts of the Valjevo mountains, specifically the Divčibare and Šumadija mountains, Aranđelovac, Topola, Bukovička Banja etc. They are in the vicinity of urban centers with their large population concentrations, relatively high income, better infrastructure connection and provided services and as a result there is a better-developed regional tourism compared to other areas.

Infrastructure and social services

Considering infrastructure, the region is better developed compared to other rural regions in Central Serbia. Located in the vicinity of large urban centres this rural area has more favourable infrastructure and/or easier access to the communal and public services. Modern roads as a ratio of the total road network are similar to the national average (61%) and the road network is uniformly distributed throughout the whole of the area. Settlements and municipalities at a distance from major roads have a poor road network, more problems with electric power supply, non reticulated sewage systems, lack of built dumps etc. The network of schools and health care organizations is more developed compared to the rest of Central Serbia but are still insufficiently innovative and equipped.

The financial market accessibility is limited by insufficient information to the farmers and poor business connections. Advisory services are available to the producer associations while other farmers are not informed about the advantages of associating, state support, credit granting etc.

2.2. Findings of field research

Basic research results differ to the national average and show significant deviation to other regions as well. They are shown in the following table:

Small households	
Heads of family	<ul style="list-style-type: none"> • Women as heads of households are less • A third of household heads are farmers • The largest number of agricultural households • 40% of households state that agriculture is their most important income • They see their future in agriculture considerably more often
Human resources	<ul style="list-style-type: none"> • Unfavourable educational structure of the middle-aged members • Larger average number of members per household
Employment:	<ul style="list-style-type: none"> • Large presence of those employed in agriculture • The lowest rate of unemployment • The largest number of employed with an additional paying job • The largest number of additional skills but only within traditional fruit and vegetables processing
Households	<ul style="list-style-type: none"> • 90% of households cultivate land, • The largest percentage of the registered farms • Non-registered ones indicate a problem of lack of documentation as well as a complicated procedure and not a lack of interest in agriculture
Agriculture	<ul style="list-style-type: none"> • On average they have 261 acres of land, which is less than other regions • They have more orchards, vineyards and forests • They lease more land
	<ul style="list-style-type: none"> • They grow cereals, fruit, grapes and vegetables more often than in other areas • They sell fruit, vegetables and grapes considerably more often than the others • They sell their products in the open markets • They have more livestock (particularly cattle and sheep) • They sell livestock and livestock products more than others • They have subsidiary facilities and additional housing facilities of an average state • They are better mechanized
	<ul style="list-style-type: none"> • Agricultural income for SRH (<i>Small Rural Households</i>) is considerably more significant in this region than in others (it is the primary income for 1/3 of respondents). • Income from jobs other than from within the agriculture industry is less important than for other areas • Selling livestock and fruit are the most important sources of agriculture income

Potentials	<ul style="list-style-type: none"> • They see their potential serviced best with better quality land and mechanization • They see their future with additional employment on the farm, and less than the others in completely new employment • They have tried to improve their production more than the others and intend to keep improving in the future • They consider prices a larger problem than a lack of capital and unfavourable credit lines (as SRH in other regions do) • They lack the market information more than the others
Partnership	<ul style="list-style-type: none"> • They evaluate life in a village as an average one • They indicate more than others that nobody, particularly the villagers, municipality and advisors, does anything about improving the position of the agricultural households • They imply that the state and Government are most responsible for their conditions more than the others • They have not tried to get aid as much as the others • Associations and cooperatives in these villages are less numerous than in the other regions
Informing	<ul style="list-style-type: none"> • More than the others (52%) state they have not heard of advisory services while less than the others state they do not have a need for these services. • They get informed more often from conversations with their neighbours and at the agricultural pharmacy • They are not very familiar with state support measures • They have a most used milk premium
Life in a village	<ul style="list-style-type: none"> • Their satisfaction with living in a village is average • Compared to others, they are proud of their water quality, and the quality of fruit and vegetables they grow • They consider, more than the others, that their farm cooperative and agriculture pharmacy are the most significant of all the rural institutions and services. • Availability of rural services is average • They are particularly unsatisfied with the way cultural institutions and cinemas operate as well as with social life. • They cite the lack of public transport in particular for their lack of quality of life • Considering communal infrastructure they lack an electric power supply and are not satisfied with it • With regard to other regions they are particularly unsatisfied with the infrastructure, agriculture products prices and farm cooperative
Future	<p>They are least ready to leave the village; they see their future in finding jobs less than the others and they need higher agriculture products prices for better life!</p>

Local decision makers

Problem and plans	<ul style="list-style-type: none"> • As a key problem of their region they indicate a communal infrastructure • They consider it both republic and municipal Governments responsibility
Activities	<ul style="list-style-type: none"> • They have least worked on local industry improvement projects • Activities in the previous years were focused on defining development strategies • They have used their own means for development projects less than others have • Experience in the local development projects was evaluated as poor • The reason for not being satisfied – lack of means • Strategic documents have recognized agriculture as the main resource that should be invested in • Agriculture is more frequently directly mentioned in development strategies than it is a case with other regions • Strategic documents directly mention small households, young people and women in the village • Priorities in the plans for the next year – agriculture, village, tourism • Priorities are defined according to the importance of these problems for the local economy • Problems of the village, poor households and young people will be directly treated in programmes for the next year
Potentials of the local economy	<ul style="list-style-type: none"> • Water and sewage systems, and roads are worse than in the other parts of Serbia • Infrastructure investments in general have not often been existent at all • Apart from the telecommunication connection, other communal systems have not been expanded. • Agriculture and other industrial branches, apart from food industry, are more significant in this area than in other ones • Agriculture and food industry are given better development chances and future than other activities • They highly evaluate success in the food industry business of their region • They evaluate tourist potentials as average – priority being given to monasteries and spas • They cannot explain how they have worked on the local resources promotion nor define activities more clearly (they indicate „public stimulation“ as an activity) • They indicate they have results and success in rural tourism and food processing in the traditional way, but not providing enough concrete information on the subject • They evaluate the significance of these aspects of diversification as average • They recognize specificities of their municipality less than others, and they think their region is attractive for future investments less than others. • They are particularly unsatisfied with the state of agriculture and communal infrastructure • They are particularly proud of the natural beauty of their area and high quality of their agricultural products
Village life quality	<ul style="list-style-type: none"> • They evaluate standard of living in their region worse than others do • They expect worsening of the conditions more often than others do • Basic reason for pessimism is the condition of agriculture in the country • They think the Republic Government is to blame for the poor lifestyle in the rural areas, more than others do • They as well blame the Republic Government for the situation of small households

Partnership	<ul style="list-style-type: none"> • Municipal authority structure is badly organized without enough competent experts • NGO sector is orientated towards agriculture, village, humanitarian and social work • Business sector – manufacturers and traders • Business sector invests in joint production with farm holdings • Business sector is consulted in adopting strategies more than in other regions while independent specialists and experts are consulted less frequently • Business sector and NGO have frequently been partners in defining development strategies; they have been better informed about municipal strategic documents • Professional associations, SME (<i>small and medium enterprises</i>) agencies and chambers of commerce are of minor influence in creating development strategies • NGO's are not well enough informed about the municipal services work • Cooperation between the municipality and NGO is passive • Business sector cooperates with NGO by giving donations – more than in other areas • Cooperation between companies and NGO is highly evaluated as top quality.
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Based on the findings of field investigation and analysed statistical indicators, the restricting factors and advantages of the region were determined in view of inclusion of small rural households in the rural non-farm economy.

Strengths	Weaknesses
Workforce – much of the workforce is in farm holdings; they have additional skills for products processing in the traditional way	Small estate, a large agrarian pressure
Diverse activities on a farm – livestock raising, fruit growing, viticulture	Access to the capital and information market is insufficient – there is a lack of advisory services
Market accessibility – vicinity of large towns	Products processing on a farm is low in spite sufficient workforce
Built facilities of the food industry	Greater enthusiasm of the farmers than of the decision makers
Diversified economic structure – high presence of the tertiary sector	Local decision makers are not connected, and educated, and are without enough initiative
Possibilities of rural tourism development	Activities out of a farm are insufficiently known and insufficiently promoted
	Undeveloped services sector in the rural areas, low level of local partnership

3. Hilly and mountainous regions – (Region 3)

The hilly and mountainous region in a geographical sense comprises the area of the Eastern, Southern and Western Serbia – from the Braničevo district, Negotin and Timok Krajina, Stara Mountain and the Southern parts of Serbia to the border with Macedonia and boundry with Kosovo and Metohija. On the Western side the region occupies parts of the Mačva, Kolubara, Zlatibor, Raška and Rasina districts. In the area-geographic sense the region is considerably heterogeneous: it covers parts of Macva, Stig and Timok Krajina the territories, which are some of the most fertile parts of Serbia,

as well as Đerdap Gorge, Homolj Mountains and Stara Mountain, Kopaonik, Zlatibor and Golija. In this region, mining and energy production industries exist (copper and coal mines, hydropower complex Đerdap I dam and Đerdap II dam and hydroelectric power plant Gamzigrad, Mali Zvornik), which singles it out compared to other rural areas and provides it with all the possibilities for multifunctional development.

The region is, by its area, the largest rural region in Serbia that makes up 42% of Serbia's land area. A large part this region is 500m above the sea level, so it can be described as a highland area. Plain areas are located in the valleys of the large rivers (the Danube, the Južna Morava, the Timok). Diverse relief of this area and the heterogeneous nature of the resources represent the reason for a diversified economic and agricultural structure.

3.1. Socio-economic structure

Demographic trends and human potential

About 20% of the overall population of Serbia lives in this area. The average population density is the lowest compared to other rural regions and amounts to only 46 inhabitants per km². Interregional differences in the population density are significant and vary from only 8.21 inhabitants per km² in the Eastern parts to 132.21 inhabitants per km² in the municipalities mostly inhabited by the Albanian population. In the period between 1991 and 2002 an extremely high depopulation was registered (-7.5%).

Every third adult inhabitant of the region has not finished primary school, while the presence of secondary school educated inhabitants and those with a Bachelor's Degree is below the values of other rural areas. The unfavourable educational structure certainly results from the unfavourable age structure of the population.

The activity rates and the employment rate in this region are the most unfavourable in Serbia. Reduced possibilities for employment and negative performances of the labour market represent the basic attributes of the region.

Employment structure per sectors indicates an exceptionally high dependence on the primary sector. More than 35% of the employed population work in the primary sector. The primary sector is high profile in some municipalities as well as mining since there are mineral resources in the Northern part of the region. Employment in the tertiary sector is significantly lower than in other rural areas.

Economic structure

Only 10% of Serbia's DP, or 25% of the DP of the rural areas is generated in this region. Realized DP per capita is extremely low and amounts only 53% DP of Serbia.

Sector structure of the DP indicates a significantly high presence of the primary sector in the economic structure of the area. Therefore the region generates nearly 19% of the primary sector DP of Serbia. Apart from agriculture, the other significant activities of this region are mineral and stone mining. Interregional differences in primary sector productivity, particularly in agriculture, are considerably high and caused by a significant heterogeneity of the nature of conditions and agriculture production systems in the region.

The region represents only 10%, of Serbia's secondary production which is extremely small considering the area this district covers. Significance of the processing industry in the DP structure of the secondary sector is lower than in other areas. However, electric power, gas and water production and supply in the region account for 35% of Serbias DP which shows the largest presence compared to other regions. Hydro electricity potential of the Danube and other storage lakes and exploiting mineral resources contribute to such a high presence of the energy sector in the DP structure of the region. The tertiary sector generates 26% of the regions social production, primarily due to developed tourism in the Western part of the area.

The economic structure of the area is based on natural resources and raw materials production. Processing capacities, which could provide value adding, are not developed within the region. The Eastern part of the region is orientated towards the borders with Romania and Bulgaria, which did not have heavy traffic for decades. The Southern and Eastern parts of the region are, in economic sense, the least developed parts of Serbia with a tendency to increasingly lag behind other regions.

Agriculture and food industry

Agricultural participation in the overall region amounts 55%, which is considerably less compared to other rural areas. On the other hand, presence of forests is significantly high and amounts to approximately 38% of the overall regions territory. Disposable agricultural areas per capita are 1.19 ha 10.45 ha per employee in the agricultural sector which is above the value in other rural areas. In spite of the favourable relationship between workforce and land, the area shows a low work productivity in agriculture compared to other rural regions. The realized yield per capacity unit is low as a result of the modest investment sand equipment of farm holdings. The Southern parts of the region have an extremely low agrarian productivity, primarily due to depopulation and unfavourable age structure.

Interregional differences in the use of ploughed land are extremely high for the heterogeneous geographic characteristics of the terrain. The high percentage of fallow land singles out this region compared to other rural areas, particularly in the Southeastern part. The reason for this is unfavourable age structure of the population that do not cultivate land. In general, a significant part of the regions arable land is

not used because of lack of adequate mechanization, inaccessibility, poor quality of the land and lack of workforce.

In addition to cereals, a significant group of crops is vegetables. The reason is that vegetable land by definition include raspberries as well, which represents a traditional product of the Western Serbia. With a realized production of one third of the domestic production, the Zlatibor district is the most significant area for raspberries in Serbia. Anyhow, favourable natural conditions in a part of this region provided for a traditionally high production of fruit and vegetables. This production is present in a part of Negotin Krajina, Braničevo, Rasina and Toplica districts.

The western part of the region, due to rich sources of provender carries more cattle for that particular land category compared to other parts of Serbia. The North-western part of the region and municipalities in the Zlatibor district represent the largest sheep growers in the whole country carrying more than 1.2 head of cattle (sheep) per ha in the agricultural area. The Zlatibor and Raška districts are singled out by their high density of cattle in relation to the available arable area. With about 0.6 head of sheep per ha, these municipalities are among the largest sheep producers in the country.

Farms structure

The average farms size of 4.41ha of is higher in comparison to the national average and farms size in other rural regions. A more favourable proprietary farm structure in this region can be explained, apart from the agricultural land structure advantage, by economic advantages wherein the agrarian sector is less relevant than in other rural regions.

Regarding the social-economic structure of farm holdings, the region is singled out by its lower presence of agricultural holdings comparing to other rural regions. The number of agricultural holdings is less in the municipalities with developed and larger municipal centres, and municipalities showing considerable depopulation trends and unfavourable conditions for agricultural production.

Poor land potential, lack of workforce, disorganised markets and lack of adequate rural services represent the main agricultural development limitations to this region. In recent years donations and Government projects aimed to encourage the local economy in the region, farmers' education and private investments support have all been promoted.

Tourism

This region shows currently the largest tourist potential compared with other areas in Serbia. Well known mountain centres – Zlatibor, Tara, a part of Divčibare and

Kopaonik, are located on the major road to Montenegro. This rural region certainly possesses comparative advantages in tourism. The Western part of the region is situated on sections of the road routes to Sarajevo and to Montenegro).

South-western Serbia is a crossroad of history and tradition and is undoubtedly one of the strongest links in establishing a tourist industry in Serbia. Kopaonik, Zlatibor, Divčibare, Vrnjačka Spa, Spa Koviljača, Tara and Guča, as traditional tourist micro destinations will still be leading areas for tourism in this region. It is estimated that tourist destinations in this area absorb over 60% of the total turnover in tourism. The National Strategy for tourism development expects Golija mountain as well as some designed destinations of rural and spa tourism to enter the market and be destinations of international importance. This integral cluster has the largest potential for growth, providing infrastructure and other issues of destination management are quickly solved..

South-eastern Serbia still is a insufficiently utilized tourist region, which has the largest infrastructure but it does have other problems for developing competitive tourist products. In addition to completing Corridor X, interventions in establishing the connection of this corridor to Zaječar and Knjaževac via Soko Spa are particularly important here. An urban centre with the largest potential in this region is Niš, which, due to its transport position (motorway, airport) provides significant advantages for the region.

Infrastructure and social services

Considering infrastructure, the region is the least developed compared to other rural regions of Serbia. Demographic depopulation, sluggish economic development and an insufficiently diversified economic structure in the area have caused marginalization of the region.

In certain municipalities of the Eastern part of the region (Dimitrovgrad, Crna Trava, Bosilegrad) only few primary schools for eight-year education are available. The number of secondary vocation schools in the whole region is small and show an insufficient diversity of courses. The economic situation of the minorities, refugee population and emphasized rural poverty in the Southern part of the region make this area very vulnerable.

The region is situated near important major roads in Serbia and has an exceptional tourist potential. In spite of that, this region has the most unfavourable traffic infrastructure compared to other rural regions, which is one of the main tourism development limitations in this area.

3.2. Findings of field research

Basic terrain research results, which differ in regard to the national average and have significant deviation in regard to other regions, are showed in the following table:

Small households	
Heads of family	<ul style="list-style-type: none"> • The least percentage of the agricultural households • Pension is considerably more important source of income than agriculture
Human resources	<ul style="list-style-type: none"> • Older population • Smaller number of women in the overall population • The least favourable education structure • They are involved in the social life of a village less frequently than others • As additional skills they often indicate home craft, wild fruit and medicinal herbs collecting
Employment	<ul style="list-style-type: none"> • Small percentage of employees with a full-time job • Small number of people with jobs in sectors other than agriculture
Households	<ul style="list-style-type: none"> • 92% of households cultivate land • The least percentage of registered households (24%) • Non-registered ones indicate the fact they are not informed enough as the reason for not being registered
Agriculture	<ul style="list-style-type: none"> • They have the greatest area of agricultural land and forests • Large areas of pastures and meadows • They use their land less than others – including ploughed lands as well
	<ul style="list-style-type: none"> • They collect medicinal herbs and wild fruit • They sell their agricultural products less than others • They grow swine less than others • They do not sell cattle
	<ul style="list-style-type: none"> • They often have a flat in a town • They are equipped with poor facilities • They have several tractors and consider them to be in a good state • They consider pensions to be a more significant source of income than other households do • Agricultural products sales is less important to them than to other households • Of all the agricultural products they find milk sales income to be of particular importance
Potentials	<ul style="list-style-type: none"> • They value their standard of living more compared to others • They express greater optimism than others do • A great number of them see their future in craft and in other type of business • They see their future in agriculture less than others do • They intend to invest in mechanization and equipment • They see the basic limitation as the lack of workforce

Partnership	<ul style="list-style-type: none"> • They evaluate life in a village a little better than others do • They assess that municipal self-government is engaged in improving their conditions more than others do • They assess a local self-government as a responsible one, and recognize the state responsibility less than others do • They do not find farmers associations relevant institutions • They have greater need for technical and technological knowledge than others do
Informing	<ul style="list-style-type: none"> • They do not know how to reach an advisor • They know slightly better than others of state support measures • They have used the state support significantly less than others have • They have tried to be get credit lines less than others have
Village life	<ul style="list-style-type: none"> • They assess that life in their region has been improved in recent years more than others do • They are satisfied with and proud of their unpolluted environment and high water quality • They lack a vet service and cooperatives • They have average rural services available to them but they lack better health care • Variety stores and health services represent their greatest problem • They value the state of the water supply system and roads more than others do
Future	They see their future in getting a job or making their own business out of the household
Local decision makers	
Problem and plans	<ul style="list-style-type: none"> • The key problem is a high rate of unemployment • They indicate communal infrastructure as a problem less frequently • They do not know how to define who is responsible for their problems more frequently than others • They consider they have enough trained people in a local self-government more than others
Activities	<ul style="list-style-type: none"> • Project activities, in the recent years, have been aimed towards tourism and agriculture • Donation programmes have been the financing sources more often than in other areas • Experience with development projects is considerably better than it is in other areas • An aggravating factor in projects being realized has been the insufficient interest of primary users more than it has been a case in other areas • They have development strategies less frequently than others do • Within local strategies, agriculture is treated as one of the priorities along with other activities • Problems of villages and small households are directly mentioned in the strategies • Position of women is only indirectly mentioned • In development strategies formulation, the NGO sector has participated more than in other regions • They get the municipal agrarian budget more often than other areas do • Priorities for the next year are related to defining development strategies and social programmes • Plans for the next year connected to agriculture and village are related to education and credit lines • Aid to small rural households and women imply employment aid

Local economy potentials	<ul style="list-style-type: none"> • Infrastructure problems are not solved well • New infrastructure systems have been expanded and constructed more often than in other areas while the existing ones have been less frequently reconstructed. • This is the only region with agriculture as a non-dominant activity • Tourism along with mining and energy production are more important than in other areas • They expect agriculture development in future • They often cannot express their opinion on the agriculture industry status since it is not relevant to them • They assess that food industry is not particularly successful as well • They see tourism as an industry with the brightest future • They see their area as having more tourist potential than other regions • The municipality has worked on promotion of these potentials, but the activities have been considerably unclear and modest • They have worked on the promotion of their natural resources and cultural heritage, but again within projects and programmes that are not clear enough • NGO's are more active in promoting natural beauty of their area and cultural heritage than it is case with other areas • They think they are attractive for future investments more than others do • They see their advantage in tourist potential
Village life quality	<ul style="list-style-type: none"> • They are less satisfied with the standard of environmental concern than others are • They find unfavourable age structure a particular problem • They expect the situation to be improved within the next five years and show greater optimism • They find the fact that people are not motivated and young people are leaving their area a basic development limitation • They are not satisfied with local self-government functioning
Partnership	<ul style="list-style-type: none"> • Business sector cooperates less with farmers • Municipal services are insufficiently organized • According to the NGO and business sector opinion, they do not cooperate enough with a local self-government • They are not able to define the reasons for bad cooperation • Projects between them and the municipality have mainly been for refugees as well as aid projects for socially disadvantaged persons • There is a small amount of cooperation between the Municipality and business sector • They consider a larger responsibility for a village status being due to the NGO sector than other areas do • They find the business sector responsibility for small farm holdings status less than other areas do

Defined advantages and limitations for more active involvement of the small rural households in rural non-agriculture economies diversification are presented as the following:

Strengths	Weaknesses
Favourable natural conditions, rich sources of provender, protected natural potentials, attractive scenery	Unfavourable age and educational structure of the population, low level of entrepreneurship, and insufficient specific knowledge and skills
Preserved ethnic surroundings; traditional local products are nationally recognized	Economic structure is mainly based on natural resources which are depleting. There is insufficiently diversified, and low productivity industry.
Conditions for the organic production, and medicinal herbs production; the area is rich with wild fruits	There is a lack of market input, and purchase; financial market access is limited.
Fruit production is important for the region – export, production associations, and processing capacities exist only in a part of the region	Undeveloped physical and economic infrastructure; limited access to social and public services
Local decision makers recognize the potential of the region	Market access limited; insufficiently diversified activities on the farm and out of it in the areas away from the tourist centres
NGO sector is active in promoting cultural heritage and natural resources of the area	Bad infrastructure
	Low productivity
	Undeveloped administrative structures
	Agriculture is insufficiently recognized as a resource, being neglected.

CHAPTER R

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- „Small rural households – survey with households“, internal document
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4. Endnotes

- 1 The results of other research do not sufficiently respect methodological differences of this nature; therefore the possibility for comparison is limited to a degree.
- 2 http://ec.europa.eu/agriculture/external/enlarge/index_en.htm
- 3 „Small rural households – survey with households“ and „Small rural households – survey with local decision makers“, UNDP 2006 internal document.
- 4 De Janvary A., Murgai R., Sadoulet E. (2002)
- 5 The term „underdeveloped“ which is understood as „poor“ in this context, should be essentially differentiated from the term „backward“. Underdeveloped understands that production factors are lagging behind other areas, while „backwardness“ represents an expression of a „*failed struggle against poverty*“ (Querini, G. 1988).
- 6 These facts are explicitly illustrated in OECD data and for Europe in particular through the results of the LEADER project.
- 7 Appreciating the argumentation about isolated regions and marginalised societal groups and, among other things, because of the complexity of choice in indicators for valorising rural poverty, the author of this text estimated as a (final and semantically) more appropriate term of **developmental inequality** rather than **rural poverty**.
- 8 The significance of unifying developmental parameters, highlighted in the World Bank document: „Rural Development: from Vision to Action“, 1997, was partly realised with this Handbook. However, there is an emphasis on the necessity of further advancement, systematic and continual monitoring of parameters, as well as joining efforts to reach consensus in view of this problem matter.
- 9 Analytic means to estimate human development: HDI - *Human Development Index*, HPI - *Human Poverty Index*, the relation between public spending and aid and measuring gender inequality (GDI - *Gender-related Development index* and GEM - *Gender Empowerment Measure*)
- 10 These indicators were previously generally defined in European Commission documents, COM (2000) 20 and COM (2001) 144.
- 11 In general, the encompassed indicators are more applicable for describing the state in rural areas, rather than evaluation and monitoring of applicable development policies. For those needs (evaluation and monitoring) of applied development

programmes, the EU prepared the *Common Indicators for Monitoring Rural Development Programming 2000-2006* - Commission Working Document VI/43512/02 Final: 26.2.2002

12 LFA - Less Favoured Areas

13 It practically represents the sublimation of the 1972 directives, with somewhat improved solutions, as well as the LFA directive, improved in the part relating to the preservation of the environment

14 Leading principles of sustainable development demand balance and complementariness between 3-dimensional changes of: 1) economics (sustainable models of production and consumption), 2) environment (maintenance and renewal of healthy ecosystems), 3) society (ultimate eradication of poverty and sustainable societal systems. The most comprehensive and most frequently acceptable definition is the so-called Bruntland report of WCDE (*World Commission on Environment and Development*): „Sustainable development points for the fulfillment of present needs without endangering the possibility of future generations to fulfill their own needs“

15 The declaration targets funds which would be invested into rendering Europe as „attractive“ for investments and business, promotion of knowledge and innovations aimed at growth and creating more quality and numerous workplaces

16 PHARE (Pologne, Hongrie Assistance à la Reconstruction Economique) is a program intended for building and establishing institutions, as well as reforming public administration. Within this programme the creation of National Development Programmes with an focus on priority actions, promoting economic and social cohesion of the candidate countries etc was foreseen.

17 ISPA (Instrument for Structural Policies for Pre-accession) is an assistance programme intended for large infrastructural interventions in the fields of transport and environment protection (means ratio 50:50%)

18 SAPARD - Spatial Accession Policies for Agriculture and Rural Development

19 Support for the creation of new job opportunities in rural areas if *opening new workplaces in rural areas* has been recognised as an important income factor for the rural population and the rational response to labour downsizing for the purpose of production modernisation, this issue was not explicitly stressed as a priority in operationalising SAPARD programme.

20 IPA - *Instrument for Pre-accession Assistance*, Regulation EC. 1085/2006, 17th July 2006

21 It is expected that, starting from 2007, instead of the financial instrument CARDS, the Republic of Serbia will use IPA funds for the first two of the total five components.

- 22 This document is prepared by the EC based on priorities of European partnership and the EC report on fulfilling conditions of the stabilisation and association process, as well as national strategic documents of the fund beneficiary state.
- 23 Municipalities are grouped into districts, in accordance with Decree on the manner of Ministries' operations and special organisations outside their Headoffices (Official Gazette No. 3/92 i 36/92). Municipalities within the city of Belgrade are grouped separately.
- 24 As defined by the OECD definition of rurality
- 25 From the total number of individuals who changed place of residence or moved into Serbia, 380 000, or as much as 44% migrated within rural areas.
- 26 The account of all indicators in the table according to the OECD criteria of rurality, calculated by the author on the basis of the Statistical Yearbook Municipalities in Serbia, 2005 and internal data of the Statistical Office of the Republic of Serbia
- 27 http://www.undp.org.yu/nhdr/2005/NHDR_Serbia_2005_ser.pdf
- 28 More specifically, while achievements in the City of Belgrade are comparable to those of EU member countries such as Slovakia or Lithuania (HDI equivalent to 0.856 and 0.857 respectively), the HDI in the Pčinjski district is comparable to Uzbekistan or Moldova (0.696 and 0.694 respectively).
- 29 Poverty Reduction Strategy, the Government of the Republic of Serbia. National poverty line comprises expenditure for food, clothes and footwear, hygiene, furniture, transport, health care, education and other. It is determined as total expenditure of those households whose consumption of food equals minimal consumer basket - daily intake of 2288 calories.
- 30 <http://www.prsp.sr.gov.yu/>
- 31 Ibid
- 32 A 322 mil. dollars credit line was opened for farmers in private sector and for the state sector, with the \$ 125 mil participation by the World Bank
- 33 Unofficial records show that 2/3 of these funds were spent on farming equipment and machines
- 34 In 2005, under the programme for crediting small and medium sized enterprises (SME), the Fund for the Development of the Republic of Serbia financed 234 projects in the area of agro-industry, amounting to over 36% of the total of the funds approved for the support of the development of SME. Under the programme

I of the Fund for providing credit support to independent entrepreneurship 125 credits were extended, constituting over 20% of the total sum set for these purposes. The fund approved 295 credits for self-employment in the area of agro-industry. Agro-industry received around 24% of the total amount for micro credits, providing employment for 869 individuals. Short-time credits in support of export were extended to 12 agro-industrial enterprises, amounting to 27% of the total funds for these purposes.

- II 35 Region in the Strategy means „administrative district“ as defined by the *Law on State Administration (Article 38)*
- 36 The disintegration of the state in the 1990s was accompanied by regressive processes with respect to central government and local self-government. Namely, during 1990s central government in Serbia strengthened, primarily through the centralization of funds and the reduction of powers of the local administration.
- 37 There are relating positive experiences in several municipalities in Serbia concerning the implementation of donor projects aimed at vulnerable populations, where the NGO sector took part in the implementation.
- III 38 This measure means that members of the household, over 55 years old, over 10 years under the agricultural pension scheme, qualify to receive the amount of 40 thousand RSD (about € 500) a year.
- IV 39 Comparative analysis of agrarian policy of various states and in time sequence has no standardized methodology in reference literature. The most frequently used is the methodology of the OECD and PSE/CSE indicators of income subventions based on it. Indicators of the participation of income subventions in farming income arrived at on the basis of economic account of agriculture according to the EAA methodology are also widely used. These indicators do not allow for the estimate of the effects of individual measures on agriculture, but they do provide an insight into the total support to agriculture and accompanying costs for producers and consumers. Economic Account of Agriculture – EAA and the OECD methodology are not in use in Serbia, and therefore there are no indicators which are adequately comparable to other states. The problem of the lack of consistency of statistical data of transitional countries and incomparability with international standardized data, in addition to disturbances caused by inflation, differences in exchange rates and similar, is a problem often discussed in literature (Davidova, S., Buckwell 2000, Volk, T. 2004, Bogdanov N., Božić, D., Munćan, P: 2006).
- V 40 The largest share of medium-term credits was intended for livestock production (55%) and the purchase of agricultural machinery (34%).
- R

- 41 According to the Ministry of Agriculture only 10-15% of farms' real estates have been recorded so far, impeding the use of mortgage on real estate as guaranty for credit issue.
- 42 From a sector point of view, *agricultural production* encompasses primary production of unprocessed plant and animal products: wheat, fish ponds, cattle, hunting and fishing and forestry (*International Standard Industrial Classification (ISIC) Group 1*).
- 43 Non-farm production, that is RNFE encompasses all other economic activities including power production, small and medium enterprises, comprehensive rural services, construction, commercial transport, financial and personal services (*ISIC Groups 2-9*). RNFE key component is processing and refinement of raw agricultural products in small production plants, packaging and transport of products (Haagblade S., Hazzel P., Reardon T., 2002)
- 44 This position and relation towards rural areas has been shaped in the concept of multi-functional agriculture and multi-functional rural development.
- 45 However, the increase in total production can influence a reduction of prices, which is what happens in cases when there is insufficient demand for non-farm products. It is precisely the balance between creating new workplaces and the quantity i.e. quality of product that requires state policies which have a strong influence on rural poverty and reducing its effects.
- 46 Political stability or instability, trust in institutions and external factors also have influence.
- 47 The reason may also be an inadequate price policy (whether because of a low level of agricultural productivity and efficiency or because of state policy which protects the low level of consumer income with low prices of agricultural products).
- 48 For Asia and Latin America FAO estimates the figures to be 32% and 40%, respectively.
- 49 <http://www.ruralpovertyportal.org/english/regions/europe/index.htm>
- 50 There are two official definitions of employment/unemployment in Serbia - according to the internationally comparable *Survey on Labour Force* and according to the records of NES. The difference stems from the definition of the status of an individual on the labour market upon which the definitions rest. As a rule, the unemployment rate under the NES records is twice as much as the statistical as it the registry of the unemployed of the NES also incorporates those who are not actively searching for job, but are interested in receiving related benefits. On the

other hand, the rate of unemployment according to the Survey does not provide a clear picture of hidden unemployment, not of the individuals who work within the black economy. The LFS prior to 2004 was of extremely poor quality, and this can explain the sharp jump in LFS unemployment between 2003 and 2004, where NES data stayed constant. Anyhow, the methodology of LFS since 2004 becomes comparable with internationally standards (recommendations of International Labour Organization – ILO and EUROSTAT).

- 51 Calculation according to official statistical definition of rural areas by the Statistical Office of the Republic of Serbia
- 52 Employment in catering and hotel trade (conditionally in tourism) is surprisingly low - less than 2% of working population in employment is engaged in this sector although it is considered to be a developmental alternative in many parts of Serbia.
- 53 Official definition of rurality by the Republic Statistical Office
- 54 Official definition of rurality by the Republic Statistical Office
- 55 The data was obtained through the Survey on household expenditure which has been conducted since 2003 according to international standards and recommendations by the EUROSTAT, the ILO and the UN, ensuring the international comparability of data. Former studies were by the type of household and therefore do not allow comparison.
- 56 Official definition of rurality by the Republic Statistical Office
- 57 Cash transfers from the government are made up of: social welfare benefits, health care benefits, pension and disability benefits, additional benefits (disabilities and similar), child's benefits, scholarships and compensations for students of schools for qualified workers, unemployment benefits and cash subventions by the state.
- 58 Actually, the author considers the fact to be overestimated to a certain extent. The data showed in this table follow the Labour Force Survey which, as mentioned before, does not observe the statistical definition of rural areas. We can assume that the survey sample included villages in the vicinity of municipalities which, by the OECD methodology fall within urbane areas. In this case, the picture of employment changes since small businesses in such areas are far more easily available.
- 59 The term „non-agricultural farms“ refers to the fact that the main professional occupation of the owners of the farm is non-agricultural. Therefore we refer in this report to these farms and to the people living on these farms as „non-agricultural“.
- 60 A household is considered to be a family or any community whose members live together and spend their income jointly on living expenses (dwelling place, food etc.)

- 61 A household with an agricultural farm holding owns and works on at least 10 acres of land, or with a plot of land smaller than 100 m² if they possess:
- at least one cow and a calf, or
 - one cow and a heifer, or
 - one cow and two adult animals of the same species
 - five sheep, or
 - three pigs, or
 - altogether four adult heads of sheep and pigs, or
 - fifty poultry, or
 - twenty beehives.
- Criteria enlisted here applies to all households, regardless of them being settled in urban or „other“ settlements, and regardless of the whereabouts of land, cattle, poultry or beehives, that a household gave date about.
- 62 http://ec.europa.eu/agriculture/rica/methodology1_en.cfm
- 63 Hungary - According to the above definition holdings cultivating an agricultural area smaller than one hectare and those producing an SGM value below one ESU should be termed „small farms“. By no means has it meant any exclusion of the small farms from the scope of observation; they are rather distinguished from the larger ones, which also qualify as farms in economic terms. Bulgaria considered a semi-subsistence farm to be a farm producing specialized crops of ESU size between 2-4 ESU. According to the above definition, holdings cultivating an agricultural area smaller than one hectare and those producing an SGM value below one ESU should be termed „small farms“. By no means has it meant any exclusion of the small farms from the scope of of these investigations; they are rather distinguished from the larger ones, which also qualify as farms in economic terms. Bulgaria considered a semi-subsistence farm to be a farm producing specialized crops of ESU size between 2-4 ESU which remained
- 64 The Farm Accountancy Data Network (FADN) is an instrument for the evaluation of the income of agricultural households
- 65 Percentage of households without a male head of household in the total number of households surveyed is too low to reach objective conclusions.
- 66 The data must be taken with a grain of salt, since the definition of samples required that at least one household member is of age group between 25 and 50.
- 67 The most comprehensive research concerning this subject is *Functioning and Reproduction of Family Holdings in Serbia*, edt. Krstic B. Faculty of Agriculture, University of Belgrade, 1987.

- I 68 It is interesting that only one percent of the household members have noted their ability to engage in rural tourism and it was those from flatland region! This fact is very indicative, knowing that the households in this region have the least experience in the area of rural tourism.
- 69 The permanently employed, persons who work but are not officially employed, and persons who are self-employed.
- 70 These results highly correlate with the conclusions of a study by Babović M. (2006).
- 71 Munćan P., Božić, D. (2006)
- II 72 Only town apartment owners have a more significant income from renting residential facilities, who in 22% of cases (of those with town apartments) rent their apartments to others, cold storages in 14% of the cases, and additional residential facilities in 9% cases (of those having the mentioned facilities).
- III 73 This fact has already been predicted in the structure of agricultural production of the holdings in lowland, where wheat and industrial plants are mentioned as predominant crops. The average land area of only 1.2 ha for intensive agricultural activity is not considered profitable for providing holdings with machinery. Therefore the average property of 1.2 ha for the region of flatland region is considered to be a hardly sustainable holding.
- 74 This fact shows that the households in this region have a serious and emphasized tendency towards agricultural production and higher productivity, which will be seen further on.
- IV 75 However, these jobs are not related to agriculture or salaries.
- 76 In addition, other parameters, as will be seen further on, indicate that for small rural households in this area the agricultural income is more important than other sources of income. Small rural households in this area, as already shown by previously mentioned parameters, are highly focused on agriculture and farm holdings.
- V 77 The municipalities in flatland region have paid less attention to the problem of small rural households because in 40% of the municipalities they have assessed that this problem has no particular significance.
- 78 A particularly negative assessment was given by flatland areas population who generally perceive their environment and their position in a negative way.
- R 79 Again, these households are to a lesser degree than others satisfied with the condition of infrastructure in their communities, in particular concerning water supply,

telephone lines, roads and landfills. The respondents in the flatland areas attached more significance to the water supply. The reason for this is presumably poor quality of potable water in the major part of this region territory. The households in this region find that the problem with waste regulation is quite serious and, in contrast with other regions, attach low significance to asphalt roads.

- 80 However, this conclusion is drawn indirectly. The households rarely (only 7% of those which see their future in agriculture and 30% of those which see their prospects in starting up their own businesses) refer to this need as the need for information but rather as the assistance in obtaining loans or finding the market, which they attach a very high value in their priorities.
- 81 Market contact through the sales of products to cooperatives or purchasers is made only by the producers of wheat, corn, and industrial plants.
- 82 The selected time period of 5 years results from the fact that the state support system to agriculture started in 2001. Besides, this period is long enough to allow farmers to assess their experience with investments they made. Odabrani vremenski period od 5 godina potiče otuda što je sistem državne podrške poljoprivredi aktiviran praktično 2001 godine. Osim toga, ovaj vremenski period je dovoljan da mogu da procene svoje iskustvo sa preduzetim investicijama.
- 83 Terluin I. (2001)
- 84 The aging index is the ratio between the population 65 plus and total population, according to the representation of the population aged less than 15 in the total population.

CIP – Каталогизација у публикацији
Народна библиотека Србије, Београд

338.43 (4-672EY)
338.43 (497.11)
631.115.11 (497.11)

BOGDANOV, Natalija Lj.

Small Rural Households in Serbia and
Rural Non-farm Economy / Natalija Bogdanov
; [translation Branka Robertson]. –
Belgrade : United Nations Development
Programme, 2007 (Beograd : Excelsior). –
227 str. : graf. prikazi, tabele ; 24 cm

Prevod dela: Mala ruralna domaćinstva u
Srbiji i nepoljoprivredna ekonomija. – Tiraž
200. – Str. 5-6, 7-8: Foreword / Dr Suzana
Đorđević-Milošević, Lance Clark. – Endnotes:
219-227. Bibliografija: str. 211-218.

ISBN 978-86-7728-046-8

- a) Европска унија – Аграрна политика
- b) Сеоска домаћинства – Србија
- c) Србија – Аграрна политика

COBISS.SR-ID 141997068

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UNDP