

## RURAL ECONOMY DIVERSIFICATION IN SERBIA

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**Abstract:** Since agriculture can't create enough job opportunities many rural dwellers rely on non-farming incomes. Evidences from many European countries show that non-agricultural economy influences greatly rural areas economic growth thus improving rural population working and living conditions. Serbian rural areas negligence determines a considerable delay in the structural adaptation to EU standards. The aim of this work is to present basic indicators on the level of rural economy diversification, to identify and explain the changes happening in the rural areas during the transition process with a special focus on how and why rural operators diversify their activities and to present some measures and actions undertaken to stop the negative tendencies and to revitalize rural territories in Serbia. Recent data from The Serbian Bureau of Statistics as well from the specialized national and international literature have been used. The achieved level of diversification was assessed by analyzing the labour force market and the income sources. Results explicitly show that sources of income and livelihoods diversification is an integral part of the business strategies of most rural households. Serbia has significant potentialities and strengths for rural economy diversification but they are not properly used. In fact, most of rural labour force is still engaged in

agriculture (about 47%). Since agriculture is, in many Serbian areas, lowly productive and potential for its intensification is limited and/or can be environmentally degrading, living conditions improvement can be achieved only through households livelihoods diversification. Diversity of Serbian rural areas potentialities and contexts means that rural development strategies design and implementation should be tuned to their specificities. Therefore, collaboration of the public, civil and private sectors on the local, national and regional level is highly required and the participation of the local communities is a must. A more dynamic rural economy is not possible without valorising all available potentials and assets. This multifaceted research is based on a set of SMART (Specific, Measurable, Achievable, Relevant and Time-bound) indicators using easily accessible yet objectively verifiable and high quality input data. It can be easily used by decision makers, scientists and development practitioners to monitor the level of economy diversification in Serbian rural areas and to compare it with performances in other European countries in order to achieve a better tuning of rural development policies. Limitations of this kind of research are due to the lack of an adequate statistical base.

**Keywords:** *Diversification, income, activities, rural development, agriculture, Serbia.*

### INTRODUCTION

A strong impulse of revitalizing the rural areas and the implementation of a modern rural development concept comes from the process of adaptation to the EU standards and rules. This problem area was neglected for years in Serbia, regardless of the significance it has on the entire development of the country. As a consequence of the long-term negligence of the rural areas there is a considerable delay in the structural adaptation to the European *modus operandi*.

Long term politicise of marginalizing the rural areas led to a gradual aging and disappearance of the Serbian rural settlements, therefore many households and agriculture activities died out. In order to stop such negative tendencies and trends it is necessary to define an adequate agrarian and rural policy and create an effective mechanism in activating the potentials of the rural areas. Regarding the variety of developmental potentials which the rural areas abound with, the approach in their activation must not be uniform.

The necessity of creating adequate possibilities for diversification of the rural economy is one of the strategic aims of modern Serbia. The main assets of the rural economy are not just agriculture, but a range of non-agricultural activities (rural tourism, handicrafts, traditional crafts, etc.). The diversification of the rural economy, through a broad range of service activities and activities connected to agriculture, greatly influences the entire economic development of the rural areas and therefore improve quality of life and work of the rural population. By providing additional rural jobs and incomes, it has a positive influence on decreasing the rural poverty and unemployment. Moreover, by getting engaged in the activities which replace or supplement the agricultural income, it decreases the production risk of the agricultural landholdings. However, some of the basic prerequisites of the diversification of the rural economy in Serbia (heterogeneity of natural potentials, private ownership over land, experience in business connecting, etc.) are missing or insufficiently valorised.

#### **MATERIAL AND METHODS**

For the purpose of this research, annual and quarterly publications of The Bureau of Statistics of the Republic of Serbia, some databases, as well as results of other researches dealing with this topic were used. The achieved level of diversification is assessed by analyzing the labour force market and the sources of income of the rural population. The most accurate and appropriate methods were used in gathering and processing data. Trends have been clearly presented in tables and figures. Limitations of this and similar researches are due to the lack of an adequate statistical base and also changes in the definition of “rurality” in Serbia that makes this research area even more complex.

#### **RESULTS AND DISCUSSIONS**

Serbia is one of the most agrarian European countries. About 80% of its territory is made up of rural territories in which half of the population lives (BOGDANOV, 2008)<sup>1</sup>. The basic feature of the economic structure of the rural areas of Serbia is a high dependence on the primary sector. In fact, the largest percentage of the rural labour force of Serbia is employed in the primary sector while the employment in the tertiary sector is still low. Activities with the largest percentage of involvement of the rural population are agriculture (47.2%), processing industries (15.3%) and retail and wholesale trade (9.8%), while employment is the lowest in the public and private services sector, due to its low development (Figure 1).

The results of the Labour Force Survey of 2008 (Figure 2) shows that the largest percentage of the rural labour force has secondary school education (about 40%). Considering the poor educational, qualification and age structure, the labour force of rural areas has more difficult employment possibilities and difficulties in achieving an additional income are more aggravated by its low value as a market resource. This fact implies that a certain part of the rural population earns its income in the grey zone. On the other hand, a more educated labour force without an attractive economic surrounding and appropriate work places is not interested in life and work in rural settlements and therefore scarcely remain in rural areas.

As for the labour force age structure in rural areas of Serbia (Figure 3), the dominant group is the population over 65 (25.4%). The demographic aging of the labour force engaged

in agriculture has negative implications on the agricultural production itself, so that such a rural labour force becomes a limiting factor of the agricultural development. There is an increasing motivation and willingness among the rural young in gaining higher levels of education as a prerequisite and a guarantee for a better employment possibility. Depopulation of rural areas has negative implications on landholdings fragmentation.

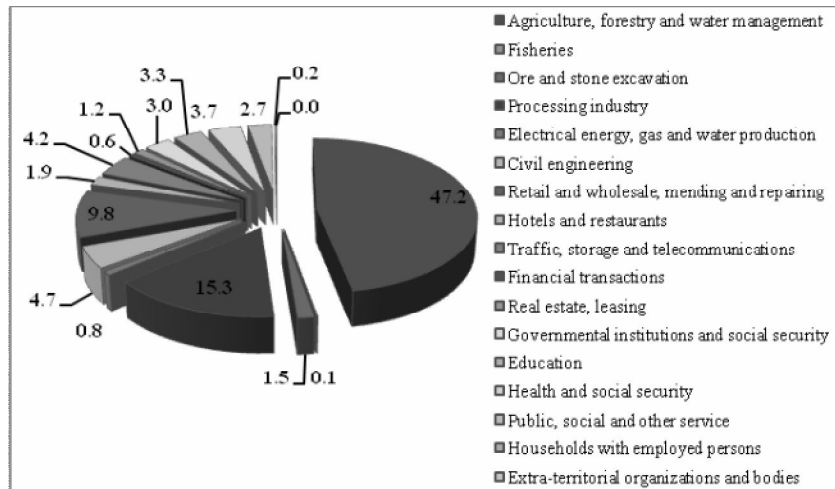


Figure 1. Employment structure according to activity sectors in Serbian rural areas (Source: The Labour Force Survey, October 2009.)

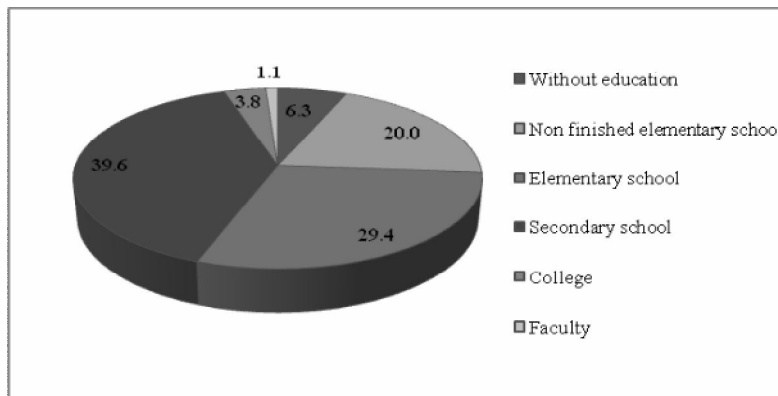


Figure 2. Educational structure of rural labour force (Source: The Labour Force Survey, 2008.)

On such farming landholdings it is almost impossible to intensify agricultural production and create market surpluses, so the biggest percentage of the labour force engaged in agriculture in Serbia mostly produces for its own needs (about 75%), while only the fifth of the total number produces for market<sup>ii</sup>. As subsistence agriculture is not able to provide adequate incomes to those households relying on it, many of these family landholders are dependant on other activities and in search of other ways for generating additional income.

Because of this Serbia needs the diversification of rural areas. Developing different non-agricultural activities, carrying out the urbanization and planned construction of industrial centres in rural areas, a significant number of unemployed or partly employed people could find additional ways of earnings with which the process of depopulation of the rural areas would substantially slow down. On the other hand, Serbia has great potentials in the development of village and rural tourism. If exploited properly, rural areas would revive and unemployment reduced.

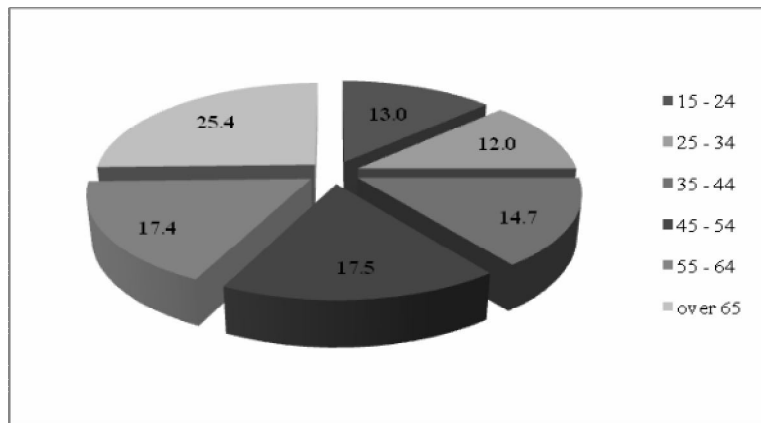


Figure 3. Age structure of labour force in rural areas of Serbia (Source: The Labour Force Survey, October 2009.)

The Rural Development Strategic Plan 2009-2013 points out that: “Choosing particular activities which would be stimulated in a significant manner depends on the level of innovativeness of the local communities, on human capacities as well as on factors such as. Provision of sufficient additional financial resources; Whether the activities are part of the traditional knowledge and skills of the local population and the request is rather for a modest quantity of inputs regarding training; Their compatibility with the seasonal agricultural activities; Exchange and contacts between the rural population and other society members<sup>iiii</sup>.”

A considerable obstacle to diversification is poverty, resource limitations of households, as well as the low level of capital. Due to modest potentials, the farming landholdings in Serbia are not favourable business partners or good clients to the financial institutions, so they have difficulties in access capital and indirectly in improving their incomes and living standards. Furthermore, rural households do not have the basic knowledge in the field of management and marketing, which is a great handicap in starting one’s own farm or non-farm business. Therefore, a great deal of attention must be dedicated to organize different workshops and come up with educational programs aimed to raise their knowledge and to improve their skills. One of the basic limitations of diversification of the rural economy in Serbia is lack of trust and reserve, especially of the older rural population towards new innovative solutions and their incapability to meet new challenges and accept risks. Therefore, the development of the rural business and alternative activities in the rural areas of Serbia is very slow. The development of small and middle entrepreneurships in the rural areas would enable a big number of workers to get employed, and in this way it would significantly contribute to the existence of dynamic rural settlement in Serbia.

In the rural areas dominates the diversification of incomes rather than activities. It is a fact that in Serbia has existed for decades the tradition of family landholdings, experiences in business connecting and associating, heterogeneity of natural potentials, etc., therefore a number of factors which can be used to achieve sufficient concentration and accumulation to reach a higher level of diversification that's to say activities diversifications, but it is still unclear why the achieved accumulation is still insufficient in accomplishing such a goal. A logical explanation is that the period of the nineties was a period of an important economic turmoil and unstable conditions in agriculture in which many rural households "lost" their accumulated savings. As BOGDANOV (2008) stated, the achieved level of diversification was limited also by a sequence of the following factors: unfavourable position of the agrarian sector and rural areas in developmental policies and options, a low accumulative capabilities of rural households, unfavourable capital market and insecure investment ambient, limited market for placing rural products and services and insufficiently educated human capital among others.

In the period between the last censuses (1991-2002) there was a decrease of agricultural and mixed rural landholdings on one side and an increase of the number of non-agrarian rural landholdings on the other side, which is an evidence of diversification of incomes of the rural landholdings (Figure 4).

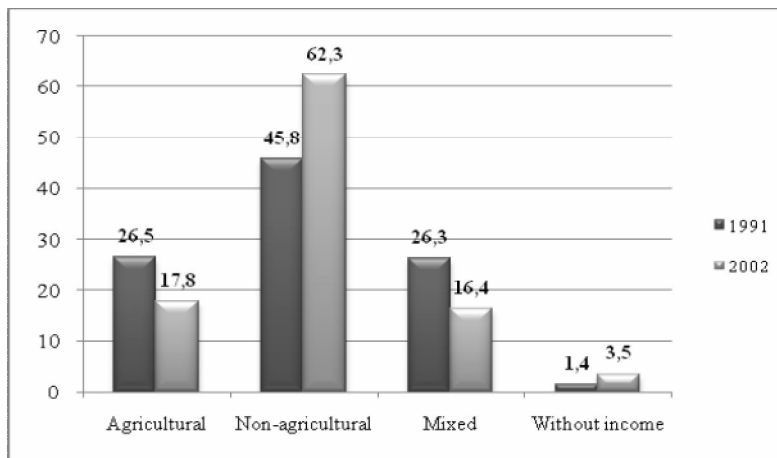


Figure 4. Main sources of incomes in rural areas of Serbia (Source: Data have been collected from different sources and processed by the authors.)

According to the census of 2002, the biggest number of rural landholdings belonged to the non-agricultural group (62.3%), while the representation of agricultural and mixed ones was considerably smaller (17.8 and 16.4%, respectively). On the average every sixth rural landholding gained income strictly from agriculture. A dominant activity of the farming landholding members in non-agricultural activities is a legal economy and society modernization process. Agricultural and mixed landholdings number decrease can be due to households division and/or fading away and so on, not just of landholdings incomes diversification and the dependence on agricultural incomes decrease (BOGDANOV, 2008).

Data on households' consumption and expenditure gives a clear idea about the present diversification of the rural economy in Serbia (Table 1). As a matter of fact, the only indicators which enable understanding and interpreting properly the incomes diversification in Serbia are

the data about resources available for and consumed by the households. The major source of incomes of the rural population are regular salaries and wages (about 39%) then pensions (about 24%), while incomes from agriculture, hunting and fishing represent only about 8% (Table 1). If we take into account the datum that about 47% of the rural labour force is involved in agriculture (Figure 1) it is then obvious that agriculture in rural Serbia has an extremely low productivity, and the weak competition and productivity of the rural landholdings, the instability of the market of agricultural products and the impossibility of their placement, etc. are only some of the numerous facts in favour of such thesis. Therefore, agriculture should not be the unique and only source of income of the rural population, since it is not sufficient to satisfy their existential needs. Moreover, prices of agricultural products are quite changeable, and agricultural market is still insufficiently developed and organized. That's why the rural population should be enabled to find ways of diversifying its incomes and activities in a greater extent. The objective in the following period should be to decrease the number of agricultural landholdings and to increase the number of mixed ones.

The greatest share of rural households' expenditure is connected to food and non-alcoholic drinks (48.6%) and house maintenance, furniture and equipment (15.0%), which means satisfying existential needs. Since about 50% of rural households' resources are used for food, alcoholic and non-alcoholic drinks (and tobacco), and only about 8% of their incomes derive from agriculture, it is clear that rural households diversified their incomes in a significant measure. On the other side, taking into account the bad qualification of the rural labour force it is such a bad news that only 0.6% of the resources are allocated to education, since without education the rural households can hardly manage the labour market demands.

Table 1

Rural households' income and expenditure matrix

Income and endowments	%	Expenditures	%
<u>Household income in money</u>	<u>87.1</u>	Food and non-alcoholic drinks	43.6
Regular salaries and wages	38.7	Alcoholic drinks and tobacco	5.0
Other income	3.4	Clothing and footwear	5.4
Pensions (old-age, family, disablement and other)	24.2	Rent, water, electricity, gas and other fuels	15.0
Other social insurance receipts	2.0	Household furniture, equipment and maintenance	4.8
Income from agriculture, hunting and fishing	8.3		
External receipts	1.3	Health care	3.7
Real estate related income	0.5	Transport	10.4
Donations and awards	0.9	Communications	3.0
Consumer and investment credits	0.5	Recreation and culture	3.2
Other receipts	7.3	Education	0.6
<u>Household receipts in kind</u>	<u>12.9</u>	Restaurants and hotels	1.6
Earned receipts in kind	0.2	Other goods and services	3.7
Natural consumption	12.7		
<b>Total</b>	<b>100.0</b>	<b>Total</b>	<b>100.0</b>

Source: The Statistical Yearbook of Serbia, 2009.

### CONCLUSIONS

The process of accession to the EU imposes on Serbia to start new reforms and changes. The still incomplete transition process of the country demands changes in many areas, including agriculture. In fact, the new strategy of agricultural and rural development in Serbia is in line with the regulations and standards of the EU. With its effective and consistent application, agriculture would have a significant place in the economy of the country .

Serbia has significant possibilities and potentialities to diversify its rural economy, but they are not used properly. The dominant part of the rural labour force of Serbia is engaged in agriculture (about 47%). Since agriculture is lowly productive, the rural population should be enabled to find ways to diversify their incomes and activities in a greater extent. That can be achieved through a dynamic development of different non-agricultural activities, small and middle entrepreneurship, and agri-food industry. Rural non-agricultural economy greatly influences the entire rural economy growth and improves the quality of life and work of the rural population. A significant number of unemployed or partially employed rural people can through non-agricultural activities and businesses find out additional ways of generating income so that the processes of rural settlements depopulation can be considerably slowed down. Therefore, there is no doubt that the importance of diversification in the future will surely grow, since the dynamic development of rural landholdings is not possible without engaging all the available rural potentialities and assets. Therefore, rural people should be involved in the design, delivery, monitoring and evaluation of rural development policies aimed at improving human capital, diversifying rural economy and empowering rural communities to assume the management of their resources through decentralisation and delegation processes. Involvement of local institutions, civil society organisations and the private sector should be also strengthened. Extension and advisory services should be modernized so that they become closer to rural people and able to provide them with advice and training to develop managerial and organisational skills that are necessary to develop other non-farm activities and businesses instead of focusing on crops growing and animal husbandry.

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**Endnotes**

<sup>1</sup> In the researches of Bogdanov Natalija, the rural areas in Serbia are defined according to the OECD definition of rural: "...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 censuses conducted in 1953, 1961 and 1971. The size of the settlement and the ratio of agricultural compared to the total population were used as classification criteria. Unfortunately, this approach was abandoned and in the censuses conducted in 1981, 1991 and 2002, where settlements were classified as "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 others. 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 *et al.*, 2005 (It seems that there isn't this reference in the bibliography – references list)). 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.

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 km<sup>2</sup>."

<sup>2</sup> According to the *Census of the population, households and flats of 2002*, the total number of agricultural labour force in the Republic of Serbia was 529,236.

<sup>3</sup> Strategic Plan of Rural Development 2009-2013, The Ministry of Agriculture, Forestry and Water Management.