



INSTITUTE OF AGRICULTURAL  
AND FOOD ECONOMICS  
NATIONAL RESEARCH INSTITUTE

***Certain aspects  
of structural  
change in rural areas  
The experience  
of selected countries***

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THE ECONOMIC AND SOCIAL CONDITIONS  
OF THE DEVELOPMENT OF THE POLISH FOOD  
ECONOMY FOLLOWING POLAND'S ACCESSION  
TO THE EUROPEAN UNION

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This publication was prepared as a contribution to the research on the following subject **Regional differentiation of agricultural development and its impact upon economic and social problems of rural areas** within the framework of the research tasks *The role of non-farming activities in shaping new structures in rural areas and Highly commercial farms in family farming*.

The aim of the publication was to present different aspects of structural change in rural areas on the basis of experience of selected European countries.

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## Foreword

During the recent decades, agriculture and food economy in Europe have revealed a high capability of adapting to the new economic, social and environmental challenges, resulting, *inter alia*, from transformations, occurring in technique and production technology, competition pressure and consumers' requirements. The mentioned adaptations had also place in the field of agricultural policy and public support, obtained via this policy. Owing to the mentioned adaptation, agri-food sector in many European countries remains still the important sector of their economies although it is characterized by a very big diversity in the particular states. At the same time, the discussed sector has a key meaning for environment and landscape of rural areas, preservation of natural habitats or counteracting the occurring climate changes.

For years, rural development strategies have attached great importance to speeding up the multifunctional development of agriculture and rural areas. This primarily means diversification of economic activities in rural areas, seeking new ways to utilise the existing production capacity and set of outcomes which the agricultural sector can bring to the rural population as a whole.

The majority of such efforts are aimed to stimulate the changes in social and technological infrastructure, job creation and new institutional structures as well as on maintaining the high quality of natural resources of the countryside. European countries have come to appreciate unique values, such as biodiversity or traditional rural landscape. As a consequence, apart from measures for improving social and technical infrastructure, the stimulation of rural development is increasingly oriented towards implementing programmes which could have positive effects on the environment and social and economic well-being of the rural communities.

This publication attempts to discuss the certain aspects of structural change in rural areas from the point of view of experience of selected European countries. The contributors from Italy, Czech Republic, Serbia, Hungary, Poland, representing different fields of research interests, focused on the analysis of important issues of agriculture and rural development. Authors discuss the role of multifunctionality of agriculture, social capital, depopulation processes, policy strategies and future changes in development of rural economy.



This publication is a part of research within the framework of the research tasks *The role of non-farming activities in shaping new structures in rural areas* and *Highly commercial farms in family farming* under the Multiannual Programme “Economic and social conditions of the development of Polish food economy following Poland’s accession to the European Union”, which basic aim is to investigate theoretical and empirical solutions of the problems concerning the means for improving the economic condition of the rural economy and enhancing its social and economic capacity.

We would like to thank our colleagues, who contributed to this volume with findings and conclusions from their research projects and recent studies. We hope the publication will be a part of the academic and popular discussion on structural change in rural areas and our conclusions will help to improve the quality of policy making and implementation for the food economy and rural development in Poland and other European countries.

*Pawel Chmieleński*  
*Bożena Karwat-Woźniak*

## **Operative instruments supporting the multifunctionality of agriculture**

### **Introduction**

Multifunctionality expresses the passage from an essentially productive vision of agriculture to a broader vision which associates environmental, social and cultural as well as economic functions with the agricultural sector. In this perspective, agriculture provides simultaneously both commodities and non-commodities, the latter corresponding to social and economic development, culture, the conservation of the landscape and the environment, the quality of food and educational, therapeutic or recreational services for the population (Durand and Van Huylenbroeck 2003, Knickel et al. 2004).

A convincing definition of multifunctionality is provided by the Organisation for Economic Co-operation and Development (OECD 2001), acknowledging the social value of agriculture, identifying the concept of multifunctionality as a whole set of outputs which the agricultural sector can bring to the social and economic well-being of the community and which the latter recognises as specific to agriculture.

With reference to the recent European regulations and to the documents of the Commission (European Conference on Rural Development in Salzburg, 2003; Council Regulation No 1698/2005, Community Strategic Guidelines for Rural Development 2006, European Commission 2009), it is possible to divide the outputs of agriculture into main function categories:

- *economic functions*, including the productive function, the generation of income and employment in rural areas;
- *environmental functions*, in terms of the preservation of environmental quality, landscape conservation, hydrogeological protection, the conservation of biodiversity and, more generally, the promotion of local natural resources;
- *social functions*, relating to the preservation of rural socio-cultural traditions and structures, the supply of recreational, didactic and therapeutic services and the guarantee of food quality and safety.

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A part of these functions may be internalised in the market, through the promotion of products or the creation of new markets. One example in this sense is the certification of origin (PGI, PDO, DOCG, DOC), by which the value of a product is associated with the role that agriculture plays in the conservation of rural traditions, identity and culture. Another example is the certification of processing, as in the case of organic production which links production with the supply of environmental services, related to agricultural practices carried out with respect for biodiversity, hydrogeological balance and the preservation of characteristic landscape elements. Other examples of internalisation in the market concern various forms of farm differentiation which range from agritourism and didactical activity to the stipulation of contracts for territorial conservation.

Some functions of agriculture, however, cannot be internalised in the market, retaining either wholly or partly, characteristics of “externality”, and thus require a public intervention to correct the corresponding “market failures”. In other words, the promotion of multifunctionality can represent an opportunity for economic development for agricultural enterprises inasmuch as the social and environmental functions of agriculture are internalised in the market. Policy makers can facilitate this process, through a series of interventions ranging from support for company strategies of internalisation to the assignment of property rights for the management of certain areas (OECD 2003, OECD 2005). These instruments, however, although representing interesting forms of promotion of the “other functions” of agriculture, may not on their own be able to compensate for the whole value of the externalities produced.

In some cases it is therefore necessary to set up instruments of intervention to protect directly the offer of the non-market services of agriculture that take into account the public value generated and the costs associated with the supply of services.

The concept of multifunctional agriculture emerged in Europe at the time of the 1992 MacSharry reform and was later consolidated with the Cork declaration (1996) and Agenda 2000 (1999). The model of agriculture based on the paradigm of multifunctionality reflects the need to orient agricultural activity toward the expectations and needs of the community deriving from a new awareness of the role of agriculture that goes far beyond guaranteeing food self-sufficiency (Gorman et al. 2001). It developed in response to the need to begin a process of transformation in European policy, triggered both internally, due to the increasingly difficult sustainability at the financial level of a policy aiming essentially at increases in production, and externally, due to the dynamics of multilateral negotiations (Losch 2004).

In this context, the promotion of multifunctionality allows policy makers to justify in the eyes of taxpayers money transfers in favour of the agricultural sector and,

at the same time, to continue to support European farmers in accordance with international agreements defined within the sphere of the WTO (Potter and Burney 2002, Garzon 2005, Potter and Tilzey 2005).

With the 2003 Fischler reform, however, the main objective of the first pillar of the European Community agricultural policy seems to be the promotion of a type of agriculture that does not have negative effects on the environment, rather than a multifunctional agriculture whose development is completely assigned to the second pillar. It appears that this is how the regulation of environmental compatibility and the lack of recourse to forms of financing of social and environmental functions (which, in part, would have been possible through a coherent application of Article 69) must be interpreted.

In this framework, it seems that a change of policy towards the promotion of multifunctionality within the first pillar comes from the recent works of the Commission in which it is acknowledged that a system like the present one, historically based on direct aid, is no longer justifiable and it becomes clear that it is necessary, through direct support, to reward those farmers who best carry out functions of an environmental and social type (European Commission 2009, Fisher Boel 2009).

This paper presents various observations on strategies and operative instruments for the promotion and support of agricultural practices and systems with a high degree of multifunctionality both at the institutional level (through the elaboration of policies that can facilitate the promotion of the positive externalities of agriculture), and at the level of the agricultural enterprise (through the implementation of market instruments that allow the commercial development of traditionally non-market functions).

The reflections set forth here are based on the experience acquired in the sphere of the MULTIDIM<sup>2</sup> research project, whose objective was the analysis of the multifunctionality of agricultural enterprises in Central Italy (Tuscany, Marche, Lazio and Umbria) and Sicily and the corresponding instruments of public intervention for its promotion.

## **The MULTIDIM project**

MULTIDIM focused specifically on the so-called externalities of agriculture or, in any case, on those functions not completely belonging to a traditional market model, for which the absence of optimal allocation solutions on the part of the mar-

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<sup>2</sup> Inter-regional research project “Dinamiche evolutive delle imprese agricole e multifunzionalità” (MULTIDIM) promoted by ARSIA, ARSIAL, Regione Marche, Regione Umbria, Regione Sicilia.

ket requires public intervention for the achievement of social efficiency (Casini, 2009).

A specific area of study in the project was the analysis of the principal forms of farm organisation best able to “internalise” the value of such externalities. This analysis was carried out by means of a direct survey involving 50 companies that could be described as “successful”, situated in Tuscany, Umbria, Marche, Lazio and Sicily. The selection was made on the basis of the multifunctional characteristics of the farms and on the basis of their vitality, even in relation to future prospects. The survey was conducted by means of a questionnaire aiming to discover the economic performance of the farms, the aspects that allowed farms to engage in multifunctional agriculture, the reasons that led to the start of multifunctional practices, farm prospects, and the structural and infrastructural restraints that may have been or may be encountered.

Later, the project involved the creation of focus groups in which agricultural professional organisations, producers, public administration and researchers met to discuss possible instruments for the promotion of multifunctionality. The focus groups were organised by thematic areas based on the main elements of multifunctionality. As regards the environmental dimension, the functions under examination were those relating to the protection and development of the landscape, the conservation and development of biodiversity and the safeguard of hydrogeological balance; as regards the social dimension, therapeutic, didactic and recreational functions were analysed. Other socio-economic functions, such as support for employment and incomes in rural areas, defence of the territory and the protection and consolidation of socio-cultural identity, were instead dealt with transversally, since they are a common result of the various ways of operating by agricultural enterprises.

### **Key elements in the promotion of multifunctionality**

Our work is carried out within the European frame of reference defined by the *ex ante* evaluation of rural development programmes 2007–2013 (Metis 2008) with the aim of comparing the needs that have emerged, the political goals, the actions and the expected results, as illustrated in the programme documents available (*ex ante* evaluation reports, national/regional rural development programmes, National Strategy Plans, Strategic, Environmental Assessment reports).

The main needs that have emerged from the *ex ante* evaluation in European rural areas can be classified according to the three dimensions of sustainable development. The social aspects concern particularly the ageing of the population, emigration, accessibility, the availability of services and employment opportunities; the

economic aspects regard the company dimension, productivity, modernisation, professional training and the quality of products; the environmental aspects, lastly, relate to climatic changes, to limitations on production due to factors such as altitude and the lie of the land, the sustainability of agricultural practices, and the management of natural resources (biodiversity, habitat, protected areas).

Many references are found to possible forms of internalisation in the market of the social and environmental functions of agriculture; in particular, the diversification of agricultural activities is indicated in synergy with environmental quality, recreational activity and tourism which make use of landscape as well as of historical and cultural resources, the short distribution chain, speciality products and health products, the supply of environmental services and the production of renewable energies.

In this context, in the light of the MULTIDIM project, an initial reflection regards the identification of a key element in the model of rural development based on multifunctionality, represented by the patrimony of expertise both in terms of the consciousness of benefits brought to the community by agriculture, and in terms of skills necessary to promote the functions of agriculture. These skills must be analysed on three different levels – society, farmers and public administration.

As far as society is concerned, in the face of growing demand for environmental, recreational and cultural services (Helming and Wiggering 2003, Vanslem-brouck and Van Huylenbroeck 2003), there is still little awareness of the importance of the functions of agriculture. This lack of awareness has important implications at a political level, since it conditions the allocation of resources in favour of multifunctionality, an allocation that must take into account the expectations of the community regarding the services offered by agriculture.

Furthermore, the poor awareness of the importance of the “other” functions of agriculture by the community limits the consumer’s interest towards products with a higher social and environmental value and, consequently, makes the internalisation of these aspects in the market more difficult. This is the case with the protection of biodiversity; indeed, the results of a survey carried out in 2007 by the Gallup agency reveal that although the majority of European citizens have heard of the word “biodiversity”, only 35% also know what it means, while some 80% do not know the Natura 2000 network (Simoncini 2009, p.78). For the protection of the hydrogeological balance, too, there is scanty knowledge of the role of agriculture, both in urban areas and in rural areas where the situation is not very different owing to the wide-ranging socio-cultural changes of recent years which see rural lifestyles similar to urban ones becoming increasingly established (Rovai 2009, p. 89).

Another important factor relating to society is the stream of information that reaches the consumer about the quality of products, the offer of recreational and di-

dactical services and the fulfilment of other social functions such as, for example, the therapeutic and occupational involvement in companies of disadvantaged persons.

In this regard, among the modes of communication, besides the traditional brands which indicate the denomination of origin or relate to organic production, the transmission of the social value of agriculture takes place through direct sale, often associated with a tasting event or through agritourism and didactic activities by means of which the consumer has the opportunity to come into direct contact with agriculture and gain experience of the productive process, the expertise associated with it and the actual places where the products are made.

Lastly, an interesting opportunity given to enterprises to intercept a basin of consumers more difficult to reach with conventional means is presented by computer technologies; this underlines the need for an adequate supply of ICT infrastructures (broadband in particular) in agricultural and rural areas that allow companies to access this increasingly popular system of communication.

As far as farmers are concerned, an adequate level of knowledge is indispensable for setting up innovative strategies that allow an optimal internalisation of the environmental and social services offered by the farm. This is indicated as one of the main issues of rural development in the *ex ante* evaluation report of rural development plans. In this connection, the case studies carried out in the sphere of the MULTIDIM project show that in the presence of adequate levels of professional training a new competitiveness of the agricultural enterprises emerges, no longer based on the price but on the quality of the product and of the process, together with a capacity to intercept the growing demand for services to the person manifested by consumers (Contini 2009).

Innovative examples in this sense regard the diffusion of so-called “zero mileage” products, i.e. products distributed on the local market to be sold by retail or used in the restaurant trade. Other examples regard the growing participation of farms in local markets, the creativity shown by the different forms of didactical and recreational activity and the sale of products through fair-trade buyers’ groups which are directed at a type of consumer who is more sensitive to environmental issues and to the overall quality of foods. We are talking about a small part of the population which is also particularly interested in social aspects, indeed farm enterprises find in this channel of distribution more favourable conditions for the sale of products with a high social value, such as those made through a productive process that involves the therapeutic and occupational contribution of disadvantaged persons. Another interesting example is the certification of goods that are made in processes involving a low emission of carbon dioxide associated with the production of energy from renewable sources. This certification, besides

guaranteeing energy self-sufficiency and a corresponding reduction in running costs, increases the added value of the product, thus representing an appropriate communicational support for production techniques with a low environmental impact, especially when associated with the quality of the products.

Among the various case studies carried out, we may mention one regarding a wine-producing farm run by young entrepreneurs in the province of Florence. The choice of this young enterprise was a quality production, based on the organoleptic characteristics of the product and on the adoption of agricultural practices with a low environmental impact. The link with socio-cultural identity was concretised/enhanced through the realisation of products obtained with respect for traditional practices which the entrepreneurs had acquired and elaborated, thanks to modern skills in the sphere of productive techniques and wine making. An aspect characterising this agricultural enterprise is its participation in networks that put it in contact with the main organisers of events at both national and international level and with people responsible for important channels of communication. The success of this initiative is demonstrated by the many events the enterprise was invited to take part in (for example, the gala banquet at the Battersea Arts Centre in London, or the wine-tasting at the Dorchester Hotel) and the numerous mentions in guides, which have contributed to the consolidation of its reputation. Moreover, the farm's connection with consumers through participation in events enables the enterprise to monitor the evolution of demand in terms of consumer preferences and tastes. At the level of public administration, skills are associated with the need for a territorial approach to multifunctionality.

The importance of promoting the diffusion, on a territorial scale, of practices associated with the supply of the functions of agriculture is particularly evident for some environmental functions, such as the protection and development of the landscape, the protection of biodiversity and the maintenance of the hydrogeological balance, where the action of a single enterprise does not have a significant impact, although it is true also for functions of a socio-economic character, where the large-scale diffusion of initiatives permits the amplification of advantages that would otherwise be had for initiatives of an individual character.

In this context policy makers must take into account the need to promote programmes that favour a wide-ranging participation of farmers in actions of a collective character, in so doing surpassing a farm-based approach involving negotiation with a single entrepreneur. It is therefore crucial to promote and develop projects through local partnership, in such a way as to permit the attainment of the scale suitable for the appropriate territorial level (Belletti 2009, p. 18; Di Iacovo 2009; Rovai 2009, p. 90; Simoncini 2009, p. 81).



This type of approach requires, on the part of the public administration, the presence of professional figures who are able to coordinate projects of a territorial nature and integrate the various instruments available at the level of rural development policies.

Another important aspect of a territorial approach is the need for direct support for multifunctionality keeping in mind the range of opportunities offered by agriculture in supplying environmental and social services. This consideration brings to our attention another area of knowledge concerning the need to know where and how the joint production of non-market goods and services takes place. To reach the goal of the maximum development of agricultural multifunctionality and consequently maximum social well-being, it is in fact indispensable to create policies and operative instruments that are capable of distinguishing different types of agriculture. In this perspective the division of the territory into zones, thereby defining relatively homogeneous contexts in terms of the “value” of single non-market productions, is a fundamental tool in the correct implementation of agrarian policy instruments for multifunctionality.

### **Development of market instruments in the promotion of multifunctionality**

The results of the MULTIDIM project show that the internalisation into market instruments of the social and environmental functions of agriculture is a concrete possibility; however, for these strategies to really contribute to the success of an agricultural enterprise it is necessary for precise conditions to be established at both farm and territorial level. If the above-mentioned conditions exist, it is possible to hypothesise the development of a productive diversification as opposed to the traditional agricultural model, one capable of allowing for the remuneration of many of the non-market goods and services produced.

At the farm level the “preconditions” for the promotion on the market of products with an elevated social and environmental value must be related, in addition to the skills of the farmer, to the presence of economically efficient structures, supported by adequate productive sizes. These sizes can be reached not only at the level of a single enterprise, but also through forms of association and through the development of a system of relations at the territorial level. Another crucial factor is the quality of products, in response to the growing sensitivity of consumers towards the origin, the sustainability of the productive process and food safety.

Again at the farm level, it is useful to underline how the carrying out of more than one activity of diversification allows the enterprise to generate synergies capable of amplifying the advantages. Proceeding to an examination of territorial characteristics, an initial consideration regards the importance of the supply of land-

scape and cultural resources and the reputation of the territory in terms of quality of products, both of which represent a competitive advantage for the farms. Indeed, it is also through association with the image of a place and a territory that products can be promoted, internalising in the market services that the agricultural undertaking produces in the sphere of the safeguard of the environment, the landscape and local traditions.

Besides the attractions of a given location, a positive influence on the success of an agricultural enterprise is the quality of life in rural areas, especially in terms of reachability, even when this means computer technology, and the presence of active territorial contexts, in particular the presence of networks among operators which allow innovative experiences to be spread through association among farm enterprises and interaction with operators of the territory. This is the case with rural tourism routes whereby farmers coordinate with restaurant owners, artisans, shop owners and the public administration with the aim of promoting local products or setting up didactic activities that require a constant interaction with scholastic and other educational institutions. Even activities of a social, therapeutic or rehabilitative type, cannot develop outside of a framework of relations with social services and social cooperatives, family associations and voluntary organisations (Senni 2009, p. 31).

In this context, the public administration has a crucial role to play in promoting the necessary skills at the farm level and in favouring the conditions which at a territorial level enable the development of multifunctionality, through actions aimed at enhancing the quality of life in rural areas on the one hand, and on the other fostering management skills and integrations among the various strategies of cooperation between the various actors involved in the supply of services of a recreational, didactic and social type.

A further form of internalisation of the social services of agriculture takes place through the making of contracts. With reference to the research carried out in the sphere of the MULTIDIM project, an interesting example in this sense is the realisation of contracts of surveillance and emergency repair work on the water system promoted by the public institution in Tuscany. The choice made by the public institution was to entrust the task of monitoring and possible repair work in areas further away from the valley-based operational centres, and therefore more difficult to reach, to farms located on the territory itself by means of an appropriate agreement, thereby efficiently rationalising the management of the territory. We consider this initiative noteworthy inasmuch as it enabled the public institution to obtain important benefits, both of a private and public nature. As regards the former case, it is worth mentioning that the guarantee of an income bonus for the agricultural enterprise acts as an incentive to the continuation of agricultural activity in the area. This

diversification has led to a better utilisation of capital and internal working times and to the acquisition of new skills/know-how and has represented an incentive to continue agricultural activity. From the public point of view, in addition to a correct management of the territory, the initiative has favoured the conservation and promotion of local knowledge about places. Knowledge which, following the progressive abandonment of agri-forest activities, has become the reserve of a limited number of people and which, for this reason, it would be inopportune to dissipate (Rovai 2009).

### **Target payments supporting the positive externalities of agriculture**

Where it is impossible to internalise the services of agriculture in the market, the public operator can, should the need arise, take action to correct market failures. On this matter, a possible intervention regards the imposition of norms regulating the behaviour of enterprises, as in the case of landscape restraints. This approach, however, appears simplistic and in any case partial, since by negatively affecting the competitiveness of enterprises it would risk immobilising the productive system of entire areas through the creation of restrictions or limitations. More viable instead is the idea of a government of rural patrimony based on the pursuit of adequate levels of economic and social development. This approach would allow people living in rural areas to continue carrying out productive activities, using in a balanced way the resources of the territory itself.

In this framework, public intervention can be concretised through target payments to those farmers who undertake to supply given services, an approach widely used in the sphere of the agri-environmental policies of the European Union. For the adoption of this instrument it is however necessary to arrive at a monetary assessment of the correct compensation and this is not always an easy matter.

An extremely interesting solution for the estimate of the extent of the support to farmers for the protection of environmental services is given by the mechanism of auctions which involves leaving to the farmers the determination of the price of services relating to the protection of the landscape, in such a way as to take into account the territorial particularities linked both to natural characteristics and to the agricultural practices adopted. The application of such instruments of compensation can certainly involve difficulties and risks, including particularly that of overburdening the farmer with excessive transaction costs (bureaucratic costs relating to the presentation of offers, etc.), or the possibility of collusive or calculating behaviour (associated with expectations about the public administration's readiness to pay, shown by previous awards). In this case, independently of the cost of compli-

ance, farmers would be encouraged to request the greatest sum possible which, on the basis of their knowledge, the public administration is willing to pay.

Bearing these considerations in mind, when auctions can be conducted in such a way as to exclude calculating behaviour on the part of the farmers, and transparently, with the goal of containing transaction costs and supplying all the information necessary for formulating the offers of farmers, they could contribute to improving the efficiency of the distribution of the support, allowing an increase in the farmers' participation, reducing unjustified forms of earning and increasing the transparency of the compensations with also the important result of communicating correctly the social role of agriculture both outside and among the farmers themselves (Eigenraam et al. 2006, Gallerani et al. 2006).

### **Concluding remarks**

The multifunctionality of agriculture is a whole set of outputs which the agricultural sector brings to the social and economic well-being of the community and which the latter acknowledges as specific to agriculture. The promotion of a model of development based on multifunctionality is a complex scenario involving various actors, including agricultural enterprises and public institutions, but also society in its entirety which assumes a role of particular importance in that it represents the subject expressing the demand for multifunctionality. These actors are accompanied by other carriers of interests in the rural world that may contribute to the diffusion and consolidation of multifunctionality, interacting with farm enterprises and institutions in the realisation of initiatives favouring multifunctionality. In this context, the identification of operative instruments for the promotion and support of agricultural practices and systems with a high degree of multifunctionality cannot leave out of consideration the creation of structured moments of participation by users in the identification, evaluation and choice of the various possible options.

Experience acquired in the sphere of the MULTIDIM project has taught that the internalisation of the externalities of agriculture in market instruments is a concrete possibility. The analysis of 50 case studies selected in Central Italy and Sicily has in fact shown the presence of interesting innovative activities that can allow farmers to add value to production. This is the case with certification of various kinds, direct sales together with tasting, and participation in distribution circuits that allow a better communication of the social value of pursuing agricultural activities and directly reaching consumers particularly sensitive to the social functions of agriculture. Other examples are provided by the activities of farm diversification, such as agritourism and didactic activity. However, for the internalisation in market instruments of the externalities of agriculture to come about the existence of precise con-

ditions at both farm and territorial level is necessary. Among the conditions at the farm level are the skills of the farmers, while at the territorial level particular importance is attached to a good infrastructural supply (mainly in terms of accessibility, including computer-based resources) and the presence of active territorial contexts, in particular in relation to the presence of networks among operators which allow innovative experiences to be spread through farm associations and interaction with operators of the territory.

The public operator can intervene in favour of multifunctionality, both sustaining the conditions which allow the setting up of strategies for the development of farm goods and services, and directly promoting these strategies. In any case, an adequate overall knowledge is clearly an important prerequisite for the maximum promotion of multifunctionality, since this makes it possible to identify the territory on the basis of the various ways of practicing agriculture, identifying the “value” of the single non-market productions created, in such a way as to be able to identify the priority areas towards which to direct public attention.

For some externalities, however, and for all cases in which the aforementioned conditions are not achieved, public intervention integrating the so-called market failures represents the only solution that guarantees the permanence of the supply of such goods and services. Intervening requires the creation of specific instruments capable of making the system of values on which these externalities are founded emerge.

The possible solutions are several and require careful study, case by case, in order to make a final choice. Generally speaking, once a zonal division of the territory is made on the basis of the value assumed by the various functions considered, the two main proposable solutions appear to be the determination of higher costs connected with the supply compared to economically more advantageous practices and the creation of auction procedures for the optimum allocation of the available resources among the possible producers.

The choice among them will depend mainly on the difficulty of quantifying the higher costs, on the possibility of defining very homogeneous territories for the service considered, and on the possibility of excluding collusive behaviour among operators.

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## The influence of social capital on the economic and social development of the Czech countryside

*Social capital enables to solve problems of individuals, groups and communities in a less complicated way.*

J. Kalous

### Actors and capital

The term *actor* means one acting, a bearer, initiator of social activity. An actor can be an individual or a social group as a bearer of social activities. Social actors (personalities of rural life, local organisations, municipalities, larger territorial units or the state and others) act and assert in their “play field” (i.e. in the space delimited by their social networks) strategies based on power. Social actors can be considered to be owners of capital, both in material (physical) and non-material (abstract) sense.

In the theories of classical and neo-classical economics, capital is defined as a value that is capable of being valorised. This value brings to its owner revenue in the form of profit or interest. Together with labour and land, capital also forms the three basic factors of production, production inputs (Samuelson, Norhaus 1995).

The term *capital* passed from initially economic terminology into other branches of science. It passed also into sociology. Capital in its new non-material forms (human, cultural, social and other types) need not be interchangeable at all or only partially. It is not consumed or worn down by utilisation but, on the contrary, strengthened. However, non-material forms of capital are not separable from its owner and they can cease with his death. The “advantage” of non-material forms of capital (human, cultural, social etc.) is that they cannot be alienated. The Czech sociologist A. Vesely quotes J. Coleman, who thinks that human capital is less tangible and social capital still less tangible compared to physical (fully material and tangible) capital. This is because social capital only exists in human relations. The above has been used by critics as an argument against the utilisation of defining attributes of the term *capital* (Vesely 2006).

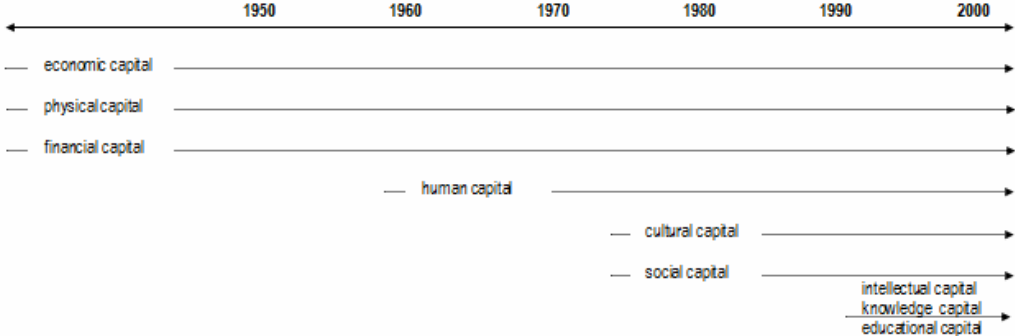
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Figure 1 shows the chronological order of the most widely used “predicates” of the term capital used by various authors.

Figure 1. Chronology of the usage of various predicates of the term *capital*



Source: own study.

On the chronological axis<sup>2</sup> of the scheme capital (in its classical economic conception – physical and financial) is the leftmost and without a more exact location in time. The meaning of the term in its classical conception is connected with the organisation of modern society and with the expansion of its usage with economic theories since the 19<sup>th</sup> century.

Capital gains the attribute “human” in the 1960s, at the time when education (and funds allocated to it) is regarded as investment by analogy with economic capital as Becker, the initiator of the idea of human capital, thinks.

At that time, the term *capital* begins to be transformed from a classical (material) into non-material conception. This transformation continues in the 1970s and 1980s when non-material comprehension of the term *capital* gradually leaves its original material sense in economic sciences and begins to be used in other fields such as social sciences. The term *capital* is embedded, *inter alia*, in the theory of the reproduction of social classes by P. Bourdieu, where he refers to cultural and social capital as well as to economic capital.

Further authors also use the term *social capital* (e.g. Putnam, Coleman). According to various experts, the utilisation of the term *social capital* has shown an exponential trend in scientific works since the 1990s. The knowledge society and

<sup>2</sup> Chronological specification of the term *economic capital* is only roughly possible. Its general use is connected with the origin of economics. Thereafter, it is possible to date the beginning of utilisation of the term *economic capital* in the second half of the 18<sup>th</sup> century, in connection with the release of the book *Wealth of nations* by the philosopher and economist A. Smith in 1776 (Samuelson, Nordhaus, 1995).

learning society then begin to be formed. This is the basis for the creation of further predicates representing the non-material character of capital, e.g. knowledge, educational and intellectual capital.

## **Social capital**

The concept of social capital is currently an often-discussed idea. According to A. Portes, social capital is “...a concept, which becomes one of the most popular exports of sociological theory into everyday language...” (Portes in Sucksmith 2002). The term *social capital* was evidently used by an American pedagogue and inspector of rural schools L. J. Hanifan as early as 1916. The term has been used later in the 1960s by an American town planner J. Jacobs (rather coincidentally) in connection with local administration, which functions thanks to “...people who have forged neighbourhood networks. These networks are a city’s irreplaceable social capital...” (Jacobs in Blunden 2003).

In the 1970s, social capital was dealt with by an economist G. Loury and a French sociologist P. Bourdieu, who brought it into scientific discourse. It became more known thanks to a theoretical and empirical elaboration of an American sociologist J. Coleman between the 1980s and 1990s and of a political scientist R. D. Putnam in the early 1990s. The term social capital was introduced into Czech sociology by I. Možný and P. Matějů in the early 1990s.

One of the first and also the most quoted definitions of social capital has its origin in P. Bourdieu’s work: “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition”. But in his theory of the reproduction of social classes social capital represents a derived form. In the analysis of the social structure, economic and cultural capital as well as cultural taste and consumption are stressed first of all (Sedláčková, Šafr 2006, modified).

Authors such as J. S. Coleman and R. D. Putnam are interested in social capital at the level of a community<sup>3</sup> or locality. J. S. Coleman claims that social capital “...is created when the relations among persons change ways that facilitate action...” (Coleman 1990). One of the most famous definitions of social capital is related to R. D. Putnam’s work on regional administration in Italy, who states that “...social capital means that the features of social organization such as trust, norms and networks can increase the efficiency of society through facilitating coordinated actions...” (Putnam 1993). In that sense, social capital is closely related to

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<sup>3</sup> Community, or also association. Community – a social formation characterised by unique internal linkages between its members and by a specific external position within a wider social environment (Velký sociologický slovník (Great Sociological Dictionary), pp. 512–514).

what some people call “civic virtue”. The difference is that “social capital” draws attention to the fact that civic virtue is the most powerful when embedded in a network of reciprocal social relations. A society of many virtues but isolated individuals is not necessarily rich<sup>4</sup> in social capital. (Putnam 2000). In his work Putnam widens Coleman’s attitude related to the family and narrower community to a whole nation or to wider regions (Sedláčková, Šafr 2005). This influenced works of experts interested in rural and regional development. Coleman and Putnam relate social capital to the community, locality, onto the structure and quality of relations in the social whole (in comparison with Bourdieu, who relates social capital to an individual). Social capital consists of the amount of active connections between people such as the trust, mutual understanding and shared values and behaviours that bind the members of human networks and communities and make cooperative action possible (Cohen, Prusak 2001). Edwards and Foley state that “...what Coleman had in mind were not the norms and values of individuals, but norms and values available as resources for action of these individuals who share particular social context...” (Edwards, Foley 1998).

According to Putnam, the most important norm increasing the volume of social capital as well as decreasing transaction costs of collective action is reciprocity. He divides it into specific reciprocity and generalised reciprocity (Lošťák 2006).

Putnam later extends his concept of social capital (as a positive externality of association of people) by more exact terms – bridging and bonding social capital. These two types are distinguishable on the basis of social networks types. Bonding social capital represents close contacts between individuals and we can understand it as strong ties (among family members, close friends etc.).

In Putnam’s view, social capital means something like “superglue” keeping the homogeneity, leads to the creation of unique reciprocity or inner group loyalty and also mobilises solidarity. In contrast, bridging social capital rather includes more distant contacts, which are characterised by weak ties with the ability to cross the “social boundaries” (e.g. relations between business partners, acquaintances and acquaintances of our acquaintances).

Putnam compares social capital to handyman’s glue WD 40 that “...stops scrunching, cleans and protects, displaces humidity, releases rusted parts and hooked mechanisms...” Analogically: “...it connects people across social inequalities, helps to disseminate information and creates wider identity and reciprocity. It contributes to common cohesion of the society...” (Putnam 2000, pp. 22–23). As early as the 1970s, M. Granovetter showed the importance of the social network to the cohesion of a community of neighbours and the ability for common action by

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<sup>4</sup> It is possible to consider this notion of social capital to be the underlying idea for the concept of a residential community.

local inhabitants. He also refers to such ties as weak ties and bridging social ties between social groups. The above-mentioned typology of weak and strong ties in society explains the formation and functioning of social capital in various surroundings, but Putnam does not provide any tool for measuring the two dimensions of social capital (Sedláčková, Šafr 2006).

Thanks to the general understanding of local problems and desires to become “points of common interests”, The Budapest Declaration on Rural Areas Innovation 2002 reaffirms the central role of rural actors in the processes of rural development and the use of social capital as the source of local development in the formation of social networks (Kocmánková 2003).

This paper<sup>5</sup> mainly focuses on social capital as it works at the community level<sup>6</sup> (as norms, trust, structures). This meaning of social capital is primarily linked to the collection of actors (Velký sociologický slovník [Great Sociological Dictionary], p. 1371).

### **Conception of Czech rural development in the recent past**

Attitudes to the role of the Czech rural space changed in political and historical events in the Czech countries. After the creation of Czechoslovakia in 1918 rural development was determined by the tragic experience of World War I. The top priority task was food supply to the population of the new-born republic, struggling with serious economic and social problems. Those were caused not only by the war (a disrupted economy, war deaths of young men, the lack of medical and social care for war invalids, burdensome situation of one-parent and other incomplete families etc.), but also by a gradual and slow creation of economic and social institutions which should ensure the functioning of the new European state. In addition to the difficult political negotiations aimed at its full recognition, there was a need to consolidate the national economy, create jobs and seek outlets. At the same time, it was necessary to develop a concept of national education as well as building scientific, cultural and social life in the widest sense of the word.

The role of rural space was perceived through the prism of war consequences. Agriculture, as one of key economic activities in the countryside, had to ensure the livelihood for the population as in all political systems the lack of food is one of the

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<sup>5</sup> This paper followed the solution of the research project SOFARR (Social capital as a factor influencing the regional disparities and regional development, grant No.11191/1491/4902), supported by the Ministry of Regional Development of the Czech Republic.

<sup>6</sup> Collective recognition of social capital originated from sociology of E. Durkheim, where collective recognition is not dependent on individuals and their conditions and where explanation for behaviour and order in society goes beyond individuals (Velký sociologický slovník [Great Sociological Dictionary], p. 1371).

most important political arguments and an impulse to social conflict. Agriculture was the stable element of the countryside. Optimal forms of agricultural holdings were sought and discussed. There were three basic models: private, state-owned and co-operative. In other words, individual farms of private farmers, state-owned agricultural enterprises and co-operatives (of various types, including agricultural enterprises). Considering that co-operatives came into being already in the Austro-Hungarian Monarchy as an economic remedy for the second (very serious and oppressive) agrarian crisis, this form had almost no negative connotation and enjoyed great support of farmers as well as of the rural population. According to the political orientation of debating economists and scientists, either the advantages of individual private farming or the assets of common (co-operative) agricultural enterprises were stressed. The key element was seen to be the size of an agricultural holding which could ensure its viability.

Evidently, the economic aspects were determinant. Social life of rural inhabitants was formed by neighbourly relations, church feast days and national holidays, local cultural traditions as well as civil activities. Ethnographers, sociologists, journalists as well as writers were interested in the life of the rural population. Their works focused on ethnical elements and the conservation of tradition, investigating the causes of social tension in poor rural areas, describing rural life. Again, according to their political orientation, they sought solutions and framed the models of future rural communes.

Historical events connected with World War II and the post-war collectivisation of agriculture fundamentally affected the development of Czechoslovak agriculture and rural areas. Existing economic and social relations were forcedly interrupted. Those effects are evident even at present. However, the events need to be contextualised in broader connections. Competitive strength required the restructuralisation of production models in socialist as well as capitalist countries. In the West-European countries the process of intensive farming concentration and specialisation caused the absorbing of small farms by bigger and more effectively managed enterprises. State-aided social programmes offered reskilling to farmers and other job opportunities (part-time jobs, jobs in the tertiary sphere, the development of additional activities in rural areas etc.) were also sought. Forced collectivisation in the socialist countries contributed to farm concentration and specialisation. The performance of collectivised agriculture can be evaluated positively as well as negatively. However, the processes, which in capitalist agriculture were caused and driven by free-market competition, were the results of centralised state management, with all its strong and weak points, in socialist agriculture.

The concentration of capital investments, certain measures of the planned economy, staffing programmes of social welfare or contract farming can be mentioned

among the pluses. The minuses were manifested in the rigid centralised management, the absence of internal competition, the growth of corruption and nepotism in decision-making processes, the endowment of inefficient production and enterprises, the over-sizing of social programmes, the interruption of logical connection between work effort and work remuneration as well as between work results and career opportunities<sup>7</sup>. The consequence was the low competitive advantage and gradual backwardness of production enterprises, with which all socialist economies battled.

Undeniably, agriculture and rural areas then enjoyed a period of relative prosperity (even if contingent on future indebtedness). The rural population found a guaranteed and rather decent livelihood. Rural households invested in repairs as well as in the construction of new houses and flats; the quality of the housing stock improved also due to growing interest in cottages (second homes of urban inhabitants). Technical failures and missing services were repaired or substituted by neighbourly and family help. Cultural and social life in villages was marked by the socialist ideology, but a certain space for private life and common neighbourly traditions still existed. There were no significant signs of dissident movement in rural areas. The non-anonymous environment of rural communities provided no suitable social conditions. The rural population, with a more or less traditional outlook on life, accepted the relatively good economic living conditions. Notwithstanding the disaffection, the emerging thinking about the untenability of the economic system did not find a wider approval in the countryside.

After 1989, rural areas were confronted with the difficult conditions of a market economy, including the competition in the labour market. The heavily supported social welfare programmes of agricultural enterprises were not economically sustainable. This came to light in the deterioration of the living conditions of the rural population, especially in areas where agriculture represented the main source of income and in villages with insufficient (or no) community amenities.

Based on twenty years of experience with post-socialist rural development, we can consider differentiation to be the most significant feature. Competition eliminated less prosperous farms as well as non-agricultural enterprises in the countryside. Some social groups were faced with a difficult life situation, due to the lack of suitable jobs for the rural population with specific socio-demographic characteristics (higher age, worse state of health, lower qualifications, narrow professional specialisation, lesser adaptability, reluctance to retrain etc.).

Job creation without long-term economic well-being is ineffective. However, in the period of continuing world crisis it is not possible to warrant the economic return on investment in the diversified rural space.

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<sup>7</sup> For more details see: Majerová (1992, pp. 32–33).

After the massive EU enlargement to the East, the concept of rural development assumed quite different dimensions. Apart from the economic cost of bridging the gap between old and new Member States, the process also involved very important tasks: the urgency to create European coexistence conditions so as to eliminate distrust between particular governments, originating from their rivalry in the past (above all during World War I and II). Equal access to all European rights and values should be guaranteed, as well as a remedy for discrimination against weaker Member States and the opening of coequal neighbour dialogue. It stands to reason that all these preconditions follow on the social context.

Economic indicators express the level of material development of rural communes. Social indicators reflect the ethical and moral disposition of the population. The humanisation of rural life is not related only to people. The environmentally friendly economy with land and all living organisms also belong there. The viability of rural areas depends on well-balanced development of all their elements (material as well as social) and its sustainability. Among the most important values, it does not pertain only to the economic profit, but also to the quality of human relations, expressed by social cohesion, social stability and the maintenance of cultural identity of rural localities above all.

### **Rural activities and their contribution to the creation of social capital**

The creation of social capital in rural areas is influenced by a number of factors. The crucial preconditions for the association of rural inhabitants and mutual relations between generations include the material conditions in communes. However, high endowment need not yet guarantee social functioning. If we put forward the hypotheses that “tangible conditions in municipality influence its social activity (in the sense of direct linear dependence)” and “social activity can be supposed as important component of social capital within its collective conception”<sup>8</sup>, it must be decided which measurable variables can be used for their testing (confirmation or refutation).

If a research project is not framed explicitly as the investigation of social capital building in rural areas, it needs accessible relevant data. Then the selected variables are transformed, logically controlled, and, if necessary, categorised according to their values.

In our paper we refer to data from the investigation of rural communes. The data were collected in 2003 by the Sociological Laboratory (Department of Hu-

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<sup>8</sup> The basis for this idea was introduced as a contribution at Autumn School of Rural Sociology in Mercuria Ciuc in Romania in 2004 and in the Doctoral Conference Think Together 2004 in Prague in the Czech Republic (Kocmánková 2004).

manities of FEM CULS in Prague), together with the agency STEM, during a sociological field survey of rural municipalities<sup>9</sup>. The research was performed in two stages. The first stage was testing the typology<sup>10</sup> of rural municipalities (Perlín 2003), and the second stage concentrated on research concerning the life in rural municipalities. In both stages, a quantitative approach of empirical sociological research was adopted, with data gathered by means of questionnaires (in the first stage) and interviews (in the second stage). Interviews (in the presence of the interviewer) and questionnaires had to be standardised due to the quantitative character of the survey. The mayors and inhabitants of rural municipalities were the main respondents in the survey<sup>11</sup>. The reason for choosing this source of data was that a better selection of variables for research on social capital in the level of collectivity could be made.

The surveyed municipalities were selected according to the probability sets with emphasis on the size of the municipality in relation to the size of the region, based on Thesaurus of Municipalities, 1999. We distributed 2,000 questionnaires and received 1,135 replies (more than 50%), and then used them for research and analysis. For the purpose of this paper, we selected and analysed, from an enormous quantity of data and by means of the statistical program SPSS, the following variables: the number of associations within municipalities, their activities measured by the number of public activities, revenues in annual budgets of municipalities in 2002 as well as investments in the last five years.

### **Social activity within municipalities**

The first analysed indicator of social activity within municipalities was connected with the community spirit in municipalities (measured by the number of associations operating in a municipality). One to four associations were found in 80% of all the surveyed municipalities and around five to eight asso-

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<sup>9</sup> Regional and social development of rural areas in the Czech Republic, research plan MSM 411100011.

<sup>10</sup> Based on the premise of “non-existence of one rural community as whole” and according to historical, social, economic and geographical criteria, R. Perlín divides rural settlement of the Czech Republic into the following six specific types: 1. sub-urban zone, 2. rural areas in rich agricultural regions, 3. (rich) north Sudetes, 4. (south) poor Sudetes, 5. inner periphery, and 6. Moravian-Silesian borderland.

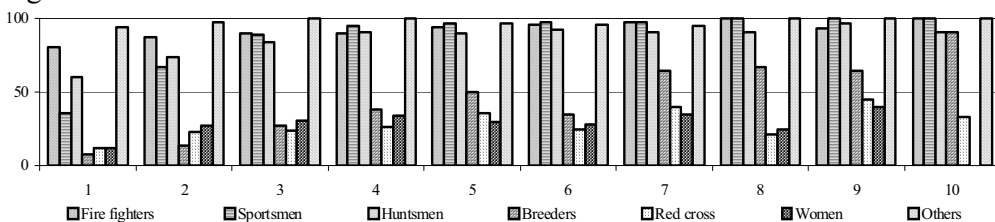
<sup>11</sup> A definition based on the number of inhabitants within a given municipality is still used in the Czech Republic for the determination of rural areas. Only the municipalities with fewer than 2,000 inhabitants are considered to be rural. From the methodology describing rural areas based on available data, the Czech Republic is adopting the approaches recommended by the OECD and EUROSTAT in connection with the ongoing process of EU accession.



ciations in 17% of all the municipalities. The remaining 3% of all the municipalities had no associations.

That corresponds to the weighted average of 2.98 associations per municipality, whereas municipalities in categories<sup>12</sup> 1 and 2 (of this weighted average) did not reach this level. The other categories were above average, which demonstrates that an increasing number of inhabitants was accompanied by an increasing number of associations within a municipality. In Figure 1 it is evident that associations referred to as “others” represented high values in all the association categories.

Figure 1: Collectivity of the municipalities surveyed according to association categories



Source: own calculations.

This variable was constructed as in nominal terms, and almost 33% of all the mayors surveyed were able to name other associations, besides the ones mentioned, operating within their municipalities. By the transformation of this variable, associations were found to account for the following shares: gardeners – 8%, associations connected with animal breeding or keeping (of fish, bees etc.) – 7%, sport-oriented associations – nearly 6%, cultural or social associations – 15%, and the remaining were of unknown character. It was difficult to observe collectivity as the nominal variable was hard to trace (see Discussion) and therefore the analysis was mainly built upon contingency tables.

The other indicator of municipality activities was the frequency of public activities of associations. It was measured by the number of all activities of a particular association type in all the municipalities and by the number of

<sup>12</sup> All the figures refer to the following association categories (as percentage shares in individual categories):

1	2	3	4	5	6	7	8	9	10	Notation
1–200	201–400	401–600	601–800	801–1,000	1,001–1,200	1,201–1,400	1,401–1,600	1,600–1,800	1,801–2,000	range
26.1%	25.5%	15.4%	12.6%	6.0%	4.1%	3.5%	2.0%	2.9%	1.3%	100%

Source: own calculations.

activities of all associations in relation to the size of the municipality. Individual association types indicated the following number of public activities per year:

Association	Fire fighters	Sportsmen	Huntsmen	Breeders	Red cross	Women	Others
<b>Number of activities</b>	849	605	524	110	105	128	281

Source: own calculations.

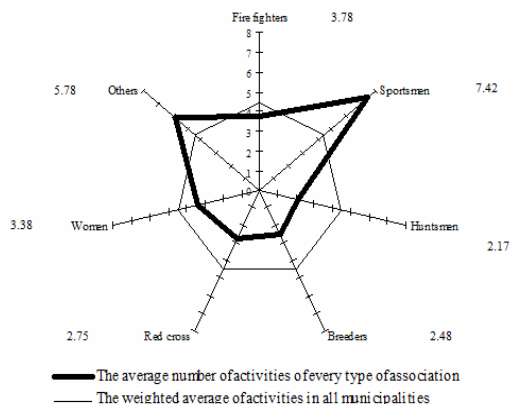
The frequency of activities in the group of sportsmen was the second highest, but on average (7.42) it was the highest among all the groups (see Figure 2). It was due to the high variation range of sportsmen (49), which, after excluding extreme values (59, 73, 80, 90, 99), still influenced the average<sup>13</sup>. Relative values confirm that in higher association categories the activity of associations grew as well. If measured in absolute terms, it would appear that an increasing number of inhabitants was accompanied by a decrease in the collectivity of municipalities. But that would lead, together with the frequency of public activities, to a false conclusion: nevertheless, collectivity was higher in smaller municipalities (up to 800 inhabitants). However, the frequency of activities in these municipalities was lower (and vice-versa). Relative values, compared to that, prove higher collectivity and a higher average number of activities of associations in municipalities in the category of 801 or more inhabitants (see Figures 1 and 3). The frequency of public activities held by associations is above average in municipalities with 801 or more inhabitants (except municipalities with 1,001 to 1,200 and with 1,601 to 1,800 inhabitants) (see Figure 3).

Tools such as the average and weighted average as well as the analysis of variance were used to examine activities of associations since the variable satisfied the conditions of homogeneity of variance proved by Levene’s test (which in the case of the collectivity of municipalities were not satisfied and therefore not calculated). The average annual frequency of public activities held by associations was 4.4.

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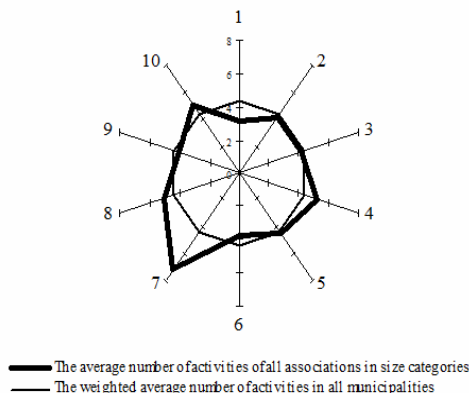
<sup>13</sup> As a matter of fact, the variable “sportsmen” was “sportsmen – football players”. It is not clear whether the respondents referred to activities of all sportsmen or only to those of footballers. That could explain such a high variability of activities and simultaneously the high number of sports-oriented associations in the category “others”. The high variation range could be also caused by weekly held football matches (in the case that the respondents considered a football match to be public social activity).

**Figure 2. The average number of public activities held by associations in all municipalities**



Source: own calculations.

**Figure 3. The average number of activities held by associations in municipalities by number of inhabitants**



Source: own calculation

The modulus for the first quartile in associations of fire fighters, huntsmen, Red Cross and women were 2, those of sportsmen and “others” had a value of 4 and the lowest modulus 1 characterised those of breeders. This frequency was tested by the analysis of variance, which proved the statistical significance of the size of site and frequency of activities held by associations of fire fighters, sportsmen, huntsmen and “others”. The test did not show the statistical significance of the size of site and frequency of public activities held by Red Cross and women’s associations. It is probable that significance could be proved on the basis of a different data sample with sufficient frequency of public activities held by these associations.

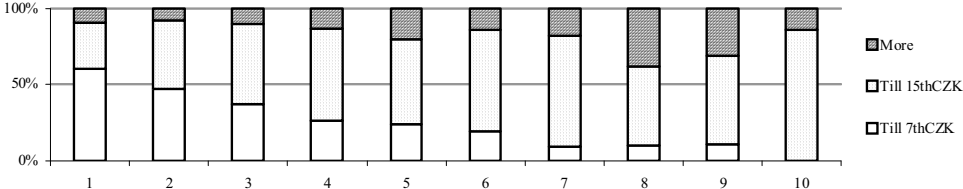
### **Material conditions for the existence and expansion of social activities in a municipality**

Revenues in annual budgets of municipalities<sup>14</sup> in 2002 and investments in the last five years were selected as variables to reflect the material conditions of the expansion of social activities of municipalities and analysed on the basis of the available data. It was not possible to analyse revenue distribution in order to determine the share of external (exogenous) and internal (endogenous) sources in municipal budgets. Figures 4 and 5 present categorised revenues and investments by category of municipalities. As far as revenues are concerned, around 85% of mu-

<sup>14</sup> Revenues of municipal budgets are inherent or received; both types are either capital or current. Current revenues are divided into tax and non-tax revenues. (Příručka Člena Zastupitelstva Obce, p. 35)

municipalities with up to 600 inhabitants had incomes of ca. CZK 7,000 *per capita*. Revenues in smaller municipalities (unlike in bigger municipalities) were at a lower level; it means that income *per capita* increases with the size of site. As regards investment activities, the opposite was the case: 64% of municipalities with up to 600 inhabitants invested more than CZK 15,000 *per capita* in the last five years. The most widespread investment projects concerned the installation of gas pipes, the construction of sewage plants and drainage systems.

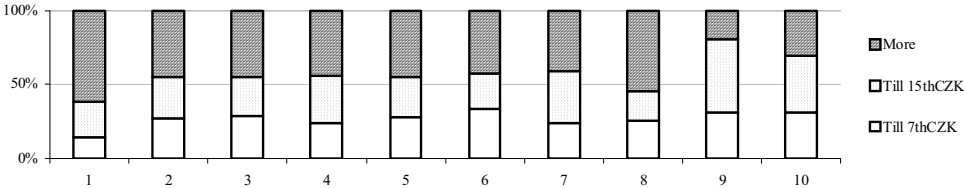
Figure 4: Income *per capita* in CZK according to annual budgets of municipalities in 2002



Source: own calculations.

Both variables were tested by means of the analysis of variance to discover the degree of correlation between revenues *per capita*, the number of inhabitants in a municipality, the frequency of all public activities and investments *per capita*, the number of inhabitants in municipality, and the frequency of public activities held by all associations. The correlation between the variables in question and income and investment activities was not demonstrated. The analysis of variance proved there was a statistically significant relationship between the size of site and income and its investment activities.

Figure 5: Investments *per capita* in CZK by number of inhabitants in municipalities



Source: own calculations.

## Discussion

The main objective of our paper was to analyse whether the available data (not constructed for the purpose of empirical research on social capital) could be valuable for a thesis concerning social capital. How to measure social capital (of groups or individuals)? At present social sciences do not have “undoubted rules” to assess such measurement.<sup>15</sup>

However, the research material had many variables. For the chosen hypothesis only those relating closely to the studied subject could be selected. Nevertheless, the number of respondents was very high (1,135). It was not possible to use variables in statistical analyses and procedures which would reliably set and verify our opinions. And that was caused by the difference between our objectives and the objective to provide a basic overview of the social life of present rural inhabitants. Variables in secondary data analysis could be added to the questionnaire tool for observing social capital only if they were more detailed and operational. Then the phenomenon of social capital, as a possible source of (endogenous) development, could be described by such variables.

The findings are as follows:

- for indicators of “collectivity” in municipalities (as the basic indicator of social activity within municipalities), it is necessary to mention all most frequently occurring associations in municipalities so that the category of “others” would include only less frequently occurring associations,
- the frequency of association activities (the indicator of activity within municipalities) was left as it was constructed,
- revenues and investment activities (indicators of material conditions for social activities within municipalities, the existence and expansion of social capital) are quality cardinal figures, but it is necessary to exactly structure several items of municipal budgets to ensure the determination of exogenous and endogenous financial sources, as another necessary variable.

Other variables that could be taken as indicators are:

- *social activities of municipalities* – e.g. participation in competitions such as “the most beautiful municipality”, adherence to local traditions, collective celebrations, the cultivation of the municipality, partnerships with other municipalities etc.,

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<sup>15</sup> Thus far, there is no consensus about how to measure social capital. On the Internet there can be found several research tools which were used by renowned studies to attempt social capital measuring. If the context of these research tools is suitable, it would be inspirational for our own research as well.

- *material conditions for social activities within municipalities* – e.g. the availability of services, a working information system for the public, funds from various grants and programmes for municipality development, the existence of significant inhabitant etc.

## Conclusion

The main objective of this paper was to analyse whether variables selected from the sample of available empirical data from 2003 contained indicators of social capital, which is considered to be a potential source of the development of a region. Secondary data analysis mainly focused on the appropriateness and applicability of data for being used in the construction of the questionnaire tool in our research thesis. It is possible to say that the examined variables can be used as basic indicators, but only under conditions of precise elaboration and satisfaction of validity and reliability requirements for the measuring of social capital. It is necessary to add further variables in a way which allows sufficient configurability of indicators to measure social capital and conditions for material development of a municipality.

There is no consensus in social sciences about how to measure social capital (collective or individual) since its indicators are impossible to define or quantify. Economic indicators can be used to test sets of hypotheses of S. Hubík as those regard the transformation of community potentials to economic potentials. Our further research will therefore be inspired by the idea of measuring social capital and we will continue to search for indicators which would test the strengths of linkages and networks in communities and localities. Those linkages are (probably) necessary for development at the local and regional level, whereas not depending on the quality of asserting exogenous sources from economic or social projects.

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## Serbia at the gates of the European Union – comparative analysis

*“The Serbian economy is based on market economy, open and free market, free entrepreneurship, independence of companies and equal treatment of private and other forms of property”*

Article 82 paragraph 1, the Serbian Constitution

### Introduction

Serbia is one of the countries created after the Socialist Federal Republic of Yugoslavia (SFRJ) was destroyed. After separation, all these countries, except for Slovenia, experienced hard times, which included war with all its severe consequences. Transition processes were delayed and took place in difficult circumstances. Serbia, which continued in a union with Montenegro (SRJ), unlike other former Yugoslav countries, suffered additional hardships due to international sanctions as well as the heartless NATO alliance intervention in 1999. This caused irreparable damage to its economy. External, primarily political, pressure on Serbia has still not ceased.

For all the above reasons, the development of Serbia was increasingly lagging behind. The greatest burden was placed on its agriculture, which, in itself, was backward. Transition processes were delayed more than in other countries. In recent years, we have had a relatively satisfactory level of macroeconomic stability and relatively high economic growth rates. Still, there is certain imbalance in foreign trade as well as a relatively high inflation rate. The employment situation is improving very slowly and it poses the greatest social, political and economic problem in this country.

One of the priorities in Serbian political life is its membership of the EU. This process is difficult, too. The implementation of the recently signed Stabilisation and Association Agreement by the EU is conditioned by political demands, whereas it is expected that Serbia should implement it on a unilateral ba-

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sis. This fact slows down its efforts to obtain the status of an EU candidate country, e.g. it prevents the use of three components of the IPA programme.

This paper<sup>2</sup> represents a short review of the state of affairs in Serbia on its way to the EU, with a comparison of basic parameters with those characterising EU Member States, candidates and potential candidates to this organisation.

### **Basic characteristics – (ill) circumstances**

In terms of population and area, Serbia is a medium-sized country in Europe.<sup>3</sup> It is one of the poorest countries on this continent.<sup>4</sup> It is situated in the south of Europe, in the middle of the Balkan Peninsula. Its neighbouring countries are EU Member States (Hungary, Romania and Bulgaria), candidates for EU membership (Croatia and Macedonia) and potential candidates for EU membership (Bosnia and Herzegovina, and Montenegro). Serbia occupies an area of 88,361 square kilometres and has a population of about 7.5 million.<sup>5</sup> Two European transport corridors (VII and X) run through Serbia, which is also Europe's shortest route to the Middle East. From 1918 until 2006 it was not an independent country but a part of a union (a monarchy or republic) with other southern Slavic nations. Throughout history, the Serbs made the greatest sacrifices for their freedom and independence, which is the reason why these values are greatly praised in Serbia.

As a European country, it has a goal to become an EU Member State. This is one of Serbia's political priorities. Both the political parties and its people agree on this matter to a great extent.

Unlike other Eastern European countries which started their social and economic transition in the 1990s and during the following 15 years became full members of the EU, Serbia underwent different processes, accompanied by various challenges and difficulties.

Serbia was one of the former SFRJ republics. Since the SFRJ could not persist as a united country (due to strong secessionist tendencies of some of its republics and external factors which supported these tendencies), and because the

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<sup>2</sup> The paper represents a part of research for project 149007 "Multifunctional Agriculture and Rural Development in the function of Serbia's joining the EU", financed by the Serbian Ministry for Science and Technological Development.

<sup>3</sup> In Europe 18 countries occupy larger areas and 22 occupy smaller areas, and in terms of population, 19 countries are larger and 21 are smaller than Serbia.

<sup>4</sup> In 2007, its GDP *per capita* was EUR 3,954, which represented 17% of the respective value for the EU.

<sup>5</sup> Without its province of Kosovo and Metohija, which did not have its census in the past two census periods, and which is, according to the UN Security Council Resolution 1244, under the UN interim administration.

republics could not separate peacefully, we had wars that lasted for years and had horrible consequences (devastation of the population, property and the economy, the destruction of all the qualitative factors of development);

Serbia (along with Montenegro) was isolated by the international community through sanctions, banning all forms of international economic and political cooperation, even in scientific and research work. Any form of legal cooperation with the world was impossible. This additionally exhausted the overall potential of the country, impoverished its population to an extreme level and led to various destructive behaviours in the system and in the society;

Several hundred thousand refugees and persecuted people came to Serbia from former Yugoslav republics, especially Croatia and Bosnia and Herzegovina, and in 1999 also from its province of Kosovo and Metohija. Those were not only Serbs, but people of other nationalities as well. This additionally burdened its potential, which had already been drastically diminished. Serbia still ranks first among the European countries according to the number of refugees and persecuted people it has. In that period, many educated young people left Serbia and went abroad, which additionally aggravated its situation in terms of age of its population and reduced its long-term development potential;

In that period, Serbia was experiencing deep economic, social and, to a considerable extent, political instability. The inflation rate was constantly high, and towards the end of 2003 and in January 2004 it exploded into an unimaginative 2 percentage points per hour. It was then that the banknote of 500 billion dinars was issued, and the price for one egg was in billions of dinars. Shortages of goods and queues were constantly present. The people experienced unprecedented impoverishment. In such circumstances, agriculture played a significant role. It provided food for the population, but it was ruined itself, both in the private and public sectors. It has not yet recovered. Between 2005 and 2007 its area was reduced;

Serbia is the only European country that has experienced an aggression after World War II. In 1999, the NATO alliance ruthlessly bombed not only Serbian military targets, but also its industry and infrastructure for 78 days. This bombing was conducted not only on the territory of the allegedly threatened people (Kosovo and Metohija), but on the whole territory. They used banned ammunition with depleted uranium and cluster bombs. That was the hardest blow for Serbia, which was left in ruins, with numerous civilian casualties and other consequences, some of which can never be eliminated (such as the consequences of employing ammunition with depleted uranium). The NATO intervention destroyed, completely or partially, 372 industrial facilities. They bombed oil refineries and storages, chemical and other industrial objects. Their targets were the

most important and most significant capacities. From these facts we can conclude what consequences the use of various explosives must have had on the environment as they polluted earth, water and air. It was a great crime against the Earth and nature;

Serbia is, against international law, being forcibly deprived of a part of its territory – the province of Kosovo and Metohija, and its territorial integrity and sovereignty is being violated. Thus, this illegally proclaimed quasi-country is recognised by a certain number of countries, among which the most numerous are the members of the EU and of the NATO alliance. The citizens of Serbia find it difficult to believe that, instead of law and justice, they recognised pure violence;

The European Union and Serbia are negotiating Serbia's association with this organisation. In this respect, there are certain different standards for Serbia. It is as if, even in this area, there were double standards. Serbia is still suffering hard conditions, even blackmails. Initial negotiations on the Stabilisation and Association Agreement were approved as early as 2005. However, they were suspended for political reasons. It was only on 29<sup>th</sup> April 2008 that Serbia concluded this Agreement with the EU. This Agreement, along with the Interim Agreement, was ratified by the Serbian Parliament. Nevertheless, the Interim Agreement is still not effective as it has not been approved by the EU Council of Ministers. Still, Serbia is recommended to implement it unilaterally, which is accepted by the Serbian Government. This is also one of the examples of different treatment of potential candidates;

Serbia, in accordance with EU practice and its demands, is harmonising its economy and foreign trade system, it is building a democratic society through the development of a democratic system and its institutions, it is reforming the state administration, improving regional cooperation in numerous areas, strengthening its national and regional security, etc. These endeavours are made with the aim of fulfilling the conditions for becoming an EU Member State, but also because we believe that they are civilisation values worth fighting for;

Serbia is still not a WTO member, although it submitted the Memorandum on the foreign trade regime and association with the WTO in 2005. We still have bilateral negotiations on the list of concessions regarding lower duty rates. It is not yet clear when this agreement with the WTO is signed. The current global economic crisis will probably slow this process down;

In order to improve regional cooperation between the South-East European countries, and based on the Memorandum on Trade Liberalisation and Facilita-

tion, we first entered into bilateral free trade agreements<sup>6</sup>, which, by the end of 2006, were substituted by a single multilateral agreement CEFTA 2006, with the belief that “the improved CEFTA agreement can improve trade regime, including reduction of duty impediments, to the advantage of all the signatories, and that it can be complementary to the relative agreements between these parties and the EU” (from the joint declaration of the Prime Ministers in Bucharest, 6<sup>th</sup> April 2006). The realisation of this agreement leads to the creation of a free trade area between the signatory countries, the improvement of their cooperation and the acceleration of their development in general. Its implementation has visible results;

Transition processes in Serbia started with a considerable delay when compared to former socialist countries<sup>7</sup>, and are still not finished. Although state ownership was abolished by the Constitution and it should be transformed into private or public, it is still in progress. The legal time limit was the end of 2008, but it will be prolonged, at least tacitly. It is true that, in this domain too, the current global economic crisis will take its toll. According to the available data<sup>8</sup>, in the period between 2002 and August 2008 the total number of sold companies was 2,307. These companies employed around 340,000 persons. The companies were sold for a total of EUR 2.8 billion and the agreed investments of EUR 1.4 billion. In the period between 2005 and 2007 six banks were privatised with a total income of EUR 834.6 million.

After the changes in the Government at the end of 2002, Serbia has been gradually returning into international institutions (the UN, IMF, SC, etc.), establishing international cooperation, developing economic and financial relationships, using the possibility for obtaining foreign loans on favourable (IDA) terms. It has had certain conveniences such as debts written off by the Paris and London Clubs, it has received a certain amount of help through donations from individual countries, etc. These things have helped with its recovery. However, this recovery takes time, so that, even with high economic growth rates, the betterment is felt really slowly, and the development level is still far below the one Serbia had in 1989, the last “normal” year before the chaos of the last decade of the 20<sup>th</sup> century.

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<sup>6</sup> Serbia (and Montenegro), Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova and Romania. As from 1 January 2007 Bulgaria and Romania became EU Member States, the CEFTA agreement comprises: Serbia, Montenegro, Albania, Croatia, Macedonia, Moldova and the UNMIK for Kosovo and Metohija.

<sup>7</sup> Poland, Slovenia, Hungary, the Czech Republic, Slovakia, Estonia, Lithuania and Latvia have been full EU Member States since 2004, and Romania and Bulgaria since 2007.

<sup>8</sup> Memorandum on the Budget and Economic and Fiscal Policy for 2009, with the projections for 2010 and 2011 (Official Gazette of the Republic of Serbia no. 113/2008)

In that period we enjoyed steady economic growth, with some fluctuations, there were changes in the structure of the economy and the restructuring of companies, some enterprises were privatised and some were liquidated. Nevertheless, many workers were laid off, which led to a higher unemployment rate. This became the greatest social problem. All the attempts at alleviation proved insufficient. The new economic structure – small and middle-sized enterprises – could not employ so many workers laid off by large companies which underwent transformation and had to reduce employment. As an illustration, during the last three years (2005–2007), GDP grew at an average rate of 6.2%, industrial growth rate ranged between 0.8% in 2005 and 4.7% in 2006, whereas the area of agriculture diminished by 5.3%, 0.3% and 8.1% in subsequent years. The most important contributors to the high GDP growth included construction works, high trade turnover and growth of telecommunication and postal services. In that period, we had EUR 6.2 billion of net inflow of direct foreign investment, foreign exchange reserves accumulated at EUR 10.9 billion (end of 2007), and foreign currency retail savings were EUR 4.9 billion. Confidence in the revitalised banking system was completely restored. After a slight growth in 2005 (0.9%), in the following two years the number of persons employed was reduced by 2.1% and 1.2% respectively. Economic imbalance is reflected in foreign trade deficit, which was more than 20% of GDP, as well as in a high inflation rate, which was 10.1 percentage points higher at the end of 2007 than a year before.

In 2008, the global financial and economic crisis began. It has had an adverse effect on developed and strong countries and their systems, and will hit even harder less developed and heavily indebted countries, such as Serbia.<sup>9</sup> The scale of this crisis is still not clear, in terms of either its duration or its consequences. In any case, it is reflected in recession or very low rates of economic growth, reduced world trade, contracted demand, increased unemployment and population impoverishment. It also has a strong psychological influence. In less developed and heavily indebted countries it will lead to a debt crisis<sup>10</sup>, reduced export opportunities, an increase in foreign trade deficit and balance-of-payment deficit as well as to reduced foreign capital inflow. They are also forced to incur additional debts, at a higher price. Therefore, the countries which had no influ-

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<sup>9</sup> Apart from concrete measures being taken by each country individually, there is an EU plan for economic recovery. The UN has created a Committee in order to solve the problems of the global economic crisis, presided by the Nobel Prize winner Joseph Stiglitz.

<sup>10</sup> Such countries are turning to the IMF for help, and Serbia is also among them. It has reached an Agreement with this institution, with the aim of strengthening foreign exchange reserves, providing financial security and lowering financial risks. Cooperation with IMF may encourage investment, above all those by foreign investors.

ence on the outbreak of this crisis will suffer the most. The crisis is strongly felt in Serbia: economic growth rates that we had in the past few years will drop considerably (instead of 6% to 7%, the GDP growth rate is estimated to be 3.5% in 2009), there has been a decrease in exports, lower production in some companies, lay-offs, etc. What is going to have an even more severe effect on its economy are more difficult transition processes as those are still not finished. We cannot exclude large-scale protests, not only in Serbia, but also in other countries. The protests that are disturbing Greece can be very “contagious” for a broader region. All the governments, including the Serbian one, are taking available measures in order to alleviate the consequences of the crisis. What effects they will have remains to be seen. It all depends on how precisely the source of the crisis is identified, on its depth, and, of course, on the adequacy of the measures taken.

### **Several comparative parameters**

The European Union consists of 27 Member States. It occupies an area of over 4.3 million square metres, with a population of around 439 million and high average GDP *per capita*. Until recently, this area was very stable, with satisfactory economic growth, a low inflation rate, a low unemployment rate and considerable trade balance deficit. This is true only if observed generally, whereas, if we consider each Member State individually, we can observe substantial differences. The Member States are different according to:

- how long they have been EU Member States (starting with the six founding countries – pursuant to the Treaty of Rome of 1957 – through nine, 12, 15, 25, and now 27 Member States);
- the territory they occupy (for example, France is 1,740 times larger than Malta);
- population (Germany has 203.6 times more people than Malta);
- national wealth (Luxemburg has 7.6 times higher GDP *per capita* than Bulgaria);
- economic growth (for example, in 2007 GDP increased by 10.3% in Latvia, and by 1.5% in Italy);
- the currency they use (some countries use the common currency, the euro, whereas others use their national currencies; some do so because they do not wish to abandon it (e.g. the United Kingdom), and others are still trying to meet the necessary conditions for the introduction of the euro);
- other numerous characteristics (for example, the inflation rate in Finland and in Poland was 1.3%, and in Bulgaria it was 7.5%, the unemployment rate

ranged from 3.9% in the Netherlands to 13.8% in Poland, trade balance was between approx. 56 billion surplus in Germany and 89.9 billion deficit in the Netherlands). They also differ in language, culture, history and other things.

When considering Serbia, we must take into account the following:

- it occupies an area representing 2% of the EU territory;
- its population is 1.5% of the EU population;
- in 2007, with its 7.1%, it had a faster economic growth than the EU average growth rate of 3.7%;
- in terms of GDP *per capita*, it represents 16.8% of the EU average GDP;
- it has a high unemployment rate of 18.8%, compared to 8.2% in the EU;
- it has a high inflation rate of 10.1% in 2007, compared to 2.4% in the EU;
- it has agricultural land accounting for 2.8% of that used in the EU;
- it has total agricultural employment representing 4.3% of that in the EU;
- the contribution of agriculture to GDP in Serbia is 11.3%, compared to 1.2% in the EU;
- in terms of imports, food and beverages account for 5.4% in Serbia, compared to 5% in the EU;
- in terms of exports, food and beverages account for 17.3% in Serbia, compared to 6.1% in the EU;
- Serbia enjoys a positive balance on foreign trade in food and beverages as well as the whole of EU, with significant differences between Member States;
- Serbia is characterised by an extremely high share of spending on food and beverages, at 45.2% of total household expenditure, compared to 16% in EU, etc. (see Table 1).

Compared to the neighbouring countries – CEFTA 2006 members, Serbia is the biggest in area and population. Serbia enjoys the second highest growth rate of GDP after Montenegro. In 2007 it was 7.1% against 6% in Albania, 6.8% in Bosnia and Herzegovina, 5.6% in Croatia and 5% in FYR Macedonia. In Montenegro GDP increased by 9.7%. Due to the crisis, in 2008 GDP growth was slower in these countries, and this trend continued in 2009. Besides Italy, Germany and Russia, Serbia is among the largest exporters to Bosnia and Herzegovina, Montenegro and FYR Macedonia.

Table 1. Selected comparable indicators for agriculture

Country	Agricultural land used (thousand ha)	Employment (1,000 persons) <sup>(1)</sup>	Contribution of agriculture to GDP <sup>(1)</sup> (%)	Share of imports of food and agricultural products in total imports (%)	Share of exports of food and agricultural products in total exports (%)	Balance on foreign trade in food and agricultural products (EUR million)	Share of household expenditure on food, beverages and tobacco in total consumption expenditure of households (%)
<b>EU-27</b>	<b>182,103</b>	<b>12,564</b>	<b>1.2</b>	<b>5.0</b>	<b>6.1</b>	<b>3,010</b>	<b>16.0</b>
Belgium	1,382	83	0.7	6.3	5.0	-1,574	17.1
Bulgaria	5,190	252	6.2	7.3	10.6	53	-
Czech Rep.	3,566	182	0.8	2.0	3.0	30	23.5
Denmark	2,699	87	1.1	6.5	17.4	2,480	15.7
Germany	16,951	844	0.6	4.1	2.5	-2,949	14.3
Estonia	762	32	1.7	2.4	4.8	61	26.3
Ireland	4,307	117	0.9	4.0	13.6	3,600	13.4
Greece	3,254	533	3.1	4.7	18.9	109	-
Spain	25,359	944	2.3	5.4	8.5	-1,203	16.9
France	29,538	977	1.4	4.3	10.5	8,601	16.5
Italy	14,710	982	1.7	4.8	5.4	-254	17.1
Cyprus	169	15	2.3	7.0	14.7	-75	20.2
Latvia	1,856	122	1.9	5.5	11.3	34	28.6
Lithuania	2,791	187	2.3	4.1	13.1	299	35.1
Luxembourg	129	4	0.3	1.0	0.5	-51	19.0
Hungary	5,809	188	2.5	1.4	7.5	684	23.5
Malta	10	3	1.2	4.6	4.6	1	19.4
Netherlands	1,899	259	1.7	7.2	12.6	-2,257	13.4
Austria	3,240	217	1.0	5.0	6.0	710	13.4
Poland	15,957	2,304	2.4	4.8	10.0	534	25.2
Portugal	3,767	604	1.8	8.3	9.5	-337	-
Romania	14,117	2,843	7.2	7.1	4.0	-747	-
Slovenia	491	92	1.5	9.4	4.7	-131	18.8
Slovakia	1,939	101	1.1	1.4	2.6	-10	23.5
Finland	2,301	114	0.5	2.1	2.9	334	17.8
Sweden	3,150	98	0.4	3.9	2.7	96	15.8
United Kingdom	16,761	382	0.4	5.3	4.3	-5,028	-
<b>Republic of Serbia</b>	<b>5,053</b>	<b>541</b>	<b>11.3</b>	<b>5.4</b>	<b>17.3</b>	<b>388</b> <sup>(2)</sup>	<b>45.2</b>

Source: WEO, November 2008 for the EU and EU Member States; Statistics Annual Magazine of the Republic of Serbia 2008.

<sup>(1)</sup> Refers to sectors A and B

<sup>(2)</sup> Recalculated at the exchange rate EUR 1 = USD 1.37



## **Agriculture of Serbia and the Stabilisation and Association Agreement**

Agriculture is a sector of a specific nature: it is still largely performed in the open and highly dependent on natural conditions (relief, climate), it belongs to the primary industries. Agricultural land represents its basic production factor and natural resource, but most importantly, it secures the food supply for the population. The protection of imports of agricultural products is therefore stronger and, for this reason, in negotiations on establishing a free trade area between particular countries or within the WTO and the EU, consent on the degree and pace of the liberalisation of agricultural imports is very difficult to achieve. The implementation of the Stabilisation and Association Process is asymmetrical in character. Concessions granted to Serbia by the EU are greater than those given by Serbia to the EU.

The Stabilisation and Association Agreement between the EU and Serbia as well as the Interim Agreement on trade and trade-related matters were signed on 29 April 2008 in Luxembourg. The conclusion of the Stabilisation and Association Agreement is a significant step towards obtaining the status of a candidate country for EU accession. It unblocks the way for accomplishing one of Serbia's policy priorities. The Agreement implies meeting numerous political, legal, legislative and economic requirements as well as significant mutual concessions in the transitional period by both parties.

The Stabilisation and Association Agreement is effective upon its ratification by the Parliaments of all EU Member States and by the Parliament of the other party (Serbia), which takes a long time, so in accordance with the usual practice an Interim Agreement is concluded to be applicable upon its approval by the EU Council of Ministers and the Serbian Parliament. The Parliament of the Republic of Serbia ratified both Agreements on 9 September 2008.

The EU Council of Ministers has not yet approved the Interim Agreement for political reasons (the Netherlands have not given consent, on the grounds of the supposed lack of cooperation with the Hague Tribunal), so at the request of the EU the Serbian Government agreed to apply the Interim Agreement unilaterally from 1 January 2009.

The public opinion is rather divided on the issue, with both positive and negative assessments. The decision should be reviewed in the further process of Serbia's association. Then, the domestic market opens for duty-free imports of a significant number of products, which will result in higher competition, have a downward effect on domestic prices and be acceptable for consumers of imported products. On the other hand, it will increase the volume of imports,

which will burden the balance of payments, whereas the national budget will be deprived of the amount of revenue foregone.

To a certain extent, unilateral application implies unequal relations between the parties to the Agreement. However, in the economic sense nothing changes for Serbian trade, as the EU either implements the Interim Agreement or applies autonomous trade measures, on the basis of which Serbian exports to the EU have preferential access. Trade measures are still in effect.

Under the Agreement, the European Union grants Serbia significantly greater tariff concessions than those given by Serbia to the EU. This is in line with the EU assistance for the purpose of completing the transition process in Serbia and creating a competitive market for free trade. The implementation of the Agreement itself is aimed at establishing a free trade area between the EU and Serbia in the near future.

Regarding exports from Serbia to the EU, the EU introduces full tariff liberalisation with certain exceptions. Such exports include bullock and baby beef, fruit and vegetables (with the decision to apply more favourable autonomous trade measures on these products), sugar, wine and fish (trout and carp). Quotas for the products have been determined (except for fruit and vegetables), within which Serbian exports enjoy duty-free access (for baby beef delivered within the quota, the tariffs are fixed at one-fifth of the applicable customs duties) and out-of-quota exports are subject to customs duties according to the law (for out-of-quota fish customs duties are gradually reduced to 70% of the current level). However, Serbia is not capable of exporting goods in quantities exceeding the quotas allowed.<sup>11</sup>

In the transitional period (until 2013), Serbia is left enough time to implement tariff liberalisation to a significant degree, maintaining import protection of certain (most important) products after the transitional period expires. Regarding that, a multi-degree model has been applied:

- (1) On the date of entry into force of the Interim Agreement (taking everything into account, on 1 January 2009), full tariff liberalisation commences for a great number of products (approximately 39% of the total number of tariff items listed in the first 24 chapters of the Customs Tariff). The products in question are those not produced in Serbia or of lesser significance for Serbian (agricultural) trade, with the exception of reproductive material (stock for reproduction, young stock, seed for sowing, planting material). As a rule, customs duties on such imports have been very low so far;

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<sup>11</sup> For instance, in 2007 exports to the EU were only approx. one-fourth of the allowed quota of 8.7 thousand tonnes of beef, and around one-twentieth of the allowed quota of 63 thousand hectolitres of wine.

(2) On the date of entry into force of the Interim Agreement, for a certain number of products a gradual decrease in tariff protection commences, so that in the sixth year and in the following years it should equal zero. Such products are included in approximately 40% of tariff items of the above-mentioned chapters of the Customs Tariff. Those are products of great significance for domestic producers, but it is considered that they will strengthen their competitiveness in the transitional period and will be able to cope with the increasing competition from imports;

(3) A gradual reduction in customs duties has started for a significantly small number of products, but a certain degree of protection remains even after the expiry of the transitional period. It concerns the most important or Serbian products which are the most sensitive to increased imports. The degree of reduction is different as well as the level of final protection. The products are present in 16% of tariff items, and

(4) The existing level of protection is maintained for a small number of products (in ca. 5% of tariff items, including out-of-quota wine, since Serbia has granted the EU duty-free imports of 25,000 hectolitres of wine). Those include sugar, tobacco, sunflower oil for human consumption and wine (as it is emphasised).

As a result, Serbia's unilateral implementation of the (Interim) Agreement will not harm its agriculture too much regarding the gradual tariff liberalisation and its selectivity – the EU concessions which stem from autonomous trade measures are still in effect. In the case of excessive imports which may cause a serious injury to the industry of the importing party, safeguard measures are allowed according to the relevant WTO Agreement. It is difficult to predict in what way the global economic crisis will influence this trade as well as the application of safeguard measures.

### **(Im)Possibility to utilise the EU pre-accession funds in Serbia**

In order to simplify the assistance to candidates and potential candidates for EU accession, which include the Western Balkan countries and Turkey, the European Commission replaced previous assistance programmes and measures with a single instrument called the IPA (Instrument of Pre-accession Assistance 2007-2013).<sup>12</sup>

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<sup>12</sup> In response to the economic crisis, in the EU plan for economic recovery an amount of EUR 120 million was allocated for the countries of the region and the funds may be utilised in 2009, as a support measure to help overcome the crisis (according to the interview with Olli Wren published in *Politika* on 20 December 2008).

The countries entitled to benefit from assistance under this measure are not in an equal position. They are divided into the two groups: the candidates for EU membership, including Turkey, FYR Macedonia and Croatia, and potential candidates for EU membership, such as Serbia, Montenegro, Bosnia and Herzegovina and Albania.

Support under this instrument consists of five components: 1) transition assistance and institution building (concerning adjustments to political and socio-economic requirements as well as to the European standards), 2) cross-border cooperation, 3) regional development, 4) human resources development, and 5) rural development.

The possibility to utilise the funds is different for candidates and potential candidates. Candidates are entitled to benefit from all the five components of the IPA, whereas potential candidates may only rely on funds allocated to the first two components.

Serbia, as a potential candidate, may benefit from the first component for the improvement of rural development, to use the support through measures for the promotion of economically, socially and ecologically sustainable rural development, including the diversification of agricultural production and non-agricultural activities, the development of advisory services and the application of the EU common agricultural policy (CAP) in domestic agricultural policy for rural development, as well as utilising the funds from the second component related to projects implemented in the border regions.

The appropriations provided in the IPA framework represent non-refundable aid, but the beneficiary country is obliged to contribute a certain share from its national budget to the realisation of each project funded under this plan. The key requirement is that each project must be properly implemented so that rational utilisation of the allocated funds is guaranteed, as well as its realisation.

The funds are allocated to long-term programmes, therefore Serbia may utilise EUR 584.4 million based on the possibility to benefit from the first two components for the period 2008–2010. Of this amount, appropriations of EUR 584 million are intended for institution building and assistance of EUR 36.4 million is aimed at projects implemented in border regions.

If Serbia becomes a candidate for EU membership until 2012, it may utilise approximately EUR 1 billion of EU assistance. If it remains with the status of a potential candidate, this will not be possible. Hopefully, Serbia will remove political barriers in the process of accession, it will soon be granted the status of a candidate country and it will be able to benefit from EU funds within the allowed limits. In this way, Serbia would accelerate its development and approach the values of the European Union.

## Subsidies to Agriculture

For the purpose of preventing spontaneous development of agriculture in Serbia, a **particular regulatory system, stimuli and protection are applied**. It contributes to the accomplishment of its own development goals, among which the security of food supply to Serbia's citizens is a top priority, as well as increasing competitiveness with a view to boosting exports of products as a significant resource to improve the balance of payments. It also provides support for sustainable development of rural areas, contributes to the preservation of the environment as well as creating the capability for accession to the EU and the World Trade Organization. Agricultural policy as well as its implementation measures are based on the **Strategic Development of Serbian Agriculture**<sup>13</sup>, which significantly relies on the EU common agricultural policy (CAP). Since 2004, there has been a certain change in agricultural subsidies (providing assistance to registered farms, special support for non-commercial farms, expanding support for rural development, etc.) and their structure has evolved. Subsidies on certain products have been discontinued, whereas they were introduced or expanded with regard to other products. Thus, subsidies on industrial crops (except tobacco) are being gradually eliminated, and the freed funds allocated for promoting rural development, the environmental protection, livestock production, more rational utilisation of agricultural land and support for non-commercial farms.

The appropriations which are allocated for the purpose annually (according to the Budget Law) have been allocated for the following: changes in the production structure in agriculture aimed at increasing the share of livestock production, the setting up of new vineyards and orchards, extensive cultivation of vegetables, improving farm productivity, the development of the credit and land markets, the introduction of standards and the enhancement of agricultural product quality, the registration of the geographical origin of domestic products, increasing organic production as well as at support for rural development, in a direct (investment in rural tourism, the development of rural infrastructure, purchasing machinery and equipment, etc.) and indirect manner (subsidies on primary agricultural production, mostly located in rural areas).

Serbia has been developing multifunctional agriculture, which has marked the European model of agriculture and provided for the preservation of the countryside and the environment since the late 1990s. This contributes to the vitality of rural communities, satisfies the demands of consumers in terms of food qual-

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<sup>13</sup> Official Gazette of the Republic of Serbia no. 78/2005.

ity and safety, the environmental protection and animal welfare. The diversification of economic activities in rural areas and initiative of local communities are the basic strategic elements for its realisation.

In most rural areas in Serbia, there are preconditions for the promotion and successful implementation of multifunctional agriculture and integral rural development. For this reason, with appropriate funds, activities aimed at rural development are supported. Serbia intends to create an institutional and legal framework for rural development policy as soon as possible, including conditions for the utilisation of EU pre-accession financial assistance<sup>14</sup>.

With the exception of loans for specific purposes on more favourable terms because of the budget, the highest share of the appropriations are granted in the form of non-refundable aid. The utilisation of the funds is conditioned by the registration of farms as well. Most measures defined as support for rural development do not concern only multifunctional agriculture, but also subsidies aimed at the improvement of agricultural production.

Here, only support measures for rural development are mentioned and defined as much as possible according to the structure of support for rural development within the EU common agricultural policy:

- **Measures for the improvement of farming efficiency:** the operation of advisory agricultural offices; the development and improvement of livestock farming; aid for purchasing livestock and fattening animals in cattle breeding; the restructuring (the removal of inadequate varieties and vineyards damaged by antibiotic factors as well as the establishment of new vineyards) and revitalisation of vineyards; the development of organic agriculture; land lease; the control of soil fertility; the construction, reconstruction and maintenance of water supply facilities; participation in the costs of crop, fruit and livestock insurance; the introduction and enhancement of quality systems; the improvement of products with geographical origin label; granting loans to agricultural producers; providing assistance to companies operating in the food industry;
- **Measures for sustainable utilisation of natural resources and the environmental protection:** support for the programme of the conservation and sustainable use of animal genetic resources, the programme of the conservation and sustainable use of plant genetic resources, as well as for the programme of the maintenance and improvement of forests;

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<sup>14</sup> The Institute of Agricultural Economics in Belgrade is engaged in the research project “Multifunctional Agriculture and Rural Development in the function of Serbia’s joining the EU”, realised in the period of 2006–2010 and funded by the Ministry of Science and Technological Development.

- **Measures for the diversification of the rural economy and the improvement of the quality of life in rural areas:** support for investments in rural tourism; the co-financing of agricultural machinery and equipment; budget subsidies on the organisation of celebrations important to agricultural development, villages and the conservation of their tradition and culture; the establishment of an appropriate organisational structure (network) to support rural development, etc.

As we may say, Serbia is a low-income country so it is not capable of allocating more funds from the budget in order to boost the development of agriculture and rural areas. Due to the serious economic crisis and a fall in trade, the appropriations for budget subsidies for 2009 are lower in nominal terms.

## Conclusions

Serbia is a European country and it is its objective to become officially recognised as an EU Member State. In this process it has experienced considerable difficulties. Since 1990 it has suffered hardship and encountered a number of problems which have rendered its economy and agriculture obsolete and the process of transition has been delayed as compared to the market systems of other former socialist countries. Since the political changes in 2000, Serbia has been returning to international organisations and institutions, and it has received external financial assistance, including loans on favourable terms. The process of transition has continued, also in the form of the privatisation of public companies. A certain share of revenues from privatisation is assigned to development programmes and the rest is allocated for spending (the payment of pensions, welfare programmes, etc.). There has been an inflow of foreign investment. Relatively high economic growth rates have been accomplished, but Serbia's development level is among the lowest in Europe and still far below the 1990 level. Unemployment is the most severe social problem.

Serbian agriculture has also become poor and it has not recovered yet. However, it generates a foreign trade surplus, thus decreasing the high overall foreign trade deficit, which accompanies such trade. Certain budget subsidies help boost the development of business activity as well as rural development based on the model of multifunctional agriculture as the one prevailing in the EU. Unfortunately, the available funds are limited and tend to decrease in nominal terms.

Serbia has concluded a Stabilisation and Association Agreement with the EU, accompanied by an Interim Agreement, both of which have been ratified and approved by its Parliament. The EU made the application of the Interim

Agreement dependent on political conditions, so that Serbia may only implement it unilaterally, as suggested by the EU. The implementation will not have a negative effect on Serbian agriculture as its preferential status has been defined by the EU's autonomous trade measures and is still applicable to products of Serbian origin exported into the EU market.

Since Serbia has not become a candidate for EU membership yet, it may not benefit from the funds available under all the components of the EU IPA programme targeted at the Western Balkan countries, but only from those aimed at institution building and cross-border co-operation. There is hope that Serbia will soon start to implement the Stabilisation and Association Agreement approved by the EU as well, and that it will obtain the status of a candidate for EU membership in the near future.

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## Rural population decline in the Visegrad Four countries and Romania

### Introduction

The depopulation of rural areas that has been observable since the middle of the 19<sup>th</sup> century has not stopped in many parts of Europe. Although between 1995 and 2005 population density did not change significantly in rural areas in most EU Member States (EC, 2008), this relative stability at an aggregate level masks significant differences between and within individual countries. Declining populations of rural areas frequently go hand in hand with several *worrying economic and social problems*, diminished job opportunities, land abandonment, lower demand for goods and services, reduced level of services, ageing populations, poverty, social marginalisation, increased demand for health services, social care and nursing services, poor accessibility of healthcare and schools, poor public transportation and the lack of basic technical infrastructure. One further major consequence of population decline is its *implications for the ecological systems*. Changes in rural areas, such as depopulation and land abandonment, but also intensification and the loss of biodiversity, usually proceed very slowly yet are often irreversible. (Westhoek et al., 2006) In order to avoid these irreversible changes, the challenge is “the design of ‘new nature’ in post-industrial landscapes.” (Gross, 2008, p. 451) The question is how fields such as ecology and engineering, economics and sociology can fulfil their role as innovative players of sustainable development in times of population decline when “there is no system for assessing beforehand whether or not re-naturalization, ecological restoration and other design activities will be successful.” (Gross, 2008, p. 453) The main target is “to open up new development potentials for an economically, socially, and ecologically sustainable combination of classical and technology-oriented industries, of tourism and leisure economy as well as science and research” (Gross, 2008, p. 453), the main target is sustainable rural development.

In this paper we summarise how national sustainable development strategies (NSDSs) and national rural development programmes (NRDPs) describe, inter-

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pret, and conceptualise processes of population decline, identify their main factors; we present the set objectives and the main measures proposed by these strategies in the Visegrad Four countries and Romania. The Czech Republic, Hungary, Poland, Slovakia (so referred to as the Visegrad-4 or V4 countries) and Romania, which show many similarities in historical, political, economic and social aspects, belong to the part of Europe where certain rural regions suffer from population decrease.

## **Materials and methods**

We have examined, analysed and compared the national sustainable development strategies (official documents adopted by governments or drafts, sometimes national reports, country profiles), and the national rural development strategies/programmes of the Visegrad Four countries and Romania. Unfortunately, in the case of Poland only a short executive summary of the national sustainable development strategy (published in 2000) is available in English, so we examined the National Development Plan 2007-2015 (Polish Gov., 2006).

## **Population trends in European rural areas**

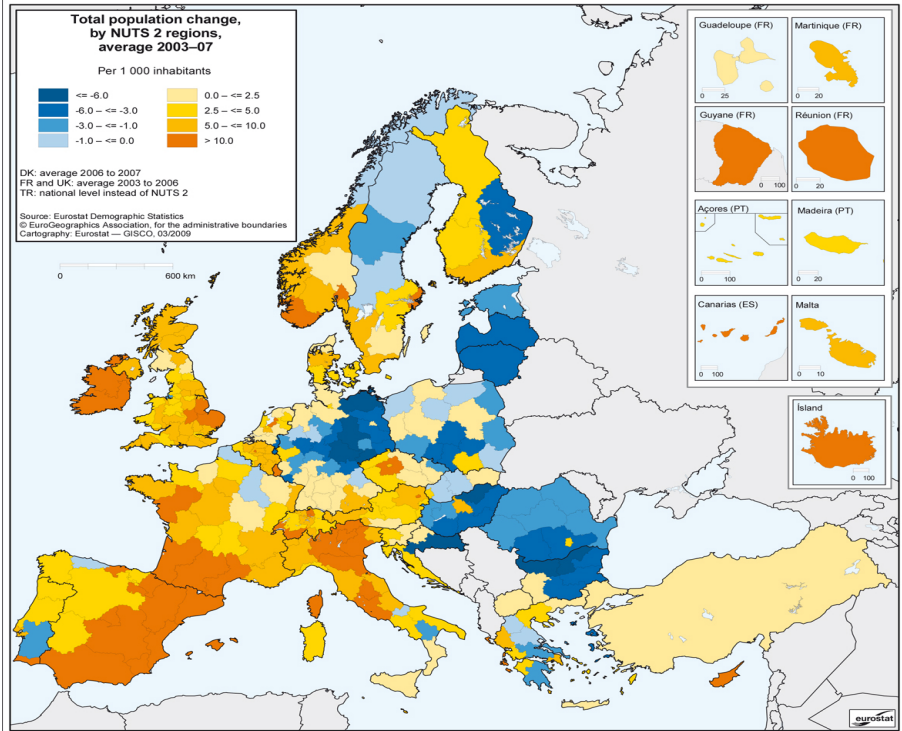
Over the past decades, important changes have taken place in Europe's rural areas. One of the most pressing concerns is population decline. In most of the north-east, east and part of the south-east of the area made up by the European Union and the candidate and EFTA countries, the population is on the decrease. *Map 1* is marked by a clear divide between the regions there and in the rest of the EU. Countries most affected by the decreasing population trend include Germany (in particular former eastern Germany), Poland, Bulgaria, Slovakia, Hungary and Romania, and to the north the three Baltic States, the northern parts of Sweden and a certain Finnish region (Eurostat – European Commission, 2009).

An important determinant of population change (after fertility and mortality) is migration. As many countries in the EU are currently at a point in the demographic cycle where “natural population change” is close to being balanced or negative, the importance of immigration increases when it comes to maintaining the population size. Moreover, migration also contributes indirectly to natural change, given that migrants have children. Migrants are also usually younger and have not yet reached the age at which death is more frequent.

In some regions of the European Union, negative “natural change” has been offset by positive net migration. This is at its most striking in Austria, the United

Kingdom, Spain, the northern and central regions of Italy and some regions of western Germany, Slovenia, southern Sweden, Portugal and Greece.

Map 1: Total population change in Europe



Source: Eurostat – European Commission, Eurostat regional yearbook 2009. European Communities, Luxembourg, 2009, 153 p. (p. 15)

The opposite is much rarer: in only a few regions (namely in the northern regions of Poland and of Finland and in Turkey) has positive “natural change” been cancelled out by negative net migration. (Eurostat – European Commission, 2009)

Four cross-border regions where more people have left than arrived (negative net migration) (Eurostat – European Commission, 2009):

- the northernmost regions of Norway and Finland;
- an eastern group, comprising most of the regions of eastern Germany, Poland, Lithuania and Latvia and most parts of Slovakia, Hungary, Romania, Bulgaria and Turkey;
- regions in the north-east of France and the French overseas departments;
- a few regions in the south of Italy, in the Netherlands and in the United Kingdom.

While population decline is evident in several regions, at an aggregated level the EU-27 population still increased in that period by around 2 million people every year. The main driver of population growth in this area is migration, which counterbalanced the negative natural change in many regions (Eurostat – European Commission, 2009).

### **Population trends in the Visegrad Four countries and Romania**

All of the Visegrad Four countries and Romania are affected by more or less severe demographic stagnation or decline resulting, among other consequences, in population ageing. The situation becomes worrisome because of very low birth rates leading to a progressive decline of the labour force, the exodus of young people and of highly skilled persons. According to Eurostat's population projections convergence scenario, one of the several possible population change scenarios based on assumptions for fertility, mortality and migration, the Visegrad Four countries and Romania are anticipated to have a smaller population in 2060 than in 2008. Hungary, Poland and Romania are projected to follow a decreasing trajectory for their population over the whole projection period in 2008-2060. (Giannakouris, 2008) It is estimated that there is a real risk for the Central and Eastern European countries to become a thinly-populated area with a declining labour force under pressure to support the burden of an ageing population (Romanian Gov., 2008a).

### **Czech Republic**

In significantly and predominantly rural regions in the Czech Republic there are 9,050,006 people, who constitute 88.6% of the Czech population and inhabit an area of 78,370 km<sup>2</sup>, i.e. 99.4% of the territory of the Czech Republic. (Czech Gov., 2008). The Czech NSDS enumerates 19 “weaknesses of the Czech Republic's social system in terms of sustainability” and amongst them we can find the “*ongoing depopulation of rural areas*” (Czech Gov., 2004, p. 21). In some areas, the population decrease has stopped; however, this is due to the massive construction boom with regard to single-family houses in the vicinity of cities and the creation of dense satellite towns. In other areas, however, the depopulation of the countryside has not stopped. Amongst the main reasons belong the absence of services, poor accessibility of healthcare and schools, poor public transportation and the lack of basic technical infrastructure. This is also the case of the smallest municipalities (up to 200 to 500 inhabitants). The countryside is also threatened by the migration of young people to cities. (Czech Republic,

2008) The Czech Republic is among the countries with the lowest birth rate in the world. Eurostat predicts that by the year 2050 the number of Czechs will drop from 10 million to 8.8 million.

## **Hungary**

*Hungary's population is diminishing and ageing at an increasing rate.* The decline of the population started back in the 1980s. The total number of residents has dropped by ca. 5% during the past two decades and this process has been accelerating. The ageing of the population coupled with declining fertility rates has led to an alarming drop in the active population (Hungarian Gov., 2007a).

In the last decade *migration from rural areas has intensified*, most of the people leave presumably in the hope of employment and a better living. Positive changes in this regard occurred only in Central Hungary and the Western and Central Transdanubian Regions, while the migration balance is less advantageous in the regions of Northern Hungary and the Northern Great Plain. If the current trends continue, Hungary has to reckon with an unfavourable change in the age structure of the population in all regions, a gradual decrease in the active-age population and the concomitant rise in the number of inactive citizens (Hungarian Gov., 2007b).

## **Poland**

Rural areas in the Republic of Poland account for 93.2% of the country and they are inhabited by 38.6% of the total population (according to the OECD or Eurostat approach, 91.0% or 85.7% and 34.4% or 29.3% respectively). The Polish NRDP emphasises that rural areas are extremely important from economic, social and environmental viewpoints (Polish Gov., 2007).

In comparison to other European countries, the population of Poland is still young (in the demographic sense); however, the median age becomes higher every year. Between 2000 and 2005 the percentage share of working-age rural residents increased – from 56.8% to 60.7% (in cities from 63.3% to 66.1%) and the total working-age population went up by approx. 7% (in cities by ca. 3%). Over the next few years the share of working-age persons in rural areas will continue to increase, up to 63.7% in 2015. In urban areas, though, the percentage of the population of working age will decline. It is estimated to total 63.2% in 2015. At the same time, between 2000 and 2005, the fall in the share of persons of pre-working age, from 27.6% to 23.8% (from 22.4% to 18.5% in urban ar-

edas), was mainly due to the decreasing birth rate. Moreover, according to forecasts, the forthcoming years will witness a further decline in the share of persons of pre-working age, both in rural and urban areas, and in 2015 it will amount to 17.2% and 15.2% respectively (Polish Gov., 2007).

The Republic of Poland is faced with migration, which has a significant impact on the situation of rural areas. A greater influx of people from urban to rural areas than the migration from the countryside to towns and cities has been noted since 2000. According to estimations, this trend will continue over the next few years (the share of rural residents, amounting to 38.3% in 2002, may increase to as much as 42.6% in 2030). The phenomenon results from numerous factors, including city dwellers settling down in rural areas, a decrease in the number of people migrating to cities for work, the return to the countryside of persons who lost their jobs, change of the status of towns/villages. Between 2000 and 2005 there was a net migration of 17,700 persons from rural areas for permanent residence in other countries (emigration of 31,400, immigration of 13,700). Despite concerns, by 2004 the number of persons emigrating for permanent residence declined (Polish Gov., 2007).

## **Romania**

The current demographic trends in Romania are considered to be worrying, and negative in the long term. According to converging estimations, without taking into account emigration but admitting a considerably higher life expectancy at birth, the population of Romania is set to diminish from 21.5 million in 2007 to 21.2 million in 2013, and may go down to 16.7 million by the middle of the century (Romanian Gov., 2008a). This declining trend is sharpest in rural areas. According to the Romanian NRDP, between 1998 and 2005 the following could be observed: (1) the share of the 0-14 age group in the total rural population dropped, (2) the share of the 15-64-year-olds remained relatively stable, whereas (3) the share of those who are 65 or over increased, reaching 19% of the rural population in 2005 (compared to 11% in urban areas). The natural decrease of the rural population accelerated significantly over the last five years, reaching rates close to -4 per 1,000 inhabitants. In contrast, the natural decrease rate in urban areas was much lower, hovering around -1 before falling to near 0, and even becoming positive in 2005. Though positive, the net urban to rural *internal* migration cannot compensate for this decline. In the early 1990s, massive migration from rural to urban areas took place. This pattern was reversed during the 1990s as economic restructuring and land restitution increased the attractiveness of rural areas, to such an extent that starting

in the late 1990s, the net urban to rural migration became positive, though fluctuating in absolute value (Romanian Gov., 2008b).

## **Slovakia**

Since 2001, Slovakia has had a negative birth rate, translating into a shrinking population. The decline in population as measured by the birth rate and mortality is mainly traceable to a drop in natality (as a result of the general shift in living conditions, comprising the cost of living, the unemployment rate, financial accessibility of residential property, different value preferences among the younger generation, etc.). Consequently, in terms of general population structure, the ageing trend persists by a decrease in the share of minors from 0 to 14 years of age and an increase in the share of the post-working age population aged 65 and above. (Slovak Gov., 2008) The share of the rural population has considerably fallen during the last forty years. The depopulation of rural areas continues, and the largest decrease has been registered in the smallest municipalities (Slovak Gov., 2002).

The current situation on the territory of *Slovakia* can be characterised partially as *a conflict between the urban and rural environments*, which is manifested in a number of areas – socio-cultural, political and economic. The ongoing structural economic changes, connected with growing differences in technical and social infrastructure and combined with specific geographical conditions, contribute to the deepening of interregional differences and to the creation of core and marginal regions. Social marginalisation is significantly manifested in the social area (in so-called problematic regions) with a low economic and social level and with a high unemployment rate, where the processes of social recession are spatially cumulated. The situation requires the demarginalisation of the society, based on an individual approach to the regions (Slovak Gov., 2002).

### **Main factors and consequences of out-migration from rural areas according to the NSDSs and NRDPs**

In this section, we illustrate the determinants of population decline with examples selected from the NSDSs and NRDPs in question. We emphasise that population decline is the cause and at the same time the consequence of the problems presented below.

In Table 1 we summarise the different factors affecting the depopulation process identified in the NSDS and NRDP of the five countries. It should be mentioned that there is not necessarily a formal or close connection between a given



factor and the depopulation process in the text of the documents. Table 1 shows very well the complexity of the problem of population decline in rural areas.

Subsequently, we would like to emphasise those aspects (5) which are mentioned by all the analysed countries and are much more highlighted in NSDSs and NRDPs than the others.

Table 1: Factors of demographic changes identified in the NSDSs (●) and NRDPs (○) of the selected EU Member States

The problem is clearly identified	●	●	●	●	●
Member State	CZ	H	PL	R	SK
Factor					
Ageing population	●○	○	●	●○	●○
Migration of young people to cities	○		●○	●○	●
Disadvantaged groups/Roma communities		○		●○	●
Lifestyles/diversity of cultures/new values	●	○		○	●
Economic growth					○
Declining agriculture	○	●○	●	●○	●
Insufficient job opportunities/unemployment	○	●○	●○	●○	●○
Small/shrinking local markets	○				
Poverty/Low salary	○	●		●○	●
Social/public services	●○	●	●○	●○	●
Education	●			●○	○
Living conditions	○	○	●○	●	●○
Health and health services	○		●	●○	
Accessibility of public transport/roads				●○	●
Telecommunication				●○	
Water supply/sewerage systems				●○	●
Climate change	○			●	
Environment/ecology				●	●

Source: Czech Gov., 2004; Czech Gov., 2008; Hungarian Gov., 2008a,b; Polish Gov., 2006; Polish Gov., 2007; Romanian Gov., 2008a,b; Slovak Gov., 2002; Slovak Gov., 2008.

*Ageing population.* Depopulation and ageing are closely connected. The *Hungarian* NRDP stresses that if the current trends continue, the country has to reckon with an unfavourable change in the age structure of the population in all regions, a gradual decrease of the active-age population and the concomitant rise in the number of inactive citizens (Hungarian Gov., 2007b). In *Slovakia* the trend – increased average age – has been also observable in rural regions as 39 rural counties in 1998 reported figures above the national average, whereas in 2003 the number rose to as many as 43 counties (i.e. almost two-thirds of all rural counties). (Slovak Gov., 2008) The share of the working-age population is

lower in rural regions compared to urban areas, with the share of post-working age population also growing more quickly in the long term. In *Romania*, elderly domestic migrants are progressively replacing the younger rural population. In the early 1990s, all age groups were migrating to urban areas. However, the trend reversed in the second half of the decade, with young people leaving rural areas and older age groups arriving. Rural areas became increasingly attractive for the population aged above 35, notably those aged 45-54, who are typically more vulnerable in the urban labour market and migrate to rural areas to undertake subsistence activities. For some people, however, living in rural areas simply constitutes a preferred alternative to urban agglomerations.

The young active population moves to urban areas in search of better jobs and a more attractive lifestyle (Romanian Gov., 2008b). In the *Czech Republic* the countryside is also threatened by the migration of young people to cities. One consequence of the ageing of the rural population is the unfavourable age structure of commercial farmers as listed among weaknesses in the SWOT analysis of the Czech NRDP (Czech Gov., 2008).

*Declining agriculture.* The *Czech NRDP* emphasises that the major problem of the countryside is not the preservation of agriculture anymore, but *the stabilisation of the rural population*. In 2004 the number of people employed in agriculture decreased to approximately 141,000, which constitutes an annual loss of 4.7% of agricultural jobs. The share of agricultural employment in the employment structure of the national economy dropped to 3.8 %. (Czech Gov., 2008, p. 20). In *Hungary*, one of the major obstacles to rural economic restructuring is the discrepancy between the actual needs of the economy and the structure of education and (vocational) training. There is a shortage of rural labour with the education and professional knowledge required by the prospering branches of the economy mostly *due to migration from rural areas* (Hungarian Gov., 2007b). *Romania's* agriculture is still in decline due to excessive land fragmentation (subsistence farming is predominant), poor machinery and equipment, precarious state of rural infrastructure, low amounts of chemical or organic fertilisers and pesticides used, a dramatic reduction of irrigated areas, soil degradation, a chronic deficit of available funds and the absence of a functional system of farming loans (Romanian Gov., 2008a). In *Slovakia*, ever since 1989, the number of workers in the agricultural sector has been falling continuously (Slovak Gov., 2008). In 1998, approximately 1% of GDP was produced in agriculture (of the total employment in the national economy, 1.22% workers were employed in the agricultural sector). It reflects the low level of restructuring in the sector, inefficient technology and the non-evaluation of non-productive functions of agriculture. The real number of agricultural workers is, however, much

higher – significant subsistence production is still typical of Slovak rural areas (Slovak Gov., 2002). In *Poland* the situation is slightly different. The increase in the population (mainly resulting from the migration from urban to rural areas) or rapid development of business sectors providing services to the neighbouring city are the main characteristics of rural areas located in proximity to urban areas. It concerns both the agricultural function (production for the needs of the urban market, including the supply of fruit and vegetables) and the non-agricultural function (warehouses, customs warehouses, business services, shopping centres, construction materials warehouses, etc.) (Polish Gov., 2007).

*Unemployment.* In *Hungary*, in the last decade migration from rural areas has intensified, most of the people presumably leave in the hope of employment and a better living. The smaller is the locality, the higher is the rate of unemployment and the worse are the conditions of living as well. Employment opportunities are particularly reduced in the case of people with low qualifications, middle-aged or elderly, and even more so with respect to single mothers (Hungarian Gov., 2007b). The problem in the *Polish* job market is the high, open and hidden unemployment in rural areas. As at the end of 2005, almost 1.2 million persons living in the countryside were registered as unemployed. They accounted for 42.6% of the total number of the unemployed. At the same time, the general agricultural census indicated a significant surplus of persons working on private family farms (Polish Gov., 2006). In *Romania*, one of the weak points identified at regional level by the NSDS is a labour force deficit in large areas, due to the decreasing population, massive temporary migration and ageing, adding pressure on social and health services (Romanian Gov., 2008a). The high overall unemployment rate is only one dimension of this problem in *Slovakia*. Other problems are caused by high regional differentiation of unemployment (an extremely high unemployment rate in rural areas, mainly in the eastern and southern parts of Slovakia) (Slovak Gov., 2002).

*Living conditions.* In the *Czech Republic* the depopulation of the countryside areas has stopped; however, this is due to the massive construction boom with regard to single-family houses in the vicinity of cities and the creation of dense satellite towns in these areas (Czech Gov., 2008). As a factor of the unfavourable demographic processes, the *Slovak* NSDS mentions the unbalanced development of settlement environment (cities and rural areas), the increasing differences between the rural and urban environments (demographic, socio-cultural, economic areas) leading to the deepening of interregional differences, in particular between core and marginal regions, the forming of problematic regions, the lack of work opportunities, the low rate of occupation of dwellings, relating social and economic problems. Housing in rural areas is still disadvantaged, in particular

in economically weaker or backward regions, which hampers migration to rural areas or at least slows down migration to cities. The occupation of existing available dwellings in rural areas yet constitutes a key pre-condition for achieving sustainable development of rural settlements (creating sufficient social capital for the maintenance, restoration and use of settlements) (Slovak Gov., 2002).

*Social/public services.* As has been mentioned above, even in the *Czech Republic*, amongst the main reasons, the depopulation of certain rural areas is caused by the absence of services, poor accessibility of healthcare and schools, poor public transportation and the lack of basic technical infrastructure; this is the case of the smallest municipalities (up to 200 to 500 inhabitants) (Czech Gov., 2008). In *Romania*, the state of basic infrastructure is still far below the EU average standards; considerable gaps will have to be bridged with regard to the majority of the principal indicators. Sewerage systems are available to just slightly more than half of the country's population (11.5 million), 10.3 million of whom in urban areas. On the whole, 52% of the total population have access both to drinking water and sanitation, 16% only to safe water, but not to sanitation, and 32% to neither. Only 33% of the villagers are connected to running water supply systems (compared to 87% in the EU) and a mere 10% have access to modern sewerage systems (Romanian Gov., 2008a). Serious disparities in terms of access to health services persist between regions and social groups, with low-income groups particularly at risk. Whereas more than 40% of the population live in rural areas, fewer than 11% of medical doctors work in the countryside – one-fifth of the respective number for urban centres (Romanian Gov., 2008a).

The availability of services in rural regions features a highly uneven distribution pattern in terms of structure and scope, but also in terms of the quality of services provided as compared to urban regions. However, the differentiation of services is also preconditioned on the availability and quality of transportation infrastructure, utility infrastructure and information infrastructure. An essential prerequisite to the development of the rural economy (services, tourism, etc.), hence boosting rural income and stabilising the population in rural areas, is the improvement of technical infrastructure in rural communities. The key relevant issues comprise obsolete and/or non-existent infrastructure (water mains, the sewage system, local roads and pavements, street lighting, etc.) (Slovak Gov., 2008).

Although several problems are mentioned in the NSDSs and NRDPs, they are not in close connection with the process of depopulation. Rural depopulation is not in the focus of the analysed strategic documents.

## Measures against population decline proposed in the NSDSs and NRDPs

In the face of the problems and needs presented in the previous section, and on the basis of the instrumentation made available by the regulation on rural development, the most suitable lines of intervention may be regarded in particular as follows. (In *Table 2* we summarise how countries intend to solve the problem of depopulation, according to their NSDS and NRDP.)

*Diversification of agriculture.* The purpose of the measure is primarily to improve the income position of the rural population earning their living from agriculture, to create and preserve jobs outside agricultural activities, which may contribute to reducing the migration from the countryside and to improving the living conditions in rural areas. Its aim is to encourage generating additional income, production and service activities of households with earned income from agriculture, the promotion of products produced locally in entering the market.

Table 2: Proposals against depopulation in NSDSs (●) and NRDPs (○)

Member State	CZ	H	PL	R	SK
<b>Measures proposed</b>					
Diversification/modernisation of agricultural development	●○	●○	●○	●○	●○
New jobs	●○	○	●○	●○	●○
Availability of services	●	●○	●○	●○	●○
Supporting entrepreneurship		○	●○	●○	●○
Tourism/Rural tourism	●○	●○	○	●○	●○
Increasing the income level/quality of life/living standards	●	○	○	○	
Development of small businesses/market	●○	○	●○	●○	●
Preservation of forms of culture and life in rural areas	●		○	○	
Increasing the quality of primary schools/education	●			○	
Renewal of local identity/cohesion/social capital	○				
Support for renewable energy sources	●○	○	●○	○	○
Modernisation of irrigation				○	
Support for organic farming	●	○	●○	○	
Support for the regeneration of rural areas	●			●○	●

Source: Czech Gov., 2004; Czech Gov., 2008; Hungarian Gov., 2008a,b; Polish Gov., 2006; Polish Gov., 2007; Romanian Gov., 2008a,b; Slovak Gov., 2002; Slovak Gov., 2008.

In the *Hungarian* NRDP, under measure 311 the eligible areas include, among others: non-food purpose processing and use of raw materials or by-products of plant or animal origin from agricultural production (e.g. handicraft, the textile industry and leather-work, therapy, cosmetics, dyes, toys, etc.); non-food purpose processing of plants growing wild (e.g. reed, sedge, bulrush, basket-osier, drug plants, forest by-products); the packaging of agricultural compost for sale, support for cooperation relating to the activity; launching and developing the direct sale of locally made (agricultural, food and handicraft) products, fostering connection to distribution networks; support for the marketing of locally made products; developing the supply of equipment for craftsmen and handicraft activities, the establishment of handicraft show rooms, workshop galleries, open workshops, shops, collective marketing actions promoting the sale of locally made products, the creation of sales points; the manufacture of special machine-tools related to traditional folk and handicraft occupations, the development of cooperation existing in production of such products and new cooperation (Hungarian Gov., 2007b).

In *Romania* the following actions will be supported, among others: tangible investments (construction, modernisation, building extension with a productive purpose; the relevant endowment with equipment, etc., including the leasing/purchasing of those); intangible investments (software, patents, licenses, etc.), including the leasing/purchasing of those (Romanian Gov., 2008b).

*Supporting entrepreneurship.* The economic revival of rural areas is possible mainly thanks to small enterprises. Due to the shift to the market economy, a growing number of rural dwellers engage in trade, services, crafts (the so-called petty production) and tourism, using own resources of agricultural holdings. However, on account of limited access to funding, non-agricultural business activities in rural areas are still poorly developed (Polish Gov., 2006).

*Development of services in rural areas.* The development of services in rural areas (commercial and financial services, advisory services for agriculture and public works, transport and rural tourism, human health and veterinary services, etc.) will make it possible to tap additional resources for GDP growth by providing alternative employment opportunities to people currently engaged in farming (who represent 30.5% of the active population, but contribute less than 9% to GDP). This will also increase the disposable income of rural residents and may help reduce the share of subsistence agriculture in favour of commercially viable farming (Romanian Gov., 2008a).

*Tourism/rural tourism.* In the countries in question rural tourism has not yet been fully developed, and the potential of agricultural holdings in the area of agrotourism is underutilised. Tourism infrastructure and advertising in these areas

do not entirely conform to European Union standards and accompanying services (accommodation, food serving, information) are at a low level.

Rural tourism is a sub-sector with development potential, constituting at the same time a possible alternative source of jobs for the rural population, a manner of the diversification of the rural economy and a stabilisation factor for this population. Also, tourism activity could represent an opportunity for diversifying the activities of small holdings/farm owners, offering the possibility to have a secondary or main source of income involving mostly women (Romanian Gov., 2008b).

Table 3: Different objectives concerning population decline – examples

Country	Objective set in the NSDS and NRDP
Czech Republic	<p><i>“<u>reducing</u> the migration of the population to cities”</i> (Czech Gov., 2004, p. 23)</p> <p>“the major problem of the countryside is not the preservation of agriculture anymore, but the <i><u>stabilisation</u> of the rural population</i>” (Czech Gov., 2008, p. 28)</p>
Hungary	<p>“increase living standards by improving the attractive feature of rural settlements in order to <i><u>reverse</u> outward migration</i> and negative trends of economic and social conditions and <i>depopulation of the countryside</i>” (Hungarian Gov., 2007b, p. 264.)</p>
Poland	<p>“It is essential to form the policy and its instruments in such a way as to stop that process and significantly change the situation in the Polish rural areas.” (Polish Gov., 2006, p. 67)</p>
Slovakia	<p>“revitalisation and revival of rural areas, qualitative development of urban settlements” (Slovak Gov., 2002, p. 261)</p> <p>“Tourism <i><u>stabilises</u> population in rural areas</i>” (Slovak Gov., 2008, p. 172)</p>
Romania	<p>“to increase the attractiveness of the rural areas and <i><u>reduce</u> the migration of young people to urban centres</i>” (Romanian Gov., 2008a, p. 114)</p> <p>“necessary to increase the number of young farmers operating in agriculture” (Romanian Gov., 2008b, p. 61)</p>

Source: compilation by the authors (The text fragments underlined and in italic were stressed by the authors).

Interestingly, although all the national sustainable development strategies and national rural development programmes identify the depopulation process and present a wide range of instruments and measures aimed to cope with this negative phenomenon, there are no commonly adopted objectives or principles regarding the desired extent of demographic changes in rural areas. In Table 3 we present some goals formulated in the documents for the demographic process. It seems to us that the NSDSs and NRDPs do not set clear, solid, explicit objectives concerning the population processes in rural areas.

## Final remarks

The majority of national sustainable development strategies and national rural development programmes identify the depopulation process; to some extent population decline is present in certain rural areas of the Visegrad Four countries and Romania.

Understandably, national rural development programmes describe and analyse the phenomenon more thoroughly. In our opinion, national sustainable development strategies should pay more attention to the problem.

Rural areas in the Visegrad Four countries and Romania are very far from homogenous in terms of population trend and the relative importance of the components of change. However, all the documents consider the depopulation process to be a negative phenomenon, but there are no commonly adopted objectives or principles regarding the desired extent of demographic changes in rural areas: the aims vary between ‘reducing’, ‘stopping’, ‘stabilising’ and ‘reversing’ the depopulation of rural areas. We think that rural policies need a stronger theoretical basis to respond to this question.

It is not clear how effective the strategic programmes can be. General global factors such as structural development and fluctuations in the economic climate are judged to be of greater significance to the socio-economic situation in rural areas than the rural development programme. In our opinion, science has to identify objective trends and clarify the scope of political plans and strategies.

Amongst the factors of population decline, strategic documents should pay more attention to economic and social elements; ecological considerations should be explicitly mentioned. We think that the ecological aspects of the depopulation process should be examined in depth.

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## **Development prospects of agriculture and rural areas in Poland**

### **Introduction**

Rural and agricultural development depends on a number of external and internal factors. The most important external factors comprise the globalisation of the world economy and Poland's membership of the European Union (Kowalski, Rembisz 2005). Poland's inclusion in the economic structures of the EU constitutes a certain barrier to adverse effects of global processes, at the same time offering new development opportunities, particularly to the countryside and agriculture. The primary internal factors are the structural characteristics of agriculture and of rural areas as well as the national agricultural policy (Tomczak 2005).

The economic development of the countryside and agriculture is accompanied by gradual changes in their functions. For this reason, rural areas have ceased to be associated solely with agricultural activities; moreover, they increasingly perform various non-agricultural functions, both productive and non-productive (Otoliński, Wielicki 2003). This transformation is mainly reflected in a decline in the working population engaged in agriculture (Zegar 2009). The fact remains, however, that under current conditions, particularly in Poland, one of the priorities for rural development and the improvement of the living standards in the countryside is to increase the competitiveness of the agricultural sector by optimising the utilisation of production factors (Czyżewski 2007). The attainment of this objective primarily involves the diversification of economic activities of the farming population, which implies an enhanced use of production resources in agriculture (especially land and labour) and contributes to increased incomes, thus leading to multifunctional development of rural areas and agriculture (Czudec 2008).

The competitiveness of agriculture cannot be confined to costs and prices, it must also include quality issues. It means that modernisation measures will not be undertaken by agricultural holdings at the cost of the environment, and the production methods applied will allow producing necessary quantities of quality

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agricultural raw materials. Furthermore, apart from competitiveness, agricultural activities must increasingly incorporate social functions and the role of agriculture in the environmental protection and in the preservation of the natural value of the rural landscape (Poczta, Pawlak, Kiryluk-Dryjska, Siemiński 2007). Such conditions determine the need to maintain farming across the European Union (EU), at the same time ensuring the security of food supply and satisfactory income from farm work (Poczta, Pawlak, Kiryluk-Dryjska, Siemiński 2007), thus leading to the attainment of sustainable development of rural areas and agriculture (Woś, Zegar 2002, Zegar 2005).

The evolution of the CAP, from a support policy solely targeted at the agricultural sector to a policy promoting sustainable and multifunctional rural development, is the response to changing relations between agriculture and the development of non-agricultural functions of the countryside (Thompson, Ward 2005). Since the turn of the century, the economic significance of agriculture as a sector of the economy has been slowly diminishing, whereas its environmental functions and the preservation of the rural landscape have been gaining in importance. In this light, the competitiveness of rural areas has come to depend, to a growing degree, on changes in social and technical infrastructure, job creation, the formation of new institutional structures and on maintaining the high quality of natural resources of the countryside (Aakkula et al. 2005). A number of EU Member States (including Poland) have begun to value unique goods, vital from the point of view of the entire Community, e.g. biodiversity and the traditional landscape. In the future, the reformed CAP should place greater emphasis on programmes having the best possible impact on changes in rural areas and on the decentralisation of planning and implementing socio-economic development strategies.

### **Conditions for the development of Polish agriculture**

Agriculture in EU Member States has been and will continue to be diverse, which represents one of its merits, with a broader cultural dimension. This diversity also includes Polish agriculture, characterised by a family system of production organisation and relatively well-preserved traditional production methods, which offers an opportunity for Polish agriculture to develop along the lines set out for this sector in Agenda 2000. The vital issue is the long-term competitive position of agriculture.

The competitiveness of Polish farms is primarily reflected in income obtained from agricultural activities<sup>2</sup>. This income not only indicates the living standards of farmers, but also their marketing skills and the capacity for financing investments, a major prerequisite of retaining the competitiveness of agricultural holdings, particularly in the long term (Józwiak 2007).

The terms of EU accession brought about a considerable improvement in the income situation of Polish farms as well as influencing their ability to compete. Even though the dynamics of income varied between years<sup>3</sup>, and the onset of the financial crisis had a downward effect on agricultural income<sup>4</sup>, at present Polish farmers obtain nearly 191% higher income than in 2000. Nevertheless, the income situation of Polish farmers, as compared to that of agricultural producers in other EU Member States, is markedly worse. According to the monitoring data of the FADN, income from farming activities per full-time worker in Poland was ca. 2.7 times lower than the EU average, and only Slovenian and Slovak farmers obtained a lower level of labour remuneration.

The low profitability of agricultural activities in Poland mainly results from the fact that Polish agriculture, despite certain favourable changes, continues to seriously lag behind EU (especially EU-15) agriculture, in technical and structural terms, which is primarily reflected in excessive land fragmentation (the average area of an agricultural holding in Poland is not only more than 3 times smaller than in the EU-15, but it is also half the EU-27 average) and in agrarian overpopulation (labour inputs in Polish agriculture are more than triple the respective figure for the EU-15 and 8% higher than agricultural employment in the EU-12).

Structural disproportions are reflected in the economic potential<sup>5</sup> (economic power) of particular holdings which defines their capability to maintain their position in the market. It determines not only the current situation of a farm, but also its future capacity. Thus, the economic potential translates into the competitiveness (the ability to compete) of a given holding, i.e. the capability of an economic operator to gain, maintain and increase a share in the market where it is a player (Kulawik 2007).

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<sup>2</sup> Despite certain methodological differences, agricultural income, farm income and income from agricultural activities are treated as identical categories in this paper.

<sup>3</sup> According to W. Dzun and W. Józwiak (2008), in 2004 farmers' income more than doubled on the 2001–2003 average. In the following two years (2005 and 2006) it stabilised at a relatively high new level, whereas in 2007 it went up by 13.7% on the previous year.

<sup>4</sup> According to Eurostat data, in 2008 Polish farmers' income dropped by 12.4% in comparison with 2007, and this trend is expected to continue.

<sup>5</sup> The economic potential can be defined as the capacity of individual economic operators to remain in the market (Pens 1997). In the case of agricultural holdings, the economic power means the farmer's ability to independently increase farm capital, develop the holding and adapt it to changes in farming conditions (Woś 2000).

According to the above, the economic power is a very complex notion, difficult to be accurately defined, as it is determined by a number of very diverse parameters (e.g. the stock, structure and quality of production resources, the location with respect to outlets and supply markets, personal attributes, the family situation, etc.), some of which are hardly measurable or unmeasurable (Woś 2000). Such conditions make the economic potential of a family farm<sup>6</sup> a changing category, not easy to be unambiguously described. In this connection, the establishment of the economic power and, as a consequence, of development prospects is an inferential exercise based on the overall situation of particular groups of agricultural holdings (Woś 2000).

Table 1. Area and economic size of agricultural holdings in Poland and in the EU in 2007

Specification	Average farm area (ha of UAA)	Percentage share of holdings with an area of			Average economic size of holdings (ESU)	Percentage share of holdings with an economic size of		
		less than 5	5 to less than 50	50 or more		less than 2	2 to less than 100	100 or more
		ha of UAA				ESU		
<b>Poland, total</b>	<b>6.5</b>	<b>68.5</b>	<b>30.5</b>	<b>1.0</b>	<b>3.6</b>	<b>67.9</b>	<b>31.9</b>	<b>0.2</b>
of which: family farms (over 1 ha of UAA)	<b>7.8</b>	<b>57.4</b>	<b>41.4</b>	<b>1.2</b>	<b>4.4</b>	<b>56.7</b>	<b>43.3</b>	<b>0.1</b>
EU-27	12.6	70.4	24.5	5.1	11.3	60.9	36.9	2.2
EU-15	22.0	54.5	34.6	10.9	23.8	28.4	66.4	5.2

Source: Statistical and economic information; Rural development in the European Union; Report 2009; GUS Badanie struktury gospodarstw rolnych (Farm Structure Survey) 2007.

In the case of EU farms, the most universal composite measure of the economic potential of individual entities is their economic size<sup>7</sup> as it takes account of the scale of agricultural activities, a relatively large set of production and cost parameters as well as of local farming conditions.

Characteristically, agricultural holdings in the EU significantly vary in economic potential. This is also the case in Poland's agriculture. The Polish agricultural sector and those in most EU Member States mainly differ in relationships

<sup>6</sup> Despite certain terminological differences, the terms 'family farm (farming)' and 'peasant farm (farming)' are used interchangeably in this paper. Other terms used interchangeably are 'agricultural holding', 'farm', 'entity', 'operator'.

<sup>7</sup> Expressed in terms of European Size Units (ESU); the economic size is the sum of the standard gross margins (SGM) of all agricultural activities carried out in a given holding. The SGM is the three-year average value of agricultural output from a given agricultural activity less the corresponding specific costs, obtained in average production conditions for the region. Since 1984, 1 ESU has been equal to EUR 1,200.

between the number of farms with limited economic potential and that of entities having a rather considerable economic power (Table 1).

Despite favourable changes, particularly those observed in family farming (Karwat-Woźniak 2009a), the overwhelming majority of Polish agricultural holdings (nearly 68%) represent entities with a very small economic size, less than 2 ESU. At the same time, in the EU-15 holdings below 2 ESU account for an average of approx. 28%. Furthermore, there are practically no Polish farms with an economic size equal to or greater than 100 ESU (a mere 0.2%). Thus, their share is one-tenth of the average EU-27 figure (2.2%). This gap widens almost three times in comparison with agriculture in the EU-15 where entities with 100 ESU or more represent 5.2%.

The current number of Poland's family farms with the ability to compete, or those with income allowing the remuneration of family labour at least equal to the parity rate and positive net investments, can be estimated at ca. 220,000, i.e. approx. 12% of the total number of holdings in family farming. They obtain standard gross margins exceeding 8 ESU (Karwat-Woźniak 2009b), which means that they are competitive in favourable conditions (Dzun, Józwiak 2008). The average economic size of such entities is 32.5 ESU and they have an average of 29.5 ha of utilised agricultural area, thus they are nearly four times larger than the average family farm in Poland. They account for over 38% of agricultural land and produce nearly 62% of the commercial output of family farming. In general, it can be estimated that, together with holdings held by legal persons, such entities make rational use of almost half of Poland's total agricultural area.

The improvement in the competitiveness of Polish agriculture will primarily depend on the development of those family farms which have already achieved a relatively significant economic potential and continue efforts to increase it further. Due to the role played by such holdings in ensuring the security of Poland's food supply, and of energy supply in the future, as well as in determining the situation of Polish agriculture, this group should be more numerous and needs a much larger stock of productive capital.

### **Proposal for a competitive area structure of family farms**

On account of increasing competition, providing a satisfactory farm income involves the need for efforts aimed to increase the economic potential. Under conditions of Poland's fragmented agriculture, it could be achieved, to a significant extent, by enlarging the area under cultivation (Karwat-Woźniak 2007). Thus, improving the competitiveness of Polish agriculture mainly requires changes in the area structure of holdings. It entails increasing the stock of land

held by competitive farms rather than extreme land concentration. At the present stage of advancement, it is an indispensable condition for the sustainable development of Polish agriculture (Zegar 2006). The existence of a strong segment of large holdings will create conditions for attaining the economic, social and environmental balance as well as a stable basis for the sustainable development of the whole countryside in Poland.

Research suggests that entities characterised by long-term competitiveness are farms with an economic size of at least 16 ESU (Dzun, Józwiak 2008). They should constitute ca. one-fourth of the total number of family farms and hold a minimum of three-fourths of the utilised agricultural area.

Table 2. Area structure of family farms and the structure of utilised agricultural area by area group

Specification	Area group (ha of UAA)								
	1-<2	2-<3	3-<5	5-<10	10-<15	15-<20	20-<30	30-<50	>=50
	row sum = 100								
Area structure									
Current	23.4	15.2	18.9	22.1	9.2	4.3	3.6	2.1	1.2
Desirable*	28.4	17.9	16.6	4.1	3.7	2.3	11.0	9.8	6.2
Structure of utilised agricultural area									
Current	4.4	4.7	9.4	20.2	14.3	9.5	11.1	9.8	16.6
Desirable*	2.1	2.7	2.8	3.9	2.0	3.8	21.0	27.9	33.8

\* Under current conditions, achievable in 2040–2045.

Source: own study based on GUS and FADN data as well as on findings from field surveys conducted by IERiGŻ-PIB.

On the basis of the production structure of Polish agriculture and the relationship between the economic size, the type of farming and the utilised agricultural area necessary to generate the total GSM enabling effective competition, the target area structure of family farms and the desirable degree of land concentration were estimated<sup>8</sup> (Table 2).

The specific characteristic of changes in the area structure of family farming is that the progress in land concentration is accompanied by a fall in the number of holdings and a strong polarisation of the area structure of existing operators. It is very likely that the trends in the number and area structure of agricultural holdings observed in 1990–2007 will continue in the following years. Therefore,

<sup>8</sup> The predicted changes were mostly established using factor analysis combined with elements of extrapolation. These inference methods allow to describe the future image of agricultural structures on the basis of the current knowledge and the assessment of changes in the impact of specific determinants of structure and of their impact on the pace and scale of changes.

the structure presented above can only be attained in peasant farming by 2040–2045. The total net number of family farms will then drop by 43%, to approx. 1,030,800. It will result from a decrease in the number of entities with less than 20 ha of UAA, and the rates of decline will vary between area groups. The number of such holdings will drop by 55%, with a particularly sharp fall in the group of entities with 5 to less than 10 ha of UAA (down by 89%). The opposite process will be observed in the set of farms with 20 ha or over. Their total number will more than double, up to ca. 278,300. There will be a marked (threefold) increase in the number of the largest holdings (with 50 ha of UAA or more), up to 63,600. Entities with 20 ha of UAA will represent a target of 27% of the total number of family farms, holding nearly 83% of UAA, whereas in 2007 they only accounted for 38% of agricultural land. Such changes will ensure their dominant position in the market in agricultural products. The majority will be operators with an economic size of at least 16 ESU, thus capable of coping with competition in the globalising agricultural market. At the same time, there will be a decline, from 19% to 8%, in the share of agricultural land held by farms mostly performing non-remunerative functions.

The final outcome of such transformation will be significant as the average area of a family farm will go up by 63%, to ca. 13 ha of UAA, and that of a competitive holding will rise by 69%, i.e. to 50 ha of UAA. Such changes will involve the need to speed up the diversification of economic activities of the farming population. Farm work should be discontinued by a target of almost two-thirds of persons currently engaged in agriculture. In such circumstances, labour inputs will be 2.5 times lower than in 2007 when they reached 14.7 AWU. Should changes in agriculture be assessed on the basis of the current processes, only then agricultural employment would account for ca. 4% of the projected labour force in Poland.

### **Transformation in the socio-economic structure of rural areas**

The increasing mobility of the rural population, stemming from the growing mobility of individuals and improved transport solutions, as well as the ongoing changes in lifestyles all combine to change the functions performed by rural areas, both for the socio-economic development of Poland and for the population. Infrastructure investments co-financed from European Union funds contribute to the improvement in the transport and communication networks, which enhances the accessibility of the urban labour market for rural residents. Furthermore, for years there has been a gradual de-ruralisation of the countryside, the related outflow of workforce from farming activities and the development of

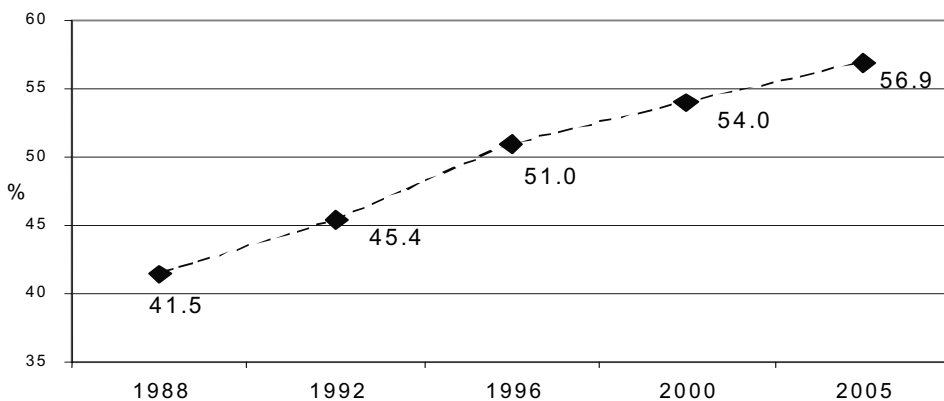


non-agricultural activities in the rural economy. One indicator of the scale of such changes is a steady rise in the share of farming families with non-agricultural activities as the main income source and of non-farming families without agricultural land or with small agricultural parcels.

According to surveys conducted by IERiGŻ-PIB, in the past dozen years or so the proportion of landless families in the total rural population has shown a gradual increase. In 2005, households of landless persons accounted for 57% of the survey sample of more than 8,600 families. Over almost two decades, the share of landless families in the surveyed group of rural households had gone up by 15.4 percentage points. The main indication of this process was the outflow of rural dwellers from farming activities and their taking up work in non-agricultural sectors of the economy or the cessation of production activities upon reaching the retirement age (Figure 1).

In some regions, especially in south-western and northern Poland, this group represents three-fourths of all families. Even in eastern parts of Poland, i.e. where agricultural holdings are characterised by particularly traditional forms of family ties, regardless of the economic status of individuals, landless families constitute nearly half of rural communities (Chmieliński, Otlowska 2007).

Figure 1. Share of non-farming families in the rural population surveyed by IERiGŻ-PIB



In 2005 the survey sample included  $n = 8,604$  rural households (families), 4,899 of which did not have an agricultural holding with at least 1 ha of UAA. Every sample was approx. 8 thousand rural families.

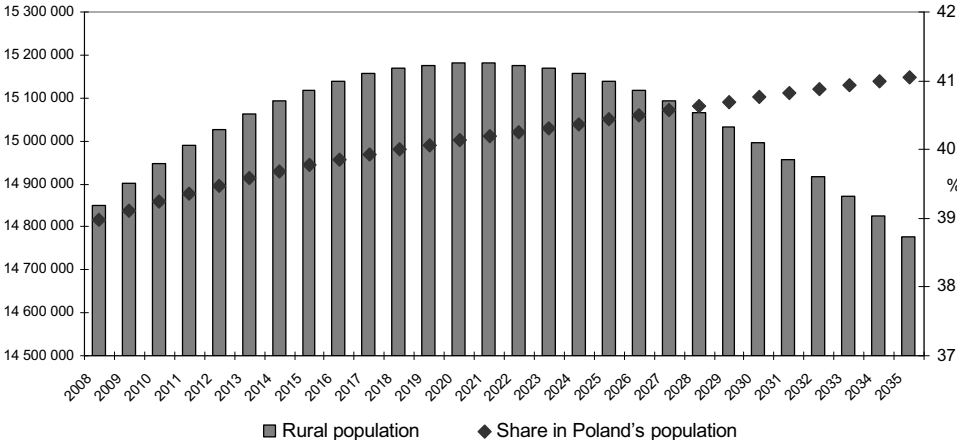
Source: 1988, 1992, 1996, 2000, 2005 surveys carried out by IERiGŻ-PIB.

In consideration of the above, it can be assumed that changes in the socio-economic structure of the rural population will mainly involve a growing number of landless families, the socio-occupational group to play an ever-increasing

role in the development of new functions of rural areas. Such a thesis is corroborated by a forecast of changes in the rural population by 2035 (GUS 2009), i.e. the projection of net inward migration in the countryside, chiefly due to the outflow of city dwellers to rural areas, particularly to those in the vicinity of large agglomerations. Thus, despite a declining rural population, its share in Poland's total population will show a steady increase on account of changes in the functions of the countryside (Figure 1). Such changes will be related to a rise in proportion of non-farming rural dwellers.

Such developments will be largely determined by the gap between the costs of living in urban and rural areas as well as by a gradual improvement in transport infrastructure, extending the area of impact of the urban labour market (GUS 2009). The outflow will not be compensated by the migration from the countryside to cities (e.g. owing to differences in housing prices), which will result in a growing share of the rural population in the total population.

Figure 2. Forecast of the rural population in Poland in 2008–2035



Source: on the basis of GUS (2009)

At the same time, due to an increase in the number of urban jobs and the development of transport infrastructure, the division into urbanised villages and those peripheral to cities, still mainly linked with agricultural activities, will be reinforced. Adjusting the policy for the countryside to different development conditions for peri-urban and typically rural areas will require a further decentralisation of the process of creating and implementing development programmes so that they can take account of local needs and rely on unique resources of a given area.

Apart from local authorities, social organisations and economic operators will play an increasing role in determining the course of action, specific measures and the distribution of funds for their implementation. One may observe the shift from the traditional concept of a hierarchical structure of the local government to the notion of local governance, i.e. one assuming the involvement of many institutions in governance, the fragmentation of the structure of the local administration, a greater importance of horizontal networks of entities cooperating in a given area (social organisations and representatives of the private sector as partners for local governments) as well as regional and international cooperation (Bukve 2008). Local governance relies on individual and collective responsibility for the inhabited area. The development of this type of governance in rural areas will primarily be fostered by an inward migration of educated urban dwellers, attaching particular importance to the conservation of settlement values of the countryside, thus of the cultural heritage and the rural landscape.

Presumably, the principles of local governance, i.e. an enhanced participation of local communities and organisations in the process of local policy-making and implementation, will also spread to rural areas peripheral to cities. In this case, the multifunctionality of agriculture as well as the development of large villages and small towns as centres of local socio-economic advancement will play a major role. Due to the growing significance of non-farming functions of the countryside, expectations with respect to the agricultural sector will also change: apart from the economic function, its landscape and environmental values will gain in importance.

The concept of the decentralisation of regional governance and a bottom-up approach to implementing economic policy in rural areas is represented by the Leader Programme, i.e. the fourth axis of the Rural Development Programme (PROW) 2007–2013 in Poland. Polish LAGs cover 278,235.7 km<sup>2</sup> of Poland's area, accounting for 93.22% of the area eligible for support within the framework of the programme (Ministry of Agriculture and Rural Development 2009). The Leader method departs from a sectoral approach, i.e. separate treatment of problems of agriculture, the environmental protection, the labour market or infrastructure, towards a territorial approach, with a focus on the identification of development opportunities and threats in a small territory. It facilitates a more comprehensive determination of development factors for a given area and their interrelations. The inclusion of social (third sector) and private partners (entrepreneurs), apart from public institutions (local governments), in the local action groups established under the Leader Programme allows to take account of the needs of various social and economic operators in rural areas in the planning

process. Such an approach is based on the creation of a sense of identity and responsibility of residents for their local area.

Whether such a regional development policy is successful or not largely depends on the level of participation of inhabitants in local socio-economic life, which is connected with the need to build social capital. According to Putnam (1995) and Fukuyama (1997), the value of social capital is based on social relations and mutual trust of individuals, who thus can derive more social and economic benefits.

Analyses of international data over time prove that social capital determines the future development of a country. This dependence is not revealed until a certain threshold level of development has been exceeded; in poorer countries economic growth is driven by human capital rather than by social capital (Czapiński, Panek 2009). It explains why Poland's economy has been growing at a considerable rate despite very low social capital. In approx. 10 years, Poland is likely to exceed the level of wealth where further investment in human capital is no longer sufficient to maintain economic growth (Czapiński 2009). This is, more or less, the time left for Poland to build social capital if it wishes to grow at a similar rate, and rural areas and their inhabitants are slowly becoming a particularly important factor of this growth.

The involvement in activities for the local community is a rather long tradition in the countryside. Beside the rising number of social organisations, a significant role in socio-economic rural life is played by rural businesses and own-account workers. According to the survey carried out by IERiGŻ-PIB in 2006, covering 76 villages across Poland (Otłowska et al., 2006), rural enterprises are strongly linked with the area where they operate, and the majority of them are established in response to local needs and oriented towards satisfying local demand. Owners of such companies also tend to be locals. In the case of nearly 80% of entities in the surveyed villages, the business was run by a person residing in the immediate vicinity of the registered office (the village or district, *gmina*, where it was located), and more than three-fourths only operated within their districts. Owing to the owner's sense of local identity and link with the area where the company operated, over 40% of firms in the surveyed villages were involved in social life in their districts (Otłowska 2007). In regions characterised by rich traditions of entrepreneurship and relatively numerous rural enterprises (e.g. in south-eastern Poland), the share of businesses engaged in local life reached as much as 70%. The most frequent form of social activities undertaken by managers of economic operators was financial support for cultural and sports events (fests, competitions), aid for schools (the co-financing of school trips, meals in school canteens) and for local organisations such as Voluntary Fire

Brigades (the co-financing of equipment purchases). Furthermore, owners of companies operating in rural areas made various efforts to support social initiatives (e.g. cleaning-up works in the villages). Considering a much smaller scale of economic activities of rural businesses in comparison with enterprises operating in urbanised areas, thus lower incomes of such entities, their involvement in social life can be regarded as significant. Another example of local activity of rural companies is the inclusion of economic operators in the planning and implementation of local initiatives within the framework of local action groups (under the Leader Programme). Such groups aim to improve the quality of life in rural areas, by measures such as animating local communities, stimulating job creation and selecting projects whose implementation may contribute to the attainment of the objectives of jointly prepared local development strategies. The further development of local action groups offers an opportunity for the integration of local communities and a greater contribution of enterprises to local socio-economic advancement. At the same time, they constitute the germ of a new rural lobby which will increasingly influence the policy for rural areas and agriculture. As a result, the Leader Programme has evolved from a Community initiative in the 1990s to a axis under rural development programmes in Member States since 2007. It can be presumed that the evolution of the agricultural policy towards a sustainable and integrated rural development policy will enhance instruments aimed at the multifunctional development of agriculture, taking account of non-market importance of production, integrated with measures to develop non-agricultural functions of the countryside.

## **Summary**

The necessary structural changes in the agricultural sector towards improving its competitiveness and ensuring satisfactory agricultural income require speeding up the decline in the number of persons employed in family farms and the professionalisation of such farm work. The reduction in agricultural employment will be largely connected with changes in the area structure and the modernisation of agricultural production techniques. According to the development patterns observed so far, the outflow of workforce from farming usually precedes agrarian transformation and forces the dissemination of labour-saving methods of production.

Under conditions of an increasing role of non-agricultural activities of the rural population, the future development of the Polish countryside will be strictly related to the strengthening of its residential function, gaining in impor-

tance together with the development of transport infrastructure (roads, railways) and community amenities, determining the quality of rural life.

As a consequence of changes in agriculture and rural areas, the EU policy will also change, towards full integration of agricultural and rural development policies. The new policy will offer a wide range of instruments, with the choice of specific measures made at grass-root, local level. This perspective will facilitate the adjustment of development strategies to local conditions and regional needs. Such an approach is necessary in order to decentralise governance and planning. The main planning and implementing actors will be local communities, increasingly involved in social and economic life in their territories.

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