

## ECONOMIC BACKWARDNESS OF SERBIAN RURAL AREAS IN TERMS OF GLOBAL CRISIS<sup>1</sup>

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### Abstract

In great part of its rural areas, Serbia has all prerequisites for promotion and successful implementation of the concept of multifunctional agriculture and integrated rural development: richness of diversity in rural areas, significant natural resources, preserved natural environment of rural areas, great potential for development of wide range of non-agricultural activities in the countryside. On the other hand, there are many limitations and weaknesses in the field of rural development: unfavourable production and ownership structure in agriculture, unfavourable business environment for SMEs and entrepreneurs, little support for farmers from agricultural budget, underdeveloped physical and market infrastructure, lack of entrepreneurial spirit, lack of linkage between farmers, high government centralization and limitations of local self-government in implementation of rural development projects.

**Key words:** rural areas, multifunctional agriculture, employment, diversification.

### Introduction

In Serbia there is no official definition of rural areas. The criteria applied by the Statistical Office do not include the standard rural indicators, which can be found in international practice ( population density, population, the share of agricultural population, etc.), because rural areas are considered to be parts of the country which are not urban. In other words, the division between urban and other settlements is based

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on municipal decisions, by which the city status is granted to a settlement that has made the Master Plan. Therefore, urban settlements are those that are proclaimed as urban by the decision of the local self-government, and the rest of settlements is classified as „others“, that is rural settlements. National Rural Development Programme, 2011<sup>3</sup>, provides the modified strategical categorization, until the NUTS regionalisation is fully implemented. According to NRDP, 2011 rural areas are all inhabited territories except cities, which granted that status according to the Law on territorial organization of the Republic of Serbia and have more than 100.000 inhabitants<sup>4</sup>. Since in Belgrade and Niš there are municipalities where agricultural production is expressed, in these two cities was used the OECD definition of rurality which refers to the local level (rural settlements are those with a population density of less than 150 inhabitants/km<sup>2</sup>). According to this classification, the municipalities Barajevo, Sopot and Surčin in Belgrade, as well as the municipality Niška Banja in Niš are subsumed under rural areas.

### **Economic structure of rural areas**

Primary agricultural production is an important factor in the overall national economy, above all because of its share in GDP and total employment. The share of primary agriculture in the creation of Serbian GDP in 2009 is **10,45%** (GDP at constant prices in 2002). Together with manufacture of food products and beverages and manufacture of tobacco products, the agriculture and food sector make **14.7% of GDP in Serbia**<sup>5</sup>. Rural areas in Serbia:

- form 41% of GDP of the country;
- economic structure of these areas mostly depends on the primary sector (especially agriculture) and
- is still based on the depletion of natural resources<sup>6</sup>.

According to NRDP 2011 data, the share of agriculture in GDP in rural areas is around **30%** (which is much more than in other transition countries), and realized GDP in rural areas per capita (for 2005) is **less for a quarter of national average**<sup>7</sup>.

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3 NRDP, 2011, page 11.

4 In Serbia 24 units of local self-government have city status, according to the Law on territorial organisation of the Republic of Serbia (Official Gazette RS No. 129/07). They are: Belgrade, Valjevo, Vranje, Zaječar, Zrenjanin, Jagodina, Kragujevac, Krajevo, Kruševac, Leskovac, Loznica, Niš, Novi Pazar, Novi Sad, Pančevo, Požarevac, Priština, Smederevo, Sombor, Sremska Mitrovica, Subotica, Užice, Čačak, Šabac.

5 SYS, 2010, pages 122-123.

6 Boganov: Small Rural Households in Serbia and Rural Non-Farm Economy, UNDP, 2007, page 31.

7 Table with economic structure scheme of rural areas in Serbia, without K and M, is given in NPRR 2011, on page 12.

### Employment and sources of income of the rural population

Numerous statistical sources and conducted researches on employment of the rural population, indicate that, according to employment in agriculture, Serbia is overwhelmingly agrarian country. At the same time, it is emphasized that low productivity (intensity) in agriculture causes low standard of living for the agricultural population. Income earned in the agricultural sector has little effect on the standard of living of the rural population, while the income from salaries is of crucial importance for the growth of standard, that is consumption (LSMS, 2007, page 142). The following surveys reflect employment:

- According to the LFS data, October 2010<sup>8</sup>, in the structure of all employed persons in Serbia, in the sector of agricultural activities, forestry and fisheries there are 21.9% of employed persons. **The highest percentage (exactly 43.6%) of employed persons in rural areas** is in the Agriculture, Forestry and Fisheries Sector ( Table 1). According to the same source, from the total number of employed persons in Serbia (2,382,307), farmers and assisting members in agriculture (448,998) make **18.9%, that is 32.8% in rural areas**;
- According to the LSMS data, 2007, even **47%** of the rural population is employed in agriculture<sup>9</sup>.

Despite the high share of agriculture in total employment, it is expected that the existing production structure, especially in some parts of Serbia, will be at risk in the future **due to the lack of labour force**<sup>10</sup>. In addition to this the LFS data from 2009 indicate that there is a great percentage of employed rural population (**66.2%**) **that has informal work engagement in agriculture**<sup>11</sup>. This population will take advantage of every opportunity to work outside the agricultural sector<sup>12</sup>.

**The unemployment rate** is lower in rural settlements (16.4%) than in urban (21.4%). Proportionally speaking, (the Republic of Serbia = 100), share of the unemployed persons is higher in urban than in rural areas (62.7% compared to 37.3%)<sup>13</sup>. However, particularly difficult position in the labour market have young people in rural areas: unemployment rate for young people up to 25 years in rural areas is three times higher compared to the average<sup>14</sup>.

8 LFS, October 2010, page 12.

9 LSMS, page 142.

10 NRDP, 2011, page 12.

11 LFS, October 2009, Bulletin No. 517, 2010, page 61.

12 NRDP, 2011, page 12.

13 LFS, October 2010, pages 3, 5.

14 NRDP, 2011, page 12.

**Table 1. Structure of employed persons in rural areas according to activities and settlement type, October 2010.**

Serial number	Activities	Rural settlements, 100%
1.	Agriculture, forestry and fisheries	43.6
2.	Processing industry	15.3
3.	Wholesale and retail trade, motor vehicle repair	10.7
4.	Construction	4.7
5.	Transport nad storage	4.2

Source: Labour Force Survey, October 2010, SORS, page 12

### **Diversification of rural population activities: possibility to strengthen rural non-farm economy**

The structure of employment and income of the rural population shows that in Serbia **income diversification is forced by circumstances**, reflecting the unfavorable economic environment and rural poverty<sup>15</sup>. Low productivity in agriculture and inability to earn enough from agriculture, are particularly expressed in small rural households (households whose area of utilised agricultural land does not exceed 3 ha), so that the high percentage of these households (nearly 50% according to researches of Bogadanov, 2007), see their perspective outside agriculture and in „off farm“ activities<sup>16</sup>. However, among these, small households, there is a problem of inability to diversify activities, having in mind extremely low offer of jobs in rural areas, as well as the fact that these households do not have their own accumulation, which could invest to start some entrepreneurial activities.

Survey of UNDP (2010) shows that the differences in living standards of the rural population are oriented by the possibility to employ outside household. Therefore, according to this source, in the rural population<sup>17</sup>:

- Minimum share of the poor among employed persons in non-agricultural activities is (24%).
- Half of the people employed in agriculture live in financially poor households.

Research of UNPD, 2010, also indicate that the highest degree of diversification of agricultural income have households located in West Serbia (which have even more

15 Boganov: Small Rural Households in Serbia and Rural Non-Farm Economy, UNDP, 2007, page 32.

16 Ibidem, page 33.

17 Social Exclusion In Rural Areas In Serbia, UNDP 2010. page 14

mixed households than in other areas), and the least income diversification from agriculture have households in Vojvodina<sup>18</sup>.

### Limitations for rural economic development

Rural economic development (improving the competitiveness of the agricultural sector and diversification of the rural economy) is limited by numerous factors, of which the following are emphasized:

- ***Non-stimulative/undeveloped economic environment for SMEs establishing and strengthening of entrepreneurship***<sup>19</sup>: non-application of enacted and often non-conforming laws; high tax burden (especially taxes and contributions on gross wages); obligations to pay VAT when invoicing the products/services (for unpaid receivables); inefficient enforcement of court decisions/Enforcing contracts; long periods of receivables leading to insolvency of business entities; insufficient protection of property rights; underdeveloped market of agricultural products.
- ***Unsuccessful privatization of enterprises which leads to breaking the vertical connections*** and failure to establish ownership links between primary producers-processors;
- ***Underdeveloped financial market***: high price of capital, lack of venture capital and foreign investments, underdeveloped misco-credit financial institutions with programmes designed for farmer needs;
- ***Insufficient budget support for strengthening the competitiveness of the agricultural sector and rural development***. Support for agriculture in Serbia is very unstable in terms of scope and manner of distribution. For this reason large number of households are exposed to a high degree of business risk, and poor households do not manage to overcome their development limitations<sup>20</sup>.
- ***Underdeveloped legal basis for establishing public-private partnerships***;
- ***Underdeveloped physical infrastructure***, especially infrastructure of electronic communications;
- ***Lack of trained human resources, low capacity of innovations and low level of private entrepreneurship***.

From all the above mentioned limitations, farmers emphasize **underdeveloped market of agricultural products** as a non-stimulating factor, which contributes to high-risk investments and prevents production planning.

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18 Ibidem, page 67-68.

19 Conditions and Burdens on doing Business and Collective Bargaining, Sector of Agriculture, Serbian Association of Employers, Austrian Development Agency, 2010

20 Volk, T., Bogdanov, N., Rednak, M., Erjavec, E. (2009): Analysis of direct budget support to agricultural and rural development of Serbia, PRSP, Belgrade.

## Conclusion

Rural areas in Serbia have generally unfavorable performances, both the standpoint of demographic characteristics, economy, infrastructure development and social capital. Rural development and strengthening of LAGs require, above all, clear defining or adoption of numerous laws that cover the fields of agriculture, entrepreneurship, trade, funding, decentralization etc. Above all, the assumption of rural development is the application of existing and future laws. Within the creation of positive environment for rural development the role of state is crucial in terms of: (1) regulation of agri-food market (strengthening and protection of competition in the domestic market); (2) financial market development, (3) high support from the budget to agriculture and rural development; (4) implementation of decentralization; (5) strengthening partnerships of local communities with associated farmers, that is with their associations and cooperatives.

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