

POVERTY AND SOCIAL EXCLUSION IN RURAL SERBIA – position of family farms¹

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Abstract. This paper considers the social inclusion of rural areas in Serbia, with particular attention to financial poverty of farm households. Our focus is on the size and the causes of poverty. The research was conducted through a questionnaire survey on a stratified sample of rural households. The strata were defined as to reflect the heterogeneous geographical and socio-economic characteristics of the rural areas of Serbia. Financial poverty was measured in accordance with the EU methodology, i.e. on the basis of income rather than consumption - poverty line was defined as 60% median of total cash income of households by equivalent consumption unit on the national level. The results are presented according to type of households and rural regions.

Key words: Rural Poverty, Social exclusion, Serbia, Farm Households

Poverty and social exclusion as a rural phenomena

The dynamics and spatial universality of the problem of poverty manifested by the fact that it has been present in all societies (including those most developed) and at each stage of historical development, makes universal definition of the phenomenon of poverty very difficult. Basically, there are at least three core concepts defining poverty - 'social exclusion', 'relative poverty' and 'absolute poverty', and the categories and indicators that are linked to them.

¹ This paper was prepared within the projects No. 179035 and No. 179028, funded by the Ministry of Education and Science Republic of Serbia

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B. S. Rowntree (1901) for the first applied the concept of **absolute poverty**. He considered as poor those families that were not able to purchase the minimum quantities of basic products for the maintenance of physical efficiency (survival and working ability) with their own income. This approach was followed by many authors (Stropanik, N.1994:25). The lack of this approach is that the basic requirements are defined for the whole population, i.e. not taking into account the different consumption patterns in the same society (state).

The measurement of absolute poverty is based on a standard set of indicators which is consistent over time and between countries, and reflects position when people lack the basic necessities for survival, like the percentage of the population eating less food than is required to sustain the human body (approximately 2000-2500 calories per day), lacking clean water, proper housing, sufficient medicines etc. The World Bank defines poverty in absolute terms as extreme poverty (as living on less than US\$1.25 per day PPP), and moderate poverty (as less than \$2 a day).

The relative definition of poverty is based on the concept of poverty as a state of a relative deprivation. It's about poverty as a consequence of the distribution of income within society, or poverty because inequality. These definitions take into account the general level of community well being (standard of living). The poor are those who possess less in comparison with other community members. In this sense, poverty is dynamic, not static phenomena. The meaning of poverty varies from country to country, depending on the standard of living enjoyed by the majority. The concept of relative poverty is being used in the OECD and the European Union, and it is based on economic distance, where a level of income usually set at 60% of the median household income⁴. Below this amount, a household is described as living in **income poverty** (Marlier et al, 2007).

Social exclusion is a heuristic concept that is based on a dynamic, multidimensional relation between inequality and poverty. As such, the concept is attractive to policymakers and scientists. Although long known in the scientific literature, the concept of social exclusion/inclusion is given greater attention only after entering into political practice and jargon. The concept of social exclusion comes into sight from the 1970s, in a time of rapid social and economic transformation at national and global levels. Households and entire society have been exposed to extreme social and economic pressure, working environment has

⁴ In United States, in contrast, an absolute poverty measure is usually used. The US poverty line was created in 1963-64 and was based on the dollar costs of the U.S. Department of Agriculture's "economy food plan" multiplied by three. The multiplier was based on research showing that food costs at the moment accounted for about one third of the total money income. This one-time calculation has since been annually updated for inflation.

worsen, poverty increased and income inequalities expanded. In this context social exclusion was seen to provide greater explanatory power than the concept of poverty. Rene Lenoir⁵ was the first to popularize the term of social exclusion in 1974, by using it to refer to individuals and groups of people who were administratively excluded from state social protection systems (e.g. the physically disabled, single parents, and the uninsured unemployed) (Babović, M. ed., 2010). Over the last few decades several definitions of this concept have been articulated (Mathieson, J. et al 2008).). However, the term social exclusion is used to stress the processes which push people to the periphery of society, which limit their access to resources and opportunities, limit their participation in social and cultural life leaving them feeling marginalised, helpless and discriminated (Council of EU, 2004:8).

The issue of poverty and social exclusion becomes even more complex when considering rural areas. The complexity of investigation and interpretation of poverty and social exclusion in rural areas stems from the lack of standard definitions of rurality, types of households, measurements of income sources of rural households and its structure, etc. Nevertheless, the poverty is, on average, higher in rural areas as compared to urban areas.

The causes of rural poverty are complex and multidimensional. Rural poverty is a consequence of lack of assets, limited economic opportunities, poor education, skills and capabilities, as well as disadvantages rooted in social and political inequalities. Common characteristics of rural areas are low income levels, lack of employment opportunities, low levels of education and low quality of infrastructure. Likewise, the rural poor are quite diverse both in the problems they face and the possible solutions to these problems. Poverty alleviation is associated with household strategy that is highly linked with its characteristics such as human capital, ownership of physical assets, but it is also dependent on good health, gender, ethnic or religious groups. Away from household-level factors, there are external factors such as: economic growth, local availability of opportunities, market access, infrastructure, social infrastructure and institutions that are all important. Certain groups – particularly rural women, youth, indigenous peoples and ethnic minorities – are often disproportionately held back by disadvantages rooted in inequalities (Ersado, L. 2006, Bogdanov, N. 2007, EC 2008).

Finally, a certain generalizations of understanding of poverty can be made in two intertwined concepts: the poverty of rural areas and the poverty in rural areas (EC, 2008). The poverty of rural areas refers to the existence of shortcoming of rural regions, which result in a high risk of poverty in those areas, such as

⁵ The former French Secretary of State for Social Action

remoteness of rural areas, labour market opportunities, poor infrastructure etc. The poverty in rural areas concerns the poverty of people living in rural areas.

Rural poverty in Serbia

The rural poverty, rural labor market and diversification of rural economy are relatively new terms in the Serbian scientific literature dealing with rural issue. So far these topics have been partially explored. There have been usually analyzed agricultural employment and farm incomes, the possibilities of diversification of farm activities towards rural tourism, organic agriculture etc., but not in perspective of poverty.

On the other hand, poverty of small farmers and deprivation of rural areas seems to be a long lasting phenomenon and stable structural component of Serbian economy and society. It was rooted in the very fundamentals of modern Serbian state and has been representing persistent obstacle for development ever since (Čalić, 2004). After the WWII poverty has ceased to be a political issue, it has become forgotten. Optimism about the elimination of poverty was based on fact that poverty lines were determined by norms relating to diet (Sen, A. 1983: 154), but also due to comparisons with the 1930s and war years. It seemed enough to solve the problem of starvation in order to solve the problem of poverty⁶. Communist countries, including the former Yugoslavia, were not paying attention to the problem of poverty, especially the rural one. This particular relationship to rural poverty comes due to political reasons. In reality, rural poverty was deep and extensive. It had not only financial dimension: there was a great shortage of food in rural areas due to obligations to deliver certain amount of goods to the state buyers (Pejovic, S. 1966, Šljukić, S. 2011).

Several studies, although conceived differently and at different sample, give indications on the state of rural poverty in Serbia in recent decades.

Already in 1979 the World Bank described poverty in Yugoslavia as 'basically rural'. Milanovic, B. (1990) examined the effects of the crisis (1978-87) on poverty in Poland, Hungary and Yugoslavia. Comparing the figures on dynamics of rural and urban poor, he has found that urban poverty has increased much more compared to rural, but not because of a rapid migration to cities. He stressed that the reason for such trend was gradual impoverishment of the already existing urban labor.

⁶ Generally speaking, during the 1950s, unemployment was relatively low, expenditure on social needs of the population have been growing continuously and economic growth recorded the world over (Mack and Lansley, 1985:3)

Table 1 The Composition of the Poor

		Rural poor		Urban poor		Total	
		In 000	%	In 000	%	In 000	%
Yugoslavia,	1978	2592	(75.6)	837	(24.4)	3429	(100)
Yugoslavia,	1987	2707	(52.9)	2411	(47.1)	5118	(100)

Note: Data In brackets give the percentage breakdown of the total number of the poor. Rural poor are farmers' and mixed households. Urban poor are workers and pensioners and non-agricultural households for Yugoslavia.

Source: authors' elaboration based on Milanovic, B. (1990)

The Living Standard Measurement Survey (LSMS) conducted in Serbia in 2002 showed that the rural population was significantly poorer than urban, since the poverty index of the rural population was almost twice as high as the poverty index of the urban population (14.2% and 7.8%, respectively). Based on that survey the factors and consequences of poverty on family farms have been analyzed, but not for the rural households as a whole. Rural settlements were defined according to the official definition of National Statistical Office, and poverty thresholds were based on the households' consumption (World Bank methodology, absolute poverty). Household consumption is defined as the sum of expenditures for food and other current expenditures including goods purchased, own produce and gifts.

Table 2 Poverty indicators by settlement types, 2006–2009

	2006	2007	2008	2009	Index 2009/2008
Absolute poverty line (SRI)					
% poor in the RS	8.8	8.3	6.1	6.9	113.1
% poor by type of settlement					
urban area	9.5	10.1	5.0	4.9	98.0
other area	20.6	17.6	7.5	9.6	128.0
Relative poverty line					
% poor in the RS	14.4	13.4	13.2	13.6	103.0
% poor by type of settlement					
urban area	9.5	10.1	10.9	9.1	83.5
other area	20.6	17.6	16.1	19.5	121.1

Source: SIPRU 2010

Living Standard Measurement Survey – Serbia 2002-2007 confirmed the high rates of rural poverty in Serbia. This study emphasized that unfavorable ownership structures, underdeveloped land and labour market and modest human resources were the main causes of poverty of agricultural households. Rural areas were not under strict focus, but on the basis of available data it could be concluded that the diversification of income and activities of rural households were crucial for their clustering around the poverty line.

The first report on social exclusion of Republic of Serbia (SIPRU 2010) has not brought much new information on rural poverty (Table 2), but gave an overview of the current state of efforts to reduce poverty in rural areas and the proposed framework for future political action.

Research Data and Methodology

In this paper the results were used from the research on financial poverty of farm households, which was conducted within the study Social exclusion in rural areas of Serbia (Cvejić et al, 2010).

The methodological limitations that we had met in designing this study were very similar to those that other authors state (Haase, T. and Walsh, K. 2007, Shucksmith, M. and Chapman, P. 1998:233, EC 2008). These problems include: lack of accurate and internationally standardized definition of rural areas, problems in defining typologies of farms, measuring farm income measurement and the like. The differences between the of official Serbian definition of rural areas and OECD approach, as well as typologies of farms in the official Serbian statistics, are explained in Bogdanov, N. 2007 and LSMS, 2008.

In order to overcome such limitations and thereof ensure the reliability and validity of the results, survey was conducted on a multistage stratified sample, size 1,620 rural households. The sample was made in accordance with OECD standards for the definition of rural areas. It excluded the municipalities with population density over 150 inhabitants per km², with a share of population living in urban centre more than 50%, and having on its territory administrative center of over 20,000 inhabitants. Besides, in order to respect the heterogeneity of rural Serbia, municipalities were divided into four strata: Vojvodina, the central strata (the planes of Morava, Šumadija, Mačva and Stig), Western and South-Eastern strata (the both including hilly and mountainous terrain). In defining the strata it was taken into account that they should be sufficiently representative to reflect the heterogeneous geographical and socio-economic characteristics of rural Serbia (Bogdanov, N., Petrovic, M. 2010).

This poverty analysis is based on examination of total cash income of the household in the last year from different sources (from employment, sale of different agricultural products, giving out leases, interests and dividends, social transfers, etc.)⁷ *Financial poverty threshold* was defined as 60% median of total cash income of households by equivalent consumption unit on the national level⁸.

This definition of financial poverty threshold is, as other definitions, determined by certain methodological specificities.

- Firstly, considering that the survey used to collect data on poverty and social exclusion in rural Serbia covered a large number of topics and exclusion indicators, there was no room for detailed study of household income and expenditures. For this reason, the precise measurement of in-kind income (agricultural production for own needs, exchange of services, etc) is lacking. This income, however, was not evaluated aggregately either, because the aim was to present the income capacity of rural households in the context of their inclusion in the market economy, that is, the analysis of agriculture as a developmental and economically sustainable industry rather than a framework for survival economy. Naturally, as a result, financial poverty of rural households has increased further in relation to urban households.
- Secondly, total annual income was reduced by the amount of investment in agricultural production, in order to clearly define the effect of cash income from agricultural production. In this way another goal was reached, which was grasping the effects of the world economic crisis that also affected family farm businesses. This effect was bigger in cases of higher investment, which highlighted the situational dimension of financial poverty, especially for large agricultural farms.

The study also aimed to collect comprehensive information on family farms resources (including income and assets) and indicative information on social inclusion looking on their access to market and governmental support to agriculture.

⁷ This approach is very close to the methodology proposed by the European Commission Income, Poverty and Social Inclusion Working Group to calculate one of the common indicators of social inclusion in the EU – poverty rate after social transfers ('Laeken' indicators, 2003; GoS: Monitoring social inclusion in Serbia, 2009).

⁸ Income per consumption unit equals household income divided by modified OECD scale giving ponder of 1 to the first adult, 0.5 to other adults of 14 years and over and ponder 0.3 to every child under 14 years of age.

Results and discussion

More than one third (38.7%) of family farms in rural areas have income below the poverty line. Financial poverty in rural Serbia is most widespread among the agricultural holdings, of which more than half (53% holding) is concentrated below the poverty line (Table 3). This means that households that are completely dependent on agricultural income and have no other revenue have a less favorable economic position compared to other types of rural households. The analysis by the size of farms show that the poverty rate was highest among the largest holdings, in Vojvodina, the most developed agricultural region of Serbia.

Table 3 Distribution of family farms by type and size in relation to the poverty line

	Serbia	Vojvodina	Central Serbia	Western Serbia	South-Eastern Serbia
% family farms in the total number of rural households	82.08	64.83	87.20	89.94	88.66
% family farms below the defined poverty line – total	38.70	39.36	38.73	33.22	42.90
Non-agricultural	33.67	33.83	23.27	29.07	42.92
Mixed (pluriactive)	30.54	38.89	37.90	18.10	29.41
Agricultural	53.44	47.37	61.61	51.92	51.22
Small farms (< 1 ha)	40.00	38.55	31.88	32.20	52.81
Middle farms (1.01–5.00 ha)	34.62	29.59	37.97	28.38	39.39
Big farms (> 5 ha)	43.76	49.50	43.17	42.05	40.21

Source: Cvejić, S. et al 2010

Better **physical capital** of large farms was not crucial for their economic position, but human capital significantly influenced the distribution of households over the poverty line. The results suggest that poverty dominated among single person households (51.5% below the national poverty line), as well as households whose members are of older age and thus less educated. Households without young and educated members do not have the opportunity to generate additional income. The character of their agricultural production is labor extensive and as a result

these farms generate lower income (as illustrated by the example of South-East stratum in which the demographic parameters are the least favorable).

With regard to **market access**, there are large regional differences and differences related to size of farms. The results indicate that the semi-subsistence farms prevail, since more than 60% of family farms do not have market surplus. Producers with big market surpluses have better organized market chain, their production is contracted and they are doing business with permanent business partners. However, market volatility during 2009 (fall in prices of agricultural products, delayed payments to farms for delivered product etc.) made big producers achieving losses, despite of their better market access. This may explain the high rates of poverty in Vojvodina, where the most of the market production is concentrated. Producers in the Western Serbia, small farms and mixed farms, were in better position because they were directly selling their products. Direct sales, low production cost and shorter time of cash-flow have provided a more favorable position to small farms in comparison with the large market producers.

Only 24% of family farms were active in the **financial markets** in recent years and used bank loans or other financial means (development funds, donor funding, etc.). The most active in the financial markets were farms in Vojvodina (34% of financial transactions took place in this region) and in the central stratum. Small farms have rarely borrowed (especially for agriculture), are not familiar with banking requirements and unable to provide collateral. Greater activity in the financial market was not registered among households whose heads were younger members, although there has been state support existing for such purposes.

Among the surveyed households, 58% were registered households i.e. potential users of **government incentives**. The most frequently used measure of support was input subsidies (fuel, fertilizer and chemicals). However, this measure of support was used by less than 40% of holdings. Other forms of support (excluding the premium for milk) were used by less than 30% of farms, mostly large.

Conclusions

The paper has highlighted the problem of poverty and social exclusion in rural Serbia, with particular emphasis on poverty among family farms. The latest studies on the extent and causes of financial poverty in rural Serbia (although conducted on different samples, typologies of rural areas and households) indicate that poverty being concentrated in the traditionally poor Southeast region, but due to remarkable effects of economic crisis has spread to other rural regions as well. Poverty affects not just socially vulnerable rural groups (uneducated people, small

farms holders, elderly households etc), but also bigger farms in most advanced rural region of Vojvodina.

The highest poverty rates were recorded among:

- The farm households in all three strata of Central Serbia - here poor households prevailing (account for over 50% of the total number of farms of each region). The main reason for such high rates of poverty in this region is low extensive agriculture production and low marketability of agricultural production.
- All types of farm holdings in mountainous areas (South-eastern strata). These phenomena can be explained primarily as a result of negative demographic trends and the resulting low level of human potential.
- The largest holdings in Vojvodina (almost 50% of total number) - as a result of unfavourable economic position of agriculture in the year when the survey was conducted. High investments in production and indebtedness with banks, led to large operating losses of these holdings after the fall of food prices that followed the economic crisis in early 2009.

The lowest poverty rates were recorded in pluriactive farms (pensions, wages from other sectors and remittances from abroad) and those with diversified farm income. An example of these farms indicates that diversification of income effectively contributes to reducing income risk and risk of poverty in times of crisis and other shocks.

Proximity from the line of poverty is most dependent on off farm employment opportunities and social payments on different bases (domestic pensions and pensions from abroad). This means that the performances of human capital and labor force, and their competitiveness in the labor market, have the greatest impact on the economic status of family farms.

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Примљено: 20.11.2011.

Одобрено: 12.12.2011.

УДК: 316.334.55(497.11)

СИРОМАШТВО И СОЦИЈАЛНА ИСКЉУЧЕНОСТ У РУРАЛНОЈ СРБИЈИ - положај породичних газдинстава

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Резиме

У овом раду разматра се социјална укљученост у руралним подручјима Србије, са посебним освртом на финансијско сиромаштво пољопривредних домаћинстава. Наш фокус је на обиму и узроцима сиромаштва. Истраживање је спроведено путем анкете на стратификованом узорку руралних домаћинстава. Стратуми су дефинисани тако да одражавају хетерогене географске и социо-економске карактеристике руралних подручја Србије. Финансијско сиромаштво је мерено у складу са методологијом ЕУ, односно на основу прихода, а не потрошње. Линија сиромаштва је дефинисана као 60% медијане укупног готовинског прихода домаћинстава по потрошачкој јединици на националном нивоу. Резултати су представљени у зависности од типа домаћинстава и према руралним подручјима.

Кључне речи: Рурално сиромаштво, Социјална искљученост, Србија, Породична газдинства

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