

# FUTURE CHALLENGES AND STRATEGIES FOR SMALLHOLDERS IN SERBIA

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## ABSTRACT

During the transition process, reforms of the agricultural sector also lead to changes in the ownership structure, resulting in social tensions, unequal development and affecting the quality of life in rural areas. Rural areas have historically been marginalized and faced with the problems of long-term sustainability and providing new jobs. However, the diversification of the rural economy will have a significant impact on the rural population in the future, smallholders particularly, and will enable them to place their products and services on the market.

Administratively, the Republic of Serbia is divided into 24 districts plus the city of Belgrade, and Kosovo and Metohia. Each district is made up of several municipalities. Rural areas in Serbia cover 85 % of the territory and they have approximately 1,365 million households. This is about 54 % of the total number of households in Serbia. Around 328,000 of households have up to 3 ha in their possession.

**Key words:** smallholders, rural areas

## INTRODUCTION

One of the main challenges for agriculture in the Republic of Serbia is connected with the social and economic value of rural areas. These challenges begin at the level of small farms and continue through rural communities and regions. How to ensure long-term sustainability of rural areas and provide equal conditions for their development and thereby improve the living conditions and quality of life, is one of the main problems. In order to achieve this, it is necessary to clearly define the objectives, institutional and financial support, as well as the general approach to rural development. Economic changes in Serbia have a major impact on agriculture and rural areas, with the public attention mainly devoted to

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organizational and structural changes in agriculture. However, negative demographic trends need to be stopped first, facilitating protection of the environment and cultural heritage.

A substantial number of smallholders in the Republic of Serbia will never evolve into commercial farms, due to their limited production capacities, lack of capital, etc., but they will play an important role in nature conservation, protection of biodiversity and nurturing of cultural heritage. The new concept of multi-functionality of agriculture will allow them to commercialize their products and services, such as the development of rural tourism.

## **CHARACTERISTICS OF RURAL AREAS IN SERBIA**

Administratively, the Republic of Serbia is divided into 24 districts plus the city of Belgrade, and Kosovo and Metohia. Each district is made up of several municipalities. The main disadvantages of this regionalization are connected with large differences in the size of districts/municipalities, in the demographic structure and economic development. Rural areas are characterized by differences in natural, infrastructural and other conditions for agricultural production, marketing and sale of their agricultural products, as well as the size of the villages. These differences are reflected in the social aspect, demographic and cultural characteristics and they have impact on the quality of life.

Rural areas in Serbia cover 85 % of the territory and have approximately 1,365 million households. This is about 54 % of the total number of households in Serbia. Around 328,000 of households have in their possession up to 3 ha. Population density is 63 inhabitants per km<sup>2</sup>. About 45 % of the active population in rural areas is engaged in agriculture, and Serbia is predominantly agricultural land.

Small farm holdings generally use their land for food security as subsistence farms, while some recognize its potential as a resource for added value. Revenues of these producers are generally based on the income gained outside agriculture, the income coming from the sale of agricultural products and the income from pensions.

**Table 1. Main characteristics of rural areas in Serbia**

<b>Geographical characteristics</b>	<b>Serbia</b>	<b>Rural areas</b>
Area, km <sup>2</sup> , 2004	77508	65952
Number of settlements, 2004	4715	3904

<b>Population</b>		
Population (Census 2002)	7498001	4161660
Density	97	63.10
<b>Age structure (%)</b>		
Under 15 years of age	15.69	16.17
Over 65 years of age	16.54	17.49
<b>Educational structure (%)</b>		
Incomplete education	21.84	28.19
Primary education	23.88	26.69
Secondary education	41.07	36.09
Higher or high education	11.03	6.95
Unknown	2.18	2.07

Low productivity, small farm area, lack of equipment and machinery, insufficient state support, inadequate and insufficient infrastructure, limited economic activities, lack of investments, low level of education and initiatives, lack of marketing and limited membership in cooperatives or associations, inadequate planning by local policymakers are the main characteristics of rural areas in Serbia.

### **CHARACTERISTICS OF SMALL RURAL HOUSEHOLDS**

A majority of small rural households use up to 2 ha of agricultural land (48.8 % of the total area), accounting for approx. 8 % of agricultural land in the Republic of Serbia.

Small rural households are categorized as:

1. Poor farms, which can be of two types: a) the elderly, often single-person households, and b) farms in the possession of a person who used to be employed outside agriculture, respectively, long-term unemployed;
2. "Returnees" from the cities - mostly older, retired people, although (occasionally) also young families who prefer the rural lifestyle;
3. inhabitants of rural areas with a regular income from the non-agricultural sector, entrepreneurs or employees in public services or the economy in their place of residence.

Thus the variegated socio-economic profile of small rural households indicates that their survival strategies and attitude towards agriculture and the rural environment must be different. The prospects for these farms vary, ranging from the phasing out of farms owned by elderly farmers, through a series of transitional arrangements to adapt to cyclical market trends, to involvement in the market by offering innovative products and services.

Poverty in Serbia is predominantly a rural phenomenon, given that rural communities in some periods were affected more than twice as much in comparison to the cities. Before the beginning of the economic crisis (2006-2008) there was a significantly faster decline of life quality in rural, rather than in urban areas. Rural areas are more responsive to the economic crisis and were strongly affected by it, with the overall growth of poverty in the Republic of Serbia generating an increase in poverty in rural areas. The growth gap in poverty between towns and villages during the crisis passed from year to year, and in 2010 reached a record rate of 2.4. An increase in poverty in the countryside in 2009 caused a sharp decline in food prices, in 2010 resulting in the economic crisis and its impact on the rural labor market. Bearing in mind that the economic crisis is strongly reflected in employment in the informal sector, which is greatly present in the rural economy, it is expected that the trend towards increasing poverty in the countryside in the future is going to be extended.

### **Demographic structure of small rural households**

Decision-makers in small rural households are primarily between 40 and 54 years old and older than 55 years. Only 25 % of young people participate in the decision-making process. This relationship is based on education, because the people who have a secondary education do not see their future in agricultural holdings, the other reason being patriarchal relations in the family. The share of women in decision-making is 13 %, mainly in households where there is no male head of the family and where the male population is regularly employed outside the holdings.

About 70 % of the members of small rural households are people between 15 and 65 years of age, and in terms of gender 52 % are men and 48 % are women.

According to the household's types, the educational structure of the members significantly differs:

- Mixed households have a more favorable educational structure when compared to other types of households.

- Non-agricultural households have younger members, but the educational structure is less favorable compared to other households.

- the highly educated population is poorly represented in the total number of small rural household members.

**Table 2. Demographic parameters of small rural household members**

Age structure (%)	Household type		
	Agricultural*	Mixed**	Non-agricultural***
up to 14 years	17	16	23
15-24	14	16	17
25-49	37	36	40
50-64	19	19	14
65+	13	13	7
Educational structure (%)			
No education	9	6	10
Primary school	45	39	38
Secondary school	43	50	48
Higher education	3	5	4

\***Agricultural holdings** are those where all income is derived from the incomes of individual agricultural workers in the holding.

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

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

### **Employment and diversification of activities in rural areas**

The percentage of employed household members, who receive income for their work, is 23.4 %. The percentage of women employed outside the household is two times lower when compared to men. The most frequent occupations of the employed rural population include workers, manual or construction workers, field hands, drivers, jobs related to technical trades, salespersons, or employees in hotel and catering industries. A small percentage is employed as civil servants or in the activities of the tertiary sector. Out of the total number of employed, only 14 % have an additional job.

## **The physical capital of small rural households**

The physical capital is mainly reflected in the ownership of the land, livestock, machinery and facilities provided by the households. In 87 % of the cases, the land is used for agricultural purposes. The most numerous represented livestock production is poultry at 84 %, pigs at 72 % and cattle at 50 % farms, respectively.

Major revenues come from sales of agricultural products, the provision of service machines, renting land, employment outside the agricultural sector, small businesses and crafts, board rental, and revenues from abroad.

**Table 3. Households with income from sale of agricultural produce (%)**

<b>Livestock</b>	36.8
<b>Milk</b>	32.3
<b>Crops - wheat</b>	30.7
<b>Vegetables</b>	18.8
<b>Dairy products</b>	18.3
<b>Fruit</b>	16.8
<b>Wine and brandy production</b>	4.5
<b>Meat products</b>	2.7
<b>Fresh grapes</b>	1.7
<b>Needlepoint</b>	1.2
<b>Other</b>	4.4
<b>Not specified</b>	4.7

## **RURAL DEVELOPMENT POLICY IN SERBIA**

**The Strategy for Agriculture and Rural Development of the Republic of Serbia for the period 2014 - 2024** (i.e. Strategy) is a fundamental and long-term strategic document defining objectives, priorities and frameworks for political and institutional reforms in the field of agriculture and rural development. In addition, this document defines a framework of budgetary support.

The Strategy defines: 1. further development of agriculture and food industry, based on the concept of sustainable development, which promotes environmental protection and sustainable management of natural resources; 2. the model of support that would lead to accelerating the development of the agri-food sector; 3. the direction of future reforms of the agricultural policy and institutional framework.

The Strategy especially defines small farms, which are an essential part of the rural economy, stressing the fact that their numbers are decreasing due to the aging of the village population, migration, globalization, strengthening the concentration of capital in agriculture and many other factors. Subsistence food production and food stability, the importance of resource conservation and rural environment, participation in the local market of goods and services all imply that small family farms are entities that require adequate, individualized treatment by the agricultural policy.

**National Rural Development Programme 2011 - 2013** - In rural areas of Serbia, the generated per capita GDP is by  $\frac{1}{4}$  lower than the national average. The share of agriculture in GDP in rural areas is around 30 %. There are numerous resources for agricultural production, but the intensity and productivity of agriculture are much below the European average and are the reason for the substandard living conditions of farmers. The share of agriculture in total employment in Serbia is extremely high at over 20 %. This indicator tends to decrease.

However, despite the nominally high share of agriculture in total employment, it is expected that the existing production structures, particularly in some parts of Serbia, are going to be compromised due to the lack of manpower in the future. Labor shortage is not accompanied by mechanization of work processes and technical and technological progress. Participation of women in the labor force is extremely low at 26.1%.

In addition to agriculture, the rural workforce is more engaged in the manufacturing industry (16.3 %), wholesale and retail trade (9.5 %), and construction industry (6 %). Insufficient development of public services and the service sector in rural areas are the reasons for the small number of jobs in these industries, and their low representation in the total employment.

The unemployment rate in rural areas is high (21 %). A particularly disadvantageous situation in the labor market in rural areas affects the young population, as the unemployment rate for young individuals aged up to 25 is three times higher compared to the national average.

The National Rural Development Program 2011 - 2013 defines the vision for rural Serbia, which includes the development of rural economy and society, in which:

- there are strong and sustainable rural communities, with the demographic balance, a satisfactory income and additional employment opportunities,
- a maximum number of residents lives in the villages,
- there are equal opportunities for all people living in rural areas,
- special attention is paid to vulnerable groups of the population,
- rural communities actively participate in the relevant decision-making bodies in accordance with the principles of equality,
- cultural identity of rural communities as well as their principles, customs, traditions and "communion" are preserved and reinforced (villages with cultural identity),
- the environment, which holds the most important value and wealth for the rural population, is going to be respected and protected to the maximum possible extent,
- growth of the rural economy is based on the principles of sustainability (sustainable villages),
- strong social connections and specific policy measures contribute to reducing poverty and social exclusion of all social groups (social component of the village).

Similar principles are defined by the new draft of the National Rural Development Programme 2015 - 2020, which is in the process of adoption.

**The Regional Development Strategy of the Republic of Serbia for the period from 2007 to 2012** has indicated specific problems of rural areas and their development and identifies the most critical areas within each region. This strategy points to the problems that slow down the development of rural areas, such as their demographic and economic structure, economic development and infrastructure, etc. The proposed mechanisms for the implementation of the Strategy are in all cases positive for rural development.

**The Poverty Reduction Strategy** was adopted in 2003 and it indicates the seriousness of rural poverty in comparison with urban poverty. One of the reasons is that there is no secure income for the rural population in the transition period. According to this strategy the reason for the underdevelopment of rural areas lies in the outflow of rural population, division of communities in undeveloped areas and an unfavorable representation of educated workforce in the labor market.

The strategy highlights various targets to reduce poverty in rural areas. These targets are mainly related to the stimulation of the economic sector or the stimulation of employment and improvement of the living standards in rural areas. Agricultural production and rural infrastructure should be improved to ensure the realization of these goals.

**The National Strategy for increasing employment for the period 2011 - 2020** defines the establishment of the labor market to ensure the development of the country and it is fully compatible with the Poverty Reduction Strategy by emphasizing the importance of rural areas for Serbia.

**The Tourism Development Strategy of the Republic of Serbia** emphasizes the role of rural tourism as an important economic sector that will facilitate sustainable development of rural communities. The main objective of rural tourism is to provide additional income for the rural population through services, various attractive events, accommodation, etc.

## **FINANCING OF RURAL DEVELOPMENT IN SERBIA**

**Agricultural budget** - Since 2004, agricultural policies in the Republic of Serbia have been implemented in order to strengthen the budget for agriculture and to ensure an even distribution of the overall national budget, increasing competitiveness between commercial farms, improving the mechanisms for investment and rationalization of budgetary spending.

Within the rural development program, the Ministry of Agriculture has implemented three main measures, namely measures for the rehabilitation and reconstruction of rural infrastructure, measures to support the diversification of rural economy, through rural tourism, conservation of traditional crafts and processing and support measures for young farmers for capital investments, such as the construction of irrigation systems, development of animal production, greenhouses, purchase of equipment, etc. The programs supporting the structural measures implemented with the return of up to 50 % of invested assets, and rural development programs in underdeveloped areas enabled reimbursement of up to 60 % investments.

The credit options for the agricultural sector have improved through various funds and banks, although it was very difficult for the rural population to receive certain credits in the past due to resistance in the banking sector because of the increased risk.

**Credits of the Ministry of Agriculture** offer loans to farmers from the agricultural budget and there were two types of loans: short-term (one year period) and medium term (up to five years of repayment). Three dominant types of loans are available in the structure of short-term loans: 1. Loans for the development of livestock production, 2. Loans for the purchase of machinery and 3. Loans for the construction of greenhouses. Medium-term loans with a grace period of one to three years were approved for the construction of irrigation systems, purchase of machinery and construction of large greenhouses and farms for livestock production.

**Credits of Commercial banks** are not significantly different in the loan structure when compared to the system of the Ministry of Agriculture.

**The Development Fund of the Republic of Serbia** was founded in 1992 and it funded 234 projects in 2005, which were related to the agro-industry in the framework of financing of small and medium-sized enterprises. About 36 % of the funds were earmarked for the financing of small and medium-sized enterprises and were spent on agro-industry.

Many **local communities** and municipalities allocated funds within their budgets for the promotion and development of agriculture and rural infrastructure. With regard to the very limited budgets of local communities, their main beneficiaries were small farms.

**The Instrument pre-accession for Rural Development** (IPARD fund) foresees the allocation of 175 million Euros by 2020, out of which a significant amount is dedicated to small farms (rural tourism, organic agriculture, agri-environmental initiatives).

## **STRATEGIC OBJECTIVES FOR DEVELOPMENT**

The Strategy of Agriculture and Rural Development defines the strategic objectives for development, referring to small family farms. These strategic objectives should allow:

*Production growth and stability of income of agricultural producers* in order to increase competitiveness of agricultural products, using advanced technologies and adherence to veterinary and phytosanitary standards.

*Technical and technological upgrading of production* based on the rich resources and the expected development of rural areas.

*Sustainable resource management and environmental protection* is essential to ensure long-term food security of small farmers.

*Improving the quality of life in rural areas and poverty reduction* are important aspects of sustainable development and reduction of depopulation of the countryside.

*Development of marketing and trade of local products* to ensure stable revenues.

*Institutional development and development of infrastructure.*

*Providing continuous support from the budget to small farmers* and improving the quality of life in the countryside.

*Reducing unemployment* through diversification of the rural economy, providing new business opportunities and development of rural tourism.

## **RECOMMENDATIONS FOR IMPROVING THE STATUS OF SMALL FARMS**

**Building local institutions** - Strengthen cooperation between local partners, primarily to improve administrative organization. Establishing Local Action Groups and building a network. Improve the role of NGO's in the development of rural areas. It should strengthen the connection of both production and business sectors, as well as the partnership between the public and private sectors. Support local governments to develop new regulations in line with the EU policy.

**Restructuring the local economy** - Facilitate the development of rural financial marketing and improve access of small farms to marketing, better information, technical assistance for business plans. The development of rural non-agriculture activities through support of small and micro companies, support for the diversification of households, support for new product lines and standardization, support for new investments in order to reduce unemployment.

**Developing existing resources** - Developing of existing resources is needed so as to increase economic opportunities and improve the quality of life. When we talk about development of agriculture it primarily refers to the improvement of the current state of knowledge, through improvement of extension and advisory services, providing technical and organizational assistance for the development of associations and cooperatives, improving efficiency of the land market (many plots are not used or are not used rationally) and providing support in standardization of quality of local products. It is also necessary to work

on the revitalization of the rural infrastructure in terms of investments in new systems, work on decentralization and privatization of rural services, such as social security, etc.

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