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Developments of rural economies in Central and Eastern Europe: an overview

Abstract: *Since the beginning of transition, rural economies in Central and Eastern Europe have undergone a strong restructuring with increasing urban-rural disparities. The analysis of the rural situation on the basis of GDP p.c., investments, unemployment and sectoral structures leads to the question on which basis a sustainable and dynamic rural development can be achieved in the future. Rural development measures should use a multifunctional approach which incorporates the competitiveness of the agri-food sector, rural infrastructure and non-farm income sources and measures enhancing labour mobility. The EU accession is a chance for rural areas. However, there remain important challenges particularly in institution and capacity building just as in the political development of a clear focus and strategic vision.*

Keywords: *Central and Eastern Europe, rural area, regional policy, rural development, EU enlargement.*

Introduction

On May 1st 2004, eight Central and Eastern European Countries – plus Cyprus and Malta – acceded to the European Union. Bulgaria and Romania are supposed to follow in 2007. With the accession of ten new Member States the disparities within the European Union increased. In economic terms, the acceding countries are much lagging behind the EU-15 countries. In 2001, e.g., the average gross domestic product per capita (GDP p.c.) in purchasing power parities (PPP) reached only 46.1% of the EU-15 average and 39.9% if Bulgaria and Romania are also considered (EC 2004a).

The economies of the Central and Eastern European countries (CEECs)[1] have undergone a great deal of restructuring since 1989. Output fell in the early years of transition and only began to recover after 1995. Agricultural production was strongly affected by this process, not least because of the far-reaching institu-

[1] In the following, the expression „CEECs“ is used for the ten Central and Eastern European Countries: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Romania and Bulgaria, despite their different status with regard to EU accession.

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tional reforms in this sector that were taking place in an environment of adverse price cost movements. The collapse of large multi-functional agricultural cooperatives in some countries also meant the disruption of a range of local industries and services previously supplied by those bodies. These changes have left their mark on rural areas. They lag behind urban areas in many respects and since the beginning of transition, the urban-rural disparities have increased.

This paper analyses, after a brief discussion of problems in defining rural areas, the economic situation of these areas in comparison to urban areas in Central and Eastern Europe. GDP p.c., investment patterns and unemployment rates are used as indicators. To enter into the question on which basis a sustainable and dynamic rural development can be achieved in future, the role of agriculture in the CEE rural economies, the state of infrastructure as important developmental precondition and the potential for diversification of economic activities are discussed in the following sections. These are based on research conducted in the course of the project „Network of Independent Agricultural Experts in the CEE Candidate Countries“ funded by the European Commission and mainly summarise some of the findings presented by the network in its report „The Future of Rural Areas in the CEE new Member States“ (NETWORK 2004)[2]. Finally, the necessity and current design of regional policy measures for rural areas – especially in connection with EU accession – are examined.

Definition of rural areas

The term „rural area“ is often used in policy circles as well as in the scientific community and public debates. Nevertheless, there is no unequivocal definition of this term, which puts together regions with many different features. Rural areas encompass a „diverse and complex economic and social fabric“ with villages as well as small towns, farms and forestry, small shops, commerce, tourism and other service businesses, handicraft enterprises, small and medium-sized industries, landscapes of natural countryside and cultural traditions (EC 1997, p. 6). During the last decades, the differences between specific rural areas have grown due to structural changes in agriculture and a growing share of rural population relying not on agriculture as an income source (McDonnagh et al. 2001). Thus, rural areas should not just be defined as the opposite of urban, densely populated areas. Rather, they should be further differentiated in order to take care of their specific peculiarities (Weingarten and Baum 2003).

[2] This report represents the views of its authors and does not necessarily reflect those of the European Commission. The authors of this paper contributed as members of its advisory body to this network. We would like to thank the country experts of the network – M. Banse, S. Bojnec, M. Bozik, G.E. Dalton, S. Davidova, T. Ferenczi, M. Gorton, W. Guba, N.M. Ivanova, N. Kazlauskiene, E. Majewski, W.H. Meyers, J. Michalek, P.D. Mishev, T. Ratinger, M. Sepp, J. Turk, C.S. Turtoi, M.M. Vincze – and the other members of the advisory body – Klaus Frohberg, Monika Hartmann and Alan Matthews – for their valuable contributions. All views expressed and any remaining errors are our responsibility.

Also within the EU-15, just like in the new EU Member States, there exists no commonly used definition. A number of countries have generally developed their own definitions of rural areas, which are quite heterogeneous and not universally applicable. They are often based on socio-economic criteria such as agricultural patterns, density of inhabitants per square kilometre or population decline (EC 1997). One simple definition of rural areas was developed by the OECD (1994) for making international comparisons of rural conditions and trends (for other definitions see e.g. Barthelemy and Vidal without year or EC 1997). The only criterion used is the population density. At the local level (NUTS 5)[3], communities are regarded as rural if they have a *population density below 150 inhabitants per square kilometer*. At the regional level (mainly NUTS 3), the OECD distinguishes three main categories, depending on the share of the regions' population living in rural communities:

- *predominantly rural regions*: over 50% of the population living in rural communities;
- *significantly rural regions*: 15 to 50% of the population living in rural communities;
- *predominantly urban regions*: less than 15% of the population living in rural communities (EC 1997, pp. 6–7).

Taking the population density as the only criterion is not unproblematic. Densities vary enormously across the different European countries, for example in the CEECs from an average of 30 inh./km^2 in Estonia to 130 inh./km^2 in the Czech Republic and in the EU-15 from 17 inh./km^2 in Finland to 470 inh./km^2 in the Netherlands. A certain threshold of the population density (e.g. below 150 inh./km^2 for rural regions), which might be appropriate to more densely populated countries like the Czech Republic or Poland include even most of the larger towns, and even cities, in sparsely populated countries like Estonia or Lithuania. Furthermore, what is included into a particular local community (NUTS 5) may differ across countries and functional and structural aspects of rural areas are not included in this definition. However, the more complex the definition the higher the data requirements. Thus, despite the shortcomings of the OECD definition it fulfils its task to enable rough comparisons across countries. In order to address rural policy issues, different ways of defining rural areas – or at least adapted methods in each case – seem to be more reasonable for the several countries.

Applying the OECD definition for the local communities (NUTS 5) in the CEECs reveals that rural areas account for 86% of the total area and 43% of the

[3] NUTS = Nomenclature des Unités Territoriales Statistiques (National Units of Track Statistics of the European Union), ranging from NUTS 0 (whole country, in CEECs corresponding to NUTS 1) to NUTS 5 (local municipalities or communes). For the CEECs, NUTS-2 divides each of the CEECs into 4 to 16 regions (between 800,000 and 3 Mio. inhabitants per region; for the small countries Estonia, Latvia, Lithuania and Slovenia this level covers the whole country). NUTS 3 comprises 188 regions (between 150,000 and 800,000 inhabitants in each region), NUTS 4 encompasses 1,149 regions and NUTS 5 contains 21,656 local municipalities.

total population. Predominantly rural regions (NUTS 2 or 3) are prevalent in Bulgaria and Estonia and can be furthermore found in Romania, Hungary, Eastern Slovakia, South-eastern Poland, Slovenia and Lithuania. However, as stated above, in reality a wide range of different definitions of rural areas is applied within the CEECs. Only four countries use or have adjusted the OECD definition. In some countries, national definitions are used, which are rather vague. Thus, while interpreting figures for rural areas within this paper, one should bear in mind that there are differences in the definition of rurality. Nevertheless, the statistical data collected in the expert survey of the „Network of Independent Agricultural Experts in the CEE Candidate Countries“ are useful for comparing rural areas with the respective whole country.

Economic situation of rural areas

During socialist times, a relatively equal distribution of income was an important political objective. In the centrally organised economic and social systems in Central and Eastern Europe, interpersonal and –regional differences in income were much less pronounced than in the market and efficiency oriented countries of Western Europe. Therefore, it is not surprising that since the beginning of transition to a market economy income differentials have increased. As a consequence thereof, poverty has become a problem for larger shares of the (especially rural) population, particularly in Latvia, Bulgaria and Romania.

EUROSTAT’s Newcronos Regio data for 1995 and 2000 reveal that the GDP p.c. in PPP increased in all CEECs by in average 31% within these five years. Below average are particularly Bulgaria (+3%), Romania (+11%) and the Czech Republic (+15%). The highest relative increase was reported for Latvia (+63%) and Estonia (+53%), the strongest absolute growth in Slovenia (PPP +4,169) and Hungary (PPP +3,311). However, the regions in the respective CEECs did not equally participate in this positive development. In most countries, this has led to growing disparities between NUTS-3 regions in terms of GDP p.c. in the analysed period 1995 to 2000. The ratio of the poorest region (in all cases rural areas) of the respective country to the richest region (in all cases the capital) increased from 1:2.6 in 1995 to 1:3.1 in 2000, which was similar to the EU-15 average from 2000 (1:3.3) (s. Table 1)[4]. The highest disparities could be observed in Poland (1:5.4 in 2000), Latvia (1:4.3), Hungary (1:3.5) and Slovakia (1:3.1), whereas Slovenia had a rather homogeneous structure (1:1.7). Measuring the disparities by the variation coefficient changes the order a bit. Regional disparities are most pronounced in Latvia (0.51 in 2000), followed by Poland (0.45) and Slovakia (0.41). According to this measure, regional disparities in the CEEC-10 (0.46 in 2000) appear stronger than in the EU-15 (0.36). In six CEECs (eight when measured by the variation coefficient) the disparities

[4] These figures tend to overestimate the regional disparities, although GDP p.c. is expressed in PPP. Whereas they adjust for differences in the purchasing power between countries, they do not take into account regional differences within a country.

Table 1. Disparities in GDP p.c. (PPP) between NUTS-3 regions in the CEECs, 1995 and 2000

	Minimum of GDP p.c. (PPP) 1995 and 2000 and percentage change, 1995 to 2000			Maximum of GDP p.c. (PPP) 1995 and 2000 and percentage change, 1995 to 2000			Average of GDP p.c. (PPP) 1995 and 2000 and percentage change, 1995 to 2000			Ratio poorest to richest region		Variation coefficient[1] of regional GDP p.c. (PPP)		Development of disparity	Ratio of poorest to richest regions (ca. 25 % of population)[2]
	1995	2000	%	1995	2000	%	1995	2000	%	1995	2000	95	00	95-00	2000
Estonia	4 073	5 417	33	8 836	14 004	58	5 985	9 147	53	**1:2.2**	**1:2.6**	**0.34**	**0.39**	↑	1:2.4
Latvia	2 746	2 674	-3	5 613	11 479	105	4 302	6 992	63	**1:2.0**	**1:4.3**	**0.29**	**0.51**	↑	1:3.5
Lithuania	4 215	4 467	6	6 660	11 018	65	5 657	8 078	43	**1:1.6**	**1:2.5**	**0.13**	**0.23**	↑	1:1.9
Poland	3 382	4 988	47	14 305	27 141	90	6 059	8 951	48	**1:4.2**	**1:5.4**	**0.36**	**0.45**	↑	-
Czech Rep.	8 528	9 863	16	20 128	26 855	33	10 968	12 621	15	**1:2.4**	**1:2.7**	**0.23**	**0.34**	↑	1:1.7
Slovakia	5 219	6 737	29	16 152	20 785	29	8 098	10 478	29	**1:3.1**	**1:3.1**	**0.41**	**0.41**	→	1:2.1
Hungary	4 818	6 237	29	14 687	22 046	50	8 115	11 426	41	**1:3.1**	**1:3.5**	**0.25**	**0.32**	↑	1:2.7
Slovenia	8 608	11 735	36	14 447	20 319	41	11 086	15 255	38	**1:1.7**	**1:1.7**	**0.13**	**0.15**	→↑	1:1.6
Romania	3 124	3 489	12	7 014	8 081	15	4 923	5 463	11	**1:2.3**	**1:2.3**	**0.18**	**0.21**	→↑	1:1.9
Bulgaria	3 542	3 603	2	10 206	10 224	0	5 827	5 991	3	**1:2.9**	**1:2.8**	**0.22**	**0.22**	↓→	1:2.1
CEEC-10	2 746	2 674	-3	20 128	27 141	35	6 618	8 694	31	**1:2.6[3]**	**1:3.1[3]**	**0.40**	**0.46**	↑	1:2.4
Sweden[4]	15 804	18 940	20	22 874	33 235	45	18 724	24 090	29	**1:1.5**	**1:1.8**	**0.08**	**0.12**	↑	
UK[5]	10 185	13 235	30	76 911	100 079	30	17 025	22 678	33	**1:7.6**	**1:7.6**	**0.37**	**0.37**	→	
EU-15	5 795	7 374	27	76 911	100 079	30	17 655	22 603	28	**1:3.3[3]**	**1:3.3[3]**	**0.35**	**0.36**	→↑	

Notes: [1] Variation coefficient was calculated using the weighted average. [2] Latvia and Estonia are 40%, due to the high share of population in the capitals. For Poland no population data on NUTS-3 level available. [3] Unweighted arithmetic mean value. [4] Country with the lowest disparities within EU-15. [5] Country with the highest disparities within EU-15.

Source: Weingarten and Baum (2003), modified.

increased between 1995 and 2000, while they stayed more or less constant in the remaining four (Hungary, Slovenia, Romania, Bulgaria). Figure 1 shows that the rising disparities are not caused by an absolute decline in GDP p.c. of the poorer regions (except for Latvia). Rather, they could not keep pace with the quick growth in the capital regions.

This already indicates that in many cases the growing interregional disparities are caused by rising urban-rural differences. Most of the rural areas are economically less developed than city regions in terms of GDP p.c., investments or employment opportunities. In all countries for which data are available, the GDP p.c. in rural areas is below the national average (Table 2). Differences are most pronounced in Estonia, where the per capita income of rural areas reaches only 44% of the national average. Income is more equally-distributed in Slovakia (88%) and the Czech Republic (85%).

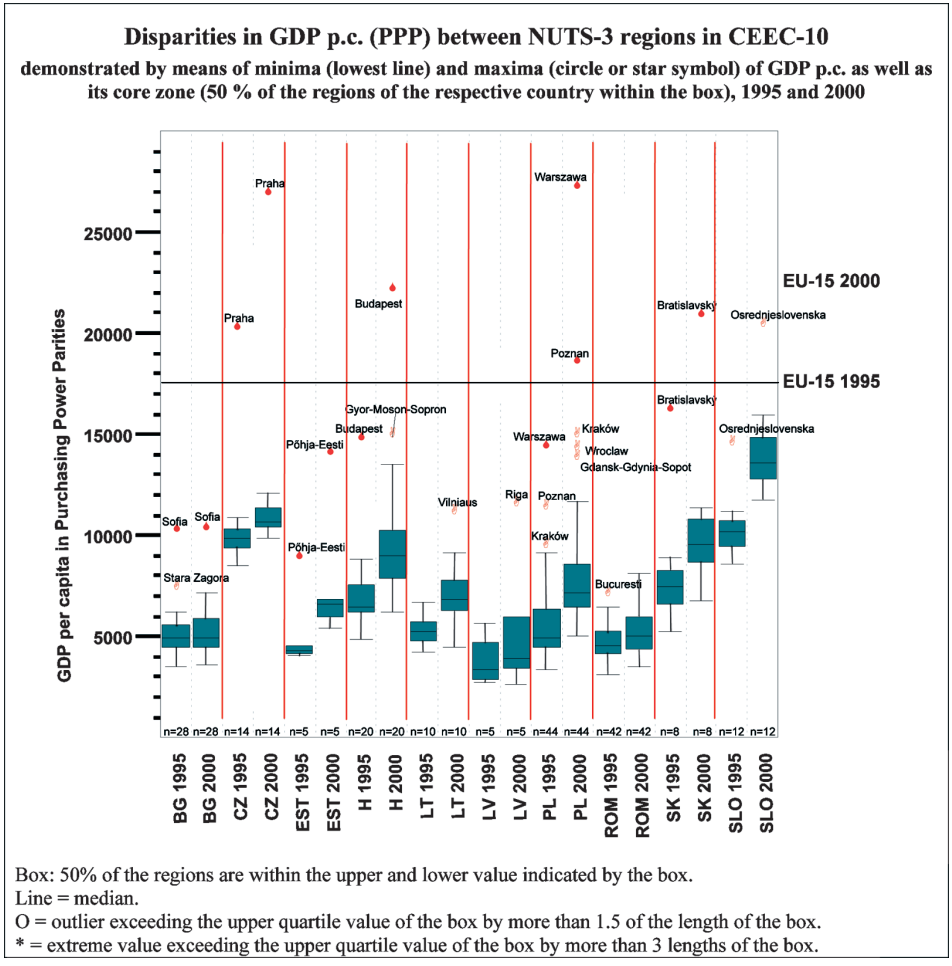


Figure 1. Regional disparities in GDP p.c. in the CEE new Member States
Source: Weingarten and Baum (2003), based on EUROSTAT's Newcronos Regiodata.

Table 2. National and rural average GDP p.c.

	EST	LV	LT	PL	CZ	SK	H	SLO	ROM	BG	CEECs	EU
Year	**2000**	**2000**	**2001**	**2001**	**2000**	**2000**	**2000**	**2000**	**2001**	**2001**	**2000**	**2000**
National average PPP	8 400	6 600	9 017	8 951	12 621	10 478	11 894	16 000	5 463	7 100	8 694	22 603
Rural areas PPP	3 670	n.a.	n.a.	n.a.	10 753	9 172	8 000	12 000	n.a.	n.a.	-	-
As per cent of national average	44%	n.a.	n.a.	n.a.	85%	88%	67%	75%	n.a.	n.a.	-	80%[1)]

Note: [1)] EU-15, GDP in *predominantly rural regions* (over 50% of the population living in rural communities with a population density below 100 inhabitants/km^2) as share of national average, 1994.

Source: Country experts of the Network of Independent Agricultural Experts in the CEE Candidate Countries, cited in NETWORK (2004). Czech Republic (national), Poland and Romania, EUROSTAT´s Newcronos Regio data. EU-15, EC (1997).

The strong economic position of the cities is also reflected by the distribution of investments. In Slovakia for example, urban districts attracted 62% of total investments in 2000 (this corresponds to 6,402 EUR/inhabitant), whereas the least-developed rural districts only accounted for 11% (this corresponds to 400 EUR/inhabitant) (NETWORK 2004, p. 81). In Hungary, Slovakia and the Czech Republic, some two thirds of the foreign direct investments in 2001 took place in and around the respective capital cities. Also the expenditures for research and development (in % of regional GDP) in the CEECs concentrated in capital regions (EC 2004, pp. 52, 99 and 111).

Taking the „unemployment rate“ as an indicator for the economic situation of rural areas results in a less clear picture: in six countries (Lithuania, Slovenia, Bulgaria, Hungary, Estonia, Slovakia) the unemployment rate in rural areas is above the national average (Table 3) whereas it is the opposite in Latvia, Poland,

Table 3. National and rural average unemployment rate

	EST	LV	LT	PL	CZ	SK	H	SLO[1)]	ROM	BG	CEECs	EU-15
Year	**2000**	**2001**	**2001**	**2001**	**2000**	**2001**	**2001**	**2001**	**2001**	**2001**	**2001**	**1994-96**
National average % of total labour force	13.7	12.8	12.5	18.2	7.3	18.6	5.7	11.0 (6.4)	6.6	19.5	13.1	10.7[2)]
Rural areas % of rural labour force	15.2	10.4	18.0	16.7	5.8	20.3	6.8	15.0 (11.0)	2.8	25.3	-	11.4[2)]
as per cent of national average	111%	81%	144%	92%	80%	109%	119%	136% (172%)	42%	130%	-	107%[2)]

Notes: [1)] Data in brackets according to ILO definition. [2)] EU-15, Unemployment rate in *predominantly rural regions* (over 50% of the population living in rural communities with population density below 100 inhabitants/km^2) as share of national average 1994–1996.

Source: Country experts of the Network of Independent Agricultural Experts in the CEE Candidate Countries, cited in NETWORK (2004). EU-15, EC (1997).

the Czech Republic and Romania. Probably in all CEECs, there is still hidden unemployment, particularly in agriculture. Especially in Romania, where four in ten persons are employed in agriculture, this sector plays an important role as a social buffer. The similar probably holds for Bulgaria and Poland. Furthermore, comparing the unemployment rates across the countries, one has to bear in mind that the statistics are still not harmonised and that the incentives to register as unemployed differ, too.

According to the assessment of the country experts, in most CEECs the disparities between rural and urban areas have increased during the last five years (Table 4). Concerning the GDP p.c., this holds for all countries except Lithuania and the Czech Republic, where no change has been reported. With regard to the share of the population living in poverty, Latvia, Slovakia, Romania and Bulgaria have experienced growing disparities, whereas the situation has not changed in Estonia, Lithuania, Hungary and Slovenia. In terms of the unemployment rate, the picture is more heterogeneous. In Latvia and Hungary, the unemployment rates in rural and urban areas have converged. In Estonia, Lithuania, Poland, Slovakia, Slovenia, Romania and Bulgaria the disparities have increased. For the Czech Republic no change has been reported.

Table 4. Development of the disparities between rural and urban areas during the last five years [1)]

	EST	LV	LT	PL	CZ	SK	H	SLO	ROM	BG
GDP p.c.	+	++	O	+	O	+	+	+	+	+
Share of population in poverty	O	+	O	n.a.	n.a.	+	O	O	+	+
Unemployment rate	+	—	+	+	O	+	-	+	+	+

Note: [1)] ++ strongly increased; + increased; O no change; - decreased; — strongly decreased.

Source: Country experts of the Network of Independent Agricultural Experts in the CEE Candidate Countries, cited in Network (2004).

In general, rural areas are apparently economically disadvantaged compared to towns and these disparities have grown. It is the question, on which basis a sustainable and dynamic rural development can be achieved in the future. Therefore, the following sections discuss the role of agriculture, rural infrastructure and economic diversification in this respect.

The role of agriculture in rural economies

In many CEE regions, agriculture and its downstream sectors still play an important role for rural labour markets. However, this importance for employment is in general higher than for total gross value added (GVA). Nonetheless, there are large differences in agricultural employment in rural areas between the countries.

Rural employment patterns have been changing inexorably, with falls in both agricultural and industrial employment. Only in few countries, like Romania, an

increase in agricultural employment could be observed within the transition period, caused by reversed migration form urban to rural areas due to high urban unemployment, the opportunity to produce food for own needs, and low costs of living in rural areas. Figure 2 presents the breakdown of total employment in the agriculture, industry and services sectors in 2001 in the CEECs. In the Czech Republic, Hungary and Slovakia, the agricultural sector is less important, employing up to 7% in the national average and less than 14% in rural areas. In contrast, agriculture is far more important and is sometimes even the main employment sector in Bulgaria (national average: 26%) and the rural areas of Romania (74%), Lithuania (51%), Poland (46%), Slovenia (25%) and Estonia (23%). The shares of industry in total rural employment are high in the Czech Republic (42%), Hungary (37%), Slovakia, Poland and Estonia (34–35%). The importance of services – which is the dominant sector in all countries except Romania – in rural areas is below the national average. Nevertheless, also in most rural economies this sector is the most important employer. Exceptions are Romania (14%) and Poland (19%).

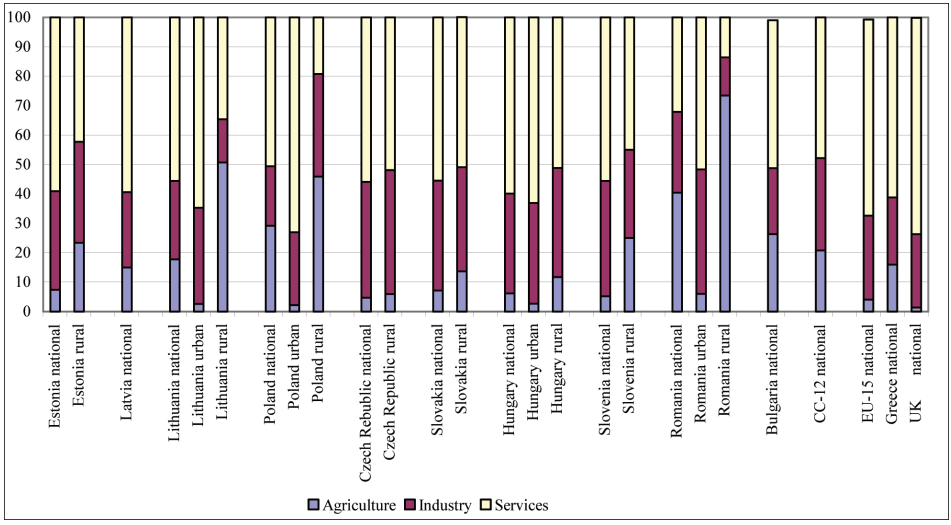


Figure 2. National, urban and rural shares of employment in agriculture, industry and services in total employment (%), 2001[1)]
Notes: [1)] Czech Republic, Estonia and Slovakia rural, 2000; Poland rural and urban, 1999. CC-12 includes CEEC-10 and Malta and Cyprus. Greece is the EU-15 Member State with the highest, UK with the lowest share of agricultural employment.
Source: Country experts of the Network of Independent Agricultural Experts in the CEE Candidate Countries, cited in NETWORK (2004); EC (2003b).

Looking at the composition of GVA on the NUTS-3 level (NUTS 1 for Slovenia) shows that in half of the CEE regions agriculture still accounts for more than 10 %, in one fourth for more than 20% of GVA (see Figure 3 and Map 1). However, only in 7 out of all 177 regions does agriculture contribute more to the total GVA than services and industry, respectively. The shares of agriculture in GVA and the GDP p.c. show a high negative correlation. Industry

has a high share in GVA in the Czech Republic, Central-Romania, Western Slovakia, Northern Hungary, parts of Poland, Estonia, Lithuania and Bulgaria (> 40%). Very low shares (< 25%) exist in Bulgarian regions, Southern Romania, Eastern Poland, Eastern Latvia and many city regions. In the latter, the service sector is much more important, with a share in GVA of above 70%. In contrast, the tertiary sector is of relatively low importance, particularly in Romania (in many regions, the share is below 40%), but also in the Czech Republic, Western Slovakia, Western Hungary, parts of Bulgaria, Poland and the Baltic states (below 50%).

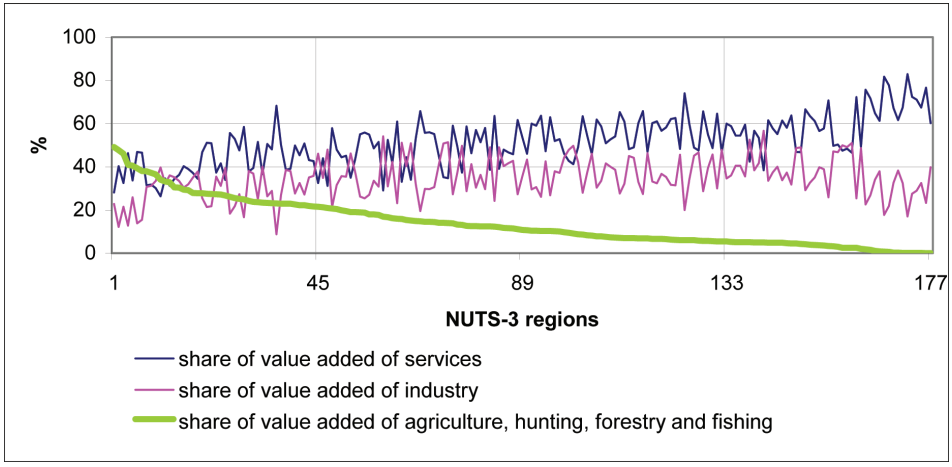
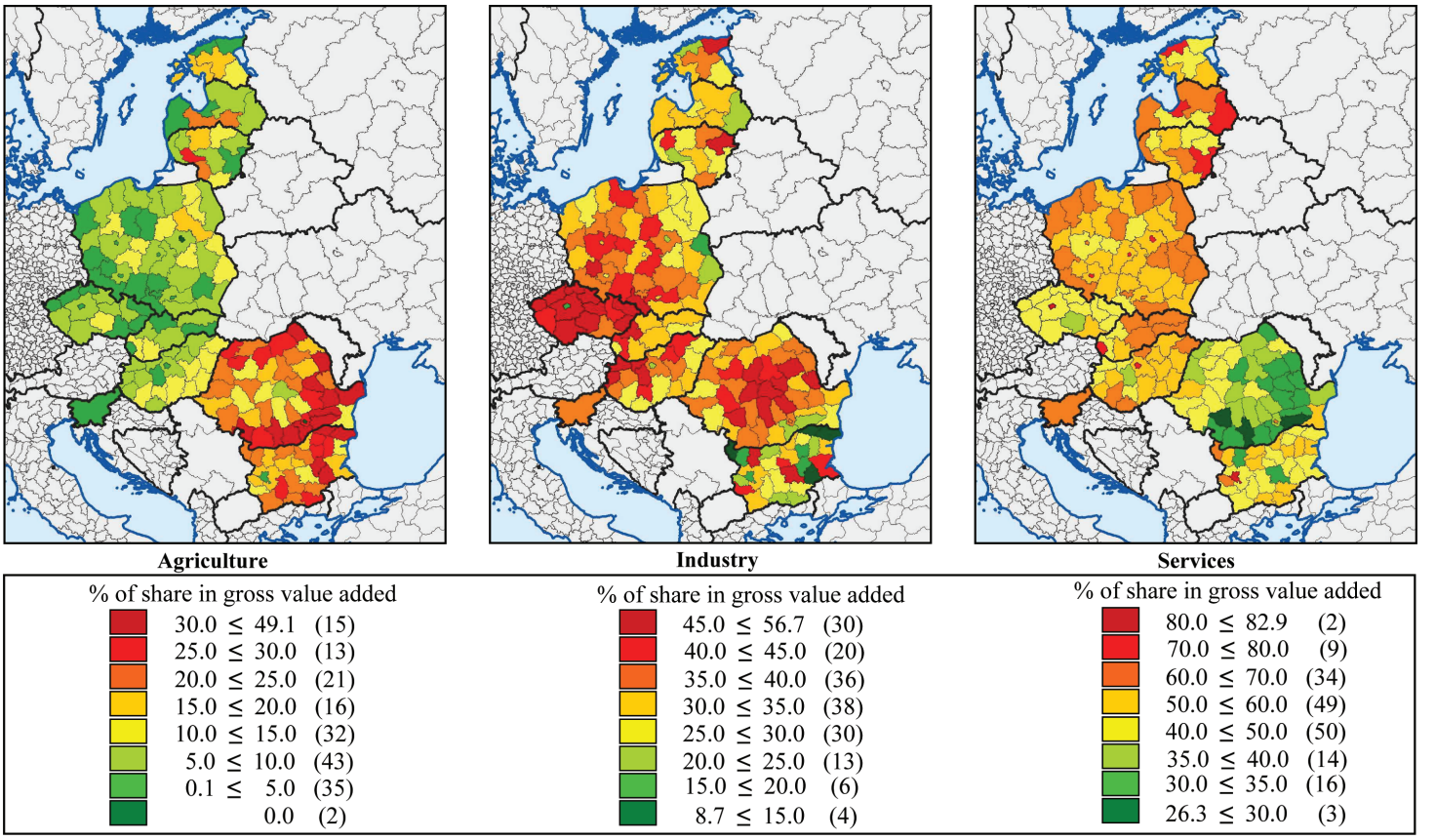


Figure 3. Percentage share of agriculture, industry and services in total gross value added in the CEE NUTS-3 regions, 1999 [1)]
The regions are ordered according to their share of agriculture in GVA
Note: [1)] Hungary 1998, Romania 1997, Slovenia NUTS 1.
Source: EUROSTAT's Newcronos Regiodata.

Finally, the income structures of rural households reveal that incomes from own farm activities are an important component of the overall rural family incomes in the CEECs. Outside of agriculture, there are very few self-employed people. However, more than on agriculture, rural incomes depend heavily on social payments and on paid employment in both the urban and rural economy. For example, in Poland and Lithuania, social payments are the main source of income for around one third of the rural households.

When interpreting figures on rural economies one has to bear in mind that very little is known about the informal economy and that there is also a lack of information with regard to subsistence farming.

It can be expected that also in the medium term agriculture will remain an important component in many rural areas in Central and Eastern Europe. Although much has been achieved in transforming the agri-food sector since the early 1990's, further progress is necessary to improve the competitiveness of this sector. This does not only include the modernisation of farms and processors as



Map 1. Share of agriculture, industry and services in total gross value added in %, 1999[1)]
Notes: The number of regions in each category is given in parentheses. [1)] Romania 1997, Hungary 1998.
Source: NETWORK (2004) based on EUROSTAT's Newcronos Regio data.

well as the specialisation and intensification of agricultural production (both requiring access to credits). Also the institutions necessary for the proper functioning of the markets are still not all in place. However, there are large differences across the countries and regions in the structure of the agricultural sector ranging from the rather efficient large scale farm structure in the Czech Republic to the fragmented farm structure with high shares of subsistence production in Romania. EU accession will improve the economic situation of most farmers in the CEECs, even though the direct payments are introduced only stepwise up to the EU-15 level and the reference yields for their calculation are rather low. Improvement of competitiveness of CEE agriculture will not be possible without reduction of employment in agriculture, particularly in Romania, Bulgaria and Poland. This stresses the importance of the development of off-farm income opportunities in rural areas.

Rural infrastructure

Public infrastructure is one of the key factors behind economic development in rural areas. It incorporates physical, social, financial and market infrastructure. Physical infrastructure, such as transport, provides access to input and output markets and fosters labour mobility. Social infrastructure includes important services, such as education and health, which influence the choice people have in terms of staying in rural areas or migrating away. In addition, education has a positive effect on farm efficiency and on the development of alternative sources of income. A higher level of education tends to extend the number of jobs for which an individual is qualified, makes an individual more employable and may increase potential wages. Market infrastructure is in rural areas especially important for the integration of agricultural markets. Finally, financial infrastructure facilitates diversification outside agriculture and the development of alternative sources of income with support for grants and credit applications or general business advice.

During transition, due to the harder budget constraints at all levels, the maintenance of physical infrastructure has deteriorated and little has been done to improve the social infrastructure. However, the constraints are not only budgetary. The low and decreasing density of population in some rural areas (see Table 5), the out-migration of young people and the need to improve the quality of social services through concentration have made some rural areas worse off. The market infrastructure has developed in most of the CEECs, but it needs both growth and quality improvement. Especially in Romania, Bulgaria, and Poland, where subsistence farming has a large share, the functioning and appropriately designed market institutions are lacking. Also the agricultural advisory system has to be improved. The adequacy of physical, social and financial infrastructure in rural areas is assessed by the country experts in most cases as rather inadequate, hampering the achievement of a balanced growth between rural and urban regions.

Table 5. Population density in rural areas in comparison to national average

	EST	LV	LT	PL	CZ	SK	H	SLO	ROM	BG	CEECs	EU
Year	**2000**	**2001**	**2001**	**2001**	**2000**	**2001**	**2000**	**2000**	**2001**	**2000**	**2000**	**2000**
National average Inhabitants/km^2	33	37	53	124	130	110	109	98	94	73	97	119
Rural areas Inhabitants/km^2	18	n.a.	31	51	101	52	58	80	43	40	n.a.	n.a.
as per cent of national average	55%	n.a.	59%	41%	78%	47%	53%	82%	46%	55%	n.a.	n.a.

Source: Country experts of the Network of Independent Agricultural Experts in the CEE Candidate Countries, cited in NETWORK (2004).

The level of educational attainment amongst the rural population is, in all CEECs, lower than the standard for the respective total populations. Rural-urban differences seem to be less pronounced in the Czech Republic, Hungary, Poland and Latvia. Differentiated data, which have been provided by some countries, show that the share of *low* (primary) educational level in the active rural population is between 1.4 (Latvia and Poland) and 1.8 times (Romania) higher than the respective share in total population. In contrast, the share of *high* (tertiary) educational levels in the active rural population reaches only some 20% (Romania) to 62% (Latvia) of the standard for the total population. The quality of rural education is reported to be, in general, lower than in towns due to difficulties in attracting the best teachers, worse school equipment, less access to information technology, few special schools and finally, financing problems. Lifelong learning opportunities are less available in rural areas compared with towns, although detailed data about training and adult educational provision is scanty.

The overriding conclusion is that the rural educational situation is still worse than the urban one, but shows, in some countries, hopeful tendencies. Ensuring a sufficient educational level for the rural population in future should focus on the improvement of quality, and to render it possible that each rural child (as well as adult) could reach the desired educational institution within an acceptable distance. The latter incorporates the facilitation of commuting and the provision of public transport. Finally, the opportunities of the Internet for remote areas should be extended to overcome rural-urban differences, especially given the importance of educational attainment for rural people to find and sustain employment.

In general, a great deal of additional public investments is required for upgrading the rural infrastructure. Improved public infrastructure could pave the way for the establishment of complementary private services, supposed to help relieve rural unemployment.

Potential for alternative income-generating activities

Since agriculture cannot provide the single basis for sustainable and dynamic rural development in the future, the crucial issue is the diversification of the economic base of rural areas. The country experts were asked to assess the prospects for alternative income-generating activities in rural areas. Positive expectations refer especially to tourism as the source of alternative income in rural areas, followed by manufacturing, specialised food and beverages and subsequently IT. Further sectors, which have been added by the country experts, included investment activities in infrastructure in Poland, energy in the case of Estonia, landscape and environmental management in the case of the Czech Republic and trade in the case of Hungary and Slovakia. Conditions for growth that were mentioned included infrastructure, importance of natural conditions such as coasts and mountains for tourism, proximity of neighbouring countries for trading opportunities, an industrial base, effective institutions and communications. In many countries, the already most prosperous regions are considered to have the best prospects.

The almost universal positive assessments of the importance of (agro-)tourism has to be critically reviewed. For most of the regions the contribution of tourism will probably only be of minor importance, since the tourism market is a global, highly competitive market. In addition, the development of the necessary basic infrastructure and institutions to support tourism is hampered by a lack of capital. Likely, only in certain areas with favourable conditions tourism can play an important role. The same situation and problems can be expected for other sectors, especially IT. Regional development should and could not only be based on *one* strategy, but all sectors are important for growth.

An important income source is and will be associated with commuting by rural people to urban jobs which is consistently a common and growing practice. Up to half of the rural workforce may be involved in this type of employment (see Table 6 for Estonia as example). A high proportion of rural commuters commute on a daily basis. The availability of public transport is important for commuting. Young and male workers are more likely to commute to work. Females are more constrained by family responsibilities. Commuting to work by rural people has been an established practice for a long time. It has adapted during the transition to a market economy in response to structural changes in both industry and agriculture. There is some evidence provided for different types of rural commuters, including those who chose to live in the countryside and work in towns as a preferred lifestyle as opposed to the more common person who cannot get a job near where he lives. Land restitution has also influenced the practice. For example, in Latvia, many displaced urban families, after land restitution, came to live on their farm during the turbulence of transition and now go to work in towns.

The respective strengths, weaknesses, opportunities and threats (SWOT) of rural economies in the CEECs with regard to labour markets and off-farm economic

Table 6. Number and percentage of people employed outside of the home rural municipality in Estonia

	1995	1996	1997	1998	1999	2000
Total employees in rural areas (in 1,000)	163.4	161.6	159.3	162.1	159.1	158.0
Employed outside of home rural municipality						
absolute in 1,000	40.7	45.9	52.2	55.4	57.6	63.9
share in %	24.9	28.4	32.8	34.2	36.2	40.4

Source: Country experts of the Network of Independent Agricultural Experts in the CEE Candidate Countries (ESO „Population of Estonian rural municipalities“ 1995–99; „Rural municipalities population 1 January 2000"), cited in NETWORK (2004).

development have also been assessed by the country experts (see Table 7). As most important strengths are considered the existing natural resources with their recreational potential, a relatively good infrastructure, experiences in off-farm business, skilled labour and a high availability of work force. Some of the strengths are also stated as weaknesses, e.g., poor infrastructure and poor qualifications and management skills by six countries. What sounds at first as contrary simply means that the conditions of rural areas should not be generalised, but differentiated according to different classes of population or situations. For Poland, e.g., the differences in qualification are mainly seen as difference between educated employed persons and unemployed people with low skills. Slovakia contrasts the positive abundance of labour force with the relatively low level of labour productivity as most important weakness. Other frequently specified weaknesses of rural economies are insufficient off-farm job opportunities, high share of fragmented agriculture with low efficiency and subsistence production, underdeveloped financial markets, out-migration of young, skilled people and weak local/regional coordination of development. As the most significant opportunity is seen the EU accession with respect to available structural funds and development programs, market access and an expected increase of FDI after accession. Hopes are also connected with the improvement of education and vocational training and rural infrastructure, including (tele)communication networks. A main objective and opportunity is the creation of alternative income sources and the stimulation of business start-ups and self-employment. The threats are relatively heterogeneous across the different countries. Stated by more than one country are the ageing of the population and migration, which may prove to form a vicious circle, the low absorption of structural funds because of problems in mobilizing own financial resources, the lack of required reforms, the further decline in traditional agriculture and industry, the further isolation of remote areas and growing disparities. Some threats result from macro-economic developments, such as financial state crisis in Poland, inappropriate tax policies in Slovakia or overall stagnation of economic development seen as a threat in Bulgaria.

Table 7. Synthesis of the SWOT analyses for the 10 CEE countries

Strengths (+)	Weaknesses (–)
• existing natural resources with their recreational potential (EST, LT, PL, CZ, SK, BG) • relatively good infrastructure (EST, LT, PL, CZ, SK, BG) • experiences/activities in off-farm business (LT, PL, H, SLO) • skilled labour (EST, LT, PL, H) • high availability of work force (EST, SK, ROM, BG) • good reputation of domestic agricultural products, quality, specialisation (EST, LV)	• poor qualifications and management skills (EST, LV, PL, SK, SLO, ROM) • poor infrastructure (LV, PL, CZ, H, BG) • insufficient off-farm job opportunities (EST, CZ, SLO, ROM) • a high share of fragmented agriculture with low efficiency and subsistence production (LV, PL, ROM) • underdeveloped financial markets (EST, LT, BG) • the out-migration of young, skilled people (EST, SK, ROM) • weak local/regional coordination of development (EST, CZ, H)
Opportunities	**Threats**
• EU structural funds and development programs (LV, PL, SK, BG) • Better access to EU market (LV, SK, BG) and an expected increase of FDI after accession (PL, CZ) • Improvement of education and vocational training (LT, H, SLO, ROM) • Improvement of rural infrastructure, including (tele)communication networks (LT, SK, H) • Creation of alternative income sources (LT, SLO, BG) • Stimulation of business start-ups and self-employment (EST, SLO, BG), especially rural tourism (EST, LT, CZ), ecological farming (CZ), traditional crafts (LT) and high-tech-branches (PL)	• Ageing of the population and migration (LV, SLO, ROM, BG) • Low absorption of structural funds because of problems in mobilizing own financial resources (LT, PL, SK) • Lack of required reforms (PL, BG) • Further decline in traditional agriculture and industry (CZ, BG) • Further isolation of remote areas and growing disparities (SK, ROM) • Unfavourable macro-economic developments (PL, SK, BG).

Source: Country experts of the Network of Independent Agricultural Experts in the CEE Candidate Countries, cited in NETWORK (2004).

This SWOT analysis can only provide a rough picture of the diverse situations in rural areas in the CEECs. In order to design appropriate policy measures aiming at improving the socio-economic conditions in less developed areas such a SWOT analysis should be carried out at a regional level. There is no one rural „truth“ but many different situations to be addressed by regional policy. Its necessity and current design in the CEECs are discussed in the following.

Regional policy for rural development

The EU accession of the CEECs and the resulting adoption of the two most important policy domains of the Union – the Common Agricultural Policy (CAP), as well as the structural and regional policy – will strongly affect the development of rural areas. In the past, these areas have received only little

attention in the CEECs. In the socialist era, regional or rural policies requiring decentralised decision-making, i.e., local actors and institutions, played only an insignificant role. In most of these countries policies relevant for the regional development were largely the result of national plans, which were targeted at certain sectoral development objectives. Based on these plans, decisions on the locations of investment, production and housing were made in a top-down approach whereby economic aspects were very often insufficiently considered. In many regions, the resulting regional division of labour and specialisation caused a heavy dependency on one large enterprise leading to severe socio-economic problems in the respective region when this enterprise got in trouble. During the 1990's, in many CEECs the national „sectoral policy" (referring to single industries and branches) still took priority over the „regional policies" (state intervention in favour of certain regions in order to reduce interregional disparities) (Hallet 1997; Römisch 2003). Since 1990, especially large cities have been the winners of transition, and the urban-rural disparities in the CEECs have increased (cf. preceding sections or e.g., Baum and Weingarten 2004). Weak or lacking regional institutions and an insufficient governmental support constrained the establishment of a strong regional policy. The approaching EU accession has changed this situation and has obliged the CEECs to establish a regional policy according to the EU standard (Heimpold 2002; Horváth 2000; Kolarska-Bobinska et al. 2002).

During the last decades, EU regional policy (structural policy and rural development measures as the second pillar of the CAP) has gained importance particularly with the Single European Act in 1986 and the reform of the structural funds in 1988. Another milestone is the Treaty Establishing the European Community of 1997, which in Article 158 lays down the aim to overcome interregional disparities and to strengthen backward regions:

„In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas." (Consolidated Version, Official Journal C 325 of 24 December 2002)

The European Commission (EC 2004a) justifies the efforts in economic and social cohesion with the interdependencies in an integrated economy between disparities on the one hand and a loss of individual and collective well-being, potential real income and higher living standards on the other hand, however, without giving evidence for this opinion. Whether or when a spatially uneven distribution of economic activities and living conditions requires and justifies state intervention in favour of specific regions is hardly discussed. The answer depends in general on equity considerations and the economic theory one adheres to. They differ mainly with regard to whether economies (or regions) inherently develop towards an efficient equilibrium and whether path-dependencies are relevant (e.g. Krieger-Boden 1995; Schätzl 1998).

Following neo-classical theory there is no need for regional policies from an efficiency point of view since the price mechanism as the invisible hand of the market will lead to an equilibrium with an optimal resource allocation. If in the initial state factor remuneration differs between regions, factor movements and trade induce their convergent development over time. Thus, there is no need for regionally differentiated policy measures. In contrast, polarisation theory stresses the existence of imperfect markets and the importance of the initial conditions for the future development of a region. According to this theory, the disparities between the centre and the periphery grow over time. Policy measures supporting the peripheral regions are thus justified not only by equity, but also by efficiency reasons. Path dependencies are also a central outcome of new foreign trade theory and new growth theory resulting from economies of scale and positive external effects of resource accumulation.

Since there is no clear evidence for one economic theory explaining regional developments, Krieger-Boden (1995) recommends a political minimal program: the state should only provide public goods (e.g., physical and institutional infrastructure). As these are otherwise not provided at all or only at a sub-optimal level by the market, this contributes to realise regional development potentials. The European regional (or structural) policy exceeds such a minimal program by far and seems to follow arguments of path-dependencies, equity and solidarity. According to the subjective opinion of the authors, it is in principle justified to argue for regional policy measures primarily with the equity objective. Societies are not only economic unions, but social systems, in which every citizen should have the possibility to sufficiently participate in economic wealth even if he is living in peripheral or rural areas. What „sufficiently“ exactly means has to be decided on the collective level.

The design of regional policies requires knowledge about the factors causing interregional disparities. According to the European Commission (EC 2004a, p. xxiii), these „stem from structural deficiencies in key factors of competitiveness – inadequate endowment of physical and human capital, a lack of innovative capacity and regional governance“. To support regional governance as an open, dynamic process of decision making and governing, in which also many parastatal or private actors are involved (cf. Axt 2000, p. 165), the European Commission emphasises the significance of public-private partnerships, business networks and institutional capacity of regional authorities. Instead of traditional top-down approaches a more open form of regional development shall be used involving all the relevant parties in a particular region (integrated approach) and establishing a long-term policy horizon (strategic approach) (EC 2004a, p. 58). This corresponds to assumptions of endogenous and mixed exogenous/endogenous rural development approaches, which are connected to theoretical models of local/regional milieus – such as industrial districts, endogenous growth models or innovation models – and stress the institutional context of economic activities and network analysis (cf. Terluin 2000 and 2003). Despite some convincing results of such approaches in regional studies, it has to be

noted that there exists so far no comprehensive, consistent theory of regional development, including all possibly relevant factors of economic growth (Maier and Tödtling 2002). Due to this basic problem, regional policies need to develop their own strategy based on several theories, empirical results and/or plausibility considerations (Krätzschmar 1995).

Recent regional policies in the CEECs have been strongly characterised by the preparations for the adoption of the EU structural policy and the second pillar measures of the CAP. Therefore, it is essential to build regional institutions and to improve administrative capacities in order to elaborate and implement development programs within defined regional units. Local actors (local government, state agencies, private stakeholders) should co-operate in local partnerships in order to co-ordinate development planning in a given area and to promote grassroots activities and participatory structures. Although the CEECs have improved their capacities for planning and implementing regional policies, further progress is still necessary, particularly on the regional level, as the European Commission (EC 1998–2003) stated in its Progress Reports. Competencies are not always clearly allocated and the co-ordination between different entities at the central, regional and local levels as well as the co-operation between different groups of actors has to be improved. In some countries, like Hungary and the Czech Republic problems also occurred with the definition of regional units, because there had not been an administrative equivalent to the NUTS-2 level (on which Objective 1 regions have to be defined) before. Furthermore, the definition of regions often resulted more from administrative than functional aspects. This additionally hampers institution building on the regional level (EC 1998–2003; Heimpold 2002). Horváth (2000) expects a long process of decentralisation within the CEECs except for Poland with its already decentralised administration system, and Hungary with its longer regional-political tradition (cf. also Bachtler et al. 2000).

In order to support institution and capacity building as well as the adoption of standards, regulations and measures of regional policy, almost 22 billion Euro have been indicated by the EU between 2000 and 2006 for the CEECs within the scope of the three pre-accession instruments PHARE, ISPA and SAPARD. After accession in May 2004 the pre-accession aids in the concerned countries will be phased out step by step, whereas the „normal“ means of cohesion and structural funds will gradually enter (Bundesministerium der Finanzen 2002; Heidenreich 2003). Particularly the Special Accession Programme for Agriculture and Rural Development (SAPARD) has provided valuable experiences for the CEECs due to its decentralised administration in particular countries. Among the several measures of the SAPARD plans, support to „processing and marketing of agriculture and fishery products“ (26% of all indicative means in CEEC-10) as well as the „investment in agricultural holdings“ (22%) are the most important, followed by the improvement of „rural infrastructures“ (21%). Rather few means are foreseen for „diversification of activities, providing alternative income“ (11%), „vocational training“ (3%), „setting up producer groups“

(1%), „structures for quality, veterinary controls, foodstuffs and consumers“ (1%) as well as „land improvement and reparcelling“ (1%) (EC 2001 and 2003a). The shares mentioned refer to the means indicated in the SAPARD programmes of the several countries and not the actually approved or paid-off funds. These are even stronger concentrated on support measures for marketing and investment because these were normally the first accredited measures and they require higher financial means per project than vocational training, for example. Due to the late accreditation of the SAPARD agencies (in five countries not before 2002) the programmes are delayed, which means that the CEECs could not gain as much experience with their implementation before joining the EU as had been initially expected. Beside the late accreditation, the low number of submitted and approved projects and thereby the insufficient absorption of EU funds has also resulted from the lack of capital, information and experiences of the potential applicants.

After accession in May 2004, the ten new Member States (without Bulgaria and Romania, but with Cyprus and Malta) will have an amount of 5.76 billions EUR at their disposal from the EAGGF Guarantee Section for rural development in the period 2004–2006. In addition, in Objective 1 regions (all regions except Cyprus, Prague and Bratislava), measures of rural development will also be financed by structural funds (EAGGF Guidance Section) (EC 2004b), which are in the period 2004–2006 provided with 7.3 billion EUR per year for the ten new Member States. Most of them identify in their national development plans for this period a large number of different areas for intervention and lack, in the opinion of the European Commission, too often a clear focus and strategic vision. „The experience of current Member States indicates that … this will complicate the implementation of programmes and reduce their impact and sustainability“ (EC 2004a, p. 171). Furthermore, one major concern is still the administrative capacity (EC 2004a, p. 171).

Concluding remarks

Rural areas have been neglected in Central and Eastern Europe for a long time. Besides the „general“ problems of many rural areas in the world they have additionally to cope with the consequences of transformation and particularly the restructuring of the agricultural sector. Since the 1990s, especially the large cities have benefited most from the transition process. Rural-urban disparities have increased. The EU accession is a chance for rural areas in Central and Eastern Europe. The economic situation of most farmers will improve after EU accession, even though direct payments will be introduced only step by step to reach the EU-15 standard and the reference yields for their calculation are low. The introduction of structural and regional policy measures will strengthen the regional level and create a political consciousness for rural problems. New financial means will be available for rural development measures from structural and cohesion funds. However, there is some danger that peripheral areas will not

be able to adsorb all these funds which need to be co-financed. Further institution and capacity building as well as strengthening of regional governance are necessary.

Rural development in the CEECs should follow a multifunctional approach. It can be expected that in the medium term agriculture will remain an important component in many rural areas of Central and Eastern Europe. However, there are large differences between the countries, e.g., in rural agricultural employment ranging from 6% in the Czech Republic to 74% in Romania. Further progress is necessary to improve the competitiveness of agri-food sector. Since agriculture cannot provide the single basis for sustainable and dynamic rural development, rural areas need to diversify their economic base. Commuting from rural to urban areas will likely become more important. One of the key factors behind economic development and diversification in rural areas is public infrastructure. In general, a great deal of additional public investments is required for upgrading the rural infrastructure. Improved public infrastructure could pave the way for the establishment of complementary private services, which are to help relieve rural unemployment. Ensuring a sufficient educational level for the rural population as one important part of social infrastructure is of crucial importance for finding and sustaining employment

All rural development measures should be adapted to the specific characteristics of the respective areas. This requires efficient regional and local institutions and participatory structures. The SAPARD programme has strengthened institutional mechanisms and capacity building. Nevertheless, there remain important challenges in this field just as in the political development leading to a clear focus and strategic vision for the necessary measures in rural areas.

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