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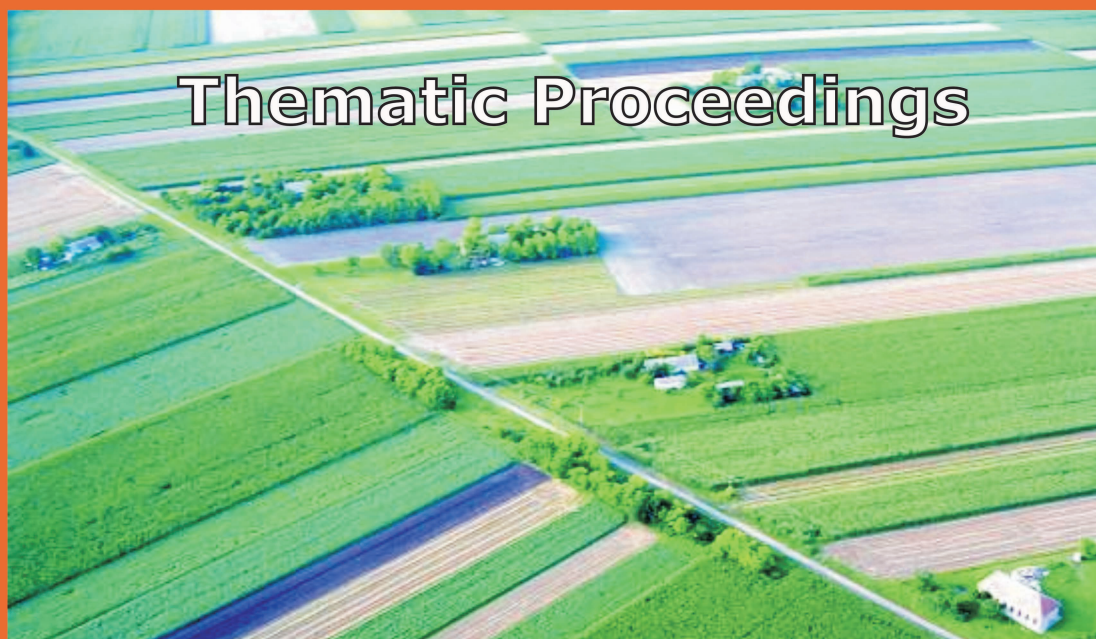
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# DEVELOPMENT OF AGRICULTURE AND RURAL AREAS IN CENTRAL AND EASTERN EUROPE



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## NEEDS ASSESSMENT ANALYSIS OF SMALL RURAL HOUSEHOLDS IN SERBIA

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### INTRODUCTION

The economic structure of rural areas of Serbia depends largely on the primary sector and the exploitation of natural resources. Traditional, mono-functional agriculture is still dominant with Serbia ranking among the most agrarian states in Europe. The range and vitality of natural resources, the private ownership of land and experience in business cooperation, are some of essential preconditions for the diversification of the rural economy. These have not yet been put to good use in Serbia. The large share of GDP held by the agriculture, processing, mining and energy industries is coupled with the low share held by the tertiary sector is characteristic of the economic structure of rural areas in Serbia.

Out of the total number of households in Serbia's rural regions (defined by OECD methodology), 583,000 (or 43%) have farm holdings. There are 328,000 farm holdings of up to 3 ha in size which accounts for 56% of the total number of households in rural areas. The above data shows that, there are a significant number of rural households with modest land resources. A significant number of those holdings will never be transformed into commercially viable enterprises based solely on food production. This is because of their limited potential in terms of scale, the strength and flexibility of the work force and the limited availability of additional assets and capital resources. On the other hand, past experience shows us that farm holdings will not simply die out as part of the natural process of development. New development concepts, in particular the multifunctional agriculture and rural development, promote resistance function of rural areas, importance of preserving natural environment and biodiversity, ethnological ambiance and alike. Therefore, the small rural farm and non-farm households are forming important subjects, regardless of the possibility to commercialize their products and services. Even with optimistic predictions of growth in agriculture, the agricultural sector will be unable to absorb rural excess labour, which clearly points to the need for exploring the potentials of rural non-farm economies (RNFE). The development of the RNFE does not only increase employment opportunities for rural populations, but has knock-on effects that impact on the

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quality of living in Serbian villages. In Serbia, the RNFE could play a crucial role in the restoration of the rural economy (thus in the process of reducing poverty in rural areas) and in promoting livelihood diversification for the rural areas where so far remittances account for a significant percentage of the average household income.

### **RESEARCH METHODOLOGY AND DATA SOURCES**

In the process of defining research methodology several possible conceptual approaches were considered. For the field research the "Needs Assessment" method was chosen as a suitable methodological approach. This method is most often defined as a systematical process of collecting information, which has been used for:

- Identification of gaps between the achieved results or current situation and desired or projected results,
- Ranking of prioritized needs and/or marked gaps,
- Choosing the most significant problem to be solved.

It should be adjusted to specific circumstances, available resources, purpose and the aim of research.

Field research was conducted by surveys that were carried out among rural households:

- The survey was carried out on a nationally representative sample;
- The defined geographic regions within the national sample were: Flatland regions, Hilly and mountainous regions and Regions that enclose major economic centres within their surroundings;
- A selection of villages was made from within a polling station territory with the probability in proportion to size (PPS) within chosen municipalities;
- The selection of households was made according to the random steps method from set addresses (simulation SPSWoR of sample scheme);
- The respondent was the member of a household who made the major expenditure and investment decisions. This person is not a priori head of a household (does not have to be the owner of land).

For the purpose of this study the research was not strictly limited to households with farm holdings but took into consideration other households of modest economic income in rural areas. There is not a common definition of a small rural

household, a small farm holding or "semi-subsistence" farm<sup>1</sup>. At this time Serbia does not have adequate databases, which would allow the classification of farm holdings according to their size on the basis of sufficiently transparent criteria. Therefore it was decided that this analysis should focus on rural region farm holdings, which fulfil the following requirements:

- to have at least 3 members. This limit was set so as to avoid the inclusion of single person households and aged households into the analysis.
- to have at least one member aged 25 to 55. The purpose of this criterion was to focus on households with a younger labour force
- which have no more than one member with permanent employment. It was assessed that households with incomes from more than one permanently employed member in rural regions of Serbia cannot be considered as a vulnerable social group or a risky category.
- the area of intensively used land (including a lease), cannot exceed 3ha. Using the total area of agricultural land as a limit was deliberately avoided. Meadows and pastures are not relevant for some households, for they are not exploited. Therefore, households in Serbia often cannot provide precise data on the size of this kind of land.
- not to have more than a total of 10 head of small farm animals (sheep, pigs, goats) and 2 head of cattle.
- to own a flat or a house in a village in which they live.

Sources of secondary data were publications of Bureau of Statistics of Republic of Serbia: "The Census of population, households and flats" from 2002, Statistical annuals ("The Statistical Annual of Serbia" and "The Municipalities in Serbia" for period 2000-05) and Surveys ("The survey on labour force", "The survey on household consumption").

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<sup>1</sup> Within the EU there is not a common definition for an agricultural holding and each Member State has its own definition reflecting its agricultural structures. However, generally speaking agricultural statistics within the EU refer to farm holdings with more than 1 ha agricultural land size. In addition, the Directorate-General of Agriculture and Rural Development has defined what a *commercial agricultural holding* is. In this case a commercial farm is a farm producing on a yearly basis agricultural products of a total Gross Standard Margin over 2 European Size Units (ESU). This definition is applied for all farms and Member States which have a distribution of their farms by ESU size. Also farms followed by the FADN Network are the only farms of an economic size over 2 ESU. However in any Member States, particularly in the Southern Mediterranean where small scale of farming prevails, National Statistical Services provide a definition of farm based on the size of the land owned and/or rented.

## RESULTS

According survey results based on statistical definition of household type and subjective assessment of household incomes, importance of agriculture and perception of their future, socio-economic structure of small rural households in Serbia looks as in Table 1.

Table 1 Structure of surveyed households per defined variables (%)\*

Region	Household type			Subjective assessment										
				Main source of household incomes			Importance of income from agriculture			Perception of household future				
	Agricultural	Mixed	Non-agricultural	Agriculture	Small business or employment	Pension	Main	Additional	Do not have	Agriculture	Agriculture and additional job	Small business	Employment	Do not know
Hilly and mountainous regions	33	35	22	18	36	44	18	33	42	23	37	44	32	36
Flatland regions	29	32	51	33	35	32	33	37	32	29	21	29	41	32
Surrounding major economic centres	38	32	27	49	29	24	49	30	26	49	42	27	27	33
Serbia	39	49	12	27	52	20	27	29	43	19	10	11	40	20

\* The base – all households

Based on survey results, final conclusions were drawn and systematized as following:

### ***1. Human and Physical Resources of Small Rural Households***

Formal rural labour market in Serbia is characterized by high rate of unemployment, large hidden unemployment, and low share of employment in private sector and very low mobility of the workforce. Findings from field research shows:

**a.** Formal education of workforce in small agricultural households does not differ much from the rest of rural population. But, the level of additional knowledge and skills is rather modest and impractical for use in diversification of activities on the holding or outside it. *Most households do not appreciate the significance of the work force as a resource or the value of additional skills and abilities of their members. This means that households are not able to recognize the possibilities for alternative employment of their members in other activities either in the household or outside it.*

**b.** The percentage of women employed outside the household is two times lower compared to men, and three times lower in comparison with the officially registered employment level for women. The smaller presence of women in the labour market is the consequence of lack or insufficient offer of adequate jobs. *The long term scarcity of appropriate jobs for female workforce and their exclusion from the labour market is the reason for as many as 40% of the women stating that they are housewives, as opposed to only 18% saying they are unemployed.*

**c.** Small rural households are not actively incorporated into land market. Only 3% of the total number of holdings leases their land, and 6% take land on lease from others. On the other hand, 13% of the holdings do not cultivate their land, particularly due to the poor fertility and quality of soil, the lack of funds, etc. *For small rural households the available land is, primarily, a guarantee of food supplies for these holdings, and functions as capital in very few instances.*

**d.** *The physical capital of these households (equipment, facilities, machinery) is also modest, in average or below average state or repair, and is little used for the creation of additional income (for rental or offering service to other persons).*

## **2. Sources of Income and Their Diversification**

**a.** The majority of small rural households have *income from employment outside agriculture, from the sale of agricultural produce and from pensions.* Although only 27% of households see income from agriculture as their main income, 68% of them said that they created income from this activity. This confirms the thesis that agriculture is a significant buffer against social and economic instability of small household, which guarantees food security and reduces risks they are exposed to.

**b.** Of the total number of respondents with income from agriculture, more than one third sell cattle, milk or dairy products. The reason for high participation of cattle-raising in the income structure is that these farm holdings have a high level of hidden unemployment, not enough land to be competitive in crop-raising, little money for investing in labour-intensive crops on the one hand, and income security guaranteed by sale of cattle and dairy product on the other hand.

- c. A higher than average percentage of households in which *a woman or a younger household member is a decision maker, draw income from the sale of low-stage food processing* (cakes, pasta, meat products, pickled vegetables and similar).
- d. Agriculture, or agriculture accompanied with some additional activities, is perceived as the main future prospect primarily by households *who are currently drawing income only from agriculture*. Households who draw income from other sources do not show readiness to be engaged in agriculture or to invest in a farm related business.

All listed characteristics conclusively confirm the thesis of Davis and Pearce (2001) on distress push factors conditioning diversification of income into that from agriculture, employment income and pensions. The small numbers of households with income from their own business demonstrate that Serbian rural regions have not developed the environment conducive to the more intensive development of entrepreneurship and comparative advantages of human resource. Income structure of small rural households in all three entities (regions) proves that diversification is forced upon people by the need to reduce income risk, in other words by distress push factors.

### **3. Social Partners and Cooperation**

The institutions concerning themselves with rural areas and agriculture in Serbia have the lack tradition. Formally, trade unions and cooperative organisations have been present for a long time, but these institutions were “alienated” from the farmers, politically manipulated, and with insufficient capacities to meet their needs. During the 1990s these institutions were shattered, and in the meantime a different organisational structure, or another way of cooperation that would have a significant influence in rural areas, was not established. As a social group, the farmers are still isolated, and their interests and needs are not sufficiently articulated through appropriate forms of organisation. Hence, *as many as one third of surveyed households believe that not a single institution is working on the improvement of their situation*.

- a. The households can see neither their responsibility for the present state, nor their own ability to better their condition in the future. More often they see distant levels of decision making and responsibility, their local government and the State, as more responsible for their situation than the peasants themselves and their immediate environment (farm collectives, NGO, business sector).
- b. The benefit that small rural households enjoyed from the initiatives taken by local decision-makers is modest and inadequate to their needs and potential. A lack of means and access to markets were rated highly by small rural households among



their development limitations, which clearly demonstrates that they did not recognize potential business and social partners in their immediate surroundings.

**c.** Association and business cooperation are the most often used mechanisms for overcoming unfavourable economic position of households with limited resources. The difficulties of redefining status of cooperatives during the period of transition brought the activities of many of them to an end. In the meantime, much has been done to promote association and strengthening of the business cooperation, as well as to encourage farmers to join various professional associations, but only 37% of the respondents state that there is a cooperative in their village (12% that there is an association of farmers, and 2% that there is some other professional association).

**d.** Members of cooperatives and associations believe that these associations work well in 15% of the cases and recognize the benefits of their membership, while about 20% of the households believe that the association exists only on paper or that there are not enough members in order for the benefits of association to be more clearly felt.

**e.** Members of small rural households are rarely involved in social life of their village, except for sports clubs. Women are even more seldom active in any form of social association.

#### ***4. Perceptions of Households on Rural Livelihood***

**a.** Half of the surveyed small rural households (50%) assess their living standard as average. However, more than 41% of them believe that their living standard is poor or very poor. What is encouraging is an optimistic prognosis concerning the future prospects of farm holdings - One third of respondents expect that their situation will improve.

**b.** The respondents have a very limited view of the developmental advantages and potential of their household (similar to their assessment of work force abilities). The majority of the respondents could not think of a single advantage of their households over others or refused to answer this question.

**c.** Almost 50% of households see their future outside agriculture and in “off farm” activities. Agriculture, or agriculture with an additional activity, is seen as a future prospect only by those who are currently solely dependant on income from agriculture. *Households who draw income from other sources do not show readiness to be engaged in agriculture or to invest in a farm related business.*

**d.** Those seeing the future of their households to lie in starting up a private business or an additional business along with the agriculture (19% of the total households) most often include the following in the list of businesses in which they

could get involved: opening of a small craft shop, services rendered using the machinery and equipment, trade, as well as a grocer's, boutique.

*e. Rural tourism, food processing and finishing treatment, gathering and production of forest and medicinal herbs, are seen as their potential prospective business by 5-10% respondents seeking their future prospects in additional activities on the holding, or in starting up a private business. These numbers are quite discouraging and reveal fairly small knowledge of the opportunities and/or modest potentials of the households preventing them from involving themselves in an aspect of rural economy diversification.*

*f. Dissatisfaction about communal problems is matched by dissatisfaction with the services aimed at addressing them. A lack of economic infrastructure, social capital or poor organizational capacity is seen as less of a problem. This is more the result of their lack of understanding about such resources than a lack of need for them.*

##### **5. Business Environment and Economic Infrastructure**

**a.** No more than 8% of the surveyed households have contacts with advisory services. This percentage is not worrying bearing in mind the insignificant share of agricultural income in total income of these households and their resource limitations. More important is the result that more than 40% of households are not aware of the existence of such a service, and that another 24% have a need for such services but do not know how to access them. Clearly, the present forms of information distribution are not adequate and a better system is required.

**b.** Although most respondents tended to shift the responsibility for their situation onto the state and government, the answers given clearly demonstrated that the households themselves had not done enough to improve their circumstances. When asked about the current measures of agrarian policy, the respondents declared no knowledge of them. A significantly smaller percentage of households used the programs (the most used was milk premium – 12% of small rural household). *Being poorly informed, difficulty in accessing advisory services, and a low level of initiative and lack of local administrative capacities, remain the main limitations to a more active use of state aid resources.*

**c.** *Although they see lack of money as their main development limitation and need information on financial subsidies, three quarters of small rural households never tried to get a loan.*

**d.** For the households who tried to advance their production through income diversification and starting up a new activity (22% of surveyed households) the key problems were a lack of money/loans and lack of market. The lack of capital,

unfavourable loan conditions and low prices of agricultural produce are seen as main problems by those households who are tied to agriculture and see their future prospects in it.

In spite of severe dissatisfaction with their position, quality of life and pessimistic vision of future, half of the respondents did not see these factors as a reason for leaving the village. When we add another 20% of the respondents who never thought of leaving rural life, we come to the results that as many as 60% of the respondents are not ready to migrate. As the most important preconditions for a better life the surveyed households see in the following:

- employment opportunities outside agriculture (66% of respondents)
- access to loans (57%)
- better organized market (40%).

## **CONCLUSIONS AND RECOMANNDATIONS**

On the basis of the current state analysis regarding:

- The current state in rural areas of Serbia and their importance in the economic structure,
- The importance of small rural households in the socio-economic structure of rural areas in Serbia,
- The assessment of present state and quality of life in rural areas and socio-economic position of small rural households.

It is evident that a series of simultaneous measures and activities are necessary to improve of current state in Serbia. Broadly speaking, the range of measures must be directed toward two main goals:

1. *An increase and a diversification in the* income of small rural households
2. A decrease in *nominal and concealed* unemployment of household members.

Activities necessary for the achievement of these goals include the following:

- a) The creation of an adequate information base for a valid, scientific and expert interpretation of the rural area situation
- b) Defining regional and local development strategies
- c) The construction of institutionalized and administrative mechanisms for creation and implementation of strategies and rural developmental programs from national to local level
- d) Strengthening of local cooperation among all participants
- e) Revitalization of rural infrastructure and other services

f) The development of a rural financial market

g) The development of agriculture

Serbia's performance with respect to diversification of economic structure in rural areas is comparable to that of the surrounding countries (Davis J.R., Bezemer D. 2004), since it is under the influence of almost identical factors:

- low asset accumulation capabilities of rural households,
- unfavourable capital market and uncertain investment environment,
- limited market for the placement of produce and services by rural areas,
- inadequately educated human potential with low level of private entrepreneurship and other.

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