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The rural development policy of EU in context of improving rural areas of Serbia¹

Abstract: The implementation of numerous programs/rural development strategies of local governments in Serbia depend partly from activities of local government, and *partly from* willingness of associations of physical persons and legal entities, co-operatives and other members of the LAG - to take steps to implement action plans and strategic development priorities of local communities. However, it is important to note that for greater participation of LAGs in implementing rural development policy in Serbia a number of assumptions should *be* fulfilled: (1) *strengthening the number and capacity of socio-economic of citizens' associations, clusters, cooperatives, agricultural companies and other potential members of LAG* (2) creation of more favorable economic climate/environment for bigger investment in agriculture, primary processing and many other activities associated with agriculture, which can be successfully realized in rural areas of Serbia. *In further work the emphasis is being put on these two key assumptions of successful application of Leader approach in future programs and policies for rural development in Republic of Serbia.*

Keywords: *rural development, diversification, competitiveness, local action groups, associations, clusters, cooperatives.*

¹ The work is part of the research project III 46006 "Sustainable agriculture and rural development in function of accomplishing the Republic of Serbia strategic objectives in the Danube region" financed by the Ministry of Education and Science of Serbia.

EU Rural Development Policy for 2007-2013th year includes three main aims, namely the axes of development: (1) the increase of agricultural sector competitiveness; (2) promoting and protecting the environment and rural ambient by supporting land management; (3) Economic diversification and improvement of life quality in rural areas. The fourth axis is defined as Leader + programme and represents the horizontal component of rural development and access to funding and implementing rural development policy. Leader + programme is the top framework through which all the projects of rural development in EU member states are being implemented. Leader approach to local development is useful because it provides strengthening the local communities capacity and with decentralized approach ("bottom up") provides propose and implementation of useful, applicable and beneficial projects for rural development. A particularly important Leader approach element are so called Local Action Groups (LAG), which should start a variety of initiatives to develop local community using the "bottom up" approach. These are independent promoters and conductors of local policies / strategies for rural development, and only through them the available resources from EU structural funds for rural development can be used. LAGs may be consisted of local governments (through the Office for Local Economic Development), regional chambers of commerce, NGOs, public / scientific and other institutions, associations / civic groups, clusters, cooperatives etc. - who know the problems of local community and who can propose innovative and constructive projects, leading to improvement of economic, social, cultural, living and working conditions in rural areas. The typical for the work of LAGs is the existence of local people, businesses and institutions interests to implement rural development programs, as well as their active participation (with government agencies and ministries) to strengthen economic and social capital of local communities.

For the implementation of rural development through the axis of Leader+, pre-adoption/adoption of community development strategies and action plans for local development is important. These strategies and action plans must be focused on strengthening productivity, competitiveness, innovation and employment in rural areas. Although there is no data on the number of LAGs in Serbia, nor formal assessment of their capacity to apply the European model of rural development can be given, it is important to note that, according to a survey, the capacities of LAGs in Serbia are small and the use of the Leader approach in implementation of rural development policy in Serbia is still symbolically represented. More often the main actors appear to be a LAG local government and rural communities, whose activities usually begin and end with development strategy of socio-economic progress of rural / local community and progress action plans. In the past, many international institutions projects were implemented under to strengthen the capacity of local governments and the funds were usually invested in development strategies of local municipalities. In addition, it is important to emphasize that the development strategy of community development and action plans is only the first step in implementation of local / rural development.

Natural conditions: relief, climate, soil, water resources, forest resources

Serbia has **favorable natural conditions** for development of diversified agricultural production, since it is located in the most favorable area of north latitude. Together with climate, soil is the most important natural condition for agricultural development.

Relief - Relief characteristics divide Serbia into two big geographical units, of similar size, but with different agro-ecological potential: (1) Pannonian area and (2) mountain-depression area, which is characterized by heterogeneous geological structure. From the aspect of elevation, lowland areas (up to 200 m) occupy around 37% of the Serbian territory. Hilly (200-500 m) and low-mountain (500-1,000 m) region occupy approximately the same part, of around 26% each, while the mountain region occupies (above 1,000 m) nearly 11% (Popović, 2011). Lowland regions are located in the Pannonian Plain and its rim – Mačva, the Sava Valley, the Morava Valley, Stig and Negotinska Krajina, while the hilly and mountain regions are located in the central and southern part of Serbia. Each region is suitable for certain type of agricultural production. Thus the lowland regions are suitable for mechanized crop and vegetable production, hilly regions are suitable for fruit, wine and livestock production, and hilly-mountain regions are suitable for developing sheep and cattle production and forestry.

Climate - Favorable climate conditions provide sufficient amount of light, heat and humidity for growing various agricultural crops and achieving their high yields (Popović, 2011). Moderate continental climate prevails in broader area. Basic characteristics of agro-climatic region to which Serbia belongs are: relatively long growing season, large number of sunny hours and insufficient rainfall, especially in its lowland, the most fertile areas, which therefore require irrigation. In comparison to Western European countries, agro-climatic conditions of Serbia are worse in terms of high rainfall and humidity during the growing season. In relation to the North and Central Europe and the East European Plain, the conditions are more favorable.

Soil - Some of the characteristics of rural areas in Serbia, regarding the soil are the following (Popović, 2011):

- Due to decline/vanishing of pastoral farming, pasture degradation is even more expressed;
- Significant part of the orchards is neglected, planted densely without plan and devastated;
- Under the influence of depopulation, and partly because of low profitability of agricultural production and unsolved property rights and obligations, part of arable fields is under fallow for many years;

- There is great fragmentation of land and agricultural households, with numerous hedges and boundaries, which contributes to the mosaic structure of a landscape.

Serbia has great and so far insufficiently valorized opportunities for harmonization of environmental, economic and social aspects of use of agricultural land. This refers to considerably larger **area of utilized agricultural land per capita (0.64 ha)** compared to almost all EU countries, except Ireland and Lithuania. **Around 63.7% of total territory of the country** is intended for agricultural production, where the share of agricultural area in total land area is spatially very differentiated, as well as the structure of use of agricultural land.

According to data of Statistical Office of the Republic of Serbia for 2009 (Statistical..., 2010):

- In Serbia **the total area of agricultural land** is 5,097,000 ha, and it comprises all categories of cultivable and uncultivable land. Per capita (population in the mid 2009 for the Republic of Serbia, without Kosovo was 7,320,807) – Serbia has 0.7 ha of agricultural land.
- Even 82.3% of agricultural land is owned by family farms.
- Serbia has 5,058,000 ha of **utilized agricultural land**. Within this land **the arable land** is 4,224,000 ha and it makes 83.5% of total utilized agricultural land².

The structure of utilized agricultural land (for 2009) is the following: arable fields and gardens make 65.3%; orchards make 4.7%; vineyards make 1.1%; meadows make 12.3%; pastures make 16.5%. In the structure of sown areas of arable fields and gardens: areas under cereal crops make 59%; areas under industrial crops make 12.2%; areas under fodder crops make 13.8%; areas under vegetable crops make 8.4%.

Quality of agricultural land - Soils in Serbia in terms of suitability for use in agricultural production are classified into 8 quality categories. For Serbia as a whole, distribution of land suitable and non suitable for processing is almost identical. Limitations for managing the agricultural production are the least expressed in Vojvodina, and the most expressed in Kosovo and Metohija.

In general, around 2,1 million ha of the first and second quality class soil (57% of the total arable land) is suitable for processing (EPA, 2009). Soil type: Phaeozem, Vertisol and Eutric Cambisol are the soils which are highly productive and it occupies an area of 2,317,000 ha (Popović at all, 2011). The report of Environmental Protection Agency from 2009 emphasizes lack of systematic monitoring of state of the soil in the entire territory of the Republic. By macro project of MATFW „Soil fertility control“ starting from 1993, basic parameters of soil fertility and pollution in Central Serbia have been followed. According to the analyzed soil chemical properties, relative soil fertility was determined, while the limitations were related to high acidity and very low phosphorus supply (EPA, 2009). Over the last decade **the total areas of**

² Cultivable area: arable fields and gardens, orchards, vineyards, meadows.

agricultural land in Serbia were reduced for nearly 37 thousand ha mostly because of intensive crops. The main reasons for reduction of arable land are: (1) expansion of the areas built in peri-urban zones; (2) insufficient economic motivation of households to work in agriculture; (3) rural depopulation; (4) institutional and economic problems of privatization and restructuring of agro-industrial complexes (Popović et al., 2011).

Water resources - Water resources are favorable. 92% of all available water is transit water and therefore cooperation with the countries of the Danube River Basin is of great importance. Water regime, although beneficial, has not been sufficiently used. River flows are little used for irrigation. Only 0.72% of the total arable area is irrigated (30,576 ha are irrigated areas) and mostly by artificial rain (sprinkling) (Statistical..., 2010). Agricultural production depends on rainfalls, which are unevenly distributed in time and space. Mineral and thermo-mineral waters represent significant sources.

Forest resources - The total land area under forests in the Republic of Serbia is 1,978,112 ha (in public sector there is 48% of the total land under forest, and the remaining 52% of land under forest is located in private sector). The state of forest resources is not satisfactory and it is characterized by high proportion of low quality forests and inadequate care for artificially established forests.

Definition of rural areas and their size in Serbia

In Serbia there is no official **definition of rural areas**. The criteria applied by the Statistical Office do not include the standard rural indicators, which can be found in international practice (population density, population, the share of agricultural population, etc.), because **rural areas are considered to be parts of the country which are not urban**. In other words, the division between urban and other settlements is based on municipal decisions, by which the city status is granted to a settlement that has made the Master Plan. Therefore, urban settlements are those that are proclaimed as urban by the decision of the local self-government, and the rest of settlements is classified as „others“, that is rural settlements.

National Rural Development Programme, 2011 (NRDP, 2011), provides the modified strategical categorization, until the NUTS regionalisation is fully implemented. According to NRDP, 2011 rural areas are all inhabited territories except cities, which granted that status according to the Law on *territorial organization of the Republic of Serbia* and have more than 100.000 inhabitants³. Since in Belgrade and Niš there are municipalities where agricultural production is expressed, in these two cities was used the OECD definition of rurality which refers to the local level (rural settlements are those with

³ In Serbia 24 units of local self-government have city status, according to the Law on territorial organization of the Republic of Serbia (Official Gazette RS No. 129/07). They are: Belgrade, Valjevo, Vranje, Zaječar, Zrenjanin, Jagodina, Kragujevac, Krajevo, Kruševac, Leskovac, Loznica, Niš, Novi Pazar, Novi Sad, Pančevo, Požarevac, Priština, Smederevo, Sombor, Sremska Mitrovica, Subotica, Užice, Čačak, Šabac.

a population density of less than 150 inhabitants/km²). According to this classification, the municipalities Barajevo, Sopot and Surčin in Belgrade, as well as the municipality Niška Banja in Niš are subsumed under rural areas.

Rural areas in Serbia. Within the EU project „Support to Rural Development Programming and Payment System for the Republic of Serbia and Montenegro“, by cluster analysis of more than forty indicators, the homogeneous rural regions of Serbia are defined, which sufficiently reflect heterogeneity of Serbian rural area. Characteristics of rural areas of R. of Serbia are given in NRDP, 2011. Generally speaking, rural areas are characterized by high level of differentiation in terms of demographic trends, natural, economic and market conditions (availability of the market and conditions for marketing), then the conditions for agricultural production, rural and social development. Based on the cluster analysis, Serbia is divided into the following 4 regions: (1) region of highly productive agriculture and integrated economy, (2) region of small urban economies with labour intensive agriculture; (3) mountain region with economy based on natural resources, (4) region of high tourism capacities with poor agricultural structure. According to NRDP data, 2011, size of the rural areas in Serbia (without the K and M) is 65.952 km², which makes **85% of total territory of the country**. About 83% of the total number of settlements is located in rural areas and the average population density in the R. of Serbia is 97 inhabitants / km² and is much lower in rural (63 inhabitants/km²) compared to urban areas (289 inhabitants/km²).

Analysis of rural population

Size of the rural population and migrations - According to NRDP data, 2011, 4,16 million inhabitants or 55% of the total population of the Republic of Serbia live in rural areas (Census, 2002). In the 1991-2002 period the population in rural areas in Serbia has been reduced for 3,6% compared with a total decline of 1% at the state level⁴. Negative growth rates of the rural population are influenced by: (1) lower presence of women in reproductive age; (2) small range of high-quality jobs and (3) adverse conditions of living in the countryside. Better quality of life, greater chance of success in the labor market and more developed social care services particularly encourage migrations of younger female population from village to town or city. The rate of out-migrations is 1.48 for the Republic of Serbia and -0.14 for rural areas (NRDP, 2011). According to LFS (October 2010) and statistical definition of rural areas (which is not congruent with the definition of rural areas in NPRR, 2011), 3,18 million of inhabitants or 42.6% of the total population live in rural areas in Serbia (Table 1).

⁴ Growth of rural population from 1991 to 2002 is registered in sub-urban and rural areas near big agricultural centers. National Rural Development Programme 2011-2013, Official Gazette No. 15/2011, p. 11.

Table 1. Total population and structure according to settlement type, October 2010

	Serbia	Urban settlements	Rural settlements
Total population	7,468,619	4,284,144	3,184,475
Total population, structure per settlement (%)	100	57.4	42.6

Source: Labor Force Survey (LFS), October 2010, Statistical Office of the Republic of Serbia, Belgrade, p. 3.

Age structure of the rural population - The ageing index (ratio between the population aged 60 or more and the population of children aged 0-19) is much higher in rural than in urban population and is 124,7%, to 97,4% (NRDP, 2011). In the southeastern part of Serbia the population age rate is particularly high. According to the LFS data, October 2010, the share of population aged 15-24, as well as aged 25-34 is higher in urban settlements than in rural. At the same time, the share of population aged 65 and more is significantly higher in rural types of settlement as opposed to urban settlements (Table 2).

Table 2. Population structure aged 15 and over, according to age and settlement type, October 2010.

	Serbia	Urban type of settlement	Rural type of settlement
	100%		
15-24 years	13.6	14.3	12.7
25-34	12.7	13.4	11.8
34-44	13.3	13.0	13.6
45-54	17.2	17.1	17.3
55-64	19.4	20.0	18.5
65 years and more	23.7	22.1	26.0

Source: Labor Force Survey (LFS), October 2010, Statistical Office of the Republic of Serbia, Belgrade, p. 8.

Educational structure of the rural population - Various sources/studies point out the negative educational structure of rural population, which adversely affects the ability of diversification of household activities, and thus increase of standards of living for this population.

- According to the 2002 Census data, from the total number of household members (2,536,378), even 55.9% are members with incomplete primary school that is with finished primary school.
- According to the LFS data, October 2010, in the structure of inactive people in rural areas, even 60.3% of them are with low level of education (Table 3).
- LSMS 2007, indicates poor knowledge and additional skills of the rural population. In fact, even 97% of the rural population stated that they did not attend further education courses, and 54% that they do not have the necessary knowledge and skills (Statistical..., 2008).

Table 3. Structure of non-active people according to education and settlement type, October 2010

	Serbia	Urban settlement	Rural settlement
Total	100%		
Without school	5.3	2.9	8.8
Low level of education	45.8	35.7	60.3
Average level of education	39.7	48.0	27.8
High level of education	9.2	13.4	3.1

Source: Labor Force Survey (LFS), October 2010. Statistical Office of the Republic of Serbia, Belgrade, p. 25.

- The survey of small rural households shows that the educational structure of mixed household members is more favorable than other types, and that in comparison to the average of rural areas in Serbia, highly educated population is very little represented in the total number of small rural households (Bogdanov, 2007).
- Research on social exclusion of the rural population (UNDP 2010), indicates that more than half of the respondents aged 15 and over are without qualifications in rural areas. Intergenerational differences indicate the improvement of educational characteristics of younger generations⁵.

Health of the rural population and access to retirement and disability insurance and social care services. UNDP survey, 2010 indicates that the social insurance coverage of the rural population (pension and health insurance coverage) is not satisfactory (UNDP, 2010):

- Over half of respondents of working age do not pay Pension and Disability Insurance. This problem is even more expressed among farmers, than among the people employed in non-agricultural activities.
- Even 13% of respondents have no health insurance and is facing serious difficulties in accessing appropriate health care services. There is higher present of workers employed in agriculture and unemployed people who are not covered with health insurance than those employed in non-agriculture.
- Access of rural population to social care services is extremely weak. In hardest position are old people in villages, especially those who live in elderly households.

According to data of the Republic Fund for Pension and Disability Insurance, in February 2011 the number of farmers as pension beneficiaries is 221,795, which is only 28.5% of the total listed households (778,891, Census 2002). Having in mind that the average pension which the farmers receive is extremely small (for February 2011 it is 8.743 dinars or 86.2 EUR according to the middle exchange rate of 101.48), one of the main reasons why the farmers choose to be policy holders within the Fund is the fact that the right to subsidies from agricultural budget is granted only to farmers who have retirement and disability insurance.

⁵ Research was conducted by surveying the sample of 1621 households, and sample was made according to OECD standards for defining of rural areas. Social Exclusion In Rural Areas In Serbia, UNDP 2010, p. 14.

Economic structure of rural areas

Serbia has **favourable natural conditions** for development of diversified agricultural production, since it is located in the most favourable area of north latitude. Together with climate, soil is the most important natural condition for agricultural development.

Primary agricultural production is an important factor in the overall national economy, above all because of its share in GDP and total employment. The share of primary agriculture in the creation of Serbian GDP in 2009 is **10.45%** (GDP at constant prices in 2002). Together with manufacture of food products and beverages and manufacture of tobacco products, the agriculture and food sector make **14.7% of GDP in Serbia** (Statistical..., 2010).

Rural areas in Serbia form 41% of GDP of the country. Economic structure of these areas mostly depends on the primary sector (especially agriculture) and is still based on the depletion of natural resources (Bogdanov, 2007).

According to NRDP 2011 data, the share of agriculture in GDP in rural areas is around **30%** (which is much more than in other transition countries), and realized GDP in rural areas per capita (for 2005) is **less for a quarter of national average**⁶.

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

Serbia has great potentials for development of rural non-farm economy, especially in the following fields: development of spa and rural tourism, manufacturing and processing of organic products, then manufacturing of the products made according to the traditional recipes, products that have protected design of origin (PDO-Protected Designation of Origin) and products with protected geographical indication (PGI-Protected Geographical Indication). Serbia also has great potentials in the so-called alternative production, such as beekeeping, mushroom cultivation, breeding of wild animals, growing of medical and aromatic plants and herbs etc.

However, many market and financial factors limit the use of these resources. Employment possibilities for household members outside agriculture in rural community are very poor (lack of jobs), and the possibilities to start private entrepreneurship within own household are limited by low financial capacity of the rural population and high market and investment risk.

The structure of employment and income of the rural population shows that in Serbia **income diversification is forced by circumstances**, reflecting the un-

⁶ Table with economic structure scheme of rural areas in Serbia, without K and M, is given in National Rural Development Programme 2011-2013, Official Gazette No. 15/2011, p. 12.

favourable economic environment and rural poverty (Bogdanov, 2007). Low productivity in agriculture and inability to earn enough from agriculture, are particularly expressed in small rural households (households whose area of utilised agricultural land does not exceed 3 ha), so that the high percentage of these households (nearly 50% according to researches of Bogdanov, 2007), see their perspective outside agriculture and in „off farm“ activities. However, among these, small households, there is a problem of inability to diversify activities, having in mind extremely low offer of jobs in rural areas, as well as the fact that these households do not have their own accumulation, which could invest to start some entrepreneurial activities.

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

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

Research of UNPD, 2010, also indicate that the highest degree of diversification of agricultural income have households located in West Serbia (which have even more mixed households than in other areas), and the least income diversification from agriculture have households in Vojvodina.

Availability of social capital and potentials for LAGs development

Social capital of the rural population is low, no matter what region or ethnic group is in question and there is a huge space and chance to increase the level of social cohesion in rural communities by increasing the culture of associating (UNDP, 2010).

As relevant local decision makers in rural areas of Serbia in literature are stated (Bogdanov, 2007):

- **Representatives of local self-government units** (municipal authorities), including also the regional chambers of commerce, SME agencies etc.
- **Business sector representatives** (SMEs, entrepreneurs, producer associations, agricultural cooperatives);
- **Representatives of NGOs.**

The cooperation between these active participants is insufficient, not coordinated and sporadic (Bogdanov, 2007). The cooperation with rural population is especially low (agricultural household members). High percentage of respondents (34%) within small rural households state that none of the institutions is currently working to improve the situation of rural households, and while being unable to recognise other relevant active participants and social partners, small

rural households blame the State and government for the current situation in rural areas (Bogdanov, 2007).

In the LAGs analysis **the weaknesses or poor capacity of connecting the farmers into associations and cooperatives should be emphasized**. The reasons why these forms of associating are not developed can be found from the point of:

- **Farmers:** (1) undeveloped awareness about the need and benefits of associating; (2) mentality of the farmers (lack of confidence in state government, other farmers; domination of personal and short-term interests over long-term and mutual interests); (3) unequal economic power and size of household that makes it difficult to associate; (4) negative experiences in the functioning of associations/cooperatives; **as well as from the point of**
- **State, that is relevant ministry:** (1) lack of financial, legal and advisory support of the State for establishing and functioning of the existing associations/cooperatives; (2) underdeveloped business environment for engaging in agriculture, processing and non-agricultural activities.

Agricultural cooperatives - Problems in functioning of cooperatives are numerous and mostly lie in inadequate legal basis (inconsistency of laws, slow pace of adopting new laws), which regulates the issues of: (1) establishing and functioning of cooperatives; (2) privatization in agriculture; (3) markets of agricultural products; (4) financing of agriculture etc. Beside inadequate legal basis, addition problem is non-application of already existing laws. The consequences of this situation are cooperatives that do not meet the needs of sustainable rural development and which the farmers do not recognize as their own associations. Large number of cooperatives in Serbia does not function according to cooperative principles, has great financial and organizational problems, as well as the problem in defining ownership of property. The role of cooperative sector in Serbian economy is best reflected by satellite accounts of the cooperative sector in Serbia, which indicate that the share of GVA (gross value added) of cooperative economy in total GVA is only 0.18% in 2009, and the share of GVA of cooperatives of sector A (Agriculture) in GVA of sector A (Agriculture) on the overall economy level equalled only 1.5% (Statistical..., 2011B).

Associations of agricultural producers - The Law on Associations was adopted in 2009 (Official Gazette RS, No. 51/09), which is encouraging for civil sector development in Serbia (the law enables connecting of physical and legal entities). Associations of agricultural producers, although numerous, have little negotiation strength in comparison to the State, trade and industry and do not contribute to more efficient and easier sale or marketing of agricultural products. Association activities are small and very often benefits from membership of associations only result in the availability of advisory services and scientific knowledge (organisation of conferences, lectures etc.).

Clusters - The Ministry of Economy and Regional Development of the Republic of Serbia was developed the first, pilot project of clusters development in 2005/2006, when was supported foundation of 4 cluster initiatives. At this moment, in Serbia exist around 30 clusters, financially supported and recognized in the Ministry of Economy of RS⁷ or in the Government of Vojvodina (Provincial Secretariat for Economy). Small number of them is in area of agriculture. The existing clusters have not yet given visible results and more significant effects on competitiveness and productivity increase, neither on level of associated enterprises nor on local communities' level.

As a nature and profundity of the clusters vary with economy development and development of business environment, in all countries in transition and development, so the clusters are insufficiently developed, „suffer“ from lack of many supporting industries and institutions, specialized local infrastructure, education programs etc. (Porter, Schwab, 2008). The same case is with Serbia, where the process of cluster development is limited partly by insufficient direct financial support to the clusters development, but substantially – undeveloped public institutions, physical infrastructure, macro-economic and political stability, undeveloped financial market, monopolized goods market and similar. According to the questionnaire research, which by the authors have comprised all existing clusters in the R. of Serbia (the research has been realized by telephone and e-mail, in period January-March 2010), there can be separated basic characteristics of clusterization process (IAE, 2011):

- Most of the clusters base on the products of low added value or on the products of higher phases of industrial processing, along with use of older generation technology;
- The cooperation between companies in the cluster is insufficient and mostly limited only on those companies which deal with the same activity or same processes in value chain (cluster as association);
- The cooperation with research institutions is mostly in the field of training, professional staff training, seminars, education, and significantly less in the field of innovation and improvement of products, work processes, production technologies,
- There is great dependence on import components (raw materials, technologies),
- The export is difficult, and the most quoted obstacles are: undeveloped production technology, standardization, lack of financial means for marketing, especially for negotiation of higher production and improvement of the product's quality,
- Poor innovative capability of clusters (lack of money for commercialization of innovations),
- The clusters have local character and poor economic power regarding annual turnover and contribution to DP of the country,
- Impossibility of clusters to develop critical mass of enterprise and capacity,
- Most of the clusters are not sustainable without government financial support,

⁷ <http://klasteri.merr.gov.rs/Klasteri-u-Srbiji>

- The primary motives for forming the clusters are as following: 1) mutual resolution of some problem, goal (for example, waste water problem, merging demand and enlarging the assortment, visiting fairs and marketing promotion), 2) using EU funds for cross-border cooperation, 3) using government financial support,
- Most enterprises in clusters do not have introduced quality standards and there is often expected governmental financial support for introducing the standards,
- It is common that the cluster exists just formally (only on paper). It includes companies or institutions which have no participation in the cluster (except the formal one).

Limitations for rural economic development and implementation of leader approach

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

- ***Non-simulative/undeveloped economic environment for SMEs establishing and strengthening of entrepreneurship*** (ADA, 2010): non-application of enacted and often non-conforming laws; high tax burden (especially taxes and contributions on gross wages); obligations to pay VAT when invoicing the products/services (for unpaid receivables); inefficient enforcement of court decisions/Enforcing contracts; long periods of receivables leading to insolvency of business entities; insufficient protection of property rights; underdeveloped market of agricultural products.
- ***Unsuccessful privatization of enterprises which leads to breaking the vertical connections*** and failure to establish ownership links between primary producers-processors;
- ***Underdeveloped financial market***: high price of capital, lack of venture capital and foreign investments, underdeveloped micro-credit financial institutions with programmes designed for farmer needs;
- ***Insufficient budget support for strengthening the competitiveness of the agricultural sector and rural development***. Support for agriculture in Serbia is very unstable in terms of scope and manner of distribution. For this reason large number of households is exposed to a high degree of business risk, and poor households do not manage to overcome their development limitations (Volk at all, 2009).
- ***Underdeveloped legal basis for establishing public-private partnerships***;
- ***Underdeveloped physical infrastructure***, especially infrastructure of electronic communications;
- ***Lack of trained human resources, low capacity of innovations and low level of private entrepreneurship***.

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

- **Lack of strong competition** in the field of processing of agricultural products (especially in the field of processing milk and industrial plants) and trade in agricultural products. The fact is that the market of processing, buying and selling of agricultural products is characterised by the existence of **oligopsony, where small and not united agricultural producers have very little negotiating position or influence on purchase conditions, receivable payment periods and formation of the purchase price.**
- **Lack of effective anti-monopoly policy.**
- **The presence of „grey” economy** that is wholesale buyers. Gray economy leads to unequal conditions of competition for the companies which operate legally and those that avoid laws, and domination of grey economy is present not only in selling of the products, but also in business activities/registration of the companies, in employment of the workers etc⁸.
- **The absence of intervention purchase** (still unreformed Procurement Agency according to the model of the agency for EU intervention purchase).
- **Underdeveloped modern distribution centres for purchase and wholesale markets**, in which the trade of agricultural products would be put into legal channels.

One way of developing the market of agricultural products is by **establishing public-private partnerships** during the creation of distribution centres for purchase and wholesale markets, where equally important partners and shareholders would be: the city/local self-government, public enterprises, retail chains, exporters/importers, agricultural cooperatives and strong individual producers.

Particularly important factor that could contribute to the successful establishing of LAGs and accelerate rural development is affirmation of public-private partnerships. Decentralization is the key for establishing this partnership and it means:

- Restitution of property to local self-government (Law of Public Property was passed in 2011);
- Fiscal decentralization;
- Increasing the basic and transfer revenues of local communities (COE, 2011).

As owners of the property municipalities could enter into partnerships with private and cooperative sector, foreign investors take loans and issue bonds and generate revenues. Beside **decentralization**, for rural development of cru-

⁸ According to the survey of Serbian Association of Employers, tobacco has the smallest turnover from gray economy, while the biggest turnover have seasonal fruit, vegetable and poultry. According to the same source, there are two reasons why gray economy is dominant: high tax burdens and extremely long payment periods. Source: Conditions and Burdens on doing Business and Collective Bargaining, p. 4-6.

cial importance will be **strengthening of human and technical capacities of local self-governments** to identify and support potential projects and stakeholders, and especially projects oriented towards strengthening the market and processing capacities of farmers, promotion and marketing of agricultural products.

Analysis of potentials for LAGs establishing and rural development in selected municipalities based on interviews with coordinators rural development support network

Subotica municipality - This municipality is located in the rural region 1 (Region of highly intensive agricultural production and integrated economy) and in relation to all other municipalities in this region it has the largest number of agricultural households (Census, 2002). According to data from Regional Office of rural Development of Subotica, in this municipality there are significant capacities for rural development, as well as great number of actors/stakeholders that can be included in establishing of LAGs. First of all, in Subotica there is great number of associations (fruit, vegetable and crop producers), followed by successful and active agricultural cooperatives (fruit, vegetable and crop cooperatives), there are big and significant capacities in food industry (especially important is alcoholic beverage production, confectionery industry, cereal and milk processing, production of animal feeds, etc.)⁹. Veterinary institute, (<http://www.vetzavod.com>), Agricultural Extension Service, Regional Office for Rural Development (<http://www.rkancelarijasu.net>) also function in the municipality. Within local self-government, the Local Economic Development Office was founded, within which the Department of Agriculture works. The municipality has established two funds to support farmers: Fund for Agricultural Development (an independent fund) and Budget Fund for Agricultural Development (this fund was formed to establish cooperation with the Ministry of Agriculture in terms of subsidized loans for farmers). Capacities for rural development are insufficiently developed in the field of crafts, rural tourism, as well as in fruit and vegetable processing on the farms that is at the level of SMEs. Data about the capacities for rural development and potential members of LAGs are studied in detail and identified by the Regional Office for Rural Development in Subotica. These data were submitted to the Ministry of Agriculture of the Republic of Serbia.

Kraljevo municipality - The municipality belongs to the rural region 2 (Region of small urban economies with intensive agriculture) and in relation to all municipalities of this region, has the largest number of agricultural households (Census, 2002). Farmers' associations are insufficiently active and have poor capacity, although there are initiatives for associating, as well as the awareness about the need for joint action. Agricultural initiatives exist, but in most cases they are the so-called private cooperatives, that are companies owned

⁹ Economic Development Strategy of Subotica Municipality 2007-2011.

by one family. In Kraljevo there are more cooperatives and SMEs engaged in growing and/or collecting, processing (dried and marinated mushrooms) and distribution of mushrooms: white button mushrooms, as well as other types of mushrooms as forest fruits (porcini mushrooms, chanterelle mushrooms, oyster mushrooms). The potential for rural development exist in the field of fruit processing, regarding the fact that the municipality has a lot of orchards (first of all, apple and plum orchards). In the field of rural development rural tourism development can be particularly interesting, as tourists come to this area mainly to visit the famous monasteries (Studenica, Žiča) and churches.

Smederevska Palanka municipality - Municipality in the rural region 2, which has the highest percentage of agricultural land. In the municipality fruit production is very developed (cherries, plums, grapes, apples, pears, peaches, apricots), as well as livestock production (great number of registered heads of Simmental cattle). There is a number of cooperatives which gather fruit producers and which successfully operate (ZZ Lipovac, ZZ Stari Golobok, ZZ Agroselo), as well as Municipal Association of Agricultural Producers „Mezul“. The capacities for rural development exist in the field of processing of the agricultural products based on traditional recipes, as well as in the field of spa and rural tourism, regarding the fact that the municipality has great potentials in springs of mineral/sparkling water. The biggest problem is in product placement and lack of capacities for processing and storage of agricultural products. These problems are one of the reasons why the vegetable production is at very low level. More young farmers are registered in the municipality, thanks to the regulations of the Ministry of Agriculture, and in 2009 the municipality has founded budget fund for agriculture, in order to establish cooperation with the Ministry of Agriculture in terms of subsidized loans for farmers.

Aleksinac municipality is a municipality within the rural region 3 (Mountain region with the economy based on natural resources). This municipality has the largest number of agricultural households in relation to all municipalities that belong to the Region 3. Vegetable and livestock production are largely developed in this municipality. Agricultural cooperatives are almost gone, and from the Producers Associations particularly strong are Dairy Association and Strawberry Growers Association. These associations also receive support from the local self-government, and Strawberry Growers Association in cooperation with the Municipality invests in cold storage, in order to encourage export of berries on the market in Russia. The potentials for rural tourism are not so big, but they certainly exist in the field of rural/ethno tourism (the municipality has monasteries, churches, lakes, etc.), processing of agricultural products, beekeeping etc.

Užice municipality - This municipality is within the rural region 4 (the region of high tourism potential with poor agricultural structure). It is distinguished by the largest number of registered agricultural households in relation to the municipalities of this region. Užice has great potential for rural development:

- old crafts are present (production of pottery//ceramics, especially in Zlakuša village);
- traditional food production (Mačkat village is famous for Zlatibor ham; Sirogojno company, beside purchase and export of fruit, is engaged in production of dried blueberries);
- ethno and rural tourism (Sirogojno ethno village near Čajetina; in Kremna village many households are engaged in rural tourism);
- a number of producers are engaged in fish farming (trout), beekeeping (Beekeepers Association functions extremely well);
- during the year various events are held which gather the entire population of Zlatibor region: Serbian brandy festival, honey fairs, cultural events are frequently held.

As for primary agricultural production, the largest number of households is engaged in livestock and fruit production (raspberries are significantly represented). The capacities for processing and storage are not developed, nor the associations and cooperatives as forms of linking of agricultural producers.

Concluding remarks

In great part of its rural areas, Serbia has all prerequisites for promotion and successful implementation of the concept of multifunctional agriculture and integrated rural development: richness of diversity in rural areas, significant natural resources, preserved natural environment of rural areas, great potential for development of wide range of non-agricultural activities in the countryside. On the other side, rural areas in Serbia have generally unfavourable performances, both the standpoint of demographic characteristics, economy, infrastructure development and social capital.

Rural development and strengthening of LAGs require, above all, clear defining or adoption of numerous laws that cover the fields of agriculture, entrepreneurship, trade, funding, decentralization etc. Above all, the assumption of rural development is the application of existing and future laws. Within the creation of positive environment for rural development the role of state is crucial in terms of: (1) regulation of agri-food market (strengthening and protection of competition in the domestic market); (2) financial market development, (3) high support from the budget to agriculture and rural development; (4) implementation of decentralization; (5) strengthening partnerships in local communities (affirmation of associated farmers, cooperatives and agricultural clusters).

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