

## **RURAL DEVELOPMENT STRATEGY IN THE LIGHT OF SERBIA JOINING EUROPEAN UNION**

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**Abstract.** *Agriculture influences rural community, rural economy and the environment. However, agricultural production is not the only function of rural areas, as that could be a whole range of other activities that favor the growth of rural economy, the decrease of gap between urban and rural areas and improvement of standard of living for rural area populations. That reduces farmers' dependence on agricultural production as a source of income. Activities needed to be done in order to carry out this program are: creation of opportunities for employment outside of the farms through smaller processing units, centers for services in rural area and adequate improvements in infrastructure. Diversification stimulates entrepreneurship. Advantages of diversification of rural economy are: reduction of unemployment, taking advantage of rural areas' competitive advantages, speeding up economic development of rural areas, improving quality of life in rural areas. Diversified activities are constantly growing in developed countries.*

**Key Words:** *Rural economy, rural development, diversification of activities, rural tourism.*

### **IMPROVING AGRICULTURAL PRODUCTION AND AGRICULTURAL SYSTEMS THROUGH DIVERSIFICATION OF BUSINESS ACTIVITIES**

Agriculture impacts rural community, rural economy and the environment, but that position is variable inside the entire economy. A rational answer to changes in economic conditions for farmers is to seek opportunities for new sources of income besides agricultural production through diversification of business activities. That reduces farmers' dependence on agricultural production as a source of income.

Diversification can be defined as "enterprise utilization of farm resources in non-agricultural purposes with commercial goal"<sup>1</sup>. From this definition it follows that diversification stimulates enterprise activities.

Two models of diversification of business activities in rural economy are widely accepted in literature:

- 1) *Demand-pull*. This model is characteristic for rural areas with higher development and where local population uses new development chances and opportunities.
- 2) *Distress-push*. Diversification of business activities in the framework of this model is done in relatively poor rural areas when local population is forced to find employment outside of farms.

The thing that is characteristic for countries of Central and Eastern Europe is that distress-push model of diversification predominates. This is supported by the fact that in rural areas of these countries 30-50% of the income comes from non-agricultural activities.<sup>1</sup>

Agriculture should be intensified in order to meet future demand and avoid spreads to marginal terrains and in turn negatively affect fragile ecosystems. Increased utilization of external inputs and specialization in production and in agricultural ecosystems leads to increased risks from ecological "stresses" and market fluctuations. Thus, there is a need to intensify agriculture through production system diversification. Also, the goal is to maximize efficiency when using local resources and minimize ecologic and economic risks. If intensification of agricultural systems is not possible, one should identify and develop opportunities for employment in non-agricultural fields like handicrafts, agro business, recreation, tourism etc.

The goal of this program is to:

- Improve productivity of farms in a sustainable manner, as well as to promote growth in diversification, efficiency, food sufficiency and rural income, with minimizing risks to ecosystems.
- Strengthen farmer's confidence in development and improvement of rural infrastructure, transfer of ecologically appropriate technology, including sustainable usage of biological and ecological processes, forests, sustainable wildlife preservation, hunting and fishing.
- Create opportunities to employ outside of farms, especially for the poor and those who live in marginal areas.
- Activities needed to be done in order to carry out this program are:
- Creation of opportunities for employment outside of the farms through small agro-processing units, centers for services in rural areas and adequate improvements in infrastructure.
- Improvement of opportunities to access funds and finances.

Diversified activities are constantly growing in developed countries. The greatest increase in these activities is in sports and recreation, and then in the development of tourism.

Diversification of economic activities outside of farms would enable the creation of opportunities for new employment. In that sense, there are opportunities for micro and small enterprises in the field of service provision for rural areas, craft production, processing, production of traditional dishes, new business ventures like organic production and production of biofuels, local crafts, and catering services.

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<sup>1</sup> Bogdanov, N., *Small Rural Housholds in Serbia and Rural Non-Farm Economy*, Ministry of Agriculture, Forestry and Water Management of Republic of Serbia, UNDP, Belgrade, 2007

Diversification of economic activities enables removal and resolving of numerous issues in rural areas. Therefore, the following advantages are gained by means of diversification:

- It enables the employment of unemployed workforce in rural areas. This mostly refers to female population that can find jobs in some non-agricultural activities.
- By supplementing basic source of income with the additional one, one reduces the risk of exclusive dependence on agricultural incomes.
- By diversifying activities, one creates conditions to better utilize comparative advantages of the rural area.
- Important contribution to diversification of activities is stimulation of overall economic growth in rural areas, as well as improvement in the quality of living, and quality of products and services in rural areas.

#### DIVERSIFICATION OF RURAL ECONOMY IN SERBIA

In Serbia, the adoption of rural development strategy for 2009-2013 is in progress and it recognizes rural development and defines it as one of the key goals of national importance.

Serbia is currently "a country that is a potential candidate" for EU membership. As a result, Serbia cannot directly utilize IPA funds for the requirements of rural development. Taking into account the time period which includes intended national plan for rural development (2009-2013) and the assumption that Serbia will soon get the "candidate country" status, it is likely that it would be possible to utilize IPA funds in the near future. In that sense, the most important measures of rural development in the following period would include:

- 1) Improvement of market efficiency and application of standards.
- 2) Preparation activities for application of agro-ecologic measures and local strategies for rural development.
- 3) Development of rural economy.

In the scope of this strategy it is important to take into account the numerous functions of agriculture. It means that agriculture and food production are not the only functions of rural areas, and that it could be a wide spectrum of other activities that have the purpose of improvement the standard of living and establishing social and economic stability in rural households and entire areas. In that sense, agriculture serves many purposes: production of agricultural and food products, ensuring food quality, protection of the environment, economic and social development of villages, etc.

However, the economic structure of rural areas in Serbia is highly dependent on agricultural production and it is still based on consuming natural resources. In Serbia, traditional, single functional agriculture is dominant. High shares of agriculture, food industry, mining and energetic, and low share of tertiary sector, are the main characteristics of economic structure of rural areas in Serbia.

Serbia is among "most agricultural" European countries. Almost a half of the total population lives in rural areas, and dominant portion of rural workforce works in agriculture (45%). Besides agriculture, employed rural workforce works in manufacturing (16%), commerce (10.2%), construction (5.8%) and transportation (4%). The least number of employees is in the service sector. A little more than 3% of rural workforce works

in public services like governmental administration, education, and public health and welfare institutions.

In the scope of diversification measures included in rural development strategy of Serbia for 2009-2013 the following four sub-measures have been selected:<sup>2</sup>

- 1) diversification and development of activities on farm (tourism, beekeeping, medicinal and aromatic herbs, ornamental plants);
- 2) local crafts and small enterprises;
- 3) rural tourism;
- 4) aquaculture

The necessity for creation of adequate capabilities for diversification of rural economy was recognized in many strategic documents and programs in Serbia (Strategy of agricultural development, Strategy of regional development in Serbia from 2007-2012, National strategy of Serbia for SCG admission to European Union). Following activities are stated as underdeveloped: processing and finishing of agricultural products, some branches of the industry (textiles, leather industry) and tertiary sector. Stimulation of entrepreneurship and the development of small and medium enterprises are of uttermost importance in rural areas. Main limiting factors are:

- lack of financial support,
- inadequate infrastructure,
- negative conditions for investment,
- negative position of agricultural sector and rural areas in development policies,
- low accumulative capability of rural households,
- limited market for disposal of goods and services of rural areas,
- undereducated human resources,
- low level of private entrepreneurship,
- departure of young people from villages and other factors.

Workforce quality is one of the very important limiting factors for rural economy development, and existing knowledge and skills of rural workforce are not adequate for modern technology and market requirements. Therefore, development of institutions, agricultural policy measures, government support and reform in education are of huge importance for rural development.

In the light of Serbia joining EU, most important duties that need to be carried out in the next period are:

1. Harmonization of legislation and food safety standards with the EU.
2. Restructuring of economic environment, which means the development of financial markets, intensifying the stimulation for attracting foreign investments and solving the issue of unemployment in undeveloped areas, improvement in technical and organizational aid for development of production associations and merging, and improvement and diversification of processing of agricultural products.
3. Defining the concept of development for agriculture and rural areas with all attached elements and mechanisms for its realization (goals, measures and instruments,

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<sup>2</sup> *Plan of Strategy of Rural Development, 2009-2013*, Ministry of Agriculture, Forestry and Water Management of Republic of Serbia, February 2009

funds for realization). This obligation is imposed as a precondition for using IPARD funds and it means creation of adequate information basis for scientific and expert interpretation of the actual condition in agriculture and rural areas, building of institutional and administrative mechanisms for creation and putting into effect strategies and programs for development from national to local level, strengthening of horizontal and vertical connection between all participants and strengthening their existing links and cooperation (ministries, local institutions, market linking).

#### CONCLUSION

Diversification of economic activities enables removal and resolving of numerous issues in rural areas. An important contribution to diversification of activities is stimulation of overall economic growth in rural areas, as well as improvement in the quality of living, and the quality of products and services in rural areas. The necessity for creation of adequate capabilities for diversification of rural economy was recognized in many strategic documents and programs in Serbia. In the light of Serbia joining EU, most important duties that need to be carried out in the next period are restructuring of economic environment, building of institutional and administrative mechanisms for creation and putting into effect strategies and programs for development from national to local level, strengthening of horizontal and vertical connection between all participants and strengthening their existing links and cooperation.

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## **STRATEGIJA RURALNOG RAZVOJA U SVETLU PRIKLJUČIVANJA SRBIJE EVROPSKOJ UNIJI**

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*Poljoprivreda ima uticaj na ruralnu zajednicu, ruralnu ekonomiju i životnu sredinu. Međutim, poljoprivredna proizvodnja nije jedina funkcija ruralnih područja, već to može da bude čitav niz drugih delatnosti koje imaju za cilj pospešivanje rasta ruralne ekonomije, smanjenje jaza urbanih i ruralnih područja i unapređenje životnog standarda stanovništva iz ruralnih sredina. Na taj način se smanjuje zavisnost farmera od poljoprivredne proizvodnje kao izvora prihoda. Aktivnosti koje treba preduzeti u cilju ostvarenja ovog programa su: stvaranje mogućnosti za zapošljavanje van farmi kroz manje prerađivačke jedinice, centre za usluge u ruralnoj sredini i odgovarajuća infrastrukturna poboljšanja. Diverzifikacijom se podstiče preduzetnička aktivnost. Prednosti diverzifikacije ruralne ekonomije jesu: smanjenje nezaposlenosti, iskorišćavanje komparativnih prednosti ruralnih područja, ubrzanje ekonomskog razvoja ruralnih područja, unapređenje kvaliteta života u ruralnim sredinama. Diverzifikovane aktivnosti u razvijenim zemljama su u stalnom porastu.*

Ključne reči: *ruralna ekonomija, ruralni razvoj, diverzifikacija aktivnosti, ruralni turizam.*