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**Agriculture and rural development
challenges in South-Eastern Europe and
Turkey with the view to European Union
integration process**

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Agriculture and rural development challenges in SEE and Turkey with the view to EU integration process

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List of Abbreviations

BiH	Bosnia and Herzegovina
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CAS	country assistance strategies
CIS	Commonwealth of Independent States
DAC	Development Co-operation Directorate
DFID	Department for International Development, UK
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FBiH	Federation of Bosnia and Herzegovina
FYR	Former Yugoslav Republic
FYRoM	Former Yugoslav Republic of Macedonia
GDP	Gross domestic product
GEF	Global Environment Facility
GPRS	General Poverty Reduction Strategy
HACCP	Hazard Analysis and Critical Control Point
HVA	High-Value Agricultural products
ICTY	International Criminal Tribunal for Former Yugoslavia
IDP	internally displaced persons
IFAD	International Fund for Agricultural Development
IFI	International financing institutions
IPA	Instrument for Pre-Accession Assistance
IPARD	Institute for Public Administration and Regional Development
ISPA	Instrument for Structural Policies for Pre-accession
MAWM	Ministry of Agriculture and Water Management of Serbia
M&E	Monitoring and evaluation
NGO	Non-governmental Organization
OECD	Organisation for Economic Co-operation and Development
PHARE	Poland and Hungary Action for the Reconstruction of the Economy
PRSP	Poverty Reduction Strategy Paper
REUP	FAO Regional Office for Europe
SAA	Stability and Association Agreement
SAP	Stabilization and Association Process
SAPARD	Special Accession Programme for Agriculture and Rural Development
SDAR	Rural Institutions and Participation Service, FAO
SEE	South Eastern Europe
SME	Small and medium enterprise
TCP	Technical Cooperation Programme
UNDP	United Nations Development Programme
UNMIK	United Nations Mission in Kosovo
WeBa	Western Balkans
WB	World Bank

1 Background

The purpose of this paper is to identify and analyse the overall challenges for agriculture and rural development in South East Europe (SEE) and Turkey, and to assess the concept, importance and policy measures tailored towards improving agricultural competitiveness, rural income diversification and environmental sustainability for overall rural development. The South East Europe region refers to Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Moldova, Romania and Serbia and Montenegro (formerly the Federal Republic of Yugoslavia). The paper concludes by suggesting policy options for the SEE and Turkey based on examples of successful support measures for agriculture and rural development from an international perspective related to the specific challenges of the region.

The rural diversification, migration, employment, poverty and policy implications for this in terms of economic development and reconstruction as part of an integrated rural development strategy are crucial to both appropriate institutional and policy developments in the Western SEEs. We compare the SEE countries to Turkey because recent studies suggest that the non-farm rural economy may provide an important and dynamic contribution to economic growth, whether linked to the farm economy or not (Reardon, 1998) and these economies although differing in terms of agricultural economy and scale, are at different stages of accession to the European Union (EU).

The paper is a follow-up to the UNFAO (REUP) recommendations made during a workshop organized in Belgrade in April 2004, which established government priorities e.g. regarding poverty reduction strategies and/or national sector strategies in agriculture and rural development as well as donor orientations and main donors'/organizations' programmes.

It is often difficult to draw a well-defined boundary between "rural" and "urban." In SEE and Turkey, the term is used interchangeably with that of "village," an administrative unit used in all statistics. Some of these villages may be quite large. In "villages," most households have one of their sources of income in agriculture, though it may not be the predominant one, as they may have other and more important sources of income, from the rural non-farm sector: non-farm related services or industries, as well as remittances. Rural space is conceived here in its relationship with urban centres, mainly secondary and tertiary cities.

2 The situation and key issues

In the post-conflict South-East European (SEE) states, the issue is not just development and transition, but reconstruction. Infrastructure, market networks, government, the institutional environment, civil society, and new enterprises are at the centre of reconstruction efforts in Bosnia-Herzegovina, Albania, Croatia, Kosovo, FYR Macedonia and Serbia-Montenegro.¹ In these SEE countries the transition process was severely disrupted, and the informal economy assumed a greater level of importance than in other transition economies, due to the State's inability during recent conflicts to sustain even a reduced role in the economy. In

¹ Slovenia is not included here as a post-conflict state, as the very brief conflict in the early stages of the break up of former Yugoslavia left no significant or lasting economic repercussions. Kosovo and Montenegro are both incorporated within the definition of present-day Yugoslavia. While FYR Macedonia is not a post-conflict state, it has suffered economic sanctions at various points in the 1990s, and severe post-independence economic disruption due to its previously high level of integration into the former Yugoslavia economy and infrastructure.

contrast, the experience of Turkey demonstrates the important role of the state in fostering the process of both industrial and rural development. The excessive run-down of the state sector in many SEE economies may in the long-run prove detrimental to reconstruction, industrial and rural development. Those SEE states which have avoided conflict and significant internal strife have nevertheless been negatively affected by wars in neighbouring states, resulting in a sharp contraction in demand for traditional exports from established markets, disruptions to transport routes, falling foreign investor and tourist confidence, and refugee migrations are the main economic and social effects.

The South East Europe region refers to Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Kosovo, Serbia and Montenegro (formerly the Federal Republic of Yugoslavia). It is a diverse region of 24 million people, with an average income per capita ranging from US\$ 2,000 in Albania to US\$6,820 in Croatia. The past decade of transition and conflict left the region with a legacy of inadequate growth and declining living standards. Since the end of the Kosovo conflict in 1999, however, there has been considerable improvement. Civil unrest has declined which has allowed a return to economic growth and closer regional cooperation. Institutions of the emerging SEE democracies and market economies are being created and strengthened, regional trade links are being restored, private investment is slowly growing and the prospects for poverty reduction have improved.

However, across the SEE region, out-dated infrastructure and weak public administrations translate into low levels of investment and stagnant growth. Large parts of Turkey, in particular the Black Sea region and Southeast Anatolia, face a similar development challenge. Across the region, economic development is impeded by high levels of illiteracy, low participation rates of women and a lack of infrastructure in remote areas. Given its size, Turkey also faces a particular challenge when it comes to regional disparities. Turkey's dynamic economy is a complex mix of modern industry and commerce along with a traditional agriculture sector that still accounts for more than 35 percent of employment. It has a strong and rapidly growing private sector, yet the state still plays a major role in basic industry, banking, transport, and communication.

Rural development is one of the main challenges for SEE and Turkey. Large parts of the population depend on subsistence farming; unable to compete in European markets (see Table 3 and Table 4). With EU visa barriers and limited prospects of finding rural employment, many young Albanians, Bosnians, Serbs, Turks, and Kurds face a stark choice between a life of subsistence farming or migration. The earlier these countries are required to comply with the EU's funding requirements in order to gain access to EU rural development assistance, the better for the region.

2.1 EU accession processes

The EU launched, in spring 1999, the Stabilization and Association Process (SAP) to cover that part of SEE which has become better known as the Western Balkans. In the same period, another, broader based forum of regional cooperation was put into place and started working: on the Stability Pact for South Eastern Europe. The democratic change that occurred first in Zagreb (beginning 2000) and later in Belgrade (November 2000), conferred new dynamics upon the SAP. Moreover, the decision of the European Council in Feira, Portugal (June 2000) to recognize the countries participating in the SAP as "potential candidates for EU membership", constitutes another step forward in the course of the integration of SEE into EU structures. Below we outline progress made regarding SEE stability and association agreements (SAA).

	<i>Signature of an SAA</i>
Albania	Negotiations concluded with a November 2005 progress report. An SAA is expected in 2007.
Bosnia-Herzegovina	January 2006 negotiations commenced. Process is on-going
Croatia	Negotiation of SAA in 2002. Became Candidate Country in April 2004.
FYROM	Signed in April 2001 entered into force April 2004. Dec. 2005 granted candidate country status
Montenegro	Process of negotiation.
Serbia	Talks started in autumn 2005 but were suspended due to a lack of cooperation with The Hague over war criminals.
Kosovo	Monitoring progress through SAP Tracking Mechanism.

All these parallel processes are shaping a new framework of principles and a "road map" for the whole of SEE, thus paving the way for the region's integration into the mainstream of Europe. On the 3rd October 2005, EU membership negotiations were symbolically opened with Turkey and on 12 June 2006 the examination and assessment of the *acquis communautaire* began. Nevertheless, stumbling blocks remain on the road to Turkey's accession. In particular, these are the issue of Turkey opening its ports and airports to vessels from Cyprus, freedom of expression, especially court cases against writers and journalists, as well as Kurdish minority rights

Rural and regional development has always been one of the principal goals of the EU. The Treaty of Rome already outlined the need to overcome disparities in regional development within the Union. The importance of rural development was explicitly recognised in the EU Accession states through support for pre-accession measures for Agriculture and Rural Development (SAPARD²). SAPARD represents the first occasion when the EU demonstrated its commitment to accession to many in the agricultural and rural communities of the transition economies.

Although *rural job creation* is well recognised as an important part of the solution of the farm income problem and also a rational response to the labour shedding consequences of farm and food processing modernisation, SAPARD measures did not explicitly highlight this as a priority, despite it being a necessary component of a coherent rural development strategy in the transition economies. Investments and improvements in market efficiency should have strong multiplier effects within a rural economy. However, the specific measures that might foster job creation and should be consistent with the relevant *acquis* might be constrained to agricultural situations, with incentives for SME start-ups neglected.

Clearly, EU SAPARD funding was *accession-driven* and had to be consistent with accession partnerships and the national programme for the adoption of the *acquis*. Countries such as Turkey, Croatia and FYR Macedonia that aspire to being included in the next wave of EU accession will not be insulated from pressures to restructure the farm sector, and the rural non-farm economy (RNFE) will likewise assume increasing significance to the viability of households and communities in rural areas. The input supply, output processing and distribution components of the RNFE are subject to pressures related to the changing farm sector, as well as to wider economic pressures and industrial trends.

² A special fund of 520 million Euro per annum over the period 2000-2006 was agreed at the Berlin Council for special assistance between all the applicant countries for agricultural and rural development (SAPARD) first mentioned in the accession strategy paper of the Madrid Council of November 1995.

For the period 2007-2013 six instruments will substitute more than 100 under the previous pre-accession instruments designed for countries with candidate status for joining the EU. These can be categorized as (i) policy driven instruments and (ii) crises response instruments. Policy driven instruments include the following:

- Instrument for Pre-Accession (IPA)
- European Neighborhood & Partnership Instrument (ENPI)
- Development Cooperation & Economic Cooperation Instrument (DCECI)

Crises response instruments include the following:

- Humanitarian Aid Assistance
- Macro-Financial Assistance (MFA)
- Instrument for Stability

The IPA is an integrated Pre-Accession Instrument to assist candidate and potential candidate countries. It replaces 5 different programmes and instruments: Phare, ISPA, SAPARD, CARDS and previous Turkey pre-accession instruments. It should ensure a higher level of coherence and co-ordination of EU Assistance and better preparation for Structural, Cohesion and Rural development Funds through progressive emulation of EU funds rules. The financial envelope allocated for the period 2007–2013 is 10.2 billion € (at 2004 prices). The IPA is comprised of the following components:

1. Transition assistance and institution building
2. Cross-border cooperation
3. Regional development
4. Human resources development
5. Rural development (IPARD)

Under the IPA certain components are available to selected countries. Countries in Annex I (Croatia, Turkey, FYR of Macedonia) namely those granted candidate country status have full access to components 1 through 5. Countries in Annex II (Albania, Bosnia and Herzegovina, Montenegro, and Serbia including Kosovo) have access to components 1 and 2 of the IPA. Of particular importance to this paper are the three priority axes and measures listed under IPARD. These include the following:

Priority Axis 1-Improving market efficiency and implementing Community standards

- Investments in farms to restructure and upgrade to the EU standards;
- Supporting setting up of Producer groups
- Investments in processing and marketing of agriculture and fishery products to restructure and upgrade to the EU standards

Priority Axis 2-Preparatory actions for implantation of the agri-environmental measures and Leader

- Preparation to implement actions designed to improve the environment and the country side
- Preparation of local private-public partnerships to implement local development strategies

Priority Axis 3-Development of rural economy

- Improving and developing rural infrastructure;
- Development and diversification of rural economic activities;

- Improvement of training
- Technical assistance

In order to benefit from IPARD, SEE and Turkey will need to establish national structures able to define strategies, programmes, management and monitoring conditions for IPARD type programmes. This requires enhancing the knowledge and the transparency of the Agricultural and Rural situation (rural census, farm register, land cadastre, price statistics, sector analysis for the more important agricultural sectors, etc) and involving other public bodies and the relevant civil society partners in the elaboration of a national strategy for rural development. This will in turn also require supporting the organization of key civil society partners, namely: farmers, food processors, environment and, local rural development associations. Currently, both the support of initiatives to facilitate access to credits for farmers and rural business, and the establishment of advisory and extension services for farmers and rural population are ineligible for funding under IPARD.

The priority axes as described above broadly concur with those outlined in the UN FAO (REUP) report “*Major Challenges of the Western Balkans: FAO’s Focus and Coherent Approach for Technical Assistance for 2006 – 2009.*” The future UN FAO (REUP) activities outlined will build on the activities in the past years and grass roots level activities in support of commodity chains and employment in rural areas will take into consideration the priorities of governments and of the EU-integration process. It will facilitate the enhancement of capacity building at local level and reducing poverty and particularly assisting subsistence farmers to move towards business orientation. The creation of non-farm income generation will be systematically included in future projects (see Box 1 for more information). FAO activities addressing the above-mentioned rural development issues have been initiated and planned locally. Each FAO project contains elements of rural development, in particular with regard to the improvement of economic (equipment, improved technology, etc.) and social (farmer groups, rudimentary extension services) assets as well as enhancement of the living standards of the rural population. In order to achieve this, projects will systematically involve local authorities and civil society in the design and implementation of activities and when negotiating the participation of local entities. A further step will be to design projects addressing off-farm activities, beginning with agriculture-related activities (processing, rural tourism and services for farmers).

Based on the responsibility for promoting the Millennium Development Goals (MDG) and in particular with reference to MDG No. 8 on building global partnerships for development, FAO will also link with other agencies involved in the capacity building of local government programmes to propose technical expertise to enhance the capacities of the local authorities to define development policy and manage their territory.

2.2 Recent economic developments

The ability of all countries to maintain macroeconomic stability and sustain reforms has been the foundation on which progress has been built. For the SEE region as a whole, growth has been close to an annual 5 percent in real terms since 2000 (see Figure 1). Since 2000, GDP growth in Turkey has averaged 6 percent per annum (see Figure 1, Table 1 and Table 2). The largest industrial sector is textiles and clothing, which accounts for one-third of industrial employment; it faces stiff competition in international markets with the end of the global quota system. However, other sectors, notably the automotive and electronics industries are rising in importance within Turkey's export mix. Real GNP growth has exceeded 6 percent in many years, but this strong expansion has been interrupted by sharp declines in output in

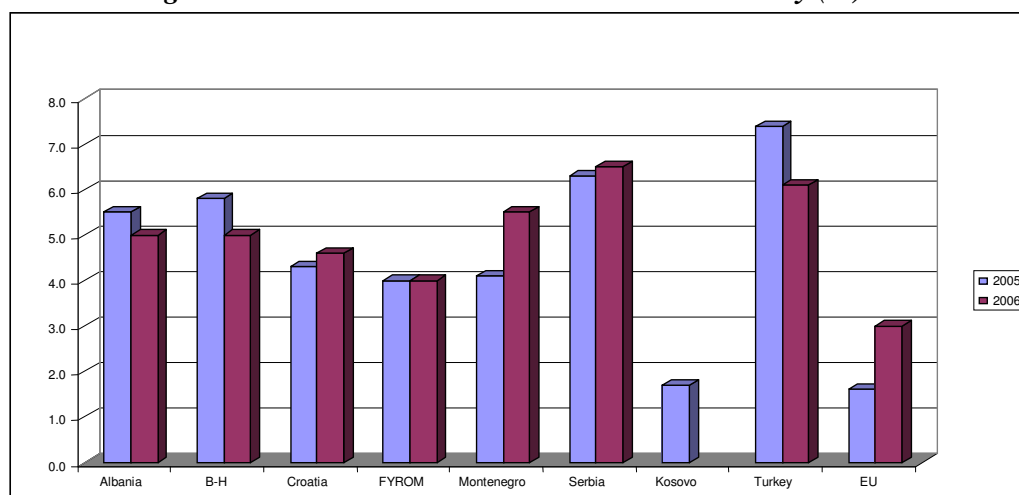
1994, 1999, and 2001. The economy is turning around with the implementation of economic reforms, and 2004 GDP growth reached 8 percent, followed by roughly 5 percent annual growth in 2005-06. Inflation fell to 7.7 percent in 2005 - a 30-year low, but climbed back to 9.8 percent in 2006. Despite the strong economic gains in 2002-06, which were largely due to renewed investor interest in emerging markets, IMF backing, and tighter fiscal policy, the economy is still burdened by a high current account deficit and high debt. Prior to 2005, foreign direct investment (FDI) in Turkey averaged less than \$1 billion annually, but further economic and judicial reforms and prospective EU membership are expected to boost FDI.

Table 1. Key development Indicators for South-East Europe and Turkey, 2005

	Albania	Bosnia-Herzegovina	Croatia	FYOM	Serbia	Turkey
Population, total (millions)	3.1	3.9	4.4	2	8.2	72.6
Population growth (annual %)	0.6	-0.1	0	0.2	0.3	1.3
Life expectancy at birth, female (years)	77	77	79	76.2	75.7	71.1
Life expectancy at birth, male (years)	71.2	71.6	72	71.1	70.9	68.8
Poverty headcount ratio at \$2 a day (PPP) (% of population)	11.8	19.5	..	2	..	19.4
GDP (current US\$) (billions)	8.38	9.37	37.41	5.76	27.06	363.3
GDP growth (annual %)	5.5	5.3	4.2	4	6	7.4
Share of agriculture in GDP (%)	26.3	17	5.8	9.8	19	11.2
GNI per capita, Atlas method (current US\$)	2580	2440	8060	2830	3280	4710
Inflation, consumer prices (annual %)	2.4	2.1	3.3	0.5	17.2	8.2
Foreign direct investment, net inflows (% of GDP)	5.7	7.2	3.6	2.9	4	0.9
Unemployment, total (% of total labour force)	15.2	44.5	14.3	36.7	15.2	10.3
Time required to start a business (days)	41	54	49	48	15	9
Internet users (per 1,000 people)	24	58	293	78	147	142

Source: World Development Indicators (2006).

Figure 1. Real GDP Growth Rates in SEE and Turkey (%) 2005-2006



Significant progress has also been made in reducing inflation. Albania, Bosnia and Herzegovina, Croatia and FYR Macedonia have all consistently maintained one-digit inflation over the past six years. At the end of 2001, the average rate of inflation for the region was 20 percent, but this was somewhat distorted by the higher levels of inflation in Serbia and

Montenegro. By the end of 2006, the downward trend in inflation continued reaching an average of approximately 6 percent. Large inflows of aid have been central to this recovery, and have been absorbed by large fiscal and external deficit. Turkey has gradually reduced the rate of inflation since 2003, but it is on average higher than in SEE (see Table 2).

Table 2. Macroeconomic performance

	GDP Growth (%)						Inflation (CPI %)					
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Albania	6.5	4.7	5.7	5.9	5.5	5.0	3.1	5.4	3.4	2.9	2.3	2.3
Bosnia and Herzegovina	3.7	3.5	4.4	6.2	5.8	5.0	3.1	0.5	1.1	-0.3	2.1	8.5
Croatia	3.8	5.0	4.3	3.8	4.3	4.6	4.9	2.2	3.2	2.1	3.3	3.5
fYR Macedonia	-4.5	0.3	2.8	4.1	4.0	4.0	5.5	1.9	0.3	-0.3	0.1	3.4
Montenegro	-	-	-	3.7	4.1	5.5	-	-	-	2.2	2.6	3.5
Serbia*	5.5	4.0	2.4	8.8	6.3	6.5	91.1	21.2	16.3	9.5	17.2	13.0
Turkey	-	-	7.8	5.8	6.1	7.4	-	-	18.3	9.3	8.2	9.7

Source: World Bank Indicators database, April 2006; EIU Country Report on Turkey 2007; and EBRD Transition Report 2006 Statistical annex.

* Serbian data includes Montenegro until 2004.

Nevertheless, the region continues to face major challenges in sustaining stability and reaching the overriding goal of stronger ties to the rest of Europe. The overarching challenge faced by all countries of the region is to build strong, fully functioning states, which are capable of delivering on the needs of their citizens and of ensuring effective regional cooperation and of more advanced relations with the EU. In this context, a key priority is the fight against organized crime and corruption. Progress in this field will be essential for assuring the rule of law, generating confidence in state institutions, encouraging private investment and bringing the countries closer to EU membership. Overcoming unemployment, in particular youth unemployment remains the region's greatest social and economic challenge; and failure to achieve progress may threaten political stability (see Table 1).

Political developments have continued apace since 1999. The EU opened accession negotiations with Turkey and Croatia, and it also signed a pre-membership agreement with Albania. Following its referendum on independence in May 2006, Montenegro declared its independence from the union of Serbia and Montenegro. While membership (and pre-accession) in the EU has spurred many countries to move ahead with complex reforms that are owned by countries themselves.

2.3 The rural economy in SEE and Turkey

In SEE the rural population amounts to more than 10 million people. The largest rural population is in Croatia (2.1 million), while the countries with the largest share of the persons living in rural areas are Kosovo (estimated 60 percent) and Albania (55 percent). Rural areas are characterized by a lack of basic services (water supply, sewage systems, health services and education facilities) and suffer from poor physical infrastructure. In Kosovo only 28 percent of homes are connected to a sewage system. There is also a relatively low level of education of the rural population.

The farm structure is similar throughout the SEE region and Turkey comprising a large number of small holdings and a small number of large often formerly owned state farms at varying stages of privatization (see Table 3 and Table 4). Agriculture provides an important

source of employment but faces a number of constraints that impede its contribution to the economy in both SEE and Turkey. These include the following:

- Dominance of very small holdings and lack of a functioning land market for agricultural land
- Lack of physical infrastructure (e.g. irrigation systems)
- Low levels of productivity due to low levels of mechanization, underemployment and limited access to extension services
- Underdeveloped marketing channels, lack of marketing know how and poor marketing information
- Underdeveloped food processing industry and low levels of food safety and quality standards
- Poor access to credit facilities

Despite the importance of agriculture, all countries, with the notable exception of Serbia in 2005, are net importers of food and have large agro-food trade deficits. This largely reflects the lack of competitiveness of the sector. Share of agro-trade in total trade 2004/2005

The SEE food industry however faces significant constraints such as low levels of capacity utilization among large enterprises and low production volume among small processors. There also remain difficulties of raw material supply both in terms of quantity and quality (limited large-scale production for processing). In most SEE countries there is outdated or low level of technologies and a lack of investment. For example, low hygiene standards (e.g. few HACCP, EU accreditations) and significant deficiencies in marketing and management are commonplace. There also remain unresolved issues of privatization (e.g. Kosovo, BiH, tobacco industry in Montenegro, sugar industry in Serbia, etc.).

Figure 2. Share of agriculture in total GDP (%) 2005

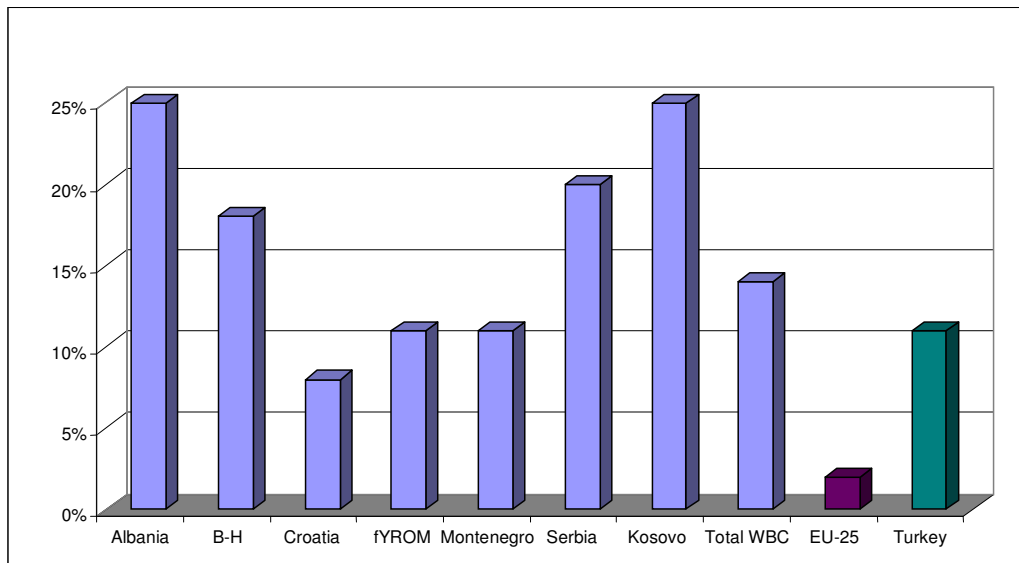
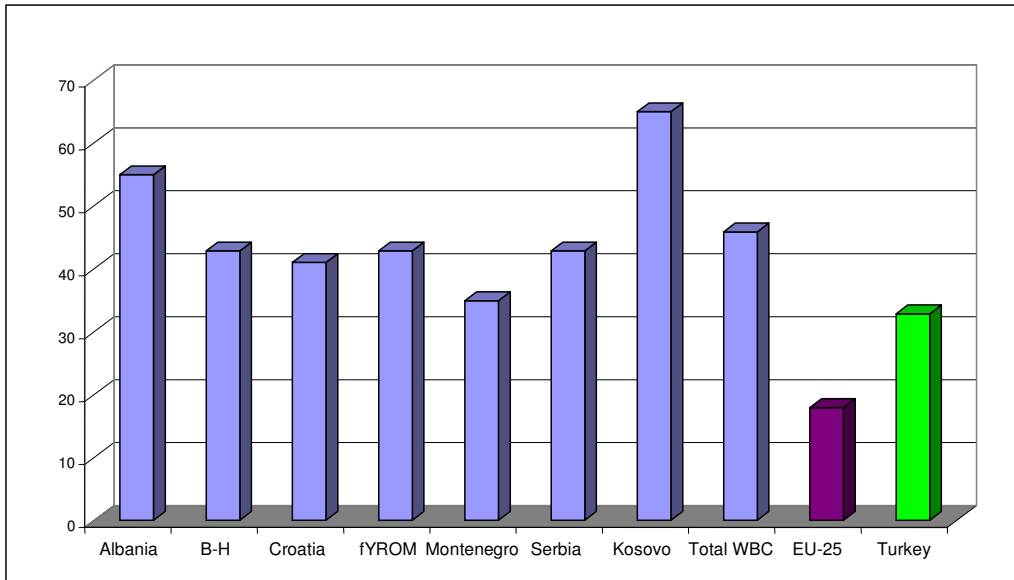


Figure 3. Population in predominantly rural areas SEE and Turkey (% of total pop.)



Turkish agriculture is characterised by a dual structure: traditional and modern. Regional differences in agricultural technology use (land, labour and capital saving technology) are also a distinct characteristic of the sector. For the majority of Turkish rural dwellers agriculture is the most important source of their livelihood. The agricultural sector employs 35-48 percent of the labour force but only produces 11.2 percent of the GDP (World Bank, 2006). The share of agriculture in total employment has been declining from 34.5 percent in 2000 to 29.5 percent in 2005. Turkey maintains a trade surplus in agricultural and food products. The share of agricultural imports has declined from 7.6 percent in 2000 to 5.5 percent in 2005. The share of agricultural exports from Turkey declined from 13.9 percent in 2000 to 11.2 percent in 2005 (Yilmaz, 2006). In Turkey, farm size is a limiting factor for agricultural productivity. Over 94 percent of farm households and over 65 percent of total land are cultivating an area under 20 hectares (see Table 4). Additionally, approximately 57 percent of the farm households have at least 4 plots. Land fragmentation is therefore a serious drawback to mechanized agriculture and to increasing production. Nonetheless, the dual structure of Turkish agriculture would be sustainable with traditional farms continuing to produce for their own consumption selling any surplus production locally.

In 2001, Turkey's informal economy accounted for approximately 60 percent of the country's formal economic performance and employed 40 percent of all employees. Both agricultural and informal activity is predominantly located in rural areas. Over 80 percent of informal workers are employed in the agricultural sector and more than two thirds of them are female. Firms that operate in the formal sector tend to have better access to credit and the legal system. This facilitates trade, so they can benefit from the division of labour that underpins economic growth and welfare worldwide. This is why structural change in Turkish agriculture has become a central policy objective. However, the estimated massive job losses (roughly three of seven million agricultural jobs) that are linked to restructuring and privatization of the sector could aggravate unemployment significantly (Olhan, 2006; Oskam et. al., 2005).

The restructuring of the Turkish agricultural sector may require extensive privatization of national parastatal enterprises (e.g. sugar, tobacco etc). Moreover, increased foreign direct

investment (FDI) is expected to flow into the labour-intensive Turkish agricultural sector as a consequence of EU accession (Cakmak, 2004: 32). However, to attract additional FDI it is necessary that investors can successfully capitalize on advanced technologies. This is only possible when there is well-educated human capital present that is able to adopt and use new technology and thus increase productivity (Airaudo et. al, 2004). However, low levels of education are symptomatic for Turkish agriculture. The education system, while comprehensive, does not provide sufficient access for the poorest, with particular concerns about the quality of education in rural. Poor access to educational opportunities in rural Turkey is one of the main drivers of rural-urban migration. This is a major constraint regarding the optimism about FDI and the adherent transfer of labour to high- productive employment fields. Olhan, (2006) estimates that the restructuring of Turkish agriculture from its current state to become a modern and market-driven agricultural system of production will entail the loss of approximately three million jobs (Yilmaz, 2006; Oskam et. al., 2005). Within a decade, the transfer of one third of the under-employed (particularly rural women) labour force to the industry and service sectors would need to be accomplished (Gros, 2005).

Radical reform of agricultural support policies started in 2000 with the aim of promoting allocative efficiency and fiscal stabilization, following a period of (1968-1997) during which the agricultural sector grew at only 1.2 percent per annum (with a marked shift from livestock to crops over this period). The main reform measures have been:

- Phasing out subsidies for fertilizer, credit and price support and introduction of a national programme of direct income support for farmers;
- Commercialization and privatization of national parastatal enterprises, including those engaged in sugar, tobacco, alcohol and tea, and restructuring of the state grain purchasing company, allied to elimination of support price mechanisms; and
- Provision of grants to assist farmers to switch out of certain unprofitable crops (mainly hazelnut and tobacco).

Since 2003 a substantial programme of decentralization and government reform has been initiated by the AKP (Justice and Development Party) Government. Rural and agricultural development policy (along with other aspects of governance reform) is strongly influenced by the objective of eventual accession to the EU. The 2003 agricultural reform programme placed emphasis on the creation of a rural development strategy aimed at modernization of subsistence and semi-subsistence farming, leading the way to commercially viable entities. Since 2003 several large Turkish companies have entered the livestock sector with ambitious projects in various regions of Turkey. Harmonization of Turkish agriculture with the Common Agricultural Policy (CAP) is a priority in Turkey-EU relations. Turkey has to adopt 17 laws, 211 regulations and circulars to adjust its agricultural system with the EU.

Being restructured and reoriented towards increased competitiveness through IMF and EU supported programs, agriculture holds the promise of making Turkey a major player in the EU and world terms. The reforms initiated since 2000 has created a more competitive agricultural sector and reduced state involvement. The World Bank contributes to these projects under a \$600 million Agricultural Reform Implementation project.

The Ministry of Agriculture has recently developed a new strategy for 2006-2010. The restructuring and alignment activities continue in the follow areas:

- The rural population will be reduced from 33 percent to closer to the EU average;

- The government plans to allocate 1 percent of GNP to agricultural support each year (compared to 0.7 percent in the 2005 budget). The strategy should help equip Turkey with sophisticated policy instruments.

As stated in pre-accession economic programs, Turkey set the following targets for agriculture (MARA, 2005):

- Short term: modernization of land registration systems, food controls and animal and plant health services.
- Medium term: setting agricultural and rural development projects increasing food processing institutions, hygiene, public health and food health institutions.
- Long term: determining quotas and credits and investment through the EU budget.

The principle and tools of agricultural and rural development policies to be implemented between 2006-2020 are established in the Agricultural Policy Paper, which was enforced in the law of agriculture 2006. Policy programmes and measures implemented since 2005 may be broadly defined in four categories: direct income support scheme, deficiency payments, and farmer transition program and livestock policies.

However, there remain unresolved issues of central importance for future rural development strategies in Turkey:

- The development of a classification more nuanced than the simple urban/rural dichotomy (using recent household survey data). These data are more strongly correlated with social indicators and related to the optimal pattern of service provision and, therefore, will be of greater value for targeting and problem identification.
- The operation of the local government system is an important issue for any regional or rural policy. The Turkish local government system is, in general, highly centralized, with municipalities responsible only for water, sanitation and transport, and all other services supplied through provincial or district level agencies of central government.
- The role of rural-urban linkages (to both metropolitan centres and smaller local urban centres) should be considered in relation to service access and livelihood opportunities (including through remittances) in the context of the wider issue of migration policy. This would include reviewing the concept of clustering service provision and infrastructure in smaller centres.
- The viability of agricultural and other livelihood sources in differing rural areas, particularly following implementation of the agricultural subsidy reforms.
- The prospects for effective private sector service delivery and market access, and the policy and institutional development measures that might be taken to strengthen private sector provision and collective action for marketing and service delivery for the rural population.
- The special problems of service delivery and access for remote (especially highland) rural areas across a range of service areas and their implication for government and donor programmes.

Table 3. Farm Structure SEE (Private holdings), 2004

	Albania		Bosnia-Herzegovina		Croatia (2003)		FYROM (1994)		Montenegro (1991)		Serbia		Kosovo	
	No. holdings	Structure %	No. holdings	Structure %	No. holdings	Structure %	No. holdings	Structure %	No. holdings	Structure %	No. holdings	Structure %	No. holdings	Structure %
Total	394,849	100.0	515,000.0	100.0	449,896.0	100.0	82,185.0	100.0	60,043	100.0	778,891	100.0	171,739	100.0
< 2 ha of UAA	354,626	89.81	250,000.0	48.54	299,745.0	66.6	39,817.0	48.4	39,563	65.9	360,317	46.3	133,473	77.7
2 ha to 5 ha	40,016	10.13	150,000.0	29.13	85,985.0	19.1	32,949.0	40.1	12,307	20.5	244,064	31.3	32,325	18.8
5 ha to 10 ha	162	0.04	90,000.0	17.48	42,553.0	9.5	7,785.0	9.5	5,369	8.9	131,438	16.9	4,893	2.8
> 10 ha	45	0.01	20,200.0	3.92	21,613.0	4.8	1,634.0	2.0	2,804	4.7	43,072	5.5	1,048	0.6

Source: Area - FAO 2006; other data - World Development Indicators 2006.

Notes: No. of holdings presented as Utilised Agricultural Area (UAA) for each category not available for 3 countries

Table 4. Area ownership relations in Turkey: Farm size (hectare), 2001

Farm size ha	No. holdings	%	Area	Structure (%)
Poor farmer < 5 ha	1,958.3	64.8	39,331.1	21.3
Small farmer, 5-10	560.0	18.5	38,123.2	20.7
Middle farmer, 10-50	481.0	15.9	85,957.9	46.6
Rich farmer, 50-100	17.4	0.6	11,258.6	6.1
Village agha, landlord > 100	4.5	0.1	9,698.6	5.3
Total	3,021.2	100.0	184,369.5	100.0

Source: Agricultural Census, State Institute of Statistics (2004); Yilmaz (2006).

Table 5. Share of household expenditure on food and non-alcoholic beverages 2000 - 2004

	2000	2001	2002	2003	2004
Albania	75.0	N/A	57.1	N/A	N/A
Bosnia & Herzegovina	N/A	60.8		60-70%	
Croatia	32.2	33.7	32.2	32.6	N/A
fYR Macedonia	41.8	42.0	42.5	42.0	40.8
Kosovo	N/A	N/A	N/A	53.9	54.8
Montenegro	54.0	51.7	50.0	49.7	48.0
Serbia*	50.0	55.0	45.0	43.0	40.0
EU	12.9	12.9	12.9	12.9	12.7

Sources: FAO 2006; other data - World Development Indicators 2006

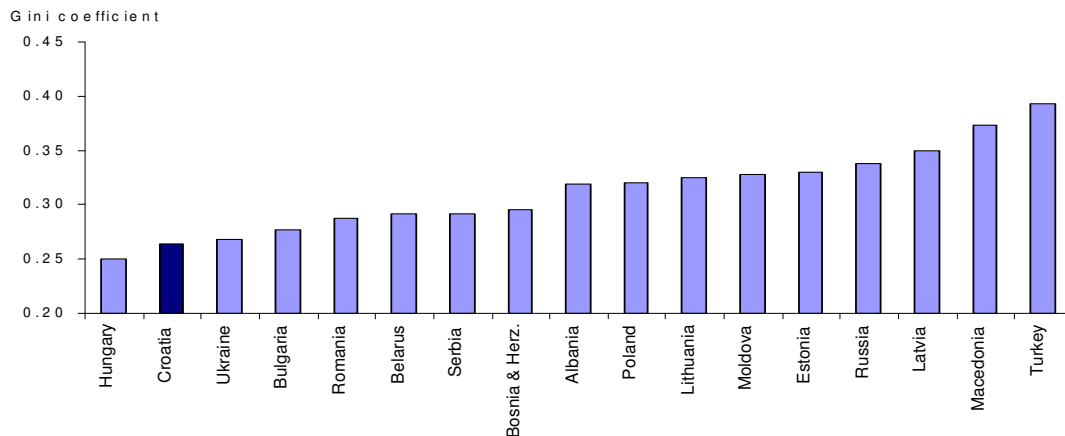
2.4 Dimensions of rural poverty and inequality

Widespread poverty is a relatively new phenomenon in SEE. Until recently, most people enjoyed secure employment and guaranteed pension benefits. Since the collapse of the former communist system in the region, poverty has increased at a pace unparalleled elsewhere in recent times. According to recent data, nearly one person in five lives below the poverty line and poverty affects five times more people than a decade ago. In many rural areas, former collective and state farms have been privatized, leaving rural workers unemployed and with few opportunities for alternative employment. Most privatised farms have divested social assets such as schools, health care services and community centres, and public administrations lack the financial and institutional capacity to manage them. In search of jobs and services, many rural people in the region have migrated to urban areas. Yet in some countries, many urban dwellers have migrated to rural areas where they can have some food security.

In SEE, the incidence of rural poverty is from one to three times that of poverty in urban areas. Key factors in rural poverty are distances from the markets of Western Europe and lack of local employment opportunities. Scarcities of land and plot fragmentation are factors in rural poverty in some SEE countries. In SEE, the majority of poor people live in the rural areas of Albania, Bosnia and Herzegovina and the FYR Macedonia. In Bosnia and Herzegovina and in the Kosovo region of Albania, rural poverty has deepened as a result of recent conflicts and the consequent loss of assets. For many rural poor people, remittances from family members who have emigrated are a vital source of income. Remittances also inject cash into the rural economy.

The IPA regulations on EU assistance for SEE and Turkey during the period 2007-2013 with regard to rural development, making a sharp distinction between the EU instruments available to potential candidates and those available only to candidates, could result in a widening rather than a narrowing of regional disparities and divergences between the countries within the region but also between urban and rural areas. Income inequality as measured through the Gini coefficients presented in Figure 4 show that Croatia not only has the lowest poverty rates in the region, but also the lowest rate of inequality. Turkey and FYR Macedonia have the highest rate of inequality (World Bank, 2005).

Figure 4. Inequality in SEE and Turkey 2003



Source: World Bank (2005) Growth, Poverty, and Inequality: Eastern Europe & the Former Soviet Union.

In all SEE countries, rural areas show a higher or equal rate of poverty to that in urban areas (see Table 6). Poverty reduction is one of the main objectives of the international organizations working in SEE, and three of these countries have already developed a poverty reduction strategy.

Social exclusion is increasingly threatening Romas, and other vulnerable populations groups such as the elderly and some displaced persons. Suppression of hidden subsidies, progress of the formal economy, prohibition of illicit activities such as smuggling or currency trafficking, reduced social benefits in real terms result in the emergence of a dual society. In some instances, isolated ethnic minorities face economic difficulties due to their inability to access jobs and develop economic projects. These unresolved issues hamper the transition process and rapprochement with the EU.

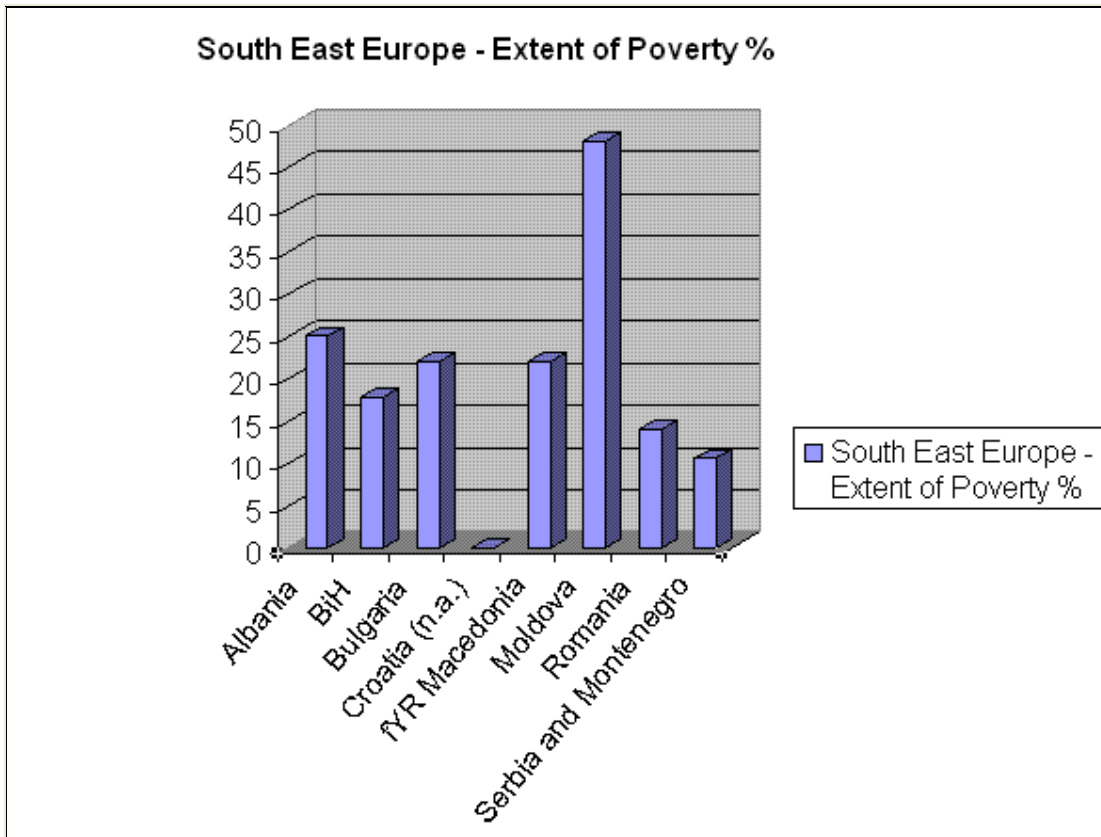
Table 6 Percentage of the Population under the Poverty and Extreme Poverty Lines

Political Entity	Rural		Total		Source and year
	Poor	Extreme poor	Poor	Extreme poor	
Albania	29.6	5.2	25.4	4.7	PRSP, 2004
BiH	20.0	0	19.5	0	PRSP, 2001
FBiH	16.0	0	16.0	0	
RS	27.0	0	25.0	0	
FYRoM	n.a.	n.a.	22.3	n.a.	UNICEF, 2002
SCG	25.1	n.a.	20.0	n.a.	PRSP, 2004
UNMIK-Kosovo	40.4	11.6	38.4	11.9	LSMS, 2001

UN FAO, (2006) Major Challenges of the Western Balkans: FAO's Focus and Coherent Approach for Technical Assistance for 2006 – 2009.

According to the most recent World Bank Poverty Assessments, all of the countries of South East Europe are characterized by low incomes and a high incidence of poverty - especially in relation to the poorest countries to join the European Union in the past (the Baltic States, and Central and Eastern Europe). The graph below shows the most recent estimates of the incidence of poverty in each of the countries of the region. As can be seen, the poorest SEE countries are Moldova, and Albania which also have the lowest per capita incomes in Europe. Poverty in the region is concentrated in smaller size towns, rural areas and is least prevalent in capital cities, and it disproportionately affects minority groups and low-skilled workers.

Figure 5. SEE – the extent of poverty (%), 2000-2002



Source: This table is based on most recent poverty assessments. Most data are from 2000-2002. UNMIK/Kosovo poverty line obtained from the most recent poverty assessment (World Bank 2005)

In addition, even taking into account the existence of large informal markets, the level of recorded unemployment is high in all countries (typically running at around 15 percent), with the exception of Turkey (where unemployment is 10.3 percent). Although there is no consistent pattern in the region concerning the relationship between gender and unemployment, it does seem clear that it is the younger generation that are most affected. There also seems to be a trend towards longer-term unemployment, as unemployed workers find it more difficult to get new jobs or retraining.

Rural poverty and inequality in SEE

Poverty in Albania has marked spatial and regional dimensions, with rural areas and the Mountain region being consistently poorer than rest of the country, stipulating the depth of poverty in the Mountain area is much more pronounced than in any other region, with a poverty gap index of over 11 percent. The results of the World Bank (2005) analysis point to priority areas, namely, that coverage under health insurance needs to be increased; secondary school enrolments need to be increased, and quality of education at this level improved; provision of basic services and infrastructure should be improved, including access to quality health and education services and to basic sanitation services; and, it is imperative that the Government develops a rural development strategy focused on poverty reduction in the short run, since a large number of the poor live in rural areas. Agriculture is the key income generating activity in these areas, thus locally adapted rural extension service should be

provided. In terms of future growth, attention must necessarily shift to the manufacturing sector, for stimulating the manufacturing sector could potentially create increased employment opportunities, while another area that deserves great attention is tourism.

Recent rural development initiatives in Albania are organised around the following axis:

- Competitiveness of agriculture , agro-business and forestry
- Preservation of cultural landscape and environment protection
- Improving the quality of life in rural areas and promoting diversification of economic activities.
- Participatory rural development

Each axis has several measures, for which there are standard EU models which can be adapted for Albanian Farm modernisation, for example matching competitive grants (e.g. for orchards, irrigation), market adaptation – matching grants for modern marketing, (e.g. for food processing or cooperative-style initiatives), pilot agri-environment and small-scale community infrastructure (e.g. village markets).

Poverty in Bosnia-Herzegovina (BiH) is quite substantial, affecting every fifth citizen. Poverty is substantial compared to some neighbouring countries. Nevertheless, and despite the country's post-conflict situation and its low officially measured level of GDP, there is no extreme poverty. Inequality in material well-being also appears to be quite moderate by international standards and, the non-income dimensions of poverty are also generally not extreme in BiH. The World Bank analysis finds that a sizable proportion of the population faces the risk of falling into poverty, and it identifies risk factors that may thrust a non-poor household into poverty:

- precarious earning sources, because the predominant living arrangement features a single-earner household;
- widespread health risks, including uninsured financial risks, and lingering post-conflict risks;
- violation of human rights, discrimination and corruption;
- limited geographical mobility;
- limited access to formal safety nets; and,
- depleted stock of household assets and limited access to credit.

Recent rural development initiatives include the following:

- Construction and reparation of infrastructure (roads, waterworks, drainage systems, etc)
- Institutions of common interest – health, veterinarian, ambulances etc
- education training and seminars for the rural population
- Introduction of additional activities - diversification of production
- Support and promotion of local (traditional) products
- Support for business activities into agricultural associations
- Investment in other activities necessary for rural development.

The World Bank (2000) has estimated that less than 10 percent of *Croatia's* population fall below the national poverty line. Macroeconomic and structural policies were key determinants of weak employment growth, and, labour market policies have worsened the negative impact of macro-policies on income distribution. Policies to foster opportunities should include a sustained macroeconomic stability; creation of an enabling environment for

private businesses; an increased flexibility of the labour market; and, increased investments in human capital.

Despite considerable progress with reconstruction in *Kosovo*, the challenge of poverty reduction remains enormous for years to come. The recent growth performance has been driven by a post-conflict boom financed by official development aid flows, but has not led to significant job creation opportunities, and its sustainability is unlikely without a clarification of Kosovo's political status, and the maintenance of peace and security. While recent growth (and consumption inequality) have most likely led to a reduction in poverty (between 2000 and 2003), yet, some 37 percent of the population is estimated to live in poverty according to the 2002/03 Household Budget Survey (HBS) data. The report outlines the many dimensions of poverty in Kosovo, where income poverty appears widespread, and is found to affect disproportionately children, the elderly, female headed households, the disabled, non-Serb ethnic minorities, the unemployed and precarious job holders. Unemployment is in direct correlation with income poverty, but, while educational and health outcomes are still low, social cohesion is fragile, which may undermine the sustainability of economic growth, and reduce the impact of growth on poverty reduction.

The Kosovo Rural Development Plan 2007-13 is designed to approximate EC guidelines. It has 4 Axis covering 8 measures:

- Axis 1 - Competitiveness
- Axis 2 - Environment and improved land use
- Axis 3 - Rural diversification and quality of rural life
- Axis 4 - Community-based local development strategies

The Main concentration is on Axis 1 within which measures of support to restructure farms assist with vocational training and assist irrigation and agro-processors is envisaged.

Prior to 1990, the *fYR Macedonia* was one of the poorest Yugoslav Republics heavily subsidized by transfers from Belgrade and greatly reliant on internal markets for trade. The poorest households were mainly rural and derived their income primarily from agricultural sources. A cradle-to-grave social protection system was also in place with the intention of providing individuals with full protection against income loss and other lifetime risks.

The transition exacerbated the poverty situation in the country. Independence from Yugoslavia, the loss of federal transfers, the external conflict among its neighbours, and the economic transformation from a socialist system to a market economy led to a sharp economic contraction. Poverty increased from 4 percent of the population in 1991 to approximately 20 percent in 1996. The increase in poverty was not uniform. Poverty rates remained largely unchanged between 1990-91, but increased sharply between 1993-95. The main reason for the increase in poverty was a major decline in real consumption. Inequality in consumption grew, but contributed far less to poverty growth.

In 1996, according to the official poverty line, approximately 20 percent of the population was poor. An overwhelming share (two thirds) of the poor lived in rural areas. About 60 percent of the poor lived in households headed by individuals who worked. Of these, almost two-thirds were wage/seasonal workers, and the rest were farmers. The remaining non-working poor were roughly evenly divided between pensioners and the unemployed/transfer recipients.

Recent rural development initiatives and policy goals in FYR Macedonia include the following:

- increasing the efficiency of agricultural production, processing and marketing
- building appropriate, effective public and private institutions
- improving farm incomes
- access to safe and healthy food
- optimizing the use of scarce land, forest and water resources, in an environmentally sustainable manner
- building viable rural communities through sustainable rural development

Poverty affects every tenth person in both *Serbia and Montenegro*. Inequality remained moderate by regional standards, and as a result poverty is shallow. At the same time vulnerability--or exposure to negative shocks and inability to cope with them-- threatens many currently non-poor individuals. At least as many suffer from deprivation in other dimensions of well being, such as health, education, housing, social inclusion or property rights. Material poverty, therefore, is not the only challenge for the Governments. Four factors are most strongly related to poverty: (i) low education attainment; (ii) unemployment; (iii) the location in rural areas and depressed regions, and (iv) the presence of socially disadvantaged members (such as internally displaced persons or Roma).

Recent rural development initiatives in Serbia include the following:

- Investments in production, processing and marketing procurement of agriculture mechanizations, reconstruction of stables, investments in processing facilities;
- Diversification of activities on agriculture households- development of agro tourism and traditional crafts, etc.; Rural Development (RD) scheme
- Promotion of rural areas- certification, branding, protection of products, preservation of rural communities cultural heritage, support to regional and cross- border cooperation, farmers mobility etc.; RD Scheme
- Reconstruction of village infrastructure; RD Scheme
- Capacity building- education of rural population, support to establishment of cooperatives and demonstration farms and pilot tourist capacities for education of agriculture producers and advisers; RD Scheme
- Programs for environment protection and agro-biodiversity preservation- support to organic animal and plant production, preservation of natural resources and bio-diversity preservation; Self-standing scheme
- Strengthening and capacity building of advisory service- support to education of advisers and agricultural producers; Self standing scheme
- Introduction of HACCP; Self standing scheme

In Montenegro, rural development programs in terms of total budgetary support have increased over time (in absolute and relative terms). Recent rural development initiatives in Montenegro include the following:

- rural infrastructure, investment support in primary sector, restructuring processing industry, support for organic agriculture and other programs;
- Many international projects have been realized, with domestic financial contributions (national plus donor resources);

- USAID infrastructural and economic development projects (market access infrastructure, water supply objects, specific equipment and mechanization), with participation the of local clusters; and
- Improving the competitiveness of primary production and processing industry: EC funded projects (modernization of milk sector), German Agency for Technical Cooperation (GTZ) (meat sector and medicinal herbs), Netherlands (modernization of seed potato prod.) Luxembourg (FAO project in livestock sector, dairy project etc); Italy (rural development in certain regions) etc.

The poor are found to face serious problems of access to public services (health, education, sanitation) and suffer disproportionately from the deterioration in the quality of public service provision. Even though some of the social assistance programs are among the best targeted programs in the region, the social protection system as a whole suffers from large exclusion errors.

In summary, overall in SEE given the high level of vulnerability of the population and the shallowness of poverty, a broad-based growth strategy that ensures that the benefits accrue at least proportionately to the poor is central for accelerated poverty reduction. Improvements in the business climate will stimulate private sector growth and feed into employment generation. Growth will increase fiscal revenues to remedy the problems of chronic under funding, while structural and public administration reforms will strengthen the governance and the quality of services provided to the poor. The multidimensional nature of poverty requires concerted and well coordinated action in different sectors.

Rural poverty and inequality in Turkey

In *Turkey*, the World Bank (2005) analysis refers generally to the new poverty line methodology which results in 27 percent poor. This line is called the "complete" poverty line, and is referred to as "Total poverty" in statistical tables. An in-depth analysis of the 2002 Household Budget Survey (HBS) compared to that from 1994, shows that living standards in Turkey remained almost unchanged (World Bank, 2005). Poverty based on the previous methodology declined gradually from 1987 to 2002, from 38.5 percent to 34.5 percent. Poverty based on the updated methodology declined from 28.3 percent to 27 percent from 1994 to 2002. On the other hand, marginal inequality increased. Extreme poverty, already low, further declined from 1994 to 2002. Food poverty declined from 2.9 to 1.4 percent, while \$1 per person per day poverty, depending on purchasing power parity (PPP) used, was 2-3 percent, or even negligible (0.2 percent). The poverty-growth decomposition demonstrated that while economic growth was a main driving force in poverty reduction, much of the gains from growth were offset by inequality, which slightly worsened from 1994 to 2002. Unfortunately, due to the macroeconomic instability, living standards between these two years have not improved. The conclusion that stems from this analysis is therefore that growth between 1994 and 2002 was not sufficiently strong to produce any sizable reduction in poverty, and the impact of the little growth that occurred, was dampened by an increase in inequality.

Turkey has significant and entrenched inequalities – higher than in SEE and other Mediterranean countries, although lower than in South America (World Bank, 2004). Education and employment status explain between a fifth and a quarter of observed inequality. Rural-urban differences and regional factors each explain a further 10 percent or more. Poverty rates are sharply higher in the south-east compared with the rest of the country.

Inequality between regions is largely explained by differences in the sectoral structure of production and in productivity across sectors. The rapid rate of rural-urban migration, as well as the dependence of rural areas on remittances from family members employed elsewhere, means that urban and rural poverty must be seen as closely interrelated. A simple rural-urban distinction (or regional distinction) may also not capture the key correlates of poverty, for instance, poverty incidence is high in inland, mountainous areas, even in otherwise relatively prosperous regions of the country. The key features of rural poverty in Turkey include the following:

- Economic growth has largely come from the shift of labour out of agriculture to urban areas; however productivity growth within sectors has been low. Turkey's urban population increased by 125 percent between 1980 and 2000 whilst the rural population has fallen by 6 percent. However, employment growth has not been sufficient to absorb the labour supply increases.
- Inequalities between households are primarily related to education and employment status, with state transfers not serving to reduce inequality as public expenditure is not effectively targeted on the poor. Poverty is concentrated in large families whose heads are stable employment and with little formal education.
- The gap between rich (Marmara, port cities on the Aegean and Mediterranean coasts) and poor regions (in East and South-East Anatolia) is growing.
- Turkey's health and education indicators are substantially worse than for most countries of comparable income levels despite significant improvements in recent decades. Gender differentials in education access and attainment are especially marked.
- The incidence of economic poverty and vulnerability is not significantly different between urban and rural areas but poverty incidence is highest in remote highland areas.

The National Rural Development Strategy (2006) aims to improve and ensure the sustainability of living and job conditions of the Turkish rural community in their territory, in harmony with urban areas, based on the utilization of local resources and potential, and protection of the nation's environmental and cultural assets. It is expected to contribute to the following:

- Eliminate disparities between urban and rural areas,
- Provide a stabilised dynamism to migration tendencies,
- Mitigate adverse socio-economic and environmental effects,
- Protect, improve & sustainable use of environment and natural resources,
- Ensure economic and social convergence with the EU and harmonization with the acquis.

2.5 Key challenges facing rural development in SEE and Turkey

Throughout SEE and Turkey rural employment and sources of non-agricultural income basically depend on agricultural activities, covert unemployment in the agriculture sector, and widespread informal sector employment in rural areas. There is widespread poverty in rural areas and a need to make education, health and social security services more accessible to rural populations. Most farms are small and uneconomic in terms of scale, however this is

exacerbated by a lack of adequate rural infrastructure, and a need to modernize existing infrastructure. There remain problems with the balancing of preservation with usage of natural resources (soil, water, forest, pasture and grassland, water product stocks etc.). There is often low soil quality (in highland/ mountainous areas), widespread erosion due to contour terrain, and a failure to use soil resources according to capability. There is also an inadequacy of data needed to analyse economic and social structures of rural areas.

Thus, many SEE countries are faced with a range of challenges including rural poverty, weak local institutions, decaying infrastructure, depressed one-company towns, state-owned enterprises in need of reform, and environmental degradation. In addition SEE faces specific regional challenges:

- Ethnic Tensions and destruction of both physical and institutional infrastructure through wars (BiH, Croatia, Kosovo)
- Disintegration and nationalization
- Poor business environment and lack of banking infrastructure for development
- Lack of foreign investment in the agriculture sector
- Lack of sector strategies considering modern rural development approach
- Decline of bilateral donor funding
- Long-term unemployment and an inability to shift jobs to the formal sector
- Inadequacy of data needed to analyse economic and social structures of rural areas

3 A provisional framework for rural development in SEE

Over the past 20 years the concept of rural development has undergone significant change. These changes have been influenced by new thinking about development, globalisation, grassroots initiatives and best practice. Amongst the new trends and developments which have affected recent thinking on rural development include the following: (i) most SEE farms will be larger than at present and predominantly commercial, i.e., buying most inputs and selling most outputs; (ii) an increased proportion of rural income will be non-agricultural in origin (though with linkages to agriculture in most cases); (iii) input and output marketing systems will be increasingly integrated, industrialized, and sophisticated; (iv) agriculture's contribution to GDP will decline; and (v) a greater proportion of world agricultural production will be traded on international markets (indeed agriculture's contribution to total exports will decline).

These features may be the result of long-term trends rather than the result of short-term discontinuities, but in general they reflect a development situation in SEE rural areas that is different than that which was prevalent in the mid-1990s. Many countries have already recognized the new tendencies and the need for a multi-sectoral spatial approach, and provided a vision of rural development based on the principles of environmental sustainability, decentralization, private sector development, community participation and empowerment of the poor to foster economic growth and development.

It could be argued that in SEE, the balanced development of rural areas requires a complex and comprehensive approach which integrates agriculture into an overall rural development framework. Such an approach should include a set of specific measures to support:

- Emergence of competitive agriculture;

- Further development of the rural service sector and related industries to provide off-farm rural employment and additional demand for agricultural and other products;
- Improvement of rural infrastructure, including physical infrastructure (communications, ICT, roads, water and power), social services (education and health) and economic services (banking, rural finance, investment); and
- Development of an appropriate social policy to properly address specific social protection challenges affecting rural populations.

Rural development requires multi-disciplinary and pluralist approaches to address poverty and social and gender equity, local economic development for employment creation, natural resource management, and policies and governance. A sector-specific focus whilst necessary is not a sufficient condition for sustainable rural development to occur. Approaches integrating infrastructure and agricultural technologies with institutions and capacity building - with an increased focus on rural infrastructure are required. Rural development policy options and interventions should be based on community participation, empowerment and strengthens rural governance in accordance with the principle of subsidiarity. Developing the rural institutional frameworks and capacities requires long-term assistance through programs, projects, and supporting specific areas and regions. Piloting and experimenting are desirable, but replicability (scalability) needs to be a design objective.

This approach refocuses the rural development process to concentrate upon improving the well-being of the rural people in the widest possible sense. This entails much more than measuring the average income of rural populations, it also involves a concern with broader quality of life issues, such as levels of services, and the nature of society.

4 Elaborating a rural development strategy for South-East Europe and Turkey

Elaborating a Rural Development strategy for SEE and Turkey is both a useful contribution toward reducing rural poverty in accordance with the MDGs, and an opportunity to explore novel approaches to rural development. This paper attempts to achieve these two objectives.

The approach to rural development that is proposed goes beyond investments in infrastructure and social development to seek gains in income for the rural poor. The instruments that it proposes to use for this purpose stress the following:

- The role of decentralization and of local governance in planning regional development and in allocating public resources.
- The role of organizations that include and represent the rural poor.
- The role of agriculture as a source of local growth, and of employment and income for the rural poor. Important among agricultural activities are high value added crops and livestock.
- The role of non-agricultural activities linked to agriculture through forward, backward, and final demand linkages.
- The role of autonomous non-agricultural activities in providing employment and investment opportunities for the rural poor.
- The role of a broadly participatory approach to the definition of a rural development strategy.

If a rural development strategy that follows these principles can be elaborated and implemented, it could serve as an original experimental ground in learning how to better use rural development for poverty reduction in SEE and Turkey. It could thus contribute in helping make investments in rural development more effective for poverty reduction than they have been in the past, and in restoring interest among SEE governments and international development agencies in this type of investment. In the following, we stress several elements of the strategy that could be emphasized.

4.1 Focus on the territorial and spatial dimensions of rural development

The application of territorial and local economic development approaches have been pioneered primarily in Latin America and in Europe where territorial factors have been shown to play a significant role in determining economic growth, the reduction of poverty and of inequality. Territorial determinants are responsible for the large and growing gaps between richer and poorer territories. Macro and sectoral policies are not sufficient to stimulate territorially-balanced growth, just as targeted or broad-based but horizontal social policies by themselves cannot deal with some of the important dimensions of poverty and social inequality. There is growing recognition that aggregate levels of economic growth must also be reflected by growth in the productivity of regional and local economies, through more territorial approaches which has more direct linkages with employment and with livelihood and asset building strategies of the poor. Although there is good evidence that the impact of economic growth on poverty is negatively affected by income inequalities (Ravallion, 2004) and that asset inequalities depress economic growth as a whole (World Bank, 2005), there has been limited assessment of the potential poverty impacts of sub-

national economic growth and the reduction of intra-regional disparities, and the implications for rural development in the context of local economic development.

The proposed rural development strategy emphasizes the need to go beyond public goods (infrastructure, especially rural water and sanitation) and social development, toward income generation through local growth and incorporation of the rural poor in this growth process. This is a concern that has been neglected as evidenced by lagging gains in income relative to gains in social development. The proposed strategy is integral in that it goes beyond a sectoral approach to include all local sources of income. It also focuses on decentralization and the role of local governance. Hence, it effectively endorses a territorial approach to rural development, seeking to promote growth of a region, and to assist participation of the rural poor to the opportunities created by this decentralized growth process.

If this is the spirit of the strategy, then the concept of territory should be more central to future initiatives. What is the appropriate geographical unit for the planning of local growth? Is a canton, municipality, or regional development authority adequate for this? How will the comparative advantages of the regional unit be identified and capitalized upon? What institutions should the region give itself to plan and achieve its potential? What markets will the products of the region cater to? The concept of space could then become an explicit organizational principle for the proposed rural development strategy. Important in particular is how the region integrates its urban and rural components into one single growth strategy. Hence, government and donors may want to be more explicit about the specific territories being considered and how their assets and institutions can be instrumentalised to promote growth.

4.2 Focus on the different levels of decentralization

In the context of growing decentralization and efforts to build the capacity of local government, territorial analysis has found that existing administrative units of local government are frequently too small and localized to support effectively socially inclusive development and thriving market opportunity. Further, in some SEE countries in particular, a plethora of micro-municipalities - often configured around historical patterns of land ownership and political power, has enabled the capture of public development funding by local political elites, often closely associated with established remnant nomenklatura and dominant business figures. Decentralization has evidently not been effectively pursued in SEE and Turkey, even though often complex governance systems (especially in Bosnia-Herzegovina and Serbia) are in place for this purpose, running from the canton/ municipality, to the village level.

The proposed rural development strategy emphasises the potential efficiency gains to be derived from more effective decentralization and participation. Yet, most of the emphasis is given to decentralization at the level of the municipality, and its role in planning. How will local public councils (and other community based organisations, NGOs etc) be involved is often not clearly spelled out in the documentation on rural development strategies and institution building for programme formulation. The proposed rural development strategy outlined here, suggests a two-tier approach to decentralized governance: canton/ municipalities etc., promoting regional economic growth, with the resulting generation of employment and investment opportunities, and local public councils managing the allocation of public goods and the selection of investment projects in a community driven development (CDD) fashion. As part of future rural development initiatives, governments and donors will

need to better specify how these different levels of decentralization and governance might be implicated in future rural development strategies.

4.3 Focus on the two-way relationships between agricultural and non-agricultural activities

The proposed rural development strategy is innovative in recognizing the contributions of three sectors of the local economy in providing income opportunities for the rural poor:

1. Agriculture particularly oriented at high value crops and livestock.
2. The non-agricultural sector driven by agriculture (ADNA) through backward, forward, and final demand linkages.
3. The autonomous non-agricultural sector, when industry and services locate in rural areas independently of the performance of agriculture.

Following the Mellor model, much emphasis is given to the importance of a dynamic, smallholder-based agriculture in driving the growth of ADNA. This is also the Adelman model of ADLI (Agriculture Demand-Led Industrialization) that stresses the final demand linkages originating in agricultural incomes and inducing industrialization through demand for non-tradables. The Mellor-Adelman causality running from agriculture to industry and services may indeed be the main link. However, in a country like Turkey which is well integrated through the coastal areas where tourism is decentralized toward many rural sites, the reverse causality is also worth exploring: the promotion of tourism and rural industries can create a local demand for high value crops and livestock products in agriculture. We know by now that the key to successful development of the high value crops and livestock sectors is not only rising productivity but mainly finding sources of effective demand. A successful regional economy, based in part on tourism and decentralized industries, can also be a source of effective demand for labour-intensive agriculture. In this case, the model is one of I/SDLA (Industry/Services Demand-Led Agricultural Development). Clearly, both ADLI and I/SDLA approaches are worth pursuing. The proposed rural development strategy may give an opportunity to experiment with this two-way approach.

4.4 Focus on the conditions for successful incorporation of the rural poor in the array of regional employment and investment opportunities, particularly beyond agriculture.

The outlined rural development strategies in SEE and Turkey have emphasised the supply side of employment and investment opportunities, through agriculture, ADNA, and autonomous non-agriculture. This perspective is appropriate from a regional development perspective where concern is with the generation of income opportunities. However, successful rural development for poverty reduction requires that the rural poor in the region be able to capture at least part of the opportunities created by successful regional development. This demands specific types of investments in the rural poor and in the institutions and organizations servicing and representing them. A number of empirical studies have tried to identify the determinants of access to these opportunities (see for example Davis (2004) and the special issue of *World Development* (2002) on rural non-agricultural employment edited by Reardon, Berdegue, and Escobar). Key determinants of access to the better paying non-agricultural employment (as opposed to poorly remunerated agricultural employment) are education, proximity to a source of non-agricultural employment, age (young), gender (often women according to types of activities), and

membership to organizations and to social networks (important for access to information and for job referrals). Hence, a successful strategy of rural poverty reduction should be concerned with:

(1) The supply of opportunities, achieved through successful regional/territorial development, using high value added agriculture and livestock, ADNA, and autonomous non-agriculture employment.

(2) Access to these opportunities by the rural poor on the basis of their asset endowments, including their social capital (the demand side).

Concern with the supply of opportunities if not accompanied by concern with the ability of the rural poor to seize these opportunities will result in growth, but not necessarily in poverty reduction. For this reason, the proposed rural development strategy moves beyond: (i) sustainable pro-poor growth and (ii) rural people's participation in decision-making processes and local level planning in resource allocation as this may not be sufficient. Providing the poor with the capabilities to be incorporated in the local growth process is also vital.

Well focused, socially inclusive pro-poor growth is an important medium term strategy, involving diversifying rural economies through agro-based secondary economic activities, eco-tourism and links to urban markets, in turn requiring decentralization to facilitate more transparent and accountable institutions, community mobilization, civil society and private sector partnerships.

4.5 Focus on the environmental dimensions of the problem

It is well known that SEE and Turkey suffers from major environmental problems that compromise any sustained effort at rural development based on agriculture. This includes top soil loss due to brick-making, rising water tables due to excessive un-metered use of irrigation water, salinization of soils due to excessive irrigation, and chemical pollution of water which is also used for human consumption. Promoting agricultural productivity must consequently be done with these problems clearly explicit. The proposed strategy may give insufficient attention to these problems. Their solution is partially technological, but also largely institutional with pervasive market failures for water, pollution, and environmental services that would need to be fixed. A successful rural poverty reduction strategy depends on an effective approach to environmental management. This should be more explicitly incorporated into the design of the proposed UN FAO rural development strategy.

4.6 Focus on improving farmer competitiveness

This is a critical issue for farmers in both SEE and Turkey, as they remain largely agricultural economies. Here as part of our proposed rural development strategy we highlight three key elements related to improving farmer competitiveness and access to high-value agricultural (HVA) markets.

Marketing support: A thorough analysis of the specific HVA product market should equip small-scale farmers to establish market information systems that also 'map' competitors. Ideally, a system should be instituted that provides information continuously that will help to establish and adjust distribution and marketing channels. Since a support programme might

cater for a wide spectrum of rural enterprises, implementation activities have to be able to vary. Small-scale farmers might receive training in order to achieve a standardised marketable product. In this support bracket, it is necessary to assess the actual product(s) of a small-scale farmer to see whether it could be further developed and differentiated for the rural, urban, national, regional or international market. This may be particularly relevant in the development of value addition for some minor crops and new product development (including from traditional commodities). This entails creating the ability to identify and mobilise appropriate technologies and skills for product innovations (Davis, 2006).

Financial Support Systems: It is crucial for rural enterprises to have access to appropriate (micro)finance systems. Such support must reflect the specific needs of the respective group of enterprises (e.g., enterprises with seasonal production cycles) with regard to collateral requirements, duration of loans, repayment conditions, etc. Budgeting and cash flow generation are the most relevant support mechanisms to enable small-scale farmers to interact with financial service providers. In many developing countries there is a scarcity of other financial products appropriate for the needs and demand of rural small-scale enterprises (Davis, Onumah and Butterworth, 2004). The main players are commercial banks, whose product range is usually aimed at the formal established segment of the (urban) market. Small-scale farmers-friendly loan schemes are often operated by NGOs and parastatals but it is difficult for their outreach and product portfolio to help a broad clientele in rural areas.

Technical Support Systems: A common problem for small-scale farmers entering HVA market chains is that their products often do not comply with the prevailing technical standards. To sustain success in the market place, products have to be of a specific standard, which is difficult to achieve for small-scale farmers whose production techniques and technology may not always attain the standards demanded in dynamic markets including export. In addition, small-scale farmers often try to enter HVA markets without any relevant market analysis. Even where there is demand for a product, quality standards are often lacking. Technical support services are often essential to help refine products and to make them marketable. However, such services are often only available for payment and are therefore not easily accessible, especially to small-scale farmers. The core role of the public sector should be reviewed to consider their role in service provision e.g. quality, inspection services and testing laboratories.

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