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

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

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

Introduction

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

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

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



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

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

Definition of rural areas

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

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

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

Taking the population density as the only criterion is not unproblematic. Densities vary enormously across the different European countries, for example in the CEECs from an average of 30 inh./km² in Estonia to 130 inh./km² in the Czech Republic and in the EU-15 from 17 inh./km² in Finland to 470 inh./km² in the Netherlands. A certain threshold of the population density (e.g. below 150 inh./km² for rural regions), which might be appropriate to more densely populated countries like the Czech Republic or Poland include even most of the larger towns, and even cities, in sparsely populated countries like Estonia or Lithuania. Furthermore, what is included into a particular local community (NUTS 5) may differ across countries and functional and structural aspects of rural areas are not included in this definition. However, the more complex the definition the higher the data requirements. Thus, despite the shortcomings of the OECD definition it fulfils its task to enable rough comparisons across countries. In order to address rural policy issues, different ways of defining rural areas – or at least adapted methods in each case – seem to be more reasonable for the several countries.

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

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



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

Economic situation of rural areas

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

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

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



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

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

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

Source: Weingarten and Baum (2003), modified.

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

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

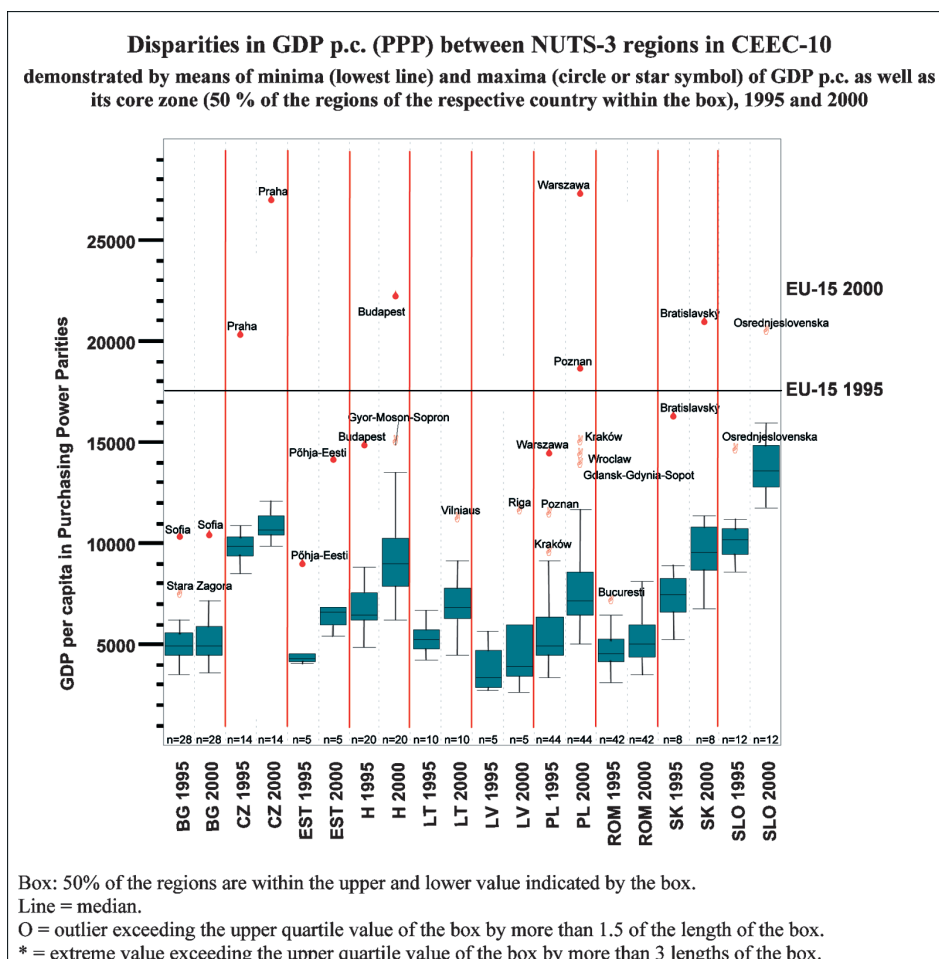


Figure 1. Regional disparities in GDP p.c. in the CEE new Member States
Source: Weingarten and Baum (2003), based on EUROSTAT's Newcronos Regiodata.

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

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

Note: ¹⁾ EU-15, GDP in *predominantly rural regions* (over 50% of the population living in rural communities with a population density below 100 inhabitants/km²) as share of national average, 1994.

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

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

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

Table 3. National and rural average unemployment rate

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

Notes: ¹⁾ Data in brackets according to ILO definition. ²⁾ EU-15, Unemployment rate in *predominantly rural regions* (over 50% of the population living in rural communities with population density below 100 inhabitants/km²) as share of national average 1994–1996.

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



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

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

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

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

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

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

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

The role of agriculture in rural economies

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

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

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

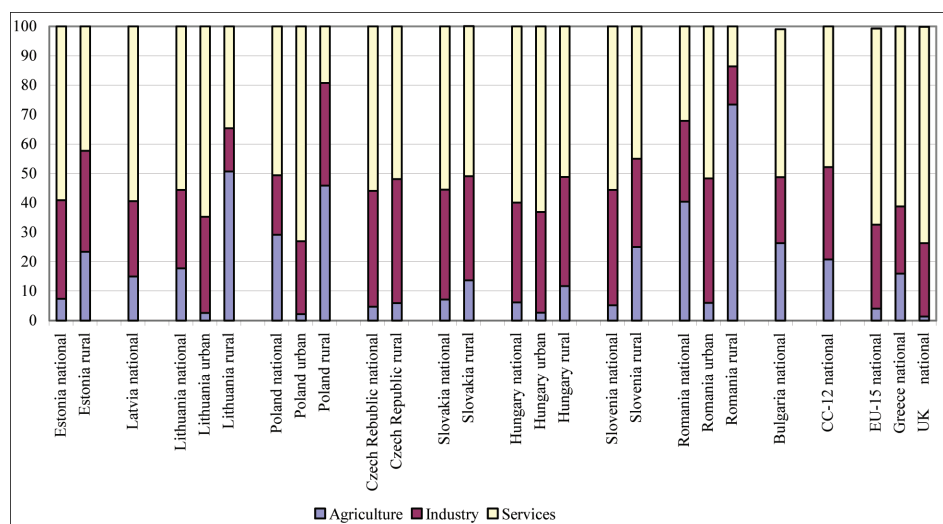


Figure 2. National, urban and rural shares of employment in agriculture, industry and services in total employment (%), 2001¹⁾

Notes: ¹⁾ Czech Republic, Estonia and Slovakia rural, 2000; Poland rural and urban, 1999.

CC-12 includes CEEC-10 and Malta and Cyprus. Greece is the EU-15 Member State with the highest, UK with the lowest share of agricultural employment.

Source: Country experts of the Network of Independent Agricultural Experts in the CEE Candidate Countries, cited in NETWORK (2004); EC (2003b).

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

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

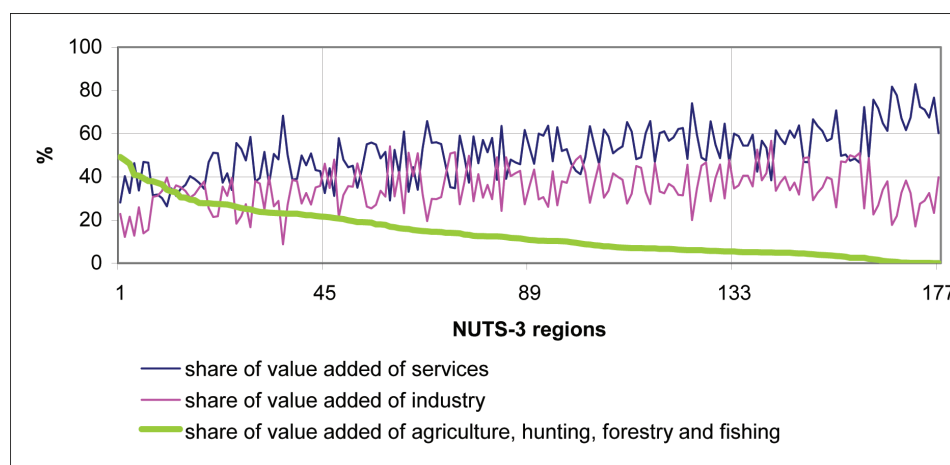


Figure 3. Percentage share of agriculture, industry and services in total gross value added in the CEE NUTS-3 regions, 1999 ¹⁾

The regions are ordered according to their share of agriculture in GVA

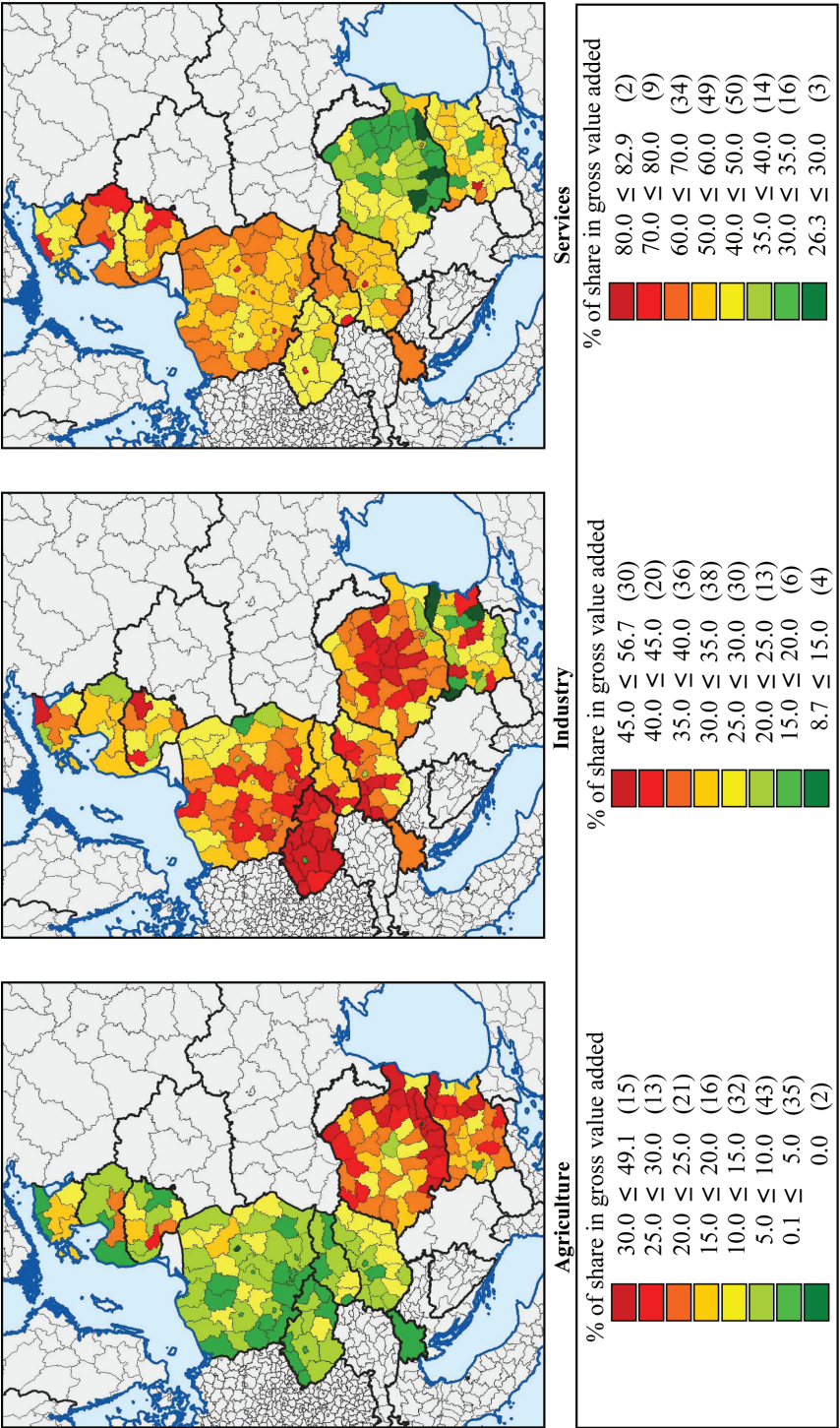
Note: ¹⁾ Hungary 1998, Romania 1997, Slovenia NUTS 1.

Source: EUROSTAT's Newcronos Regiodata.

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

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

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



Map 1. Share of agriculture, industry and services in total gross value added in %, 1999¹⁾
Notes: The number of regions in each category is given in parentheses. ¹⁾ Romania 1997, Hungary 1998.
Source: NETWORK (2004) based on EUROSTAT's Newcronos Regio data.

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

Rural infrastructure

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

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



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

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

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

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

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

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

Potential for alternative income-generating activities

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

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

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

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



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

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

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

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



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

Strengths (+)	Weaknesses (-)
<ul style="list-style-type: none"> existing natural resources with their recreational potential (EST, LT, PL, CZ, SK, BG) relatively good infrastructure (EST, LT, PL, CZ, SK, BG) experiences/activities in off-farm business (LT, PL, H, SLO) skilled labour (EST, LT, PL, H) high availability of work force (EST, SK, ROM, BG) good reputation of domestic agricultural products, quality, specialisation (EST, LV) 	<ul style="list-style-type: none"> poor qualifications and management skills (EST, LV, PL, SK, SLO, ROM) poor infrastructure (LV, PL, CZ, H, BG) insufficient off-farm job opportunities (EST, CZ, SLO, ROM) a high share of fragmented agriculture with low efficiency and subsistence production (LV, PL, ROM) underdeveloped financial markets (EST, LT, BG) the out-migration of young, skilled people (EST, SK, ROM) weak local/regional coordination of development (EST, CZ, H)
Opportunities	Threats
<ul style="list-style-type: none"> EU structural funds and development programs (LV, PL, SK, BG) Better access to EU market (LV, SK, BG) and an expected increase of FDI after accession (PL, CZ) Improvement of education and vocational training (LT, H, SLO, ROM) Improvement of rural infrastructure, including (tele)communication networks (LT, SK, H) Creation of alternative income sources (LT, SLO, BG) Stimulation of business start-ups and self-employment (EST, SLO, BG), especially rural tourism (EST, LT, CZ), ecological farming (CZ), traditional crafts (LT) and high-tech-branches (PL) 	<ul style="list-style-type: none"> Ageing of the population and migration (LV, SLO, ROM, BG) Low absorption of structural funds because of problems in mobilizing own financial resources (LT, PL, SK) Lack of required reforms (PL, BG) Further decline in traditional agriculture and industry (CZ, BG) Further isolation of remote areas and growing disparities (SK, ROM) Unfavourable macro-economic developments (PL, SK, BG).

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

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

Regional policy for rural development

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



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

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

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

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



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

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

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



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

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

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



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

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

Concluding remarks

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



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

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

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

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The development of non-agricultural economic activity in Poland's rural areas

Abstract: *This article, devoted to the issue of non-agricultural economic activity in rural areas, reports upon the latest statistical data, as well as material obtained by way of field study. Successive sections acquaint the reader with the contemporary functional structure of rural areas, the areas in which non-agricultural businesses are concentrated, the development of new functions in the countryside and factors favouring this development. The summary notes that Poland's period of transformation brought a dynamic development of activity of the above kind, albeit one that has not yet been able to make up for the earlier closedown of state-owned or cooperative enterprises. The greatest development of non-agricultural economic activity has been observed in city hinterland areas and has first and foremost involved the service sector and trade. In turn, the peripheral areas left more or less to their own devices have experienced slower development of business outside agriculture, in association with such unfavourable phenomena manifested therein as depopulation, unemployment, lack of investment, etc. These all contribute to deepening of the poverty existing in the aforementioned areas.*

Keywords: *rural geography, rural areas, functional structure.*

Aims and subject matter

The basic condition underpinning the development of rural areas¹ is their growing diversification through enrichment of the structure to include socioeconomic functions and the development and protection of cultural and natural landscapes. In Poland, rural areas are still dominated by agricultural activity, to the extent that there remains a profound need for the development of other economic functions (services, tourism, housing, forestry and industry) that would in general supplement, rather than replace, farming. This multifunctionality of rural areas has become the leading postulate behind all kinds of physical development plans, development strategies, studies and expert opinions dealing with the matter of rural areas.

¹ Poland's Central Statistical Office (CSO) proceeds on the assumption that rural areas are those located beyond the administrative limits of towns and cities. Since the author made use of many statistical materials from CSO, he complied with this definition, which gives an area equivalent to roughly 93% of Poland as a whole, as well as representing 38% of the country's population.



The task of the study reported has thus been to assess the possibilities or opportunities for economic activity other than in agriculture to develop in rural areas, as well as to try and gain knowledge of the current changes in this regard. To this end, use was made of data from the Central Statistical Office, as well as material obtained from fieldwork carried out in 2003 in 19 gminas (local authority areas) in different parts of Poland. An important source of information included the questionnaires used with a group of more than 2300 people in total.

The functional structure of rural areas

Agriculture remains the undisputed lead economic function in Poland's rural areas. Attesting to this are, *inter alia*, the land use structure revealing that some 60% of the country is used agriculturally, as well as the employment structure noted for rural areas. It is estimated that around 45% of the rural working population are employed in the sector.

An analysis of the functional structure of gminas² shows around half of them to be characterised by agriculture as practically the only economic function (Figure 1). These are thus gminas of a monofunctional nature. Among the remaining ones, there is a prevalence of gminas in which agriculture generally co-occurs with other economic activities. Only in around 20% of gminas is the leading role found to be played by non-agricultural functions, notably forestry, tourism or a mixture (Bański 2003a).

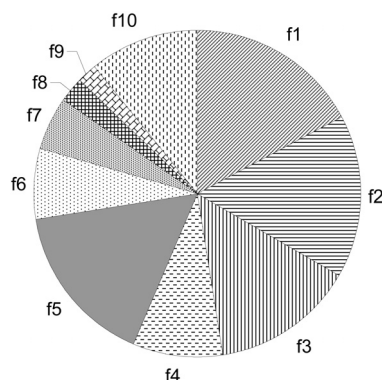


Figure 1. Functional structure of rural areas on the basis of the number of gminas, 2000
f1 – non-commercial agriculture, f2 – intensive and commercial agriculture f3 – mixed agriculture with shares of types f1 and f2, f4 – agriculture with share of non-agricultural functions, f5 – mixed functions, f6 – forestry with a share of non-agricultural functions, f7 – forestry with agriculture, f8 – tourism and recreation with a share of forestry and agriculture, f9 – tourism and recreation with a share of non-agricultural functions, f10 – non-agricultural functions housing, services and other

² Poland has a three-tier administrative division into local-level gminas (of which there are 2489), „county-level“ poviats (308) and 16 voivodships which serve simultaneously as regions and provinces. Among the gminas there are 318 urban ones, 567 that are urban-rural (in that they embrace a town and the adjacent countryside) and 1604 that are rural and hence entirely lacking urban settlement.



The greatest concentration of monofunctional agricultural gminas is to be found in the eastern and central parts of Poland. The gminas on this territory differ from one another as regards their agrarian structures and the level of development of farming, but they are all characterised by a complete lack – or just a trace level – of other economic activity. This lack of alternative sources of income in rural areas combines with a weakly-developed labour market in towns results in the fact that employment outside agriculture can only be found by a small group of people (Figure 2). Problem areas develop where agriculture is characterised by a low level of development and the rural economy is bereft of other sources of income. Economic backwardness is associated with unfavourable demographic phenomena, above all an outflow of young people to urban areas and an ageing of the rural population. These simply encourage further negative phenomena in these areas.

In general, an agricultural character is also displayed by gminas in the regions of Wielkopolska, Kujawy, Żuławy Wiślane (Vistula Delta) and Silesian Lowland. The farmland in these regions is characterised by a level of development of agriculture that is higher than elsewhere in the country. It is also accompanied by activity in the servicing of agriculture and processing of its output.

The gminas with a prevailing forestry function account for just over 10% of the total number of gminas and are very much concentrated in the west of the country, as well as in the Bieszczady Mountain region and Podlasie (the north-east). It is usual for forestry to accompany the agricultural function, as well as the nature-related, tourism-recreational function in the attractive areas.

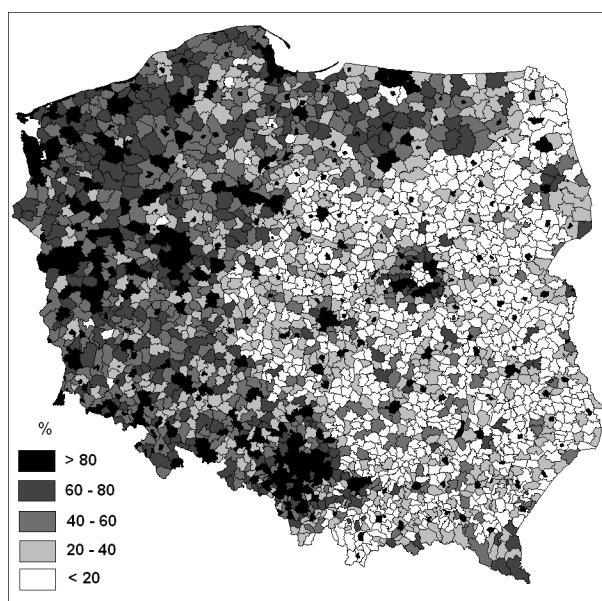


Figure 2. Share of employment outside agriculture, 1999



In turn, a prevalent tourist or recreational function characterises around 100 gminas located mainly in the Carpathians, at the Baltic coast and in the Mazurian Lakeland (and hence in the areas traditionally associated with tourism). The agritourist farms appearing in recent years are more dispersed around the country, however, and so they do not as yet exert a visible influence on the functional structure of gminas.

Worthy of individual comment are the gminas located in the zone of influence of the urban agglomerations, i.e. Warsaw, Łódź, Kraków, Poznań, Wrocław, the Tri-City (Gdańsk, Gdynia and Sopot), Olsztyn, Szczecin and Bydgoszcz. They represent a complex of diverse functions that include most importantly the residential, service- and trade-related, as well as the industrial ones. The functional structure of gminas in the hinterlands of these agglomerations has been shaped under the influence of urbanisation processes, with a significant growth in non-agricultural activity, even if a part of the respective populations are actually engaged on the farms.

A specific feature of the main functions of rural areas – agriculture and to a lesser extent forestry – is the fact that they are distributed „areally“. Besides being of economic significance, these functions also play an important natural and cultural role, to which insufficient attention was paid until recently. The 1990s brought changes in this regard, with the 1992 Earth Summit in Rio, the reform of the European Union's CAP assuming a fuller injection of ecological principles into agriculture, and the pursuit of sustainable development principles – as written into Poland's Constitution enacted in 1997. All of these measures have ensured that the basic functions of rural areas are now perceived more broadly, and not merely from the economic point of view.

Areas concentrating non-agricultural activity

From among more than 3 million business entities in Poland, 673,000 are located in rural areas (Poczta and Przezbórska 2002). Considering that rural areas cover more than 90% of the country and are home to almost 40% of its population, this number of businesses would have to be regarded as excessively low. Survey research carried out in 2003 showed that only 6% of rural households were engaged in non-agricultural economic activity.

The greatest number of these was located in rural areas around large cities (e.g. Warsaw – Figure 3, Kraków, Poznań), with very few in peripheral areas. The lowest level of „saturation“ with business entities occurs along the eastern borders of the country. The concentration of non-agricultural economic activities in the vicinity of towns and cities results from their fuller outfitting in technical infrastructure, as well as a more favourable structure to the population living there. In addition, many entrepreneurs „escape“ to rural areas, first and foremost because of the very low land prices. As a result, the number of entities, e.g. in



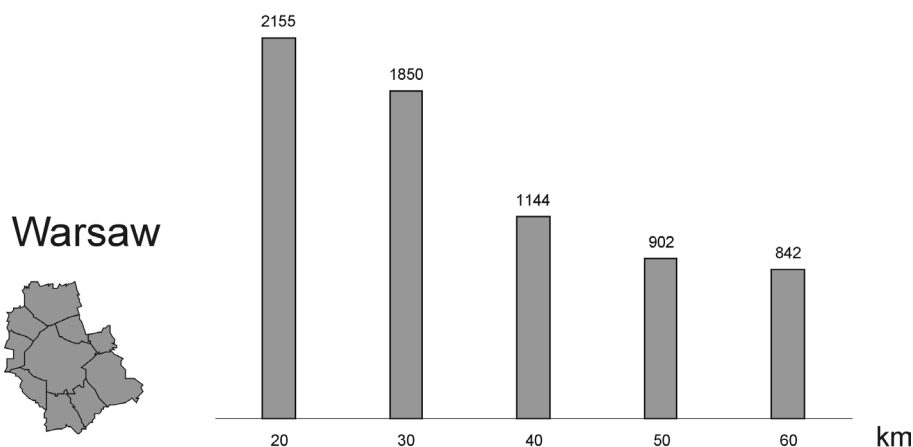


Figure 3. Average number of economic entities per 10,000 people of productive age in a gmina versus its distance from Warsaw, 1999

market services, as calculated per 10,000 people of productive age was 910 in 2001 in rural gminas and 1205 in urban-rural gminas.

Outside the zone of the satellite villages around cities, there is also a large concentration of non-agricultural businesses in areas serving the tourist-recreational function. In general, their number measured per 10,000 people of productive age exceeds the value of 1000.

The development of non-agricultural economic functions in rural areas

The transition from a centrally-planned to a market economy created conditions favourable to the development of rural economic activity outside agriculture. Unfortunately, the opportunities for such development have been obstructed by social problems on the one hand, and by the infrastructural and financial difficulties on the other. In spite of this, the last 10–20 years have brought dynamic development in the numbers of business entities of a non-agricultural nature (Figure 4). For example, in the sphere of services, the number of businesses in rural areas more than doubled in the period 1995–2001.

The economic activities in rural areas, which develop most dynamically, are those concerned with services and commerce. At the end of the 1980s a very large group of rural inhabitants were earning in the state-owned or cooperative institutions rendering services, first and foremost within agriculture. These enterprises were not generally profitable and were closed down after 1989. Their niches were taken over by the private sector, but not to an extent that could compensate for the loss of jobs in their predecessors (whose staffing levels were generally excessive). Nevertheless, the restrictions in the labour market were still greater in other branches, such that the proportion of working in the broadly



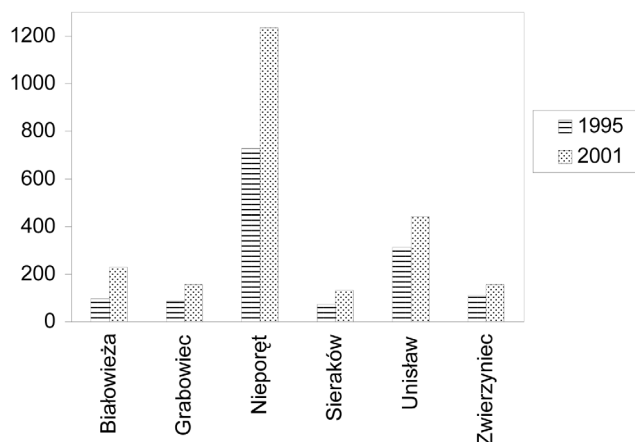


Figure 4. Growth in the numbers of economic entities in the rural areas of selected gminas, 1995–2001

conceived services increased. In 2001, the classification of economic entities in rural areas showed that 69.1% were active in the services, 25.2% in industry and 5.7% in agriculture (whether servicing or processing). The spatial differentiation in this regard was not very pronounced (Figure 5).

The dominance of the service-sector entities was confirmed by the survey research showing that – among those working solely outside the household – some 50% were associated with services and trade (Figure 6).

The greatest concentration of services was to be noted in the hinterlands of towns and cities, in which enterprises involved with construction, transport,

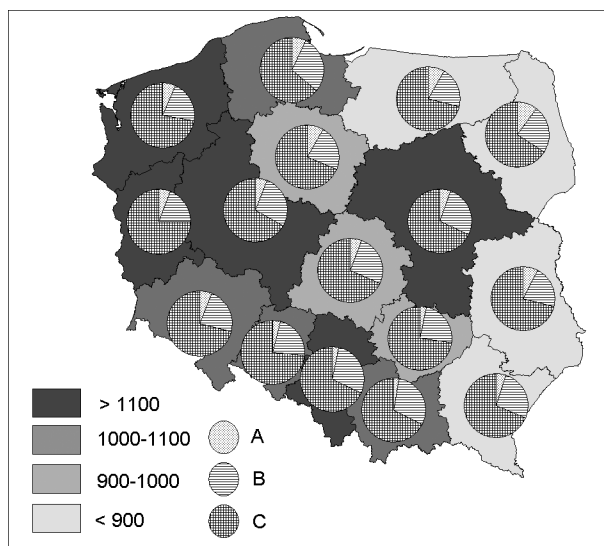


Figure 5. Sectoral classification of economic entities and their number per 10,000 people of productive age in rural areas, 2001
A – agriculture, B – industry, C – service

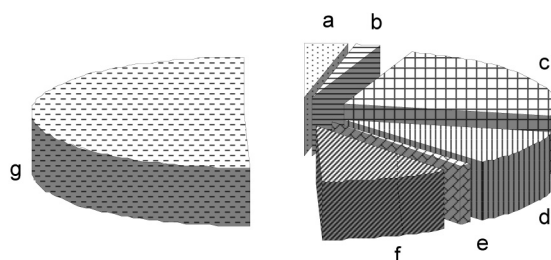


Figure 6. Structure to the employment of the rural population working entirely outside the household (results of survey research), 2003

a – forestry, b – agriculture, c – industry, d – construction, e – tourism, f – transport, g – services and other

repair and wholesaling were above all noted. There was also a large share of service-sector businesses in the coastal and mountain gminas, as well as in the Mazurian Lakeland. This situation is of course associated with the servicing of tourism.

In comparison with previous years, the last decade of the 20th century was characterised by an intensive development of rural tourism. According to the Ministry of Agriculture and Rural Development, there were around 1000 farms catering for tourists in 1993, as compared with 11,260 of them in 2000. Around half had agritourist farm status, denoting that they offered their services to tourists while still engaging in farming. The greatest numbers of such farms are in the voivodships of Małopolska (1227) and Warmia-Mazury (1000).

Rural tourism requires professional qualifications different from those needed in agriculture. The taking on of new skills, as in marketing and group activity, is exerting a favourable influence on other economic activity, above all on agriculture itself, wherever it is occurring. Besides increasing the options as regards employment, it may give rise to a direct benefit in agricultural output, as well as constituting an improvement in the situation of women and a boost to the personal development of farm-dwellers (Bański 2003b).

However, we should at this point be clear as regards the scale of the phenomenon of rural tourism. The comparison of the number of farms catering to the tourist trade with the overall number of farms (around 2 million) or even the number of economic entities operating in the countryside (c. 700,000) makes it clear that tourism remains a very marginal factor where farm incomes are concerned, as well as the numbers of rural people employed. At the same time, the strategies and studies concerning the development of poviats („counties“) or gminas have tended to persuade that rural tourism can be treated as a very important augmentation of agriculture or other leading functions. Alas, this is in many cases an unjustified belief and an unwarranted developmental direction not offering any real future.

It is first and foremost in the areas with the most valuable landscape and cultural features that Poland's rural tourism has a chance of development. It is there that



the overnight accommodation base representing the primary activity in this field is already located.

Recreation may be of greater significance in more of the country's rural areas, though again it is primarily the countryside around the large urban agglomerations that is involved. The downside is that the pressure imposed by city-dwellers is so great in some areas that farmland is also being taken out of agriculture in order to allow its designation for the building of second homes. Even the designations written into local physical development plans are being changed, while the value of land becomes several times greater than it would have been when remaining farmland (Bański 2002). On the other hand, it is possible for a wide range of services to develop in the vicinity of these colonies of summer homes, along with a ready market for local agricultural produce.

In general, forestry supplements agriculture and is more rarely the predominant economic activity. Nevertheless, there was an increase in the 1990s in the number of gminas, in which forestry had become a primary function. This development occurred mainly at the expense of agriculture, as a part of a trend that seems likely to be maintained in the upcoming years.

Thanks to the limitations on timber harvests, as well as a steady increase in the area of the country under forest, there has been a steady increase in the size of Poland's forest resources. In accordance with a programme adopted by the Council of Ministers on June 23rd 1995, some 700,000 hectares more of ex-agricultural land will have been afforested by 2020. Some 25,000–30,000 hectares a year are being taken for forests at present. The values will increase once Poland accedes to the EU, as farmers will be able to apply for additional funding to plant woodland, as well as to obtain compensation for setting aside the cultivated land.

For more than 50 years now, the countries that are most highly-developed economically have been witnessing a process by which industry is propelled out of cities towards rural areas. Known in the literature as *non-metropolitan industrialization*, this process began in the USA (Lansdale 1979). A similar process was to be noted a little later in Western Europe, dubbed there the *urban-rural manufacturing shift* (Keeble 1984). In Poland, the urban-rural shift in industry has not yet assumed such intensity. Indeed, many industrial plants that were located in villages proved to be unprofitable under the changed circumstances and went bankrupt. An exception might, however, be constituted by the hinterlands of cities, in which it is possible to note a dynamic development of small-scale manufacturing, as well as enhanced interest on the part of foreign investors.

Factors to the development of new functions in rural areas

Among the factors underpinning the development of non-agricultural economic activity in rural areas three groups can be distinguished, i.e. the social (like level



of education, age structure and natural movement), the economic (unemployment rate, employment structure, the use of financial assistance) and the technical (e.g. outfitting in infrastructure, the settlement system, access to urban centres).

Within the first group it is the age structure of the population and its level of education that exert the greatest influence. From the age-structure point of view, the least favourable situation is that characterising the eastern part of Poland, in which there has long been an ongoing process of depopulation. The countryside is being left behind by young people, and above all by young women. Besides the phenomenon of the ageing of the rural population there is also a skewed structure in terms of gender, above all where those of marriageable age are concerned. These phenomena serve only to worsen an already bad economic situation in the eastern areas, generally recognised to be lagging behind in terms of their development.

Though improving steadily, the level of education of the rural populace is still much lower on average than that among the city-dwellers (Table 1). A favourable phenomenon is the fact that progress with levels of education concerns the younger generation above all. It is after all upon them that the development of rural areas is going to depend.

Table 1. Levels of education of the population over 15 years of age, 1988 and 1998

Level of education	Urban (%)		Rural (%)	
	1988	1998	1988	1998
University	9.4	9.8	1.8	1.9
Secondary	31.8	34.2	13.1	15.5
Vocational	23.2	24.6	24.2	28.0
Primary and other	35.6	31.4	60.9	54.6

Sources: 1988 National Census, *Raport o rozwoju społecznym Polska 2000*

The worst-developed social stratum is that comprising farmers, first and foremost the owners of fragmented family smallholdings. It is these people above all who need to look for new forms of economic activity in order that the very modest incomes they can derive from agriculture might be supplemented. However, their low level of education represents a serious barrier to developments in this direction. Those with a low level of educational attainment naturally find it hard to start off with a new undertaking, on account of a lack of professional qualifications and a more general lack of managerial skill.

According to the sociological work carried out, only around 40% of the young people living in the countryside are thinking of staying there. This means that many of today's small farmers have no obvious successors in the next generation (Szafraniec 2001). Yet parents are far from loathe their children's movement to the cities, seeing in this a chance for them to improve their lot. However, as it is generally the most talented and entrepreneurial youth that leaves for

the bright lights, the population remaining in the villages tends to become more dominated by the frustrated and those who have little capacity to match up to the requirements of today's labour market. The survey results confirm this: around 33% of the 900 farms involved have question marks over their future ownership within the family, while 62% of children are inclined towards a future not connected with farming.

One of the fundamental objectives of the development of non-agricultural economic activity in rural areas is to encourage new job opportunities that will cut into the unemployment figures and take up some of the slack when it comes to the excessive number of hands on farms. Unfortunately, the reality has remained an upward trend for rural unemployment over recent years (Figure 7), the reasons being first and foremost the closure of places of work and an accumulation of school-leavers unable to find themselves gainful employment.

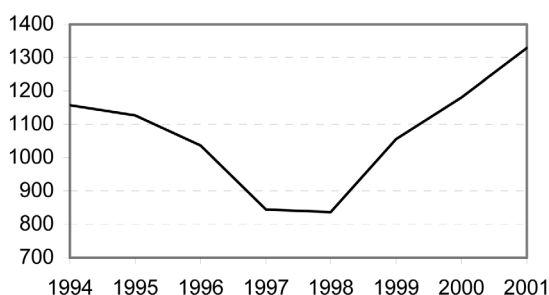


Figure 7. Rural unemployment as registered by Labour Offices

In general, the registered unemployed do not include the „surplus“ labour resources on farms. These create the so-called „hidden unemployment“ that is very hard to assess. On the basis of the 1996 census, Frenkel (2003) estimated the surplus employment on farms at around 920,000 people, among whom 440,000 were completely „unnecessary“.

An important factor behind the development of economic activity in rural areas is the final assistance extended by the EU via PHARE and ISPA. The main influence exerted by these is an indirect one, involving an improvement in the equipping of villages with technical and social infrastructure, as well as the fostering of progress. An important condition helping to determine how effective this assistance is concerns its correct and purposeful deployment in different regions.

The allocation of this aid in the 1990s was very much dependent on local authorities having significant funding at their own disposal to co-finance projects, as well as projects themselves that were carefully devised. It was for these reasons, among others, that the poor areas were not at first the major beneficiaries of EU assistance. However, in the early 2000s the situation of the areas lagging behind improved from this point of view. The sum envisaged for Poland in 2000 was



484 million euro, of which around 180 M was designated for „socioeconomic cohesion“ in the five voivodships of Warmia-Mazury, Podlasie, Lublin, Podkarpacie and Silesia. It was in these very regions that the transformation period had exerted its most deleterious effects. The above were joined by three further voivodships – Łódź, Świętokrzyskie and Kujawy-Pomerania in 2001. At this stage, assistance funding was indeed being directed to those areas most in need of support, which had previously played only a limited role in the uptake of assistance funding.

The third group of factors is constituted by the technical ones, with the outfitting of rural areas in infrastructure being particularly important. The last decade has brought a marked improvement in this respect, with most gminas according priority status to the installation of water mains, sewer systems and wastewater treatment plants. Data from the Central Statistical Office show that, between 1990 and 2000, the proportion of rural dwellings with mains water or on-farm water supplies increased from 67.6% to 83.1%.

However, in the light of the above there are particularly major shortfalls when it comes to the density of the sewer network, which should develop in parallel with the mains water system. Unfortunately, the generally limited funds at the disposal of gminas make this impossible. As a result there are major disproportions to the densities of the sewer and water networks. For example, in 2000, there were nine connections to the water mains for each connection to the sewer system. However, the period since the late 1990s has seen an increase in outlays on the development of sewerage, something that may presage a reduction in the disproportion. Spending on wastewater treatment developments has also increased, though the level of need here is well illustrated by the fact that even as of 2000 just 11% of the rural populace were being served by water treatment plants.

Summary

The transformation period has introduced processes and phenomena that had been previously unknown to Poland's rural areas. The freeing up of the economy and privatisation led to dynamic economic development in the countryside. Many new businesses outside agriculture have sprung up, above all in the services and commerce. However, these have failed to fill the gap left by the closure of the State Farms and cooperatives. Hence a large group within the rural population has merely been contributing to the ranks of the Polish unemployed.

The greatest rate of development of non-agricultural economic functions has been characteristic of the rural areas within the zones of impact of Poland's large cities. The effect wears off towards the peripheries of the country, in which a lot of phenomena can be taken to indicate „depression“ in both social and economic terms.



The most dynamic development observable is that of rural services and trade. Survey research carried out in 2003 made it clear that – among those working entirely outside their households – roughly 50% are associated with service and commerce. There has been an intensive development of rural tourism, such that the number of farms offering tourist services has increased between 10 and 20 fold over the last decade. Nonetheless, this development is seen as confined to areas with the most valuable natural and cultural features, thereby rendering it non-feasible as an alternative to other activities where such attributes are lacking.

The 1990s brought an increase in the number of gminas in which forestry was the primary function, and this mainly occurred at the expense of agriculture. Such a trend can be expected to persist in the years to come, as farmers try for additional funding for treeplanting, at the same time being compensated for the setting aside of cultivated land.

The economic development of rural areas is dependent on several factors with mutual impacts. These include the level of education of the rural populace. While this feature has improved steadily, the situation remains much less favourable than among city-dwellers. A beneficial phenomenon is the fact that progress as regards education of country dwellers is mainly taking place among the young – upon whom the development of rural areas will soon depend. A necessary condition for the development of new economic functions is an appropriate equipping of areas in technical infrastructure. Fortunately, recent years have brought very favourable changes in this regard. Gmina authorities have perceived the need to develop systems of mains water and sewers, to build wastewater treatment plants and to improve communications.

An important role in improving the level of equipping with infrastructure has been played by the EU assistance funding, first and foremost that extended within the PHARE framework. However, analysis of the allocation of PHARE means make it clear that the poor regions have not been its main beneficiaries. It was only in the early 2000s that the situation changed, so that assistance targeted to a greater extent the areas most in need of it.

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