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TITOLO TESI

Rural governance and livelihoods systems diversification in the  
Western Balkans: comparative case studies from Bosnia and  
Herzegovina, Montenegro and Serbia

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## TABLE OF CONTENTS

LIST OF TABLES .....	5
LIST OF FIGURES .....	6
LIST OF BOXES .....	7
LIST OF ANNEXES .....	8
LIST OF ABBREVIATIONS AND ACRONYMS .....	9
ACKNOWLEDGEMENTS .....	11
ABSTRACT.....	12
EXTENDED ABSTRACT .....	13
1. INTRODUCTION.....	15
2. RESEARCH OBJECTIVES .....	18
2.1. General objective .....	18
2.2. Specific objectives .....	18
2.2.1. Diversification of rural livelihood.....	18
2.2.2. Governance and coordination of agriculture and rural development.....	18
3. MATERIAL AND METHODS .....	19
3.1. STUDY AREA .....	19
3.1.1. Target countries.....	19
3.1.2. Studied rural regions .....	19
3.2. DESK RESEARCH .....	20
3.3. DATA COLLECTION AND SURVEY METHODOLOGY .....	20
3.3.1. Face-to-face questionnaire survey on livelihood diversification .....	21
3.3.1.1. Case study: Agricultural extension and advisory services.....	24
3.3.2. Online questionnaire survey on governance and coordination .....	25
3.4. DATA ANALYSIS .....	29
3.4.1. Analysis of questionnaire surveys results .....	29
3.4.2. Analysis of linkages between diversification and governance .....	29
3.5. LIMITATIONS OF THE RESEARCH METHODOLOGY .....	33
4. LITERATURE REVIEW.....	34
4.1. AGRICULTURE AND RURAL AREAS IN BOSNIA, MONTENEGRO AND SERBIA.....	34
4.1.1. Studied rural regions in Bosnia, Montenegro and Serbia .....	36
A. SOUTH-EASTERN BOSNIA REGION.....	37
B. NORTHERN MONTENEGRO REGION .....	40
C. WESTERN SERBIA .....	44

4.2. DIVERSIFICATION OF RURAL LIVELIHOODS AND LOCAL ECONOMY .....	47
4.2.1. Household income diversification framework .....	47
4.2.2. Political framework supporting diversification of rural economy .....	48
4.3. RURAL GOVERNANCE.....	51
4.3.1. Political and administrative organisation of the three countries .....	51
A. BOSNIA AND HERZEGOVINA .....	51
B. MONTENEGRO .....	52
C. SERBIA .....	54
5. RESULTS .....	56
5.1. DIVERSIFICATION OF RURAL LIVELIHOODS AND ECONOMY .....	56
5.1.1. Diversification in Bosnia .....	56
5.1.1.1. Diversification of household livelihoods .....	56
A. Household types and structure.....	56
B. Human capital and access to knowledge .....	57
C. Physical capital and social capital .....	59
D. Microfinance and access to loans .....	60
E. Diversification of income sources .....	60
5.1.2. Diversification in Montenegro .....	62
5.1.2.1. Diversification of household livelihoods .....	62
A. Household types and structure.....	63
B. Human capital and access to knowledge .....	64
C. Physical capital and social capital .....	67
D. Microfinance and access to loans .....	68
E. Diversification of income sources .....	69
5.1.3. Diversification in Serbia .....	70
5.1.3.1. Diversification of household livelihoods .....	70
A. Household types and structure.....	71
B. Human capital and access to knowledge .....	72
C. Physical capital and social capital .....	74
D. Microfinance and access to loans .....	76
E. Diversification of income sources .....	76
5.2. GOVERNANCE AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT .....	78
5.2.1. Governance and coordination in Bosnia .....	78
5.2.1.1. Agricultural and rural development policy .....	78
5.2.1.2. Actors dealing with agricultural and rural development.....	81

5.2.1.3.	Governance of agricultural and rural development policy cycle .....	84
5.2.1.4.	Agricultural and rural development coordination .....	86
5.2.2.	Governance and coordination in Montenegro.....	87
5.2.2.1.	Agricultural and rural development policy .....	87
5.2.2.2.	Actors dealing with agricultural and rural development.....	91
5.2.2.3.	Governance of agricultural and rural development policy cycle .....	94
5.2.2.4.	Agricultural and rural development coordination .....	95
5.2.3.	Governance and coordination in Serbia .....	97
5.2.3.1.	Agricultural and rural development policy .....	97
5.2.3.2.	Actors dealing with agricultural and rural development.....	99
5.2.3.3.	Governance of agricultural and rural development policy cycle .....	101
5.2.3.4.	Agricultural and rural development coordination .....	104
6.	DISCUSSION .....	107
6.1.	COMPARATIVE STUDY: BOSNIA, MONTENEGRO AND SERBIA.....	107
6.1.1.	PROBLEMS IN RURAL AREAS FOCUSED ON GOVERNANCE AND DIVERSIFICATION .....	107
6.1.2.	DIVERSIFICATION: COMMONALITIES AND DIFFERENCES .....	113
6.1.2.1.	Factors affecting livelihood diversification .....	113
6.1.2.2.	Level of livelihood diversification.....	124
6.1.3.	GOVERNANCE AND COORDINATION OF AGRICULTURAL AND RURAL DEVELOPMENT: SIMILARITIES AND DIFFERENCES .....	131
6.1.3.1.	Governance .....	131
A.	Policy formulation and design: approach, paradigm and actors.....	131
B.	Policy implementation and service delivery: mechanisms, actors and effectiveness .....	135
C.	Policy monitoring and evaluation: approach and actors.....	139
6.1.3.2.	Coordination .....	143
A.	Relationships between key actors and rural development coordination.....	143
6.1.4.	RELATION BETWEEN DIVERSIFICATION AND GOVERNANCE.....	146
7.	CONCLUSIONS AND RECOMMENDATIONS .....	151
7.1.	Diversification: main learned lessons and recommendations .....	151
7.2.	Governance and coordination: main learned lessons and recommendations.....	153
7.3.	Relation between diversification and governance: key take-home messages.....	155
7.4.	Relation between governance and rural development policy impact: key insights ...	157
	REFERENCES .....	160
	ANNEXES .....	170

## LIST OF TABLES

Table 3.1 Sample size .....	23
Table 3.2 Delivery proportion of sent emails .....	26
Table 3.3 Response rate, delayed answers and missing data proportion .....	28
Table 4.1 Key indicators regarding role of agriculture in the economy of Bosnia and Herzegovina for period 2006-2012 .....	34
Table 4.2 Basic spatial and demographical indicators of south-eastern Bosnia .....	37
Table 4.3 Basic spatial and demographical indicators of Northern Montenegro.....	40
Table 4.4 Basic spatial and demographical indicators of western Serbia .....	44
Table 4.5 General characteristics of Bosnia and Herzegovina .....	52
Table 4.6 General characteristics of Montenegro .....	53
Table 4.7 General characteristics of Serbia .....	55
Table 5.1 Age structure of household members .....	57
Table 5.2 Sources of income for rural households in south-eastern Bosnia .....	61
Table 5.3 Opinion on migration from rural areas of northern Montenegro .....	63
Table 5.4 Number and gender distribution of households' members .....	63
Table 5.5 Age structure of households' members.....	64
Table 5.6 Sources of income for rural households in northern Montenegro .....	69
Table 5.7 Opinion on migration from rural areas of western Serbia .....	71
Table 5.8 Number and gender distribution of households' members .....	71
Table 5.9 Age structure of households' members.....	72
Table 5.10 Sources of income for rural households in western Serbia.....	76
Table 5.11 Main problems faced in the design of rural development policy.....	94
Table 5.12 Main problems faced by actors in rural development policy implementation.....	94
Table 5.13 Main problems in the M&E of rural development policy.....	95
Table 5.14 Evaluation of coordination of sectoral policies in Serbian rural areas (%) .....	104
Table 6.1 Major problems in rural areas of Bosnia, Montenegro and Serbia .....	108
Table 6.2 Skills of households' members in SRR (%) .....	117
Table 6.3 Availability of infrastructure and households' physical capital in SRR (%).....	121
Table 6.4 Membership in participatory groups and organisations in SRR (%) .....	123
Table 6.5 Use of loans and credits in SRR (%) .....	124
Table 6.6 Sources of income for rural households in SRR (%).....	126
Table 6.7 Reasons for non-starting new business development in SRR (%).....	128
Table 6.8 Kinds of business that households have tried in SRR (%).....	129
Table 6.9 Basic problems faced by households that have tried new businesses in SRR (%) .....	130
Table 6.10 Commonalities and differences in ARD policy design in Bosnia, Montenegro and Serbia (BMS) .....	133
Table 6.11 Commonalities and differences in ARD policy implementation in BMS .....	136
Table 6.12 Commonalities and differences in ARD policy monitoring and evaluation in BMS .....	141
Table 6.13 Major causes of ineffective coordination of RD policy in BMS .....	145
Table 6.14 Responsible actors for improving rural households' living conditions in SRR (%)..	148

## LIST OF FIGURES

Figure 3.1 Conceptual framework regarding linkages between governance and rural development .....	30
Figure 3.2 Conceptual framework regarding linkages between governance and rural economy diversification .....	31
Figure 3.3 Conceptual framework regarding linkages between governance and livelihoods.....	32
Figure 4.1 Comparison of share of agriculture and total employment - Bosnia, Montenegro and Serbia and selected EU and Western Balkan countries (average 2010-2012).....	35
Figure 4.2 Comparison of the structure of utilized agricultural area - Bosnia, Montenegro and Serbia and selected EU and Western Balkan countries (2010) in % .....	35
Figure 4.3 Surveyed municipalities in the three studied rural regions.....	36
Figure 4.4 Natural increase over the period 2007-2011.....	38
Figure 4.5 A framework for classifying farm household income diversification activities.....	48
Figure 4.6 Administrative organization of Bosnia and Herzegovina.....	51
Figure 4.7 Maps of Montenegro and its municipalities .....	53
Figure 4.8 Maps of Serbia and its districts.....	54
Figure 5.1 Work status of households' members.....	57
Figure 5.2 Skills of household members.....	58
Figure 5.3 Responsible institutions for improving rural households' living conditions.....	59
Figure 5.4 Availability of services and utilities in rural areas .....	59
Figure 5.5 Use of loans and credits.....	60
Figure 5.6 Kinds of business that households have tried.....	61
Figure 5.7 Basic problems and constraints faced by households that have tried new businesses .	62
Figure 5.8 Educational level of households' members .....	64
Figure 5.9 Work status of households' members.....	65
Figure 5.10 Skills of households' members.....	65
Figure 5.11 Usual sources of information.....	66
Figure 5.12 Responsible actors for improving households' living conditions.....	67
Figure 5.13 Availability of infrastructure .....	67
Figure 5.14 Availability of rural services and institutions.....	68
Figure 5.15 Kinds of business that households have tried.....	70
Figure 5.16 Work status of households' members.....	72
Figure 5.17 Skills of households' members.....	73
Figure 5.18 Usual sources of information.....	73
Figure 5.19 Responsible actors for improving households' living conditions.....	74
Figure 5.20 Availability of infrastructure .....	75
Figure 5.21 Availability of rural services and institutions.....	75
Figure 5.22 Kinds of business that households have tried.....	77
Figure 6.1 Work status of households' members in studied rural regions (SRR) (%).....	115
Figure 6.2 Usual sources of information in SRR (%).....	118
Figure 6.3 Demand for and use of extension service assistance SRR (%) .....	119
Figure 6.4 Familiarity with ARD programmes and schemes in SRR (%).....	120
Figure 6.5 Availability of services and utilities in SRR (%) .....	122
Figure 6.6 Business development in the last 5 years by rural households in SRR (%) .....	127

## LIST OF BOXES

Box 5.1 Legal framework in Bosnia and Herzegovina.....	80
Box 5.2 Major problems in Bosnian rural areas .....	81
Box 5.3 Major problems in RD policy design .....	84
Box 5.4 The main problems regarding implementation of RD policies in Bosnia.....	85
Box 5.5 The main problems regarding M&E of RD policies in Bosnia.....	85
Box 5.6 Major constraints hampering coordination of ARD policies in Bosnia.....	86
Box 5.7 Main problems in Montenegrin rural areas .....	90
Box 5.8 Major constraints in the coordination of ARD policy in Montenegro .....	96
Box 5.9 The current basic framework related to ARD policy .....	98
Box 5.10 Major problems in Serbian rural areas .....	99
Box 5.11 Major problems in RD policy design .....	102
Box 5.12 The main problems regarding implementation of RD policies in Serbia.....	102
Box 5.13 The main problems regarding M&E of RD policies in Serbia.....	103
Box 5.14 Major causes of ineffective coordination of RD policy in Serbia.....	105
Box 6.1 Upgrading of agricultural products value chains .....	109
Box 6.2 Rural development policy in OECD countries: different approaches and paradigms .....	131

## LIST OF ANNEXES

Annex 1. Questionnaire on governance and coordination in Bosnia, Montenegro and Serbia (example of Montenegro) .....	170
Annex 2. Questionnaire on the diversification of rural economy in municipalities of south-eastern Bosnia, northern Montenegro and western Serbia.....	172
Annex 3. Pre-field pretesting for the face to face questionnaire on diversification with the focus group meeting, households and individuals .....	176
Annex 4. Pre-testing phase for on-line survey questionnaire on governance with representatives of public, civil society and private sector from three studied countries .....	177
Annex 5. Public institutions' and international organizations' informants about eligible respondents for on-line survey questionnaire.....	178
Annex 6. Summarized SWOT analysis of rural areas in Republic of Srpska entity .....	179
Annex 7. Distribution of Urban and Rural Areas in Bosnia .....	180
Annex 8. Breakdown of budgetary expenditure for agri-food sector and rural areas in Bosnia and Herzegovina for period 2002-2012 (in million EUR).....	181
Annex 9. Breakdown of structural and rural development measures in Bosnia and Herzegovina for period 2002-2012 (in million EUR).....	182
Annex 10. SWOT analysis of Montenegrin agriculture .....	183
Annex 11. Legal framework for agriculture and rural development in FBiH, RS and BD in Bosnia and Herzegovina .....	184

## **LIST OF ABBREVIATIONS AND ACRONYMS**

ADA - **A**ustrian **D**evelopment **A**gency  
AEAS - **A**gricultural **E**xtension **A**dvisory **S**ervice  
AFRD – **A**griculture, **F**ood and **R**ural **D**evelopment  
ARD – **A**griculture and **R**ural **D**evelopment  
ASBiH - **A**gency of **S**tatistics of **B**osnia and **H**erzegovina  
BD - **B**rčko **D**istrict  
BiH – **B**osnia and **H**erzegovina  
BMS – **B**osnia, **M**ontenegro and **S**erbia  
CAP - **C**ommon **A**gricultural **P**olicy  
CIHEAM - **L**e **C**entre **I**nternational de **H**autes **E**tudes **A**gronomiques **M**éditerranéennes  
IAMB - **I**stituto **A**gronomico **M**editerraneo di **B**ari  
COSV - **I**nternational **N**GO **C**oordinamento delle **O**rganizzazioni per il **S**ervizio **V**olontario  
DEFRA - **D**epartment for **E**nvironment, **F**ood and **R**ural **A**ffairs  
DFID - **D**epartment for **I**nternational **D**evelopment of **U**nited **K**ingdom  
EC - **E**uropean **C**ommission  
EU – **E**uropean **U**nion  
FADN - **F**arm **A**ccountancy **D**ata **N**etwork  
FAO – **F**ood and **A**griculture **O**rganization of the **U**nited **N**ations  
FBiH - **F**ederation of **B**osnia and **H**erzegovina  
GDP – **G**ross **D**omestic **P**roduct  
GIZ - **D**eutsche **G**esellschaft für **I**nternationale **Z**usammenarbeit  
IFAD - **I**nternational **F**und for **A**gricultural **D**evelopment  
IFPRI - **I**nternational **F**ood **P**olicy **R**esearch **I**nstitute  
IPA – **I**nstrument of **P**re – accession **A**ssistance of the **E**uropean **U**nion  
IPARD – **I**nstrument for **P**re – accession **A**ssistance for **R**ural **D**evelopment  
ISRS - **I**nstitute for **S**tatistics of **R**epublic of **S**erbia  
ISRSBiH - **I**nstitute for **S**tatistics of **R**epublic of **S**rpska, **B**osnia and **H**erzegovina  
ITC - **I**nformation and **C**ommunication **T**echnologies  
JICA – **J**apan **I**nternational **C**ooperation **A**gency  
KM – **C**onvertible **M**ark (currency in **B**osnia and **H**erzegovina)  
LAG – **L**ocal **A**ction **G**roup  
LARD - **L**aw on **A**griculture and **R**ural **D**evelopment  
LEADER – **L**iaison **E**ntre les **A**ctions pour le **D**éveloppement de l’**E**conomie **R**urale  
MAFWM - **M**inistry of **A**griculture, **F**orestry and **W**ater **M**anagement  
MARD – **M**inistry of **A**griculture and **R**ural **D**evelopment  
M&E - **M**onitoring and **E**valuation  
MOFTER - **M**inistry **O**f **F**oreign **T**rade and **E**xternal **R**elations of **B**osnia and **H**erzegovina  
MONSTAT - **I**nstitute for **S**tatistics of **M**ontenegro  
NGO - **N**on-**G**overnmental **O**rganization  
OECD – **O**rganization for **E**conomic **C**o-operation and **D**evelopment  
RD – **R**ural **D**evelopment  
RDNS - **R**ural **D**evelopment **N**etwork of **S**erbia

RE – **R**ural **E**conomy  
RRD SWG -The **R**egional **R**ural **D**evelopment **S**tanding **W**orking **G**roup  
RS – **R**epublic of **S**rpska  
SEIO - **S**erbian **E**uropean **I**ntegration **O**ffice  
SIDA - **S**wedish **I**nternational **D**evelopment **C**ooperation **A**gency  
SME - **S**mall and **M**edium **E**nterprises  
SRR – **S**tudied **R**ural **R**egion  
SWOT – **S**trenghs, **W**eaknesses, **O**pportunities, **T**hreats  
TORS -**T**ourist **O**rganization of **R**epublic of **S**rpska  
UCODEP - **U**nity and **C**Ooperation for the **D**Evelopment of **P**eoples  
UN – **U**nited **N**ations  
UNDP – **U**nited **N**ations **D**evelopment **P**rogram  
UNESCAP - **U**nited **N**ations **E**conomic and **S**ocial **C**ommission for **A**sia and the **P**acific  
USAID – **U**nited **S**tates **A**gency for **I**nternational **D**evelopment  
WB - **W**orld **B**ank  
WBC – **W**estern **B**alkan **C**ountries

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## ABSTRACT

Agriculture is still important for socio-economic development in rural areas of Bosnia, Montenegro and Serbia (BMS). However, for sustainable rural development rural economies should be diversified so attention should be paid also to off-farm and non-farm income-generating activities. Agricultural and rural development (ARD) processes and farm activity diversification initiatives should be well governed. The ultimate objective of this work is to explore linkages between ARD governance and rural livelihoods diversification in BMS. The thesis is based on an extended secondary data analysis and surveys. Questionnaires for ARD governance and coordination were sent via email to public, civil society and international organizations. Concerning rural livelihood diversification, the field questionnaire surveys were carried out in three rural regions of BMS. Results show that local rural livelihoods are increasingly diversified but a significant share of households is still engaged in agriculture. Diversification strategies have a chance to succeed taking into consideration the three rural regions' assets. However, rural households have to tackle many problems for developing new income-generating activities such as the lack of financial resources. Weak business skills are also a limiting factor. Fully exploiting rural economy diversification potential in BMS requires many interventions including improving rural governance, enhancing service delivery in rural areas, upgrading rural people's human capital, strengthening rural social capital and improving physical capital, access of the rural population to finance as well as creating a favourable and enabling legal and legislative environment fostering diversification. Governance and coordination of ARD policy design, implementation and evaluation is still challenging in the three Balkan countries and this has repercussions also on the pace of rural livelihoods diversification. Therefore, there is a strong and urgent need for mobilization of all rural stakeholders and actors through appropriate governance arrangements in order to foster rural livelihoods diversification and quality of life improvement.

**Keywords:** *governance, diversification, coordination, rural development, agriculture, policy, Bosnia, Montenegro, Serbia, Western Balkan, face-to-face field questionnaire surveys, on-line questionnaire surveys, actors, rural areas' problems, rural region, livelihoods systems, rural economy, household assets, service delivery, microfinance, policy design, policy implementation, policy monitoring and evaluation, policy alignment, policy harmonisation, policy cycle.*

## EXTENDED ABSTRACT

Agriculture is important for employment and poverty reduction in the rural areas of the Western Balkan (WB). It still plays an important socio-economic role in Bosnia, Montenegro and Serbia (BMS). The share of agriculture in total GDP amounts to 7.4% in Bosnia (2012), 10.1% in Serbia (2012) and 9.5% in Montenegro (2011). In 2012, the agricultural sector employed 20.5% of the total labour force in Bosnia, around 21% in Serbia and 5.7% in Montenegro. The share of population living in the countryside is around 61% in Bosnia, 38% in Montenegro, and approximately 43% in Serbia. The three countries cannot develop their economy without a competitive agricultural sector. Furthermore, there can be no balanced development without devoting more attention to rural areas. Nevertheless, it is clear that agriculture alone is no more able to provide sufficient means of living for all rural households. Sustainable development of rural areas cannot be based only on agricultural development and rural economies should be diversified by developing off-farm and non-farm income-generating activities. In fact, diversification means exploiting the multifunctional character of agriculture while introducing new income-generating activities in off-farm and non-farm sectors thus allowing creation of external employment activities for members of the farm family and generating additional income. Agricultural and rural development (ARD) processes in general and farm activity diversification initiatives in particular should be well governed in order to yield expected outcomes and impacts in terms of the improvement of the competitiveness of the rural territories and the quality of life of rural population. Governance comprises mechanisms, institutions and processes of decisions making and implementation of decisions. It encompasses rules, processes and behaviour that affect the way in which powers are exercised. Rural governance represents as well a negotiation mechanism for formulating and implementing rural development policy through participatory and inclusive processes involving public, civil society and private stakeholders. Governance is relevant for the rural livelihood diversification and rural development both as the process and the structure.

The ultimate objective of this work is to explore linkages and interdependences between ARD governance and rural economy diversification in BMS. In particular, it aims at analysing and comparing ARD governance and coordination in the three countries of the WB as well as rural livelihoods diversification in three selected bordering rural regions of studied countries (south-eastern Bosnia, northern Montenegro and western Serbia). Moreover, the work provides some insights regarding the political framework related to ARD in the three countries, with a particular focus on the attention paid to diversification in the current legislation, as well as coordination of the policy cycle.

The thesis is based on an extended secondary data analysis and surveys. Desk research was based on collection, analysis and cross-checking of available secondary data including those of Bosnian, Serbian and Montenegrin ministries and agencies and the European Commission. As for ARD governance and coordination, given that the three countries are still rather centralized (at state level in Serbia and Montenegro and at entity level in Bosnia) the analysis of governance and coordination was performed at national level (in Bosnia both at state and entity levels). Questionnaires were sent via email to 283 actors in Bosnia during the winter 2011, to 117 in Montenegro in winter 2012, and to 314 in Serbia in summer 2013. Respondents included representatives of public, civil society and international organizations. Concerning rural livelihood diversification, the field questionnaire surveys have been carried out in winter 2012 with 108 households' heads in south-eastern Bosnia (Republic of Srpska entity), with 106 households in autumn 2013 in northern Montenegro and in spring 2013 with 104 households in western Serbia. Housing units were randomly selected from an address-based municipal register's records. All three chosen rural regions are characterized by predominantly hilly-mountainous relief.

Western Balkan local rural economies are increasingly diversified, however a significant share of households are still engaged in agriculture. Therefore, rural development still has a strong agricultural character. Results show that diversification strategies have a chance to succeed taking into consideration the three rural regions' assets. The most of surveyed households characterized themselves as mixed in all three countries *i.e.* they deal with both farm and non-farm activities. That should be taken into consideration to reframe and redesign the rural development policy as agriculture is no more the only way to improve rural living standards. In general, quality of life in rural areas is low and job opportunities are limited. Motivations for engaging in off- and non-farm activities are not always purely financial and also reflect societal changes. Households in all studied rural regions have to tackle many problems and constraints for developing new income-generating activities such as the lack of financial resources. Weak business skills are also a limiting factor. Diversification of rural economy presents a chance for development of studied countries in general and rural areas in particular thus improving life conditions and fighting against rural poverty and depopulation of marginal areas. In general, diversified livelihood strategies allow rural households (including women) to become less vulnerable and to improve their living conditions. However, fully exploiting rural economy diversification potential in the three WB countries requires many interventions including also improving rural governance, enhancing service delivery in rural areas, upgrading rural people's human capital, strengthening rural social capital and improving physical capital as well as access of the rural population to finance. That requires also a favourable and enabling legal and legislative environment fostering farm activity diversification. Rural development governance in the WB is slowly experiencing a paradigm shift towards the concept of '*the new rural paradigm*'. New models of rural governance reflect a shift of rural development policies target away from agriculture to a multisectoral approach. That is true both at central as well as local levels. Many national, regional and local public institutions are involved in the ARD arena. The range of key actors includes also some civil society organizations. Bilateral and multilateral donors implemented many projects during last years. However, governance and coordination of ARD policy is still challenging and should be improved by, among others, developing mechanisms and procedures for upgrading communication and interaction between actors involved including civil society organizations. A special attention should be also given to ARD policy alignment with the *acquis communautaire* if ARD policy is to contribute effectively to sustainable rural development. A growing body of evidence, as well as the results of the present PhD work, show that there are linkages between ARD governance and coordination, and exploitation of the full potential for the diversification of rural livelihoods and economies. Governance is relevant for rural livelihoods diversification and rural development both as process and structure. Governance affects access to and use of capitals with impacts on diversification. Governance arrangements determine the range of actors that are involved in policy design. Meanwhile, changes in rural areas, thanks to diversification, have implications for rural governance and policy as they affect the typology of relevant actors that are involved in the policy cycle. Moreover, in general, ARD policy effectiveness and efficiency is linked also to governance arrangements and coordination mechanisms adequacy. That's to say that governance effectiveness affects RD policy impacts on rural livelihoods including rural population's readiness and willingness to deal with new non-farm and off-farm activities. All in all, to be well prepared for accession to the European Union, BMS should upgrade their ARD policy. For that there is a strong need for mobilization of all rural stakeholders and economic actors through appropriate governance arrangements in order to ensure rural livelihoods diversification and quality of life improvement.

**Keywords:** *governance, diversification, coordination, rural development, agriculture, policy, Bosnia, Montenegro, Serbia.*

## 1. INTRODUCTION

Bosnia and Herzegovina, Montenegro and Serbia are situated in south-eastern Europe and have a surface area of 51,209 km<sup>2</sup> (EC, 2013a), 13,812 km<sup>2</sup> respectively (EC, 2013b) and 77,474 km<sup>2</sup> (EC, 2013c). The last census in Bosnia was performed in October 2013 and according to preliminary results overall population amounts to 3,791,622 inhabitants (ASBiH, 2013). According to 2011 census, population in Montenegro is 625,266 (MONSTAT, 2011). According to the census conducted in October 2011 the population of Serbia is 7,186,862 inhabitants (without Kosovo and Metohija territory) (RZS, 2012). Agriculture plays an important socio-economic role in Bosnia, Montenegro and Serbia. The share of agriculture and fisheries in total GDP amounts to 7.4% in Bosnia (2012) (EC, 2013a), 9.5% in Montenegro (2011) (EC, 2013b) and 10.1% in Serbia (2012) (EC, 2013c). Agriculture is important for employment and poverty reduction in rural areas. Agricultural sector employs 20.6% of the total labour force in Bosnia (2012) (ASBiH, 2012), around 5.7% in Montenegro (2012) (EC, 2013b) and 21% in Serbia (2012) (EC, 2013c). Bosnian, Montenegrin and Serbian agricultural sectors are characterised by the prevalence of small family farms. Rural areas lag behind in terms of socio-economic development and still face many problems. Around 61% of the total Bosnian population can be classified as rural (UNDP, 2013). The share of Montenegrin population living in the countryside accounts for 38% of the total population (Arcotrass et al., 2006). Approximately 43% of the Serbian population lives in rural areas (RDNS, 2010).

The Western Balkan (WB) region is now in a phase of consolidation and overall economic growth. Overall economic development went hand-in-hand with rising agricultural productivity (Volk, 2010). Although at different stages of development, the Western Balkans countries (WBCs) face similar challenges in transforming and modernizing their agri-food sectors. Their rural sectors have lagged behind the rest of the economy in growth and poverty reduction, their agri-food sectors are undercapitalized and highly fragmented, and their agro-processing capacities limited. Added to this scenario are the challenges and opportunities of adopting the European Union (EU) *acquis* relating to agriculture (Lampietti et al., 2009). The factors hindering the development of agriculture in the region are small-scale farms, a low share of market production, poorly-developed market structures, the lack of meeting food safety standards, and limited capacity for exports. The national policy responses to these challenges have been diverse and have not always followed a clear strategy (Volk, 2010).

Generally speaking, in the last decade, there have been quite substantial changes to agricultural policy in most WBCs. Agricultural and rural development (ARD) policy-making has often been dictated by ad-hoc considerations and has often lacked a clear orientation towards the EU's Common Agricultural Policy (CAP). Overcoming these weaknesses and setting the conditions for an increasingly harmonized policy approach will be crucial for the countries to move closer to EU accession (Volk, 2010).

Countries of the WB are decided to strengthen the European integration process with the ultimate objective of joining the EU. The experiences of the integration processes in other countries show that agriculture is one of the most demanding, and is certainly the sector with the most extensive obligations in the process of accession to the EU. Harmonization is quite demanding, since the CAP undergoes permanent reforms and is a moving target for the candidate countries (Arcotrass et al. 2006, 2006b). Montenegro and Serbia are official candidate countries for the EU membership. Montenegro already started negotiation for membership. Meanwhile, Bosnia and Herzegovina is a potential candidate country.

These countries cannot develop their economy without developing agriculture. Moreover, since a large share of population lives in rural areas, there can be no balanced development of

the three countries without devoting more attention to rural population and combating rural poverty.

For the development of agricultural and rural areas, evidence from other countries such as those of the EU, showed that agriculture is not sufficient to ensure the sustainable development of rural areas relying that's why rural economy should be diversified (Antonelli et al., 2009; Haggblade et al., 2007; OECD, 2006).

Western Balkan rural economies are increasingly diversified, however a significant share of households are still engaged in agriculture. Moreover, despite its declining gross value added, agriculture continues to have an important influence on the rural economy. It provides some public or semi-public goods (OECD, 2006). Generally speaking, as an economy grows the non-farm economy also grows in importance within the rural economy (Valdés et al., 2008). This is true also in the three transition countries.

Diversification means exploiting all the multifunctional functions of agriculture while introducing new income-generating activities in off-farm and non-farm sectors. Households' income can be increased by adopting many livelihoods strategies (e.g. Chambers & Conway, 1992) but the most important ones are those based on livelihoods intensification and diversification. DEFRA (2007), used the following definition of farm diversification: "*any activity, excluding mainstream agriculture and external employment by members of the farm family, which makes use of farm assets to generate additional income*". According to Shucksmith & Winter (1990) "*Diversification involves the use of farm resources for non-agricultural activities*".

In terms of agriculture, the concept of diversification is commonly used in two different senses. First, it is often taken to mean a shift away from the production of surplus commodities to those which may be expanded – a focus on the *diversification of output* – with emphasis placed on diversification into other agricultural products or a change in the method of production (e.g. conventional/organic farming). Alternatively, it is often used to describe the strategy of utilizing excess capacity of farm production factors, involving the use of farm resources for non-agricultural activities – a focus on *diversification of resources*. For examining linkages between agriculture and rural economies, a third sense – a focus on the *location of the activity* – is also considered (OECD, 2009).

For fostering rural economy diversification it is important to have a favourable political environment. Nevertheless, rural development policy in the WBCs is generally subordinate to production support. Only a small proportion of funds from the agricultural budget are related to environment and countryside measures. Even less funds are intended for improving the rural population's quality of life (Volk, 2010).

In general, quality of life in rural areas of the three target countries is low and job opportunities are limited. Diversification of rural economy presents a chance for development of studied countries in general and rural areas in particular thus improving life conditions and fighting against rural poverty and depopulation of marginal areas. Diversification of rural economy is strongly correlated with the improvement of quality of life in rural areas (see Axis 3 of the EU Rural Development Policy 2007-13). It is also strongly influenced by governance arrangements at local level (e.g. LEADER approach). Participation of local actors in rural development processes is particularly important especially that there is a transition to adopt people-centred approaches and policies in all economic sectors.

It is clear nowadays that achieving sustainable and inclusive development of rural areas means design and implementation of long-term effective and efficient policy measures. That's important so that these policy measures and instruments have real impact on livelihood and quality of life of rural population. Hereinafter, they should create an enabling environment for investments and improve household assets and service delivery in rural areas. That's why it is of paramount importance to improve governance of the whole

agriculture and policy cycle and to improve coordination among all involved public, civil society, private and international actors.

Rural development governance is slowly experiencing, also in the WB, a paradigm shift towards the concept of *'the new rural paradigm'* (OECD, 2006). New models of rural governance reflect a shift of rural development policies target away from agriculture to a multisectoral approach. The design and implementation of ARD policies involves several different supra-national or international, national and sub-national actors (regional and local) (OECD, 2006). The impact of policies depends on the underlying governance arrangements between these actors. Governance comprises mechanisms, institutions and processes of decisions making and implementation through which persons and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences (Cheema 2005). The meaning of governance can be defined as rules, processes and behaviour that affect the way in which powers are exercised (CEC, 2001). According to EUROPUB (2002), governance represents a negotiation mechanism for formulating and implementing policy which seeks actively the involvement of stakeholders and civil society organizations besides government bodies and experts.

Evidence from many European countries suggests that there is a strong relationship between governance and rural development policies impacts on rural communities' livelihoods. In fact, there are strong correlations between rural institutions efficacy and effectiveness and rural development policies outcomes (RuDi, 2010).

There is an ongoing process of decentralization of ARD implementation in the three countries but very often this decentralization was done in a way that did not allow maintaining the quality of services and increased bureaucracy. For that improving governance is important not just on central level but also at local level.

Analysing governance and diversification, it can be seen how these two concepts are interrelated and affect one another. Governance is relevant for the rural economy diversification both as a process (Berger, 2003) and as a structure i.e. network, inclusion of wider parts of society, participation, partnership, cooperation and others (Pierre & Peter, 2000). Local governance can play an important role in fostering innovative processes and approaches to agriculture and the local economy, thus helping diversification of the economic base and strengthening the socio-economic structure of rural areas (Shtaltovna, 2007).

The original scientific value of this work relates to topic importance, methodology applied and approach used. Topic is relevant, interesting and timely especially taking into consideration lack of this kind of research in all studied countries. Governance and coordination of ARD as well as rural households' livelihood diversification in the last period were not subject of many researches. Regarding data analysis, the originality of this work consists also in making a comparative analysis of governance and diversification in the three countries based on results obtained using the same approach and questionnaire and more or less in the same period, which significantly reduces biases. Also in this case there are not many comparative studies dealing with the three countries. Furthermore, this is one of the rare studies that try to explore the multifaceted connections between diversification and governance.

The value of this piece of research consists also in providing relevant concrete recommendations to policy makers and public planners to improve ARD governance for fully exploiting rural economy diversification potential in Bosnia, Montenegro and Serbia.

## **2. RESEARCH OBJECTIVES**

### **2.1. General objective**

The main objective of this work is to explore relations and interdependences between ARD governance and rural economy diversification in three countries of the WBs: Bosnia, Montenegro and Serbia.

### **2.2. Specific objectives**

The work aims at analysing and comparing ARD governance and coordination in the three countries of the WBs as well as rural livelihoods diversification in three selected rural regions of studied countries.

#### **2.2.1. Diversification of rural livelihood**

The work analyses (i) the extent of rural household livelihoods diversification in the three rural regions with a focus on on-farm and off-farm non-agricultural activities; and (ii) policy and regulatory stance with regard to farm activity diversification paying a particular attention to agricultural support programmes, tax systems, and labour and land regulations; (iii) provides some recommendations for fostering and speeding up local rural economies diversification.

#### **2.2.2. Governance and coordination of agriculture and rural development**

The work provides some valuable insights as it (i) identifies the main ARD policies, laws, strategies and plans; (ii) enumerates the key public, civil society, and international institutions dealing with ARD; (iii) analyses linkages between the actors involved in RD policy cycle (*i.e.* design/formulation, delivery/implementation, and monitoring/evaluation); (iv) investigates the alignment of Bosnian, Montenegrin and Serbia ARD policy with the European Union's legal framework; and (v) provides some recommendations for improving coordination of ARD policy in the three Balkan countries.

### **3. MATERIAL AND METHODS**

The third chapter describes the strategy and methods that guided the entire course of the research. The applied methodology comprised both primary and secondary sources of information. A considerable number of literature sources have been consulted during the process of writing this PhD dissertation. Field research included questionnaire surveys with key actors dealing with governance and rural livelihood diversification, both at macro and micro levels. The description of the adopted research approach is followed by certain limitations of the applied methodology.

#### **3.1. STUDY AREA**

A two-step process was adopted for the identification of territorial entities that are subject of this multifaceted study on governance and diversification. In fact, given that the three countries are still rather centralized (at state level in Serbia and Montenegro and at entity level in Bosnia) the study of governance of ARD has more sense at macro-level. For this reason the analysis of governance and coordination was performed at national level (in Bosnia both at state and entity levels). Nevertheless, local and regional arrangements were considered and perceptions and opinions of local actors were gathered as also local stakeholders took part in the online questionnaire survey of governance.

Dynamics and legal frameworks designed at the central level also have effects on local rural development in general and diversification of livelihoods and rural economies in particular. For that the analysis of policy stance with respect to diversification was performed before focusing on the analysis of the extent of livelihood diversification at micro-level that's to say rural regions with homogeneous and similar characteristics. However, the analysis of activity diversification has more sense and provides more insights when it is performed at household level.

##### **3.1.1. Target countries**

Research on governance and coordination on ARD was performed in three countries of the WB: Bosnia and Herzegovina, Montenegro and Serbia. All three countries share similar traditional, cultural and historical background as ex-republics of the former Yugoslavia. There is the same spoken language in all studied countries and it was one of the reasons that made easier communication, online questionnaire dissemination and the overall survey. As countries with economies in transition, all of them face similar challenges and opportunities in transforming and modernizing their agro-food sectors and in developing their rural areas. None of them is yet a member of EU and there is an ongoing process of adopting the EU *acquis* relating to agriculture and rural development. The fact that the three countries are at different stages of the accession process makes this study insightful as mistakes done by some of them in the alignment of their ARD policy governance as well as learned lessons and good practices can be useful for others.

##### **3.1.2. Studied rural regions**

Diversification of rural economy was researched in three rural regions of the studied countries: south-eastern Bosnia (Republic of Srpska entity), northern Montenegro and western Serbia (Zlatibor district). All three rural regions are characterized by predominantly hilly-mountainous relief, high share of rural population and low employment opportunities. Although the selected region in Serbia includes several municipalities/cities with population ranging from 25,000 to 80,000 still the share of rural population is significant and the survey

has focused on the most rural municipalities. According to OECD criteria, both regions in Bosnia and Montenegro are rural. One of the reasons why the three rural regions were chosen is that they are located on the border between the three countries. An additional advantage to perform research in the selected regions was that they are not so far from author's place of living which made easier accessibility to the studied areas. Selection of rural regions was influenced also by existing cooperation agreements with agricultural extension service that provided assistance for surveys organizations and implementation.

### **3.2. DESK RESEARCH**

An extensive literature review has been undertaken to get a state-of-the-art understanding of governance and diversification of rural economy and livelihoods in the three WBCs: Bosnia, Montenegro and Serbia. The literature review focused also on consulting sources that analyse linkages between governance and diversification in other European territories.

A considerable amount of highly reliable secondary data from reports, research papers and statistical databases has been consulted. In particular, desk research has been based on collection, analysis and cross-checking of available secondary data including those of Bosnian, Montenegrin and Serbian ministries, agencies and other institutions:

- Bosnia and Herzegovina (BiH): Ministry of Foreign Trade and External Relations of BiH (MOFTER); Ministry of Finance and Treasury of BiH; Ministry of Agriculture, Forestry and Water Management of the Republika Srpska; Ministry of Agriculture, Forestry and Water Management of the Federation of BiH; Parliamentary Assembly of BiH Agency of Statistics of BiH, the Institute for Statistics of the RS, etc.
- Montenegro: Ministry of Agriculture and Rural Development, Ministry of Tourism and Environmental Protection, etc.
- Serbia: Ministry of Finance; Rural Development Network of Serbia (RDNS); Serbian European Integration Office; University of Belgrade; etc.

Nevertheless, the most important sources, especially regarding governance and coordination of ARD, were the progress reports of the European Commission (EC). Sources of data included also scholar papers.

Other important sources of secondary data included those of international and regional organisations as well as development agencies such as: Agricultural Policy Forum for South-Eastern European Countries; Austrian Development Agency (ADA);FAO-Regional Office for Europe and Central Asia; International Bank for Reconstruction and Development; Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO); Arcotrass GmbH; Department for Environment, Food and Rural Affairs (DEFRA), UK; United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP); Organisation for Economic Cooperation and Development (OECD); Swedish International Development Cooperation Agency (SIDA); United Nations Development Programme (UNDP); International Fund for Agricultural Development (IFAD); United States Agency for International Development (USAID); World Bank (WB), etc.

### **3.3. DATA COLLECTION AND SURVEY METHODOLOGY**

Hereinafter will be described in details the used survey methodology. A survey is a research method based on respondents' answers to a list of questions or statements structured in a questionnaire or an interview (Berger, 2010).

In particular, it should be highlighted that a face-to-face structured interview (questionnaire) survey was adopted for investigating rural household livelihood diversification where respondents were asked to complete questionnaire by verbally responding to questions in the

presence of the researcher while an electronic questionnaire – administering survey questions by e-mail (Payne & Payne, 2004), without researcher's presence, was used for analysing governance and coordination of ARD. A questionnaire presents a list of written questions. Close-and open-ended questions were used in the two questionnaire surveys. Close-ended questions provide appropriate list of answers and these produce mainly quantitative data while in the case of open-ended questions the respondent is not provided with a set of answers from which to choose and he has to provide answers using his own description. This second kind of questions produces mainly qualitative data<sup>1</sup>.

### **3.3.1. Face-to-face questionnaire survey on livelihood diversification**

The field questionnaire conducted for in-person households survey in the three studied rural regions has been designed through elaboration of questionnaires previously used in Bosnia and Serbia for similar research purposes. Questionnaire sections related to households' profile, sources of income, physical and social capital, rural services availability and access to information have been adopted and adjusted from a questionnaire that was carried out with 1390 households in 2008/09, encompassing the entire territory of the Republic of Srpska. Collected data served to prepare the Strategic Plan of Rural Development of the Republic of Srpska for the period 2009-2015<sup>2</sup>. The part regarding diversification of rural livelihoods was prepared on the basis of questionnaire survey whose results have been used for UNDP publication "Small rural households in Serbia and rural non-farm economy"<sup>3</sup>.

The field questionnaire survey structured by author has focused, among others, on analyses of the diversification of activities by farm households in the studied rural areas. The questionnaire was used as a main data gathering technique and it was structured to get necessary data about social, infrastructural, agricultural, organizational and economic indicators in the three rural regions. Household was the sampling unit and only these located in rural areas were surveyed. Information regarding each household have been collected predominantly from a person with a particular role in the household (householder) but in some cases where householder was outside the household, data also have been gathered from proxies whose are considered as other eligible members of the household that are meeting some criteria (e.g. adult household members above 18 years, members without any mental disorder). Household heads were considered as the most competent persons that could provide exhaustive and reliable data on their households in general and diversification endeavours in particular. In order to constitute completion and consider questionnaire as a valid, it was necessary that respondent reached the end of the questionnaire and all sections should have been attempted. It goes without saying that some non-response items may remain. Refusal to be interviewed was overcome by contacting potential respondents in advance. Some respondents gave refusal to the interviewer at introduction mainly due to lack of time.

Planning a good survey means carrying out the systematic checking or pretesting of a field questionnaire. This stage is essential for identifying the questionnaire main disadvantages (Scheuren, 2004). According to Shelby et al. (1982), pretesting phase is use of a questionnaire in a small pilot study to find out how well the questionnaire works.

Once researcher finalized questionnaire, pretesting has been done in two steps:

- Pre-field pretesting in Bosnia with the focus group meeting organized at the Faculty of Agriculture (University of East Sarajevo) during the early questionnaire

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<sup>1</sup> Website: <http://www.sociology.org.uk/methodq.pdf>

<sup>2</sup> <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mps/министарство/Pages/default.aspx>

<sup>3</sup> [http://www.undp.org/content/dam/serbia/Publications%20and%20reports/English/UNDP\\_SRB\\_Small\\_Rural\\_Households\\_in\\_Serbia\\_and\\_Rural\\_Non-farm\\_Economy.pdf](http://www.undp.org/content/dam/serbia/Publications%20and%20reports/English/UNDP_SRB_Small_Rural_Households_in_Serbia_and_Rural_Non-farm_Economy.pdf)

development cycle. Focus group was consisted of persons selected from faculty staff living in rural area and master students who meet the same requests. Additional consultations have been performed with regional extension service agent. Discussion on questionnaire structure encompassed also competent contacts from Montenegro and Serbia.<sup>4</sup>

- Field pretesting with the pilot sample included 35 households from municipalities of Sarajevo-Romanija region in RS. Sudman (1983) stated that “pilot test composed of 20 -50 cases is usually appropriate to discover the major faults in a questionnaire before they damage the main study”.

Author carefully followed pretesting phase and took notes on problematic questions that did not work well, included confusion, misinterpretation and sounded strange. After discovering major problems, survey revision has been done accordingly. Instead of initial 50, the number of questions was reduced to 38 eliminating any items that were not vital to research as pretesting suggested that survey might be too long. Due to similar socio-economic conditions and people mentality in all three rural regions as well as financial and time constraints, pretesting was carried out only in rural municipalities in Bosnia. Pretesting sample results are not taken into consideration for this work and they were excluded from further data processing.

According to Rescoe (1975) “*Sample sizes larger than 30 and less than 500 are appropriate for most research*”. Having in mind these and other limitations, also taking into consideration territorial specificities and geographical coverage of the selected three rural territories as well as share of rural population, the households’ heads sample size was determined in such way to have not less than 100 respondents per each studied rural region.

In the case of south-eastern Bosnia rural region (Republic of Srpska entity), the field survey was carried out in winter 2012 with 108, mainly households’ heads, chosen from eight undeveloped and mid-developed municipalities<sup>5</sup>: Vlasenica (20), Foca (16 households), Han Pijesak (15), Bratunac (15), Milici (12), Rogatica (10), Visegrad (10) and Sekovici (10).

In autumn 2013, a field survey was conducted in northern Montenegro with 106 households on the territory of seven rural municipalities: Pljevlja (20 households), Bijelo Polje (20), Berani (16), Rozaje (10), Kolasin (10), Mojkovac (10), Plav (10) and Andrijevica (10).

The Serbian sample was composed of 104 households from the western region (Zlatibor district) and research was carried out in spring 2013, encompassing rural areas of the seven rural municipalities: Prijepolje (20 households), Priboj (16), Sjenica (15), Bajina Basta (15), Cajetina (13), Nova Varos (13) and Kosjeric (12). Even it is not statistically significant, sample is quite representative (Table 3.1).

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<sup>4</sup> List of all persons involved in pretesting who gave consent to publish their names is given as an annex 3.

<sup>5</sup> According to rank list published by the government of the Republic of Srpska in 2012:[http://www.alvrs.com/v1/media/djcatalog/2006-2012-Rang\\_lista\\_razvijenosti\\_opstina\\_RS.pdf](http://www.alvrs.com/v1/media/djcatalog/2006-2012-Rang_lista_razvijenosti_opstina_RS.pdf)

Table 3.1 Sample size

Name of region	Names of municipalities	Rural municipality population	Total Population of the territory	Proportionate share of rural population in sample	
				No.	%
South-eastern Bosnia <sup>6</sup>	Foca	19 811	101 043	455	0.45
	Rogatica	11 603			
	Visegrad	11 774			
	Han Pijesak	3 844			
	Vlasenica	12 349			
	Sekovici	7 771			
	Milici	12 272			
Bratunac	21 619				
Northern Montenegro <sup>7</sup>	Pljevlja	30 786	145 988	488	0.33
	Bijelo Polje	46 051			
	Berane	33 970			
	Mojkovac	8 622			
	Kolasin	8 380			
	Andrijevica	5 071			
	Plav	13 108			
Western Serbia <sup>8</sup>	Bajina Basta	26022	160 079	468	0.29
	Kosjeric	12090			
	Cajetina	14745			
	Nova Varos	16638			
	Prijepolje	37059			
	Sjenica	26392			
	Priboj	27133			

Source: Author's elaboration.

Surveyed households have been chosen in such a way to have as much as possible a representative sample taking into consideration all available resources and limitations for such broad research. For the selection of the three rural regions and municipalities within them stratified random sampling method was used while sample choice within municipalities was defined using simple random sampling. Stratification is the process of dividing surveyed elements into homogeneous subgroups prior to sampling. According to Sarndal et al. (2003) design of sample and its size must be specified in each stratum and often the sampling type can be used in each of the strata.

Sampling in this work was carried out in three stages. In an initial phase were chosen three rural regions (strata). The next step was selection of surveyed municipalities within rural regions (sub-strata). Then simple random sampling was applied within each substratum from

<sup>6</sup> ISRSBiH (2013). Census of population, households, and dwellings in BH 2013 on the territory of Republika Srpska (Preliminary results), Institute for Statistics of Republic of Srpska, Bosnia and Herzegovina. Available at: [http://www2.rzs.rs.ba/static/uploads/bilteni/popis/PreliminarniRezultati\\_Popis2013.pdf](http://www2.rzs.rs.ba/static/uploads/bilteni/popis/PreliminarniRezultati_Popis2013.pdf)

<sup>7</sup> MONSTAT (2012), Census of population – age and sex. Institute for Statistics of Montenegro, Podgorica available at: [http://www.monstat.org/userfiles/file/popis2011/saopstenje/Saop\\_uporedno\\_2003-2011\\_26\\_11\\_2012\\_PDF.pdf](http://www.monstat.org/userfiles/file/popis2011/saopstenje/Saop_uporedno_2003-2011_26_11_2012_PDF.pdf) MONSTAT, available at: [http://www.monstat.org/userfiles/file/popis2011/saopstenje/Saop\\_uporedno\\_2003-2011\\_26\\_11\\_2012\\_PDF.pdf](http://www.monstat.org/userfiles/file/popis2011/saopstenje/Saop_uporedno_2003-2011_26_11_2012_PDF.pdf)

<sup>8</sup> ISRS (2012). Census of population, Households and Dwellings in the Republic of Serbia. Institute for Statistics of Republic of Serbia, Belgrade. Available at: [http://pod2.stat.gov.rs/ObjavljenePublikacije/Popis2011/Starost\\_i\\_pol-Age\\_and\\_sex.pdf](http://pod2.stat.gov.rs/ObjavljenePublikacije/Popis2011/Starost_i_pol-Age_and_sex.pdf)

the households list of those living in selected rural municipalities. Randomized sampling method has been used in order to avoid generating some systematic errors and to reduce biases. Samples selected on this way are “objective” and public acceptable (Sarndal et al., 2003). Housing units are randomly selected from an address-based municipal register’s records. Questionnaires were conducted in local languages. The checklist prepared for survey included 40 questions dealing, among others, with: age and gender of households’ heads, types of households (agricultural, mixed, non-agricultural), household structure, employment and income for households’ members, market access, physical capital and availability of infrastructures, access to agriculture and rural development knowledge and information, social capital of rural households, microfinance and access to loans, diversification of income-generating activities, and quality of life of rural households.

During the field survey, the respondents were informed about the purpose and nature of the survey, approximate duration of the interview and their consent to participate. The average duration of the interview was around 30 minutes. The survey for each studied rural region was performed in 15 days.

Restitution and validation of the results is an important phase in the research process. Taking into consideration limited access to surveyed rural areas due to distance, time and financial obstacles as well as low use of information and communication technologies by surveyed rural population it was hardly feasible to send results to surveyed rural households. Relevant information from the survey were gathered, analysed and shared with the extension service agents and rural municipalities’ representatives from the surveyed regions. Feedback provided by them helped to correct the information, thus reducing bias, and was an opportunity to check the relevance, to validate and to promote ownership of the results at a wider level. Received feedback was particularly important because their participation was necessary to ascertain whether there is a consensus and agreement with the results of the survey and do they reflect reality on the ground.

In addition, the Bosnian, Montenegrin and Serbian extension services supported this survey on diversification which helped overcoming many organization and implementation difficulties. In particular, their support made easier access to some municipalities and contact with some of the surveyed households. They also provided some insights regarding the first approach to the interviewees taking into consideration local customs and traditions.

### ***3.3.1.1. Case study: Agricultural extension and advisory services***

Secondary data from different sources were cross-checked with and critically analysed by key informants from the agricultural extension service in the Bosnia (Republic of Srpska entity), Montenegro and Serbia.

Primary data were collected by phone interviews as well as focus group discussions carried out in March 2011 with agricultural advisors in the RS entity and in spring 2013 with extension service agents in Montenegro and Serbia. The prepared checklist dealt with many issues regarding the Agricultural Extension Advisory Service (AEAS) in the three countries such as (i) governance; (ii) financing; (iii) human resources; (iv) role in building social capacity; (v) main cooperation projects; (vi) decentralization; (vii) gender; and (viii) advisory approaches, methods and media.

According to Gibbs (1997) “*The main purpose of focus group research is to draw upon respondents’ attitudes, feelings, beliefs, experiences and reactions in a way in which would not be feasible using other methods*“. The discussion was moderated by the author of this PhD work who encouraged a free interaction among participants. Interaction is the crucial feature of focus groups (Kitzinger, 1994; 1995).

### **3.3.2. Online questionnaire survey on governance and coordination**

The on-line questionnaire survey has been structured taking into consideration literature review carried out on governance concept and elements that should be taken into account for good governance and effective coordination in general, with a particular focus on the subject area of ARD. At the same time, and in the different documents that have been analysed, a particular attention was paid to the methods that have been used and issues that have been considered in these carried out surveys. This allowed to have a list of issues that was discussed with the staff of the University of Bologna dealing with the supervision of this work and other colleagues in Balkan universities (e.g. East Sarajevo, Belgrade, Montenegro) as well as other countries (e.g. CIHEAM-IAMB). Further insights were got from specialized documents especially from some EU projects that dealt with the issue of governance of rural areas (e.g. RUDI project – Assessing the Impacts of Rural Development Policies - including LEADER, FP7 2008-2010)

A vital part of the online questionnaire construction process was its pretesting that was proceeded in conditions as similar as possible to the research. Applied researched instrument was tested in all studied countries with representatives of public, civil society and private sector.<sup>9</sup> Observations gained during pretesting stage were useful and yielded information about possible improvements, especially in terms of used terminology. After the round of pretesting was completed and problems diagnosed, researcher revised question wording in order to resolve these problems.

The list of eligible institutions was prepared during the preparatory phase for the on-line survey. Only institutions that are involved in ARD were considered in the present survey. The selection was mainly based on internet search and literature review. Furthermore, thanks to author's personal connections and communications, further information on eligible respondents were also obtained from some public institutions and international organizations in all three studied countries. The list of all institution/organization representatives that participated to the survey and who gave their consent to include their names in the present PhD dissertation is provided as an annex<sup>10</sup>. All identified eligible institutions were contacted for the present survey.

In order to follow on-line questionnaire delivery process, message delivery notification system and message read receipt option were used. This allowed to track exact number of sent emails that are successfully delivered to destinations and read by receivers and emails that are successfully delivered to destinations but not read by receivers. By generating a read receipt request, sender instantly received a receipt notification when recipient opens sent email message. Receipt reading enabled the author to see the time and date the individual opened sent email message. A high number of e-mail invitations were returned as undeliverable because the e-mail addresses that appear on the list were incorrect or inactive or because some eligible respondents have changed their e-mail addresses (Table 3.2).

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<sup>9</sup> List of all persons and organizations involved in pretesting is given as an annex 4.

<sup>10</sup> List of consulted institutions/organizations that provided information on eligible respondents is given as an annex 5.

Table 3.2 Delivery proportion of sent emails

	Total number of sent e-mails	Emails successfully delivered*		Emails successfully delivered and read by the receiver	
		No.	%	No	%**
Bosnia	283	174	61.5	120	69.0
Montenegro	117	78	66.7	50	64.1
Serbia	314	162	51.6	120	74.1

Source: Author's elaboration

\* % of emails successfully delivered in total number of sent e-mails

\*\* % of emails successfully delivered and read by the receiver in total number of successfully delivered emails

Questionnaires were carried out with representatives of public, civil society and international organizations during the period 2011-2013 in the three target countries. Different types of public and civil society institutions and organisations have been considered, including among others: ministries, government institutions and executive agencies (*e.g.* extension organizations, etc.); public structures (training and research centres, universities, etc.); users' organizations (*e.g.* farmers' union, cooperatives, associations, etc.); national and international NGOs and civil society organizations; donors and international cooperation agencies; financial institutions; international organizations, etc.

Key questions included the operational level and the geographical coverage of each organization, understanding of "rural development", involvement of the organization in a RD policy and/or project and in which phase of the policy cycle and level of its cooperation and coordination with other public, civil society and international organizations dealing with RD. Additional inquiries were about the main problems in their rural areas as well as regarding RD policy design, implementation and evaluation without forgetting the main political, technical/bureaucratic and strategic constraints that hamper coordination between organizations dealing with RD and/or render it ineffective at each phase of the policy cycle.

Contact between institutions can allow them to strengthen their collaboration but can also generate tensions especially if they have contradictory interests, visions, objectives and understandings of RD that's why conflicts between the different actors were also investigated. Coordination among actors belonging to different regimes (*i.e.* public, civil society and private) is of a paramount importance. Respondents identified also the organization that assumes, according to them, the leadership in coordinating RD issues in each studied country. Apart from coordination among actors, the questionnaire dealt also with coordination of sectoral policies in the rural areas of in Bosnia, Montenegro and Serbia. Respondents were also asked about their membership in national, regional, European or international ARD networks. Rural development processes should be inclusive this is why the questionnaire investigated also if there is perception among respondents that there is any organization or actor group that is actually not or insufficiently involved in the RD policy cycle and that should be involved more actively.

In Bosnia and Herzegovina, the questionnaire has been sent by e-mail to representatives of different institutions and organizations at the beginning of 2011. In particular, questionnaires were sent to key actors such as the State Ministry of Foreign Trade and Economic Relations of BiH (MOFTER) and the Ministries of Agriculture, Forestry and Water Management (MAFWM) of the Republic of Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH). Also, other approached public and civil society institutions and organisations answered questionnaire such as:

(i) public entities and local institutions: Faculty of Agriculture, University of East Sarajevo (RS); Faculty of Agriculture, University of Banja Luka (RS); Faculty of Agriculture and Food Sciences, University of Sarajevo (FBiH); Agricultural Advisory Extension Service

(RS); Tourist organization of RS (TORS); Development Agency of East Sarajevo city “Rais” (RS); Local Agency for development of Kozarska Dubica municipality (RS); Agency for development of SME of Srbac municipality (RS);

(ii) International organizations and development agencies: United States Agency for International Development (USAID);

(iii) National non-governmental organizations (NGOs): Regional Development Association NERDA Tuzla; Farmers’ association of the central Bosnian canton (FBiH); Agricultural cooperative of animal breeders (Livno, FBiH); Agricultural cooperative “Saradnja” (East Sarajevo, RS), etc.

As for Montenegro, the questionnaire has been sent by e-mail in winter 2012 to representatives of different institutions and organizations including among others: *e.g.* Ministries (Agriculture and Rural development; Sustainable Development and Tourism); USAID-Montenegro; Secretary for SME of Podgorica; State Agency for Environment Protection; Biotechnical Faculty of Podgorica; Regional Development Agency for mountains of Komovi, Bjelasica and Prokletije; NGOs (Humanitarac - Niksic, Green Montenegro, Macak - Niksic, Centre for Development of Agriculture - Bijelo Polje, Paraplegic Association of Bijelo Polje and Mojkovac, International NGO COSV); municipalities (Tivat, Mojkovac, Pljevlja, Cetinje); Extension service; Union of Cooperatives of Montenegro; Union of Municipalities of Montenegro; State Directorate for Forests; etc.

In the case of Serbia, questionnaires were sent via e-mail in summer 2013 to representatives of public, civil society and international organizations. The respondents included many key Serbian public and civil society actors in the ARD policy cycle such as the Ministry of Agriculture and Rural Development, universities (Belgrade, Novi Sad), Institute for Science Application, Institute for Agricultural Economics, Compensation Fund of Serbia, Cooperative Union of Serbia, Cooperative Union of Vojvodina, Chamber of Commerce of Novi Sad, Agricultural Extension Service regional offices as well as some national and local farmer associations and cooperatives. Respondents included also representatives of many cities (Nis, Cacak, Krusevac) and municipalities (Sid, Zabari, Nova Varos, Zemun, Trstenik, Zabalj, Ljig, Vladicin Han) all over Serbia as well local funds and departments for agricultural development. Answers were received also from some international organizations operating in Serbia such as GIZ (*Deutsche Gesellschaft für Internationale Zusammenarbeit*), USAID and the World Bank.

The respondents were kindly asked to complete the questionnaire and return it to the author within 12 days. After 7 days, a reminder was sent to all those that have not provided any answer till that period. Additional effort to “push” some eligible respondents to provide answer was made by phone calls two days before deadline.

Systematic “quality assurance” indicators were applied in order to minimize errors in data collection and to ensure that results can be documented as valid, reliable and comparable. These quantitative indicators (namely, response rates and missing data proportions) were used to provide essential information about the quality of the survey (UN, 2005). As for survey quality, response rate is one of the most significant indicators and one of those most likely to be reported. This overall survey performance indicator is frequently used to compare survey quality between surveys (Lynn et al., 2001). The response rate in survey research presents the number of achieved answers divided by the number of those eligible in the sample (AAPOR, 2011). Received questionnaires with missing data rate over 20%, contradictory or bad quality data, were excluded from further elaboration as well as those completed and mailed back too late - after the field period has ended (Table 3.3).

Table 3.3 Response rate, delayed answers and missing data proportion

	Emails successfully delivered	Response rate*		Received answers after given deadline**	Rate of questionnaires with missing data over 20 percentages (%)***	
		No.	%		No.	No.
Bosnia	174	73	42.0	3	12	16.4
Montenegro	78	35	44.9	2	9	25.7
Serbia	162	77	47.5	6	9	11.7

Source: Author's elaboration

\* Number of received answers divided by number of emails successfully delivered

\*\* Excluded from data processing due to delayed receipt and not taken into consideration in response rate calculation.

\*\*\* Received filled questionnaires excluded from data processing.

After survey results analysis, the last step in the survey research process was the validation and restitution phase. Relevant information from the survey were gathered, analysed and shared with all respondents as well as national experts on ARD. Feedback provided by them was useful for checking the relevance and the accuracy of the results. Received feedback was particularly important to ascertain that the results of the on-line survey reflect reality in terms of ARD governance and coordination in Bosnia, Montenegro and Serbia.

In all the three countries further insights regarding ARD governance and coordination were got also through informal conversations with professionals and experts dealing with ARD during the implementation of field surveys regarding rural livelihoods diversification as well as on the occasion of some regional scientific conferences<sup>11</sup>.

Moreover, there was an intense exchange of e-mails with many imminent professors<sup>12</sup> dealing with this subject area in the Western Balkans in general and the target countries in particular.

In addition to exchange with these experts, other international experts were contacted for some specific issues related to governance<sup>13</sup>.

The internships performed at the Department of Sustainable Agriculture, Food and Rural Development (2012/13) were a good opportunity to exchange opinions and viewpoints on governance and rural livelihood diversification with the CIHEAM-IAMB's staff.

(i) International Symposium "Agrosym" (editions 2010, 2011, 2012, 2013). Jahorina, RS, BiH.

(ii) International Symposium and Scientific Conference of Agronomists of Republic of Srpska (editions 2010, 2011, 2012, 2013). Trebinje, RS, BiH.

(iii) 48<sup>th</sup> Croatian and 8<sup>th</sup> International Symposium on Agriculture (2013). Dubrovnik, Croatia.

(iv) International Conference "Role of research in sustainable development of agricultural and rural areas" (2012). Podgorica, Montenegro.

(v) 46<sup>th</sup> Croatian and 6<sup>th</sup> International Symposium on Agriculture (2011). Opatija, Croatia.

(vi) 21<sup>th</sup> Scientific Conference in Agriculture and Food Industry (2010). Neum, Bosnia and Herzegovina.

<sup>12</sup> Sabahudin Bajramovic (Faculty of Agriculture and Food Science, University of Sarajevo, FBiH, Bosnia); Borko Sorajic (Faculty of Agriculture, University of East Sarajevo, RS, Bosnia); Natalija Bogdanov and Zorica Vasiljevic (Faculty of Agriculture, University of Belgrade, Serbia); Aleksandra Despotovic and Mimir Jovanovic (Biotechnical Faculty, University of Montenegro, Montenegro).

<sup>13</sup> Junaid Alam Memon (Institute of Development Economics, Pakistan), John Devlin (University of Guelph, Canada), John Brayden (Norwegian Agricultural Economics Research Institute, Norway)

### **3.4. DATA ANALYSIS**

#### **3.4.1. Analysis of questionnaire surveys results**

Different methods were used for the analysis of the collected data such as statistical methods as well as comparative studies.

Quantitative data collected through the questionnaires surveys were analysed using descriptive statistics (e.g. means, percentages, minima, maxima) through Excel spreadsheets. As for diversification, obtained data on rural households were aggregated in order to get statistical values regarding some diversification parameters related to rural municipalities. Furthermore, data were combined for the different municipalities in the same rural region. As the final step, data regarding the same region were analysed together and then compared with other studied rural regions.

The various factors enhancing or limiting farm household diversification into off- and non-farm activities are discussed in this dissertation. In the light of available evidence on the role of agriculture and farm household diversification in the Bosnian, Montenegrin and Serbian rural economy, some initial policy implications are drawn and some recommendations provided to speed up the pace of their rural economies diversification.

As far as agricultural extension service case study is concerned, interviews and focus group discussion on extension service performance in the three studied countries allowed getting valuable insights on the role of extension and advisory services in promoting livelihood diversification by allowing rural households to get access to the necessary knowledge and information. Taking into consideration the problems and weaknesses that were identified some recommendations were made to improve the AEAS performance in the studied countries in view of fostering rural economies diversification.

As for ARD governance, data were aggregated using different factors. The first parameter refers to the different types of respondents such as public and civil society institutions and international organisations. The second factor is related to geographical coverage that means local and national level.

The national ARD governance and coordination was analysed and discussed for each studied country separately and comparison between countries was made. In tables, data were aggregated and organized in subgroups taking into consideration similarities between items. Frequencies of items mentioned by respondents were marked as following: A=Significant (mentioned by >50% of respondents); B=Average (25-50%); C=Poor (>25%).

The work provides some recommendations for improving coordination of ARD policy in the three Balkan countries.

Relations between different actors involved in RD policy cycle as well as alignment of Bosnian, Montenegrin and Serbian ARD policy with the EU's legal framework were also analysed.

#### **3.4.2. Analysis of linkages between diversification and governance**

The work explores relations and interdependences between ARD governance and rural economy and livelihoods diversification in three studied countries of the WBs with a particular focus on the three studied rural regions.

The level of rural economy and household livelihoods diversification as well as the effectiveness of rural governance in Bosnia, Montenegro and Serbia was compared. It is assumed that fully exploiting rural economy diversification potential requires also improving rural governance. Therefore, was made an attempt to analyse the linkages between the level of rural economy and livelihood diversification and good rural governance in Bosnia, Montenegro and Serbia. For the analysis of relations between diversification and governance were used three frameworks (IFPRI, 2007; Shtaltovna, 2007; and DFID, 2002).

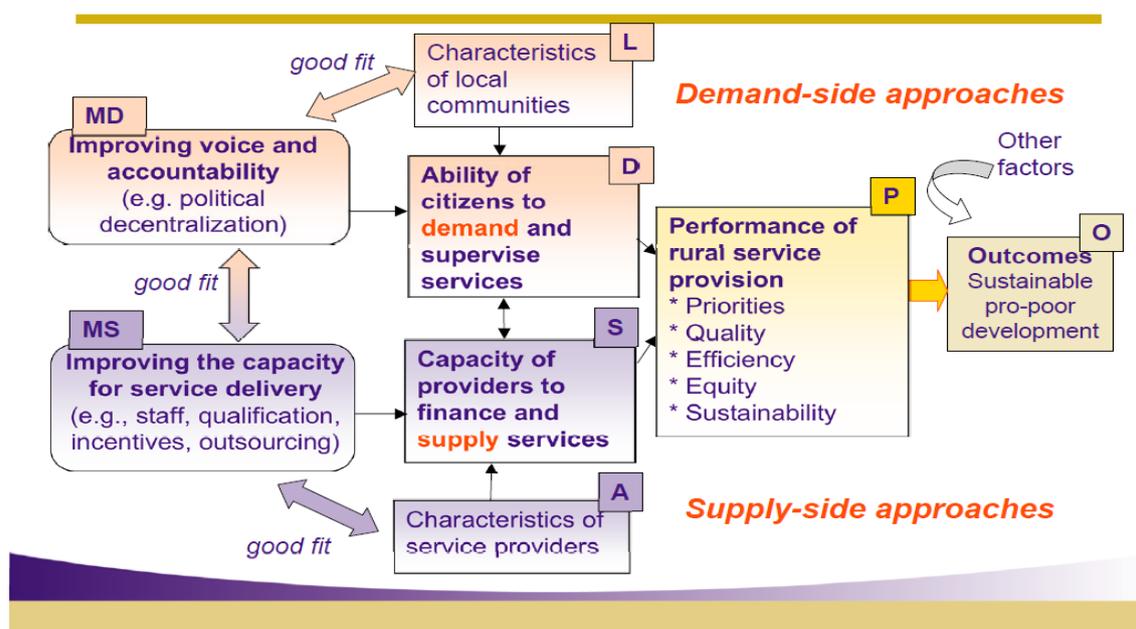
### Conceptual framework A - Linkages between governance and rural development

The conceptual framework developed by IFPRI shows why governance decentralization and rural service delivery are so important for sustainable ARD. Decentralized political system would better answering needs of local communities according to their characteristics but also ability of population to demand and supervise services. Strengthening and improving service provision capacities (e.g. staff, qualification, incentives, outsourcing) will directly affects service providers and their capacity to finance and supply services. Demand-side and supply-side influence rural service delivery. In fact, they impact rural service priorities, service quality, efficiency, equity and sustainability of its delivery. All these and also other elements create enabling environment for sustainable rural development (IFPRI, 2007).

The approach adopted by IFPRI in its research and development activities, pays great attention to the role of governance in improving rural livelihoods and promoting agricultural and rural development. It aims to support countries in their efforts to improve governance for achieving food security and promoting equitable and sustainable agricultural and rural development. Improving governance requires considering reforms regarding institutional designs, policy processes and institutional change (IFPRI, 2007b).

This framework represents a basis for the activities of IFPRI in the framework of its Governance for Agricultural and Rural Development programme that focuses on the role of local governments, civil society, and the private sector in the provision of infrastructure and public services in rural areas with a special emphasis placed on agricultural services governance. In particular, the program aims at improving the ability of the rural population to demand services and hold service providers accountable. It also focuses on strategies to increase the capacity and effectiveness of local service providers. The program deals as well with political decision-making processes with respect to the formulation of rural development strategies and agricultural policies (IFPRI, 2007b).

Figure 3.1 Conceptual framework regarding linkages between governance and rural development

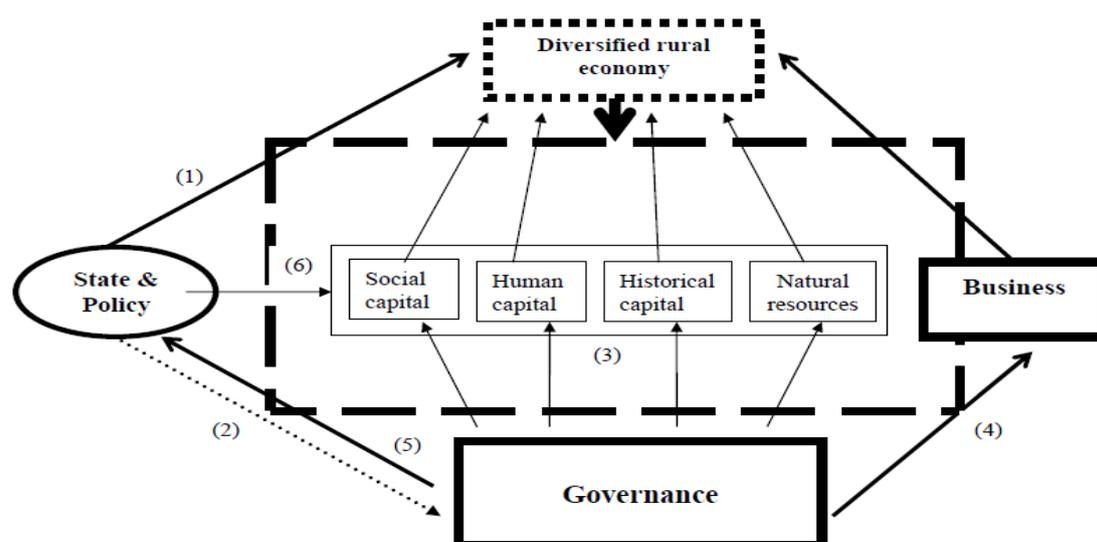


Source: IFPRI, 2007.

### Conceptual framework B - linkages between governance and diversification

The second conceptual framework shows how and in which way governmental support should be targeted in order to contribute to rural development. In particular, it highlights how governance arrangements in local rural areas can influence the diversification of rural economy through their impact on household assets. In fact, governance arrangements can influence effectiveness and efficiency of different activities that are performed by governmental institutions in the rural areas. Even if it is matter about bottom-up approaches they affect governance as a process. That's to say partnerships, networks and cooperation agreements between the involved and relevant stakeholders in rural areas. Local stakeholders come together and start new movements and initiatives to change existing situation and to solve pressing problems in their rural areas. Governance arrangements affect also the local governance structures. That is to say that they can contribute to the establishment of new institutions and organizations that deal with RD in general and rural livelihood diversification in particular. These stakeholders can have various backgrounds but share a similar goal which is the socio-economic development of their territory. The strength of this kind of governance arrangements is in the union of actors of various sectors including the business sector, civil society sector and governmental sector as well as all interested individuals. Each single actor can contribute to new activity formations and support assets (e.g. social, human, historical and natural capital). In particular, the interested stakeholders recognize the true value of assets, especially the human and social capital but also present historical and natural resources as a new possibilities for diversification of rural local economies through performing service delivery, tourism engagements and other related activities. The new participatory governance structures and arrangements allow mobilization of all local assets and resources as well as diversification of rural activities in a way that seems to be more efficient in comparison with direct governmental support. The framework shows also that linkages between state (especially in terms of agriculture and rural development policy), rural territories and households assets, and the private sector (i.e. business) needs to be strengthened to speed up rural development processes (Shtaltovna, 2007).

Figure 3.2 Conceptual framework regarding linkages between governance and rural economy diversification



Source: Shtaltovna, 2007.

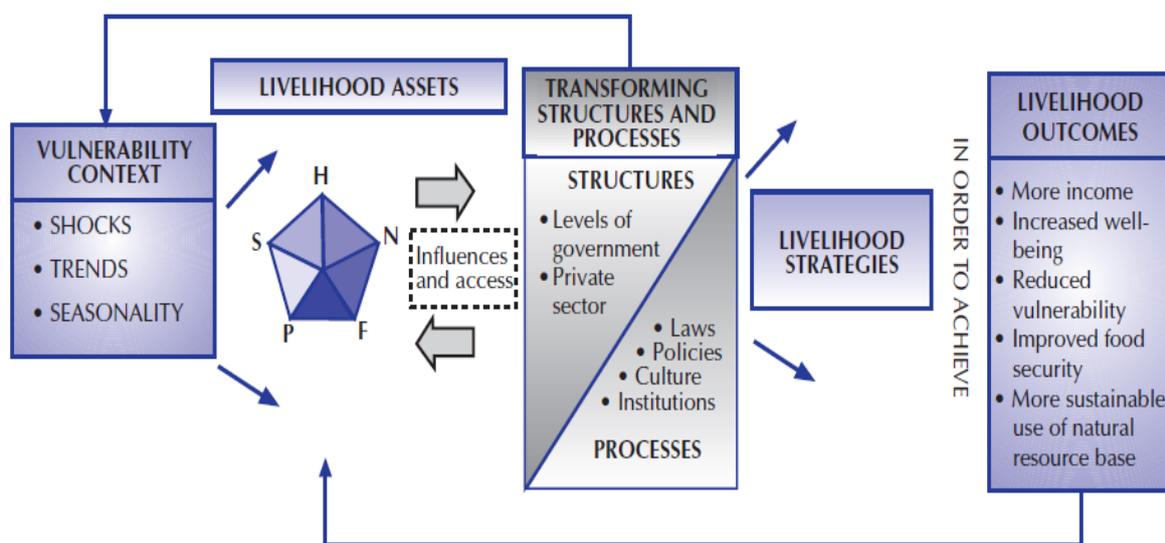
### Conceptual framework C - Linkages between governance and livelihood strategies

The rural livelihood framework used by the UK Department for International Development (DFID) is one of the most utilised ones. This conceptual framework shows how the different factors regarding livelihoods interrelate and affect each other's rural households' quality of life. Governance structures and processes directly influence the vulnerability context of livelihoods. The framework sheds light on how transforming all governmental levels and private sector as well as adjusting laws and policies help overcoming vulnerability causes and elements such as seasonal constraints, economic shocks and longer-term trends. The framework highlights as well how human, physical, social, financial and natural capital in different combinations are affected by a number of governance structures and processes as well as by the vulnerability and how people use their capital in order to achieve desired livelihood outcomes through developing different livelihood strategies (Satgé et al., 2002). Livelihood strategies include agricultural intensification / extensification, livelihood diversification and migration (cf. Scoones, 1998; Goodrich, 2001).

The framework shows that effective local institutions (e.g. government agencies, civil organizations and the private sector) that deliver goods and services must be in place in rural areas to sustain positive rural livelihood outcomes. These structures condition livelihood outcomes through community capacity-building and institutional strengthening. Human capital strengthening and rural dwellers' capacity-building efforts must focus on service delivery as well as risk-management skills (Frankenberger, 2001).

This DFID concept is people-based as stress importance of development policies and practices which take into consideration understanding of people livelihoods strategies but also highlight importance of bottom-up approach and poor's directly involvement in determining development priorities. In fact, it is rather a holistic approach as it encourages cross-cut analysis of diverse sectors but also recognize different stakeholders and impacts as well as multiple livelihood strategies and their results (Satgé et al., 2002).

Figure 3.3 Conceptual framework regarding linkages between governance and livelihoods



Source: Satgé et al., 2002.

### **3.5. LIMITATIONS OF THE RESEARCH METHODOLOGY**

The major constraint faced during research was the shortage and/or difficult access to adequate, reliable and updated, both published and non-published, secondary data on rural livelihood diversification and governance in the three studied countries and rural regions. This constraint was overcome, at least to a certain extent, by relying more on primary information collected through questionnaire surveys.

During the surveys, both on governance and diversification, in some cases was not easy to understand and capture perceptions and attitudes of respondents as comments were general and rather broad. Some of them were suspicious for research purpose and what their answer will be used for. In these cases more time was needed in order to gain trust of respondents. According to Anderson (2010) the individual skills of the researcher influence research quality. Furthermore, obtained data amount made analysis and results interpretation time consuming. Obtained information quality and utility highly depended on the asked questions quality that are prepared in advance as researcher could not add or subtract questions during the questionnaire based survey. A substantial amount of the field questionnaire survey pre-planning was required.

In the case of survey on rural household activity diversification, some respondents lacked openness believing that some of research questions are sensitive to comment and they felt uncomfortable discussing issues such as yearly income of their households.

Data collection was challenging in terms of sample size in the three rural regions. Researcher faced with extreme weather conditions in Bosnia as it was snowing all field survey long what made access to some rural households more difficult. From logistical point of view all performed surveys in studied rural regions were time consuming and required good organizational skills and planning with respect to huge territorial coverage of studied areas, large dispersion in terms of rural household locations and limited available resources, especially financial ones.

Regarding online questionnaire on ARD, answering required time so that might be a reason why many of those who received questionnaire on ARD did not answer. Author used also personal and private linkages and communications in order to make “pressure and push” on potential respondents to provide their feedback. With electronic questionnaire, the researcher could never be sure the person to whom the e-questionnaire is sent actually filled it out.

## 4. LITERATURE REVIEW

### 4.1. AGRICULTURE AND RURAL AREAS IN BOSNIA, MONTENEGRO AND SERBIA

**Bosnia.** Rural areas in Bosnia (81%) lag behind in terms of socio-economic development and still face many problems. Around 61% of the total population can be classified as rural (Annex 7). In particular, Republika Srpska is mainly rural as about 95% of the territory is rural according to OECD criteria, where live 83% of the population. Summarized SWOT analysis of rural areas in Republic of Srpska entity is given as an Annex 6.

The agricultural sector contribution to GDP is relevant although there is some variation between the RS, which receives a larger share of GDP from agriculture, and the FBiH and BD. Agriculture provides a source of income for about 50% of the total population of the country. The agricultural sector is more important for the RS's economy (around 13% of the GDP) than it is for that of the FBiH (stable at 6%). The Agro-food processing industry is recovering following a decade of under-investment and its share in GDP is increasing (about 8%) (Kurbanova et al., 2011).

Table 4.1 Key indicators regarding role of agriculture in the economy of Bosnia and Herzegovina for period 2006-2012

Indicators	Unit	2006	2007	2008	2009	2010	2011	2012
<b>GVA of the agriculture, forestry, hunting and fishery sector</b>								
- GVA (at current prices)	mill EUR	825,3	885,0	942,1	899,6	887,1	904,2	820,5
- share in GVA of all activities	%	10,5	10,1	9,2	8,8	8,6	8,4	7,7
<b>Employment in the agriculture, forestry, hunting and fishery sector</b>								
- number	000	167	168	183	182	166	160	167
- share in total employment	%	20,6	19,8	20,6	21,2	19,7	19,6	20,6
<b>Trade in food and agricultural products</b>								
- export of agri-food products	mill EUR	138,2	171,9	217,1	238,3	288,3	317,7	317,4
- share in export of all products	%	5,2	5,7	6,3	8,4	7,9	7,6	7,9
- import of agri-food products	mill EUR	983,7	1.130,5	1.319,8	1209,9	1261,5	1404,0	1426,3
- share in import of all products	%	16,9	15,9	15,8	19,2	18,1	17,7	18,3
- trade balance in agri-food products	mill EUR	-845,5	-958,6	-1.102,7	-971,6	-973,2	-1.086,3	-1.108,8

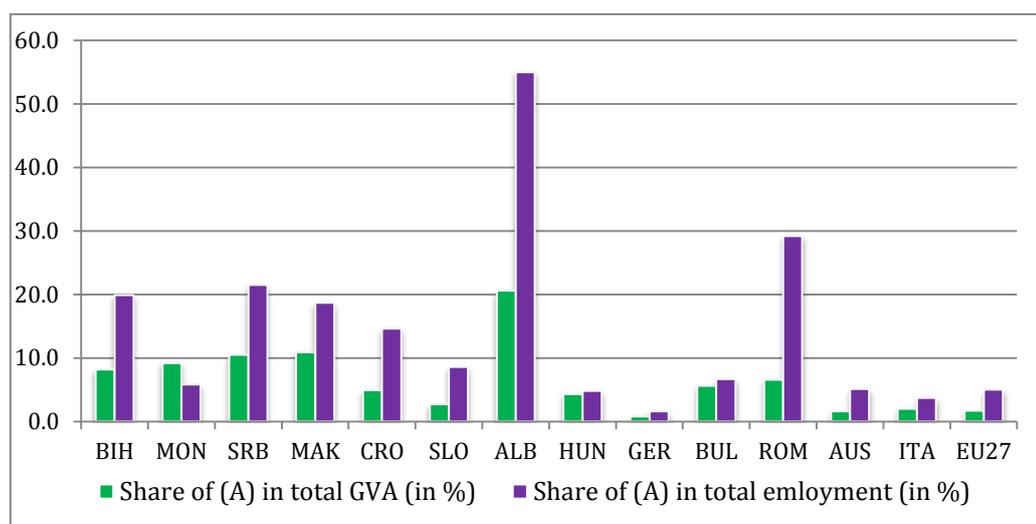
Source: Agency for Statistics of BiH, Labour Force Survey, Chamber of Commerce of Bosnia and Herzegovina

**Montenegro.** Agriculture and agro-food industry share in Montenegrin gross domestic product (GDP) is about 20%. The share of agriculture, hunting and forestry in total GDP amounts to 9.5% (2011) (EC, 2013b). Agriculture accounts for 5% of Montenegro's exports (World Bank, 2011). Agricultural employment stood at 8.3% in 2007 (EC, 2011a). Agriculture is by far the largest activity of the rural population – more than 60,000 households get income partly or entirely from agriculture (Bulatović, 2009; EC, 2011a,b). Montenegro is a typical rural country. Less than 1% of the country's area can be considered as urban. The share of rural population is about 38% (Arcotrass *et al.*, 2006). Economic situation in rural areas is unfavourable (Ministry of Agriculture, 2006). Poverty is still mainly a rural phenomenon especially in the northern part of the country (EC, 2011).

**Serbia.** Agriculture is still an important sector of Serbia's economy, with significant contributions to overall economic development and social stability (EC, 2011a; Volk, 2010; Bogdanov and Bozić, 2010). Primary production from agriculture, hunting, forestry and fisheries accounted for over 10% of GDP in Serbia (2012) (EC, 2013c). The share of the food, beverage and tobacco industry in GDP is 5.5% on average (Bogdanov and Bozić, 2010). Agricultural exports contributed about 24% of total Serbian exports in 2009 (EC, 2011a). About 43% of the total population lives in rural areas (RDNS, 2010). Around a third

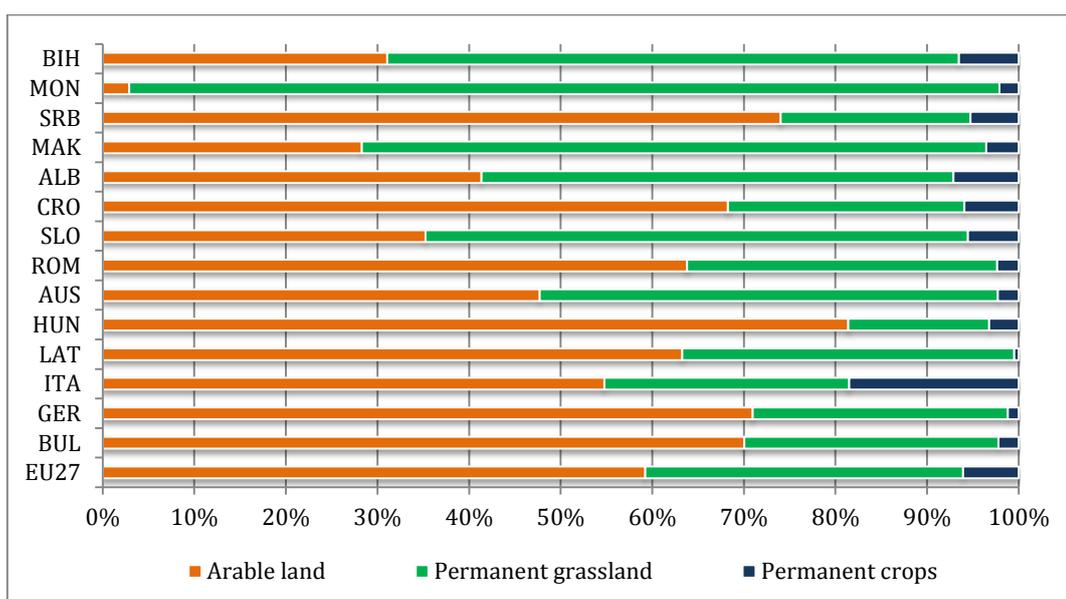
of the active population depends at least partly on agriculture for their livelihood (EC, 2011a). In rural areas more than 45% of the active population is employed in agriculture, forestry, hunting and fishing (Stevanović et al., 2005). Rural areas have suffered from intensive migrations and low levels of economic diversification. They lag behind urban areas in terms of service delivery and household incomes. Rural businesses lack access to cheap credit for investment and support services (European Integration Office-Serbia, 2011). Hereinafter (Figure 4.1) is presented share of agriculture and total employment in three studied countries as well as in other selected countries (Balkan area and EU). Also, structure of utilized agricultural area is showed in Figure 4.2.

Figure 4.1 Comparison of share of agriculture and total employment - Bosnia, Montenegro and Serbia and selected EU and Western Balkan countries (average 2010-2012)



Sources: <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>  
[http://ec.europa.eu/agriculture/statistics/agricultural/index\\_en.htm](http://ec.europa.eu/agriculture/statistics/agricultural/index_en.htm)  
 WB national statistics provided under FAO/SWG Project

Figure 4.2 Comparison of the structure of utilized agricultural area - Bosnia, Montenegro and Serbia and selected EU and Western Balkan countries (2010) in %

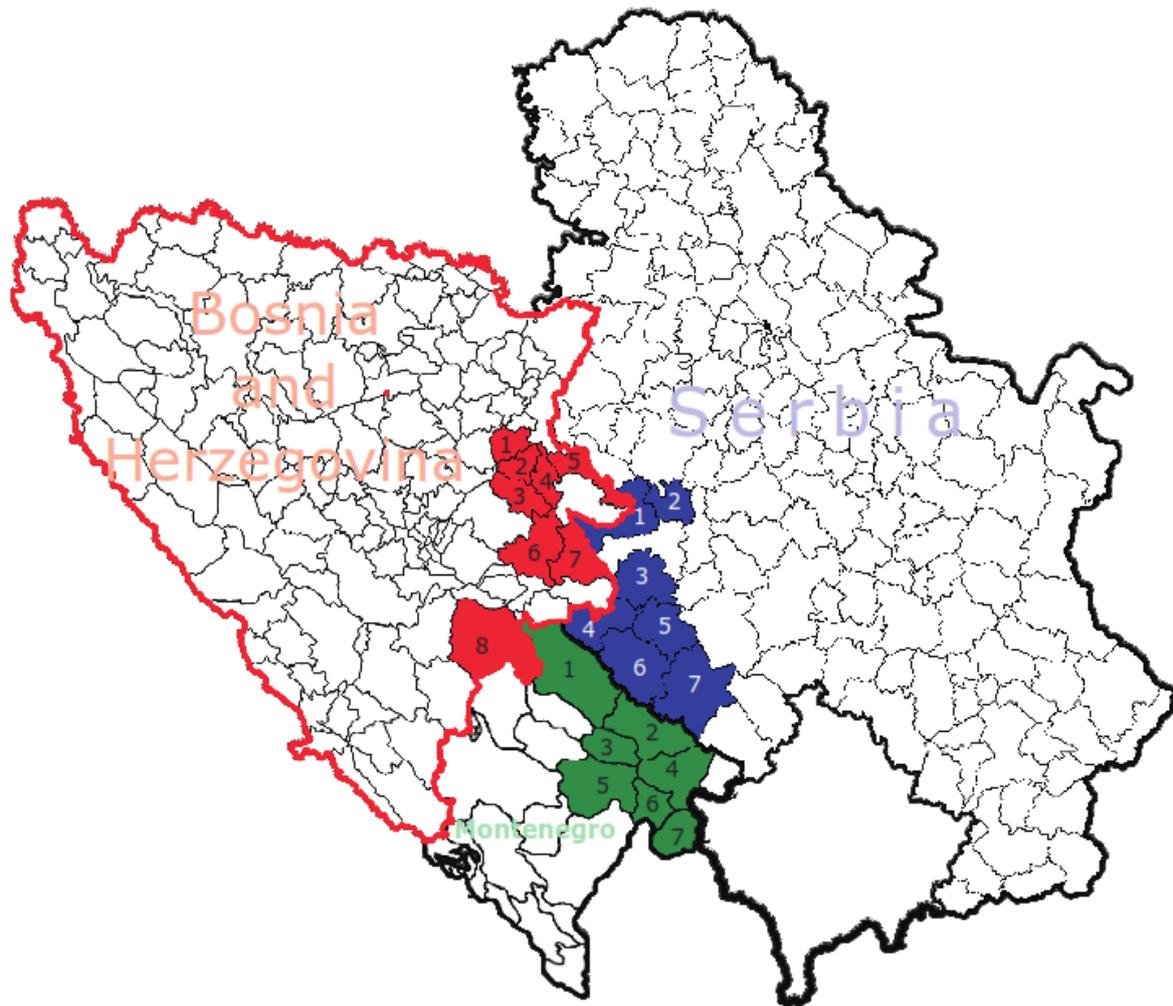


Sources: Based on Agricultural census data 2010 for EU and Montenegro, 2012 for Serbia. Data for other WB countries are based on regular statistics.

#### 4.1.1. Studied rural regions in Bosnia, Montenegro and Serbia

This PhD research included three rural regions: south-eastern Bosnia, northern Montenegro and western Serbia and selected municipalities are shown in Figure 4.3.

Figure 4.3 Surveyed municipalities in the three studied rural regions



Bosnia and Herzegovina	Montenegro	Serbia
1. Šekovići	1. Pljevlja	1. Bajina Bašta
2. Vlasenica	2. Bijelo Polje	2. Kosjerić
3. Han Pijesak	3. Mojkovac	3. Čajetina
4. Milići	4. Berane	4. Priboj
5. Bratunac	5. Kolašin	5. Nova Varoš
6. Rogatica	6. Andrijevica	6. Prijepolje
7. Višegrad	7. Plav	7. Sjenica
8. Foča		

Source: Author's design based on available maps of the three studied countries

## A. SOUTH-EASTERN BOSNIA REGION

Hereinafter are presented the main characteristics of the south-eastern Bosnian rural region. Description includes basic spatial, demographical, geographical and socio-economic features.

Table 4.2 Basic spatial and demographical indicators of south-eastern Bosnia

Municipality	Surface (km <sup>2</sup> )	Number of inhabitants	Gender (%)		Number of households	(%) Urban population	(%) Rural population	Density (km <sup>2</sup> )
			M	F				
Foca	1 115	19 811	48.0*	52.0*	6 521	72.0	28.0	17.8
Rogatica	646	11 603	N/A	N/A	3 912	55.0	45.0	17.9
Visegrad	448	11 774	N/A	N/A	4 018	N/A	N/A	26.3
Han Pijesak	336	3 844	N/A	N/A	1 410	N/A	N/A	11.4
Vlasenica	226	12 349	N/A	N/A	3 784	N/A	N/A	54.6
Sekovici	202	7 771	N/A	N/A	2 510	N/A	N/A	38.5
Milici	285	12 272	N/A	N/A	3 677	N/A	N/A	43.1
Bratunac	293	21 619	N/A	N/A	6 057	N/A	N/A	73.8
<b>TOTAL</b>	<b>3 551</b>	<b>101 043</b>	-	-	<b>31 889</b>	-	-	<b>28.5<sup>**</sup></b>

Source: Author's elaboration based on review of available documents

\* Proportion of female population in the total population of the municipality in 2007 taken from local development strategy

\*\*Average

**Foca.** Foca municipality is located in the south-eastern part of BiH in its entity of the RS. Foca municipality is one of the largest municipalities in the RS and BiH. Foca is situated at an altitude between 400 m (canyons, river valleys and fields) and 2,386 m (mountains). Given the nature of the relief, the municipality is mainly represented by the mountain climate; while inside the Drina river valley dominate temperate continental climate. The largest part of the municipality is covered by forest (76,702 ha) and agricultural land (30,901 ha). There is the large amount of surface water, rich mineral resources and coal. In Foca is located National Park "Sutjeska" with the rainforest Perućica, mountains Zelengora and Maglic, Tara River Canyon, a large number of lakes rich in fish and important natural reserves (rarities, endemic species, parks, etc.) (MoF, 2009).

In recent years natural increase is in constant decline, therefore a negative birth rate has been recorded. There are changes in the proportion of population in urban and rural areas as well. The population in rural areas of the municipality significantly reduced. Because of the war, there was an abandonment of rural areas and a large influx of population in the city. Return in rural areas, among others, is difficult due to damaged roads and destroyed wiring.

Forests and pastures cover the largest part of the municipality, while only a small portion goes to arable land. Most of the arable land is privately owned. The municipality of Foca is extremely rich in quality forests, which occupy 69% of the surface, of which 90% belong to the state. Although the fields, gardens and orchards accounts for only 5% of the total available land area, bearing in mind the extremely large surface area of the municipality and the relatively small population, it can be concluded that there are some potentials for the development of farming and fruit growing. It is important to note that for a large number of rural households agriculture is core business but it does not ensure sufficient revenues to meet their needs (MoF, 2009).

**Rogatica.** Municipality Rogatica is located in south-eastern Bosnia. The city is at an altitude of 525 m and it is surrounded on all sides by high hills and mountains. For this reason, the climate can be defined as continental, conditioned by local characteristics of the terrain, the direction of its mountain territory (NW-SE) and the relatively high altitude. The average

annual air temperature ranges from about 8.7° C in lower parts, while in the mountain areas in 1000 m amounts to an average of about 6° C. The main characteristics of the mountain climate at higher altitude mountain area are major and large snows, which are often retained until late spring. It is a common appearance of late frosts that can inflict considerable damage to agricultural crops (IURS, 2008).

Area of the municipality is administratively divided into 13 local communities, out of which 11 are rural and two urban.

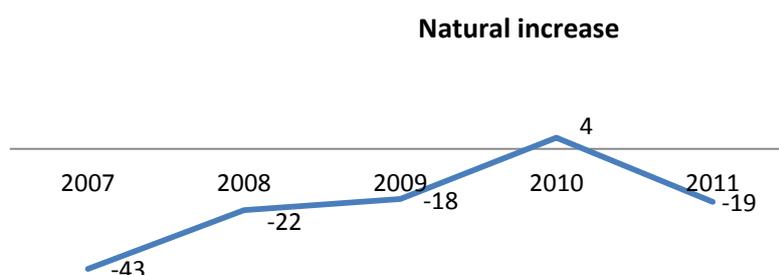
Taking into account favourable natural conditions, Rogatica is suitable for primary agricultural production: agriculture, livestock breeding, fishing and fruit growing. Although there is 69% of arable land, yet its utilization is still poor with only 10 % (593 ha in 2010). Despite this modest seeding areas or small utilization of arable land, some cultures achieve record yields per unit area. The fact that 55,9% of the total municipal area is under forest speaks enough about this natural resource as a prerequisite for development of wood processing industry. Forest industry employs 25% of total employed persons in the municipality (MoRRS, 2011).

**Visegrad.** Visegrad is located in the most eastern part of the Republic Srpska, and Bosnia and Herzegovina, 16 km from the border with Serbia. The eastern line of the municipality is also the border with the Republic of Serbia. The largest part of the municipality belongs to forest land (about 29.121 ha) and agricultural land (ca 13.613 ha). Visegrad is located in the zone of moderate continental climate characterized by long, hot summers (maximum temperature to 40°C) and cold winters (minimum temperatures to -15°C). All four seasons are strongly conspicuous. The highest peak in the area of the municipality is Veliki Stolac, with the altitude of 1675 m, and the town is situated at 299 m above sea level.

Key natural resources in the municipality are forests and water. The largest part of the municipality's territory is forest land (60%). The municipality is rich in surface waters (rivers Drina, Lim, Rzav), and on its territory there are two artificial accumulation lakes of 84 km length. The agriculture land covers 13613 ha (MoVRS, 2011).

**Vlasenica.** Vlasenica municipality is located in the eastern part of the RS. Vlasenica is located on the 680 m above sea level. This geographical space belongs to the catchment area of the river Drina, Vlasenica is considered a medium municipality in the Republic Srpska. It consists of 13 local communities with 38 residential places. From 2003, there is negative birth rate. This situation is not satisfactory, because there is a reduction of the total youth population that could represent a work contingent in the distant future and a carrier for further development of the municipality. Since 2007 until now, only in 2010 was positive population growth, while in other years was negative and ranged up to -43 (Figure 4.4).

Figure 4.4 Natural increase over the period 2007-2011



Source: Author's elaboration from statistics available at the Republic Institute for Statistics RS

Vlasenica municipality has exceptional comparative advantage with respect to natural resources, especially taking into consideration agricultural land. Most of the municipal residents live in rural areas and they are primarily oriented to agricultural production. Agricultural land covers 5 627 ha which accounts about 25% of the total land area. The biggest part of agricultural area is occupied by agricultural land with significant participation of natural vegetation (51%), followed by cultivated land (33%) and meadows (16%), mostly privately owned. The most developed are the fruit growing and animal husbandry. Orchards occupy 679 hectares of arable land, which represents 8.17% of total agricultural land (MoVLRs, 2014).

**Sekovici.** Municipality of Sekovici is located in eastern RS (BiH). This municipality is not a transit area with the main roads go through what is a great disadvantage.

Sekovici is located in the zone of continental climate, with strong annual variations.<sup>14</sup> Natural resources are relatively little examined. Despite the lack of the mining-geological exploration, some of the following raw materials have been found: coal, iron, manganese, clay for bricks and tiles, decorative stone, building stone, mineral water and salt water. Municipality of Sekovici has 9 952 hectares of agricultural land, out of which 4 580 are arable land and gardens (46.0%), about 3 000 ha of meadows and pastures and only 180 ha of orchards. It is estimated that municipality has about 11,451 hectares of forest.<sup>15</sup>

By analysing the structure and volume of agricultural production, it can be concluded that the agricultural production orientation is focused primarily on food security for households. Such small production cannot meet even households' own needs and create reserves and surplus for the market. Agricultural producers generally have or use their own farmland. The average farm size is 4.82 ha of agricultural land and 0.89 ha of forest. Only 30% of the total agricultural land (1.49 ha) is used for intensive farming (arable land, orchards and vineyards) while the rest for the natural sources of fodder (meadows and pastures). In addition to the extremely favourable agro climatic conditions, fruit should have the higher share in the overall municipal agricultural production.<sup>16</sup>

**Milici.** Milici municipality is located in the eastern part of RS (BiH) and on the main regional road Sarajevo (BiH) – Belgrade (Serbia). The municipality covers mountainous area of 200-1500 m above sea level. The climate is continental.

Milici municipality has 73 villages and 20 local communities. More than a half (60%) of the total population belongs to age 15-64 and it can be considered as working population. About 35 % are younger than 15 and 5 % of the population is older than 64 years (MoMRS, 2011).

Milici municipality has significant natural resources, particularly mineral and forest resources, arable land, pastures and meadows, water and touristic potential. The area of the municipality is covered with 17 722 ha of forest, out of which 12 053 ha are state-owned and 5 219 ha of private property. The total land area in the municipality of Milici amounts 28 512 ha (arable land 9880 ha or 35 % of total land)

Municipality has considerable agricultural potential for intensive development of crop production, animal husbandry and horticulture (MoMRS, 2009).

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<sup>14</sup> Analitika, centar za društvena istraživanja /Analytics, center for social studies/, <http://www.mojemjesto.ba/bs/opstina/sekovici>

<sup>15</sup> Northeast regional development association NERDA, <http://www.nerda.ba/mir/mirnerda.php?o=sekovici&j=LOC#geografski>

<sup>16</sup> <http://opstinasekovici.com/o-sekovicima/privreda-i-industrija/poljoprivreda/>

**Bratunac.** Bratunac municipality is located in the eastern part of Bosnia and Herzegovina and the Republic of Srpska Drina River, in a length of 68 km, represents a natural border between Bratunac municipality and Serbia (municipalities Ljubovija and Bajina Basta).

The entire territory of the municipality is located in the zone of moderate continental climate with long hot summers and cold winters with a lot of snowfall. Altitude ranges from 300 to 772 m. The average annual temperature is 16° C.

Bratunac municipality encompass 27 local communities.<sup>2</sup>

Agricultural land, waterways, forest resources and certain amount of metals are important natural resources of the Bratunac municipality which in terms of economic development are not adequate used. According to the cadastral data in 2006 in the municipality of Bratunac have been registered 10 372 ha of agricultural land, out of which arable land 9 087 ha, meadows 551 ha and orchards 734 ha. Forest coverage amounts to 16 765 ha, out of which 68.6% is state-owned and 31.39% is in private ownership (MoBRS, 2008).

## B. NORTHERN MONTENEGRO REGION

Hereinafter are described the main characteristics of northern Montenegro rural region. Description includes basic spatial, demographical, geographical and socio-economic features.

Table 4.3 Basic spatial and demographical indicators of Northern Montenegro

Municipality	Surface (km <sup>2</sup> )	Number of inhabitants	Gender (%)		Number of households	(% ) Urban population	(% ) Rural population	Density (km <sup>2</sup> )
			M	F				
Pljevlja	1346	30 786	49.2	50.8	10 627	63.3	36.7	22.9
BijeloPolje	924	46 051	50.4	49.6	13 082	33.4	66.6	49.8
Berane	717	33 970	50.3	49.7	9 764	32.6	67.4	47.0
Mojkovac	367	8 622	50.5	49.5	2 775	41.6	58.4	23.0
Kolasin	894	8 380	50.5	49.5	2 836	32.5	67.5	9.4
Andrijevica	340	5 071	51.6	48.4	1 666	15.4	84.6	14.9
Plav	486	13 108	50.8	49.2	3 601	41.1	58.9	27.0
TOTAL	5074	145 988	50.7*	49.3*	44351	40.2	59.8	27.7*

Source: Author's elaboration based on review of available documents

\* Average

**Pljevlja.** The Pljevlja municipality is located in the mountain belt at the end of the northern part of Montenegro. It covers around 10 % of the total territory of Montenegro and represents the surface of the third municipality in Montenegro (after the municipality of Niksic and Podgorica). The municipality is situated at an altitude between 1000 and 1200 m Pljevlja municipality borders with Bosnia and Herzegovina on the northwest and west, and Serbia on the southeast and east. Area of Pljevlja belongs to an extremely high mountain part of the territory, intersected by river valleys, which represents the "green space of Montenegro". Climate of the Pljevlja municipality is defined by geographic location and configuration of the terrain. The region of Pljevlja is located in the mountainous area of the continental climate zone, while the river valleys (Ćehotina and Tara in the first place) act as modifiers of climate in some parts the municipality. Average annual temperature in the municipality is 9.6° C (MoPMO, 2013).

According to the Census of 2011, the average age of the population in the municipality is 41.8 years (men 40.4, women 43.1), making it the fourth municipality with the oldest population in the country (after Pluzine, Savnik and Zabljak) (MONSTAT, 2012). This is due to large scale migration of young people to the larger university centers (Belgrade, Sarajevo, Podgorica) and the coast.

Municipality of Pljevlja covers over 13% of agricultural land and 15% of the arable land of Montenegro and accounts for over 12 % of the total number of cattle and sheep in Montenegro and in accordance with that could significantly contribute to the development of Montenegrin agriculture (MoPMO, 2011). Agricultural land covers 51 % of the total Municipality area, of which is dominated by mountain pastures and meadows. Total used agricultural land is 22 901 ha or 78% of total available land area of the municipality. Total unused agricultural land, forest and barren land is 6463 ha. In the structure of the used agricultural land in the Municipality the largest share with 97 % is occupied by perennial meadows and pastures, fields and gardens with 2%, and the lowest proportion of orchards with 0.3 %. There are many opportunities in the development of agriculture in the municipality of Pljevlja: much better valorisation of natural resources, increasing competitiveness in all sub-sectors, the development of organic agriculture, rural development and other forms of tourism, promotion of local agricultural products, etc. One of the main opportunities for Pljevlja agriculture is increasing the volume and improving the technological level of production of cheese, while preserving the traditional way of its production through standardization and protection of geographical indications (MoPMO, 2013).

**Bijelo Polje.** Municipality of Bijelo Polje is located in the north of Montenegro. It covers 6.7% of the territory of Montenegro, which makes it fourth municipality by area in Montenegro. BijeloPolje municipality belongs to hilly - mountainous part of northern Montenegro, it is surrounded by high mountains. It is located between the mountains of Bjelasica, Lisa and Pester plateau. The entire territory of the municipality lies at an altitude above 500 meters. About 95% of its territory is situated above 650 meters above sea level (MoBPMO, 2012). The city core of Municipality is located on two terraces, altitude 575 and is intersected with the numerous river valleys, primarily river Lima. It borders with Montenegrin municipalities of Pljevlja, Berane and Mojkovac and with Municipalities of Serbia: Prijepolje and Sjenica.

The municipality has a moderate continental climate with clearly defined annual seasons, where the autumn is warmer than spring, which favours the fast crops growth. BijeloPolje valley is surrounded by mountain ranges that affect the climate, occurrence of temperature extremes, atmospheric precipitation and fog in autumn, winter and springing months. The average temperature in spring is 8.7° C, during the summer months 16.9° C, in the autumn 9.4° C and in the winter 0.1° C.<sup>17</sup>

According to the census of 2011, the total population of the Bijelo Polje municipality makes 7.43% of total Montenegrin population. Bijelo Polje municipality has 137 villages, of which 18 are in urban and 119 in rural areas. According to the census of 2011 the average age of the population is 36.1 years. The population structure by sex has a slightly larger share of the male population (MONSTAT, 2012).

Agricultural land covers 40 392 ha, accounting for 43.7% of total area of the municipality, or 7.8 % of agricultural land of Montenegro (MoBPMO, 2012). Arable land occupies 23 984 ha, or 12.7 % of total arable area in Montenegro. It is represented by crop production with 35.3%, fruit production with 7.8%, while the other 57% of the area is under meadows. Pastures cover 40.6% of agricultural land. Around 13% of total agricultural households in Montenegro are located in Bijelo Polje. Around 45% of the total municipal area is covered by

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<sup>17</sup>Hydro meteorological and Seismological Service of Montenegro. Available at: <http://195.66.163.23/misc.php?text=27&sektor=1>

forest. State ownership of forests is 73.7 % and 26.3 % is private. Forest surface of municipality makes 7.6% of the total area under forests in Montenegro.

**Berane.** Berane municipality is located in the eastern part of Montenegro. Almost in the middle of the municipality is running the river Lim, between mountains Bjelasica, Smiljevica, Turjaka and Mokra mountain. Area of the municipality represents 5.5% of the territory of Montenegro and it is characterized by moderately warm and moderately humid climate. Microclimate diversity in conjunction with various geologic surface and soil types has enabled a variety of biological systems and their evolution. The geostrategic position of Berane is very favourable with respect to distance to the regional capital cities.

According to the census of Montenegro (2011), Berane municipality has 5.48% of the total population of Montenegro. This means that the municipality Berane is fifth largest municipality in the state (MONSTAT, 2012).

Total available agricultural land in the municipality of Berane is 25 475 ha, and the area of utilized land is 21 870 ha, accounting for 85.8% of the available agricultural land. In the structure of utilized land, the dominant position is occupied by pastures 21 114 ha, 328 ha by arable land, 228 ha gardens, orchards 79 ha and nurseries 121ha. According to data from the Census of Agriculture (2010), out of 9764 households in Berane, the number of agricultural households is 4509, which represents 9.3% of the total number of agricultural households in Montenegro. The municipality of Berane offers a high-quality agricultural land, and production is focused on animal husbandry and partly on fruit growing. As the structure of agricultural areas is dominated by natural meadows and pastures, livestock represents the most important aspect of agricultural production. It is mostly sheep and cattle. From the total area of the municipality Berane, arable land covers 22%, forests cover an area of 37%, while other land is 41% (MoBEMO, 2012).

**Mojkovac.** Area of municipality Mojkovac belongs to the northern region of Montenegro and its very mountainous region. City Mojkovac, community centre, is located in the valley of the river Tara. Road connection with the municipalities of BijeloPolje, Kolasin and Zabljak is quite good, while with the others surrounding municipalities road infrastructure quality is at the very low level.

Total area of the municipality makes 2.6% of the total Montenegrin territory and by surface is one of the smallest municipalities in Montenegro. Mojkovac lies at altitudes of 800-850 m above sea level and is located in the Tara River valley, surrounded by mountain slopes (MoMOMO, 2012).

Regarding Mojkovac population by age group, 17.95% are inhabitants from 0 to 14, 68.05% from 15 to 64 and 14% are people over 65 years state (MONSTAT, 2012).

Mojkovac Municipality covers an area of 36 659 ha, of which agricultural land cover 12,860 ha. Animal husbandry is the primary branch of agriculture (production of meat, dairy products and milk). However, the main problem is the buyoff of products as collective centres are poorly organized. An important branch of agriculture is beekeeping and honey production. In the municipality of Mojkovac is 2.65% of the total agricultural land and 2.5% of available arable land in Montenegro. Forests cover about 18 000ha or about 49% of the municipality territory. This percentage of forested area is assessed as favourable in terms of protecting and improving the environment. The state-owned forests amount to 14 970 ha (84%) while in private ownership are 3 169ha (16%) of the forests (MoMOMO, 2012)

**Kolasin.** According to the size, Kolasin municipality occupies sixth place in the Montenegro. Kolasin lies in the upper and middle flows of rivers Tara and Moraca and it is surrounded by mountains Sinjavina, Bjelasica, Komovi and Vucje. Adriatic Sea from Kolasin is only 80

kilometres away by the skyway which affect climate. The town of Kolasin is located at an altitude of 954 meters; just around 5% of the territory is at an altitude of less than 500, and 24% below a thousand meters. Average annual air temperature is 7.3° Celsius.

Nearly about two-thirds of the population lives in scattered villages. The most of population is middle-aged (from 20 to 60 years).

In Kolasin, population deal with cattle breeding, goat and sheep in particular. Livestock production is mainly carried out on small farms and private properties. However, it is estimated that only about 20% of the available pastures' capacity is used. Total agricultural land amounts to 24 243 ha, out of which arable land include 8 629 ha. Total forest area is 50 100 ha, out of which 33 392ha is owned by state and 16 708 ha is private property (MoKOMO, 2012).

**Andrijevisa.** Andrijevisa is located in the Montenegrin mountains area. The municipality is located between river Lim and Zlorečica (in the east), river Kraljštica (from the north) and the steep valley sides (in the west). The lowest terrains are located at 736 meters above sea level. Western slopes of the river valley above Andrijevisa reach 900 m above sea level, while the village is located on in river terrace at 750-790 m above sea level (MoAMO, 2009). It belongs to the group of borderline and least developed municipalities in Montenegro. There are 24 villages organized in 16 local communities. The average age of the population in the municipality is 39.9 years. Regarding Andrijevisa population by age group, 17.8% are inhabitants from 0 to 14, 65.4% from 15 to 64 and 16.8% are people over 65 years (MONSTAT, 2012).

The municipality has 5971 hectares of land suitable for agriculture production and 7 692 ha of pasture. Forests cover an area of 15 793 ha (MoAMO, 2009).

**Plav.** Plav municipality is located in the south-eastern part of Montenegro, between Prokletije mountain and the spring of the river Lim. The city Plav is located at 945 m above sea level. Plav is one of the medium size municipalities and it occupies 3.5% of the area of Montenegro. The municipality borders with neighbouring Albania.

Plavsko - Gusinjski region has modified, humid sub-mountain climate, which at altitudes of over 1 300 m above sea level turns into the mountain climate. This climate is characterized by a relatively short and fairly cool summers, quite long and moderately cold snowy winters. Springs are shorter and colder and autumn are longer and warmer. The average annual air temperature is 7.6° C.<sup>18</sup>

According to the census of Montenegro (2011), Plav municipality has 2.1% of the total population of Montenegro. The average age of the population in the municipality Plav is 36 years (MONSTAT, 2012).

Plav municipality has 8143 ha of arable land (of which 5494 ha are meadows, 1985 ha of arable land and 612 ha of orchards) and 16589 ha pastures, that makes 24732 ha, or about 51% of the total area of the municipality. Therefore, the municipality of Plav has 4.77% of arable agricultural land in Montenegro. Since pastures and meadows cover 90% of the area, there are good conditions for the development of animal husbandry and less crop farming. Fruit production, as a branch is quite neglected even there are good conditions for development. About 44% of the municipal area is covered with high forests, which is one of the most important natural resources in Plav. State-owned are 20899 ha of forests and 4457 ha are privately owned forests (RBCB, 2004).

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<sup>18</sup> Hydro meteorological and Seismological Service of Montenegro, <http://195.66.163.23/misc.php?text=27&sektor=1>

### C. WESTERN SERBIA

Hereinafter are described the main characteristics of western Serbia rural region. Description includes basic spatial, demographical, geographical and socio-economic features (Table 4.4).

Table 4.4 Basic spatial and demographical indicators of western Serbia

Municipality	Surface (km <sup>2</sup> )	Number of inhabitants	Gender (%)		Number of households	(% ) Urban population	(% ) Rural population	Density (per km <sup>2</sup> )
			M	F				
BajinaBasta	673	26022	50.0	50.0	8938	35.2	64.8	38.7
Kosjeric	358	12090	50.0	50.0	4213	N/A	N/A	33.8
Cajetina	647	14745	49.5	50.5	5146	36.0	64.0	22.8
Nova Varos	581	16638	50.0	50.0	5903	50.0	50.0	28.6
Prijepolje	827	37059	50.2	49.8	11467	36.5	63.5	44.8
Sjenica	1059	26392	51.0	49.0	6618	47.0	53.0	24.9
Priboj	553	27133	49.0	51.0	9257	55.0	45.0	49.0
TOTAL	4698	160 079	49.9*	50.1*	51542	N/A	N/A	34.0 <sup>*+</sup>

Source: Author's elaboration based on review of available documents.

\*Average

**Bajina Basta.** The territory of the municipality of Bajina Basta is situated in the western part of Serbia, and according to the administrative division belongs to Zlatibor District. Geographically, the municipality is mountainous-basin-valley macro region.

The town lies in the valley of the Drina River, at the eastern edge of Tara National Park. Bajina Bašta's climate is moderate continental with four distinct seasons. Summers are warm and pleasant with cool nights, and winters are sunny, with snow levels high enough for widespread winter sports. However, the humidity of the air increased greatly after the construction of the power plant in Perućac and the formation of the artificial Perućac Lake and Zaovine Lake, in the mountains. The average annual rainfall is 700–800 mm locally, contributing to a favourable agricultural environment (JUGINUS, 2012).

According to 2011 census, the population of the municipality is 26,022. More than 60% of inhabitants live in thirty-five outlying villages and non-urban areas surrounding the town (ISRS, 2012).

One of the most important and leading industries in the municipality of Bajina Basta for the realized gross national product is agriculture. In the economic field, regardless to the impact of climatic conditions, achieve a satisfactory production results especially in primary and fruit production. Agricultural land covers 29851 ha or 44,2% of the municipal territory (JUGINUS, 2012).

**Kosjeric.** Municipality of Kosjeric is located in western Serbia in Zlatibor district. It has 27 settlements. By its area and population, it is one of the smallest municipalities in Zlatibor District. The lowest altitude in municipality has the urban part of Kosjeric, situated at 420m in the valley of river Skrapez.

The municipality has a moderate continental climate with moderately warm summers and fairly cold winters, mild and long transitional seasons.

According to the census of 2011, the average age of the population in the municipality is 45.5 years. Agricultural land covers 19481ha, of which arable land occupies 14378ha and 5102 ha refer to non-arable land. In the structure of total used land area, the most presented are forests with 38.7%, meadows 18.1, arable land 16.1% and pastures 15.1% while orchards occupy 7.3% of the land and barren land 4.7% (MoKSE, 2008).

**Cajetina.** Cajetina is located in the south-western part of the Republic of Serbia, bordering to the west with Bosnia and Herzegovina. It is administrative part of Zlatibor district. The advantageous geographical position of the municipality is affected by regional roads passing through municipality for Montenegro and Bosnia and Herzegovina. In addition, the Belgrade (Serbia) - Bar (Montenegro) railway passes through Cajetina municipality. About 80 % of the territory of the municipality is mountainous. The average altitude is about 1000 meters (CIP, 2010).

The climate of this area belongs to moderate continental type, with the influence of mountain climate. There is a high percentage of oxygen and ozone in the air. The average temperature is 7.7° C.

The territory of the municipality Čajetina encompasses 20 local communities and 24 settlements.

Agricultural land covers about 56 % of the municipal territory. Agriculture is the second important activity for the development of Čajetina. This is primarily related to livestock production due to favourable natural prerequisites. Out of 5146 households, 3500 are engaged in agricultural production (MoCSE, 2012). Beside livestock production, good natural conditions in the lower area of the municipality are suitable for fruit production, especially raspberries and plums.

**Nova Varos.** Nova Varos is located in the south-western part of Serbia and the central area of the Zlatibor District. The territory of Nova Varos is hilly and mountainous, with pronounced and sharp sloped terrain. The lowest altitude is on the coast of Lima about 436 meters and the highest in Zlatar mountain (Golo Brdo peak) 1626 meters. Its average altitude is about 1000 meters.

Area of Nova Varos has a temperate continental climate with pronounced influence of Mediterranean climate. Therefore, it has very high air quality due to winds flow from the coast.

According to the census of 2011, in the municipality of Nova Varos there are 32 settlements, organized into 12 rural and one city local community.

Nova Varos has more than 2800 registered farms. Agricultural potential is limited by the high altitude and the influence of seasonal climate conditions (MoNVSE, 2009).

**Prijepolje.** Municipality of Prijepolje is situated in the southwest part of Serbia in the area of middle Polimlje. It is one of 10 municipalities of the Zlatibor District and it is the second largest municipality of the district with its 80 settlements. Average altitude is around 1.200 m that classifies the area into hilly-mountainous region.

Municipality Prijepolje is at the point where continental and maritime air masses meet. It is 140 km far from the Adriatic Sea in the air line, and from the Panonian plane 160 km, airline distance. Prijepolje has temperate – continental climate that is influenced by the nearby relief. Average annual temperature is 9.3°C (MoPSE, 2007).

Municipality of Prijepolje has 13,14% of the population of the Zlatibor District. Results of the last census indicate downsizing of the municipal population.

The agricultural sector is not developed enough with respect to natural resources - arable land and gardens cover 23.0%, orchards 4.4%, meadows 28.1% and pastures 44.3% (mostly privately owned). A small percentage of the population is engaged in agriculture, only around 8%. A total of 2,500 households has registered activity (OLEDP, 2010).

**Sjenica.** Municipality Sjenica is located on the Pester plateau, south-western part of Serbia. By area that covers it is the largest municipality in Zlatibor District. Sjenica is surrounded by mountains: Golija, Javor, Jadovnik, Giljevo and Zlatar.

Sjenica is characterized by special type of continental climate with a distinct temperature differences during the year, during one season or even one day, with heavy snowfall. It is well known as Yugoslav Siberia.

Sjenicko-pesterski plateau covers 103 villages that were organized in 12 local communities. Natural predisposition of the region (climate, altitude, soil quality, configuration, etc.) is suitable to livestock production. Agricultural land covers 79276 ha, of which arable land occupies 42.0% and pastures 58.0% (MoSSE, 2011)

**Priboj.** Priboj municipality is located in southwest Serbia, in a forested area old Vlah, in the valley of the River Lim. Priboj is situated on the borders of Serbia, Montenegro and Bosnia and Herzegovina. The municipality covers 8.9% of the total territory of the Zlatibor District. In administrative terms, Priboj is a community center with 14 local communities and 33 villages. Priboj has extremely mountainous character - the lowest altitude is 385m, while the highest is 1 500 m (INFOPLAN, 2010).

Priboj municipality is characterized by distinct climatic geological diversity. In the relatively small area are continental and sub-alpine climate. Such distinct climatic diversity is the result of a large undersea relief and regional winds. The average annual temperature in Priboj is 9.3 °C, and in the highlands of about 7.6 °C. Agricultural production is based on the fruit and livestock production. It is mainly based on the extensive production. More intensive production is recorded for small fruit growing (berries - raspberries). Agricultural land covers 18423 ha or 33.3% of municipality, out of which arable land occupies 12597h (68.0%), while pastures cover 32.0%. In the structure of arable land, the most presented are meadows (46.0%), orchards (27.0%), gardens (18%), and other land (9.0%). The municipality has a total of 36039 ha of forest land, out of which the state forest covers 20188 ha and private 15851 ha (MoPRSE, 2013).

## 4.2. DIVERSIFICATION OF RURAL LIVELIHOODS AND LOCAL ECONOMY

### 4.2.1. Household income diversification framework

Diversification of rural economy is an important issue as it is clear that nowadays agriculture is not sufficient to insure the sustainable development of rural areas (Antonelli *et al.*, 2009; Haggblade *et al.*, 2007; OECD, 2006, 2009, 2010a). Diversification means exploiting all the multifunctional functions of agriculture while introducing new income-generating activities in off-farm and non-farm sectors. Households' income can be increased by adopting many livelihoods strategies (*e.g.* Chambers & Conway, 1992) but the most important ones are those based on livelihoods intensification and diversification. DEFRA (2007), used the following definition of farm diversification: "*any activity, excluding mainstream agriculture and external employment by members of the farm family, which makes use of farm assets to generate additional income*".

In terms of agriculture, the concept of diversification is commonly used in two different senses. First, it is often taken to mean a shift away from the production of surplus commodities to those which may be expanded – a focus on the *diversification of output* – with emphasis placed on diversification into other agricultural products or a change in the method of production (*e.g.* conventional / organic farming). Alternatively, it is often used to describe the strategy of utilizing excess capacity of farm production factors, involving the use of farm resources for non-agricultural activities – a focus on *diversification of resources*. For examining linkages between agriculture and rural economies, a third sense – a focus on the *location of the activity* – is also considered (OECD, 2009).

The framework provided by OECD (2009) considers the issue of farm household diversification by differentiating between activities in terms of *resources* (factors of production: land, labour or capital), *location* (on-farm or off-farm) and *output* (agricultural or non-agricultural) (Figure 4.5). The major row differentiation between activities is made on the basis of the *location* of the activities, either on-farm or off-farm. Within each location, diversification activities are further differentiated as to the type of *output*, whether: agricultural production (*e.g.* growing crops or raising livestock); continuation (*e.g.* processing of food or providing contracting services to other farmers); or other (OECD, 2009). On-farm activities consist of (i) moving up the value chain through further processing or direct selling of primary production, (ii) using existing farm household resources, to move into contracting, forest production, or services (OECD, 2009).

Figure 4.5 A framework for classifying farm household income diversification activities

		FACTORS OF PRODUCTION		
		LAND	LABOR	CAPITAL
LOCATION	ON-FARM	Within agriculture, including specialty crops, organic and biomass production	Agriculture-related <i>e.g.</i> direct sales and contracting (fencing, crop harvesting, etc.)	Agriculture-related <i>e.g.</i> processing of farm products
		Other <i>e.g.</i> forestry, wind-turbine, recreation, and aquaculture	Other <i>e.g.</i> handicraft, farm tourism, contracting (snow clearing, etc.)	Other <i>e.g.</i> biomass energy generation, wood processing
	OFF-FARM	Agriculture <i>e.g.</i> land rented to other farmers	Agriculture-related, <i>e.g.</i> employment on another farm	Agriculture, <i>e.g.</i> purchase of additional farmland
		Other <i>e.g.</i> land rented to others for forestry, wind turbine	Other <i>e.g.</i> school teacher, nurse, government official	Other <i>e.g.</i> investment income, pensions

Source: Adapted from OECD, 2009.

#### 4.2.2. Political framework supporting diversification of rural economy

Participation in the rural non-farm economy – both wage employment and non-farm self-employment – is an increasingly important element of the livelihoods of large numbers of rural households (IFAD, 2010). As the share of agriculture in employment and GDP is low and decreasing in most regions, the extent to which agricultural policies can foster general economic development in rural areas is often limited, but varies by region. Regional, multi-sectoral approaches responding to the specific problems and building on the specific attributes and assets of individual rural areas are therefore needed (OECD, 2009). The non-farm economy is often neglected by policymakers, because of urban bias, institutional fragmentation, and the weak ‘voice’ of rural labourers and small entrepreneurs (IFAD, 2010). Appropriately designed rural development policy is vital for rural employment and income as well as for rural economy as a whole (Bezemer, 2003). A range of policy measures have been introduced in various OECD countries to assist farm household diversification into non-agricultural activities. These measures involve grants, training and facilitation. The diversity of measures reflects not only differences in policy objectives and country approaches but also differences in terms of the barriers that the policy tries to overcome or correct. Policy measures analysis indicates that they may be having an impact on diversification activities. In

particular, planning controls appear to have limited the extent of diversification that has taken place, either by reducing the incentive to diversify by increasing the complexity and cost of change and/or by restricting the ability to diversify by simply not allowing certain non-agricultural activities to be undertaken. In some countries, diversification activities also appear to reduce access to some types of agricultural support (OECD, 2009, 2009a).

Regulations governing tax, social security, land zoning and labour markets may complicate diversification in countries where agriculture is not treated the same as other sectors. Farm households, who engage in non-agricultural activities, may have to maintain two separate registration and declaration systems for tax and social security purposes, and may lose the benefits of being "farmers" (e.g. if there is preferential treatment in the social, tax system, or access to some farm subsidies, such as investments) if the income they derive from non-agricultural activities becomes higher than the income from agricultural activities (OECD, 2009, 2009a).

The impact of labour regulations and the social security and tax systems on diversification essentially depends on how agriculture is defined under those regulations/systems. Often a broad definition of agriculture is used, allowing many forms of on-farm diversification activities to be classified as agricultural or farming, and thus permitting a continuation of the *status quo* in terms of administration requirements and special concessions. Sometimes, a threshold limit (usually 50% of farm income) is in place, after which the benefits related to being a farmer are no longer available. When a narrower definition is applied, diversification activities increase the administrative requirements and complexity of the farm operation (OECD, 2009).

There is concern about the effectiveness of agricultural policy and in particular agricultural subsidies as the predominant component of public policy for rural regions. Despite bringing large resources into rural regions, agricultural subsidies are not intended to trigger rural development directly. The main reason for this is that this type of policy is focused on a small segment of the rural population (e.g. farmers) rather than on places (OECD, 2006). For rural policy to be more effective, small fragmented programmes should be replaced by a single "financial pot" that rural and non-rural areas can access by implementing a strong horizontal co-ordination effort at different levels (central, regional and local) (OECD, 2006, 2010a).

**Rural Development Programme 2007-2013 and diversification.** EU Rural Development Policy 2007-2013 include 3 core objectives, 4 axes and 41 measures. In comparison to policy of the 2000-2006 programming period, two major changes occurred in RD *acquis i.e.* simplification and strategic approach (programming and reporting). The objectives of RD policy - according to Council Regulation (EC) no 1698/2005 adopted by European Council in September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) - are: (i) improving the competitiveness of agriculture and forestry by supporting restructuring, development and innovation; (ii) improving the environment and the countryside by supporting land management; and (iii) improving the quality of life in rural areas and encouraging diversification of economic activity. Axis 3 related to diversification and quality of life includes 8 measures in 3 blocks:

- a) Diversification of the rural economy: diversification to non-agricultural activities; support for micro-enterprises; tourism (small scale infrastructure, recreation infrastructure, development and marketing services)
- b) Improvement of the quality of life: basic services; village renewal; conservation and upgrading of the rural heritage (natural and cultural)
- c) Training and capacity building

**Common Agricultural Policy (CAP) 2014-2020 and diversification.** Within the CAP as a whole, rural development policy will have a strong contribution to make in the field of promoting a competitive agricultural sector and sustainable food production, sustainable management of natural resources and balanced and inclusive territorial development, supported by an improved management system (EC, 2013). In line with the Europe 2020 strategy, these broad objectives of rural development support for 2014-2020 are given more detailed expression through the following six EU-wide priorities:

- fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
- enhancing competitiveness of all types of agriculture and enhancing farm viability;
- promoting food chain organization and risk management in agriculture<sup>19</sup>;
- restoring, preserving and enhancing ecosystems dependent on agriculture and forestry;
- promoting resource efficiency and supporting the shift towards a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;
- promoting social inclusion, poverty reduction and economic development in rural areas<sup>20</sup>.

Farm diversification toward multifunctional activities is perceived as central in the CAP policy reform and in Horizon 2020 strategies, because it strengthens territorial and social cohesion of the rural areas. While relations between farm-household diversification and rural economies are central into the process of multifunctionality and provision of public goods through agricultural activities, on-farm diversification activities could represent a relevant share of farm income. Agricultural economics and rural sociology literature have developed models to explain the determinants of on-farm diversification in the EU (Bartolini *et al.*, 2013).

Agricultural economics literature has highlighted that changes in CAP strongly affects the farm structure and the nature of production as well as farmers' behaviour towards diversification activities (Ilbery *et al.*, 2006). Both first pillar and second pillar payments affect intention to diversified production. Literature has highlighted that income support payments affect the overall profitability of the entire agricultural sector and then the propensity to invest/innovate within the sectors. Furthermore, first pillar payments strongly reduce exit to agricultural sector and intention to allocate productive factors off-farm. Second pillar payments positively affect on-farm diversification adoption due to co-founding mechanism which reduce investment costs, and contributed to rural viability and provision of services (Bartolini *et al.*, 2013).

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<sup>19</sup> *e.g.* facilitating restructuring of farms facing major structural problems, notably farms with a low degree of market participation, market-oriented farms in particular sectors and farms in need of agricultural diversification.

<sup>20</sup> *e.g.* facilitating diversification of farming activities into, among others, activities concerning health care, social integration community-supported agriculture and education about the environment and food, creation of new small enterprises and job creation.

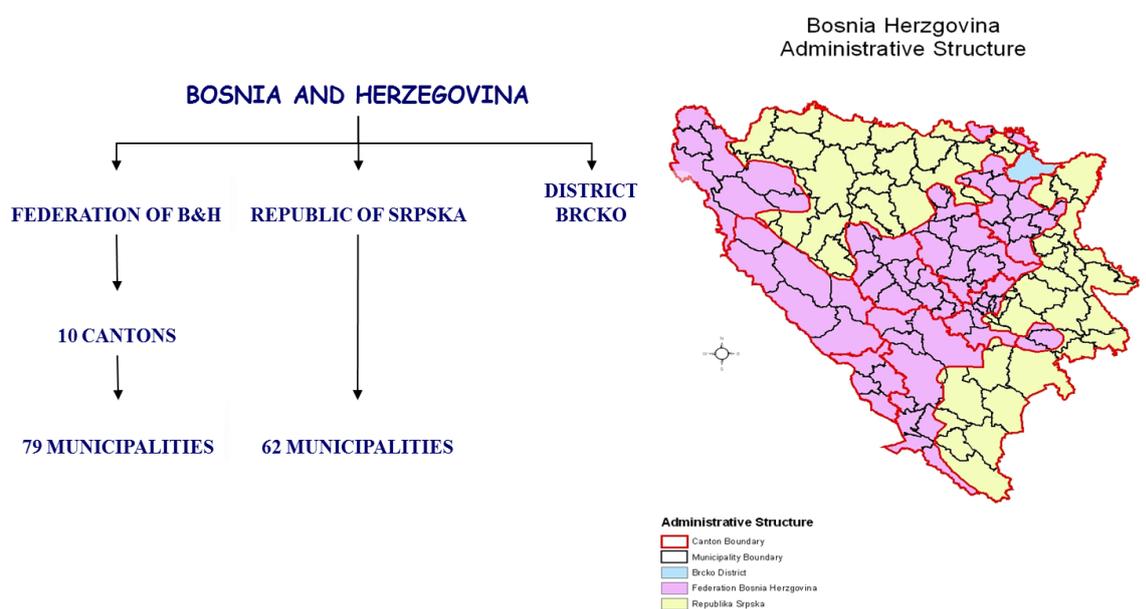
### 4.3. RURAL GOVERNANCE

#### 4.3.1. Political and administrative organisation of the three countries

##### A. BOSNIA AND HERZEGOVINA

The State of Bosnia and Herzegovina is divided into two approximately the same-size Entities: the Republika Srpska (RS), which forms a crescent shape around the north and east, and the Federation of Bosnia and Herzegovina (FBiH), and one self-governing administrative unit *i.e.* Brčko District (BD) under State sovereignty. Each entity has its own political structure and administration, with an overarching but relatively weak central government. The central (BiH state) government consists of a parliamentary assembly, a rotating tripartite presidency, and a council of ministers with nine ministries (UN, 2003).

Figure 4.6 Administrative organization of Bosnia and Herzegovina



Source: MoFTER BiH

The political structure of the FBiH is divided into three levels: 1) the entity level, 2) the canton level and 3) the municipal level. By contrast, the RS has no administrative tier at the canton level, only municipalities. At the local administrative level, the country has 142 municipalities: 79 in the FBiH, 62 in RS and one in BD (Government of Bosnia Herzegovina, 2010) (Figure 4.6). Political organization of RS is simpler compared to FBiH. At the RS level there is a national assembly, a president, a vice president, and a government under a prime minister.

As with the FBiH, the municipalities all have their own assemblies and administrative structures. The political structure of this entity is divided into three levels:

- The entity level, with a two-house parliament, a president, a vice president, and a government under a prime minister.
- The canton level, with each of the ten cantons having its own assembly with the power to adopt cantonal laws.
- The municipal level, with each municipality similarly having its own assembly (UN, 2003).

Hereinafter are presented the main characteristic of BiH (Table 4.5).

Table 4.5 General characteristics of Bosnia and Herzegovina

Government type	Emerging federal democratic republic
Legal system	Civil law system
Administrative organization	FBiH, RS and BD
Capital	Sarajevo
Surface area (km <sup>2</sup> )	51 209
Coastline (km)	21.2
Highest mountain – Maglic (m)	2 386
Longest river – Drina (km)	346
Main lake – Buško (km <sup>2</sup> )	55.8
Border countries	Croatia, Serbia, Montenegro
Population*	3,791,622
Population density (inhabitant/km <sup>2</sup> )	74
Number of households*	1.163.387
Average household members*	3.26
Official languages	Bosnian, Serbian, Croatian
Alphabets	Latin, Cyrillic
Official currency	Bosnian Convertible Mark (BAM)**
Climate	Moderate, continental and Mediterranean

Source: The CIA World Factbook and Government of Bosnia Herzegovina

\* ASBiH (2013). Preliminary results of the 2013 Census

\*\*BAM = 0.51129 EUR

## B. MONTENEGRO

Montenegro (or Crna Gora which means "Black Mountain") is a country in South-eastern Europe and it has a coast on the Adriatic Sea to the south-west.

The President of Montenegro is the head of state, elected for a period of five years through direct elections. The President represents the republic abroad, promulgates laws by ordinance, calls elections for the Parliament, proposes candidates for Prime Minister, president and justices of the Constitutional Court to the Parliament. The President also proposes the calling of a referendum to Parliament, grants amnesty for criminal offences prescribed by the national law, confers decoration and awards and performs other constitutional duties and is a member of the Supreme Defence Council. The official residence of the President is in Cetinje. The government is headed by the Prime Minister, and consists of the deputy prime minister as well as ministers. This is a legislative body. It passes laws, ratifies treaties, appoints the Prime Minister, ministers, and justices of all courts, adopts the budget and performs other duties as established by the Constitution. Parliament can pass a vote of no-confidence on the Government by a simple majority. One representative is elected per 6,000 voters. The present parliament contains 81 seats.

The present state administration system in Montenegro comprises 53 authorities (17 ministries, one secretariat, 17 administrations, 10 bureaus, 6 directorates, and 2 agencies), whose number has almost doubled in the last ten years (GOVMO, 2011).

Figure 4.7 Maps of Montenegro and its municipalities



Source: The World Factbook and Wikipedia

Montenegro is divided into twenty-one municipalities (Figure 4.7). The Biggest city is capital Podgorica.

Table 4.6 General characteristics of Montenegro

Government type	Republic
Legal system	Civil law system
Administrative organization	Municipalities
Capital	Podgorica
Surface area (km <sup>2</sup> )	13,812
Coastline (km)	295
Highest mountain – Lovcen (m)	1 894
Longest river – Zeta (km)	35
Main lake – Skadarsko (km <sup>2</sup> )	391
Border countries	Croatia, Serbia, Bosnia and Herzegovina, Albania
Population*	625 266
Population density (inhabitant/km <sup>2</sup> )	45.3
Number of households*	192 242
Average household members*	3.2
Official languages	Montenegrin
Alphabets	Latin, Cyrillic
Official currency	Euro
Climate	Mediterranean

Source: The World Factbook and Government of Montenegro

\* MONSTAT (2012), Census of population

## C. SERBIA

Serbia is a country located at the crossroads of Central and Southeast Europe, covering the southern part of the Pannonian Plain and the central Balkans.

Serbia is a parliamentary republic and Government in Serbia is divided into legislative, executive and judiciary branches. The President of the Republic is the head of state, and elected by popular vote to a five-year term. The Government is composed of the prime minister and cabinet ministers. The National Assembly is a legislative body. The National Assembly has the power to enact laws, approve the budget, schedule presidential elections, select and dismiss the Prime Minister and other ministers, declare war, and ratify international treaties and agreements. It is composed of 250 proportionally elected members who serve four-year terms. The territorial organization of Serbia is regulated by the Law on Territorial Organization, adopted by the National Assembly of Serbia on 29 December 2007. Under the Law, the units of the territorial organization are: municipalities, cities and autonomous provinces. Serbia is also divided into 29 districts (Figure 4.8). Districts are not defined by the Law on Territorial Organisation, but are organised under the Government's Enactment of 29 January 1992.

Figure 4.8 Maps of Serbia and its districts



Source: The World Factbook and Wikipedia

Municipalities are the basic entities of local self-government in Serbia. Each municipality has an assembly (elected every 4 years in local elections), a municipal president, public service property and a budget. Municipalities usually have more than 10,000 inhabitants. Cities are another type of local self-government. Territories with the status of "city" usually have more than 100,000 inhabitants, but are otherwise very similar to municipalities. There are 23 cities, each having an assembly and budget of its own. Only cities have mayors, although the presidents of the municipalities are often referred to as "mayors" in everyday usage. Municipalities and cities are gathered into larger entities known as districts, which are regional centres of state authority, but have no assemblies of their own; they present purely administrative divisions.

The main characteristics of Serbia are reported in Table 4.7.

Table 4.7 General characteristics of Serbia

Government type	Parliamentary republic
Legal system	Civil law system
Administrative organization	Municipalities, cities and province of Vojvodina
Capital	Belgrade
Surface area (km <sup>2</sup> )	77 474
Highest mountain – Stara planina (m)	2 168
Longest river – Dunav (km)	588
Main lake – Đerdapsko (km <sup>2</sup> )	253
Border countries	Croatia, Serbia, Montenegro, Hungary, Romania, Bulgaria, Macedonia, Albania
Population*	7,186,862
Population density (inhabitant/km <sup>2</sup> )	92.7
Number of households*	2.487.886
Average household members*	2.88
Official languages	Serbian
Alphabets	Cyrillic
Official currency	Serbian Dinar
Climate	Moderate continental and Mediterranean

Source: The World Factbook and Government of Serbia

\*ISRS (2012). Census of population, Households and Dwellings in the Republic of Serbia.

## 5. RESULTS

### 5.1. DIVERSIFICATION OF RURAL LIVELIHOODS AND ECONOMY

#### 5.1.1. Diversification in Bosnia

##### *5.1.1.1. Diversification of household livelihoods*

In this part are presented the main results of the field questionnaire survey on diversification of rural households' livelihoods in south-eastern Bosnia.

It goes without saying that household diversification endeavours and initiatives success is influenced by the capitals of the households but also by the general environment and context in which households operate. Quality of life was approached by interviewees own estimation about situation in rural areas, their own appraisal on their living standard and issues referring to migration. Most of the respondents had pessimistic attitude with regards to the life quality of rural areas in south-eastern Bosnia and believe that situation is becoming worse (59.3%). Almost a third of the households perceive that the situation will not change (31.5%) while just 4.6% believe that it is getting better. Some declared that they do not know (4.6%).

The surveyed rural population is not so satisfied with life quality. The major part of households (68.5%) considers their living standard as average. Around 13% of them declared that their living standard is bad, while almost 20% stated that the living standard of their households is good or very good.

Dissatisfaction with the living conditions in rural areas, absence of job opportunities, lack of educational institutions and rural service delivery brought to almost 61% of people that would like to move from rural areas. About 36% are not willing to move or have never thought about that option while less than 5% are not sure.

The percentage of persons that moved to town or abroad due to schooling reasons or better life conditions is 7.6%.

#### **A. Household types and structure**

The average age of respondents is 45.7. The oldest interviewee is 67 years old (municipality of Han Pijesak, village of Gornji Ljeskovac) while the youngest is 29 years old (municipality of Vlasenica, village of Cikote). Almost all interviewees (92.6%) were men.

Just about a fourth of households registered their activity (23.4%) while the highest share operates without any registration (76.6%). As for role in family, 88.9% were heads while 11.1% members of households.

The performed survey allowed collecting rather a good deal of data on households' types of the south-eastern Bosnian rural areas. Almost a half of the surveyed households (44.5%) characterized themselves as mixed households with diversified income-generating activities. Livelihood strategy for 39.8% of households is focused on agriculture while 15.7% declared themselves as non-agricultural households.

Regarding family structure, minimum number of members in a household is 1 person (municipality of Vlasenica, village of Rasica Gaj) while maximum number is 8 persons (municipalities of Han Pijesak, Bratunac and Vlasenica). Average number of household members (4.2) is higher than the average in Republic of Srpska (3.11) and Bosnia and Herzegovina (3.27)<sup>21</sup>. Minimum number of just female or male members in a household is 1 person while their maximum number is 5 persons (for female municipalities of Vlasenica and Bratunac and for male municipalities of Foca and Han Pijesak). Looking at gender structure of household members, it indicates a larger presence of men in relation to women (52.3% to

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<sup>21</sup> Agency for Statistics of Bosnia and Herzegovina (2008). Questionnaire on household costs in Bosnia and Herzegovina in 2007. Sarajevo, BiH

47.7%). The highest members' average per households is recorded in Bratunac municipality (5 persons) while the smallest average was in Han Pijesak municipality (3.7). The majority of the sample belongs to mid-age population (age 25-49). Children (less than 15 years old) represent 16.1% of the surveyed households' members (Table 5.1).

Table 5.1 Age structure of household members

Age	Household members	Percentage (%)
<15	72	15.8
15 – 24	87	19.1
25 – 49	161	35.4
50 – 64	90	19.8
> 65	45	9.9
Total	455	100

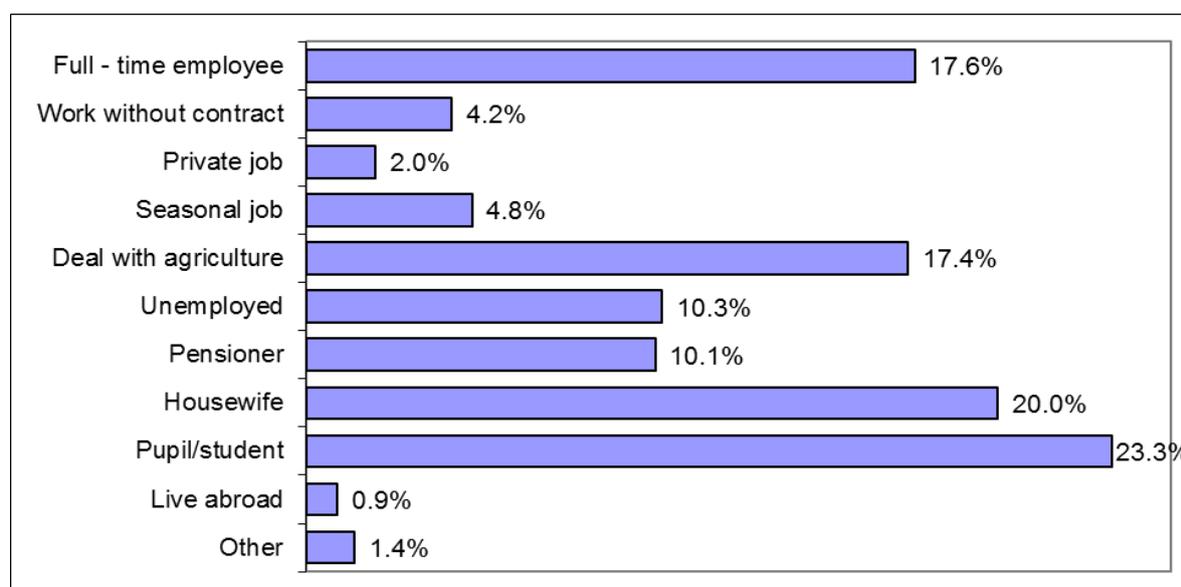
\*Base – all surveyed households.

With respect to education level, almost a third (29.5%) of household members completed elementary school while more than half finished high school (53.0%). About a tenth of the household members (8.8%) are illiterate while only 8.7% of them have high education degree. As far as total income for rural household per year is concerned, around 20% of interviewees stated that their household income range from 1000-5000 BAM<sup>22</sup>. Highest percentage of surveyed households have income from 5000-15000 BAM (67.3%) while more than 12% have good and quite good income (more than 15000 BAM).

### B. Human capital and access to knowledge

The most of households based their livelihood strategy on full-time employments out of agriculture while percentage of households relying on agriculture is still rather high (17.4%). Percentage of unemployed members and housewives is quite high (>30%) (Figure 5.1).

Figure 5.1 Work status of households' members



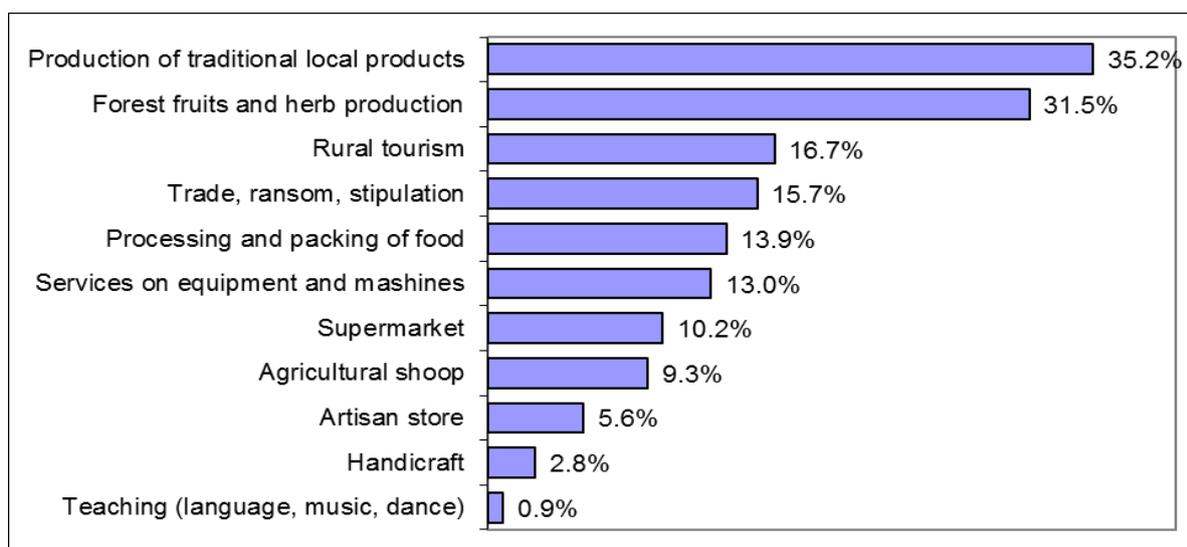
\*Base – all household members.

Regarding work capability, the share of healthy households' members, who are able to work, is 90.8%.

<sup>22</sup> BAM-Bosnian Convertible Mark is the official currency in Bosnia, 1 Euro = 1.95 BAM.

The major part of respondents stated that they possess certain skills for activities that they could deal with in future taking in consideration potential of area and potential of household, especially in production of traditional and typical local products. Older members of households have more experience in collecting wild fruits and mushrooms and producing medicinal and aromatic plants. Some of respondents from mixed and non-agricultural households mentioned also other skills such as: fruit production, beekeeping, organic production and animal husbandry (Figure 5.2).

Figure 5.2 Skills of household members



\*Base – all surveyed households.

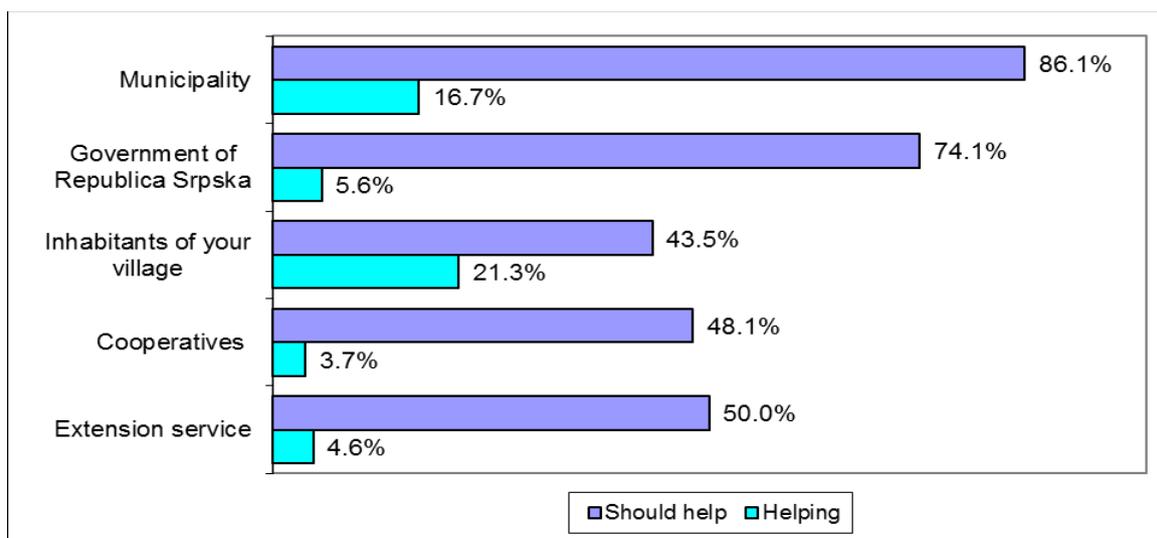
The most of surveyed households get information through media such as TV (92.2%), radio (32.0%) and internet (12.0%) while almost a fourth acquires information from newspapers (22.3%). In addition, information are also collected through extension service, cooperatives and communication with neighbours and friends.

The need for advisory services is very high among the surveyed rural households. Most of the surveyed households (50.0%) mentioned need for extension agents' support. Help needed is mainly related to advices about fruit growing, vegetable production, animal care, milk production, marketing, etc. Some households (29.6%) do not need any advice, 1.9% of them do not know if they need something while 18.5% did not provide any answer.

Despite pretty high need, very few respondents (12.0%) use services provided by extension services while others do not use them. The majority of those who needed help are agricultural households while mixed ones need less help and non-agricultural do not need any help.

Information regarding ARD programmes can be obtained from different institutions. Generally speaking, more information rural households get from an institution, more important they consider it for improving their livelihoods. Almost a third (31.8%) of respondents would like to know more about state aid and support schemes. Households that registered their activities are more convinced that they are familiar with these programs. Less than one percent of the respondents is not interested and around 31% do not know about these programs and which kind of benefits they can take from it. More than a third (36.4%) know enough or know but not so much about these schemes. The majority of respondents believe that local councils and the entity government should help more compared to what they have done until now. The most common opinion is that municipalities are helping them more than the government of the Republic of Srpska (Figure 5.3). Some respondents consider that nobody helping them (1.9%).

Figure 5.3 Responsible institutions for improving rural households' living conditions



\* Base - all surveyed households.

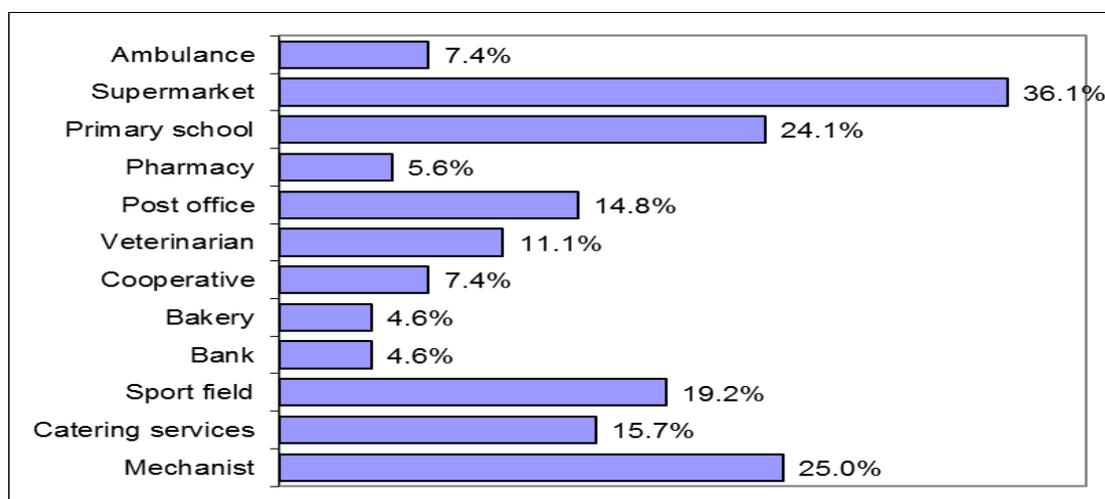
### C. Physical capital and social capital

Common utilities such as electricity (100%), water supply (92.6%) and telephone landlines (83.3%) are highly present in surveyed rural households. Coverage with regards to mobile telephone lines is fully expressed (100%). Common TV signal exists in the most of surveyed area (87.0%) while cable and satellite TV are just partly accessible (48.1%). All interviewees in the municipality of Milici declared there is no common TV signal available. In a high percentage of studied rural areas has been recorded limited access to physical capital such as asphalted roads (55.6%), public transport (48.1%), sewage (27.8%), take away garbage services (18.5%) and street lights (13.9%).

Many households possess car (74.1%). For transport are also used bicycles (37.0%) and less motorcycle (6.5%) but mainly by younger rural population. Computer is owned by more than a half of respondents (50.9%).

The presence of institutions and rural services delivery in rural areas of south-eastern Bosnia is not satisfactory according to respondents. Emergency and public utilities (ambulances, pharmacies, bakeries and banks) exist in a very few surveyed sites. The most widespread are supermarkets (36.1%), mechanical workshops (25.0%) and primary schools (24.1%) (Figure 5.4).

Figure 5.4 Availability of services and utilities in rural areas



\*Base – all surveyed households.

The main mentioned problems in villages cited by the interviewees are bad roads and negative demographic trends (e.g. depopulation and migration of the young). Also respondents declared high dissatisfaction with support of municipal authorities and unemployment. Absence of sewage, garbage service, street lights, cooperatives as well as collection centres for milk and wild fruit are also highly ranked.

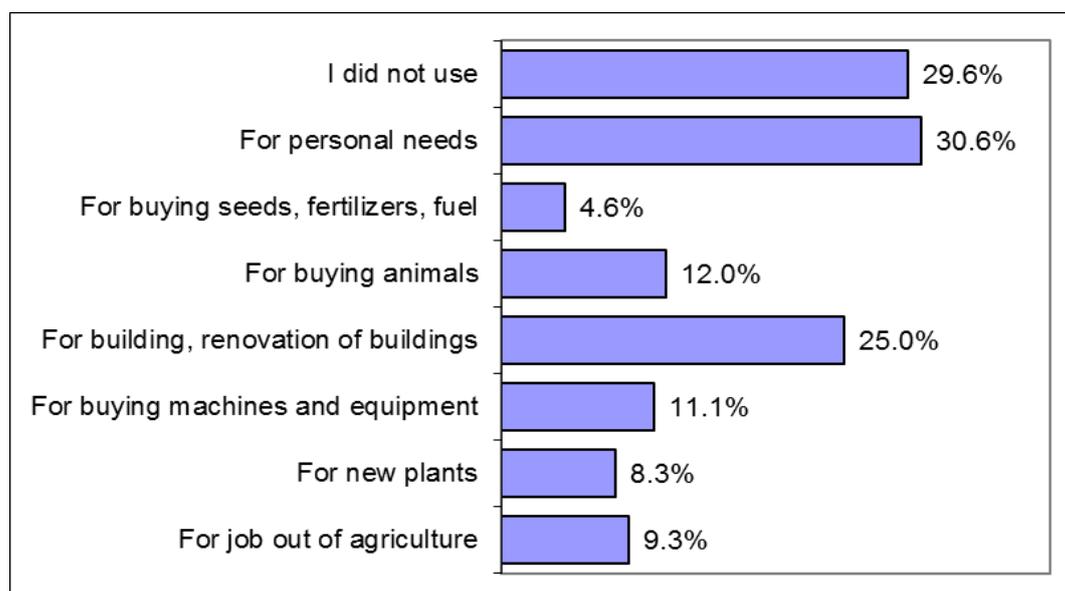
Regarding social capital, only 2.8% and 22.2% of the interviewees are members of agricultural cooperatives or associations, respectively. All members of cooperatives are satisfied with their services while only a half of associations' members are satisfied. Quite a high percentage (19.8%) of those who are not members of cooperatives/associations mentioned their dissatisfaction with its services and mentioned that as a reason of not being members.

Some of the interviewees are also members in other participatory groups and organisations such as hunter associations (34.2%), political parties (19.4%), fisherman associations (8.3%) and sport clubs (0.9%) while some are members of other collective groups (7.4%) such as war veterans and beekeeping associations. Almost a half of respondents (45.3%) are not members of any participatory group..

#### D. Microfinance and access to loans

Almost thirty percent (29.6%) of the surveyed households have never applied for a loan mainly for the lack of collaterals as a certain number of households do not have any full - time employee members or did not registered their activities. Majority used credits for personal needs. Some applied for loans due to many other reasons (Figure 5.5).

Figure 5.5 Use of loans and credits



\*Base – all surveyed households.

#### E. Diversification of income sources

A high percentage of households generate income through sale of agricultural products from their own farms (73.1%), off and non-farm activities (68.5%) and pensions (43.5%) while other income sources were less significant (e.g. wages, providing services on equipment and machines, social programs and help, family and friends, renting land and property) (Table 5.2).

Table 5.2 Sources of income for rural households in south-eastern Bosnia

Income Generating Activities	Frequency	%**
Income from own farm	79	73.1
Providing services on equipment and machines	12	11.1
Renting land and property	2	1.8
Off farm and non-farm salaries and wages	74	68.5
Pension	47	43.5
Seasonal job	6	5.6
Social programs and help	4	3.7
Family and friends from abroad	4	3.7
Other	6	5.6

\*Base – All surveyed households.

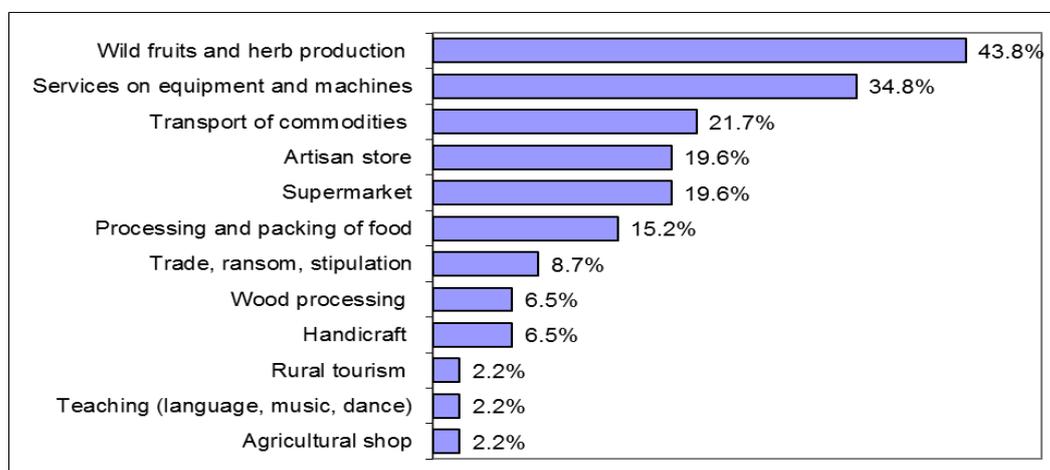
\*\*Cumulative percentage is higher than 100 because multiple answers were allowed.

The main source of income for the most of surveyed households is income from full employment including out of agriculture including self-employment (46.9%), agriculture (41.7%) and pensions (19.4%). Some income is obtained through renting a property (0.9%).

New business development is mainly influenced by insufficient income. In the last five years, 56.5% of households did not develop any activity or start a new business, 20.4% of households started but gave up while 23.1% of households still deal with new activities. Among the reasons for which many households did not start any new income-generating activities can be mentioned the lack of financial resources (50.0%), satisfaction with current income (14.8%), time (13.1%), lack of market (9.8%) and institutional support (9.8%) while other reasons were less noteworthy (e.g. unsecured economic and social situation in country, lack of labour, production risk, lack of idea, unfavourable conditions for credits, aid programs and schemes, elder households, sickness, etc.) The most of surveyed households (76.9%) do not have currently any new activity.

Kinds of new businesses which were tried by rural households are presented in Figure 5.6. The most frequent businesses that the surveyed households have tried out are related to wild fruit and herbs collection and services provision on equipment and machines. Rural tourism is not enough developed (2.2%). New processing and packaging activities (15.2%) regard dairy products, meat, strawberries and cereals. Other new farm income-generating activities include: wood processing and its export, musician, piglet breeding, sheep breeding, beekeeping, dairy products sale and raspberry growing.

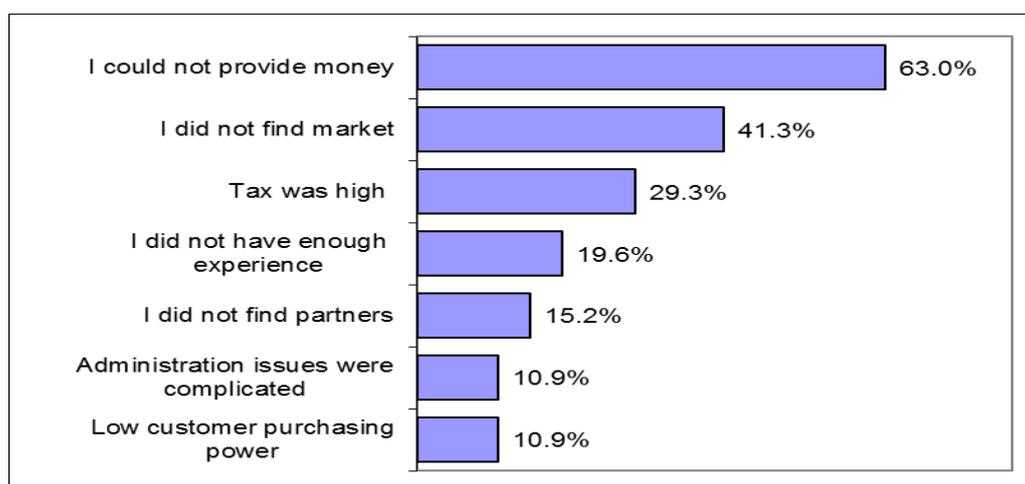
Figure 5.6 Kinds of business that households have tried



\*Base – all households that started new businesses in last 5 years.

Money was the key constraint in starting up households' own business activities and diversification of livelihoods as it was declared by the most of respondents (63.0%) whose households have tried new business in the last 5 years. Moreover, the difficulty to find suitable markets has been ranked as second important business developmental obstacle. Barriers also include: high taxes, lack of experience, difficulties in finding partners, complicated administration issues, etc. (Figure 5.7). Other problems and constraints refer to: unsecure market, lack of tourists, Bosnian civil war consequences on overall economy, etc.

Figure 5.7 Basic problems and constraints faced by households that have tried new businesses



\*Base – all households that started new businesses in last 5 years.

### 5.1.2. Diversification in Montenegro

Economic situation in rural areas is unfavourable. Most of rural areas have poorly developed transport system and social and economic infrastructure. In general, quality of life in rural areas is low and job opportunities are limited. In some areas, one may speak about serious social and economic degradation resulting in poverty (Ministry of Agriculture, 2006). The contraction of employment recorded during 2010 affected as well agriculture (EC, 2011). The economic deceleration, due to the financial and economic crisis, has caused an increase in poverty. In 2010, almost 7% of the Montenegrin population were living below the absolute poverty line (set at € 170 per month), as compared with 4,9% in 2008. Poverty is more widespread among the rural population in the north (EC, 2011).

#### 5.1.2.1. Diversification of household livelihoods

This part deals with rural household livelihoods diversification in the rural areas of northern Montenegro.

As for the general situation in rural areas and conditions in which households operate, more than a half of the respondents have pessimistic attitude regarding life quality in rural areas of Northern Montenegro and believe that situation is getting worse (50.9%). Almost a third of the households perceive that the situation will not change (28.3%) while 15.1% believe that it is getting better.

According to respondents, the living conditions are not at a highly satisfactory level. The major part of households (59.4%) considers their living standard as average. Around 12% of them declared that their living standard is bad, while around 28% stated that the living standard of their households is good.

Due to many reasons that disable decent life quality in rural areas, about 30% of people would like to move from rural areas while more than a half are not willing to move or have never thought about that option (Table 5.3).

Table 5.3 Opinion on migration from rural areas of northern Montenegro

Opinions	Frequency	Percentage (%)
I would never do that	47	44.3
I have never thought about that	15	14.2
I would move if I have chance	6	5.6
I would move because of schooling and job perspective	10	9.6
I would move because of better paid job	13	12.0
Do not know	15	14.2
<b>TOTAL</b>	<b>106</b>	<b>100</b>

\*Base – all surveyed households

Less than 10% of sons or daughters migrated to town or abroad due to various reasons. The majority of those who moved (61.3%) originate from the municipality of Pljevlja.

#### A. Household types and structure

The average age of those who answered questionnaire is 49.7. The oldest one is 80 years old (municipality of Pljevlja, village of Brvenica) while the youngest is 24 years old (municipality of Pljevlja, village of Krce). Almost all interviewees (94.3%) were men.

Almost a fourth of households registered their activity (31.1%) while the highest share operates without any registration (68.9%). The largest share of those with registered activity belongs to agricultural type. Despite the fact that overall survey sample from Pljevlja municipality was rather high (18.9% out of the total sample), none of households registered its activity. The highest number of households with registered activities is located on the rural territory of the Bijelo Polje municipality.

The majority of respondents (85.7%) play the main role in their families as householders while 14.3% were household members eligible for survey. The conducted survey helped to collect information on households' types of the rural areas of northern Montenegro. Almost a half of the surveyed households (45.3%) characterized themselves as mixed ones with diversified sources of income. Still the high percentage (41.5%) relies on agricultural activities while just 13.2% declared themselves as non-agricultural households.

Average number of households' members (4.6) is much higher in comparison to the Montenegrin average<sup>23</sup>. It is noticed that overall number of male members is higher for around 10% with respect to total female households' members (Table 5.4). The highest members' average per household is recorded in municipalities of Plav (6.5) and Kolasin (6.2).

Table 5.4 Number and gender distribution of households' members

	All members in household	Female members	Male members
Min	1	0	1
Max	10	5	5
Average	4.6	2.0	2.6
Total	488 (100%)	216 (44.3%)	272 (55.7%)

\*Base – all surveyed households.

<sup>23</sup> The average household in Montenegro has 3.2 members (Census of Population, Households and Dwellings in Montenegro 2011, available at: <http://www.monstat.org/userfiles/file/popis2011/saopstenje/saopstenje.pdf>)

Results showed that more than a third of households' members belongs to mid-age population (age 25-49). Children and young persons (up to age 24) represent almost a third of the surveyed households' members (Table 5.5).

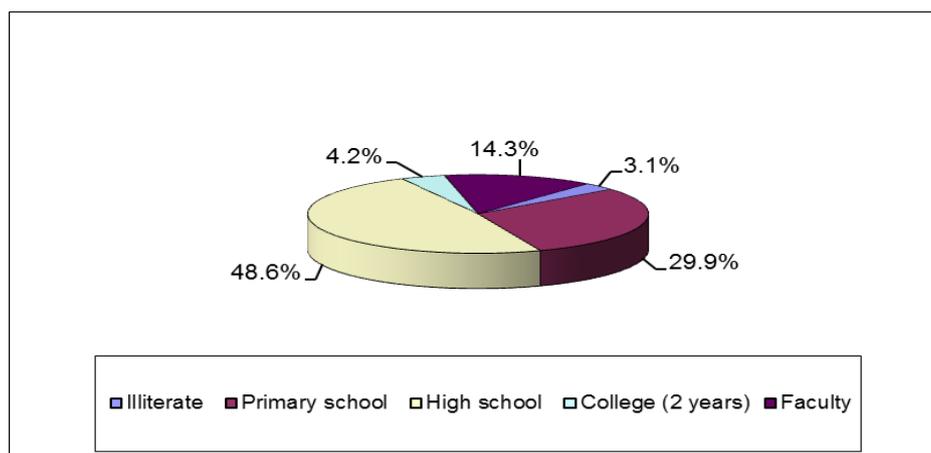
Table 5.5 Age structure of households' members

Age	Household members	Percentage (%)
<15 years old	98	20.0
15 – 24 years old	57	11.7
25 – 49 years old	172	35.2
50 – 64 years old	87	17.8
> 65 years old	74	15.3
Total	488	100

\*Base – all surveyed households.

Almost a half of respondents completed high school (III or IV years) while around 18% of them have faculty (III or IV years) or college degree (II years). The faculty degree is mainly owned by members of households from Bijelo Polje municipality while the lowest percentage is related to the municipality of Pljevlja (Figure 5.8).

Figure 5.8 Educational level of households' members



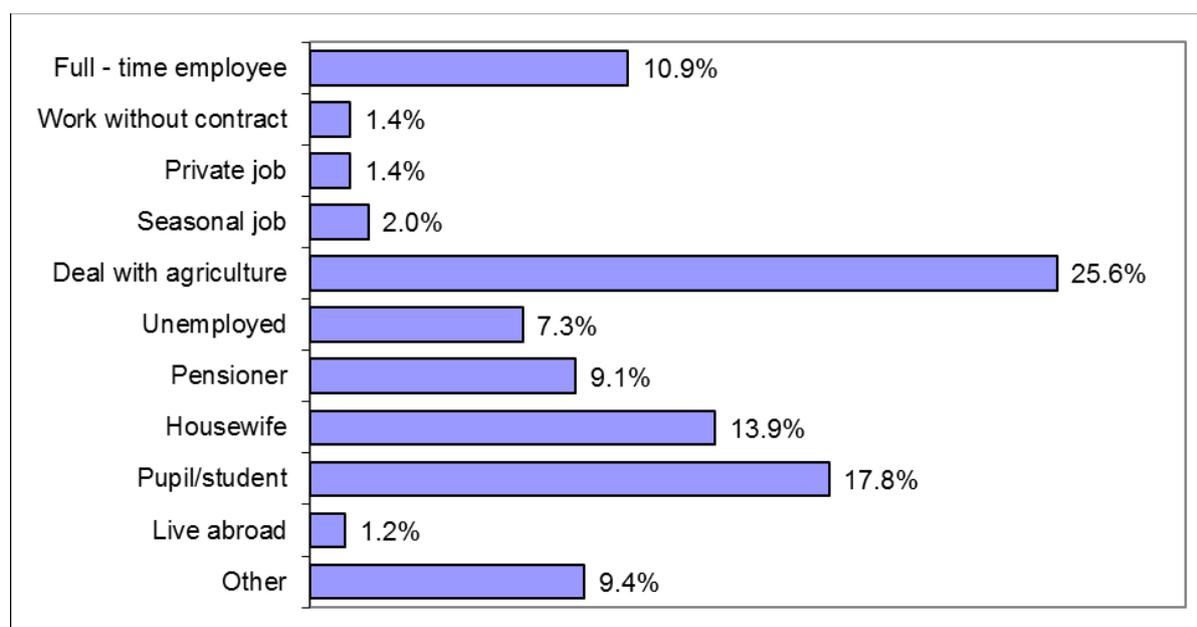
\*Base – all surveyed households.

Highest percentage of surveyed households have income from 5000 to 15000 € (47.1%) and more than a third (37.7%) quite low income, 2000-5000 € per year. Around 10% have very low income (1000-2000 €) and this is mainly characteristic for households with less members (1-3 persons). Around 6% of households have income higher than 15000 €.

### B. Human capital and access to knowledge

Around a fourth of household members are involved in agricultural activities while the percentage of households relying on public jobs is quite low (10.9%). More than 20% are considered as unemployed or housewives. Almost a fifth of households' members still go to elementary/high school or faculty. Among "other" are considered children of less than 7 years (Figure 5.9).

Figure 5.9 Work status of households' members

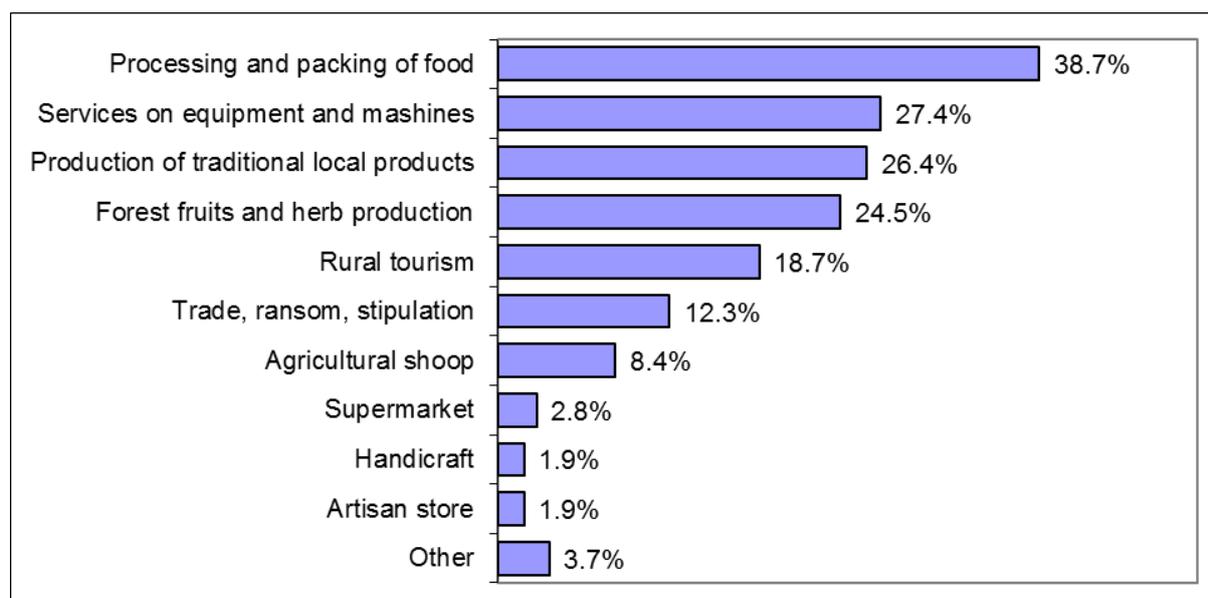


\*Base – all surveyed households.

As for work capability, the share of households' members capable to work is 94.5% while percentage of ill people that need medical care is 5.5%.

As for human capital, the major part of respondents believe that they possess certain skills that could be valorised in future, especially in food processing operations as well as service provision on equipment and machines. Productions of traditional and typical products as well as rural tourism are also very often mentioned. Older members of households have more experience in collecting wild fruits and mushrooms and producing medicinal and aromatic plants (Figure 5.10). Some respondents mentioned also other skills such as construction and milk collection centres for cheese production.

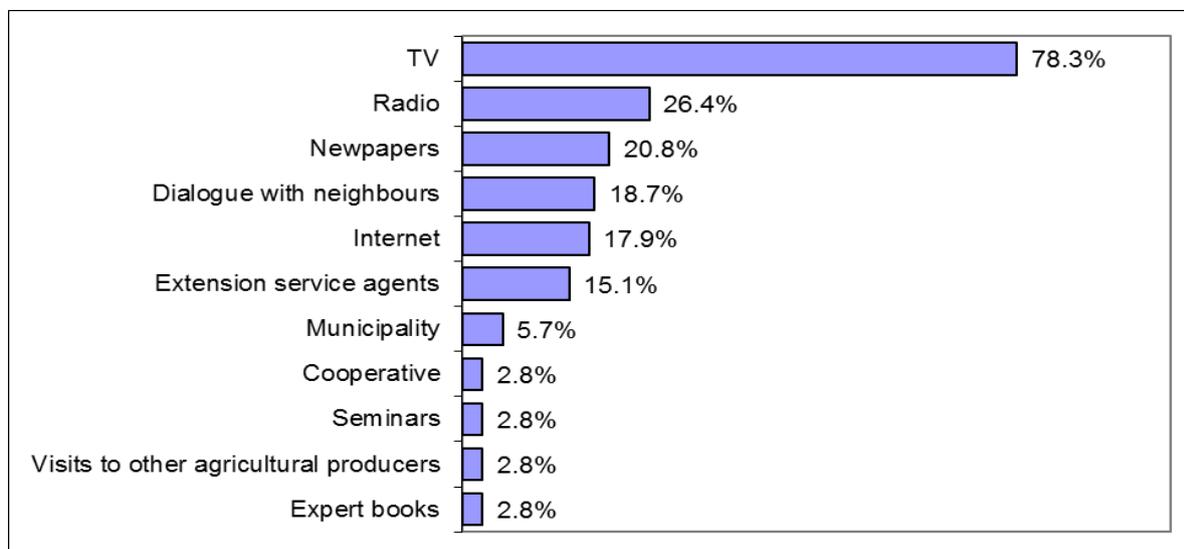
Figure 5.10 Skills of households' members



\*Base – all surveyed households

The majority of surveyed households get information through TV while around a fourth acquires information from radio. Newspapers, dialogue with neighbours, internet and extension service are highly ranked as a source of information (Figure 5.11).

Figure 5.11 Usual sources of information.



\*Base – all surveyed households that provided answer.

The demand for advisory services is very high among the surveyed rural households. Most of the surveyed households (60.4%) need extension agents' assistance. Help needed is mainly related to advices about plant protection, project and business plans preparation, animal and plant production, greenhouse production, selection of varieties, tillage operations and manure use, veterinarian service, etc.

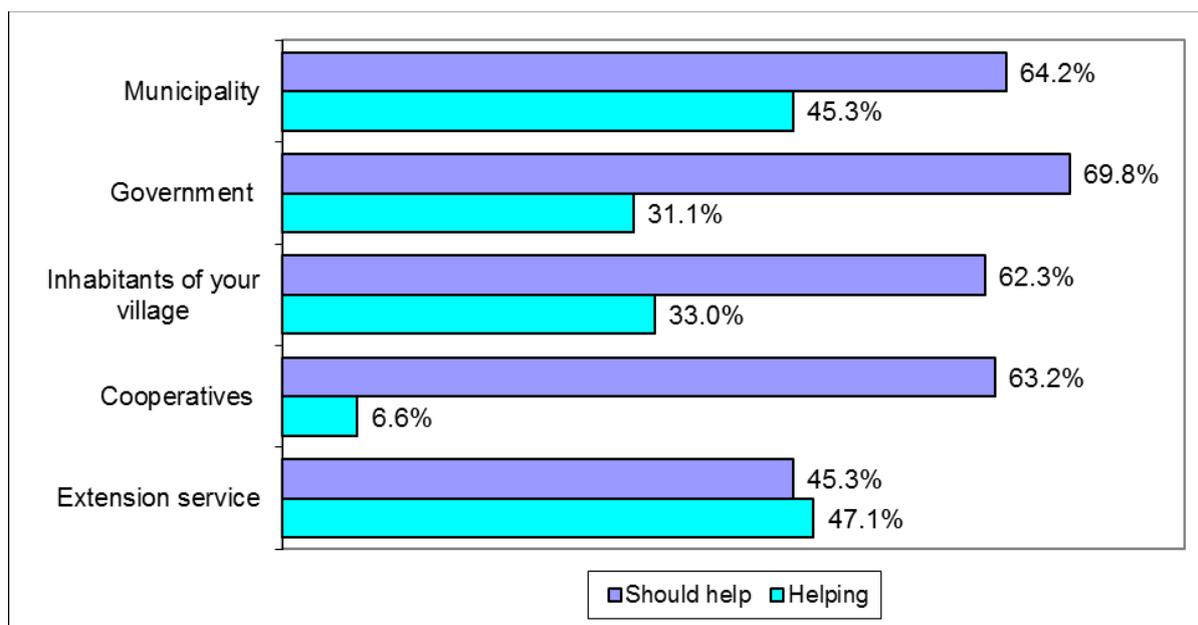
A high number of the respondents (41.5%) use services provided by extension services.

Seeking extension service help is more characteristic for agricultural households while mixed ones need less help and non-agricultural stated they do not need any help.

Different institutions provide information on ARD programmes and schemes. Timely access to information is important for improving households' livelihood and institutions that provide more information are considered as more important ones for rural households. The majority of interviewees (82.0%) knows enough or knows but not so much about state aid and support schemes. Around 6% of respondents do not know but would like to know more while 2.8% do not know about these programs and how they can benefit from them. The most of households that registered their activities are more convinced that they are very well familiar with ARD programs. Around 10% are not interested in getting any information regarding state help for ARD and these are mainly non-agricultural households.

The majority of respondents believe that actors who influence households' life quality should help more compared to what they have done until now. Interviewees believe that local councils are helping them more than the government (Figure 5.12). The most of interviewees believed that extension service help them a lot (47.1%).

Figure 5.12 Responsible actors for improving households' living conditions

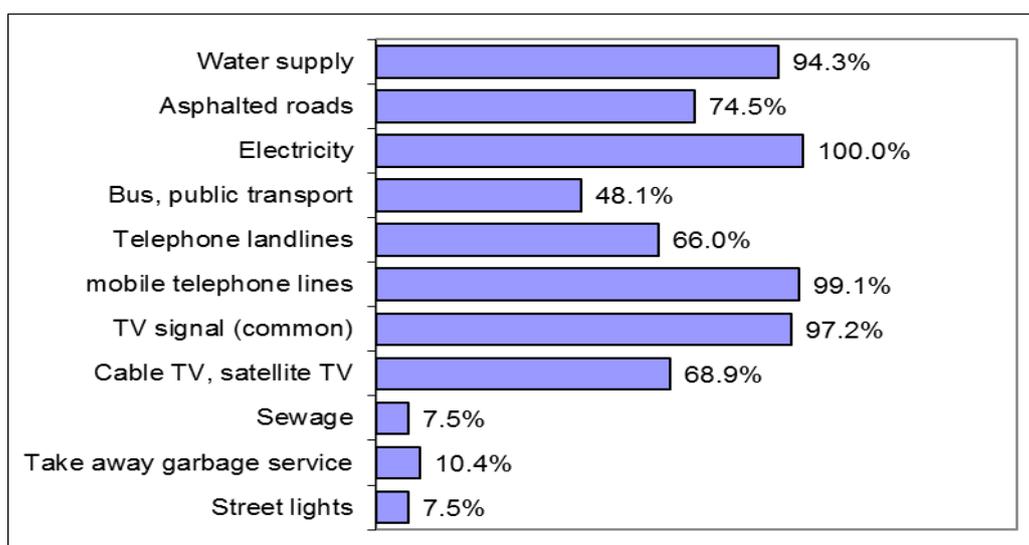


\* Base - all surveyed households

### C. Physical capital and social capital

As for physical capital, common utilities such as electricity (100%) and regular water supply (94.3%) are highly present in surveyed rural households while telephone landlines exist in around 2/3 of studied rural areas. Coverage with regards to mobile telephone lines is almost fully expressed and percentage of available common TV signal is high. The obvious problems in studied rural areas of northern Montenegro are related to lack of garbage collection services, sewage and street lights (Figure 5.13).

Figure 5.13 Availability of infrastructure

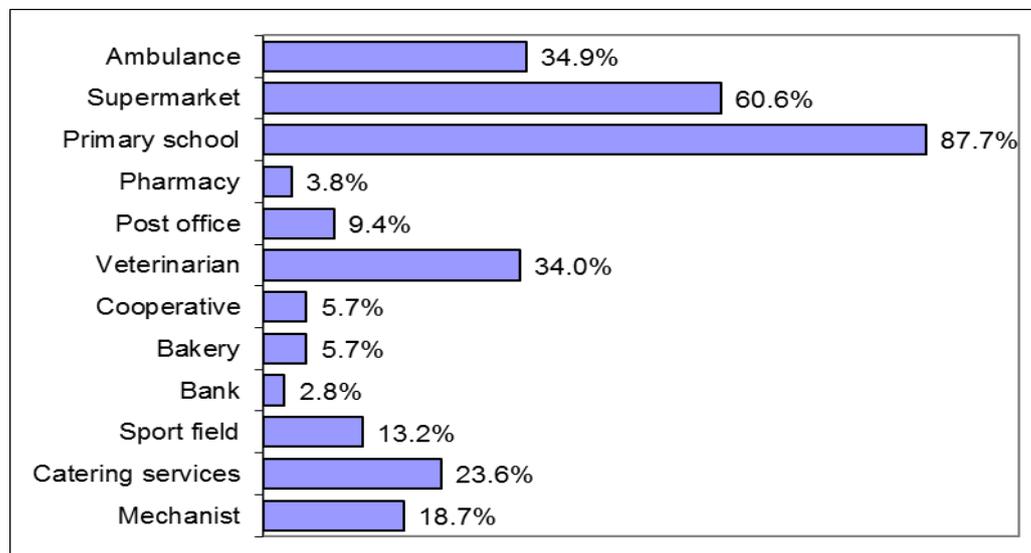


\*Base – all surveyed households

Private cars are owned by many rural households (85.8%). Use of bicycles (18.9%) and motorcycles (13.2%) is not so wide-spread. More than a half of households (54.7%) possess computer.

Generally speaking, the availability of institutions and rural services in rural territories of northern Montenegro does not ensure qualitative service delivery. Ambulance exists in around a third of studied sites while the most frequent are primary schools and supermarkets (Figure 5.14).

Figure 5.14 Availability of rural services and institutions



\*Base – all surveyed households.

Many problems in rural areas are pointed out by interviewees and the most frequent ones refer to bad infrastructure (roads, water supply and low quality of electricity) and negative demographic trends (e.g. depopulation, migration of the young, lack of girls and single man). Also respondents declared high dissatisfaction with current presence of collection centres for agricultural products, distance with respect to urban areas and disinterest of youngsters to deal with agriculture. Absence of ambulance, take away garbage service, supermarket as well as unemployment and high percentage of unused arable land are also highly ranked.

Around 20% of the interviewees are members of agricultural cooperatives and they are predominantly satisfied with their services. Certain number (15.1%) of respondents who are not members of cooperatives/associations are dissatisfied with their services and mentioned that as a reason of not being members.

The most of respondents (80.2%) are not members of any other participatory groups. Some of them have membership in collective groups and institutions such as political parties (9.6%), hunter associations (5.6%), sport clubs (4.7%), associations of retired people (2.8%) and fisherman associations (0.9%).

#### D. Microfinance and access to loans

Almost a half of the surveyed households have never applied for a loan mainly for the lack of collaterals. Around fourth of respondents used credits for buying machines and equipment (26.4%). Some applied for loans due to various reasons: buying animals (12.3%), buying seeds and fertilizers (11.3%), construction and maintenance of buildings (10.4%), job out of agriculture (4.7%), personal needs (4.7%), irrigation systems' procurement and construction of fish ponds (4.7%).

### E. Diversification of income sources

Sale of agricultural products is the most wide-spread income-generating activity for surveyed rural households while less distributed are those related to off-farm and non-farm activities as well as pensions (Table 5.6)

Table 5.6 Sources of income for rural households in northern Montenegro

Income Generating Activities	Frequency	%**
Income from farm	64	51.0
Providing services on equipment and machines	18	11.3
Renting land and property	1	0.9
Off-farm and non-farm salaries and wages	50	47.2
Pension	45	42.4
Seasonal job	5	4.7
Social programs and help	3	2.9
Family and friends from abroad	2	1.9
Other	2	1.9

\*Base – All surveyed households.

\*\*Cumulative percentage is higher than 100 because multiple answers were allowed.

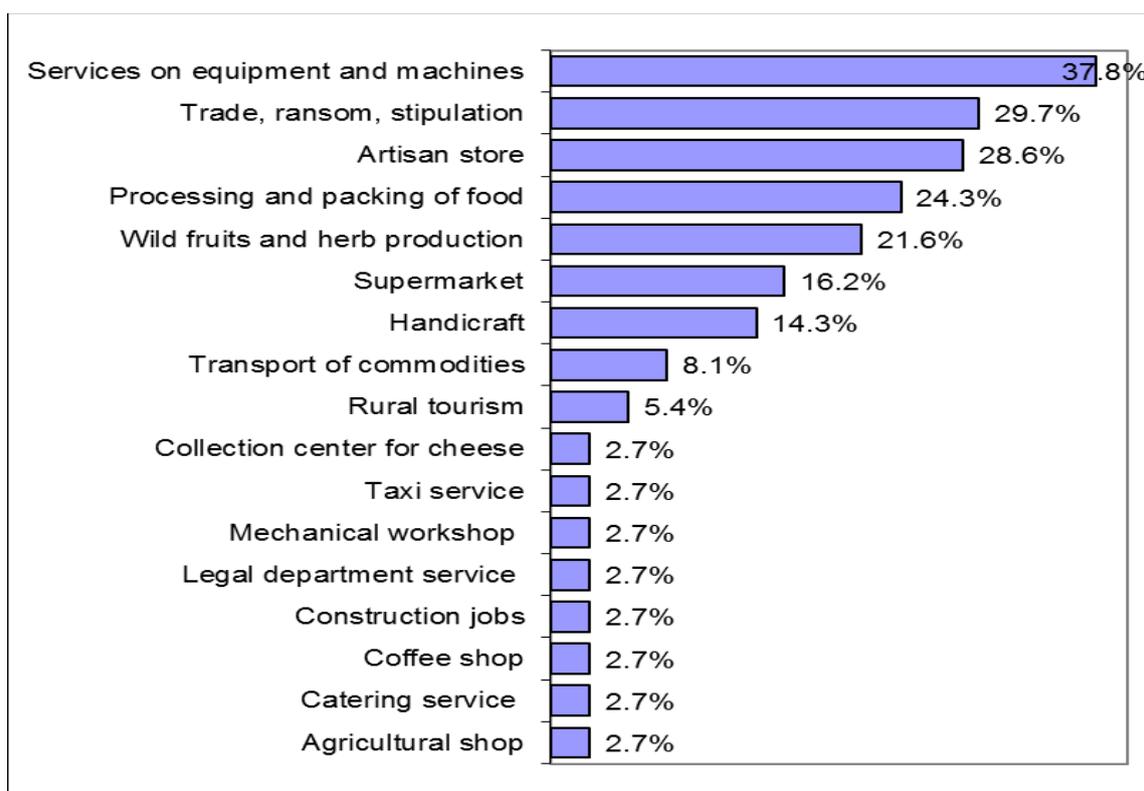
The main source of income for the most of surveyed households is from the full employment including private jobs (39.7%) followed by agriculture (34.0%) and pensions (14.2%). Subsistence for some households mainly depends on providing services on equipment and machines (4.7%) seasonal jobs (1.9%), social programs and help (2.8%), family and friends from abroad (1.9%) and renting land and property (0.9%).

Among other factors that influence new business development, having initial capital is the most important one. In the last five years, 65.1% of households did not develop any activity or start a new business, 15.1% of households started but gave up while 19.8% of households still deal with new activities. Among the reasons for which many households did not start any new income-generating activities can be mentioned the lack of financial resources (62.3%), satisfaction with current income (26.1%), time (13.4%), complicated procedures (11.9%) and unfavourable loan conditions (11.9%). Other mentioned reasons are: no idea, far from urban areas and market, elder households, health problems, no experience and skills, lack of willingness, afraid of risk not to succeed, small prices for rural products, lack of institutional support, etc.

The most of surveyed households (80.2%) do not have any current new activity.

Kinds of new businesses which were tried by rural households are presented in Figure 5.15. The most frequent businesses that the surveyed households have tried out are related to services provision on equipment and machines (37.8%). Rural tourism is not enough developed (5.4%). New processing and packaging activities (24.3%) regard cereals flour, tomato, dry fruits, brandy and fish.

Figure 5.15 Kinds of business that households have tried



\*Base – all households that started new businesses in last 5 years.

Lack of financial resources is the main constraint in starting up households' own business activities and diversification of livelihoods as it was declared by about 43% of respondents who started new businesses in last 5 years. Moreover, complicated administration issues have been ranked as second important business developmental obstacle (27.0%). Barriers also include: high taxes (10.8%), lack of market (21.6%) and experience (16.2%), difficulties in finding partners (8.2%), lack of institutional support (2.7%), long distance to urban areas (2.7%), lack of motivation (2.7%), low customers' purchasing power (2.7%) and high number of needed staff (2.7%).

### 5.1.3. Diversification in Serbia

#### 5.1.3.1. Diversification of household livelihoods

This chapter deals with obtained results related to rural household livelihoods diversification in the rural areas of western Serbia.

It is obvious that diversification is influenced by the existing capital at the household level but also by the overall situation in rural areas and conditions in which households operate.

Over a half of the respondents have negative attitude regarding life quality in rural areas of western Serbia and believe that situation is becoming worse (65.5%). Almost a third of the households think that the situation will not change (28.8%) while 3.8% believe that it is getting better.

According to respondents, the living conditions in rural areas are not very satisfying. The greater part of households (69.2%) considers their living standard as average. Around 20.2% of them declared that their living standard is bad while around 3% consider it very bad. Some regard it as good (5.8%) or very good (1.9%).

Because of many reasons that impact negatively life quality in rural areas, around 30% of people would like to move to urban areas or abroad while more than a half are not willing to move or have never thought about that as an option (Table 5.7). Around 5% of sons or daughters migrated to town or abroad due to various reasons.

Table 5.7 Opinion on migration from rural areas of western Serbia

Opinions	Frequency	Percentage (%)
I would never do that	33	31.7
I have never thought about that	24	24.0
I would move if I have chance	5	4.8
I would move because of schooling and job perspective	10	9.6
I would move because of better paid job	16	15.4
Do not know	15	14.2
<b>TOTAL</b>	<b>106</b>	<b>100</b>

\*Base – all surveyed households.

### A. Household types and structure

The average age of those who answered questionnaire is 48 (respondents age ranging from 23 to 80). Majority of interviewees (90.4%) were men.

Over a fourth of households have their activity registered (26.9%) while the remaining share operates without any registration (73.1%). Agricultural household type largely dominated among those with registered activity.

The majority of respondents (81.7%) are those with the central role in their families as householders while 18.3% are members eligible for survey according to selected criteria.

The performed survey helped in collecting very significant amount of information on households' types in the rural areas of western Serbia. Nearly a half of the surveyed households (44.2%) characterized themselves as mixed ones with diversified sources of income. Remaining share (40.4%) relies on agricultural activities or declared themselves as non-agricultural households (15.4%).

Average number of households' members (4.5) is much higher in comparison to the Serbian average<sup>24</sup>. It is observed that total number of male members is higher for around 10% compared to total female households' members (Table 5.8).

Table 5.8 Number and gender distribution of households' members

	All members in household	Female members	Male members
Min	1	1	1
Max	11	6	8
Average	4.5	2.0	2.5
Total	468 (100%)	213 (45.5%)	255 (54.5%)

\*Base – all surveyed households.

Results indicate that more a third of households' members are mid-age population (age 25-49). Children and young persons (up to age 24) represent around 30% of surveyed households' population (Table 5.9). Also, there is a significant number of old population aged from 50 to 64 and over 65 years.

<sup>24</sup> The average household in Serbia has 2.9 members (Statistical Office of the Republic of Serbia, year).

Table 5.9 Age structure of households' members

Age	Household members	Percentage (%)
<15 years old	82	17.5
15 – 24 years old	56	12.0
25 – 49 years old	167	35.7
50 – 64 years old	101	21.6
> 65 years old	62	13.2
Total	468	100

\*Base – all surveyed households.

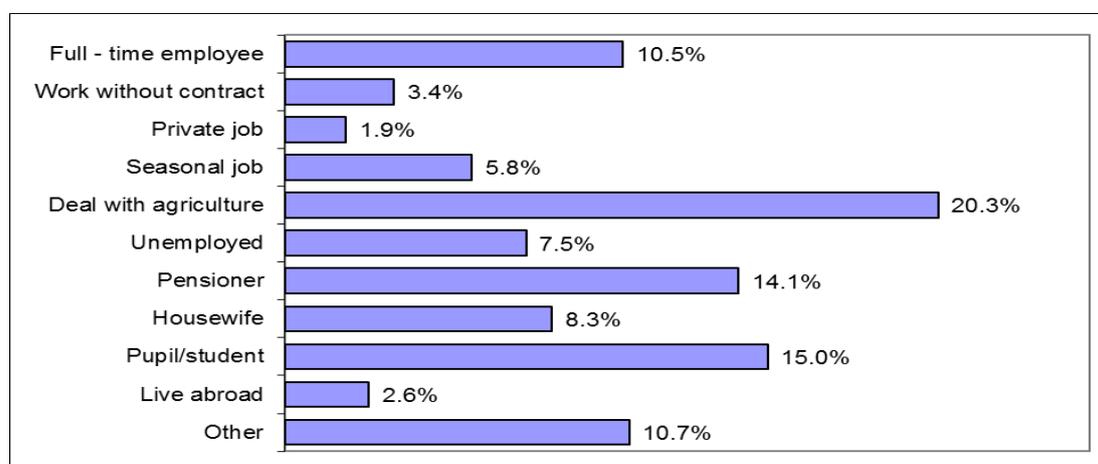
Almost a half of respondents finished high school (46.1%) while less than 10% gained faculty (III or IV years) or college degree (II years). Percentage of illiterate persons is quite high (8.1%) as well as those that completed just elementary school (37.2%).

Over a half of the respondents (52.0%) have rather low annual income valued in less than 5000 € while around 40% have decent income that ranges between 5000 and 15000 € per year. There is very small percentage (7.7%) of those with annual income over 15000 € or more.

### B. Human capital and access to knowledge

Around a fifth of household members deal with agriculture while the percentage of household members relying on public jobs is quite low (10.5%). Around 16% are considered as unemployed or housewives. Children (under 7 years) belong to the group of “other” (Figure 5.16).

Figure 5.16 Work status of households' members

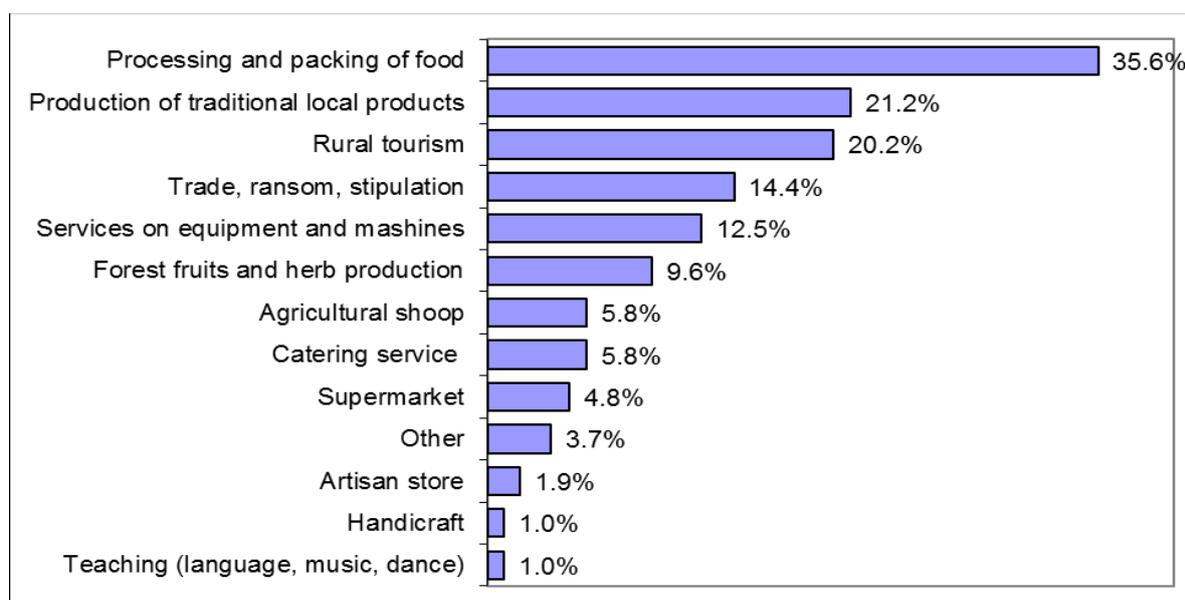


\*Base – all surveyed households.

Regarding working capability, the percentage of households' members capable to work is 91.7% while share of sick people that need medical treatment is 8.3%.

Speaking about human capital, the bigger part of interviewees regard that they possess certain skills that could be valorised in future, especially related to food processing activities, production of typical products and rural tourism (Figure 5.17).

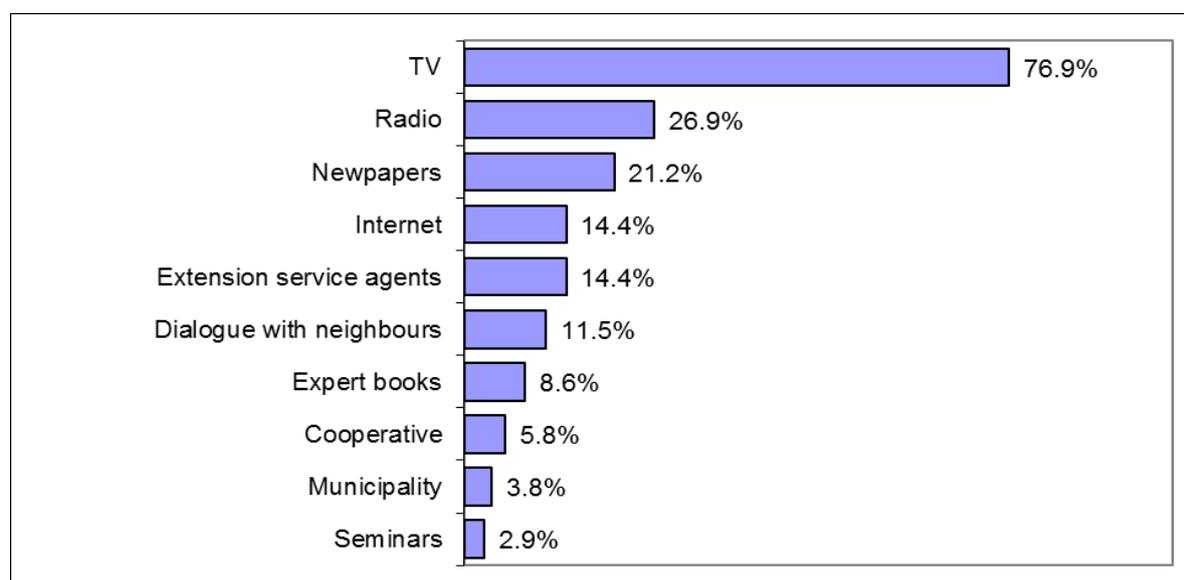
Figure 5.17 Skills of households' members



\*Base – all surveyed households.

Electronic and printed media (TV, radio, newspapers and internet) are predominant for getting information, while very small percentage of information is gained from expert books, seminars or other sources (Figure 5.18).

Figure 5.18 Usual sources of information



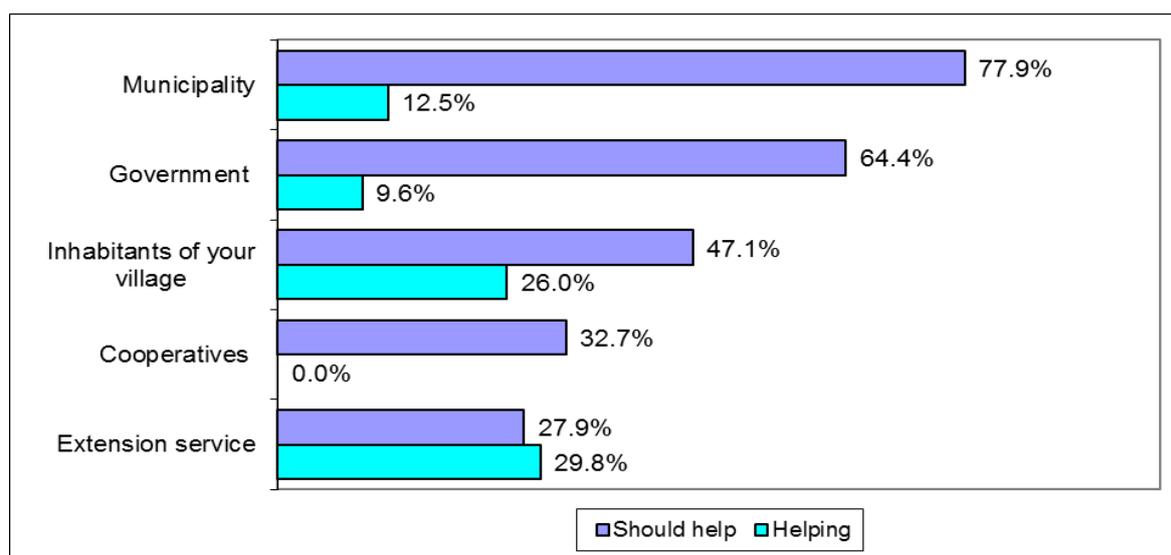
\*Base – all surveyed households that provided answer.

Need for advisory services is quite highly expressed by the surveyed rural households. Most of the surveyed households (31.7%) need extension agents' assistance. Needed help is mainly related to advices about market and its players, veterinarian service, cooperatives membership benefits, plant protection, fruit pruning, products' processing, legal-economic advices, animal husbandry, etc.

A significant number of the respondents (37.5%) in reality use services provided by extension services.

Seeking extension service help is more related to the agricultural household types while mixed ones demand less help and non-agricultural declared they do not need any help at all. Information on ARD programmes and schemes are offered by different institutions. Timely and easily accessible information are important for improving households' livelihood and institutions providing more information are considered as more significant ones for rural households. The majority of interviewees (64.5%) believe that they know enough or know but not so much about state aid and support schemes. Around 7% of respondents do not know but would like to know more, while 14.4% do not know about these programs and how they can benefit from it. Especially those households with registered activities are more persuaded that they are very familiar with information on ARD programs. Around 14.4% do not show interest in getting any information on institutional help dedicated for ARD and these are predominantly households that do not perform any agriculture-related activity. The largest share of respondents think that institutions and individuals who influence households' life quality should put more effort in helping them, compared to what they have done until now. Interviewees are convinced that local councils are more responsible for situation in rural areas than the government (Figure 5.19). The most of interviewees believed that extension services help them a lot and nobody considers that cooperatives do something concrete for improving households' livelihood.

Figure 5.19 Responsible actors for improving households' living conditions

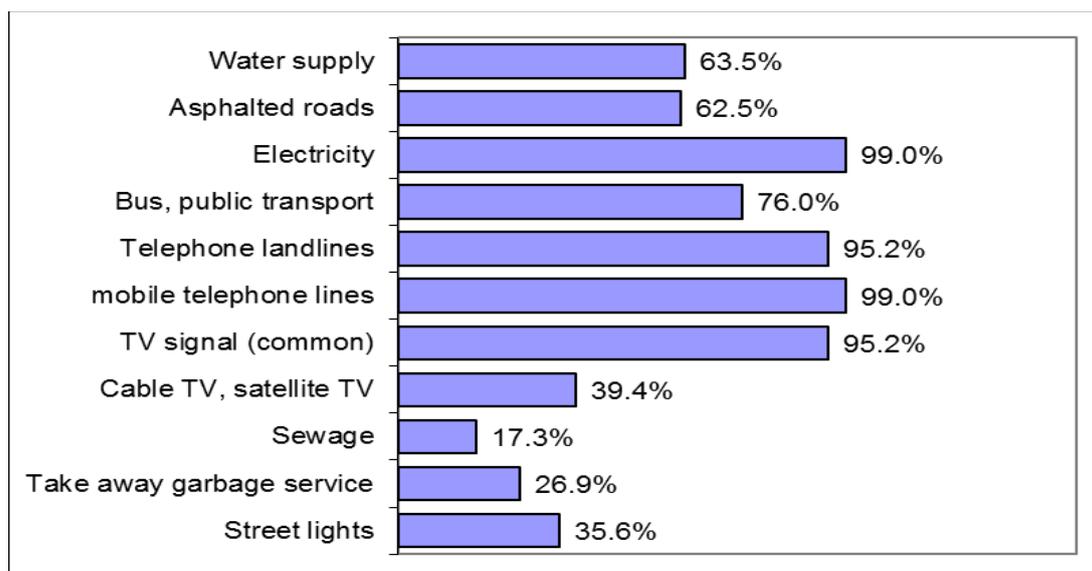


\* Base - all surveyed households.

### C. Physical capital and social capital

As far as physical capital is concerned, common utilities such as electricity and telephone landlines are highly present in surveyed rural households while regular water supply exist in around 2/3 of studied rural areas. Coverage regarding mobile telephone lines is almost fully expressed and percentage of available common TV signal is high. Studied rural areas of western Serbia mostly lack sewage (Figure 5.20).

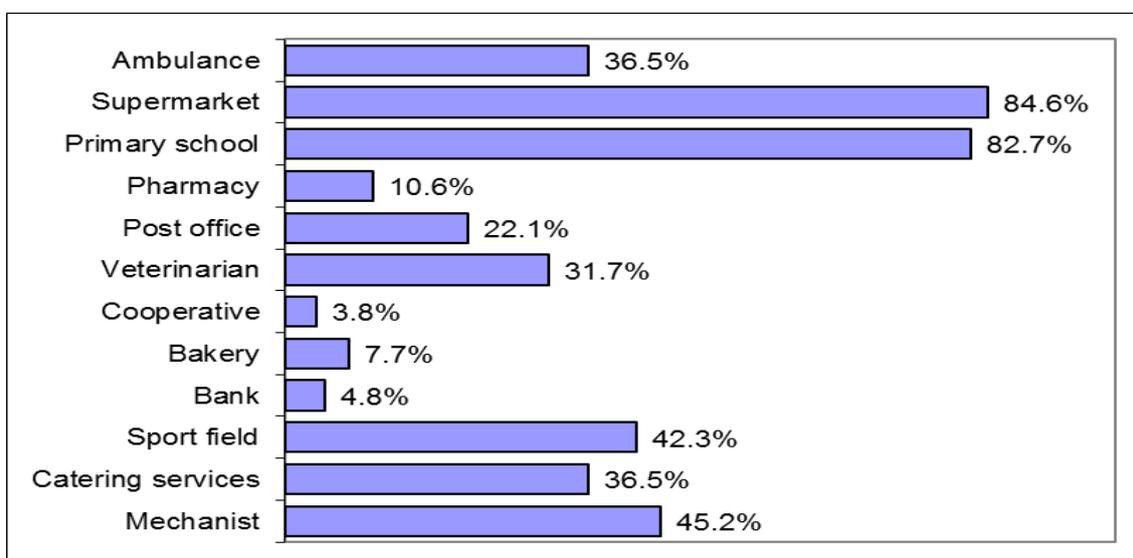
Figure 5.20 Availability of infrastructure



\*Base – all surveyed households

Many rural households have a car (90.4%). Bicycles (42.3%) and motorcycles (17.3%) are also used for transport (Fig. 7). Over a half of households (69.2%) possess computer. In general, the availability of institutions and services in rural territories of western Serbia does not provide access to the main services necessary for decent and dignified life. Ambulance is fostered in around a third of studied rural spots, while the most frequent are supermarkets and primary schools, followed by the mechanical workshops and sport fields (Figure 5.21). Also, it is noticed that only a small number of rural areas have banks or cooperatives.

Figure 5.21 Availability of rural services and institutions



\*Base – all surveyed households.

Rural areas in Serbia suffer from many problems pointed out by respondents and among all mentioned the most frequent ones refer to lack of infrastructure or its bad quality (roads, water supply, irregular electricity supply, sewage), negative population changes (e.g. depopulation, migration of the young, aging, unbalanced sex ratio, and single men),

*deagrarization*, lack of market and problems with placement of products and rural poverty. Also interviews listed a number of other problems that exist in rural areas such as: lack of investments and high unemployment rate, processing facilities, veterinarian service, collection centres for agricultural products, ambulance, social and cultural facilities, unfavourable loan conditions, agricultural pharmacy, low quality of life, land fragmentation, lack of cooperatives, irrigation systems, cooling facilities and bad inter-personal relationships.

Regarding social capital, only 1.9% and 11.5% of the interviewees are members of agricultural associations or cooperatives, respectively. More than a half (57.1%) of the members of cooperatives are satisfied with their services.

The bigger share of respondents (75.0%) denied membership in any other participatory groups. Quite few have members in collective groups and institutions such as political parties (13.5%), hunter associations (7.7%), sport clubs (2.9%) and beekeeping associations (2.9%).

#### **D. Microfinance and access to loans**

Lack of collaterals seems the main reason why around 60% of the surveyed households have never applied or started enter into procedure for a credit. Loans were taken due to various reasons such as: personal needs (10.6%), construction and maintenance of buildings (7.7%), buying machines and equipment (7.7%), buying seeds and fertilizers (4.8%), job out of agriculture (4.8%), buying animals (3.8%) and for new plants (1.9%),

#### **E. Diversification of income sources**

The most common income source for surveyed rural households is sale of agricultural products but also income related to off-farm and non-farm activities and pensions is widespread (Table 5.10).

Table 5.10 Sources of income for rural households in western Serbia

Income Generating Activities	Frequency	%**
Income from farm	62	46.2
Providing services on equipment and machines	18	15.4
Renting land and property	2	1.9
Off-farm and non-farm salaries and wages	52	50.0
Pension	47	45.2
Seasonal job	11	10.6
Social programs and help	1	1

\*Base – All surveyed households.

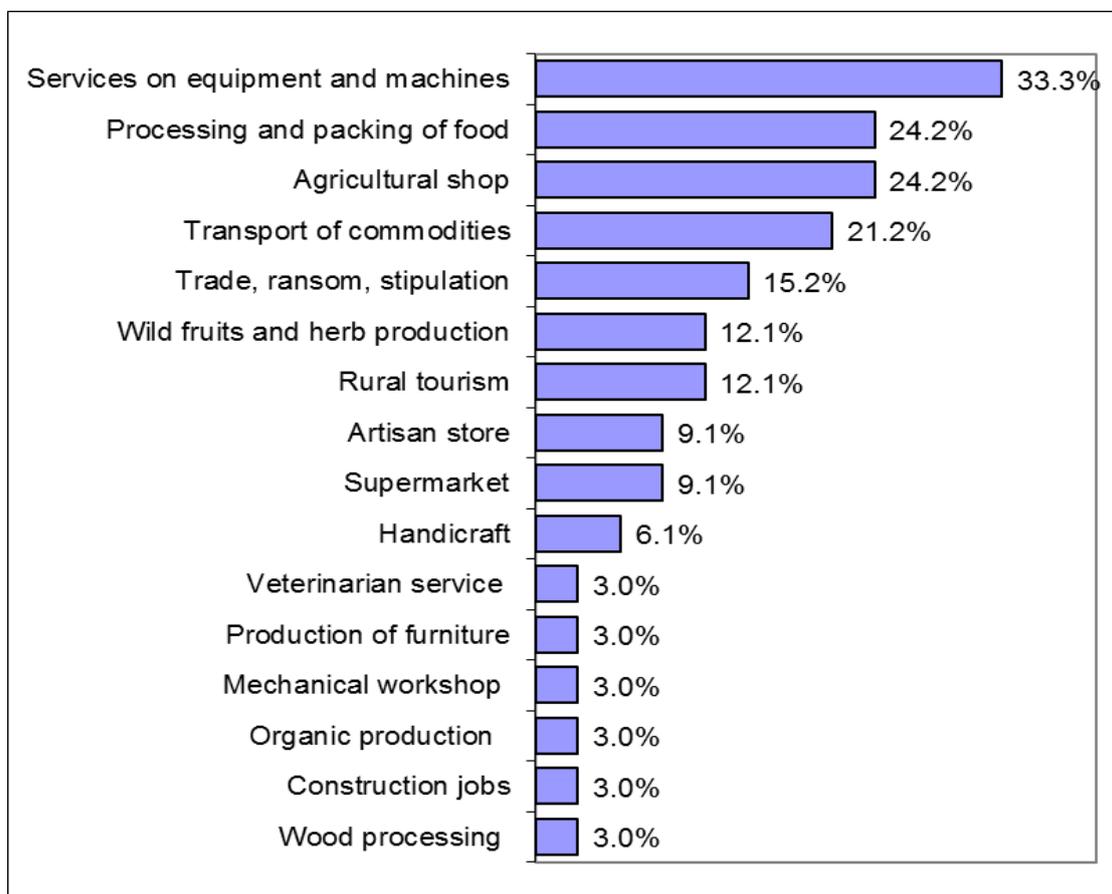
\*\*Cumulative percentage is higher than 100 because multiple answers were allowed.

The main source of income for the most of surveyed households is from the full employment including private jobs (43.9%), from agriculture (27.3%) and pensions (17.3%). Some households base their coping strategies on seasonal jobs (6.7%), renting land and property (1.9%) and social programs and help (1%)

Having initial capital is the most important factor that influences new business development. During the last five years, 68.3% of households did not develop any activity or start a new business, 17.3% of households started but gave up while 14.4% of households still deal with new activities. Among the reasons pushing many households to avoid starting any new income-generating activities, the lack of financial resources (64.8%) is the most important one. Other cited reasons include: satisfaction with current income, lack of available time and labour, unstable political and economic situation, disinterest, long distance to urban areas and market, elder households, no perspective, security reasons, etc.

The most of surveyed households (75.6%) do not have any current new activity. Types of new businesses which were tried by rural households during the last 5 years are shown in Figure 5.22. The most frequent business that the surveyed households have tried out refer to services provision on equipment and machines (33.3%). Rural tourism is not satisfactorily developed (12.1%).

Figure 5.22 Kinds of business that households have tried



\*Base – all households that started new businesses in last 5 years.

The main obstacle in starting up households' own business is obviously lack of financial resources as it was mentioned by about 82.0% of respondents who started new business in last 5 years. Moreover, lack of market and its insecurity (30.3%) has been ranked as second important business developmental constraint. Barriers also include: high taxes (12.1%), complicated administration issues (24.2%), lack of experience (9.1%), difficulties in finding partners (21.2%) and high number of needed staff (3.0%).

## 5.2. GOVERNANCE AND COORDINATION OF AGRICULTURE AND RURAL DEVELOPMENT

### 5.2.1. Governance and coordination in Bosnia

#### 5.2.1.1. Agricultural and rural development policy

One characteristic specific to BiH is the complexity of its state administration, which complicates the implementation of its agricultural policy. The state Ministry of Foreign Trade and External Relations is in charge for ARD at the state level and plays a coordinating role (Bajramović et al., 2010). The most important institutions dealing with ARD at the state level are Plant Health Protection Administration of BiH, Ministry of Civil Affairs, Food Safety Agency of BiH, Veterinary Office, Accreditation Institute of BiH, Institute for Standardization of BiH (FAO-Bosnia, 2012), Ministry of Treasure and Finance.

However, intermediate levels, Entities of RS and FBiH, have a crucial role in ARD design and delivery.

Systematic and structural harmonization of agricultural policies at the state level began with entry into force of the Law on Agriculture, Food and Rural Development of BiH, adopted in May 2008. The Law regulates definitions of terms to be used in the AFRD sector legislation, objectives, principles and mechanisms for development of strategies and policies, structures and competencies at all governance levels, institutional support structures and services and their functions and linkages, monitoring and evaluation mechanisms, and administrative and inspection supervision. The Law also define the scope of AFRD sector, which includes: a) agriculture and food (production, processing and distribution); b) rural development; c) forestry and forest products; d) fisheries and fish products; e) water Management (in the field of AFRD); f) agricultural machinery, equipment and facilities; g) agricultural land; h) agro-environment; i) trade in agricultural and food products; j) veterinary and animal health; k) plant health and protection. The measures of the Law are basically classified into policy measures to support agricultural markets and measures for rural development. Policy measures to support agricultural market deal with improving products quality, direct support to agricultural farms and measures for foreign trade. Measures related to rural development encompass those measures aimed at increasing competitiveness, protecting rural environment, diversifying activities in rural areas and improving life quality in rural areas (PABiH, 2008) that are in line with EU RD policy objectives. In accordance with the Law on AFRD were established the Committee for the Coordination of Information in Agriculture (March 2009), the Working Group for Coordination of Extension Services in BiH (June 2009), the Advisory Council for AFRD (July 2009), and the Agricultural Market Information Service of BiH (August 2009).

The Ministry of Foreign Trade and External Relations (MoFTER), supported by the European Commission (EC), prepared Strategic Plan for the harmonization of BiH AFRD 2008-2011 and Operational Programme for the harmonization of BiH AFRD 2008-2011 (both were adopted by the Council of Ministers of BiH in September 2009). The Strategic Plan is the leading policy document at the state level. Its overall objectives are: (i) to gradually harmonize sector policies and mechanisms at state, entity and canton levels within BiH, as well as to harmonize with the EU (and specifically the gradual alignment with the IPA – Rural Development); and (ii) to progressively establish appropriate institutional structures, capacities, systems and procedures at state level to coordinate and guide the management of pre-accession harmonization preparations and to gradually adopt the agricultural *acquis communautaire*. It was intended to provide a framework for the introduction of pre-IPARD actions, starting in 2008 and allowing the foundations to be in place for the receipt of EU rural development funds by 2011 (FAO-ROECA, 2012). The

operational programme define six priority areas of them three are related to rural development: improving agro-food sector competitiveness; protecting the rural environment by supporting agro-environmental programs; and diversifying rural activities and improving quality of life in rural areas. These priorities are similar to the EU RD policy 2007-13 objectives.

The Strategic Plan and Operational Program are implemented at Entity level. Both entities have developed agricultural strategies. The FBiH approved the extension of existing Agriculture Development Strategy (2006-2010) for two years (EC 2011f) and the RS has a Strategy for Agricultural Development 2009-2015, which are compatible but not yet harmonized with the Strategic Plan for the Harmonization of BiH AFRD 2008-2011. The Development Strategy of AFRD in the Brcko District of BiH was prepared in 2008 for the period 2008-2013 (MoFT, 2010).

The RS Strategic Plan for Rural Development 2009-2015 - adopted in November 2009 - contains three strategic goals, 16 specific goals, 54 measures and 161 sub-measures. The three strategic goals are (FAO-ROECA, 2012): improving competitiveness in agriculture and forestry; preserving nature and sustainable management of natural resources; and improving living conditions and introducing income diversification in the rural economy.

The Federation of Bosnia and Herzegovina (FBiH) is implementing the Middle Term Strategy for Agricultural Sector Development (2006-2010), which was adopted in 2007 together with the related Action plan. This plan is still in effect. The FBiH Operational Programme for Agriculture, Food and Rural Development is being drafted. It is expected to include activities related to the establishment of the Payment Agency and IPARD (FAO-ROECA, 2012). The FBiH Strategy for agriculture and rural development is still pending and remains to be done (EC-Bosnia, 2013).

In 2010 the Medium Term Entities' Strategies for providing advisory services are prepared. That strategy will be adopted in FBiH after entrance into force of the Law of the agricultural advisory services while in RS at the end of 2010 the National Assembly adopted the draft Medium-Term Strategy (2010-2015) of agricultural advisory service (MoFTER, 2011b).

Preparations for the agricultural census are still in process and it will be performed after population census using unique methodology for the whole country (MoFTER, 2013).

**Legal framework.** Hereinafter are presented all existing/draft/in preparation strategic, legal and policy monitoring and evaluation documents as well as impact assessments and policy relevant studies regarding ARD at the state level while documents at the entities levels as well as in Brcko District are given as an annex (Box 5.1)

#### Box 5.1 Legal framework in Bosnia and Herzegovina

##### **Strategic documents on B&H level:**

- Strategic Plan for Harmonization of Agriculture, Food and Rural Development B&H, 2008-2010
- Operational Program for Harmonization of Agriculture, Food and Rural Development B&H, 2008-2010
  - ❖ DRAFT Strategy for development of agricultural information system B&H
  - ❖ DRAFT Strategy for agricultural census B&H
  - ❖ DRAFT Strategy for development and establishing FADN in B&H
  - ❖ DRAFT Strategy for further research within the area of sampling (GIS AFFS) in B&H
  - ❖ IN PREPARATION - Strategic Plan for Rural Development B&H, 2014-2020

##### **Legislation on B&H level:**

- Law on Agriculture, Food and Rural Development ("Official Gazette B&H", No. 50/08),
- Law on foreign trade policy ("Official Gazette B&H", No. 1/97, 7/98, 35/04),
- Law on protection of new herbs cultivars ("Official Gazette B&H", No. 14/10),
- Law on tobacco ("Official Gazette B&H", No. 32/10),
- Law on veterinary ("Official Gazette B&H", No. 34/02),
- Law on plant health protection ("Official Gazette B&H", No. 23/03),
- Law on mineral fertilizers ("Official Gazette B&H" No.46/04 and 76/11),
- Law on food ("Official Gazette B&H", No. 50/04),
- Law on wine, brandy and other products of grapes and wine ("Official Gazette B&H", No. 25/08),
- Law on pharmaceutical remedies ("Official Gazette B&H", No. 49/04),
- Law on animals welfare ("Official Gazette B&H", No. 25/09),
- Law on genetically modified organisms ("Official Gazette B&H", No. 23/09),
- Law on quality supervision of product imports and exports ("Official Gazette B&H", No. 13/03),
- General law on cooperatives ("Official Gazette B&H", No. 18/03, 55/06),
- Law on protection of geographical origin ("Official Gazette B&H", No. 53/10).

##### **Policy monitoring and evaluation documents on B&H level**

- Agriculture Report B&H, 2007. - 2012.
- IPARD Sector Analyses in B&H – sector of cereals, 2012
- IPARD Sector Analyses in B&H – meat and dairy, 2012
- IPARD Sector Analyses in B&H – fruits and vegetables, 2012
- IPARD Sector Analyses in B&H – sector of vine, 2012
- IPARD Sector Analyses in B&H – diversification of economic activities, 2012

##### **Impact assessments and policy relevant studies**

- Collecting impact assessments and policy relevant studies are in the process

Source: Author's elaboration based on data from MOFTER and entities ministries of Agriculture

The overall perception is that abovementioned ARD policies failure taking into consideration a number of problems in rural areas that are pointed out by the respondents (Box 5.2).

Box 5.2 Major problems in Bosnian rural areas

- Low level of rural economy diversification and quality of life
- Lack of financial resources, low purchasing power and rural poverty
- Lack of investments
- Passivity of young people and their disinterest for agriculture
- Negative demographic trends (low birth rate, depopulation, migration, ageing, etc.)
- Dispersion and low population density in some rural regions
- High unemployment rate and poor employment opportunities
- Lack of knowledge, skills and information
- Low educational level and lack of qualified human resources
- Existence of “grey economy”
- Long distance to urban areas
- Difficult physical access especially during the winter period
- Low use of Information and Communication Technologies (ITC)
- Undeveloped SME’s sector in rural areas
- Obsolete educational and cultural facilities
- Poor social and cultural life
- Land fragmentation and small plots
- Significant percentage of mined agricultural land remained from the Bosnian civil war
- Use of traditional methods and technologies and lack of processing capacities
- Lack of collection centres for milk, wild fruits and plant products
- Lack of cooperation between producers and scientific research institutions
- Undeveloped rural tourism and lack of tourists’ facilities and accommodation capacities
- Local development strategies focusing just on agriculture activities
- Poor physical infrastructure and communal services (e.g. waste water, garbage, ambulance, pharmacy, cooperatives, transport facilities, etc.)
- Disorganization of farmers
- Small and irregular subsidies
- Difficult access to credit due to lack of collateral
- Low prices of agricultural products and quite expensive agricultural inputs
- No added value to agricultural products and low productivity
- Gender inequity
- Unorganized market

Source: Author’s elaboration based on the questionnaire survey results.

**5.2.1.2. Actors dealing with agricultural and rural development**

**The main actors.** In BiH, all levels of governance, ranging from the State to municipal authorities, are involved in the agricultural sector management and rural areas development. BiH is one of the rare countries in the world without a unique state ministry for agriculture. At the state level, the most important institution that deals with ARD is the MoFTER. Taking in consideration the complexity of the organization of BiH as a State, the role of MoFTER is mainly coordination and it is also responsible for cooperation with the European Union (EU) and other international organizations relevant to the agriculture, food and rural development (AFRD) sector (FAO-ROECA, 2012; MoFTER, 2013b). The organizational unit within MOFTER called Sector for Agriculture, Food, Forestry and Rural Development is responsible for establishing a framework for the development of sectoral strategies, policies,

programs and measures, and for their implementation aiming at harmonizing agriculture development in the country. MoFTER employs a total of 24 civil servants and employees, of which 15 full-time civil servants, 3 officers employed within the Agriculture and Rural Development Project (ARDP) and 6 employees. According to rule book of MoFTER, the total number of employees should be 31 (MoFTER, 2013b) but administrative capacities remain weak (EC-Bosnia, 2012). The Office for Harmonization and Coordination of Payments in Agriculture, Nutrition and Rural Development at the State level was established by Council of Ministers of BiH in June 2009 but it became operational at the beginning of the 2012 (MoFTER, 2013). The Veterinary Office and the Directorate for the Protection of Plant Health are administrative organizations within MoFTER while the Food Safety Agency is an independent organization under jurisdiction of BiH Council of Ministers. Besides the MoFTER, at the state-level also the Ministry of Finance of BiH and the Directorate for European Integration (DEI) have some competencies in certain agriculture areas. There are some other institutions in BiH whose activities are directly or indirectly related to agriculture, such as: the Agency for Market Surveillance, Agency for Statistics (collection of statistical data), the Institute of Intellectual Property, the Institute for Accreditation and the Institute for Standardization.

At the level of entities, institutions in charge of agricultural sector management are the Ministry of Agriculture, Forestry and Water Management (AFWM) in the RS and the Federal Ministry of AFWM in the FBiH while Brcko District local administration has its own Department of AFWM. In FBiH the system of responsibilities is further divided, so all 10 cantons have established departments for the issues of agriculture, veterinary medicine, forestry and water.

Entity ministries are in charge of policy and laws implementation, monitoring the implementation of the regulations and decisions, management of natural resource, food industry and related activities in the field of plant production, animal husbandry, rural development, fisheries and hunting, protection and use of agricultural land, food, fodder, water, veterinary and phytosanitary protection, protection of public health and forestry (MoFTER, 2011b). The Department of AFWM of BD has a similar mission.

The Entities' Ministries of Agriculture hired new staff in 2011 (EC-Bosnia, 2011) but there is still a lack of human resources. Entities' capacities remained insufficient (EC-Bosnia, 2013). The Federal Ministry of AFWM employs a total of 72 civil servants and consultants, of which 62 full-time civil servants and 10 consultants employed within the Agriculture and Rural Development Project (ARDP). According to rule book of Federal Ministry of AFWM, the total number of employees should be 101 (MoFTER, 2013b). Republika Srpska increased its staffing and continued to build up its capacities, especially at its Agency for Agricultural Payments, that was established as an administrative organization within the Ministry.

Department of AFWM in BD is employed a total of 28 employees but just one employee deal with rural development tasks which is insufficient taking into account the obligations in the coming period (MoFTER, 2013b).

International organisations and development agencies have implemented different rural development projects and programmes during the post-war period. Moreover the agricultural and rural sector is characterized by the presence of a number of international donors, such as the USAID (United States of America), SIDA (Sweden), Italian Cooperation (Italy), Czech Republic, JICA (Japan), Norway, the European Commission, the IFAD, World Bank, etc. (MoFTER, 2013)

Financial support to individuals or companies involved in agriculture and rural development is provided also by micro-credit organizations and banks. The Federal Investment Bank and the Investment Development Bank of the RS have special kinds of credit lines aimed to support agriculture and rural development.

**Questionnaire survey results on actors.** The most important actors involved in ARD who provided their feedback are the state Ministry of Foreign Trade and Economic Relations (MoFTER) and the Ministries of Agriculture, Forestry and Water Management (MAFWM) of the RS and the FBiH. The questionnaire for evaluating the level of coordination between the actors dealing with ARD policies in Bosnia and Herzegovina encompassed also other public entities<sup>25</sup> and local institutions<sup>26</sup> as well as civil society organizations<sup>27</sup> and international donors and cooperation agencies (e.g. USAID, GTZ, *Cooperazione Italiana allo Sviluppo*) dealing with rural development in municipalities, cantons, regions, entities and at the state level.

Taking into consideration organization nature, the processed results show that around two third (67.2%) of respondents were public institutions while the remaining part was shared between the civil society sector and international development organizations and agencies (32.8%).

Almost a half of the respondents operate at local level (45.9%) and/or at the entity level (40.9%) while only less than a third (27.8%) operates at the state level. It is noticed that some interviewees performed their activities at two or even three different levels at the same time and that explains why the sum of percentages is higher than a 100%. However, some differences can be noticed between public and civil society institutions. In fact, public institutions are more present at the entity level (60%) than civil society organisations that are more present at the local level (60%) and only 40% of them operates at the state level.

Most of the interviewees (75.4%) believe that there are organizations or actor groups that are actually not or insufficiently involved in the RD policy cycle and that should be involved more actively while 21.3 % did not provide any answer. Apart of MoFTER that operates at the state level, the following actors from both entities were mentioned: various Ministries (Agriculture, Forestry and Water Management of RS and FBiH; Tourism and Trade of RS; Family, Youth and Sport of RS, Education of RS and FBiH; Displaced People and Refugees of RS and FBiH); Extension Service of RS; Regional and local Development agencies; education institutions (agricultural faculties; agricultural and veterinarian institutes); Association of Local Authorities of RS and FBiH; cities and municipal authorities; Cooperative Union of RS and FBiH; local non-governmental organizations; local tourist organization and public utility companies and medical institutions.

A very few interviewees confirmed membership status of their organizations in any national, regional, European or international ARD networks (21.2%). Almost a third (31.1%) are not included in these kinds of networks while almost a half 47.7% did not provide any answer.

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<sup>25</sup> e.g. Agency for agricultural professional services provision of the RS; Ministry of Trade and Tourism of the RS; Faculty of Agriculture and Food Sciences, University of Sarajevo in the FBiH; Faculties of Agriculture, Universities of Banja Luka and East Sarajevo in the RS, etc.

<sup>26</sup> Cities/municipalities: Istocna Ilidza, Istocno Novo Sarajevo, Pale, Sokolac, Vlasenica, Milici, Bratunac, Bijeljina, Mostar, Banja Luka, Trebinje, Tuzla and Gradiska; Tourist organizations of: Republika Srpska, East Sarajevo, Sarajevo, Mostar and Kalinovik; Regional and local development agencies: Regional Development Association NERDA-Tuzla in the FBiH, Development Agency of East Sarajevo city "Rais" in the RS, Local Agency for Development of Kozarska Dubica municipality in the RS, Agency for SME's Development of Srbac municipality in the RS, etc.

<sup>27</sup> e.g. Union of Cooperatives of the RS and the FBiH, agricultural cooperative "Eco-animal breeders" from Livno in the FBiH, Agricultural cooperative "Saradnja" from East Sarajevo city of the RS, Farmers' Association of the central Bosnian canton in the FBiH, etc.

### ***5.2.1.3. Governance of agricultural and rural development policy cycle***

A high percentage of interviewees (90.2%) confirmed their involvement in RD projects and/or in rural policy.

All interviewed organizations are involved in design (67.2%), implementation (73.8%), and monitoring/evaluation (52.4%) of agro-rural development policies. Public institutions are mostly involved in design (90.2%), and less in implementation (60.7%), and monitoring/evaluation (60.7%). As expected, civil society organizations are fully involved in the implementation phase (100%) and less in policy design (19.7%) and monitoring/evaluation (40.9%).

According to the Bosnian respondents, there are many listed problems related to RD policy design (Box 5.3).

#### **Box 5.3 Major problems in RD policy design**

- Lack of political consensus at the state level due to decentralized political system in which real power is at the entity levels
- Overall political instability due to the legacy of the civil war
- Difficulty to find common interests among stakeholders due to cultural and religious differences
- Institutional complexity and overlapping of responsibilities
- Shortage of financial resources
- Lack of a clear vision for development of rural areas
- Lack of accurate and reliable databases that can be used for policy design
- Incompetent personal who create RD policies
- Deficient participation approach in policy design and misunderstanding of RD concept
- Lack of harmonized policy development at the state, entity and local level
- Lack of detailed problem analysis in rural areas
- Inadequate inter-institutional cooperation and bureaucracy
- Lack of synergy with other policies relevant to rural areas
- Rural development and agriculture are considered as the same issue
- Local and regional strategies focused on the agriculture
- Competition among institutions and culture of dialogue does not exists
- Great influence on policy design made by political parties
- No consideration for rural regional differences (e.g. specific approach)
- Lack of coordination between the authorities and donors
- Lack of human resources within entity ministries for agriculture
- Lack of knowledge and information about needs at the local level
- Low level of local actors capacity
- Unfamiliarity with situation in rural areas and needs of rural population
- Lack of well-structured incentive measures
- Disinterest and reluctance of rural local communities and authorities
- Lack of capacities at the national level to collect statistical data on agriculture and rural areas
- Delay in the establishment of the IPARD structures
- Limited participation of civil society sector, especially its experts and representatives of farmers' associations from Bosnia

Source: Author's elaboration based on the questionnaire survey results.

As for policy implementation, the main problems pointed out by the interviewees are cited in Box 5.4.

#### Box 5.4 The main problems regarding implementation of RD policies in Bosnia

- Insufficient financial resources for implementation of RD measures
- Difficult access to rural areas (transport, infrastructure)
- Low level of information flow
- Complicated application procedures for grants awarding
- Low educational level of the rural population and familiarity with ITC technologies
- Limited local institutional support and incompetent personnel at the local level
- Disinterest of beneficiaries
- Lack of responsibility related to activities failure
- High administrative costs and complicated bureaucracy
- Lack of horizontal and vertical coordination and collaboration
- High entity political influence on decisions and its different interests
- Political instability and mutual mistrust among stakeholders
- Lack of integrated policy implementation and incoherence of policy
- Mentality and prejudices of the local population and distrust in use of modern technologies
- Use of inappropriate measures on the ground
- Personal interests, individualism and rivalry among institutions
- Lack of human capital and equipment
- Lack of clearly defined plans and lack of funds for the implementation
- Political instability and corruption
- Slow or no implementation as rural areas are sparsely populated with a small number of voters and thus the political actors are not interested so much to invest in these areas
- Lack of staff in institutions and organizations that deal with rural development
- Overlapping of activities and inappropriate measures
- Donors` financial support is not well targeted

Source: Author`s elaboration based on the questionnaire survey results.

Regarding policy monitoring and evaluation (M&E), respondents mentioned various issues which are hampering effectiveness (Box 5.5).

#### Box 5.5 The main problems regarding M&E of RD policies in Bosnia

- Unstable and sensitive political situation due to cultural and religious differences and its influence on M&E process
- Lack of structures and staff within the MOFTER and entity ministries that deal with M&E
- Inappropriate indicators and methods used and incomplete monitoring records
- Complicated procedures for M&E and unappreciated significance of M&E activities
- Favouritism among institutions
- Poor coordination and cooperation among actors
- Different interests of involved parties
- Lack of financial resources for M&E activities
- Undeveloped information system and low capacity in field data collection and analysis
- Lack of transparent information on performed M&E activities
- Uncooperative respondents during the M&E process and unreliable feedback
- Bad field information quality
- Corruption and bribery
- Superficial overall monitoring and lack of continuity
- Lack of interest of local population as well as local authorities
- Poor education level of beneficiaries
- Avoiding to use already defined recommendations in design of new policies
- “Softness” in work of inspections

Source: Author`s elaboration based on the questionnaire survey results.

#### **5.2.1.4. Agricultural and rural development coordination**

The majority of the respondents (75.7%) evaluate the coordination of sectoral policies in Bosnian rural areas as bad and/or very bad. No actor characterizes it as excellent or very good while 9.6% consider that is good. Some interviewees (14.7%) did not answer this question. Just some public state and local consider coordination as a good.

As for sectoral policies that have good synergies with RD policy, more than a half of respondents mentioned some policies (47.5%) while some shared opinion that policies which work together and combine their effects do not exist in Bosnia (11.5%). Except agricultural policy, tourism sectoral policies are widely recognized to have good interaction with RD policy (72.4%). Other sectoral policies mentioned by respondents include: regional development, energy, forestry, human and religious rights, gender, culture and sport, and education.

Almost all the interviewees (93.4%) answered that they have had relationships with public institutions while most of them have had relationships with civil society and international organizations (86.8%). Two thirds (67.2%) of institutions contacted have collaborated with at least five public institutions, 60.7% of them have collaborated with at least five civil society organizations while 27.8% of them have collaborated with at least five international organizations. The most mentioned public institutions are Entity ministries of Agriculture, Forestry and Water Management of RS and FBiH, MoFTER, Ministry of Tourism and Trade of RS, local governments and regional and local development agencies. Among national non-governmental organizations the most cited are the Cooperative Union of RS and FBiH and NGO Local Development Initiative (LIR)-Banja Luka while the most frequent answers regarding international development organizations and agencies referred to GTZ, USAID, Unity and COoperation for the DEvelopment of Peoples (UCODEP), SNV (Dutch development agency), UNDP, *Cooperazione Italiana allo sviluppo*, The Regional Rural Development Standing Working Group (SWG RRD), FAO, and IFAD.

Respondents also mentioned some institutions with which they have had some conflicts. It is interesting to note that public institutions have mainly conflicts with governmental organisations and some international agencies while civil society organisations, also due to their nature, present a lower degree of involvement in those conflicts.

Only 53% of the respondents identified an organization as having the leadership in coordinating rural development issues while 19.7% of respondents did not recognise any leader organization; 27.8% of them did not provide any answer. The institutions more widely identified as the most important in coordinating rural development issues are the Entity's Ministries for Agriculture while no public institution or civil society organization considered the MoFTER as the leader institution regarding these issues.

Around 60.7% of respondents evaluate the coordination among the different actors as effective, around 19.7% of them evaluate it as ineffective and the rest (19.7%) did not provide any answer.

The main obstacles influencing coordination among involved actors in the design and implementation of ARD policies mentioned by the respondents are included in Box 5.6.

#### **Box 5.6 Major constraints hampering coordination of ARD policies in Bosnia**

- Lack of knowledge and low level of information flow
- Lack of communication and coordination among key actors
- Lack of qualified human resources
- Lack of horizontal and vertical cooperation
- Lack of understanding and of a common vision of rural issues and priorities
- Lack of clearly defined plans, initiatives and long term strategies

- Lack of funds
- Confronted attitudes and no uniform approach to RD
- Taken commitments are not always implemented in practice
- Institutional complexity due to parallel institutions on the state, entity, canton and local level
- Non-harmonized ARD policies at different levels
- Conflicts of interests
- Lack of technical and administrative culture
- Absence of a dialogue culture and participatory approaches
- Low use of Information and Communication Technologies (ITC)
- Low attention paid to rural areas in the political agenda and autism of sectoral policies
- High level of administrative and bureaucratic requirements
- General politicization and political staffing
- Lack of rural development strategy at the state level
- unclear actors' roles and priorities
- Political and economic instability and disagreements among actors
- Delay in the establishment of some relevant structures (*e.g.* the Federal Agency for Rural Development)

Source: Author's elaboration based on the questionnaire survey results.

Overall most of the interviewees identified the main constraints in coordination among the different organizations dealing with rural development as political (40.9%), technical (60.7%) and strategic (80.3%). Some respondent also emphasized that in some cases competition is overcoming cooperation thus resulting in a major constraint.

Coordination of ARD seems more difficult taking into consideration diverse opinions on what is considered by rural areas and rural development.

Most of the respondents consider rural development as a cross-sectoral issue (83.6%) that includes the agricultural sector, while some of them (6.6%) provided their own definitions. The sum is higher than 100% because some organizations did not answer (14.8%) while some stated that RD is cross-sectoral issue and at the same time they gave their own definition. No actor characterized rural development as a part of agricultural sector.

## **5.2.2. Governance and coordination in Montenegro**

### ***5.2.2.1. Agricultural and rural development policy***

The National Programme for European Integration and the National Strategy for Sustainable Development, elaborated jointly by the UNDP and the Office for Sustainable Development, are the key documents for the overall country development (ADA, 2010). There are a number of documents that make up the wider framework for the strategy backgrounds of agriculture: Montenegro Ecological State, the Spatial Plan of Montenegro, the Millennium Developmental Goals, and Regional Development Strategy. More detailed guidelines for the development of agriculture can be found in the Economic Reforms Agenda and Strategy of Development and Poverty Reduction (MAFWM-Montenegro, 2006, 2009). The Economic and Fiscal Programme for Montenegro 2007–2010, based on the Economic Reform Agenda of 2003, is another important strategic document (ADA, 2010). The common characteristic of these documents is that they place agriculture development among the priorities for economic development of Montenegro (MAFWM-Montenegro, 2006, 2009).

The Economic and Fiscal Programme for Montenegro 2007–2010, based on the Economic Reform Agenda of 2003, is another important strategic document (ADA, 2010).

The common characteristic of these documents is that they place agriculture development among the priorities for economic development of Montenegro. The Economic Reforms Agenda and the Strategy of Development and Poverty Reduction make a strong case for the need for considerably higher budgetary support to agriculture development. The Strategy for Development and Poverty Reduction was adopted by the Government in November 2003 in order to apply for funding. The Strategy is complementary with the Economic Reforms Agenda (MAFWM-Montenegro, 2006, 2009).

Agricultural and rural development policy framework in Montenegro is defined by the strategic document "Montenegro's Agriculture and the European Union – Strategy for Development of Food Production and Rural Areas" July 2006 (MAFWM-Montenegro, 2006).

In spite of significant efforts and steps that had been made, there was no consistent agricultural policy until the new strategy was adopted in 2006. The new strategic document "Montenegro's Agriculture and the European Union" was a turning point in the agricultural reforms (MARD 2012).

According to this strategy, there was no Rural Development Strategy in compliance with EU principles. Rural development policy consisted of a small number of programs from individual sectors: maintenance of genetic resources in plant and livestock production; improvement of market structure; environmental programs, etc. The focus was on rural infrastructure building (MAFWM-Montenegro, 2006; Arcotrass et al., 2006).

It defines the following developmental objectives (Arcotrass et al. 2006; MARD 2012): (a) sustainable resource management; (b) stable and acceptable supply of safe food; (c) ensuring an adequate standard of living for the rural population; and (d) increasing in competitiveness of food producers; and (e) joining the European Union. The Strategy is a comprehensive and informative document that consists of three sub-documents: (i) analysis of the current situation and developmental prospects; (ii) reform platform, objectives and pillars; and (iii) concept of agricultural policy measures and budgetary plan for 2007-2013 (MAFWM-Montenegro, 2006).

This strategy addresses long-term and sustainable resources use to ensure stable and acceptable supply of food and adequate living standards for rural population (EC, 2011b). It outlines that key element in reform of agricultural policy is the gradual building of a system of integrated rural development policy that shall be harmonized with the EU principles. The policy is based on the three key areas of rural development: a) increasing competitiveness of agriculture and processing industry; b) better management of land and environmental resources; and c) support for diversification of activities and better living for rural population (EC, 2011b). This important document strongly pointed out necessity of reforms in three main directions: (a) agricultural policy - gradual implementation of the new instruments of the Common Agricultural Policy (CAP); (b) legislation reforms - harmonization of regulations with *Acquis communautaire*; and (c) institutional reforms - building up institutional capacities capable of implementation of the new policy and regulation (MAFWM-Montenegro, 2006).

The Food Production and Rural Development Strategy sets as an overall objective the preparation of the agricultural sector for the EU accession by developing sustainable agriculture and rural areas. The Strategy provides a platform for harmonization of agricultural policy, legislation and institutional support to agriculture with the principles and requirements of the EU association process (MARD, 2012).

The Strategy proposed the concept of the sustainable development of agriculture with strong emphasis on appropriate balance between economic growth, environment protection and social policy. Multifunctionality of agriculture is the core principle of the concept. The setting of the objectives in sustainable development of agriculture starts from (MAFWM-

Montenegro, 2006): commitment of Montenegro to build up on the concept of sustainable development; achieved level of economic and social development; the fact that agriculture and food processing industry make up an inseparable entity; the premise that agriculture is the basis for rural economy development; the need to join regional, European and international integration processes; complete acknowledgement of the principle of the multifunctionality of agriculture (MAFWM-Montenegro, 2006).

Multifunctionality of agriculture in Montenegro is exemplified by the following functions (MAFWM-Montenegro, 2006): function of sustainable rural development; environmental function; economic function; support function for tourism development; social function; food security function; and cultural function.

For a better harmonization of Montenegrin legislation with the *Acquis communautaire* many laws were adopted and others are in the parliamentary procedure. These include: the Veterinary Law; the Law on Organic Agriculture; the Law on Plant Health Protection; the Law on Seeds of Agricultural Plants; the Law on Planting Material; the Law on Wine; Amendments to the Veterinary Law; the Law on Plant Varieties Protection; the Law on Plant Nutrients; the Law on Identification and Registration of Animals; the Food Safety Law; the Law on Animal Welfare; Amendments to the Law on Tobacco; Amendments to the Law on Plant Production Products; the Law on Agriculture and Rural Development; the Law on Cooperatives; the Law on Cattle; and the Law on agricultural Land (Bulatović, 2009). Moreover, a law, broadly aligned with the EU *acquis*, was adopted in March 2011 on designation of origin, geographical indications and traditional specialities guaranteed for agricultural and food products (EC, 2011).

The framework of current Montenegro's agricultural and rural development policy is provided by the Law on Agriculture and Rural Development adopted in 2009 (Official Gazette of Montenegro no. 56/09 of 14 August 2009) (EC, 2011b). The Law on Agriculture and Rural Development is the main legal document for the agricultural policy (MARD, 2012). The Law sets the objectives of agriculture policy and provides the general framework for the development of and support to agriculture and rural areas, grouped under four main categories: market price, rural development policy, activities of public interest and social transfers to the rural population (EC 2011b; MARD 2012).

The most important concrete outcome of what strategy foresaw is the National Programme for Food Production and Rural Development (NPFPRD), adopted in November 2008 (MARD, 2012). It regulates the development of the instruments and measures within the agricultural and rural development (Wehinger et al., 2011). The National Programme focuses on the central role of agriculture, provides the basis for further major reforms and the legislative work required for modernising agriculture (EC, 2011b). The NPFPRD comprises five groups of measures: market policy measures, rural development policy measures, support to general services in agriculture, social transfer to rural population and technical assistance for programme implementation (Wehinger et al., 2011).

The National Programme outlines objectives, its strategic and legal frame and the conceptual starting points for domestic agricultural policy as well as its harmonisation with the requirements for the CAP and the EU model for support in agriculture. In its essence, the NPFPRD is the operational document of the Strategy for harmonisation of Montenegrin agricultural policy with the CAP. It defines and designs the agricultural policy measures. It is the multi-annual budgetary plan and is also a frame for donor support (MARD, 2012).

National schemes to support agriculture i.e. agro-budget includes measures for market price policy; RD policy (strengthening competitiveness; sustainable resource management; improving the quality of life in rural areas); general services; social transfers; and fishery (EC, 2011b).

Sustainable agriculture and rural development is one of the seven priority action areas of the National Strategy of Sustainable Development (MSSD). Priority agriculture and fishery development objectives are: a) providing for a stable and good-quality food offer through the increase in competitiveness of domestic producers and sustainable management of resources; and b) rural development and provision of adequate living standard for the rural population. Measures related to rural development primarily include support to the less favoured areas, rural infrastructure improvement and enabling income sources diversification. The rationale of sustainable agriculture development model is multiple role of agriculture, which has functions of sustainable rural development, environmental protection, securing sustainable resource management, supporting tourism development, contributing to food security as well as social and cultural functions (Ministry of Tourism and Environmental Protection, 2007). It seems that mentioned policies on ARD were not so efficient and effective taking into consideration many problems in rural areas that are cited by the respondents who answered on-line carried out questionnaire survey (Box 5.7).

#### Box 5.7 Main problems in Montenegrin rural areas

- Lack of integrated policy planning
- Lack of economic incentives and opportunities (*e.g.* credits)
- Lack of physical infrastructure and unplanned construction
- Lack of knowledge and information
- Lack of qualified human resources
- Lack of investments
- Low use of modern technologies
- Inadequate diversification of rural economy
- Ageing of rural population
- Local strategies focus mainly just on agriculture
- Land fragmentation and non-updated cadastre records
- Low educational level
- Territorial dispersion of rural settlements
- Depopulation of rural areas and long distance to urban areas
- Insufficient allocation of state resources
- Limited arable land and use of machinery
- Insufficient development of organic production
- No added value to agricultural products
- Lack of educational activities for farmers
- Difficult procurement of agricultural inputs
- Unpopularity of agriculture and poor marketing strategies
- Unused natural resources and areas for rural eco-tourism and agricultural production
- Non-stimulating tax policy
- Rural poverty
- Lower quality of life in rural areas and limited employment opportunities
- Lack of financial resources for SMEs development
- Instability of electrical power
- Social discrimination
- Low productivity and low remuneration for worker
- Lack of collective centres for wild fruit, dairy and plant products
- Insufficient application of science in the development of rural areas
- Disproportionate investment in agricultural production and products` processing facilities
- Insufficient number of agricultural cooperatives and its organizational inability

Source: Author's elaboration based on the questionnaire survey results.

#### ***5.2.2.2. Actors dealing with agricultural and rural development***

**The main actors.** The main public institutions dealing with ARD policies in Montenegro include: Ministry of Agriculture and Rural Development; Ministry of Tourism; Ministry for EU Integration & the Ministry of Foreign Affairs (donors' support coordination also in the field of ARD); Biotechnical Institute in Podgorica; extension service; etc.

The Ministry of Agriculture and Rural Development (MARD)<sup>28</sup>, as a governmental body, is responsible for proposing and implementing agriculture policy (MAFWM-Montenegro, 2006, 2009). MARD has also the overall responsibility for rural development policy implementation (EC, 2011b). The Ministry proposes to the Government the agro-budget, as well as a series of other documents, acts and regulations, necessary for Montenegrin agriculture. The Ministry implements health control of animals, follows market conditions and price trends, and enforces legal matters, as well as inspection control in agriculture. The Ministry is divided into three sectors: Agriculture Sector; Forestry and Hunting Sector; and Water Management Sector, as well as the Department to follow up incentive measures, prices and market; the Unit for normative legislation matters in the field of Veterinary; the Unit for prosecution and the Service of general affairs (MAFWM-Montenegro, 2006, 2009). Departments for agriculture and Inspection Surveillance of the Agriculture Sector deals with current and developmental policy, normative activities, administrative surveillance and law implementation and other regulations in agriculture and agro-industry. The Ministry of Agriculture was gradually restructured since 2003 (MAFWM-Montenegro, 2006, 2009; Arcotrass et al., 2006). The government adopted a rulebook on the internal organisation of the MARD providing for strengthening the administrative capacity in this field (EC, 2011). The Veterinary Directorate is a special organ under the authority of Ministry of Agriculture, and is responsible for conducting managerial and related expert services (MAFWM-Montenegro, 2006, 2009).

The Ministry of Education and Science is responsible for education and research activities in agriculture. Its impact on agricultural development is much lower in comparison to the Ministry of Agriculture. It is responsible for the research and high education in the Biotechnical Institute of Podgorica and for secondary education in agricultural schools.

Montenegro has a relatively weak and simple institutional set up in the field of agricultural education, extension, research and information system. However, after years of resignation there were some positive institutional building developments. The main institution is the Biotechnical Institute. There is also relatively broad network of regional high schools (Arcotrass et al., 2006).

The Biotechnical Institute (ex. Agricultural Institute) in Podgorica is a member of the University of Montenegro and conducts educational, research-scientific and expert service activities in agriculture (MAFWM-Montenegro, 2006, 2009; Arcotrass et al., 2006; EC, 2011b). The Biotechnical Institute is the main partner of the MARD in performing official tasks related to quality control, food safety, as well as in defining and implementing agricultural policy, drafting of legal documents, etc. (EC, 2011b). Organizationally, the Institute consists of ten scientific research centres, two experimental holdings and three services financed by the Ministry of Agriculture: Cattle Breeding Service, Dairy Laboratory and Extension Service in Plant Production and Phytosanitary Service. The Biotechnical Institute legally is a part of the University of Montenegro and is financed from its budget, but Livestock Selection Service and Plant Production Extension Service are legally part of the Biotechnical Institute but financed by the MARD (EC, 2011b).

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<sup>28</sup> In 2011 name was changed from "The Ministry of Agriculture, Forestry and Water Management" to "Ministry of Agriculture and Rural Development"

The Livestock Selection Service, established in 2000, is organized in 6 regional centres. It performs two main activities: a) animal breeding and herd improvement programme and b) advisory services (EC, 2011b).

The Plant Production Extension Service, established in 2003, is organized in five centres: Bar, Bijelo Polje, Berane, Niksic and Podgorica. The Service aims at improving crops yield and products quality (MAFWM-Montenegro, 2006, 2009; Arcotrass et al., 2006). It performs three main activities: a) advisory services; b) implementation of support measures to the plant producers from agriculture budget; and c) carrying out of AMIS (Agrarian Marketing Information System) program (EC, 2011b).

High school education in Montenegro can be gained in five schools for agriculture, food processing and veterinary. Only one of them is vocational (high-school in Bar) while most of them are mixed schools: Podgorica, Berane, Andrijevica and Savnik (MAFWM-Montenegro, 2006, 2009; Arcotrass et al., 2006).

Key non-governmental organisations dealing with ARD governance include: Cooperative Union of Montenegro; Association of Agriculture, Food Processing and Tobacco Industry; the Association of Agricultural Producers; etc. The Cooperative Union of Montenegro coordinates the work of the 61 Montenegrin cooperatives (MAFWM-Montenegro, 2006, 2009). The activities of the Union include providing assistance to cooperatives, in the field of legal status and their assets, as well as in the fields of development, marketing, organisation and cooperation (MAFWM-Montenegro, 2006, 2009). The Association of Agriculture, Food processing and Tobacco Industry is a special association under the umbrella the Economy Chamber. The Association proposes measures to improve working conditions and business conduct of its members, participates in the preparation of measures of the economic policy and strategy for further development, conducts activities related to connecting economic subjects and improvement of cooperative relationships, etc. (MAFWM-Montenegro, 2006, 2009).

The Association of Agricultural Producers is an umbrella organization uniting 40 professional associations of Montenegrin producers in different agricultural sectors (MAFWM-Montenegro 2006, 2009). Most of the Associations are registered as non-governmental organizations. There are a few specialized branch associations, like Union of Bee-keepers, Association of Tobacco Producers, Association of Protected Areas Producers, Association of Poultry Producers, etc. (MAFWM-Montenegro, 2006). Other institutions involved in ARD include the Employment Office of Montenegro, the Directorate for Development of Small and Medium Sized Enterprises, the Development Fund, etc. (MAFWM-Montenegro, 2009).

The main financial support services in Montenegro are provided by the commercial banks and foreign investment departments registered in Montenegro, including those that have received the license from the Central Bank of Montenegro, namely the Ministry of Agriculture together with the Development Fund of the Republic of Montenegro and Agency for Small and Medium Size Enterprises Development. The Unemployment Fund of Montenegro provides support to banks, farmers and agro-food sector to have easier access to loans (Arcotrass et al., 2006).

The ARD sector in Montenegro is also characterised by the presence of many bilateral and multilateral donors and financial institutions (Bulatović, 2009). Since 1999, agriculture in Montenegro has had significant international support. Different means of support contributed in undertaking and accelerating certain levels of reforms in agriculture. It is very significant that a great number of local experts have gone through courses and specializations for specific agriculture areas (MAFWM-Montenegro, 2006).

The main bilateral donors operating in Montenegro are: Germany (GTZ); Netherlands (KfW), Luxemburg (LUX); Italy (Italian Cooperation for Development), US (USAID, USDA);

Sweden (SIDA), France; Slovakia; Denmark (DANIDA); etc. (ADA, 2010; Bulatović, 2009). GTZ is funded until 2012 but has shifted its focus to open regional funds for the West Balkans. KfW remains committed for longer term. USAID is planning to step up its activities in environment and governance areas. LUX is increasing its Vocational Education and Training (VET) programme (ADA, 2010). The biggest multilateral donors in Montenegro are: the European Commission (EC), UN (UNDP, UNEP, FAO); OSCE; World Bank (WB); EBRD; EIB; etc. (ADA, 2010; Bulatović, 2009). In 2007, WB and EBRD opened official representations in Podgorica. The multilateral banks focus on larger infrastructure projects such as water supply in the coastal region, coastal sewage treatment as well as road infrastructure (ADA, 2010).

**Questionnaire survey results on actors.** Performed on-line questionnaire survey provided opinions on coordination of ARD policy in Montenegro by diverse public institutions, national civil society organizations as well as international organizations and private sector. In particular, feedback was received from Ministries (Agriculture and Rural development; Sustainable Development and Tourism); USAID-Montenegro; Secretary for SME of Podgorica; State Agency for Environment Protection; Biotechnical Faculty of Podgorica; Regional Development Agency for mountains of Komove, Bjelasica and Prokletije; NGO's (Humanitarac - Niksic, Green Montenegro, Macak - Niksic, Centre for Development of Agriculture - Bijelo Polje, Paraplegic Association of Bijelo Polje and Mojkovac, International NGO *Coordinamento delle Organizzazioni per il Servizio Volontario-COSV*); municipalities (Tivat, Mojkovac, Pljevlja, Cetinje); Extension service; Union of Cooperatives of Montenegro; Union of Municipalities of Montenegro; State Directorate for forests; private enterprises (Simsic Montmilk d.o.o).

The survey questionnaire encompassed key public institutions, civil society organizations and private sector actors dealing with RD in municipalities and at the national level. More than a half (58%) of respondents were public institutions (60% of public institutions operate at the state level and 40% of them at the local level), 38% civil society organizations and international development organizations and agencies and 4% belong to the private sector.

Regarding operational level of the respondents, almost two thirds of them operate at the state level (65%) while more than a third (35%) operates at the local level.

Just 27% of the interviewees believe that there are organizations or actor groups that are actually not or insufficiently involved in the RD policy cycle and that should be involved more actively. The following actors were mentioned: development/investment foundations in Montenegro; education institutions – University of Montenegro (especially the Biotechnical Faculty and the Faculty of Economy); local non-governmental organizations; National Council for Sustainable Development; Ministry of Labour and Social Welfare; Ministry of Economy; commercial banks and microcredit organizations; and Employment Agency of Montenegro. Generally speaking, respondents consider insufficient the involvement of all state agencies and institutions, as well as civil society organizations. 58% of respondents did not provide any answer regarding this issue. It is interesting to notice that all interviewed institutions at the state level did not provide any answer.

Very few of respondents are members of national, regional, European or international ARD networks (15%); almost one third are not included in any kind of ARD networks while 58% did not provide any answer. Some mentioned networks are Regional Rural Development Standing Working Group (SWG), Mediterranean Olive Oil Cities Network, etc.

### 5.2.2.3. Governance of agricultural and rural development policy cycle

Most of the interviewees (92%) have been involved in a rural development project and/or in rural policy design. Most of the interviewed institutions and organizations are involved in design (69%), implementation (65%), and monitoring/evaluation (46%) of ARD policies. Only 8% of respondents have never been involved in RD cycle. Public institutions are mostly involved in design (69%), and less in implementation (53%), and monitoring/evaluation (53%). Private sector is involved in all phases of RD policy cycle. Civil society organizations are more involved in the delivery phase (80%) and policy planning (70%) and less in monitoring/evaluation (30%). All international organizations are fully engaged in policy design and implementation (100%) and less in monitoring/evaluation (33%).

The main problems related to RD policy design are presented in Table 5.11. Problems are different according to the type of actors (i.e. public, civil society) as well as their geographical coverage (i.e. local, national).

Table 5.11 Main problems faced in the design of rural development policy

Public institutions	Civil society institutions
<ul style="list-style-type: none"> <li>- Lack of integrated policy planning</li> <li>- Excessive focus on agriculture</li> <li>- Inadequate inter-institutional cooperation</li> <li>- Institutional complexity and fragmentation</li> <li>- Overlapping of responsibilities</li> <li>- Lack of coordination between the government and donors</li> <li>- Lack of accurate data on agriculture and rural areas</li> <li>- Poor involvement of the local population and farmers</li> <li>- Lack of municipalities, companies and NGOs involvement</li> <li>- Political difficulties</li> <li>- Slow process of decentralization</li> <li>- Lack of coherence in development planning between national and local levels</li> <li>- Incompatibility of sectoral policies</li> <li>- Lack of rural development strategies of municipalities</li> <li>- Lack of affordable credit policy and incentive measures.</li> <li>- Lack of processing facilities and lack of connection with producers</li> </ul>	<ul style="list-style-type: none"> <li>- Bureaucracy and low capacity of administration</li> <li>- Low capacity of the Agriculture and Rural Development ministry</li> <li>- Lack of harmonization of local and national policies</li> <li>- Consideration of rural development as part of agricultural development</li> <li>- Insufficient participation of local actors</li> <li>- Some policies transferred from neighbouring states not adapted to Montenegrin context               <ul style="list-style-type: none"> <li>- Lack of communication between producers and policy makers</li> </ul> </li> <li>- Great influence on policy design made by political parties</li> </ul>
<ul style="list-style-type: none"> <li>- Lack of highly qualified human resources</li> <li>- Policy design based on incomplete and inaccurate data</li> <li>- Inadequate allocation of funds and resources</li> </ul>	

Source: Author's elaboration based on the questionnaire survey results.

The main problems regarding RD policy implementation pointed out by the interviewees are cited in Table 5.12.

Table 5.12 Main problems faced by actors in rural development policy implementation

Public institutions	Civil society institutions
<ul style="list-style-type: none"> <li>- Lack of integrated policy implementation</li> <li>- Low administrative capacities at the local level</li> <li>- Lack of effective coordination between donors</li> <li>- Lack of spatial plans at the local level</li> <li>- Insufficient education and preparedness of the rural population</li> <li>- Personal interest and overlapping of responsibilities</li> <li>- Complicated documentation needed for getting support</li> <li>- Financial support is not well targeted</li> <li>- Insufficient familiarity with the needs of the rural population</li> </ul>	<ul style="list-style-type: none"> <li>- Bureaucracy</li> <li>- Insufficiently informed population</li> <li>- Absence of a clearly defined authority and responsibilities</li> <li>- Absence of a regional approach</li> <li>- Lack of support to rural entrepreneurship</li> <li>- Complicated administration for grants awarding</li> <li>- Adoption of practices from</li> </ul>

- Bureaucratic and technical barriers
  - Insufficient communication and cooperation among involved stakeholders
  - Bank sector is not included enough
- 
- Lack of financial and human resources
  - Donor initiatives are not always consistent
  - Low administrative capacity
  - Policy incoherence and inconsistency
  - Difficult access to rural areas (transport, infrastructure)
- 

- neighbouring countries without analysing their applicability
- High political influence on decisions
- Lack of information flow

Source: Author's elaboration based on the questionnaire survey results.

The interviewees cited different reasons for ineffective policy monitoring and evaluation (M&E) (Table 5.13).

Table 5.13 Main problems in the M&E of rural development policy

Public institutions	Civil society institutions
- No policy or system for M&E	- Politicians, not the field professionals, have the last word
- Bad field information quality	- Methods and instruments that are applied taken over from abroad
- Low capacity in field data analysis	- Not taking into account conclusions and recommendations in next policies
- Insufficient administrative capacity of institutions in charge of M&E	- Underdeveloped system to collect and analyse information
- Corruption	- Lack of communication between central and local administration
- Lack of continuity in monitoring	- Poor performance of public services
	- Conflict of interest
	- Bad coordination with active projects
	- Bad definition of clear indicators for M&E
<hr/>	
- Lack of well-trained staff and personnel for M&E and competent structures	
- Low educational level of end-users	
- Shortage of funds for M&E activities	
- Weaknesses in the work of all inspections	

Source: Author's elaboration based on the questionnaire survey results.

#### 5.2.2.4. Agricultural and rural development coordination

More than a third (38.5%) of respondents evaluate the coordination of sectoral policies in Montenegrin rural areas as good, a half as bad (50.0%) while some consider it as very bad (7.7%). Nobody considers coordination of sectoral policies as excellent and/or very good and some respondents did not provide any answer (3.8%)

Apart from agricultural one, tourism sectoral policies are widely recognized to have good synergies with RD policy (81%), than economic (19%), environmental (19%) and water management policies (13%). Other sectoral policies mentioned by respondents include: energy; regional development; human and minority rights; forestry; transport; social policies; hunting economy; fiscal policies; culture and sport; and education. Some also highlighted importance of mountain and rural tourism, eco-tourism, regional branding of agricultural products, and organic production.

Almost all interviewees (92%) have had relationships with public institutions while most of them have had relationships with civil society (65%) and international organizations (73%). All public institutions at the state level cooperate with international organizations engaged in rural development and just 33% of local institutions.. About 35% of respondents contacted have collaborate with at least 5 public institutions, 57% with at least 5 civil society organizations while 17% collaborated with at least 5 international organizations. The most mentioned public institutions are Montenegrin Ministry of Agriculture and Rural Development, Biotechnical Faculty and local governments. Also some non-governmental organizations were cited such as the Centre for Agricultural Development (Bijelo Polje municipality), Cooperative Union of Montenegro and Agro-group (Niksic municipality)

while the most cited international organizations and agencies are FAO, UNDP, COSV, WB, Austrian Development Agency (ADA), etc.

Some respondents (19%) also mentioned some institutions with which they have had some conflicts while 31% do not have conflicts with other organizations and 50% did not provide any answer. It is interesting to note that public institutions (this refers to institutions at the state level as 100% of local institutions claimed that there are no conflicts with other organizations) have mainly conflicts with other governmental institutions mainly due to untimely submission of data. Civil society organisations, present a lower degree of involvement in those conflicts. Also, some national civil society organizations stated that there are sometimes some misunderstandings with other NGOs and some public institutions. Only 66% of respondents identified an organization as having the leadership in coordinating RD issues while 34 % of respondents did not recognise any leader organization. The institution more widely identified as the most important in providing a coordination of rural development issues is the Ministry of Agriculture and Rural development (62%) while some civil society organizations considered the Union of Cooperatives of Montenegro as leader institution regarding these issues.

Just 4% of respondents define the coordination among the different actors as effective while around 19% define it as ineffective and 77% as partly effective. The main constraints and problems regarding the coordination of ARD policy coordination that were mentioned by the respondents are included in Box 5.8.

#### Box 5.8 Major constraints in the coordination of ARD policy in Montenegro

- Lack of knowledge and information
- Lack of communication among key actors
- Institutional complexity and fragmentation
- Personal conflict of interest
- No dialogue culture and lack of participatory approaches
- Overlapping of responsibilities among institutions
- Lack of interest and motivation
- Lack of experienced human capital
- Slow decentralization process and high reliance on the central level
- Political staffing
- inappropriate approach, mechanisms and procedures
- Non-compliance of sectoral policies
- Different levels of administrations skills
- Weak harmonization of local, regional and national policies
- Lack of clearly defined plans, initiatives and long term strategies
- Overlapping of donor projects and small number of joint projects
- Lack of a coordination body
- Insufficient involvement of regional development agencies
- Weak regional representativeness in national institutions
- Many projects not aligned with national and local development strategies
- There is no new Strategy for Rural Development

Source: Author's elaboration based on the questionnaire survey results.

Overall most of the interviewees identified the main constraints in coordinating the different organizations dealing with RD as political (27%), technical (46%) and strategic (46%).

It seems that there is no common understanding of what is rural area and rural development and this fact makes coordination of ARD policies more complicated. Most of the respondents consider rural development as a cross-sectoral issue (69%) that includes the agricultural

sector, while some of them provided their own definitions<sup>29</sup>. Still, quite a high percentage considers RD as a subsector of agricultural development (31%). The highest opinions diversity was among public institutions as 53% consider rural development as cross-sectoral, while 47% as a subsector of agricultural development (44% of state and 50% of local institutions share the opinion that RD is part of agricultural development). Both international and civil society organizations consider rural development as a cross sectoral issue (100%). Private sector respondents consider rural development as a subsector of agricultural development (100%).

### **5.2.3. Governance and coordination in Serbia**

#### ***5.2.3.1. Agricultural and rural development policy***

Agricultural and rural development policy-making in the Western Balkan region has often been dictated by ad-hoc considerations and lacked a clear orientation towards the EU's Common Agricultural Policy (Volk, 2010). In Serbia, from 2000-2008, the institutional framework of agricultural policy was not transparent, lacked continuity and often resulted in conflicting solutions. In 2005, the government adopted the Agriculture Development Strategy. The reformed agricultural policy was intended to increase the competitiveness of commercial family farms. In terms of implementation mechanisms, agricultural policy focused on encouraging investments. From 2007, the implementation of agricultural policy has been permanently changing. Programs and regulations were changed and/or abolished several times during the year, and payments to the users were delayed (Bogdanov and Bozić, 2010). During the last period, rural development policy was a part of the overall agricultural policy of the country and was not defined in a specific programme. Annually, the Government on the proposal made by the Serbian Ministry of Agriculture, Forestry and Water Management adopts annual Programme of allocation and use of the agricultural budget through which is implemented the agricultural policy. Proposed support measures, with minor correction adapted to Serbian context, are highly in line with the classification system of the EU Common Agricultural Policy. Measures that may be characterized as rural development measures aimed at: improving competitiveness (axis 1), sustainable development and environment protection (axis 2), diversification of economic activities (axis 3) and building local capacities (LEADER). Approach named LEADER still doesn't exist in Serbia. However, some effort has been made on that field by establishing a Support Network for Rural Development that governed to improving the life quality in rural areas through involving and strengthening capacities of local rural communities and building a partnership among the civil society and public sector (Government of Serbia, 2011).

The Law on Agriculture and Rural Development (LARD) (Official Gazette of the RS No. 41/09) was adopted in May 2009. It established the Department of Agricultural Payments as a body within the ministry responsible for agriculture. The LARD regulates the objectives and implementation of agricultural policies, forms of incentives in agriculture and rural areas, the conditions for eligibility for incentives, and incentive beneficiaries. Major parts of the LARD in terms of rural development policy are related to the adoption of the Rural Development Program and establishment of a new structure of the Sector for Rural Development (RDNS, 2010). As regards rural development, the LARD put in place a strategic framework that largely resembles the one established under the current EU legislation (EC, 2011b). Implementation of the policy is based on the Strategy of Agriculture and Rural Development, the National Program for Agriculture and the National Program of Rural Development

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<sup>29</sup> E.g. Cooperative Union of Montenegro: “*Rural development is the basis of agricultural development and therefore the basis for tourism development*”.

(RDNS, 2010). The Agricultural and Rural Development Strategy for the period 2011–2020 has not yet been adopted (EC, 2013). A clear policy direction for agriculture is provided in the first adopted Agricultural Strategy (2005) and re-iterated in the National Agricultural Program 2010-2013 (2010), which aims at production and institutions restructuring; market development; and improving rural development and environmental protection (European Integration Office-Serbia, 2011).

The EU has funded a technical assistance project titled Support to Rural Development Programming and Payments System (2006-2008), managed by the European Agency for Reconstruction. The project introduced the Ministry of Agriculture staff to the preparation, implementation, monitoring and evaluation of rural development programs, as well as planned procedures and tools to support these actions. Some of these skills have been developed, and National Rural Development Strategy Plan 2008-2013 and National Rural Development Program for 2008-2013 were prepared (Bogdanov and Bozić, 2010).

The Serbian National Rural Development Programme 2011-13 identifies different strategic objectives: encouraging the improvement in food safety, veterinary and phyto-sanitary activities; and, encouraging sustainable development of the rural economy and rural areas by encouraging diversification (European Integration Office-Serbia 2011).

In addition to the Law on Agriculture and Rural Development, a whole set of laws regulating specific issues related to agriculture and rural development was adopted (RDNS 2010). In fact, thirty new primary laws have been adopted in 2009-2010 to harmonise with the *acquis communautaire*, and 94 regulations were passed in 2010 alone, addressing implementation requirements for agriculture, food safety and phyto-sanitary issues, water, forestry and rural development sectors (European Integration Office-Serbia 2011).

Other key national strategies affecting the agricultural and rural development sector include: Energy Development Strategy of the Republic of Serbia; the Biomass Action Plan for the Republic of Serbia 2010-2012; the National Sustainable Development Strategy (2008); the Strategy for Regional Development (2007-2012); the National Employment Strategy 2005-2010; the Strategy for the Development of Tourism of Serbia (2005 – 2010); the National Programme for Environmental Protection (2010); and the Poverty Reduction Strategy of the Government of the Republic of Serbia (2003) (European Integration Office-Serbia 2011).

#### Box 5.9 The current basic framework related to ARD policy

- Law on Incentives for Agriculture Production and Rural Development (Official Gazette of RS, No. 10/13)
- Agriculture and Rural Development Strategy of the Republic of Serbia (Official Gazette of RS, No. 78/05)
- Agriculture and Rural Development Strategy of the Republic of Serbia for 2011 to 2020 (in the public hearing procedure);
- National Programme for Agriculture of the Republic of Serbia from 2010 to 2013 (Official Gazette of RS, No. 83/10);
- National Programme for Rural Development of the Republic of Serbia for 2011 – 2013;
- Law on Agriculture and Rural Development (Official Gazette of RS, No. 41/09);
- Law on Agricultural Land (Official Gazette of RS, No. 62/06 and 41/09);
- Law on Organic Production (Official Gazette of RS, No. 30/10);
- Law on Food Safety (Official Gazette of RS, No. 41/09);
- Law on Livestock (Official Gazette of RS, No. 41/09);
- Law on Wine (Official Gazette of RS, No. 41/09);
- Law on Public Warehouses (Official Gazette of RS, No. 41/09);

Source: Government of Serbia (2011) and author's elaboration

These policies on ARD failure due to many problems in rural areas that are mentioned by the respondents who answered on-line carried out survey (Box 5.10).

#### Box 5.10 Major problems in Serbian rural areas

- Low level of rural economy diversification and quality of life
- Lack of financial resources, low purchasing power and rural poverty
- Limited employment opportunities and high unemployment rate
- Bad management of local resources and increased pollution due to uncontrolled use of chemicals
- Inadequate regional and RD policy
- Lack of vision, initiatives and willingness
- Poor physical infrastructure and communal problems (e.g. waste water, garbage, etc.)
- Lack of labour force and undeveloped market
- Lack of rural services (e.g. ambulance, pharmacy, cooperatives, transport facilities, etc.)
- Gender inequity
- Negative demographic trends (low birth rate, depopulation, migration, ageing, single men, lack of girls, etc.)
- Lack of knowledge, skills and information
- Low educational level and lack of qualified human resources
- Lack of investments and focus of local strategies mainly just to agriculture
- Obsolete farm machinery and equipment
- Disorganization of farmers
- Poor social and cultural life
- Low prices of agricultural products and lack of subsidies and collective centres
- Unpopularity of agriculture and prejudices of youngsters about staying in the countryside
- Unmarked routes and difficult access to rural areas
- Small and uncompetitive farms (land fragmentation and small plots)
- Inadequate communication of rural communities with state institutions
- Extensive agriculture and lack of processing capacities
- Lack of tourists' accommodation facilities and services
- Rural populations do not recognize themselves as active partners in RD process
- High dependence of the rural population on the primary agricultural sector<sup>30</sup>
- Limited possibilities to start new businesses and low level of SME's development
- Disappearance of common interest and the mentality of rural population

Source: Authors' elaboration based on the questionnaire survey results

#### *5.2.3.2. Actors dealing with agricultural and rural development*

**The main actors.** In order to define the key public, private and civil subjects who have influence and interest in supporting the rural development process, an analysis of key interested stakeholders was implemented by the Rural Development Network of Serbia (RDNS). The range of stakeholders identified by the founders of the RDNS is very wide and varied. The main stakeholders include (RDNS, 2010): Ministry of Agriculture; Ministry of Economy and Regional Development; Provincial Secretariat for Agriculture - Vojvodina; regional chambers of commerce; regional development agencies; veterinary stations; scientific institutions (institutes, universities); educational institutions; local governments; public companies and institutions; tourism organizations; agricultural expert services; donor

<sup>30</sup> About 45% of the active rural population work in agriculture.

organizations; religious communities; rural local communities; agricultural and rural development associations; media; registered farms; and private companies. Agricultural and rural development policy is under the jurisdiction of the Ministry of Agriculture; the key government body developing and implementing legislation for the sector. The Ministry of Agriculture set up a new Department for Rural Development in 2005 (Arcotrass et al., 2006). After adopting the Law on Agriculture and Rural Development, local governments have begun with the establishment of local funds for agricultural development (RDNS, 2010). Since 2007 the strengthening of local partnerships and the capacity of local rural stakeholders has been supported (Bogdanov and Bozić, 2010). The Ministry of Agriculture established the Rural Development Support Network of 16 regional and 140 local offices to prepare local communities for LEADER-type programs (European Integration Office-Serbia, 2011). Different associations are active in the field of agricultural and rural development at local and regional levels. These include the members of the Rural Development Network of Serbia (RDNS, 2010). The ARD sector in Serbia is also characterized by the presence of many bilateral and multilateral donors and financial institutions. The most significant donors in the ARD sector, according to the amount of disbursed funds in 2011, are the European Union (EU), the World Bank, the USA and Denmark (European Integration Office-Serbia, 2011). Apart from the EU, other donors are also contributing to the adoption of agro-environment and agri-business schemes, and rural development, with support from Japan, the Netherlands, Norway, Romania, Spain, Sweden, the United Nations and the USA (USAID) (European Integration Office-Serbia, 2011). The main specialized agencies of the United Nations System operating in Serbia are FAO, ILO and UNDP. Coordination and programming of the assistance at country level is the responsibility of the Department for Planning, Programming, Monitoring and Reporting on EU Funds and Development Assistance (DACU) within the Serbian European Integration Office (SEIO). Other donor coordination capacities at central level include the high-level Commission for Programming and Management of EU Funds and Development Assistance and Sector Working Groups (Forum on Aid Effectiveness, 2011).

**Questionnaire survey results on actors.** As for on-line administrated questionnaire, the respondents included many key Serbian public and civil society actors in the ARD policy cycle such as the Ministry of Agriculture, Forestry and Water Management; universities (Belgrade, Novi Sad and Pristina); Institute for Science Application; Institute for Agricultural Economics; Compensation Fund of Serbia; Cooperative Union of Serbia; Cooperative Union of Vojvodina; Chamber of Commerce of Novi Sad; Agricultural Extension Service regional offices<sup>31</sup> as well as some national and local farmer associations and cooperatives<sup>32</sup>. Respondents included also representatives of many cities and municipalities<sup>33</sup> all over Serbia, local tourist organizations<sup>34</sup> as well local funds and departments for agricultural development<sup>35</sup>. Answers were received also from some international organizations operating

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<sup>31</sup> Regional offices in cities/municipalities of Kraljevo, Krusevac, Leskovac, Negotin, Nis, Pancevo, Pozarevac, Ruma, Vrsac and Senta.

<sup>32</sup> National and local farmer associations and cooperatives such as: Chamber of Commerce of Novi Sad city; Association of producers and organic food lovers "VitaS"; Beekeepers Society "Danube"; Housekeeper association of Valjevo city; The association of sheep and goats breeders "Bikara"; Fruit growers association "Zlatno brdo /Golden Hill/" Smederevo; Cooperative "Zelena Basta/Green garden/"; Bačka wine order "Sveti Dorđe"; Agricultural cooperative "ZOON", Valjevo city; Agricultural cooperative "Ranovčanka"; Agricultural cooperative of Loznica city; Agricultural cooperative "Moba" and other farmers' associations.

<sup>33</sup> Cities of Nis, Cacak and Krusevac; municipalities of Sid, Zabari, Nova Varos, Zemun, Trstenik, Zabalj, Ljig and Vladicin Han.

<sup>34</sup> Tourist organizations of Lebane, Ruma, Bela Crkva, Sjenica and Sid municipalities as well as tourist organization of Zlatibor region.

<sup>35</sup> Department of agriculture and rural development of city of Nis and Fund for Agricultural Development of municipalities of Petrovac na Mlavi and Rekavica.

in Serbia such as GIZ (*Deutsche Gesellschaft für Internationale Zusammenarbeit*), USAID and the World Bank.

All in all, 73.5% of the respondents were representatives of public institutions (60% of public institutions operate at the state level and 40% of them at the local level) while the remaining share was divided between civil society organizations (22.1%) and international development organizations and agencies (4.4%).

A high number of the respondents operate at the local (47.1%) and state level (45.6%), while more than a fifth (20.6%) operates at the regional level. The reason why the sum of percentages is higher than 100% is that operation areas in case of some institutions cover two or even three territorial levels at the same time. However, some dissimilarity can be reported between interviewed public institutions and civil society organizations. Regarding territorial coverage, public institutions are more present at the local level (43.6%) than at the state (38.2%) or at the regional level (18.2%) while civil society organisations operate more at the state level (47.6%). Also, 33% of them operate at the local level and only 19.0% at the regional level.

Most of the interviewees (67.6%) believe that there are organizations or actor groups that are actually not or insufficiently involved in the RD policy cycle and that should be involved more actively. The following actors were mentioned: various Ministries (Agriculture, Forestry and Water Management; Regional Development and Local Government; Culture and Information; Labour and Social Policy; Youth and Sport; Education, Science and Technological Development; Finance; Energy, Development and Environmental Protection; Economy; External and Internal Trade and Telecommunications); development/investment foundations in Serbia (National Agency for Regional Development and Serbian Investment and Export Promotion Agency); education institutions (agricultural faculties; agricultural and veterinarian institutes); Standing Conference of Towns and Municipalities; cities and municipal authorities; Serbian Chamber of Commerce; Cooperative Union of Serbia; local non-governmental organizations; local tourist organization; Serbian Academy of Science and Art as well as public utility and telecommunication companies. Generally speaking, respondents consider insufficient the involvement of all state agencies and institutions, as well as civil society organizations. Almost a third of respondents (30.9%) did not provide any answer. The latter were mainly from public institutions at the state and local levels (76.2%).

A slight number of respondents are members of any national, regional, European or international ARD networks (29.4%). Almost one third is not included in these kinds of networks while 41.2% did not provide any answer. The most frequent answers referring to European and National RD Network, Balkan Scientific Association of Agricultural Economics and Farm Accountancy Data Network (FADN).

### ***5.2.3.3. Governance of agricultural and rural development policy cycle***

A high percentage of interviewees (88.2%) confirmed their involvement in a RD project and/or in rural policy design.

About two thirds (66.1%) of approached eligible organizations have been involved in ARD policy design and implementation while a lower percentage (33.8%) was involved in monitoring and evaluation activities. Some local public institutions have never been involved in RD cycle (2.9%). Public state and local institutions are mostly involved in design (64.6%), and implementation (64.6%), and less in monitoring/evaluation (34.0%). As expected, civil society organizations are more involved in the implementation phase (77.8%) but also in policy design (77.8%) while less in monitoring/evaluation (33.3%).

According to the Serbian respondents, there are many problems related to RD policy design (Box 5.11).

### Box 5.11 Major problems in RD policy design

- Inconsistency of national policy and lack of predictable and long-term national policy
- Lack of a clear rural development goals and strategic planning (ad-hoc measures)
- Insufficient involvement of all stakeholders in policy design, especially target groups
- No distinction made between rural development and agriculture
- Lack of appropriate sectoral analyses and databases
- Lack of educated and skilful human resources and administrative capacities
- Poor development strategies and disinterest at the local level
- Lack of vertical and horizontal communication and overlapping of responsibilities
- Lack of adequate development strategy and qualitative projects
- No consideration for rural territorial specificities (e.g. specific approach)
- No clear definition of rural area and misunderstanding of RD concept
- Non-compliance with other policies relevant to rural areas
- Limited funding
- Lack of knowledge and information about needs at the local level
- Inability, incompetence and indifference of people who create RD policies
- Insufficient involvement of local population in RD policy design
- Copying of policies (instruments and measures) without checking their effects
- Centralized political system and a great influence on policy design made by political parties
- Overall political instability and delay in the establishment of the IPARD structures
- Lack of local and regional RD strategies and low level of local actors capacity
- Difficulties to find common interest among stakeholders
- Non-existence of integrated economic, ecological and social approaches taking into consideration needs of future generations
- Mismatching between policy development at the local and national level
- Lack of interest and initiatives of rural population as well as local governments
- Unrealistic assessment of all resources and lack of detailed problem analysis in rural areas
- Concept of RD in the EU is usually used as starting point and it is often placed in front of the local and territorial features
- Excessive focus on the agricultural sector and tourism
- Local actors are unfamiliar with local resources

Source: Authors' elaboration based on the questionnaire survey results

The main problems for policy implementation pointed out by interviewees are cited in Box 5.12.

### Box 5.12 The main problems regarding implementation of RD policies in Serbia

- Limited budget and lack of initial capital for end-users
- Complicated application procedures
- Lack of market and its poor organization (transport, information, infrastructure)
- Lack of top-down information flow and low educational level of the rural population
- Insufficiently developed capacities at the local level and lack of local institutional support
- Inconsistency of RD policies and instability of existing structures
- Incompetent project management and lack of responsibility related to activities failure
- Poor adjustment of RD projects to specific situations in rural areas
- Undeveloped payment system and programs implementation control
- Unchecked absorption power of potential incentives users
- Low accessibility to end-users and their lack of interest
- Lack of technical resources as well as skilled and experienced personnel with various

backgrounds

- Distrust of locals regarding use of modern technologies
- High political influence on decisions
- Absence of political will
- Rivalry among institutions and high administrative costs
- Lack of horizontal and vertical coordination and collaboration
- No continuity in the policy implementation
- Complicated bureaucracy and administration
- Dominance of personal and short-term interests over common and long-term interests
- Inefficient mechanisms and unmotivated staff
- Prejudices of the local population
- Political instability and disorganization
- Mutual mistrust among stakeholders and overlapping of responsibilities
- Frequent changes of government and their priorities
- Individualism and self-initiated actions performed by different stakeholders
- Inappropriate measures that do not meet needs of the rural population
- Very mild grade and a great tolerance for non-compliance with the plan
- Influence of economic crises on strategies realization

Source: Authors' elaboration based on the questionnaire survey results

Regarding policy monitoring and evaluation (M&E), respondents mentioned various issues which are hampering effectiveness (Box 5.13).

#### Box 5.13 The main problems regarding M&E of RD policies in Serbia

- Evaluation of unquantified objectives
- Lack of an appropriate framework and orientation on short-term goals
- Inappropriate methods and approaches adopted in project monitoring (no selective approach)
- Lack of a structure within the ministry that deals with M&E
- Difficult tracking / measurability of selected indicators
- Low education level of end-users
- Lack of standardized indicators as different donors use different indicators
- Lack of knowledge, experience, adequate equipment and resources
- Unrecognized importance of M&E activities
- Political instability and its influence on M&E process
- Unreliable feedback, immeasurability and abuses
- Uncooperative respondents during the M&E process
- Difficulty to quantify the results of individual measures
- Prejudices of the local population and their lack of interest
- Incomplete monitoring records
- Poor vertical and horizontal coordination and cooperation
- Favouritism among institutions and superficiality
- Lack of financial resources for M&E activities
- Lack of interest of local authorities
- Weaknesses in the work of all inspections
- Information provided among the partners are confidential
- Lack of temporary and functional coordinating body for indicators monitoring
- Mixing of RD measures with direct payments
- Lack of standardized and simple procedures for M&E
- Lack of ownership over M&E process and its independence

Source: Authors' elaboration based on the questionnaire survey results.

#### 5.2.3.4. Agricultural and rural development coordination

The majority (75%) evaluate the coordination of sectoral policies in Serbian rural areas as bad and/or very bad. Nobody characterizes this issue as excellent while 16.2% consider that as good and 1.5% as very good. Several interviewees (7.3%) did not answer this question (Table 5.14).

Table 5.14 Evaluation of coordination of sectoral policies in Serbian rural areas (%)

Coordination effectiveness level (CEL)	Public institutions		NGOs	International development organizations	Share of answers/CEL (%)
	State	Local			
Excellent	-	-	-	-	-
Very good	-	5.0	-	-	1.5
Good	20.0	20.0	6.7	-	16.2
Bad	70.0	65.0	60.0	66.7	66.2
Very bad	6.7	5.0	20.0	-	8.8
No answer	3.3	5.0	13.3	33.3	7.3

Source: Authors' elaboration.

As for sectoral policies that have good synergies with RD policy, more than a half of respondents mentioned some policies (58.6%) while some denied existence of such policies in Serbia (14.7%). Among those that answered, apart from agricultural one, tourism sectoral policies are widely recognized to have good synergies with RD policy (52.5%) as well as regional development (22.5%), social (17.5%), economic (12.5%), environmental (12.5%) and SME's development (13%) policies. Other sectoral policies mentioned by respondents include: energy (renewable sources); natural resources management; quality; culture and sport; and education. Some also highlighted importance of health tourism, eco-tourism, catering, investments, trade and rural infrastructure.

Almost all interviewees (85.3%) had relations with public institutions. A small percentage (4.4%) does not have established cooperation with any of these institutions while 10.3% did not provide any answer. The most mentioned institutions, among other ministries, are Serbian Ministry of Agriculture, Forestry and Water Management as well as agricultural extension service and local authorities.

More than a half of respondents (60.3%) confirmed collaboration with non-governmental organizations, while some do not have any relations with these organizations (20.6%) or did not provide any answer (19.1%). The most cited civil society organizations are the national Rural Development Network and Cooperative Union of Serbia.

Almost a half of respondents (41.2%) maintain relations with international organizations and agencies, 32.4% did not work in partnership with any of these organizations. The most cited international organizations and agencies are the European Rural Development Network, World Bank, FAO, USAID, GIZ, etc.

More than a fourth of respondents (27.9%) also mentioned some institutions with which they have had some conflicts. It is interesting to note that public institutions (94.7%) and non-governmental organization (100%) have mainly conflicts with governmental organisations while international organizations and agencies are less involved in those conflicts.

Almost a half of respondents (47.1%) identified an institution as having the leading role in coordinating rural development issues. The institution often mentioned by interviewees as the most significant regarding these issues is the state Ministry for Agriculture, Forestry and Water Management (65.6%). All surveyed international organizations and agencies considered this ministry as the leading institution in this field. Quite a few respondents from public state and local institutions considered some other organizations as the most important

and recognized them as the leading actors on Serbia's RD scene – e.g. Standing Conference of Towns and Municipalities, Institute for Science Application in Agriculture, Centre for Environment and Sustainable Development (CEKOR) and Serbian Chamber of Commerce - while several national non-governmental organizations mentioned the Serbian Association of Agricultural Economists. More than a fifth (20.6%) do not recognize any institution/organization as a leading one in ARD.

All the respondents consider coordination between actors involved in the RD policy cycle as only partly effective (66.2%) or merely ineffective (33.8%). The share of actors that consider coordination as ineffective is higher among civil society organizations and international development agencies with respect to public institutions. Most of national (70%) and local (65%) public institutions judge coordination as partially effective.

Coordination is a problem at central as well as local levels (Box 5.14).

#### Box 5.14 Major causes of ineffective coordination of RD policy in Serbia

- Unclear dynamics of the integration process and stakeholders' roles
- Unclear national priorities and undefined long-term rural development goals
- Inefficiency of public administration at all levels
- Insufficient awareness on importance of partnership and participatory planning and decision-making system
- Slow decentralization process and high reliance on the central level
- Low level of information flow and inappropriate mechanisms and procedures
- Large hierarchy and suffocating bureaucracy
- Insufficient number of public-private partnerships
- Limited cooperation between ministries
- Political instability and disagreements
- Low intra- and inter-institutional coordination capacity
- Lack of cooperation willingness and motivation
- Non-existence of umbrella public institution that can deal with coordination issues
- Autism of sectoral policies
- Lack of joint projects and programmes
- General politicization and political staffing
- Lack of a common development platform
- Existence of parallel institutions and overlapping of competences
- Isolation of some institutions and lack of a cooperation culture
- Low communication skills of staff
- Lack of a good communication strategy and ineffective information dissemination among actors
- Confronted attitudes and no uniform approach to RD
- Declarative commitment that is not implemented in practice
- Different level of technical and administrative culture
- Lack of vision and clear ideas
- Personal conflict of interest

Source: Author's elaboration based on the questionnaire survey results.

The majority of the interviewees identified the main constraints in coordination among the different organizations dealing with rural development as political (67.6%), technical (64.7%) and strategic (77.9%). The fact that there are different understandings of what is meant by rural areas and rural development make even more difficult coordination of ARD policies. The majority of respondents characterize rural development as a cross-sectoral issue (70.6%) that includes the agricultural sector while 16.2% of them consider rural development as a part

of agricultural sector (even 72.7% of them are public state and local institutions). It is interesting that mainly extension service regional offices share opinion that agricultural sector includes rural development. In addition, some interviewees (13.2%) provided their own definitions<sup>36</sup>. All surveyed international organizations and agencies consider rural development as a cross-sectoral issue.

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<sup>36</sup> (i) International NGO Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH: “*Rural development deals with everything that has happened, that is happening or should happen in rural areas to improve the quality of life of the rural population and to preserve rural environment*”.

(ii) National NGO Fruit growers association “Zlatno Brdo /Golden Hill/” Smederevo: “*Rural development is equal to agricultural development*”.

(iii) Faculty of Agriculture, University of Novi Sad: “*Rural development is development (not subsector) of rural (not urban) parts of the country. Mostly it is agricultural development, but not only that!*” and “*Rural development is an alternative territorial development concept that combines the sectors of rural infrastructure, economy and various aspects of civil society*”.

(iv) Institute for agricultural economics: “*Rural development is the development of agriculture and other activities in rural areas, in accordance with the principles of sustainable development in order to improve the standard of living and quality of life*”.

## 6. DISCUSSION

### 6.1. COMPARATIVE STUDY: BOSNIA, MONTENEGRO AND SERBIA

#### 6.1.1. PROBLEMS IN RURAL AREAS FOCUSED ON GOVERNANCE AND DIVERSIFICATION

It is essential to analyse problems in rural areas as these influence the impact of policies but also the different phases of policy cycle. Problems should be known in order to design policies.

One of the common problems faced in rural areas of the three target countries is that related to low human capital. This has implications in terms of policy implementation as well as policy monitoring and evaluation. For implementation phase, it is necessary to have at disposal competent and endogenous human capital with certain education level as many times rural population does not have skills to implement rural policy. Furthermore, skills and education level influences quality of data that are collected on the field what directly impacts evaluation.

#### ECONOMIC PROBLEMS

**Lack of financial resources.** Lack of financial resources is one of the main indicators used for assessing poverty. This problem is more expressed in those rural areas in which employment opportunities are limited and where many people suffered due to loss of jobs, especially in industry and public agricultural farms (*combinats*). In ex-Yugoslavia, full attention was paid only to big state farms while private farms were not much favoured by the government (FAO-Bosnia, 2012). This is particularly true in the Bosnian case where many companies were devastated and totally or partially ruined during the civil war. However, overall unstable political and economic situation in whole Balkan region also affected negatively Montenegrin and Serbian rural population quality of life. Most of rural people lack access to the range of financial services they need. Financial services available to them are relatively costly or rigid. Moreover, the main products of many microfinance institutions are not well-suited to seasonal or longer-term agricultural activities (CGAP, 2003). Traditionally, formal financial institutions have avoided or failed to offer sustainable services in rural areas (*e.g.* rural or agricultural development banks) (Richter, 2011). Financing of agriculture and agribusiness has always been difficult as a result of the risks and nature of the business. Traditional forms of collateral are often not available, thus limiting access to needed funding for the sector (Winn et al., 2009).

**Difficult access to credit due to lack of collaterals.** In addition, lack of financial resources is connected to access to credits. Mainly due to the lack of collaterals, rural population hardly has access to credits but at the same time they do not have either savings that would allow to live with dignity and to make investments for future. According to Richter (2011), in general, levels of financial literacy are often low in rural areas so it is important to promote a savings and insurance culture among rural populations. A growing evidence body shows that well-developed and inclusive financial systems are associated with more rapid growth and better income distribution. Finance helps extend the range of individuals, households, and firms that can get a foothold in the modern economy and it can reduce damaging concentrations of economic power (Basu, 2006). Research shows that well-developed and inclusive financial systems are associated with more rapid rural development (*e.g.* Le et al., 2012).

Table 6.1 Major problems in rural areas of Bosnia, Montenegro and Serbia

INDENTIFIED PROBLEM	COUNTRY			INDENTIFIED PROBLEM	COUNTRY		
	BO	MO	SE		BO	MO	SE
<b>Economic problems</b>				<b>Social, demographic and cultural problems</b>			
Lack of financial resources and lack of investments	A	A	A	Rural poverty	A	A	A
Lack of labour force and undeveloped rural labour market	C		C	Low quality of life	A	A	A
Low level of SME's and new businesses development	B	C	B	Lack of qualified human resources	A	A	A
Limited use of machinery		C		Lack of knowledge and information	A	A	A
Extensive agriculture	B		B	Low educational level and use of ICT	A	A	A
Difficult access to credit due to lack of collateral		C		Lack of vision, initiatives and willingness			C
Limited employment opportunities	A	A	A	Lack of educational activities for farmers		C	
Low prices of agricultural products	B		C	Use of traditional methods and technologies	B		B
Difficult procurement of agricultural inputs and high costs	C	C		Poor social and cultural life	C		C
Low productivity and low remuneration for workers	C	C		Disorganization of farmers	B		C
Undeveloped rural tourism	C			Gender inequity	C	C	C
No added value to agricultural products	C	C		Lack of cooperation between producers and scientists	C	C	
Low level of rural economy diversification and high dependence on the primary agricultural sector	C		C	Disappearance of common interest and emerging individualistic mentality of rural population			C
Obsolete farm machinery and equipment	B		B	Unpopularity of agriculture	A	B	B
Small and uncompetitive farms	A	B	B	Obsolete educational and cultural facilities	C		
<b>Environmental and geographic problems</b>				<b>Infrastructure and service problems</b>			
Long distance to urban areas	C	A		Territorial dispersion of rural settlements and low density	C	C	
Bad management of local resources and increased pollution due to uncontrolled use of chemicals			C	Prejudices of youngsters about staying in the countryside	A	B	B
Insufficient development of organic production		C		Negative demographic trends (low birth rate, depopulation, migration, ageing, single men, etc.)	A	A	A
Unused natural resources	C	C		<b>Infrastructure and service problems</b>			
Mined agricultural land from the war	C			Difficult access to rural areas (i.e. bad roads)	B		C
Limited arable land		C		Poor physical infrastructure and communal services (e.g. sewage, garbage, ambulance, transport, etc.)	A	A	A
<b>Institutional, political and regulatory problems</b>				<b>Infrastructure and service problems</b>			
Non-stimulating tax policy and existence of "grey economy"	C	C		Lack of processing capacities, equipment and resources	B		B
Local strategies mainly focus on agriculture activities	A	B	A	Lack of tourists' accommodation facilities and services	A	A	A
Small and irregular economic incentives and opportunities	C	C	C	Instability of electrical power supply		C	
Lack of spatial plans at the local level	B	B	B	Lack of collection centres for rural products	B		C
				Difficult access to rural areas and lack of local markets	A	C	C

Source: Author's elaboration based on survey results.

Legend: BO=Bosnia; MO=Montenegro; SE=Serbia

A=Significant (problems mentioned by &gt;50% of respondents); B=Average (25-50%); C=Poor (&gt;25%)

**Rural economy diversification.** Diversification is still a challenge in many rural areas, both in terms of off-farm activities diversification and development of non-farm income-generating activities. Despite its declining gross value added, agriculture continues to have an important influence on the rural economy in the three studied countries (OECD, 2006). However, it is clear that nowadays agriculture is not sufficient to insure the sustainable development of rural areas that's why rural economy should be diversified (Antonelli *et al.*, 2009; Haggblade *et al.*, 2007; OECD, 2006). Generally speaking, as an economy grows the non-farm economy also grows in importance within the rural economy. Farm activities diversification in BMS is hampered by the lack of financial resources, willingness, initiatives, knowledge and skills of rural households to start new activities endeavours that can allow, among others, to add value to their products through some on-farm processing and packaging activities as well as to make products widely recognized by developing products with Geographic indications and regional labels. For diversification and value addition to products and value chains upgrading (Box 6.1) there is need for aggregation of farmers and producers, for example through establishment of collective centres for rural products.

#### Box 6.1 Upgrading of agricultural products value chains

Farmers, traders and processors are said to upgrade when they acquire new capabilities or improve existing ones. According to Ponte and Ewert (2009), upgrading paths can be characterized as follows:

- a) *Product upgrading*: moving into more sophisticated products with increased unit value, or with more complex content, or that match more exacting product standards.
- b) *Process upgrading*: achieving a better transformation of inputs into outputs through the reorganization of productive activities, and/or from improving standards in quality management, environmental impact and the social conditions of production.
- c) *Functional upgrading*: acquiring new functions that increase the skill content of activities and/or improve profitability (for example, moving from production only, to production and primary processing).
- d) *Inter-sectoral (or inter-chain) upgrading*: applying competences acquired in one function of a chain and using them in a different sector/chain.
- e) *Other forms of upgrading*: matching strict logistics and lead times (time to market), consistently delivering supplies reliably and homogeneously (a major challenge in agro-food products), being able to supply large volumes (thus improving economies of scale).

Rural economy is still highly dependent on agricultural sector not only because of reluctance and resistance of rural households to start new activities in the non-farm sector but also because of the focus of national rural development strategies and local development plans on agriculture, not only in those areas that have a clear agriculture potential but also in other areas where agriculture cannot be seen as the only development path.

**Small fragmented uncompetitive farms.** Lack of farmers' organization, coupled with the dispersed nature of farm settlements, hinders the participation of farmers in agricultural and rural development. This hinders the supply of extension services, farm credit, and other vital inputs to farmers. All these factors negatively impact competitiveness of single farms but also the overall agricultural sector of whole countries. The national policy responses to these problems and challenges have been diverse and have not always followed a clear strategy (Volk, 2010).

#### ENVIRONMENTAL AND GEOGRAPHIC PROBLEMS

**Long distance to urban areas** is often mentioned especially in Montenegro and this is related to unevenly regional development model and lack of nucleus that aggregate economic

activities located near to rural areas. This problem is further aggravated by bad road infrastructure which makes mobility more difficult.

**Bad management of local resources and increased pollution due to uncontrolled use of chemicals.** Erosion is responsible for large soil losses and land degradation, especially in steep places. The excessive exploitation of forests and the irrational use of land caused a change in land use structure (Nyssen *et al.*, 2012), and the quality of vegetation cover. In these cases it is necessary to adopt conservation agriculture techniques and practices (FAO, 2014). Bosnian agricultural production is more traditionally oriented, and the use of chemicals is lower than elsewhere in Europe (Stanojčić-Eminagić, 2010). Fertilizers and chemicals application should be under control especially in Serbia (*cf.* Vojvodina).

**Insufficient development of organic production.** Although many scholars and practitioners highlight the potential of organic agriculture as a sustainable development opportunity for developing and transition countries (*e.g.* Petrović *et al.*, 2014), organic agriculture is still at the early development stage in three studied countries. The fact that over 80% of land in Serbia is in uncontaminated soil, that there are areas that are not still exploited, which could be used for organic production (OP) without major investments are important prerequisites for the successful development of the OP in Serbia (Ćurković, 2013) but also in Bosnia and Montenegro. With less than 0.01% of the products consumed in Serbia being organic, compared with 3-4% within Europe, growth is inevitable (GAIN, 2009). Because of the low consumption of fertilizers and pesticides, BiH's traditional small-scale agriculture can quite easily convert towards organic farming (Renko *et al.*, 2010). Organic agriculture is at an early stage of development in BiH. Organic area is 200-400 ha which represents less than 0.1% of the total agricultural area. The number of organic farmers is about 300 (Driouech *et al.*, 2013). The main obstacles in Montenegro is lack of adequate public support (Vittuari, 2011), the undeveloped market, the small range of organic products, and the underdeveloped processing infrastructure are further factors hindering the development of organic agriculture in Montenegro but this is also valid for Bosnia and Serbia.

**Unused natural resources and mined agricultural land** is mainly a legacy of the war in Bosnia. Furthermore, because of the civil war many people migrated from rural areas and left their land. Added to this, many people left agriculture, even after the war, as they could not provide decent existence for their families in Bosnia and Montenegro.

**Limited arable land** in Montenegro is predominantly due to geomorphology as quite a large part of the country is mountainous and karst.

## **INSTITUTIONAL, POLITICAL AND REGULATORY PROBLEMS**

As far as this category of problems is concerned, the main issue is that is a lack of a stable agricultural policy.

Agricultural and rural development policy-making in the Western Balkan region in general and in BMS in particular has often been dictated by ad-hoc considerations. Regardless of the differences among the countries, the pragmatic ad-hoc approach for defining measures prevails. Agricultural policy is still implemented mostly based on annual programs of budget allocation, which are not stable in terms of funds, support measures and eligibility criteria. Rural development policy is generally subordinate to production support. Funds aimed at supporting rural development are much lower (Volk, 2010).

One characteristic specific to BiH is the complexity of its state administration, which complicates the implementation of its agricultural policy. Agricultural policies greatly differ, both by level of funds and structure of measures. Therefore, their implementation is far away from the model in EU. Legal harmonization is at the initial stage, and the institutional capacities of a modern state are still being built (Bajramović *et al.*, 2010).

A stronger harmonization with the objectives and instruments of the CAP is required to strengthen the European integration process in Montenegro (MARD, 2012). Montenegro has already undergone significant changes in the process of reforming agricultural policy at the level of creating a legal framework and formulating strategic guidelines. However, two main challenges remain: to build up the implementation structure; and to provide appropriate budgetary allocation to support the agricultural sector (Marković and Marković, 2010).

In Serbia, the implementation of agricultural policy has been permanently changing. Programs and regulations were changed and/or abolished several times during the year, and payments to the users were delayed. The agricultural policy in Serbia is only partly designed on a strategic basis and in recent years it has been characterized by the increasing estrangement from the EU model of support. The current strategy has not been supported by the accompanying program documents, so the measures for its implementation inconsistently followed the goals. Frequent changes in administrative structures brought radical changes in the support system (Bogdanov and Bozić, 2010).

### **SOCIAL, DEMOGRAPHIC AND CULTURAL PROBLEMS**

**Rural poverty.** Rural poverty is a serious problem faced in many rural areas in BSM. Poverty is a complicated issue that is influenced by endowments and capital of rural households but also by general social environment, especially in terms of presence or absence of social programs and safety nets. One cause of poverty in developing countries is the lack of access to credit, especially among rural households (Coleman and Wynne-Williams, 2006).

**Gender inequity.** Gender equity is still an issue in rural areas in three countries. Of course, this should be broadly understood not only in terms of equity between men and women but also in terms of different socio-economic and ethnic groups. Female rural population have very limited participation in the decision-making processes that concern them (FAO-Bosnia, 2012) at the household level but this is true also regarding their share in the most important positions within ministries and other public institutions at state and local level. Due to their unfavourable socio-economic status, general poor quality of life caused by powerlessness, patriarchal traditions and numerous household responsibilities it is clear that rural women tend to be in a difficult situation (FAO-Bosnia, 2012)

Rural youth are among the most disadvantaged groups. Sometimes they have limited access to educational programmes due to lack of financial resources or long distance to urban areas where educational institutions are located, especially faculties. In some cases, young persons' labour is genuinely needed on the farm. Very often young women from rural areas are not given the same opportunities comparing with young men in education and engagement in rural development activities. Socio-economic characteristics of rural youth represent successes or failures of policies and programmes (FAO, 1991).

Young people are not enough involved in rural strategies policy cycle: design, implementation and evaluation. Unfavourable environment "push" youngsters to migrate and rural areas remained without human capital and cannot achieve development. Endogenous resources are important for local strategies design as without them some external experts, who are probably not very familiar with the reality on the ground, must be called. Sometimes "rural" is considered something backward and migration of youth is a big problem for rural areas as they are the brains that can accelerate the development process. For implementation of sustainable ARD programmes are of vital importance youths' knowledge, skills, attitudes, and behaviour (FAO, 1991).

According to FAO-ROECA (2012), women and young people in Bosnia face difficulties in getting loans since they are rarely the owners of the land or assets on which they want to make investments. Similar situation is in Montenegro and Serbia. The success of

diversification endeavours is influenced by financial literacy. Control of financial resources can improve good management practices and contribute to gender equity. By learning how to manage their enterprises better, women, as well as men, can become more capable of controlling their economic activities and thereby better able to evaluate their resources. Women's involvement in self-help credit groups improve their role in enterprise and household decision making, their access to assets and their control over the self-earnings can improve significantly (Sudan, 2007).

**Prejudices of youngsters about staying in the countryside and unpopularity of agriculture.** The fact that young people are not very involved in agriculture sector is not only explained by resistance of old people but also by their mind-sets. Education they receive in rural areas is very often urban oriented and make them believe that their future perspectives will be better in the urban areas. This is especially true for youngsters who have good education and consciously decide to move to the cities in the hope of greater opportunities for employment and better education for their children.

**Mentality of rural population.** Living in cities is perceived as prestigious and fashionable especially in rural mentality and it can happen that rural people, especially the young, they prefer to move even when they find less paid jobs in comparison with the ones they can get in rural areas.

**Negative demographic trends.** Bad quality services have negative impact on demographic trends in rural areas because it fosters out-migration. Rural young women prefer to get married in cities and to move to live in urban areas. Generally speaking, all these factors lead to aging of rural population. This is not in the interest of rural inhabitants as population density decrease also decreases interest for investments of decision makers. This is true also for some rural areas where there is potential for investment (*e.g.* tourism, resorts, spa, etc.). In addition, poor social and cultural life and poor services are among the consequences for intensified urban drift.

**Use of traditional technologies.** Despite effort that were made during the two last decades for modernizing the agricultural sector in the three countries, agriculture is still mainly traditional except in some fertile areas such as Vojvodina (Serbia) and Semberija (Bosnia). In fact, use of traditional methods and techniques calls into question the efficiency of agricultural extension services. Due to migration of youth to urban centres, the most of farm managers are old and not open to modern technologies but also there is a problem of small farm sizes and sometimes difficult access to plots that does not allow easy mechanization. Rate of land improvement is low because of the low rate of capital investment by the predominantly traditional farmers and its high dependence on unimproved inputs. Agricultural production is predominantly in the hands of a multitude of small-scale, unorganized farmers scattered across the studied countries. State level interventions are needed to address issue of land fragmentation which would necessitate land consolidation.

## **INFRASTRUCTURE AND SERVICE PROBLEMS**

Dispersion of rural settlements is a big problem as it influences the range of services that are available but also their quality. This has to be linked to costs related to service provision in rural areas especially in times of financial and economic crisis. Even if the crisis started in the USA in late 2007 (*e.g.* Shane et al. 2009), it has had impacts also on quality of life of other countries such as BMS in general, and rural areas of these countries in particular. Low density in rural areas increases the cost of services for each single rural citizen. Even when some services exist in small rural communities they are very often of lower quality with respect to urban centres.

## 6.1.2. DIVERSIFICATION: COMMONALITIES AND DIFFERENCES

### 6.1.2.1. Factors affecting livelihood diversification

Different kinds of forces (economic, political, environmental, social, institutional) have driven livelihood diversification process. According to De Haan (2005) poor people adjust, cope, create, and re-create their livelihoods affected by macro-economic circumstances, climatic variability and institutional change.

A number of factors influence diversification of households' activities such as, among others, livelihood capital assets (e.g. human, social, natural, financial and physical) and access to information and knowledge. Beside individual and household capital, for shaping diversification opportunities are also important community level assets (Van Houweling, 2009). Non-farm diversification has more opportunities to be developed if households are located in regions with prosperous agricultural perspective and with good access to services and markets (Haggblade, 2007). Rural dwellers' physical mobility and access to urban areas is strongly related to the economic dynamism of the region (Bryceson, 1999).

Rural household are heterogeneous. Their ability to take advantage of opportunities that economic change creates will vary. However, three sets of characteristics are particularly important (OECD, 2010):

- i) *human capital characteristics* (e.g. age, experience, education and training, motivation, attitudes to risk);
- ii) the *nature of the farm and farm business* (e.g. the size of the farm, access to capital);
- iii) the *external environment* in which the farm household operates (e.g. access to markets, quality of infrastructure, off-farm employment opportunities, local social networks).

It should be kept in mind that interactions between farm households and the rural economy are two-ways. Diversification of farm households into other activities on and off the farm affects the rural economy, by raising the level of farm income and the viability of farms, (OECD, 2003) and thus affecting farm households' consumption of local goods and services, and the provision of agriculture-related amenities. By that farm households contribute to the rural economies. However, those farm families depend on the existence of a healthy and diversified rural economy, which provides off-farm work opportunities as well as the economic, social and cultural services that attract and retain people in rural areas (OECD, 2009). In order to fill the food production gaps, diversification is driven by the need to earn cash income in many countries. Some households see non-farm economy as a chance for income accumulation while other are pushed to diversify their income-generating activities simply in order to cope and survive. It is true that in some cases rural dwellers achieve financial success in dealing with non-farm activities, but evidence suggests that the enormous majority are involved in non-agricultural enterprises which are just barely fruitful and provide only their day-to-day expenditure (Bryceson, 1999). So it is important to examine factors that influence diversification positively or negatively, as they are often closely linked to certain activities and outcomes. Diversification of livelihood activities disclose differently in every context depending on how all factors which affect influence it come into play. The following example illustrates level of diversification in a specific context of the three rural regions in BSM. Rural territories in the studied countries suffer from rural depopulation and low density. It is more than clear that "rural exodus" as a migratory pattern of peoples from *rural* or remote areas into cities, occurs instigated by push factors of rural and pull factors of urban. Unbalanced sex ratio is manifesting through higher presence of male population in three studied rural regions. This appearance goes in contrary to the thesis of feminization of rural

areas in transition countries recorded by IFAD (2002) which is related to migrations of male labour force to cities due to better employment opportunities.

In fact, young female rural population emigrated more to town or abroad to get married or to find seasonal or permanent jobs while male population stayed at the countryside to deal mostly with agriculture. Male children are more engaged in hard work and other outdoor household activities and this is especially noticed when household livelihood strategy is based on cattle breeding as young rural man play shepherds' role.

Single man and elder households can have negative impacts on the viability of rural territories. It is particularly true that urban areas are very attractive for rural population while vice-versa is not so common, especially are rare situations when urban girls get married to rural man. In addition, rural young women are often not given the same opportunities like rural young man in education and employment. They are expected to take care about house so these are also some of reasons that "push" their decision to move instead to stay in villages. This appearance and gender bias leads to negative demographic trends and depopulation of rural areas in three studied regions, especially in Bosnia where situation is even worse taking into consideration that men were more victims during the civil war in 90's than women.

In general, lack of opportunities in rural areas lead to urban drift as rural surrounding cannot fulfil rural population' and especially youth' expectations and needs. Even formally they do not live in rural household, in many cases they are still considered as a part of rural household due to financial support they provide to their family and the fact that very often they have in their documents address that approve they still live in that household.

The percentage of persons who moved from rural areas is even much higher than survey results showed as it is not related to youngsters who immigrated to urban centres because of schooling. In this case, youth that immigrated to places with better education possibilities are considered as households' members who they take part in house budget because they are still mainly or partly financed with money provided by the household. Generally speaking, better educated young rural people and workforce cannot be expected to stay in rural areas without attractive economic surroundings (Bogdanov, 2007).

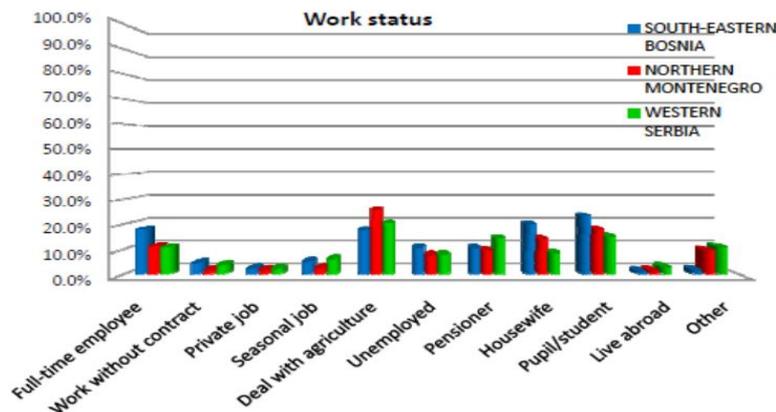
As a consequence of migration flow the most urban towns become increasingly overcrowded putting pressure on limited services (FAO, 1991).

The certain percentage of illiterate who did not go to school or continue education because of different reasons (e.g. households located far from schools, security reasons, coping strategy based on agriculture and no time for education, etc.) in all three rural regions affects also diversification of income-generating activities due to their limited access to information and its commentary. Overall the higher share of mixed and non-agricultural households suggest that rural economy is diversified but the high percentage of households which coping strategy relies on agricultural activities clearly shows that agriculture is still important in livelihood strategies of the rural population in south-eastern Bosnia, northern Montenegro and western Serbia. In agriculture-based economies, the share of rural income derived from non-agricultural sources may be only 20 to 30% while it can be as high as 60 or 70% in urbanizing economies (Valdés *et al.*, 2008). Agriculture is important for food security of many households but it is clear that nowadays agriculture is not sufficient to insure the sustainable development of rural areas that's why rural economy should be diversified (Antonelli *et al.*, 2009; Haggblade *et al.*, 2007; OECD, 2006).

Results show better educational and qualification structure of mixed households with respect to agricultural and non-agricultural households. This fact creates a good base for having more skills and knowledge on diverse households' livelihoods strategies that can make better their quality of life. Furthermore, their members accept easier new technologies and other innovations in rural areas that helped them in diversification of their activities and they are more engaged in social life within the community. All in all, these households are the bringer

of progress and innovations in rural areas (Bogdanov, 2007). The high percentage of surveyed households' members considers themselves as farmers (17-25%) in all three SRR (Figure 6.1). It is noticed that households with higher dependence on agriculture have less unemployed members compared with other two types. It cannot be considered as a positive point as it does not mean that these households have lower unemployment rate due to fact that high conditionality to agriculture can give rise to hidden unemployment (Bogdanov, 2007) as household members share household activities according to their capabilities and skills but it is not necessary that all of them are full time employed. In fact, underemployment is widely spread in rural areas of SRR in general and among agricultural households in particular. In rural area of SRR is common to contribute in households activities from age of 15 to 65. With respect to this parameter, the highest share of total surveyed rural dwellers can be considered as rural labour force. Certain percentage work without contract which leads to conclusion that black market exists, especially in south-eastern Bosnia. Even the sample from all three regions was quite similar in terms of total number households' members it is more than clear that there is serious problem with birth rate again mostly in surveyed Bosnian region but also in other studied sites.

Figure 6.1 Work status of households' members in studied rural regions (SRR) (%)



Source: Authors' elaboration based on survey questionnaire results in SRR

Smaller share of rural women are employed in jobs outside the household compared to rural men which can be explained by absence of adequate jobs offers. Limited employment opportunities for female rural workforce are mostly the reason why a number of the women are considered as housewives, especially in Bosnian rural region.

One of the important problems of agricultural labour supply arises from the increasing migration of able-bodied youths from rural to urban areas in SRR. The consequence of the enormous movement of youth rural population is labour shortage in general and seasonal in particular, especially at the peak periods of labour demand such as land preparation, planting and harvesting. Western Serbia, among others areas, is one of the most fertile parts in Serbia. Zlatibor district is the most significant area for raspberries with a realized production of one third of the domestic production. It is registered that agricultural participation in the overall region amounts 55% but the area shows a low work productivity in agriculture compared to other rural regions in Serbia (Bogdanov, 2007) what is also similar to Bosnian and Montenegrin rural regions context. Western Serbia around Zlatibor mountain, areas around Visegrad in south-eastern Bosnia and mountain Bjelasica surrounding in northern Montenegro are famous tourist destinations and seasonal labour is highly requested. Western Serbian region shows currently the largest tourist potential and comparative advantages with respect other areas in Serbia. The studied regions, due to rich sources of provender have

favourable conditions for cattle rearing. Heterogeneous relief of SRR and the diverse nature of the resources present the reason for a diversified economic and agricultural structure.

**Skills and human capital of rural households' members.** According to results many households' possess certain knowledge and skills that diverse from region to region. Large share of surveyed households consider themselves as capable to deal with processing and packing of food in all three region. Processing capacities, which could provide value adding, are not developed within the Serbian studied region (Bogdanov, 2007). It is also true that Bosnian and Montenegrin rural regions lack in processing facilities.

Taking into consideration the great heterogeneous potential of the studied rural areas in terms of natural, cultural and historical heritage as well as favourable climate and the fact that around fifth of interviewees from all three regions declare they have skills to deal with rural tourism (which could be utilized in near future, this and other activities such as production of typical and traditional products that allow the diversification of the rural economy could be engine of regional development and pattern for improving the life quality. It is clear that tourism is a growing sector in many rural areas in BMS and this sector can create new employment opportunities for rural dwellers. Tourism activities also enhance overall attractiveness of rural areas (FAO-ROECA, 2012). Lack of tourist facilities is problem that should be addressed as soon as possible by all involved stakeholders as small hotels run by rural families, private rooms as well as on-farm accommodation are insufficiently developed. Limited accommodation service affects negatively rural population as they missing out new jobs and income-generating opportunities. Taking into consideration diversification, there are identified several types of tourism that should be further developed such as those related to cultural and religious heritage, "soft" adventure and eco-tourism. This sector lacks in financial support and lack of knowledge. Additional governmental support is required (FAO-ROECA, 2012).

Capability to provide service on equipment and machines requests having these in ownership by households or at least as a cooperative property that can be available to rural population upon request. Richness with forestry and long tradition are reasons why households in the Bosnian region have more experience in collecting wild fruits and mushrooms in comparison with other two regions, especially Serbian ones. This requests spots for collective centres and processing facilities. Mushrooms' collection has doubled over the last few years and harvesting wild fruit and plants is still very important economic factor in Bosnia that assure main or additional income for rural population but at the same make it as unsustainable practice and damaging biodiversity (FAO-ROECA, 2012). Despite fact that certain percent of households' members is educated, especially in Montenegro, it is noticed that they do not utilize enough their entitlements, skills and knowledge to teach other members of the rural community. Strengthening the rural people's capabilities to take advantage of opportunities in the rural non-farm economy is essential. Education and skills are particularly important as they enable rural people in general and rural youth and women in particular to access good employment opportunities, and enhance their capacity to start and run their own businesses. Technical and vocational skills development in particular needs to be strengthened and better tailored to the current needs of rural people (IFAD, 2010). There is reasonable fear that heritage and tradition will be forgotten over the time as conservation of traditional customs and old crafts are rarely mentioned as activity that household members could deal with in the near future. More often women have skills on folk crafts such as knitting and weaving (Table 6.2).

Table 6.2 Skills of households' members in SRR (%)

SKILLS	REGION		
	SOUTH-EASTERN BOSNIA	NORTHERN MONTENEGRO	WESTERN SERBIA
Processing and packing of food	13.9	38.7	35.6
Services on equipment and machines	13.0	27.4	12.5
Production of traditional local products	35.2	26.4	21.2
Forest fruit and herb production	31.5	24.5	9.6
Rural tourism	16.7	18.7	20.2
Trade, ransom, stipulation	15.7	12.3	14.4
Agricultural shop	9.3	8.4	5.8
Supermarket	10.2	2.8	4.8
Handicraft	2.8	1.9	1.0
Artisan store	5.6	1.9	1.9
Teaching (language, music, dance)	-	-	1.0
Other	0.9	3.7	3.7

Source: Authors' elaboration based on survey questionnaire results in SRR

According to a number of income-generating possibilities which are identified by mixed households, it is clear that these households are surer about skills and knowledge they possess and they are more oriented to seek job related to non-farm activities compared with members of surveyed agricultural households. However, it appears that weak business skills are limiting the extent of diversification (OECD, 2009).

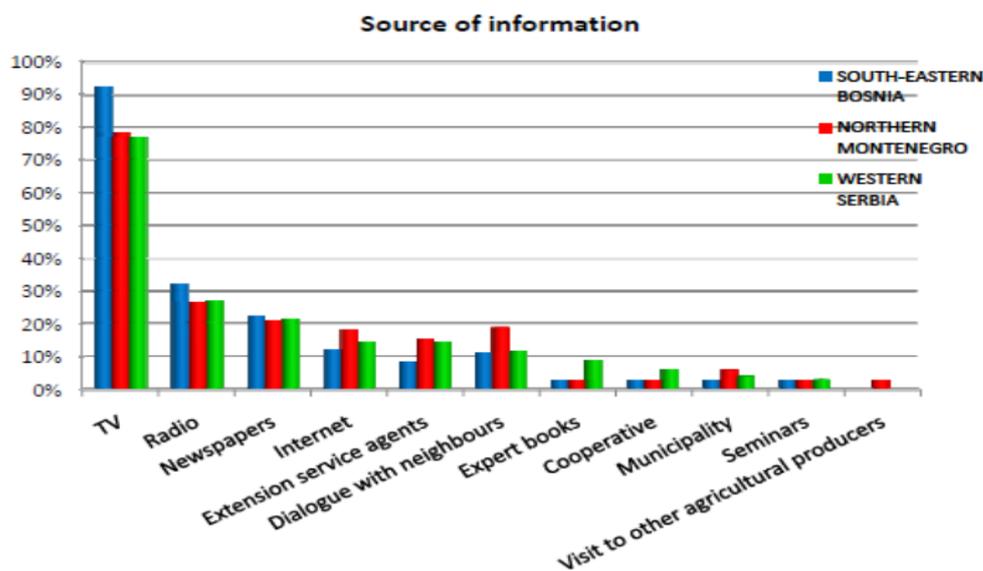
By interpreting the results, it can be concluded that there is large potential for entrepreneurship development in Bosnia, but the lack of institutional and financial support is the most important reason for farmers not realizing their ideas and utilizes their skills (FAO-ROECA 2012). Prerequisites for encouraging private investments include improving the business climate, and providing business development and financial services suited to the needs of small rural entrepreneurs. Acquiring a labour force with appropriate skills is crucial (IFAD, 2010). Farmers' ability to respond to new economic opportunities - both on and off the farm - can be increased through targeted measures, such as the development of business skills, the creation of products that respond to changing consumer demands, and to tourism (OECD, 2010). As for *human capital* factors that influence the development of on- or off-farm activities by farmers are (OECD, 2010):

- The lack of basic business skills is often a barrier.
- Financial motivation, such as the need to increase farm household income, maintain farm equity, provide for retirement or ensure business succession can provide a driver.
- Social and non-economic factors, *e.g.* attitudes to working off the farm and social motivations can operate as either a stimulus or constraint.
- Education can influence the ability of the farm household members to engage in new activities.

**All sources of information.** Results show that the most of all surveyed households consider electronic media as a primary source of information while the high number acquires information from newspapers (Figure 6.2). Low use of ITC is present in all three regions, especially in south-eastern Bosnia. Less than 20% in all three studied regions use internet which is also approximately confirmed, in Bosnian case, by document regarding sectorial analyses in Bosnia and Herzegovina in field of diversification (FAO-ROECA, 2012). Even if

households own computer and have access to internet it does not mean that always they capitalize it potential. In order to be better informed and to keep pace with modern trends, it is crucial to change rural dwellers' mentality and increase their awareness in terms of advantages of internet marketing. Rural population should be more ambitious and receptive to new communication technologies but also to invest more time to handle with it. This call into question state and local authorities as well as NGO's role in education as programmers supporting use of modern technologies should be designed and applied on the ground. Participatory technology development and farmers field schools can help to fill this gap. The most mutual source of information and advice for rural dwellers in apart from above-mentioned is friends and neighbours. It seems that dialogue interaction among friends is the highest in Montenegro compared with Bosnia and Serbia. Most advices are directly linked to farming practices rather than to economic diversification. Governments at the local level lack in trained and experienced staff and that is why respondents do not consider municipalities as an important source of information.

Figure 6.2 Usual sources of information in SRR (%)

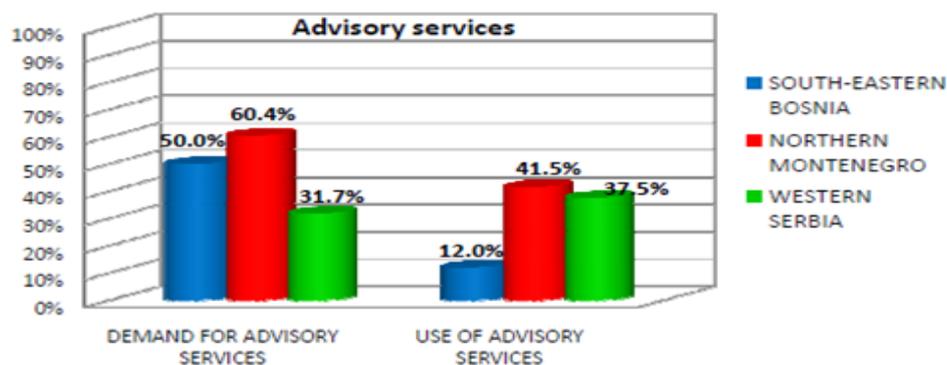


Source: Authors' elaboration based on survey questionnaire results in SRR

**Extension service performance.** It is obvious that transfer of needed information should be improved with regards to advisory service. This is particularly true in Bosnia in general and Republic of Srpska in particular where an extension service seems to be mostly oriented towards bigger farms rather than small-scale farms. Advisors in Bosnia provide services dealing mainly with agriculture production, processing and marketing (Berjan et al., 2013). The fact that the majority of the field staff are agricultural experts induces a strong focus on production techniques and a relative preference given to large farms (FAO, 2011). According to Swanson (2008), in most developing countries, extension's focus has concentrated on technology transfer for the major food crops. The Bosnian public agricultural extension service is strongly focused on production techniques, while farm management, markets and marketing, regional rural development and the promotion of producer organizations are only partially served (Berjan et al., 2013). Rural development is not systematically supported by the public advisory systems due to an overload of work, and to the general lack of knowledge (on projects and programs) and skills (on group facilitation and group management) (FAO, 2011). Livelihood diversification means engaging in activities that are more knowledge-

intensive and for which information support is more necessary with respect to the traditional crop production activities (Jankovic et al., 2013). In Serbia, advice needed differ according to the household type. Agricultural households need mainly advice on the following issues: animal health, cooperative establishment, animal husbandry, fruit growing, subsidies programmes, production and processing of agricultural products, plant protection, logistic issues, infrastructure, access to market, and legal issues. Mixed households needs in terms of advice regard mainly fruit pruning, plant protection, animal health, organic production and agricultural products processing. Extension for integrated farm development is not covered by public extension in the region. Advisors in the public systems do not have the time, means and/or the training for it (Jankovic et al., 2013). There is in every Montenegrin municipality a kind of advisory service for agriculture which engages one or more employees (Stanisic et al, 2013). Public services in the Western Balkans in general and in Montenegro in particular are strongly focused on production techniques, while farm management, markets and marketing, regional rural development and the promotion of producer organizations are only partially served. Needs for advice on regional rural development by expressed Montenegrin farmers include (FAO, 2011): information and support on rural and agriculture tourism; information on national and international rural development programs and support regarding the procedure for qualifying and on how to apply for these programs; and support for the initiation of supplying, processing and marketing associations. They provide a limited support for the diversification of rural livelihoods and income generating activities (Stanisic et al., 2013). Demand for extension service help vary with respect to studied region. The highest need for and use of their assistance is expressed in Montenegro (Figure 6.3).

Figure 6.3 Demand for and use of extension service assistance SRR (%)



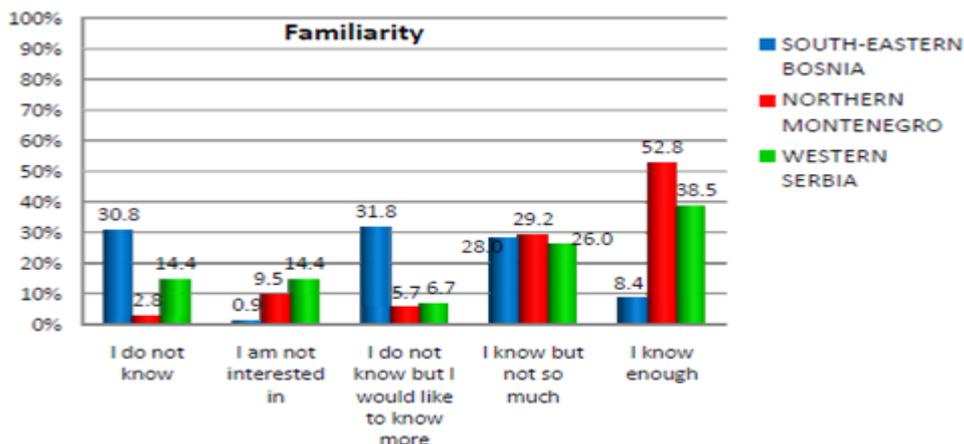
Source: Authors' elaboration based on survey questionnaire results in SRR

**Familiarity with ARD programmes and schemes.** Figure 6.4 shows good performance of extension service in Montenegro in dissemination of information as more than a half of Montenegrin respondents declared their familiarity on ARD programmes and schemes. It is interested that percentage of used services compared with demand is higher in Serbia. This can be explained that rural households that use services do not consider support provided so helpful for solving problems they face. The most concerning situation regarding access to information about ARD supported programmes and schemes is in south-eastern Bosnia, Low use of extension agents' assistance due to insufficient number of recruited staff but also limited geographical coverage taking into consideration available human resources in regional extension service offices highly affect information dissemination. It is recorded that seeking extension service assistance prevails among agricultural household types.

Extension agents provide information and advice on national subsidy programs. Nevertheless, according to FAO (2011), the Serbian public extension provides farmers and rural dwellers

only partially with information and support on rural and agriculture tourism. However, Serbian extension services recently started providing information on national and international rural development programs by the initiation of Rural Development Offices. As a matter of fact, mixed households seem having the best access to information on subsidies programme. This can be due to better education and “openness” of their members. Rural Development Offices and individual municipal advisors provide also support for the initiation of processing and marketing associations (Jankovic et al., 2013).

Figure 6.4 Familiarity with ARD programmes and schemes in SRR (%)



Source: Authors’ elaboration based on survey questionnaire results in SRR.

Households that registered their activities are more convince that they are familiar with these programs. Although, the importance of registration of farm holdings and support measures of state aid programs were great announced on media, still lack of information is present. Households which do not perform any agriculture-related activity seem not interested in information on institutional help dedicated for ARD.

**Physical capital.** Given that smaller and less developed municipalities in all three rural regions are worse equipped with physical assets compared with other survey municipalities lead to conclusion that smallest local rural communities are not priority like bigger municipalities with more inhabitants. Still, large territory of studied countries is covered by rudimentary infrastructure that remained from ex-Yugoslavia. That infrastructure is used so many years without proper fixing and maintains and it is not in a satisfactory condition. Funds for capital investments in budgets of local governments are limited and cannot cover all priorities that require immediate actions. Local councils should pay more attention to constructions of appropriate bus stops and new bus traffic lines should be carefully planned in order to meet real need of local inhabitants and ensure mobility and easier movement of end-users. Physical infrastructure in rural areas is underdeveloped in Montenegro (GoRM, 2007) and its standard and quality is much below EU standards (Wehinger et al., 2011). Waste disposal sites is missing and rehabilitation of existing utility services is desirable, especially asphalted roads. Common utilities such as electricity, water (except Serbia) and telephone are highly present in the surveyed rural households. Providing the services needed to foster business in rural areas, such as telephone and internet coverage, training and information, also help to create an environment conducive to diversification (OECD, 2009).

All settlements in rural areas in Montenegro are electrified (Wehinger et al., 2011). Similar studies show that around 94% of people in Bosnia have access to drinking water (FAO-ROECA, 2012) what is with line to obtained results. Results show that majority of

respondents have regular water supply but according to Wehinger et al. (2011) water supply pipes are in poor physical condition. According to studies around half of the population has access to the sewage system in Bosnia. These studies covered Bosnia in general what explains lower percentage of sewage presence in rural areas. Very often rural population without access to community sewage systems is ready to invest and install their own sewage systems. Sewage construction and maintains requires large investment (FAO-ROECA, 2012). Considering infrastructure, the western Serbian region is the least developed compared to other rural regions of Serbia. Negative demographic trends, slow-moving economic development and an insufficiently diversification have caused marginalization of the region. Unfavourable traffic infrastructure in comparison to other Serbian rural regions is one of the main tourism developments (Bogdanov, 2007).

High percentage of households in SRR possess car which is indicator of low movement rate. Rural dwellers use for transport also bicycles especially in Serbia and less motorcycle but mainly by younger rural population (Table 6.3.). Even with high altitude, the Serbian studied region has more flatland in comparison to other two regions and that might explain why use of bicycles and motorbikes is more wide-spread.

Table 6.3 Availability of infrastructure and households' physical capital in SRR (%)

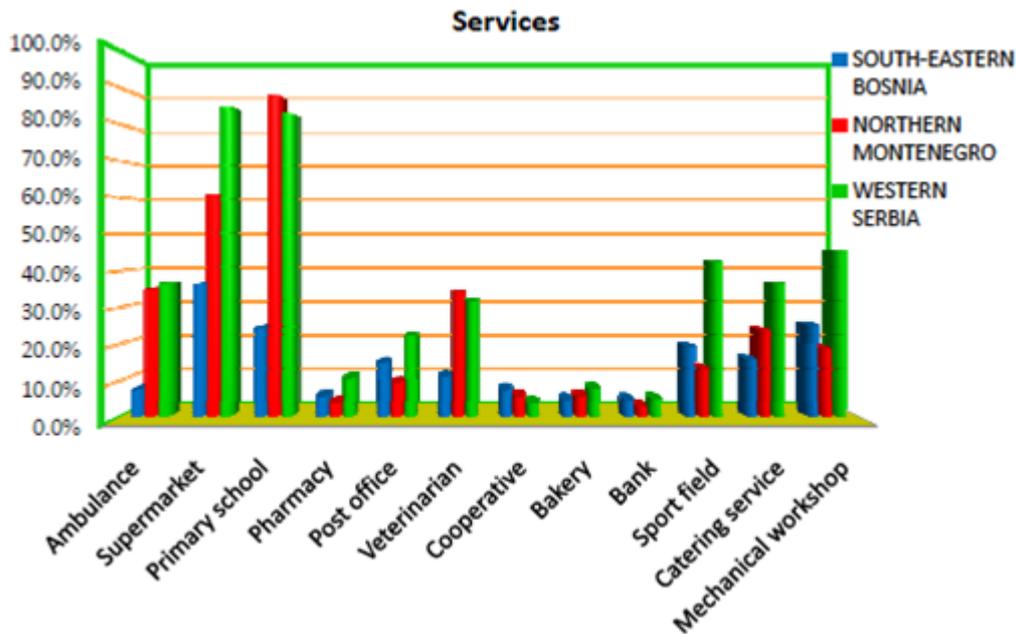
PHYSICAL CAPITAL	REGION		
	SOUTH-EASTERN BOSNIA	NORTHERN MONTENEGRO	WESTERN SERBIA
Water supply	92.6	94.3	63.5
Asphalted roads	55.6	74.5	62.5
Electricity	100.0	100.0	99.0
Bus, public transport	48.1	48.1	76.0
Telephone landlines	83.3	66.0	95.2
Mobile telephone landlines	100.0	99.1	99.0
TV signal (common)	87.0	97.2	95.2
Cable TV, satellite TV	48.1	68.9	39.4
Sewage	27.8	7.5	17.3
Take away garbage service	18.5	10.4	26.9
Street lights	13.9	7.5	35.6
Car	74.1	85.8	90.4
Bicycle	37.0	18.9	42.3
Motorbike	6.5	13.2	17.3
Computer	50.9	54.7	69.2

Source: Authors' elaboration based on survey questionnaire results in SRR.

Taking into consideration survey questionnaire results (Figure 6.5) and consulted literature it is noticeable that presence of rural services and institutions in SRR is not satisfactory. Health care is critical issue in SRR, especially in south-eastern Bosnia, and lack of health centres from the social point of view makes numerous rural households highly vulnerable especially knowing that something less than 10% of surveyed households' members are sick people that highly need regular medical care. Lack of rural service and its low quality lead to intensified "rural flight" to urban areas and greater loss of rural population. Also, availability of other services fails to meet the needs. It is noticed that even if some services are available in some rural municipalities, also exists certain dissatisfaction with its quality. Regional differences among studied regions are obvious as inhabitants of south-eastern Bosnia have unfavourable

access to rural services and this required mobilization of all stakeholders to address this issue and solve problem.

Figure 6.5 Availability of services and utilities in SRR (%)



Source: Authors' elaboration based on survey questionnaire results in SRR.

Also, apart of abovementioned, the following factors in the external environment can have a significant impact on the development of new economic activities (OECD, 2010):

- Location: remoteness from centres of population and population density may act as a barrier to the development of certain types of activities (e.g. products marketing), but may be an advantage for promoting agri-tourism.
- Consumer demand: successful new activities respond to consumer needs.

**Social capital.** Even many respondents declared their satisfaction with cooperative engagements in improving their quality of life still many of them are members of cooperatives. The main reasons of this appearance especially in south-eastern Bosnia is connected with its long tradition in Bosnia but also awareness about benefits that could be gained from membership if cooperatives take an active role in helping rural farmers. Member of these participatory groups should have lower prices for inputs, easier access to educational and marketing and promotion products' activities as well as to loans and international donors. The advantages of being member of cooperative should be seen in decreasing supply and sale expenditures and better competitiveness of their products on the market. In south-eastern Bosnia some interviewees are members of war veteran association that exist due to legacy of civil war that happened during 90's in Bosnia and Herzegovina (Table 6.4).

Survey results show poor social life of households' decision makers and these should be taken with a dose of reserve due to fact that they do not provide an overall image of all households' members as they refer just to householders. The majority of women living in rural areas are interested to be member of some participatory or collective groups as they perceive these groups very useful for business activity development (FAO-ROECA, 2012). Women play a more important role in the diversification of the farm into non-farm activities than in the primary agricultural activities (OECD, 2009). Motivations for engaging in non-

farm activities are not always purely financial, but also reflect societal changes, in particular the increasing proportion of women in the work force. In terms of the farm household, a financial motivation appears to be the strongest driver for diversification in general, although social motivations are shown to be important for farm tourism (OECD, 2009).

Table 6.4 Membership in participatory groups and organisations in SRR (%)

SOCIAL CAPITAL	REGION		
	SOUTH-EASTERN BOSNIA	NORTHERN MONTENEGRO	WESTERN SERBIA
Agricultural cooperative	22.2	19.8	11.5
Fisherman association	8.3	0.9	-
Sport club	0.9	4.7	2.9
Cultural – art club	-	-	-
Hunter association	34.2	5.6	7.7
Political party	19.4	9.6	13.5
Beekeeping association	2.9	-	2.9
War veterans	4.5	-	-
Association of retired people	-	2.8	-
NOT MEMBER OF ANY GROUP	45.3	80.2	75.0

Source: Authors' elaboration based on survey questionnaire results in SRR

Social and non-economic factors, *e.g.* attitudes to working off the farm and social motivations can operate as either a stimulus or constraint (OECD, 2010).

**Microfinance and access to loans.** Due to lack of cash in rural areas the alternative solution is getting a loan. According to Richter (2011), rural finance is the provision of financial services in rural areas that support a wide range of economic activities and households of various income levels. Agricultural finance is the provision of financial services that support all agriculture-related activities, including those of processors, distributors and exporters. The lack of favourable credit lines that are tailored to the specific characteristics and needs of agriculture is among the most often mentioned obstacles to the development of the sector. In Bosnia, rural population, enterprises and entrepreneurs mostly face credit conditions and credit lines no different to any other business or person (Arcotross et al., 2006). This is valid for Montenegro and Serbia as well. Results show more or less about a half of respondents from Montenegro and Serbia have never applied for credit and results indicate that is matter mostly about rural households without any member with full-time employment work status (Table 6.5). In addition, these households are predominantly not registered so they cannot fulfil bank/micro-credit organization requests in terms of needed guaranties.

Many rural dwellers has no experience how to apply for funding so rather they tend to make investments from their own savings (FAO-ROECA, 2012). Rural population mainly take loans for personal needs in south-eastern Bosnia and western Serbia and for buying machines and equipment in northern Montenegro.

Commercial banks are not always willing to provide credit for rural population which are not attractive customers as they consider rural enterprises and agricultural activities as risky businesses. In order to decrease their own risks, banks place high demands such as high interest rates, documentation of business sustainability and business plans, often two guarantors who are employed in the public institution and have regular monthly salary and do

not accept as guarantee property credit seekers in rural areas. Additional constraint in getting loan is that credit officers have no experience with agribusiness and diversification-related activities so they are not so comfortable to approve requested loans (FAO-ROECA, 2012). Very important issue that should be addressed is related to land and property ownership especially for vulnerable groups such as rural women and youngsters as in rare case they are owners of assets. Taking this fact into account it is very difficult for these groups to start-up new business activities. Access to credit is also limited because of low coverage of financial institutions in poor municipalities in SRR.

Rural dwellers involved in activities related to economic diversification have different investment needs. Generally speaking investment needs can be categorized as follows (FAO-ROECA, 2012): investment in new technologies (e.g. equipment, storage facilities); investment in new tourism facilities (e.g. restaurants and accommodation facilities in order to meet EU standards); investment in marketing (e.g. marketing materials, websites and marketing strategies). Farmers normally take out loans to buy machinery, supplies or raw materials, or to build greenhouses or buy perennial plants (FAO-ROECA, 2012).

Table 6.5 Use of loans and credits in SRR (%)

PURPOSE	REGION		
	SOUTH-EASTERN BOSNIA	NORTHERN MONTENEGRO	WESTERN SERBIA
I did not use	29.6	48.1	58.7
For personal needs	30.6	4.7	10.6
For buying seeds, fertilizers, fuel	4.6	11.3	4.8
For buying animals	12.0	12.3	3.8
For building, renovation of buildings	25.0	10.4	7.7
For buying agricultural machines/equipment	11.1	26.4	7.7
For new plants	8.3	-	1.9
For job out of agriculture	9.3	4.7	4.8
For buying irrigation system	-	2.8	-
Construction of fish ponds	-	1.9	-

Source: Authors' elaboration based on survey questionnaire results in SRR.

Membership in local financial groups helps developing financial management skills. As Sudan (2007) points out, regular micro-credit clients adopt good management practices more substantially, in particular with regard to calculating profits on the basis of records.

Financial motivation, such as the need to increase farm household income, maintain farm equity, provide for retirement or ensure business succession can provide a driver (OECD, 2010).

#### **6.1.2.2. Level of livelihood diversification**

The contribution of agricultural households to the rural economy depends on the employment and income generated by their agricultural and non-agricultural activities. The role of agriculture and farm households in rural economies must be viewed in the context of differing regional distributions of population and economic activity (OECD, 2009a).

Diversification activities by farm households can take several forms: ranging from increasing the range of agricultural products generated to productive activities off the farm. Hence, diversification can involve changes in the way that farm households allocate their resources, the outputs that are generated from the use of those resources, and the location of the

activities involved (OECD, 2010). Hereinafter are discussed sources of income for surveyed rural households, kinds of income-generating activities that they have tried out in last 5 years as well as the main constraints that they faced.

**Income sources.** Taking into consideration results and the fact that relevance of income is not equally distributed among households, it can be concluded that income earned outside agriculture is by far the main income for rural households in SRR (Table 6.6). Mixed and non-agricultural households generate income predominantly from non-farm salaries and wages earned outside agriculture or retirement pensions while agriculture is an additional source of income for mixed ones. In addition, households with more educated and younger householders have more income out of agriculture. Full time employment do not always present regular source of income as many employees does not receive their salaries on time due to unstable political and economic situation in studied countries.

Nevertheless, the number of those households basing their coping livelihood strategies on income from sale of agricultural products is rather high and nearly following income out of agriculture. A significant share of on-farm income shows that agriculture is still the main activity in rural areas of three SRR and it characterizes mainly elder households with lower education level. It is clear that agriculture represent important factor for food security of many rural households. This can be explained at least to a certain extent due to the fact that unstable political and economic situation in whole Balkan region in the last more than 20 years left huge sizeable consequences on overall economy, especially civil war in Bosnia. Many large national and multinational companies which employed extensive number of rural population - were totally devastated or closed so rural dwellers were obliged to insure their subsistence dealing with agriculture. Favourable climate factors and altitude above 500m in studied regions allow growing different plant and breeding various animal species, especially sheep. A third of Serbian raspberry production comes from the western Serbia (Bogdanov, 2007). However, many disadvantages affect negatively relevance of agricultural income compared with other regular income sources such as non-competitiveness of small-size farms, insecure and unstable market of their products, small productivity, etc.

Some rural households suitably located in municipalities with attractive tourist contents have more opportunities to be engaged in jobs out of agriculture, especially related to catering services. This is especially true in area of Visegrad municipality in south-eastern Bosnia, Kolasin municipality in northern Montenegro and municipalities near to tourist areas around Zlatibor and Tara mountains in western Serbia.

Opportunities to engage in other activities vary enormously across countries and across territories within countries and depend on a number of factors either specific to the farm (e.g. availability of extra labour, degree of business skills of farm household members, farm size, specialisation and location) or relating to the economic, regulatory and natural environment (e.g. access to markets, national and local labour markets, regulations and contractual practices regarding tenancy, environmental situation) (OECD, 2009). Agriculture remains a key driver of non-farm economic development, with each dollar of additional value added in agriculture generating another 30 to 80 cents in second-round income gains elsewhere in the economy. However, nowadays there are four other important drivers that play a role in stimulating non-farm economy growth: (i) urbanization, and particularly the growth of small or medium-sized centres and the growing integration of rural and urban economies; (ii) the processes of liberalization and globalization, which can create new employment and service opportunities in rural areas; (iii) improved communication and information systems, particularly the diffusion of mobile phone coverage in rural areas; and (iv) increasing investment in decentralized and renewable-based energy systems (IFAD, 2010).

The income from pension is high in all three SRR as many of the surveyed household members (30-35%) are retired and over 50 years. Pensions are the main income for 15-20% of households depending of studied region and their members are usually not employed, not very well educated and many often without additional skills. Very often pension payments are not sufficient to ensure sustainable subsistence so retired people need to supplement their pensions with income from selling what they produce (FAO-ROECA, 2012).

In Bosnian case, a number of the rural older population became pensioners after the civil war taking into account also their engagement in army. It is clear that regional differences in the relevance of income sources for rural households are highly noticeable. In south-eastern Bosnia agriculture is the main income for the almost a half of rural households, which is a very high ratio. Some households in the most remote part of south-eastern Bosnia and northern Montenegro rural regions receive more financial support from family or friends who moved abroad or to the urban areas due to different reasons but mainly because of better job opportunities. Higher movement of female rural population compared to man is registered and very often those engaged in seasonal jobs in cities got married and settle there so they present significant source of income for their families which remained in rural areas.

It is noticed that several surveyed households headed by women usually depend on income from pensions and social security programs and allowance especially if they have more than 2 children while those headed by man more frequently generate income from delivering services on machinery and equipment.

Table 6.6 Sources of income for rural households in SRR (%)

SOURCE OF INCOME	REGION					
	SOUTH-EASTERN BOSNIA		NORTHERN MONTENEGRO		WESTERN SERBIA	
	HAVE*	MAIN**	HAVE*	MAIN**	HAVE*	MAIN**
Income from own farm	73.1	41.7	51.0	34.0	46.2	27.3
Services on equipment and machines	11.1	-	11.3	4.7	15.4	1.9
Renting land and property	1.8	0.9	0.9	0.9	1.9	1.9
Non-farm salaries and wages	68.5	46.9	47.2	39.7	50.0	43.9
Pension	43.5	19.4	42.4	14.2	45.2	17.3
Seasonal job	5.6	-	4.7	1.9	10.6	6.7
Social programs and help	3.7	-	2.9	2.9	1.0	1.0
Family and friends from abroad	3.7	-	1.9	1.9	-	-

Source: Authors' elaboration based on survey questionnaire results in SRR

\* Percentage of households that have this kind of income,

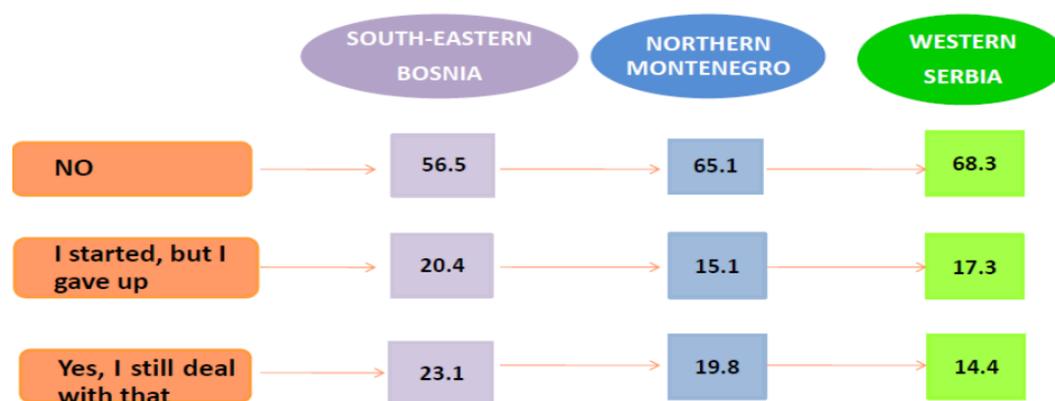
\*\* Percentage of households that have this source as main income

\*\*Cumulative percentage for all income sources is higher than 100 because multiple answers were allowed.

As shown by OECD (2009), information on the level of income generated from on-farm non-agricultural activities is very limited. Income from these activities is difficult to track.

**Business development and its obstacles.** Difference in business development appears in terms of the size and type of farm operation. In general, off-farm diversification activities are undertaken to a larger extent by smaller farms, for which they are more financially important. A number of factors would explain this including the existence of less utilized farm resources and greater financial pressure. Small farms are also perhaps more represented in the type of farm operations more likely to diversify. The location of the farm also plays an important role in determining the extent of diversification activities. The further a farm is located away from an urban area, the less opportunity the farm household has to diversify into non-farm activities (OECD, 2009b). Business development and environment are an important factor of diversification of economic activities and life quality improvement in rural areas. The most of surveyed households in SRR did not develop any activity or start a new business in the last 5 years due to various reasons (Figure 6.6).

Figure 6.6 Business development in the last 5 years by rural households in SRR (%)



Source: Authors' elaboration based on survey questionnaire results in SRR.

Many factors represent barriers to new business development but the most common are economic. The widespread key constraint explaining why 56-68% of the households depending of SRR have not had any new activities or started up new businesses (except agriculture) in last 5 years was financial as they did not have initial capital. That problem is more expressed among households with low annual income less than 5000 euro. Taking into consideration that money is the main problem, one of ways to leave behind that is attempting to get a loan but it also means being eligible for credit.

It is true that certain percentage of households are employed in public sector and they are quite satisfied with what they ear but also they do not have time to develop and maintain new kinds of business.

It seems that difference between the households that have not started any new activity because many of them rely on agriculture and these that have tried is probably in assumption that agricultural households see their future in dealing with agriculture and that their interest for information, education, innovation and cooperation is much lower (Bogdanov, 2007).

Some Bosnian and Montenegrin interviewees do not have an idea which kinds of skills can bring them earnings or could not estimate skills of their households' members (Table 6.7).

Table 6.7 Reasons for non-starting new business development in SRR (%)

REASONS	REGION		
	SOUTH-EASTERN BOSNIA	NORTHERN MONTENEGRO	WESTERN SERBIA
Lack of financial resources	A	A	A
Satisfaction with current income	C	B	C
Time	C	C	C
Lack of market	C	-	-
Complicated procedures	-	C	-
Lack of Institutional support	C	D	-
Unstable economic situation in country	D	D	D
Lack of labour	D	-	D
Production risk	D	D	-
Lack of idea	D	D	-
Far from urban areas and market	-	D	D
Unfavourable loan conditions	D	C	-
Aid programs and schemes	D	-	-
Elder households	D	D	C
Health problems	D	D	-
No experience and skills	-	D	-
Lack of willingness and interest	-	D	D
Small prices for rural products	-	D	-
No perspective	-	-	D
Security reasons	-	-	D

Source: Authors' elaboration based on survey questionnaire results in SRR

Legend: **A=Significant** (frequency>50%); **B=Average** (25-50%); **C=Poor** (10-25%); D=Very poor (<5%)

It is difficult to generalise about the challenges of income diversification for agricultural holdings because they have a strong regional character or lie in the characteristics of the farm or farm household (OECD, 2009). The importance of factors affecting livelihood diversification **varies** across countries and between regions within these, as well as among households. Nevertheless, some broad generalisations can be made (OECD, 2010).

Similarly, some generalisations can be made about the impact of the *nature of the farm and farm business* (OECD, 2010):

- Farm size: farmers of small farms are more likely to be driven to engage in new off-farm activities.
- Enterprise type: involvement in labor-intensive farming activities (e.g. dairy farming) make it less likely that farm households will engage in other economic activities.
- Farm structure and ownership: tenants may have less flexibility than owner-operators in accessing capital.

Food processing is the most attractive option for the households in northern Montenegrin and western Serbian regions. The most frequent businesses that the surveyed households have tried are related to picking up forest fruits and herbs, services provision on machines and equipment as well as artisan store (Table 6.8.). Participation in non-farm business is positively influenced by managerial abilities, business experience and participation in off-farm employment (OECD, 2009). Training of rural dwellers is highly required on

diversification development as they lack in skills related to design of business plans but also knowledge about benefits that diversification can drive. Rural inhabitants are keen to supplement their main income, what is very important for developing solid and sustainable economic diversification (FAO-ROECA, 2012).

Table 6.8 Kinds of business that households have tried in SRR (%)

KINDS OF BUSINESS	REGION		
	SOUTH-EASTERN BOSNIA	NORTHERN MONTENEGRO	WESTERN SERBIA
Processing and packing of food	15.2	24.3	24.2
Agricultural shop, agricultural pharmacy	2.2	2.7	24.2
Transport of commodities	21.7	8.1	21.2
Rural tourism	2.2	5.4	12.1
Collecting of forest fruits and herbs production	43.8	21.6	12.1
Handicraft	6.5	14.3	6.1
Trade, ransom, stipulation	8.7	29.7	15.2
Supermarket	19.6	16.2	9.1
Artisan store	19.6	31.3	12.1
Services on equipment and mechanization	34.8	37.8	33.3
Teaching (language, music, dance, some sports)	2.2	-	-
Wood processing	6.5	-	3.0
Collection centre for cheese	-	2.7	-
Taxi service	-	2.7	-
Legal department service	-	2.7	-
Construction jobs	-	2.7	3.0
Coffee shop	-	2.7	-
Catering service	-	2.7	-
Veterinarian service	-	-	3.0
Production of furniture	-	-	3.0
Organic production	-	-	3.0

\*Base – all households in SRR that started new businesses in last 5 years.

Surveys carried out during the last years to get an insight into the diversification of rural livelihoods and economy in south-eastern Bosnia showed that one of the most important problems faced by farmers and rural entrepreneurs in the livelihood diversification endeavours is the lack and/or difficult access to financial resources (e.g. FAO-ROECA, 2012; Berjan et al., 2013; Vittuari et al., 2012). Lack of experience is another problem that was faced by many rural households, especially Bosnian ones that tried to diversify their livelihoods. It should be highlighted that many rural Bosnian people were forced to start new businesses for which they had no experience prior to the civil war, or were faced with high competition and were selling their products almost at a loss to the food processing factories. They would have needed skills to start something new that the market needed (Matul and Tsilikounas, 2004). Unfavourable tax regimes (Table 6.9.) also hamper diversification especially regarding some activities such as rural tourism. The policies should be prepared on such a way to create favourable business environmental and accelerate establishment of small and medium enterprises (SME's) as many of the surveyed households were faced with complicated administration issues and declared that taxes were high. Bureaucracy is a major

impediment to rural population and farmers in realizing their plans (FAO-ROECA, 2012). Lack of institutional support is crucial for development of rural areas in general and diversification in particular. Countries that relatively recently joined to EU invest in micro enterprises and rural tourism related projects. Small investments in a very simple infrastructure projects like identifying hiking and biking routes and setting up post and information boards in Montenegro seems to be important. Experience from mountain Stara Planina (Serbia) shows that supporting the construction of small bridges and roads contributes to improving the opportunities for rural tourism and diversification in general (FAO-ROECA 2012).

Table 6.9 Basic problems faced by households that have tried new businesses in SRR (%)

CONSTRAINTS	REGION		
	SOUTH-EASTERN BOSNIA	NORTHERN MONTENEGRO	WESTERN SERBIA
I did not have enough experience in that field	19.6	16.2	9.1
I could not provide money	63.0	43.0	82.0
Did not find partners	15.2	8.2	21.2
Did not find market	41.3	21.6	30.3
Tax was high	29.3	10.8	12.1
Administration issues were complicated	10.9	27.0	24.2
High number of needed staff	-	2.7	3.0
Lack of institutional support	-	2.7	-
Far from urban areas	-	2.7	-
Low customers' purchasing power	10.9	2.7	-
Lack of motivation	-	2.7	-

\*Base – all households in SRR that started new businesses in last 5 years.

According to the Working Group on Diversification of the British Department for Environment, Food and Rural Affairs (DEFRA, 2007), key barriers to farm diversification include validity of market research, capacity to develop a considered business case, quality of business skills and training, availability of appropriately skilled personnel and regulatory controls, and access to specialist business advice. Access to finance was also identified as a potential barrier. Tenant farmers find accessing capital difficult as they do not have the collateral available to farmers who own their own land. Tenant farmers also can have problems with their tenancy agreements, some of which may not allow particular kinds of, or in some cases any, diversification activity. Diversification activities which change the use of land to a non-agricultural purpose can also have tax and inheritance implications for the landowner.

### 6.1.3. GOVERNANCE AND COORDINATION OF AGRICULTURAL AND RURAL DEVELOPMENT: SIMILARITIES AND DIFFERENCES

Actors face different problems during the different phases of the RD policy cycle (*i.e.* design, implementation, and monitoring and evaluation) as well as for coordination of designated ARD policies in Bosnia, Montenegro and Serbia (BMS). Problems are also different depending on the responding actor typology (*i.e.* public, civil society or international organizations) as well as their geographical coverage and level of operation (*i.e.* local, national, and international). It was noticed that sometimes it is not clear for many institutions the boundary of the different rural policy phases.

It is obvious that many diverse actors from public institutions, non-governmental organizations and international development organizations are involved in a rural development projects and/or in rural policy. But still it seems that involvement of all actors remains insufficient.

#### 6.1.3.1. Governance

##### A. Policy formulation and design: approach, paradigm and actors

**Understandings of rural development.** As a term “rural development” has a range of possible interpretations at national and regional levels (Box 6.2), and the motivation for different actors and stakeholders becoming involved can be equally diverse (Dwyer *et al.*, 2009).

#### Box 6.2 Rural development policy in OECD countries: different approaches and paradigms

Rural development has a large number of connotations and the term “rural development policy” is frequently used to refer to a wide variety of government interventions. In some countries rural development policy may be used interchangeably with regional policy, particularly when rural development is viewed to be primarily an issue of economic growth. In other countries, rural development policy is viewed from a more agri-centric perspective in terms of expanding the contribution of agriculture to the local economy and to environmental quality.

A second important consideration is what is understood by the term “development”. In the economics literature there has traditionally been heavy emphasis on economic growth. Modern development economists take a much broader view by, considering environmental, quality-of-life, and broader social issues associated with economic change. In some countries, a focus on economic growth carries over into rural development policy. In other countries, the emphasis tends to be on the management of natural resources in rural areas to ensure continued economic and social viability, but without necessarily having a focus on economic growth.

Source: OECD, 2010.

Recently, rural development policy encompasses actions or initiatives designed to enhance the quality of life and the overall well-being of the inhabitants of the rural areas.

Consequently, it is broader in scope than agricultural policy. In contrast to agricultural policy (that is sectorally-based), effective rural development policy is typically oriented towards particular areas or regions (place-based), although it can have important consequences for particular sectors (*e.g.* agriculture) (OECD, 2010).

The majority of the contacted public, non-governmental and international are involved in policy design, especially public institutions and international organizations. However, participation can be improved.

The main common problems that actors in BMS face during RD policy design include lack of funds and expertise as well as weak participation of rural people and farmers; due also to a slow regionalization and decentralization processes especially in Montenegro and Serbia. A higher level of private and civil society sectors participation in RD policy design is required and it should be additionally encouraged. There is a deficit regarding human capital in the competent institutions especially public ones and more attention should be paid to human capacity building. Local governments should be more opened to democratize the design process and include all stakeholders respecting the real needs and demands of local communities (FAO-ROECA, 2012)

Lack of integrated policy planning and incompatibility of sectoral policies in rural areas is also a constraint that is aggravated by the absence of municipal rural development strategies and low capacity at local level. Some institutions have different understanding of RD concept and what is meant by rural areas as there are many, even public institutions, that consider agricultural and RD as the same. This is influenced by mind-set of officers due, among others, to the legacy to the previous Yugoslav system. All in all, different understandings of rural development influence policy design as it results in strategies, mainly at the local and regional levels, that are designed with a high orientation to agriculture development in all three studied countries. In addition to the strong agricultural character, development strategies in Serbia also focus on tourism activities. Without deep analysis of the situation in rural areas it is not possible to define clear rural development goals and objectives. The problem of funding limitation supposes also a prioritization of development targets which, very often, is not done in a proper way.

Adoption of policy measures existing in neighbouring states in the cases of Montenegro and Serbia could have negative impact on overall ARD as they do not necessarily fit to Montenegrin and Serbian contexts. National inter-organizational cooperation and inter-donors collaboration among those involved in policy design as well as communication with end-users based on bottom-up approach, in order to get information about their real needs at the local level, remain weak which leads to non-effective policy planning and overlapping of activities. Incoherent and non-harmonized policy planning among state, regional and local levels hinders desirable development of rural areas in BMS. Lack of reliable and accurate data on ARD make even more complex and demanding policy design process itself.

Political and economic instability in the whole Western Balkan region in general, and BMS in particular, indicate that more importance and attention should be given to pragmatic planning made by competent people for well-being of future generations, without any political influence. That's true especially for Bosnia where is obvious a lack of political consensus at the state level due to decentralized political system in which real power is at the entity level as well as due to the legacy of the civil war and different interests among stakeholders because of cultural and religious differences.

Concrete actions and initiatives should be taken also by "sleepy" rural population and local rural governments in order to push more development of rural areas. It is clear that specific approach to rural areas development, that will consider geographical specificities of rural territories in BSM, could be the only successful solution that will work in the reality.

Policy design should be in line with political, economic, environmental, social and cultural environment of the different rural areas in each country. Policy environment should be analysed at the earliest stages of the design of any new policy. Analysis of existing policies must cover national, regional (entity level in BiH) or local levels.

Table 6.10 Commonalities and differences in ARD policy design in Bosnia, Montenegro and Serbia

No.	IDENTIFIED PROBLEM	COUNTRY		
		BOSNIA	MONTENEGRO	SERBIA
<b>Knowledge and human capital</b>				
1.	Lack of highly qualified human resources and poor administrative capacities	A	A	A
2.	Lack of knowledge and information about needs at the local level	B		B
3.	Lack of local and regional RD strategies and low level of local actors capacity	A	B	B
4.	Unfamiliarity of local actors with local resources			C
5.	Lack of accurate and reliable databases for detailed problem analysis in rural areas	A	A	A
6.	Low capacity of administration and incompetence of policy design makers	B	C	C
7.	Lack of appropriate sectoral analyses and unrealistic assessment of all resources			C
<b>Consultation, communication and participation</b>				
8.	Insufficient involvement of all stakeholders in policy design, especially target groups	A	A	A
9.	Difficulties to find common interest among stakeholders	C		C
10.	Disinterest, lack of initiatives and reluctance of rural population and local governments	C		B
11.	Lack of horizontal and vertical coordination and communication	A	A	A
<b>Policy, theory and practice gaps</b>				
12.	Copying of policies (instruments and measures) without checking their effects		B	C
13.	Mismatching between policy development and its content at the local and national levels	B	B	B
14.	Lack of clear rural development goals and strategic planning			C
15.	Lack of a clear vision for rural areas development	C		
16.	No clear definition of rural area and misunderstanding of RD concept	C	C	C
<b>Fragmented and unbalanced policy design</b>				
17.	Excessive focus on the agricultural sector and tourism	A	A	B
18.	Lack of integrated policy planning and incompatibility of sectoral policies	C	C	B
19.	No consideration for rural territorial specificities (e.g. specific approach)	C	C	C
20.	No distinction made between rural development and agriculture	A	A	A
<b>Political context and administrative set up</b>				
21.	Political instability and great influence on policy design made by political parties	A	B	A
22.	Centralized political system and slow process of decentralization		C	C
23.	Institutional complexity, fragmentation and overlapping of responsibilities	B	C	C
24.	Lack of funds for policy design	A	B	A
25.	Lack of coordination between the government and donors and huge bureaucracy	C	C	

\*Source: Author's elaboration based on the questionnaire survey results.

Legend: **A=Significant** (problems mentioned by >50% of respondents); **B=Average** (25-50%); **C=Poor** (>25%)

To enhance ownership and sustainability it is crucial to emphasize the responsibility of the local and regional actors – including civil society and private ones – in policy planning and implementation. Therefore, policy design should be divided into distinct stages including the identification of various stakeholders that should be involved in the policy formulation process as well as the consultation and participation mechanisms, methods and tools. For ensuring the participation of end-users and local actors in policy design participatory planning or collaborative planning approaches should be adopted. In case of a planning phase where only technical expertise is used it must be complemented by collaborative or participatory methods in the following stages to ensure people's active participation.

According to Schneider and Ingram (1999), the term 'policy design' refers to the content, evolution and structure of public policy taking into account the wider context within which it operates and the particular roles it fulfils. Policy design analysis is about understanding why, how and where policies have been developed and the instruments and operational modes chosen. Understanding processes and structures of governance within the policy design process is critical (Dwyer *et al.*, 2009).

Diversity of contexts, actor motivations and experiences as well as policy developmental pathways have the potential to influence - both positively and negatively - policy impacts. For instance, it can impact multi-actor and multi-institutional co-ordination, both horizontally (between different actors operating at the same scale) and vertically (between actors who interact within the hierarchical structure of policy design and delivery, at different levels) (Dwyer *et al.*, 2009).

Policy makers are confronted by significant heterogeneity in rural regions. This implies that a "one-size-fits-all" approach to rural policy is unlikely to be appropriate and that spatially differentiated and targeted policies are needed (OECD, 2010).

Evidence from different OECD countries shows a positive impact of the policy design process itself in fostering reflection, improving dialogue, broadening involvement in rural policy-making, and increasing inter-sectoral understanding. At the same time, policy design process can cause tensions, frustrations and a degree of cynicism in some rural areas (Dwyer *et al.*, 2009).

There are inevitably trade-offs in pursuing a range of economic, social and environmental objectives in rural areas. However, a balance has to be sought between these - sometimes conflicting - objectives. To help find this balance, clarity in policy objectives and targeted policy measures during policy design are essential requirements (OECD, 2010).

Analyses highlight how difficult and costly it can be to achieve a truly open, engaged and consultative process when working to time constraints and within already embedded policy and stakeholder cultures of relative lack of trust and/or limited capacity for effective dialogue (Dwyer *et al.*, 2009).

## **B. Policy implementation and service delivery: mechanisms, actors and effectiveness**

The largest part of the surveyed institutions and organizations are involved in policy implementation, especially public local institutions and civil society organizations.

The main problems faced during RD policy implementation include shortage of financial resources and lack of human capital who are supposed to deal with implementation activities. Capacity of local public institutions dealing with the implementation of projects as well as the attitude and the collaboration of rural population remain at low level. Many institutional constraints apply the participatory approach to development and such approach might have a negative impact on the local community capacity to develop and implement development plans, programs and projects ((FAO-ROECA, 2012).

Of course, all weaknesses regarding policy design have also some consequences for policy implementation. For instance, the lack of a clear long-term vision leads to policy discontinuity which impacts negatively rural population's interest so its involvement and cooperation. Inappropriate measures that do not meet needs of the rural population are related in a large extent to policy design and many other things. It is supposed that data collection should be accurate and problem analysis done properly. What often happens is that policy design is done by experts without involvement of end-users or hearing their opinions. Especially in the Montenegrin case, but not only, measures adopted from EU or neighbouring countries do not fit to the domestic context and what makes things even more complicated are insufficiently prepared administrative and human capacities for such kind of interventions. The needs of rural population are changing over time. That is a dynamic process which requires accurate and updated data in order to avoid gaps and to keep pace with their needs. Changes are not only related to demands of rural population but also to different municipalities as not all of them are at the same development level. During the policy design and implementation should be considered municipal specific characteristics due to different levels of socio-economic development and rural economy diversification.

The main problem pointed out by local actors is the lack of funding and/or complicated application procedures. Lack of funds for implementation activities exists at the local level due to limited budget that was further decreased also due to economic crisis. Although insufficient, available funds at local level are not always efficiently used at all and not always used for important activities. Simplified administrative procedures for grants applicants would enhance access to funds and increase interest of end-users.

Lack of responsibility related to activities failure makes implementation approach "untight" as actors in many cases of undone job are not going to get any penalty. Public officers and employers should be at all times be accountable to the end-users, to be utmost responsible and efficient.

Consultants who are hired for project implementation are not permanent staff and that is problem as they do not assume responsibility after project finish. Within institutions there is not enough control and it is necessary to apply efficient code of ethics and professional conduct.

Individualism within institutions seems to be problem in Bosnia and Serbia. Self-sufficiency syndrome is linked to isolation of institutions and their perception that alone they can solve all problems in rural areas. Individualism can be departmental or of single members of the staff of each department.

Implementation can be slow in some rural areas that are sparsely populated with a small number of voters and thus the political actors are not interested so much to invest in these areas.

Table 6.11 Commonalities and differences in ARD policy implementation in Bosnia, Montenegro and Serbia

No.	IDENTIFIED PROBLEM	COUNTRY		
		BOSNIA	MONTENEGRO	SERBIA
<b>Knowledge and human capital</b>				
1.	Lack of information flow and insufficient education and preparedness of the rural population	A	A	A
2.	Insufficiently developed capacities at the local level and	C		B
3.	Lack of technical resources and human resources with various backgrounds	A	A	A
4.	Low administrative capacities at all levels	C	B	B
5.	Incompetent project management			C
<b>Consultation, communication and participation</b>				
6.	Lack of horizontal and vertical coordination and collaboration	A	A	A
7.	Low accessibility to end-users and their lack of interest	C		C
8.	Lack of effective coordination between donors regarding implementation		C	
9.	Mentality and prejudices of the local population and lack of initial capital for end-users	C		<b>B</b>
10.	Dominance of personal and short-term interests over common and long-term interests	C	C	C
11.	Bank sector is not involved enough		C	
<b>Policy theory and practice gaps</b>				
12.	Inappropriate measures not meeting needs of the rural population	C		B
13.	Adoption of practices from neighbouring countries without analysing their applicability		C	
<b>Social and economic issues</b>				
14.	Lack of initial capital for end-users	C		B
15.	Reluctance of locals regarding modern technologies use	B		C
16.	Lack of support to rural entrepreneurship		C	
<b>Fragmented, unstable and unbalanced policy</b>				
17.	Absence of a regional approach and lack of clearly defined plans	C	C	
18.	Poor project adjustments to specific situations in rural areas			C
19.	Lack of integrated policy implementation	B	B	A
20.	No continuity in the policy implementation	C	C	B
21.	Frequent changes of government and their priorities			C
22.	Inconsistency of RD policies and instability of existing structures			C
23.	Policy incoherence and inconsistency	C	C	B

<b>Political context and administrative set up</b>				
24.	Political instability, disorganization, corruption, rivalry among institutions and mutual mistrust	B	B	B
25.	High political influence on decisions and absence of political will	B	B	A
26.	High level of administrative and bureaucratic requirements	B	A	B
27.	Donor initiatives are not always consistent and overall financial support is not well targeted	C	C	
28.	Technical and bureaucratic barriers and high administrative costs	B	B	B
29.	Overlapping of activities and responsibilities	C	C	B
30.	Lack of good credit policy and incentive measures	B	C	
31.	Undeveloped payment system and unchecked absorption power of potential incentives users			C
32.	Individualism and lack of responsibility related to activities failure	C		C
33.	Lack of local institutional support	C		B
34.	Limited budget and complicated application procedures for grants awarding	B	C	A

\*Source: Author's elaboration based on the questionnaire survey results.

**A=Significant** (problems mentioned by >50% of respondents); **B=Average** (25-50%); **C=Poor** (>25%)

The coordination of sectoral policies in rural areas seems an obstacle that affects implementation. Rural development policies implementation takes place in rural areas where there is a lack of expertise and low capacity due to the low adoption of good practices and standards especially those of the EU. Not only sectoral policies are not implemented in a coordinated way in rural areas but there are also weak synergies with donor initiatives. Many policies do not take into consideration, in a due way, the rural areas context, which create problems during their implementation. In fact, the rural population is often unprepared to meet the new standards. Preparedness of rural population is related to their education. Sometimes they are involved in activities they do not understand. Rural population has to be heard during policy design in order to be ready for coming implementation activities.

Improving communication will resolve the problem of information flow among actors - implementers and beneficiaries. That can be done by increasing occasion of contacts through organization of different events (e.g. roundtables, information events, etc.) and awareness campaigns. All this calls into question the performance of extension and advisory services as well as farmer groups and local civil society organizations operating in rural areas. Extension services can represent a bridge among implementers and end-users as due to their operational nature they have better contact with rural households, especially agricultural ones.

Agricultural extension and advisory services can play a more important role in rural areas (International Initiative for Impact Evaluation, 2010) by changing their classical crop production-centred mission (World Bank, 2008). Regional rural development is not systematically supported by the public advisory systems. This is due to an overload of work in the other sectors, and to the general lack of knowledge (on projects and programs) and skills (on group facilitation and group management) (FAO, 2011).

However, problems regarding human capital in rural areas cannot be solved only by extension and advisory services, farmer groups and local civil society organizations as they are quite complex involving living conditions in rural areas as well as access to some basic services such as education.

Moreover, bureaucratic problems render things even more complicated for rural people and implementation of RD initiatives more difficult. In order to improve implementation it is important to have clear and well-designed policies but also receptive and well prepared rural population as well as a good staff dealing with the implementation process that is able and willing to solve punctual problems and difficulties. Regionalization should allow solving many of the problems regarding RD policy implementation by allowing strengthening the sub-national governance levels capacities. Lack of information flow exists between different actors that are involved in implementation and between implementers and beneficiaries. Low human capital of rural population with respect to urban areas is very often a constraint in getting information, especially in terms of ICT use. Lack of technical resources and human resources with various backgrounds is an obvious problem in BMS. For successful implementation is crucial to have competent personnel with various backgrounds such as: sociology, communication, project management, rural development, rural economy diversification, background related to legal issues, etc.

Insufficiently developed capacities at the local level are due to problems regarding education in rural areas. Rural areas very often experience a lack of schools or its at least decent quality, teachers, pedagogical materials and school infrastructure is poor. All mentioned as well as sometimes irregular school attendance resulting in lower educational achievements of rural population that harms their future prospects and affects the development of human assets (FAO, 2010). Responsibility is not only on government acts but also on non-governmental organizations that did not do their part of job. Large amount of funds from international donors came to Balkan area, especially to Bosnia that was affected by civil war. More training sessions could have been organized to educate rural population on how to apply to

subsidies, whom to contact, how to fill in forms but also to organize call centres where rural population could get information and assistance they need.

Available human capacities that deal with agriculture and rural development within municipalities mainly consist of just one person that is not capable to mentor rural population due to time and large territory constraints. Lack of spatial plans at the local level is problem recorded in all three studied countries that influence land tenure security (land ownership) and further investments on the ground.

Coordination at the local level by establishing forums to put together NGOs and public institutions can positively affect and solve many existing problems in rural areas but also in policy cycle phases.

Due to lack of coordination there is lack of integrated policy implementation. Ministry of Agriculture at the national level in Montenegro and Serbia and ministries at the entity level in Bosnia have “monopoly” to design ARD policy. Even civil society organizations rise up their voice and insist on their inclusiveness in policy design, there is still a slight resistance.

### **C. Policy monitoring and evaluation: approach and actors**

Governments are increasingly aware of the importance of evaluating their policies (OECD, 2010). Evaluation can be considered as an “*an assessment, as systematic and objective as possible, of an ongoing or completed policy, program or project, included its conception, formulation, implementation and results*” (EC, 2004). Also, Evaluation can be defined as a set of methods and procedures that focus on assessing the achievements (impact) of a policy, measured against its objectives. The evaluation process is comprised of three major components: evaluation design, data collection and analysis. Evaluation necessarily involves the use of analytical qualitative and quantitative methods and techniques that allow determining the causal relationship between policy inputs and outputs. Meanwhile, monitoring usually aims at showing the inputs, processes and outputs of a policy. Monitoring and evaluation are synergistic in that the former can generate much of the information that is required to perform the latter (OECD, 2010). One of the issues in policy evaluation is the availability of relevant data. Data are likely to be good when monitoring activities are closely linked to evaluation, providing that information on a relevant series of indicators that can be used for evaluation is collected on a regular basis (OECD, 2010).

Drawing upon approaches adopted in OECD countries a best-practice set of guidelines has been proposed in the context of the rural development policies evaluation (OECD, 2010):

- New policies should be subject to *ex-ante* appraisal;
- *Ex-post* evaluations should reflect expected lags between the policy implementation impacts and expected outcomes;
- Assessments should be clear on the appropriateness of performance criteria;
- In addition to a final evaluation also interim evaluations should be planned;
- Discrepancies between expected and actual policy outcomes should be explained;
- Policy impacts should be traced to specific rural development targets;
- Performance criteria should be assessed using indicators that are SMART: Specific, Measurable, Achievable, Relevant and Timely;
- Evaluation methodology, performance measures, data requirements and analytical methods should be established prior to policy implementation;
- To fill information gaps, existing data sources should be supplemented by new and alternative cost-effective sources;
- Dialogue between evaluators in public administrations and economic modellers should be encouraged;

Evaluation procedures should be periodically reviewed and lessons learned fed back into the policy evaluation process.

Policy monitoring and evaluation can provide credible and useful information for better orienting decision-making and improving the governance (Cashore, 2009). According to Dwyer and Blandford (2011), policy monitoring and, especially, evaluation has basically two roles: policy learning (to provide lessons on how well the policy is working and identify scope and ideas for improvement) and audit / accountability (to demonstrate to stakeholders, what the policy is achieving).

Public institutions in BMS are much more involved in monitoring and evaluation activities in comparison with civil society sector and international organizations.

The philosophy of monitoring, learning and adjusting is correct but it can lead to an excessive trust in abilities to manage economic, social and environmental processes and their implications (Zahrnt, 2010). This is particularly true where administrative capacities are limited. In fact, one of the main problems is related to the qualified human and technical capacities of institutions dealing with monitoring and evaluation tasks in all studied countries. In addition, there is also the problem of the lack of quantifiable targets. Methods and approaches adopted in project monitoring are also considered inappropriate. The lack of clearly defined and shared procedures of and indicators for RD policy monitoring and evaluation (M&E) is a patent constraint to improving the design and implementation of ARD policies in BMS. M&E activities cannot be performed on a proper way if non-standardized, inappropriate, too complicated and time consuming indicators are used. Inefficient monitoring has negative impact on evaluation of impact of policies. In fact, that means lack of appropriate use of Information and Communication Technologies (ICT) I low quality of collected data and that there is not a sufficient feedback on policies especially from beneficiaries and end-users as well as local actors. These weaknesses are, at least in part, addressed thanks to the international projects running in BMS.

Many sets of evaluation criteria and related indicators have been developed for analysing policies and governance issues at international, regional or national scale (Secco *et al.*, 2011). Policy tools and measures impacts are rarely separable from one another, or from the operational context as cause and effect can be extremely difficult to link *atomistically* (measure by measure). Policy impacts are integrated, so an integrated, systemic approach to evaluation is essential, to understand what is happening: integrating across measures and integrated analysis of whole systems, in environmental and socio-economic terms. Mixed methods are necessary and useful, and all sources can offer some information of value. Moreover, it should be kept in mind that measuring strength of impacts is only a small part of assessing policy performance (Dwyer and Blandford, 2011).

Table 6.12 Commonalities and differences in ARD policy monitoring and evaluation in Bosnia, Montenegro and Serbia

No.	IDENTIFIED PROBLEM	COUNTRY		
		BOSNIA	MONTENEGRO	SERBIA
<b>Knowledge and human capital</b>				
1.	Low education level of end-users	A	B	A
2.	Lack of knowledge, experience,	B	B	B
3.	Lack of well-trained staff and personnel for M&E and competent structures	B	B	A
<b>Consultation, communication and participation process</b>				
4.	Lack of interest of the local population	B		B
5.	Poor vertical and horizontal coordination and cooperation	A	A	A
6.	Lack of transparent information on performed M&E activities	C	C	C
7.	Lack of ownership over M&E process by rural communities			C
8.	Undeveloped information system for data collection and analysis	C	C	
<b>Policy, theory and practice gaps</b>				
9.	Lack of standardized indicators, methods and simple procedures for M&E	C	B	A
10.	Unreliable feedback from beneficiaries	B	B	A
11.	Mixing of RD measures with direct payments			C
12.	Lack of an appropriate framework and orientation on short-term goals			C
13.	Unrecognized importance of M&E activities	C		A
14.	Difficult evaluation of unquantified and immeasurable objectives			C
15.	Difficult measurability of some indicators and quantifying results of individual measures			C
16.	Lack of interest of local authorities	C		B
<b>Political context and administrative set up</b>				
17.	Political instability	A	B	A
18.	Influence of political parties on M&E process jeopardizing its independence	B	C	B
19.	Favouritism among institutions and superficiality	C		C
20.	Lack of control structures	C	C	B
21.	Lack of continuity in monitoring	C	C	
22.	Conflicts of interest	C	C	
23.	Undeveloped programs implementation control		C	C
24.	Corruption and bribery	C	C	
25.	Lack of financial resources for M&E activities	B	C	B

\*Source: Author's elaboration based on the questionnaire survey results.

Legend: **A=Significant** (problem mentioned by >50% of respondents); **B=Average** (25-50%); **C=Poor** (>25%)

As far as policy M&E is concerned, the advantages of control can be offset by a loss of trust: lower-level actors may prefer to have an impeccable formal record rather than to be effective and innovative. Therefore, the benefits of evaluation must be balanced against their administrative demands on governments and farmers. The system should be sophisticated yet also manageable. Evaluation reports should be adapted to local circumstances (Zahrnt, 2010). Political parties that are in power can influence evaluation process, jeopardize its independence and affect validity of obtained results as they decide from whom information will be taken. Sometimes only “suitable” sample that fits to different political interests is included.

Some problems of evaluation are clear-cut and remedies are within reach. For example, the data needs of evaluators could be better integrated into routine statistics and evaluators could be made more independent from policymakers. Sound evaluation tends to hurt; it always focuses on the weaknesses and adopts ever tougher benchmarks. Policymakers and administrators, therefore, take care that evaluation does not become sound (Zahrnt, 2010).

Unstable and sensitive political situation affects M&E process. In BMS there is the culture that M&E is done only after completing policy implementation so there are often no funds for this activity or there is no good will due to change of governments and their priorities. New government often sets up new policy as they want to show they have better ideas and competencies in comparison to previous government. Sometimes objectives that are set for policy are not easy to grasp and quantify using simple set of indicators. Recommendation for development of rural areas for the future should encompass the use of a set of SMART (Specific, Measurable, Achievable, Relevant and Time-bound) indicators. According to Zahrnt (2010) monitoring and evaluation indicators should be stable, so that evaluators can learn how to handle them and that policymakers can observe how policies work across time, but they should also change in response to new insights and challenges. Also, the structure within the Ministry of Agriculture that deals with M&E should be upgraded.

Policy evaluation is an age-old technique whose inherent limits are well known. This matters for policy design. In fact, policy objectives should be spelled out clearly and guidance on suitable indicators should be provided directly in the legislation establishing the policy instrument (Zahrnt, 2010). Currently, objectives are often left vague. More importance should be given to M&E in strategic documents as it is more than clear that in many cases these activities are not even mentioned (*e.g.* Strategic plan for rural development of Republic of Srpska 2009-2015). Furthermore, the number of policy objectives and instruments should be limited as high number of indicators to assess rural development favours box-ticking over thorough analysis (Zahrnt, 2010).

Due to hierarchy, ministries talk to local municipalities that have interest to show that policies work even if different in reality, and without getting feedback from end-users. In extreme situations, money or presents can also be given for corruption and bribery.

Lack of ownership over M&E process can mean different things. Local population is not always involved in collecting of information, definition of objectives and targets, and not always informed about results of M&E. There is a need for restitution phase where end-users must be heard. Due to lack of funds, very often methods used do not consist in visiting rural populations but inviting them to meetings. Evaluation should be done on as much as possible representative sample taking into consideration geographical coverage instead of focusing just on small sample in easily accessible municipalities. M&E very often is done from the central level without any exhaustive survey or data collection at local level.

Ownership over M&E process is indicator of good governance. Without developing it one cannot talk about good governance that allows inclusiveness and participation of all concerned actors. Difficulties of policy evaluation and learning at the central level speak in favour of devolving responsibility to lower levels of governance. Local authorities are best

able to identify their needs, to see which solutions work best and to get results at lowest costs (Zahrnt, 2010). Gender issues should also be taken into consideration which requires more involvement of women in these activities.

A better coordination and governance of ARD can help solving most of the above-mentioned problems. In RuDi project was highlighted the importance of facilitating institutional learning for improving the evaluation of RD policies. The main lessons learned from RuDI case studies (RuDi project, 2010) are: territorial analysis can show causal chains more clearly thus providing relevant insights about policy impacts; stakeholder views - especially beneficiaries - are central to evaluation; there are interesting techniques for 'process-effects' comparisons (e.g. network analyses, reflexive audit) and should be used in policy evaluation; triangulation of sources and iteration are key elements for a good quality evaluation. Dwyer and Blandford (2011) provided some suggestions for developing an enhanced evaluation framework:

- Adopt an appropriate data management and processing strategy: keep the 'data game' in proportion and avoid misleading aggregations;
- Facilitate policy learning: reflexive practice, stakeholder involvement, many and novel methods and dissemination of findings;
- Focus on policy impacts: establish longer-term, multi-period 'impact' measurement or monitoring;
- Clarify linkages: use thematic, longitudinal or territorial studies (e.g. case studies) to clarify causal inter-linkages;
- Democratise the evaluation process: simplify the burden of monitoring and decide with the data-gatherers what is truly feasible and worthwhile.

### ***6.1.3.2. Coordination***

#### **A. Relationships between key actors and rural development coordination**

There are many commonalities related to ineffective coordination of ARD policies among Bosnia, Montenegro and Serbia (BMS). The analysis of the relationships and linkages between the institutions that are involved in the design and implementation of ARD policy in all three studied countries showed a lack and/or weakness of coordination between them and that problem is faced during all the three phases of the policy cycle.

Ineffective coordination is in part due to the lack of effective and institutionalized communication and information dissemination mechanisms. These issues should be addressed as soon as possible in order to increase the effectiveness of these policies and their impacts on rural people's livelihoods. A basic action to strengthen coordination would be to encourage dialogue between the involved actors by developing strong partnership arrangements and agreements. While "formal dialogue" does exist between some public institutions and with some international NGOs and donors, it seems that a lot need to be done in order to involve civil society and private sector organizations especially during the design and formulation phase. Institutional cooperation especially between local governments and non-governmental sectors is poor (Žeravčić, 2008). That is critical especially regarding the participation of rural people, farmers and their organizations. Developing strong partnership through vertical governance arrangements and public-civil society partnering agreements can make governance institutions responsible by virtue of their participation in decision making regarding the design and implementation of rural development policies (OECD, 2006).

Coordination is a problem at central as well as local levels. In Serbian and Montenegrin case, at the central level, inter-ministerial cooperation is partial rather than comprehensive because of the assumption that the most responsible for RD is the Ministry of Agriculture. Cross-sectoral cooperation is not institutionalized at the state level and it is left to individual

initiatives thus depends on the good will of staff. Incomplete and inappropriate decentralization hampers vertical coordination even between public institutions. The lack of a clear strategy for devolution limits the involvement of civil society organizations in rural development issues. Public-civil society and public-private partnerships that would make smoother coordination are still rather experimental in most of rural areas. The lack of a public institution that can deal with coordination of all sectoral policies in rural areas is considered as a serious problem that impacts negatively rural population's livelihoods and quality of life. Of course, cooperation cannot exist without a clear legal framework, political will and orientation as well as willingness of organizations' staff to cooperate. That means that financial and human resources should be allocated not only to implement sectoral programs but also to improve the interface and interaction between them. For that there is a need to move towards integrated rural development approaches.

Among others, one of the obstacles that hamper coordination between civil society organizations and between them and public institutions is a lack of a common understanding of what is "rural" and what is "rural development". The questionnaire suggested that despite the fact that all organisations consider rural development cross-sectoral they mean different concepts when they talk about rural development therefore they use different approaches and they have different priorities which make difficult to have a common vision for a mutual identification, formulation, implementation, monitoring and evaluation of ARD projects.

In order to strengthen coordination and synergy between institutions in BMS it is also necessary to further harmonize laws and regulations with the rural development measures of the EU. That can make it easier also for international donors and NGOs to build their strategies for ARD in BMS.

Human capital has also a strategic relevance in order to achieve a good coordination between involved institutions. In fact, institutions' staff can operate in such a way to reduce transaction costs and to render communication smoother and flow of information faster. Communication and exchange of information could be made more effective thanks to the new Information and Communication Technologies (ICTs) tools. It is critical to strengthen staff capacities particularly the analytical and communication skills. In fact, since rural policy is strongly knowledge-based and involves multiple actors, co-ordination and communication mechanisms play a key role in the design and implementation of place-based rural development policies. Communication should be developed horizontally as well as vertically across different government tiers (OECD, 2006). Motivation and incentives to public institutions' staff can help in achieving this objective. That would allow strengthening coordination and cooperation between them thus ensuring effective and efficient implementation of policies, programs, action plans and strategies and avoiding overlapping in responsibilities and activities which would allow also saving precious financial resources especially in times of financial and economic crisis.

Table 6.13 Major causes of ineffective coordination of RD policy in Bosnia, Montenegro and Serbia

No.	IDENTIFIED PROBLEM	COUNTRY		
		BOSNIA	MONTENEGRO	SERBIA
<b>Knowledge and human capital</b>				
1.	Lack of knowledge and information	A	A	A
2.	Lack of understanding of rural issues and priorities	C		B
3.	Lack of qualified human resources	A	A	A
<b>Consultation, communication and participation process</b>				
4.	Lack of vertical and horizontal cooperation and communication among key actors	A	A	A
5.	Lack of cooperation willingness, interest and motivation	B	C	B
6.	Insufficient involvement of regional development agencies		C	
7.	Absence of a dialogue culture and participatory approaches	B	C	B
8.	Lack of a common development platform	C	C	B
9.	Lack of a good communication strategy and ineffective information dissemination among actors	C		B
10.	Disagreements among actors, confronted attitudes and no uniform approach to RD	C		C
11.	Different level of technical and administrative culture	C	C	C
<b>Policy theory and practice gaps</b>				
12.	No new state Strategy for Rural Development	B	C	C
13.	Lack of clearly defined plans, initiatives, vision and long term strategies	C	B	B
14.	Unclear dynamics of the integration process and stakeholders' roles	C		C
15.	Inappropriate mechanisms and procedures used	C	C	B
16.	Lack of a common vision and autism of sectoral policies	C	C	B
<b>Unbalanced and fragmented policy</b>				
17.	Many projects not aligned with national and local development strategies and their overlapping		C	
18.	Weak harmonization of local, regional and national policies	B	B	
19.	Unclear national priorities and undefined long-term rural development goals	C		C
<b>Political context and administrative set up</b>				
20.	Institutional complexity and fragmentation	A	C	
21.	Weak coordination bodies, existence of parallel institutions and overlapping of competences	C	C	B
22.	Ineffective public administration at all levels	A	A	A
23.	Delay in the establishment of some relevant coordination structures	C		
24.	Low attention paid to rural areas in the political agenda and lack of funds for coordination	C		
25.	General politicization and political staffing	A	B	B
26.	Slow decentralization process and high reliance on the central level		C	C
27.	Political and economic instability and personal conflict of interest	B	C	C

\*Source: Author's elaboration based on the questionnaire survey results.

**A=Significant** (problems mentioned by >50% of respondents); **B=Average** (25-50%); **C=Poor** (>25%)

A better coordination between involved institutions means not only to reduce institutions operating and transaction costs but also to manage effectively incentives and subsidies provided to farmers and rural dwellers. That is true also in the case of the use of IPARD funds. Coordination is easier when all institutions have access to all information regarding ARD that's why it is crucial to speed up the establishment of information systems in agriculture. A stronger partnership between Bosnian, Serbian and Montenegrin institutions dealing with rural development and those of the EU and its member states can help to ensure a better cross-fertilization and exchange between them which can have positive impacts on their *modus operandi*. It is not the case of a specific model transfer but the adoption of best practices and solutions that should to be remodelled considering the specific institutional, political, social and economic context of studied countries in general and their rural areas in particular.

Moreover, many of the solutions proposed by Bryden (2000) in order to address key coordination challenges and to achieve effective governance are suitable also in the case of BMS.

The biggest challenge for Serbia will be the institutional changes and the capacity building that will be necessary for creating a system comparable to the EU countries (Arcotrass et al., 2006b). This is valid also for Bosnia and Montenegro. Harmonization in the area of agriculture is particularly demanding, especially for countries whose agricultural policy usually has a different role than in the EU (Erjaveć, 2008). All that requires effective governance and good coordination of ARD policy and practice.

National governments made in the past most decisions relating to a country's internal economic development – comprising issues regarding rural development – but today they should coordinate with a broad spectrum of actors, including businesses, local governments, regional and international bodies, and civil society organizations (Leadership Council of the Sustainable Development Solutions Network, 2013).

#### **6.1.4. RELATION BETWEEN DIVERSIFICATION AND GOVERNANCE**

Analysing linkages between rural governance and rural livelihoods and economies diversification is about studying policies that are put in place to foster diversification as well as the stakes of the different involved rural actors and how they have evolved over time with the increasing pace and level of diversification. It goes without saying that there are differences between the three countries but there are also some commonalities. From this point of view it seems very interesting to take stock of the experience of other countries, whose rural areas are engaged in the process of diversification since many years, in order to get insights about what policies should be enacted as well as what are the implications of rural economy diversification in terms of agricultural and rural development policy. This is particularly the case of many OECD countries that are considered in this context as a benchmark for Bosnia, Montenegro and Serbia.

Agricultural and rural development processes in general and farm activity diversification initiatives in particular should be well governed in order to yield expected outcomes and impacts in terms of the improvement of the competitiveness of the rural territories and the quality of life of rural population. Governance comprises mechanisms, institutions and processes of decisions making and implementation of decisions. It encompasses rules, processes and behaviour that affect the way in which powers are exercised. Rural governance represents as well a negotiation mechanism for formulating and implementing rural development policy through participatory and inclusive processes involving public, civil

society and private stakeholders. Governance is relevant for the rural livelihood diversification and rural development both as a process and as structures.

Creating an improved environment for farm activities diversification requires the efforts of many actors. The roles of government actors are often critical. However, in many cases they involve facilitating, catalysing and mediating initiatives taken by other private and civil society stakeholders (IFAD, 2010). Local governments as well as civil society, and the private sector have an important role to play in the provision of infrastructure and public services in rural areas with a special emphasis placed on agricultural services governance (IFPRI, 2007b).

The system of governance of rural development policies has witnessed the progressive coming into play of: several levels (national, regional, intermediate and local); many more actors than before, not limited to the public administration and traditional representatives of the world of agriculture; and new instruments and approaches (Mantino et al., 2010).

Governance arrangements in local rural areas can influence the diversification of rural economy through their impact on household assets. In fact, governance arrangements can influence effectiveness and efficiency of different activities that are performed by governmental institutions in the rural areas. They affect governance as a process i.e. partnerships, networks and cooperation agreements. Governance arrangements affect also the *modus operandi*, visions and missions of local governance structures, i.e. institutions and organizations, that deal with RD in general and rural livelihood diversification in particular (cf. Shtaltovna, 2007).

Nevertheless, despite recurrent discourses about participation and bottom-up approaches in governance and the policy arena, the spectrum of actors involved in the different stages of the policy cycle in the three countries remain limited. In particular, the involvement of the private sector and civil society organisations in rural policy design and formulation is generally still marginal. This is particularly true at central level (entity level in BiH) while the situation is much better at local level. However, since these countries are still largely centralised the funds at disposal of local councils and administrations are very low and this limits their manoeuvring space and the scope of their interventions.

Governance surveys results shows that many actors have a stake in rural economy diversification. These stakeholders have various backgrounds but share a similar goal which is the socio-economic development of their territory. Each single actor can contribute to new activity formation and support assets. In particular, stakeholders recognize the true value of assets, especially the human and social capital, as new possibilities for diversification of their local rural economies. It was also noticed that the emergence of new participatory governance structures and arrangements allow mobilization of all local assets and resources as well as diversification of rural activities in the non-farm sector.

Many of the surveyed households recognized their own responsibilities regarding current conditions in the three studied rural regions (SRR). Their awareness is confirmed by the fact that some of households' members in all SRR in general, and in Bosnian and Serbian ones in particular, are involved in politics as members of political parties as a way to take a more active role in improving their situation in the future (Table 6.14).

Still, the larger share of the surveyed households believes that local and national governments (also entities' governments in the Bosnian case) should make more effort in helping them compared to what they have done until present time.

Disproportion in help demand and help delivery by local councils and state institutions in south-eastern Bosnia and western Serbia is huge and Bosnian and Serbian rural households feel that primary responsibility lies on local and state/entity level governments while it seems that the surveyed Montenegrin rural population is quite satisfied with local and state authorities' engagement in the development of rural areas.

Insufficient institutional capacities at the local level hinders economic diversification development and it is necessary to further strengthen local structures seen as key drivers for diversification of rural economy and thus improving life quality. In order to face this challenge, about a third of municipalities in Bosnia established funds for local economic development and support small and medium sized enterprises (SMEs) (FAO-ROECA, 2012). Another key factor explaining why respondents in south-eastern Bosnia and western Serbia share opinion that authorities do not take adequate care about rural areas is also the lack of trust in them. The local capacity NGOs, beside capacity of municipalities, is important to support economic diversification. Willingness of NGOs and local authorities to work together is also important. However, it seems that civil society organizations yet do not have enough developed capacities to cope with the situation in rural areas (FAO-ROECA, 2012).

Table 6.14 Responsible actors for improving rural households' living conditions in SRR (%)

Actors	Region					
	South-Eastern Bosnia		Northern Montenegro		Western Serbia	
	SH	H	SH	H	SH	H
Municipality	86.1	16.7	64.2	45.3	77.9	12.5
Government	74.1	5.6	69.8	31.1	64.4	9.6
Inhabitants of village	43.5	21.3	62.3	33.0	47.1	26.0
Cooperative	48.1	3.7	63.2	6.6	32.7	0.0
Extension service	50.0	4.6	45.3	47.1	27.9	29.8

Source: Elaboration of survey questionnaire results in SRR.

\*Legend: SH = Should help; H = Helping.

Almost nobody share opinion that cooperatives take concrete initiatives and actions for improving rural households' livelihoods. It is clear that dissatisfaction with cooperatives is at high level among the interviewees first of all due to absence of organized buyoff, and guaranteed market and sales of farmers' products.

Effective local institutions that deliver goods and services must be in place in rural areas to sustain positive rural livelihood outcomes. These structures condition livelihood outcomes through community capacity-building and institutional strengthening (Frankenberger, 2001). Government intervention is among the main factors that influences the diversification of farm households into non-farm activities. If governments want to foster diversification, they would need to make sure that policies in place, whether sectoral or broad, do not put unintended obstacles in the way of such diversification (OECD, 2009b).

For rural policy to be more effective, small fragmented programmes should be replaced by an integrated rural development policy, that rural farm and non-farm households can benefit from, which requires a strong horizontal coordination effort at all governance levels. National, bilateral and multilateral support programmes, subsidies and easier access to credit are necessary to support diversification activities and fully utilise and valorise their potential in the respective rural areas.

It is clear that agriculture alone is no more able to provide sufficient means of living for all rural households. That should be taken into consideration to reframe and redesign the rural development policy as agriculture is no more the only way to alleviate poverty and to improve rural living standards. Policies should stimulate development of diverse income-generating activities outside agriculture. National policies should be conducted on a way to strengthen the ability of rural economies to diversify through incentives (tax, credit, training, services) and create jobs opportunities.

Many of the elements of rural development policies, such as improvements in infrastructure and the provision of local services, are crucial for economic and social sustainability in rural areas (OECD, 2010). As highlighted by IFPRI (2007b), it is important to improve the ability of the rural population to demand services and hold service providers accountable. It is also crucial to increase the capacity and effectiveness of local service providers. This is related also to political decision-making processes with respect to the formulation of rural development strategies and agricultural policies (IFPRI, 2007b).

The survey on rural household livelihoods diversification showed that adequate access of all rural people to services and structures (including infrastructure) necessary to engage in diversification endeavours is far from optimal. This is in part explained by the fact that the survey – especially in BiH and Montenegro – was performed in remote rural areas. However, evidence from the literature shows that the quality of services and the performance of structures in charge of service delivery is a problem in most of rural areas in the three countries.

Government policies can act as a stimulus to the diversification of economic activities of farm households (OECD, 2009a). A number of policy measures designed to encourage diversification, have been introduced in certain OECD countries. These include grants for processing and marketing of agricultural products and the development of other activities such as tourism and craft-related enterprises. Vocational training and business development schemes have also been used to encourage diversification. Facilitation activities (e.g. provision of information, industry organisation and market creation) have also been employed (OECD, 2010). Human capital strengthening and rural dwellers' capacity-building efforts must focus on service delivery as well as risk-management skills (Frankenberger, 2001).

Weak human capital is a problem in the three studied rural regions. What is alarming is that it seems that the situation is getting worse because of migration of most of well-educated young rural people to cities or even abroad. This undermines one of the most important endogenous assets and resources of rural areas that can be exploited in the diversification journey. In fact, it is well-known that, in contrast with agricultural activities, non-farm activities requires a range of new skills that most of rural people do not have. This highlights the importance of the role of extension and advisory services as well as of other institutions dealing with capacity building and human capital strengthening in rural areas. These actors should work together and coordinate their activities in order to address this challenge. Coordination with international development agencies dealing with business skills development is also crucial in order to yield the expected results and allow the rural population to reap the full benefits of diversification.

Different factors regarding livelihoods interrelate and affect each rural households' quality of life. Governance structures and processes directly influence livelihoods. Human, physical, social, financial and natural capital in different combinations are affected by a number of governance structures and processes and how people use their capital in order to achieve desired livelihood outcomes through developing different livelihood strategies (Satgé et al., 2002) such as diversification (cf. Goodrich, 2001).

Governance decentralization and rural service delivery are so important for sustainable ARD. Decentralized political system would better answer needs of local communities. Strengthening and improving service providers' capacities will directly affect the supply and quality of services (IFPRI, 2007). A vibrant service sector is both vital for a prosperous local economy and crucial for meeting the needs of the rural population (OECD, 2010b).

A range of policy measures have been introduced in various countries to assist farm household diversification into non-farm activities. At the same time, some regulations governing tax, social security, land zoning and labour markets may complicate diversification

in countries where agriculture is not treated the same as other sectors (OECD, 2009). Land-use regulations can be an important factor, particularly for the development of activities that require a change of use of existing buildings or new construction (OECD, 2010).

Differing labour regulations for work that is classified as agricultural, as distinct from other work, may also have an impact in certain cases (OECD, 2010). The impact of labour regulations and the social security and tax systems on diversification essentially depends on how agriculture is defined under national regulations/systems. Often a broad definition of agriculture is used, allowing many forms of on-farm diversification activities to be classified as agricultural or farming, and thus permitting a continuation of the *status quo* in terms of administration requirements and special concessions. When a narrower definition is applied, diversification activities increase the administrative requirements and complexity of the farm operation (OECD, 2009).

In some countries access to other forms of support (*e.g.* income support), may be limited if farmers earn too much income from non-agricultural activities. This can also apply to eligibility for preferential treatment for farmers under social security systems in some countries and for the treatment of taxation (OECD, 2010).

While there are references to diversification in national agricultural and rural legislation of the three countries – which is mainly the outcome of the process of alignment with the EU *acquis* in agriculture and rural development – what is missing is a concrete long-term strategy to promote diversification on the ground as well as a favourable institutional and legal environment to foster diversification.

The heterogeneity of farm operators and the variety of non-agricultural activities mean that, within agriculture, there will be sets of circumstances that are favourable to diversification of economic activities and others where there are insuperable obstacles. This has a number of policy implications for countries wishing to encourage farm diversification (OECD, 2009b):

- Some factors may be influenced by policy whereas others are largely fixed (*e.g.* attitudes of farmers to diversification).
- A combination of policies may be needed – one which simply tries to influence one factor without paying attention to other factors will not be successful.
- Priority should be given to reviewing and possibly altering current policies that unduly hinder or discourage diversification rather than adding new ones.
- Regulations relating to planning permission and labour appear to be important.
- The business competence of farm operators seems to be a key factor in determining the rate of development of on-farm diversification.

Harnessing farm diversification especially in the non-farm economic activities requires improving the environment, thus strengthening incentives and reducing risks for the actors involved. This involves improving (i) rural infrastructure and services (*e.g.* energy and transportation) as well as governance and (ii) the business climate to encourage private investment by providing business development and financial services suited to the small rural entrepreneurs' needs (IFAD, 2010). Factors outside the agricultural sector are likely to dominate with regard to diversification of farm household members into activities off the farm. Uptake of off-farm work by farm household members is thus largely outside the scope of agricultural policies, while it is strongly affected by macroeconomic, labour, infrastructure, education, tax and regional policies (OECD, 2009b).

## 7. CONCLUSIONS AND RECOMMENDATIONS

### 7.1. Diversification: main learned lessons and recommendations

Rural economies in south-eastern Bosnia, northern Montenegro and western Serbia are quite diversified but agriculture is still the main economic activity for many households. Diversification is a quite new concept in the three studied rural regions. Local strategies are mainly agriculture-based and they predominantly do not recognize the term “diversification” so there is a lack of a common framework and strategic plan for diversification. That must be faced in the near future especially that diversification strategies have a great chance to succeed taking into consideration the rural regions’ natural capital, and cultural and historical heritage. The potential of these rural areas is significant, as their human resources, their natural, cultural and physical assets could provide, in a more diversified economy, a greater contribution to national development.

Many households have started new income-generating activities such as services provision, on-farm processing and collecting of wild fruits and herbs production but they had to tackle many problems and constraints such as the lack of financial resources. Harnessing farm diversification especially in the non-farm economic activities requires improving the environment, thus strengthening incentives and reducing risks for the actors. This involves improving rural infrastructure and services as well as governance and the business climate to encourage private investment. It is necessary to strengthen equipment, infrastructures and basic services in rural areas of BMS in general and of three studied regions in particular in order to contribute to the welfare of all citizens. Different types of investments are needed to ensure sustainable development of rural areas and assist diversification such as investments in new technologies, tourism facilities and marketing.

The fact that agriculture is still an important sector in the economy of the three countries and also that a large share of population lives in rural areas means that the three countries cannot develop their economy without a competitive agricultural sector. Furthermore, there can be no balanced development without devoting more attention to rural areas. However, sustainable development of rural areas cannot be based only on agricultural development and rural economies should be diversified by developing off-farm and non-farm income-generating activities. In fact, diversification means exploiting the multifunctional character of agriculture while introducing new income-generating activities in off-farm and non-farm sectors thus allowing creation of external employment activities for members of the farm family and generating additional income.

Diversification of farm households into other activities on and off the farm affects the rural economy, by raising the level of farm income and the viability of farms. However, household livelihoods’ diversification depends on the existence of a healthy and diversified rural economy, which provides off-farm work opportunities as well as services.

For rural policy to be more effective, small fragmented programmes should be replaced by an integrated rural development policy, that rural farm and non-farm households can benefit from, which requires a strong horizontal coordination effort at all governance levels. National, bilateral and multilateral support programmes, subsidies and easier access to credit are necessary to support diversification activities and fully utilise and valorise their potential in the respective rural areas.

Rural regions now depend on a wide range of economic growth engines. Increasing globalisation, improved communications and reduced transportation costs are additional drivers of economic change in rural areas. Unfortunately, traditional policies to subsidise farming have not been able to harness the potential of these economic engines. There is concern about the effectiveness of agricultural subsidies. Despite bringing large resources into rural regions, agricultural subsidies are not intended to trigger rural development

directly. The main reason for this is that this type of policy is focused on farmers rather than on places i.e. whole rural population.

It is clear that agriculture alone is no more able to provide sufficient means of living for all rural households. Agriculture is no more the only way to alleviate poverty and to improve rural living standards. Encouraging development of high quality products, especially organic and typical ones, which present quality labels can bring added value in rural areas. Policies should stimulate development of diverse income-generating activities outside agriculture which play an important role in improving rural people' life quality and their resilience such as rural tourism, traditions and local knowledge, services, trade, old craft enterprises, food processing as well as new rural businesses.

Policies to develop rural places are beginning to take into account the diversity of economic engines as well as the diversity of rural region types. In general, rural regions face many problems that reduce the critical mass needed for effective public services, infrastructure and business development. Rural enterprises face many disadvantages compared to urban-based counterparts due to small size of local markets, sparse distribution of potential customers in rural areas and more difficult access to credits. However, with appropriate and well-targeted support, rural entrepreneurs, farmers, processors and other actors surely can drive the development of economic diversification in BMS. The capacity of women in furthering farm diversification should be recognised by farming and rural development agencies in order to assist the process of rural economic diversification. Rural regions should seize current opportunities and build on their existing assets, such as location, natural and cultural amenities, and social capital.

Diversification is crucial for promoting employment and improving the conditions for growth in rural areas. Experience from the EU shows that many actions are needed to foster rural economies diversification. These include, among others: promoting integrated initiatives combining diversification, business creation, investment in cultural heritage and infrastructure for local services; developing micro-business and crafts helping to promote entrepreneurship and develop the economic fabric; training young people in skills needed for diversification; encouraging the take-up and diffusion of ICT; encouraging rural tourism development; upgrading local infrastructure (telecommunications, transport, energy and water infrastructure) and services, particularly in remote and mountainous rural areas.

Bosnian, Montenegrin and Serbian rural areas diversity as well as the increasing diversification of the rural economy represents a challenge for agricultural advisory services, which are widely recognized as critical to rural development in general and diversification of livelihood activities in particular. Public extension should pay more attention to thematic issues that are just partially served by the current extension system such as non-farm income-generating activities and management skills. For Bosnian, Montenegrin and Serbian advisory services to fully play their role as a bridging actor in information and knowledge brokerage and dissemination as well as promotion of rural innovation and diversification, higher attention should be paid to their modernization and support (e.g. continuous training). Therefore, it is necessary to develop a well performing pluralistic, participatory, bottom-up, decentralized, farmer-led and market-driven advisory system aiming to disseminate knowledge and information about diversification activities that can help in increasing household income to improve rural livelihoods. Advisory services should be seen as an important factor in organizing and empowering rural people by building rural social capital in short sustainable integrated rural development.

It is important also to keep in mind that rural livelihood diversification can also allow reducing pressure on the natural capital. In general, diversified livelihood strategies allow rural households to become less vulnerable and to improve their living conditions.

Fully exploiting rural economy diversification potential in the studied rural regions requires upgrading rural people's human capital, strengthening rural social capital and improving physical capital as well as access of the rural population to finance. That requires also a favourable and enabling legal and legislative environment fostering farm activity diversification.

There is a need for strategies to open up the rural development debate and to encourage the participation of local social groups. Strategies should not only seek to improve methods of communication between rural development agencies and local inhabitants but should also incorporate techniques that help to identify and instil more culturally and socially appropriate forms of rural development. Appraising local resources is a critical step towards achieving this. In order to promote and encourage the development of cultural, social and economic dimensions of rural areas, a bottom up participatory approach is required.

To be well prepared for accession to the European Union, Bosnia, Montenegro and Serbia should upgrade their ARD policy. For that there is a strong need for mobilization of all rural stakeholders and economic actors through appropriate governance arrangements in order to ensure rural livelihoods diversification and quality of life improvement.

## **7.2. Governance and coordination: main learned lessons and recommendations**

The agricultural and rural situation has improved in Bosnia, Montenegro and Serbia but many steps on the way to the EU accession remain. Progress has been achieved but a great deal of work remains to be done to prepare agriculture sectors for EU accession. Harmonization in the area of agriculture and rural development is particularly demanding. Policy in the ARD sector is undergoing a rigorous process of adaptation towards being in line with the CAP. That implies legislation being harmonized with the EU *acquis*, the introduction and implementation of the instruments of CAP and the establishment and/or strengthening of the competent institutions in order to allow them to implement these instruments.

Alignment with the *acquis communautaire* in the ARD area remains at an early stage. The biggest challenge is the institutional changes and the capacity building that is necessary for creating a system comparable to the EU countries. That is necessary to increase the policy impacts and its contribution to sustainable development in Bosnian, Montenegrin and Serbian rural areas. A stronger interaction between institutions dealing with ARD in the three countries and their counterparts in the EU can have positive impacts on their *modus operandi* thus improving their effectiveness and efficiency and contributing to a better alignment with the European *acquis* especially regarding implementation, monitoring and evaluation of the agricultural and rural development policy.

The legal and strategic framework put in place in the three countries in the field of ARD largely resembles the one established under the current EU legislation. However, the main problem of the existing legal frameworks is that they are not fully developed and do not have adequate action plans and strategies for enforcement. The lack of stability in policy planning and implementation is another problem.

The low efficiency of the ARD policy is due, among others, to a slow institutional transformation and the lack of continuous and consistent policy and implementation mechanisms. As regards rural development, the scope and provisions of the current legal frameworks need to be further elaborated. The agri-environmental orientation of rural development policy needs to be strengthened. Rural development policy is still subordinate to production support. Among the necessary steps are the modernization of agricultural policy administration and the implementation of appropriate policy monitoring and evaluation

systems. A systematic implementation of the strategies and the modernization of public services regarding agriculture are also necessary elements.

In general, there is a lack of a stable agricultural policy and a true strategy of reforms and adjustment. Regardless of the differences among the countries, the pragmatic ad-hoc approach for defining measures prevails.

All three countries have potential to promote further a sustainable multifunctional model of agriculture and rural areas but there are still some weaknesses that should be addressed by adopting appropriate and well-tuned policy measures and governance and institutional arrangements. Their agriculture of future has to take into account territories geographical, climatic and cultural characteristics; to be based on methods that conserve natural resources and are affordable for farmers; and to take into account not only social systems' food demand but also social, cultural and economic sustainability as well as provision of agro-ecosystems services and positive externalities to the whole society.

Problems faced by the actors involved in the rural development policy cycle change according to the policy cycle phase, and actors' categories (public, civil society, international) as well as their operation level (national, local). Nevertheless, they are mainly related to other actors' attitude, agendas and policies and/or to procedures and the legal environment. Improved policies, institutions, and investments should include developing clear national policies and maximizing complementarities between public, civil society and private stakeholders. A better coordination and governance of ARD can help solving most of the identified problem and coordination between national and local level institutions involved in the design and implementation of ARD is still challenging in all three countries. Effective, efficient and sustainable ARD policy requires a good vertical and horizontal coordination between and among multilevel governance institutions.

Coordination of RD policy should be improved by, among others, designing and implementing mechanisms, processes and procedures aiming at upgrading communication and increasing interaction between the involved actors in the policy cycle. A basic action to strengthen coordination would be to encourage dialogue between these institutions. Communication should be developed horizontally as well as vertically across different government tiers. The new ICTs can help making communication and exchange of information more effective.

Participation of civil society organizations and the private sector in RD policy design and evaluation should be encouraged. Building the capacity of human resources dealing with ARD policy is a priority. Cooperation and coordination among different sectors dealing with ARD can lead to substantial improvements but they can flourish just in case if human and institutional challenges are overcome. Decision makers in all sectors should push for more innovation and cross-sectoral participation to produce better outcomes. Governance requires leadership over all levels - from national and regional to local. Integrated approach to ARD (taking into account economic, social and environmental dimensions) by strengthening intersectoral approaches and cooperation and coordination between local actors is highly requested.

In fact, without all abovementioned there will be many problems during all the phases of the policy cycle. Programmes and projects promoted by many international donors and financial institutions are contributing to addressing this issue and mobilization of donors is highly required. Raising the awareness of rural population is also crucial. That's why it is of a paramount importance to improve the performance of advisory and extension services.

Recommendations for improving RD governance in BMS include as well reforming ARD policy cycle; improving services provision in rural areas; strengthening governance for policy implementation; addressing cross-cutting governance issues in rural development (*e.g.* natural resources management, climate change, rural innovation systems, etc.);

decentralization, regionalization and community empowerment; public administration reform; and corruption control.

Some other recommendations for improving governance and coordination in RD suggest that is necessary to:

- assign responsibilities and train staff for intersectoral coordination, cooperation, negotiation and decision-making;
- make additional effort to strengthen human capital by exchanging competent staff and sharing existing facilities;
- enhance collaboration among sectors by designing mutual accountability and ensuring the time and resources necessary for looking at ways to work together;
- establish new and improve existing communication channels and linkages between researchers, policymakers, and practitioners;
- make certain common consultation in priority setting and especially important activities such as data collection and processing;
- encourage regional cooperation (e.g. twinning programmes between rural areas, visits to integrated projects sites, etc.) in the whole Balkan area in general, and among Bosnia, Montenegro and Serbia in particular especially in areas where good practices and experiences of each can be offered to other sides;
- invest and support the establishment of M&E systems for ARD policies;
- better coordinate sectorial policies (agricultural, economic, regional, environmental and social) among public institutions but also by relying on civil society in order to ensure synergies for the benefit of territories;
- allow easier implementation of ambitious ARD policies by improving the stakeholders' capacity;
- strengthen local governance capacities, inclusive and participatory methods to involve all stakeholders in a fair and transparent manner, in a fruitful crossing of skills and knowledge;
- prioritise actors' training and technical assistance in rural development policies and programmes;
- strongly support the reinforcement of cooperative and other farmers' organizations but also public-private partnerships.

A clear long-term strategy for ARD policy reform, incorporating the expected EU accession agreements and impacts, is a precondition for the efficient adjustment of agriculture and rural economy.

### **7.3. Relation between diversification and governance: key take-home messages**

Rural economies in Bosnia, Montenegro and Serbia are increasingly diversified. A major shift necessary to guarantee the future vitality of rural regions is the diversification of their economies. That should be taken into consideration to redesign the rural development policy. Promoting rural development through farm activity diversification poses numerous policy and governance challenges because it requires coordination across sectors, across levels of government, and between public and private actors. There is a need of a paradigm shift in the approaches of the three countries to accommodate such important challenges. The most defining characteristics of this shift are a focus on places rather than sectors and an emphasis on investments rather than subsidies. The multi-disciplinary nature of rural development should be taken into consideration for designing effective rural policies.

Rural development governance in the Western Balkan in general and in three studied countries in particular is slowly changing. New models of rural governance reflect a shift of rural development policies target away from agriculture to a multisectoral approach. That is true both at central as well as local levels.

There is a linkage between ARD governance and coordination, and exploitation of the full potential for the diversification of rural livelihoods and economies in the three countries. Generally speaking, ARD policy effectiveness and efficiency is linked also to governance arrangements and coordination mechanisms adequacy.

Farm activity diversification initiatives and processes should be well governed in order to yield expected outcomes and impacts. Governance is relevant for the rural livelihood diversification and rural development both as process and structure. Governance plays an important role in mobilising the endogenous development potential of rural areas.

Governance – comprising institutions, policies and processes - affects access to and use of capitals with impacts on diversification. Diversification is affected by a set of sectoral policies that go beyond the agricultural sector. The stance of these with regards to diversification – that changes from a country to another - determines its pace and level. The pace of diversification depends on whether regulations (e.g. land zoning, labour, pension, social security, taxes, etc.) are favourable for diversification or not.

Government policies can act as a stimulus to the diversification of economic activities of farm households. Challenges and potential of rural areas are spatially differentiated and therefore require a place-based policy approach. A range of policy measures have been introduced in various countries to assist farm household diversification into non-farm activities. These measures involve grants, vocational training and business development schemes and facilitation activities (e.g. provision of information, market creation). The diversity of measures reflects not only differences in policy objectives and country approaches but also differences in terms of the barriers that the policy tries to overcome or correct. Meanwhile, some regulations governing tax, social security, land zoning and labour markets may complicate diversification. In some countries access to other forms of support (e.g. income support), may be limited if farmers earn too much income from non-agricultural activities.

Policy measures for the rural economy diversification should be designed in a very simple and easy way in order to motivate end-users with minimum administrative procedures and low transaction costs. Talking about diversification of rural economy it should be kept in mind that it is a cross-cutting issue so besides ministries of agriculture of the three studied countries, also other relevant ministries should be included as those related to economy, infrastructure, education, trade, tourism, etc.

For rural policy to be more effective, small fragmented programmes should be replaced by a single framework that agricultural and non-agricultural households can access by implementing a strong horizontal co-ordination effort at different levels (central, regional and local). For rural policy to be an effective part of the policy process it will have to evolve beyond the existing agricultural limits. It is critical to adopt a multi-sectoral approach to rural policy to achieve coherence among sectoral policies oriented to rural areas and tailor specific programmes to promote rural development. It is of paramount importance that all actors, including also the civil society and rural dwellers, are engaged in preparing a common approach to rural economy diversification.

Governance – as actors and institutions – affects diversification. Governance arrangements determines the range of actors that are involved in policy design. Depending on actors involved and their interests the character and architecture (e.g. priorities definition, selection of financed measures, incentives and subsidies eligibility criteria) are defined. This influences

diversification as they decide which measures will be put and which not and which actors will be involved and which not.

Meanwhile, also diversification has impacts in terms of governance in rural areas. Diversification fosters socio economic development and creation of jobs. Rural areas whose economies are diversified are more interesting for policy makers as there are real opportunities for investment and economic growth. Therefore, governments pay more attention – and dedicate more funds - to these rural areas.

Changes that happen in rural areas, thanks to diversification, influence also rural governance and policy. Many new rural actors are consulted about rural development which was not case in the past. In fact, diversification affects the typology of actors that are involved in policy design which has implications in terms of definition of priority policy measures. This represents a dramatic change in the rural policy arena with respect to some decades ago when mainly agricultural actors (e.g. agricultural cooperatives/associations unions) were involved in rural policy formulation. Now also the private sector and civil society organizations are involved. This is particularly true regarding rural tourism. In fact, due to the development of tourism activities in rural areas, rural tourism actors are more and more involved in rural policy especially during the implementation phase. Rural areas are not the same like in the past thanks also to change in rural actors landscape.

It is important to take stock of the current EU policy to try to address the present and future challenges facing rural areas in BMS. Harnessing the potential of rural areas for economic diversification and development, improving policy delivery, local governance and finding the right balance between top-down and bottom-up approaches are also very important in this respect.

The policy architecture and the delivery mechanisms applied should ensure that policy priorities are taken into account and are translated into actions in a coherent and synergistic way at various governance levels. The implementation via a bottom-up approach is key to stimulating private initiative and encouraging stakeholders in taking ownership in the development process. Enhancing the complementary nature of the different elements of successful governance and ensuring feedback at different levels of policy actions requires facilitating the dissemination of information and fostering partnerships between different types of actors, and different sectors which interact in the process of rural development.

Partnership gives rise to more effective rural development because of its usage of different sectoral resources, both human and material. Multi-actor approaches allow the building of commitment to problem definition and solutions, the fusion of planning and implementation, and shortening the time needed to bring forward policies. Multi-stakeholder governance-based approaches and arrangements encourage integrated development.

It is also important to ensure consistency in programming and policy stability as well as synergies between sectoral policies in rural areas. That requires a clear and stable framework for improving the governance and implementation of policies. For that promoting exchange of good practice and experience regarding developing and managing rural policies between Balkan countries and between these and the EU ones is of paramount importance.

#### **7.4. Relation between governance and rural development policy impact: key insights**

There is a broad consensus on the importance of governance for development. The quest for effective and good governance, especially at the local and regional levels, is one of the many challenges facing rural areas. Happily, effective governance also is one of the best opportunities for shaping a vibrant future for rural areas. Good governance has both intrinsic and instrumental developmental value.

Agricultural and rural development policy effectiveness and efficiency is linked also to governance arrangements and coordination mechanisms adequacy. Governance effectiveness affects rural development policies impacts on rural communities' livelihoods including rural population's readiness and willingness to deal with new activities in the non-farm and the off-farm sectors.

This is particularly relevant at local level. In fact, there is a positive relationship between rural governance and community outcomes. At least in the short-term, effective community decision-making through collaboration and rural population engagement put the rural regions on the path towards improved social and economic outcomes.

According to the intervention logic of Rural Development Programmes laid down in the Handbook on Common Monitoring and Evaluation Framework (CMEF), impacts represent the final link of the results chain which starts with the input (intervention), producing an output whose use by the beneficiaries brings forth results, which in turn contribute to the impact.

Governance is surely one of the central themes for understanding the functioning of rural policies and the opportunities for improving their overall efficiency and effectiveness. Failing to understand the crucial points of governance in the various countries may imply not succeeding in understanding why policies work only to a limited extent or poorly. Place-based integrated development policies are the new challenge for rural areas and their chances of success depend on how they are implemented, how risk is reduced and what form of governance is adopted.

Rural policy effectiveness in the three countries is undermined by many governance problems and constraints that decrease the policy impacts. One of the major constraints to policy effectiveness is policy instability. Instability of policy governance in the three countries affects negatively its real impact in rural areas. The lack of stability in policy planning and implementation is obvious. Over the years, the rate of turnover in agricultural policies has been high – especially in Serbia-, with many policies formulated and scrapped in rapid succession. Again, this problem could be partly ascribed to political instability.

Another problem is related to the inconsistency in policies. Some agricultural and rural policies and programs tended to be mutually antagonistic rather than being mutually complementary and reinforcing. Efforts should be devoted to improving the efficiency and effectiveness of rural development programmes and to guaranteeing coherence with other major sectoral policies. Another issue is the weak institutional framework for rural policy coordination. Inadequate institutional arrangements for policy coordination had often led to a duplication of effort and general inefficiency in resource use among agencies and ministries. Improving policy coordination and consistency will contribute to addressing major territorial inequalities and will transform rural regions into sources of national development.

Narrow base of policy design is, at least in part, explained by the fact that the base of policy formulation process had, in the past, been rather narrow as the level of involvement of local and regional actors in the formulation of policies was minimal. Therefore, these policies tended to lack grassroots support and the popular mobilization required for their success.

Another factor that may help explaining low impact of rural policies is the poor implementation. There is a tendency to regard the formulation of policies as ends in itself, rather than being means to desired ends. As such, insufficient attention is paid to the efficient implementation of policies. Poor managerial capacity, bureaucratic bottlenecks, corruption and high rates of policy turnover tend to complicate and aggravate the problem of policy implementation. Lack of commitment - and often also of accountability - on the part of those in charge with of policy implementation is also an important problem.

The low efficiency of the ARD policy in the three Balkan countries is due among others to a slow institutional transformation and the lack of continuous and consistent policy and

implementation mechanisms. In general, there is a lack of a stable agricultural and rural policy and a true strategy of reforms and adjustment to EU requirements. Regardless of the differences among the three countries, the pragmatic ad-hoc approach for defining measures prevails.

Taking into consideration the above-mentioned problems, impact assessment should be systematically conducted to support the development of rural policy. This involves considering the key issues and objectives and evaluating the economic, social and environmental impacts. This will contribute to a better understanding of the issues at stake as well as the advantages, disadvantages and trade-offs associated with different policy options. In sum, mainstreaming impact assessment - in addition to improving policy monitoring and evaluation system - can help improving the quality of agricultural and rural legislation.

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## ANNEXES

### Annex 1. Questionnaire on governance and coordination in Bosnia, Montenegro and Serbia (example of Montenegro)

Q 1: Organization name					
Q 2: Organization nature (e.g. International NGO).					
Q 3: What are, in your judgment, the main problems in rural areas (max. 5)?	1. 2. 3. 4.				
Q 4: Operation level of your organization (multiple answers are possible)?	Local level (municipalities)		State level		
Q 5: Have your organization ever been involved in a rural development project and/or in rural policy design?	Yes		No		
Q 6: How “rural development” would be defined by your organization (please, chose one answer or add your own definition!)?	Rural development is a subsector of agricultural development	Rural development is cross sectorial and includes the agricultural sector	Other (please, specify!)		
Q 7: What are the main tasks in which your organization is (has been) engaged regarding rural development (multiple answers are accepted)?	Design/formulation/ planning	Implementation / Delivery	Monitoring/ Evaluation		
Q 8: What are, according to you, the main problems regarding the rural development policy design (max. 5)?	1. 2. 3. 4.				
Q 9: What are the main problems regarding rural development policy implementation (max. 5)?	1. 2. 3. 4.				
Q 10: What are the main problems regarding rural development policy monitoring and evaluation (max. 5)?	1. 2. 3. 4.				
Q 11: How do you evaluate the coordination of sectoral policies in Montenegrin rural areas?	Excellent	Very good	Good	Bad	Very bad
Q 12: Are there any sectoral policies, apart from agricultural one, that have good synergies with RD policy? Could you provide some examples?	1. 2. 3. 4. 5.				

Q 13: Are you cooperating with other public organizations engaged in rural development? If yes could you list the most important ones (max. 5)?	1. 2. 3. 4. 5.			
Q 14: Are you cooperating with other civil society organizations engaged in rural development? If yes, could you list the most important ones (max. 5)?	1. 2. 3. 4. 5.			
Q 15: Are you cooperating with any international organization engaged in rural development? If yes, could you list the most important ones (max. 5)?	1. 2. 3. 4. 5.			
Q 16: Would you define the coordination between actors involved in the RD policy cycle as effective?	Yes	No	Partly	
Q 17: If the coordination is not effective which are, according to you, the major constraints and causes of problems (max. 5)?	1. 2. 3. 4. 5.			
Q 18: Is there any organization that you would describe as having the leadership in coordinating RD policy (1 organization)?	1.			
Q 19: Is there any organization or actor group that is actually not or insufficiently involved in the RD policy cycle and that should be involved more actively?	1. 2. 3.			
Q 20: Is there any organization you have conflict with (max. 3)?	1. 2. 3.			
Q 21: Is your organization a member in any national, regional, European or international agricultural and rural development network? If yes, could you name them?	1. 2. 3. 4. 5.			
Q 22: Could you define the main constraints in and barriers to coordinating RD policy in Montenegro?	Political (difficulties in the cooperation among different levels: local, state)	Technical/ Bureaucratic	Strategical (lack of a long term strategy)	Other (please, specify!)

Annex 2. Questionnaire on the diversification of rural economy in municipalities of south-eastern Bosnia, northern Montenegro and western Serbia

MUNICIPALITY \_\_\_\_\_ VILLAGE \_\_\_\_\_

<b>1. Age of interviewee</b>			<b>2. Interviewee gender</b>	Male		Female		
<b>3. Registered activity</b>	Yes	No	<b>4. Role in family</b>	<i>Head of household (age)</i>		<i>Member of household</i>		
<b>5. Type of household</b>	Agricultural		Non agricultural		Mixed			
<b>FAMILY STRUCTURE</b>								
<b>6. Number of members in household</b>			<b>7. Number of female members</b>				<b>8. Number of male members</b>	
<b>9. Number of members depending of age structure</b>								
<15	1	2	3	4	5	6	7	8
15 – 24	1	2	3	4	5	6	7	8
25 – 49	1	2	3	4	5	6	7	8
50 – 64	1	2	3	4	5	6	7	8
> 65	1	2	3	4	5	6	7	8
<b>10. Education level</b>								
<i>Illiterate (no school)</i>	1	2	3	4	5	6	7	8
<i>Primary school ( IV)</i>	1	2	3	4	5	6	7	8
<i>Primary school (VIII)</i>	1	2	3	4	5	6	7	8
<i>High school (3 years)</i>	1	2	3	4	5	6	7	8
<i>High school (4 years)</i>	1	2	3	4	5	6	7	8
<i>College (2 years)</i>	1	2	3	4	5	6	7	8
<i>Faculty</i>	1	2	3	4	5	6	7	8
<b>11. Number of sons/daughters that moved to town or abroad?</b>				1	2	3	4	5
<b>EMPLOYMENT AND INCOME FOR MEMBEERS OF HOUSEHOLD</b>								
<b>12. Number of members in household with work status?</b>								
<i>Full-time employee</i>	0	1	2	3	4	5	6	
<i>Work without contract</i>	0	1	2	3	4	5	6	
<i>Private job</i>	0	1	2	3	4	5	6	
<i>Seasonal job</i>	0	1	2	3	4	5	6	
<i>Deal with agriculture</i>	0	1	2	3	4	5	6	
<i>Unemployed</i>	0	1	2	3	4	5	6	
<i>Pensioner</i>	0	1	2	3	4	5	6	
<i>Housewife</i>	0	1	2	3	4	5	6	
<i>Pupil/Student</i>	0	1	2	3	4	5	6	
<i>Live abroad</i>	0	1	2	3	4	5	6	
<i>Other</i>	0	1	2	3	4	5	6	
<b>13. Work capability of household members</b>		Work capable - Healthy			Sick			
<b>14. Which are sources of income for your household? (Circle number)</b>								
1.	Income from farm			6.	Pension			
2.	Providing services on equipment and machines			7.	Social programs and help			

3.	Wage	8.	Family and friends from abroad							
4.	Renting land and property	9.	Other							
5.	Income out of agriculture	10.								
<b>15. Which is main source of income for your household?</b>										
<b>16. Which is total income per year for your household (EUR)?</b>		<1.000	1.000 - 2000	2.000 – 5.000	5.000 – 10.000	10.000 – 15.000	15.000 – 25.000	>25.000		
<b>AVAILABILITY OF INFRASTRUCTURES</b>										
<b>17. Is there in your village?</b>		Exist	Does not exist		Satisfied		Not satisfied			
1.	Water supply									
2.	Asphalted roads									
3.	Electricity									
4.	Bus, public transport									
5.	Telephone landlines									
6.	Mobile telephone line									
7.	TV signal (common)									
8.	Cable TV, satellite TV									
9.	Sewage									
10.	Take away garbage service									
11.	Street lights									
<b>18. Does your household have?</b>			Yes		No		Partly			
<i>Electricity</i>										
<i>Water</i>										
<i>Telephone</i>										
<b>19. Does your household have?</b>			Yes		No		Partly			
<i>Computer</i>										
<i>TV</i>										
<i>Radio</i>										
<i>Car</i>										
<i>Motor</i>										
<i>Bicycle</i>										
<b>20. How you evaluate the standard of your household?</b>		Very bad		Bad		Average		Good		Very good
<b>21. Is there in your village?</b>		Exist		Does not exist		Satisfied		Not satisfied		
1.	Ambulance, health care									
2.	Supermarket									
3.	Primary school									
4.	Pharmacy									
5.	Post office									
6.	Veterinarian service									
7.	Cooperative									
8.	Bakery									
9.	Bank									
10.	Sport field									
11.	Catering services									
12.	Mechanist									

<b>22. In your opinion what is general situation in rural areas?</b>	It is becoming Worse	Remain the same	It is improving	Does not know	
<b>23. Which are priority problems in your village? (write down one or more answers)</b>					
<b>24. Who should do more for improving households conditions in your village?</b>	Should help		Helping		
Municipality					
Government					
Inhabitants of your village					
Cooperatives					
Extension service					
<b>25. Do you need advisers help and if needed which kind?</b>					
<b>26. Does your household use services provided by extension service?</b>	Use services	Does not use services			
<b>27. Which kind of information sources do you use the most often?</b>					
<b>28. Do you know about programs of state help for agriculture and rural development</b>	I do not know	I am not Interested in	I do not know but I would like to now more	I know but not so much	I know enough
<b>29. Are you a member of a cooperative or an association?</b>	Yes (association)		Yes (cooperative)	Yes (both)	
<b>30. Are you satisfied with services provided by cooperative/association?</b>	Yes		No		
<b>31. Are you member of other collective groups or institutions?</b>					
1. Fisherman association	4. Hunter association				
2. Sport club	5. Political party				
3. Cultural - art club	6. Other				
<b>32. Have you ever used loan, for which purpose? (circle number)</b>					
1. I did not use	6. For buying agricultural machines, equipment				
2. For personal needs	7. For new plants				
3. For buying seeds, fertilizers, fuel	8. For job out of agriculture				
4. For buying animals	9. Others				
5. For building, renovation of buildings					
<b>33. Would you move from your village? (circle number)</b>					
1. I would never do that	4. I would move because of schooling and job perspective				
2. I have never thought about that	5. I would move because of better paid job				
3. I would move if I have chance	6. Does not know				
<b>34. Have you until now, in last 5 years, had any activities on development or starting new business (except agriculture), or you tried on any way to improve financial situation of your household?</b>	1. No 2. I started but I gave up 3. Yes, I still deal with that				
<b>35. If answer is no, why not?</b>					

<b>36. Which kind of business you have tried? (possibility of multiple answers)</b>			
1.	Processing and packing of food , which: _ _ _ _ .	7.	Trade, ransom, stipulation
2.	Agricultural shop, agricultural pharmacy	8.	Supermarket
3.	Transport of commodities	9.	Artisan store
4.	Rural tourism	10.	Offering services (equipment and mechanization)
5.	Collecting of forest fruits and herbs production	11.	Teaching (language, music, dance, some sports)
6.	Handicraft, which one: _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _	12.	Other - what: _ _ _ : _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
<b>37. Which were main problems and constraints that you have faced? (possibility of multiple answers)</b>			
1.	I did not have enough experience in that field	5.	Tax was high
2.	I could not provide money	6.	Administration issues were complicated
3.	Did not find partners	7.	Other – what: _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
4.	Did not find market	8.	
<b>38. Which kind of activities your household could deal with in future taking in consideration potential of area and potential of household (possibility of multiple answers)</b>			
1.	Processing and packing of food , which: _ _ _ _ .	7.	Trade, ransom, stipulation
2.	Agricultural shop	8.	Supermarket
3.	Production of traditional local products	9.	Artisan store
4.	Rural tourism	10.	Offering services (equipment and mechanization)
5.	Collecting of forest fruits and herbs production	11.	Teaching (language, music, dance, some sports)
6.	Handicraft, which one: _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _	12.	Other - what: _ _ _ : _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _

Annex 3. Pre-field pretesting for the face to face questionnaire on diversification with the focus group meeting, households and individuals

NAME	POSITION
<b>FOCUS GROUP (BOSNIA AND HERZEGOVINA)</b>	
Borko Sorajic	PhD, Faculty of Agriculture, East Sarajevo, Bosnia
Mirjana Mojevic	PhD, Faculty of Agriculture, East Sarajevo, Bosnia
Milan Jugovic	Senior assistant professor, Faculty of Agriculture, East Sarajevo, Bosnia
Dejana Tesanovic	Senior assistant professor, Faculty of Agriculture, East Sarajevo, Bosnia
Vesna Tunguz	Senior assistant professor, Faculty of Agriculture, East Sarajevo, Bosnia
Milana Josilo	Master student
Jelena Vlacic	Master student
Svjetlana Micic	Master student
Vanja Jovovic	Master student
Jelena Cabarkapa	Master student
<b>EXTENSION ADVISORY SERVICE</b>	
Huanita Milutinovic	Extension service agent, Serbia
Aleksandar Stojanovic	Extension service agent, Serbia
Vukota Stanisic	Director of the Extension advisory service, Montenegro
Branko Četković	Extension Office in Podgorica, Montenegro
Rajko Gvozdanić	Extension Office in Nikšić, Montenegro
Slavisa Pandurevic	Chief of the regional extension office in Sokolac, Bosnia
Danilo Kujacic	Extension Office in Sokolac, Bosnia
Tanja Borovcanin	Extension Office in Sokolac, Bosnia
<b>OTHER COMPETENT CONTACTS FROM MONTENEGRO AND SERBIA</b>	
Snezana Jankovic	Director of the Institute for Applied Science, Serbia
Natalija Bogdanov	Faculty of Agriculture, University of Belgrade, Serbia
Zorica Vasiljevic	Faculty of Agriculture, University of Belgrade, Serbia
Miomir Jovanovic	Biotechnical Faculty, University of Podgorica, Montenegro
Aleksandra Despotovic	Biotechnical Faculty, University of Podgorica, Montenegro
<b>HOUSEHOLDS FROM SARAJEVO-ROMANIJA REGION</b>	
Arsen Jugovic	Municipality of Pale
Kojo Lucic	Municipality of East Ilidza
Skrba Nebojsa	Municipality of Istocno Novo Sarajevo
Pandurevic Nedeljko	Municipality of Istocno Novo Sarajevo
Vlasta Trncic	Municipality of Istocno Novo Sarajevo
Kenjic Rade	Municipality of Istocna Ilidza
Srdjan Sikima	Municipality of Istocno Novo Sarajevo
Zeljko Prodanovic	Municipality of Istocno Novo Sarajevo
Radomir Maunaga	Municipality of Istocno Novo Sarajevo
Milica Borovcanin	Municipality of Sokolac
Gojko Rajic	Municipality of Istocni Stari Grad
Gaco Djordje	Municipality of Istocni Stari Grad
Vujcic Goran	Municipality of Trnovo
Bjelica Marijana	Municipality of Trnovo

\*All above mentioned gave their consent to publish their names. Names without approval are not included.

Annex 4. Pre-testing phase for on-line survey questionnaire on governance with representatives of public, civil society and private sector from three studied countries

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BOSNIA AND HERZEGOVINA

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Faculty of Agriculture, University of East Sarajevo /Borko Sorajic/

---

Faculty of Agriculture, University of Banja Luka / Zeljko Vasko/

---

Faculty of Food Sciences and Agriculture, Sarajevo /Aleksandra Nikolic/

---

Agricultural cooperative "Saradnja" /Nedeljko Pandurevic/

---

MONTENEGRO

---

Biotechnical Faculty, University of Podgorica /Aleksandra Despotovic, Zoran Jovovic/

---

Extension Advisory Service /Vukota Stanisic/

---

COSV international organization /Zorica Blagojevic/

---

SERBIA

---

Faculty of Agriculture, University of Belgrade /Zorica Vasiljevic/

---

Faculty of Agriculture, University of Novi Sad /Andrijana Radosavac/

---

Institute for Applied Science /Janja Kuzevski/

---

Company Nuseed /Sanja Zaric/

---

Extension Advisory Service /Aleksandar Stojanovic, Huanita Milutinovic/

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Annex 5. Public institutions' and international organizations' informants about eligible respondents for on-line survey questionnaire on governance

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BOSNIA AND HERZEGOVINA

---

Ministry of Foreign Trade and External Relations of BiH /Jelena Prorok/

---

Ministry of Agriculture, Water Management and Forestry of RS /Slavica Samardzic/

---

Faculty of Agriculture, University of East Sarajevo /Vesna Milic/

---

Faculty of Agriculture, University of Banja Luka /Aleksandar Ostojic/

---

Faculty of Food Sciences and Agriculture, Sarajevo /Sabahudin Bajramovic/

---

Extension Advisory Service /Slavisa Pandurevic/

---

USAID /Rada Svitlica/

---

MONTENEGRO

---

Biotechnical Faculty, University of Podgorica /Aleksandra Despotovic/

---

Extension Advisory Service /Vukota Stanisc/

---

COSV international organization /Zorica Blagojevic/

---

SERBIA

---

Faculty of Agriculture, University of Belgrade /Zorica Vasiljevic/

---

Chamber of Commerce of Serbia /Branislav Gulan/

---

Institute for Applied Science /Snezana Jankovic/

---

Institute of Agricultural Economics /Drago Cvijanovic/

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Extension Advisory Service /Aleksandar Stojanovic, Huanita Milutinovic/

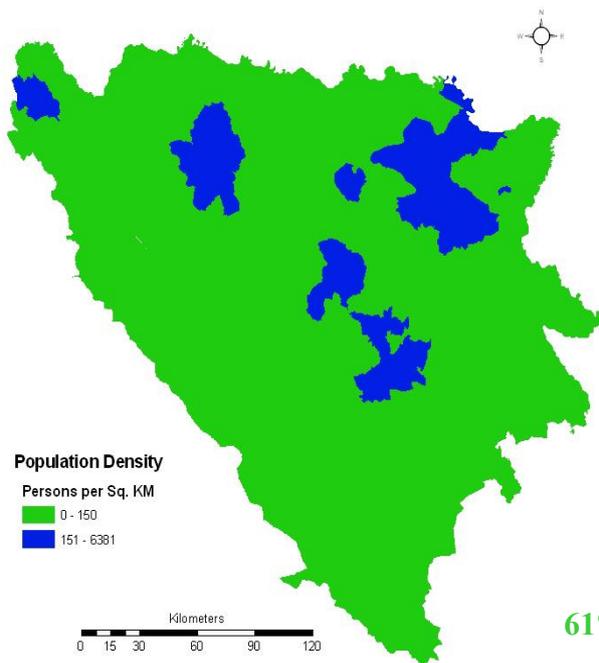
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## Annex 6. Summarized SWOT analysis of rural areas in Republic of Srpska entity

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>○ High % of rural population</li> <li>○ Relatively cheap labour force</li> <li>○ Dominance of mixed households</li> <li>○ Educational institutions available and well educated rural population</li> <li>○ Possession of computers</li> <li>○ Favourable natural conditions</li> <li>○ Rich natural and cultural - historic heritage</li> <li>○ Tradition in production and processing</li> <li>○ Existing public advisory services</li> <li>○ Specialized agricultural cooperatives</li> <li>○ Significant and rich forest potential</li> <li>○ Significant wood processing capacities</li> <li>○ Institutionally regulated sectors of forestry, wood processing and tourism</li> <li>○ Positive trend in number of SMEs</li> <li>○ Interest of donors, diaspora and investors</li> </ul>	<ul style="list-style-type: none"> <li>○ High % of elderly households</li> <li>○ Low population density in some rural regions</li> <li>○ Migration of the young (rural - urban, rural -abroad)</li> <li>○ High unemployment rate</li> <li>○ Limited access to information and low computer literacy</li> <li>○ Lack of entrepreneurial spirit</li> <li>○ Fragmentation of land holdings</li> <li>○ Low productivity and yields and outdated technology</li> <li>○ Poor cooperation between producers and scientific and research institutions</li> <li>○ Lack of investments and low incentives</li> <li>○ Unfavourable credits' conditions</li> <li>○ Poor coordination and collaboration between institutions dealing with RD</li> <li>○ Uncontrolled forests exploitation, hunting, fishing</li> <li>○ Low promotion of rural tourism</li> <li>○ Poor access to services and bad infrastructure</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>○ Incentives for rising birth rate</li> <li>○ Job creation and opportunities for SMEs</li> <li>○ Training for rural population</li> <li>○ Increased demand for food</li> <li>○ Certification and standardization</li> <li>○ Farms modernization</li> <li>○ Better agricultural Advisory Service</li> <li>○ Clustering and associations</li> <li>○ Better institutional support to RD</li> <li>○ Protection of autochthonous products</li> <li>○ Greater inflow of foreign capital</li> <li>○ Integration processes with EU</li> <li>○ Increasing level of wood processing</li> <li>○ Strengthened cooperation between relevant institutions, municipalities and regions</li> <li>○ Diversification of activities (<i>e.g.</i> tourism)</li> <li>○ Access to additional funds (IPARD, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>○ Population aging and low birth rate</li> <li>○ Uneven regional population distribution</li> <li>○ Further depopulation of rural areas</li> <li>○ Lack of State support</li> <li>○ Budget constraints to increase incentives for RD</li> <li>○ Political instability in the country and region</li> <li>○ Uncontrolled food imports</li> <li>○ Poor quality control and “Gray economy”</li> <li>○ Low investment in Science and Technology</li> <li>○ Excessive lumbering of forests</li> <li>○ Mined area under forest and agricultural land</li> <li>○ Negative image of the country</li> <li>○ Investment in rural infrastructure conditioned by political views</li> <li>○ Weak representation of the rural population</li> <li>○ Low motivation for life in the countryside</li> <li>○ Weak concern for environment preservation</li> </ul>

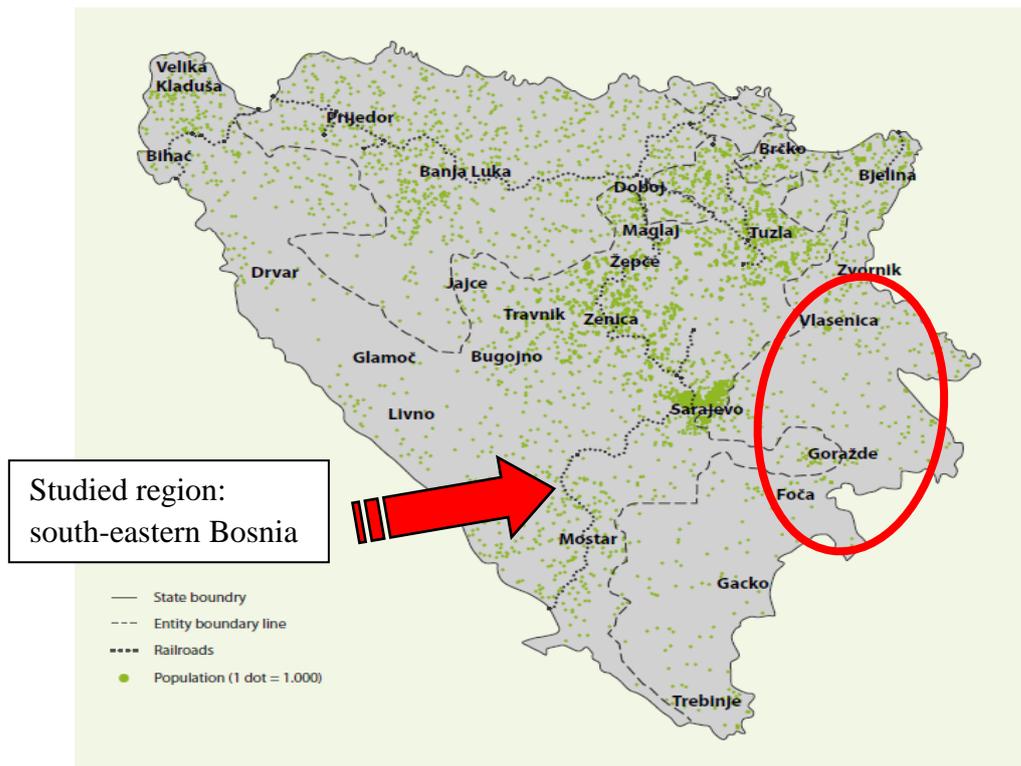
Source: Adapted from MAFWM-RS, 2009.

## Annex 7. Distribution of Urban and Rural Areas in Bosnia



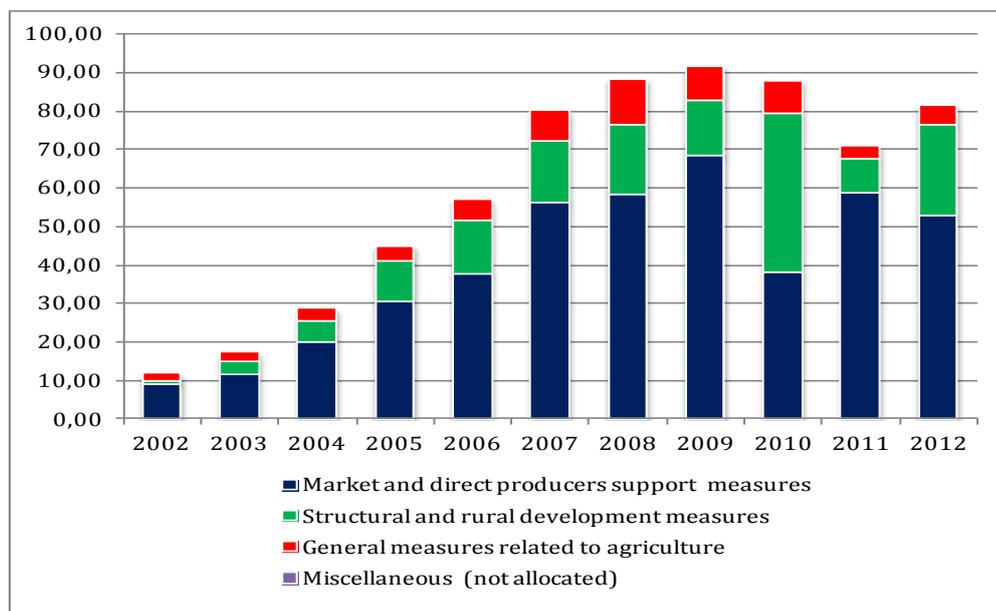
**81%** of the total area can be classified as rural

**61%** of the population can be classified as **rural**



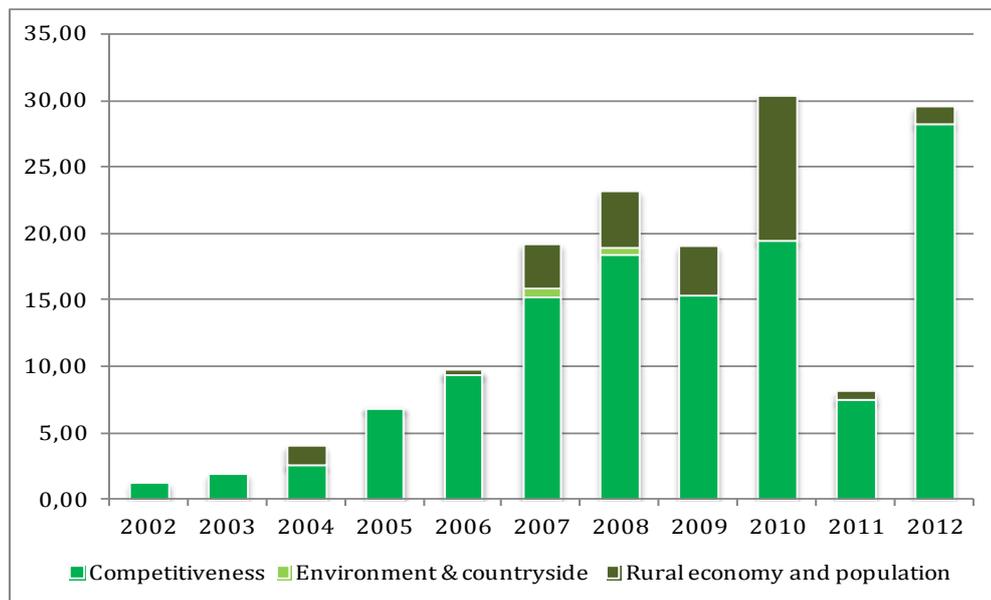
Source: UNDP, 2013

Annex 8. Breakdown of budgetary expenditure for agri-food sector and rural areas in Bosnia and Herzegovina for period 2002-2012 (in million EUR)



Source: Author`s data elaboration based on national statistics provided under FAO/SWG Project

Annex 9. Breakdown of structural and rural development measures in Bosnia and Herzegovina for period 2002-2012 (in million EUR)



Source: Author`s data elaboration based on national statistics provided under FAO/SWG Project

## Annex 10. SWOT analysis of Montenegrin agriculture

<b><i>S – Strengths</i></b>	<b><i>W – Weaknesses</i></b>
<ul style="list-style-type: none"> <li>○ Some products show price competitiveness (wine, lamb meat, some vegetables)</li> <li>○ Organic production is plausible</li> <li>○ Plenty of workforce looking for additional employment</li> <li>○ Tradition in agriculture</li> <li>○ Evident positive changes in production and Institutional frame during the last period</li> <li>○ Development of new sectors (poultry production, agro-food industry)</li> </ul>	<ul style="list-style-type: none"> <li>○ Majority of production is uncompetitive</li> <li>○ Outdated equipment and technology</li> <li>○ Low level of mechanization</li> <li>○ Low level of technology and specialisation</li> <li>○ Structural fragmentation</li> <li>○ Low volume of production per holding</li> <li>○ Relatively high input prices</li> <li>○ Unorganised markets and marketing channels</li> <li>○ Unsatisfying level of quality standards</li> <li>○ Non-competitiveness of agro-food industry</li> <li>○ Unfavourable rural age and social structure</li> <li>○ Bad infrastructure in most rural areas</li> <li>○ Low level of budget support</li> <li>○ Inappropriate institutional system</li> <li>○ Underdeveloped agriculture statistics.</li> </ul>
<b><i>O – Opportunities</i></b>	<b><i>T – Threats</i></b>
<ul style="list-style-type: none"> <li>○ Increase in tourism and food consumption</li> <li>○ Support of the EU to agriculture and rural development</li> <li>○ Organic production</li> <li>○ Development of traditional products</li> <li>○ Strengthening of domestic market</li> <li>○ Strengthening of export of competitive products (wine, lamb, vegetables)</li> <li>○ Strengthening of the former marketing channels</li> <li>○ Efficiency of additional budget support</li> <li>○ More rapid technological development and strengthening of agriculture institutions.</li> </ul>	<ul style="list-style-type: none"> <li>○ Opening of markets leading to stronger competition;</li> <li>○ Entering of bigger retailing systems</li> <li>○ Concentrated development of agriculture in some parts of the country</li> <li>○ Drop behind in integration processes</li> <li>○ Not taking in account agriculture role in development and approaching to the EU</li> <li>○ Closing of accessible markets in the region.</li> </ul>

(Source: Adapted from the Ministry of Agriculture, 2006)

Annex 11. Legal framework for agriculture and rural development in FBiH, RS and BD in Bosnia and Herzegovina

**Strategic documents on FB&H level:**

- Development Strategy of Agricultural Sector in FB&H, 2006-2010 (extended to 2012)
- Strategies for Management of Agricultural Land in FB&H, since 2011
  - ❖ DRAFT Medium term strategy for agricultural sector development in FB&H, 2014-2018
  - ❖ IN PREPARATION - Medium term strategy for rural development in FB&H, 2014-2018.

**Strategic documents on RS level:**

- Agricultural development strategy of Republika Srpska, 2015.
- Action plan for implementation of the Strategy for Agriculture Development of Republika Srpska
- Strategic Plan for Rural Development of Republika Srpska, 2009 – 2015.
- Action plan for implementation of the Strategic Plan of Rural Development RS, 2010 – 2015.
- Strategy for Development Extension Service in Agriculture of Republika Srpska
- Strategy for Development Hail Protection o Republic of Srpska
- Program for Agricultural Cooperatives Development in Republic of Srpska, 2011.-2016.
- Fundamentals for Agricultural Land Protection, Utilization and Planning in Republic of Srpska
- Framework plan for Water Resources Development of Republika Srpska

**Strategic documents on BD level:**

- Development Strategy BD B&H, 2008-2017
  - ❖ DRAFT Strategy of Agriculture and Rural Development Brcko District B&H, 2008-2013

**Legislation on FB&H level - laws:**

- Law on agriculture ("Official Gazette FB&H ", No. 88/07, 04/10)
- Law on financial support in agriculture and rural development (Official Gazette FB&H, No. 42/10)
- Law on amendments to the law on agriculture (Official Gazette FB&H, No. 4/10)
- Law on agricultural aand (Official Gazette FB&H, No. 52/09)
- Law on freshwater fishing
- Law on recognition and protection of agricultural and forest plant
- Law on seeds and seedlings of agricultural plants
- Law on wine

**Legislation on RS level - laws:**

- Law on Agriculture (Official Gazette RS, No. 70/06)
- Law on Agricultural Land (Official Gazette RS, No. 93/06)
- Law on Hailstorm Protection (Official Gazette RS, No. 110/08)
- Law on Agricultural Cooperatives (Official Gazette RS, No. 73/08)
- Law on Mineral Fertilizers (Official Gazette RS, No. 24/12)
- Law on Planting Material (Official Gazette RS, No. 37/09)
- Law on Seeds of Agricultural Plants (Official Gazette RS, No. 37/09)
- Law on Plant Protection (Official Gazette RS No. 52/09)
- Law on Plant Protection Products (Official Gazette RS, No. 52/10)
- Law on Genetically Modified Organisms (Official Gazette RS, No. 103/08)
- Law on Livestock (Official Gazette RS, no. 34/06)
- Law on Beekeeping (Official Gazette RS, No. 52/10)

- Law on Fisheries (Official Gazette RS No.72/12)
- Law on Tobacco (Official Gazette RS, No. 72/12)
- Law on Organic Food Production (Official Gazette RS, No. 75/04)
- Law on Wine and Brandy (Official Gazette RS, No. 71/09)
- Law on Food (Official Gazette RS, No. 49/09)

**Legislation on BD level - laws:**

- Law on subsidies for agriculture in BD
- Law on agricultural land BD
- Law on wine and brandy BD
- Law on tobacco Brcko District
- Law on agricultural cooperatives BD
- Law on inspections BD
- Law on land register and rights on land BD
- Law on Freshwater Fisheries BD
- Law on forests BD

**Policy monitoring and evaluation documents on FB&H level**

- Green reports, 2008-2012
- External evaluation of agricultural policy FBiH, 2008-2010 (by Faculty of agriculture and food sciences, Sarajevo)

**Policy monitoring and evaluation documents on RS level**

- DRAFT Implementation analysis of agricultural development strategy RS
- DRAFT Implementation analysis of rural development strategy RS

**Policy monitoring and evaluation documents on BD level**

- Information on implementation program of subsidies in agriculture BD, 2006-2012
- Annual report of Department of agriculture, forestry and water management of BD, 2006-2012