



Relation Between Rural Diversification and Governance: Some Insights from Bosnia, Montenegro and Serbia

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Abstract Rural areas in the Western Balkans are experiencing two profound changes *i.e.* increased diversification of the rural economy and new governance models and arrangements. The paper aims at providing some insights into linkages and interdependences between rural livelihoods, diversification, and rural governance in Bosnia, Montenegro, and Serbia (BMS). In particular three different conceptual frameworks were used to analyze governance-rural development, governance-rural livelihoods and governance-rural economy diversification linkages. Input data to substantiate the conceptual frameworks in the rural contexts of BMS were the results of surveys dealing with rural governance and rural livelihoods diversification performed in the period 2011-2013. There is a linkage between agricultural and rural development governance and coordination, and exploitation of the full potential for rural livelihoods and economies diversification. Governance is relevant for rural livelihood diversification and rural development both as process and structure. Governance - comprising institutions, policies, and processes - affects access to and use of livelihood assets with impacts on diversification. Diversification is also affected by a set of sectoral policies that go beyond agriculture. Government policies can act as a stimulus to the diversification of economic activities of rural households. Governance - as actors and institutions - also affects diversification. Governance arrangements determine the range of actors involved in policy design. Depending on actors involved and their interests the policy character and architecture are defined. Meanwhile, also diversification has impacts in terms of governance in rural areas. In fact, 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 the case in the past. Diversification affects the typology of actors that are involved in policy design which has implications in terms of priority policy measures definition. These insights should be taken into consideration to redesign rural development policy.

Keywords rural areas, diversification, governance, Bosnia, Montenegro, Serbia

INTRODUCTION

Agriculture plays an important socio-economic role in the Western Balkan (WB) in general and Bosnia, Montenegro, and Serbia (BMS) in particular. The share of agriculture in GDP amounts to 7.4% in Bosnia (EC, 2013a), 9.5% in Montenegro (EC, 2013b), and 10.1% in Serbia (EC, 2013c). Agricultural sector employs 20.6% of the total labor force in Bosnia (ASBiH, 2012), 5.7% in Montenegro (EC, 2013b), and 21% in Serbia (EC, 2013c). Rural areas lag behind in terms of socio-economic development and still face many problems. The share of rural population is 61% in Bosnia (UNDP, 2013), 38% in Montenegro (Arcotrass et al., 2006), and 43% in Serbia (RDNS, 2010). Rural areas in BMS are experiencing two profound changes *i.e.* increased diversification of the rural economy and new rural governance models. Sustainable development of rural areas cannot be based only on agricultural development, rural economies should also be diversified by developing off-farm and non-farm income-generating activities.

Diversification means exploiting all the multifunctional functions of agriculture while introducing new off-farm and non-farm income-generating activities. Households' income can be increased by adopting many livelihoods strategies (Chambers and Conway, 1992). In terms of agriculture, the concept of diversification 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. Alternatively, it is 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. A third sense of diversification – a focus on the location of the activity – is also considered (OECD, 2009).

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. 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). Governance analysis focuses on the actors involved in decision-making and implementing the decisions made and the structures that have been set in place to arrive at and implement decisions (Sheng et al., 2007).

The paper aims at exploring relations and interdependences between rural livelihoods diversification and rural governance in BMS.

METHODOLOGY

The paper is based on an extended secondary data analysis and different surveys. Three different conceptual frameworks were used to analyze governance-rural development, governance-rural livelihoods and governance-rural economy diversification linkages. The conceptual framework developed by IFPRI highlights linkages between governance and rural development. It shows why governance decentralization and rural service delivery are so important for sustainable ARD (IFPRI, 2007; IFPRI, 2007b). The second conceptual framework of Shtaltovna (2007) focuses on relations between governance and diversification. It 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 (Shtaltovna, 2007). The rural livelihood framework of the UK Department for International Development (DFID) was used for getting insights into linkages between governance and livelihood strategies. This conceptual framework shows how governance structures and processes influence livelihoods. The framework highlights as well how livelihood strategies – including diversification – are affected by a number of governance structures and processes (Saté et al., 2002).

Input data to substantiate the conceptual frameworks were the results of surveys dealing with rural governance and rural livelihoods diversification. As for ARD governance, questionnaires were sent via email to 120 actors in Bosnia and Herzegovina (BiH) in winter 2011, to 50 in Montenegro in winter 2012, and to 120 in Serbia in summer 2013 (Berjan et al., 2014). Respondents included purposively selected representatives of public, civil society and international organizations. Concerning rural livelihood diversification, the field questionnaire surveys were carried out in winter 2012 with 104 randomly chosen households' heads in south-eastern Bosnia (Berjan et al., 2013), with 50 households in autumn 2013 in northern Montenegro and in spring 2013 with 99 households in south-western Serbia.

RESULTS AND DISCUSSION

Analyzing linkages between rural governance and rural livelihoods 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 among the three countries but there are also some commonalities. From this point of view, it is very interesting to take a stock of the experience of other countries, whose rural areas have been engaged in the process of diversification for 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 ARD policy. This is particularly the case of many OECD countries.

Creating an improved environment for farm activities, diversification requires the efforts of many actors. The roles of government actors are often critical for facilitating, catalyzing, 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; and new instruments and approaches (Mantino et al., 2010).

Governance arrangements in 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 rural areas. They affect governance as a process *i.e.* partnerships, networks and cooperation agreements. Governance arrangements also affect 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).

Despite recurrent discourses about participation and bottom-up approaches in governance and policy arena, the spectrum of actors involved in the different stages of the policy cycle in the three countries remains limited. In particular, the involvement of the private sector and civil society organizations in rural policy design and formulation is generally still marginal. This is particularly true at central level (*i.e.* entity level in BiH) while the situation is much better at local level. However, since these countries are still largely centralized the funds at disposal of local councils and administrations are very low which limits their maneuvering space and the scope of their interventions.

Insufficient institutional capacities at the local level hinder economic diversification development and it is necessary to further strengthen local structures seen as key drivers for diversification of rural economy. 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).

Governance surveys results show 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 contributes 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 local assets and resources as well as diversification of rural activities in the non-farm sector.

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 now. 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.

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 capacity of local 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). Effective local institutions that deliver goods and services must be in place in rural areas to sustain positive rural livelihood outcomes. These institutional 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 need to make sure that policies are in place, whether sectoral or broad, and do not put unintended obstacles in the way of such diversification (OECD, 2009b). For rural policy to be more effective, small fragmented programs 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.

Rural development policies should stimulate development of diverse income-generating activities outside agriculture. 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 also related to political decision-making processes with respect to the formulation of rural development strategies and agricultural policies.

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 endeavors was 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, the quality of rural services and the performance of structures in charge of service delivery was a problem in most of rural areas in the three countries.

A number of policy measures designed to encourage diversification, have been introduced in certain OECD countries. These include vocational training and business development schemes (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 require 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.

Different factors regarding livelihoods interrelate and affect each rural household 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 (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).

Some regulations governing tax, social security, land zoning, and labor markets may complicate diversification in countries where agriculture is not treated the same as other sectors. The impact of labor regulations and the social security and tax systems on diversification essentially depends on how agriculture is defined under national regulations/systems. 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 (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 ARD - what is missing is a concrete long-term strategy to promote diversification on the ground as well as a favorable institutional and legal environment to foster 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 rural infrastructure and services, as well as governance and the business climate to encourage private investment by providing business development and financial services suited to the small rural entrepreneurs' needs (IFAD, 2010).

CONCLUSION

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. Farm activity diversification initiatives and processes should be well governed in order to yield expected impacts. Governance is relevant for the rural livelihood diversification and rural development for both process and structure.

Governance (cf. policies and processes) affects access to and use of capitals with impacts on diversification. The pace of diversification depends on whether regulations are favorable for diversification or not. Governance (cf. actors and institutions) affects diversification. Governance arrangements determine the range of actors that are involved in policy design. Depending on actors involved and their interests, the policy character and architecture are defined. For rural policy, to be more effective, 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.

Meanwhile, 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 is not the 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 change in rural actor landscape represents a dramatic change in the rural policy arena with respect to some decades ago when mainly agricultural actors are involved in rural policy formulation.

The insights provided by this paper should be integrated in rural policy in order to effectively unlock the growth potential of rural areas in Bosnia and Herzegovina, Montenegro and Serbia. That being said, the main weakness of this study is that, it is to a large extent of quantitative and empirical. Therefore, further quantitative studies are needed to better elucidate and understand relations and linkages between diversification and governance in rural areas in the three countries.

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