

**DELIVERABLE 10.1**  
**"Structural Change in Agriculture and Rural  
Livelihoods: Policy Recommendations"**  
**Briefing Paper**  
Csaba Csaki and Attila Jambor<sup>1</sup>

WP leader for this deliverable	CUB
Partners involved	IAMO, K.U.Leuven, UNWE, WUDES, USAMWB, UL, UNIKENT, UNEW
Document status:	Final Version
Due date of deliverable:	31 May 2010
Date:	August 2010

Dissemination level (see DoW p. 27-30)		
PU	Public	<input checked="" type="checkbox"/>
PP	Restricted to other programme participants (including the Commission Services)	<input type="checkbox"/>
RE	Restricted to a group specified by the consortium (including the Commission Services)	<input type="checkbox"/>
CO	Confidential, only for members of the consortium (including the Commission Services)	<input type="checkbox"/>

<sup>1</sup> The authors gratefully acknowledge financial participation from the European Community under the Sixth Framework Programme for Research, Technological Development and Demonstration Activities, for the Specific Targeted Research Project "SCARLED" SSPE-CT-2006-044201.

The views expressed in this publication are the sole responsibility of the authors and do not necessarily reflect the views of the European Commission.

This deliverable was internally reviewed by Gertrud Buchenrieder, Martin-Luther-University Halle-Wittenberg.

## **ABSTRACT**

The New Member States (NMS) have undergone substantial sector restructuring and socio-economic transformation during the past 20 years. These changes are analysed by the SCARLED research project, results of which are discussed in Deliverable 10.2 in detail. The aim of this briefing paper (D10.1) is to summarise policy conclusions and recommendations based on the results of the analyses for the NMS and for established Member States. In order to increase the policy relevance of the document, lessons and recommendations are comprised in a reader-friendly way.

---

## SCARLED Consortium

This document is part of a research project funded by the 6<sup>th</sup> Framework Programme of the European Commission. The project coordinator is IAMO, represented by Gertrud Buchenrieder, whose new affiliation is the Martin-Luther-University Halle-Wittenberg since May 2010 (Gertrud.buchenrieder@landw.uni-halle.de).

Leibniz Institute of Agricultural Development  
in Central and Eastern Europe (IAMO) -  
Coordinator  
Theodor-Lieser Str. 2  
06120 Halle (Saale)  
Germany

Contact person: Judith Möllers  
E-mail: scarled@iamo.de

University of National and World Economy  
(UNWE)  
St. Town "Chr. Botev"  
1700 Sofia  
Bulgaria

Contact person : Plamen Mishev  
E-mail: mishevp@intech.bg

Research Institute for Agricultural Economics  
(AKI)  
Zsil u. 3/5  
1093 Budapest  
Hungary

Contact person: József Popp  
E-mail: poppj@akii.hu

Banat's University of Agricultural Sciences and  
Veterinary Medicine Timisoara (USAMVB)  
Calea Aradului 119  
300645 Timisoara  
Romania

Contact person: Cosmin Salasan  
E-mail: cosminsalasan@xnet.ro

The University of Kent, Kent Business School  
(UNIKENT)  
Canterbury  
Kent CT2 7NZ  
United Kingdom

Contact person: Sophia Davidova  
E-mail: s.davidova@imperial.ac.uk

Catholic University Leuven (KU Leuven)  
LICOS Centre for Institutions and Economic  
Performance & Department of Economics  
Deberiotstraat 34  
3000 Leuven.  
Belgium

Contact person: Johan Swinnen  
E-mail: jo.swinnen@econ.kuleuven.be

Corvinus University Budapest (CUB)  
Department of Agricultural Economics and Rural  
Development  
Fövám tér 8  
1093 Budapest  
Hungary

Contact person: Csaba Csáki  
E-mail: csaba.csaki@uni-corvinus.hu  
Warsaw University, Department of Economic  
Sciences (WUDES)  
Długa 44/50  
00-241 Warsaw  
Poland

Contact person: Dominika Milczarek-Andrzejewska  
E-mail: milczarek@wne.uw.edu.pl

University of Ljubljana (UL)  
Groblje 3  
1230 Domzale  
Slovenia

Contact person: Luka Juvančič  
E-mail: luka.juvancic@bfro.uni-lj.si

University of Newcastle upon Tyne, Centre for  
Rural Economy (UNEW)  
Newcastle upon Tyne NE1 7RU  
United Kingdom

Contact person: Matthew Gorton  
E-mail: matthew.gorton@newcastle.ac.uk

## CONTENT

ABSTRACT .....	II
1 PROVIDE TARGETED POLICIES FOR SMALL FARMS .....	1
3 DEVELOP RURAL MARKETS .....	2
2.1 Invest in Rural Infrastructure .....	2
2.2 Stimulate Access to Rural Finance.....	2
2.3 Facilitate and Encourage Investments in the Agro-Food Industry.....	2
2.4 Upgrade Human Capital .....	3
2.5 Make adjustments in Social Security Systems .....	3
3. INCREASE AGRICULTURAL COMPETITIVENESS.....	4
3.1 Improve Land Policies .....	4
3.2 Create More Effective Capital and Financial Markets.....	4
3.3 Create Farmer-Friendly Market Structures .....	5
3.4 Create a More Efficient Farming Structure .....	5
3.5 Ease Public Processes and Implementation (Administration) .....	6
4 BETTER INTEGRATED AND TARGETED RURAL POLICIES ARE NEEDED .....	8
4.1 CAP Reform Conducive for NMS is needed .....	8
4.2 Better Coordinate all Rural Related Policies.....	9
4.3 Actions Needed to Alleviate Significant Rural Poverty .....	10
5 POLICY HIGHLIGHTS.....	11
LIST OF REFERENCES.....	13

## 1 PROVIDE TARGETED POLICIES FOR SMALL FARMS

As SCARLED results suggest, the so called small farmers issue is one of the key challenges of rural NMS. Hidden bias against small farms has always been a key issue of agricultural and rural development policies. First of all, an important share of small farms still lives under the poverty line. The accession of NMS to the EU has not solved the problem of rural poverty, but has even aggravated it in some aspects. The economic-social problem of small farms arises from the fact that the income from agriculture fails to provide them adequate social security, whereas income from other activities is less accessible due to various reasons; there are not enough available jobs within an accessible commuting distance which would be suitable for this type of work force, therefore they are doomed to poverty or migration. After the accession, most migrants to more developed parts of the EU came from these areas and even caused social and political tensions there. Therefore, readying us for the challenges of the future requires that agricultural policy accept this situation. Consequently, it is necessary to apply a differentiated agricultural policy, one which does not apply the 'one-size-fits-all' approach but which provides support with tools meeting the unique features of the specific type of establishment. Small farm enterprises require effective support adjusted to their conditions and needs. This is why due emphasis must be given to providing adequate assistance to small farms to help them develop and adapt to market conditions.

Moreover, the majority of small farms in the region is subsistence oriented and has only marginal contacts with markets as our surveys suggest. Most of these contacts are with local markets or in the form of direct sales from the farm. They have practically no direct relations with large retailing systems. Beyond local markets, they sell to wholesalers and to the processing industry. Impacts of retail revolution can be felt by them via increased demands and pressures from the wholesaling and processing side. The integration of small farms to vertical chains requires fundamental change on the side of small farms as well. A large portion of them are not willing or not able to make these changes. These farms will either maintain part time, subsistence nature providing only additional income or disappear, providing scope for consolidation of the rest. However, many of the small farmers will become more commercial, increase size, improve technology and will cooperate to cope with the challenges of vertical chains. Policies should target the latter group supporting them in this process.

Moreover, small farmers have difficulties accessing EU funds from pre-accession and the Common Agriculture Policy (CAP) of the related investment support programmes. In all the countries small farmers were de facto excluded from the SAPARD funds provided to improve competitiveness during the EU accession period due to the nature of the program. Similarly, CAP Pillar 2 resources are out of reach for most of the small farmers with the exception of the support to semi-subsistence farming. The design of Pillar 2 programs do not take into account that small farmers have limited own resources and it is very difficult for them to obtain credit for bridge financing. As an addition, the very small farms are excluded from direct payments as well. Our results indicate that this situation should be changed and efforts should be made in order to guarantee that higher portion of CAP funds is accessible for small farmers.

### 3 DEVELOP RURAL MARKETS

The poor development of rural labour markets has been another important change in NMS from an agricultural and rural development policy perspective. Well functioning rural labour markets are important for rural development as they contribute to a more optimal allocation of labour in the economy by reducing transaction costs of hiring labour and by facilitating farm surplus labour to find employment in other, more remunerative, sectors. In this way, well-functioning rural labour markets are essential, both for those employed in agriculture and those not. They are a major factor in determining where people live, work and spend their income. Thus, in rural areas they determine people's incomes, their location, their opportunities and their well-being.

In order to develop rural labour markets, it is highly recommendable to improve the targeting of the CAP subsidies as well as to move funds from Pillar I to Pillar II to more directly address constraints such as low skills, poor infrastructure, weak institutions and so on. Moreover, the following actions are also needed to facilitate the development of rural labour markets.

#### 2.1 Invest in Rural Infrastructure

A key constraint for the efficient functioning of rural labour markets in the NMS is the rural infrastructure, which is still lagging behind compared to the EU15 (European Commission 2008). Investments in rural infrastructure have several important effects on rural labour markets. First, they connect farmers to markets and improve farm profits by reducing transport costs. This could also help to integrate farmers in modern supply chains and directly or indirectly upgrade the quantity and quality of their production. Second, investments in rural infrastructure improve the access of rural households to urban areas and other sectors. This could cause rural-urban commuting in some places but also trigger more rural-urban migration. Third, it will stimulate investments in rural areas in non-farm activities and thus create more off farm employment in rural areas.

#### 2.2 Stimulate Access to Rural Finance

In addition to investment in physical rural infrastructure, governments should also promote the development of institutions and schemes that facilitate access to finance. Access to capital and finance remains a problem in rural areas, not just for farms but also for non-farm enterprises. In both cases it constrains employment creation, and thus rural labour markets.

#### 2.3 Facilitate and Encourage Investments in the Agro-Food Industry

Private investment of the agro-food industry and the development of modern supply chains can improve farmers' access to markets, technology, and inputs (including credit). Major advances have been made in most NMS over the past decade, especially through investment in the agro-food industry. Food companies have introduced contracts with farms which, in regions and sectors where farms face major market imperfections, assist farms both in accessing inputs and in bringing their supplies to the processing or marketing companies. However, despite the fact that improved access to output markets may come from private initiatives (e.g. processing firms that offer farm assistance programs), policies to support and facilitate these developments are needed (including the development of

---

sufficient rural infrastructure). These policies can be integrated in the rural development schemes of the countries, but also in national action plans.

## 2.4 Upgrade Human Capital

On average, human capital is low in rural areas and many people employed in farming are old and lowly educated, moreover few farmers received agricultural training. This is a very important constraint, not only for agricultural labour restructuring, but more generally for business development and economic activities in rural areas. The lack of education can be an important barrier for farmers to leave the agricultural sector for another sector.

Investment in education would be needed to improve productivity of existing enterprises, the emergence of new enterprises, reduction of unemployment, and a shift of underemployed farm labour to other activities, thereby increasing labour productivity of the remaining farms. Investments to improve rural education should also be needed to reduce the incentives for young people to leave the rural areas. Different policies could be implemented in rural development plans. Increased education or vocational training could be stimulated by CAP subsidies under Pillar II.

## 2.5 Make adjustments in Social Security Systems

An important reason for high agricultural employment among old people is the weak pension system - or lack of it. While pension payments have been increased in the past years, since they started from such a low base, the pension levels are still very low, especially in some of the poorer NMS. The problem of old people requiring farming to complement their low pensions is an important constraint for restructuring. Therefore, substantial changes in the pension or social security system maybe required to stimulate labour adjustments.

### 3. INCREASE AGRICULTURAL COMPETITIVENESS

The region has rather significant potential for agricultural production; however, this potential is still underutilized. A significant progress can be observed in some of the NMS, which were able to increase both production and exports. However, as indicated by our study, there are a number of impediments limiting the competitiveness of farms in the region. SCARLED research brought up important details on these factors as discussed in details.

#### 3.1 Improve Land Policies

Our surveys resulted in a broad range of information upon land use patterns and land related issues. It is indicated that restrictive land policies (e.g. in Hungary) and the lack of land and farm consolidation has been a factor negatively influencing the utilisation of the advantages of the enlarged markets by constraining significantly the flow of outside capital to the agricultural sector. On the other side, liberal land policies (e.g. Baltic countries) helped the agricultural sector to obtain more resources and utilise better the possibilities created by the accession.

A live debate is going on in the region on the major limiting factors of land policies. In almost all the countries, there are some limitations upon the ownership of agricultural land. The most heated issue is the foreign ownership of agricultural land. For some countries (e.g. Poland and Hungary), derogation was granted to ban foreign agricultural land ownership. There is a significant pressure upon the respective governments to seek for the extension of these derogations, while others propose revised land ownership legislation, which would formally allow but significantly restrict foreign ownership.

Another impediment is the restriction of agricultural land ownership only to physical persons. The reason for this ban can be understood under the conditions of the early 1990s. Nowadays, however, the existence of this regulation limits the move of capital into agriculture and restricts land markets. It is also questionable why absolute physical limits exist for physical persons to have agricultural land.

SCARLED surveys studied the options for small farmers to grow. There is hard evidence that underdeveloped and not properly regulated lease markets represent significant constraints and improvements in almost all the countries would be strongly recommended.

The subdivision of land and the rigidity of rules on land use is a major obstacle for producers, especially those wanting to make investments. A key question for the future is whether the NMS is able to implement land consolidation measures allowing a more efficient use of land. Combined with restrictions regarding ownership, the fragmented land ownership is an enormous obstacle to development. Together with the well thought-out land policy, the easing or lifting of ownership restrictions could accelerate the influx of new resources into the sector and help the rehabilitation of animal husbandry and irrigation.

#### 3.2 Create More Effective Capital and Financial Markets

The lack of adequate agricultural financing continues to be one of the most serious constraints to agricultural growth. In the NMS, the financing of agriculture has improved considerably since 1994 but still remains relatively weak. The new private financing institutions require managerial capacity building and are financially vulnerable. However,

in the recent years, a significant share of the banking sector became foreign owned - this resulting in improved efficiency and profitability. The creation of an agriculture-oriented rural banking network has been progressing, indicating the establishment and increasingly active operations of agricultural credit co-operatives and financial institutions specializing in rural areas.

On the whole, however, the financing of primary agriculture, especially formal credit supply for small farms, is rather thin in the NMS. The recent economic crisis has made these problems even more serious. Bridge financing for EU projects practically does not exist for small farmers. Lending to smaller farms is considered as a very risky activity and done only exceptionally. It can be recommended that the respective governments and the EU give stronger priority to the financing of the small farming segment and promote small farm credits with conditional guarantees.

### 3.3 Create Farmer-Friendly Market Structures

EU membership has made the NMS part of a large, rather competitive market. On the one hand, this market offers tremendous opportunities for their agricultural sectors; on the other hand, they are faced with significantly increased competition in their domestic markets. This situation is due to the rapid emergence of vertically coordinated food chains including supermarkets, hypermarkets and multinational agro-processing companies with regional procurement systems, thus creating new and much more competitive conditions both for producers and consumers; the market share of foreign-origin products has increased significantly. Due to very strong price competition, consumers are generally the beneficiaries of these changes. However, some of the cheap products on shelves can sometimes be of dubious quality due to use of the lowest cost raw materials and occasionally inappropriate ingredients. At the same time, producers are not always able to adjust, or to cope with business practices employed by the large chains which are occasionally not entirely fair. The concentrated and Europe-wide procurement systems of the major chains create high requirements for suppliers and impose strong price pressures as well, especially for small farmers as our results suggest.

On the whole, it is apparent that the relationship between producers and the market is undergoing a major shift. Vertically organised food chains and the dramatically changing food trade are starting to dominate more and more. The most important tasks of the near future is to support the adaptation of producers, especially the small farmers, to make sure that they can fit in with the new market conditions. Cooperation among producers, small establishments in particular, needs support and stimulus to ensure market access for their products. We need to encourage sales through sales cooperatives so that their share approaches the figures in NMS. The production and marketing of local and specialty products on local markets should be supported.

### 3.4 Create a More Efficient Farming Structure

One of the most important outcomes of SCARLED is the detailed analysis of post-reform farming structure in the countries studied. As a result of reforms, a mixed farming structure in the region containing combinations of large scale and small scale farms with the exception of Poland and Slovenia has been evolved. The relatively consolidated farm structure with the dominance of small farms proved to be advantageous for these two

countries and especially for Poland. The consolidated structure brought higher level of asset endowment as well.

There have been significant changes in farming structures in all other NMS. The so called dual farm structures, meaning that a large number of very small farms and a small number of very large farms are operating at the same time, remained in most NMS even after EU accession with increasing differences. In countries with so called “dual” farming structure, both end of the farming are still suffering by a kind of “transition phenomena”. The small farms are generally too small and farmers are inexperienced and lack of resources, while the large ones still have some heritage of the collective farming system with some embedded inefficiencies.

Our project brought some information on recent changes in the farming structure after accession. On the whole, 600,000 farms have disappeared in NMS. Some countries are still dominated by large farms. The gap between sizes of small and large farms decreased but is still high. Gross farm income increased in vast majority of cases in the countries analyzed due to introduction of CAP. The move towards a more efficient farming sector needs to be promoted both on EU and national levels. As small farms are continuously disappearing, policies have to provide adequate response to this problem. On the one hand, measures should be in place to support those small farmers able and willing to grow and survive. On the other hand, the exit of those who are unable to continue farming needs to be facilitated.

### 3.5 Ease Public Processes and Implementation (Administration)

No doubt that institutional measures and policy implementation needed to strengthen competitiveness are of key importance for the entire sector. Although SCARLED has not brought up too many details in this subject, we might conclude that this is a complex task which must include the further development of the regulatory system, the enhancement of knowledge and institutions.

The regulatory system of national agricultures is far too rigid, even dogmatic at times, which is characterised by practices ignoring the special conditions of the sector and by the inflexible enforcement of EU regulations. A more flexible regulation practice is needed, one focusing more on competitiveness, including a more ‘production-friendly’ environmental protection and a more ‘farm-friendly’ veterinary health services and labour rules made after due consideration of the special features of agricultural production.

Institutional reforms have accelerated in the NMS since 1995, simulated by the challenges of EU accession. Despite these tangible developments, the institutional system of agriculture requires further transformation in these countries. Reforms toward the ability to effectively integrate into the common market still remain one of the most pressing issues. In addition to technical and human capacity building in public administration, further qualitative development is required in practically all areas of the institutional systems for market-oriented agriculture, including consulting, training and research.

One of the main weaknesses of the agricultural and rural development policy in the NMS is that planning and implementation processes depend heavily on national and regional authorities. The administrative capacity and the commitment of the administration of NMS in the development of agricultural and rural development strategy is therefore of utmost importance.

The involvement of the civil society is also important. However, many countries have neglected the involvement of civil society, thereby limiting the quality of implementation

## Typology of rural areas in the new Member States

---

and struggling with designing and implementing good programmes. Although the EU is now aware that integrated local approaches, such as LEADER are more effective than sectoral subsidies to generate endogenous rural development growth.

## 4 BETTER INTEGRATED AND TARGETED RURAL POLICIES ARE NEEDED

Rural development policies have always played a crucial role in shaping rural livelihoods. The lessons of EU15 suggest that there is no unique model for managing rural development as well as there is no single determining factor of a region's economic trajectory. Therefore, rural policies are required to enhance local capacity and actors' participation, to mobilize initial resources and cope with the external forces, best meeting local needs (D8.6 and D8.7: Hubbard and Gorton, 2008). In light of these lessons, the future course of rural policies will be discussed here focusing on the evolvement of CAP and potential reforms.

### 4.1 CAP Reform Conducive for NMS is needed

The European Union's CAP has been a framework for rural development since the beginning of the 1990s. The growing debate about the future of the EU Budget post 2013 raises major questions about the future of the CAP. The public debate has already been launched in April 2010 and a formal communication on the future of the CAP after 2013 is due to be published by the Commission in the Autumn/Winter 2010. As is to be expected, the major contributions to the debate so far focus on a range of different issues.

First of all, it is worth looking at whether the planned reform can put a halt to the sliding competitiveness of European agriculture and whether the planned reform of EU agricultural policy is an adequate response to tackle the latest global challenges. The answer is a 'no' rather than a 'yes'. It seems that the EU can only imagine reforms if the principle of multifunctionality is preserved, meaning that the EU does not wish to treat agriculture merely as an economic sector. This could further reduce the competitiveness of European agriculture as adding more emphasis to environmental and animal welfare aspects imposes major costs on farmers. Stricter cross-compliance requirements will put EU farmers and producers in an even more difficult position compared to their competitors in the global market. Looking at the conditions in the NMS as mapped by SCARLED, a more competitiveness focused CAP would be beneficial for the region. Agriculture still remains the major source of income for a large number of rural inhabitants and an agricultural sector supposed to respond to a large number of environmental and animal welfare restrictions might not be able to serve as a proper source of income.

Second, the wide-scale opening up of the markets, which might happen due to the results of the WTO talks, will increase competition within the EU. Imports from countries outside the EU producing more effectively could soar. A planned reform of the CAP, leading to the cutting back of payments and increasing the role of national budgets, will create a particularly tough situation in the NMS where competitiveness of agriculture is weak, the number of people employed in the sector is high and the resources of the national budgets are limited.

Third, another important area of future CAP reform is evolved around the common nature of the policy. Does one agricultural policy fit the whole European Union? Can a single policy measure be adapted to all rural areas? It is apparent that the current CAP is designed based on the conditions of EU15 countries. The experiences of the first five years in the NMS indicate that a uniform system even with the possible modifications does not fully fit to the conditions of the new member countries and especially to the poorest segments of NMS. Therefore, any change of the system of the CAP should lead to a better consideration of diversity inside European Union.

It is crucial to make sure that the new scheme created by the reforms provides an adequate framework to remedy the special problems for the newcomers. As for incomes in agriculture and the average size of an agricultural business, the NMS are in a radically different situation. Today's CAP model meets the needs and the more or less homogenous circumstances of the EU15. Although the current system allows for certain areas to be treated specially, it is not suitable for providing real assistance to the millions of small farms working in the NMS, let alone to tackle rural poverty, although the latter goes far beyond agriculture in the strict sense of the word. So it is doubtful just how far the maintenance of the single and largely uniform CAP lies in the interest of poorer countries.

Moreover, the debate on competitiveness enhancement versus payments for public goods also has a critical role in forming the future of European rural areas. On the one hand, it is clear that agricultural production is still an important (though not the only) function of agriculture and policies concerning agricultural competitiveness should help producing value added products and selling them in the domestic and international markets. On the other hand, the idea that certain forms and patterns of farming should be preserved for their social, cultural and environmental benefits continues to be an important part of the CAP debate. However, the lack of a market to provide these public goods creates a need for public policy to intervene in order to support the farming systems which deliver these goods. The proper allocation of funds between these two aims will fundamentally determine the future of European agriculture and rural development. SCARLED results underline that the new CAP should ensure that agriculture can continue contributing to employment and the economy of rural regions by maintaining agricultural production possibilities throughout the EU. Of course, it should also contribute to the preservation of local landscapes, social and natural values and heritage by creating and maintaining a market for public goods.

## 4.2 Better Coordinate all Rural Related Policies

Currently, rural related policies including support are pursued by different instruments. One major source of support is under CAP (Pillar 2), which is supplemented by structural and cohesion funds as well as national budget funds. Unfortunately, these different avenues are managed by different ministries and institutions and have never been integrated under rural label. The SCARLED project as a whole calls for an integrated treatment of rural livelihoods. Accordingly, these funds should be managed through an integrated way.

As an addition, better coordination of both state and private activities is a key priority. The development of agriculture and the entire rural space is based on the private sector. However, support from the state is still indispensable as is efficient control. Thus the requirements of production and the market require more efficient cooperation between the private and public sectors. The role of the state has to move away from direct intervention and financial support. Given the circumstances of agricultural and food markets in transition, the most important task of the state is to guarantee safe and wholesome food production and to gradually develop the rules of operation and the institutional infrastructure necessary for the functioning of the market.

It is not only agriculture that is undergoing change but also the surrounding economy. Creating a new form of synthesis between farming and rural areas is extremely important, where agricultural production and the non-agricultural economy of the countryside form an integral unit. Within this framework, local initiatives and the role of small communities are

---

invaluable, especially in combination with effort made to help improve the quality of life in rural areas in general and help such areas catch up.

### 4.3 Actions Needed to Alleviate Significant Rural Poverty

The SCARLED study highlights the increased rural poverty in the region during the process of structural change. This phenomenon has to be fully recognized both on EU and national levels. The study also led to important conclusions regarding the complexity of rural poverty and about the potential difficulties to deal with this problem.

Though this is beyond of the scope of this investigation, on the basis of SCARLED, it can also be concluded that a complex approach and a high profile programme is needed to alleviate rural poverty in the region. Agriculture obviously will remain a significant source of employment and income in rural areas, therefore the development of agriculture at the same time is the essential foundation for further fight against poverty. This programme, however, needs to be broader than traditional rural development efforts, including the issues of rural non-farm economy and improving education as well as rural-urban linkages.

## 5 POLICY HIGHLIGHTS

The multifaceted complex nature of SCARLED has led to a broad range of policy conclusions as discussed above. In the following, the major lessons are summarized.

1. The transition of the 1990s and 2000s as well as the EU accession has made significant impact upon the structure and the status of rural livelihoods in the region. The integration into the EU has made a visible positive impact on all aspects of the rural life. At the same time, rural-urban gaps have widened and rural poverty has increased and became apparent.

2. Agriculture is still a rather important economic sector in most of the rural areas; however, it is not the major source of income in most of rural families.

3. The large number of subsistence and semi-subsistence farms is a special characteristic of NMS. SCARLED has brought up a large analytical evidence regarding the operation and motivation of these farms. These farms are hardly comparable to any segments of EU15 farming sector and require special attention and policies. Currently, CAP provides almost nothing to these farms and the change of this situation with a policy package focused on small farms is highly needed.

4. Rural employment and the development of rural labour markets have been deeply discussed by SCARLED as a crucial factor of future development. The study highlights the critical important actions needed to increase and diversify rural employment and income earning possibilities. Nevertheless, rural households are not a homogenous group. Some households are more likely to successfully diversify their income portfolio than others. The specific traits of rural households need to be taken into account when intervening in rural labour markets.

5. The region has a rather significant potential for agricultural production; however, this potential is still underutilized. However, as indicated by our study, there are a number of impediments limiting the competitiveness of farms in the region. In NMS, the fragmented land ownership and the lack of effective farm consolidation together with restrictions on land ownership and land markets are such serious impediments. Many of these countries suffer from the failures of capital and financial markets as well as from the inadequate adaptation to changing market structures. Moreover, fragmented farming structures and complex public processes have also played a crucial role in limiting regional competitiveness.

6. Rural development policies have always played a crucial role in shaping rural livelihoods. The lessons of EU15 suggest that there is no unique model for managing rural development as well as there is no single determining factor of a region's economic trajectory. Therefore, rural policies are required to enhance local capacity and actors' participation, to mobilize initial resources and cope with the external forces, best meeting local needs.

7. The CAP plays a crucial role in agriculture and rural development in the NMS. The study brought up three lessons for consideration for future CAP reform. First, it is evident that a fully uniform CAP only partially addresses the needs of NMS. Second, the region's agriculture is not ready for a CAP which operates mainly by provision of public goods, competitiveness enhancement payments seems to be still needed. Third, the inclusion of small farms in the region in the CAP should be achieved.

8. Currently, rural related policies including support are pursued by different instruments. One major source of support is under CAP (Pillar 2), which is supplemented by structural and cohesion funds as well as national budget funds. Unfortunately, these different

avenues are managed by different ministries and institutions and have never been integrated under rural label. SCARLED project as a whole calls for an integrated treatment of rural livelihoods. Accordingly, these funds should be managed through an integrated way.

9. The study highlights the increased rural poverty in the region during the process of structural change. This phenomenon has to be fully recognized both on EU and national levels. It can also be concluded that a complex approach and a high profile programme is needed to alleviate rural poverty in the region. This approach, however, needs to be broader than agricultural and traditional rural development efforts, including the issues of rural non-farm economy and improving education as well as rural-urban linkages.

10. SCARLED project demonstrates the potential values of a complex research on ongoing changes in rural areas of NMS. Further investigations are highly recommended.

---

## List of references

European Commission (2008). “Rural Development Report”, Brussels: Directorate-General for Agriculture and Rural Development.

Hubbard, C. and Gorton, M. (2008). Rural transition experiences after joining the EU: Results of the case studies in selected EU15 regions. Deliverable D8.6 of the 6th Framework Programme project SCARLED (Structural Change in Agriculture and Rural Livelihoods). <http://www.scarled.eu/publications/deliverables.html>.

Hubbard, C. and Gorton, M. (2008). Measures to successfully manage rural socio-economic change and agricultural restructuring in selected EU15 regions. Deliverable D8.7 of the 6th Framework Programme project SCARLED (Structural Change in Agriculture and Rural Livelihoods). <http://www.scarled.eu/publications/deliverables.html>.