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Rural Non-Farm Livelihoods in Central and Eastern Europe and Central Asia and the Reform Process: A Literature Review

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Abstract

While agriculture still constitutes the backbone of the rural economy, non-farm activities and sources of income are increasingly significant for rural households in transition economies. It is now widely recognised that in the longer term the development of the rural non-farm sector is a critical factor in providing rural employment and income. The need for policymakers to effectively address the needs of the rural non-farm sector provides the rationale for the policy research project 'Characterisation and Analysis of the Non-Farm Rural Sector in Transition Economies' led by the Natural Resources Institute for the World Bank and Department for International Development.

The intended outputs of this project are to improve understanding of the dynamics of the non-farm sector in providing employment and income diversification opportunities, and to promote mechanisms for integrating research results into relevant policy processes. The purpose of this paper is to review literature and studies on the rural non-farm sector and the associated reform process in the rural economy. Particular emphasis is placed on Romania, Armenia, Georgia and the Ukraine, as these are the case-study countries selected for the project.

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1. INTRODUCTION

There has been an increasing recognition over the past few years that the rural economy is not confined to the agricultural sector, but embraces all the people, economic activities, infrastructure and natural resources in rural areas (Csaki *et al.*, 2000). Equally, rural livelihoods are not limited to income derived solely from agriculture but may be from diverse sources. The concept of livelihood used in this paper is that given by Ellis (1998, p.6)

'A livelihood comprises incomes in cash and in kind; the social relations and institutions that facilitate or constrain individual or family standards of living; and access to social and public services that contribute to the well-being of the individual or family.'

Rural livelihoods thus include income from both farm and non-farm sources.

The focus of this paper is on rural non-farm livelihoods in the economies in transition and was prepared as part of the Natural Resources Institute project entitled 'Characterisation and Analysis of the Non-Farm Rural Sector in Transition Economies' undertaken for the World Bank and Department for International Development (DFID).

The transition from a centrally planned economy to a market economy in Central and Eastern European countries (CEECs)¹, Baltic States² and the Commonwealth of Independent States (CIS)³ has been one of the most important economic issues of recent years, and has given economists a unique opportunity to study the transition process itself. It was first thought that economic transition would be completed comparatively quickly, but that has not proved to be the case, due to the time necessary for the changing of attitudes and the building of new institutions. The progress of reform has varied considerably between countries with, in general, progress in the CEECs and the Baltics being faster than that in the CIS. Analysis of the transition process in general and of transition in the agricultural sector has generated a

¹ Albania, Bosnia and Herzegovina, Bulgaria, Czech Republic, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic and Slovenia

² Estonia, Latvia and Lithuania

³ Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan

large literature, but less has been specifically devoted to the wider non-farm rural economy. However, studies in this field are now being undertaken, since it is recognised that in the longer term the development of the rural non-farm sector is a critical factor in providing rural employment and income. The purpose of this paper is to review this literature. Where possible, particular emphasis is placed on studies relating to Romania, Armenia, Georgia and the Ukraine, as these are the countries selected for the project.

Section 2 of the paper reviews literature specifically related to the rural non-farm economy (RNFE); including the characteristics of the RNFE, and the experiences of developing and developed countries that may help inform policy in the transition economies. Section 3 focuses on the RNFE and livelihoods in transition economies, with an outline of the historical, cultural and ethnic factors in the target countries and the Czech Republic, Poland and Hungary – the target countries of the related Imperial College at Wye project⁴ – followed by discussions on the characteristics of the RNFE, the linkages between the farm and non-farm sectors, and inter-sectoral factors.

During the transition process, the RNFE has been greatly influenced by macroeconomic policies; progress in the agricultural sector; and the development of micro, small and medium enterprises (MSMEs). Progress and policies are therefore reviewed briefly in Section 4. Firstly, the general economic factors are considered and secondly factors relating to the agricultural sector. A framework for understanding the long-term development of the agricultural sector and its sub-sectors is introduced, and patterns of reform examined. It is accepted that, in general, as an economy grows then agricultural sector employment contracts and thus releases resources. Hence, as the transition economies develop, release of labour from agriculture is to be expected, and should not be viewed as a negative result of the transition process. However, it clearly has important implications for the rural economy and for rural livelihoods, and it is essential that the non-farm sector in transition economies is developed in the long run, in order to provide rural job opportunities and income as the agricultural sector's share of the total labour force falls.

In Section 5, the focus turns to the assessment of progress in the development of MSMEs, both in the general economy and the rural economy, while the last section summarises the implications for research on rural non-farm livelihoods in the target countries.

⁴ Imperial College at Wye and the University of Bonn coordinate a three year EU-funded research project focusing on rural income diversification and EU accession in the Czech Republic, Hungary and Poland – “*Strategy for Integrated development of agriculture and rural areas in CEE*”.

2. RURAL NON-FARM ECONOMY (RNFE)

2.1 Characteristics of the RNFE

The OECD (1996) classifies predominantly rural areas as those where more than 50 per cent of the population live in rural communities, and significantly rural areas as those where between 15 and 50 per cent live in rural communities. The RNFE is often defined as including all economic activities in rural areas except agriculture, livestock, hunting and fishing (Lanjouw and Lanjouw, 1997). That is, all activities associated with work, either waged or self-employed, that is located in rural areas but is not in agriculture. These might include agro-processing, the setting up of a small business, or the receipt of transfer payments such as pensions, interest and dividends plus remittances from temporary or seasonal migration to urban areas (Davis and Pearce, 2000). Islam (1997) identifies five distinct sources of non-farm income: (i) non-agricultural activities within the household; (ii) activities in small rural towns; (iii) work in large cities (involving commuting); (iv) remittances from household members in cities; and (v) remittances from household members overseas. Rural non-farm livelihoods thus include income from many differing sources, and the RNFE cannot be thought of in any sense as a homogenous sector; rather it is characterised by its heterogeneity, incorporating self-employment, micro and small-medium sized enterprises (MSMEs), traders, and rural-rural migration. The sector incorporates jobs which range from those requiring significant access to assets, whether education or access to credit, to self-employed activities such as the roadside “hawking” of commodities which has low, or no barriers to entry and low asset requirements. (Davis and Pearce, 2000). The terminology in this paper reflects that in the wider literature, whereby authors use either ‘farm’ versus ‘non-farm’, or ‘on-farm’ versus ‘off-farm’ activities.

An increased focus on the RNFE has led to a more holistic view of rural development and reflects the reality of growing economic diversification amongst rural households. Thus it could be said that understanding the non-farm sector in context implies the use of broad methods useful in understanding rural societies in general, and the complex inter-relationship between different factors – social, cultural and economic, for example – which cause people to act as they do. Social and cultural factors are discussed further in Section 3.

The expansion of the RNFE and diversification of income are desirable policy objectives since they give individuals and households more options to improve their livelihood security and to improve their own living standards. Chaplin (2000) has reviewed the diversification literature. Hussein and Nelson (1998) define livelihood diversification to include on- and off-farm activities which are undertaken to generate

extra income via the formation of agricultural and non-agricultural products; the sale of waged labour or self employment in small firms; and other strategies to spread risk (including radical migration strategies). It includes consideration of attempts by individuals and households to find new ways to raise incomes and reduce environmental risk, which differ sharply depending on the degree of freedom of choice (to diversify or not) and the reversibility of the outcome.

There are also important spatial and locational aspects of the RNFE that should be noted. Barrett and Reardon (2000) highlight the difficulty in defining the RNFE from a spatial perspective. They note (page 16) that “an activity can be ‘local’, with two sub-categories (a) at-home (or the more ambiguous term ‘on-farm’); (b) local away-from-home, with sub-categories of (i) countryside or strictly rural, (ii) nearby rural town, and (iii) intermediate city”. The authors also recognise that the distance from the home can involve migration within the country and abroad. Barrett and Reardon (2000) suggest that these distinctions are important, in particular with respect to the extent to which the household is dependent on the local economy. The authors further highlight the complexity and often arbitrary nature of using such classifications. For example, ‘local’ is an arbitrary concept that will be situation-specific.

Economic theory indicates that risk-neutral farmers will divide their labour supply between on-farm and non-farm employment opportunities such that the expected marginal returns to all activities are equal. If farmers are risk-averse, as is the norm in transition economies, either less time will be allocated to the more risky jobs if the expected returns to each sector are the same, or alternatively the farmer will be willing to accept lower wages in the less-risky environment (Mishra and Goodwin, 1997). Non-farm labour can be used by farmers to reduce the total variance of their income, that is, the overall risk, or to increase the total returns to labour. However, this does not necessarily mean that risks associated with non-farm opportunities are lower than, independent of, or inversely related to on-farm risks – it is more the case that on-farm opportunities are often very limited (Davis and Pearce, 2000).

In poor rural areas, some households will make a positive choice to take advantage of opportunities in the non-farm rural sector, taking into consideration the wage differential between the two sectors and the riskiness of each type of employment. Rising incomes and opportunities on-farm should reduce the supply of non-farm labour (although this is often a dynamic process due to inter-regional migration etc). However, other households are pushed into the non-farm sector due to a lack of opportunity on-farm, for example, as a result of drought or small landholdings⁵. It is

⁵ See Marsland, *et. al* (2000) for a full survey of the literature on the economics of participation of the poor in the RNFE.

important for policy makers to understand why an individual is entering the non-farm rural market, whether the entry is part of an upward or downward livelihood trajectory⁶ (Swift, 1998). Hence one of the key areas of discussion in the literature is to understand whether individuals respond to new opportunities in the RNFE – demand-pull – or are driven to seek non-farm employment because there are no opportunities on-farm – distress-push (see for example, Efstratoglou-Todoulo, 1990; Islam, 1997). The key features of distress-push and demand-pull diversification are outlined in Table 1.

⁶ When thinking about non-farm income generation, it is important to realise that different social units are constantly engaged in a dynamic process of livelihood adaptation. Taking the unit of the household: households operating within a particular livelihood system may be on any of a number of different livelihood trajectories. These may be “downward”, in the sense that there is a process of disaccumulation of assets; “upward” in which case there will be asset accumulation; or more or less constant in the sense that the household asset base is neither expanding nor contracting. In each of these different scenarios, the role and importance of off-farm strategies takes on a different meaning.

Table 1 The push and pull factors of RNFE diversification

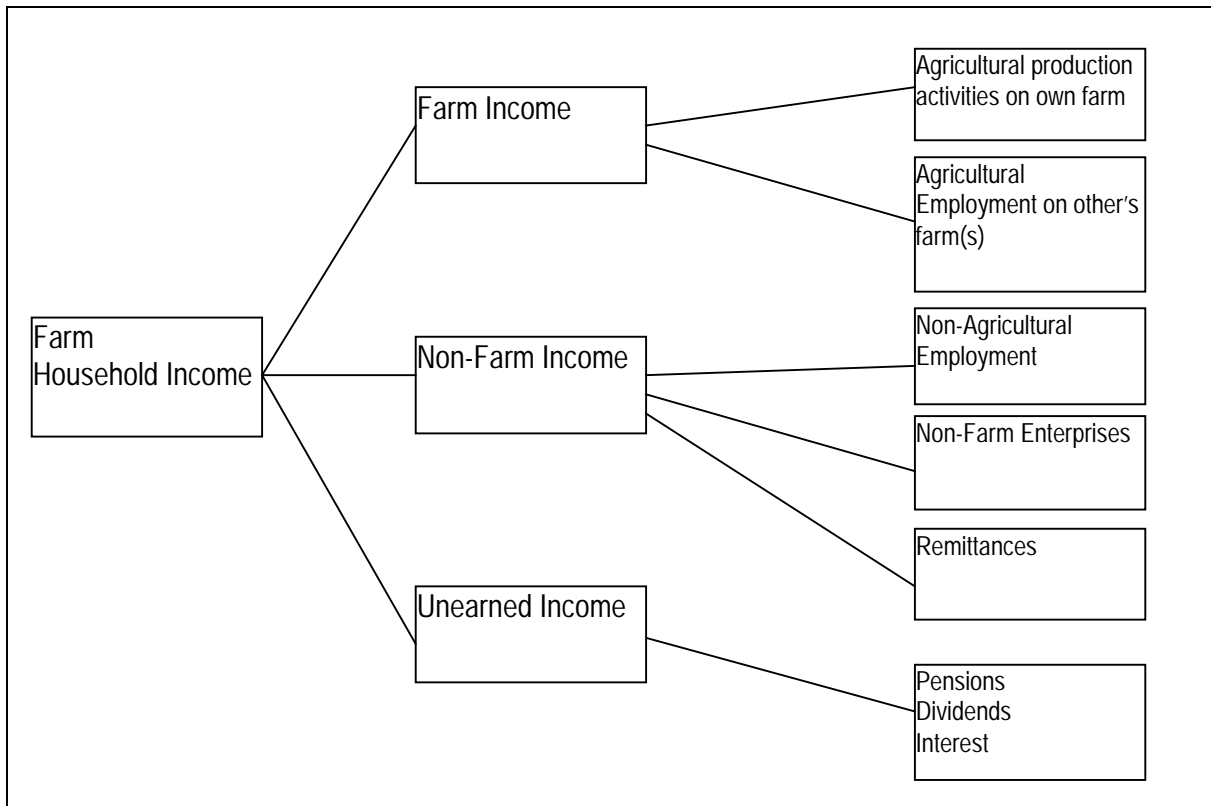
<i>“Push factors”</i>	<i>“Pull factors”</i>
<ul style="list-style-type: none"> • Population growth • Increasing scarcity of arable land and decreasing access to fertile land • Declining farm productivity • Declining returns to farming • Lack of access to farm input markets • Decline of the natural resource base • Temporary events and shocks • Absence or lack of access to rural financial markets 	<ul style="list-style-type: none"> • Higher return on labour in the RNFE • Higher return on investments in the RNFE • Lower risk of RNFE compared to on-farm activities • Generation of cash in order to meet household objectives • Economic opportunities, often associated with social advantages, offered in urban centres and outside of the region or country. • Appeal of urban life, in particular to younger people.

Source: Davis and Pearce (2000) Table 1.

Reardon *et al.* (1998) suggest that when relative returns are higher to the RNFE than to farming, and returns to farming are relatively more risky, “pull” factors are at work. Conversely, when farm output is inadequate and opportunities for consumption smoothing, such as credit and crop insurance, are missing, or when input markets are absent or fail and the household needs cash to pay for farm inputs, “push” factors are at work. Islam (1997) suggests that factors that lead to demand-pull include the increased income of lower and middle-income households and increased demand from urban areas for rural products. He identifies successive droughts that depress income and hence increase the need for alternative incomes offering low-skill cheap income as a distress-push factor. As evidence of distress-push, wages or incomes are likely to be lower in the non-farm rural economy. Davis and Pearce (2000) discuss the importance for policy-makers to make this distinction between distress-push or demand-pull since each may require different policy responses. The former may require policymakers to develop appropriate social safety net and interventionist policies to mitigate the short-run negative effects that sometimes accompany this type of diversification (for example, over-rapid urbanisation placing tremendous pressure on urban centres, negative environmental impacts etc.). Where demand-pull factors are driving the process of diversification, policy-makers might seek to provide a suitable “enabling environment” to support the development of the RNFE and sustainable rural livelihoods. However, deciding on whether demand-pull or distress-push factors are at work may not be straightforward (Davis and Pearce, 2000).

Davis and Pearce (2000) note that in a review of the level of RNFE diversification, it is important to consider the potential sources of income available to each farm or rural household. These are shown in Figure 1. The traditional and main component has been income from agricultural core activities. These may be defined as those enterprises taking place on predominantly agricultural proprietorial units, which are

based on the primary production of food or fibre.

Figure 1. Potential Sources of Farm Household Income

Source: adapted from Davis and Pearce (2000) Figure 1

In defining RNFE income, diversification and other gainful activities of farmers and rural dwellers, two central problems emerge: (i) recognising and ordering the multifarious nature of income sources and, (ii) capturing the appropriate unit for income analysis. A plethora of terms to capture the NFR activities of farmers have emerged: (pluriactivity⁷, diversified, multiple job-holding) leading to a series of binary classifications: between full and part-time farms, pluriactive and non-pluriactive farmers and diversified and non-diversified occupiers. However these single dichotomies are unable to capture the absolute and relatively diverse nature of income sources.

To deal with this issue, Davis and Pearce (2000) suggest that one approach is to study the components of potential sources of income (see Figure 1). On-farm income can come from both agricultural production activities on the household's own farm, and employment on other farms. Potential sources of non-farm income can be divided into

⁷ Pluriactivity can be defined as the phenomenon of farming in conjunction with another gainful activity, whether on- or off-farm (MacKinnon *et al.*, 1991).

three components: income from non-agricultural employment; non-farm enterprises; and remittances. As such, one can distinguish between enterprise and income diversification. Enterprise diversification activity embraces both on- and off-farm business creation outside of agricultural production activities. Income diversification will embrace these two components plus any movement towards non-farm employment (whether agriculturally based or not). Finally, a third source of revenue is unearned income (such as pensions, dividends and interest), which while often ignored, can form a substantial component of rural household income, and decisions made in this sphere may have an important bearing on such crucial choices as time of retirement and intensity of farming.

Thus, potential sources of income are disparate, likely to vary substantially in importance between farmers, and exhibit wide variations in their attractiveness as sources of pecuniary gain. These variations between components of income are therefore likely to have a major effect on the decision making of farmers and there is a need to understand the importance of each, rather than subsuming them all into binary classifications such as the part/full-time dichotomy⁸. While income diversification is often equated with an increase in micro and small enterprise activity, there is no reason why RNFE income diversification has to include setting up new enterprises – for many, other options may prove more fruitful or promising (Pearce and Davis, 2000). The implications of not recognising the diversity of potential sources of non-farm income by policy-makers could be quite serious. For example, it might lead to the development of inappropriate sectoral policies, which support commercially viable activities at the expense of others, which although much less remunerative, may be of vital importance to the livelihoods of more vulnerable groups in society (see Davis and Gaburici, 1999).

2.2 Lessons for the RNFE from developing and developed countries

Experience in both developing and developed countries can help inform policy for the RNFE in transition economies.

2.2.1 Developing countries

⁸ See Mishra and Goodwin (1997) who address farm income variability and how this affects the supply of off-farm labour. They also attempt to test whether spouses make joint decisions in terms of their off-farm employment activity. Of course, their paper assumes that markets function efficiently, again not always the case in rural CEEC economies. However, utilising an econometric approach, the authors found that the off-farm labour supply of farmers is positively correlated with the riskiness of farm incomes; that farmers and their spouses with more farming experience are less likely to work off-farm; and that off-farm labour supply is correlated with off-farm experience.

Rural households in developing countries typically obtain 30-45 per cent of their total rural income from off-farm sources. The average figures differ by region and range from 29 per cent in south Asia to 45 per cent in Eastern and Southern Africa (Reardon *et al.*, 1998).

The nature of the links between the farm and non-farm sectors and the performance of agriculture influence the growth of the RNFE. With increasing diversification, the links to agriculture tend to decrease. In many developing countries, the seasonal character of the RNFE is inclined to decrease with increased diversification and to show a trend towards more constancy (Barrett and Reardon, 2000). There often exists a positive correlation of RNFE activities with:

- The higher income level of rural families;
- Higher potential for diversification of income sources (RNFE); and
- Higher productivity in agricultural activities.

However, the interdependence between cause and effect is complex and has to be analysed case by case, before patterns and clusters can be discerned (Davis and Pearce, 2000). Recent RNFE research (e.g. Breitschopf and Schreider, 1999; Davis and Pearce, 2000) has also shown a positive correlation between a higher diversification of non-farm activities and income and:

- The level of education;
- Quality and access to infrastructure;
- Quality, objectives and organisation of services;
- Opportunities created through local, regional and national government policies; and
- Access to credit and financial services.

Direct entry barriers to activities with high returns to labour in developing countries are licence fees, the purchase or rental of equipment, and skill acquisition (Reardon *et al.*, 1998). As a result, although low-asset households may spend much time in off-farm activities, these will only be low wage. In contrast, high-asset households may be able to earn higher returns (Reardon *et al.*, 1998).

Marsland, Davis, Robinson *et. al* (2000) point to the effect of religion and a variety of cultural factors on involvement in the RNFE. For example, there may be activities which are seen as desirable for certain ethnic groups or classes, and in many developing economies, gender influences the roles taken in the community.

Studies on the RNFE in developing countries suggest that the sector can be promoted through: increasing the asset holdings of the poor in the rural community, both in terms of education and infrastructure; removing land market constraints; improving access to credit for non-farm activities; and disassociating the inequality problems of

the farm and non-farm sectors (Reardon *et al.*, 2000). Many of these policies are also applicable to development of the rural non-farm sector in transition economies. Hazell (1998) states that one reason why the RNFE should be actively encouraged is because, when agriculture grows, the RNFE benefits from powerful income and employment multipliers. In many developing countries, discrimination against small rural non-farm firms constrains the effects of these multipliers (Hazell, 1998).

2.2.2. Developed countries

Analysis of the rural regions of the EU can point to issues of importance for the transition economies. There is a great diversity among rural regions in the EU and both endogenous and exogenous factors affect rural employment growth, where endogenous factors are local impulses and local resources and exogenous factors are those which externally determine the transplantation of employment into the region (von Meyer *et al.*, 1999). As agriculture contracts, the tendency is for specialisation to decrease and diversification to increase, but some EU regions were able to increase specialisation – for example, by focusing on tourism or on speciality agricultural products. Therefore, policies need to be in line with the individual strengths and weaknesses of a region, and research is essential to reveal these (von Meyer *et al.*, 1999). A multi-sectoral approach must be taken to rural employment creation, rather than one just including agriculture, agro-food and tourism, and local and regional actors and agencies should be involved (Christensen and Lacroix, 1997; von Meyer *et al.*, 1999). Other policy lessons from the EU for improving rural employment opportunities are that infrastructure should be improved to make rural areas attractive to business and for living; governments should try to improve the general conditions in rural areas and not target particular enterprises; and resources should be directed to regions with potential for growth due to their location, comparative advantage, or other reason, but which suffer from poor physical infrastructure, a poorly trained labour force or lack of processing and marketing facilities (Christensen and Lacroix, 1997).

Brydon and Bollman (2000) found that in many OECD countries the fall in agricultural labour has been compensated for by increased employment in services – particularly in tourism and recreation and, in some cases, manufacturing. There is also an increase in opportunities due to digital communications, but little evidence to date on the uptake of these new technologies by rural actors. Changes in the rural labour market are related to changes in the urban labour market, such as the shift to part-time and casual work, and feminisation. However, there can be a large variation in economic performance among rural areas and the authors recommend a cross-disciplinary approach to further research.

Woldehanna *et al.* (2000) used a double hurdle model to investigate off-farm work

decisions on Dutch cash crop farms and suggest that rationing and unexpected transaction costs, such as search and information costs, inhibit farm households from participating in off-farm activities. Family size and level of education are positively related to the desire to participate in off-farm labour. From their study, they conclude that policies such as agricultural subsidies and quotas which reduce price variability and therefore income risk may have a negative effect on off-farm activities, whereas policies which support education may increase off-farm participation, especially by women.

Evidence from OECD countries suggests that labour market measures that involve counselling and job search assistance are generally effective for most groups in society, whereas the effects of training programmes are less certain (OECD, 1998). However, most measures are not able to help large numbers of unemployed, and effective targeting is therefore needed (OECD, 1998).

Hence, research in developed countries stresses the importance for a cross-disciplinary, multi-sectoral approach to the development of the RNFE, with emphasis on good infrastructure and education. Local actors should be involved, and the rural economy should be considered to be heterogeneous – there is great variety among regions.

3. RNFE AND RURAL NON-FARM LIVELIHOODS IN TRANSITION ECONOMIES

3.1 History, culture and ethnic make-up⁹

This section deals principally with seven countries: Poland, the Czech Republic, Hungary, Romania, Ukraine, Georgia and Armenia, as explained in the introduction. These countries are diverse in their history and culture, and are made up of widely differing ethnic groups. Poland and Hungary, which have strong national histories (both had significant empires in the middle ages) have very strong ethnic identities associated with the nation. Romania and the Ukraine, on the other hand, are very mixed ethnically, and this is linked to the fact that these territories have a history of occupation by foreign powers. Georgia and Armenia, like Poland and Hungary, derive from past empires that covered areas populated by different groups.

Poland, the Czech Republic, Hungary, Romania and the Ukraine all have Gypsy populations. These are much more significant in Hungary and Romania than in the other countries. All of the countries covered have small percentages of Jews, the numbers of whom were reduced by Nazi deportations during the war and by migration to Israel since the Second World War.

Ethnic affiliation within the countries surveyed is frequently associated with religious affiliation, which means that religion serves as a badge of ethnicity. Thus, it would in a number of cases be appropriate to describe groups as ethno-religious groups. Where this occurs, the strength of the identity is of course increased. Roman Catholic, Protestant and Orthodox churches exist in the area surveyed. In addition, there is a significant presence of the Uniate church in the Ukraine, Poland, Hungary and Romania, in which Eastern Christian rites are practised but which is affiliated to the Roman Catholic church.

3.1.1 Ethnic and religious identity since the collapse of Communism

Since the collapse of Communism ethnic differences have remained very important, and have indeed become more prominent in many countries, since the successor states in the peripheries of the Soviet Union, in particular, have placed a good deal of emphasis on national identity, which has generally implied an emphasis on the ethnic identity of the majority. Leaders of self-determination movements, both at a national and a sub-national level, have made great efforts to demonstrate the uniqueness and distinct identity of the 'unit' which they represent, which is variously represented as

⁹ See Annex I for more detail

'people', 'nation' or by another collective term (Dragadze 1996). Institutions and mechanisms have been set up in the CIS countries which are intended to regulate the access of people of different nationalities to power, resources and privileges. However, this has happened in different ways in different states, ranging from what are in effect ethnocracies to something which has been christened 'consociationalism' in which nationalities share power, as has arguably happened in the Ukraine (Juska 1999).

The new freedom in religion has been associated with a greater overt association of religion with ethnic identity in many countries. In Russia, a 'return to Orthodoxy' has been associated with addressing the ecological crisis, which is seen as a spiritual crisis; a working relation with nature is seen there as setting Russia off from the West (Rousselet 1994). Similar emphases on local Orthodox churches (which are national by contrast with Roman Catholicism) as associated with ethnic identity are likely to apply in other Orthodox countries. This is particularly true as national Orthodox churches gain more independence from the Russian Orthodox church. In Poland the period since 1978, when a Polish pope was elected, has been one when the Roman Catholic church became more and more closely associated with Polish nationalism; Solidarity, the trade union which came into being in the early 1980s and eventually took power in 1989, identified itself extremely closely with the Church. This close association continued after 1989, leading to clashes with the tiny Uniate, Ukrainian minority in the South East at regular intervals since then (Hann 1997). In Poland church and political power have in recent years been closely linked; in other countries, this is not the case. Generally, in Eastern Europe and the CIS countries, churches enjoy a higher level of confidence than political parties (White et al 2000).

While adherence to religion has declined in some countries, particularly in Hungary and the Czech Republic, this is a phenomenon associated with urban environments. Church attendance is generally associated with the rural population throughout the area (White et al 2000). This means that churches and their leaders currently have an important role in focusing ethnic differences within the rural population in these areas.

3.2 Ethnicity, religion and occupational specialisation

Co-members of ethnic or ethno-religious groups tend to favour each other in many ways. This has been analysed, for example, for Romania since the transition from communism, in a context where there has been severe competition for scarce resources and opportunities (Verdery 1993). In many of the countries under consideration here ethnicity and/or religious affiliation has affected participation in and/or access to particular occupations, as we shall explore below. Certain ethnic and/or religious groups have historically been associated with certain occupations, such as arable or pastoral agriculture, different trades or commerce. Where this is the case it may be

difficult for members of other ethnic groups to enter these occupations. Ethnicity and/or religion may also affect access to occupations in indirect ways: for example, where the governing elite of a country is made up of a given ethnic group this may affect the drawing up of legislation which can affect the possibilities for different ethnic groups to enter into different occupations.

It is not so common for religion, on its own, to affect access to occupations. Religion is usually much more significant when it is combined with ethnic affiliation. However, there are certainly occasions of co-religionists who do not share an ethnic link helping each other in significant ways to enter occupations (this has also been observed on the part of semi-religious organisations like the Masons). Thus the possibility of finding this within the countries concerned cannot be excluded.

There are significant tensions between some ethnic or ethno-religious groups, whereas others co-exist peacefully and may have a relationship of social and economic complementarity (even where this may seem inequitable to outsiders). Clearly the presence or absence of peace and goodwill between ethnic groups is important in terms of the possibilities of diversification into non-agricultural activities, not least because where there is actual ethnic strife it is difficult to diversify into many areas. Occupational specialisation can be a source of resentment and tension when it is associated with one group, and it can lead to restrictions on their involvement in other occupations.

In general, the two ethnic groups which are throughout the area most strongly associated with specific types of occupations are the Gypsies and the Jews, both present in small numbers in this area (the Gypsies are not present in Armenia or Georgia, while the Jews are present in all countries surveyed). It should be noted that while Jews are an ethno-religious group (and in some areas - such as Poland - a largely religious group, since conversion has been allowed, indeed encouraged), Gypsies are an ethnic group only since they practice different religions in different areas, often adhering to the religion practised locally by the largest rural ethnic group. There has been considerable antipathy towards both of these groups on the part of other ethnic groups, and this seems to be associated at least partly with their occupational specialisation. Both tend to be distributed throughout the countries involved although there may be local concentrations, meaning that they are always a minority in the general area. Both tended before the Second World War to live in ghettos or ghetto-like areas within towns and villages, and this is still true of the Gypsies.

Gypsies are associated with itinerant occupations, with low-grade craftwork and with dealing in low-value articles. They tend to be excluded from higher-status or skilled occupations by members of other ethnic groups, including the possession of land

enabling them to practice agriculture, although they sometimes do possess and cultivate land (this is the case in Romania). There have been efforts since the Second World War by Socialist governments in Eastern Europe to settle them and encourage them to obtain regular employment in enterprises, but they find it difficult to acquire higher-status, better-paid jobs (Stewart 1993). In Romania, and probably elsewhere as well, they do not in fact consider agriculture to be high-status within the Gypsy group and so generally choose not to involve themselves in it, only taking up agricultural wage-labour or a small plot of land to cultivate themselves as a last resort. Jews are associated with trade and commerce in general, and in the past with money-lending. In some areas they have been excluded from owning land, but, like the Gypsies, they tend not to be inclined towards agriculture. While Gypsies are usually rural, Jews usually live in small or larger towns.

A distinction needs to be made between regions within countries where there are a number of co-habiting ethnic or ethno-religious groups and those which are inhabited almost exclusively by one group. Clearly in the latter situation lack of access to non-agricultural activities will relate very largely to physical and geographical factors, including communications, and to economic and social asset levels, and skills of individual households, more than to differential access to different types of occupation on the part of different ethnic or ethno-religious groups (although even a very small numerical presence of another, specialised ethnic or ethno-religious group may make it difficult for non-members of that group to enter the occupational niche which it occupies). Where a number of different groups live in the same area, however, whether in the same village or not, there is more potential for occupational specialisation along ethnic or ethno-religious lines, and this commonly occurs, as we shall see below. This has implications for the potential which individuals and households have for diversification.

It is often the case in the countries surveyed that, where there is a mixed ethnic situation within a given area, subsistence agriculture is associated with the majority, and relatively low-status ethnic group, who often have much smaller holdings than members of more dominant, and numerically smaller, ethnic groups. This majority, low-status group may find it very difficult to become involved in any activity outside their own holdings other than agricultural labour in the fields of their better-off neighbours belonging to other ethnic groups. In the Ukraine, this has applied to the Ruthenians, who were, especially before the Second World War, occupied in arable and pastoral subsistence agriculture while Poles, Germans, Jews and Russians tended to live in towns and to have more involvement in non-agricultural occupations. Where Poles and Germans were engaged in agriculture this was either as a supplementary activity to another non-agricultural activity, or was on bigger holdings and involved the cultivation of cash crops. Ruthenians were often employed as labourers by the

other groups (Gross 1988, p. 35). Similarly, in Transylvania (Romania), Germans, Hungarians and Romanians engaged in agriculture, but the former two groups also engaged in non-agricultural activities including skilled craftwork and trade, while the Romanians were involved in subsistence or sub-subsistence level agriculture, and were often engaged as labourers by the other two groups.

There is sometimes an ethnic or semi-ethnic dimension to the distinction between pastoral and arable agriculture. Thus in SE Poland the Lemko group, which is a sub-group of the Ruthenian/Ukrainian group, is more inclined towards pastoralism than are the Poles, who are more arable. The *goraly* (mountain dwellers) of southern Poland, who are in some senses a distinct ethnic group from mainstream Poles, are also more oriented towards pastoral agriculture than other Polish agriculturalists. Such groups often engage in a good deal of non-agricultural (although agriculturally-related) activities, making crafts, producing cheese and selling these products in nearby markets. It is probable that a similar ethnic dimension to the distinction between arable and pastoral agriculture has some significance in Armenia, distinguishing the mainstream Armenians from the Kurds, although many Armenians are also heavily involved in pastoral agriculture.

3.2.1 Current prospects for diversification on the part of different ethnic and ethno-religious groups

Since the collapse of communism there has been some growth in petty trading. Cross-border trading has put different ethnic groups, and different nationalities, in contact with each other in ways which were unknown in the (recent Communist) past (Hann 1997). This study hopes to look at patterns of involvement on the part of different ethnic groups in petty trading.

It would seem to be the case that some ethnic or ethno-religious groups have internal social characteristics that make it relatively easier for them to diversify out of subsistence agriculture. Within some groups there seems to be a greater inclination than among others for members to support each other, associated with a different form of social organisation than in other ethnic groups. This is likely to enable members of that group to collaborate in for example marketing agricultural products. It also enables members to succeed in entering non-agricultural activities - where one member is already involved in a certain occupational niche he or she will facilitate the involvement of other members of the ethnic group. This is what apparently has happened in Transylvania, where ethnic Germans ("Saxons") have shown themselves to be much better at helping each other both in agricultural collaboration and in entrance into trades than their ethnic Romanian neighbours within the same village. Consequently this group has had an involvement in trade and commerce which the

Romanian ethnic group does not have because they operate not cohesively but through networks of kin and neighbours (Sampson 1984, p. 148). However it is not clear whether, since the collapse of Communism, there have been clear patterns of certain ethnic groups building on these internal social characteristics to improve the prospects of their members to be able to take advantage of opportunities outside agriculture. This is an area that this study hopes to address.

In countries belonging to the ex-Soviet Union the position of Russians currently poses problems and questions. In total they number about 25 million in the CIS countries and are present in significant numbers in all of the countries concerned. Because of their ethnic association with Russia and with the Soviet Union, they are not seen in a favourable light by members of the host nation, and their position can be a difficult one. While in the past they had fairly advantageous employment, they have often lost this through legal changes brought into force since the collapse of communism (Juska 1999). Many are reluctant to return to Russia, since they and their parents, even grandparents, may have been resident in the host nation for many years. They are likely to have specific needs in terms of employment.

3.3 Characteristics of the RNFE in transition economies

It is generally recognised that rural non-farm development has a key role to play in the reform of rural economies of the CEECs and CIS. Interest in the potential role of rural non-farm enterprises in the rural economy comes in part from the expectation that the rapid development of township and village enterprises (TVEs) in China can be replicated in European transition economies (Stiglitz, 1999; Pearce and Davis, 2000). It also comes from donors' focus on poverty reduction, the new development paradigm of promotion of sustainable rural livelihoods (Csaki *et al.*, 2000) and research emphasising the importance of non-farm income to poor rural households (Greif, 1997; Chirca and Tesliuc, 1999; Davis and Gaburici, 1999).

It is difficult to obtain evidence on income shares from non-farm sources for the CEECs and CIS; firstly because non-farm income is not recorded in the statistics of most countries, and secondly due to the unwillingness of survey responders to provide information on their incomes. However, there is growing evidence that rural households in the CEECs may obtain 30 to 50 per cent of their income from non-farm sources (Davis and Gaburici, 1999; Greif, 1997). For example, in Poland, agriculture is the main source of income for only 29 per cent of village households and 40 per cent of the rural population, whereas non-agricultural income is the main source for 30 per cent of village households (Christensen and Lacroix, 1997). In Ukraine, 76 per cent of the income of private farmers' families is from agriculture, while 16 per cent is from off-farm sources and 8 per cent from business (Lerman and Csaki, 2000). Thus it is

likely that the non-farm sector is generally larger in the CEECs than CIS, and also possible that income from the non-farm sector is underestimated.

Studies suggest that further structural change in farming is likely to result in the establishment of farm sizes similar to those found in Western economies. Large farms will contract, and fragmented small subsistence farms will be amalgamated into larger, more viable units. Both these developments are expected to result in the shedding of excess agricultural labour (FAO, 1999; Chirca and Tesliuc, 1999; Csaki and Lerman, 2000). The promotion of rural non-farm enterprises is seen as having the potential to absorb this excess farm labour, stimulate rural development and overcome rural poverty (Christensen and Lacroix, 1997). Limited off-farm earning opportunities are given as one of the main reasons for stagnant rural incomes in Georgia (FAO, 2000b), together with the scarcity of rural credit, poor market access for domestic products, unequal access to inputs complementary to labour, and barriers to land consolidation. In countries such as Romania, where agriculture is acting as a buffer against unemployment and hidden unemployment is widespread and increasing (Davis and Pearce, 2000), development of the RNFE is vital, and the Romanian government is aware that in order to improve the motivation of people to seek rural non-farm employment, the quality of life in rural communities needs to be improved with better education and infrastructure (Turnock, 1998c).

Greif (1997) points out that in CEECs and CIS there is an important difference between off-farm activities of large-scale agricultural enterprises and of private family farms. Employees in large-scale agricultural enterprises may work additionally on their own enterprises, which may or may not provide services for the large-scale farm. Small-scale private farmers may engage in service work for large farms or non-farm enterprises and may also become involved in direct produce marketing or food processing. There is also a third group: millions of mini-scale producers of non-agricultural origin engaging in subsistence farming. It is only the private family farm group that is directly comparable to the economic experience of either western European part-time farms, with additional earnings, or of rural households in developing countries who combine subsistence and commercial farming with non-farm employment and migration.

In transition economies, it is not easy to decide if demand-pull or distress-push factors are at work in the move from farm to non-farm sector. For example, in lessons from Czech and Romanian RNFE case studies, Davis and Pearce (2000) suggest that entrepreneurs in these countries enter the non-farm sector mainly for demand-pull reasons. Chirca and Tesliuc (1999), on the other hand, suggest that the motivation for most rural households in Romania engaging in non-farm employment is need rather than profit – thus distress-push reasons. Religion and cultural factors may also

influence involvement in the RNFE.

Figure 1 set out the potential income sources for farm households, and Table 2 shows the main sources of off-farm and additional incomes for the CEECs.

Table 2 Main sources of off-farm and additional incomes in selected CEECs

<i>Country</i>	<i>Percentage share of farms involved</i>				
	<i>Second jobs</i>		<i>Self employment</i>		<i>Agricultural Sector</i>
	<i>A. Commuting</i>	<i>B. Construction**</i>	<i>C. Business</i>	<i>D. Tourism</i>	<i>E. Processing</i>
Czech Republic	-	26	21	(3)	-
Slovakia	-	(25)	(25)	(3)	-
Hungary	< 1	30	(50)	(2)	(2-10)
Slovenia	14		17		(50)
Poland	-	38	26	(3)	7
Romania	-	(20)	(10)	-	(2-5)
Latvia	-	(20)	(10)	-	(5)

Source: Greif, F. (1997) *Off-farm income sources and uses in Transition Economies*, FAO/REU mimeo, page 18.

Notes:

A Commuting to work places in local industries or abroad

B Work in construction

C Business (Trade)

D Rural tourism

E Processing and/or direct marketing of agricultural products

* Figures in brackets are rough estimates: Selected items in percent of farms involved

** To a high extent these activities consist of illicit work.

Table 2 highlights the fact that rural non-farm livelihoods in transition economies are derived from a wide variety of activities. In addition to these data from CEECs, a study on private farmers in Armenia (Lerman *et al.*, 1999) found that 23 per cent of respondents engaged in non-agricultural business activities, with 18 per cent involved in processing. Due to a lack of data it is difficult to measure the rate of growth of these activities (Davis and Pearce, 2000). As noted in Section 2.1, remittances form part of rural income and are of importance in some of the transition economies; for example, the remittances from post-1991 Albanian emigrants working primarily in Greece and Italy (Pearce and Davis, 2000). By contrast, in a Ukrainian survey (Lerman and Csaki, 2000), remittances from abroad were found to be negligible.

Rural non-farm livelihoods depend upon the rural population having the capacity or

opportunity to take part in the RNFE, and this is difficult to assess (Pearce and Davis, 2000). Recent studies by Jehle (1998b), Davis and Gaburici (1999), Breitschopf and Schreider (1999) and Horská and Spešná (2000) demonstrate the continuing lack of non-farm employment opportunities in the rural economy. However, there are opportunities in the rural areas for non-farm activity; for instance, in the Czech Republic, small farms and workshops, shops, public houses and boarding houses have allowed some in the rural population to work from home in areas that were effectively closed in the past (Turnock, 1998b).

3.4 Linkages between the farm and non-farm sectors

As already noted, the prevailing conception is that RNFE activities have close links with the agricultural sector (Heidhues *et al.*, 1998; and Davis and Gaburici, 1999 provide evidence of this in Romania). Although this section focuses on the linkages between the farm and rural non-farm sectors, these must also be viewed within the wider context of broader links. The World Bank (Csaki *et al.*, 2000) emphasises the links between the rural sector and all other sectors of the economy – not only those between the rural sector and the agricultural sector. They argue for a cross-sectoral context to rural development due to ‘the “connectedness” of rural residents to many economic sectors, only one of which is agriculture’ (page 37). For example, rural industry has strong links with the urban sector, both due to the market provided by the urban area and due to the links between industries – which may be either competitive or complementary: rural industries may provide components for urban industries, or may assemble or finish their products (Islam, 1997).

The farm and non-farm sectors may be directly linked via production activities, or indirectly linked through incomes or by investment (Reardon *et al.*, 1998). Production linkages may be either upstream or downstream: upstream linkages occur either when the farming sector grows and induces growth upstream in the supply of inputs and services, or when growth of local manufacturing and services reduces the price and increases the availability of inputs upstream; downstream linkages take place when activities, such as agro-processing and distribution, that rely on farm inputs are increased and thus increase the demand for farm products. Income linkages occur when income earned in one sector is spent on the outputs of the other, and investment linkages take place when profits from one sector are invested in the other. All these linkages are of importance in the development of non-farm enterprises in transition economies. However, linkages may not be positive and constraints on the farm sector affect the non-farm sector and *vice versa*. On production linkages, for example, constraints downstream in the RNFE may raise processing and distribution costs and so inhibit farm sector development, or upstream RNFE constraints may raise input and services costs (Reardon *et al.*, 1998). Increased opportunities for rural non-farm

employment would absorb the excess labour found in agriculture and tend to result in increased labour productivity (Christensen and Lacroix, 1997).

3.5 Inter-sectoral labour and capital mobility between farm and non-farm sectors

In general, the mobility of labour between sectors has been influenced by initial conditions and choice of reform policy. In many CEECs, liberalisation policies have reduced the constraints on labour mobility, whereas in Romania the slower pace of liberalisation has inhibited labour flows (Swinnen *et al.*, 2000). As already noted, agriculture provided a buffer against unemployment in many countries, such as Romania and Ukraine. Farm restructuring also affected labour mobility, and CEECs such as Romania, which experienced a shift to private farming, preserved more labour in agriculture than those (such as the Czech Republic, Slovakia and Hungary) which retained large-scale farms (Swinnen *et al.*, 2000). In general, CIS countries have not yet restructured farming to any extent, with the exception of Armenia and Georgia (Lerman, 1997). Farm restructuring is discussed at more length in Section 4.3.1.

In their analysis of patterns of reform, Macours and Swinnen (1999) suggest that labour mobility in transition economies should be improved as liberalisation weakens the link between specific jobs and social security benefits. However, in some countries, food security issues may reduce labour mobility out of agriculture, since households may prefer to stay within the agricultural sector if there is no efficient social security system. Thus, labour above the efficient level may remain in agriculture and adversely affect agricultural labour productivity. Evidence on the efficiency of different farming structures in the transition economies is not yet conclusive: Csaki and Lerman (1997) find no evidence that the productivity on the new private farms in Ukraine is higher than that on other farms. A study by Hughes (2000) found that family crop farms in Hungary and Bulgaria had higher productivity than corporate farms, although the result did not hold in the Czech Republic.

Education is a further important factor affecting labour mobility, and increasing levels of education are likely to lower labour mobility costs, as are higher levels of physical infrastructure development. These factors are likely to be especially important in countries with a low population density (Macours and Swinnen, 1999).

The adoption of RNFE opportunities may be affected by the ability of farm labour to move to the non-farm sector and the costs of moving (Davis and Pearce, 2000). Economic growth in many CEECs since 1994 has led to increased demand for labour (EBRD, 1999), but often this has been met by labour from the non-agricultural sectors in the economy. Davis and Pearce (2000) argue that the lack of movement from the

agricultural sector results from differences between the requirements of the new labour markets and the attributes of agricultural labour, with agricultural labour generally disadvantaged by lower levels of education (also see Davis and Gaburici, 1999). For example, rural-urban migration and non-farm MSME start-up are mainly undertaken by those with secondary education, and the percentage of the rural population with secondary education is lower than that for the population as a whole (Davis and Gaburici, 1999). However, levels of education are just one factor affecting inter-sectoral movements of labour. Poor infrastructure (such as roads, transport and telecoms), housing problems and, in some cases, government-imposed costs or administrative restrictions (OECD, 1999a) are also implicated.

As has been noted, linkages between farming and the rural non-farm sector influence the availability of capital, with profits made in one sector being available for investment in the other, and income made in one sector being spent in the other (Reardon *et al.*, 1998). However, the lack of an efficient land market may inhibit both the release of capital from farming, if land cannot easily be bought or sold, and the availability of credit, if land cannot be used as collateral. Distortions in the capital markets caused by government intervention in interest rates and credit guarantees affect the mobility of capital and the development of an efficient capital market. It is believed that capital constraints limit the development of individual farming in some countries, and hence the restructuring of farms and associated effects on labour mobility (Swinnen *et al.*, 2000).

To summarise this section, constraints on the mobility of labour and capital between the farm and non-farm sectors, along with human capital and physical infrastructure constraints, reduce rural labour productivity and thus keep rural incomes low.

Evidence from this section and experiences outlined in Section 2.2 suggest that some of the most important determinants of the development of the RNFE and hence of rural livelihoods are: an integrated regional approach; the level of education; rural infrastructure; access to credit; and an efficient land market. Many of these determinants are influenced by reform progress in the general economy and in the agricultural sector. Thus, an analysis of the non-farm economy cannot be isolated from that of the agricultural sector, nor indeed from that of the other sectors in the economy. Hence the following section reviews progress in the general economy and the agricultural sector.

Discussion on strategies for promoting non-farm rural employment are also generally based around opportunities for business expansion and the problems with starting up or expanding rural non-farm enterprises, and these are highlighted in Section 5.

4. REFORM IN TRANSITION ECONOMIES

In this section, evidence on the progress of macroeconomic and agricultural reform in the transition economies is presented. Firstly, macroeconomic factors are considered, followed by a discussion on the labour market. Next progress of reform in the agricultural sector is briefly assessed, including a more detailed review of land reform and rural finance. This is followed by the introduction of a framework that helps in the understanding of the role of agriculture in transition and the recognition of different patterns of agricultural development.

4.1 Progress of general reform

The progress of reform in the general economy has been widely discussed, with contributions on theoretical issues (e.g. Blanchard, 1997; Roland and Verdier, 1999) and empirical issues (e.g. Zecchini, 1997). In the early years of transition, output typically followed a U- or J-curve, with a steep decline followed by recovery to pre-transition levels or above (Blanchard, 1997; Zecchini, 1997). Blanchard highlights the importance of restructuring of firms and the reallocation of resources between sectors for successful reform. Macroeconomic stability is recognised as essential for reform, with an inverse relationship between Gross Domestic Product (GDP) and inflation: periods of low inflation tending to accompany periods of growth, while periods of high inflation are associated with stagnation or falls in output (Davidova and Buckwell, 2000). However, the achievement of macroeconomic stability has itself had a great influence on the rural economy, as discussed in *Box 1* in relation to Georgia.

Box 1 Linkages between macroeconomic stability and social problems in Georgia

The sheer focus on macroeconomic stabilisation in the course of the transition to a market economy conditioned a significant slackening of state control in the social sphere of a village. Most notably, social infrastructure has suffered a heavy blow. In many villages, day care centres, schools, and hospitals have been closed. Road building has also been greatly reduced. Compounding the situation in the villages is the decrease in real incomes and welfare spending. The greater share of income is used for purchasing food, while its quality and nutritional structure are gradually deteriorating.

In parallel with the decrease of incomes of the majority of the population, there is stratification according to the ownership of property. With free healthcare services being abolished, the health of family members has become crucial to the well-being of rural families. In rural regions the death rate exceeds the birth rate, infant mortality is on the rise, and lifespans are decreasing.

In the current conditions in Georgia, the conditions for stable development of the society are impaired. The possibilities of personal and professional development of

individuals are limited, preservation of health becomes difficult, and people feel socially unprotected. All this greatly slackens the support for important and necessary reforms going on in the state.

Source: Didebulidze (1997) page 49

The variation in the progress in reform of the general economies is illustrated in Table 3, based on scores developed by the European Bank for Reconstruction and Development (EBRD).

Table 3 Progress of reform in selected CEECs and CIS

Countries	Private sector share of GDP in %, mid-1999 (EBRD estimate)	Enterprises			Markets and trade			Financial institutions	
		Large-scale privatisation	Small-scale privatisation	Governance & enterprise restructuring	Price liberalisation	Trade and foreign exchange system	Competition policy	Banking reform & interest rate liberalisation	Securities markets & non-bank financial institutions
Czech Rep	80	4	4+	3	3	4+	3	3+	3
Hungary	80	4	4+	3+	3+	4+	3	4	3+
Poland	65	3+	4+	3	3+	4+	3	3+	3+
Armenia	60	3	3+	2	3	4	2	2+	2
Georgia	60	3+	4	2	3	4	2	2+	1
Romania	60	3-	4-	2	3	4	2	3-	2
Ukraine	55	2+	3+	2	3	4	2	2	2

Source: EBRD (1999) Transition Report 1999, page 24

The EBRD scores range from 1 (the equivalent of central planning) to 4+ (the standards and performance typical of advanced industrial economies). Table 3 illustrates that progress in the target countries has generally been slower than that in the Czech Republic, Hungary and Poland. The private sector share of Gross Domestic Product (GDP) is lowest in Ukraine, and this is reflected in the scores for both large- and small-scale privatisation. Enterprise restructuring has been slower in the target countries than in the more advanced CEECs, as has progress in competition policy. Similarly, reform in the financial sector has been slower. All these factors affect, either directly or indirectly, the progress of rural development in the countries.

There are many factors that influence reform progress, including differences in geographical location (EBRD, 1999), initial conditions (Balcerowicz and Gelb, 1994; EBRD, 1999), and the impetus given to ten of the CEECs and Baltics by negotiations to join the European Union (EU). The further east a country is located, the lower its

reform score tends to be. However, the target countries do not follow this trend as, although Armenia and Georgia are the furthest east, their scores are similar to that of Romania and higher than that of Georgia. Initial conditions include: the period of time under central planning; macroeconomic imbalances at the start of reform; the initial level of GDP; distortions in the allocation of employment; the level of dependence on the Council for Mutual Economic Assistance (CMEA); and the importance of agriculture (EBRD, 1999). Of the target countries, Armenia, Georgia and Ukraine were part of the Former Soviet Union and experienced 70 years of central planning, whereas Romania was centrally planned only from the end of the second World War. The agricultural sector was very important in Romania and the Ukraine. Despite differences in the initial conditions, it can be seen from Table 3 that reform progress is similar in all four target countries. Romania is the only target country negotiating entry to the EU, and this may add impetus to its reform progress in the future.

4.2 Development of the labour market

In the previous section, it was stated that reallocation is essential for reform and that distortions in the allocation of employment were an important initial condition affecting reform progress. The evolution of employment during transition is one issue that is of particular relevance for this paper. In general, there is a contrast between the CEECs and CIS. In the CEECs by early 1996, 12 per cent of population were unemployed, with 40 per cent of these unemployed for more than a year, whereas in the CIS long-term unemployment was minimal and official figures showed only 2 per cent unemployed (Commander and Tolstopiatenko, 1997). These official unemployment figures do not take account of the high level of hidden unemployment present, particularly in the CIS. However, by 1999 open unemployment had also risen in the CIS target countries, with estimates for unemployment as a percentage of the labour force of 11.5 per cent for Armenia, 12.9 per cent for Georgia and 3.9 per cent for Ukraine (EBRD, 2000).

The rise in unemployment has been accompanied by a sharp rise in poverty and inequality in many transition economies (Csaki *et al.*, 2000). Csaki *et al.* (2000) present poverty indicators for the transition economies. In general, although the distinction between rural and urban areas is often fairly arbitrary, rural poverty appears to have risen in line with, or even faster than, urban poverty. Of the target countries, it is possible that rural poverty in Romania is greater than urban poverty. The overall national incidence of poverty was 45 per cent in Romania in 1998, 36 per cent in Ukraine in 1996 and 75 per cent in Armenia in 1996. However, the widespread drought in 2000 in many of the CIS has exacerbated matters: in Armenia, rural households which practise subsistence agriculture have great difficulties accessing food, since they have lost most of their own produce and have little to sell or barter (FAO, 2000a). A similar situation exists in Georgia (FAO, 2000b). Box 2 uses a study from Ukraine to illustrate the qualitative differences that can exist between rural and urban poverty.

Box 2 Rural and urban poverty in Ukraine

In Ukraine, household survey data suggest that urban poverty is more frequent and deeper than rural poverty. To a large extent, this reflects the importance of food that is produced on a household's family plot. More rural households have plots (59%) than urban households (29.5%) or semi urban households (11%), and the average size of rural plots is slightly larger than urban plots (0.33 vs. 0.28 hectares).

Yet to conclude that urban poverty is much worse than rural poverty may be an oversimplification. The nature of poverty in the two locations is different. In urban

areas, the availability of food is undoubtedly the worst problem; poor urban households are food-poor. In rural areas, however, poor households are cash-poor. Buying bread, let alone clothing, winter heat, medicine, educational supplies, or transportation may be out of the question. The rural poor are better off in terms of food, but the urban poor are better off in terms of everything else.

Source: Consultations with the poor. Csaki *et al.*, (2000), page 15.

Thus, tackling rural poverty is an essential element in reducing total poverty (Csaki *et al.*, 2000). One critical aspect of this is improving access to land for the poor (Csaki *et al.*, 2000) as the rural landless may experience greater poverty than those with land. It was found that in Romania, land ownership significantly reduced the risk of poverty (Chirca and Tesluic, 1999), with 55 per cent of the landless households facing poverty risks in 1998, compared with 22 per cent of households owning 3 hectares or more. Also, rural poverty may severely affect specific ethno-cultural groups in some countries, such as the Gypsy population in Slovakia (Turnock, 1998a).

CEECs also showed large regional variations in unemployment and a lack of labour mobility across regions. Part of the difference between the CEECs and CIS may be explained by the legacy from Soviet times of firms providing social benefits, such as housing and health care, for their workers, and the resultant strong ties in the CIS between firms and employees. Centrally planned economies had a different employment structure from that of market economies and transition is accompanied by a reallocation of labour from agriculture and manufacturing to the service sector (Jackman and Pauna, 1997).

4.3 Progress of reform in the agricultural sector

Discussions of the transition of the rural economy have tended to focus on the agricultural sector since the two were more-or-less synonymous under central planning. Issues covered have included sector-wide analyses of the transformation of the agro-food sector (Hobbs *et al.*, 1997), and more specific issues, such as land reform (Swinnen *et al.*, 1997) and possible accession of ten CEECs to the EU (Tangermann and Banse, 2000).

In general, progress of reform in the agricultural sector has followed that of reform in the general economy, with progress being faster in the CEECs and Baltics than CIS. The following table, based on scores of reform achievement for the agricultural sector developed by the World Bank (Csaki and Fock, 1999), shows reform progress in the selected countries. Csaki and Fock (1999) also give a country-by-country analysis of the

status of reforms and objectives and proposed actions¹⁰.

¹⁰ Internet addresses for country analyses for target countries:

Armenia: <http://www-esd.worldbank.org/ecssd/rurcopg/rparm.html>

Georgia: <http://www-esd.worldbank.org/ecssd/rurcopg/rpgeor2.html>

Ukraine: <http://www-esd.worldbank.org/ecssd/rurcopg/rpukra.html>

Romania: <http://www-esd.worldbank.org/ecssd/rurcopg/rproma.html>

Table 4 Agricultural reform scores for selected CEECs and CIS, 1999

Country	Prices & Markets	Land reform	Agro-processing	Rural finance	Institutional
Czech Republic	9	8	9	9	8
Hungary	9	9	10	9	8
Poland	8	8	8	7	8
Armenia	7	8	7	7	8
Georgia	7	6	5	6	5
Romania	6	7	6	5	5
Ukraine	6	5	6	5	4

Source: Csaki and Fock (1999) Table 3

In Table 4, a score of 1 represents a centrally planned economy, while a score of 10 indicates completed market reforms. As can be seen, Romania and the selected CIS countries are lagging behind the Czech Republic, Hungary and Poland in terms of reforms in the agricultural sector. In Ukraine, the lack of agricultural reform in recent years has contributed to the decline of agricultural output (Csaki *et al.*, 2000). It is not within the scope of this paper to discuss all the factors of agricultural reform in detail, although all impact on the rural non-farm economy, so a few general comments will be made about Columns 2, 3 and 5 of Table 4, before a more detailed discussion is made on progress in land reform and rural finance, since these issues are crucial for the development of the rural economy as a whole. As already noted, imperfect land and capital markets can inhibit the development of rural enterprises (Swinnen *et al.*, 2000).

Prices and markets were generally liberalised in the CEECs soon after the start of transition, although in Romania the system of direct price controls and administered prices was continued until the beginning of 1997 (OECD, 1999a). Liberalisation is relatively advanced in Armenia, whereas it is clear from Table 4 that Ukraine needs to make further progress in this area, and liberalisation is still inhibited by government intervention and underdeveloped market structures (Csaki and Fock, 1999). Most retail and wholesale prices in Georgia were liberalised in 1992, but bread and milk prices remained under government control and bread subsidies were not removed fully until 1995 (Phutkaradze and Bziava, 1999).

Further progress is also needed in the field of agro-processing. Many of the CIS have opted to give agricultural producers the majority ownership of food processing and retailing, and it has been difficult to attract foreign investment – partly because of difficult ownership patterns and corruption (Csaki and Fock, 1999). In contrast, the CEECs have seen annual net capital flows of foreign direct investment (FDI) grow tenfold between 1992 and 1997. The bulk of FDI has been invested in the processing

industries as well as the marketing sector (FAO, 1998), and in the agro-food sector has achieved qualitative improvements in food processing and marketing. This investment has reduced the problems arising from domestic capital shortages, while helping to create export capacities and facilitating market access. However, food processing sub-sectors which have not received FDI have struggled with technological obsolescence, scarce finance and marketing difficulties (FAO, 1998).

In general, progress in agricultural institutional reforms has been slower than in other reforms, but again more progress has been made in the CEECs than CIS, though as can be seen from Table 4, Armenia has made good progress. The CEECs have been encouraged in institutional reform by the challenges of EU accession, although further reform is needed in the areas of modernisation of state administration and support systems for private farming (Csaki and Fock, 1998). In many CIS, the lack of reform is hindering the agricultural transformation (Csaki and Fock, 1998).

4.3.1 Land reform and farm restructuring

Farm restructuring has strongly affected the re-allocation of rural labour and hence rural livelihoods. The experience of CEECs and CIS in land reform has been very different, and progress has generally been faster in the CEECs, though once again Armenia has performed well. In the CEECs, de-collectivisation of agriculture has led to problems with land fragmentation (European Commission, 1995; Chirca and Tesliuc, 1999). Agriculture is being divided into a commercial and a subsistence sector (FAO, 1999, Csaki and Lerman, 2000a), with re-privatisation and restitution as the dominant forms of land reform (Csaki and Lerman, 2000b). However, legal settlement and a register of land, together with the emergence of a land market, has not yet been completed. There are ongoing debates about the ownership of land by foreigners and the need to eliminate restrictions on leasing while land markets are still underdeveloped (Csaki and Lerman, 2000a). The development of a functioning land market is seen as important (Csaki and Lerman, 2000a); this is needed both for efficiency reasons to develop farms of an economically efficient size (Christensen and Lacroix, 1997; Csaki and Lerman, 2000b), and for poverty alleviation and rural development reasons, as in Romania (Chirca and Tesliuc, 1999).

In Romania, between 1989 and 1990, farmer co-operatives were spontaneously dismantled by former farm workers, and a series of land laws was then passed which legalise this “repossession” (Sarris and Gavrilescu, 1997). The main aim of the laws was the restitution of former owners, with the result that the pattern of ownership was at odds with the pattern of potential farmers – one survey found that 57 per cent of the new owners was older than 65 years, 43 per cent lived in towns, 39 per cent worked or were retired in villages, and 18 per cent were active smallholders engaged solely in

agriculture (Sarris and Gavrilesco, 1997). A further result of reform was that land ownership was more fragmented than at the start of the process of collectivisation in 1948 (Chirca and Tesliuc, 1999). By 1997, the structure of agriculture was such that 12 per cent of total agricultural land was still in commercial companies (former state farms), 12 per cent was in agricultural societies, 8 per cent in farmers associations, and 59 per cent in individual farms (Rizov *et al.*, 1999).

Chirca and Tesluic (1999) point to the ways in which land reform in Romania dramatically changed the way agriculture was organised. As the large farms were replaced by many small farms, the former arrangements for input procurement, output marketing and credit mechanisms were no longer suitable. Land fragmentation increased transaction costs and in the short term, the use of inputs, machinery services and credit dropped severely. New small-scale farmers switched their production mix away from modern towards traditional crops and technologies – partly due to a lack of knowledge and partly due to their small-scale – and thus a dual agricultural system emerged, with market produce being provided by state farms and some private associations, and private small farmers producing for own consumption. The corollary of a reform process and subsequent policies which discouraged the establishment of private input procurement and output marketing enterprises is a rural sector that acts as an insurance against extreme poverty and as an employment buffer for many (see also Erjavec and Juvancic, 1998). Even within the sector factor allocations are skewed. The one group of winners from the land reform are the pensioners, who cannot now manage all their land and lease part of it to companies. On the other hand, younger farmers with very small areas of land are unemployed for much of the time and have a marginal labour productivity close to zero (Chirca and Tesliuc, 1999).

In the CIS in general, the large unit sector remains practically untouched. State owned farms have become share companies or workers collectives, but with essentially no change in the way they are managed (Csaki and Fock, 1999; see Csaki and Lerman, 1997 for Ukraine). The opportunities for private family farming have not been taken up since appropriate support conditions do not exist and it is deemed too risky compared with expected average returns (Csaki and Lerman, 2000b; Csaki and Lerman, 1997 for Ukraine). Although the majority of countries now recognise private ownership of land, nearly all impose restrictions; on both buying and selling of land and on maximum size of holdings (Lerman, 1997). These are inconsistent with the need to allow the emergence of efficient farms. A land market must be allowed to develop in order to give an effective impetus to the restructuring of farm ownership and production arrangements. However there are some examples in the CIS of successful privatisation. One is a voluntary scheme in Azerbaijan where six former state and collective farms were dismantled and distributed to eligible farm members through a lottery system. The result has been a strong sense of private ownership,

which has motivated new owners to maximise earnings from their newly acquired land (Sampath, 2000).

In Armenia, significant land reform has taken place, following the legalisation of private ownership in 1991 and the right to buy and sell land (Lerman, 1997). In 1990, state farms accounted for 65 per cent of production; by 1997, private family farms produced 98.5 per cent of agricultural produce. There are now 320,000 small family farms, averaging between 1.5-2.0 hectares, and the agricultural sector has shown respectable growth since 1992 (Csaki *et al.*, 2000).

Private ownership of land was not officially recognised in Georgia until 1996 and administrative permission was still needed after that for every transaction (Lerman, 1997). However, similarly to Armenia, Georgia has experienced radical land reform, and private farms are now dominant on arable land. Georgia and Armenia are exceptions to the general case of land reform in the CIS in two ways: entitlement to land extends to the entire rural population, and includes urban residents who have recently left the villages; and land distribution was by physical plots of land, rather than by shares (Lerman, 1997).

In contrast, land in Ukraine was privatised by means of shares and Ukrainian agriculture has stagnated since the start of transition (Csaki *et al.*, 2000). Size of holdings is restricted, buying and selling of land is more-or-less non-existent, and by 1998 only 2 per cent of agricultural land was in private family farms (Lerman and Csaki, 2000). Lerman and Csaki (2000) suggest that the main constraints to farm restructuring in Ukraine are: the level of government intervention in agriculture; inflexible bureaucratic procedures; continuance of soft budget constraints for farm enterprises; complexity of the tax system; lack of alternative rural employment opportunities; and poor rural infrastructure.

4.3.2 Rural finance

From Table 4, it can be seen that progress in the rural finance market has been generally more successful in the selected CEECs than CIS. Macroeconomic stability is crucial for the development of an efficient rural finance market, since instability both affects the profitability of the agricultural sector (through uncertainties and risks faced by producers and the difficulty of lenders in assessing risk) and undermines the existing financial institutions (OECD, 1999b). Further, OECD (1999b) concludes that governments have an important role to play in the creation of an environment in which sound financial institutions can be created, but that they should not interfere in the administration of loans or credit subsidies.

In the CEECs, an agriculturally oriented rural banking system has been created (Csaki and Fock, 1999). This has been stimulated both by reforms in the banking system as well as by credits from the food industry and supply sectors. In some countries, Savings and Credit Association (SCA) systems have been set up to provide rural credit, but these have high costs as they require constant training and monitoring. An example of successful rural micro credit that helped to promote small farm and off-farm employment and inject cash into rural households was the Village Credit Fund in Albania and it is intended that a follow-up micro-credit project will build the village credit funds programme into a more sustainable SCA (Funk, 2000).

Aside from donor supported projects, there are both effective demand and supply problems relating to credit for small farmers in transition economies. Demand problems arise from the lack of experience of farmers in applying for loans; the mismatch in some countries of many small farms with existing banks used to dealing with large farms and from the fact that, in the early years of transition, farmers and agro-processors delayed applying for credit due to the high levels of uncertainty and low levels of expected agricultural profitability (Pederson and Khitarishvili, 1997). In a survey of 220 private individual or family association farms in Romania (Davis and Gaburici, 2000), it was found that the majority of farmers did not apply for loans because they could not satisfy bank requirements for minimum income levels and because they perceived the interest rate to be too high. However real interest rates at the time of the survey were negative and further analysis of the data indicates that about one third of those sampled could be regarded as facing restrictions which reduced demand for credit. At the same time, commercial banks view loans to small scale farming as risky and mandated rural financial institutions (Banca Agricola in the case of Romania) lend most of their funds to state owned enterprises (SOEs). A survey in Poland provided a very similar picture of credit restrictions faced by about one third of rural firms and the bulk of loans going to SOEs (Christensen and Lacroix, 1997).

In the Romania survey (Davis and Gaburici, 2000), it was found that access to off-farm income through wages and/or pension was related to the probability of accessing a formal loan. This could reflect supply (banks willing to provide credit where non-farm income sources are available) or demand (farmers with diversified income sources are more comfortable with having loans and meeting repayments). Other demand factors identified were forms and levels of collateral requirements of banks, possibility of obtaining small size of loan and interest rates.

In the CIS countries, rural banking systems tend not to serve the private sector effectively (see Csaki and Fock, 1999, for example). In Armenia, rural people normally use funds from their own savings or informal credit sources, as the commercial banks ration credit and are perceived to apply excessively high interest rates (Pederson and

Khitarishvili, 1997). However, the Agrobank is being restructured and the Agricultural Co-operative Bank of Armenia is being set up. There is a lack of bank liquidity and limited availability of funds for the agricultural sector (Pederson and Khitarishvili, 1997). Similarly, in Georgia and Ukraine, farmers usually self-finance and do not borrow from banks. Ukraine suffers from a weak legal framework for securing loans and Georgia from unclear laws on collateral, and in Georgia the primary agricultural sector and agro-processing have serious liquidity problems (Pederson and Khitarishvili, 1997).

Although access to rural credit can constrain rural development, Johnson *et al.* (1996b) found in a study of five transition economies that a greater constraint is the uncertainty resulting from unclear property rights, which both inhibits lending by banks and the investment of earnings (Swinnen *et al.*, 2000).

4.4 Framework for analysing the role of agriculture in transition

As has been stated, it is expected that as the GDP of a country increases, the relative importance of the agricultural sector to GDP and employment will contract (see Chenery and Syrquin, 1975). The long-term patterns of development approach suggests that the primary non-agricultural sector will also decline, but the services sector is expected to increase. Kydd *et al.* (1997) introduce a framework that is helpful for analysing the role of the agricultural sector during transition. The agricultural sector (that is, the agro-food sector) is divided into sub-sectors: the upstream sub-sector of input and machinery supplies; the farming sector; and the downstream sector of agricultural processing, marketing and distribution. Thus, the upstream and downstream sub-sectors are part of the rural non-farm economy and may be areas where MSME development could take place. It is expected that, in percentage of GDP terms, the farming sub-sector will decline most rapidly, the upstream sub-sector will initially expand but then also decline, while the downstream sub-sector will expand and then maintain its position.

The framework assumes that more resources were kept in the farming and upstream sub-sectors under central planning than would have been expected in a market economy, but that the downstream sub-sector was less developed and used less resources than would be expected in a market economy. Thus, as countries transform into market economies, in the long term the farming and upstream sub-sectors are likely to release resources, including labour, but the downstream sub-sector may increase its use of resources. The framework allows for cases of farming either leading or trailing economic growth in the short term: in the first case, total GDP falls initially, but farming's share of GDP increases, and in the second, farming's share of GDP decreases along with the decrease in total GDP.

In the long term, the prospects for the agricultural sector may also be influenced by inherent comparative advantages. Evidence on these for the CEECs and CIS is conflicting. One study (Anderson, 1993) suggests that the long-term comparative advantage in Russia might lie in fuels and minerals, although the picture is less clear for other countries of the former Soviet Union (FSU). Eastern Europe is expected to have a long-term comparative advantage in the manufacture of semi-skilled goods and services, although in the shorter term it may maintain a comparative advantage in agricultural products, due to a lack of capital. On the other hand, Johnson (1992) argues that the former Soviet Union could become a significant net exporter of grains, and Tangermann (1992) that the CEECs could also become net exporters of many temperate crops.

4.5 Patterns of development in the rural sector, including development of agricultural employment

The question to be answered now is the extent to which the CEECs and CIS fit the framework outlined above, accepting that the transition process is not yet complete. In Armenia and Georgia, the share of employment in services in the economy has decreased (contrary to the patterns of development approach) mainly because of declines in government sector employment (EBRD, 1999). For the agricultural sector, analysis of output figures (OECD, 1999a) shows that in Albania, agriculture may have led growth in the short-term, whereas in the other countries, agriculture has trailed growth.

The following table illustrates the development of the share of agriculture in total employment for the target countries and selected years.

Table 5 Share of agriculture in total employment, selected years, per cent

Country	1989	1996	1997
Czech Republic	9.9	4.3	4.0
Hungary	17.9	7.9	8.1
Poland	26.4	25.7	na
Romania	27.5	37.3	39.7
Ukraine	19.5*	21.4	21.8

Source: Trzeciak-Duval, 1999; OECD, 1999

na: not available

* 1990 data

Table 5 demonstrates that the share of agriculture in total employment has not yet

declined significantly in Ukraine or Romania (where it has increased notably), since, as already noted farming has acted as a buffer against unemployment (OECD, 1999a). In other words, the agricultural sector has acted as an “employer of last resort” (Jackman and Pauna, 2000: page 378). Thus, high levels of hidden unemployment in agriculture are frequently found in transition economies (see Christensen and Lacroix, 1997 for Poland; Davis and Gaburici, 1999, for Romania), and labour has been substituted for other inputs (Swinnen *et al.*, 2000). It is difficult to find comparative figures for Armenia and Georgia, although for Armenia, Csaki and Fock (1999) give a figure for the percentage of food and agriculture in the active labour force as 37 per cent in 1998, while the FAO (2000a) estimate that 42 per cent of employment opportunities are in agriculture. For Georgia, Csaki and Fock (1999) give a figure of 33 per cent in 1993, while the FAO (2000b) state that employment in the agriculture sector has doubled since 1990 and in 2000 accounts for over 50 per cent of employment. Hence, the evidence is that the share of agriculture in employment is also still increasing in Armenia and Georgia. However, the fact that the agricultural sector is expected to decline in the long run and release labour resources has important implications for the rural economy, and this expectation must be considered alongside the fact that rural poverty has been rising since the start of the transition process.

Macours and Swinnen (1999) found that many economies in transition fit into patterns of development based on the development of gross agricultural output (GAO) and agricultural labour productivity (ALP). Pattern I countries (the Czech Republic, Slovakia and Hungary) experienced a strong decrease in GAO combined with a strong increase in ALP, Pattern II countries (Russia, the Ukraine and Belarus) a strong decrease in GAO combined with a strong decrease in ALP and Pattern III countries (China, Vietnam and Albania) a strong increase in GAO with a slower increase in ALP. Initial conditions in a country affect both reform choice and policy outcome, which in turn affect economic performance. Initial conditions in the rural sector range from initial price distortions, the size of the agricultural sector, the degree to which agriculture is labour-intensive, farm ownership and management structure, to human capital factors. The effect of labour opportunity costs and mobility costs on ALP is important in terms of rural livelihoods. The relationship between many of these conditions and rural non-farm livelihoods will be discussed in more depth in later sections of the paper.

Macours and Swinnen (1998) make the important point that in the CEECs there have been different patterns of labour adjustments, which are related to different patterns of farm restructuring. One pattern is that of the Czech Republic, Slovakia and Hungary, where massive labour outflow from agriculture coincided with consolidation of large scale farm structures, strong decline in output and an increase in officially registered labour productivity. The second pattern is that of Albania, Bulgaria and Romania,

where labour input in agriculture has declined much less or even increased. This coincided with a strong increase in family farms and less of a fall in output. The third adjustment pattern can be observed in Slovenian and Polish agriculture, which was already to a large extent organised in private family farms prior to the reforms. Farm restructuring is less dramatic and agricultural labour input has decreased moderately.

5. DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN TRANSITION ECONOMIES

The development of MSMEs in rural areas is accepted to be an important factor for raising rural incomes. This section considers firstly factors affecting the development of MSMEs in general, and secondly the development of rural MSMEs in transition economies. Micro enterprises are generally defined as those with up to 9 employees, small enterprises as those with 10 to 49 employees, and medium enterprises as those with between 50 and 200 employees.

5.1 MSMEs in the general economy

Before transition, very few MSMEs existed in the CEECs and CIS, but after the start of transition legal restrictions on the setting up of new businesses were generally relaxed quickly (Earle and Sakova, 1999), since one of the objectives and effects of reform was to break large SOEs into smaller, privately owned units. Table 3 points to the success of small-scale privatisation, but the generally slower progress in large-scale privatisation of the SOEs. A further objective of reform has been to create an environment conducive to the establishment of new start-up MSMEs.

There has been strong growth of MSMEs in some countries (for example, Romania), but less in others (for example, Ukraine). In 1997, the EBRD commissioned a survey of 300 firms in selected countries (see Annex 1), and some results from Romania and Ukraine are presented in Table 6. The table illustrates that the business environment is significantly more favourable for firms in Romania compared with that in Ukraine.

The EBRD also undertook a survey of 3000 enterprises in 20 countries (EBRD, 1999) and identified 89 per cent of micro enterprises as new start-up companies. Of those enterprises classified as small enterprises, 81 per cent were new start-ups. The balance of micro and small enterprises were privatised spin-offs from larger SOEs.

In their survey of 431 enterprises, Bilsen and Konings (1998) show that start-up (*de novo*) firms were relatively small, with 31, 23 and 102 employees in Romania, Bulgaria and Hungary respectively, compared with averages of 5085, 146 and 691 in privatised firms.

Employment expansion has been more vigorous in start-ups than in SOEs (Bilsen and Konings, 1998). This is seen in terms of both the frequency of expansion across firms and of the average increase (EBRD, 1999). Across all enterprises and countries, 37 per cent of start-ups have increased employment over the past three years, whereas only 17 per cent of privatised and 18 per cent of SOEs have expanded. In terms of average

growth in employment across all expanding firms, the highest average has been registered by start-ups (63 per cent), followed by privatised firms (37 per cent) and SOEs (34 per cent).

In terms of sectors, there is evidence of a relationship between type of firm and sector. Most start-up firms are in the service sector and this sector is characterised by a very high net job creation rate (Bilsen and Konings, 1998). From the EBRD survey the same relationship is evident. Of the firms established before 1987 (predominantly SOEs), 7 per cent were in distributive trade, whereas 30 per cent of firms established after 1989 were in this sector. This matches well with the point made in Section 4.4; that a reallocation of labour towards the service sector is an expected factor in transition.

Table 6 Selected information on MSMEs in Romania and Ukraine

	Romania	Ukraine
Employment growth 1994-96		
% of firms increasing employment – privatised start-ups	13 86	49 50
Market development		
% of sales to SOEs	21	48
% of sales through wholesale channels	7	4
number of customers	107	12
% bill paid by customer > 8 days after delivery	31	22
Sources of start-up finance		
% using loan – all firms	8	24
% using own/family savings - start-ups	62	25
Legal environment		
% say courts can be used of enforce agreement – start-ups	88	37
% used courts in recent dispute – start-ups	26	12
% recovered debt in full in last dispute with customer	46	6
Economic governance		
% managers time spent on government matters	8	27
taxes as % of sales	17	24
% who think firms make extralegal payments	20	87
% of sales not reported	6	41
Costs of doing business		
Obtaining phone line - % firms making unofficial payment	39	95
Total cost	\$187	\$623
Initial registration - % firms making unofficial payment	35	91
Total cost	\$136	\$788
Ongoing registration - % firms making unofficial payment	19	73
Total cost	\$83	\$171
Tax inspector visits - % firms making unofficial payment	17	67

Total cost	\$16	\$317
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Source: EBRD (1997) commissioned survey of 300 firms per country

Barriers to exit, entry and expansion have an important effect on the development of MSMEs. Barriers to market exit by SOEs become barriers to entry by MSMEs. This means that focusing on stimulating the expansion of start-ups is not sufficient: a key priority must also be to exert pressure on SOEs to deter the expansion of productivity-decreasing firms that are still in the state sector (EBRD, 1999). The main constraints to desirable contraction have been identified as legal/regulatory barriers and the continuation of soft budget constraints. Ukraine is one of the countries with the highest soft budget constraints. The EBRD (1999) Business Environment and Enterprise Performance Survey identified six main impediments to entry and expansion. The results of perceived barriers on a 1-4 scale are given in Table 7.

Table 7 Main barriers to entry and expansion

	Start-ups		SOEs
	Early	Recent	
Taxes and regulations			
Central CIS	3.50	3.32	3.42
CEE and Baltic States	3.21	3.15	2.83
Inflation			
Central CIS	3.51	3.36	3.42
CEE and Baltic States	2.72	2.81	2.38
Financing			
Central CIS	3.09	3.23	3.36
CEE and Baltic States	2.87	2.90	2.96
Corruption			
Central CIS	2.49	2.09	2.25
CEE and Baltic States	2.31	2.52	1.83
Anti-competitive practices			
Central CIS	2.73	2.27	2.39
CEE and Baltic States	2.31	2.53	1.88
Infrastructure			
Central CIS	1.97	1.96	2.06
CEE and Baltic States	1.85	1.87	1.81

Note: Value of perceived barriers on scale 1-4, with 4 representing major obstacle.

Early start-ups founded 1989-6, recent entrants founded over past three years.

Source: EBRD Business Environment and Enterprise Performance Survey and EBRD (1999) page 151

The results show that micro-level non-financial constraints in the form of taxes and regulations are perceived as the most relevant barrier to expansion by start-ups. Inflation comes next, followed by lack of access to finance, corruption and anti-competitive practices. Last is lack of access to infrastructure services. The average intensity of barriers is consistently higher for start-ups located in the CIS countries.

The determinants of the formation of MSMEs can be divided into economic and non-economic factors. The main economic factor is that the price of the product will exceed its long-run average cost. The main non-economic factors are level of education, lack of operational capital (Breitschopf and Schneider, 1999), plus the family background and entrepreneurial personality, minority groups, religion, and aspiration

and motivation (from Jehle, 1998a). Earle and Sakova (1999) identify the main constraints to start-ups to be: the extent of the informal barriers and bureaucratic interference that remain to varying degrees; the lack of financial and physical capital (that is, credit, premises and equipment); and the macroeconomic environment (since stabilisation affects credit availability and stable prices facilitate the making of investment decisions).

Johnson *et al.* (1999a) confirm that the rate of growth of employment in start-ups is slower in Ukraine than in Romania. They argue that the divergence of the rate of growth of the private sector in Eastern Europe and the former Soviet Union is due largely to differences in the protection of property rights and that investment decisions of firms are strongly affected by the perceived security of property rights (Johnson *et al.*, 1999a). Their data suggest that a lack of bank finance does not prevent private sector growth and that retained earnings appear to have been enough to finance the investments that managers wanted to make. It is concluded that policies aimed at easing financial constraints will have little effect in countries such as Ukraine, unless at the same time efforts are made to stabilise the country's regulatory environment and to develop market supporting infrastructure.

It has also been suggested (Bateman, 1999) that MSME development in the CEECs has been hampered by the wrong approach. Bateman argues that it would have been better to capitalise on the experience of Japan, West Germany, and Italy after the Second World War and, more recently, of China and the Asian Tigers, and have accepted more government intervention in MSME development. In all these cases, regional and local government played a pivotal role in MSME development, and in contrast, the reliance of the CEECs on the 'invisible hand' of the market has resulted in SMEs that are 'too small - too weak - too isolated' (page 35).

By comparing responses for start-ups relative to SOEs, it is possible to assess how troublesome specific obstacles are. The extent of the divergence indicates the extent to which the business environment poses varying challenges for different types of enterprises, creating an uneven playing field. From Table 7, it seems the playing field is more uneven in the CEECs than in central CIS countries. The biggest divergence is in corruption and anti-competitive practices. This may reflect firstly that existing firms that have benefited from rents may increase bribes to seek to maintain income when threatened by innovating newcomers, and secondly, that start-ups may be victims of the abuse of market power and other anti-competitive practices by larger and dominant firms (including SOEs). Anti-competitive practices include receiving favoured access to essential business services (credit and infrastructure services) or to customers, receiving subsidies from national and/or local government (including tolerance of tax arrears), and collusion (to limit access to credit, supplies, land

equipment or customers).

Taxes and regulations are also a greater problem for start-ups than SOEs. Business licensing is perceived to be the most serious obstacle across all regions and almost 20 per cent more troublesome for start-ups than SOEs. These results confirm the generally held view that the initial and regular renewal of licenses (and the opportunities for arbitrary bureaucratic interference) is a major element of the uneven conditions facing start-ups. It also suggests that SOEs generally enjoy preferential treatment by other government officials in the enforcement of such administrative rules (EBRD, 1999).

In general, the CIS have more hostile environments for business and for new entrants in particular (EBRD, 1999). Johnson *et al.* (1999b) confirmed such a difference from their survey of firms in Poland, Romania, Russia, the Slovak Republic and Ukraine. A striking 90 per cent of Russian and Ukrainian managers say it is normal for bribes to be paid to government officials. Around 90 per cent of the managers also said that firms in their industry pay for “protection” of their activities. The firms suffered extortion not only from bureaucrats but also from criminal gangs. Corruption is less pervasive in CEECs. In the Slovak Republic, 40 per cent of managers say bribes are paid, whereas in Poland and Romania the figure is 20 per cent. Only 15 per cent of Slovakian managers, 8 per cent of Polish managers and 1 per cent of Romanian managers pay protection money. The functioning of the courts to enforce contracts is stronger in the CEECs than CIS.

Earle and Sakova (1999), applying a model that used 1993 data and covered six economies in transition, found that, despite large variations among countries, the determinants important for entry into self-employment were: the ability to obtain finance; family background; level of education; experience in the grey or black economy; and attitudes towards risk and self-reliance. However, another interesting conclusion from their work is that political connections inherited from the era of central planning do not influence entrepreneurship.

5.2 MSMEs in the rural economy

In rural areas dominated by poor, subsistence based farming, non-farm enterprise development will depend on restructuring the small farm sector, increasing agricultural incomes and creating a demand for inputs and services. This will require public sector involvement, support and incentives. Incentives should encourage the development of private associations and co-operatives to begin to add value to farm produce and bring agriculture-industry-trade multiplier effects into the rural sector (Chirca and Tesliuc, 1999). In 1997, only 17 per cent of MSMEs in Romania were found in rural areas

(Florian and Rusu, 2000).

Major problems observed are the low levels of education and motivation of the rural workforce. For example, it has been estimated that in Slovakia only 5 to 10 per cent of those employed in agriculture have an adequate level of formal education (Erjavec and Juvancic, 1998). In addition, labour mobility is low as farms are largely controlled by old people or by those who have other jobs and view the farm as a safety net (Chirca and Tesliuc, 1999; Erjavec and Juvancic, 1998; Florian and Rusu, 2000). A strategy for non-farm MSME generation must include vocational training in agricultural technology, processing and marketing and access to such training for the rural part-time employed as well as the unemployed (Jehle, 1998a). In Hungary, Varga (1999) points to the importance of the government initiating job-creation schemes tied to the development of the rural infrastructure, since these would not only provide an immediate social benefit, but would help reduce the constraints imposed by poor infrastructure on rural development. A further constraint to MSME development in the transition economies is the lack of knowledge or experience in starting a new enterprise (Chaplin, 2000), together with the lack of market experience.

In rural areas where agricultural productivity is high but rural unemployment is also high, there may be more scope to promote non-farm-related enterprises. These enterprises will not necessarily be reliant on the purchasing power of the rural community. However they will be based on particular endowments of the rural areas in the form of cheap labour, cheap housing, rural amenities and seek to capture investment and spending from outside the area (Jehle, 1998b). It is in these situations where some of the experiences and lessons from the developed countries may be relevant.

Jehle (1998b) has emphasised the importance of locational advantages and disadvantages in determining the opportunities for enterprise development in different regions. For example, comparing two regions in the Czech Republic, the enterprises in the one closest to Germany and Austria were doing less well because of the closeness of Western European competition and the possibility of the more highly qualified residents commuting to Germany and Austria. Erjavec and Juvancic (1998) point to the different development patterns of municipalities in Slovenia close to urban centres compared to more remote areas. In the areas close to urban centres there has been an immigration of people and business, and increased off-farm employment opportunities. The more remote areas on the other hand have tended to experience economic decline, with less off-farm employment and generally older farm based workforces.

Further, Jehle (1998b) points out the importance of the development of supply and distribution networks for MSME development in transition economies. The former

state enterprises had their own networks, which either do not now exist or, if they do, they do not match the requirements of MSMEs (see also Chirca and Tesliuc, 1999 for Romania; Lerman *et al.*, 1999, for Armenia). This highlights the need for regional co-operation and networking, which are not seen as a priority concerns among MSME managers in some countries (see Jehle, 1998b for Czech Republic).

Studies have also highlighted additional barriers to MSMEs establishment and expansion in the rural areas. These include insufficient infrastructure, such as roads, communications and markets, and widening gaps in relative farm/non-farm prices (Breitschopf and Schrieder, 1999). Survey data from the Czech Republic (Jehle, 1998b) suggest that at the regional level, external barriers for rural enterprises include labour quality and motivation, lack of venture capital, finance, input supplies and a lack of co-operation between enterprises. Labour in the rural areas is poorly trained, especially the older people who constitute much of the workforce. While state support programmes are in place to help overcome some of these problems in the Czech Republic, the majority of Jehle's sample of firms did not know about the programmes or how to get assistance or advice. He concludes that the creation of an integrated programme for rural areas is needed, covering the macroeconomic framework, regional decision-making, the improvement of technical assistance to enterprises, and a complex programme of education and consultancy. Participation of local people in the integrated programme is essential.

6. IMPLICATIONS FOR RESEARCH ON RURAL NON-FARM LIVELIHOODS IN THE TARGET COUNTRIES

Reforms have had a major impact on agricultural and rural labour markets. Current rural labour markets are a consequence of the speed, nature and comprehensiveness of those reforms. It is generally recognised that the labour market that has been created by the reforms is likely to undergo further change, as reforms continue and, indeed, that there is a need to stimulate further change through the creation of more and new job opportunities in rural areas. The discussion in previous sections of the paper has covered many of the factors that influence rural non-farm livelihoods, and the implications of these factors for the research on rural non-farm livelihoods in the target countries are summarised here. The research methods and policy implications must be viewed within the historical, cultural and ethnic make-up of the target economies, as these can greatly influence the success or otherwise of rural policies.

Macroeconomic factors have a major effect on the RNFE, as they affect general employment opportunities and the institutional framework within which the RNFE functions – in particular, the education system; the financial institutions and credit market; factors which influence the development of MSMEs; and the land market and farm structure. Reforms within the agriculture sector also have a major impact on the RNFE due to the linkages between the two sectors, both of a positive and negative nature. In general terms, growth in the farming sector has a positive influence on the RNFE and *vice-versa*, but it is vital that the RNFE is expanded in order to improve rural livelihoods in the long-run when the farming sector is expected to contract.

Investigations of the current RNFE situation in rural settings in Romania, Armenia, Georgia and Ukraine are likely to provide very different pictures of types of employment/income activities undertaken, distribution of time and income between activities, motivations, barriers and prospects. These differences will need to be interpreted in the context of the respective current stage of reform reached in both the rural sector and economy wide. The differences in activities and context will also imply different potential growth patterns. In Romania particularly and Armenia to some extent, current RNFE development potential is less constrained by the business environment and more constrained by farm structure and the influence this has on the commercialisation of agriculture.

The main lessons from research to date suggest that the factors essential for growth of the RNFE in transition economies are improvements in: levels of education; in rural physical infrastructure; in access to capital and credit; in the land market; and in the business environment for MSMEs. The involvement of local actors is important, and

the heterogeneity of the RNFE must be recognised, with policies adjusted accordingly. However, there is a lack of data and information on the RNFE, diversification, part-time farming and non-farm income in the transition economies, which needs to be addressed so that appropriate rural policies can be developed. The research to be undertaken through this project is expected to throw some light on these issues.

ANNEXES

ANNEX I. CEE & CIS HISTORY, CULTURE, ETHNICITY AND RELIGION

There is considerable diversity within the area covered here. On a political level, Poland and Hungary stand out in having a long history as politically distinct nations. While the other countries covered do not, all have important ethnic identities around which they have coalesced. These do not always unite the countries, however – sometimes they create significant divisions and tensions.

Poland, the Czech Republic and the Ukraine are mainly Slav in culture and have related languages. Hungary is almost entirely Hungarian in people and language. Romania has a mixed Dacian, Roman and Slav heritage, with a largely Latin-based language with some Slav elements. Armenia is largely Armenian and Kurd, while Georgia is largely Georgian with important Armenian elements. While Poland, the Czech Republic, Hungary and Romania were autonomous states before 1990, the Ukraine, Armenia and Georgia were part of the USSR. This, as well as earlier colonising tendencies on the Russian side before 1939, has meant that there are significant Russian elements to the population in these three countries. This has not been the case with Poland, the Czech Republic, Hungary and Romania

Both Poland and Hungary are now inhabited almost entirely by people belonging to one ethnic group, although in the past their empires contained many other ethnic groups. They do however contain small minorities in certain parts of the country, near the borders with other countries, where they are mixed with the dominant ethnic group. In Poland, 97 per cent of the population is Polish but there are small minorities of Ukrainians, Kashubians, Belorussians, Germans, Russians, Gypsies, Slovaks, Lithuanians, Greeks and about 5000 Jews (Walters 1988, p. 109). In Hungary over 98 per cent of the present population speak Hungarian as their mother tongue. There are small German, Romanian, Serbo-Croat and Slovak enclaves.(ibid, p. 143). The Czech Republic is made up mainly of Moravians and Bohemians, who are closely related linguistically, and contains a significant proportion of people of Slovak origin.

The term `Ukraine' derives from the Polish designation of this area as `at the edges' (of what was regarded as civilisation), and this area has been the subject of colonisation on the part of Russians, Germans and Poles and of frequent wars and incursions, particularly those involving Tartars and Mongols from Central Asia. Thus this area contains a very mixed population ethnically, including Hungarians, Poles and Romanians as well as Russians, although the majority is Ruthenian, now known as Ukrainian. The percentages are Ukrainian 73 per cent, Russian 22 per cent, Jewish 1 per cent, other 4 per cent (CIA 2000). The notion of a Ukrainian nation grew up in the 19th century, but it was only after the break-up of the Soviet Union that it came into being. Romania has a longer history of nationhood – since the 19th century – but

a sense of national cohesion is still in the process of formation. Particularly in Transylvania, which was part of the Hapsburg Empire, there are very significant Hungarian and German elements in the population. In both countries there is mixing of the different ethnic groups throughout the countries; in Romania this is particularly true in Transylvania.

In Armenia, 95 per cent of the population now considers itself to be Armenian. Other ethnic groups that have a significant presence in Armenia are the Azerbaijanis, the Kurds and the Russians. However, many of the first group were expelled from Armenia at the outbreak of the conflict between Armenia and Azerbaijan over the Nogorno Karabagh enclave. All of the groups except the Russians tend to be concentrated in specific parts of the country, with mixing at the borders between them. Russians tend to live in urban areas. Only 70 per cent of the population of Georgia is Georgian. 8 per cent are Armenian, 6 per cent are Russian, 5 per cent are Azerbaijani and 3 per cent are Ossetian. There are also Abkhazians (whose area is the subject of conflict at present), Kurds, Ukrainians and Greeks (Parliament of Georgia 2000). Georgians, Armenians, Ossetians and Abkhazians tend to be concentrated in specific parts of the country, with, as in Georgia, mixing at the borders in some cases, whereas most Russians are in urban areas.

Orthodox churches, which are affiliated to a specific state and often associated with a specific ethnic group, form a means of asserting national identity and/or of control. Such churches sometimes serve as a means of promoting the interests of the ethnic groups, which adhere to them. Throughout the history of the area, they have also been used by states to exert control over their people. This is the reason why there have been attempts to enforce affiliation to state Orthodox religions of populations which had been Uniate, since this was seen as meaning subordination to Rome or to Catholic empires such as the Hapsburg Empire. Affiliation to Russian Orthodoxy was enforced, both before and after the Second World War, on Orthodox populations in subject countries who had been affiliated to national churches, and this would seem to be grounded in a desire to assert Russian control.

Poland is the only country among those surveyed here which is fairly solidly Roman Catholic – 90 per cent of the population is Catholic. Roman Catholicism is a major badge of ethnic Polish identity. Despite this, many Gypsies in Poland practice Roman Catholicism – this may well be an attempt to get better treatment from the Polish majority. The most important smaller Christian churches in terms of size are the Polish Autocephalous Orthodox Church and the Eastern-rite Uniate Church. The former is associated almost entirely with the Ruthenian (Ukrainian) minorities which have some presence in the East and South of the country, and the latter with both the Ruthenian (Ukrainian) minorities in the East and South of the country, and with

Belorussian minorities in the East.(Walters 1988, p. 127-8). Protestantism in Poland, once associated with both the nobility and the towns (which had large German and Jewish populations up to the Second World War; Lutheranism was associated with the German element of the urban population) has now become of little significance. Only in Slask, which has a German presence, is there any significance Protestant element.

Religion has declined in significance in Hungary since the Second World War. The country was originally converted to Catholicism, then became largely Lutheran and then Calvinist before the re-conversion of much of the country to Roman Catholicism. 62 per cent of the Hungarian population has been baptised as Roman Catholics. 3 per cent of the population is currently Lutheran and 1,900,000 (about 20 per cent) belong to the Reformed Church, which is distinct from the Lutheran Church in Hungary (ibid, p. 155).

Religious affiliation is not strongly associated with ethnic identity in Hungary. However, most of the country's small Eastern-rite Uniate population are of Romanian or Slavic descent, although they speak Hungarian. There are also a small number of Serbs and Bulgarians who belong respectively to the Serbian and Bulgarian Orthodox Churches, based in those countries. There is also a Hungarian Orthodox Church with a small number of members. In eastern Hungary and among Hungarians in Transylvania the Reformed Church is associated with Hungarian ethnicity and became known as the 'Magyar faith' (ibid, p. 155)

In the Czech Republic too religion has declined in significance since the Second World War, although it is currently experiencing a revival. Here too, as in Hungary, there are both Roman Catholics and various Protestant denominations, but most people in both Bohemia and Moravia belong to Protestant churches if they are still practising. The most significant of these in terms of numbers are the Czechoslovak Hussite Church, which broke away from Rome at the Reformation in order to maintain national control over the church, the Lutheran Church and the Evangelical Church of the Czech Brethren. Ethnicity is associated with religion in that it is largely Slovaks (and any Ukrainians living in Moravia and Bohemia) who are members of both the Roman Catholic and the Eastern-rite Uniate church. Among Bohemians and Moravians, Roman Catholicism is associated with urban areas, rather than rural areas, whereas among Slovaks it is associated with rural areas. Finally, the Reformed Church is associated with Hungarians(ibid, p. 186-88).

The link between ethnic ascription and religion is very strong in Romania. Romanian ethnicity is strongly associated, particularly in the provinces of Wallachia and Moravia, with the Romanian Orthodox Church. 80 per cent of ethnic Romanians belong to this church and virtually no members of any other ethnic group. The Romanian

Orthodox Church includes members of the Uniate church of Transylvania, which was forcibly incorporated into the Romanian Orthodox Church, presumably in order to maintain better control over its members, by the Socialist state in 1948. The Pentecostal and Baptist churches are also almost entirely Romanian in terms of ethnic membership. Roman Catholicism is associated with Hungarian and German ethnicity, mainly in Transylvania where these ethnic groups are strongest. Many Hungarians belong to the Reformed Church, which is strongly associated with that ethnic group. There are also two separate Lutheran churches, one German and one Hungarian. There used to be a significant number of Jews in Romania – about 330,000 – but most have emigrated to Israel (ibid, p. 265).

Just as it is ethnically complex, the Ukraine is also complex from a religious point of view. The major churches associated with Ruthenian/Ukrainian ethnic identity are the Ukrainian Orthodox Church, formed in 1920, and the Ukrainian Catholic Church (an Eastern-rite Uniate Church). The latter, which is strong in the western part of the country, is particularly associated with Ruthenian/Ukrainian ethnicity since its membership is almost entirely Ruthenian. Both churches were, under Communism, merged with the Russian Orthodox Church and their existence was clandestine, with many parishes considering themselves to belong to it although they were formally part of the Russian Orthodox Church. Since 1990, there has been a reassertion of the independence of the Ukrainian Orthodox Church and of the existence of the Ukrainian Catholic Church. This means that there has also been a separation along religious lines of the Russian and Ukrainian elements of the population, with Russian identity being associated with the `Ukrainian' Orthodox Churches headed by the Moscow and Kiev patriarchates and Ukrainian identity with the Ukrainian Autocephalous Orthodox Church and the Ukrainian Catholic Church (CIA 2000). Polish identity is associated with Roman Catholicism. The small Hungarian population is, as in the Czech Republic and Romania, associated with the Reformed Church. There is also a strong Baptist and Pentecostal presence in the Ukraine, which appears not to be strongly associated with ethnic identity (although it is quite possible that different ethnic groups belong to different churches). 50 per cent of the membership of Baptist churches is Ukrainian, 33 per cent is Russian and 10 per cent is German (Walters 1988, p. 72).

Georgia and Armenia both have strong national churches that have been important vehicles of the formation of national identity over the centuries, including through the use of written national languages. In Georgia this is the Georgian Orthodox Church and in Armenia it is the Monophysite Apostolic Church. Affiliation to these churches is an assertion of being `Georgian' (Dragadze 1988, p. 40) or `Armenian' (Villa 1982). However, small numbers of those who are ethnic Georgian or Armenian do belong to other religious groupings - for example the Molokans, a quasi-Baptist group, in

Georgia. Members of minority ethnic or ethno-religious groups, who do not belong to the national churches, are not full members of the ethnic `nation', and their profession of another religion is very often a badge of their different ethnic affiliation. In both countries there are small but significant Muslim minorities belonging to the Azerbaijani ethno-linguistic group. In Armenia there are Kurdish Muslims and in Georgia there are Ossetian Muslims. In Armenia there are also Yezidi Kurds who belong to a religion which is a mixture of Christianity, Islam and Zoroastrianism, and who associate this with belonging to a distinct Yezidi ethnic identity.

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ANNEX 3. LIST OF SURVEYS CONDUCTED

COUNTRY	SURVEY	YEAR(S)	FROM
Albania	Employment and Welfare Survey	1996 LSMS	IBRD
Armenia	Living Standards Survey	LSMS	IBRD
Azerbaijan	Living Standards Measurement Survey	1995	IBRD
Bulgaria	Integrated Household Survey	1995,1997	IBRD
Croatia	HBS		IBRD
Czech Republic	Microcensus	1996	IBRD
Estonia	HEIDE; Household Income and Expenditure Survey	1995;4 th Quarter 1998	IBRD
Georgia			IBRD
Hungary	Household Budget Survey	1997	IBRD
Kazakhstan	Living Standards Measurement Study Survey	1996	IBRD
Kyrgyz Republic	Living Standards Measurement Survey	1993,1997,1998	IBRD
Latvia	Household Budget Survey	1997-1998	IBRD
Macedonia	Household Budget Survey	1996	IBRD
Moldova	Household Budget Survey	3 rd Quarter,1997	IBRD
Poland		1998	IBRD
	EBRD Survey of 300 firms	1997	EBRD
Romania	Living Standards Measurement Survey	1998	IBRD
	EBRD Survey of 300 firms	1997	IBRD
Russia	Russian Longitudinal Measurement Survey	1998	IBRD
	EBRD Survey of 300 firms	1997	EBRD
Slovak Republic	HBS		IBRD
	EBRD Survey of 300 firms	1997	EBRD
Slovenia	HES	1993	IBRD
Turkmenistan	Living Standards Measurement Survey	1998	IBRD
Ukraine	Household Income and Expenditure Survey	1995,1996,1999	IBRD
	EBRD Survey of 300 firms	1997	EBRD
Tajikistan	LSMS	1999	IBRD