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# reapbalk

## Rural Employment and Agricultural Perspectives in the Balkan Applicant Countries

1

Despite intense scientific and political debate as well as great investment in resources, a contradiction still remains about the definition of rural development (RD) in Europe. As a consequence, the definition of rural development policy (RDP) still results ambiguous and undefined. The contradiction concerns a prevalent sectoral (agricultural) approach of RDP in Europe, opposed to the assumption that RD should result from a broader territorial strategy encompassing the entire rural economy with corresponding policies designed to foster local development. This contradiction remains despite the formalization of a specific cluster of measures for RD within the 2nd pillar into Agenda 2000 as well as the recent CAP reform of June 2003. Assuming the territorial approach, a comprehensive strategy for RD must take into account the whole agricultural policy (1st and 2nd pillar), together with Structural and Cohesion Policies and the Community Initiatives (such as LEADER and INTERREG). These policies should then be combined with national, regional and local policies affecting RD.

2

The June 2003 CAP reform and the decisions from the Salzburg Conference (November 2003) took a significant step forward the creation of a more consistent and intersectoral RDP. The former reinforced the 2nd pillar through the modulation and the introduction of a wider set of measures, even if the 1st pillar still predominates (80% of the funds) and the 2nd one maintains its primarily sectoral character. It can also be observed that the CAP reform is characterized by a weak integration with the other structural policies of the EU. The Salzburg conference created the conditions in order to simplify and finalize the RDP (i.e. a single fund, program, control system, mainstreaming the LEADER approach, evaluation extended to all stages, etc.). These objectives were instrumental in the recent proposal (presented by the Commission on June 14, 2004) for the years 2007-2013 on support for RD and the setting up of the new European Agricultural Fund for Rural Development (EAFRD). Nevertheless, a gap remains between the CAP reform process and the contemporary re-design of the overall EU strategy and policies for the cohesion and convergence. A process that, after the enlargement, is going to be reinforced and will constitute the guideline of the EU intervention at a territorial level. This was made evident in the February 2004 publication of the Financial and political outlook for the enlarged Union 2007-2013 and the 3rd Report on Economic and Social Cohesion. The strategy depicted was confirmed in June 2004 when the Commission adopted the new package of legislative proposals on cohesion for the years 2007-2013.



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More information about REAPBALK is available on its URL:  
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# 3

Due to the still relatively small amount of money dedicated to the RDP and the overwhelming importance of market support policy, the bulk of the quantitative analysis so far has focused on effects of reduced price support and compensation with direct payments (full or partial, coupled or not) on farm and market. Meanwhile, less attention has been dedicated to evaluation of those policies which were aimed at fostering RD as here defined in a broader sense. Furthermore, the evaluation effort on RD has concentrated on measuring the capacity of member states (MSs) to use the funds or remained partial, i.e. dedicated to specific measures of the 2nd pillar: the instalment of young farmers, the agro-environmental measures, etc.. Hence the focus is on measures and not on the territory as a whole. More attention has been dedicated to the territory in the evaluation of the LAPs under the LEADER Initiative (because of its experimental and demonstrative character). But even in this case, the analysis has been mainly descriptive, focusing on the selection of good practices. With the REAPBALK research project we try to fill the gap especially of ex-ante and overall evaluation of the RDPs. The level of abstraction and aggregation is thus higher than usual for quantitative analysis. In REAPBALK research we use the whole territory as a unit of analysis. We also concentrate on the combined effect that the mix of RDP (1st and 2nd pillar) and all the other structural and cohesion policies produces on the entire economy emphasizing the intersectoral and inter-territorial links. This is the innovation of REAPBALK. At the same time, these peculiarities determine the limits of this study. In fact, it cannot provide any knowledge on the effects of a specific measure on a sectoral policy (a change in a CMO), and its capacity to give an answer to the intersectoral linkages is limited by the quality of data used for constructing the I-O tables.

# 4

The REAPBALK project (Rural Employment and Agricultural Perspective in the Balkan Applicant Countries) is a European research (Contract no. QLK5-CT-2001-01608). It was financed by EU Fifth Framework Research Programme: "Quality of Life and Management of Living Resources" (Key Action 1.1.1.-5.5: "New tools and models for the integrated development of rural and other relevant areas"). The research work had a 36 month period of duration. It started officially on October 1, 2001 and ended on September 30, 2004. The research activity was co-ordinated by Franco Sotte, Department of Economics of the Polytechnic University of the Marche – Ancona, Italy and involved research teams from six countries: Bulgaria (Sofia), Croatia (Split), Greece (Thessaloniki), Romania (Cluj-Napoca), Slovenia (Ljubljana), UK (Wye).

# 5

The project focuses on development perspectives within rural regions of five Balkan countries: Bulgaria, Croatia, Greece, Romania and Slovenia. In the beginning, three countries interested by the study were applying for accession into the EU. Slovenia since entered the EU, whereas Bulgaria and Romania are expected to enter in 2007. In June 2004, Croatia obtained the status of Candidate Country and is expected to enter the EU in the near future around 2010. The main objective of the research project was to assess the implications for inter-sectoral rural employment patterns of policy changes at a domestic and EU level. The inclusion of the Greek case within the study has been decided to provide grounds for suggesting the likely path of post-accession employment development. The study concentrates on the analysis of three main aspects within a medium-term perspective: a) rurality, b) employment, c) agriculture. Different scenarios with respect to political and economic evolution in the area, specifically related to the EU accession and adoption of EU policies, are developed. In addition, impacts of possible scenarios on intra-sectoral employment are assessed in every selected rural region.

# 6

A common feature of the countries studied is their geographic location in an area which is crucial for future stability of Europe and the EU: the Balkans. All the countries examined present an interesting and diverse environment for rural economic research. The first step of the analysis was the selection of rural regions as case studies. One region was selected in each country between those having three common characteristics: rural status according to the OECD definition, demonstration of significant employment growth in non agricultural sectors and a relevant share of agricultural employment. In the first phase of the research, a detailed analysis of economic development, employment patterns, and relevant policies in every region was performed. Based on its findings, a comparative study of the five selected regions is presented in the Final Report.

# 7

In the second phase, an Input-Output (I-O) analysis was carried out on the considered regions to examine in detail the structure of rural employment. The I-O tables for every region were derived from the national tables using GRIT methodology. Scenarios were defined according to specific development patterns considering: the rate of national economic growth, EU accession and other specific regional policies. Impact of different scenarios on regional non-agricultural and agricultural output, employment and income was then assessed by a traditional I-O model and next, policy recommendations were formulated. Scenarios were adjusted to specific situations of every country about accession: ranging from Greece, which is already a MS, to Croatia, whose process towards accession has only recently started. Table 1 summarises the main alternatives analysed:



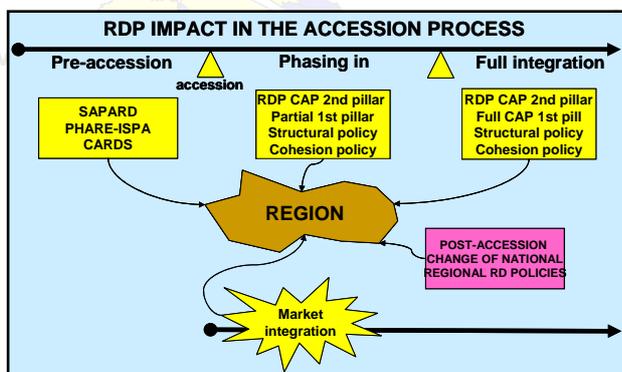


Tab. 1 - Baseline and alternative scenarios

Baseline	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Current situation (2003)	Current situation (2003)	Current situation (2003)	Current situation (2003)	Current situation (2003)
	+ Pre-accession Funds	+ Pre-accession Funds	+ Pre-accession Funds	+ Pre-accession Funds
		+ Integration effects	+ Integration effects	+ Integration effects
			+ EU policies partial integration	+ EU policies full integration

# 8

Schematically, the REAPBALK approach to the analysis of RDP evolution during the accession process and its impact on the regions under study is presented in the following scheme.



The accession time is divided into three periods: the pre-accession, the phasing-in period after the accession in which some EU policies are partially and gradually entered, and finally, the full integration of the new MSs into all the EU policy regimes. Before the accession the EU provides support through pre-accession policies, the accession creates a first shock on rural regions depending on market integration, and the EU policies are at the same time entered into the new MSs which are following a phasing-in process (in particular the 1st pillar of the CAP is going to be adopted on the basis of a gradual scheme, which could be more or less rapid, depending on the decision of each MS on the top-up option). The analysis in this case takes into consideration not only the two pillars of the CAP but also the structural and the cohesion policies. Finally, the accession is completed when the phasing-in process concludes and the new MS receives the same treatment as the other MSs. The accession could imply some changes in internal policies on rural regions and this also can be considered in our models. Different hypothesis can be tested concerning the capacity of the government and governance institutions of the MS to adapt rapidly its own structures and to absorb fully or only partially the new policies.

# 9

The results of the impact analysis at the mid-term perspective of the five case-study regions under different policy scenarios are summarised below:

- The pre-accession funds have a higher effect at a national level than at a regional level in Croatia and Romania, for all variables (i.e. output, income and employment), and in Slovenia in terms of output. The post-accession funds have a higher impact on the region than at a national level in Croatia, Greece and Slovenia.
- Across the five regions, results do not differ considerably when variables of output, income and employment are analysed.
- The sectoral ranking, across scenarios, does not differ substantially between the national and regional levels. Percentages of variation in output, income and employment are often different but the same sectors are generally identified as the main drivers of the change in the economy at the two geographic levels.
- The highest impact of the simulated policy transfers is observed for those sectors linked to the potential infrastructural development in the five case study regions. This is a direct consequence of the fact that different policy schemes are generally targeted at infrastructure in rural areas and, therefore, result in positive effects for the related sectors.
- Different regional and national economies react differently to the two forms of agricultural direct payments, coupled and decoupled. Treating direct payments as decoupled generally results in lower impact percentages for the agricultural sector and higher impact percentages for those sectors supplying the consumption of goods and services to agricultural households. This effect is especially important in the case study regions (with the exception of Peripheral Slovenia) where the agricultural population represents an important proportion of the total population.
- Even though some of the considered policy programmes are directly aimed at the development of the agricultural sector, the positive effects of the incoming funds seem not to be effectively captured by the agricultural sector alone but are themselves distributed across the entire regional economy. This can be seen as evidence of the achievements towards the implementation of a broader concept of rural development, which is taken into account in the different policy programmes' objectives.

The last two points are particularly important in consideration of the conclusions drawn from the comparative analysis. The report identifies a general lack of proper infrastructure as one of the main obstacles to development. In addition, the analysis of the agricultural sector in the five regions revealed a need for extensive restructuring throughout rural economies and societies. A mixed picture has emerged from this comparison as a consequence of the differences among the regions as well as the limitations of the methodology applied. Therefore the results should be interpreted with caution.

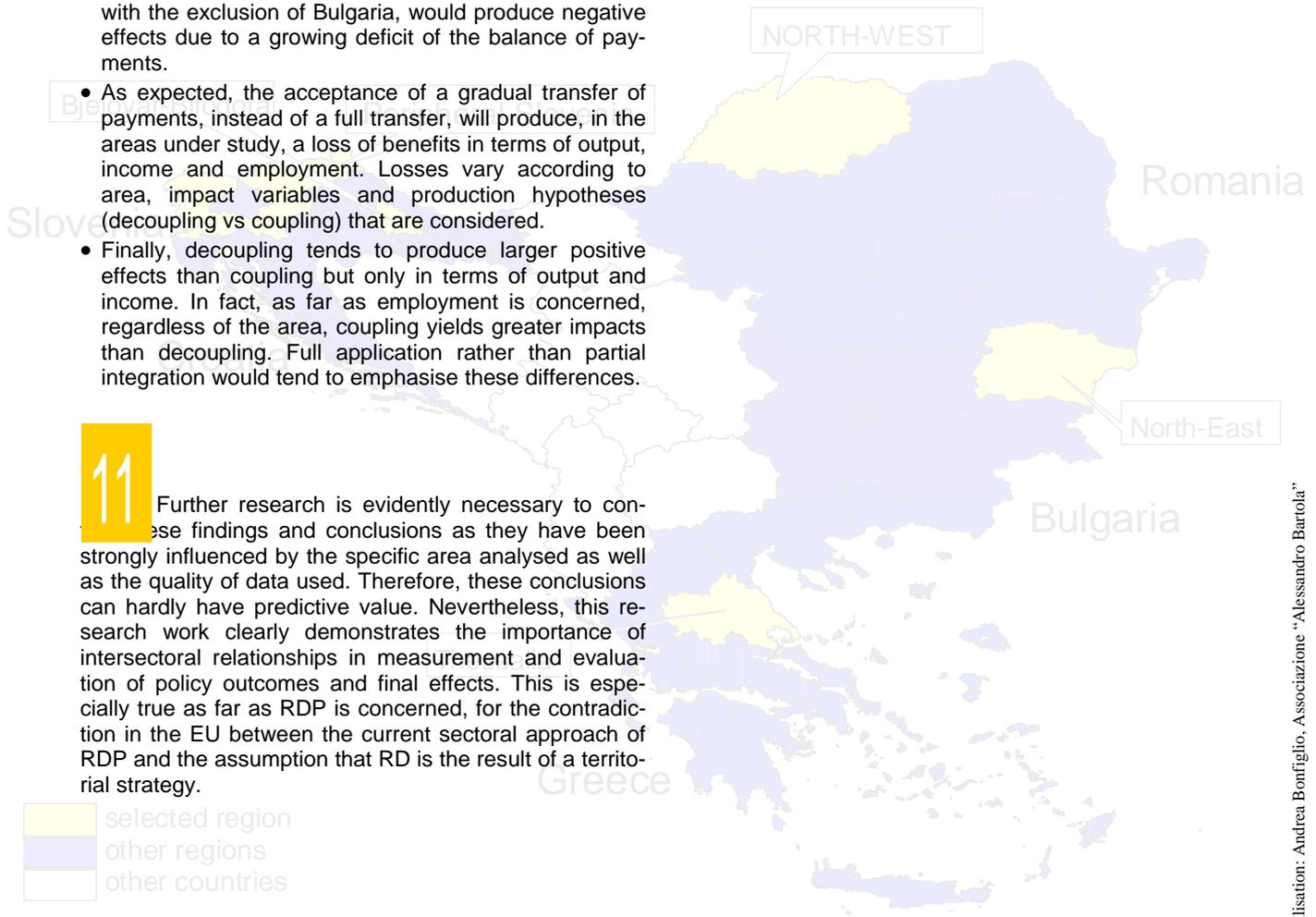




# 10

The impact analysis has been integrated with a dynamic analysis in which the assumption of invariant technology is relaxed. This analysis is carried out using a time-varying coefficient I-O model and applied to the cases of Romania and Bulgaria. The main results are the following:

- Policy is more effective in generating output, income and employment at a national level than at a regional (rural) level. Moreover, policy effectiveness is larger in Romania in terms of output and income and in Bulgaria in terms of employment.
- The only accession without application of EU policies, with the exclusion of Bulgaria, would produce negative effects due to a growing deficit of the balance of payments.
- As expected, the acceptance of a gradual transfer of payments, instead of a full transfer, will produce, in the areas under study, a loss of benefits in terms of output, income and employment. Losses vary according to area, impact variables and production hypotheses (decoupling vs coupling) that are considered.
- Finally, decoupling tends to produce larger positive effects than coupling but only in terms of output and income. In fact, as far as employment is concerned, regardless of the area, coupling yields greater impacts than decoupling. Full application rather than partial integration would tend to emphasise these differences.



# 11

Further research is evidently necessary to consolidate these findings and conclusions as they have been strongly influenced by the specific area analysed as well as the quality of data used. Therefore, these conclusions can hardly have predictive value. Nevertheless, this research work clearly demonstrates the importance of intersectoral relationships in measurement and evaluation of policy outcomes and final effects. This is especially true as far as RDP is concerned, for the contradiction in the EU between the current sectoral approach of RDP and the assumption that RD is the result of a territorial strategy.

