CHAPTER II

AGRICULTURE IN TRANSITION

Since the start of transition, significant progress has been achieved in all CEN countries with the liberalization of markets and trade, privatization of medium and small-scale enterprises, enterprise restructuring, commercialization of infrastructure and legislation to allow the expansion of private financial services. A vast range of legal reforms have been enacted, among which are new civil and tax codes, laws on commercial banks, laws on ownership of agricultural land and privatization laws. Land privatization programmes have reallocated a large portion of lands away from state-owned farms and collectives to small private farmers.

Despite good progress in laying the foundation for market-led economic growth, agricultural privatization now urgently needs to be supported by institutional reform to encourage investment and allow farmers better access to markets, input supplies, finance and technical assistance. Government institutions have generally not adjusted to the needs of small-scale private farmers and lack the resources and trained personnel needed to develop suitable sector policies or to provide public goods and services nationwide. As described, many of the new poor have turned to agriculture as a way of coping with the loss of employment following the collapse of state industries. These new farmers tend to be cash-poor and, because of non-existent or inappropriate institutional support, have few opportunities to obtain credit, which would allow them to branch into more profitable crops. Considerably more progress is also needed to develop effective input supply and output markets and associated support services, including extension, veterinary and agro-processing.

Crop and Livestock Production

In terms of overall productivity, agricultural restructuring has had two offsetting effects: an output decline because of organizational and systemic disruptions; and an output increase because of a shift to a more efficient allocation of resources than that under the old system of central planning. It is generally accepted, for example, that collectivization facilitated increased production of grains and other crops that can be handled with machinery, but did not work as well for horticulture, viniculture and other more labour-intensive enterprises.[1] Nevertheless, use of fertilizer, pesticides and irrigation water has fallen considerably, and crop yields are now far below levels recorded in the recent past. There is, therefore, little evidence to suggest any major net gains in productivity compared with the old cooperatives and collective system.[2]

Actual cropping patterns, on the other hand, have changed dramatically from large-scale rotational systems to production of subsistence crops for household food security.

Following an initial sharp decline in the production of all crops, only basic grains and potatoes are now grown in greater abundance than before transition in most countries.[3] Quite simply, with only a small area available for cultivation, most families now have little choice but to plant the whole area to basic foods just to meet subsistence requirements. Then, once farmers have met their basic subsistence needs, they find little incentive to intensify production because of limited access to secure and remunerative markets.

Along with the increased emphasis on subsistence production, there has been a corresponding decrease in the cultivation of higher-value cash crops. Georgia, for example, used to be a major supplier of tobacco, citrus fruits, tea, vegetables and wines to other parts of the former Soviet Union, but most farmers now focus on basic food crops, including maize, wheat and selected fruits and vegetables.[4] This outcome is partly due to the loss of the guaranteed markets and production subsidies provided by the former economic system. It also reflects the fact that many of the region's traditional cash crops require specialized skills and dedicated processing equipment and so are not suited to production by individual farmers. Furthermore, high production costs, disruption of regional transport routes, competition from international producers and limited purchasing power of the region's consumers all make cash crops a risky investment for new small-scale farmers.

Livestock production has also had to adjust to new market conditions, and herd sizes have decreased significantly due to the lack of imported feed and forced sales by smallholders needing cash for subsistence purposes. Moreover, the collapse of the former collective system brought with it the closure of most livestock processing facilities, and production has largely reverted back to household production using simple traditional technology. With the collapse of milk collection systems, for example, rural households in Georgia are now turning surplus milk into butter and cheese for their own consumption or for sale on an informal basis in urban markets.[5] In countries such as Armenia and The Former Yugoslav Republic of Macedonia, the collapse of the wool market in the former Soviet Union has resulted in a large decline in sheep populations despite extensive areas of suitable mountain pasture.[6]

Privatization of Farm Assets

As noted, significant progress has been made since the start of the transition with the privatization of agricultural land, state enterprises and other public goods of the former system. Nevertheless, privatization is only the first step on the way to market-oriented development. Without access to capital, market outlets, entrepreneurial skills and legal, social and physical infrastructure, it is no surprise that privatization has so far failed to stimulate broad-based, equitable growth.[7]

Land reform. The privatization of agricultural land was fundamental to the transition process and has occurred at a frenetic pace in recent years. In principle, the privatization of land is complete or nearly complete in all the countries considered here. In practice, however, barriers to consolidation and limited access to other productive assets, technology and markets mean that the poverty-alleviating impact has not been nearly as great as expected. Rather, in terms of growth and improved rural incomes, the impact has been mixed and appears to depend largely on the type and quality of the land reform process implemented by each country. In many cases, land redistribution has resulted in extremely small, fragmented plots and ownership by the elderly or others with little interest in farming. The extent of land reform has also varied from country to country, and there are still a number of large farms throughout the region based on private ownership and/or a cooperative framework that continue to produce along similar lines as before.

In most central and eastern European countries, land privatization was mainly carried out on the basis of restitution programmes that returned the land cultivated by large-scale collective and state farms to the former owners. This process, however, automatically created a different kind of problem in that many of the young workers on collective farms did not own land in the past and so remain landless today. Furthermore, this process resulted in much of the land being given to urban residents and to relatively old people in rural areas. In Romania, for example, the elderly, who account for an estimated 41% of the population, received approximately 54% of the land.[8] In Albania, a different approach was used whereby land was distributed on a per capita basis among cooperative farm workers, and original landowners received compensation in state bonds.[9]

In countries of the former Soviet Union, a variety of approaches to land redistribution have also been used. In Azerbaijan and the Republic of Moldova, land was given on request to members of the former collectives, whereas in Georgia it was divided among all citizens – both rural and urban. Armenia applied a lottery system coupled with a points system to ensure equitable distribution of good-quality land. Although these systems largely resulted in equitable distribution, most farmers now find themselves with very small and fragmented plots ranging from only 0.5 hectares (ha) to 1.5 ha; and because of these small farm sizes, the new owners lack the potential for economies of scale with regard to input acquisition, output marketing and access to credit.

Underlying these approaches was an overriding concern for equity in the initial distribution process. Although the difficulty of making substantial corrections through policy mechanisms later on was correctly recognized, this emphasis has left the CEN region with another problem in that an **equitable** distribution of land is not always the most **efficient**. The distribution of farmland is only the starting point of transition, and it will still be some time before newly privatized farms are transformed into larger, more economic units. In a market economy, land is one of the principal sources of a nation's wealth, accounting for between one-half and three-quarters of total wealth.[10] The development of a properly functioning land market, therefore, is vital to promote future investment in agriculture. Importantly, most countries have only recently established a legal framework for land titling and exchange, and there are still restrictions on land transactions in some countries.

Buildings and machinery. The privatization of farm buildings and machinery posed a different set of problems in that these assets were largely indivisible and geared to use by large-scale operations. In some countries, the former collective simply sold off these assets without any distribution of the proceeds to former members. In other countries such as Georgia, machinery was transferred to a parastatal holding company that would provide district-based mechanization services. Although this was certainly a more equitable solution, most equipment was procured before 1990 and is now completely broken down or nearing the end of its useful life.[11] Throughout the region, rental markets that could help share assets have been slow to develop. Furthermore, there is evidence to suggest that local authorities sometimes discriminate against private farmers, denying them access to, or demanding very high prices for, mechanization services.[12]

Regardless of how fixed capital assets were divided, buildings and machinery that were appropriate to large-scale state farms bear little relationship to the needs of small-scale independent producers. In Romania, for example, a marketing study undertaken a few years into the transition found no match whatsoever between the storage space available to small farmers and what they actually produced.[13] The mismatch between land, buildings and equipment is easy to see in that the countryside of most CEN countries is now littered with broken trellises in abandoned vineyards and orchards, collapsed and disused irrigation networks, and graveyards of broken-down and cannibalized machinery. As these countries look to the future, they will need to make considerable efforts to recapitalize the agriculture sector with more appropriate machinery and infrastructure suited to the needs of today's new farmers. Because of severe liquidity problems and limited access to financial services, most independent producers have been unable to undertake these investments on their own.

Agricultural Markets

Input markets. Since the start of the transition, good overall progress has been made in privatizing input markets. Recent IFAD studies in Azerbaijan and Georgia, for example, indicate that private suppliers now dominate input markets, especially relating to stock feed, seed, fertilizer and agrochemicals.[14] In The Former Yugoslav Republic of Macedonia, private stockists of essential agricultural inputs have emerged and are operating in most rural areas.[15] On the other hand, many newly privatized input dealers are still geared to the needs of large agricultural producers (including some remaining state farms and other large operations) and are only now developing the type of services and product lines suitable for today's small-scale producers. In all countries, supply and cost considerations are further compounded by the lack of available guidance on chemical applications and management (including integrated pest management) adjusted to the needs of small-scale farmers.

For these and other reasons, many private farmers now find it very difficult to access the inputs they need. While most inputs are for sale on the commercial market, prices are so high that many farmers, given the poor financial situation and the non-availability of seasonal credit, cannot afford to use the required amounts of fertilizers, pesticides and water. The situation is further complicated by the fact that farmers lack the business skills needed to manage their enterprise cash flow throughout the year and generally produce very little marketable surplus in the first place with which to buy crop inputs. In Albania, for example, most farmers do not use certain inputs at all, and crop yields are now far below what might realistically be expected with more intensive management.[16] In the Republic of Moldova, mineral fertilizer applications have more than halved and phosphorous applications reduced by almost three-quarters.[17] In Georgia, the use of inorganic fertilizers dropped from an average of 300 kg/ha in the mid-1980s to less than 10kg/ha in 1997.[18]

Output markets. Before transition, the question of crop marketing was largely irrelevant since all produce was sold through official channels at predetermined prices. Since the collapse of the former system, however, the lack of reliable output markets is proving to be an even greater hindrance to agricultural development than the lack of crop inputs. Until farmers can count on secure market outlets and remunerative prices, they will naturally produce mainly for household subsistence. The complete lack of tradition in crop marketing and the absence of entrepreneurial skills among farmers and others who might engage in small-scale trade further compound the challenge of rural development. In addition, there is a general mistrust of new forms of collective action, such as producer associations and cooperatives, that could be used to negotiate more favourable terms, but for many are too reminiscent of the communist era.

Problems relating to crop marketing begin at the farm level where the redistribution of land in small parcels has created isolated production units. This situation contrasts sharply with that prior to transition, when large volumes were produced and gathered in a central location. Consequently, many smallholder farmers now travel long distances at considerable expense and inconvenience to market small quantities of product. New market outlets in rural areas are only starting to develop, and the monopsonistic power of the few existing wholesale firms (including some remaining state-owned firms) mean that farmers have little leverage with which to negotiate favourable prices. Consequently, payments are often postponed without adjustment for inflation from the time of delivery to when producers are actually paid.[19] Last-minute changes to supposedly guaranteed prices can also occur, and it is not unusual for farmers to be told they must accept payment in kind rather than in cash as promised.[20]

At the national and regional levels, the challenge of developing new output markets is complicated by the collapse of the former Council for Mutual Economic Assistance (CMEA) trade system and the shift to convertible currency settlements. New CEN countries of the former Soviet Union have been especially hard hit by the deterioration in the terms of trade and by the loss of large protected markets and trade and production subsidies enjoyed under the former economic system. Similarly, in The Former Yugoslav Republic of Macedonia the loss of protected and guaranteed markets, which used to absorb three-quarters of the country's total agricultural production, has been a major blow.[21] Good potential exists for increased trade with the European Union and other non-traditional partners, but this will require considerable work to improve standards to the level these buyers demand.

Finally, another major constraint to the development of efficient output markets is the poor legal environment and high level of corruption in many countries of the region. The lack of rule of law, the uncertainty of legal contracts, ambiguous and punitive taxes, harassment and government interference in pricing structures, together with economic and political instability, all add to the challenge of developing efficient and transparent agricultural markets.

Support Services

Rural finance. At the outset of transition, formal systems for rural finance were dominated by a small number of large state-owned banks that mainly gave credit to state and collective farms. These banks were accustomed to providing liquidity with little attention to repayment. Bank officials were not trained in the financial evaluation of investments and were completely unfamiliar with the needs of small enterprises. The banks were not well located to serve rural areas and had no experience in handling private savings. Consequently, small private farmers have experienced great difficulties in accessing credit. In the first place, they often cannot meet the collateral requirements of private banks (partly because of delays in land titling in some countries). Moreover, the newly privatized banks themselves are often totally unfamiliar with rural conditions and the practicalities of agricultural credit.

Overall, experience in the CEN region with bank restructuring has been poor, largely due to continued government interference and support for state enterprises, inadequate regulation and problems with the settlement of debts of former collective farms. The first reformed banks in transition countries were established from units of former state banks and, for the most part, remain state-owned. Many of these older agencies carry in their balance sheets a substantial burden of non-performing loans inherited from their predecessors and increased by directed credit on concessional terms to maintain basic food production. In some countries, a particularly pernicious practice has been government insurance of these loans even though the majority of insurance companies are bankrupt and the collateral for the loans cannot be realized. In effect, therefore, the loans have been government subsidies, which have been accumulated as non-performing assets in the banks' accounts rather than charged to the national accounts.[22]

Despite these barriers, some informal in-kind and commercial credit arrangements between private-sector input suppliers and farmers have recently come into effect. In Albania, for example, traders such as the Albanian Fertilizer and Agricultural Input Dealers Association provide short-term finance for input purchases.[23] True rural financial service institutions, however, are still largely absent, and many banks are still unwilling to loan to farmers who are seen as low-return, high-risk borrowers. Furthermore, because reliable output markets have not yet developed, farmers are uncertain about the prices that they will receive and are therefore reluctant to borrow.[24] Clearly, the continued absence of institutions to supply working capital (both for farmers and private traders) and to finance investments in farm infrastructure and machinery inhibits agricultural growth.

Agro-processing. The main reform emphasis with respect to agro-processing has been enterprise privatization. Experiences vary, but for the most part governments are committed to increasing privatization of this sector, with the most notable achievements to date in the milling and bakery subsectors. More profitable processing activities (for example, tobacco, wine, fruit and sugar) appear to be lagging behind and are still largely under state authority. Regardless of current ownership, many processing companies now operate at a much-reduced capacity. Most are heavily indebted and lack both the working capital to operate more efficiently and the investment funds needed to upgrade processing and packaging equipment. Consequently, presentation and quality control remain poor, preventing firms from meeting the standards of foreign markets, especially in the European Union.[25]

At the production level, new smallholder farmers also lack access to appropriate and acceptable technologies. This is especially evident in the dairy sector, where farmers are generally unable to deliver clean, bacteriologically safe milk for processing. In Georgia, for example, the collapse of collective dairy farms led to the closure of nearly all livestock processing facilities. The few remaining commercial dairies have not yet been able to develop a network of rural collection depots and must rely instead on imported milk powder.[26]

In this respect, the most important constraint to the development of efficient and competitive processing industries is probably the lack of short- and medium-term finance. Without access to affordable working capital and financing for longer-term investments, new private businesses have not been able to invest in the type of services needed to develop profitable and sustainable business relations with smallholder producers.

Research and extension. Prior to transition, agricultural research institutions were oriented to state-owned or cooperative enterprises and large-scale production units. The technologies generated and training programmes managed by these institutions are not appropriate to the needs of today's smallholder producers, least of all the rural poor producing subsistence crops. Moreover, many of the crop packages developed by the state system relate to a situation when primary production was highly subsidized and profitability was only a secondary consideration. Until research institutions can respond to the needs of the private sector and smaller-scale production units, the rural poor will continue to face serious constraints in terms of the lack of appropriate technologies suited to their farming systems and environmental considerations.

Extension programmes for farmer training and the dissemination of new technologies did not exist in the pre-transition period. Some services were provided to private farmers such as veterinary services or seeding of pastures, but these were not conceived or implemented in such a way as to transfer knowledge. Rather, information under the command economy was tightly controlled and disseminated only according to centrally determined objectives and needs. Given the large number of new farmers (including many former industrial workers) in the region, there is now a very real and urgent need to develop essential skills through appropriate training programmes. Particularly for countries seeking accession to the European Union, essential skills in crop production, animal hygiene and the safe use of agrochemicals must be developed.

Endnotes

1 See World Bank, 1994, 2000a; or IFAD, 1997b, 1998a, 2000d.
2 See Centre for World Food Studies, 1998a, 1998b; Macours and Swinnen, 1997; Csáki, 1999.
3 Centre for World Food Studies, 1998a, 1998b; IFAD, 1999d; World Bank 2000a.
4 Centre for World Food Studies, 1998b.
5 IFAD, 2000e.
6 IFAD, 1997a, 2000d; The Former Yugoslav Republic of Macedonia, 2000.
7 Stiglitz, 1999
8 World Bank, 2000a.
9 World Bank, 1994.
10 Harris and Land, 1998.
11 IFAD, 2000e.
12 IFAD, 1997b.
13 World Bank, 1994.
14 Centre for World Food Studies, 1998a, 1998b; IFAD 1999c.
15 IFAD, 2000d.
16 World Bank, 1994; IFAD, 1999a; Republic of Albania, 2000.
17 Millns, 1999.
18 IFAD, 2000e.
19 Swinnen and Gow, 1997.
20 Millns, 1999.
21 IFAD, 2000c.
22 IFAD, 1998a.
23 IFAD, 1999b.
24 World Bank, 1994.
25 Coolidge, 1999; IFAD, 1999e, 2000c.
26 IFAD, 2000e.

CHAPTER III
DIMENSIONS OF RURAL POVERTY

Having considered the institutional vacuum and other challenges in agriculture created by the collapse of state socialism, this paper now looks in more detail at the extent of rural poverty and the characteristics of vulnerable groups targeted by IFAD.

Measuring the Number of Poor

To measure the number of people living in absolute poverty, a recent World Bank study, *Making Transition Work for Everyone,* uses the so-called two-dollar-a-day poverty line, which is actually USD 2.15 per person per day in 1996 purchasing power parity (PPP).[1] Although the one-dollar-a-day line is used to measure absolute deprivation in many other parts of the world, the two-dollar-a-day line is more appropriate for the CEN region where the very cold climate necessitates additional expenditure on heat, winter clothing and food. This measure is also at the bottom end of the range of national poverty lines, expressed in PPP terms, of the poorer countries in the region. Table 4 shows the estimated percentage (headcount index) of people living on less than USD 2.15 and USD 4.30 per day, the latter poverty line being more appropriate for middle-income countries such as Romania and The Former Yugoslav Republic of Macedonia.

In terms of the IFAD target group, simple calculations based on the headcount indices shown below and population data for each country suggest that about 4.0 million rural people live on less than USD 2.15 per day in the CEN region, excluding Bosnia and

Table 4: Absolute Poverty Rates in Transition Economies (Percentage of Total Population)

Country	Survey Year	Headcount Index: USD 2.15/day	Headcount Index: USD 4.30/day
Albania	1996	11.5	58.6
Armenia	1999	43.5	86.2
Azerbaijan	1999	23.5	64.2
Bosnia and Herzegovina	n/a	-	-
Georgia	1999	18.9	54.2
Republic of Moldova	1999	55.4	84.6
Romania	1998	6.8	44.5
The Former Yugoslav Republic of Macedonia	1996	6.7	43.9

Note: Private consumption data are not available for Georgia or the Republic of Moldova; GDP per capita in current prices is used instead. For Albania, the survey did not cover the capital city, Tirana.

Source: World Bank (2000a).

Table 5: Estimated Number of Poor People in the CEN Region (Million)

Country	Total Poor			Rural Poor		
	Total Population	Income < USD 2.15 per day	Income < USD 4.30 per day	Rural Population	Income < USD 2.15 per day	Income < USD 4.30 per day
Albania	3.40	0.39	1.99	2.01	0.23	1.18
Armenia	3.80	1.65	3.28	1.14	0.49	0.98
Azerbaijan	8.00	1.88	5.14	3.44	0.81	2.21
Bosnia and Herzegovina	3.80	-	-	1.44	-	-
Georgia	5.50	1.04	2.98	2.20	0.42	1.19
Republic of Moldova	4.30	2.38	3.64	2.32	1.29	1.96
Romania	22.50	1.53	10.01	9.90	0.67	4.41
The Former Yugoslav Republic of Macedonia	2.00	0.13	0.88	0.76	0.05	0.33
Total CEN	**53.30**	**9.00**	**27.91**	**23.21**	**3.96**	**12.26**

Source: Calculations based on World Bank, 2000c for population data and World Bank, 2000a for poverty headcount indices.

Herzegovina. When the USD 4.30 per day measure is used, the numbers of rural poor climb to around 12.3 million. Although these estimates are imprecise, the large difference in the number of poor living on USD 2.15 and USD 4.30 per day clearly indicates that although many people have not fallen into absolute poverty, large numbers still live at the margin and lack secure livelihoods. These estimates are summarized on a country-by-country basis in Table 5, but exclude Bosnia and Herzegovina for which data were not available.

Importantly, the above estimates do not reflect the significant differences that often exist in the severity and incidence of poverty between rural and urban areas and therefore likely understate the full extent of the problem of rural poverty in the region. In Romania, for example, rural poverty rates are more than double those in urban areas.[2] In Albania, poverty rates are roughly five times higher in rural areas than in non-Tirana urban areas; and in The Former Yugoslav Republic of Macedonia, poverty is regarded as most widespread in the rural areas and in larger households with more members unemployed or with low education.[3] In Armenia and Georgia, on the other hand, poverty is typically considered an urban problem since most rural people can produce at least some of their own food (an advantage not captured by standard income measurements).[4] Unfortunately, more reliable estimates on the number of rural poor in each CEN country are not available. At least from IFAD's point of view, therefore, it is more helpful to focus on the number of beneficiaries covered by the specific investment projects it supports and the quality of outcome.

Human Development Indicators

Poverty is multidimensional and cannot be measured by income indicators alone. Rather, poverty encompasses inability to satisfy basic needs, lack of control over resources, lack of education and skills, poor health, malnutrition, lack of shelter, poor access to water and sanitation, vulnerability to shocks, violence and crime, lack of freedom and powerlessness. In an effort to reflect some of these factors, the United Nations

Table 6: Human Development Index for CEN Countries, 1980-98

Country	Human Development Index 1985	1990	1998	HDI Rank (1998) – 174 Countries
Albania	0.688	0.697	0.713	94
Armenia	-	0.750	0.721	93
Azerbaijan	-	-	0.722	90
Bosnia and Herzegovina	-	-	-	-
Georgia	-	-	0.762	70
Republic of Moldova	0.739	0.757	0.700	102
Romania	0.789	0.771	0.770	64
The Former Yugoslav Republic of Macedonia	-	-	0.763	69

Source: UNDP, 2000.

Development Programme (UNDP) compiles a Human Development Index (HDI), which is based on three main indicators: (i) longevity, as measured by life expectancy at birth; (ii) educational attainment, as measured by a combination of the adult literacy rate and combined gross primary, secondary and tertiary enrolment ratio; and (iii) standard of living, as measured by GDP per capita.

The HDI for the CEN countries covered by IFAD is summarized in Table 6 together with their current (1998) ranking out of 174 other ranked countries worldwide. These data show that most CEN countries rank near the middle in terms of human development, with conditions slightly better in Georgia, Romania and The Former Yugoslav Republic of Macedonia than in Albania, Armenia, Azerbaijan and the Republic of Moldova. Certainly, the extent of deprivation in terms of human development in the CEN region is considerably less than in many of the Asian and African countries in which IFAD also operates. This is partly the legacy of the former communist system, which accorded high priority to the provision of universal education, health care, clean water, sanitation and shelter.

Although the region's comparatively high level of human development is a great asset and provides a good platform for economic growth, the general situation has deteriorated since the start of the transition. Of the four countries for which time series data are available, only Albania has managed to achieve a higher level of human development, whereas conditions in Armenia, the Republic of Moldova and Romania are now worse. Certainly, alarming trends are starting to emerge in all countries in terms of increased malnutrition, rising levels of disease and reduced standards of education. The situation is especially bad in some rural areas where rural health centres, schools and clean water supplies were mainly developed to suit the needs of former state and collective farms and are not always appropriate to the requirements of today's more dispersed population.

Vulnerable Groups

As discussed, rural poverty in the CEN region has many unusual dimensions. To help plan effective project strategies, it is useful to review some of the characteristics of especially vulnerable groups, including farmers in isolated areas, rural wage earners, rural women, internally displaced people and refugees. IFAD has found rural poverty to be more severe, and possibly more widespread, in upland and mountainous areas than elsewhere in the region.

Farmers in upland and mountainous areas. Some of the poorest people in the CEN region are found in mountainous and other disadvantaged or remote areas. In many such locations, entire communities often live in conditions of extreme poverty. For example, in the upland Bagramian District of Armenia (about 1 000 m above sea level), an IFAD socio-economic survey found that 92% of farmers had insufficient income to meet their minimum requirements for food and other basic needs such as heating and cooking fuel.[5] In this and many other similar locations, total food availability, including both food produced in the community and food purchased from outside, does not meet the biological needs of the inhabitants. Malnutrition in upland areas is now a major concern, and recent surveys show that several highland areas have exceeded threshold levels determined by the World Health Organization (WHO) for wasting and stunting of children.[6]

Geographic isolation is a key factor underlying the high incidence of poverty in mountainous areas. In Albania, for example, villagers can be a one-day walk or more to the nearest health centre. Many villages in upland and mountainous areas have no functional educational services and become completely snowbound during winter. Farmers in these areas have few opportunities, if any, to generate off-farm income and face severe marketing constraints because of limited transportation and the pressure to sell when prices are low during the short time between harvest and the onset of winter. Men, generally aged 15-35, migrate from poor mountain farms to find employment elsewhere. Consequently, many of the poor people in mountain areas are women, the elderly and children. In Romania, for example, more than half of poor farmers in mountainous areas are over age 45, and more than two thirds are women. In some countries, more than half of the rural poor have no access to piped water or protected wells.

A typical upland or mountain area production system is a mixed crop and livestock system. Food crops are grown on arable land; garden crops (including fruit trees) are grown on household plots; and livestock feed is obtained from pastures and meadows that are often common property. Climatic conditions, including a short growing season and limited availability of water, restrict cropping patterns to cool-season crops such as wheat, barley, potatoes and alfalfa. Winter and spring wheat, spring barley and potatoes are the main field crops. Vegetable crops such as cabbage are important subsidiary crops in areas where irrigation is available. Livestock production includes cattle, sheep and goats for both dairy products and meat.

Rural wage earners. Rural people who are principally wage earners are another important group of the rural poor. Depending on the assets they possess, rural families that depend principally on wage income are often poorer than farmers because they do not produce their own food. In The Former Yugoslav Republic of Macedonia, for example, only about half of rural people are engaged in agriculture. In Bosnia and Herzegovina, only 20% of the rural population were engaged in full-time agriculture before the war.

While many of these individuals own small plots of land, they generally lack the skills, family labour or access to working capital needed to succeed at farming and so rent their land to others.

Rural wage earners typically work as paid agricultural labourers, machine operators or shepherds. They are also employed as artisans, babysitters, cooks, domestics, drivers, loaders, tutors, janitors or hairdressers. Incomes from such activities are low because employment is not full-time and wages are also extremely low. These rural poor, often located in lowland and more densely populated areas, have very low social standing (see Box 1).

Most poor rural households in the region have to diversify their income sources because agriculture alone cannot provide sufficient income to cover all food and basic consumption needs. As a result, at least one household member typically works off-farm locally, in urban centres or abroad. At the household level, therefore, most rural poor in the region could be considered neither full-time farmers, nor full-time wage labourers, but rather a combination of both. While diversification of income helps minimize risk, high dependency on remittance income is nevertheless a clear indication of poverty and the low returns available from farming.

Rural women. The transition from a socialist to a market-oriented economy has exacted an especially high price in terms of gender equality. Under the former communist system, gender equality was essentially a non-issue in that the state proclaimed that it had already been achieved. Officially, women and men were guaranteed equal pay for equal work, equal access to education, equal property and parental rights, and equal representation in the political realm. In addition, women were granted liberal maternity leaves, and inequality between spouses was abolished by the state. Today, however, women in the region face many difficulties. Statistically, economic reforms have affected women as a social group most adversely. Their participation in the labour force has declined sharply; they have lost their voice in government; and they make up an increasingly large percentage of the poor.[7]

A variety of factors have contributed to this situation. Many large, state-owned enterprises – which once employed many women – have closed during the transition. Because women are considered to be a higher risk and more expensive as labour, finding

Box 1: Views of Rural Wage Labour

Influenced by the ideological lessons that accompanied collectivization, rural workers in Georgia and Armenia have criticized the emergence of privatized agriculture as 'slavery'. A wealthy Armenian farmer describes how he had hired a married couple the previous year. "They looked after my cattle and their own. I worked their land, gave them the whole harvest and paid them a salary. They never complained. But village people began to tease them; they called them *wage labourers* (a derogatory term) who worked for a 'lord'. When the couple worked for me, they had four cows. Now they only have two left, and they have not yet managed to plant their land. But they will not return to me, even though I still need workers." Expressing the predominant village perspective of this farmer, a young schoolteacher commented, "He may have become a big farmer, but we are not his serfs!"

Source: World Bank 2000a.

employment for men is the priority. Women might, for instance, take maternity leave and stay home during their child's first years of life, when it is illegal to fire them in several countries. Women are also often under pressure to return to traditional roles by staying home and taking care of the family. Under these circumstances, a woman's chances of being considered a serious contender for a job – or for that matter, political office – are rather slim. Further, men are more likely to benefit from retraining or education opportunities.

In rural areas, gender inequality has become a major feature of daily life and is especially pronounced. First, women have been less mobile than men and account for a large share of the rural population. While men have migrated to cities in search of employment, women have typically been left on the farm to look after the family and have become trapped in subsistence production. A noticeable feature across the CEN region is the absence of young, able-bodied men in rural areas, with only women, children and the elderly left on most farms. Moreover, the poor conditions of rural health facilities and the almost total lack of maternal health care in many areas further complicates the poverty status of rural women.

The elderly. Elderly and retired people account for a large share of the rural population in many countries. Some villages now consist almost entirely of people over 65 years. Prior to the transition, the elderly expected to receive adequate pension and retirement benefits from the state. Now they often live in extreme deprivation, their life savings long-since evaporated through hyperinflation. Although the elderly were the prime beneficiaries of land restitution programmes carried out in some countries, many are no longer capable of farming and so have to make do the best they can. Elderly people with disabilities or those who are very poor, especially those whose children are unable or unwilling to help them because they live far away or are also very poor, can find themselves in a particularly tragic situation. Many feel they could scrape by if they received their pensions on time, but unfortunately even pensions have become vulnerable to economic uncertainties, political manoeuvring and petty corruption. In the Republic of Moldova, for example, pension payments are reported to be up to nine months late, whereas in Georgia, pensioners claim they have had to pay a land tax twice the amount of their monthly pension just to start receiving payment.[8]

Ethnic minorities. New state borders, the creation of new majority-minority relations, and sharp competition for reduced resources and employment opportunities have together served to divide societies along ethnic lines. This divisiveness is seen particularly in Balkan and Caucasian countries where people of different ethnicities live together. Not only are these regions at the crossroads of historic trade routes, but the forced relocation of people under the Stalinist regime also left many minority communities isolated in the new states. This is particularly evident for the Roma people, concentrated in Central and South-Eastern Europe, for whom social and political exclusion is often linked to extreme poverty. Especially for ethnic minorities who worked in collective agriculture, access to land was often lost through restitution-based land reform programmes, and many now live in ghettos on the periphery of rural and urban settlements.[9]

Internally displaced persons and refugees. Refugees and internally displaced people make up a high proportion of both rural and urban poor in the CEN region. In the South Caucasus, for example, conflicts in Nagorno Karabakh and South Ossetia remain unresolved, and several hundred thousand people in Azerbaijan and Georgia have been displaced for more than a decade. One reason these forced migrants are poor is that host governments are often reluctant to facilitate their integration into local communities since this could weaken their political claim to disputed territories. Consequently, large numbers of people live with severely restricted rights to land, permanent housing and formal employment.[10] Although refugees and internally displaced people are not traditionally considered an IFAD target group, their high number among the rural poor calls for recognition of the special circumstances that leave them largely without assets or traditional social support networks. These groups will require attention in the future, if only to maintain stability and prevent further conflict in rural areas.

Endnotes

1 World Bank, 2000a.
2 IFAD, 1998c.
3 IFAD, 1999b; Republic of Albania, 2000; The Former Yugoslav Republic of Macedonia, 2000.
4 IFAD 1997a, 2000e; Republic of Georgia, 2000; Republic of Armenia, 2001.
5 IFAD, 1998b, 2001.
6 World Bank, 2000a.
7 Nedolast (1999).
8 World Bank, 2000a.
9 Ibid.
10 Ibid.