

# DIVERSIFICATION OF RURAL ECONOMY AND HOUSEHOLDS' LIVELIHOODS STRATEGIES IN SARAJEVO-ROMANIJA REGION

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## Summary

*A major part of Republika Srpska (RS) territory is rural. Although agriculture is still a very important economic activity in rural areas, there are many attempts to diversify the local economy and the households' livelihoods strategies by developing non-agricultural income-generating activities thus increasing farmers' and rural dwellers' income and allowing them to achieve better living standards. This paper focused on the different options adopted by rural households to diversify their income-generating activities and livelihoods strategies. Methodologically, the work is based on an extended analysis of secondary data and on the realization of a survey focused on a preliminary assessment of the entrepreneurial capacity of local households. In particular the survey focused on households' sources of income, economic choices, problems and constraints faced in starting up new activities and capacity to valorize households members' skills (i.e. human capital).*

*Rural people increase their income by intensifying the use of available assets or diversifying their income-generating activities portfolio. A large share of the interviewed households diversify their income through a combination of agricultural products sale, non-agricultural activities and other revenues, including pensions. In general, households' heads are not fully aware and do not take complete advantage of their skills, competencies and assets to be involved in and/or to develop new non-farm activities.*

*Although Sarajevo-Romanija region is rich of natural resources, valuable heritage and cultural traditions the full potential for rural economy diversification is not yet fully exploited due both to lack of entrepreneurial capacities and inadequate policies, institutions and processes.*

**Keywords:** *Sarajevo-Romanija region, rural economy, livelihood, diversification, non-agricultural activities.*

## Introduction

According to OECD criteria<sup>5</sup> the 95% of the territory and the 83% of population of the of Republika Srpska can be considered rural. The role of rural policy for economic, environmental and social development is largely recognized also in Bosnia and Herzegovina (BiH), so that there is a wide understanding that a sectorial approach focused mainly on the agricultural sector is not sufficient to insure a sustainable

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<sup>5</sup>Local government units (e.g. municipalities) are rural if population density is less than 150 inhabitants/km<sup>2</sup>.

development of rural areas (Antonelli *et al.*, 2009; Haggblade *et al.*, 2007; OECD, 2006). Diversification means exploiting all the multifunctional functions of agriculture while introducing new income-generating activities in off-farm and non-farm sectors. Households' income can be increased by adopting many livelihoods strategies (*e.g.* Chambers & Conway, 1992) including those based on livelihoods intensification and diversification. Diversification can provide opportunities to lead to the improvement of life conditions, to the alleviation of poverty and to the reduction of the depopulation of marginal areas. These concepts are strongly embedded in the EU Rural Development program 2007-2013: the diversification of rural economy is strongly correlated with the improvement of quality of life in rural areas (*i.e.* axis 3) which emphasize a transition to adopt people-centred approaches and policies.

The objective of this paper is to provide an insight on the different options adopted by rural households in Sarajevo-Romanija region (SRr) to diversify their income-generating activities and livelihoods strategies. Sarajevo-Romanija region is located in eastern part of BiH and RS. Spatial plan of East Sarajevo town consider SRr as a unique geographical space. The overall area covered by the region is 2066.50 km<sup>2</sup> which represents the 8.4% of the total surface of RS and the 4% of the BiH's surface. Population of SRr is 78.170 inhabitants or the 5.3% of RS's population (Institute for Urbanism of Republika Srpska, 2008). The full recognition of the opportunities related to the valorization of the different capitals (*i.e.* cultural, economic, human, institutional, natural, social) should pass also through the identification of the diversification strategies adopted so far at the local level and through the assessment of the needs and of the main strengths that characterize the region.

## Material and methods

The methodology comprises an extended secondary data analysis and the realization of a field survey focused on the households' livelihoods diversification strategies. Desk research was based on collection, analysis and validation of available reports, papers and statistical databases. The field survey<sup>6</sup> was focused on seven municipalities of SRr: Trnovo, Istocna Ilidza, Istocno Novo Sarajevo, Istocni Stari Grad, Pale, Sokolac and Rogatica. The survey, carried out in November 2009 with a sample of 35 households, was based on the use of semi-structured interviews carried out with the heads of households. Households have been selected according to following criteria: being located at least 5 km far from the nearest urban centre; dealing with agriculture (either as full time or part time activity); and having at least one member of the household who is less than 55 years old. Interviews mainly focused on households' sources of income, economic choices, problems and constraints faced in starting up new activities and capacity to valorize households members' skills (*i.e.* human capital). Results reflect households' heads views and perceptions. Moreover, considering the characteristics of the sample, the present work does not aim to have a statistical significance, but to provide additional insights related to the issue under investigation and to partially overcome the lack of reliable and updated data that generally characterize BiH.

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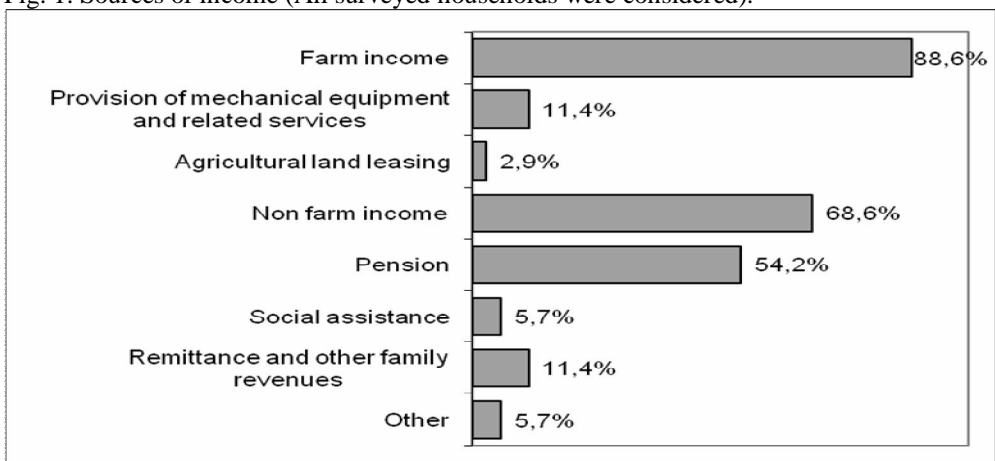
<sup>6</sup> Field survey has been carried out within the second level Master in Sustainable Development of Agricultural and Rural Areas of the Adriatic-Ionian Basin, A.Y. 2008/09, University of Bologna.

## Results and Discussion

A large share of surveyed households generate income from a variety of sources: agricultural products sale, non-farm activities, pensions, remittance and other family revenues, leasing agricultural land, social assistance, provision of mechanical equipment and related services. Households are generally engaged in more than one activities and, although agriculture is still a major source of revenues<sup>7</sup>, the majority finds important income opportunities out of farm and through pensions and other forms of social support (social assistance; remittance and other family revenues) (Fig. 1).

The long agricultural tradition, the favorable climatic conditions and the vicinity to Sarajevo (a large market) are factors that strongly influence rural population's livelihood strategies.

Fig. 1. Sources of income (All surveyed households were considered).



Source: elaboration of the authors'

The civil war also heavily influenced the dependency of rural population on the agricultural sector. The war had dramatic consequences on the economy since many large companies closed so that a significant number of rural people in SRr had to found their major source of subsistence in the primary sector. The civil war has also a strong connection with the high share of income generated by pensions. A large share of the households that today are in their 50s retired after the war and took the opportunity to benefit of a pension. . Households headed by women usually have a larger share of income generated by pensions or social assistance, while men-headed households usually find additional source of income in the provision of mechanical equipment and related services..

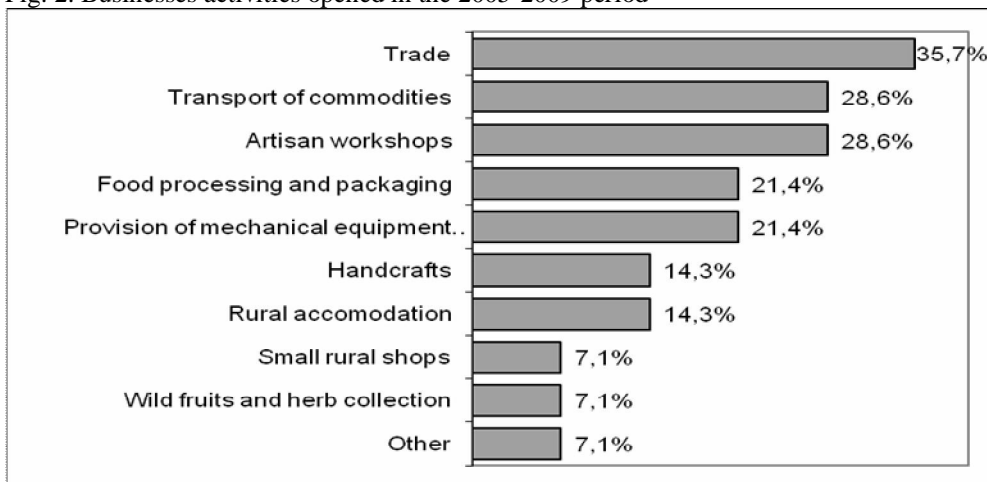
Agriculture is the main source of income for a large share of households (45.7%), but its importance is decreasing for those who are diversifying their income resources. Among this second group of households the 16.7% do not get any income from agriculture and only for the 11.3% the primary sector represent the major item among the different income sources Considering the geographical location households in "developed

<sup>7</sup> This result was expected since it is related to the criteria used in the selection of the households.

*municipalities*”, Istocno Novo Sarajevo and Istocna Ilidza<sup>8</sup>, are more focused on non agricultural activities. Their vicinity with the urban area of Sarajevo offers significant advantages in terms of non farm job opportunities.

Considering income households can be divided in three groups. A first group is represented by a minority of households with a relatively high income (more than 25,000KM<sup>9</sup> per year). A second group, the large majority, is represented by the households having between 12.000-25000KM. The third group, more than 20% of the households, is represented by those who are below the general poverty line which is fixed in 2,857 KM per year (Agency for Statistics of BiH, 2008). In the 2005-2009 period the 60% of households did not start any new economic activity or did not change the sector of employment. The new entrepreneurs are divided between those who opened an activities that has been closed (8.6%) and those who have opened an activity that is still operating. Surveyed households have been engaged mainly in activities related to services provision such as trade, transport or artisan workshops. The development of activities related to rural tourism such as in farm accommodation or handicrafts is still limited (Fig. 2).

Fig. 2. Businesses activities opened in the 2005-2009 period



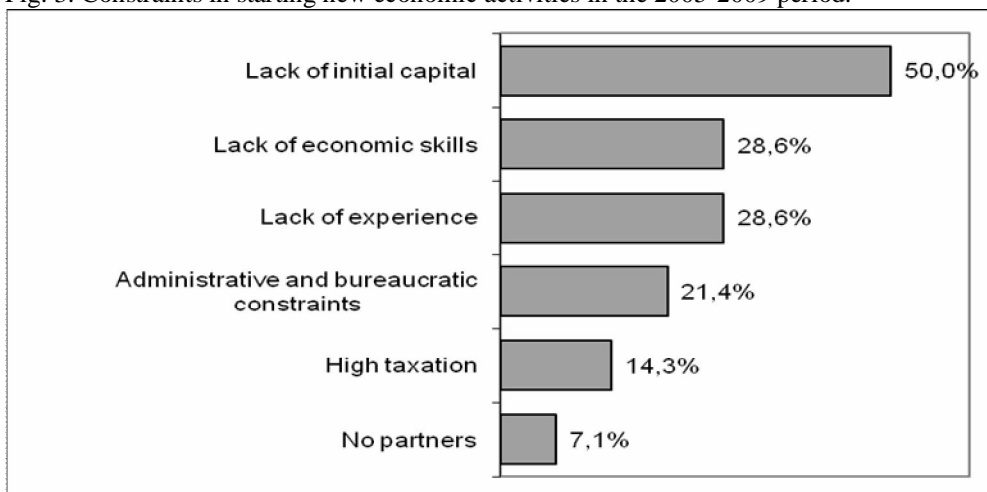
Source: elaboration of the authors'

Starting a new activity is perceived as an extremely difficult and risky challenge due to the lack of initial capital (50% of the respondents), and to the lack of experience in managing economic activities (28.6% of the respondents) and responding to the market or finding appropriate marketing channels (28.6% of the respondents). Additional constraints are related to the administrative and bureaucratic problems that should be solved to comply with the relevant legislation (Fig. 3). The difficulties in starting new economic activities are related also to the lack of ability in the identification of significant opportunities and in the scarce capacity to fully recognize their own skills and potential.

<sup>8</sup> Istocno Novo Sarajevo and Istocna Ilidza belong to “developed municipalities” category (RS) according to list published by the government of RS on November 12, 2009.

<sup>9</sup> 1 KM (konvertibilna marka) = 0,51129 EUR

Fig. 3. Constraints in starting new economic activities in the 2005-2009 period.



Source: authors' elaboration

Financial constraints are exacerbated by the weaknesses of the credit network and by the difficulties in providing collaterals to the credit organizations due to the large number of people employed in the grey market.

## Conclusions

Although rural livelihoods are increasingly diversified agriculture is still the main activity for the majority of households in SRr. The primary sector represents the major source of income for the largest share of households even if there is an increasing number of households who are finding their revenues mainly in non farm activities. But agriculture alone is not anymore able to guarantee the livelihood of the majority of the rural population. At the same time households' heads have not the capacity to fully recognize and use that skills and assets that could represent a basis to develop a new economic activity.

In this framework rural policy design and delivery could play a significant role. Agricultural growth should be no more considered as the only way to alleviate poverty and to improve rural living standards. Rural development policies should be formulated in such a way to create favorable business environment (i.e. better access to credit, creation of business incubators, more effective extension services, more favorable tax regime) and facilitate the establishment of small and medium enterprises (i.e. simplification of administrative and bureaucratic procedures). Generally speaking, diversified livelihoods strategies allow rural households to become less vulnerable and to improve their living conditions. Fully exploiting rural economy diversification potential in SRr means improving institutions' *modus operandi* and rural governance, designing adequate agro-rural policies, and developing transparent and participatory processes.

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# ДИВЕРСИФИКАЦИЈА РУРАЛНЕ ЕКОНОМИЈЕ И ЖИВОТНЕ СТРАТЕГИЈЕ ДОМАЋИНСТАВА У САРАЈЕВСКО-РОМАНИЈСКОЈ РЕГИЈИ

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## Абстракт

Највећи дио територије Републике Српске (РС) је руралан. Иако је пољопривреда и даље веома важна економска активност у руралним подручјима, постоје многи покушаји да се диверсификује рурална економија и животне стратегије домаћинстава помоћу развоја непољопривредних доходовних активности чиме би се повећао приход пољопривредника и руралног становништва, и побољшао њихов животни стандард. Овај рад је фокусиран на различите опције руралних домаћинства како би диверсификовали своје доходовне активности и животне стратегије.

Методолошки, рад се заснива на анализи секундарних података и реализованој анкети која је фокусирана на прелиминарну процјену предузетничког капацитета локалних домаћинстава.

Анкета се претежно осврнула на изворе прихода домаћинстава, изборе послова, проблеме и ограничења са којима су се суочили са почетком нове активности и капацитетом валоризације вјештина чланова домаћинстава (тј. људски капитал).

Рурално становништво повећава своје приходе интензивирањем коришћења расположивих средстава или диверсификацијом својих приходовних активности. Највећи проценат домаћинстава остварује приход кроз продају пољопривредних производа, непољопривредне активности и друге приходе, укључујући и пензије.

У принципу, носиоци домаћинстава у потпуности не препознају и не користе своје вештине, способности и средства како би се укључили у и/ или да развију нове непољопривредне активности. Иако је Сарајевско-романијска регија богата природним ресурсима, вредним наслеђем и традицијом, пуни потенцијал за диверсификацију руралне економије још увек није у потпуности искористићен, углавном због неадекватних политика, институција и процеса.

**Кључне ријечи:** Сарајевско-Романијска регија, рурална економија, средства за живот, диверсификација, непољопривредне активности.

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