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SOCIAL ASPECTS OF THE TRANSITION WITH A FOCUS ON AGRICULTURAL PRICE POLICIES IN ROMANIA, BULGARIA AND SLOVENIA

Constantina Safilios-Rothschild

ABSTRACT

The objective of this paper is to review available evidence concerning the social dimensions of agricultural price liberalisation and agricultural reform. From the beginning of the transition social considerations have been the major obstacles to rapid progress of the reform. There have also been objections to price liberalisation for its adverse welfare effects on certain population groups. This paper provides a broad view of the social aspects of agricultural transition and focuses on perspectives of poverty alleviation and the generation of employment. It concludes that rural unemployment and poverty are much higher in Bulgaria and Romania, where restructuring of the State sector has been slow, and that agricultural prices have limited impact on production. Appropriate measures with which to address rural poverty include completion of the reform, facilitation of the operation of markets, provision of post-privatisation support to new private farmers and targeted interventions for certain population groups.

Keywords:

RURAL POVERTY, AGRICULTURAL REFORM, TRANSITION ECONOMIES

1. Introduction

The basic questions addressed in this paper are whether or not and under what conditions agricultural policies can help stimulate agricultural and economic growth. Such an inquiry is very important in view of the evidence that the transition to a market economy has led to an increase of poverty in all three countries examined, Bulgaria, Romania and Slovenia, although this increase has been smaller in Slovenia (World Bank, 1996). A related issue of crucial importance is that of the means by which poverty can be relieved and what can be the role of agricultural prices in this respect.

It must be clarified here that the state of agriculture and agriculture-related policies differs considerably in Slovenia from that prevailing in Bulgaria or Romania, and will therefore be treated separately. In Slovenia, 93% of all agricultural land is privately-owned or leased (Rednak, Turk, Erjavec and Volk, 1995), a situation which is drastically different to that in Romania or Bulgaria, as we shall see below. Furthermore, there is a large proportion of forests; more than two-thirds of farming land is in mountainous and other marginal areas. The farming system is characterized by small peasant farms with an average size of 4.1 Ha, a low level of professionalism in farming and a high share of part-time farms (Rednak, Turk, Erjavec and Volk, 1995). Scale inefficiency is a basic source of low economic efficiency of farms. Only 3% of farms can produce an income equivalent to full employment for one person (Rednak, Turk, Erjavec and Volk, 1995), and less than 12% of farmers depend exclusively on farming for their income. Another important difference between Slovenia, on the one hand, and Bulgaria and Romania on the other is the fact that cooperatives are

already private companies, appropriately transformed and reorganized to perform in a market economy¹² and that in 1996, the interest rate for short-term agricultural credit was 20.5% (9.5% of which constitutes the inflation rate)¹³.

2. The Role of Agricultural Price Policies in Agricultural Growth and Poverty Alleviation

A World Bank draft report on poverty for Romania (Ronnas and Zejan, 1995) states that "a 20-30 percent increase in real incomes, which is not unrealistic given the inefficiencies in the economy, would bring the majority of the poor above the poverty line." It claims that this increase in real incomes could be brought about through increases in agricultural producer prices and through employment creation. At present, however, prevailing conditions in Romania as well as in Bulgaria do not seem to be favourable for agricultural producer prices to act as sufficient incentives which can convince smallholders to increase production and sell a greater part of it for higher prices. These unfavourable conditions include:

- a.) A prevailing economic uncertainty that makes smallholders primarily grow their own food from their own plots, thus ensuring only household food security (Ronnas and Zejan, 1995; Mishev *et al.*, 1995). In this way, agriculture mainly serves as an unemployment buffer that breeds underemployment, instead of being an engine of economic development and growth.
- b.) The fact that in Bulgaria, smallholders are not motivated to sell a part of their production because the existing private wholesale and retail markets are not efficient and lack transparency and diffusion of market information. In addition, these private markets, reacting to uncertainty and the lack of contract law, are involved in vertical integration by producing the raw material on their own, processing it, and conducting all the wholesale functions in addition to running retail outlets (Mishev *et al.*, 1995). It seems, therefore, that agricultural prices are not able to achieve agricultural growth and alleviate poverty, or even have an impact as incentives. Agricultural price policies are only a part of the picture. "Getting the prices right" is not enough. They must be accompanied and supported by a number of other policies and infrastructure concerning cooperatives, credit, land leasing, employment creation, and a number of marketing-related policies and legal changes.

Under presently prevailing social and economic conditions in Romania and Bulgaria, agricultural prices cannot play an important role. Available information indicates that in both countries, land reform is far from completed or effective; there is no agricultural credit to which the newly created smallholders have access, privatization has not been truly or fully accepted and implemented, and there are no relevant supportive policies and laws yet.

3. Present Trends in Land Reform and Land Leasing

By May 1996, only 52% of the land had been restored in Bulgaria (Keliyan, 1996). 18% of the previously collectivized land was restored to its previous owners within real boundaries, mainly in mountainous and semi-mountainous regions, and 35.3% of land in plains and valleys where the previous boundaries do not exist was returned to its owners under reallocation plans. In addition 33.0% of the land, for which the plans for reallocation are not ready or approved, is given for private cultivation on a yearly basis. The fragmentation and reallocation of land to previous owners becomes problematic in plain regions where blocks of land of several hundreds of hectares have been put

¹² See EC (1995). Slovenia in: Agricultural Situation and Prospects in the Central and Eastern European Countries, Directorate General for Agriculture (DG VI), Working Document, European Commission (1995)

¹³ Erjavec, personal communication (1996)

together with the necessary irrigation and roads (Kostova and Giordano, 1996).

The statistical data show that most farmers have a very small piece of land. About 91% own between 0.1 and 1 hectare, 8.7% between one and five hectares, and 0.4% between five and ten hectares; only 0.03% own more than ten hectares. Despite the small size of the amount of land allocated, about two-thirds of the owners expressed a desire to get their land back, although they do not intend to cultivate it themselves (Kostova and Giordano, 1995). Furthermore, studies undertaken in Bulgaria have shown that people value land and are not willing to sell it. Only 20% of urban landowners and 8% of rural landowners consider land as a potential source of profit and intend to lease it. When Bulgarian people were asked their preferences for the future use of their property, 22% wanted only private use of land, 42% wanted to join their land to a cooperative farm, 11% wanted to use their land both for private and cooperative use, and 5% opted for association with other farmers. Although land owners may be unable to cultivate the land effectively and/or personally, they are not inclined to give it away or abandon it (Dobрева, 1996). Also, those who intend to contribute agricultural labour are primarily (80%) willing to do so on their own private farm, and only 3% in cooperative structures. It seems, therefore, that the preferred model of land use is participation in cooperatives with land but not with personal labour (Koleva, 1996).

In Bulgaria (and also in Romania), the insufficient development of the material-technical basis of agriculture and the age structure of those employed (*i.e.* the ageing farming population), give rise to the extensive form of farming (Dobрева, 1996). The greater part of agricultural labour on family farms is carried out by pensioners and only 22% by people of active working age (Koleva, 1996).

While leasing of land is carried on, studies undertaken in Bulgaria show that, under present conditions, the leasing mainly profits the leaders of liquidated agricultural cooperatives. They are now becoming the managers of leased landholdings and increasingly constitute the *only big farmers*. In this way, the old elite profits from transition changes and regains power and prestige (Kostova and Giordano, 1996). However, land leasing legislation that leads to a better accommodation between land and labour could help increase the size of landholdings and improve standards of living. Elderly peasants, retired collective farm workers with low pensions, are not usually able to use the land effectively and make ends meet, although well-endowed with land. Clearly, in their case appropriate land leasing policies and practices would help alleviate poverty. In order, however, for land leasing policies to be effective, it is necessary that loans for leasing land are made available at affordable interest rates. For a larger number of farmers who do not belong to the agricultural elite, the resulting increases in the size of holdings would encourage more widespread commercially-orientated agriculture and would provide employment for more agricultural wage labourers. The importance of land leasing policies and of accessible credit lines for farmers has been shown in Romania through the application of statistical analysis of the relationship between production output on the one hand and land, labour and inputs on the other. The input of additional land and inputs (fertilizers, pesticides, insecticides) increased production but additional labour did not (Ronnas and Zejan, 1995).

While originally the ownership of land in Romania was restricted to 10 hectares, amendments adopted in 1997 extended this to 50 hectares (Nemenyi, 1977). Similar to the situation in Bulgaria there is also considerable consolidation of farms through associations in Romania, because new land owners do not know how to cultivate the land and do not have access to productive resources, and because individual farms are too small. Of those who were given land 43% are townspeople, 30% are villagers working in towns and only 18% are villagers working in agriculture (Rotariu and Roth, 1995). New family holdings do not have mechanical equipment. A study in three villages showed that only 18.8% of the farmers use machines in agricultural activities. The same study also showed that 65.3% of landowners themselves work the land, 5.2% give it to relatives, 10.4% lease the land and 7.1% do not use the land (Nemenyi, 1977). Of those who cultivate the land, 52% produce only for their own needs (Nemenyi, 1977). The statistical data showed that in 1995, there were 8,052,000

private farms with an average size of 2.4 hectares, 15,915 family land associations with an average size of 100 hectares, and 3,970 agricultural societies with a legal status and an average size of 436 hectares (Buletin Informativ, 1995). However, the large number of private farms indicates that households own land (perhaps a garden plot), rather than that households are engaged in farming activity.

There is no information available concerning the gender aspects of Romanian land reform so that it is not known if any gender differentials emerged in the course of redistribution. Furthermore, as the consolidation of small parcels of land into viable agricultural holdings is increasingly taking place, women risk to lose whatever property rights they have (Fong, 1996).

4. The Emergence of New Types of Agricultural Cooperatives

A different type of trade and input purchasing cooperative to that which existed under the socialist system is needed; it may perhaps be, composed of underemployed private farmers and unemployed people or informal groups of farmers. These new types of cooperatives could develop horizontal and vertical trade linkages with similar types of urban cooperatives or informal groups, so that commercial intermediaries are not able to raise consumer prices beyond the reach of the urban population. In Romania and Bulgaria, however, there are no indications that such a new form of agricultural cooperative is emerging or even being encouraged. In Bulgaria less than 2% of agricultural cooperatives are credit, marketing and purchasing cooperatives while all others are only production cooperatives. By the end of 1995 in Bulgaria, 2815 agricultural cooperatives had been established, specializing in grain and cereal production. Although these agricultural cooperatives are not owned by the State, they are still administered by it and are, therefore, managed more as if they were bureaucratic organizations than business entities. For marketing and agricultural services, the medium and small-sized land owners depend on marketing organizations or cooperatives. Thus, State economic commissions, institutions and organizations are preserved and continue to rule agriculture in the same way as before. "In fact, the State has renounced its regulating and social security functions of the past, but has still kept its economic power intact" (Keliyan, 1996).

5. The Availability of Agricultural Credit

In Bulgaria, the financial system is in deep crisis and the credit system is blocked. The financial situation of agricultural producers is in a critical state. There is a high risk involved with agricultural production in the country, and a lack of reliable collateral since land is not accepted for this purpose by the banks (there is no market for land); the banks, therefore, are reluctant to give loans to farmers. That is why in the early years of transition (1992-1994), special programs for short-term credit to agriculture have been organized. The State obliged State banks to give short-term loans to agricultural producers and the State budget covered part of the interest (up to 2/3 of it). Later, these programs were replaced by direct subsidies for working capital.

High interest rates in Bulgaria render the producers' efforts to achieve stability ineffective, and they frequently lead to the producers' strong dependency on creditors, and even to bankruptcy. The realization of agricultural production is uncertain. Furthermore, the market is often saturated by certain products, some of which are imported. Stock breeding also suffers constantly: purchase prices are kept low while fodder prices are constantly being raised (Dobrova, 1996).

Appropriate credit lines need to be made accessible to farmers and trading entrepreneurs. Experience from other countries has shown that it is preferable for people to be encouraged to save even small sums regularly, and rewarded for so doing through preferential treatment when accessing loans. Flexible credit lines providing loans of different sizes and for different purposes to men and women farmers and small entrepreneurs are needed as different types of subsidies are being

withdrawn. Attention must be paid to also making small loans available and to ensuring that the mode of repayment is flexible and compatible with the farming practices and entrepreneurial style of small farmers/entrepreneurs. Where the diminution of the administrative cost of small loans to large numbers of smallholders and entrepreneurs and the ability to grant credit without such collateral as land titles are concerned, the experience from a number of other countries has shown that the organization of prospective loanees into small groups of 5-10 self-selected members provides the necessary basis for solidarity, and mutual responsibility for loan repayment (e.g. Hossain, 1984 and 1988).

Furthermore, it is essential that women, whether they are wives or heads of household, are eligible for all types of loans. This is especially important since there were 158.5 female employers and self-employed in agriculture per 100 men in Romania in 1992 (UNDP, 1995). Experience from many countries has also shown that small farmers and entrepreneurs, and especially women, achieve much higher repayment rates than larger farmer and big entrepreneurs. The availability of credit to men and women smallholders combined with the adjustment of producer prices toward border price levels would, in fact, render the existence of input subsidies totally unnecessary.

While considerable sums have recently been made available by international organizations for private farms in Romania, the extent to which these funds manage to reach smallholders and family associations or are only channelled to agricultural and commercial companies is not clear.

6. Perspectives of Poverty Alleviation with Equity

A World Bank study of growth, equity and poverty concluded that the level of poverty increased markedly in Romania during the transition period 1989-92. The upper poverty line shows that nearly 30% of Romanian households were living below the poverty threshold in 1992, as against 10% in 1989. Furthermore, there was not only an increase in the proportion of the poor, but also a sharp increase in the proportion of the "very poor" among the total of poor households from 15% in 1989 to 33% in 1992. According to the same study, the fall in economic activity has been the largest factor contributing to the increase in poverty, though the latter has been least visible among farm households (Rashid, 1994). The fact that there has been more impoverishment among Romanian wage earners and pensioners than farmers is due to the sharp fall in wages and pensions as a result of a high level of inflation. This constitutes an important reason why wage earners and pensioners have turned to agricultural activity, made possible through land reform, to acquire an additional income. Farm households, on the other hand, experienced a very small decline in their main source of income and have been able to reduce food purchases by half, by substituting with home-produced food (Rashid, 1994).

It must be noted, however, that the sample used for the Poverty study conducted by the World Bank is seriously biased since households with female heads were systematically excluded. The bias is serious because in 21.6% of rural households in Romania, the head of the household is a woman (Population Census, Vol. III, Bucharest 1994). Moreover, there is female headship of a quarter of poor rural households, and among the very poor in rural areas, women head 30% of the households (Ronnas and Zejan, 1995). Therefore we do not know whether or not poverty has increased among these very vulnerable farm households. Another shortcoming of the database used by the World Bank study is the lack of information regarding the occupational status of wives. Where, for example, the study mentions that nearly 14% of the poor were members of households headed by unemployed persons (Rashid, 1994), we do not know what percentage of the poor are members of households in which both husband and wife are unemployed, and what percentage are members of households in which only the head of the household is unemployed but the wife is a wage earner.

The analysis of the economic position of Slovenian households is based on the 1988 and 1993 Household Budget Surveys with respect to income and socio-economic features. It could be argued

that, especially during a transition period, it would be preferable to use more "stable" welfare indicators such as consumption rather than income. However, because agricultural production by smallholders is intended primarily for home consumption, the use of income seems appropriate. The poverty line is defined as half of the average per capita income¹⁴. The different measurement methodologies used indicate that from 1988 to 1993 there has been a 3% increase in poverty, i.e. from 11.82% to 14.64% of the households. This occurred in spite of the fact that households earn higher incomes than they did in 1988. Furthermore, the value of the Gini index for 1988 is 0.28, while for 1993 it is 0.30, indicating that inequality in the distribution of income among households increased in 1993 as against 1988 (Pentaraki and Mergos, 1998a and b).

With regard to the determination of the social groups most vulnerable to poverty, the Slovenian data show that large households, agricultural households, households whose head is over 66 years of age and households whose head has only completed primary school education are more prone to poverty than other households.

The relationship between the incidence of poverty and household size is curvilinear; households of four members show the highest incidence of poverty in 1993, with 26.09% of them being characterized as poor (Pentaraki and Mergos, 1998a and b). These data are in agreement with data presented in the World Bank 1996 World Development Report showing that in Eastern European countries under transition, households with female heads, and households headed by the elderly (over 66 years of age) and people with a low level of formal education, are the most vulnerable groups with a much higher incidence of poverty (World Bank, 1996).

A World Bank draft report on Romanian poverty concludes that "the increase in economic activity, employment, real wages and agricultural income will be the main instrument for alleviating poverty..." and that there is scope for improving the targeting of public transfer programmes (Rashid, 1994). Experience from many countries, developed and developing, has shown that poverty alleviation or even diminution is not only difficult but it is also accompanied by an inherent number of pitfalls. Many programmes and policies aimed at the alleviation of poverty end by benefitting the least poor among the poor, and by increasing the social and economic distance between the assisted poor and those who become "hard core" unassisted poor. Also, the inequitable results of some efforts towards poverty alleviation have very often followed a gender line, thus further increasing the gender gap (Safilidou-Rothschild, forthcoming). The data presented below indicate that gender equity is a relevant and crucial issue for Eastern European countries in transition.

A significant gap in the data concerning the agricultural transition collected in all three countries is constituted by the lack of typology of the different types of farm families that would differentiate the degree to which husbands and wives are involved in agriculture or in other occupations, and whether they are pensioners or unemployed. Such differentiated data are needed in order to improve the understanding of rural poverty and for the appropriate targeting of policies and interventions concerned with poverty alleviation. The seriousness of this type of data gap is apparent when the socio-economic structure of peasant farms in Slovenia is examined. According to this, 49.8% of all farms were part-time farms in which at least one family member was employed outside agriculture in 1991. In the majority of these households, the husband most probably works outside agriculture and the wife is the farmer, but the existing data do not permit this conclusion with certainty, nor do they suggest the appropriate re-orientation of agricultural services and resources towards women farmers.

¹⁴ Because the data used do not provide adequate information about the household composition, it is assumed that, on the average, additional household members require an extra 70% of the income of the head of the household (Pentaraki and Mergos, 1997).

7. Employment Creation with Equity

In Romania, the unemployment rate in 1992 was 5.3 for men and 9.5 for women; in 1993 it was 6.3 for men and 13.0 for women, and in 1994, 8.6 for men and 12.9 for women (ECE Economic Survey for Europe in 1994-1995, Tables 3,4,5, national sources). Similarly, in 1993 and 1994, women comprised 53-54% of all unemployed in Bulgaria. The 1995 data for Bulgaria also show that there are higher unemployment rates for women between 25 and 44 years of age than for men (National Statistical Institute, 1995). The much higher unemployment rate for women is due to several factors, among which one of importance is the existence of discrimination against women, particularly in the private sector, where most of the new employment opportunities are to be found. There is considerable evidence from all Eastern European countries, including Romania and Bulgaria, that in the private sector there is blatant discrimination against women in the recruitment, hiring and firing of workers (World Bank, 1996; and UNDP/WID, 1995). This is usually explained by claims that women are less available to work for long hours, and by the perception that women are expensive workers because of the social benefits associated with them, as well as because of their lack of many technical skills. Furthermore, women in Romania face many severe obstacles to the development of their entrepreneurial activities since they lack self-confidence, business skills and knowledge, a supportive infrastructure (especially the child care centres that were previously available free of charge) and access to credit. In general, women have also unevenly shouldered the labour of the labour market transition since child allowances, maternity benefits and access to pre-school education and creches have deteriorated as a result of diminished State subsidies and the unwillingness of the private sector to finance infrastructure for women that facilitates the combination of family and work (Allison and Ringold, 1996; and UNDP/WID, 1995).

In Slovenia, on the other hand, unemployment rates for women are somewhat lower than for men: 8.45% versus 9.5% in 1994. There are, however, more self-employed women than men in agriculture (estimated ratio: 55:45).

The need for the formulation and legal enforcement of policies aimed at gender equality in employment is underlined by the fact that in Romania 70% of the traditional agricultural force are women and that households with a legal and *de facto* female head (the latter are most often created by the chronic alcoholism of the husband) are more vulnerable to poverty than households with male heads. Their greater vulnerability is evident from the fact that almost half of the households headed by females but only 29% of those headed by males neither have nor have had in the past any wage earner in the household (World Bank Draft, 1995).

In Romania, the proportion of men engaged in agriculture increased from 22% in 1989 to 28% in 1992 while the corresponding figures for women were 35% in 1989 and 38% in 1992. Agriculture has thus been feminised. In rural households, women are more active than men in agriculture, and men more active in non-agricultural employment. Women working in agriculture tend to be older than men. Nearly two-thirds of women working in agriculture are 40 years of age or above and outnumber men by 4 to 3 in this age group (Fong, 1996). An important change due to the transition is the fact that while work in the previous agricultural cooperatives was regulated, women now work as subordinate unpaid family workers. In Romania, for example, there are 214 women working as unpaid farm family workers for every 100 men (UNDP, 1995). A 1994 survey reports that over half of the female agricultural work force are unpaid family workers while the same is true for 39% of males (Fong, 1996). Given the significant role that women play in agriculture, at least in Romania, both as smallholders and as unpaid family workers, it is crucial that programmes to increase agricultural productivity be redirected specifically to reach the female heads of rural households and unpaid family workers.

In Slovenia too, it is estimated that about 20% of rural households are headed by women. However, it is not known whether this percentage is considerably higher in mountainous and marginal rural areas from which men migrate in considerable numbers.

Employment creation is crucial. At present the informal economies have expanded during transition, buffering the costs of transition for the unemployed and those who have dropped out of the labour force. Between 1992 and 1994, hidden economic activities in Bulgaria increased from 4% to 17%, and in Romania from 7% to 10% (Allison and Ringold, 1996). In rural areas, poor households are less likely than other households to have a wage earner. Employment creation could be encouraged both in agriculture (especially in the processing and trading of produce and inputs, reforestation and extension) and in non-agricultural activities such as agrotourism, as well as in the development of basic infrastructure, in particular the service sector. Self-employment requires encouragement and support, especially through the provision of flexible and accessible credit. In addition under the collectivisation and centralisation, the villages lost many of their social institutions with their differential functions. Collective farms took over the majority of these functions. Here too, there is another opportunity to create employment through the private sector.

Another important equity issue to be examined is that regarding ethnic groups such as the Turkish and gypsy minorities in Bulgaria and the gypsies in Romania. The gypsies also tend to live in remote and underprivileged rural areas and can be considered not only as poor but also as socially excluded. Would an increase in producer prices be relevant and sufficient for the improvement of their living conditions, or would it be preferable to concentrate on farm and/or non farm employment creation? The available data do not allow such questions to be answered.

8. Conclusion

In the case of Bulgaria and Romania, the incomplete process of land reform, the lack of agricultural credit for smallholders, the lack of market and agricultural credit cooperatives for smallholders, and the lack of legislation facilitating and regulating the open market, make it practically impossible to assess the impact of agricultural policies on agricultural production and creation of self-employment in rural areas. The available data for these two countries indicate that agricultural prices do not have a significant impact on agricultural production and agricultural growth. The situation in Slovenia is less clear-cut and there are no relevant sociological studies that could help assess the social and economic impact of agricultural prices. Furthermore, over and above studies directly related to the impact of agricultural price policies, there is a need for detailed poverty studies to be undertaken in all three countries and to assess the impact of targeted interventions which are aimed at the alleviation of poverty among different vulnerable groups, including households with female heads and farm households in which women are the farm managers.

In conclusion, it seems that unemployment and poverty are much higher in those countries in which the restructuring of the State sector has been slow and incomplete, such as Romania and Bulgaria, than in countries in which such restructuring has been fuller and more rapid such as Hungary, Poland and the Czech Republic (Allison and Ringold, 1996). It seems, therefore, that appropriate policy measures include the more rapid completion of the transition from a State to a market-orientated society accompanied by programmes targeted to assist the vulnerable social groups to emerge from poverty. Such targeted programmes include flexible agricultural credit accessible to groups of all types of smallholders, the liberalization of markets, an effective agricultural extension system, training for farmers that focuses on men and women smallholders, and the support of marketing cooperatives and of small, informal groups of smallholders. All these programmes can increase the possibility of self-employment among the poor and favour the development of medium and small enterprises.

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