

# SOCIAL POLICY AND REGIONAL DEVELOPMENT

proceedings

**SOCIAL POLICY AND REGIONAL DEVELOPMENT**

**PROCEEDINGS**

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Friedrich Ebert Stiftung

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## **PROCEEDINGS**

Zagreb, 2007

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# Preface

These proceedings are the final result of the international conference “Social Policy and Regional Development” held in Zagreb on 30 November 2006. The conference was organised in a joint effort made by the Institute of Economics, Zagreb and Friedrich Ebert Stiftung. The objective was to cover social aspects of regional development and regional aspects of social policy. Over 100 participants engaged in a lively interdisciplinary discussion confirmed the objective was achieved and that such topics deserve more attention both in the Croatian academic discourse and the policy-makers’ considerations.

The conference committee had received 60 abstracts, accepted 30, and finally received 20 papers. Nine were chosen and presented after a double-blind review by international reviewers. Two keynote speeches were delivered as well. Simin Davoudi from Newcastle University, England reported on the problems of polycentric development and metropolitan regions in the EU, which re-emerged in the European planning discourse after the introduction of the territorial cohesion concept. Yuri Kazepov from the University of Urbino, Italy advocated for a territorial reorganisation of the European social policy.

Keynote speeches were a good introduction to presentations that followed. The papers dealt with incentives to the unemployed in 39 poorest neighbourhoods in England, unfavourable change in social and economic structure of the poorest Turkish regions that resulted from growing regional disparities, poverty in the rural areas of Croatia, negative social impacts of the private sector participation in water supply in the South Caucasus, the role of social partners in the management of the European Regional Development Fund in Poland, deinstitutionalisation, diversification and decentralisation in social services reform in Bosnia-Herzegovina, Croatia and Serbia, attitudes of social groups towards some aspects of the quality of life in Primorje - Gorski Kotar County in Croatia, implications of the EU enlargement and cohesion for economic and social development in Turkey, and regional aspects of agricultural policy in Norway.

Diversity of the papers contributed to an interdisciplinary discussion which brought more light to the fact that regional disparities quite severely affect the regions left behind in economic and social development. The importance of social policy in the

regional development management, and no lesser importance of its regionalisation, became more and more evident as the presentations went on. This was noticed by the discussants Will Bartlett from the University of Bristol, Ivo Bićanić from the Faculty of Economics and Business of the University of Zagreb, and Nenad Starc from the Institute of Economics, Zagreb, but also by the chair women Marijana Sumpor from the Institute of Economics and Sandra Švaljek, Director of the Institute. Notorious but often forgotten requirement that regional development ought to be managed was particularly stressed since the presenters showed well that growing regional disparities in the EU and the accession countries as well have been producing more social than economic problems. Departments of Economics at Croatian universities that have been avoiding regional economic courses for decades could use the outcomes of the conference as an incentive to enlarge their programmes. Economists who graduated from these Departments could find an incentive to re-discover regional economics in all its aspects.

Finally, we would like to thank Friedrich Ebert Stiftung, anonymous reviewers, discussants, representatives of the Ministry of Science, Education and Sports, colleagues from the Institute, and all the participants for contributing to the realisation of this project.

Editorial Board

## Keynote Speech

# Polycentric Development and Metropolitan Governance

Simin Davoudi\*

I would like to talk about two things: firstly, the notion of polycentric development and what it means at different spatial scales, but mainly focusing on the regional or inter-urban scale; secondly, the role of governance in facilitating the development of polycentric urban regions. But before that let me remind you of two significant milestones that we have witnessed since we have entered the 21<sup>st</sup> century. The first one is that the 21<sup>st</sup> century is the first *urban* century. Before 1850 there was no society that could be defined as predominantly urbanised, and by 1900 only Britain could be so regarded. Today, half of the world's 6 billion population are urban dwellers. Moreover, the developing countries have begun to urbanise more rapidly than the industrial nations did in the heyday of their urban growth. It took London 130 years to reach the 8 million population mark; Mexico City did that in thirty years. So, for the first time in history more people live in urban than in rural areas. In Europe, the ratio is already four out of five.

The second milestone is that for the first time the world urban dwellers form part of a single *networked* globe. Cities world wide are increasingly networked in complex systems of global interaction and interdependence. The information revolution has led to what Manuel Castells calls "time-space compaction" and the emergence of "space of flows". However, contrary to the earlier prediction this does not imply the death of distance. On the contrary, advances in telecommunication have not significantly reduced the importance of face to face contacts in social and business interactions. Neither have they diffused the forces of agglomeration. Population and economic activity continue to gravitate to major urban centres, often leading to a

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relentless growth of cities, as is evident in cities such as Dublin and Milan, and even more strikingly Madrid.

At a larger scale, agglomeration forces have also led to the creation of what Jean Gottmann famously called *megalopolis*, referring to a constellation of 600 miles of contiguous areas in the East Coast of America running from Boston in the North to Washington in the South. Doxiadis, the famous Greek urbanist, went even further in his attempt to explain the expanding scale of urban growth and the coalescence of metropolitan areas. He suggested that we would soon live in *ecumenopolis* or the world city. Although his vision was more of a poetic vision, it does resonate with contemporary reality when you look at areas such as East Asia with Beijing, Seoul, Tokyo urban corridor which transcends national boundaries and stretches almost contiguously along a 1500 km strip of highly networked and densely populated land with a maximum of 90 minutes air travel time. At the level of Europe, the agglomeration forces have led to the uneven development of the European territory, where a prosperous core stands against an underdeveloped periphery. This core-periphery conception of the European space has been captured in a number of metaphors such as “European megalopolis”, “golden triangle”, “the blue banana”, and more recently the “pentagon”.

The term pentagon was coined in the European Spatial Development Perspective or ESDP, which is a strategic document published in 1999 by the EU informal Council of Ministers for Spatial Planning. Although it is not a binding document, it has had a significant influence on spatial strategies that have since been produced in many member states. The pentagon refers to an area defined by the metropolises of London, Paris, Milan, Munich and Hamburg. Although it covers only 20 percent of the EU-15 territory, it generates 50 percent of its Gross Domestic Product (GDP) and is home to 40 percent of its population and 75 percent of its research and development investment. It is seen in the ESDP as the only economic zone which can compete effectively in the world market. So, the main thrust of the ESDP is to promote the creation of other zones of globally significant economic growth. The idea is that such a strategy would lead not only to a more competitive Europe, but also a more socially cohesive and spatially balanced Europe.

The spatial strategy that underpins this objective is polycentric development. By promoting polycentricity at the EU level, the ESDP aims to challenge the core-periphery image of Europe and promote a more balanced territorial development,

which has been captured in yet another metaphor called “a bunch of grapes”. It is then argued that such growth zones can be developed by promoting polycentricity at the regional level, i.e. by developing polycentric urban regions or PUR for short. PURs are defined as regions with three or more historically and politically separate cities which do not have strong hierarchical ranking and are located in reasonable proximity to each other, and which, more importantly, have a significant functional interconnection and complementarity. Several examples of PUR have been cited, such as the Rhine-Ruhr area in Germany, which presents a sharp contrast to the Brandenburg area where Berlin is clearly dominant. Other examples include the Flemish diamond in Belgium and the Padua-Treviso-Venice area in Northern Italy.

Outside Europe, Southern California and the Kansai region in Japan are mentioned as examples of PUR. But the classic example of PUR is Randstand in Holland, consisting of a ring of four large cities around an area of farmland and water called the Green Heart. Each city thrives on a different yet complementary economic basis. Amsterdam benefits from proximity to Schiphol Airport, tourism and finance. Utrecht has the service sector and nice surroundings. The Hague is the seat of government and Rotterdam lives off its port. The Randstand is not an administrative or political unit but given the proximity and interactions amongst its constituent cities it has been promoted, for a long time, by the Dutch planning community as a single coherent region, or indeed as the European Delta Metropolis capable of competing with Paris and London.

However, despite these examples, the conceptualization of polycentricity at a regional level is still at developmental stage. Its definition, for example, is problematic at least on two accounts. Firstly, what is a reasonable proximity or commuting distance? Is it Patrick Geddes’ one hour rule of thumb? Or, is thirty minutes, forty minutes, 45 minutes as others have suggested? Secondly, how do we measure functional interconnections? The common criterion is labour market flows. But, this seems increasingly inadequate, as I will elaborate later on. Other exchanges such as the inter-firm flows of goods, information and know-how are notoriously difficult to measure as it has been shown by a recent Interreg project called Polynet. In addition, as a normative agenda, which is how the ESDP sees it, it raises a number of questions: Is PUR a panacea for solving regional problems? Is it a more sustainable form of managing urban growth? And if so, what kind of policy intervention can facilitate the development of a PUR?

Although these questions are yet to be addressed, the notion of polycentric development has already provided a powerful political discourse for promoting both economic competitiveness and spatial equity. In fact, it has come to be seen as the spatial manifestation of the EU territorial cohesion agenda. At the level of member states, i.e. at the national level, it is used to challenge the polarising effects of agglomeration economies and the resulting regional disparities. In Ireland, for example, the economic boom of the last decade, which has turned the country into one of Europe's star performers, has mainly gravitated to the Dublin city region. The Greater Dublin Area is home to 40 percent of national population, 48 percent of National Gross Value Added (GVA), 70 percent of major company headquarters, 80 percent of government agencies, and 100 percent of financial institutions. So, although this economic success has contributed to polycentricity at the level of Europe as a whole, it has turned Ireland into a highly monocentric country.

In Ireland, the economic growth of Dublin is widely celebrated as the engine of the "Celtic Tiger". But it has also raised the alarm for policy-makers because firstly, its overheated economy has created a number of social and environmental problems which if left unchecked can disadvantage the competitiveness of Dublin itself. Secondly, this excessive growth has led to the widening of regional disparities. And this is partly because in Ireland, as in most other cohesion countries, only the major urban centres, particularly the capital cities, had the critical mass, the infrastructure, and the institutional capacity to absorb the EU resources and deploy them effectively. It is therefore not surprising to see similar trends taking place in the new member states which will be the main beneficiaries of the EU Structural Funds in the near future. In these countries, growth has already begun to gravitate towards capital cities such as Budapest, Prague, Tallinn, Riga and so on. Even Poland, which entered the post-socialist transformation with a well balanced urban system, has since experienced growing regional disparities.

In combating such trends many national spatial strategies have drawn explicitly or implicitly on the concept of polycentric development to promote functional interconnections between the second tier cities that do not have the critical mass to be globally or nationally competitive. Again Ireland is a potent example, where a number of neighbouring cities in the South-West, branded as Atlantic Gateways, are encouraged to pull their resources together and develop a polycentric urban region and hence increase their chance of becoming a new zone of economic growth and a counterbalance to Dublin. But let me emphasise one point here. The emphasis in the

Irish National Spatial Strategy is put on maximizing endogenous potential of these cities rather than redistributing resources from Dublin. I think that is a very important point in terms of the new regional policy. Similarly, in the UK, the concept of polycentric development has underpinned what is called the Northern Way Initiative, which is a coast to coast megalopolis with a 130 mile M62 corridor at its core and taking on 8 core city regions. The idea here is that by developing a coherent functional space, the area will become more competitive and the £29 billion productivity gap between the North and the South of the country will be closed.

However, when it comes to implementing the polycentric strategy, the most critical elements are the development of economic links and functional interactions and complementarities, because without these a PUR would simply represent a morphological concept rather than an integrated functional space. In Scotland, for example, despite the fact that development has spread along an East-West corridor, dominated by well connected cities of Edinburgh and Glasgow, it is not evident that the area is a fully integrated single region.

So the critical question for policy-makers is how to forge functional synergies between neighbouring cities of a potential PUR. There are two key areas where policy intervention is particularly useful. One is often obvious and relates to the development of “hard infrastructure” such as physical accessibility, efficient transport and telecommunication networks between the constituent cities. The other area which attracts less policy attention relates to the development of what we may call “soft infrastructure” and notably governing capacity and institution building. If cities are to pull together their resources and create synergies, they need appropriate forms of governance capable of coordinating their activities and providing a degree of leadership and strategic directions. However, there is a considerable mismatch between the strategies that are promoting polycentricity and the operation of the formal government structure. I am going to elaborate on this point by drawing on the current debate on city regions in the UK because although they represent a smaller than PUR scale, their governance principles are similar.

We all know that while governments operate on the basis of administratively defined boundaries such as communes, municipalities, boroughs, local authorities and so on, the activities of industries, businesses and households straddle such boundaries and take place in functionally defined areas. For example, 40 percent of the UK working population cross at least one local authority boundary during their journey to work.

The figure rises for professional and skilled workers. And as I mentioned before, journey to work is not the only journey we make. People may live in one administrative area, work in another, send their children to school in a third, spend their leisure time in a fourth, use the services of a hospital in the fifth and so on. So, making strategies on the basis of administrative boundaries does not make sense and will not be effective. But what is the alternative? How can administrative boundaries and wider functional areas be co-aligned? Well, this is currently the subject of a heated debate in the UK. The debate is mainly focused on the city region and particularly large metropolitan cities which have an extensive catchment areas, but their authority is often confined to a much smaller administrative jurisdiction.

Birmingham in the West Midland Region of England is a potent example. The boundary of the municipal city is a political and administrative definition; the one which demarcates the metropolitan city is a physical definition based on a contiguous built up area; and the line which delineate the city region is an economic definition based on the travel-to-work area. Their mismatch makes Birmingham a classic example of a metropolitan area which has evolved from the coalescence of smaller independent settlements into a large contiguous built up area, but where no local authority has administrative control over the whole area and even less so over the city region. To overcome this fragmentation it is crucial that a city-region approach to strategic planning is adopted and this of course requires a better co-alignment of governance and functional geometry. However, this does not mean that a single all powerful city region authority should take over the jurisdiction of the whole area. It is even more perverse to argue for such an authority at the level of polycentric urban regions. There are a number of reasons why such a governance structure is not desirable or effective.

Firstly, it is politically sensitive and creates unnecessary rivalries and resentment, especially amongst smaller cities which might fear loosing their autonomy and identity. Secondly, the geography of functional areas varies, depending not only on the methodology which we apply to define them, but also on different functions and markets. For example, travel-to-work patterns may be different from the patterns of travel-to-shopping and entertainment centres. Often for less frequently used services the catchment area of metropolitan cities is much more extensive than for the daily travel-to-work. This is evident from a recent research undertaken by Brian Robson at Manchester University which shows the wider spread of the cultural draw of Manchester's theatres. Although the majority of customers are drawn from the North

West Region, there is hardly a single local authority in England and Wales which does not have at least one person attending a performance at one of Manchester's theatres. Thirdly, even within one type of market, such as the labour market, the catchment area is markedly different by different occupations. Looking at two sides of the spectrum here, one can see that it is substantially larger for professional and managerial workers than for semi-skilled and routine workers. Fourthly, much of the debate and research on functional regions, including the research I mentioned, is dominated by economic imperatives with little attention to the environmental footprints of metropolitan cities. For example, the movement of waste from metropolitan cities such as Greater Manchester to the rest of the region has a catchment area of its own whose boundaries do not necessarily coincide with other functional boundaries. Furthermore, the flows are always in opposite direction to the dominant economic flows. Fifty eight percent of municipal waste generated in Greater Manchester is exported to the nearby town of Warrington, a small city which is locally known as the dustbin of the North West, while about a quarter of the waste travels even further to Yorkshire.

To sum up, there is no single overarching city region boundary which can catch all functions and services, and hence there is little justification for creating a single city region authority. It is even less justifiable to have such a formal government structure for polycentric urban regions. The fuzziness of the functional areas means that any tightly drawn administrative boundaries, no matter how big or small, will become inadequate for one type of function or another. Sooner or later they will also become irrelevant as these patterns are dynamic and they rapidly evolve. It thus follows that imposing a fixed structure of government over such fuzzy boundaries will do little for effective governing of the complex and dynamic functional interconnections between cities and their hinterland. Similarly, it will do little for forging synergies and cooperation and developing polycentric urban regions.

Instead, what is needed is a variable geometry of more informal and flexible inter-municipal collaborations for different functions and services. In fact, such collaborative arrangements, based on multi-agency partnerships and flexible forms of networking at different spatial scales, are already happening across Europe and have become the hallmark of the transition from government to governance. They represent alternative models of managing collective affairs which are based on horizontal self-organisation amongst mutually interdependent actors from both governmental and non-governmental sectors.

Hence, although the evidence on the degree of functional polycentrism across European regions is not yet conclusive, the move towards *political polycentrism* is already evident from the proliferation of multi-level forms of governance. Most of these initiatives have been bottom up. In Birmingham, the case I mentioned earlier, there is now a concerted effort to set up partnership between existing local authorities. Lyon in France and Frankfurt in Germany are other pertinent examples of such trends. However, these informal arrangements are likely to be more effective and command more credibility if governments provide appropriate incentives to encourage their establishment and increase their chance of being sustained over time.

Now, let us go back to the question I posed earlier: How can policy intervention facilitate functional interconnections between neighbouring cities of a potential polycentric urban region? Well, as far as the soft infrastructures are concerned the answer is: by incentivising inclusive inter-municipal coalitions for different functions across the PUR geometries. To conclude, collaboration is the hallmark of effective governance, and effective governance is a prerequisite for the development of polycentric urban regions.<sup>1</sup>

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<sup>1</sup> More detailed discussions of these issues and an extended bibliography can be found in Davoudi, S. 2003, "Polycentricity in European Spatial Planning: from an Analytical to a Normative Agenda," *European Planning Studies*, 11(8), pp. 979-999.

# The Impact of England's New Deal for Communities Programme on Worklessness

Roxana Gutiérrez-Romero<sup>\*</sup>,  
Michael Noble<sup>\*\*</sup> and  
Ilaria Covizzi<sup>\*\*\*</sup>

## Abstract

The New Deal for Communities (NDC) Programme is designed to bridge the gap in living standards between 39 of the most deprived neighbourhoods in England and the rest of the country. Each of these 39 NDC neighbourhoods has organised Partnerships in order to identify local priorities, set appropriate targets, and implement suitable initiatives. This paper investigates whether the NDC Programme has enhanced the probability of leaving worklessness. Worklessness refers to the involuntary exclusion from the labour market of working-age individuals and in this article worklessness is measured as the number of individuals of working age that are in receipt of Job Seeker's Allowance (JSA) or Incapacity Benefit/Severe Disablement Allowance (IB/SDA). The impact of the NDC Programme on worklessness is assessed using administrative data on benefit claims and the Difference-in-Difference evaluation method.

**Keywords:** social policy, area-based initiatives evaluation, worklessness

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# 1 Introduction

Increasing community involvement in area regeneration is seen as one of the corner stones for development in many developed and developing countries. As a result, in the last fifty years there has been a growing interest of governments in Europe, the USA and developing countries on funding community engagement in the design and implementation of Area Based Initiatives (ABIs) (Burton et al., 2004; OECD, 1998; Smith, 1999). In general, ABIs are publicly funded initiatives targeted on areas of social or economic disadvantage, which aim to improve the quality of life of the residents through an umbrella of programmes. A key distinction from other publicly funded programmes is that ABIs seek for active participation by residents, representatives of the community, voluntary and community organisations (Burton et al., 2004).

The purpose of this article is to present findings of one aspect of the evaluation of an area-based initiative launched in the UK called the “New Deal for Communities” (NDC) Programme. The NDC Programme is one of the most ambitious area-based initiatives ever launched in the UK given its design, budget and the length of time during which the initiative will be active. Over £2 billion will be invested in the NDC Programme over a period of 10 years. The purpose of the NDC Programme is to bridge the gap between 39 of the most deprived neighbourhoods and the rest of the country so that within 10 to 20 years no one should be disadvantaged because of where they live (Social Exclusion Unit, 2001: 5). The NDC Programme is part of the National Strategy for Neighbourhood Renewal, which focuses on the regeneration of deprived areas on five major themes: worklessness, crime, health, education and housing (Office of the Deputy Prime Minister, 2001b).

This article focuses on assessing the impact of the NDC Programme on worklessness.<sup>1</sup> Specifically, the article analyses what would have happened to individuals of working age, who are in receipt of Job Seeker’s Allowance (JSA) or Incapacity Benefit/Severe Disablement Allowance (IB/SDA) living in NDC areas, if the NDC Programme had not been implemented. In order to build this counterfactual scenario, the Difference-in-Difference (DD) method is employed.

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<sup>1</sup> In this article, we refer to worklessness as those jobless people of working age who are actively seeking work and are claiming unemployment benefits or those people who are incapable of work due to disability or ill health and are claiming sickness benefits.

The DD method is a widely used technique for evaluating programmes at both individual and neighbourhood level. The DD method was originally applied by Jonathan Gruber (MIT) and David Card (UC Berkeley) in their studies in labour economics and public policy, but now is widely applied in economics, sociology, medicine, psychology, natural sciences, and many other fields (Grimm, 2001).<sup>2</sup> The DD method assesses the net impact of the NDC Programme by comparing the transitions off worklessness benefits made by claimants in NDC areas *before* and *after* the intervention (NDC), to the changes in outcomes experienced by individuals with similar characteristics to those in NDC areas who that are not living in areas targeted by the NDC Programme. In the Programme evaluation literature, this group of individuals is referred to as a control group. The control group in this article consists of JSA and IB/SDA claimants living in the rest of England. A key advantage of the DD method is that it can isolate the impact of the NDC Programme by controlling for demographic characteristics and area factors that might influence transitions off benefits. In addition, the DD method can also control for the fact that, on average, NDC areas started from a more deprived situation than the rest of the country.

In order to assess the impact of the NDC Programme on worklessness, it is necessary to have data on benefit claimant's characteristics before and after the NDC Programme was launched. A major strength of the approach reported in this article is its use of administrative data on benefit claimants rather than survey information. The administrative data used, GMS-ONE, are held and maintained by the Department of Work and Pensions (DWP). The advantages of using this source are numerous. It is continuously updated, it contains historical information on the characteristics and benefits spells of claimants, it is subject to rigorous quality checks and it contains information on 100 percent of the benefit claimants' population in the UK.

The rest of the article is structured as follows. Section II discusses the background of the NDC Programme. Section III, describes the administrative data used. Section IV describes how the NDC beneficiaries and non-NDC beneficiaries groups were selected. Section V describes the evaluation methodology. Section VI presents the results of the DD evaluation. Section VII presents the conclusions.

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<sup>2</sup> For instance, Bertrand, Dufflo and Mullainathan (2003) conducted a survey of all articles that used the DD estimator in six journals between 1990 and 2000. From the 92 articles surveyed, labour related variables were the most commonly used dependent variables.

## 2 Background of the NDC Programme

There has been a growing gap in living standards between the most deprived neighbourhoods in England and the rest of the country. This gap has been growing since the economic recessions of the 1980s and the 1990s when poor neighbourhoods struggled to adapt to the economic transformation of the country, such as the declining importance of manufacturing and the rising demand for skills. Areas with high levels of unemployment saw the greatest rise in mass joblessness, combined with a rise in health inequality, poverty, crime and eventually worse public services than the rest of the country (Social Exclusion Unit, 2001).

In 1998 the UK government carried out a study that identified 4,000 deprived neighbourhoods in the country with high levels of worklessness (Social Exclusion Unit, 1998). As a result the Labour Government has instigated a number of policies to deal with worklessness in general (Social Exclusion Unit 1998, 2001; Office of the Deputy Prime Minister, 2001a, 2001b, 2002, 2003, 2004; Wilkinson, 2003) as well as specific area-based initiatives (ABIs) which have as one of their objectives to reduce worklessness in particular deprived areas. Among these ABIs initiatives the New Deal for Communities (NDC) Programme was launched in 1998 initially considering 17 selected neighbourhoods (NDC areas), followed by a second round of the Programme including another 22 neighbourhoods in 1999. The 39 NDC areas were selected based on two key criteria. First, the degree and extent of deprivation of the neighbourhood based on the - then current - 1988 Index of Local Deprivation; and second, to include neighbourhoods in all the nine Governmental regions - so that lessons could be learnt from different parts of the country.

The key characteristic of this programme is that each of the 39 NDC neighbourhoods selected to participate in the programme will identify local priorities, set appropriate targets, and implement suitable initiatives. Each NDC area will receive on average £5 million over a period of 10 years. The aim of the NDC Programme is to bridge the gap in living standards between these neighbourhoods and the rest of the country so that within 10 to 20 years “no one should be disadvantaged because of where they live” (Social Exclusion Unit, 2001: 5). Another distinctive characteristic of the NDC Programme is that it does not rely on a unique policy but rather on a wide range of non-compulsory projects aimed at tackling deprivation in five key domains: reducing high levels of worklessness; reducing high levels of crime; improving educational attainment; improving poor health; and tackling problems with housing and the

physical environment. This article will evaluate the extent to which the NDC Programme has helped people claiming unemployment and sickness benefits in ceasing to claim these types of benefits.

NDC Partnerships have designed and implemented diverse projects to specifically tackle worklessness and to ease the transition into work. These projects aim to close the jobs gap, empower and bring new opportunities to workless people and prevent discrimination and long worklessness spells. To achieve these aims partnerships are providing workless people with training, support on enhancing inter-personal skills, basic literacy, numeracy, IT support to facilitate job search, support to micro-enterprises, help for people with disabilities, to mention just some.

The aim of this article is to estimate the extent to which the NDC Programme has influenced the worklessness rates in partnerships, by comparison with what would have happened to them without the programme. Evaluating the impact of the NDC Programme on worklessness is of great importance for the communities involved and for the government so they could assess whether NDC areas are bridging the gap with the rest of the country. To evaluate the NDC Programme this article uses the administrative data on benefit registers GMS-ONE and the difference in difference (DD) method. The database used is described next.

### 3 Data

The longitudinal database used, GMS-ONE,<sup>3</sup> is a continuous record of all UK benefit claimants,<sup>4</sup> which allows for analyses of claimants' transitions in and out of benefits, geographical migrations and individual/household characteristics. An estimated 2.5 billion records are loaded annually into the database (Syntegra, 2005).

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<sup>3</sup> *The administrative data used (GMS-ONE) in this article were anonymised by the data provider (DWP) and were kept secure during the analysis. The data have been analysed in such a way as to avoid the possibility of individuals being identified from any of the information contained within.*

<sup>4</sup> *It contains information obtained from 406 local authorities on jobseekers allowance, income support, bereavement benefit/widows benefit, incapacity benefit, severe disablement allowance, retirement pension, disability living allowance, attendance allowance, invalid carers allowance, child benefit, industrial injuries, pension credit, lone parent benefit, housing benefit, and council tax benefit.*

The GMS-ONE database was set up in 1999 initially to evaluate the then Department of Social Security's (now Department of Work and Pensions) "ONE" pilots<sup>5</sup> and is constructed from data scans from a database maintained by the Generalised Matching Service (GMS) of the Department of Work and Pensions. The Generalised Matching Service was set up in the early 1990s to examine the extent of overpayments within the benefits system due to fraud and error.

## 4 Advantages of GMS-ONE

GMS-ONE type data are unique offering various desirable properties for evaluating the NDC Programme:

- Data are derived from the *actual administrative registers* on benefit claims. Having information on 100 percent of the benefit claimants' population avoids the problems of non-response and attrition presented in surveys;
- It does not suffer from sampling errors. Given that GMS-ONE contains information on claimants in every region, regardless of its size, there will be no loss of precision from clustered sampling or self-selection usually introduced in survey sample designs;
- It is continuously updated capturing historical information on the characteristics and benefits spells of claimants. This is not accurately detectable in surveys. People can change in behaviour, personal characteristics or claim new benefits between survey cohorts. Hence, GMS-ONE provides more reliable data for comparing the transitions in and out of benefits over time;
- It relies on actual administrative data sources and is subject to rigorous quality checks. These two characteristics prevent GMS-ONE from having errors such as data inaccuracies, data collection problems and measurement errors commonly observed in sample surveys. In the latter, people can forget or provide inaccurate information on the benefits claimed such as starting and ending date claims, type of benefit claimed, etc.

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<sup>5</sup> "ONE" was part of a welfare to work programme signifying a single work focussed assessment of new social security claimants. This initiative has now been incorporated into a broader welfare to work programme and is not the focus of this study.

Moreover, although GMS-ONE contains information only required for detecting benefit fraud and for other administrative purposes, it has proved to be an important data source for research. A number of studies by the Department for Work and Pensions (DWP) have employed GMS-ONE data for research purposes and also for evaluating government programmes such as the New Deal for Lone Parents among others (Department of Social Security, 2000; Knight and Lissenburgh, 2005; Smith et al., 2004).

Managing GMS-ONE represents a computational challenge. Given its complexity and size it is impossible to work with it in a conventional computer. Overall GMS-ONE contains one or more claims per individual, having 57 million records and representing 40 gigabytes of storage.

## 5 Selecting NDC Beneficiaries and Non-NDC Beneficiaries

Constructing the unobserved counterfactual is the central issue that evaluation methods address. We cannot observe the outcome programme participants would have experienced had they not participated. Instead, programme impacts are measured by comparing a treatment group's (people living in the NDC area) outcomes to those of a control group (those not living in an NDC area), which consists of individuals similar to those in the treatment group who did not live in the area where the NDC Programme operated. Then, the treatment and control groups must be similar in all important characteristics, e.g. age, sex, JSA and IB/SDA proportion of claimants, etc.

In broad terms there are two methods to select the treatment and control groups. The first methodology is to use observational data such as responses to survey questions that sample NDC beneficiaries and control areas. The second method is to randomly select the members of the groups. A major pitfall of the first method is that it has a selection bias, i.e. units of observation self-select to be evaluated in the programme. For instance, the NDC communities that are more likely to introduce policies to reduce the number of workless people are also more likely to have a larger reduction in the number of workless people. Therefore the initial difference between the characteristics of workless people in the treatment and the control group could potentially bias the evaluation, and it will be not be possible to distinguish whether

the gains from the NDC Programme were due to the policies implemented or because of the initial differences between the treatment and the control groups.

An alternative methodology is to randomly select NDC inhabitants and non-NDC inhabitants from GMS-ONE. This method ensures that the control and treatment groups selected are the same on average. Therefore, there are no systematic differences in the observed or unobserved characteristics between programme beneficiaries and individuals in the control group (Regalia, 1999).

	<b>JSA claimants</b>		<b>IB/SDA claimants</b>	
	<b>NDC areas</b>	<b>Rest of England</b>	<b>NDC areas</b>	<b>Rest of England</b>
<b>Gender</b>				
Male	79.2	76.0	65.7	63.4
Female	20.8	24.0	34.3	36.6
<b>Age</b>				
16-24	29.2	25.1	11.2	15.2
25-34	30.4	28.8	20.1	23.6
35-44	21.6	21.0	22.2	25.7
45-59	18.5	24.2	39.1	31.1
60-64	0.4	0.9	7.4	4.4
<b>Presence of partner</b>				
Yes	83.5	83.5	93.4	93.6
No	16.5	16.5	6.6	6.5
<b>Number of children</b>				
0	86.1	86.7	89.9	89.5
1	4.3	5.0	4.8	4.8
2	4.4	4.2	2.1	3.2
3	2.6	2.4	1.7	1.6
4	1.5	1.1	0.7	0.6
5+	1.0	0.7	0.7	0.3
<b>Presence of children aged 0-4</b>				
Yes	7.7	6.7	4.0	3.1
No	92.3	93.3	96.0	96.9
<b>Previous worklessness spell(s)</b>				
Yes	14.1	15.3	13.5	10.7
No	85.9	84.8	86.5	89.3
<b>Previous worklessness spell longer than six months</b>				
Yes	0.3	0.2	0.5	0.4
No	99.7	99.8	99.5	99.6
<b>Total</b>	6,029	267,260	3,687	222,722

Source: Authors' estimates using GMS-ONE.

Further, when the treatment and control groups are determined randomly, their similarity can be assessed by simple tests. For instance, we can compare the proportion of JSA, IB/SDA claimants in both groups before the NDC Programme started. A stratified random sample was drawn “without replacement” – for giving each observation in the data the same chance of being selected. The control group was defined as the group of claimants not living in NDC areas. The stratified sample for JSA claimants is made up of 1,366,445 observations. The sample for IB/SDA consists of 1,132,295 observations.

We compared the samples for treatment and control groups by 1) JSA, IB/SDA proportion of claimants, 2) age distributions, and 3) gender. For this we performed statistical tests to determine whether any of the observed differences between the two groups were statistically significant. For age distributions we used the Kolmogorov-Smirnov test which tests whether there is equality between two distribution functions.<sup>6</sup>

## 6 Evaluation Methodology

Intuitively the DD estimator evaluates the impact of a programme by comparing the difference in indicators of two groups (treatment and control) at two points in time (e.g. at the beginning and at the first stage of the programme). In this article the indicator to evaluate is whether a person has ceased to claim worklessness benefits or not. Thus, the DD method compares the changes in outcomes in the “treatment group” (JSA and IB/SDA claimants living in NDC areas) *before* and *after* the implementation of the NDC Programme, with the changes in outcomes in the control group (JSA and IB/SDA claimants living in the rest of England). In mathematical terms, the fixed-effects logistic model is presented in the following equation:

$$\Delta Y_{it} = \beta_0 + \beta_1 Treatment_i + \beta_2 Post_t + \beta_3 Treatment_i * Post_t + \beta_4 X_{it} + \gamma_i + \lambda_t + \varepsilon_i \quad (1)$$

$i = 1, 2, \dots, n$  Denotes the individual (benefit claimant).

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<sup>6</sup> This test was carried out with the `ksmirnov` test in *Stata*. For the rest of the variables we performed Pearson Chi-squared and t-tests to test the proportions of discrete value variables. These were computed with the `tabulate` command in *Stata*. The results of these statistical tests showed that the treatment and control groups are similar in the dimensions compared.

$t = 1, 2, \dots, n$  Denotes the time period of measurement (year: 2000, 2001, 2002...).

$Y_{it}$  = Dummy variable for being on JSA - or IB/SDA / not being on JSA at time  $t$ .

$Treatment (Di)$  = Dummy variable for being in the treatment group (JSA claimant living in NDC area), or equal to zero if the  $i^{th}$  claimant is in the control group (JSA claimant living in the rest of England).

$Post_t$  = Dummy variable for whether date  $t$  (baseline period 2001) is after the NDC program started, 0 otherwise.

$Treatment_i * Post_t$  = Dummy variable coded 1 if the  $i^{th}$  claimant has received the treatment by date  $t$  (e.g. 2001), and 0 otherwise.

$X_{it}$  = Variables for the  $i^{th}$  claimant (age, migration in/out of NDC areas, etc.).

$\gamma_i$  = Fixed-effects for variables that can vary from one state (e.g. individual) to the next but are invariant over time.

$\lambda_t$  = Fixed-effects of time (e.g. years) - common to all individuals in period  $t$ .

$\varepsilon_i$  = Error term.

$\beta_3$  = Estimate for the effect of NDC intervention on the dependent variable  $Y$ .

In the above equation by focusing on the change in  $Y$  (transitions off benefits) over the course of the experiment, the DD estimator removes the influence of initial values of  $Y$  that vary systematically between the treatment and control groups, whereas the coefficient  $Post * Treatment$  measures the net impact of the NDC Programme on the transitions off worklessness benefits of claimants in NDC areas relative to the claimants living in the rest of the country. In other words, this coefficient measures the net effect of the NDC Programme.

In addition, a key property of the DD estimator is that it also takes into account region specific effects - provided that these remain constant over time. Therefore the DD estimator controls for pre-existing differences between NDC - beneficiaries and NDC - non beneficiaries. Another important feature of the DD estimator is that it

can also measure the impact that individual characteristics (e.g. age, the presence of partner, number of children) have on the observed outcome. Hence, the DD estimator controls for region specific effects, time effects and individual characteristics.

## 7 Regression Results

This section presents the estimated net impact that the NDC Programme has had on transitions out of benefits in NDC areas over the years 2000, 2001, 2002, 2003 and 2004. This is assessed using two different DD models. The first model assesses the net impact of the NDC Programme on JSA claimants. The second model assesses the net impact on the NDC Programme on IB/SDA claimants. The reason for analysing these two groups of workless claimants separately is that our descriptive analysis shown in Table 1 revealed that these two groups are quite different in demographic characteristics and also have quite different history of worklessness spells. Thus, if the analysis is carried out including both JSA and IB/SDA claimants, the NDC effects could hide important effects of the programme.

Each of the two DD models estimated controlled for demographic and area characteristics. This was done in order to isolate the impact of the change in transitions out of benefits across people with different characteristics (e.g. age, partner, region, etc.) regardless of where they live. Specifically, the explanatory variables included in the two DD models ran are the following:

- age of workless claimants;
- whether claimants have a partner;
- whether claimants have children aged under 5;
- whether people geographically moved out of NDC area: transitions out of NDC area;
- whether people geographically moved into NDC areas: transitions into NDC area;
- record of previous worklessness spell(s);
- record of previous worklessness spell(s) longer than six months;
- index of Multiple Deprivation 2004 score;
- NDC areas included in Round 1 (NDC areas selected in 1998) and Round 2 (NDC areas selected in 1999);
- region of residence.

The NDC Programme has had a positive net effect in NDC areas according to the estimates of the two DD models ran for both the JSA and IB/SDA claimants in Table 2. Model 1 in Table 2 shows that, after the implementation of the NDC Programme, JSA claimants living in NDC areas are 1.1 times more likely to leave JSA benefits than JSA claimants living in the rest of the country, whereas IB/SDA claimants living in NDC areas are 1.6 times more likely to leave IB/SDA benefits than IB/SDA claimants living in the rest of the country (Model 2 in Table 2). Therefore these results suggest that the NDC Programme increased transitions out of JSA and IB/SDA benefits for claimants living in NDC areas relative to those living in the rest of the country.

Table 2 <b>Difference-in-Difference Odds Ratios of the NDC Programme Effect on Transitions off JSA and IB/SDA Benefits Between 2000 and 2004</b>		
	<b>Model 1</b>	<b>Model 2</b>
	<b>JSA</b>	<b>IB/SDA</b>
<b>Effect of NDC Programme</b>		
(Treatment - Post)	<b>1.1</b>	<b>1.6</b>
<b>Control Variables:</b>		
Age	2.4	3.4
Partner	0.4	2.1
Children aged 0-4	1.1	1.4
Transition out of NDC area	0.6	0.6
Transition into NDC area	0.5	1.5
Record of previous worklessness spell(s) within the dataset	0.5	0.8
Record of previous worklessness spell(s) longer than six months within the dataset	0.3	0
Index of Multiple Deprivation 2004	1	1
Round areas 2	0.7	1.2
Region of Residence <i>North-West (reference group)</i>		
London	1.3	1
South-East	1.2	0.8
South-West	1.2	0.8
West Midlands	1.2	1
East Midlands	1.4	1.1
Yorkshire and the Humber	1.1	1.1
North-East	1.1	1
East	1.2	1.3

*Note: Estimates are presented as odds ratios. All odds ratios are significant at 5 percent level.  
Source: Authors' estimates.*

Based on the model run specifically for JSA claimants a number of conclusions can be reached about what affects the likelihood of leaving JSA benefits. JSA claimants

with a partner are less likely to leave benefits than single claimants. Those who moved in or out of NDC areas are less likely to leave benefits than those who did not change residence. Those who have a record of worklessness spell(s) within the dataset before the baseline period (2001) are less likely to leave benefits than those who do not have a record of worklessness in the dataset before 2001. The rest of the control variables analysed had a positive effect on the likelihood of leaving benefits. For instance, JSA claimants with children aged under five are 1.1 times more likely to leave JSA benefits compared to those who do not have children aged under five, regardless of whether claimants live in an NDC area or in the rest of the country. With respect to the regional difference, JSA claimants in the eight regions analysed were more likely to leave JSA benefits compared to those living in the North-West region.

Based on the DD model ran for IB/SDA claimants, a number of conclusions can be reached about what affects the likelihood of leaving IB/SDA benefits. IB/SDA claimants who moved out of NDC areas are less likely to leave IB/SDA than those who did not leave an NDC area. Those who have a record in the dataset of previous worklessness spell(s) before the baseline period are less likely to leave IB/SDA benefits than those who do not. The rest of the control variables analysed had a positive effect on the likelihood of leaving IB/SDA. For instance, IB/SDA claimants with children aged under five are 1.4 times more likely to leave IB/SDA compared to those who do not have children aged under five, regardless of whether claimants live in an NDC area or in the rest of the country. With respect to the regional difference, IB/SDA claimants in the South-East, South-West, West Midlands and North-East are less likely to leave IB/SDA benefits compared to those living in the North-West region. On the other hand, IB/SDA claimants in London, East Midlands, Yorkshire and the Humber are more likely to leave IB/SDA compared to those living in the North-West region. IB/SDA claimants living in NDC areas that were included in second round of the NDC Programme are 1.2 more likely to leave IB/SDA compared to those living in non-NDC Round 2 areas.

While this article may have uncovered some possible positive effects of the NDC Programme, it is important to bear in mind two limitations of the analysis. First, the control group (identified here as individuals living in non-NDC areas) is broadly defined. A second limitation of this article is the unknown labour market destination of people who ceased to claim JSA or IB/SDA benefits. The lack of information in the GMS-ONE dataset on the labour market destinations of those claimants exiting

benefits has prevented this analysis from assessing whether these people ceased to claim benefits because they actually got a job.

Research is currently being undertaken to redefine the control areas so they are similar in levels of deprivation and with comparable labour market conditions to those in NDC areas. In addition, we are currently working on the recently produced administrative database Work and Pensions Longitudinal Study (WPLS). WPLS offers an unprecedented database in the UK that links 100 percent of benefit records to employment records according to Inland Revenue Data. Having information on employment will help us assessing directly whether the NDC Programme has increased the likelihood of transitions from worklessness benefits into work. The results of these refinements in our analysis are forthcoming in Gutiérrez-Romero, Noble and Covizzi, and in a forthcoming Social Disadvantage Research Centre (SDRC) research report.

## 8 Conclusions

The aim of this article was to estimate the extent to which the NDC Programme has influenced the worklessness rates in partnerships, by comparison with what would have happened to these areas without the programme. We analysed the impact of the NDC Programme by using the DD method and administrative data.

The results suggest that on average the JSA claimants living in NDC areas were 1.1 times more likely to exiting this type of benefits than JSA claimants living in the rest of the country. The results also showed that NDC Programme had a more sizeable effect on IB/SDA. On average the IB/SDA claimants in NDC area are more likely to exit this type of benefits than IB/SDA claimants living in the rest of the country.

This article contributes to the NDC impact evaluation in various areas. First, the article assessed the effectiveness of the programme. As the results show, there have been changes in the worklessness rates attributable to the NDC Programme. This sheds light on the effectiveness of the NDC Programme in reaching its goals and what the situation of the beneficiaries would have been without the programme. Second, the results show that the worklessness rates have improved even though the NDC Programme is just in its early stages. These results are particularly useful in assessing the rapid impact that the NDC Programme has had. Third, the results show

that the NDC Programme has had different impacts on the JSA and IB/SDA claimants. This is particularly important for the NDC evaluation since it reveals whether the programme execution and scope should be modified to improve its effectiveness. Therefore, the results presented in this article are important contributions to the NDC evaluation.

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# Poverty and Social Stratification at the Regional Levels in Turkey

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## Abstract

This study presents a starting point in examining the issue of poverty in Turkey as related to social strata at the regional basis. It focuses on the patterns of poverty in Turkey and its relations with social stratification and regional income inequalities. The definition of the social stratification is based on Marxist conception. The variables used are the income level, occupation, employment status, land ownership, economic sector, types of income, and company structure. The source of data for analysing poverty is the Household Budget Survey conducted by SIS between 1 January and 31 December 2003. Turkey is divided into 15 social strata and this article analyses poverty in 26 statistical regions in Turkey. Sources of poverty are examined through the analysis of social strata. The results indicate that not only income but also social classes and their sub-stratum are unequally distributed among the regions. Income inequalities in non-owners strata are high like income inequalities among all social strata.

**Keywords:** poverty, social stratum, regional income inequalities

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# 1 Introduction

This article analyses poverty in Turkey in terms of social stratification and regional income inequalities. There are two main questions:

- to what degree and in which social stratum can we find poverty and
- what are the relations between poverty and regional inequalities.

By analysing social stratification and regional income inequalities we can see the specific reasons behind poverty in Turkey. This paper will show that unequal distribution among the regions is not only applicable to income but also to social classes and their sub-stratum. From this standpoint, poverty can be seen as an example of regional inequalities and social structures.

The main contribution of this study is its explanation of poverty based on social stratification and its Marxist perception of class. The conclusions of this study can be seen as a guide (intended especially for policy-makers) which would define poverty and try to explain it on the basis of social stratification.

## 1.1 Literature Review

In Turkey, poverty was generally perceived as a social problem dealt with through art (literature and cinema) and in the political arena in which sharp conflicts had been experienced during the modernisation period (especially in the last 60 years). Perceiving poverty as a social problem means that the lowest strata can become a distinct object of scientific research. However, until the 1980s it was very difficult to see such an understanding of poverty in the social science studies and, when discussed, poverty was put in relation to regional and social class inequalities. It is difficult to find studies that explain poverty, regional inequalities, social stratification or social class at the same time.

We can divide the existing studies on poverty on those made before, during, and after the 1980s. The critical concept behind this division is that of social class or social stratification. We could also divide them according to whether they were made around class inequalities. In the Turkish social science studies, poverty was examined from the problematic view of inequality without directly mentioning it (Dansuk,

2007). One of the reasons why there are so few studies on poverty in Turkey can also be due to the limited amount of data. Inequality and social classes were important analytical concepts for explaining and solving the problems of Turkish society before the 1980s.<sup>1</sup> However, the new approaches to poverty, which have ignored the concepts of social class and inequalities, were proposed in the 1980s and were increasingly used in the 1990s. Moreover, these concepts tried to replace the concept of poverty. There have also been attempts to combine the two different approaches to the issue of poverty (combination of the studies before the 1980s, which did not regard poverty as an issue, and the studies from the 1980s till today, which have ignored social class relations).

The studies on poverty and inequality in Turkey could also be divided in two groups according to their methodological approaches. The first group consists of empirical ones. These studies generally address issues such as income distribution, measurement of poverty and the poverty line. They were largely motivated by the surveys on income distribution, carried out by the State Institute of Statistics<sup>2</sup> (SIS).<sup>3</sup> In these studies, poor people were defined only in terms of the income level. In fact, they were not defined as *people* or even as *humans*. Rather, these studies saw the poor only as *numbers*. Because these studies were just descriptive and empirical, it was not considered important who the poor were and where they lived. The studies had no political agenda on poverty reduction. The second group consists of qualitative studies and among them are many Ph.D. theses on poverty. These new studies (made after the 1990s) have specific data on poverty and try to qualitatively explain political, social and economic reasons, and the results of poverty. Moreover, they try to accept the Western understanding of the concept of poverty and adapt it to the Turkish context. Within this group, Turkish society is analysed, often using the World Bank, Marxist and feminist approaches, in concepts of underclass, social exclusion, and the culture of poverty.

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<sup>1</sup> This part is summarised from Dansuk's unfinished Ph.D. thesis. The studies related to this division are found in the thesis.

<sup>2</sup> SIS (State Institute of Statistics) and TUIK (Turkish Statistical Institute) are the same institution. The name SIS was changed to TUIK in 2005. Since the data produced before 2005 were generally used in this study, the name SIS was used in this paper.

<sup>3</sup> These surveys have been conducted in approximately 10-year intervals between 1960 and 2000. They have provided researchers with a rich data-base on poverty in Turkey in the last two decades. SIS has started a new survey, which is annually done and, since 2002, harmonised with the international standard.

This study formally consists of both quantitative and qualitative analysis as it tries to explain poverty in terms of social strata.

The next section gives a simple comparison between Turkey and Europe to show differences in poverty rates.

## 1.2 Poverty in Turkey and the EU Countries

When compared with the EU countries, it can be seen that poverty in Turkey is a fundamental problem (Erdogan, 2003). In the EU-15, the lowest poverty rate is 9 percent (in Sweden) and the highest 21 percent (in Portugal). For new accession countries, the lowest rate is 8 percent (Czech Republic) and the highest 21 percent (Slovakia). Turkey's poverty rate of 25 percent is the highest among all of the EU members and candidate countries. This rate was 23 percent in 2003. Average poverty rate for the new accession countries is 14 percent, whereas it is 15 percent for EU-25.

<b>Countries</b>	<b>%</b>	<b>Countries</b>	<b>%</b>	<b>Countries</b>	<b>%</b>
Sweden	9	Austria	12	Italy	19
Denmark	10	Luxembourg	12	Spain	19
Germany	11	Belgium	13	Portugal	20
Finland	11	France	15	Greece	20
The Netherlands	11	United Kingdom	17	Ireland	21
<b>EU15 - 15 %</b>					
Czech Republic	8	Latvia	16	Bulgaria	16
Hungary	10	Cyprus	16	Romania	17
Slovenia	11	Lithuania	17	Turkey	25
Malta	15	Estonia	18		
Poland	15	Slovakia	21		
<b>New EU Countries - 14 %</b>				<b>Candidate Countries - 23 %</b>	

Source: Eurostat (2004).

The poverty rate, which is calculated on the basis of median income, shows how much poverty there is in a country. This rate can, in a certain sense, also show the level of income inequality. The Gini coefficient, which is used for calculating income

<sup>4</sup> The poverty rates in Table 1 were calculated according to 60 percent of the equivalised median income consisting of transfer incomes and all other incomes.

inequality, is parallel to the poverty rate (Eurostat, 2004a). In the EU-15, Denmark, with 0.22, has the lowest Gini coefficient, while Portugal, with 0.35, has the highest. In the new EU countries, Slovenia has the lowest score, 0.22, while Estonia has the highest, 0.35. The Gini coefficient in Turkey is 0.44. This shows a high inequality, not only for Europe, but worldwide. This inequality is analysed in terms of social stratification and regional inequalities on the basis of poverty. In fact, poverty seems to result from inequality and vice versa.

In the following sections, Turkey's specific characteristics of poverty, social class structure, regional inequalities, and the relations among them are explained. In the next section, we will describe the methods used for measuring poverty, and our concept of social stratification.

## 2 Methodology

This study is based on empirical methodology. The data comes from the Household Budget Survey 2003 (HBS) conducted by SIS. We mainly use the poverty line and social strata in our class analysis of poverty.

### 2.1 Defining the Poverty Line

Defining the poverty line is very important in terms of political and social problems. However, there is no purely scientific basis for defining this line. Every society, all national and international institutions determine poverty lines according to their own political and social needs.

The poverty line used in this study is defined by Eurostat as 60 percent of the equivalised median income (Ozmen, 2004). There are two reasons for choosing this poverty line. The first one is statistical. The median score is less affected by highest and lowest scores in a distribution and explains the middle of the distribution (Eurostat, 1998: 16-17). The score under this level is accepted as the low level of income distribution (Eurostat, 1998: 17). However, the percentage of median is arbitrarily chosen (Sallila and Hiilamo, 2004; Bradshaw, 2001: 5). There are no scientific reasons for choosing the cut-off point. It can be changed according to social, cultural and political aims or conditions. The second reason is to make an

international comparison for Turkey in terms of poverty in the process of possible EU accession. We wanted to make this comparison because poverty became one of the main topics in the EU with the endorsement of the Laeken Indicators in December 2001 (Eurostat, 2003). There are 10 indicators related to poverty and inequality among the 18 of the Laeken Indicators, which are monitored for the policies of combating poverty and social exclusion for all EU countries.

## 2.2 Defining Social Strata

In sociology, defining social strata can be very complex. In general, the conceptions of stratification may be divided in two groups; one is the structural/functionalist approach developed in the USA and the other is the class approach based on Marx and Weber (Kalaycioglu et al., 1998: 126-127). In these approaches, the definitions of social stratum are made according to social, economic, political and cultural variables. Social differentiations are drawn in terms of basic sociological concepts: social role, status, and class.

In this study, a very broad definition of Marxist social stratification is used. The focus is mainly on “class positions” of social groups. For Marx, social class is determined by the ownership and control over of the means of production (Marx, 1996). Because of this, we tried to choose the variables which are related to ownership and control over the means of production. We found it difficult to use the Weberian class concept. For Weber, social stratification has three dimensions: economic relationship, status and political relationship (Weber, 1920). Although Weber agreed that class is important for social stratification, he did not put class into the centre of his analysis of social stratification. In Weber’s theory, class is defined according to market situation and is related to a person’s life chances of getting an income and his/her position in the labour market. The relations between class and the ownership of the means of production are, in a certain sense, determined by market situations, power and status. However, for Marx, social stratification is determined by class, and other factors function under class relations. Therefore, in this study we try to use the variables which would form a class.

The variables used to form social strata are income level, occupation, employment status, land ownership, economic sector, type of income and company structure. By using these variables, the social differentiation would seem to mirror the social class

differentiation. However, based on these variables, it would be very difficult to see whether these social strata form pure social classes. These variables include only objective factors (such as material conditions) (Parkin, 1990)<sup>5</sup> and do not say anything about subjective factors (such as consciousness). The data is completely composed of numerical values produced by SIS in Household Budget Survey 2003 and the database does not give a pure analysis of social classes. That is why our variables are more suitable for defining a social stratum than a social class. Therefore, this study does not focus on a pure class analysis of poverty. This study, as mentioned earlier, may be seen as an analysis of poverty on the basis of social stratification, which is formed by class inequalities.

We see class analysis as an important tool in analysing society, such as Turkey, which is still in transition to a pure capitalist mode of production. It can also become very important in explaining poverty in such a society. There are social classes, which are still in a dissolving process and do not fully belong to a capitalist society.<sup>6</sup> The process of class dissolving is one of the sources of the impoverishment process. The impoverishment process, in which the people from these classes live, can be called *historical poverty* (Dansuk, 2007). There is a second type of poverty produced by a capitalist economy, and this can be referred to as the *capitalist impoverishment* process. In this process, the worker, who is the essential part of capitalist production, becomes poor (Dansuk, 2007). We found it more suitable, especially for the (dissolving) social groups, which are, according to their socio-economic positions, heterogeneous, to use the concept of stratum in this period of transition. It should be mentioned here that income and employment status are used only to create social strata. The data used is too limited to define a pure class. Therefore, the effort of this study to form social strata can be labelled as “empiricist class definition” in Marxist terms. By analysing social stratification we can perceive different impoverishment processes. Therefore, it is important to emphasise the role of social stratification in the studies of poverty along with the class analysis of capitalist system.

As stated above, seven variables in differentiating social groups as stratum are used: the income level, type of income, occupation and employment status, size of owned land, economic sector and company structure. Households, as a unit of analysis, are used for creating strata, because the data is available only at the household level. The

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<sup>5</sup> For details about the relations between stratification and class, see Parkin (1990).

<sup>6</sup> For the discussion of Turkish capitalisation process, see Seddon and Marquies (1984).

database of the Household Budget Survey 2003 can be formed in two levels. The first level is based on households and it encompasses the whole population. Since the data are designed according to the head of the household, all members of a household share the same social position in this study. Although there may be different occupations and types of incomes in the household, the household head's occupation and income represent its social position. Therefore, some aspects of the household were avoided. At the same time, we used the type of income as a control variable to measure reliability and validity of the defined social strata.

In the class analysis, the structure of Turkish labour market was also problematic. The labour market has not sufficiently developed in a capitalist way. The worker's wage rate is far behind the EU countries: while their average rate is above 80 percent (ILO, 2005), Turkey's rate is just 50 percent. There is a huge part of the population that is not present in the labour market. In that way, a person can economically survive in the household and this is, at the same time, appropriate to the structure of the Turkish family. Family and its tradition is still strongly valued in the Turkish society (Aytaç, 2002). The household budget is still more important than the individual budget.<sup>7</sup> Consequently, the analysis of income could only be made from the household income, not the individual one. These deficiencies were taken into account in all steps of the analysis of social stratification. Therefore, choosing the household as a unit of analysis seemed more appropriate for this kind of studies.

We can identify three researchers whose studies can be used in conceptualising social stratification on the basis of class: Yerasimos (1986) Boratav (1991 and 2004) and Köse (2005). Köse's and our studies benefited largely from Boratav's concepts and methodology.<sup>8</sup>

Firstly, we divided the population of the Household Budget Survey (HBS) in two groups: the capitalist class (employers and the self-employed) and the working class (salary and wage earners, casual employees, and unpaid family workers). Thus, the division is based on the fact whether the head of the household owns the means of production. Then, they were labelled as owners and non-owners.

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<sup>7</sup> *The average wage level is just half of the national poverty line in Turkey. Therefore, it is very difficult to live alone with only one wage. For details see, the Statistics of National Accounts by SIS and the studies poverty by Turk-Is.*

<sup>8</sup> *We would especially like to thank Boratav for his critical reading and useful comments on this article.*

### 2.2.1 Non-Owners: Workers

The non-owner social stratum was divided into eight strata: Highly-Skilled Workers, Skilled Workers, Unskilled Workers, Pensioners, Self-Employed, Small Farmers, Landless/Small Property/Agricultural Workers and Non-Active People. We created these eight strata from the Survey (HBS) according to their status on the labour market, level of income, occupations, types of income and economic sector. The first three strata are part of an active working force in non-agricultural sectors. They are divided from each other according to their levels of income and skills of their occupations. Pensioners are not part of the labour market and they live on their pensions.

The Self-Employed may, in fact, be seen as owners. However, the definition of Self-Employed in this study is different from the HBS's conception. The Self-Employed were, in HBS's conception, divided into Big Tradesmen, Small Tradesmen, Professional, and the Self-Employed. In this study, the Self-Employed were extracted from HBS' concept of people who employ themselves in their fields of activity. These were defined as the Self-Employed, but not as owners.

The Self-Employed people deal with small-scale artisanship and trade. In fact, they possess the means of production in non-agricultural sectors. However, they use old technology, domestic labour (Ayata, 1991; Ecevit, 1999; Komsu, 2005) and the fundamental aim of their production process is not to create and maximise surplus value. They can only survive by using unpaid family workers. This stratum is a transitional stratum; they are neither completely workers, nor capitalists. Most of them will, in the near future, become workers (proletarians). They resist being without property by concentrating their labour-time and adding domestic workers into their production process. Being without property and then becoming part of the proletariat means impoverishment of this stratum. This process of impoverishment and proletarianisation for the Self-Employed is the same as for the Small Farmers (Ecevit, 1999; Ecevit and Ecevit, 2002). They possess the means of production (small estate), and produce for the capitalist market, but they can survive only by utilising the same strategy as the Self-Employed. This stratum is also a transitional stratum and will most probably become poor in the near future.

The stratum of Landless/Small Property/Agricultural Workers consists completely out of the poor who can live only by selling their labour force. The last stratum consists

of Non-Active People. They do not engage in any economic activity and have no income. Non-Active People consist of the unemployed, women, and old people who are the head of the household. Their income generally comes from other members of the household.

### 2.2.2 Owners: Capitalists

There are four employment categories in HBS. Two of them belong to the stratum of owners. The stratum of owners was created from the Self-Employed and Employers. The owner social stratum in this study is thus divided into seven strata: Employers, Big Tradesmen, Small Tradesmen, Big Landowners, Small Landowners, Professionals and Landlords. In HBS, the Employer is defined as a person who employs at least one person in his/her field of activity (SIS, 2005). Besides this aspect, the Employer is in this study defined as a person whose income is six times bigger than the national average income. HBS defines the Self-Employed as a person working in his/her own business by him/herself or together with unpaid family workers. As mentioned above, this category is divided into four parts: Big Tradesmen, Small Tradesmen, Professionals, and the Self-Employed.

Big Tradesman is a person who employs 4 persons or more and his/her income is twice the national average. Small Tradesman is a person who employs two or three persons and his/her income is at the level of the average. The difference between the Employer and the Tradesman is the type of labour used. The Employer buys the labour force he or she needs. The Tradesman uses unpaid family labour along with labour from the market. Professional is a person who employs only him/herself. Professionals are composed of highly skilled people such as doctors, engineers, lawyers, etc. They are, in fact, self-employed. However, they are totally different from the Self-Employed in the non-owners stratum. The reasons why we defined Professionals as a separate stratum will be elaborated later.

Big Landowners and Small Landowners are defined according to the size of the land they own, level of income, and the person whose occupation and economic sector are in agricultural production. Both produce for the capitalist market. The difference between them is the level of income (surplus value) produced according to the level of technological and intensive agricultural production, and the size of land. Their productivity is not calculated from the data. The result of their productivity can be

seen as the level of income per capita. The size of land for Big Landowners is a minimum of 100 acres. Small Landowners own between 0 and 200 acres. In fact, in forming the agricultural strata, land size is an important variable. It functions with the level of income per capita. However, there are some exceptions in the categorisation of Landowners. For example, the group possessing only 10-19 acres of land is included in the Big Landowner stratum. On the other hand, the group possessing 100-199 acres is included in the stratum of Small Farmers. Criteria such as the concentration of technology, type of product, irrigation, and the form of labour used affect the inclusion in a particular stratum. Therefore, it is very difficult to divide agricultural strata based only on the size of land. The last stratum is the one of Landlord whose income mainly comes from interest, dividend, and rent.

## 2.3 Database

The source of data used for analysing poverty is The Household Budget Survey conducted by SIS between 1<sup>st</sup> January and 31<sup>st</sup> December 2003. This survey was conducted with the sample of 25,764 households using face to face interviews. The survey's results are given on the scale of Turkey, urban, rural, NUTS-Level 1 and NUTS-Level 2.<sup>9</sup> The data is analysed at scale of NUTS Level 2 as seen in Table 2.

In the survey, 12 types of income are calculated for the total income:

- salaries and wages;
- daily wage,
- trade income;
- manufacturing income;
- agricultural income;
- construction income;
- service income;
- real estate income;
- movable property income (interest and dividends);
- unilateral transfers and donations from the State;
- unilateral transfers and donations from abroad;
- unilateral transfers and donations from private sector.

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<sup>9</sup> *NUTS (Nomenclature of Territorial Units for Statistics)* is made at three levels in Turkey. Level 1 is composed of 12 regions, Level 2 of 26 regions and Level 3 of 81 provinces.

<b>Territorial Code</b>	<b>Name of Territories</b>	<b>Regions in the Territories</b>
TR10	Istanbul	Istanbul
TR21	Tekirdag	Tekirdag, Edirne, Kirklareli
TR22	Balıkesir	Balıkesir, Canakkale
TR31	Izmir	Izmir
TR32	Aydin	Aydin, Denizli, Mugla
TR33	Manisa	Manisa, Afyon, Kutahya, Usak
TR41	Bursa	Bursa, Eskisehir, Bilecik
TR42	Kocaeli	Kocaeli, Sakarya, Duzce, Bolu, Yalova
TR51	Ankara	Ankara
TR52	Konya	Konya, Karaman
TR61	Antalya	Antalya, Isparta, Burdur
TR62	Adana	Adana, Mersin
TR63	Hatay	Hatay, Kahramanmaras, Osmaniye
TR71	Kirikkale	Kirikkale, Aksaray, Nigde, Nevsehir, Kirsehir
TR72	Kayseri	Kayseri, Sivas, Yozgat
TR81	Zonguldak	Zonguldak, Karabuk, Bartin
TR82	Kastamonu	Kastamonu, Cankiri, Sinop
TR83	Samsun	Samsun, Tokat, Corum, Amasya
TR90	Trabzon	Trabzon, Ordu, Giresun, Rize, Artvin, Gumushane
TRA1	Erzurum	Erzurum, Erzincan, Bayburt
TRA2	Agri	Agri, Kars, Igdir, Ardahan
TRB1	Malatya	Malatya, Elazig, Bingol, Tunceli
TRB2	Van	Van, Mus, Bitlis, Hakkari
TRC1	Gaziantep	Gaziantep, Adiyaman, Kilis
TRC2	Sanliurfa	Sanliurfa, Diyarbakir
TRC3	Mardin	Mardin, Batman, Sirnak, Siirt

The total individual income is calculated by combining income in cash and income in-kind. Disposable household income is calculated by combining the individual income of the household members. The equivalised personal total net income was used in order to make an international comparison possible. The equivalised individual income is calculated from the following formula:

$$\text{Equivalised individual income} = \text{Total household income} / \text{Equivalised Number of Persons.}$$

The Equivalised Number of Persons is offered by OECD and is calculated from:

$$\text{The Equivalised Number of Persons} = 1 + 0.5 \times (\text{NPH} (14 +)) + 0.3 \times \text{NPH} (13 -), \text{ where}$$

NPH (Number of Persons in the Household) (14 +) is the number of persons aged 14 and more, and NPH (Number of Person in the Household) (13 -) is the number of persons aged 13 and less.<sup>10</sup>

According to these assumptions, poverty line in the study is 60 percent of the median equivalised total income accepted by Eurostat. The basic indicators for this study are given in Table 3.

<b>Table 3 Basic Indicators in Household Budget Survey, 2003</b>	
Population	69,195,565
Median Income per Capita (at the scale of OECD, TL annually)	3,128,571,429
Poverty Line (TL annually)	1,877,142,857
Number of the Poor	16,250,288
Rate of Poverty (%)	23.48
Population	69,195,565

Source: SIS (2004).

As seen in the table, poverty line is about 1,877,142,857 TL per year for an individual. Persons with the income under this line are perceived as poor. Thus, the number of the poor in Turkey is 16,250,288, which means that almost one fourth of the population in Turkey can be perceived as poor. In the next section, we will show how income is distributed among social strata.

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<sup>10</sup> The SAS program is used for calculating and data analysis.

## 3 Analysis of the Social Stratification of Poverty

In this section, the relationships between poverty, regional inequalities, and social stratification are examined. The income distribution among social strata is presented first, after which poverty distribution is examined.

### 3.1 Social Stratification and Income Distribution

The actual social stratification, according to the income in Turkey, is shown in Table 4. The first five strata are the richest ones. Their average income is 2 or 7 times higher than the national average income. As expected, the last five are the poorest strata. Their income is lower than the national average income. The last five strata, almost two thirds of the population (63.63 percent of the total population), can be categorised as poor, while the first five, 5.62 percent, as very rich. The five strata in the middle have a moderate income.

Table 4 shows some structural peculiarities of the Turkish society. These peculiarities can also give some explanations about poverty. The agricultural strata makes around 18 percent of the total population with the income from agricultural production. The rural population in Turkey comprises around 40 percent (SIS, 2005a). This means that 22 percent of the rural population earns from non-agricultural sectors in rural areas. Despite this, half of the active labour force is employed in the agricultural sector (SIS, 2005a), and this is one of the main factors contributing to poverty.

The stratum of Landless/Small Property/Agricultural Workers is very important for the poverty analysis. This stratum, according to the studies of agricultural inventory (SIS, 2004a), makes around 1 to 2 percent. According to the VII General Agricultural Inventory (SIS, 2004a), there are 54,321 landless enterprises and, according to the Labour Force Survey 2003 (SIS, 2004b), around 400,000 agricultural workers. However, the number of the lowest strata in agricultural sector is about 8.5 million. The difference in numbers is due to different methodology. The inventory measures only physical conditions of agricultural land, not socio-economic variables. The number of 8.5 million is more realistic for the agricultural lowest stratum. In fact, it involves people who will, most likely, be dissolved from agricultural production. The impoverishment process in the agricultural sector will direct most of them to urban or industrial and service sectors in the near future. However, the Small Property

people can, if only for a while, still resist this process of dissolving, and survive in rural areas due to their ownership of small plots of land, the intensification of their domestic labour and labour time (Ecevit, 1999). The Unskilled Worker is another problematic stratum in Turkey. The rate of 29.25 of this stratum shows that the level of education is very low in the Turkish labour market.

<b>Social Strata</b>	<b>Number of Households</b>	<b>Population</b>	<b>Distribution of the Population (%)</b>	<b>Average Income per Capita (TL annually)</b>
Employers	79,798	280,864	0.41	14,698,547,346
Highly-Skilled Workers	470,336	1,632,237	2.36	7,472,790,478
Professionals	35,565	110,475	0.16	7,039,783,379
Big Tradesmen	395,655	1,747,507	2.53	5,932,018,895
Big Landowners	21,673	112,727	0.16	5,221,444,002
Landlords	165,913	450,787	0.65	3,637,443,647
Skilled Workers	1,543,136	5,935,230	8.58	3,261,933,696
Small Landowners	117,027	583,532	0.84	2,861,549,619
Small Tradesmen	935,846	4,396,695	6.35	2,782,385,560
Pensioners	2,926,594	9,916,165	14.33	2,481,394,092
Self-Employed	1,152,634	5,100,117	7.37	1,986,234,222
Unskilled Workers	4,653,894	20,239,433	29.25	1,603,918,255
Non-Active People	1,870,226	6,871,146	9.93	1,520,444,865
Small Farmers	625,702	3,332,848	4.82	1,545,975,652
Landless/Small Property/ Agricultural Workers	1,750,495	8,485,803	12.26	1,273,698,572
Total	16,744,495	69,195,565	100.00	2,339,868,646

Source: SIS (2004).

Some of the strata is unexpectedly positioned, as we can see in Table 4. The theoretical division between capitalists and workers or stratification among themselves is probable, as presented in the left column in Table 5. However, the right column shows very complicated and problematic stratification. The abnormal listing of social stratification positions comes from the positions of Highly-Skilled Workers, Professionals, Skilled Workers and Pensioners. Highly-Skilled Workers make the second richest stratum in Turkey. Professionals are richer than Big Landowners and Big Tradesmen. Skilled Workers are richer than Small Landowners and Small

Tradesmen. Pensioners are richer than Self-Employed people. It is very difficult to explain this extraordinary stratification. The reasons for this situation may be explained at two levels: one is methodological, the other is socio-economic.

<b>Table 5 Theoretical and Actual Stratification by Income Level</b>	
<b>Theoretical Stratification</b>	<b>Actual Stratification</b>
<b>Capitalists/Owners</b>	
Employers	Employers
Big Tradesmen	Highly-Skilled Workers
Big Landowners	Professionals
Landlords	Big Tradesmen
Small Landowners	Big Landowners
Professionals	Landlords
Small Tradesmen	Skilled Workers
	Small Landowners
<b>Labourers/Non-Owners</b>	
Highly-Skilled Workers	Pensioners
Skilled Workers	Self-Employed
Self-Employed	Unskilled Workers
Pensioners	Non-Active People
Unskilled Workers	Small Farmers
Non-Active People	Landless/Small Property/Agricultural Workers
Small Farmers	
Landless/Small Property/Agricultural Workers	

There are methodological differences between the studies based on national accounts and HBS, and they consist of different variables. Therefore, there is a very huge gap between the results (Yukseler, 2004; Karakas, 2004). HBS 2003 could cover only 50.6 percent of GDP in 2003 (Yukseler, 2004). The only comparable item in both studies is the compensation of employee in GDP and labour income in HBS. This makes 68,000 trillion TL, and the compensation makes about 65,000 trillion TL, respectively (Yukseler, 2004). The HBS was very accurate for the worker income. The main problem between the two studies is the size of “operating surplus” (profit, rent, social security premium, tax). Its definition is very different in HBS and GDP accounts.

Therefore, HBS could cover only half of the operating surplus or 144,000 trillion for 2003 (Karakas, 2004).

The other deficiency of HBS is that the survey could not cover the amount of financial and property assets (such as rent, interest and dividends). Although these assets increased from 47.3 to 106.7 in GDP between 1994 and 2003, there was a decrease in Household Budget Surveys (Yukseler, 2004). One reason behind this would be that the interviewed persons did not mention their real income. The other one would be related to the understanding of HBS on these assets. If the interest income and dividends are not realised before the interview, HBS does not take into account these incomes. These kinds of incomes are considered wealth. HBS asks only about items related to the disposable income. There is no critique of HBS because financial and property incomes in Turkey in the last three decades have not been derived from the production process. It can be summarised that an extraordinary increase in urban real estate profits, widespread unregistered economy, and huge domestic debt stock are the reasons resulting in the lack of production. This fact is, for example, supported by The Survey of the Biggest 500 Industrial Firms. The income from other economic activities of these firms in their total profits increased from 19.6 percent in 1983 to 80 percent in 1998 (Bilen and Yumusak, 2004) and decreased to 71 percent in 2003 (Gurses, 2004). Consequently, since HBS, in their survey of capitalist income, could not see the complete capitalist income in GNP, the confusion occurred.

We can mention many socio-economic reasons for this extraordinary stratification. These reasons can also be used to explain poverty. For example, Highly-Skilled Workers appear to be the second richest people in Turkey. Highly skilled occupations function like a means of production in Turkey (Cirhinlioglu, 1996). They have a very high income (Table 4), and this stratum is generally in the registered economy. As a result, their responses are more accurate than the responses of others in the survey. Professionals have the same peculiarities. This is why the Professionals were separated from the other self-employed strata. The positions of the two strata show that the skilled service sectors are very important for upward mobility in Turkey. As for the situation with Big Tradesmen and Big Landowners, the existence of unregistered economy plays an important role. Their income seems smaller as compared to Professionals and Highly-Skilled Workers. It may be assumed that the result of their real income is overestimated.

Skilled Workers earn more than Small Landowners and Small Tradesmen. This means that skills, i.e. education, are much more important than the small ownership of land or small-scale production and trade. Pensioners' advantage comes from the fact that they are present in the registered economy and the social security system. However, the Self-Employed are deprived of that or benefit less from the system. This stratum is, in fact, full of potential workers. Consequently, the abnormal stratification can be caused by the following factors: skills, unregistered economy, incomes received from economic activities other than the production (manufacturing and services), etc.

### 3.3 Social Stratification and Poverty

Social stratification creates poverty because inequality is the basis of stratification. This means that there is a close (organic) relation between poverty and social stratification. In Turkey, there is an additional factor for poverty that is 'abnormal' for the process of social stratification.

**Table 6 Population, Income and Poverty Rate in Social Strata**

<b>Social Strata</b>	<b>Population</b>	<b>Population (%)</b>	<b>Income (%)</b>	<b>Number of Poor</b>	<b>Poverty (%)</b>	<b>Distribution of Poverty</b>
Employers	280,864	0.41	-	-	-	-
Highly-Skilled Workers	1,632,237	2.36	-	-	0.95	0.09
Professionals	110,475	0.16	-	-	-	-
Big Tradesmen	1,747,507	2.53	-	-	-	-
Big Landowners	112,727	0.16	-	-	-	-
Landlords	450,787	0.65	-	92,825	20.59	0.57
Skilled Workers/Labourers	5,935,230	8.58	-	-	4.51	1.65
Small Landowners	583,532	0.84	-	-	14.76	0.53
Small Tradesmen	4,396,695	6.35	-	-	10.14	2.74
Pensioners	9,916,165	14.33	-	-	8.51	5.19
Self-Employed	5,100,117	7.37	-	-	22.73	7.13
Unskilled Workers	20,239,433	29.25	-	5,486,745	27.11	33.76
Non-Active People	6,871,146	9.93	-	2,781,550	40.48	17.12
Small Farmers	3,332,848	-	-	1,117,373	33.53	6.88
Landless/Small Property/ Agricultural Workers	8,485,803	12.26	6.90	3,953,253	46.59	24.33
<b>Total</b>	<b>69,195,565</b>	<b>100.00</b>	<b>100.00</b>	<b>16,250,289</b>	<b>23.48</b>	<b>100.00</b>

Source: SIS (2004).

As seen in Table 6, the last five strata may be considered critical in analysing poverty. The poorest strata are the Landless/Small Property/Agricultural Workers, Non-Active People, Small Farmers, Unskilled Workers, and the Self-Employed. The reason for this “abnormal” stratification stems from this order. The strata that have skilled labour and own the means of production are not faced with poverty. While Small Landowners and Small Tradesmen have gradually entered into the impoverishment process, Self-Employed and Small Farmers are, to a certain degree, already poor. This means that 13.4 million people are faced with a very high risk of poverty. The impoverishment of Small Farmers and Landless/Small Property/Agricultural Workers is very important because their poverty is directly related to migration. This can create a very big pressure on urban areas and industrial and service sectors.

Of course, the most critical stratum is that of Unskilled Workers, which comprises of almost 34 percent of the total poverty in Turkey. The result of migration towards cities has created the concentration of unskilled and less educated people in the cities for the last 50 years. The dissolution of agricultural structure pushed the people to cities. Thus, the number of Small Farmers has declined. They are faced with a risk of entering the stratum of Unskilled Workers. The other two strata (Non-Active People and Landless/Small Property/Agricultural Workers) are also critical. These three strata create 65 percent of poverty in Turkey.

## 4 Regional Distribution of Poverty

This section examines social stratification in regions and how poverty is distributed by regions and strata. As mentioned, there is a close relation between regional inequalities and poverty. Regional poverty is, in a certain sense, a type of regional income inequality. Table 7 shows the distribution of regional poverty at NUTS Level 2. The regions are listed according to their rate of poverty.

### 4.1 Regional Poverty

According to Table 7, any level of regional development determines the poverty level. When the income per capita is taken into account, the level of regional development becomes clearer. The developed regions, such as Istanbul, Antalya and Ankara, have a very low level of poverty. On the other hand, undeveloped regions have a high risk of

poverty. The last four regions are especially problematic. Thirty years ago, the government has started a regional development program (GAP)<sup>11</sup> for the last two regions, while another regional program (DAKAP)<sup>12</sup> for Van, Agri and Erzurum is planned.

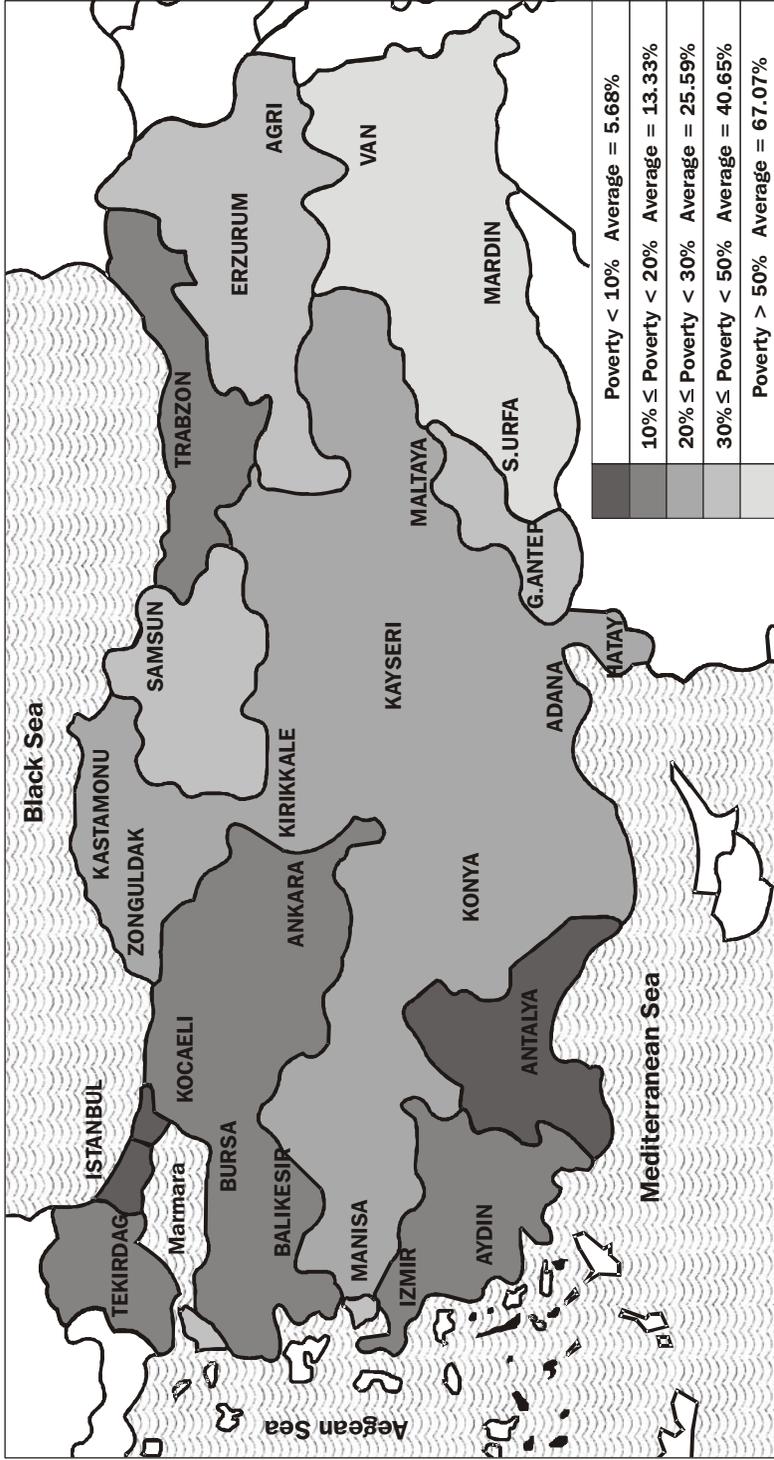
<b>Codes of Regions</b>	<b>Regions</b>	<b>Population</b>	<b>Income per Capita (TL annually)</b>	<b>Number of Poor People</b>	<b>Rate of Poverty (%)</b>
TR10	Istanbul	10,707,956	3,661,310,291	565,074	5.28
TR61	Antalya	2,535,363	2,581,810,923	187,667	7.40
TR51	Ankara	4,044,175	2,362,634,294	413,708	10.23
TR21	Tekirdag	1,339,887	2,870,185,864	144,659	10.80
TR31	Izmir	3,483,026	2,311,115,449	377,216	10.83
TR42	Kocaeli	2,789,950	1,774,515,389	356,365	12.77
TR22	Balikesir	1,535,328	2,518,143,771	203,843	13.28
TR41	Bursa	3,123,297	2,309,979,237	430,956	13.80
TR32	Aydin	2,597,724	3,111,922,218	442,303	17.03
TR90	Trabzon	3,111,287	1,827,938,551	567,854	18.25
TR81	Zonguldak	945,020	2,938,729,335	193,540	20.48
TR71	Kirikkale	1,715,913	1,964,405,518	390,956	22.78
TR62	Adana	3,691,600	2,046,209,690	873,817	23.67
TR33	Manisa	3,097,208	1,846,995,419	757,576	24.46
TRB1	Malatya	1,751,233	1,725,634,962	436,230	24.91
TR52	Konya	2,435,727	1,891,558,887	646,111	26.53
TR63	Hatay	2,766,317	1,862,658,508	784,246	28.35
TR72	Kayseri	2,537,035	1,486,790,405	732,334	28.87
TR82	Kastamonu	828,787	2,029,852,549	243,527	29.38
TRC1	Gaziantep	2,093,679	1,545,536,200	734,619	35.09
TRA1	Erzurum	1,333,751	1,413,199,782	499,014	37.41
TR83	Samsun	2,997,519	1,652,383,843	1,303,217	43.48
TRA2	Agri	1,120,369	1,059,872,721	530,007	47.31
TRB2	Van	2,015,285	1,252,456,329	1,164,255	57.77
TRC2	Sanliurfa	2,862,487	951,425,201	1,841,536	64.33
TRC3	Mardin	1,735,643	673,763,128	1,429,660	82.37
<b>Total</b>		<b>69,195,565</b>	<b>2,259,371,407</b>	<b>16,250,288</b>	<b>23.48</b>

Source: SIS (2004).

<sup>11</sup> For details, see <http://www.gap.gov.tr/>.

<sup>12</sup> For details, see <http://www.dakap.org.tr/>.

Figure 1 Regional Distribution of Poverty in Turkey



The Poverty Map clearly shows regional income inequalities and poverty. The poorest regions include Mardin, Urfa and Van. Agri, Erzurum, Gaziantep and Samsun follow. This map, in some aspects, shows the regional development level. When this map is compared with Table 8 and 9, the correlations between regional inequalities and poverty become more apparent. We can gather some interesting points by looking at the map, and this is why the regions should be analysed in details. The factors behind these high regional income inequalities are analysed in this section.

In Table 8, the regions are categorised according to socio-economic development index, GDP per capita, disposable income per capita, and poverty rates. In the first column, the regions are listed according to the regional socio-economic development index.<sup>13</sup> The next column is listed in terms of their shares in GDP in 2001. In the third column, the regions are put in order from rich to poor, or according to the 2003 HBS. The last column ranks the regions according to their score (from the lowest to the highest) in the regional poverty rate.

There is a correlation between the first and the other three columns. This means that the rank of regions, with the exception of Gaziantep<sup>14</sup>, in the first column is consistent with the rank in the other columns. However, when regional GDP per capita, disposable income and poverty rates are compared, we can find some explanations concerning the roots of poverty.

The rank of a region in GDP and Disposable Income columns shows that the amount of income is equally distributed. While Kocaeli is the richest region in terms of GDP per capita, it is the sixth region in terms of the disposable income per capita. It appears that households did not benefit from the wealth of the region. Adana and Samsun are in the same position. The situation in Antalya and Trabzon, for example, is quite the opposite. Their rank in the list of disposable income per capita is much better than in the list of GDP per capita. The rest of the regions do not show a big difference between the two scores. The scores are parallel to each other; underdeveloped regions have lower rank in the list of disposable income per capita; the opposite is true for developed regions.

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<sup>13</sup> This index includes social and economic variables. The variables are related mainly to demography, education, employment, health, infrastructure, construction, agriculture, manufacturing, finance, and some indicators related to welfare (SPO, 2003).

<sup>14</sup> Social conditions of Gaziantep are better than its economic level. For details, see SPO (2003).

<b>Regions by Socio-economic Development Index*</b>		<b>Regions by GDP per Capita 2001**</b>		<b>Regions by Disposable Income per Capita 2003***</b>		<b>Regions by Poverty Rate 2003***</b>	
TR10	Istanbul	TR42	Kocaeli	TR10	Istanbul	TR10	Istanbul
TR51	Ankara	TR31	Izmir	TR61	Antalya	TR32	Aydin
TR31	Izmir	TR10	Istanbul	TR51	Ankara	TR81	Zonguldak
TR41	Bursa	TR51	Ankara	TR21	Tekirdag	TR21	Tekirdag
TR42	Kocaeli	TR21	Tekirdag	TR31	Izmir	TR61	Antalya
TR21	Tekirdag	TR41	Bursa	TR42	Kocaeli	TR22	Balikesir
TR62	Adana	TR32	Aydin	TR22	Balikesir	TR51	Ankara
TR32	Aydin	TR62	Adana	TR41	Bursa	TR31	Izmir
TR61	Antalya	TR81	Zonguldak	TR32	Aydin	TR41	Bursa
TR22	Balikesir	TR22	Balikesir	TR90	Trabzon	TR62	Adana
TR81	Zonguldak	TR61	Antalya	TR81	Zonguldak	TR82	Kastamonu
TR33	Manisa	TR33	Manisa	TR71	Kirikkale	TR71	Kirikkale
TR52	Konya	TR71	Kirikkale	TR62	Adana	TR52	Konya
TRC1	Gaziantep	TR52	Konya	TR33	Manisa	TR63	Hatay
TR63	Hatay	TR63	Hatay	TRB1	Malatya	TR33	Manisa
TR72	Kayseri	TR83	Samsun	TR52	Konya	TR90	Trabzon
TR71	Kirikkale	TR82	Kastamonu	TR63	Hatay	TR42	Kocaeli
TR83	Samsun	TRB1	Malatya	TR72	Kayseri	TRB1	Malatya
TR90	Trabzon	TR90	Trabzon	TR82	Kastamonu	TR83	Samsun
TRB1	Malatya	TR72	Kayseri	TRC1	Gaziantep	TRC1	Gaziantep
TR82	Kastamonu	TRC1	Gaziantep	TRA1	Erzurum	TR72	Kayseri
TRA1	Erzurum	TRC2	Sanliurfa	TR83	Samsun	TRA1	Erzurum
TRC2	Sanliurfa	TRA1	Erzurum	TRA2	Agri	TRB2	Van
TRC3	Mardin	TRC3	Mardin	TRB2	Van	TRA2	Agri
TRA2	Agri	TRB2	Van	TRC2	Sanliurfa	TRC2	Sanliurfa
TRB2	Van	TRA2	Agri	TRC3	Mardin	TRC3	Mardin

Sources: \* SPO (2003), \*\*SIS (2003) and \*\*\* SIS (2004).

In making a comparison between GDP and Poverty Rate columns, regions can be grouped into three parts. In Group 1 (Ankara, Bursa, Izmir, Kocaeli, Manisa and Samsun), the regions' rank in the list of poverty rates is higher than the rank in the list of GDP. While their GDP per capita is high, their poverty rates are low. These regions, with the exception of Samsun, are developed regions. There seems to be a correlation between a low level of poverty and development. However, regions in Group 2 (Antalya, Aydın, Balıkesir, Kastamonu, Trabzon and Zonguldak) show the opposite. These regions can be thought of as “developing regions”, and their poverty rate is also low. As expected, underdeveloped regions (Urfa, Erzurum, Mardin, Van and Agri) have the highest poverty rates.

Disposable Income and Poverty Rate columns show that Aydin, Kastamonu and Zonguldak, regions with a more equal income distribution, have low poverty rates despite their low rank in the list of disposable income per capita. Kocaeli and Trabzon show the opposite characteristics.

One of the striking points is the situation of Gaziantep and Kayseri, which are assumed to be good examples for economic development in Turkey. However, they are almost the poorest regions in terms of all three criteria. Trabzon is also an interesting case. Although the income appears to be equally distributed in this region, its poverty rate is very high. Since this region is considered as underdeveloped, it means that a more equal income distribution does not reduce poverty in itself.

It can be concluded that in order to reduce poverty in a region, an increase in GDP per capita is necessary, but this alone is not enough. Secondly, equal income distribution is necessary, but this is also not enough. The following section describes the poverty map and the scores in the table since the points made above need to be examined in more detail.

## 4.2 Social Strata and Regional Poverty

In this section, the regional distribution of poverty by social strata is presented. In Table 9, every social stratum has two columns: one shows the population of a social stratum in that region, the other shows poverty rate. For example, the stratum of Highly-Skilled Workers is 5.49 percent of the total population in Istanbul (TR10), and 1.56 percent of the Highly-Skilled Workers in Istanbul are poor.

The analysis of stratification in regions shows regional disadvantages. In Table 9, there is a clear-cut division between regions. In developed regions, the rates of the owner strata are higher than the national average. For example, the Employer stratum is 0.95 percent in Istanbul and 0.65 percent in Izmir, whereas there is no Employer stratum in the regions of Erzurum and Mardin. In the regions where poverty is very high, the rates of the poor strata are very high. For example, Unskilled Workers, Non-Active People, Small Farmers and Landless/Small Property/Agricultural Workers are drastically poorer in underdeveloped regions. In some regions, some of the strata are on the verge of poverty. In these regions, agriculture is, as expected, dominant. The

problems of irrigation, ownership, small-scale production, small property ownership, inheritance, and dispersed lands cause a very low level of productivity in agriculture.

The lowest stratum in the rural structure of Eastern and South-Eastern Anatolia<sup>15</sup> is on the verge of poverty. At the country level, half of this stratum is poor. Small Farmers are on the verge of poverty in most of the regions.

Worker skills are directly related to poverty. The Skilled Worker earns twice as much as the Unskilled Worker (Table 4), whose income is below the national income average and poverty line. The example of Highly-Skilled Workers can show us that an increase in income follows an increase in the skill level. To have no skills can be seen as a direct reason for being poor. Poverty among Unskilled Workers has intensified, especially in underdeveloped regions.

The income of the Self-Employed is similar to that of Unskilled Workers. Their average income is under the national income average and just a bit above the poverty line (Table 4). Poverty in the Self-Employed stratum can generally be seen in underdeveloped and some developing regions, such as Konya (TR52) and Kayseri (TR82).

The Self-Employed generally work in unskilled economic areas. In their case, the production process depends on manual labour, not developed technologies. There is a similarity between the Self-Employed and Small Farmers. Both are just a step away from being a part of the proletariat. They are, in fact, in the process of dissolution (being without property). They still have their means of production, but they will probably lose them.

Poverty in the Landlord stratum is 20.59 percent. Normally, this stratum should be part of the rich class. However, this stratum is composed of the people who can generally subsist on the income of interest, dividend, and rent. Therefore, in HBS, their total income does not represent the total income of interest, dividend, and rent.

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<sup>15</sup> *The poverty rate for the Small Landowner in TRB2 region is 100 percent. This situation, of course, is not possible. There is only one sample of Small Landlords in TRB2. There are such difficulties or miscalculations found in HBS. Such cases were generally cleared in order not to deviate the calculations and estimations in this study. However, the sample of Small Landlords in TRB2 was used as it was in order to show this point.*

Table 9 Poverty by Regional and Social Strata

NUTS Level 2	Employers		High Skilled Workers		Professionals		Big Tradesmen		Big Landowners		Landlords		Skilled Workers		Small Landowners		Small Tradesmen	
	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %
TR10	0.95	5.49	1.56	0.40	1.04	-	0.98	-	9.01	1.35	-	9.01	1.35	-	6.48	1.71	6.48	1.71
TR21	0.13	0.99	-	-	1.28	2.03	1.35	49.02	6.66	6.48	-	6.66	6.48	-	5.67	7.42	5.67	7.42
TR22	0.49	2.10	-	0.13	2.87	0.86	0.66	23.95	10.07	2.39	-	10.07	2.39	-	7.40	10.43	7.40	10.43
TR31	0.65	3.57	-	0.33	2.34	0.86	0.97	29.29	11.38	0.25	0.05	11.38	0.25	0.05	48.40	7.31	4.97	4.97
TR32	0.47	2.13	-	0.34	0.83	0.13	0.73	35.23	9.30	5.69	0.37	9.30	5.69	0.37	-	6.63	6.80	6.80
TR33	0.27	0.50	-	-	1.73	0.14	0.39	69.38	6.74	5.65	0.53	6.74	5.65	0.53	19.76	5.66	3.63	3.63
TR41	0.26	2.20	-	0.09	3.66	-	0.58	34.54	8.16	6.92	2.10	8.16	6.92	2.10	10.69	6.41	0.48	0.48
TR42	-	1.76	-	0.44	3.41	-	0.35	-	9.80	-	-	9.80	-	-	5.58	6.14	5.58	6.14
TR51	0.52	4.65	-	0.35	2.64	-	0.57	-	13.92	1.93	0.36	13.92	1.93	0.36	-	4.95	6.36	6.36
TR52	0.72	1.29	-	-	1.52	0.50	0.71	7.85	7.09	7.60	2.71	7.09	7.60	2.71	13.96	9.18	12.83	12.83
TR61	0.93	3.23	-	0.18	3.48	0.12	1.17	10.15	8.92	0.77	0.52	8.92	0.77	0.52	-	6.06	5.50	5.50
TR62	0.14	1.04	-	-	2.67	0.19	0.73	5.68	6.92	8.14	2.90	6.92	8.14	2.90	17.91	6.78	14.94	14.94
TR63	0.30	1.29	-	-	4.61	-	0.99	-	7.61	4.90	0.18	7.61	4.90	0.18	28.94	8.45	16.39	16.39
TR71	0.44	0.59	-	-	2.43	-	0.09	-	10.06	5.81	2.95	10.06	5.81	2.95	8.62	3.64	-	-
TR72	0.15	1.31	-	0.08	1.83	0.13	0.60	11.99	6.78	5.17	1.78	6.78	5.17	1.78	-	5.01	11.33	11.33
TR81	0.06	1.86	-	0.06	1.41	-	0.21	43.77	11.36	2.80	-	11.36	2.80	-	-	2.59	3.05	3.05
TR82	0.28	1.47	-	-	1.19	-	0.09	-	7.18	4.64	0.88	7.18	4.64	0.88	-	4.40	16.89	16.89
TR83	0.11	0.89	-	-	2.01	0.17	0.75	50.59	5.00	3.06	0.19	5.00	3.06	0.19	68.41	4.88	28.59	28.59
TR90	0.14	1.95	-	0.04	2.60	-	0.39	13.09	8.94	1.25	0.02	8.94	1.25	0.02	-	9.50	-	-
TRA1	-	0.92	-	-	0.17	0.17	0.33	66.22	6.11	11.22	2.83	6.11	11.22	2.83	-	8.76	21.15	21.15
TRA2	0.30	1.35	-	-	1.70	-	0.79	66.63	12.56	2.03	0.49	12.56	2.03	0.49	-	7.86	12.96	12.96
TRB1	0.08	1.22	-	0.39	1.86	-	-	-	11.79	4.90	-	11.79	4.90	-	-	7.53	9.38	9.38
TRB2	0.21	0.94	-	-	0.95	-	0.34	33.85	7.93	13.61	0.53	7.93	13.61	0.53	100.00	4.61	30.36	30.36
TRC1	0.25	0.77	-	-	3.42	0.15	0.46	34.49	9.28	16.92	-	9.28	16.92	-	-	7.39	16.47	16.47
TRC2	0.23	1.49	4.80	0.02	0.79	0.92	0.17	60.94	5.70	16.36	1.83	5.70	16.36	1.83	34.46	5.50	35.65	35.65
TRC3	-	1.38	17.69	-	0.58	-	0.65	100.00	2.17	21.83	1.04	2.17	21.83	1.04	46.15	3.41	47.99	47.99
TOTAL	0.41	2.36	0.95	0.16	2.53	0.16	0.65	20.59	8.58	4.51	0.84	8.58	4.51	0.84	14.76	6.35	10.14	10.14

Table 9 Poverty by Regional and Social Strata - continued

NUTS 2	Pensioners		Self-Employed		Unskilled Workers		Non-Active People		Small Farmers		Landless/Small Property/ Agricultural Workers	
	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %	Pop. %	Pov. %
TR10	18,38	2,12	6,69	4,73	36,10	8,00	10,79	12,28	0,10	-	0,57	7,20
TR21	13,39	2,55	6,53	9,69	24,10	12,95	6,87	12,20	12,10	5,12	16,16	23,08
TR22	18,00	0,93	10,48	15,79	23,83	19,51	6,75	20,18	3,97	15,62	11,47	31,86
TR31	18,80	3,86	7,58	19,41	32,60	16,40	9,27	21,36	0,24	-	4,87	12,49
TR32	16,51	12,47	8,80	8,95	25,98	27,11	6,66	23,90	3,79	7,82	17,32	23,16
TR33	14,55	10,52	5,06	17,15	22,74	34,24	7,02	51,47	10,97	13,23	23,72	34,80
TR41	14,12	12,36	5,48	11,64	32,86	16,01	8,93	29,05	3,96	9,21	11,19	19,43
TR42	22,44	5,20	6,35	18,77	36,16	12,84	8,12	39,65	0,15	-	5,44	40,54
TR51	21,53	3,68	5,30	14,73	34,54	15,40	8,73	22,72	0,73	32,14	1,20	44,84
TR52	9,52	9,56	8,56	26,77	20,74	38,09	11,04	52,45	15,51	21,45	10,90	38,11
TR61	11,96	1,61	8,70	6,75	27,95	13,71	5,51	16,06	3,68	-	17,59	7,86
TR62	13,25	9,88	8,83	21,48	30,06	35,91	9,77	35,64	2,65	20,69	14,08	24,87
TR63	9,41	6,93	8,34	39,33	30,83	40,66	12,33	37,99	4,01	26,95	11,66	36,97
TR71	16,05	10,58	6,51	9,42	32,33	30,68	10,64	27,70	4,92	28,51	9,35	57,39
TR72	19,04	16,62	6,02	30,65	24,49	34,57	15,78	56,34	12,35	30,37	4,67	37,69
TR81	32,63	15,64	6,70	23,00	22,14	27,91	6,84	46,84	2,17	33,09	11,98	27,10
TR82	15,27	21,33	7,05	9,78	21,50	30,28	6,03	40,52	11,88	37,93	22,78	47,86
TR83	10,64	12,44	7,37	43,84	19,67	37,38	7,42	47,57	10,57	60,75	30,33	64,49
TR90	9,71	2,88	10,29	15,88	22,67	21,54	6,51	20,61	1,02	39,77	26,20	36,42
TR91	8,58	15,79	6,16	15,45	15,59	32,79	9,62	55,64	13,18	42,40	27,57	59,45
TR92	6,36	9,08	11,75	62,91	22,36	52,15	9,37	70,12	10,54	46,89	14,59	97,55
TRB1	10,66	14,95	9,81	11,42	26,23	25,72	11,10	58,65	3,65	15,66	15,68	45,17
TRB2	7,28	20,22	7,56	41,99	29,31	57,61	15,53	85,38	4,12	72,70	20,69	81,50
TRC1	9,53	22,15	8,89	40,93	43,80	43,42	12,48	43,03	1,55	21,76	2,03	82,26
TRC2	5,66	44,43	7,18	66,22	24,81	68,58	17,20	81,05	9,65	61,96	18,84	87,18
TRC3	2,33	61,51	4,66	74,24	32,72	87,64	12,70	90,94	11,55	73,79	26,80	94,16
TOTAL	14,33	8,51	7,37	22,73	29,25	27,11	9,93	40,48	4,82	33,53	12,26	46,59

Source: SIS (2004).

It is interesting to see high poverty rates in the Small Tradesmen stratum. It is clear that this situation stems from the fact that this stratum lives in underdeveloped regions. Pensioners form a high rate of population and a low rate of poverty in developed regions.

Non-Active People are the most problematic stratum. This stratum is generally comprised of women (55 percent of Non-Active People) and the elderly (25 percent). Non-activity stems from unemployment, old age, and gender inequalities. This stratum consists of the most vulnerable people.

Consequently, regional inequalities, occupations, demographic factors and gender inequalities have a very big impact on determining the social strata. There are close relations between social stratification and poverty. In fact, there is a vicious circle of social stratification, poverty, and regional inequalities.

## Conclusion

The result of this study can be summarised as follows:

- The problematic social stratum in the development and modernisation process in Turkey should be identified according to their socio-economic positions and regions. In order to design policies to alleviate the problems of poor people in these social strata, it is necessary to identify them as certain socio-economic groups, not as numerically labelled groups;
- The main problems in the EU accession process will be regional inequalities, gender inequalities, employment structure, education, health, and social security. Poverty is closely related to these areas. Therefore, Turkey's accession to the EU can be directly connected to the policies of combating poverty;
- The core poor social strata are the Landless, or Small-Propertied People, Small Farmers from rural areas, the Self-Employed, and Unskilled Workers. The magnitude of these strata is a sign of increasing poverty in Turkey;
- Regional inequalities seem to be the most important factors in creating poverty;
- The main policies for combating poverty can be seen in the formation of capitalist labour force market by eliminating petty producers both in rural

and urban areas. In this elimination process, these strata should be transformed under the light of the policies of participation and localisation in order to decrease existing income inequalities.

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# Regional Poverty in Croatia

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## Abstract

This paper investigates the regional variation in poverty measures in Croatia on the basis of the Household Budget Surveys 2002-2004. An absolute poverty line is estimated at the national level following the method introduced by Ravallion (1994). After defining five geographical regions, we estimate the class of Foster-Greene-Thorbecke (1984) poverty measures for each region, separately by urban and rural areas. Regional variation in poverty rates turns out to be substantial. The risk of poverty in rural areas is almost three times higher than in urban areas. Microsimulations based on multivariate regression analysis show that regional disparities in poverty rates persist even after controlling for differences in education, labor market and other demographic factors.

**Keywords:** regional poverty, Croatia

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# 1 Introduction<sup>1</sup>

This paper presents the basic facts on poverty in Croatia based on the Household Budget Survey (HBS) data sets available annually for the triennium 2002-2004. Four central themes have been identified for this paper. First, the paper aims to illustrate the choice of the method used to estimate the incidence, depth and severity of poverty in Croatia. The difficulty associated with this choice arises from the fact that many contending methods are available (see Ravallion, 1994) and each is defensible, at least to some extent, on the basis of “technical” merit. Section 2 outlines our method of choice, providing the reader with the necessary tools to evaluate the findings discussed in subsequent sections.

Second, the paper outlines the essential facts on poverty in Croatia in 2004. The key question the paper aims to answer is: Who and where are the poor? Section 3 presents the main findings in the form of an eclectic mix of descriptive materials, including, but not limited to, standard contingency tables and graphs.

Third, the paper investigates the determinants of poverty in Croatia. Multivariate regression analysis and microsimulations are used to test for causality effects. The comparison between simulated and actual poverty rates provides useful information for assessing the relative importance of the individual determinants of poverty. We find that the region of residence, labor market status, and the educational attainment of the head of household are the salient independent determinants of poverty in Croatia.

Finally, the paper looks at regional variation in poverty rates. Regional poverty estimates presented in Section 4 are based on the pooled data sets from three Household Budget Surveys (HBS) undertaken between 2002 and 2004. Pooling was used in order to increase the sample size and enable us to derive representative statistics at a sub-national level. The gain in precision, fully attributable to sample pooling, enabled us to map poverty at an unprecedentedly fine geographical resolution for Croatia.

Conclusions drawn from the poverty analysis are summarized in Section 5.

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<sup>1</sup> *The findings presented in this paper were reached as part of the authors' work within the World Bank project on Living Standard Assessment in Croatia. We would like to thank Nicola Amendola, Juan Muñoz and Salman Zaidi for their helpful comments. All remaining errors and omissions are the sole responsibility of the authors.*

## 2 On the Measurement of Poverty

In this section, we outline the main features of the method used to estimate the poverty line and poverty incidence in Croatia. In order to make our exposition self-contained, we first describe the HBS data, arguably the best source available for analyzing poverty in Croatia. Subsequently, we discuss the choices made in building the consumption aggregate, our preferred welfare measure for poverty estimation. Finally, we deal with the methodological issues related to the estimation of an absolute poverty line for Croatia.

### 2.1 The Data

The poverty analysis carried out in the paper relies on the HBS data. The survey is carried out by the Central Bureau of Statistics (CBS) and administered to a sample representative of the Croatian population. The survey is rich in information needed for poverty analysis, from detailed food consumption to comprehensive income and expenditures records, including a large selection of socio-economic features of the Croatian households.<sup>2</sup>

The poverty line used throughout this paper is estimated on the basis of the 2004 HBS, where the survey sample consist of 2,847 households (1,441,200 households being its population counterpart), corresponding to 8,222 individuals (4,227,000 individuals in the population).

While the first part of the paper uses the latest HBS data (year 2004), the regional analysis in Section 4 is based on a pooled sample including all three surveys from 2002-2004. The sampling procedure currently used for the HBS makes it legitimate to pool the data sets. The samples from consecutive rounds of the HBS are (i) independently drawn, and (ii) similar enough in many other aspects to be pooled together as if they were a single sample from a larger survey, fielded over a longer period. The pooled sample allows us to estimate regional poverty rates with standard errors small enough to investigate poverty at the county level, 21 being the total number of counties in the country.

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<sup>2</sup> For more information on the HBS see, for example, Central Bureau of Statistics (2005).

## 2.2 The Welfare Measure

Total household expenditure on consumption is the measure of material well-being on which the estimation of poverty rates for Croatia is based. The authors chose expenditure over income for a number of reasons: *(i)* expenditure is less prone to underreporting than income, *(ii)* expenditure provides a better account of welfare in the presence of home-produced goods and other non-marketed transactions, *(iii)* expenditure is not prone to underestimation in an environment with a sizable grey economy, and *(iv)* expenditures vary less than income in the presence of seasonal effects.<sup>3</sup>

The definition of total household expenditure on final consumption employed in this paper is similar to that employed by the system of national accounts. However, in order to construct a more accurate measure of well-being, the definition of expenditure has been amended following the guidelines in Deaton and Zaidi (2002). The rest of this section provides a brief account of the building blocks of our consumption aggregate.<sup>4</sup>

Total food consumption includes actual spending on food, but also the estimated value of home-produced food and the estimated value of food gifts received. The value of food bought and given away as a private transfer is not included in this sub-aggregate. Consumption related to housing consists of two parts: *(i)* rental value of the main residence, and *(ii)* expenditures for utilities. The rental value of the main residence is either the self-reported rental value for owners and tenants with subsidized housing, or actual rent paid by tenants. Most information on rents is the self-reported rental value of owner-occupied dwellings, since about 86 percent of households live in their own dwellings, and an additional 11 percent of households fall into the category of tenants with subsidized housing costs.<sup>5</sup>

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<sup>3</sup> See Deaton and Grosch (2000).

<sup>4</sup> See Nestić and Vecchi (2006).

<sup>5</sup> In Croatia, the market for rentals is rather shallow, concentrated in large cities, and, thus, cannot guarantee a reliable estimation of the imputed rent. Evaluation of the expenses incurred in buying/building a rental unit is also made difficult due to very high inflation rates in the past, and the practice of continuous re-building of the unit with the help of family members and friends. Therefore, we argue that the self-reported rental value provides the best basis for estimating the rental value of owner-occupied dwellings.

Durable goods require special treatment in the construction of the consumption aggregate. Unlike other categories, it is not the *purchase* of durable goods that contributes to welfare, but their *usage*, which might continue for years after the purchase. Thus, instead of using the actual expenditures on the purchase of durable goods, the service flows streaming from the goods' usage are estimated and counted as household consumption. The estimation procedure described in Nestic and Vecchi (2006) is applied here to a group of 15 durable goods.

Certain kinds of household expenditures are excluded from our consumption aggregate due to their weak or irregular relationship with the measure of well-being. Among the expenditures excluded from the consumption aggregate, the following are worth mentioning: (i) health and funeral expenditures (generally, a high expenditure on these services is not directly related to a high level of the standard of living), (ii) expenditures for kindergarten (which are means-tested in Croatia), (iii) family celebrations (their infrequent nature is often the cause of noise in the data), and (iv) expenditures for social protection services.

The main components of the resulting consumption aggregate, together with the *excluded* categories of expenditures (see above), are shown in Table 1. For 2004, average household consumption was HRK 77,597. Expenditures on food and beverages absorb 29 percent of the overall consumption. A rather large portion of consumption is devoted to housing rents (20 percent). This result relies heavily on the self-reported rental value of owner-occupied dwellings and could be challenged as lacking objective estimation criteria. However, since alternative methods used to calculate the welfare effect of housing conditions are flawed as well, we deem the method of subjective estimation as suitable enough for the purpose of inter-household comparisons and retain its use in this paper. The imputed consumption flows from durables with ownership information account for 5 percent of the total consumption. This figure is roughly comparable to the actual spending on their purchase, which is not included in the consumption aggregate. On average, around 8,400 HRK of actual household spending is excluded from the consumption aggregate due to their non-compliance with the chosen methodology for poverty analysis.

In order to compare levels of well-being among households of different size and composition, the consumption aggregate was deflated by the *equivalent size* of the household. Following de Vos and Zaidi's (1997) argument, we use the so-called OECD-II equivalence scale in determining the equivalent size of a household. The

equivalent size is calculated as the weighted sum of household members, where the first adult person in the household counts as 1 unit, any other adult counts as 0.5 units each, and each child under the age of 14 counts as 0.3 units. The same scale is applied by Eurostat and prevails in many Europe-wide welfare studies.

	<b>Household consumption (HRK/year)</b>	<b>Percentage of total consumption (%)</b>
Food & Beverages	22,515	29.1
Housing expenditures	22,522	29.1
o/w rents	15,361	19.9
o/w utilities	7,161	9.3
Other non-food expenditures	28,454	36.8
Imputed consumption flow from durables	3,839	5.0
<b>Total household consumption</b>	<b>77,330</b>	<b>100.0</b>
Durables included in imputed flow	4,157	5.4
Durables without ownership information	2,159	2.8
Health expenditures	1,642	2.1
Elderly care, kindergarten and funeral expenditures	428	0.6
<b>Total excluded</b>	<b>8,387</b>	<b>10.8</b>

Source: Authors' estimates based on 2004 data from HBS.

## 2.3 The Poverty Line

The derivation of the absolute poverty line follows Ravallion's (1994) recommendations. The main idea is to define the absolute poverty line as the level of total consumption at which households spend just enough on food to afford the cost of a required minimum energy intake plus an allowance to meet basic non-food needs.

The first step is to define the food energy requirements for individuals of different age and sex. Since there is no official nutritional standard for Croatia, we rely on the World Health Organization (1985) and FAO (2004) recommendations. A norm of 2,700 kcal per day *per equivalent* adult is adopted.<sup>6</sup>

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<sup>6</sup> According to FAO (2004), 2700 kcal/day is the minimum energy requirement after assuming a reference person with the following characteristics: male, aged 18-30, weighing between 65 to 70 kilograms, with a basal metabolic rate (BMR, that is the energy required for sustaining the basic functions of the body) equal to approx. 25.3, and enjoying a "lightly active lifestyle" (that is with "physical activity level" (PAL) set equal to 1.6).

The second step is to define the minimum food basket applicable to the Croatian population. After identifying the bundle of food items (expressed in kilos, liters, or units) for each household in the sample, we calculate the average consumption for households in the *lowest per equivalent adult expenditure quintile*.<sup>7</sup> The resulting quantities are transformed into kilocalories by using conversion tables provided by the Croatian Institute for Public Health (Zavod za zaštitu zdravlja SR Hrvatske, 1990). The average calorie intake of the poorest quintile is 2,859 kcal/day/adult, which is higher than the norm. We, therefore, scale down the quantities of all food items to get a food basket that yields exactly 2,700 kcal per day per equivalent adult.

The cost of the minimum food basket is calculated using the price information from the HBS. More precisely, the median unit values for the food items consumed by the lowest quintile were used as reference prices. The resulting cost of the minimum food basket (*i.e.* the food poverty line) was HRK 529 per month, or HRK 6,348 per equivalent adult per year in 2004.

The final step consists of adding an allowance for non-food basic needs to the cost of the minimum food basket, *i.e.* estimating the overall poverty line. The estimation is accomplished by a two-step procedure. Step 1 identifies the households whose *food* consumption is approximately equal to the cost of the minimum food bundle. Step 2 estimates the poverty line by averaging total household consumption on the subset of households identified in step 1. Step 2 is carried out by applying a regression technique.<sup>8</sup>

The resulting poverty lines (the food poverty line and the absolute poverty line) for the year 2004 are shown in Table 2. The absolute poverty line is equal to HRK 22,145 per adult-equivalent per year (1,845 kuna/month/adult). A single adult falling below this threshold is classified as poor. The absolute poverty line equals circa 56 percent of the median equivalent consumption and 44 percent of the average wage paid for full-time employees. The poverty line amounted to EUR 250 per month if converted at the official rate. The absolute poverty line for a single adult is around 3.5 times higher than the food poverty line.

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<sup>7</sup> The choice of the lowest quintile fits with the idea that the minimum food basket reflects the actual consumption pattern of those just around the poverty line, or more specific, of those who can just afford the minimum required calorie intake.

<sup>8</sup> See Nestić and Vecchi (2006).

	Poverty line (in HRK per year)			
	Single adult	Couple w/o kids	Single parent	Couple w/2 kids
<b>Food poverty line*</b>	6,348	-	-	-
<b>Absolute poverty line</b>	22,145	33,217	28,788	46,504

Note: The food poverty line for households of different compositions is calculated by using the nutritional equivalence scale (FAO, 2004).

Source: Authors' estimates.

For a couple with two children, the poverty line is estimated at HRK 46,504 per year, or 2.1 times the line for a single adult. Comparison of the line for a single adult household and that of a couple with children illustrates the degree of economies of scale arising from living in a multi-person household, which is implicit in the use of the OECD-II equivalent scale. Rents, utilities, household amenities, and many other costs of living expressed in per capita terms are usually declining with household size.

It is worth mentioning that the poverty line presented in Table 2 is conceptually different from the poverty line currently calculated and published by the CBS. As expected, the resulting monetary values are also different. The CBS estimates a relative poverty line based on *income* (60 percent of median) at HRK 20,714 per year per equivalent adult in 2004.<sup>9</sup> In contrast, our estimates refer to per-equivalent-adult *consumption, including imputed housing rents*. Our poverty line is absolute. This implies that any comparison between the two is unwarranted.

### 3 A Poverty Profile for Croatia in 2004

In this section we present the main findings of our poverty profile for Croatia in 2004. We focus on three questions: (i) How many poor are there?, (ii) Who are the poor?, and (iii) Where do the poor live?

<sup>9</sup> See the CBS First Releases on personal consumption and poverty indicators at [http://www.dzs.hr/default\\_e.htm](http://www.dzs.hr/default_e.htm).

### 3.1 How Many Poor are There?

In 2004, almost half a million people – representing about 11 percent of the Croatian population – lived in poverty (Table 3). By taking into account statistical errors associated with poverty estimates, the headcount poverty rate is in the range from 9.3 to 12.9 percent (the confidence level is 95 percent).

<b>Table 3 Estimates of Absolute Poverty for Croatia 2004</b>			
	<b>Croatia</b>	<b>Rural</b>	<b>Urban</b>
<b>National absolute poverty line = 22,145 HRK/year/equiv. adult</b>			
Headcount ratio (%)	11.1	17.0	5.7
<i>95% confidence interval</i>	[9.4, 12.8]	[13.9, 20.2]	[4.1, 7.4]
Poverty gap (%)	2.6	4.2	1.2
Poverty gap squared (%)	1.0	1.6	0.4
Number of poor persons	468,170	340,355	127,715
Relative poverty risk	1.0	1.5	0.5
<b>Background statistics</b>			
Population share	100.0	47.2	52.8
Average expenditure	43,229	36,634	49,035
Average expenditure of the poor	16,864	16,641	17,453
Average poverty gap	5,281	5,504	4,692
Gini Index	25.3	24.2	24.1

Source: Authors' estimates.

The “depth” of poverty, as measured by the poverty gap index, amounts to 2.6 percent. This poverty indicator suggests that the average distance of the poor below the poverty line amounts to 2.6 percent of the poverty line itself. The value of this indicator points to shallow poverty on average. An alternative interpretation of the poverty gap index (see Ravallion 1994: 46) is that the gap measures the potential savings to the poverty alleviation budget attributed to targeting. According to this interpretation, the poverty gap index is equal to the ratio between the cost of eliminating poverty with perfect targeting (*i.e.* by giving each poor poverty gap) to the cost of no targeting (*i.e.* by transferring an amount equal to the poverty line to all individuals in the population).

Shallow poverty is, however, associated with substantial pockets of severe poverty. The “severity” of poverty (measured by the squared poverty gap) is about 1 percent. The severity of poverty also shows how far consumption of the poor is from the poverty

line, but it attaches higher importance to the poor that are deeper into poverty. This is one way to account for the extent of inequality among the poor when measuring poverty. If all inequality among the poor was removed (for instance by a mean-preserving redistribution) the squared poverty gap would *decrease* from 1 percent (actual) to 0.6 percent.

On average, the poor have an expenditure shortfall of circa 24 percent of the poverty line (HRK 16,864/equiv.adult/year compared to the poverty line of HRK 22,145). This indicator is sometimes referred to as *the average poverty deficit*.

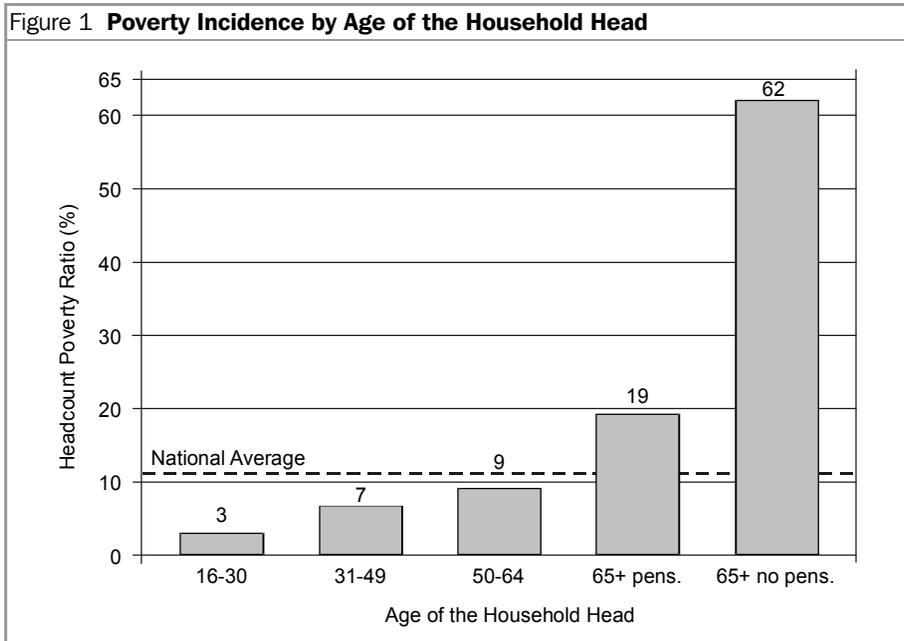
The estimates from Table 3 point to the existence of a considerable gap between urban and rural areas, both in terms of the incidence of poverty (17 percent headcount rate in rural areas versus 5.7 percent in urban areas) and its depth (poverty gap of 4.2 percent versus 1.2 percent). Almost three-fourths of the Croatian poor live in rural areas. On average, the consumption of the rural poor is 25 percent below the poverty line, compared to 20 percent for the urban poor. Among the poor in rural areas there are far more households that are well below the poverty line than the poor in urban areas. The squared poverty gap is four times higher in rural areas (1.6 percent) than in urban counterparts (0.4 percent), pointing to relatively high severity of poverty in rural Croatia. This finding suggests that there are some groups in the population who are more likely to experience extreme poverty.

## 3.2 Who are the Poor?

The identification of the poor usually starts with the examination of simple links between poverty rates and a number of potentially correlated factors. One compares, for example, the proportion of poor individuals within groups of different ages, educational background, or employment status. In this section, we pursue this line by investigating poverty patterns mainly through the use of contingency tables and graphs, which are unsophisticated, yet effective instruments.

The incidence of poverty is related to age, more precisely, the risk of poverty increases with age. Households headed by individuals who are 65+ years of age face a poverty risk that is roughly twice the average (Figure 1). Since one-fourth of the population consists of households headed by the elderly, they account for almost 50 percent of the poor. Protection offered by pensions is not sufficient to help the elderly to

overcome the risk of poverty. Within the group of households headed by individuals 65+ years of age, those with a pension face a poverty risk that is around 1.7 time the national average. However, for households headed by the elderly without a pension, the poverty risk is more than five times the average. The relationship between age and poverty is confirmed by the fact that the average age of the head of household among the poor is 66 years, compared to 55 among the non-poor.

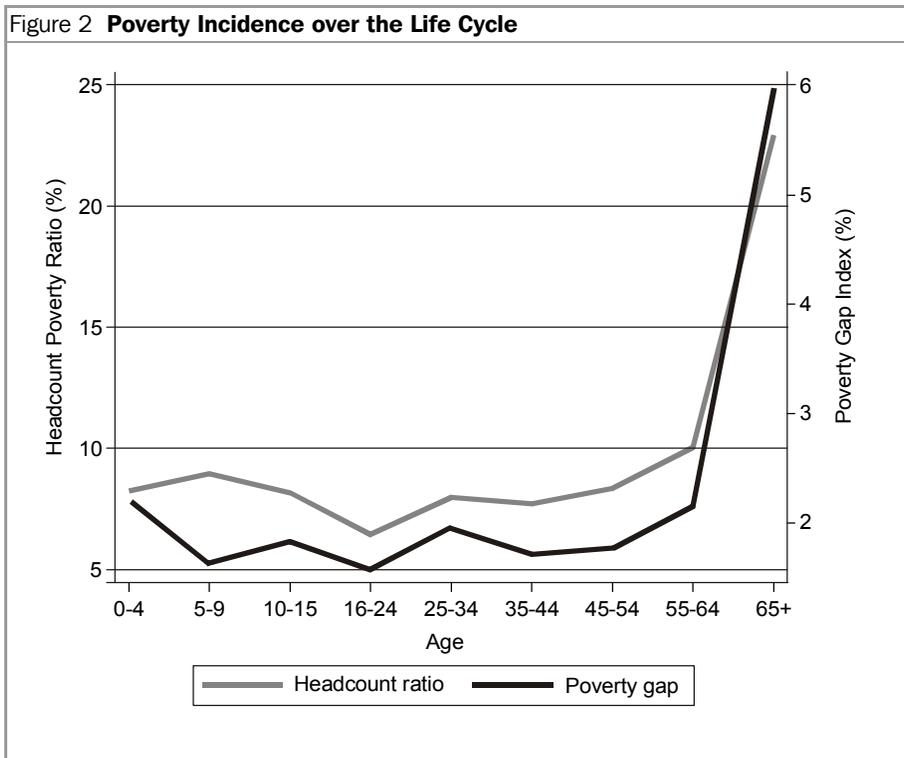


Source: Authors' estimates.

At the individual level (not that of the household head), Figure 2 shows that the incidence of poverty (left axis) is remarkably flat over the life cycle, but surges when it comes to the elderly. The pattern is by and large unaltered by the consideration of the poverty gap index (right axis). With regard to the depth of poverty, however, a peak is observed among the youngest children (aged 0-4), who score second highest in the poverty gap index. This suggests that households with babies stand out as a group deserving special attention: their risk of poverty is similar to households with older kids, but their hardship is significantly higher.

A comparison between the relative poverty risk of an elderly individual heading a household with the risk for an elderly person not heading a household, may be used

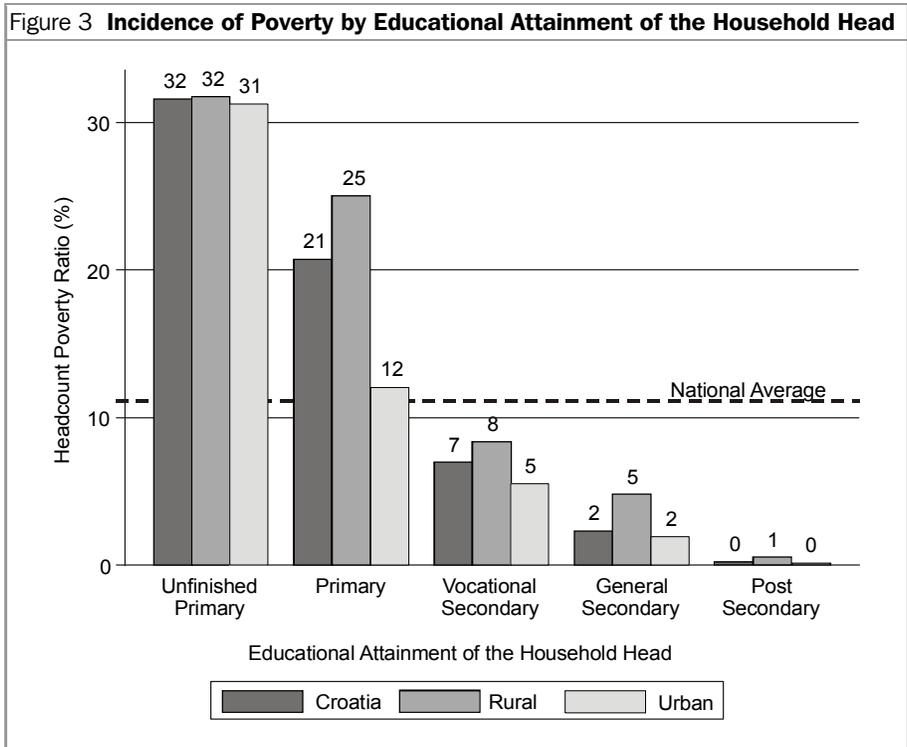
as a proxy, admittedly crude, of the extent to which households offer protection against poverty in the absence of a pension. We find that being elderly and not head of the household decreases the relative poverty risk by 40 percent compared to elderly heads of households. The protection offered by the household to its 65+ members without a pension is significant but is far from being able to fill the gap left by the social security system.



Source: Authors' estimates.

Like in most other countries across the world, Croatia shows a strong negative correlation between poverty risk and the level of education. Figure 3 shows the *pattern* of poverty risk by educational level of the household head. The covariation is clearly negative, but does not vary with the urban/rural location. Irrespective of the educational level, however, rural households face systematically greater poverty incidence rates than their urban counterparts. Secondary education stands out as a threshold above which the probability of being poor becomes lower than the national average. A comparison of poor and non-poor households reveals that around 75 percent among the poor live in households headed by individuals who attained at

most the primary level of education, compared to 30 percent among the non-poor. Only 5 percent of the poor live in households whose head has completed general secondary school.

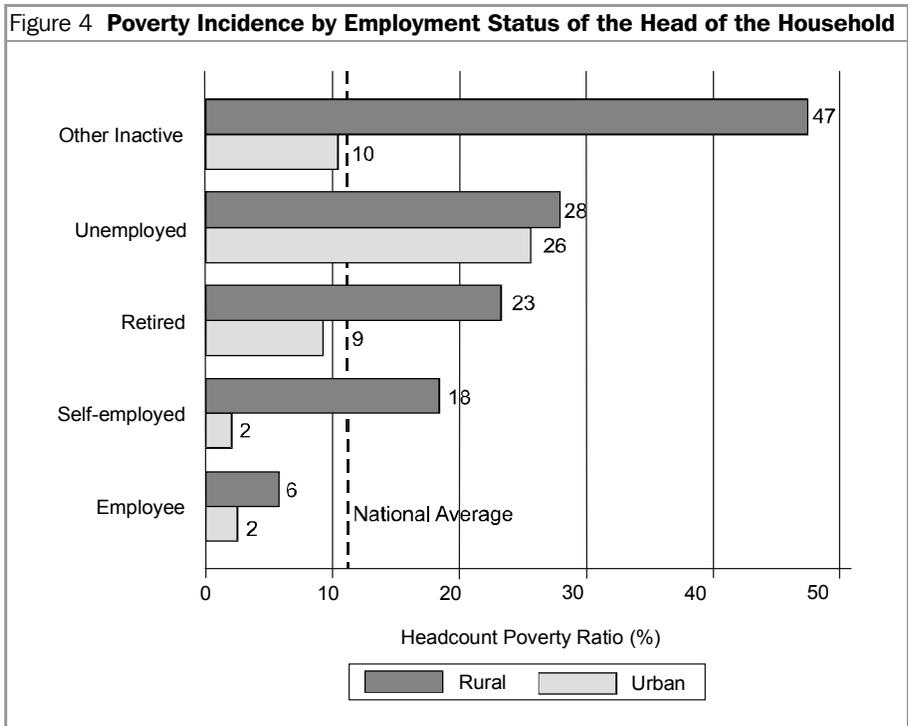


Source: Authors' estimates.

Poverty is tightly associated with the activity status of the main breadwinner (Figure 4). Labor force participation seems to offer relative protection against poverty. Households headed by a “retired”, “unemployed”, or “other inactive” person (i) show the highest rates of poverty incidence (the peak of 47 percent belongs to the *other inactive in the rural areas*), and (ii) represent a large share of the total poor (62 percent, while about one half of the total poor live in households headed by retired individuals).

Retirement doubles the risk of poverty in rural but not in urban areas. The incidence of poverty among households headed by a retired person is below the average in urban areas (9 percent) but close to twice the average in rural households. This can be

explained by the following three factors: (i) the proportion of the population living in households headed by 65+ individuals *without* pension is 2 percent in rural areas, compared to 0.3 percent in urban areas, (ii) individuals in urban areas benefit from a higher degree of protection from other household members than their rural counterparts (about 87 percent of households headed by 65+ individuals without a pension live in rural areas), and (iii) given the contributory pension system in Croatia, pensions in rural areas are significantly lower than in urban areas.



Source: Authors' estimates.

Self-employment decreases dramatically the poverty risk in urban areas, while it increases the risk in rural areas. There is a wide gap in the headcount ratios between urban and rural areas (2 percent versus 18 percent, respectively) which can be explained by differences in the structure of self-employment. In rural areas, self-employed are mostly individual farmers, while in urban areas they are mostly small entrepreneurs.

The unemployed are a relatively small group (3 percent of households are headed by an unemployed person), but they face a considerably higher risk of poverty compared to the national average, both in rural and urban areas (28 and 26 percent, respectively).

### 3.3 Where do the Poor Live?

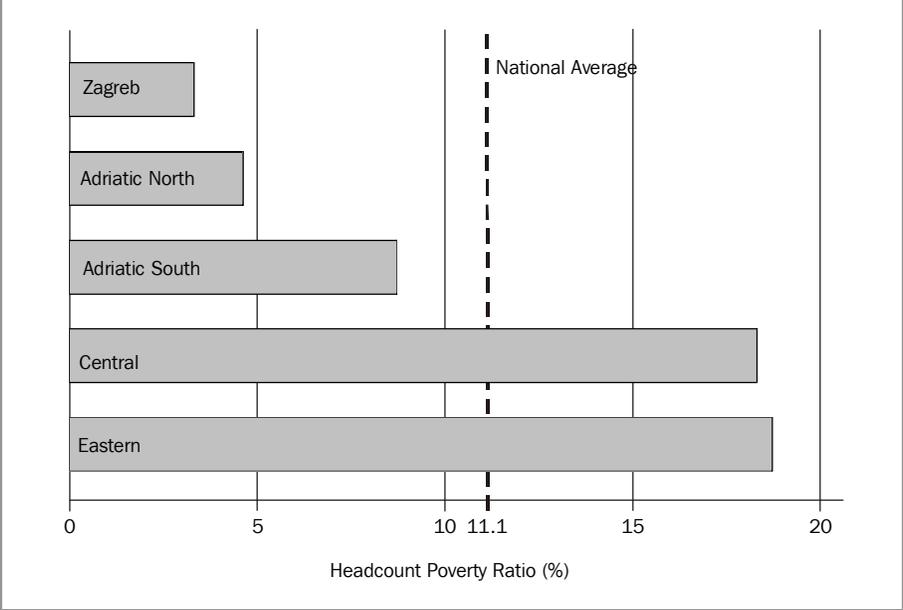
In addition to the urban/rural poverty divide documented above, the place of residence as a possible poverty correlate is studied by looking at the regional disparities in living standards. As for now, we apply a 5-way analytic regional classification of the country as used in World Bank (2000), where regions are defined as groups of counties (Table 4).

<b>Analytical Region</b>	<b>County</b>
Central Croatia	Krapina-Zagorje, Sisak-Moslavina, Karlovac, Varaždin, Koprivnica-Križevci, Bjelovar-Bilogora, Međimurje
Eastern Croatia	Virovitica-Podravina, Požega-Slavonia, Slav. Brod-Posavina, Osijek-Baranja, Vukovar-Sirmium
Zagreb Region	Zagreb County, Zagreb City
Adriatic North	Primorje-Gorski kotar, Lika Senj, Istria
Adriatic South	Zadar, Šibenik-Knin, Split-Dalmatia, Dubrovnik-Neretva

There are large regional differences in the extent of poverty. As shown in Figure 5, the incidence of poverty ranges from circa 3 percent in the Zagreb region to 18 percent in the Eastern region. Even after accounting for the configuration of the Croatian territory, it is striking to observe a 1 to 6 differential in poverty rates between the poorest and richest regions.

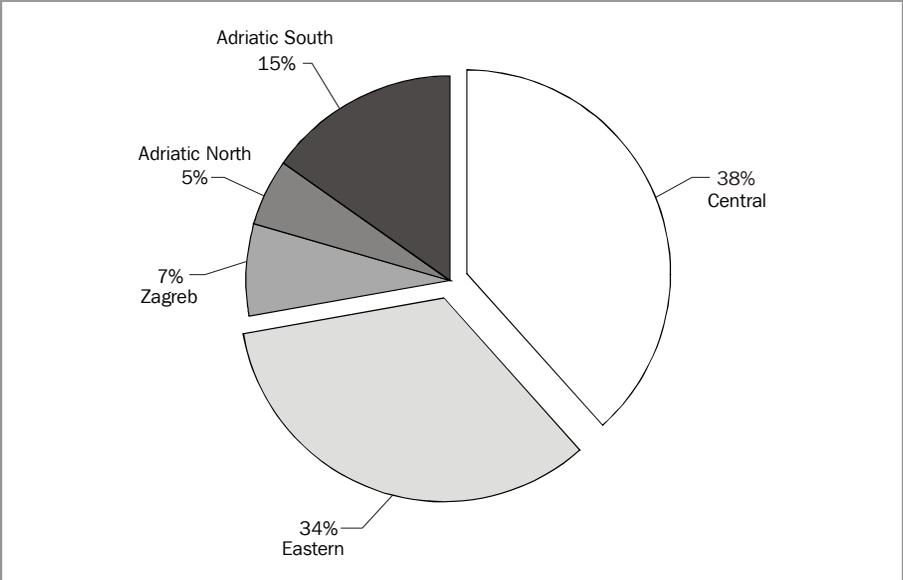
Figure 6 shows the distribution of the poor by region. More than 70 percent of all poor individuals are concentrated in the Central and Eastern regions, while they account for only 43 percent of the population.

Figure 5 **Poverty Incidence in Croatia by Region**



Source: Authors' estimates.

Figure 6 **Distribution of Poverty by Region**



Source: Authors' estimates.

### 3.4 Nature of the Relationship Between Poverty and Regions

The identification of the factors underlying the regional variation of poverty rates deserves a high priority in analyzing poverty in Croatia. The main limitation of the above analysis is that it relies on simple correlations between poverty incidence and region of residence. Simple correlations can be *spurious*, that is, driven by factors omitted from bivariate comparisons. The relationship between poverty and region may not be *direct* (regions matter because of differences in hydro-oro-graphic conditions, lack of infrastructure, poor access to basic services, etc.), but caused by a third variable such as, say, education. To the extent that educational attainment is unevenly distributed across regions, the relationship between poverty risk and region can be dubbed spurious: poverty risk is related to region *indirectly*, via education.

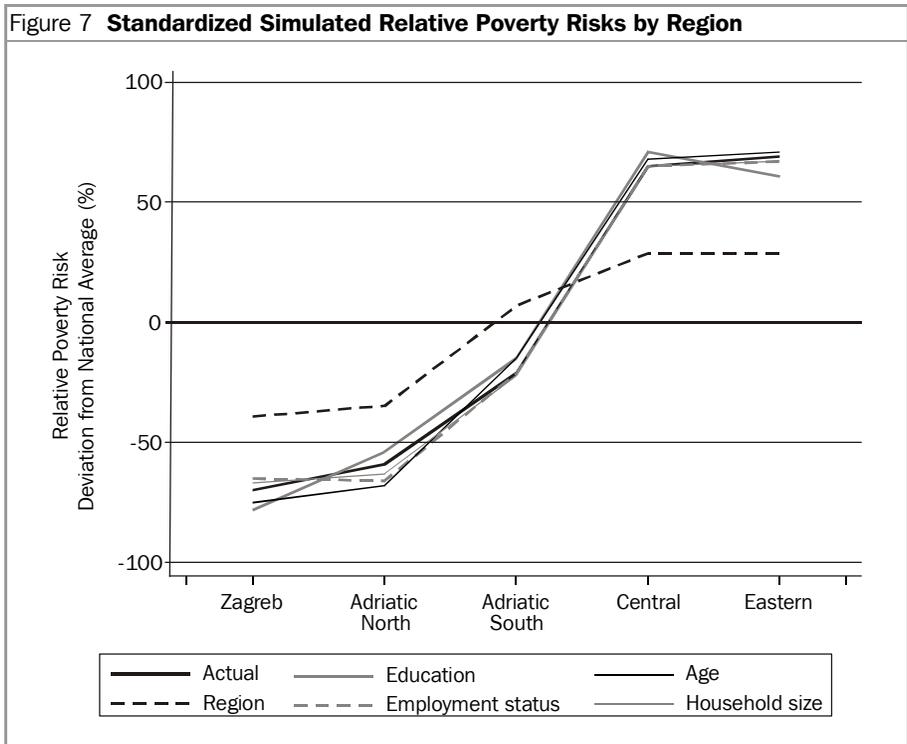
One way of identifying the nature of the relationship between poverty risk and regions is by purging the effect of a third variable from the *simple* correlation between poverty and region. This can be achieved by using partial correlations instead of simple correlations. Partial correlation between two variables ( $x$  and  $y$ , say) is defined as the correlation observed after holding constant (that is, eliminating the effects of) a third variable (say  $z$ ). Partial correlations may differ substantially from *simple* correlations, and comparisons are often informative about the relationship between two variables.

Vecchi (2006) has carried out a partial correlation analysis by means of micro-simulations based on the HBS 2004 data set.<sup>10</sup> The relationship between poverty and region is controlled for five key sets of household characteristics: education, employment status, age, household size, and region. A three-step procedure was adopted to carry out the partial correlation analysis. For purposes of illustration only, let us illustrate the procedure when controlling for education. In step one, equivalent consumption is regressed on a set of household characteristics and poverty covariates in order to estimate the partial effect for each covariate. In step two, the predicted consumption level is generated after assigning the same education level to all individuals in the sample, i.e. assuming no differences in education levels across the population. Finally, in step three, the relative poverty risk by region is calculated using the counterfactual/simulated consumption level predicted in step two.

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<sup>10</sup> Simulated relative poverty risks were estimated by adapting Luttmer's (2000) procedure.

Once the simulated relative poverty risk is obtained, it can be compared with the actual patterns of risk. If the comparison shows little difference, we conclude that education is *not* responsible for the regional variation in poverty. Hence, the correlation between poverty and region is *not* spurious. If after controlling for education the poverty risk pattern changes significantly, we conclude that the correlation between poverty and region is spurious (that is, driven by the uneven distribution of education across regions).



Applying the method outlined above, Vecchi (2006) finds that regional variation of poverty cannot be accounted for by differences in the distribution of education, labor market status, and other demographic factors. This finding is summarized in Figure 7. The figure shows the patterns of percentage deviation of the *actual* and *simulated* relative poverty risk from the national average. If the pattern simulated for factor *j* (say education) remains close to the actual pattern (the thick solid line), we infer that factor *j* plays an insignificant role in the explanation of the correlation between poverty and region. If, on the other hand, the simulated pattern flattens towards the

zero horizontal axis, we infer that factor  $j$  plays a significant role in explaining the relationship between poverty and educational attainment. In other words, the correlation between poverty and region is mediated by factor  $j$ . In Figure 7, only the curve simulated for the factor *region* (dashed line) flattens significantly, which suggests that the relationship between poverty and region is *not* spurious. Controlling for education does not affect the regional variation of relative poverty risks: the odds ratios (regional headcount rate over national rate) of simulated poverty risks hardly change.<sup>11</sup> Employment status, age, and household size do not account for regional variation of poverty either.

## 4 Regional Poverty

Since the region of residence was shown to be an important poverty covariate, we would now like to map poverty with as much geographical detail and precision as possible. However, this is not a straightforward exercise in Croatia. The difficulty arises from the sample size of the HBS: for a typical year, sample size turns out to be too small to deliver county level estimates with reasonable statistical precision. The strategy pursued in this section consists of pooling the HBS samples for 2002, 2003, and 2004 and estimating poverty on the basis of the pooled sample. The pooled sample allows us to estimate poverty measures at the *county* level with acceptable precision. Nevertheless, we believe that the estimates for the five analytical regions defined in Table 4 above provide a safer benchmark for regional poverty estimates than our county level estimates.

A glance at basic county-level development indicators provides us with some useful insights for later discussions (Table 5). The variation in average per capita consumption (consumption definition was explained above) across counties seems modest: the average consumption level in the City of Zagreb, the richest part of Croatia, is around 30 percent above the national average, and nearly two times higher than the poorest county (Karlovac).<sup>12</sup> Variation is milder if we compare wider regions:

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<sup>11</sup> Education is, however, a powerful independent micro-determinant of poverty. After controlling for education, the overall headcount ratio decreases from 11 percent (actual) to 9 percent (simulated). Similarly to simulations in the case of regional poverty, controlling for employment status, region, age, and household size does not explain the relationship between poverty and education. See Vecchi (2006).

<sup>12</sup> Point estimates must not be taken strictly at their face value, but assessed jointly with their estimated standard errors. Particular caution is needed in dealing with results for Požeга-Slavonia County where standard errors are relatively large, due to small sample size problems.

the richest region (Zagreb) shows an income level of 25 percent above the national average and 50 percent above the lowest income level region, Eastern Croatia.

County /Region	Consumption per capita		Inequality in consumption per capita		Unemployment rate	Schooling	GDP per capita
	Index (Croatia =100)	(s.e.)	Gini coeff. (%)	(s.e.)	(%)	Years	Index (Croatia =100)
Krapina-Zagorje	81.2	(2.5)	23.9	(3.9)	4.9	8.7	72.6
Sisak-Moslavina	79.4	(4.1)	30.5	(4.6)	19.0	9.1	77.0
Karlovac	76.1	(6.0)	32.5	(6.8)	15.5	9.1	77.7
Varaždin	84.5	(2.9)	25.7	(4.0)	8.2	9.6	94.2
Koprivnica-Križevci	82.5	(4.8)	28.8	(5.7)	10.2	8.8	95.8
Bjelovar-Bilogora	84.4	(4.7)	29.9	(5.0)	10.9	8.7	74.5
Međimurje	99.8	(4.2)	26.5	(4.6)	12.3	9.6	80.2
<b>Central Croatia</b>	<b>83.7</b>	<b>(1.6)</b>	<b>28.5</b>	<b>(1.8)</b>	<b>11.5</b>	<b>n.a.</b>	<b>81.9</b>
Virovitica-Podravina	77.9	(4.7)	25.4	(6.4)	14.0	8.6	75.4
Požega-Slavonia	108.7	(19.4)	35.7	(12.5)	13.9	8.5	72.2
Slav. Brod-Posavina	83.1	(3.0)	25.6	(4.1)	15.7	8.8	57.5
Osijek-Baranja	81.3	(2.5)	27.3	(3.4)	22.9	9.6	75.3
Vukovar-Sirmium	86.9	(2.8)	24.9	(4.3)	24.0	8.7	57.5
<b>Eastern Croatia</b>	<b>85.0</b>	<b>(2.2)</b>	<b>27.4</b>	<b>(2.4)</b>	<b>19.9</b>	<b>n.a.</b>	<b>67.4</b>
Zagreb County	100.5	(2.7)	28.5	(1.8)	14.8	9.6	74.1
Zagreb City	130.9	(2.3)	26.5	(2.0)	10.7	11.5	179.2
<b>Zagreb Region</b>	<b>122.1</b>	<b>(1.8)</b>	<b>26.4</b>	<b>(1.7)</b>	<b>11.8</b>	<b>n.a.</b>	<b>148.9</b>
Primorje-Gorski kotar	122.1	(2.7)	23.7	(2.9)	11.2	10.6	118.1
Lika-Senj	115.1	(4.4)	19.1	(6.2)	8.7	8.5	103.4
Istria	103.3	(3.4)	22.9	(4.7)	8.4	9.9	137.5
<b>Adriatic North</b>	<b>114.4</b>	<b>(2.0)</b>	<b>23.4</b>	<b>(2.4)</b>	<b>9.9</b>	<b>n.a.</b>	<b>123.8</b>
Zadar	93.7	(3.0)	25.3	(4.0)	18.9	9.8	80.1
Šibenik-Knin	93.4	(4.0)	24	(5.7)	28.2	9.0	69.7
Split-Dalmatia	97.9	(2.2)	25.2	(2.6)	19.6	10.2	75.3
Dubrovnik-Neretva	102.6	(3.7)	23	(5.0)	17.4	10.2	88.4
<b>Adriatic South</b>	<b>97.1</b>	<b>(1.5)</b>	<b>24.9</b>	<b>(1.9)</b>	<b>20.2</b>	<b>n.a.</b>	<b>77.3</b>

*Note: Gini coefficient and associated standard errors are computed with the Stata statistical software using `svygni add` command written by Juan Muñoz.*

*Sources: Authors' estimates based on HBS 2002-2004 for consumption and inequality (incl. associated standard errors), Lovrinčević and Mikulić (2006) for GDP in 2003, and Luo's (2006) estimates based on LFS 2002-2004 for unemployment and schooling.*

The pattern emerging from the distribution of consumption by county is broadly consistent with the documented development figures from other independent sources,

such as GDP per capita from national accounts statistics or unemployment and schooling data from the Labor Force Survey.

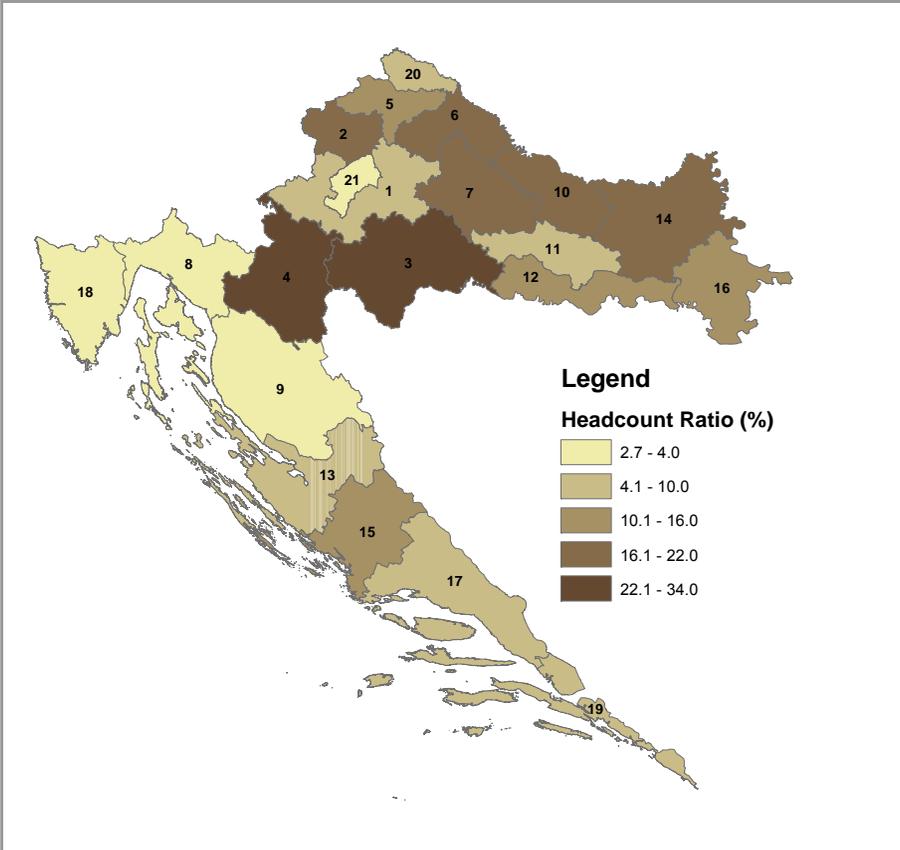
County /Region	Headcount poverty rate		Population share		Proportion of the poor	
	(%)	s.e.	(%)	s.e.	(%)	s.e.
Krapina-Zagorje	19.2	(2.8)	3.1	(0.1)	5.2	(0.7)
Sisak-Moslavina	28.3	(3.6)	4.2	(0.2)	10.3	(1.3)
Karlovac	33.8	(5.9)	2.9	(0.2)	8.6	(1.5)
Varaždin	15.6	(2.4)	4.3	(0.1)	5.8	(0.9)
Koprivnica-Križevci	20.8	(4.3)	2.8	(0.1)	5.0	(1.1)
Bjelovar-Bilogora	21.7	(4.3)	3.0	(0.1)	5.7	(1.2)
Međimurje	8.0	(1.9)	2.8	(0.1)	2.0	(0.5)
<b>Central Croatia</b>	<b>21.2</b>	<b>(1.4)</b>	<b>23.2</b>	<b>(0.4)</b>	<b>42.5</b>	<b>(2.2)</b>
Virovitica-Podravina	19.8	(2.2)	2.1	(0.2)	3.6	(0.5)
Požega-Slavonia	10.2	(3.0)	1.7	(0.2)	1.5	(0.4)
Slav. Brod-Posavina	16.4	(3.3)	3.9	(0.1)	5.5	(1.1)
Osijek-Baranja	19.9	(2.3)	7.7	(0.3)	13.2	(1.5)
Vukovar-Sirmium	16.3	(2.2)	4.4	(0.2)	6.2	(0.8)
<b>Eastern Croatia</b>	<b>17.5</b>	<b>(1.3)</b>	<b>19.8</b>	<b>(0.4)</b>	<b>30.0</b>	<b>(1.9)</b>
Zagreb County	6.6	(1.3)	7.2	(0.3)	4.1	(0.8)
Zagreb City	2.7	(0.4)	17.7	(0.4)	4.1	(0.7)
<b>Zagreb Region</b>	<b>3.8</b>	<b>(0.5)</b>	<b>24.9</b>	<b>(0.5)</b>	<b>8.2</b>	<b>(1.0)</b>
Primorje-Gorski kotar	3.4	(0.8)	6.7	(0.2)	2.0	(0.5)
Lika-Senj	2.5	(1.1)	1.3	(0.1)	0.3	(0.1)
Istria	4.4	(1.2)	4.7	(0.2)	1.8	(0.5)
<b>Adriatic North</b>	<b>3.7</b>	<b>(0.6)</b>	<b>12.7</b>	<b>(0.3)</b>	<b>4.0</b>	<b>(0.7)</b>
Zadar	8.2	(1.6)	3.7	(0.2)	2.6	(0.5)
Šibenik-Knin	13.6	(3.4)	2.7	(0.2)	3.1	(0.8)
Split-Dalmatia	8.9	(1.5)	10.4	(0.3)	8.0	(1.3)
Dubrovnik-Neretva	6.2	(2.0)	2.6	(0.1)	1.4	(0.4)
<b>Adriatic South</b>	<b>9.1</b>	<b>(1.0)</b>	<b>19.4</b>	<b>(0.4)</b>	<b>15.2</b>	<b>(1.6)</b>

Note: Linearized standard errors based on sample specification are reported in parentheses. Poverty calculations are based on the baseline equivalent consumption using the modified OECD scale (1; 0.7; 0.3).

There are, however, counties for which the relative ranking tends to vary depending on the indicator of living standards chosen. Counties with the lowest per capita consumption levels (as measured by its average) are not those with the lowest GDP per capita. Unemployment rates are, in general, inversely related to consumption, although with some notable exceptions (Krapina-Zagorje). Inequality is somewhat higher in regions with lower average consumption. Relative ranking of development

indicators at the level of the five analytical regions is much more consistent. The Zagreb and the North Adriatic regions share the most favorable values of the development indicators.

**Figure 8 Poverty Map for Croatia Based on County-Level Poverty Estimates, 2002-2004**



*Notes: 1 Zagreb County; 2 Krapina-Zagorje; 3 Sisak-Moslavina; 4 Karlovac; 5 Varaždin; 6 Koprivnica-Križevci; 7 Bjelovar-Bilogora; 8 Primorje-Gorski kotar; 9 Lika-Senj; 10 Virovitica-Podravina; 11 Požega-Slavonia; 12 Sl. Brod-Posavina; 13 Zadar; 14 Osijek-Baranja; 15 Šibenik-Knin; 16 Vukovar-Sirmium; 17 Split-Dalmatia; 18 Istria; 19 Dubrovnik-Neretva; 20 Međimurje; 21 City of Zagreb.*

*Source: Authors' estimates.*

Poverty estimates by county and region are presented in Table 6. The variation in the incidence of poverty is striking. Headcount poverty rates vary from 4 percent to more than 20 percent. Accordingly, individuals living in the City of Zagreb or counties of the North Adriatic Region face a risk of falling into poverty that is 20-60 percent of

average national risk, while living in the counties of Karlovac and Sisak-Moslavina raises the poverty risk to levels 2-3 times the national average. Nearly 25 percent of population lives in Central Croatia, but this region accounts for more than 40 percent of the Croatian poor.

Figure 8 shows the poverty map of Croatia based on county-level poverty estimates. This is a useful device for identifying poverty differentials across areas in the country, and at present, it represents the highest geographical resolution attainable given the available data.

Not only do poverty rates vary substantially across regions and counties, but so does vulnerability to poverty (loosely defined). This question is investigated in Table 7. The table presents the results after slicing the distribution of per equivalent adult consumption into intervals centered around the poverty line ( $z$ ), and counting how many individuals fall within each interval. By reading Table 7 top to bottom, we obtain an account of how rapidly the count of the poor changes in response to changes in the poverty line.

	<b>Consumption level (multiples of poverty line)</b>	<b>Central Croatia</b>	<b>Eastern Croatia</b>	<b>Zagreb Region</b>	<b>Adriatic North</b>	<b>Adriatic South</b>	<b>Overall</b>
Extremely poor	PEA < 0.5z	3.7	1.2	0.1	0.1	0.4	1.2
Chronically poor	0.5z < PEA < 0.75z	7.6	5.2	1.1	0.2	2.3	3.5
Poor	0.75z < PEA < z	9.9	11.2	2.6	3.4	6.3	6.8
Vulnerable	z < PEA < 1.25z	14.5	15.2	5.6	7.5	9.7	10.6
Transient non poor	1.25z < PEA < 2z	37.6	42.3	32.2	38.9	42.9	38.4
Non poor	PEA > 2z	26.7	24.9	58.3	49.9	38.3	39.4
<b>TOTAL</b>		<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Notes: PEA is per equivalent adult expenditure, z is the absolute poverty line, equal to HRK 22,145/equivalent adult/year.*

*Source: Author's estimates.*

At the national level, in addition to the share of the population classified as poor (11 percent), there is an additional 10 percent of the population that could be considered vulnerable to poverty due to their consumption level, which is slightly higher than the poverty line.

At the regional level, a comparison between the Central and Eastern regions reveals a notable difference in the nature of poverty in these two regions. In the Central region, almost 4 percent of the population lives with an exceedingly low level of resources (less than half the poverty line), while in Eastern Croatia, a region with a similar headcount poverty rate, only 1 percent of the population is exposed to such extreme poverty. On the other hand, the Eastern region has a higher fraction of the population than the Center with consumption levels close to the poverty line. A relatively high inequality in the Central region, as measured by the Gini coefficient and presented in Table 5, contributes to its high exposure to harsh poverty.

## 5 Summary and Concluding Remarks

This paper presented the major findings of the poverty estimates for Croatia. It has shown that geography is one of the key factors driving poverty in Croatia. Regional disparities in poverty rates are large, substantially larger than variations in other development indicators such as per capita consumption or per capita GDP. Poverty incidence ranges from close to 3 percent in the Zagreb region to 18-19 percent among households in the Eastern and Central regions. Even more pronounced is the variation among poverty gaps and the squared poverty gaps. Poverty is deeper, more severe, and widespread in rural areas than in urban areas.

An in-depth analysis based on micro-simulations provides strong support for the claim that the link between poverty and region is firm and direct. Differences in education, labor market, and other demographic factors cannot account for the observed regional variations. This result suggests that a focus on regional development makes sense for Croatia, and this paper is a step in this direction.

By mapping poor households at the county level, we have investigated poverty with a geographical resolution higher than any previous study in Croatia that we are aware of. This is an important achievement, which will help develop tools for effective geographic targeting. However, the finding that the relative rankings of Croatia's counties are not robust to the choice of the living standards indicator, raises the issue of which territorial unit is most appropriate for optimal regional development planning. It is possible that counties in Croatia are too small a unit for this purpose. Other possibilities cannot be ruled out at this stage, and further analysis is needed.

While the focus of this paper was on the geographic variation of living standards, other dimensions of poverty were investigated as well. We find that the risk of poverty decreases sharply with the level of educational attainment of the head of household. Households headed by individuals with primary or lower education are associated with a poverty risk two times the average, while attainment of secondary education reduces the risk to one-third of the average risk. Poverty risk literally collapses when calculated over population groups with relatively high educational attainment levels

Inactivity is clearly mirrored in the structure of poverty rates. The single most important group is the pensioners. Apart from being associated with poverty risk twice the average, they are shown to account for 46 percent of the total poor. Households headed by unemployed and other inactive persons are also subject to an above-average poverty risk, but together they make up 16 percent of the poor.

Poverty rates increase over the life cycle of the head of household. While cohorts below 65 years of age have a below-average risk of poverty, households headed by 65+ persons face a poverty risk that is two times the national average. Within the 65+ group, those without pensions are at risk more than five times the national average. The largest fraction of the elderly classified as poor is concentrated in rural areas.

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# Privatization of Social Policy of Water Supply in the South Caucasus: A Boost to Regional Development or “Stealing Water from the Poor”?

Farkhad Mukhtarov\*

## Abstract

Private Sector Participation (PSP) has recently become common in the water supply (WS) sector. There is a belief that the private sector is better placed to mobilize capital and ensure stronger political autonomy and operational efficiency of a water utility. In case of the South Caucasus (Azerbaijan, Armenia and Georgia), water is often a limiting factor for social and industrial development, so that privatization has been proposed as a means to boost both of them. However, while being a boost to industrial development on one hand, privatization of the WS may result in the failure to ensure social and environmental goals on another hand, and result in “stealing water from the poor”. This paper aims to identify whether PSP in WS is an appropriate tool for regional development in the South Caucasus, and if so, to identify the conditions required for sustainable PSP.

**Keywords:** private sector, water supply, social policy, regional development, South Caucasus

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# 1 Introduction

It is axiomatic that water development projects, by their very nature, will have impacts in and around the regions where they are located. The question, thus, is not whether water management projects can affect regional development, but rather how a water development project can be planned, implemented, and managed from the very beginning in order to maximize net benefits for regional development (Biswas et al., 2004).

Provision of reliable and clean water to domestic, commercial, and industrial consumers is an important issue since the world is rapidly becoming more and more urbanized. It is particularly relevant to the South Caucasus region, which consists of three former Soviet countries: Armenia, Azerbaijan and Georgia.

At a certain stage, industrial growth and the attendant employment opportunities may become constrained, unless the consumers receive the appropriate quantity and quality of water they need (Biswas et al., 2004). If adequate water supply is not available to consumers, they will face the following problems:

- Increased costs for those who lack access to piped water. This refers to the money paid to private vendors, or the costs of sinking, equipping and maintaining a well;
- Increased time and physical effort needed in collecting water. The burden of fetching water - the source of which is frequently located outside of the house, in some cases 200 meters afar - may go to the expense of income-generating activities or the education for school-aged girls;
- Reduced water consumption levels. The more time, effort and money is spent to get water, the less it is consumed;
- Increased health burdens. Inadequate water quality and the under-provision of water incur a great public health danger, whereas an absence of the collection and treatment of sewage is the primary source of infectious diseases in a town;
- Economic costs in terms of lost productivity. As a result of disease, labor productivity drops, resulting in less GDP and less income generated (Mukhtarov, 2005).

Precisely due to the above mentioned effects, the poor municipal WS services are among the major obstacles to regional development in the South Caucasus. The infrastructure is in dire need for reconstruction and expansion, and policy has proven to be inappropriate (ADB, 2004).

As a solution, international organizations, led by the World Bank, have been actively promoting the policies oriented at private sector participation (PSP) in the sector. However, PSP policy applied in Africa, Asia and Latin America has proven controversial and has induced social conflicts sometimes with violence and victims, as it happened, for example, in Cochabamba (Bolivia) in 2000. The main concerns associated with PSP in relation to the so-called “commodification” of water likely occur after privatization. “Commodification” means the treatment and allocation of water - like any other good - only to those who can afford it (Barlow and Clarke, 2001; Hall, 2000). That is why the opponents of PSP in the water supply sector have labeled it “stealing water from the poor.”

This study aims to analyze prospects for PSP in the South Caucasus, whether it would have a positive impact on regional development, and if yes, what the key factors are that would ensure PSP to be a boost to regional development rather than “stealing water from the poor.” The findings of the study are highly important not only for the countries in the South Caucasus, but also for other newly independent states<sup>1</sup> and countries in Central and Eastern Europe, which consider PSP as a means for urban WS sector reform.

The paper consists of five parts. The second part reviews the theory of PSP involvement and identifies the factors that generally determine success or failure of PSP in the water supply and regional development. The third part overviews the WS policy in Azerbaijan and PSP as a means to promote regional development. The fourth part is devoted to the pilot case study of the provincial town of Imishli (Azerbaijan), where the privatization of the water supply has unveiled interesting relations between social policy and regional development in a transitional context. The final part identifies the most appropriate PSP model and the risks, which need to be ameliorated, and proposes appropriate policy steps.

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<sup>1</sup> *These are the states that gained their independence after disintegration of the Soviet Union in 1991.*

## 2 PSP Involvement in WS Services: Arguments for and against

One of the most hotly contested issues in the contemporary public sector discourse is about the role of the private sector in the management of public goods, to which water supply belongs.

The main argument for PSP stems from the currently observed failure of the public sector to effectively manage the WS infrastructure, mostly due to the following problems (Johnstone and Wood, 2001b):

- *Gamekeeper-poacher problem.* With the government as both the owner and provider, the manager of the utility is subject to a number of conflicting influences which it may not be able to balance if clear priorities are not established;
- *Flexibility and autonomy.* At the level of operations, bureaucracy is one of the main constraints in the public sector, while it is not the case to the same extent in the private sector;
- *Absence of competitive discipline.* Since public utilities are not subject to the disciplines of the market, they have less incentive to minimize costs (and maximize tariff collection rates) and to provide services in a manner that the consumers demand;
- *Access to capital.* Private companies can mobilize capital cheaper and faster than the public ones. They may also be better placed to access technical skills, such as human capital (Johnstone and Wood, 2001b; Nickson, 1996 cited by Johnstone and Wood, 2001a; Ingram and Kessides, 1994; Idelovitch and Ringskog, 1995; Mody, 1996).

However, there are serious social and environmental concerns related to PSP in the WS sector. The main social concerns are rooted in an inherent conflict of private interests (maximization of profits) with social and ecological considerations in water development projects (Faruqui, 2003). For example, with costs and prices of water provision higher and demand lower in poorer neighborhoods, private companies are unlikely to have sufficient incentive to improve access in these areas (Johnstone and Wood, 2001b). The other concern is related to the affordability of water after privatization (Blatter and Ingram, 2001). A private company being primarily

interested in cost savings and the maximization of sales could cut spending on maintaining good quality of water (Faruqui, 2003).

Among environmental concerns, there is lack of incentive for private suppliers to conserve water, as they are interested in increased consumption rates and sales of their services. For example, excessive abstraction took place in China, South Africa, England and Wales and caused, in some cases, the drying up of streams (Faruqui, 2003).

Probably disappointing for the participants in the debate, the problem is rooted not in who owns and operates, but in how one owns and operates the system. Efficient utilities are those that are run as self-sustaining commercial enterprises accountable to people. Whether ownership is public or private is less important (Faruqui, 2003; Johnstone and Wood, 2001b).

There is a list of universal principles of WS that have to be adhered to. Gleick et al. (2002) describe these principles as follows:

- *Continue to manage water as a social and environmental good.* This means that the entire population, within the scope of a contract, should be provided with basic water requirements of 50l/capita/day (Johnstone and Wood 2001b); natural ecosystems should be protected and subsidies provided for the poor to afford minimum water requirements (Faruqui, 2003);
- *Use sound economics in water management.* This means that the price of water should reflect all costs and be designed to encourage water conservation. Subsidies should be provided primarily to the poor without altering the water price, not to decrease conservation incentives. At the same time, it is important to permanently revise the subsidies system to ensure that they reflect the needs of the poor and other goals of urban water policy;
- *Maintain strong government regulation and oversight.* Governments should retain or establish public ownership or control of water sources. Public agencies should monitor water quality. Responsibilities of each partner should be precisely determined. Clear dispute-resolution procedures should be developed prior to privatization. Independent technical assistance and contract review should be standard. Negotiations over privatization contract should be open, transparent, and include all affected parties.

If these principles are respected in the process of reform, a PSP arrangement will be successful. However, the main problem is that with an increase in regulation and environmental and social standards of policy, the attractiveness of the sector for private investors drops. Therefore, the right balance in the combination of these principles is required in each specific place with respect to the general principles outlined above.

In general, PSP cannot be viewed separately from broader water management issues. One such important issue is decentralization, especially emphasized in the Almaty “Guiding Principles for Reform of Urban Water Supply and Sanitation in Newly Independent States” (OECD, 2000a). In this document, decentralization is envisaged as based on four elements:

- decentralizing responsibility for water supply and sanitation services to the municipalities, avoiding excessive fragmentation;
- establishing the legal, regulatory and institutional framework for sound and municipal finance, including effective planning, supervision and fiscal control within municipalities;
- clarifying the legal status of water utilities and their relations with local governments rights for infrastructure;
- establishing a framework for treating the inherited debts of water utilities.

However, relations between decentralization and PSP are not straightforward. Although they are often suggested for implementation together, it is not uncommon that decentralization actually discourages PSP (WB, 2000; OECD, 2000a, etc.). When the centralized systems with big economies of scale are divided into smaller municipal systems, they are not as attractive to private investors as before. It has been observed that there is little commercial interest in PSP in water utilities serving less than 50,000 people (OECD, 2003). This problem might be potentially solved by creating municipal unions to reach the required economy of scale and attract PSP, as it happened in Poland (Mukhtarov, 2005; Castalia, 2003). Another potential problem with decentralization is that the actual transfer of water utilities to municipalities, which are not ready to take over the systems, might be harmful. Decentralization should proceed gradually with the thorough preparation of municipalities to take over the system. On the other hand, it is also important to develop political will to decentralize the sector and not allow the justification of centralization by the current lack of municipal capacity (Mammadzadeh, 2005).

## 3 Water Supply Sector in the South Caucasus and Prospects for PSP

As a heritage from the Soviet Union, all three countries in the region - Armenia, Azerbaijan and Georgia - have had quite a developed system of WS services coverage in comparison with other countries with similar levels of GDP per capita (WB, 2000). Nevertheless, water system coverage does not mean access to water because settlers living on higher floors in apartment blocks have to invest in pumps and water tanks due to the low water pressure and availability of water - only for 2 to 4 hours a day and sometimes even not at all. Moreover, for more than 20 years, the infrastructure has not been renovated and currently is in dire need of replacement (ADB, 2004). As for management techniques, a centralized system inherited from the soviet past dominates the sector and utilities are mostly publicly owned and operated. The section below discusses the specific features of each country in the region.

### 3.1 Armenia

Drinking water coverage is 85 percent on average, whereas it is 99 percent in Yerevan and 56 percent in the small cities. All urban and about 20 percent of rural areas are equipped with wastewater collection and treatment systems. In contrast to other countries in the region, there is metering of consumption in almost 50 percent of the connections, whereas it is 80 percent in Yerevan. Nevertheless, the physical state of the infrastructure has degraded to the level that the unaccounted-for-water<sup>2</sup> has reached 65 percent as an average for the country.

The sector structure is quite different from the other two countries: the capital Yerevan has its separate municipal water company, which has been under a management contract funded by a World Bank loan since 1999 with a consortium of Acer and Company Armenian Utility (led by ACEA s.p.a. with C. Lotti and Association and Wrc.). The management contract expired on April 30, 2005, and the new loan has been prepared to continue it. As for the 34 municipalities and 490 rural communities outside the capital, they are managed by the state company Armvodokanal. Armvodokanal has been under a management contract with Saul

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<sup>2</sup> *Unaccounted-for-water is the index used to measure water lost in the pipe-lines due to various reasons (leaks, stealing etc.)*

since December 2004. Recently, one utility from the Armavir region (Nor Akunk) split from Armvodokanal in order to pursue a loan from KfW.

The government is interested in the development of the sector and in attracting foreign expertise to sector management. The entire sector is now managed through management contracts, although financed by subsidized loans (World Bank/IDA and KfW with zero interest and a 40 year repayment schedule). It is unlikely that water tariffs will be increased dramatically in the near future; however, the tendency to cost recovery of water operations will be maintained (Global Water Intelligence, 2005).

## 3.2 Georgia

The water supply coverage is 86 percent of the population (99 percent for Tbilisi, 82 percent for large cities and 56 percent for small towns). Unaccounted-for-water is 45 percent. The water sector is in deep financial crisis, but at the same time, the new government is reluctant to increase tariffs, fearing social unrest. Most finance comes from international donors and subsidized loans.

A limited liability company/association of the Georgian water utilities, Gruzvodokanal, is the primary organization in the Georgian water and sewerage sector and provides technical and advisory assistance to all municipal utilities and minor water suppliers in small towns and large villages. There are 85 municipal water utilities in the country, and 41 cities have wastewater collection systems. Municipalities are fully in charge of establishing water tariffs (Global Water Intelligence, 2005).

The WS sector is in public hands and the government is hesitant to agree to management contracts for communal services after the failure of the AES-led management contract for Tbilisi's electricity system. According to predictions of Global Water Intelligence (2005), there will be no significant projects undertaken in the country in the near future due to a reluctance to borrow and a fear of a complex water tariff reform. Donor assistance will dominate the development of the sector. The sector is centralized; cross-subsidization is very common and cost-recovery is not even formulated as a policy goal. There is no long-term vision that would articulate the direction of sector development or connect it with other water resources issues; policy is short-term and emergent or so to say "blind wandering". The WS sector is

absolutely unattractive for private investors/operators, whereas the government is hesitant to give the green light to PSP as mentioned above (Global Water Intelligence, 2005).

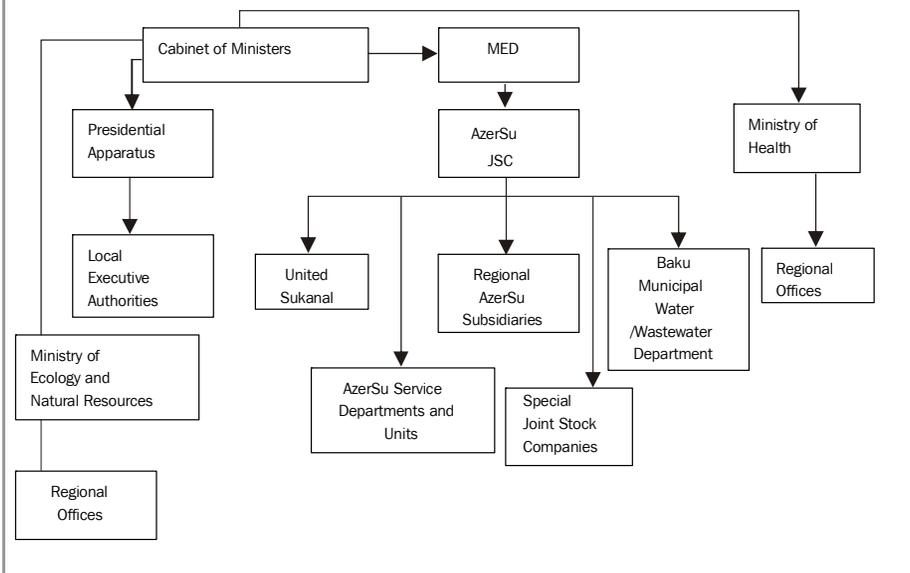
### 3.3 Azerbaijan

Water supply coverage is 80 percent of the population (piped connections 70 percent, Baku 96 percent, areas outside Baku 56 percent), but most of the infrastructure is in a dilapidated state and needs to be renovated. According to different estimates, unaccounted-for-water is 65 percent to 75 percent. As for sewerage connection, the country average is 44 percent, whereas it is 86 percent in Baku, and 36 percent elsewhere (Global Water Intelligence, 2005).

The poor state of the WS infrastructure has its roots not so much in deficient design and use of poor materials as in inappropriate water policy, paying little attention to maintenance and rehabilitation of the systems (WB, 2000).

In June 2004, the structure of the WS sector in Azerbaijan was changed by the Presidential Decree #252. While in the past the WS of Absheron Peninsula (Baku and Sumgait cities) was separated from the WS of small cities and rural areas, now they have been consolidated within a newly created organization called AzerSu JSC. In addition, before the Presidential Decree, water supply function was separated from wastewater collection and treatment; whereas after the Decree, these functions have also been consolidated. Structurally, however, AzerSu is an agglomeration of the Absheron Regional Water Company (established in 1995) and Azersukanal, an agency that used to serve water everywhere else in the country. Rural water provision is delegated to the community level, but AzerSu is in charge of the development of large investment schemes and the development programs for community water services. While AzerSu is an operator of the facilities, the assets are owned by municipalities and are to remain in municipal ownership according to the national Water Code.

Figure 1 **WS Sector Structure in Azerbaijan**



Source: Mukhtarov (2005).

Any water supply policy should be based on a comprehensive strategy, which would a) formulate the needs of the water sector in a given situation; b) set the goals of water supply; c) prioritize goals; and d) show how to reach the goals under certain constraints. Currently, Azerbaijan lacks a conceptual approach to water supply (Mammadzadeh, Abiyev, Mammadov, pers. comm.; SECO, 2003; WB, 2000). It is not clear how to improve the allocation of responsibilities in the sector and which principles should govern such an allocation. The government insists on maintaining a state monopoly on water services in the country through the Azersu JSC. The functions of AzerSu are essentially concentrated around the provision of water and sanitary services, and performing maintenance, repairs and associated minor construction work using its own personnel and materials.

Based on a review of policy documents and interviews, it can be argued that the current water policy in Azerbaijan is being implemented according to the following principles:

- “Blind wandering” when, in the absence of a strategic vision, the Government of Azerbaijan (GoA) responds only to urgent needs of the systems, being unable to foresee and prevent problems (WB, 2000; SECO, 2003);
- Centralized management when water utilities are subordinated to and dependent on LEA and AzerSu. Municipalities and local communities do not participate in the management of WS services (WB, 2000);
- Supply-based management when there is ignorance of the population demands, wishes and needs (SECO, 2003). Metering and conservation incentives are largely absent in the Azerbaijani domestic water supply (ADB, 2004);
- Cross-subsidization of domestic water users at the expense of commercial and public organizations. Tariffs remain a politically determined issue (Mammadzadeh, pers. comm.).

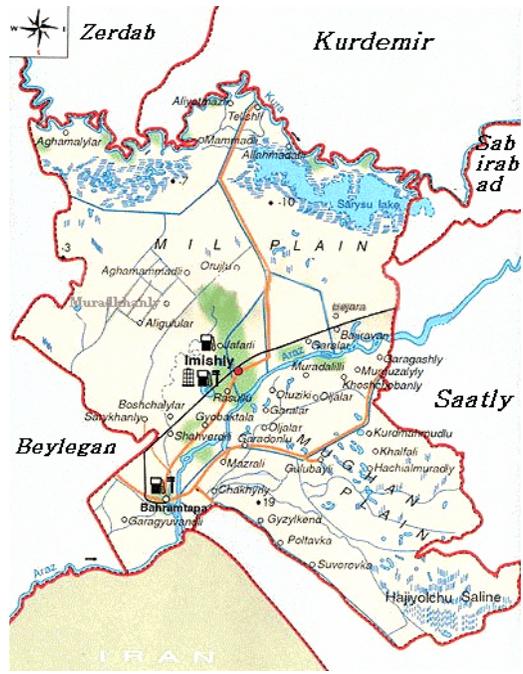
After the Presidential Decree in 2004 for the centralization of the sector structure and the failure of the Management Contract for 25 years with Barmek Holding in the electricity sector (June 2006), both the private sector and the government of Azerbaijan are reluctant to go for PSP in the near future. There are, however, several previously designed projects, which stipulate PSP; however, the hard process of negotiations over the institutional design of these projects has been on its way for several years.

It is impossible to say beforehand whether conditions for successful PSP might be established unless a pilot study is made. Particularly for this purpose, the German Development Bank (KfW) decided to carry out a pilot project by passing a water supply services provision to the private company BerlinWasser in the Azeri town of Imishli. Analysis of this pilot project is of utmost importance both for academic and practical purposes of regional development in the South Caucasus. The next section presents the results of this analysis.

## 4 Case Study of Imishli (Azerbaijan)

Figure 2 **Imishli Rayon**

The town of Imishli is situated in the central part of Azerbaijan, 250 km to the South-West of Baku. The main source of drinking water is the Araks river, and the water supply infrastructure was built in 1968 for 10,000 people. In 2004, the population reached 36,000, and only 35 percent of the town dwellers had access to piped water supply before the project.



Source: Mukhtarov (2005).

In 1997, the German Government signed with the Government of Azerbaijan the Program on Assistance to Infrastructure Utilities of Azerbaijan. The assistance was supposed to be financed by a KfW soft credit. At the first stage of the program, the water infrastructure needed to be rehabilitated and certain institutional changes undertaken in one of the secondary towns. The second stage of the program included the rehabilitation of infrastructure and institutional changes in two bigger cities of the Kura-Araks Lowland: Sheki and Ganja, a project which already started in the spring 2005 (SECO, 2005).

The project aimed at both physical rehabilitation and institutional changes in management. The objectives of the project were stated in the Foundation Contract 2000, and the lease contract, 2000, as follows:

- reach water supply level so that the main part of the population in Imishli (35,000) would have a minimum supply of 50l/day. This implies the rehabilitation and expansion of the system and the application of innovative approaches such as public standpipes and water trucks;
- reach WHO standards of supplied drinking water (irrespective of whether piped water or truck delivered water);
- reach 80 percent of the collection rate;
- decrease technical water loss (leakage) to 30 percent;
- reach recovery of operation costs (100 percent).

## 4.1 Strengths and Failures of the Project

As a result of the project, 60 percent of the whole pipe network (21.6 km from 34 km) has been replaced by new cast iron and plastic pipes imported from Germany. The water coverage was extended from 850 households in 1998 to 1,630 in 2005. Two mains that deliver water from the intake to the town have not been replaced, but washed. The chlorinating and pump stations have been built, and two new wells drilled. However, the sewage system has not been dealt with in this project. Apart from physical renovation of the infrastructure, one of the project's main strengths is that it introduced the full pricing of water, and established metering.

It is possible to argue that the scope of the project was not sufficiently wide enough to cover all citizens for water supply, and priorities have not been applied to the investment allocation process - the result of which is that neither water coverage (objective 1), nor water quality (objective 2) were achieved.

Therefore, the project failed to address two important issues: the affordability of water to all and the compliance of the water supply services and drinking water quality to the WHO standards.

## 4.2 Affordability of the Water Supply Services

Two tests have been made to check affordability: the so-called macro-affordability and micro-affordability tests.

A macro-affordability is calculated by dividing the average income of an Imishli dweller by the average amount he/she spends on water. This indicator equaled 1.4 percent, which is well below the limit of 4 percent (set by OECD). Therefore, on the scale of average, the water price was perfectly affordable.

However, at the household level, water proved to be unaffordable to all. This has been found as the result of a micro-affordability study, which is the percentage of an individual household's income spent on water expenditures. Those users that have no piped water supply and have to purchase it from trucks mostly (8 income deciles out of 10) can not afford water in necessary amounts. Plus, there are also users who have neither piped supply, nor trucked supply; these users have to buy from local private vendors, and this appears to be unaffordable to all users.

### 4.3 Drinking Water Quality

Water quality appeared to be another important issue. Being outside of the strict regulatory control, the Imishli Water Company did not invest in the microbiology laboratory in Imishli and does not carry out routine monitoring of the microbiological quality of water. This heavily contradicts the WHO Guidelines (2003) since the most common and most dangerous source of water-borne diseases are microorganisms.

Naturally, it is easy to blame the Imishli Water Company for their failure to ensure safe water according to WHO standards. However, there are deeper reasons for failure, which are as follows: 1) the weak regulatory capacity of the Azeri Government, 2) inherent risks associated with a private company taking over the monopoly of the WS provision, 3) incomplete feasibility and assessment studies before the project, and weak oversight of the investor - the KfW.

### 4.4 Lessons Learned from the Imishli Case Study

There are three main lessons that must be learned from the Imishli experience with PSP for further application in the Caucasus and FSU municipal water supply. These are as follows:

- A private water company, even if managed by an experienced operator, does not have enough incentives to provide good quality water and has a tendency to cut costs. There is an outcry for a strong regulator which can a) make information available to it and b) enforce the regulations;
- The capacity of regulators, such as AzerSu (State Water Agency), Local Executive Authorities and the Ministry of Health as regulators, should be strengthened. AzerSu proved unable to ensure affordability of services and service delivery to all consumers, and the Ministry of Health failed to enforce water quality legislation and the contractual obligations of the company;
- The role of donors should be more than simply financing; as sponsors, they have a leverage that could be used for regulation.

The project in Imishli had a pilot character and was aimed to test a set of new principles of water utility management in the context of Azerbaijan. In the absence of consensus on the water sector strategy and on the ways to implement the reform process, it would be too optimistic to expect a project that was successful in all aspects.

However, the specificity of the WS sector is that pilot experiments cannot pursue only the aims of capacity building and “testing hypotheses”, as the stake of water supply is too high for this. Therefore, apart from piloting new approaches, improving WS services was an aim in the project. This aim, however, has been only partially accomplished within the project.

## 5 Conclusions and Recommendations

### 5.1 Factors that Determine Success or Failure of PSP

The research has shown that PSP involvement is a controversial tool heavily debated in the literature. The main concerns of PSP in WS are associated with the “monopolistic position of WS supplier” risks of negative social and environmental effects. In order to ensure the sustainability of PSP involvement, three main principles (factors) should be applied:

- continue to manage water as a social and environmental good;
- use sound economics of WS;
- apply strong regulatory oversight.

Even though it is quite difficult for governments to regulate PSP in the WS sector, particularly those in the region of South Caucasus as well as Central and Eastern Europe, the literature review showed that it is also difficult to attract the private sector with long-term investment in these countries. This is because of the extremely high investment risks that can be classified as follows: economic (commercial) risks, financial risks, political risks, environmental risks and capacity risks. All of these risks need to be overcome in order to attract the private sector.

## 5.2 Current State of the WS in the South Caucasus in Relation to PSP

Currently, the WS sector of the South Caucasian countries suffers from two main problems: 1) deteriorated infrastructure and 2) institutional and managerial weaknesses. There is no conceptual approach to WS, and it is unclear how responsibilities should be effectively allocated in the sector. This impedes the adoption of an appropriate legislative and regulatory framework and the creation of an attractive investment climate for private sector investors/operators. The WS sector in all three countries is centralized with weak or absent municipal governance; and taking into consideration the lack of capacity of local governments and, more importantly, the lack of political will to decentralize such an important social sphere as Water Supply, actual steps toward decentralization are unlikely in the region for near future.

## 5.3 Recommendations

As the result of the study, it has been identified that the models that would assist long-term goals of the WS sector of Azerbaijan, Armenia and Georgia are *concessions* and *BOOT contracts*. They offer both investment and institutional changes, ensure political autonomy of a utility and usually are 25 or more years in duration. However, due to the following risks, neither concession nor BOOT contracts are possible at the current stage of the South Caucasus's development:

- the sector structure does not allow for economy of scale, which is necessary for concessions;
- the absence of a sector strategy in Azerbaijan and Georgia creates unpredictability for future policy;
- uncertain legislation does not ensure investors' security rights and does not articulate a tariff-setting mechanism;
- high political, financial, and environmental risks.

Currently, the most urgent need is to elaborate the WS sector strategies and to agree on the reform goals and instruments. The next priority is the development of an appropriate legislative and regulatory framework, with subsequent municipal capacity building and the involvement of municipalities in the decision-making processes of the water utilities.

A set of recommendations proposed for the particular case of Azerbaijan are given in the table below. These recommendations, being tailored for Azerbaijan, however, are highly relevant to Armenia and Georgia as well as to the newly independent states and countries in Central and Eastern Europe.

If these recommendations are followed in a flexible and adaptive way, there is a high chance that PSP policy in the WS sector of the South Caucasian republics will significantly contribute to regional development and will not be labeled as “stealing water from the poor.”

<b>Table 1 Recommendations on the Further Reform of the WS Sector with PSP Prospects</b>				
<b>Recommendation</b>	<b>Municipalities/ Local users/ Local entrepreneurs</b>	<b>National Government</b>	<b>International Financial Institutions</b>	<b>National Non- Governmental Organizations/ Mass Media</b>
1. Determine sector strategy	Intensify the dialogue between the stakeholders and learn from the experience collected and shared by the international financial institutions; Find an optimal allocation of risks between the stakeholders through “trial and error” method.			
2. Target the decentralization of the sector and build municipal capacity	Capacity building in order to take over water utilities in the future.	Commit for decentralization; Promote Public-Public Partnerships; Create national forums for sharing experiences.	Organize regional workshops, design special training courses for municipalities.	Promote the awareness of the population about the importance of local participation.
3. Sector structure that allows economies of scale	Creation of Municipal Unions to create economies of scale.			

4. Explanatory work with the central officials			Through projects; Through special training in two areas: 1) raising awareness about the modern WS sector structure; 2) about appropriate management tools.	
5. Development of an epistemic community (long-term)		Set new departments in scientific institutes; Address this issue in higher education curriculum.	Help in learning experience across the countries.	Provide communication of academia to the public.
6. Legislative reforms		Adopt a conventional "concession" law, include tariff-setting mechanism in legislation; indicate performance standards in legislation.	Promote guidance in legislative reforms.	
7. Build a regulatory framework	Regulate utilities through access to participation and information.	Set a multi-sector regulator that would be independent, transparent and accountable to the public.	Regulation as a financing organization.	Carry out monitoring of the WS projects and publish the results in the press.
8. Strengthening of regulatory capacity of the Government	See municipal capacity building.	Public-Public Partnerships, experience, technical equipment.	Help with training and Public-Public Partnerships.	
9. Ensure public acceptability of transition to cost-recovery and financial autonomy of water utilities	Provide information for targeted subsidies.	1) Targeted pro-poor subsidies (innovative approaches); 2) Transition subsidies; 3) Tariff increases should follow service improvements; 4) Awareness raising among the population on water as a commodity.	Awareness raising campaigns.	Awareness raising campaigns.
11. Obligatory demand and WTP <sup>3</sup> studies for WS projects		Enforce as a regulator.	Provide methodology.	Monitor and spread.
12. Share transaction costs for project design		Share costs/provide guarantees.	Share costs/provide guarantees.	
13. Integrated River Basin Management System (long-term)	Coordination between agencies, joint planning and finding a mechanism for the allocation of water resources for different needs with consideration of future demands.			

Source: Mukhtarov (2005).

<sup>3</sup> WTP is an acronym for "willingness to pay".

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# The Role of Social Partners in the Programming, Management and Evaluation of the European Regional Development Fund in Poland

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## Abstract

The paper focuses on the introduction and operation of new model of EU-induced, tripartite structure of governance networks - composed of public administration, business and civil society actors - to manage EU structural funds in Poland. More accurately, the role of social partners, i.e. representatives of non-governmental organizations in the ERDF-related region-level and nation-level steering and monitoring committees is analyzed. Following a brief exposition of regionalization principles, regional development policy in Poland and changes induced by the accession to the EU, legal and institutional frameworks for inclusion of social partners in the committees responsible for the programming, management and evaluation of the European Regional Development Fund are scrutinized. Empirical evidence of social partners' participation in the proceedings of such selected committees is introduced and analyzed. Finally, the impact of the social partners on decisions made by the committees is discussed, including the crucial issue of variegated attempts to strike a balance between regional economic competitiveness and social cohesion in Polish regions.

**Keywords:** social partners, regional (development) policy, structural funds, governance, networks, Poland

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# 1 Introduction<sup>1</sup>

Post-communist Poland has remained a unitary state. Nevertheless, as of 1999, the country's territorial-administrative structure underwent radical changes. The state has been divided into sixteen self-governing regional provinces called *voivodeships*. The ensuing reform of public administration and public policies, including their incipient regionalization, was introduced with country's accession to the European Union in mind. Further reforms, related to both domestic issues and the accession, have strengthened the tendency to adopt and adapt Europeanized (or perceived as such) institutional solutions and modes of policy-making in Poland.

This process has been particularly visible in the newly created arena of regional (development) policy where new policy objectives, new institutional actors, competences, instruments and modes of decision-making began to appear. At the same time, "economic" and "social" dimensions of policy-making started overlapping on the regional level. One of the reasons why this overlapping happened is the extensive transfer of policy competences from the central to the regional tier of government. Because of the transfer, the regional tier has been made responsible, or at least co-responsible, for both economic and welfare growth in regions. On the other hand, the social dimension of policy-making has started to function as a shared arena where both public administration and civil society are expected to coexist and complement each other.

These processes could be analyzed by looking at the mode and results of the programming, management and evaluation of the European Regional Development Fund in Poland (ERDF). The ERDF, being the most important component of the EU structural funds, may by its nature be perceived as a double-edged regional (development) policy instrument. The Fund is meant to both stimulate economic growth and competitiveness of the so-called less favored regions and to serve socio-economic cohesion by counteracting social exclusion of/in the regions. However, the conditions and manner in which a balance is struck between the two orientations of the Fund are to a considerable degree dependent on policy-makers in a given country/region.

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Moreover, the modes of programming, implementation and evaluation of the ERDF have been progressively reformed on the European level so as to embed the policy decision-making processes in the social system. As a result, economic and social partners such as entrepreneur, employee, NGO and academia representatives have also been included in domestic ERDF institutional frameworks. In Poland, the move to the inclusion has been reinforced by the fact that, between 2004 and 2006, the ERDF has been combined with some components of the ESF (European Social Fund) to function as a single Integrated Operational Program of Regional Development (*Zintegrowany Program Rozwoju Regionalnego - ZPORR*).

The inclusion of economic and social partners as fully fledged institutional actors in the arena of regional (development) policy exemplified by the ZPORR could be seen as tantamount to an introduction/spread<sup>2</sup> of a model of EU-favored, multi-partite governance structure which is composed of public administration, business and civil society actors. Thus, instead of traditional, hierarchical, top-down programming, implementation and evaluation of the policy by the central and/or regional administration, these three parties are supposed to form a policy network. In this case, the network actors are expected to contribute to regional (development) policy-making by taking part in joint regional level and national level steering and monitoring committees co-responsible for the programming, management and evaluation of the European Regional Development Fund.

The underlying logic of the governance model might be interpreted as a way to facilitate a mutual recognition of different interests the various stakeholders may have in regions to encourage them to elaborate “a common good” policy solutions and to release cross-sector synergies. The model is also frequently offered as a means to overcome both static and market policy failures. In the arena of regional policy, the governance model, if successful, may therefore facilitate reaching a working balance between its economic (competitiveness) and social (cohesion) objectives.

Participation of social partners in the proceedings of the committees might be seen as crucial in this respect. It opens up an opportunity to make an impact on decisions taken by the committees which are endowed with a competence to co-decide on priorities, forms and volumes of public - European combined with national and

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<sup>2</sup> *The governance model has been reflected in other institutional arrangements like Voivodeship Committees for Social Dialogue (Wojewódzkie Komisje Dialogu Społecznego - WKDS). Some of them partly functionally overlap with the committees analyzed in the paper. For more on the WKDS, see Zalewski (2005).*

regional - support for regional developmental and social policy projects as well as on the ranking of projects filed for funding. However, the impact may not be taken for granted. It is dependent on many factors such as intricacies inherent in the legal and institutional arrangements for the committees, features of political culture dominant in the country/region, the status of the social partners as civil society actors, the degree of representation that they enjoy within the category of stakeholders whom they claim to represent in the committees, their expertise, etc.

In this paper I offer an analysis of legal and institutional arrangements for the multi-partite steering and monitoring committees related to the programming, implementation and evaluation of the ERDF/ESF - ZPORR in Poland during the period of 2004-2006. My further attempt is to provide an insight into the actual functioning of the committees and to focus specifically on the role of social partners. I will provide empirical evidence which shows that the actual participation of social partners in the proceedings of the committees is limited as is their impact on the committees' decisions to select priority areas and projects that would be supported by the ZPORR. The findings constitute a point of departure when considering the chances of improved functioning and/or viability of the new governance model - policy networks including social partners - in the Polish public policy-making. This evaluation of the chances seems especially important from the point of view of policy-making social dimension which seems increasingly reliant on the activities of civil society actors (cf. *Narodowa Strategia Integracji Społecznej dla Polski*, 2004, Gumkowska et al., 2006).

## 2 Regions and Regional (Development) Policy in Post-Communist Poland

The territorial-administrative reform of 1998, implemented as of 1 January 1999, divided the Polish state into sixteen regions (voivodeships) - self-governing units of about two million inhabitants and an area of about 20,000 sq km on average. In order to facilitate statistical operations and provisions connected with the EU structural funds, the newly created regions were indicated as equivalent to NUTS2 EU statistical units. Labeled as self-governing, the regions have been equipped with a dual power regime which left them vulnerable to the power of central administration and to the games political parties played both at the regional and central level.

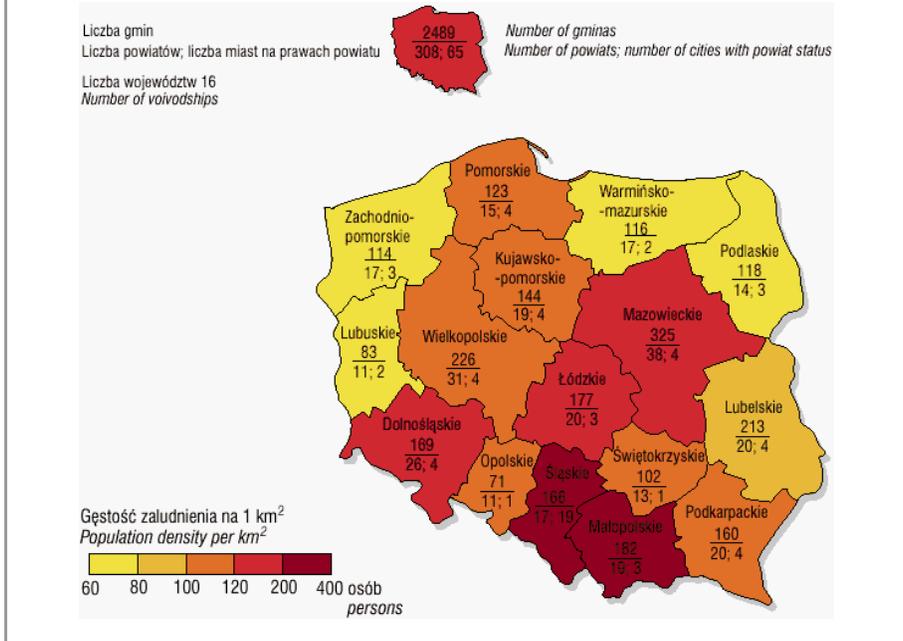
Polish regions are thus headed by a Voivod (*wojewoda*), who is the highest state administration representative on the regional level, and are governed by regional parliaments/assemblies (*sejmik*) elected in regional general elections. They are managed by a board (*zarząd*) with a Marshal (*marszałek*) as its executive head. Depending on political party constellations dominant in a given period in the country's political space, the Voivod and the Marshal may, since their competence overlaps, either act in accord or block each other's policy initiatives in the regions (Hausner, 2001; Gąsior-Niemiec, 2003a; Grosse, 2003). The institutional arrangements for the implementation of the EU structural funds cause the competence of the two regional heads to intertwine even further (cf. Grosse, 2004).

Apart from the Polish Constitution of 1997, there are four major Acts of Parliament that constitute a framework that regulates responsibilities and competence of the regional tier of the Polish government. These are the Commune Self-Government Act of March 1990, the Voivodeship Self-Government Act of June 1998, the Public Finances Act of November 1998 (amended in 2003) and the Law on the Support for Regional Development introduced in May 2000, the last one being replaced in 2004 by the Law on National Plan of Development (cf. Ustawa, 2004). These acts have not only specified competence of regional authorities but have also laid foundations for the regional (development) policy regime in Poland. Moreover, they have constituted a framework within which domestic and European policy objectives, priorities, instruments and their institutional arrangements are conceived and implemented.

The main points of the regulatory framework included in the major Acts of Parliament mentioned above could be summarized as follows: regions and regional governments have been established to: 1) improve the quality of life of the population concerned; 2) promote competitive advantages of the regions; 3) moderate intra-regional disparities at the level of regional development and 4) ensure equal opportunities of citizens living in various regions. The law on support for regional development further specified the tasks of the regional authorities. Among other things they needed to promote the culture of entrepreneurship; restructure territorial economies ensuring their balanced development; create permanent jobs; invest in hard infrastructure; develop human capital; promote regional culture; enhance environmental protection; build institutions in order to support and activate local development.

Figure 1 **Administrative Division of the Republic of Poland, after the 1998 Reform**

Regions, Districts and Communes in Poland.  
Population Density at the Regional Level.



Source: Adapted from the Central Statistical Office (GUS).

The regional governments are also obliged to design and implement socially consulted regional development strategies which form the basis for both negotiating and signing regional contracts with the central government and for programming and implementing the ERDF and other EU structural funds. The law on the National Development Plan contains, among other things, foundations for new institutional arrangements to program, monitor and evaluate regional (development) policy programs, instruments and their outcomes. Despite a recent, possibly temporary tendency to uphold the central administration dominance in the area of programming and evaluation,<sup>3</sup> the foundations provided by law have established an

<sup>3</sup> The centralizing tendency seems to be motivated by both domestic and external factors. The former might be on the governing parties' desire to control and distribute funds as a means to shape political relations at the regional level and to influence the electorate choices. The European Commission's preference to deal with new member-states' central governments instead of having to deal with their, presumably institutionally weak, regional governments appears to be the most important external factor (cf. Hausner and Marody, 2000; Keating, 2002; Grosse, 2004).

opportunity to further decentralize policy-making process and to embed it more in both the market and society by putting in it non-administration stakeholders, i.e. economic and social partners. This breakthrough needs to be related to the (real and perceived) impact of European integration (Gąsior-Niemiec, 2003b).

### 3 EU Structural Funds and New Modes of Governance in Poland

Following the country's accession to the European Union on 1 May, 2004, Poland has gained access to the European Union Cohesion Fund and the four major structural funds: European Regional Development Fund, European Agricultural Orientation and Guidance Fund, Financial Instrument to Support Fisheries and European Social Fund. During the first implementation period (2004–2006) the funds have been programmed, implemented and evaluated on the basis of the National Development Plan and its seven operational programs:

- Integrated Regional Development (*Zintegrowany Program Operacyjny Rozwoju Regionalnego - ZPORR*);
- Human Resources (*Rozwój Zasobów Ludzkich*);
- Competitiveness of Enterprises (*Wzrost Konkurencyjności Przedsiębiorstw*);
- Transportation (*Transport*);
- Technical Assistance (*Pomoc Techniczna*);
- Restructuring and Modernization of Food Sector and Development of Rural Areas (*Restrukturyzacja i Modernizacja Sektora Żywnościowego i Rozwój Obszarów Wiejskich*);
- Fisheries and Fish Industry (*Rybolówstwo i Przetwórstwo Ryb*).

The funds are primarily regarded as a lion's share of financial provision for the Polish regional (development) policy and therefore a source of strong financial incentives to comply with EU-set developmental and structural priorities for all types of actors entitled to partake in the funds – state, market and civil society ones (cf. Hausner and Marody, 2000; Szlachta, 2001; Hausner, 2001). This perception is reinforced by the fact that both the National Development Plan and regional development strategies, compiled by, respectively, central and regional authorities, have been seen by the majority of Polish experts as not only modeled on, but also clearly subordinated to the principles, objectives and institutional requirements inherent in regional and

structural policy of the EU (Hausner and Marody, 2000; Grosse, 2003; Gąsior-Niemiec, 2003a; Paraskevopoulos, 2001).

Owing to the fact that both procedural requirements and the rhetoric employed by the European Commission in the area of regional and structural policy have been grafted in a wholesale manner onto the Polish policy documents and then gained currency among a wide array of domestic actors (cf. Radaelli, 2000; Gąsior-Niemiec, 2003a, 2003b), the policy documents could also be regarded as a major source of the Europeanizing institutional and normative pressure exercised on Polish actors. This process may, for instance, be seen in the widespread and automatic invocations to the EU policy principles such as subsidiarity and partnership by all kinds of Polish regional (development) policy actors. Speaking of regional issues in terms of cohesion and competitive advantage as well as advocating the network approach and public-private partnerships in relation to all kinds of problems regions face, creating frameworks for social dialogue, etc. can illustrate this point even further. A multiplication of the new institutional policy arrangements to program, implement and evaluate EU-related and other regional (development) policy instruments through multi-partite committees, from central to local level, might then serve as an example of the surrendering to the institutional and normative Europeanization (Ogólnopolska debata, 2005; Bruszt, 2006; Swianiewicz, 2006; Woodward et al., 2006; Skotnicka-Illasiewicz, 2006).

The new institutional arrangements differ from traditional forms of decentralization and/or de-concentration of authority as practiced in Poland before the accession.<sup>4</sup> One of the most important differences is the fact that decision-making processes in the public policy arena are now institutionally opened to influence up to now excluded categories of actors such as economic and social partners. The other relies on the fact that public administration actors are expected to bargain with the other types of actors instead of imposing single-handed decisions on them. Yet another difference concerns the manner of bargaining which is supposed to be conducted within an institutionalized framework, thus presumably escaping a notorious trap of political clientelism (cf. Paraskevopoulos, 2001; Gąsior-Niemiec, 2003a; Dornisch, 2003; Lewenstein and Palska, 2004; Zalewski, 2005; Skotnicka-Illasiewicz, 2006;

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<sup>4</sup> However, it might be important to note that, at least on the surface, the new, EU-driven institutional solutions seem vaguely reminiscent of some of the compromised state-socialist practices involving the institutionalised participation of political and "social" party members in policy decision-making processes.

Majczyk, 2006) and leading to a fuller (voluntary) compliance with the negotiated policy objectives and outcomes (cf. Boerzel, 1997).

The new institutional arrangements fall in the category of new modes of governance (NMG) as defined by students of European integration (cf. Kohler-Koch, 2002; Smismans, 2006). Apart from the enhanced access of different categories of actors to a variety of public organizational structures, the new modes of governance in their ideal-typical form are also often characterized as much less hierarchical, operating through horizontal rather than vertical linkages, relying on flexible rather than rigid forms of co-operation and coordination, involving on-going negotiation, mutual learning and persuasion on part of the multitude of (public and private) members included in networks which form their ideal-typical organizational basis (cf. Mayntz, 2002; Boerzel et al., 2005). The successful operation of NMG is said to be to a significant degree dependent on soft resources such as social capital (cf. Hausner and Marody, 2000; Paraskevopoulos, 2001; Dornisch, 2003; Adam et al., 2005; Skotnicka-Illasiewicz, 2006).

Boerzel et al. (2005: 6 and ff.) define the new modes of governance in the following manner:

*“New modes of governance refer to the making and implementation of collectively binding decisions (based or not based on legislation) that:*

- 1. are not hierarchically imposed, i.e. each actor involved has a formal or de facto veto in policy-making and voluntarily complies with the decisions made, and*
- 2. systematically involve private actors, both profit (e.g. firms) and non profit (e.g. non-governmental organizations), in policy formulation and/or implementation.”*

Thus conceived, the new modes of governance are explicitly or implicitly assumed to be contributing to greater inclusiveness, accountability and efficiency of the policy-making process at all levels. They are also claimed to be more useful and effective than the market or hierarchy in creating and safeguarding common and public goods (cf. Heritier, 2002). Therefore, it might be surmised that they are most suited to arenas

such as regional (development) policy<sup>5</sup> where there is a need to represent and reconcile diverging values and interests of many actors and to strike a balance between correspondingly divergent policy objectives: constantly upgraded economic competitiveness and maintained social cohesion (cf. Hausner and Marody, 2000; Rodrigues-Pose and Fratesi, 2004; Narodowa Strategia Integracji Społecznej dla Polski, 2004; Ministerstwo Rozwoju Regionalnego, 2005; 2006).

Accordingly, by looking at the case of the Polish regional (development) policy with a focus on changes triggered by the accession to the European Union and access to the EU structural funds, we can find legal provisions for new modes of governance in the shape of special-purpose policy networks (cf. Boerzel, 1997), including representatives of the three main categories of stakeholders – representing public administration, market and civil society. The networks known by their official names of monitoring and steering committees have been called into existence in a manner congruent with the EC Directive No. 1260 of 1999. Their establishment has, however, also been strongly underpinned by the wide spreading discourse on the necessity to follow the EU discourse on governance (European Commission, 2003), to introduce a model of public-private partnerships and to allow for an increased inclusion of civil society actors in public policy making processes. All eminent Polish experts see the connection to these policy recommendations (Marody and Hausner, 2000; Hausner, 2001b; Szomburg, 2003; Luft and Wygnanski, 2006; Gęsicka, 2006).

The steering and monitoring committees have been established for each of the seven operational programs listed above. This is all done within the frameworks of strategies to implement the National Development Plan, the Community Support Framework and the EU Cohesion Fund both at the central and regional level. The number of steering committees is fluid and larger than the number of the programs they form for an institutional arrangement because such committees may also be temporarily established separately for several priorities and activities embarked on within any of the particular operational programs. The main legal framework for the establishment and functioning of the committees was adopted in 2004 together with the Law on National Development Plan of 20 April 2004 and put into operation as of 8 June 2004 (cf. Ustawa, 2004). Monitoring and steering committees constituted an integral part of the whole regional (development) policy of the 2004 legislation package.

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<sup>5</sup> Cf. a discussion of terms “regional policy” and “regional development policy” in Hudak (1999).

Monitoring committees are conceived as independent, opinion-giving and consultative bodies to support Institutions Managing of each of operational programs. Among the Institutions included are the Ministry of Regional Development, the Ministry of Economy, the Ministry of Agriculture and the Ministry of Labor, respectively, depending on the policy scope covered by the programs. The task of the committees is to monitor, evaluate and recommend changes and modifications of objectives, priorities, allocation strategies and volumes of support as well as modes of management and implementation of a given program and the related fund. Representatives of the relevant Managing Institution preside over each committee (Ustawa, 2004).

Decisions and recommendations of the committees do not have a legally binding force which is reserved for the Managing Institution. However, their status, scope and composition, as specified in the 2004 law, seem to institute them as an important policy forum which operates through soft methods such as opinion-giving and recommendations based on negotiation, persuasion, learning and mutual adjustment of the members. This is the precise logic of operation typical to new modes of governance, which are different from the traditional, static forms of policy-making relying on legal means and law enforcement (cf. Boerzel et al., 2006). Bearing in mind the inclusion of economic and social partners together with the central and regional administration ones in the committees, it seems that a crucial channel for giving shape to a both market and socially embedded regional (development) policy was created in the post-accession Poland (cf. Szomburg, 2003; Luft and Wygnanski, 2006; Gęsicka, 2006).

Similar remarks pertain to steering committees. From the point of view of economic and social stakeholders involved, the committees may seem even more significant. They are made co-responsible for the actual evaluation, selection and recommendation of projects submitted by all entitled entities with the aim of getting financial support from a particular fund within the framework of a particular operational program. Thus, the committees could act as the most essential forum within which diverging interests of different categories of regional stakeholders are revealed, confronted and reconciled ensuring that regional public interest and common good remain a priority. On the other hand, the steering committees might also be expected to function as a battleground where predominance of any given category of actors is trying to be established to be further reflected in opinions and project recommendations issued by the committees. Also, it could be expected that

the actual relation between economic and social dimensions of regional (development) policy might become one of the main issues to be negotiated within the framework of the committees.

It is therefore clear that bodies such as the committees have been attributed with a potentially crucial role of both market-oriented and society-oriented “sensors”, “bumpers” and “correctors” in the policy process led by political actors (public administration) (cf. also Zalewski, 2005). A closer scrutiny of the law-stipulated principles of the constitution, composition and modes of operation of those bodies seems therefore vital from the point of view of the supposed EU-induced institutional breakthrough in post-accession Poland. Gaining an insight into the actual functioning of the committees seems to be even more important. In particular, it would be interesting to see which economic and social actors are invited to participate in them and in what manner. We should know their status, competence, skills and goals. Also, it appears crucial to investigate what is their expected as well as actual role in the committees and find out their impact on the regional (development) policy-making in the country.

The 2004 Law on National Development Plan stipulates that the managing institution at the central level and the Voivod (the state representative in the region) or the Marshal (elected head) at the regional level are in charge of monitoring and steering committees. The law ensures that central administration is left with the initiative to form a policy network and to control it.<sup>6</sup> Coordination of meetings and proceedings is entrusted with a Managing Institution representative, who presides over each of the committees (Ustawa, 2004). Each of the committees is composed of one third of representatives of state administration, one third of representatives of (regional and local) self-government administration and one third of representatives of social and economic partners (Ustawa, 2004).

I will now examine the category of social and economic actors who are designated as members of the committees. The category of social and economic partners, as defined by the 2004 law, comprises of three basic stakeholder group representatives. These groups consist of employer and employee organizations, NGOs and the academic

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<sup>6</sup> *The fact that the public administration sector has been strongly privileged in the governance solution adopted in Poland does not make it by itself dysfunctional. Governance networks are claimed to perform better “in the shadow of hierarchy” (Boerzel, 1997; Heritier, 2002). Rather, it is the actual uses to which the hierarchy might be put that would seem decisive in evaluating the fact.*

milieu. Representatives of these groups are granted the status of permanent members of the committees and are invited to participate in their proceedings on equal footing with the remaining categories of actors (Ustawa, 2004). Notably, participation in the proceedings of the committees is not remunerated (with the obvious exception of public administration representatives), which might be, and indeed is, perceived as a certain barrier by non-administration committee members (cf. Chodor, 2005: 70).

Another interesting issue are the procedures regarding the selection of social and economic partners' representatives to particular committees. Analyses indicate that these procedures are only loosely described by the 2004 law and remain rather vague, allowing for discretionary decisions by central administration representatives and of unspecified representatives of other stakeholders during the selection process (Ustawa, 2004). On the one hand, this might be seen as a sign of flexibility stipulated as necessary in the case of policy networks and NMG in general. On the other hand, however, representativeness and accountability of the economic and social actors invited to take part in the proceedings of the committees may not always be recognized by all of the relevant stakeholders.

We may consider for instance a sub-category of social partners - representatives of non-governmental organizations (NGOs) in the monitoring and steering committees related to the operational programs. The process of their selection for the 2004-2006 implementations round was formally entrusted at the central level to the Managing Institution, i.e. a relevant Ministry. The process was co-coordinated and supervised by the Council of Public Benefit (*Rada Pożytku Publicznego*) - a body comprising opinion-making representatives of the NGO sector. The Council was established in 2003 to contribute to the preparation of the Law on public benefit and volunteering. It then continued to advise the government, especially the Ministry of Social Policy and Labor, on matters concerning civil society.

The selection process of committee members involved the following major stages:

- an announcement appeared in the national press and on the relevant public administration agency's (Ministry's) website which invited interested NGOs to nominate their candidates for representatives of the "social" (NGO) sector in the committee;

- applications (including a standardized application form available on the Ministry's website) were filed in at the public administration agency by interested NGOs;
- applications were technically reviewed by officers employed by the Ministry;
- applications were further reviewed by members of the Council of Public Benefit who, in addition, tested and verified the degree of social support the applicants enjoyed in their respective milieus and within the NGO sector in general;
- the Council of Public Benefit issued its final recommendation for some applicants and passed it over to the Minister;
- the Minister, taking the recommendation into account (although legally not bound by it), invited some applicants to participate as social partners in the proceedings of the committees (Chodor, 2005: 10).

Discretionary powers on part of the Ministry notwithstanding and a critical role played by the Council of Public Benefit in the selection process should also be stressed. The Council's role is all the more worth highlighting when we take into account that the composition of the Council is itself largely subject to a discretionary selection made by an informal network of public administration officers and opinion-making NGO activists (cf. Lewenstein and Palska, 2004). Moreover, the fact that there are no formal criteria (such as threshold of a minimal organizational capacity) could lead to marginal NGOs taking up roles of the social partners on behalf of the whole NGO sector. Similarly, because the branch recommendation for nominees is not needed, an NGO which is not perceived as a representative of a given NGO branch and/or indeed does not represent it might be selected.<sup>7</sup> Thus, the procedures of selecting social partners within the regional (development) policy arena through the central level committees do not seem to guarantee that they will act and be recognized as representative of the relevant stakeholders either in terms of values/interests/preferences or expertise.<sup>8</sup> The status and potential impact of the social

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<sup>7</sup> *The problem of representativeness involves, among other things, issues such as legitimate interest articulation and compliance of the represented stakeholders with policy networks' regulations. Given the fragmented, competitive and clearly branch-oriented nature of the Polish non-governmental sector, recommendations of branch coalitions (environmental, social services, education, etc.) might help overcome the problem. It needs to be mentioned, however, that in reality apart from environmental and, partly, social services organizations, no such stable coalition has been formed within the NGO sector. The procedural requirement could therefore act as an additional, much needed incentive, to structure the sector and establish its nation-wide and region-wide representations (Chodor, 2005; Gumkowska et al. 2006). On the other hand, it could also prevent the strongest organizations from monopolizing the role of social partner - indeed some NGOs have managed to have their nominees selected to almost all of the committees (cf. Chodor, 2005: 72-73).*

<sup>8</sup> *A similar case is argued for the WKDS which have been mentioned earlier (cf. Zalewski, 2005).*

partners in the policy networks, including improved compliance of civil society stakeholders with the policy objectives and outcomes, might therefore be undermined by the intricacies of the legal-institutional provisions.

At the regional level procedures for selection of social partners to monitoring and steering committees were initially altogether lacking. Following protests by some civil society actors and a subsequent ministerial directive, such procedures have been gradually introduced in all regions. Nevertheless, the procedures significantly vary between different regions, policy areas and committees. Also, they seem far less formalized and much less transparent than the ones obtained at the central level (Chodor, 2005: 10). Therefore they appear to be much more vulnerable to discretionary powers of the public administration officers and open to charges of political clientelism (cf. Skotnicka-Illasiewicz, 2006: 13-15), not mentioning the problem of the stakeholders' compliance with the committees' decisions. The perception of the degree to which selected social partners are representative of their milieu might be described as even lower than at the central level.

The most common elements of the selection procedures employed by regional public administration are: a local press announcement, a formal invitation addressed to all NGOs registered within the given region, a personal invitation issued by the regional governor and/or the regional executive board to specific persons associated with the non-governmental sector.

#### 4 Social Partners in the ERDF/ESF-ZPORR Related Monitoring and Steering Committees in Poland (2004-2006)

Following the general analysis of the principles according to which the new governance arrangements operate, I will now present findings and conclusions derived from a pilot case study in the arena of the regional (development) policy. The study is focused on the actual status, patterns of behavior and activities of social partners selected to participate in nation-level and region-level monitoring and steering committees established as part of the policy networks to program, monitor and evaluate the implementation of the ERDF/ESF - ZPORR operational program in Poland in the period of 2004-2006. Opinions and recommendations voiced by the

interviewed social partners regarding the new governance settings and the role of civil society actors in the settings are also included.

The case study, which was carried out within the framework of the OFOP (an umbrella type of an NGO) involved analyses of documentation related to the principles of the implementation of the ERDF/ESF - ZPORR, evidence of the selection, presence and actual participation of social partners (non-governmental sector representatives) in the sittings of selected ERDF/ESF - ZPORR steering and monitoring committees. The analyses were supplemented with an opinion survey carried out among the social partners (Chodor, 2005). National press coverage of the ERDF - ZPORR issues was reviewed. Furthermore, some exploratory interviews with selected social partners were conducted at the regional level. It should be emphasized that the data to complete the case study - even though formally they fall in the category of data mentioned in the Law on public information - was difficult and at times impossible to obtain. The willingness and readiness of both public administration officers and social partners to take part in the research must be described as strongly limited.

At this point it needs to be added that the ERDF/ESF - ZPORR, in the framework of which the analyzed committees have been established and social partners invited to, is the most decentralized operational program of all implemented EU structural funds in Poland. Its programming and evaluation are done jointly by the central and regional level and implementation is entirely delegated to the regional level. The ERDF/ESF - ZPORR is thus, by definition, classified as a multi-level and network governance enterprise. Its relative institutional closeness to the potential beneficiaries, addressees and clients makes it appear more “approachable” and “attractive” for multiple actors, including social partners. It also seems - at least in theory - to leave considerable room for representatives of different stakeholder groups to negotiate the ranking of the policy priorities and the volume of funding for particular projects.

This impression is reinforced when the three priority areas - 1) building infrastructure to strengthen regional competitiveness (with initial allocation of 56 percent of available funding); 2) strengthening the regional economic base and human resources (with initial allocation of 22.1 percent of available funding); and 3) local development (with initial allocation of 22.4 percent of available funding) - are decomposed into more detailed types of project areas admitted for support within the ERDF/ESF - ZPORR framework. Some of the projects included are:

- building and modernizing regional road infrastructure;
  - development of systems of communication;
  - increasing the education level;
  - modernization and extension of cultural heritage;
  - development of information society;
  - modernization of educational and academic infrastructure;
  - building and modernizing of regional health infrastructure;
  - improvement of local and regional enterprises' marketing and management capacities;
  - restructuring the regional economy;
  - increasing the investment potential of local enterprises;
  - increasing the level of employment;
  - improving co-operation and transfer of innovation between regional R&D sector and regional/local enterprises;
  - modernization of infrastructure to protect the environment, etc.
- (cf. Zintegrowany Program Operacyjny Rozwoju Regionalnego 2004-2006, 2003).

It is clear that negotiating and mutual adjustment within the ERDF/ESF-ZPORR committees could be expected. This should happen not only in terms of preferential treatment of and recommendation for priorities and project areas but also in terms of the actual shape of concrete projects and the balance between purely economic and social dimensions within them.

The nation-level Monitoring Committee for the ERDF/ESF - ZPORR was established by the Ministry of Economy, Labor and Social Policy in 2004. It was established with the aim of “opinion-giving and recommending Supplement to the Program and changes proposed to it, evaluating annual reports, final reports of the Program, proposals of changes in the Program, including changes and shifts in allocation between activities. The Committee’s aim is also to periodically monitor the progress in reaching milestone objectives as regards to the particular aims of the Program, which are defined in the Integrated Operational Program of Regional Development and Supplement to the Program” (Chodor, 2005: 23; Ustawa, 2004). Its proceedings are now coordinated by the Ministry of Regional Development, which was created in 2005 and took over the role of the main institution managing the Program.

The Committee includes seven representatives of the Polish NGO sector. These were delegated by the Federation of Scientific-Technical Associations (*Federacja Stowarzyszeń Naukowo-Technicznych - NOT*), Foundation for the Development of Local Democracy (*Fundacja Rozwoju Demokracji Lokalnej*), Caritas of the Katowice Diocese (*Caritas Diecezji Katowickiej*), Fraternity of Orthodox Youth in Poland (*Bractwo Młodzieży Prawosławnej w Polsce*), Foundation for Support of Ecological Initiatives (*Fundacja Wspierania Inicjatyw Ekologicznych*), Nation-wide Association of Village Heads (*Krajowe Stowarzyszenie Sołtysów*) and Association of Organizers of Centres for Innovation and Entrepreneurship (*Stowarzyszenie Organizatorów Ośrodków Innowacji i Przedsiębiorczości*).

Members of B&R and academic milieu, NGOs, grassroots local self-government and the milieu of organizations that constitute the so called soft, entrepreneurship and innovation infrastructure are all partners in the Committee. Looking at the organizational resources of the delegating NGOs, four Committee members were appointed by powerful, fully professional organizations (i.e. *Fundacja Rozwoju Demokracji Lokalnej*, *Caritas Diecezji Katowickiej*, *Fundacja Wspierania Inicjatyw Ekologicznych*, *Federacja Stowarzyszeń Naukowo-Technicznych NOT*), two Committee members were appointed by federations of smaller, branch organizations (*Krajowe Stowarzyszenie Sołtysów*, *Stowarzyszenie Organizatorów Ośrodków Innowacji i Przedsiębiorczości*) and one Committee member represented a minority organization. This organization is marginal in terms of both membership and resources (*Bractwo Młodzieży Prawosławnej w Polsce*) but important in symbolic and political terms as a minority representative. It should be mentioned that the balance in the social partner representation is, in general, tipped towards the so called Third Sector oligarchs, i.e. the most powerful, rich and professional organizations (cf. Gąsior-Niemiec and Gliński, 2006). All of the oligarchs do not only enjoy a high profile at the central level but also have strong regional representations. They do not, however, enjoy a status of a Third Sector (branch) representative. Nevertheless, the composition of the social partner segment of the central level Committee might, in general, be interpreted as indicative of conscious attempts to balance the NGO representation in terms of fields of expertise, branch rank, type of resources and political correctness.

The Committee convened six times during the January–November 2005 period when the reported EFOP study was conducted (Chodor, 2005). The attendance of the social partners varied and, generally, deteriorated with time. Only the representatives of *Caritas* and *Bractwo Młodzieży Prawosławnej* were fairly regularly present during its meetings, while the other NGO representatives appeared once or not at all at the

Committee sessions. The level of active participation was very low throughout the studied period and, again, it deteriorated with time, especially when compared with a growing active involvement of other Committee members (Chodor, 2005: 82).

Based on the minutes of the Committee's sessions, the social partners took the floor altogether only six times during the period under research, the majority of which took place during the initial meetings. The grassroots local self-government representative (*Krajowe Stowarzyszenie Soltysów*), for instance, took the floor asking to clarify what were the criteria for classifying NGO financial resources as public resources. The *Federacja Stowarzyszeń Naukowo-Technicznych - NOT* representative successfully proposed changes to an academic scholarship scheme which would allow not only university students but also high school students to take advantage of it (Chodor, 2005: 23-24). At the end of the first year of the Committee's operation the social partners' participation must be classified as extremely passive and almost totally inconsequential in terms of shaping the regional (development) policy program.

I will now offer a brief overview of the activities of selected regional steering and monitoring committees established within the framework of the same ERDF/ESF - ZPORR Program. As mentioned before, the regional committees are created by regional executive boards and/or regional governors. The basic aim of the committees is to evaluate the projects filed for EU co-financing within the given region and recommend some of them for funding. It needs to be mentioned that prior to the evaluation by the committees, the projects are evaluated by panels of relevant experts in order to rank them according to "instrumental" (competitive) criteria such as their potential contribution to the development of the region, congruence with needs of regional economy, technical feasibility, matching with priorities set in the given regional development strategy and/or National Development Plan.

Therefore, it might be surmised that the process of evaluation and recommendation by the regional steering committees could be interpreted as consciously designed to serve additional, non-technical purposes. The committee members could, for instance, attempt to change the expert ranking of projects arguing for/against it on grounds such as projects' contribution to a common good, their beneficial/detrimental social effects, their innovative potential etc. We could then reasonably expect that the committees would indeed become sites of struggle, bargaining, persuasion, mutual learning and adaptation where the voice of social partners will be heard. This, however, seems not to be the case.

Even though the regional committees meet at least twice as frequently as the central level committees, the NGO representatives are generally only slightly more active at the regional level than they are at the central level, both in terms of attendance, voicing opinions and filing postulates (Chodor, 2005: 24-25; RKM, 2005a, 2005b, 2005c, 2005d; RKS, 2005a, 2005b, 2005c, 2005d). Namely, there is not much evidence that social partners indeed attempted to introduce changes in the allocation schemes and/or ranking of projects to be funded by the ERDF/ESF-ZPORR program. Moreover, in many cases the proposed changes, even when supported by the whole committee (i.e. negotiated within the policy forum), were, however, subsequently disregarded or annulled under the pressure by representatives of public administration (cf. Bojarski, 2005; Chodor, 2005: 64-69; RKM, 2005a, 2005b, 2005c, 2005d; RKS, 2005a, 2005b, 2005c, 2005d). In addition, other categories of committee members, including economic partners, appear as active as the social partners – representatives of the non-governmental sector.

Looking for the ways to explain the less than satisfactory level of participation of social partners in the exemplary NMG settings in Poland, we will now turn to opinions of some NGO representatives regarding the functioning of the analyzed committees and their role in them. In general, it should be stressed that the newly positioned social partners seem to appreciate the opportunity and see it as a step forward in the empowerment of Polish civil society. Nevertheless, they rather consistently point to several weaknesses inherent in the institutional formula and its operation. Furthermore, they also express some doubts about their own capacity to perform the institutional role.

On the one hand, the monitoring and steering committees, especially at the regional level, are often seen by the interviewed social partners as “fig leaves” or “voting machines” to simply legitimize decisions already made somewhere else. The voice of social partners appears not to be blocked literally but, rather, disregarded, taken into account selectively or just overruled without any deliberation. Moreover, in many cases if any deliberation does take place, it is perceived as too formalized and misdirected towards technicalities and administrative issues instead of tackling issues such as social costs, public benefit, short and long-term effects of projects, etc.

On the other hand, many shortcomings are also identified on part of the NGO representatives themselves. Quite often the interviewees admit their lack of expertise in dealing with the committees’ agenda and even postulate that some sort of

introductory training should be introduced for them before they start taking part in the committee proceedings. They also admit that the majority of NGO representatives are passive or interested only in narrow issues related to the interest of their organizations or the organizations' clients. Also, they feel that the voice of NGO representatives in the committees could be more effective if it did not come from single but from a coalition of organizations. Moreover, they hint at questionable representation on part of NGO representatives, which also act to the detriment of the social partners' perception and their influence on the proceedings of the committees and other regional policy networks and decision-makers (Chodor, 2005: 65 and ff.; Skotnicka-Illasiewicz, 2006: 13-15, 22-23).

Finally, it is useful to stress the doubts that the interviewed and surveyed social partners have regarding their role in the governance structures such as the committees. The majority of NGO representatives are uncertain if they should play the role of technical/policy experts - for which they admit they are lacking skills - or rather function as guardians of a common good, as "pangs of conscience" to constantly remind the other partners about social costs, civic and moral obligations involved in the policy-making processes (Chodor, 2005: 63-64). The uncertainty is aggravated by the fact that "screenplays" and "skills" needed for both types of roles do not just exist in the waiting for the social partners but have to be defined regarding the other types of committee partners and their respective branch milieus.<sup>9</sup>

## 5 Conclusion

In the light of existing evidence, the co-optation of social partners to the regional (development) policy networks, illustrated by the proceedings of the ERDF/ESF-ZPORR monitoring and steering committees seems not to have produced expected added policy value in Poland after the accession. Their participation and, consequently, impact on the outcomes of the policy processes are of marginal importance. Because of both external obstacles and internal structural weaknesses, social partners appear neither truly capable of nor very keen on exerting an impact on the committees and thus taking advantage of them to take part in either (re)shaping

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<sup>9</sup> *In addition, some of the civil society representatives appear to experience an already classic Burkean dilemma while participating in the committees: whether to act as a delegate or as a trustee?*

the principles, objectives, and instruments or, at least, influencing the project selection and allocation processes.

In brief, looking from the point of view of new modes of governance and the role of social partners in them, the experience in the first round of the implementation of the ERDF in Poland could be summed up as disappointing. It may be said that social partners are misplaced within the new governance arrangements. Their misplacement is to an extent due to internal weaknesses of the milieu they represent. However, the deficient legal provisions for their inclusion in the committees weigh heavily on the misplacement. The deficiencies are clearly manifest in the selection criteria used to co-opt social partners; their role in the policy networks lacks clarity, and lastly, committees are seen as ambiguous in a larger political context.

The larger political context in the country still seems plagued by façade institutionalizations, low trust in principles of consequential public deliberation and subordinating the public policy processes to non-political influence and control (cf. Szomburg, 2003; Zalewski, 2005; Luft and Wygnanski, 2006; Woodward et al., 2006: 54). Formal compliance with the dominant EU discourse on governance by creating policy networks and paying institutional lip service to principles, such as partnership and social dialogue, are often further undermined by the fact that the networks are circumvented by informal bargaining that takes place away from such institutional arenas.

Notably, in the case of regional (development) policy, the so far failed experience of social partnership within the framework of policy networks, has not had a dramatic, socially damaging influence on the balance between support for economic competitiveness and social cohesion. On the contrary, the policy in its current shape is commonly criticized by experts for its social and anti-developmental orientation, favoring simple redistribution to planting seeds of sustainable development (cf. Grosse, 2004; Rodrigues-Pose and Fratesi, 2004). Thus, in a way, in its current shape, the regional (development) policy might appear as not being in an urgent need of social partners' insight and contribution. However, this would seem a false conclusion, bearing in mind the fact that without their insight and contribution, the policy will continue to function as an arena where political voting support is fought for, rather than a place where systemic solutions to social and developmental problems are sought. The underlying logic of the so far failing governance model seems necessary to be included in the policy making processes in the long-run. This

would be especially desirable in the case of regional (development) policy where the degree of regional stakeholders mutual recognition of different interests, their conception and awareness of a common good as well as the necessity to release cross-sector synergies is still very limited.

Hopefully, the experience of the new modes of governance during the first ERDF implementation period will be submitted to systematic self-reflection by social partners in order to realize and further specify causes for the current failures and devise steps of improvement in the future.<sup>10</sup> One of the means to overcome the failures would certainly be to create some working principles and channels such as branch and sector communication so as to consolidate the milieus and facilitate establishing criteria for its “representative representation” in the policy networks. Effective communication with other policy network partners seems as a different challenge. Its meeting would have to involve the means of convincing the other policy partners about expertise and worthiness of social partners’ participation in the policy-making processes.<sup>11</sup> Finally, some changes in the legal-institutional provisions for the policy networks seem unavoidable. Proposals for those, however, ought to be formulated and insisted on by the social partners themselves on the basis of a policy partner role that they will have to define for themselves as well as the other policy partners.

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<sup>10</sup> *An increased interest of non-governmental organizations in consultation procedures preceding the final formulation of the National Development Plan and its operational programs for the next implementation period of 2007-2013 is a sign of the reflection process that is indeed taking place (cf. an OFOP summary available at [www.ngo.pl](http://www.ngo.pl)).*

<sup>11</sup> *Indeed, more current research based on the opinions of public administration actors seems further to confirm that social partners are not treated as serious policy partners (cf. Skotnicka-Illasiewicz, 2006: 22-23).*

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# Towards a New Welfare Mix for the Most Vulnerable: Reforming Social Services in Bosnia-Herzegovina, Croatia and Serbia

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## Abstract

Social services reform in countries in transition, striving for a new welfare mix, is driven by three broad principles, sometimes described as the “3Ds” of reform, namely *deinstitutionalisation* (the move away from an over-reliance on long-term care in residential institutions towards more humane and cost effective community-based services); *diversification* (the promotion of a renewed welfare mix of state and non-state providers including NGOs and the private sector); and *decentralisation* (the transfer of rights, duties and responsibilities as close as possible to local populations). Based on evidence of actual and proposed reforms in Bosnia-Herzegovina, Croatia and Serbia, the paper suggests that the three principles have tended to be treated separately rather than as inter-linked. Hence, reforms have often been blocked, or had unintended consequences, as a result of an excessive legalism, and a lack of concern with equity, economies of scale, incentives for new providers, safeguards regarding standards, and creative ways of overcoming resistance to change. In addition, external assistance efforts have often been uncoordinated and contradictory. The paper argues that more emphasis needs to be placed on the development and implementation of a meso-level “zonal” planning framework, within a whole systems approach, to reorder existing services and establish alternative, community-based and family-centred services.

**Keywords:** welfare mix, social services, reform, deinstitutionalisation, systems approach, equity, vulnerable groups

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# 1 Social Services Reform in Transition: Systematising Rights

## 1.1 Introduction<sup>1</sup>

The reform of welfare in post-communist countries in transition in Central and Eastern Europe has proved to be one of the biggest challenges for policy-makers, professionals and politicians in the last fifteen years (cf. inter alia Ringold, 1999; Deacon, 2000; Stubbs, 2001a). Within this, most attention has been paid to poverty alleviation and the importance of tailoring social assistance payments or cash benefits to need and respecting fiscal envelopes (Krumm, Milanović and Walton, 1994). Existing well-developed systems, based on the principles of equity and solidarity, have had to be re-designed, sometimes painfully, to fit into new kinds of political economies. Nevertheless, a broad consensus exists on the importance of poverty alleviation such that the questions become more or less technical ones of the best ways to reach agreed goals.

Until recently, the reform of social services, defined as the provision of services other than cash benefits, to meet the social needs of the most vulnerable individuals, families and groups in society was not a major priority. In particular, the over-reliance on residential or institutional care was not seen as particularly problematic, outside of a small number of countries, notably Romania and Bulgaria, where the numbers in institutional care were so high, and the nature of that care so intolerable, that there was considerable internal and external pressure for change (cf. Sotiropoulos, Neantu and Stoyanova, 2003). Crucially, in terms of the legacy of social services, formal commitments to social justice and to human rights were less well developed than medicalised models of individual and family deficiencies, dysfunctionalities and abnormalities, under the influence of a “defectology” approach (UNICEF, 1997; Carter, 2005: 43). In this context, passive or compliant service users were meant to fit into existing services, often in remote locations, with long-term protection, in its most paternalistic sense, the only identifiable plan. A shift towards respecting the human rights of clients depends, then, in a way quite unlike poverty alleviation, on fundamental systemic changes including changes in the commitments, attitudes and behaviour of service providers (Bošnjak, 2005).

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Recently, the reform of social services has risen up the policy agenda, for a number of reasons. Firstly, a broad agenda of governance reform, in which public services seek to work for the benefit of citizens, has had “spillover” effects in the realm of social services, too. Secondly, key international actors such as the World Bank and UNICEF, have found common ground in arguing for deinstitutionalisation based on the fact that institutional care is both an infringement of human rights and, on the whole, more costly than community-based alternatives (UNICEF, 2003a, 2003b, and 2003c). Thirdly, the process of accession to the European Union has highlighted issues of long-term care and the importance of decentralisation of services in terms of local social planning processes and improved citizen choice. Fourthly, a number of non-governmental organisations, both international and domestic, have sought to play a greater role as providers of mainly alternative, community-based, non-residential, services. Even here, externally-funded and -driven projects, technical assistance and capacity building, have often contributed to a fragmented, inconsistent, badly sequenced, and short-term reform agenda.

This paper sets out some of the needed dimensions of a new welfare mix in terms of underlying principles of reform. It then outlines a systems approach as a way of operationalising reform at a number of levels, before exploring the state of, and prospects for, reform in three post-Yugoslav countries: Bosnia-Herzegovina, Croatia and Serbia, based on a documentary review and an interrogation of the authors’ own involvement in various reform initiatives. A final section argues the case for meso-level planning or the introduction of a new welfare mix at a new, “zonal” scale. The text should be read as a first attempt to link theoretical and conceptual approaches with specific case studies in order to suggest certain tentative policy recommendations.

## 1.2 The “3Ds” of Reform

In our view, a new welfare mix, involving new relationships, new scales and a new balance of services and service providers, is underpinned by three principles which are the so-called “3Ds” of social services reform: deinstitutionalisation, diversification and decentralisation. Thus far these principles have tended to be treated separately rather than as inter-linked. There is a need for a clarification of each of the terms themselves; a modelling of their relationships to each other, and to other terms,

within a systems framework and, above all, for greater clarity of purpose and assessment of institutional capacity to carry out holistic reforms, than has been hitherto attempted.

The concept of “deinstitutionalisation” refers to a process of systemic change in which there is a significant and irreversible shift in the balance of care for the most vulnerable or “at risk” groups, such as children deprived of parental care, young people in conflict with the law, people with disabilities, people with mental health problems, and vulnerable older people, away from full-time placement in residential institutions and towards community- and family-based alternatives. The results of such a process should be a reduction in rates of institutional care and in length of time in care. From a rights-based, client-centred, perspective, institutional care should be a “last resort”, only used for those who really need it and, wherever possible, should be a transitional rather than a permanent, or “totalising” form of care. The emphasis is thus placed on support to the client’s family to prevent family separation or facilitate family reintegration, or placement in a substitute family. Services should promote rather than erode “client autonomy” or “self-determination”, in the context of “reasonable risk-taking”. A notion of “deinstitutionalisation” as “the complete replacement of institutions by services in the community” (Mansell, 2005: 26), demanded by some social movements in Western Europe and the United States for mental health survivors and people with learning disabilities, can produce resistance conjuring up images of rapid closure of all institutional care services without ensuring that appropriate alternatives are in place. The term transformation of institutions is therefore used to refer to institutions’ potential to develop new services, reduce the scale of their operations, and either to provide higher quality services or to close following a process of planning alternative care for clients and retraining and redeployment of staff. Hence, institutional care is no longer the sole nor the main type of service but rather one amongst many types of service resources within a new welfare mix involving a “continuum of care”.

The “diversification” of service provision, sometimes also referred to as “deetatistation” (cf. Puljiz, 2005), is another key principle which, whilst having echoes in trends in developed countries, takes on a specific meaning in the context of post-communist societies with a legacy of a near monopoly of service provision by state agencies. The aim of diversification is to create a new welfare mix in which the state retains its regulatory competence but facilitates service provision, on a level playing field, by state and not-state actors including both not-for-profit and for-profit

organisations, and creating legitimate channels for the participation of citizens groups in shaping policies and for clients' participation in decisions affecting their lives (Matković, 2006). In this context, the state needs to develop a number of regulatory mechanisms (legal, financial, quality control, minimum standards, and so on) designed to act in unison but each of which has its own operating logic. In some welfare mix models, "welfare" is produced by the actions of, and interactions between public agencies in the state, non-governmental, community-based and voluntary organisations in civil society, private agencies in the market, and families and other household forms (Powell and Barrientos, 2004; Gough, 2001). Newer approaches stress the importance of "quality" of services without any a priori assumptions of the relative merits or comparative advantages of public or private services per se, advocating ever more complex partnerships between traditionally separate sectors (cf. Beck et al. 2001). The role of quality control, long-term contracting, and financial subsidies remain important, however, if new welfare mixes are not to produce new kinds of inequalities, a recommodification of welfare, and an "individualisation of the social" (Puljiz, 2005; Ferge, 1997) in which clients become more or less consumers in the welfare market place.

"Decentralisation", most succinctly defined as the transfer of authority, rights, duties and responsibilities as close as possible to local populations, is also rather more complex than first appears. The deinstitutionalisation and diversification of service provision to a large extent depends upon sectoral reforms underpinned by the empowerment of service users and the mobilisation of their families, communities, civil society and the private sector. Matković (2006) poses the question whether sectoral reforms in countries in transition should precede the decentralisation process which is part and parcel of governance reform and includes shifts in mandates and fiscal authority to local self government and their executive bodies ("devolution"), to local units of central government ("deconcentration"); and/or to semi-autonomous agencies ("delegation"). In a sense, the outcome of decentralisation needs to be in keeping with the principle of "subsidiarity", emphasised within the European Union, which suggests that decentralisation should be to the lowest level of government capable of performing functions efficiently and effectively. Of course, different tasks or functions can be held at different levels or, indeed, be shared, so that all political arrangements in contemporary societies exhibit tendencies towards "multi-level governance" in which "supranational, national, regional and local governments are enmeshed in territorially overarching policy networks" (Marks, 1993: 402-403), necessitating "continuous negotiations" (Marks, 1993: 392). Matković (2006) refers to

the use of “asymmetrical decentralisation” or the transfer of certain functions to some regions or local governments not all, which can be appropriate when local governments significantly differ according to economic strength, number of inhabitants, cultural specificities and/or administrative capacity.

Decentralisation is not a magical panacea and, indeed, can be disastrous in the absence of safeguards to ensure that local elites do not capture resources for their own purposes and, even more importantly, if adequate long-term predictable systems of transfer payments and equalisation formulae are not in place to counter the rise of geographical inequalities. It may, indeed, be a product of political expediency in terms of shifting responsibility for unpopular structural adjustments to other levels of government, and resolving fiscal crises and decreasing deficits at the central level (Matković, 2006). Above all, there is a need to ensure good governance of services and to improve relationships between the national and sub-national units of government (cf. Tandler, 1997). Unless associated with shifts in policy priorities, decentralisation could, indeed, result in an increase in rates of institutional care, as each sub-unit maintains, or even builds a new, its own residential care facilities.

### 1.3 Planning, Standards and the Whole Systems Approach

In the development of a new welfare mix, a form of social planning, involving a new mix of services, providers and scales, is crucial. At the national level this involves the setting of broad principles and outcome-based targets, as well as ensuring equity across regions. At sub-national levels, local and regional social planning can be defined as an inclusive process, involving all stakeholders, which maps needs and resources; sets plans for the solution of social problems; commissions specific services; and regularly reviews results. It usually involves “the establishment of an agreed planning mechanism which seeks to mobilise existing resources, stimulate new initiatives, and ensure a network of services to meet agreed outcomes and targets” (Stubbs and Warwick, 2003: 9). It is a crucial part of ensuring that deinstitutionalised, diversified and decentralised services are in line with local needs and attain a level of allocative efficiency.

In order to promote change, there is a need for a Whole Systems Approach (WSA), increasingly influential in health and social welfare reforms (cf. Hirsch et al., 2005).

Essentially, such an approach maps and analyses interdependent elements of a complex system in order to deliver benefits to the whole system. Any change in a part of a system impacts on other parts of that system and, in the case of social services, changes in statutory services impact on other services and on a range of non-statutory providers. The approach is particularly suited to issues of deinstitutionalisation since it seeks to reorganise services to ensure that the service user is at the centre of the system and that the user's experience defines the effectiveness of a system. This is a process of moving from a system inherited from the past in which service users are "categorised" in ways which reflect the range of services provided to a more "tailor made" set of services responding to individual needs and characteristics.

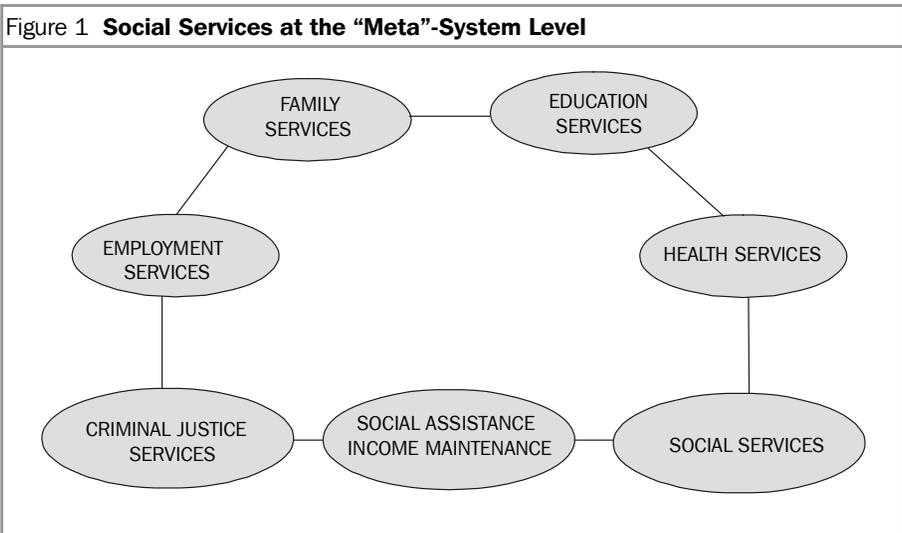
In this way, the idea of standards changes from being, essentially, about the type, size and facilities of the institutional environment and the formal qualifications of staff to a delineation of outcomes to be expected in terms of acquired skills for social inclusion, increased autonomy and greater user satisfaction. In a new system, a radical shift is needed towards a user-centred approach, embodied in standards focused on individual planning with the active and full participation of users with service providers made accountable for delivering a range of services in a variety of settings. The goal is a fully integrated, user-centred system in which "a mix of different people, professions, services and buildings ... have ... service users as their underlying concern and deliver a range of services in a variety of settings to provide the right care, in the right place, at the right time" (Health and Social Care Change Agent Team, n.d.: 1). This is crucial in order to ensure that existing, residential-based, services adapt to a changing environment rather than, as often happens, new services are forced into a straight-jacket of adherence to organisational, institutional and staffing standards which have precedence over the content and quality of services. Often, the broad characteristics of categories of users, and not their individual needs, determine the services they receive.

A new welfare mix, then, implies that a system of institutions be replaced with a system of services defined in generic terms and available, in principle, to all persons at risk, while at the same time adjusted to the particular characteristics of individual service users. These adjustments should be reflected in the nature of care provided, the type of skills needed by staff and volunteers, and in terms of levels of per capita costs. Crucially organisational structures should be flexible enough to allow for differences among service providers, with suitability on a case by case basis. Reforms can only be achieved by analysing, systematically, the factors which impede and impel whole

systems working, sometimes referred to as “systems’ regulators”, and the impact of changes in one system on adjacent systems.

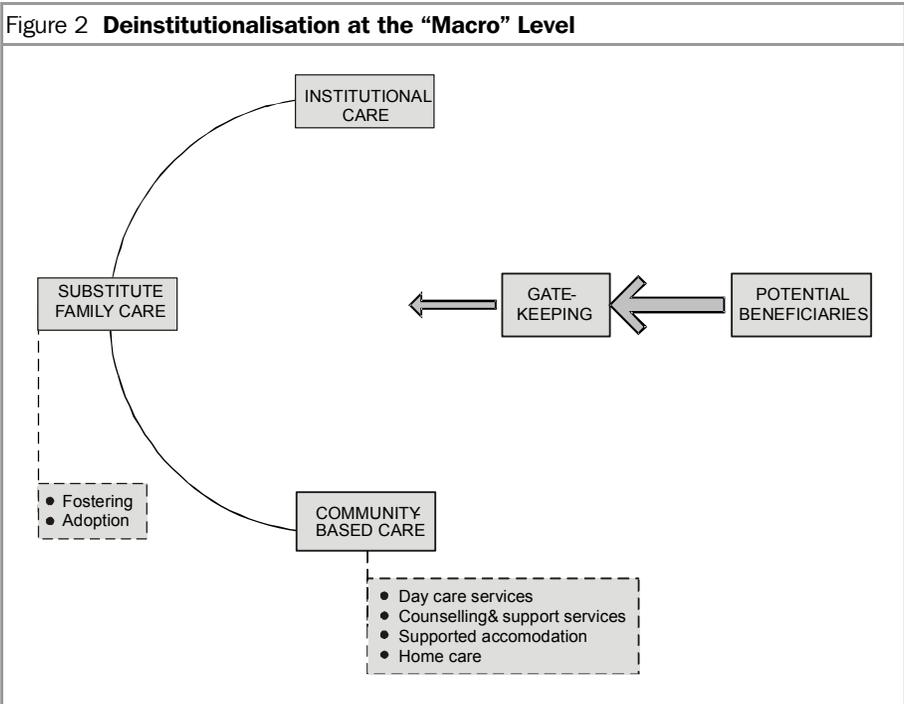
## 1.4 Systems Intervention at Four Levels

In thinking about a new welfare mix, it is possible to examine systems at four, inter-connected levels. One is the “meta” level, in which the social services system is related in a complex way to, at least, six other systems or policy regimes. The complexities of the inter-relationships at the meta-system level are beyond the scope of this paper although it is important to recognise that social services, as a relatively minor and somewhat marginal sub-system, is often forced to respond to wider changes in other systems.



The second level is that of social services as a system in itself. At this “macro” level, two broad features are crucial. The first is the overall demand for services, in terms of the number of users in the system. The second is the diversity of types of care and the relative weight of institutional and non-institutional forms of care. The two dimensions are illustrated in Figure 2. Crucially, a process of deinstitutionalisation works along both dimensions. On the first dimension, attempts can be made to reduce the overall number of users in the system, through “gate-keeping”, the

reduction of access, and “reintegration” in terms of expediting exit. On the second dimension, attempts can be made to reduce numbers in institutional care through increasing numbers in non-institutional care and through expanding the range and type of non-institutional services.



In terms of system regulators, there is a need to address the inter-linkages between laws and administrative procedures, financial flows, and professional practices and discretionary decision-making. Many reform efforts assume a more straightforward approach in which legislative change is seen as, either, sufficient per se, or as having inevitable effects in terms of financing and professional practice. In our view, these need to be addressed simultaneously. In addition, decentralisation and diversification, whilst appearing to add complexity can, in fact, free up a “locked in” system and promote new kinds of services and, crucially, new financial flows. As we shall note below, the “scale” of intervention is crucial and, in some cases, sub-national, regional or zonal scales may be the most optimal, representing the third, or “meso” level to which we return in section three of this paper.

The fourth level of intervention is in terms of a single institution which is, itself, a complex sub-system. At the “micro” level, change in one institution can facilitate learning and demonstrate effects which can be “scaled up” to other levels. Here the focus is on care planning for each resident, a re-training and re-deployment plan for all staff, and a clear mission statement for the institution. Inevitably, working on a single institution depends on linkages in terms of financial source for transition costs of deinstitutionalisation and in terms of collaboration of statutory services at the local level. There are, however, significant risks in an exclusive focus on the “micro” level in terms of generating demand for institutional care elsewhere in the system.

In the next section, these issues are described for three countries, Bosnia-Herzegovina, Croatia, and Serbia. In each case, the gap between “macro” and “micro” level reform initiatives seems rather large.

## 2 Social Services Reform in Bosnia-Herzegovina, Croatia and Serbia

With the recent independence of Montenegro and, notwithstanding continued uncertainty over the future status of Kosovo, there are now six successor states of the former Yugoslavia. In this paper, we focus on the three largest, representing quite significant differences in terms of national wealth and human development, levels of poverty and social exclusion, nature of the state, and prospects for EU membership. All three inherited, and have more or less maintained, a system of social policy, in which services are dominated by statutory Centres for Social Work (CSWs) and a range of institutional care facilities. In terms of key economic and social indicators, Table 1, deriving from a paper by Matković (2005), provides a broad comparison.

Country	Population (million)	GNI per capita	HDI	Poverty Rates			Gini Coefficient	LFS Unemployment Rate
				Absolute	Extreme	Relative		
Bosnia-Herzegovina	3.9	\$2,050	0.781	19.5	0	16.7	0.27	16.4
Croatia	4.4	\$6,820	0.830	8.4	0	17.2	0.36	14.3
Serbia <sup>2</sup>	8.1	\$2,700	0.772	10.6	2.4	20.2	0.30	15.2

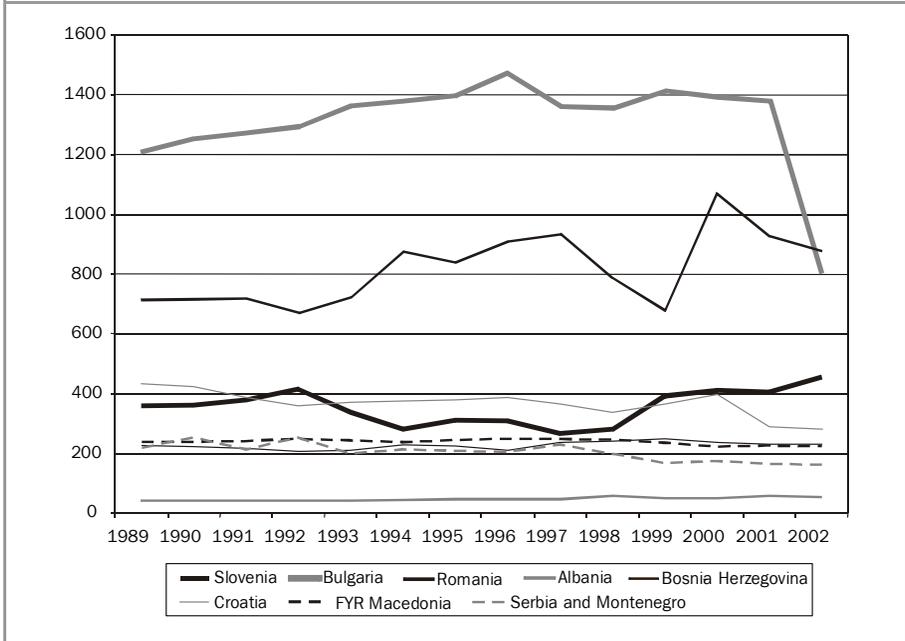
Source: Matković (2005) with updates where available from <http://www.worldbank.org/data/countrydata/countrydata.html>.

In terms of institutional care, the UNICEF TransMONEE database is the most useful for comparative purposes although it provides figures only for children and young people. It is reliant on state statistical office reporting and contains many gaps. In addition, a recent study has suggested that it understates the true figures significantly and that, often, significant year on year falls are a result of changed methodologies (Carter, 2005). Figure 3, for the countries of South Eastern Europe, uses TransMONEE figures expressed as a rate per 100,000 children aged 0-17 years, combined with Carter's estimates for years where no figures are available. It is noteworthy that, whilst in Bosnia-Herzegovina and Serbia, insufficient information is available to judge the accuracy of the figures, Carter estimates that true numbers of children in residential care in Croatia is some 30 percent above the official figure (Carter, 2005: 85)<sup>3</sup>. This suggests that, in fact, the rate remains higher in Croatia than in Bosnia-Herzegovina or Serbia but that this is lower than in Slovenia and significantly lower than in Bulgaria or Romania. We now address each country in turn in terms of its specificities.

<sup>2</sup> Population and GNI figures are for Serbia and Montenegro.

<sup>3</sup> The methodology used is based on a multiplier derived from those countries with known levels of exclusion of children from official figures.

Figure 3 **Rate of Children in Residential Care (per 100,000 Population Aged 0-17), SEE Countries**



Source: Carter (2005: 22).

## 2.1 Bosnia-Herzegovina

### 2.1.1 Administrative Context

Bosnia-Herzegovina is a case of an extremely complex administrative environment for social policy, in large part a product of the constitutional General Framework or Dayton Agreement, which gave most authority to the two entities of the Federation of Bosnia-Herzegovina and Republika Srpska and to the District of Brčko (cf. Stubbs, 2001b). Social work services are the responsibility of municipalities who also contribute payments to residential care facilities which are administered and primarily financed by the entity in RS and by cantons (the regional tier of Government) in FBiH. In reality, the situation is much more complex with a number of institutions having no clear legal status and others reliant on municipal contributions and donations for their survival. Cross-entity transfer payments remain controversial and under-developed. There are 101 CSWs in BiH, 40 Social and Child Welfare Offices, 2 Cantonal CSWs and a Sub-Department for Social Welfare in Brčko District. These

services employ 534 professional and 622 administrative and other staff (Maglajlić and Rašidagić, 2006). In FBiH, the cantons also pass laws and finance child benefits and foster care. In RS, a draft Law envisages all social protection functions to be at the entity level. A Children's Fund exists in RS which finances child benefits and there are plans for a similar fund in FBiH. Spending on social protection in different cantons and municipalities varies enormously (cf. IBHI, 2006). The recent introduction of VAT and the channelling of revenues to the state level are meant to stimulate new state-based social programmes, although many political obstacles continue to make this difficult.

### 2.1.2 Nature and Problems of Institutional Care

Problems of transition and economic problems have been compounded by war so that a rise in demand for services, including a significant rise in the numbers of children without one or both parents, has been accompanied by a lack of resources. There is a chronic lack of accurate and timely statistical data to facilitate service planning. Levels of institutionalisation are a product of the survival of pre-war institutions, along with the renovation of damaged facilities, and the opening of new facilities, often funded, in whole or in part, by development aid grants from foreign donors. Rates of institutional care for children are higher in FBiH than in RS, although the latter has a much higher proportion of children in conflict with the law in institutional care compared to children without parental care or with disabilities (the ratio is 3:1 in RS compared to 1:10 in FBiH). Foster care rates remain low and have actually fallen in parts of FBiH, although both Tuzla and Sarajevo cantons have increased rates. Only 3 percent of all those fostered have a disability (Save the Children, 2006).

### 2.1.3 Implemented and Proposed Reforms

Reforms in social welfare have been very piecemeal, with a large number of externally funded short-term "pilot projects" seeking to introduce a variety of innovations usually at the level of individual municipalities and/or institutions (cf. IBHI, 2006). Whilst certainly exposing professionals to a range of new ideas and approaches, the models introduced were, quite often, at odds with one another and have had contradictory and, at times, perverse effects. New institutions have been built which

mitigate against system transformation and drain system resources. External grants have also promoted a somewhat artificial growth in NGOs as service providers but, again, this has been short-term and somewhat parallel to the existing system. There is almost no transparent funding for NGOs from any level of government. Macro-level social welfare reform, led by the World Bank, has tended to focus on fiscal constraints and on governance reforms but, even here, reform has been very slow and incremental, not least in the face of resistance to cutting very high benefits to war veterans and their families.

A number of projects seeking to link pilots with macro-level reforms have produced some blueprints for system reform but action has been limited. UNICEF and Save the Children have been active in developing a strategic focus on child protection as have a number of organisations in the field of disability. There have been significant innovations in “islands of excellence”, notably in Tuzla canton where, over a long period, International NGOs have supported the Cantonal Government in developing more coherent service planning. Generally, however, the production of studies and policy recommendations has rarely been translated into changes on the ground. Within the Medium-term Development Strategy for BiH, which grew out of the Poverty Reduction Strategy work, there is a focus on social protection at the state and entity levels but this is often marginalised in the context of more pressing priorities and the need for structural reforms.

#### 2.1.4 Stakeholders

Capacity to steer reforms from the central level is limited by the political and fiscal implications of the Dayton Agreement. In both entities, social protection questions are “a marginalised part of marginalised Ministries” (Stubbs, 2001b). External agencies have some leverage but this is often project-specific and promotes contradictory and instrumental approaches. There is a lack of intellectual debate on social policy issues and social welfare professionals are also rather weak and tend to focus on existential concerns or to resist change. Crucially, service users have not been encouraged to participate in reforms, outside of small-scale initiatives. Numerous ad hoc multi-stakeholder groups are formed around certain projects but these rarely have a wider impact.

## 2.1.5 Assessment

Confusing administrative and fiscal responsibilities combined with projectisation militates against any coherent reform. The existence of cantons as a regional tier in FBiH has had little impact on an improved planning of services, with the exception of Tuzla Canton, and there is no such administrative tier in RS. There are few, if any, financial incentive effects for deinstitutionalisation. Experiments in social planning have been concentrated at the municipal level so that these have tended not to focus on institutional care (cf. Maglajlić and Stubbs, 2006).

## 2.2 Croatia

### 2.2.1 Administrative Context

Centres for Social Work are deconcentrated units of central Government. They no longer correspond to municipalities in the context of a massive growth in the number of municipalities since independence (there are now some 555 local government units including 427 municipalities, and 128 towns or cities and some 80 CSWs and 24 branch offices, largely corresponding to pre-war municipal boundaries). Residential care facilities are mixed, with most still state-owned and financed. However, homes for older people are now owned and run by the regional tier of government, namely the 21 Counties. In addition, private homes have grown in number and importance in the last ten years. Larger towns and cities have their own social protection programmes, sometimes granting additional assistance to social assistance beneficiaries.

### 2.2.2 Nature of Problems of Institutional Care

There has been limited progress in reducing numbers in institutional care. With regard to children, the largest falls occurred in the early 1990s, largely as a result of the war, as children were transferred to other Republics. At the end of 2004, 1,073 children were in state-run homes for children without parental care, 124 of whom were 3 years old or younger. There has been some, geographically uneven, success in promoting fostering as an alternative to institutional care. Many problems remain, however, in terms of the size of some residential care facilities, and the distance away

from centres of population. In addition, new residential facilities have emerged in the 1990s, run by NGOs. Statistics, whilst more accurate than those in Bosnia-Herzegovina, are still confusing regarding the definition of institutional care between health and social welfare services. Croatia has 17 state-owned homes for physically and mentally disabled children and adults with a total of 3,052 residents at the end of 2004, ranging in size from 17 to 463. Perhaps most worrying, a significant proportion of residents are aged 0-8 (a total of 257) or between 9 and 15 (a total of 569). Indeed, in these homes, notwithstanding deinstitutionalisation efforts, which have concentrated on one of the largest institutions where there have been a number of problems regarding hygienic standards, there appears to have been an increase in numbers since 2001 when there were 2,867 residents. There are 46 county-run homes for older people, accommodating 10,168 people at the end of 2004. The largest rise has been in private and voluntary sector homes for this population with a rise from 10 homes in 2000 to 57 in 2004, accommodating some 2,314 persons.

### 2.2.3 Implemented and Proposed Reforms

Reforms were largely piecemeal until the election of a coalition Government in January 2000 and the beginnings of a strong political push for reforms and for EU membership (cf. Stubbs and Zrinščak, 2005). Social protection reform, including the reform of social services, was a priority of the Ministry of Labour and Social Welfare, with an overview document produced by a leading social policy academic and the, then, Assistant Minister (Puljiz and Žganec, 2001), committed to deinstitutionalisation of services. This was followed by the commissioning of a policy study on deinstitutionalisation in 2001 which proposed a rather “radical” deinstitutionalisation scenario. Parts of the report were reported on in the press prior to its completion, provoking something of a backlash from trade unions representing residential staff and, subsequently, the full report was not released and, indeed, upon the change of Government in 2003, essentially marginalised (cf. Bratković, 2006: 213). Under a World Bank and DFID project, a number of teams worked on blueprints for reforms, including social services (cf. Stubbs and Zrinščak, 2006). Work on a subsequent loan to promote reform was delayed as a result of the change of Government. The new Ministry of Health and Social Welfare emphasised the importance of renovating existing institutions over and above deinstitutionalisation. In July 2005, a €46.7 million Social Welfare Development Project was agreed by the Government and the World Bank, including a €31 million loan and a €1.5 million

Swedish Government SIDA grant. The cost of upgrading existing facilities is envisaged to be €34 million, whereas €5.3 million is envisaged for a new model of social services to be introduced in three “pilot” counties. Part of this includes a transitional fund to finance “Innovation and Learning” to promote alternative social services models. The SIDA grant promotes technical assistance designed to secure a 10 percent reduction in referrals to residential institutions in pilot areas and an unspecified degree of deinstitutionalisation. This, together with considerable delay and uncertainty regarding a number of single institution plans for deinstitutionalisation, suggests a rather limited and very long-term process in operation.

The Ministry does provide funding to a number of NGO initiatives in the field of community-based care and, in particular, supported housing. In addition, one of the priorities of the National Foundation for Civil Society, administering state grants to NGOs as well EU CARDS funding, is the promotion of community-based social services although, again, these tend to be short-term and geographically uneven. Some larger cities have also worked on funding community-based services as outreach services from existing residential facilities. However, local social planning remains limited by the lack of decentralisation of functions and by the sheer number of local authorities. Counties, themselves somewhat over-politicised entities, lack the capacity to steer social welfare reforms.

## 2.2.4 Stakeholders

Social policy responsibilities in Croatia are now divided between three Ministries and, in addition, there is a degree of “captured” social policy, particularly in terms of war veterans, pensioners and, to an extent, demographically-motivated family policies. Fiscal concerns dominate both in terms of the locked in financing of existing and new institutional facilities and the greater concern with social assistance benefits. Residential care workers, numbering some 8,852 at the end of 2004 (Jurčević, 2005: 349) are mainly unionised and well organised. Neither they nor field social workers represent a strong interest group for deinstitutionalisation. There are a small number of leading NGOs and academics, often with international links and support, who are advocates of deinstitutionalisation but their influence remains limited. Service users also have little influence although, at times, the argument that it is the parents of children with disabilities who oppose change is made. Importantly, the main print

and broadcast media has tended, either, to be largely positive regarding coverage of institutional care or has failed to connect investigation of particular “scandals” with wider systemic analysis.

## 2.2.5 Assessment

There is some greater coherence to reform in Croatia than in Bosnia-Herzegovina. Deinstitutionalisation practices exist, policy recommendations have been made and, to a degree, macro-level commitments are in place. However, in the absence of a strong “driver for change” (Stubbs and Zrinščak, 2006) and with other social policy issues receiving greater priority, the likelihood of substantial change in the short- or medium-term is limited. Crucially, debates on decentralisation are stalled and there is more welfare parallelism (Stubbs and Zrinščak, 2006) than partnerships both in terms of the role of different levels of government and in terms of the involvement of NGOs as alternative service providers.

## 2.3 Serbia

### 2.3.1 Administrative Context

Serbia has 132 Centres for Social Work and 167 municipalities, one third of which has less than 20,000 inhabitants. There are also 25 Districts which represent a new regional tier of Government. Centres for Social Work are primarily owned and financed by the central Government but municipalities fund exceptional social benefits and the running costs of CSWs. Residential care facilities are mainly central government owned and run. Social Welfare was the responsibility of a Ministry of Social Affairs from January 2001, and is now the responsibility of a sector in the Ministry of Labour, Employment and Social Affairs. In a way not unlike Croatia, a largely decentralised system became highly centralised in 1991.

### 2.3.2 Nature of Problems of Institutional Care

Serbia’s social welfare system, like that of Bosnia-Herzegovina, has faced increased demand and reduced funding. Legacies of high levels of institutional care have not yet

been effectively countered. There are some 1,200 children without parental care or with disabilities in institutional care, a large proportion of whom are some distance away from their original place of residence. Children with disabilities, placed in one of five large, remote, residential centres, are particularly vulnerable, tending to spend their whole life in institutional care. A recent Social Welfare Strategy Document notes the problems in this regard:

*These institutions are characterised by a large number of beneficiaries (from 300 to 650), children and adults aged from 4 to 50, even older, which exceeds the number prescribed by norms and standards. The facilities are in poor condition, the staff structure prescribed by norms is inadequate, and care-takers are insufficiently trained for the application of contemporary work methods. All of this raises issues regarding respect of beneficiaries' rights. (Government of Serbia, 2006: 7).*

There are 17 institutions for persons with mental and physical disabilities and mental health problems, accommodating 5,574 beneficiaries. There are some 7,800 people in homes for the elderly. There are few non-state residential care facilities. NGOs do receive support from external donors and, more recently, from the Social Innovation Fund (see below) but, as in the other two countries, funding tends to be short-term and not integrated into wider social planning. Provision is very geographically uneven.

### 2.3.3 Implemented and Proposed Reforms

Reforms only began in earnest with the establishment of a new Government in January 2001 following the overthrow of the Milošević regime in October 2000. The re-organised Ministry of Social Affairs, under the dynamic leadership of Gordana Matković, whilst emphasising poverty reduction as its main priority, also developed a strategic focus on social services reform, including deinstitutionalisation. One part of a project on 'The Reform of Social Protection', beginning in March 2001 focused on "family-centred support and protection of children, the elderly, disabled people and people with special needs" (Government of Serbia Ministry of Social Affairs, 2002: 1). A number of ad hoc working groups, consisting of academics, policy-makers and practitioners, were established focusing on reform processes (social welfare services; transformation of institutions; information systems) and target groups (the elderly; Roma; disability; and victims of violence and abuse). From May 2001 until March

2002, the Ministry organised a series of consultative conferences throughout the country. Later, the working groups were reorganised and tasked with outlining a strategic reform agenda, through interlinked reform projects.

Crucially, the Government established a Social Innovation Fund, operational since 2003, as a transitory mechanism providing competitive funding and management support to reform-oriented social services projects at the local level. SIF is designed to promote the development of a coherent and sustainable range of community-based, alternative, social services implemented through partnerships between a plurality of service providers, in order to ensure that local level innovations inform central level reforms (cf. SIF, 2004). The overall funding for SIF for the period 2003-2009 is some €12.3 million. Total EU support of €4.9 million is supplemented with the funds from the Government of Serbia of approximately €2 million for local projects for the period 2003-2006 and an anticipated €1.4 million for the period 2007-2008. The Government of Norway provided €3 million for the period 2003-2004 and 2006-2009, while DFID has provided €1 million for the period 2006-2009 (Arandarenko and Golicin, 2006). A demand-driven mechanism for distribution of central funds, previously reserved for existing umbrella organisations for persons with disabilities, was established by the Ministry in 2002 as a Fund for Financing Organisations for Persons with Disabilities. Like SIF, the Fund has developed transparent criteria and procedures for financial and technical support for local level services for persons with disabilities.

Serbia's Poverty Reduction Strategy Paper, approved in October 2003, also emphasises "more efficient social protection" as one of its seven key strategic priorities. Within this, the section on 'the reform of social services' (Government of Serbia, 2003: 126) is committed to a coherent national level reform. The parameters of this have now been set out in a recent 'Social Welfare Development Strategy' document which, for the first time, explicitly links a territorial approach to social welfare with the issue of deinstitutionalisation.

Whilst there has been, and continues to be, donor support for core social protection reform, including SIF and the Social Welfare strategy, a number of 'pilot projects' in particular municipalities have had limited results, distorting priorities and mitigating against macro-level planning. In addition, donors have tended to emphasise one client group above others, also resulting in inefficiencies.

### 2.3.4 Stakeholders

The Social Welfare Strategy document has a section on “Stakeholders in Social Welfare Reform”, perhaps indicative of a greater commitment to stakeholder consultation and to co-ordination than elsewhere. Nevertheless, the Government itself and the Ministry have only very recently begun to prioritise social services themes and still, sometimes, speak and act with rather divergent voices. One useful consequence of externally funded projects has been the stimulation of the main body representing local authorities to take a keener interest in social welfare reform. In addition, Serbia has a number of informed experts working on reforms in ad hoc groups. NGOs tend to be more focused on their own projects and, still, as elsewhere, service users are relatively absent from reform debates, although the recent SIF beneficiary assessment, conducted by the Centre for Liberal Democratic Studies, introduced the practice of including service users in the assessment of service quality and relevance. Media, not listed as a key stakeholder in the strategy, have largely been supportive of existing institutions.

### 2.3.5 Assessment

Considerable progress in terms of strategic thinking and planning has been made in Serbia in a little over five years. The reforms are far more locally owned and driven than is the case, certainly, in Bosnia-Herzegovina. Nevertheless, real resource constraints combine with somewhat overlapping and contradictory project based pilot reform efforts and a proliferation of expert-led working groups. The new strategic focus will receive the support of the Governments of the UK and Norway but the task remains to create a critical momentum for combining decentralisation, diversification and deinstitutionalisation.

## 3 Conclusions: the Case for Meso-Level Planning

Notwithstanding differences which relate to politico-administrative context, levels of resources, and the nature and extent of external development agency involvement, there are a number of striking similarities in the broad pictures emerging from the country descriptions, certainly in terms of the barriers to root and branch reform. Firstly, social services reforms, have largely been implemented without sufficient

attention to either governance arrangements nor to fiscal flows and vice versa, with fiscal and governance reforms ignoring or marginalising social services. Social welfare reforms have tended to be single issue focused, with a series of short-term, crisis-oriented solutions rarely forming a coherent whole. There have been inevitable tensions between keeping the system going (“business as usual”) and a need for fundamental reforms and the creation of new systems or sub-systems. The conceptual steering of the reforms has, in fact, often been rather too intellectual with connections to practice left rather vague. In any case, a number of consultative or steering groups, with overlapping memberships, have tended to work sporadically and too much initiative has been taken by “consultants” of one kind or another. Crucially, the balance between directive authority and consultation has been rather problematic, with an emphasis on technical and expert-driven legal changes and facilitator-led consultative processes which have neither analysed nor attempted to lock in key stakeholders to the reforms. Issues of mistrust between stakeholders have rarely been addressed systematically. The problem of overlapping and confused mandates has been compounded by the creation of new agencies and reform bodies.

Above and beyond this, however, two key problems have been detailed above. The first is that of “scale”: stated simply, reforms have worked at both too large and too small a scale, with a failure to work at the meso-level and a chronic failure to connect micro-level pilots with macro-level parables. Secondly, diversification of services has been rather half-hearted, simply adding on new providers funded erratically, unevenly and, almost always, in a highly short-term, projectised, way.

Ongoing deinstitutionalisation efforts in all three countries have concentrated on small-scale interventions at the level of institutions and not on a multi-level systemic approach to reduce entries and accelerate exit from institutions. Some institutions have closed and others have improved, but these measures have had little impact on overall service outcomes. Sometimes, alternative services have developed with no systematic assessment of which groups of clients need these services to prevent their reception into care or facilitate family and community reintegration. Lessons learnt so far do not support the continuation of deinstitutionalisation efforts on the level of a single institution unless as a part of a national or regional plan which addresses changes in institutional admission policies, draws up quantitative targets for the transfer of groups such as children and persons with disabilities into alternative care, provides clear guidance on priority groups for placement in alternative care, and assures financial flows in favour of services which are currently lacking.

Nothing short of a new institutional framework is needed which coordinates the supply of services and entitlements at local and regional levels, plans and adjusts it to local priorities and involves potential and actual beneficiaries and the public at large in the design, monitoring and evaluation of the system and its outcomes. A new “zonal” approach to social services is needed in which existing regional structures, or groups of municipalities, large enough to ensure a match of supply and demand, deliver a planned approach to meeting needs and ensure a more appropriate balance between community-based and institutional forms of care.

In Bosnia-Herzegovina, the recent Strategic Directives for the Social Protection of Children Without Parental Care is a step forward, based on consultations with staff in CSWs and in residential institutions, and has the support of the respective entity Ministries. It envisages further work on alternative services and deinstitutionalisation within Regional Action Groups in Cantons in FBiH, in the District of Brčko, and through Inter-Municipal Bodies to be formed in accordance with the Constitution of Republika Srpska. In comparison with Croatia and Serbia, BiH residential institutions tend to be smaller and their integration in a regional network of services could be developed with less need for drastic downsizing or complete closure.

In Croatia, counties are legally established regional intermediary structures which already function as political and administrative actors in aspects of social policy and social protection. It remains to be seen whether the three pilot counties in the Social Welfare development project will be able to establish an optimal model of social services which forms the basis for the Ministry to introduce regional networks of services. Ambitious goals of reducing the ratio of children and other beneficiaries in institutional as opposed to alternative care will have to be based on a regional planning methodology, involving all three levels of Government including the municipalities.

The recognition of a need for regional planning in social welfare is a recent phenomenon in Serbia, where regions as intermediary levels of government do not yet function, but local planning, mainly introduced through donor-driven projects, has proved to be an insufficient tool for introducing and/or rationalising services, especially in smaller municipalities. Lessons learnt from ongoing efforts in deinstitutionalisation suggest that the most significant impact in terms of transformation of large residential institutions into centres of alternative services can occur only in the larger municipalities or by basing new services in clusters of smaller

municipalities. Initial efforts are being made to stimulate inter-municipal planning initiatives through SIF and other projects. Attention is being paid, within this, to assuring quality of services through outreach to municipalities lacking human resource capacity. Inter-municipal planning needs to operate on the principle of creating economies of scale for services which would otherwise be unsustainable.

Hence, notwithstanding evidence of regional inequalities in many of the countries of the region (cf. UNDP, 2006; Jovičić and Arandarenko, 2006), and the need for new forms of equalisation payments and, above all, for a system of agreed minimum standards to be in place, it does appear that meso-level planning is now on the agenda. In our view, this is a necessary, although perhaps not sufficient, precondition for ensuring that social services reform achieves principles of social justice and human rights, and acts as a model for a new scale of reform of social and public administration.

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# Sociological Survey on Attitudes of Representatives of Social Groups in the County of Primorje and Gorski Kotar towards Some Aspects of Quality of Life on the Sub-Regional Level

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## Abstract

As part of the project “A Social Map of the County of Primorje and Gorski Kotar”, developed by the Teaching Institute for Public Health of the County of Primorje and Gorski Kotar and in association with the County of Primorje and Gorski Kotar, a questionnaire-based empirical sociological survey was conducted on a non-random and convenient sample to identify the attitudes of representatives of social groups in each local government unit. The questionnaire had 303 variables and focused on various quality-of-life dimensions: dissatisfaction/satisfaction with the functioning of institutions and infrastructure, the perceived need to improve institutions and infrastructure, the perceived quality of life of vulnerable groups (the young and the elderly), and the perceived need of developing various measures to improve the quality of life of these social groups. Numerous questions focused on satisfaction with everyday life of respondents. Altogether, more than 1200 respondents were surveyed in all of the 35 local government units in the region. The analysis was

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carried out on sub-regional levels (Gorski Kotar, Littoral, and Islands), and it includes descriptive statistics, analyses of variance, chi-square and regression analyses.

**Keywords:** survey, attitudes of representatives of social groups, perceptions of the quality of life, inequalities among sub-regions

## 1 Introduction or about the Project

The Teaching Institute for Public Health of the County of Primorje and Gorski Kotar, in association with the County of Primorje and Gorski Kotar (CPGK), conducted a project entitled “A Social Map of the County of Primorje and Gorski Kotar.” The project’s objective was to define the needs of the population using a range of quantitative and qualitative data regarding the population’s social living conditions. Results obtained will be used by both CPGK and the Teaching Institute for Public Health of the CPGK to formulate guidelines, select priorities and plan a number of measures for future interventions in the community aimed at improving the quality of life (QOL).<sup>4</sup> The project focused on each local self-government unit (LSU)<sup>5</sup> and included demographic, social, economic and health-related analysis. Major sources of information for most of the research were statistical publications, existing scientific research and other material available from social institutions. The bottom-up approach, which is increasingly present in development planning today, underlines the necessity of involving the population and interest groups representatives in the planning phase. Clearly, the likelihood that the population will embrace development plans and strategies is far greater if it participates in their creation. In order to obtain insight on the pattern of attitudes of local community representatives regarding various QOL aspects, we conducted empirical research on the attitudes of interest group representatives via survey in each LSU.

As the region consists of three spatial and economic units, it is very important to formulate or identify a vision of development for CPGK. These are Gorski Kotar, a

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<sup>4</sup> *In this paper, quality of life (QOL) refers to the overall conditions of life and the satisfaction of the population with such conditions, which include: economic security, demographic stability, technical and social infrastructure, health, housing, nutrition, culture, education, entertainment, environmental sustainability, and freedom of choice, (Seferagić, 2000: 38).*

<sup>5</sup> *At the time the survey was conducted, CPGK consisted of 35 LSUs, that is, 14 towns and 21 municipalities. As of July 2006, the Municipality of Lopar separated from the Town of Rab, making a total of 36 LSUs (14 towns and 22 municipalities) in the County today.*

depopulated and economically jeopardised and devastated area; the Littoral, an area accounting for about 70 percent of the County's population and economic potential, which is characterised by an ongoing struggle between manufacturing industries and tourism, severe environmental issues, and an almost completely occupied coastline; and the spatial segment comprising the islands, whose previous development was mainly based on seasonal tourism with no serious and scientific approach to development or state support (Črnjar and Črnjar, 2002: 185).

If we refer to regional planning as "the integrated planning of regional development, representing a necessity in the modern life of a nation ensuring a specific spatial, social and economic inter-regional and intra-regional equilibrium, as well as quality of life and a healthy environment" (Šimunović, 2004: 189), then the planning policy should serve to encourage those guidelines and development measures targeting the sustained development of sub-regions. This goal of sustained development must receive top priority. The current CPGK Spatial Plan, which has an integrated approach to planning, produced positive initial results, evident in a decrease of construction land, increase of green areas, integration of infrastructure corridors, changes to land-use and heightened protection of potable water, the sea, and various important natural unities. However, a development strategy, that is, a CPGK Strategy of Sustainable Development, has not been formulated. Although selective documents have been drawn up, some of them through government support (Sustainable Development Programme of the Kvarner Islands), they have, unfortunately, had little practical application to date.

This paper analyses the (dis)equilibrium existing within the given region. Through the region's spatial division into sub-regions, we shall attempt to reveal the existing (dis)equilibrium of social, economic, and environmental dimensions. For the purpose of this study, "region" presents the CPGK territory as a unit of regional self-government, the sub-regions which are comprised of three spatial and functional units: the Islands, the Littoral, and Gorski Kotar.

## 2 Conceptual Framework

Social equilibrium is analysed in two dimensions. The first dimension relates to the satisfaction of interest-group representatives with the existing technical and social infrastructure and institutions. The second dimension refers to QOL rating and measures for improving QOL of socially vulnerable groups (young people, the elderly, people in need, and the unemployed).

Economic equilibrium is examined through the way in which sub-regional representatives perceive the extent of efforts and investments made in a range of economic activities up to date.

The environmental dimension, that is, the perception of a healthy environment is analysed through the perceived extent of concern over environmental issues in the given area.

## 3 Research Methodology

A survey-based social empirical study was conducted as part of the project “A Social Map of the County of Primorje and Gorski Kotar” through the collaboration of the Teaching Institute for Public Health of the CPGK and CPGK, as well as the Administrative Department of Health Care and Welfare and the County Institute for Sustainable Development and Spatial Planning. Fieldwork was conducted during February, April and May 2006 on a convenient and non-random sample of interest-group representatives. Each LSU received a list proposing potential representatives<sup>6</sup> with regard to the function of an individual within the social structure of the LSU (local self-government, public sector, private sector, NGOs, etc.). The LSUs then sent invitations to interest-group representatives requesting their presence at a meeting about the project’s topic, where the project was presented and the representatives surveyed. Depending on its size, each LSU distributed 30 to 100 invitations and, on average, some 30 people per LSU attended the meeting.

The questionnaire contained a total of 303 variables measuring various QOL dimensions. This paper analyses the dimension of interest-group representatives’

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<sup>6</sup> *The list contained the titles of positions and functions.*

perceived satisfaction with the existing technical and social infrastructure and institutions. It analyses the economic dimension of QOL through the perceived attention focused on developing a range of activities.<sup>7</sup> The environmental dimension is analysed through the rating of concerns over environmental issues.<sup>8</sup> A series of variables was used to rate both QOL and the measures for improving QOL of socially vulnerable groups (Nazor et al., 2000). A variety of socio-demographic variables (sex, age, education) is also analysed.

Sub-Regions		Managerial Position				Total
		Senior manager (of a sector, company, institution)	Lower-level manager (of a department, office, supervisor, etc.)	Employed at a non-managerial position	Not actively employed; independent craftsman; volunteer	
Littoral	f	119	71	151	99	440
	%	27.0	16.1	34.3	22.5	100.0
Gorski Kotar	f	55	65	89	53	262
	%	21.0	24.8	34.0	20.2	100.0
Islands	f	76	68	112	43	299
	%	25.4	22.7	37.5	14.4	100.0
Total	f	250	204	352	195	1001
	%	25.0	20.4	35.2	19.5	100.0

Source: Authors' calculations.

Self-administered questionnaire was successfully completed by a total of 1,149 persons aged 18 and above, of which 46.7 percent were women and 53.3 percent, men. In the Littoral, a total of 504 persons (43.9 percent) were surveyed in 15 LSUs;<sup>9</sup> in Gorski Kotar, a total of 308 persons (26.8 percent) in 9 LSUs; and in the island region, 337 persons (29.3 percent) in 10 LSUs. Most respondents belong to the 41-50 age group (29.5 percent) and the 51-60 age group (26.1 percent). The cohort aged 31-40 and the cohort over 60 each account for 16.1 percent. The youngest cohort aged 18-31 is also the least numerous (12.1 percent). A total of 55.6 percent respondents have university qualifications; 38.9 percent, secondary school qualifications; and 3.2 percent, postgraduate degrees.

<sup>7</sup> Listed items taken from Rogić (1996, 1999), Rogić and Štambuk (1998), Štambuk and Rogić (2001) and Raboteg-Šarić and Rogić (2002) have been substantially broadened for the purpose of this study.

<sup>8</sup> According to Cifrić et al. (1998), supplemented and altered for the purpose of this study.

<sup>9</sup> Methodological reasons required a different questionnaire to be applied to the Town of Rijeka; results obtained have been omitted from this paper (N=109).

In processing and interpreting data, descriptive statistics were mainly applied. Variance analysis and the chi-square test were used to determine differences among the sub-regions.<sup>10</sup>

## 4 Research Objectives

We have set the following basic objectives:

- to analyse the differences in the level of satisfaction with the existing municipal and social infrastructure and institutions among the sub-regions;
- to analyse the differences in perceptions relating to the development of a range of economic activities;
- to analyse the differences in social (dis)equilibrium through QOL rating and QOL improvement measures for vulnerable groups (young people, the elderly, the unemployed);
- to analyse differences at a sub-regional level with regard to environmental issues.

The hypotheses are as follows:

- Differences in perceived satisfaction with the performance of infrastructure and social institutions exist in different sub-regions of the County, with the Littoral representatives displaying a higher level of satisfaction than those of the Islands and Gorski Kotar;
- Differences in QOL rating and QOL improvement measures for socially vulnerable groups exist in different sub-regions;
- Differences in perceptions regarding the adequacy of efforts in developing various economic activities exist. Gorski Kotar respondents display a higher level of dissatisfaction with efforts and investments made;
- Gorski Kotar representatives are not as concerned about environmental issues as the other two groups.

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<sup>10</sup> *The Statistical Package for Social Sciences SPSS 14.0 was used to process the data.*

## 5 Overview of Research Results

### 5.1 Satisfaction with the Existing Technical and Social Infrastructure

The first dimension analysed in this paper refers to perceived satisfaction with the quality of institutions and facilities in the LSU. A total of 43 variables<sup>11</sup> were listed relating to the level of satisfaction with the performance of institutions of municipal infrastructure, social infrastructure, and a variety of other social institutions. A number of differences<sup>12</sup> referring to 30 out of 43 variables were established among the sub-regions (see Table 2).

According to the average results on the scale of perceived satisfaction with the quality of infrastructures and institutions, the Islands, in comparison with Gorski Kotar and the Littoral, display a lower level of satisfaction with the following: Day-Care Centres, Post Offices, Playgrounds, Sports and Recreational Facilities, and Power-Supply Facilities. The Islands, in comparison with the Littoral, show a lower level of satisfaction with Elementary School Institutions, Facilities for Young People, Specialist Clinics and, in comparison with Gorski Kotar, a lower level of satisfaction with Public Lighting. The Islands respondents, however, have expressed greater satisfaction with Homes for the Aged, Parks and Green Areas. These items show a significant statistical difference between the Islands, on the one hand, and the Littoral and Gorski Kotar on the other.

In comparison with both the Littoral and the Islands, the representatives of Gorski Kotar display a lower degree of satisfaction with the following variables: Museums, Hospitality Facilities, Coffee Shops, Social Centres for the Elderly, Public Road Transport (the number and frequency of bus lines), and Drainage. In comparison with the Littoral, Gorski Kotar shows a lower level of satisfaction with Handicraft Services and Roads, and a higher level of satisfaction with Telephone Network Coverage and Police.

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<sup>11</sup> On a 5-point scale ranging from "very dissatisfied" coded as 1 to "very satisfied" coded as 5. For the purpose of variance analysis, we have omitted the value of 0 (0 = does not exist in the LSU) transforming it into a missing value.

<sup>12</sup> Variance analysis, together with appropriate post-hoc tests (Scheffé Test for homogenous and Tamhane T2 for non-homogenous variances), was used to test the statistical significance of average group results; all tests were conducted at a significance level of 5 percent.

**Table 2 Satisfaction with the Existing Infrastructure and Institutions – Variances among Sub-Regions**

		1 Littoral		2 Gorski Kotar		3 Islands		F	Variances among groups
		$\mu$	SD	$\mu$	SD	$\mu$	SD		
1	Day-Care Centres	3.83	0.842	3.73	0.83	3.42	0.917	22.963***	3 < 1, 2
2	Elementary Education	3.78	0.838	3.71	0.936	3.55	0.959	6.839**	3 < 1
3	Secondary Education	3.49	0.875	3.42	0.932	3.54	0.771	0.865***	
4	Daily Supplies	3.78	0.886	3.66	0.876	3.66	0.835	2.722	
5	Post Office	3.66	0.988	3.81	0.969	3.08	1.017	48.096	3 < 1, 2
6	Cinema, Theatre	1.97	1.228	1.72	0.918	1.98	1.159	2.292	
7	Museums, Art Galleries	2.71	1.204	1.97	1.093	2.7	1.061	19.976***	2 < 1, 3
8	Handicraft Services	2.96	1.062	2.59	0.961	2.78	0.961	11.436***	2 < 1
9	Hospitality	3.47	0.954	2.96	1.088	3.54	0.787	35.266***	2 < 1, 3
10	Specialised Shops	2.77	1.105	2.26	1.071	2.37	0.878	20.965***	2, 3 < 1
11	Playgrounds	2.65	1.033	2.62	1.018	2.39	0.952	7.141**	3 < 1, 2
12	Youth Centres	2.04	0.982	1.88	0.821	1.78	0.792	8.503***	3 < 1
13	Social Centres for the Elderly	2.36	1.107	1.93	0.899	2.25	0.978	13.044***	2 < 1, 3
14	Public Cleaning Service and Garbage Collection	3.43	0.932	3.43	0.911	3.45	0.986	0.053	
15	Water-Supply System	3.83	0.924	3.55	0.985	3.45	1.046	16.629	2, 3 < 1
16	Power-Supply System	3.96	0.786	3.99	0.763	3.81	0.791	4.996*	3 < 1, 2
17	Gas-Supply System	2.44	1.199	1.81	1.218	2.95	1.288	21.967***	2 < 1 < 3
18	Renewable Energy Sources	2.41	1.031	2.18	1.04	2.39	1.114	2.197	
19	Drainage	2.66	1.048	2.4	1.041	2.81	1.091	10.137***	2 < 1, 3
20	Sewage System	2.62	1.126	2.3	1.115	2.92	1.139	19.948***	2 < 1 < 3
21	Public Lighting	3.48	0.953	3.6	0.883	3.39	0.927	3.808*	3 < 2
22	Parks and Green Areas	3.17	1.076	3	1.065	3.38	1.04	10.166***	1, 2 < 3
23	Roads	2.63	1.054	2.41	1.069	2.56	1.035	4.031*	2 < 1
24	Public Road Transport (number and frequency of bus lines)	2.86	1.054	1.86	0.914	2.73	1.074	89.841***	2 < 1, 3
25	Catamaran	2.49	1.28	1.86	1.287	3.38	1.174	29.824***	
26	Telephone Network Coverage	4.1	0.824	4.26	0.678	4.11	0.734	4.458*	1 < 3
27	GSM Network Coverage	3.87	0.957	3.93	0.843	4.01	0.808	2.271	
28	Health Care – General Practice	3.58	0.975	3.52	0.971	3.43	0.988	2.355	
29	Dentist Offices	3.43	0.921	3.5	1.044	3.47	0.948	0.522	
30	Specialised Clinics	2.79	1.129	2.53	1.24	2.34	1.053	9.209***	3 < 1
31	Pharmacies	4	0.869	4.03	0.824	4.04	0.833	0.221	
32	Research Library	3.84	1.055	3.56	1.045	3.32	1.134	17.032***	2, 3 < 1
33	Public Library	3.88	1.048	3.47	1.116	3.34	1.136	18.15***	2, 3 < 1
34	Bookshops	3.16	1.083	2.93	1.153	2.55	1.135	15.308***	3 < 1, 2
35	Sports and Recreational Facilities	2.82	1.134	2.69	1.071	2.45	0.923	10.347***	3 < 1, 2
36	Local Committee	2.95	1.032	2.8	1.196	2.96	0.963	1.865	
37	Church	3.73	0.935	3.75	0.913	3.66	0.993	0.896	

38	Coffee Shops	3.53	0.933	3.09	1.04	3.38	0.906	19.801***	2 < 1, 3
39	Restaurants	3.29	1.029	2.88	1.268	3.49	0.801	25.354***	2 < 1 < 3
40	Homes for the Aged	2.45	1.087	2.6	1.193	3.08	1.207	16.22***	3 > 1, 2
41	Welfare Institutions	2.78	1.044	2.72	1.053	2.85	1.063	0.778	
42	Police Department	2.92	1.086	3.23	1.021	3.03	0.978	5.497**	1 < 2
43	General Living Conditions	3.35	0.812	2.77	0.916	3.25	0.819	47.253***	2 < 1, 3

Source: Authors' calculations.

The Littoral respondents differ from the respondents from the Islands and Gorski Kotar in the average values of the following variables: Water-Supply System, Specialised Shops, Research Libraries and Public Libraries, in which a higher degree of satisfaction is displayed.

All three sub-regions differ in three variables: Gas-Supply System, Sewage System, and Restaurants. In average, the least satisfied are the representatives of Gorski Kotar, followed by the Littoral and the Islands. No differences among the groups were detected in the other variables. As we can see from this analysis, the first hypothesis has been confirmed.

## 5.2 QOL Rating and QOL Improvement Measures for Socially Vulnerable Groups

The second series of items relates to QOL rating and QOL improvement measures for socially vulnerable groups. Variance analysis indicates a number of significant differences among the sub-regions (Table 3).

In comparison to the Islands and the Littoral, the Gorski Kotar respondents agree more strongly with the following items: “the steadily aging population has growing health-related requirements” and “senior citizens lack clubs and other facilities where they can socialise.” They also have different opinions regarding the QOL of young people: they agree with the item “the general outlook for young people in the future does not seem promising,” and they disagree with the item “there are job opportunities for young people in the LSU.” There is also a significant statistical difference relative to the other two groups concerning the need to “establish various additional educational programmes within secondary schools to provide young people with the education they desire.”

**Table 3 Frequency Distribution**

		<b>1+2<sup>13</sup></b>	<b>3</b>	<b>4+5</b>	<b><math>\mu</math></b>	<b>SD</b>
1	Various additional educational programmes should be established within secondary schools to provide young people with the education they desire.	4.3	15.0	80.7	4.01	0.805
2	The steadily aging population of the LSU has growing health-related requirements.	7.9	13.1	79.0	4.05	0.948
3	Senior citizens lack clubs and other places where they can socialise.	11.4	10.2	78.5	3.94	1.009
4	There is an obvious lack of places where young people can enjoy themselves in a creative way.	17.3	7.1	75.6	3.86	1.235
5	In general, the outlook for young people in the future does not seem promising.	16.2	13.5	70.3	3.74	1.063
6	In coffee shops and discotheques, alcoholic beverages are served and sold to minors.	12.8	18.7	68.5	3.85	1.159
7	There is a lack of extra-institutional forms of social care for the elderly and the infirm; this in particular relates to assistance and care provided in the home.	14.7	21.3	64.1	3.66	1.006
8	Increasingly, young people are leaving the LSU because they see no future there.	17.1	21.9	61.1	3.63	1.062
9	In recent years, substance abuse among young people in the LSU has grown considerably.	11.2	30.2	58.6	3.64	0.963
10	Young people consume alcoholic beverages in front of stores.	25.9	23.6	50.5	3.35	1.161
11	Alcohol and substance abuse has been observed in school playgrounds at night.	15.7	34.3	50.0	3.46	1.062
12	There is a disturbing presence of vandalism in schools and other public areas.	27.9	25.7	46.5	3.27	1.111
13	Increasingly, young people are showing less interest in the programmes provided by local secondary schools.	17.3	37.3	45.4	3.34	0.993
14	Alcoholism is increasingly rife in the family environment.	21.3	38.9	39.8	3.24	0.959
15	The Roma have all the conditions necessary for a pleasant life in the LSU.	22.5	45.2	32.3	3.12	1.029
16	Schools provide children with adequate information on hazardous behaviour (addiction, sexual activities...).	31.5	36.9	31.6	2.98	1.023
17	Violent behaviour is present in the streets.	45.8	28.2	26	2.78	1.038
18	Vagrants and homeless people can often be seen in the streets.	56.2	20.9	23	2.55	1.112
19	The work of the non-government sector is strongly supported by local authorities.	33.5	45.1	21.4	2.81	0.987
20	Appropriate care is provided for elderly and infirm persons.	55.2	26.7	18	2.49	1.025
21	Most of the population make a decent living.	63.9	19.4	16.8	2.31	1.052
22	There is a sufficient number of extra-curricular activities to meet the interests of secondary-school students.	56.7	27.5	15.8	2.39	1.039
23	The work of the non-government sector is clearly visible and transparent to all citizens, and it enjoys strong public support.	46.2	38.1	15.6	2.58	0.996
24	The ban on selling cigarettes and alcoholic beverages to children and minors is strictly respected.	66.4	22.8	10.8	2.18	1.024
25	People with special needs are appropriately involved in social life.	58.3	32.2	9.4	2.35	0.921
26	Addiction problems (alcoholism, drug addiction) are successfully prevented and resolved.	63.6	28	8.3	2.25	0.917
27	The problem of unemployment is being successfully resolved.	76.5	16.4	7.1	1.96	0.947
28	In the LSU, there are job opportunities available for young people after schooling.	75.6	17.6	6.7	1.95	0.919

Source: Authors' calculations.

<sup>13</sup> Frequencies are expressed in percentages on a 5-point scale (1 = strongly disagree, 5 = strongly agree),  $\mu$  = arithmetical mean, SD = standard deviation.

On the other hand, the adverse aspects of development are reflected in the dependency level of the population. In comparison to Gorski Kotar, the representatives of the Littoral and the Islands agree more strongly with the following items: “alcohol and substance abuse has been observed in school playgrounds” and “in recent years, substance abuse among young people has grown considerably.” Similarly, they agree less with the item “schools provide children with adequate information on hazardous behaviour (addiction, sexual activities...)” in comparison with Gorski Kotar. In comparison to the Littoral, Gorski Kotar representatives show a higher degree of agreement with the item “addiction problems (alcoholism, drug addiction) are successfully prevented and resolved,” but a lower degree of agreement with “young people consume alcoholic beverages in front of stores.” In relation to the Littoral and Gorski Kotar, the degree of agreement with the item “alcoholism is increasingly rife in the family environment” is considerably higher in the Islands group.

All three groups differ with regard to the following items: “young people are leaving the LSU because they see no future there,” the Gorski Kotar group shows the highest degree of agreement ( $\mu = 4.21$ ), followed by the Islands group ( $\mu = 3.59$ ), with the lowest degree of agreement displayed by the Littoral group ( $\mu = 3.30$ ). Whereas the Littorals ( $\mu = 3.55$ ) agree “there is a disturbing presence of vandalism in schools and other public areas,” the Islanders agree less ( $\mu = 3.24$ ), and the Highlanders the least ( $\mu = 2.84$ ). Although all three groups do not agree with the item “the problem of unemployment is being successfully resolved,” statistically significant differences are apparent: Highlanders show the lowest degree of agreement ( $\mu = 1.85$ ), followed by Islanders ( $\mu = 2.0$ ), and Littorals ( $\mu = 2.01$ ).

The other dimension analysed relates to the perceived need of initiating a line of potential measures to improve the position of socially vulnerable groups, the young and the elderly. On a Likert-based scale, respondents were asked to express their degree of agreement with the items listed. Between 75 and 100 percent of all the respondents accepted 24 measures, out of a total of 26 measures proposed. Generally speaking, there are no differences among the sub-regions relative to average responses, with the exception of four variables. This indicates that, across the entire County, there is a common stand regarding the perceived existence of the numerous requirements of socially vulnerable groups.

In general, respondents think that all the segments in the LSU must begin to cooperate more efficiently if population QOL is to improve (95.7 percent), and that systematic and continuous care should focus on “healthy families” (94.8 percent). This shows that the local communities realise the need for mutual cooperation, as well as the need for social solidarity in adequately addressing the relevant issues. On the other hand, it can also be interpreted as the perception that it is possible to resolve most of the problems through cooperation within the local community. Importance is also given to the activities of the civil sector: 84.5 percent of respondents consider it is essential to encourage NGO programmes contributing to the improvement of QOL in the LSU, and to put in place a number of activities to help people with special needs participate more actively in all segments of the local community (90 percent).

Measures to improve the QOL of young people are reflected in the following activities. About 89.3 percent of respondents agree on the necessity of creating a professional team within the school system, comprising a speech pathologist, therapist, pedagogue, and psychologist. Neglected clubhouses should be used to serve the needs of the social community and social activities (94.8 percent). A multipurpose facility (for sports, games, entertainment, learning, use of the Internet) should be constructed (or made available) for young people (93.5 percent), and various types of leisure programmes should be provided for children and young people (95.7 percent). A youth and family guidance centre needs to be established in the LSU (84.3 percent). Also, forums and educational gatherings should be continuously organised to enable children, young people and families to learn more about family planning, character development, growing up, hazardous behaviour, and so on (89.3 percent). Failure to appropriately meet a number of the needs of young people is thus obvious, making it necessary to include the listed measures into development plans.

A range of measures is needed to improve the QOL of the elderly and the infirm. Occasional specialist check-ups should be organised (95.9 percent), and medicine and orthopaedic aids should be provided free-of-charge or at reduced prices (93.2 percent). Stocking up in cooked food, groceries, gas, firewood, etc. should be made easier for the elderly (93.3 percent). The services of a community-health nurse for the elderly and infirm should be provided and expanded, especially in small villages (94.2 percent). Senior citizens should also be provided with free-of-charge home care and assistance (90.8 percent). Aid groups should be developed in the LSU to provide safe and fast help in crises (90 percent). Social events and entertainment (cinema, theatre,

reading rooms) should be organised for elderly people (94.8 percent), and homes for the aged should be more readily available and less costly (95.8 percent). Retired people should receive financial aid at Christmas time and Easter (89 percent), and they should have access to free transportation (82.7 percent). As there are no differences among the average responses of the sub-region representatives to these items, it is obvious that the existing system fails to adequately meet the needs of the elderly. While Bežovan (2000) reports that government welfare programmes are inefficient, non-innovative and bogged in red tape, recent studies indicate that non-profit organisations in advanced countries are playing an increasingly important role in providing social services in cooperation with LSUs. As such, they are more attuned to beneficiaries (personalised). The beginning of a trend that focuses on providing assistance in the home, instead of placing the elderly in institutions, is evident (Bežovan, 2000). Such a trend is also discernible within the CPGK territory, where homes for the aged cannot accommodate the growing demand, and increasing support is provided for home-assistance programmes. Current changes in developing combined social policies (Evers, 1991, according to Bežovan, 2000) are simultaneously perceived as essential and desirable. In our survey, we asked how desirable the social services (food, conversation, care) rendered by non-profit organisations were perceived to be. The results of chi-square tests revealed no differences in the opinions of respondents regardless of the sub-region they belong to. About two-thirds of the respondents perceive such services to be highly desirable, which leads us to conclude that a broader social community supports and perceives the need of social services rendered by NGOs. The remaining 23 percent of respondents see these services as being partially desirable, which suggests that this segment cannot sufficiently cover all the needs arising in the local community. Earlier studies (Coury, 1998, cited by Bežovan, 2000) have indicated that the role played by the non-profit sector should be a complementary one, with Welfare Centres and LSUs acting as the coordinators of all programmes.

Respondents also underlined the need for LSUs to develop loan programmes and employment programmes for groups with difficulties in finding jobs (young people, women) (91.6 percent). LSUs should also help citizens, who are poor and at risk, to find a housing solution (82.1 percent) and should provide them with greater financial assistance (83.1 percent). Only 61.4 percent of respondents feel that the needy should be able to buy food at lower prices in certain shops. The only item that the least number of respondents agreed with refers to the alignment of working hours of day-care centres and schools with the working hours of parents: one half of the

respondents expressed disagreement with this item, indicating the need to adjust day-care centre working hours to the working hours of parents.

The above analysis both supports and rejects parts of our second hypothesis, because, as we can see, ratings differ based on sub-regional division; however, regarding QOL improvement measures, the respondents were almost unanimous. The high degree of agreement with a range of proposed measures suggests that there are no appropriate means of meeting so many needs of various socially vulnerable groups, which are identical across the County.

### 5.3 Economic Activities

The next dimension analysed relates to how the representatives of local communities perceive efforts and investments made to promote a range of economic activities. As expected, differences in responses were detected in a number of variables, partly resulting from the spatial positions of the sub-regions, as well as from other factors. As Table 4 (chi-square test analysis) clearly indicates, the responses of Gorski Kotar representatives strongly differ from those of the other two sub-regions. They express the opinion that insufficient efforts have been made in a number of activities. The highest percentage relates to Agriculture; 82.2 percent of respondents think the efforts made up to date have been insufficient. This is followed by Handicrafts (79.3 percent), Animal Husbandry (74.2 percent), Farming (73.8 percent), Industries (in general) (72.9 percent), Gardening and Fruit-Growing (71.6 percent), Transportation (70 percent), Other Service Activities (69.9 percent), Manufacturing Industries (68.3 percent), Sheep-Farming (63.4 percent), Hospitality (60.6 percent), Gas Supply (60 percent), and Metal-processing Industries (54.7 percent). With the exception of Industries (in general), most of the above activities are characteristic of rural areas, which leads to the conclusion that these activities are dying out. In the opinion of respondents, traditional activities need to be revitalised. Also, the need to develop the transport system points to the isolation of certain areas, a characteristic of rural regions whose development depends upon the infrastructure and, in particular, the transportation infrastructure, which enables a part of the population's social needs to be met by travelling to larger towns. There is an apparent lack of hospitality facilities and other service activities that are a precondition to developing rural tourism. Representatives from Gorski Kotar (71.8 percent), as well as from the Littoral (70.4 percent), agree that investments in Tourism are insufficient.

**Table 4 Chi-Square – Perceived Investment in Economic Activities**

		Insufficient	Sufficient (as required)	Excessive (more than necessary)	No opinion	
Tourism	Littoral	70.4	24.2	1.6	3.8	Chi-square 37.087 df = 6 p = 0.000
	Gorski Kotar	71.8	23.3	2.6	2.3	
	Islands	55.7	41.0	1.5	1.8	
Hospitality	Littoral	41.5	48.7	4.6	5.2	Chi-square 44.805 df = 6 p = 0.000
	Gorski Kotar	60.6	33.9	2.6	2.9	
	Islands	35.8	54.8	3.9	5.4	
Agriculture	Littoral	71.8	15.1	0.6	12.5	Chi-square 29.892 df = 6 p = 0.000
	Gorski Kotar	82.2	13.2	1.0	3.6	
	Islands	68.4	20.2	2.1	9.3	
Fishing Industry	Littoral	47.1	17.5	0.5	34.9	Chi-square 116.77 df = 6 p = 0.000
	Gorski Kotar	33.7	10.1	0.5	55.8	
	Islands	55.7	28.6	2.4	13.3	
Shipping Industry	Littoral	33.8	20.8	1.2	44.1	Chi-square 144.37 df = 6 p = 0.000
	Gorski Kotar	15.6	4.80	1.2	78.4	
	Islands	46.2	30.3	0.6	22.9	
Transport	Littoral	63.2	31.4	1.3	4.2	Chi-square 27.16 df = 6 p = 0.000
	Gorski Kotar	70.0	19.3	1.8	8.9	
	Islands	55.8	36.3	1.5	6.4	
Handicrafts	Littoral	66.8	26.2	0.6	6.4	Chi-square 22.58 df = 6 p < 0.001
	Gorski Kotar	79.3	14.9	1.0	4.7	
	Islands	65.5	23.8	0.9	9.8	
Other Service Activities	Littoral	56.4	34.9	0.6	8.0	Chi-square 31.92 df = 6 p = 0.000
	Gorski Kotar	69.9	19.6	1.4	9.1	
	Islands	52.0	34.2	0.6	13.2	
Trade	Littoral	27.8	62.0	7.1	3.0	Chi-square 14.66 df = 6 p < 0.05 (0.023)
	Gorski Kotar	35.9	56.8	3.0	4.3	
	Islands	29.3	61.2	5.7	3.7	
Education	Littoral	46.1	49.3	0.6	4.0	
	Gorski Kotar	46.9	48.5	1.7	3.0	
	Islands	45.9	48.3	0.6	5.1	
Culture	Littoral	57.4	36.5	3.2	2.8	
	Gorski Kotar	60.9	33.1	2.3	3.6	
	Islands	65.2	30.9	0.9	3.0	
Sports	Littoral	50.7	40.2	7.3	1.8	Chi-square 16.09 df = 6 p < 0.05
	Gorski Kotar	47.8	43.5	6.6	2.0	
	Islands	58.7	34.3	3.3	3.6	
Health Care and Welfare	Littoral	49.6	44.4	1.4	4.6	
	Gorski Kotar	57.1	38.2	1.3	3.3	
	Islands	52.4	41.5	0.9	5.2	
Science	Littoral	74.0	12.8	0.2	13.0	
	Gorski Kotar	71.6	10.3	0.7	17.4	
	Islands	72.4	10.1	0.6	16.9	
Farming	Littoral	57.7	13.1	0.4	28.8	Chi-square 33.96 df = 6 p = 0.000
	Gorski Kotar	73.8	10.1	0.3	15.7	
	Islands	59.2	19.9	0.6	20.2	
Animal Husbandry	Littoral	58.1	13.0	0.2	28.7	Chi-square 103.45 df = 6 p = 0.000
	Gorski Kotar	74.2	14.8	1.0	10.1	
	Islands	48.3	33.6	1.5	16.5	

Gardening and Fruit-Growing	Littoral	58.2	23.3	0.2	18.3	Chi-square 17.08 df = 6 p < 0.01
	Gorski Kotar	71.6	16.1	0.3	12.0	
	Islands	61.0	20.4	0.9	17.6	
Shipbuilding	Littoral	25.6	19.4	2.7	52.2	Chi-square 118.69 df = 6 p < 0.01
	Gorski Kotar	17.7	7.2	0.0	75.1	
	Islands	39.2	31.8	1.5	27.5	
Water Supply	Littoral	25.5	59.8	2.5	12.2	Chi-square 19.68 df = 6 p < 0.01
	Gorski Kotar	35.9	52.8	3.2	8.1	
	Islands	27.3	63.5	3.4	5.8	
Electric Power Supply	Littoral	12.2	74.1	1.9	11.8	
	Gorski Kotar	14.3	74.2	2.8	8.7	
	Islands	13.4	77.3	2.5	6.8	
Gas Supply	Littoral	56.7	16.5	0.7	26.2	Chi-square 28.75 df = 6 p = 0.000
	Gorski Kotar	60.0	5.7	0.0	34.3	
	Islands	53.4	20.7	0.6	25.2	
Renewable Energy Sources	Littoral	55.6	9.7	0.0	34.7	
	Gorski Kotar	58.4	7.8	0.8	33.1	
	Islands	60.7	10.9	0.0	28.4	
Marine Farming	Littoral	46.1	9.8	0.2	43.8	Chi-square 67.27 df = 6 p = 0.000
	Gorski Kotar	32.4	5.7	1.0	61.0	
	Islands	54.8	17.3	1.0	26.9	
Metal-Processing Industry	Littoral	31.5	20.4	2.0	46.1	Chi-square 50.48 df = 6 p = 0.000
	Gorski Kotar	54.7	15.4	0.4	29.5	
	Islands	36.5	11.5	2.3	49.7	
Oil Industry	Littoral	14.6	13.6	8.8	63.0	Chi-square 26.85 df = 6 p = 0.000
	Gorski Kotar	19.5	9.2	0.0	71.3	
	Islands	20.5	14.1	8.1	57.2	
Sheep-Farming	Littoral	46.9	12.3	0.7	40.1	Chi-square 219.75 df = 6 p = 0.000
	Gorski Kotar	63.4	11.5	1.4	23.7	
	Islands	39.4	47.4	3.7	9.5	
Manufacturing Industry	Littoral	41.2	15.2	1.8	41.8	Chi-square 67.59 df = 6 p = 0.000
	Gorski Kotar	68.3	12.7	0.7	18.3	
	Islands	40.9	12.2	2.6	44.2	
Forestry	Littoral	39.6	29.5	2.4	28.6	Chi-square 117.97 df = 6 p = 0.000
	Gorski Kotar	27.8	58.0	7.5	6.8	
	Islands	39.4	30.7	1.2	28.6	
Hunting	Littoral	17.9	49.8	9.8	22.4	Chi-square 28.65 df = 6 p = 0.000
	Gorski Kotar	18.9	58.5	12.1	10.6	
	Islands	20.1	45.7	17.7	16.5	
Wine-Growing	Littoral	53.1	24.1	0.9	21.9	Chi-square 186.58 df = 6 p = 0.000
	Gorski Kotar	27.9	6.3	1.4	64.4	
	Islands	53.5	30.3	2.4	13.8	
Olive-Growing	Littoral	56.7	10.5	0.2	32.6	Chi-square 442.47 df = 6 p = 0.000
	Gorski Kotar	18.0	2.6	0.0	79.4	
	Islands	41.1	51.8	2.1	4.9	
Industries, in General	Littoral	39.4	20.8	6.6	33.3	Chi-square 106.70 df = 6 p = 0.000
	Gorski Kotar	72.9	13.0	1.1	13.0	
	Islands	35.5	20.4	7.6	36.5	
Rock and Ore Extraction	Littoral	21.0	14.5	8.0	56.5	Chi-square 14.56 df = 6 p < 0.05
	Gorski Kotar	25.1	14.2	5.2	55.5	
	Islands	21.9	15.1	13.8	21.9	

Source: Authors' calculations.

The Littorals also feel that up to date insufficient investments have been made in Agriculture (71.8 percent), Transportation (66 percent), Olive-Growing (56.7 percent), Wine-Growing (53.1 percent), and even Sheep-Farming (47 percent). The Islanders consider that insufficient investments have been made in Agriculture (68.4 percent), Handicrafts (65.5 percent), Gardening and Fruit-Growing (61 percent), Farming (59.2 percent), Sports (58.7 percent), Transportation (55.8 percent), the Fishing Industry (55.7 percent), Marine Farming (54.8 percent), Wine-Growing (53.5 percent), and Olive-Growing (41.1 percent).

The less popular activities include Rock and Ore Extraction and the Oil Industry, as well as Trade, in which more than 50 percent of representatives think sufficient investments have been made.

Interestingly, there are no differences in the frequency of responses regarding activities that are part of the social superstructure, such as education, culture, health care, welfare and science, although the opinions expressed are highly polarised. While half feel that sufficient investments have been made in education, the other half thinks that not enough has been invested. Similarly, 50-60 percent of representatives claim that insufficient investments have been made in culture, while about a third disagree; 50-58 percent agree that insufficient investments have been made in health care and welfare, while 38-45 percent share the opposite opinion. Also, almost 70 percent of representatives agree that the investments made in science have been insufficient. In almost all of the listed variables, however, the percentage of respondents perceiving investments as insufficient is very high, ranging from 40 to 80 percent, whereas an exceptionally small percentage (between 1 and 8 percent) perceive previous investments as being excessive.

The analysis suggests that Gorski Kotar is “the most vulnerable” region in the County, requiring well-thought-out and rational planning to contribute to revitalising the integral life of this area.

## 5.4 Perceived Concern over Environmental Issues

As environmental quality is a crucial component of QOL, and because special attention is attached to environmental impact studies in planning development, one of the survey dimensions focuses on the perception of disturbing environmental

issues. On a 5-point scale, the respondents were asked to rate their degree of concern over 19 environmental issues.<sup>14</sup> When summing the values of the variables “strongly concerned” and “very strongly concerned”, the following distribution of responses is obtained. Respondents are most concerned with Marine Pollution (48.1 percent) and the Discharge of Untreated Wastewater (47.6 percent) - no differences among the sub-regions were found for these two variables - as well as with the Increase of Unlicensed Dumps (47.4 percent), Devastation of Woodlands (46.1 percent), and Potable Water Pollution (48.1 percent).

On average, the respondents are least concerned with the Risk of Industrial Accidents ( $\mu = 2.38$ ), Soil Erosion ( $\mu = 2.65$ ), Air Pollution ( $\mu = 2.67$ ) and Hazardous Waste ( $\mu = 2.69$ ). Only a surprisingly small percentage of respondents, however, see certain issues as reasons for concern: the percentage of representatives who perceive environmental issues as potentially concerning is not even 50 percent in a total of five variables, and in other variables, this percentage is even lower. On the other hand, between a quarter and a third of all the respondents rated the listed issues as reason for moderate concern.

Variance analysis<sup>15</sup> shows that statistically significant differences among the sub-regions exist for a total of 14 variables. Differences among all three groups exist for four variables: the representatives of the Littoral are most concerned with Air Pollution and Traffic Growth; the representatives of Gorski Kotar are less concerned, whereas the Islanders are the least concerned. Again, the Littorals perceive the Increase of Noise Pollution and the Reduction of Green Areas in the LSU as most concerning, the Islanders as less concerning, and the Gorski Kotar representatives as least concerning. In comparison to the Gorski Kotar and Islands respondents, the Littorals, on average, more strongly perceive Hazardous Waste and the Increase of Unlicensed Dumps as disturbing environmental issues, whereas, unlike the Gorski Kotar representatives, the Littoral perceive the Risk of Industrial Accidents as an issue of concern. The representatives of the Islands are statistically more concerned with the Depletion of Natural Resources and Potable Water Pollution than the other two sub-regions.

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<sup>14</sup> On a 5-point scale with 1 = very mildly concerned, 5 = very strongly concerned.

<sup>15</sup> Variance analysis, together with appropriate post-hoc tests (Scheffé Test for homogenous and Tamhane T2 for non-homogenous variances), was used to test the statistical significance of average group results; all tests were conducted at a significance level of 5 percent.

		1 Littoral		2 Gorski Kotar		3 Island		F	Differences among groups	Rank
		$\mu$	SD	$\mu$	SD	$\mu$	SD			
1	Marine Pollution	3.44	1.276	3.16	1.495	3.3	1.196	2.61		1
2	Discharging Untreated Wastewater	3.42	1.275	3.34	1.239	3.23	1.209	2.216		2
3	Increase of Unlicensed Dumps	3.62	1.203	3.19	1.227	3.13	1.178	20.363***	1 > 2, 3	3
4	Devastation of Woodlands	3.3	1.206	3.83	1.139	2.8	1.198	58.365***	2 > 1, 3	4
5	Potable Water Pollution	3.04	1.304	3.39	1.258	3.12	1.224	7.306**	3 > 1, 2	5
6	Traffic Growth	3.48	1.137	2.65	1.153	3.26	1.129	49.711***	1 > 2 > 3	6
7	Reduction of Farmland Caused by Construction	3.31	1.344	2.52	1.201	3.34	1.285	42.04***	1, 3 > 2	7
8	Municipal Waste Management	3.37	1.175	3.19	1.112	2.87	1.145	18.235***	1, 2 > 3	8
9	Decrease of Green Areas in the Town/Municipality	3.34	1.248	2.53	1.255	3.07	1.272	37.446***	1 > 3 > 2	9
10	Soil Pollution	3.11	1.227	3.32	1.169	2.83	1.16	12.993***	1, 2 > 3	10
11	River Water Pollution	2.79	1.392	3.37	1.218	2.38	1.398	35.264***	2 > 1 > 3	11
12	Increasing Noise Pollution	3.26	1.193	2.47	1.131	3.01	1.194	42.395***	1 > 3 > 2	12
13	Farmland Pollution	3	1.174	3.25	1.106	2.76	1.127	14.058***	3 > 1 > 2	13
14	Depletion of Natural Resources	2.8	1.231	3.16	1.322	2.66	1.219	12.931***	3 > 1, 2	14
15	Hazardous Waste	2.9	1.344	2.54	1.144	2.5	1.172	12.935***	1 > 2, 3	15
16	Food Pollution	2.94	1.263	3.04	1.174	2.78	1.145	3.677*	2 > 1	16
17	Soil Erosion	2.74	1.291	2.61	1.198	2.55	1.159	2.547		17
18	Air Pollution	3.07	1.286	2.58	1.166	2.17	1.022	59.219***	1 > 2 > 3	18
19	Risk of Industrial Accidents	2.5	1.339	2.2	1.108	2.36	1.396	4.787*	1 > 2	19

Source: Authors' calculations.

The Littorals and Islanders are more concerned with the Reduction of Farmland Caused by Construction than the Gorski Kotar respondents. The Gorski Kotar representatives are more concerned with River Water Pollution than the Littorals; the Islanders are the least concerned with this issue. Gorski Kotar respondents are also more concerned with Food Pollution than the Littorals. There is a statistically significant difference in the high degree of concern the Highlanders express regarding the Devastation of Woodlands, relative to the other two groups. We can conclude that development has had an adverse impact on the environment of the Littoral, whose representatives show a higher degree of concern with a number of potential environmental issues in comparison with the other two groups. The analysis indicates that Gorski Kotar representatives perceive as disturbing forest- and water-related issues, i.e. Water Pollution and the Devastation of Woodlands. Hence, in

planning future guidelines, attention should be focused on the rational and sustainable use of forests and water. The natural resources of the Littoral and the Islands, in particular, the sea and the air, are also considered potentially endangered areas in terms of ecology, making it necessary to reduce the pressures of development, especially in the Littoral region. On the Islands, the excessive construction of houses for holiday purposes is obviously a cause for concern over the depletion of natural resources and the loss of farmland. Since this construction has not been matched by the construction of appropriate infrastructure, there is also concern over the potential pollution of potable water. The above analysis, therefore, supports our final hypothesis.

## 6 Closing Remarks

The results of this research will hopefully be used as a basis for the future planning of sustainable development. Unsustained growth is an issue evident throughout Croatia, and, as such, it is not specific to the County of Primorje and Gorski Kotar. For the purpose of this paper, we have divided the CPGK into three sub-regions, although further sub-division on the micro region level is also possible (see Banovac et al., 2004). In overall reporting, the data have been analysed and presented on the LSU level to provide each LSU with information it can use in the planning process; the analysis results on a sub-regional level are intended to help the County in planning future policies.

Building a more consistent social framework is not possible without reconstructing basic social consensus. Social consensus (including the promotion of fundamental social solidarity) is a precondition to a well-thought-out and coordinated economic and social development (Zrinščak, 2000). We believe this research has provided insight into social consensus that exists and is manifested at two levels. Although a number of disparities have emerged, the group representatives have expressed a unanimous opinion regarding measures targeting QOL improvement of socially vulnerable groups. These measures should be put in place as soon as possible to help revitalise life in jeopardised regions. From the viewpoint of the integrated sustainable development of the County (CPGK Spatial Plan, 2000, based on Chapter 14 of Agenda 21 and the Convention on Biological Diversity), the County should completely discard the development of conventional agriculture, and, instead, should plan and promote the development of ecological agriculture. Our research partially

confirms this stance: group representatives are aware of the importance of revitalising agriculture and a range of other activities characteristic of agro-environmental regions (animal husbandry, farming, horticulture, apiculture, sheep-farming, wine-growing, and many other) to foster the development of rural tourism throughout the County and, in particular, in Gorski Kotar and the Islands region. According to the group representatives, another area in which insufficient investments have been made is science, meaning that it is perceived as marginal. Researchers studying the “knowledge industry” have also concluded that the sciences hold a marginal position in the Croatian society (Županov, 2003). It is obvious, nevertheless, that the group representatives perceive the need to invest in developing science. Investing in science, means investing in knowledge, education and teaching, as strategic resources. This can serve as a basis for successful development, examples of which we have seen in other small European states. Due to its profound contribution to better planning, designing, implementing and testing of policy decisions in the industries and economy, in crisis management, the defence system, environmental protection, welfare, etc., fostering the development of science is a precondition (Simonić, 2003: 87) to sustainable development.

In our opinion, it is exceptionally important to create prerequisites to sustained growth throughout the County, because no integrated programme of legal and other changes, which could bring about such an outcome, has been put forward. Accordingly, the new concept of regional development should also contain a range of measures involving government incentives for new production investments in Croatia’s underdeveloped regions, decentralisation of funds for (other) public services (health care, elementary and secondary schooling), equal distribution of tax income from public enterprises (INA, HEP...), dislocating certain central government bodies from Zagreb (Malenica, 2006), as well as a range of other preconditions reflected in the following: the State must formulate a development strategy and define legal commitments, promote incentive measures, make changes to the system of funding local and regional self-government, pass greater responsibilities and rights down to the regions (Counties), and obligate the regions (Counties) to employ their own measures in carrying out national, and through this, regional strategies of sustainable development.

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# Enlargement and Cohesion: Implications for Economic and Social Development in Turkey

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## Abstract

As a candidate country to join the EU, Turkey has to comply with certain institutional preconditions in order to have access to EU regional assistance with the aim to reduce regional disparities. Given the extreme level of regional disparities, EU assistance in the pre-accession process is highly important for Turkey. The approach to regional development in EU regional policy is underpinned by “new regionalism”, which favours bottom-up, region-specific policy actions, based on regional governance. New regionalism conceptualises regional development policy as a policy of innovation rather than a purely market-driven or welfare-based approach. While this approach may have worked in triggering economic development in the lagging regions of the EU, there is a lack of research about the implications of regional development policy in new regionalism for backward regions. The GDP per capita of the poorest region in Turkey accounts for a mere 9.5 percent of the EU-15 average, and 11.5 percent of the EU-25 average, indicating the significant levels of poverty and social exclusion. Therefore, this paper explores the extent to which the principles and practices of EU regional policy are playing a key role in addressing the development needs of the least developed regions in Turkey.

**Keywords:** regional policy, cohesion, institutions, governance, Turkey

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# 1 Introduction

The link between regional development and cohesion is not as straightforward as the EU policy agenda suggests, which uses the terms of “regional policy” and “cohesion policy” interchangeably. It is true that spatial inequalities in terms of economic growth and employment lead to poverty and exclusion, and severe regional disparities constitute major obstacles to poverty reduction. However, it cannot be taken for granted that any regional development policy will automatically lead to cohesion and poverty reduction.

This paper explores the extent to which the principles and practices of EU regional policy, as they apply to Turkey in its accession process, are playing and are capable of playing a key role in addressing the development needs of the least developed regions in Turkey characterised by high levels of poverty and social exclusion. To this end, it firstly discusses the contradictions involved in the objectives of EU regional policy, in particular the relationship between growth, competitiveness and cohesion. This is followed by an examination of how the objectives of cohesion and poverty reduction relate to institutions and governance, and the role EU regional policy can play in this respect. The paper then analyses the actual and potential impact of adapting to the EU in terms of territorial organisation/regional development policy and institutional adaptation both at the national level and at the level of a specific backward region, namely the Southeast Anatolia.

## 2 Regional Development and Cohesion

The implications for cohesion of a regional development policy can be understood in the context of the theoretical principles that underlie the latter. In contrast to neo-classical growth theory (Solow, 1956), which predicts that inequality in economic development, in response to market integration for instance, will be eventually equalised through an efficient allocation of resources with diminishing marginal returns to factors of production in more developed areas and the flow of capital to poor regions due to higher rents, the EU regional policy is informed by a thinking that the impact of market integration on less developed areas would not be positive. This thinking found its expression in the formation of a regional policy in 1988 at

the European Community level, which complemented the decision to create a Single Market in 1986.

The principles embedded in the new regional policy of the EU reflected the shift in the regional development paradigm that took place during the 1980s in the developed world (Bachtler and Yuill, 2001). Even though the shift has not been complete, the “old” regional development policies of the 1950s and 1960s can be characterised in general as centralised in conception and administration, mostly relying on macroeconomic policy and interventionist measures to divert industrial activity from one region of the country to another. Regional policy remained largely standardised, based on location factors and subsidies to firms.

The emerging paradigm in the mid-1980s, in contrast, is based on an institutionalist perspective on regional development or “new regionalism” (Amin, 1999; Cooke and Morgan, 1998; Scott, 1996). New regionalism sees territorial agglomerations of economic activity as providing the best context for an innovation-based economy (Asheim, 1996) generating dynamic efficiencies in the form of learning and capacity for innovation (Porter, 1996). There is an underlying functional link between agglomeration, urbanisation and development, which emphasises the developmental potential of cities and regions because they are the loci of intense positive externalities in the context of globalisation (Scott and Storper, 2003). It is endogenous endowments, or “untraded interdependencies” that are cultural and institutional which determine how well agglomerations function and contribute to economic development (Storper, 1995).

Informed to a large degree by the principles of new regionalism, EU regional policy seeks to mobilise the endogenous potential of the less developed regions in order to enable more autonomous and less dependent sustainable regional development. It treats regions as systems of innovation and favours bottom-up, region-specific policy actions based on regional governance. Hence, the change in the strategy of development (Bachtler and Yuill, 2001) puts the emphasis on the regional and local levels of government in the formulation and implementation of regional strategies.

The theoretical underpinnings of the EU regional policy suggest that it is not sufficiently capable of addressing the complex dimensions of poverty and social exclusion that may exist in a less developed region, despite the objective of “harmonious development” of the Community in the Treaty of Rome and the

insertion of the title “Economic and Social Cohesion” in the Single European Act of 1986 through the reduction of regional disparities.

Since the late 1980s, the emphasis of the EU has been on upgrading knowledge and increasing technology diffusion at the regional level as the most efficient route to economic growth (CEC, 2001a). Knowledge-based factors, such as clustering of economic activities, are acknowledged as fostering economic competitiveness and as the main drivers of economic development (CEC, 1999d; 2001a). However, it is not clear how backward regions, suffering from lack of human resources and funding, can foster development based on knowledge and innovation, and how they can update training and education skills, not to mention the difficulty involved in attracting investors to a region with incomplete physical infrastructure (Dulupcu, 2005). It is difficult to identify factors that promote competitiveness in the least developed regions in the new member states of Central and Eastern Europe and in the candidate countries including Turkey.

The new Community Strategic Guidelines outlining the priorities for Cohesion policy in 2007-2013 (CEC, 2006a) set a framework for new development programmes to be supported by the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund, which together constitute the Structural Funds, the main instrument of EU regional policy in the new period. Accordingly, the key test for regional policy programmes in the future will be their contribution to growth and jobs in line with the renewed Lisbon agenda originally launched in 2000 to make the EU the most competitive knowledge-based economy by the year 2010. Regional policy will be the main instrument in the realisation of the EU’s ambition to become “an area of high growth, competitiveness, and innovation” and “a place of full employment and higher productivity with more and better jobs” (CEC, 2006a).

It is true that the Lisbon European Council of March 2000 included “greater social cohesion” in its objectives (EU, 2005) and the new Constitution includes territorial cohesion in addition to economic and social cohesion as the main objectives of EU regional policy. Moreover, the EU regional policy emphasises investments in health and education and especially investments in human capital through the ESF, which specifically targets disadvantaged groups, such as unemployed youth, women and disabled.

However, it can be argued that “the EU is systematically designed to secure ‘economic efficiency’ ahead of ‘socio-spatial equity’ even if its rhetoric suggests that it affords them parity of esteem” (Morgan, 2004: 878). The Lisbon agenda emphasises the importance of cohesion, yet its ultimate objective - competitiveness in a knowledge-based economy - implies policies that build on existing agglomerations to expand high-tech, knowledge-based economic activity. Moreover, the policies of the ESF lack an explicit social citizenship dimension defining “*eligible* (but not *entitled*) policy beneficiaries” in assisted areas (Anderson, 1995: 127).

In the EU, there is an absence of universally agreed criteria for determining “cohesion” or a lack of it. The problem remains as to who is going to decide what an acceptable or unacceptable degree of disparities is. Such a view clearly depends on one’s political ideology and is subject to change over time. While the progress reports measure economic and social cohesion primarily in terms of convergence between member states and regions mainly with regard to GDP per capita, rates of growth, levels of unemployment and productivity (CEC, 2004a, 2005, 2006b), the Commission’s view on cohesion was provided by Hall et al. (2001: 5) as:

*[...] inequalities between countries, and particularly between the so called Cohesion Four (Greece, Ireland, Portugal and Spain) and the rest of the Union; inequalities between regions within the EU; and inequalities between individuals (“social cohesion”). [...] Greater cohesion implies that incomes, employment, and economic opportunities grow faster for groups in weaker areas with low incomes than for groups in richer areas with high incomes.*

From this definition, it can be seen that there are different territorial levels to which cohesion can refer (inter-national, inter-regional and intra-regional), and the objective to achieve cohesion at one territorial level can conflict with the objective of cohesion at a different territorial level. As Eriksson (2005: 30-31) draws attention to the emerging growth poles accompanied by increased regional disparities in the new member states of Central and Eastern Europe, “the link between convergence, competitiveness and cohesion is not self-evident”. The Sapir report on EU regional policy (Sapir et al., 2003 cited by Eriksson, 2005: 35) states that regional disparities within countries may emerge at the same time as convergence between countries takes place as a result of EU regional policy and that this can be mitigated by social policies. However, in the EU, the domain of social policies is under member state control.

As Morgan (2004) argues, “new regionalism” and the Lisbon process set a too “economistic” and “narrow” agenda for economic development when compared to the Millennium Development Goals agreed in 2000 by the United Nations (UN) focusing on quality of life considerations in the poorest countries of the world. Based on an observance of the regional economic development taking place in Wales for the last 50 years, which did not improve the state of public health, Morgan (2004: 884) argues that goals such as jobs and income should become “*instrumentally*” significant while health, well-being and education should become “*intrinsically*” significant.

A growth-led paradigm cannot in itself address complex forms of poverty and social exclusion. Such efforts usually concentrate on the most productive forces within a region with some group of people disproportionately benefiting from the process at the expense of another group of people who suffer from poverty, social exclusion and de-skilling of the labour force. Many of the poor are excluded from directly sharing in the benefits of growth through lack of labour or other assets (Cook, 2006). In order to achieve social cohesion, defined as reducing inequalities between individuals, “fixing the economy” in itself cannot be sufficient; it is more important to get the “social fundamentals right” (Beauvais and Jenson, 2002).

### 3 Institutions and Governance

The causes of poverty are complex and have multiple dimensions in the form of “social, political and cultural disempowerment” (Prakash, 2002: 53). It is, therefore, not enough to address issues of income. The notion of social exclusion refers to a shift in the meaning of the term from class inequality and lack of resources to “a broader insider/outsider problem” (Andersen and Siim, 2004). While the term poverty only refers to the material elements and aspects, social exclusion is a more encompassing multidimensional term that not only includes material elements but also social and political elements in the form of “inadequate participation, lack of social integration and lack of power” (Room, 1995). Lack of participation in political and civic life is part of political poverty, which is very closely connected with other forms of poverty. Therefore, for living conditions of the socially excluded to change their mobilisation is required (Oyen, 2002).

Social exclusion is increasingly couched in terms of human and citizenship rights. Extreme poverty is a violation of human rights in that it prevents the implementation

of all other human rights (Fournier, 2002). The rights based approach emphasises both economic and social rights, i.e. rights to freedom from want and civil and political rights. Freedom from want cannot be separated from people's right to make their voices heard and their right to participate (Fournier, 2002). The inclusion of the poor and their participation is also "part of the broader issue of addressing the restricted citizenship of people who are poor. It also signifies respect for people; [...] recognition of their expertise in their own experience" (Beresford et al., 1999: 27). That is why the Human Development Report 2000 identifies "a life of respect and value" as a key aim of human development (UNDP, 2000). In the rights based approach, poor people have to be empowered to demand services and participate in the design, provision, and evaluation of these services, which requires an abandonment of paternalistic practices and social accountability from the authorities (Solimano, 2005).

Therefore, social assistance and protection programmes may not be sufficient in addressing these complex dimensions of social exclusion. What is required is the adoption of policy approaches that go beyond "alleviation of economic deprivation to overcoming discrimination, protecting the rights of all citizens, and guaranteeing them meaningful voice and participation in economic, social and political life" (Cook, 2006: 69). Decentralisation of governance and access to participatory political institutions form part of the answer (Prakash, 2002). Citizen participation is not an alternative to state programmes and policies, but rather a prerequisite for their implementation in a more efficient and equitable manner (de Oliveira, 2002). The World Bank stated in 2002 that one lesson they learnt from their experience was that "without strong local ownership" programmes could not be successful (World Bank, 2002). This draws attention to the constellation of institutions, the issue of governance and the participation of stakeholders.

The challenge for development practitioners and policymakers is to design political institutions that enable the political empowerment of the poor and allow them to collectively organise for themselves (Prakash, 2002; UNDP, 1997). A key task in this sense is to make sure that the activities of the poor not only "reach out" but are also "scaled up", i.e. linkages are built between the poor and the powerful in formal institutions (Woolcock, 2002). If we accept that the involvement and commitment of the poor is necessary for the success of development policy, then building democratic processes in which public officials and the most marginalised and the poor engage in interaction and co-operation acquires significance.

In designing political institutions that aim to empower the poor and solicit their partnership in overcoming poverty and social exclusion, theories of deliberative democracy can provide a framework in which to address the issue of the increasing exclusion of the poor from the democratic process. Deliberative democracy perceives the democratic process as the “creation of common understandings and values through communicative dialogue” (Ulrich, 2004: 52). For Habermas (1996), “the central element of the democratic process resides in the procedure of deliberative politics”. Deliberation takes place under circumstances of reasoned reflection and mutual willingness to understand the values, perspectives and interests of others, which introduces the possibility of reframing interests and perspectives in the light of such deliberation. Dryzek and Braithwaite (2000) emphasise that it is “authentic deliberation” that provides democratic legitimacy and, hence, ensures broader support for political outcomes, which are more rational. A key characteristic of deliberative democracy is participation by citizens on an equal basis, and a key aspect of the process is that decision-making is “talk-centric” rather than “voting-centric” (Steiner et al., 2004).

Based on arguments that the conditions under which deliberation takes place in the theory of deliberative democracy refer rather to an ideal world, the extent in which the poor can meaningfully participate in deliberative processes has been questioned. It has been argued that by not taking into account “the structures of power” and “structural inequalities” democratic processes may actually favour the interests of more powerful agents (Levitas, 1998; Young, 2001). Lister (2004: 132), for instance, refers to participatory initiatives in the UK with the aim of fighting poverty where participation consisted of “superficial consultation exercises” or meetings in which politicians would leave as soon as making their speeches, which left people exploited rather than empowered.

These criticisms point to the need to understand the less visible dimensions of power in the form of the ability to draw up agendas and constrain the range of alternatives to be considered and the ability to define the terms of debate (Lukes, 1974). Authentic deliberation, in contrast, implies being “able to follow a discussion where it leads rather than being artificially constrained by rules about what can be discussed or what cannot be changed”, and being able to challenge assumptions and the status quo (Innes and Booher, 2003: 38). Thus, deliberative processes are not just about outcomes but equally about finding institutional designs that “generate trust” among mutually interdependent actors (Hajer and Wagenaar, 2003: 12). Active participation in

deliberative processes and problem solving increases the capacities of individuals and engenders trust.

Forester (1999: 218) argues that Habermas can help better understand these processes through his notion of political and communicative interaction, which draws attention to its vulnerabilities and its socially constructed character. He stresses the need to design deliberative processes that attend systematically to citizens' needs for recognition and support, and then public interaction and action, processes in which each person appreciates the histories (or in other words the suffering) of others (Forester, 1999: 217). The work edited by Fung and Wright (2003) explores the success of five innovative experiments in different parts of the world in "empowered deliberative democracy", which shows the possibility that people in the lowest strata of society can influence policies by engaging in deliberative processes. However, institutional design is no simple task. Baiocchi (2003) in the same volume shows how different aspects of deliberative democracy, pertaining to the interface with civil society and the capacity of municipal authorities to carry out this experiment, have been under theorised.

While a comprehensive assessment of the theory of deliberative democracy is beyond the scope of this paper, deliberative processes provide a useful framework within which to evaluate the governance impact of EU regional policy on centralised candidate countries. A key element of both new regionalism and EU regional policy is the emphasis placed on the regional and local levels in the formulation and implementation of development policies. In the EU, this has led to innovative approaches in the policy process based on multi-level governance (Hooghe and Marks, 2001). Multi-level governance is both a concept and a requirement on the part of the EU based on the participation of a variety of actors including different territorial levels (local, regional, national and the EU) and socio-economic groups and voluntary organisations with the aim of mobilising civil society in the development process (CEC, 2001b).

Since regional development plans have to be tailored to the unique circumstances of each region, their formulation requires the involvement of local stakeholders in a collaborative process. At least in theory, therefore, there is a possibility that in centralised countries, where they are introduced, these processes may lead to "experiments in deliberative democracy" at the local and regional levels with the participation of the most disadvantaged and the poor, targeting their needs. Thus, the

trend towards multi-level governance can change the “power matrix” through the mobilisation of new actors and create pressure for the political participation of the socially excluded (Andersen and Siim, 2004: 2).

The shift from government to governance is related to the fact that many pressing problems in today’s globalising world are too complicated and contested to be addressed by centralised control and administration. Deliberative processes, on the other hand, offer participatory and pragmatic problem-solving approaches to these complex issues. The implication of this shift to governance, and the socially constructed nature of deliberative processes as indicated by Habermas, for planning is the acknowledgment of the problematical nature of the “epistemic notion of certain, absolute knowledge, and its practical corollary of command and control” in concrete situations (Hajer and Wagenaar, 2003: 24). Since political exclusion can be hidden behind the veil of “objective’, rational science” (Nickum, 2001), there is a need to integrate poverty reduction, human well-being and the development of stakeholder participation in regional development policy and planning. Thus, state and governance forms play a key role in the objective to achieve social cohesion, defined in terms of both reduction in disparities, inequalities, and social exclusion, and the strengthening of social relations, interactions and ties.

## 4 EU Regional Policy and Turkey

As a candidate country to join the EU, Turkey has to comply with certain institutional preconditions in order to have access to EU regional assistance with the aim to reduce regional disparities. Following the drawing up of the first Accession Partnership document in 2001, Turkey has been in the process of aligning itself with the EU Structural Funds regime, the pace of which has been subject to political developments.<sup>1</sup> The implications of Turkey’s adaptation to the EU regional policy can be examined in two broad dimensions: in terms of territorial organisation and regional development policy; and the challenge of establishing a competent network of actors and institutions with responsibility for coordinating and managing regional policy and programmes.

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<sup>1</sup> See Ertugal (2005).

## 4.1 Territorial Organisation and Regional Development Policy

One of the most important implications of adjusting to the EU in the area of regional policy has been the introduction of a territorial dimension in Turkey; since the location of the poor is important and they need to be reached through programmes. Turkey needed to propose a NUTS<sup>2</sup> classification in accordance with European Community rules, in particular for the NUTS2 level, which plays an important role in the implementation of the EU Structural Funds. The administrative breakdown in the form of provincial units is too small in size to have the administrative or economic capacity to carry out regional policy in accordance with EU rules. Hence, the law establishing 26 new regions to form the provisional NUTS2 classification was passed in September 2002 (CEC, 2003). The new provisional NUTS2 regions assemble 81 provinces into groupings with geographical or economic similarities.

The territorial dimension facilitates the possibility of, or potential for, integrating disparate programmes aimed at economic growth, social development and poverty reduction. Since 1960, national development plans in Turkey have been prepared according to a sectoral logic with the priority of national industrialisation. In the sectoral planning approach, the plans are made to encourage the growth of certain sectors only without any consideration of regional or sub-regional dimensions and without making any links between different spaces. The incentives scheme was thus oriented towards businesses, which would contribute to sectoral targets, rather than on the basis of encouraging development in the least developed regions (Dericioğlu, 1989). These national plans have predominantly focused on economic measures; and it is only recently, with the 8<sup>th</sup> Five Year National Development Plan (2001-2005) (SPO, 2000), that poverty alleviation started to feature in the policy agenda.

While experiencing growth, Turkey is constrained by debt, low government revenues and high levels of need in the least developed regions, which have important implications for anti-poverty policies. Economic growth in Turkey averaged close to 5 percent per annum from 1980-2005.<sup>3</sup> In the last four years, growth has accelerated, averaging 7.5 percent. However, the unemployment level is quite high at more than

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<sup>2</sup> *Nomenclature of Territorial Statistical Units in the EU.*

<sup>3</sup> *Source for economic indicators: Turkish Statistical Institute (<http://www.tiie.gov.tr>).*

10 percent according to official figures. GDP per capita income, on the other hand, is relatively low, lower than that of the new member states of Central and Eastern Europe. The share of the industry in total value added is at 25 percent, whereas agriculture accounts for 11 percent of value added in Turkey and of the 23 million workforce, 35.6 percent are employed in agriculture, many in subsistence farming in the very poor East and Southeast. In transforming its agricultural economy, Turkey is facing challenges in finding employment for its young population. In terms of food and non-food expenditure, 28.1 percent of the approximately 70 million people live in poverty as of 2003. Socially excluded in Turkey are particularly those working at temporary or insecure jobs, especially in the agricultural sector, uneducated, women, children, elderly and disabled.

Behind these national average figures, there are very wide regional disparities in Turkey. The GDP per capita in 2001 was highest in the three regions in the Western and Northwestern regions, which were up to 150 percent of Turkey's average income. The GDP per capita in the poorest three regions of Turkey in the Eastern and Southeastern regions, however, accounted for only 40 percent of Turkey's average income.<sup>4</sup> Moreover, income in Turkey's poorest regions is around 9 percent of the EU-15 average income and around 11 percent of the EU-25. There is a broad West-East divide referring to the discrepancy between the more developed and prosperous Western Turkey and the under-developed, impoverished Eastern Turkey. The main centres of economic activity are located in the Western part, benefiting from trade with the rest of the world, large-scale tourism, a higher level of investment and better infrastructure endowment (CEC, 2004b: 37-38).

The implication of adjusting to the EU's NUTS system is, therefore, positive for Turkey in the sense that it potentially allows for a systematic consideration of the regional distribution of poverty and the possibility of drawing synergies between growth and poverty reduction policies at the regional level. Given the extent of regional disparities in Turkey and large differences in the economic, social and demographic characteristics between different areas, the introduction of a territorial dimension focusing on the regional scale, albeit determined by the statistical classification of the EU, may contribute towards the formulation of policies that take these differences into account and address development gaps. Region-specific social impact assessment, mapping of poverty, analysis of human development and other

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<sup>4</sup> Available at <http://dpt.gov.tr>.

indicators may provide insights into the targets of poverty reduction (Dabholkar, 2001). One reason why national development strategies “often do not get implemented is that their spatial and land-use implications are not delineated in specific geographic contexts” (CEC, 2004b: 23).

Additionally, the introduction of a regional scale and regional programming may provide an opportunity to link short-term social assistance and crisis relief to long-term enhancement of natural resource and labour productivity. In Turkey, economic growth efforts have not been integrated with efforts to provide welfare transfers to the needy. Rather, the Social Assistance and Solidarity Fund, which has come to assume almost all social responsibilities on behalf of the state with respect to the poor, provides for immediate and urgent relief instead of continuous or regular support. Social assistance as such in Turkey is considered as charity rather than a social right (UNDP, 2004).

One of the ways in which to build linkages between economic growth and poverty reduction is through growth that disproportionately favours regions where the poor live and uses the factors of production that they possess, which is labour (Klasen, 2003). Khan (2001) shows the successful experience in Bangladesh, which is based on social mobilisation and organisation of the poor. While the introduction of a bottom-up approach to regional programming in Turkey offers an opportunity for local and regional stakeholders to influence the formation of regional strategies with a view to generating growth from which the poor can derive disproportionate benefit, the economic growth agenda of the EU, based on the Lisbon process, is not particularly conducive to achieving this outcome.

Although still lacking comprehensive regional development strategies, Turkey’s official policy documents increasingly reflect the rhetoric of the EU. For example, the Medium Term Programme (SPO, 2005) for 2007-2009 emphasises the need to increase the contribution of regions to national development, competitiveness and employment creation by developing human resources, social capital, vocational skills and entrepreneurship. In the same vein, the 9<sup>th</sup> National Development Plan for 2007-2013 (SPO, 2006) states competitiveness, employment creation, human development and social solidarity, and regional development as its main aims. Policies will support innovative, competitive, and high value added, leading sectors in the regions and develop human resources and social capital as a way to foster specialisation. In centres that have high development potential, access to new technologies and innovation will

be fostered, technology transfer systems will be developed and an efficient R&D infrastructure will be formed. Typical policy instruments will consist of science parks, technology transfer centres and incubators (SPO, 2006).

The emphasis in these official documents on the knowledge-based economy and innovation will inevitably direct policies towards expanding agglomerations in high-tech activities. Within the available options provided in Turkey's official documents, it is difficult to find policy solutions for promoting economic growth that disproportionately favour both the backward regions and the poor living within those backward regions, which are suffering from a lack of human capital, insufficient physical and social infrastructure, and subsistence agriculture. Reliance on endogenous growth, based on the mobilisation of local resources and private investment, is not sufficient for poor regions where locally available resources are scarce. To give an indication, for Turkey overall, 67.3 percent of the labour force as of 2005 consists of those whose education is below high school level or illiterate. Those who have finished higher education constitute 8.8 percent of the labour force (SPO, 2006). Hence, the finance and delivery of services to poor regions for infrastructure, human capital or poverty reduction requires significant resource transfers, for which state resources are essential (Cook, 2006). While the EU provides financial assistance for these purposes in the pre-accession period, the amount of funding that is available to Turkey is minimal – €1 billion in the last three years, equivalent to a mere 0.2 percent of its GDP.<sup>5</sup>

The second way in which the poor can benefit from growth is if it involves “public redistributive policies, especially via taxes, transfers, and other government spending” (Klasen, 2003: 68). Government spending can either aim to include the poor in economic growth; or it could provide the poor with safety nets transferring payments, which increase with the increase in economic growth. Klasen (2003) prefers the former to the latter but, at the same time, acknowledges the importance of safety nets in allowing the poor to take greater risks enabling them to become direct beneficiaries of growth. Effective redistributive processes are particularly important for Turkey, which is characterised by extreme levels of inequality.

There are two major reasons as to why the second method of benefiting the poor from economic growth, as proposed by Klasen, poses a major challenge in the

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<sup>5</sup> *Author's calculation.*

Turkish context. The first major reason is that Turkish politics is marked by a “populist” model of distributional and social policies (Boratav and Özuğurlu, 2006). Waldner (1999: 37) calls this type of polity “constituency clientelism”, referring to a system where payments to class constituencies buys political loyalty. Politics is “understood and defined as a strategy to build and sustain power by distributing material benefits generated by the state through clientelistic channels of interest mediation” (Cizre-Sakallioğlu and Yeldan, 2000: 500). Populist redistribution, instead of tackling income and wealth inequalities, in fact, evades distributional issues.

The second major reason has to do with populist measures reaching beyond sustainable limits during the 1980s and 1990s, with disastrous consequences in the form of financial crises, which brought the IMF and the World Bank as the major actors in macroeconomic policies. The solution of these international organisations to the impasse was to set increasing high targets on primary surpluses on the public budget leading to a crowding-out of social expenditures and social transfers (Boratav and Özuğurlu, 2006).

## 4.2 Institutional Adaptation

It is now widely established that in the absence of additional measures to ensure their participation the poor benefit less from regionally targeted programmes than the non-poor (Cook, 2006). Thus, despite the unfavourable policy agenda of the EU regional policy for growth that disproportionately favours the backward regions and the poor, the EU requirement to establish a regional level of institutions and network of actors can, in principle, provide for the possibility of intended beneficiaries to participate in the design, implementation and monitoring of regional policy. This can be achieved in two respects. Firstly, the establishment of a regional level implies a degree of decentralisation in an otherwise highly centralised country by getting closer to the citizens, which may serve further democratisation. Secondly, the state can promote the inclusion and participation of the socially excluded in the institutions to be formed at the regional level. Designed in this way, institutional arrangements can empower, protect rights and enable participation, which is necessary for growth that disproportionately favours the poor. However, historical legacies and pre-existing institutions do not easily permit the design of institutional arrangements with intended consequences.

The impact of the EU requirement to establish a regional level of governance in Turkey has been the adoption of a law in January 2006 for establishing Regional Development Agencies (RDAs) based on NUTS2 regions.<sup>6</sup> RDAs in themselves constitute novel forms of governance for Turkey. In terms of geographical size, Turkey encompasses an area almost as big as Germany and France combined. Despite its geographical size, however, a regional tier of government/administration has not existed in Turkey. The territorial organisation of the state traditionally consists of the central and local levels (provincial and sub-provincial). Historically, regional policies have not been given priority. Where regional development concerns emerged, these were addressed either through the State Planning Organisation (SPO) or other central government ministries with regional development responsibilities without the involvement of local or regional actors. For the most part, these measures tended to be on an *ad hoc* basis outside any comprehensive regional development strategy framework, with the exception of the Southeast Anatolia Project (GAP).

The proliferation in the number of territorial actors that take part in the formulation and implementation of regional programmes through the RDAs in Turkey, therefore, represents a shift, albeit an incremental one, from central command and control towards more participatory approaches. In Turkey's traditional planning approach, it has been assumed that the decisions taken are non-political and serve the interests of the whole public (Sökmen, 1996; Alpöge, 1994). In this approach, different preferences, interests and expectations encountered in implementation and the associated resistance become an external reality, outside of the planning process. From the authoritarian point of view, this multi-actor outside world becomes an enemy. Thus, whereas previous decisions about planning have been taken by a group of technical experts, with the establishment of RDAs, there will be more territorial levels involved. Moreover, the assumption about the "objective, rational" nature of the planning process is being challenged in favour of an acknowledgment of the political nature of the process.<sup>7</sup>

The institutional structure of the RDAs, as designed by Turkey's central authority, however, does not provide much scope for ensuring the participation of the poor on an equal basis with the state and non-state actors in the formulation of regional plans

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<sup>6</sup> *In the first stage, two RDAs are being set up in the relatively developed pilot regions of Izmir and Adana/Mersin. The establishment of RDAs for the rest of the regions will follow.*

<sup>7</sup> *Interviews conducted with the SPO, responsible for regional policy and planning, in 2003.*

and programmes, with the implication that the regional growth agendas are not likely to be designed in a way that will benefit the poor disproportionately. The decision-making organ of the RDAs – the executive board – will be composed of centrally appointed provincial governors, heads of locally elected provincial assemblies, elected mayors of metropolitan municipalities (or the mayors of municipalities in the provincial centres), and presidents of chambers of commerce and/or industry from each province. Where the RDA is based on a NUTS2 region that is composed of one province (such as Istanbul, Ankara or Izmir) then the executive board will additionally comprise three representatives from the private sector and/or civil society organisations, who will be elected by the development board.<sup>8</sup>

The role of the centrally appointed governors in the executive board as well as the supervisory role of the SPO over the RDAs in determining the latter’s performance are indications of the degree of central state control. Governors will act as the heads of the RDAs. The executive board will take decisions by majority vote, reflecting a “voting-centric” understanding rather than a “talk-centric” one. If the vote is split, then the vote of the governor representing the RDA will determine the result. The general-secretary of the RDA, who will be a specialist, responsible for execution, will have no right to vote. Moreover, the decisions of the RDAs taken in this manner and pertaining to the regional development strategies and programmes will be subject to the control of the SPO, which may or may not integrate these regional priorities to the national development plan as it sees fit.

The composition of the executive board in the RDAs also point to the role of the local administrations. Since the RDAs do not constitute a separate layer of administration but rather serve as platforms that bring together local institutions, with the state remaining the dominant player, regional development projects are likely to place greater discretion in the hands of local administrations. However, demands on local administrations, which suffer from weak human and financial resources especially in the backward regions, for facilitation and coordination may exceed their capacity to deliver.<sup>9</sup> Moreover, greater demands from local administrations may increase the scope for rents and corruption. It has already been observed that patron-client relationships embedded especially in municipalities in Turkey constitute

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<sup>8</sup> See *Law No. 5446 (2006)*.

<sup>9</sup> *Interviews with Diyarbakir Metropolitan Mayor and Sanliurfa Deputy Mayor (Southeast Anatolia region) in 2003. Also see UNDP (2004)*.

significant constraints in the way of ensuring the meaningful participation of civil society at the local level (Sengul, 2004). The partisan approach of municipalities in Turkey in the distribution of social assistance to the poor has been documented (Bugra and Keyder, 2005). Questions of transparency and accountability about the functioning of Social Assistance and Solidarity Foundations managed by government officials in the provinces, which provide social assistance to the poor, have also been reported (UNDP, 2004). Linking local-level participation with accountability and service delivery, as has been tried elsewhere, could have been an innovative approach<sup>10</sup>, but it was not adopted.

The composition of the decision-making organ of the RDAs, while emphasising the private sector in the form of chambers of trade and industry, does not make provision for the inclusion of the poor and the socially excluded. Even though provision is made for the representatives of NGOs in metropolitan regions, the poor and the socially excluded are unlikely to have the resources to get organised and, therefore, not likely to be included and represented by the NGOs. The implication of ensuring participation through organisations rather than individuals and the absence of a strategy to reach the non-organised sections of society is that the socially excluded are going to be excluded even further. In any case, NGOs do not have a place in the executive boards in the vast majority of the RDAs to be established, including those in the most backward regions. The inclusion of the private sector and the exclusion of the civil society in the decision-making organ is likely to lead to a policy agenda for regional development that is not favourable to achieving growth that directly benefits the poor.

The development board of the RDAs, although encompassing a wider membership (a maximum of 100 members) including the civil society, does not provide much scope for the poor to influence policies either. In addition to the problem of who will represent the socially excluded and the absence of any envisaged state intervention to organise the poor, the development council will be a purely consultative body. Envisaged to convene at least twice a year, its decisions will be subject to majority vote. Moreover, the purpose of these decisions will be merely to provide suggestions or advice to the executive board and, as such, they will not be binding. This reflects

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<sup>10</sup> See de Janvry et al. (2005).

an understanding of participation that takes place in shape, not in essence.<sup>11</sup> The structure of the RDAs, therefore, is far from providing the scope for reasoned reflection aimed at understanding the values, perspectives and interests of others or “authentic deliberation”. Moreover, they are not likely to lead to a significant change in the structures of power since the mechanisms provided for the inclusion of non-state actors allow for only superficial consultation. Through its power to judge the performance of RDAs and its influence in the selection of the general-secretary and the designation of the non-state actors who will be involved in the development boards, the central authority retains the ability to draw up agendas and define the terms of debate.

## 5 Economic and Social Cohesion in Turkey’s Southeast Anatolia Region

The implications of adapting to the EU regional policy for achieving economic and social cohesion in one of the least developed regions of Turkey can similarly be assessed in terms of territorial organisation and regional development policy, and institutional structures, albeit this time at the regional level.

Turkey’s Southeast Anatolia region comprises nine provinces with a population of 6.6 million. GDP per capita income in the region is around 47 percent of the national average income. The region’s contribution to the national GDP is 5 percent, which consists mainly of the value added created in the agricultural sector.<sup>12</sup> While poverty exists in every region in Turkey, it is much more concentrated in the regions to the east. According to unofficial estimates, 50 to 60 percent of the population in the Southeast Anatolia region live in poverty, which has become inter-generational (TESEV, 2006). Sixty three percent of the population live in urban areas and 37 percent live in rural areas. Between 1990 and 2000, the rate of population growth was 2.5 percent in the region compared to the national average of 1.8 percent. Forty one percent of the regional population is younger than the age of 14, with women,

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<sup>11</sup> *This understanding of participation in Turkey was articulated in the interviews conducted with several NGOs in Istanbul in the context of their relationships with local municipalities and in Diyarbakir and Sanliurfa (Southeast Anatolia) in the context of their relationships with the GAP Administration (see section below) in 2003. In the words of one respondent: “They ask for our opinion, but we can change only the wording or phrases; not make suggestions as to the essence, the way a law is being prepared, the thinking behind it.”*

<sup>12</sup> *Source for data: Turkish Statistical Institute (<http://www.die.gov.tr>).*

children and youth comprising the most disadvantaged groups. The regional unemployment rate is much higher than the national average, reaching unprecedented levels accompanied by an enormous gender bias. Approximately 44.4 percent of women and 18.2 percent of men are illiterate (Elmas, 2004).

Since the end of the 1980s, Turkey's biggest regional development project – GAP standing for Southeast Anatolia Project – has been implemented in this region with an estimated total investment cost of 32 billion US dollars, of which about 16-17 billion dollars or 50 percent has been realised. GAP originally consisted mostly of infrastructure investments in energy and irrigation, and only later developed a multi-sectoral approach. The establishment of the GAP Regional Administration, the only one of its kind in Turkey, in 1989 played an important role in the development of a social dimension.

The reasons behind the backwardness of this region, even despite the GAP investments, are many, ranging from economic and geographic to social conditions. However, political reasons stand out as perhaps the most important. The majority of people living in the region are Kurdish. One of the consequences of the armed fighting between the state security forces and the terrorist organisation PKK, fighting for secession, that has been going on for the last two decades, has been the death of an estimated 30,000 people and the forced displacement of more than a million villagers, who have had to migrate to urban areas. This has resulted in “rootlessness and loss of dignity” with “a strongly felt need for recognition of the suffering” (TESEV, 2006).

The most important implication of adapting to EU regional policy has been the division of this region into three NUTS2 regions with corresponding three RDAs to be established. The creation of new structures is likely to add to the already existing institutional complexity in the region. The new RDAs will co-exist with the GAP Regional Administration, which will co-ordinate the activities of the former, and other public investment institutions, which have been operating in the region to implement GAP investments. It is not clear what the relationship will be between the new RDAs and the public investment institutions; however, previous experience in the region suggests that it is unlikely to be an easy one. There are approximately 40 public investment institutions in the region, which have their own budgets. The GAP Administration, which does not have its own independent budget, has failed to co-ordinate the investments of these institutions, which can be seen in the fact that as of

2002 the sectoral realisation of GAP investments has been 18 percent in irrigation and 80 percent in energy even though it is investments in irrigation that are more beneficial for the regional economy. The possibility of a lack of co-ordination between institutions in the region that play important roles in the regional economy reduces the likelihood of effective regional development programmes.

Indeed, the GAP has failed to generate economic development and reduce poverty. Focusing on growth as the main indicator of material well-being, the GAP has not concerned itself with improvements in the distribution of income or enhancement of participation in decision-making. Consequently, the GAP could not be owned by the people in the region as their participation in decision-making and implementation has not materialised beyond rare and *ad hoc* information exchange meetings. The perception among people living in the region tends to be one of skepticism at best, which is illustrative of the deep distrust between the state and society in the region.<sup>13</sup>

In a political climate of mutual distrust between people and public officials in a region characterised by high levels of poverty, the RDAs as potential platforms for participatory planning acquire special significance for generating trust and a collective development effort focusing on the reduction of poverty. The institutional structure of the RDAs, that are yet to be established, constitutes an improvement when compared with the GAP Regional Administration in terms of facilitating participation since the GAP Administration is a deconcentrated arm of the central government, with its headquarters and most of its staff based in the capital Ankara. RDAs, thus, bring non-state actors through their executive and development boards as permanent features of the institutional landscape in contrast to the previous rare and *ad hoc* occasions.

Despite the improvement when compared with the previous period, the criticism levelled against the RDAs for excluding the non-organised interests gains even more validity in the Southeast Anatolia region. Historically, Southeast Anatolia is a part of Turkey where state penetration has been much more superficial than in other regions. Geographically, it is the most distant region from the centre and its mountainous terrain makes transportation and communication more difficult. In contrast to other regions in Turkey, land ownership is very unbalanced with 40.3 percent of the agricultural producers in the region not owning any land (GAP and KOOP, 2001:

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<sup>13</sup> *Interview with an NGO in Diyarbakir in 2003.*

13). In this quasi-feudal system, the few landowners deliver block votes for the political parties and get themselves or their candidates elected as local politicians.<sup>14</sup> The RDAs in their currently envisaged form, therefore, serve to legitimise the status quo rather than change the social structures of power.<sup>15</sup>

Additionally, civil society organisations in the region are very weak both in terms of representation and participation. Most of them lack the capacity to be able to influence policies and contribute to the formulation of programmes. The region is also weak in terms of producer organisations. The number of agricultural cooperatives, agricultural chambers and their members remain very low compared with other regions (GAP and KOOP, 2001). Therefore, in their currently envisaged form, EU-induced RDAs in the Southeast Anatolia region are not likely to improve the situation of the poor and may even lead to their further exclusion from political and, hence, economic and social processes.

Yet, the introduction of RDAs, informed by the principles of participation and partnership and providing potentially for structures that can embody these principles, represents an opportunity to the state and society in the Southeast for mutual recognition and empowered capacity to act in order to fight against poverty. These platforms can evolve in order to serve as “avenues for learning” through the recognition of the suffering of people as a result of war and poverty (Forester, 1999: 203). In this sense, implementing the right democratic framework based on the “social learning model of deliberation” as advocated by Kanra (2005), through the medium of RDAs, as a stage leading to the decision-making oriented deliberation can serve the institutionalisation of dialogue. One feature of the social learning model of deliberation is that there is no pressure to reach an agreement and, hence, there is a wider scope for understanding and learning among participants. Without recognition on the basis of equality and respect and in the absence of appreciation of one another’s histories and understanding of common vulnerabilities and aspirations, policies are bound to fail in responding to real needs.

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<sup>14</sup> *In this context it has been observed that regions, where individuals decide their own votes, can more effectively bargain to attract public services to their regions. However, in regions where voting is not determined by individuals but by primordial loyalties and considerations, politicians can easily find ways of winning these votes without shifting public services to these regions (Tekeli, 1989).*

<sup>15</sup> *It is argued that a social movement, which originated from social conditions (lack of land ownership and political powerlessness against the few land owners), transformed into an ethnic-based (Kurdish) and separatist violent movement due to state policies that ignored this problem (Keyder, 1996: 106-111).*

The key actor in facilitating these processes is the state. In the absence of political commitment on the part of the central authority to regulate power relations in social life so as to limit the possibility of domination and to transfer state resources, the objectives to reduce inter-regional disparities and achieve regional development in the backward regions that disproportionately benefits the poor cannot be realised. State support has been one of the essential factors in the success of the small-scale socio-economic development projects, aimed at poverty alleviation, implemented in the region by the GAP Administration with UNDP funding. The results of these projects, which targeted women, youth and children and aimed to increase their organisational capacity and opportunities for employment, varied from province to province depending on the degree to which (deputy) governors understood the needs of the targeted groups and adopted the principles behind such projects and, hence, provided their support.<sup>16</sup>

The GAP, which has failed to ensure participation in its programming despite the rhetoric to the contrary, has not addressed the real needs of the people in the region. While a disproportionate share of public investments went to the energy sector, investments in health and education lagged behind. A human and social dimension developed later in the mid-1990s with the GAP Administration. However, even then, the amount of state resources allocated for this purpose remained meagre.<sup>17</sup> Within the framework of the pre-accession process, the EU provided €47 million of grant money for a five-year duration focusing on cultural heritage, rural development and SMEs. However, clearly, this is far away from being adequate for a serious development effort that aims to eradicate poverty.

## 6 Conclusion

This article identified the extent to which the principles and practices of EU regional policy, as they apply to Turkey in its accession process, are playing and are capable of playing a key role in addressing the development needs of the least developed regions in Turkey, characterised by high levels of poverty and social exclusion. Based on an

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<sup>16</sup> *Unpublished Report (2006).*

<sup>17</sup> *Twenty eight Multi-Purpose Community Centres for women (ÇATOMs) were set up instead of the target of 67 due to lack of resources, despite the difference they make in the neighbourhoods where they are established. For enterprise support (GİDEMs), there has been no finance. At the moment, they are financed by the EU and previously, they were financed by the UNDP.*

analysis that differentiates between policy and polity, the article argues that while the policy agenda promoted by the EU regional policy is not favourable for addressing the needs of backward regions in Turkey, the institutional requirements for benefiting from the EU's Structural Funds may potentially provide, through regionalisation, more democratic platforms that enable the participation of the socially excluded in the formulation and implementation of regional programmes and the possibility of integrating policies aimed at poverty reduction and economic growth at the regional level, in an otherwise extremely centralised country. However, so far, the newly created institutions in Turkey, for compliance with the EU, do not facilitate deliberative processes and participation of the excluded, but rather reinforce their exclusion and do not disturb the status quo in terms of social power structures.

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# Regional Aspects of Agriculture

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## Abstract

Prevention of depopulation in remote areas has traditionally been an important political goal in Western-European societies. This may be rationalized as follow: If the density of the population in an area drops to very low levels, the cost of providing basic infrastructure may become prohibitively high. As long as total depopulation is undesirable, this is an argument for keeping the population density above some critical level. The most efficient way of achieving this goal would seem to be some general income support to all inhabitants in remote areas or a general wage subsidy to all industries and not support confined to a single industry. This paper introduces a method for incorporating information on the willingness to pay for regional activity in the objective function of a price-endogenous, mathematical programming model for the agricultural sector of Norway. Optimal levels of support, production, land use and activity in various regions are calculated. Our conclusion is that regional preferences do not affect the national activity level of agriculture, but affect the distribution of the activity level between regions.

**Keywords:** agricultural policy, optimal regional policy, applied general equilibrium model, public goods, WTO-conform rules

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# 1 Introduction

It is widely accepted that there are externalities and public goods related to agricultural activity, such as the amenity value of the landscape, food security, preservation of rural communities and rural lifestyle (cf. Winters, 1989-1990; OECD, 2001). What implications these externalities should have for national agricultural policy, is a less settled issue. What support levels can be defended by the so-called multifunctional role of agriculture, and what policy instruments are efficient? In the ongoing WTO negotiations, for example, many high cost countries use the multifunctional aspect to argue for continued high support levels, even in the form of tariffs and output subsidies. Low cost countries reject such arguments as protectionism. The latter view finds support in a recent contribution from Peterson et al. (2002), who derive the efficient set of policies for a multifunctional agriculture, and show that efficiency cannot be achieved through output subsidies.

This paper offers an empirical contribution to the multifunctional aspect of agriculture. In Brunstad et al. (1995a) a numerical model was applied to compute what Norwegian agriculture would look like if the only purpose of support was to provide food security. Compared to the actual activity in agriculture, the analysis indicated a decline in employment and land use of about 50 percent. In Brunstad et al. (2005) we added landscape preservation as an argument and discussed optimal policy when food security and landscape preservation are simultaneously taken into account. We found a high degree of complementarity between these public goods in the sense that supplying one of them more or less automatically would lead to supply of the other.

In this paper, we consider rural viability. To what degree is rural employment and settlement a public good that can justify agricultural support, and what policy instruments are efficient? Based on a discussion of these issues within the model framework of Brunstad et al. (2005), we implement rural viability as the third public good, besides landscape preservation and food security, and consider how the optimal policy and production pattern change. Complementarities in the supply of the public goods are investigated, e.g. are the same policy instruments efficient with respect to more than one public good, and which public good seems to be dominant.

Note that the focus is on high cost countries like Norway. At pure free-trade equilibrium with no subsidies, essentially no food would be produced domestically. The levels of agricultural public goods would, therefore, also be close to zero.

In section 2, we demonstrate some basic principles on landscape preservation, rural viability and food security. In section 3, these principles are elaborated into a richer model. A willingness to pay function for landscape preservation and rural viability are incorporated into a sector model for the agricultural sector in Norway. In section 4, the model is employed to discuss the optimal policy and supply of public goods when cost complementarities are considered. Section 5 offers concluding remarks.

## 2 Public Goods in Agriculture

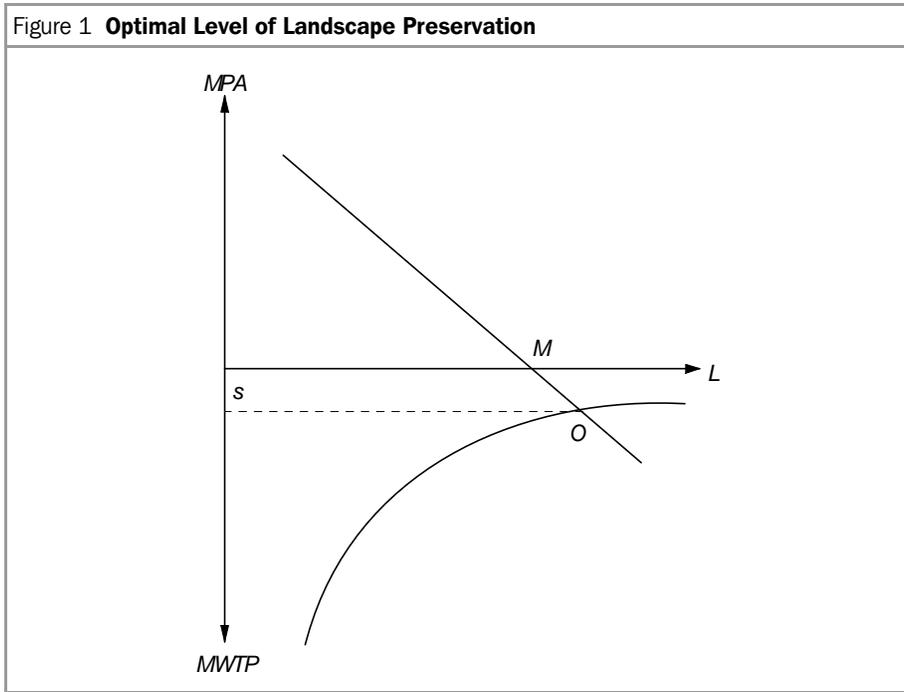
In this section, we argue that agriculture in certain respects provides services to the community that have the character of public goods.

### 2.1 Landscape Preservation

Compared to the competitive equilibrium, a positive valuation of the agricultural landscape is an argument for increasing the activity in the agricultural sector. How much the activity should increase depends on the willingness to pay,  $WTP$ . This point is illustrated in Figure 1. The horizontal axis represents land use,  $L$ , which is a measure of the level of agricultural activity. In the upper half of the figure, the marginal profitability of agriculture,  $MPA$ , is pictured.  $MPA$  is derived under the assumption that no government support is given, and that perfect competition prevails in the domestic as well as in the international market. Since we are looking at a small country, this means that commodity prices are determined by the world market. Naturally,  $MPA$  decreases with land use. In competitive equilibrium  $MPA$  is zero, marked as point  $M$ . In the lower half of the figure we have drawn the marginal willingness to pay,  $MWTP$ , for landscape preservation.  $MWTP$  is large when the agricultural activity is low (agricultural landscape is scarce), and diminishes with increased agricultural activity. The optimal solution is found where

$$-MPA = MWTP,$$

marked as point  $O$ . To reach this point a subsidy per unit of land equal to  $s$  is called for.



For the exact formula for willingness to pay, we follow Lopez et al. (1994) and assume:

$$WTP = E[LP]^{\varepsilon_1} . \tag{1}$$

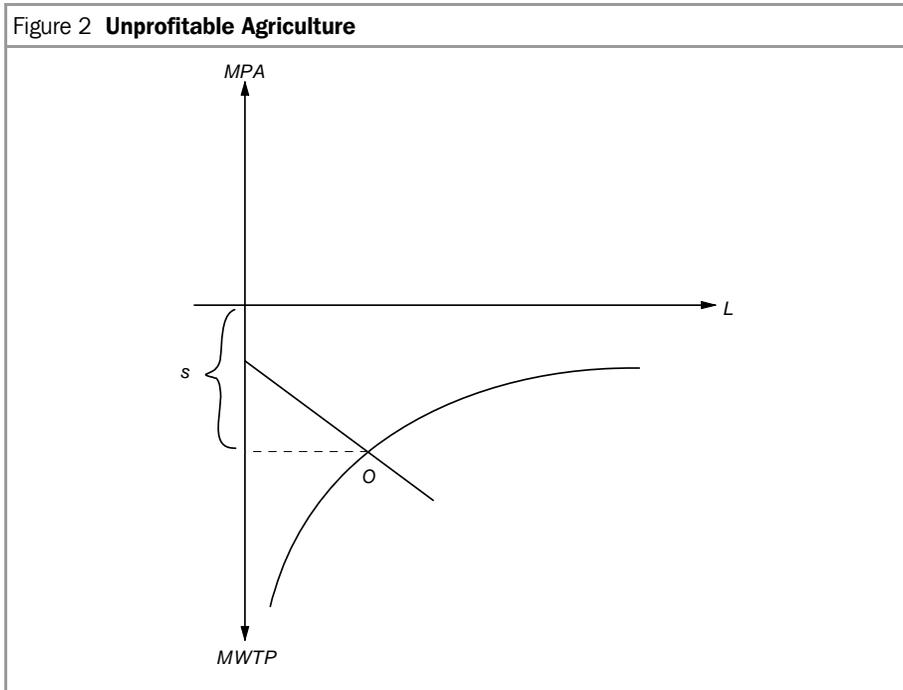
$E (>0)$  is a constant,  $LP$  is an index of amenity enhancing agricultural land which we assume is equal to the use of land for agricultural production,  $L$ .  $\varepsilon_1$  reflects the marginal willingness to pay for landscape preservation. If we assume  $\varepsilon_1 < 1$ , the function (1) is concave. Based on (1),  $MWTP$  is simply:

$$MWTP \equiv \frac{\partial WTP}{\partial L} = \varepsilon_1 EL^{\varepsilon_1 - 1} .$$

Figure 2 illustrates the case where agriculture is unprofitable even at low activity levels. The agricultural sector in some highly industrialized countries such as Finland,

Norway, Switzerland, and Japan, can serve as examples. Without support, agriculture will vanish.

Due to positive external effects, some farming will still be desirable from the society's point of view. At lower levels of land use, total *WTP* clearly exceeds the necessary support. The optimal size of agriculture is marked as *O*.



### 2.1.1 Regional Aspects of Landscape Preservation

Lopez et al. (1994) estimated (1) based on information from four U.S. communities. They also controlled for size of population and income; i.e:

$$WTP_i = B_i L P_i^{\epsilon_1} P_i^{\epsilon_2} Y_i^{\epsilon_3} \quad (2)$$

Here *i* is an index over communities, *P* is population, and *Y* is income per capita. If landscape is a public good,  $\epsilon_2$  should be positive. A pure public good implies  $\epsilon_2 = 1$ , while a pure private good requires  $\epsilon_2 = 0$ . Finally, we would expect the income elasticity to be rather high, implying  $\epsilon_3$  to be well above 1.

Lopez et al. (1994) arrived at the following estimates:  $\varepsilon_1 = 0.172$ , implying that the marginal willingness to pay is strongly decreasing,  $\varepsilon_2 = 0.796$ , implying that landscape is rather close to being a pure public good, and  $\varepsilon_3 = 3.877$ , confirming that the income elasticity is high. However, it is important to note that even if these estimates confirm prior beliefs, they are based on only four communities, and should therefore be used with considerable care.

## 2.2 Prevention of Depopulation in Remote Areas

Prevention of depopulation in remote areas has traditionally been an important political goal in Norway. This may be rationalized as follows. If the density of the population in an area drops to very low levels, the cost per capita of providing basic infrastructure may become prohibitively high. This means that prevention of depopulation in remote areas is an example of a local public good.<sup>1</sup>

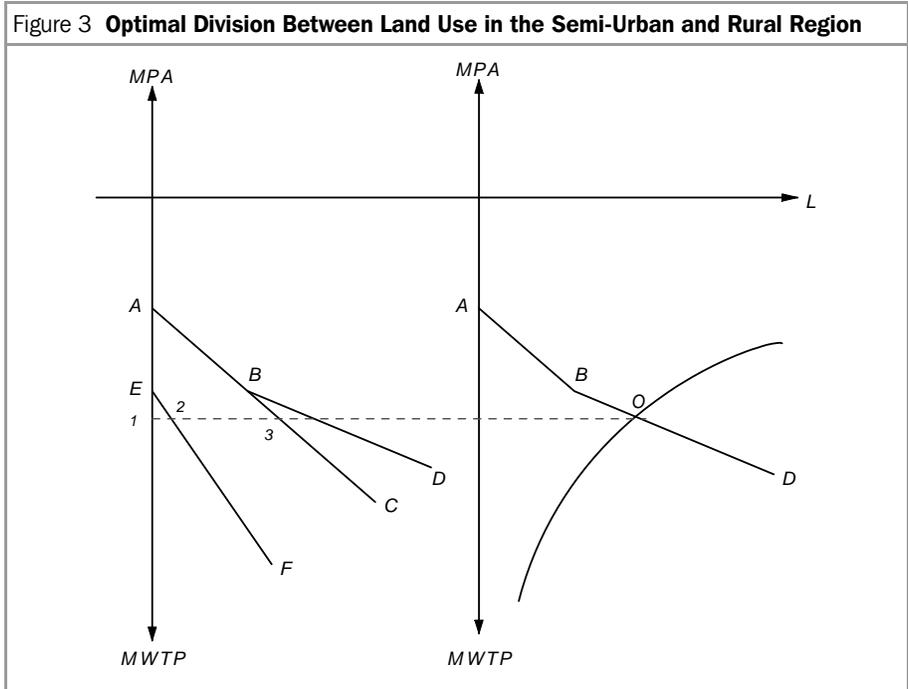
As long as total depopulation is undesirable, this is an argument for keeping the population density above some critical level. The most efficient way of achieving this goal would be some general income support to all inhabitants in remote areas or a general wage subsidy to all industries, and not support confined to a single industry. Indeed, Winters (1989–1990: 251) writes: “The equation of rural with agricultural has been a major fallacy in thinking about the long-term future of rural communities. However, in many remote areas agriculture is the only source, or one of very few feasible sources, of employment. For this reason the goal of maintaining population in remote areas may possibly justify some wage support to agriculture in remote areas. Subsidizing the use of labor in agriculture for this reason will of course also help to achieve food security even if the latter goal could be achieved in a more efficient way by supporting agriculture closer to the large population centres.”

Figure 3 illustrates the effect of introducing a subsidy of labor in remote areas. The left part of Figure 3 gives the assumed production technology. We have two regions: A semi-urban region where agriculture is relatively productive. The marginal profit curve is drawn as  $ABC$ . Then, we have a rural region with less productive agriculture and a marginal profit curve  $EF$ . The marginal profit curve for the nation is  $ABD$ .

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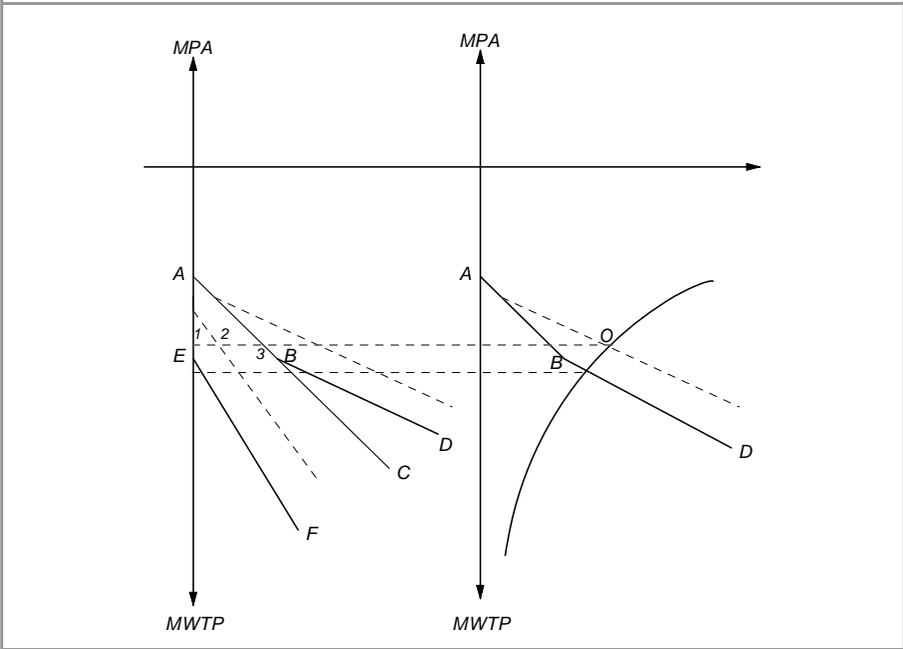
<sup>1</sup> According to OECD (2001: 84): “The value of preventing an increase in the costs of providing local public services is a local public good since the benefits are non-excludable and non-rival only within certain geographical boundaries”.

Without support, agriculture will vanish. In the right part of Figure 3 we have illustrated the optimal solution. Note that we have assumed the agricultural landscape to be a national good.



In Figure 4, we have added a subsidy on rural labor. This shifts the rural profit curve upwards, as shown by the dotted line. The aggregate profit curve shifts accordingly, and the new optimal solution is marked as *O*. We see that the aggregate activity level in agriculture increases. However, the subsidy given directly to land (*MWTP*) is reduced. Consequently, the agricultural activity in the semi-urban region (which is solely based on land subsidies) declines. The increase in the agricultural activity in the rural region is therefore larger than this decline.

Figure 4 **The Effect of a Subsidy on the Use of Rural Labor**



## 2.3 Food Security

Given the choice between foreign products at world market prices and domestic agricultural products at cost prices, Norwegian consumers would, to an overwhelming extent, choose cheaper foreign products, and most of the industry would be wiped out. This may cause problems for the population if a crisis should arise. Blockade in connection with war or international conflict is the traditional example of a crisis. Lately increased risk of ecological crises, man-made disasters like the Chernobyl fallout and a pandemic have also been used as examples.

Global food security is defined as:

$$Pr [(world\ production + world\ stocks) \geq world\ needs] \geq \pi.$$

$Pr$  symbolizes probability,  $\pi$  is the minimum acceptable likelihood and “needs” is the necessary consumption. This means that the sum of world production and stocks in every year must exceed the necessary consumption by a minimum acceptable likelihood.

National food security, that is formulated as:

$$Pr [(domestic\ production + domestic\ stocks + imports + aid) \geq domestic\ needs] \geq \pi,$$

is less restrictive since consumption can be based on imports and aid from other countries. Therefore, even if global food security is below reasonable limits, rich countries like Norway will normally have enough purchasing power in world markets to secure a sufficient share of world production. The same logic applies to individual food security which can be secured if a person has enough income or purchasing power, even if the nation's food supply is insufficient.

It follows that if global food security is fulfilled, then national and individual food security is a matter of distribution or poverty relief. A special case is a blockade in connection with war that rules out distribution between countries (infinite import prices), e.g. in line with the situation during the World War II. This traditional argument for national food security seems to be outdated due to strong defense alliances and the way modern warfare is pursued. Nevertheless, it seems unwise to totally dismiss the need for a minimum of activity within the agricultural sector in order to soften negative effects from unknown crises in the future.

A more rational argument concerns the global food security. Some kind of ecological crisis or man-made disaster (like the Chernobyl fall-out) is less likely to be detrimental to global food security if production capacity is spatially diversified throughout the world. Although rich countries would be able to finance the high food import bill under adverse situations, it can be argued, for more moral reasons that most countries should contribute to the global production potential. As agreed upon by a vast majority of economists, this is not an argument for national self-sufficiency. Import tariffs and production subsidies are not only costly, but may also impair the purchasing power and food security in countries with comparative advantage in food production, e.g. many developing countries. It is, however, an argument for keeping necessary factors of production available with a minimum distortion on trade. In the forthcoming simulations, we will take the view that Norway at least should have the capacity to feed its own population if a crisis occurs.

## 3 An Agricultural Model with Public Goods

To quantify costs of providing public goods as well as cost complementarities, we need to elaborate the basic principles put forward in the previous section into a richer model. As a point of departure, we use a sector model for the agricultural sector in Norway.<sup>2</sup> This model is extended by incorporating a willingness to pay function for landscape preservation and rural viability.

### 3.1 The Core Model

The model, which base year is 1998, covers the most important commodities produced by the Norwegian agricultural sector, in all 13 final and 8 intermediary product aggregates. Of the final products, 11 are related to animal products while 3 are related to crops.

Domestic supply is represented by about 400 “model farms.” Each model farm is characterized by Leontief technology, i.e. with fixed input and output coefficients. However, production can take place on small farms or larger more productive farms. Consequently, there is an element of economies of scale in the model.

As specified in Figure 5, the country is divided into nine regions, each with limited supply of different grades of land.<sup>3</sup> This introduces an element of diseconomies of scale because, *ceteris paribus*, production will first take place in the best regions. Inputs needed to produce agricultural products are land, labor (family and hired), capital (machinery and buildings), concentrated feed, and an aggregate of other goods. Domestic demand for final products is represented by linear demand functions.

The objective function is an economic surplus (consumer’s surplus plus producer’s surplus) of the agricultural sector and this surplus is maximized, subject to demand and supply relationships, policy instruments and imposed restrictions. The solution

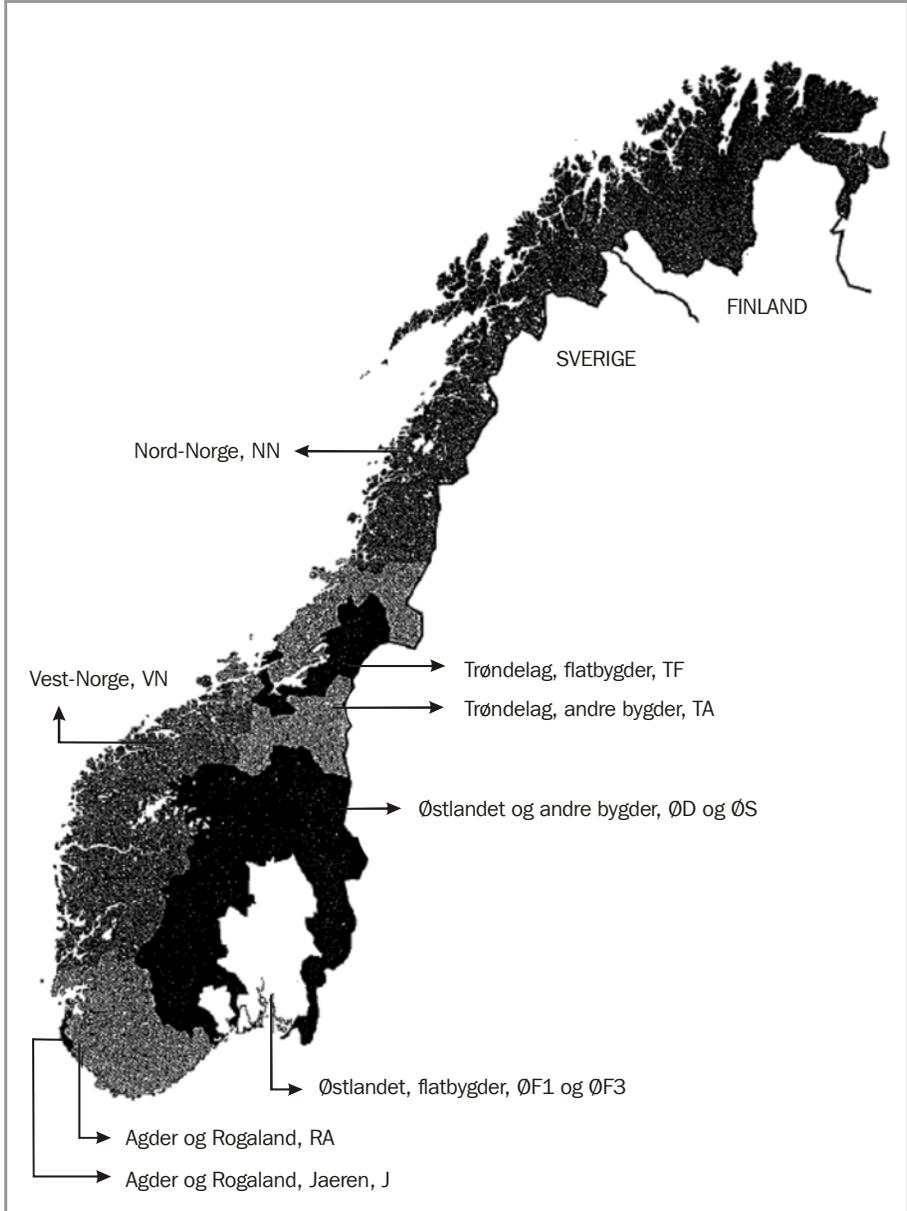
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<sup>2</sup> An early version of the model is described in Brunstad and Vårdal (1989), but the model has been considerably improved since then. A technical description of the model is given in Brunstad et al. (1995b). Details are given in Gaasland et al. (2001). The model is constructed in order to perform policy analyses, and has as such been used by the Norwegian Ministry of Finance and the Norwegian Ministry of Agriculture.

<sup>3</sup> Using the acronyms specified in Figure 5, the nine regions are: 1) ØF1 and ØF3, 2) ØD, 3) ØS, 4) J, 5) RA, 6) VN, 7) TF, 8) TA, 9) NN.

to the model is found as the prices and quantities that achieve equilibrium in each market. A broader description of the model is offered in Appendix 1.

Figure 5 **The Regions in the Agricultural Model**



## 3.2 Public Goods

### 3.2.1 Landscape Preservation

Landscape preservation is taken into account by adding the willingness to pay function (2) to the economic surplus as defined in the previous paragraph. The parameters used is specified in section 2.1 (see also Brunstad et al., 1999).

### 3.2.2 Willingness to Pay for Rural Viability

In Norway, firms have to pay a pay-roll tax on labor. This pay-roll tax differs between regions. In central regions firms have to pay 17 percent. Firms in rural regions are exempted from pay-roll tax. We take the differentiated pay-roll tax as an estimate of the society's willingness to pay for rural viability. This is then incorporated into the model by subsidizing the use of labor in the rural regions by 17 percent.

### 3.2.3 Food Security

It is difficult to measure the need for food in the case of a crisis. The closest we come is to specify a crisis menu. Table 1, which is taken from a government report (NOU, 1991: 142), gives an example. This menu provides 2600 kcal per person per day, and also gives sufficient vitamins, minerals and proteins. Compared to normal consumption the menu involves higher consumption of vegetables in proportion to animal products. Consumption of milk, meat and eggs is reduced, while the consumption of grain and potatoes is upheld or increased. In addition, the crisis menu makes allowance for the fact that consumption of fish, of which Norway has a huge export surplus, can be considerably increased. The crisis menu shows the minimum annual quantities of agricultural products that must be available for consumption in times of crisis. Stockpiling and remaining import possibilities will make it possible to reduce production below this level.

Production in normal times does not have to be equal to the necessary production during a crisis (see Gulbrandsen and Lindbeck, 1973, Chapter 7). Some switching of production in the time of crisis would be possible. A crucial condition for switching of production is, however, that the necessary factors of production are available,

especially tilled land but also agricultural skills, animal material and capital equipment.

We first employ the agricultural model to calculate how much acreage and labor is needed to produce the quantities of food required by the crisis menu. These levels, calculated to be 56 and 29 percent of the base levels, must be kept continuously available in order to be prepared to produce the crisis menu if the needs arise.

## 4 Model Experiments

The model is calibrated to reproduce the actual situation in the base year 1998 as closely as possible, by including the actual support and tariff regime. In this year, total support amounted to 73 percent of the value of production in agriculture (OECD, 2003). Nearly half of the support was market price support, generated by high import tariff. The rest of the support were payments based on output (15 percent), area planted or animal numbers (12 percent) and input use (25 percent). The support was only to a minor degree targeted on provision of public goods, e.g. in terms of requirements for landscape preservation or the agricultural production systems.

Column 1 of Table 1 presents the base solution. In spite of climatic disadvantage, production is high. Norway is self-sufficient in most products, and for dairy products there is even a surplus which is dumped on the world market. The exception is grain. The arctic climate does not permit sufficient quantities of high quality grain for bread-making. To sustain these high activity levels, substantial support is necessary (NOK 15.3 billion or €1.83 billion).<sup>4</sup> Since agriculture employs about 59,700 man-years, the support per man-year is about NOK 255,000 (€30,700).<sup>5</sup> The support rates are regressive with regard to farm size and favor agriculture in rural and less productive areas. Therefore, small-scale farming appears in most parts of Norway.

A simulation (not reported) where all existing support to agriculture, except for giving 17 percent support to the use of rural labor, results in almost zero agricultural

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<sup>4</sup> We have used the exchange rate 1€ = 8.30NOK, which was the exchange rate that gave approximately purchasing power parity between Norway and EU in 1998.

<sup>5</sup> Both total support and employment figures are somewhat lower than the actual ones. Support per man year, on the other hand, is approximately correct.

activity. Column 2 of Table 1 gives results of a simulation where landscape preservation is the only policy objective. Landscape preservation is implemented in the model as described in section 3.2. The simulation assumes free trade and no subsidies, except those endogenously generated by the model to internalize the marginal willingness to pay for the amenity value of pasture and tilled land. Compared to the base solution, the activity in the agricultural sector is substantially reduced, especially production and employment (18 percent of the level in the base solution). Nevertheless, the computed level of land use is only 44 percent of the present level. Necessary support, in the form of acreage subsidies, is NOK 3.0 billion, or about one fifth of the support in the base solution.

In the parentheses in column 2, we give the results when an additional 17 percent rural labor subsidy is included. We see that the effect on the produced commodities is small. However, the aggregate use of labor increases 10 percent. And we see the same features as pointed out in the connection with Figure 4: a decline in the employment in central agriculture, while the employment in rural agriculture increases.

In the next simulation, reported in column 3, we add food security to landscape preservation. We observe that it is optimal to have a production in normal times that differs from the requirements of the crisis menu. Grain production is reduced and is far below the levels required by the crisis menu. Relative more of the acreage is applied to milk, meat and egg production. Also, for meat there has been a switch to land intensive production techniques. Extensive production of sheep meat absorbs parts of the land now used for grain production. If a crisis occurs, animal production will gradually have to revert to grain production while grain stocks are running down. Agricultural support decreases to NOK 7.7 billion, or about half of the base solution. That means that food security and landscape preservation can be provided at a considerably lower cost than is the case today. The support follows endogenously from the constraint on food security, and is, thus, targeted at the underlying factors of the food security production function, i.e. acreage, skilled labor and livestock. Employment and land use decline to 57 and 64 percent of the base line levels. Compared to the landscape preservation scenario, however, activity levels are higher, especially production and employment, but also land use. This reflects the fact that food security requires a wider spectrum of inputs than landscape preservation.

Finally, we look at the simulation where rural employment is subsidized. We see almost no effect on the aggregate activity. However, the division between the activity level in central versus rural areas is heavily affected.

	<b>Base solution</b>	<b>Landscape preservation and (rural employment)</b>	<b>Landscape preservation, food security and (rural employment)</b>
<b>Production (Mill.kg/ltr)</b>			
Milk	1671.5	79.2 (79.2)	838.0 (838.0)
Beef and veal	82.1	68.1 (73.3)	95.5 (101.3)
Pork	100.1	-	13.0 (13.0)
Sheep meat	23.0	-	15.0 (15.0)
Eggs	43.8	-	17.0 (17.0)
Wheat	210.5	36.2 (35.3)	32.1 (30.0)
Coarse grains	1021.3	68.4 (71.0)	259.2 (245.0)
Potatoes	298.0	344.8 (343.0)	342.9 (341.1)
<b>Land use (mill. hectares)</b>	<b>0.85</b>	<b>0.37 (0.39)</b>	<b>0.54 (0.57)</b>
Tilled land	0.31	0.04 (0.04)	0.09 (0.08)
Grazing and pastures	0.54	0.33 (0.35)	0.45 (0.49)
<b>Employment (1000 man-years)</b>	<b>59.7</b>	<b>10.7 (11.3)</b>	<b>33.0 (33.0)</b>
Rural areas	40.1	7.0 (8.9)	17.0 (21.1)
Central areas	19.6	3.7 (2.5)	16.0 (11.9)
<b>Total support (billion NOK)</b>	<b>15.3</b>	<b>3.0 (3.2)</b>	<b>7.7 (7.9)</b>
Border measures	6.7	-	-
Budget support	8.6	3.0 (3.2)	7.7 (7.9)
<b>Composition of budget support</b>			
Area planted or animal number	35%	100%	58%
Other input use	52%	-	42%
Output	13%	-	-

## 5 Conclusion

This paper introduces a method for incorporating information on the willingness to pay for regional activity in the objective function of a price-endogenous, mathematical programming model for the agricultural sector of Norway. Optimal levels of support, production, land use and activity in various regions are calculated. Our conclusion is that regional preferences do not affect the national activity level of agriculture, but affect the distribution of the activity level between regions.

# Appendix 1

The model is a partial equilibrium model of the Norwegian agricultural sector. For given input costs and demand functions, market clearing prices and quantities are computed. Prices of goods produced outside the agricultural sector or abroad are taken as given. As the model assumes full mobility of labor and capital, it must be interpreted as a long-run model. A technical description of an earlier version of the model is given in Brunstad et al. (1995b).

The model covers the most important products produced by the Norwegian agricultural sector, in all 14 final and 9 intermediary products. Most products in the model are aggregates. Primary inputs in the model are: land (four different grades), labor (family members and hired), capital (machinery, buildings, livestock) and other inputs (fertilisers, fuel, seeds, etc.). The prices of inputs are determined outside the model and treated as given.

Supply in the model is domestic production and imports. Domestic production takes place on the model's approximately 400 different "model farms." The farms are modeled with fixed input and output coefficients, based on data from extensive farm surveys carried out by the Norwegian Agricultural Economics Research Institute, a research body connected to the Norwegian Ministry of Agriculture. Imports take place at given world market prices inclusive of tariffs and transport costs. Domestic and foreign products are assumed to be perfect substitutes. The country is divided into nine production regions, each with limited supply of the different grades of land. This regional division allows for regional variation in climatic and topographic conditions and makes it possible to specify regional goals and policy instruments. The products from the model farms go through processing plants before they are offered on the market. The processing plants are partly modelled as pure cost mark-ups (meat, eggs and fruit), and partly as production processes of the same type as the model farms (milk and grains).

The domestic demand for final products is represented by linear demand functions. These demand functions are based on existing studies of demand elasticities, and are linearised to go through the observed price and quantity combination in the base year (1998). Between the meat products there are cross-price effects, while cross-price effects are neglected for all other products for which the model only assumes own price effects. The demand for intermediary products is derived from the demand for the

final products for which they are inputs. Export takes place at given world market prices.

Domestic demand for final products is divided among 5 separate demand regions, which have their own demand functions. Each demand region consists of one or several production regions. If products are transported from one region to another, transport costs are incurred. For imports and exports transport costs are incurred from the port of entry and to the port of shipment respectively. In principle restrictions can be placed on all variables in the model. The restrictions that we include can be divided into two groups:

- 1) Scarcity restrictions: upper limits for the endowment of land, for each grade of land in each region.
- 2) Political restrictions: lower limits for land use and employment in each region, for groups of regions (central regions and remote areas), or for the country as a whole; maximum or minimum quantities for domestic production, imports or exports; maximum prices.

In the model, the economic surplus (consumer's surplus plus producer's surplus) of the agricultural sector is maximized. This maximization is performed subject to demand and supply relationships and the imposed restrictions. Those restrictions depend on the type of simulation. The solution to the model is found as the prices and quantities that give equilibrium in each market. No restrictions must be violated, and no model farm or processing plant that is active, must be run at a loss.

## Appendix 2

The crisis menu provides sufficient vitamins, minerals and proteins for the yearly subsistence needs of the population. If we take into account that there exist ample quantities of sugar through stock piling, the menu also provides sufficient calories for the population. The palatability of the diet is reflected in a concern for minimizing the difference between the crisis and the normal menus. Compared to normal consumption, the menu involves higher consumption of vegetables in proportion to animal products. Consumption of milk, meat and eggs is strongly reduced, while the consumption of grain and potatoes is kept at a relatively high level. In addition, the crisis menu makes allowance for the fact that consumption of fish, of which Norway has a huge export surplus, can be considerably increased.

	<b>Consumption 1998</b>	<b>Crisis menu</b>
Grains	463	335
Potatoes	309	461
Cow milk	1400	853
Meat	247	63
Eggs	44	17
Fish	72	335

*Note: Average consumption (product units) in the period 1995-99 (Gausland, 2003).*

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