

EURACADEMY ASSOCIATION

EUROPEAN ACADEMY FOR SUSTAINABLE RURAL DEVELOPMENT

THEMATIC GUIDE THREE

**Diversification of Rural Economies and
Sustainable Rural Development in the
Enlarged Europe**

EURACADEMY THEMATIC GUIDE SERIES

EURACADEMY ASSOCIATION
European Academy for Sustainable Rural Development

THEMATIC GUIDE THREE
Diversification of Rural Economies and Sustainable Rural Development in the Enlarged Europe

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Diversification of Rural Economies and Sustainable Rural Development in the Enlarged Europe

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Material included in this Guide may be used following approval by the Association and acknowledgement of the source. Contacts for the Euracademy Association: www.euracademy.org, info-association@euracademy.org

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PREFACE

Euracademy Association is a pan-European, non-profit membership organisation devoted to capacity-building of rural communities in Europe. The Association brings together planners, researchers and practitioners of rural development from a host of European countries. A Summer Academy on a theme pertinent to sustainable rural development is organised every year in a different location; also, a Thematic Guide is published every year and a distance learning course is run, on the same theme as the Summer Academy. In addition, the Association organises conferences, undertakes research and coordinates EC-funded projects with a view of building up a body of knowledge on sustainable rural development. These activities aim to prompt lifelong learning opportunities amongst members of rural communities, by using a variety of educational means.

This is the Third Thematic Guide in the Euracademy series. It was used as a reference tool in the Third Summer Academy, held in Przysiek, Poland, from 16 to 25 July 2004. The Thematic Guide has been revised in the light of the discussions there and enriched with examples brought in by participants. It aims to provoke the reader's thinking on such key questions as:

- What are the rural economies of Europe?
- Do they need to be diversified or strengthened?
- How may this be achieved?
- How does this process relate to the global economy?
- What is the role of the European Union, of governments, of citizens and others?

For the Euracademy Association, this issue is part of the broader challenge of **sustainable rural development**. It inevitably cross-relates to, or overlaps with, the themes of the two previous Summer Academies, each of which had a Thematic Guide:

1. Developing Sustainable Rural Tourism,

2. Information Society and Sustainable Rural Development.

At some points in this Third Thematic Guide, we refer to specific sections in the two previous Guides. These Guides are offered gratis to members of the Euracademy Association.

This Guide has two parts:

- **Part I: The challenge**, defines what we mean by diversification of rural economies (chapter 1) and describes the nature and scale of the current challenge in this field, and its origins (chapter 2).
- **Part II: The elements of an answer**, describes the policy framework (chapter 3), followed by four key aspects of rural economies - farms and farmers (chapter 4), small and medium-sized enterprises (chapter 5), public services and infrastructure (chapter 6) and human capital (Chapter 7). Part II also offers case studies, which illuminate aspects of the story, often providing links between the chapters.

Good reading!
The Euracademy Association



The participants to the 3rd Summer Academy in Przysiek, Poland, July 2004

Part I: The Challenge

CHAPTER 1.

What do we mean by diversification of rural economies?

1.1. In this chapter we try to answer two questions:

- Why do the people who live in rural areas, including many farmers, need to find ways of diversifying their sources of income or employment?
- To what extent is this phenomenon influenced by the process of economic globalisation?

1.2 We must first define what we mean by rural economies. Crudely, these may be defined as...

the complexes of economic activity which take place in rural areas.

1.3. **Rural areas.** This begs a further question, what do we mean by rural areas? In its paper on Rural Development Policy Post 2006, the European Commission defines as rural those municipalities which have at least 90% or more of their territory classified as agricultural, forestry or natural. These areas cover 90% of the territory of the European Union, as enlarged after the accession of 10 countries on 1 May 2004 (hereafter called EU-25). In the same paper, the Commission refers also to the OECD definition of rural areas, which is based on population density. The OECD identifies local areas (municipalities) as rural if the population density is below 150 inhabitants per square kilometre. (European Commission, 2004b).

At regional level, the OECD distinguishes between:*

- *Predominantly rural regions, in which over 50% of the population lives in rural communes (as defined by this measure of less than 150 inhabitants/km²)*
- *Significantly rural regions, which have 15 to 50% of the population living in rural communes (as so defined)*
- *Predominantly urban regions, with less than 15% of the population living in rural communes.*

** This is the level of NUTS 3 (Nomenclature of Territorial Units for Statistics), which may include urban agglomerations.*

Applying these definitions to the EU-25, the European Commission finds that 90% of the EU territory falls within predominantly or significantly rural regions, and that these regions contain 57% of the EU population (European Commission, 2004b).

1.4. **Rural economies.** In either case, i.e. whether we define the economies of rural areas by reference to land cover or population density, a 'rural area' or region may well include one or more small towns or even a larger urban unit. The economy of such an area is not related only to farming, forestry or similar activities of the primary sector; it may include activities based in the towns, such as manufacture and services. Thus, when we speak of rural economies, we refer to that mixture of economic activities which is found within a rural region, in both the towns and their related hinterland.

Town and country

The relationship between town and country is of very long standing, if we recall that many of the country towns or market towns have their origin in mediaeval, and often even earlier, times. Studying these towns, the Austrian geographer Christaller found that in areas not interrupted by mountains or other physical impediments, the market towns tended to be an average of about 16 miles (or 25 kilometres) apart; the reason being that half this distance was as far as a person with goods to sell or to buy could conveniently travel from village to town and back in a day. This neatly illustrates the economic links between town and countryside.

1.5 We can then rephrase the crude definition of rural economies at paragraph 1.2 in the following way:

Rural economies are the complexes of economic activity which take place in areas that are mainly or significantly rural but may well contain settlements of significant size.

1.6. **The links between economies.** Rural economies, as defined above, are never wholly self-contained. One might say that 'No economy is an island'. The boundaries between different rural, or local, economies are not sharply defined; and goods and services move into and out of each such economy. Nevertheless, it can be useful to define notional boundaries to the economy of a specific rural area, particularly where it is clear that people in that area lack employment or adequate income.

1.7. **Diversification of rural economies.** Having set the scene, we can now define what we mean by diversification of rural economies. This may be defined as:

Increasing the diversity of economic activity located in particular rural areas; and thereby increasing the variety of sources of employment or income for individuals or households in those areas.

1.8. **The structure of a rural economy.** The economy of a rural area, or a rural region, may contain economic activities within three broad categories:

➤ Primary activities, which are those related to the growing, gathering or extracting of raw materials, for example through agriculture, forestry, fisheries, mining or quarrying.

➤ Secondary (or processing) activities, which are those related to the processing of these raw materials and the making of goods which people can use or consume, for example making cheese out of milk, or clothes out of wool; building houses or constructing roads; making ceramics or other manufactured goods.

➤ Tertiary (or service) activities, which are those related to providing services such as selling goods in shops or actual markets; maintaining or repairing goods, such as cars or televisions; providing hotels or tourist attractions; organising the import, export or transport of goods.



Recreational activities in a Polish farm help in the diversification of the rural economy

1.9. **Economic “chains”.** These three sectors may be seen as distinct steps within the process by which goods or services are produced and reach their consumers. They may be closely linked to each other, in what may be seen as “chains” of economic activity.

1.10. In mediaeval times, these chains were often quite local, in the sense that a large part of the set of linked activities took place within a short distance of each other. For example, farmers might draw on suppliers or services (such as saddlers, blacksmiths or cartwrights) located nearby; and might sell their produce to butchers, millers, sawyers and other also located nearby.

1.11 The proximity and close linkage between different sectors, that characterise a “chain”, have to some degree broken down, because of changes in economic structures, during the past few decades. The result is that many rural areas now have economies which are less diversified than they used to be or could be.

1.12. **Added value.** However, in some of the richer arable areas of Europe also, much of the economic activity tends nowadays to be focused at the early stages of the economic “chain” (see paragraph 1.9.) namely the basic production of grain or other crops; and the economic activity in the later stages of the economic chain (such as milling or baking, even production of animal food-stuffs) often takes place in the larger towns, cities or ports.

1.13. The effect of this is to make the economy of such rural areas narrow, and to deprive these areas of the added value which can come from locally-based economic chains. For example, farmers may receive only the basic prices for the primary products, while the additional money that gets attached to those products may stay mainly in the cities. Thus one key way to make the rural economies stronger and more diversified might be to keep more of the ‘links’ in the economic ‘chains’ in the rural areas, or even knock some of the links out of the chain, so that the producer relates as directly as possible to the consumer. In later chapters, we will give very practical examples of how this can work.

1.14. **Employment or income?** The definition of ‘diversification...’ that we offered at paragraph 1.7 above refers to “..increasing the variety of sources of employment or income for individuals or households” in rural areas. People in many rural areas suffer not only from unemployment, i.e. an overall lack of jobs; they suffer also from under-employment, and from low incomes. For this reason, a key issue in such areas is to diversify not only the overall economy, but the household economy.

1.15. **Pluri-activity.** It is useful to introduce here the concept of *pluri-activity*, whereby a person or a household may have two or more activities or sources of income in or near their homes. This can help people to overcome the lack of full-time jobs in many rural areas. In some European regions, such pluri-activity was very common, for example where farmers also gained income from forestry, mining, fishing or tourism. In recent decades, such forms of pluri-activity have become less widespread: but there is scope for re-creating this pattern. The box below provides one regional example of how pluri-activity can sustain the economy of rural regions.

1.16. As Pevetz says “A good way to solve the problem of adequate incomes of rural families is to make wise use of traditional skills and experiences and combine ways of satisfying financial needs in close connection with the farm property” (Pevetz,

1994, pp. 153-154). Such ways may refer to recreation and tourism, food processing and packaging, direct sales of farm products, offering cleaning and gardening services to the local authorities using farm machinery, etc. Chapter 4 explores these ideas.

Pluri-activity in the Austrian and Swiss Alps.

A strong example of pluri-activity is offered by the peasant farming in the Austrian and Swiss Alps. These mountain regions have seen rapid changes in the economic structure, with growth in tourism and light industry. A major factor in this process has been the energy, hard work, determination and solidarity of the peasant families living in the mountains.

In this context, young people who wished not to leave their home area grasped the opportunity to take part in the development of tourism in the Alps, using their skills, financial resources, traditions and local values. They achieved this by combining agricultural activity with other activities, related or not to tourism, which could offer supplementary income. They received support from central government in the form of grants and tax concessions. The relative affluence of the people living in the Austrian Alps (in contrast to the often poor living conditions of their Italian and French counterparts) is largely the result of their versatile activity and their ability to create a local economy which is resistant to crises.

Source: W. Pevetz. *Nowe drogi wielozawodowości wiejskiej [New ways of rural pluriactivity]*, in: *Socjologia wsi w Austrii [Rural sociology in Austria]*, ed. A. Kaleta, Toruń 1994, pp. 149-150

1.17. **Livelihoods.** In the field of Third World Development, there is growing emphasis on livelihoods, as an alternative (or complement) to creation of jobs. 'Livelihood' means, for a household or a community, the ability to sustain life, and preferably a reasonable standard of living, from the resources that are available locally and their own efforts. At most basic, this may be - indeed it is for tens of millions of people - a simple form of subsistence, in which the family consumes what they themselves produce, and may sell or barter a small surplus of food, goods or services in order to buy what else they need. This activity, sometimes called the 'informal economy', is almost invisible in macro-economic terms, but is very real to the people involved; indeed it can make the difference between life and death. We argue here that the search for livelihoods is not a matter only for the Third World, but a daily reality for many millions of people living in the rural areas of Europe (see chapter 2).

1.18. **Sustainable development.** For the Euracademy Association, the issue of diversification of rural economies is part of the larger issue of sustainable rural development. In the two previous

Thematic Guides, we outlined a series of concepts which underlie our approach to rural development, starting with the following definition of the term itself:

Rural development is a deliberate process of sustained and sustainable economic, social, political, cultural and environmental change, designed to improve the quality of life of the local population of a rural region.

1.19. We encourage you to read chapter 1 in one of the previous Thematic Guides. Here we emphasise only the thematic width of the above definition, with its reference to economic and social, political, cultural and environmental change; and we make reference to the concept of sustainable development, as defined by the Brundtland Commission in 1987:

Development that meets the needs of the present regeneration without compromising the ability of future generations to meet their own needs.



Study work for animators of rural development during the 3rd Summer Academy in Poland, July 2004

1.20. In the first chapters of the two previous Guides, we spell out what this definition implies for the approach to rural development.

In reference to the rural economy, we suggest that, to be sustainable, development must:

- Help to strengthen and diversify the economy of rural areas;
- Ensure that local people gain substantial benefit from the local activity;
- Look to the long-term prosperity of rural areas, rather than simply their short-term benefit;
- Avoid harmful side-effects elsewhere in the national, regional or local economy, or in the well-being of the community or environment.

These principles are reflected in the rest of this third Thematic Guide.

Questions arising from chapter 1 for you to reflect upon.

- 1.** What kind of region do you live in or work for? Would it count as predominantly rural, significantly rural or predominantly urban?
- 2.** Within this region, can you identify certain rural areas which are not 'economic islands' but which have (in some way) a distinct economy, based say on a market town or a large processing plant such as a sawmill or creamery?
- 3.** In those areas, does the local economy appear to be 'narrow' or 'wide, in the sense of the variety of economic activities taking place within it?
- 4.** What changes in the structure of that local economy appear to have taken place over (say) the last 40 years?
- 5.** What are the levels of unemployment, under-employment or family income in those areas? Can you identify examples of pluri-activity?
- 6.** Can you identify conflicts between the interests of the economy and the preservation of cultural and natural heritage in the rural areas of your region? Do they affect, in your opinion, the sustainable development of these areas?

CHAPTER 2.

The current challenge and its origins

The state of rural areas

2.1. This is a time of rapid change in the character of rural areas throughout Europe, and in the policies related to them.

2.2. Rural areas vary enormously in character – from the peri-urban areas around the cities to the high mountain pastures; from the Mediterranean lands of olive and wine to the reindeer grazing areas of Lapland; from the puszta of Hungary to the green fields of Ireland. There are no standard problems, no standard answers, in the rural development that they need. But they are all affected by change.

2.3. Many of the more remote, marginal or mountainous regions of rural Europe have been losing population over long periods of time, and this process is still continuing. In such places, the local economy tends to be fragile and narrowly-based: it is difficult to sustain the public services: young people tend to move away from the area. By contrast, many rural regions near the cities are changing rapidly in character, as city workers look for new homes there or urban enterprises move out onto green-field sites. In such places, rural people may be tempted away from jobs in farming or may be unable to buy houses at inflated prices.



High mountain pastures in Italy

2.4. The whole of rural Europe, moreover, is affected to greater or lesser degree by the radical changes in agriculture. Until the 1980s, the primary role of the rural areas was seen (by the public and by politicians) to be the production of food; and the thrust of rural policy was to encourage the production of more food, at low prices. Then came two major events which radically altered the picture. First, in the early 1980s, the success of the Common Agricultural Policy produced (for the first time) a surplus of milk, meat, wheat, wine and related products within the European Union. Second,

in 1989 came the collapse of the Iron Curtain and of the Soviet Union, which removed at one blow the Soviet market upon which Central European farmers had depended.

2.5. The severity of the current economic problems in many rural areas is revealed in the paper on Rural Development Policy Post 2006, published in early 2004 by the European Commission. This provides striking evidence of the low levels of average income, and the high levels of unemployment, in the predominantly or significantly rural regions of the new member states of the European Union and some of the more peripheral states of EU-15 (Portugal, Spain, Italy, Greece, Finland). It shows the high dependence of millions of farm families on non-farm income. Less than 25% of farmers, and only 10% of their spouses, are working full-time in agriculture; and 30% of farmers, and over 25% of their spouses, have another gainful activity. The new member states, plus Romania and Bulgaria, contain 7.5 million farms of below 5 hectares in area, of which 'most cannot provide sufficient income for the farm household'. (European Commission, 2004b). The millions of people who live on these farms, and many others in the rural areas of central Europe, have a pressing concern for livelihood, which we stressed at paragraph 1.17.

Historic background

2.6. The development of diversified rural economies in Europe has a long history. From the Middle East, immediately outside our Continent, came the early model of the Mesopotamian and Egyptian civilisations, based in rich river valleys, where ample supplies of food enabled a growing workforce to be devoted to activities other than farming. Thus potters, carpenters, metal-workers, weavers, jewellers, masons, builders, painters and other trades flourished. Cities grew and trade expanded to cover the known world, with salt, silk, spices and other goods being transported hundreds, even thousands, of miles.

2.7. This pattern of diversified economies and 'global' trade was adopted and developed by the Greek and then the Roman civilisations. In his brilliant book, 'Europe: A History', Norman Davies, described the counterpoint between the local economies of what we might today call 'city regions' and the 'global' trade throughout and even beyond the Roman empire, which then covered half of what we now call Europe.

'The Roman economy combined a large measure of self-sufficiency in the inland areas with extensive trade and commerce in the Mediterranean.'

Overland transport costs were high, despite the main roads, so provincial cities did not look beyond the surrounding districts for most commodities. But the seaborne traffic, first developed by Greeks and Phoenicians, was increased still further. Wine, oil, furs, pottery, metals, slaves and corn were the standard cargoes.’ (Davies, 1997, pp. 161/163)

2.8. Davies gives a vivid description of how the Roman empire ‘imploded’ in the third to fifth centuries AD, and how the following centuries saw widespread and complex waves and counter-waves of migration across the continent. It took many centuries before Europe gained a widespread pattern of settled communities, within which diversified local economies could begin to appear. A context for the emergence of such local economies was provided by feudal structures, in which kings, barons or lesser lords oversaw the ranks of serfs and labourers; or by monastic society, with its centres of learning and of local culture; and later by the emergence of guilds and of chartered towns.

2.9. Despite what Davies (see box, following this paragraph) calls the ‘insecurities of the countryside’, the economies of the rural areas (including their market towns) were indeed diversified in mediaeval times. From this period, with its diversified trades, come the family names that can be found in all languages throughout Europe - Farmer, Miller, Baker, Butcher, Forester, Sawyer, Carter, Smith, Carpenter, Cook, Saddler, Bowyer, Fletcher, Mason, Thatcher, Cooper, Cobbler and Weaver. As the towns became stronger, with their Guilds, so the more sophisticated trades developed, with further family names- Clerk, Merchant, Goldsmith, Banker, Lawyer, Bookman, Judge.

‘Mediaeval society remained overwhelmingly rural. Life was centred on the feudal estates, and on the timeless relations of lord and serf. The emergence of cities in embryo, therefore, did not change the overall scene; but it was important, not merely for the future but for the organisation of trade and the spread of culture.

‘Walled cities, like walled castles, reflected the insecurities of the countryside. Their ramparts, their gates and towers, were designed to protect an oasis of safety. But they also fostered distinct social communities, which increasingly sought to give themselves a separate legal and political identity. They coalesced around ports and river-crossings, around markets, and around the residences of counts and bishops.’

(Davies, 1997, p. 335)

2.10. Insecurity itself, plus poor transport systems (even worse than in Roman times), meant that much economic activity was indeed local in mediaeval times. Most farmers produced a diversity of products - corn, livestock, poultry, fruit, vegetables. They got their supplies or equipment locally from the smith, the carter or the saddler: the food that they produced was processed locally by themselves or by the miller, the baker and the butcher.

But there was a significant amount of international trade. For examples, the monasteries and the guilds of mediaeval England got rich in the 13th and 15th centuries through the widespread sale of their wool. In turn, the English court and nobles imported large quantities of wine from Aquitaine.

2.11. This pattern of diversified local economies, complemented by international trade, continued into the 17th and 18th centuries. But by that time, the emergence of major nation states in Europe, and of empires beyond this continent controlled by some of these states, became significant factors in the development of both national and local economies. Products from the empires enriched the controlling nations; transformed the farming of many rural regions, for example by introducing potato, maize and tobacco; and fuelled the beginnings of the industrial revolution, for example through the processing of cotton. The nation states took action to improve and protect their national and regional economies, through tariffs and levies on imports, support for exports and all manner of encouragement to crafts and industries.

“France was mainly a land of small farmers, and farming under Napoleon flourished. Before the Revolution France had had to import butter, cheese and vegetable oils; by 1812 she was exporting all three. Under Napoleon French farmers produced more corn and more meat. In Normandy, for example, people who ate meat once a week in 1799 were eating it three times a week in 1805. By importing from Spain 12,000 merino rams Napoleon improved French sheep. By opening six national studs and thirty dépôts d’étalons, he gave horse-breeding an importance it retains to this day.

“Industry too prospered. In 1789 France exported silk textiles worth 26 million; by 1812 the figure had risen to 64 million. In 1789 she imported cottons worth 24 million; in 1812 she exported 17 million. In years of difficulty Napoleon himself subsidised industry. During the crisis winter of 1806-7 he spent two million from his privy purse to buy Lyon silks, and one million to buy cloth from the Rouen district; in 1812 he secretly advanced to the hard-pressed weavers of Amiens sufficient money to pay their workers.” (Cronin 1994, page 208)

2.12. In agrarian, pre-industrial societies, rural inhabitants had achieved a high level of economic self-sufficiency. Agriculture was the basis of economic activity, as it produced most essential goods, raw or processed, for everyday living. Peasants had to acquire many skills, from constructing the necessary tools for farming, to organising farm work, producing, processing and selling their crops. Expert services, such as shoe or pottery making, could be bartered for food.

2.13. **The agrarian revolution.** This picture of economic self-sufficiency changed with the advent of two linked revolutions - the agrarian and industrial revolutions - from the 18th century onwards. Rising population in the cities led to increased de-

mand for cheap food. To meet that demand, pioneer farmers, landowners and scientists in England, France and other countries focused on improving the quality of their livestock, crops, machinery and farming practices.

2.14. Productivity per worker and per acre rose progressively, with the result that fewer workers were needed to achieve the same product. Many farm-workers left the countryside to work in the factories in the cities. Farms became larger, and the number of farms decreased. Some farmers sold their farms and moved to the cities; others kept their farms and combined farming (of a non-intensive nature usually) with a job in industry or services.

2.15. On these enlarged farms, the emphasis increasingly moved from subsistence onto cash cropping. It was realised that some lands were, and some were not, suited to particular crops or livestock. Improvements in transport and in trading systems meant that products could be moved more easily from one area to another. As a result, farmers increasingly specialised in the crops or livestock most suited to their land or to the markets that they could reach.

2.16. Thus the internal farm economy became less diversified in many areas – as did the variety of types of products. The last two centuries has seen the cumulative loss of hundreds of local varieties of apples, pears and other fruit, of many regional races of cattle and sheep, of local cheeses and other products. One aspect of the modern campaign to re-diversify rural economies in Europe is the desire to protect and rediscover the rich heritage of local varieties in such fields (see paragraph 4.14).

2.17. **The industrial revolution.** The other great revolution, that in industry, started in the 18th century but made its mark during the 19th and the first half of the 20th century. The production of iron opened up potential for a new scale of manufacture, expressed in the cotton and woollen mills initially, and later in railways and ships which transformed the movement of goods within countries and around the world.

2.18. This industrial revolution had a massive impact on rural economies. It attracted workers from the rural areas into the new industrial towns. It increased the demand for food, thus accelerating the agrarian revolution. It also supported the agrarian revolution by mass-production of farm machinery and by large-scale processing of farm products, for example in steam-powered mills. Thus the urban factory and the urban mill began to replace the rural blacksmith and the rural corn-mill. All these processes tended to reduce the diversity of rural economies, especially those that depended on agriculture.

2.19. The combination of the agrarian and industrial revolutions had a massive impact upon rural economies and rural communities. The rapid de-

velopment of industry drove many small rural craft workshops out of business, thus limiting the diversity of rural economies. Large numbers of peasants or farm-workers were forced to emigrate to towns or commute to them to seek employment in the industry.

2.20. **Dual activity.** These changes led to the emergence of a new pattern of dual activity, whereby families would gain one income in the rural areas and one in the town. This is different from the earlier pattern of pluri-activity, in which the different activities were in or near the home. Large-scale dual activity of rural inhabitants took significant dimensions after the 2nd World War.

The benefits of dual activity

Dual activity rural families often had a higher level of income than the purely agricultural population, the non-agricultural rural population or the worker population from town. Money earned from two sources allowed peasant-workers the possibility of not only improving their family's standard of living (building houses in the countryside or on the outskirts of town, buying accommodation for their children in town, cars etc.) but also investing in their farms (buying land, agricultural machinery, building and extending farm buildings etc.).

In Poland an important additional advantage of dual activity was the entitlement to social benefits, particularly health insurance and pension rights which the agricultural population were not entitled to until the mid-seventies. Financial well-being in peasant-worker families is an important factor in the change of attitude among the rural population towards consumption, economic success and the cultural rapprochement between rural and town inhabitants, unfortunately at the price of eliminating many components of rural identity.

2.21. **World trade.** What we now describe as 'globalisation' is no new phenomenon. Similar features are found in the pattern of trade in the Roman empire as well as in the processes that emerged in the empires controlled by the Spaniards, Portuguese, Dutch, British, Germans and others from the 19th century onwards, when iron ships and railways gave a truly global dimension to trade.

2.22. This too has had a profound effect upon the rural economies of Europe. On the one hand, it has opened up worldwide markets for European products such as wine and olive oil from the south and timber from the north. It has given rural people and rural entrepreneurs access to the world's markets and ideas, such as the potential to attract visitors from overseas (see Thematic Guide One) and the recent flowering of information and communication technology (see Thematic Guide Two). But it has also exposed our rural products and rural people to intense competition from those overseas. Thus the Third World producers of cheap fabrics have reduced demand for our wool; timber from

the Americas is replacing our own slower-growing trees; cheap labour in South-East Asia has attracted many European businesses to relocate there.

2.23. Such processes are at work not only between Europe and other continents, but also within Europe. The wine producers of France or Hungary, Bulgaria or Austria find themselves competing not only with those of California, Australia or Chile but also with each other. Policy measures taken by governments to support producers are slowly but steadily phased out, so that world trade is moving (painfully!) towards freedom from such interventions.

2.24. The process of globalisation of the world markets places certain demands on almost all businesses, which they have to meet if they wish to survive and thrive in the world economy:

- they should conform to the advent of modern technology, and in particular information technology,
- they should take part in the international economic exchange, even if this results partly to a loss of economic sovereignty.



Scenic rural setting in Poland

2.25. Businesses in rural areas are no exception to this rule. Globalisation already exerts, or will in the near future exert, a wide influence on the economic activity of rural areas. It impels enterprises towards a continual updating of skills, and improved access to knowledge and innovation, so that they can compete with other similar businesses in a global scale. The use of ICT in rural areas provides enterprises with a challenge and opportunity to make contact with the global community and integrate in its production and economic system. See the Euracademy Thematic Guide Two "Information society and sustainable rural development" for a thorough presentation of this subject, including the opportunities offered to rural residents and societies for employment and diversification of economic activity.

2.26. **The Twentieth Century.** One may summarise the above by saying that the three great processes -the agrarian revolution, the industrial revolution, and the growth of world trade- have rein-

forced each other, and have all contributed to a narrowing of rural economies.

2.27. The narrowness of rural economies in the 20th century was reinforced by two great policy processes of the second half of that century. These are:

- the focus in Western Europe upon efficiency and productivity in farming,
- the focus in Central and eastern Europe also upon efficient farming, but expressed in State and collective farms and in deliberate constraint on rural economies.

2.28. **Farm policy in Western Europe.** The privations suffered during and after the Second World War, and the imperative to achieve food security, led governments in Western Europe to place major emphasis in post-war policy upon boosting food production on farms. This was pursued through advice, research and training; grants towards capital improvements on farms; and direct support to farmers, linked to levels of production. This policy was adopted by the European Union, and became the basis of its largest single programme, the Common Agricultural Policy, through which massive expenditure flowed into support for food production.

2.29. The effect of this policy was to accelerate the processes which had started with the agrarian revolution. In large parts of rural western Europe, and particularly on the better lands, farming practices were intensified. Fields became larger; machinery became larger and more complex; livestock breeds and crop varieties were further improved; fertilisers, herbicides and pesticides were used more intensively; farms became fewer and larger, and tended to specialise on a limited range of crops or livestock. Moreover, through government intervention, such as the creation of Milk Marketing Boards, and the centralising force of modern commerce, the processing of farm produce moved away from local places to large plants in regional towns or in cities.

2.30. The result of all this, in terms of the effect on rural economies, was to accelerate the loss of labour directly employed on the farms; to reduce the diversity of economic activity on the farms; and to reduce also the presence in the rural areas of economic activities 'upstream' and 'downstream' of farming, such as the suppliers of inputs to farming and the processors of the outputs from farming. In turn, this has led to a drop in demand for goods and services, affecting all sectors of the local economy.

2.31. The process of agricultural intensification also had a major adverse impact on the diversity and quality of landscapes and wildlife habitats, and has contributed to the weakening of social structures in many rural areas. It has placed heavy financial burdens on many farms, because of debts related to capital expenditure on machinery and buildings etc and because of dependence on expensive fuel and other inputs. These factors help to

explain the more recent changes in policy which are described in the next chapter.

2.32. Central and Eastern Europe. In central and eastern Europe, too, there was a strong post-war emphasis on food security. But socialist doctrine and the command economy led to the creation, across large territories, of State or collective farms, often of great size. These were made by amalgamating many hundreds of former private properties or tenant farms; forming massive fields by the removal of boundaries; building central complexes of buildings; bringing in much machinery; and making heavy use of fertilisers and pesticides etc. This process resembled what happened in some of the wide arable areas in western Europe, such as eastern England or northern France, but applied in a far more radical and widespread way. Some areas, such as southern Poland or much of Slovenia, escaped this process and retained a pattern of small private farms.

2.33. The State and collective farms, and their equivalents in forestry, became very significant employers, with a higher labour force per hectare than on the farms of similar size in Western Europe. Moreover, they were also (very often) the centres of social support for the local communities, offering medical services, kindergartens, care centres for old people, social tourism etc. The maintenance of these social facilities was a source of jobs, and hence of some diversity in the rural economies. However, the prospects for further widening of those economies was constrained by the policy, in most of the socialist countries, that processing and manufacturing activities should be concentrated in the towns, together with the higher levels of education, health services etc. Only those rural regions which had recognised facilities for tourism – such as the shores of Lake Balaton, the Bulgarian mountains, Rügen island or the Slovenia spas – could offer much diversity of local jobs and income beyond those related to farming or forestry.

2.34. Since 1990, many of these State and collective farms have closed, throwing large numbers of farm-workers out of work and weakening the social support systems. At the same time, industrial restructuring in the former Soviet block has led to mass dismissals of workers and created an employment crisis which has had a major impact on the rural areas through breaking the pattern of dual activity. For example, in Poland the owners of many small farms, who previously had gained the main family income from work in industry, have lost that employment and are now forced back into a subsistence economy or a search for pluri-activity.

2.35. The new rurality. These changes in the rural economy have been accompanied, in recent years, by an increase among urban populations in

nostalgia for a lost rurality, associated with pure, home-made food, clean air, contact with nature, and quality of life. This is a new force, which attracts both tourists and new residents to rural areas, and is offering opportunity to diversify again the rural economies and to provide new forms of pluri-activity for many rural families. Many businesses, of types normally found in towns, have started to move into the countryside, developing activities such as tourism or outsourcing. New services and infrastructure have been created to support the new businesses.



Mechanisation of farm production in Central Eastern Europe

2.36. Conclusion. The rural economies of Europe – as stated at the beginning of this chapter – have historically been diverse in character, offering varied employment and the potential for pluri-activity. This diversity was weakened by the agrarian and industrial revolutions and by the process of globalisation. Now, in post-industrial society, opportunities are opening up to re-diversify the rural economies, and to offer new forms of pluri-activity. The role of the countryside is changing, from being mainly a place for producing raw materials to offering a wide range of possibilities for producing goods and offering services. A relative marginalisation of its agrarian functions is coupled by a recognition of its recreational, environmental and cultural potential. This will trigger far-reaching changes not only on the farms but also in rural communities, which have to pay greater attention to consumer needs in order to diversify their sources of income.

2.37. Adaptation to these new conditions requires entrepreneurship, i.e. innovative behaviour, looking for new business opportunities by using all the resources of the countryside to provide a chance for development. Entrepreneurship can be an answer to the growing unemployment problem, overcoming the apathy and frustration among the majority of the rural population which is clearly alarmed by the speed of change, particularly in the new EU member states.

Questions arising from chapter 2 for you to reflect upon.

1. How does your country fit into the pattern of historic processes described in this chapter?
2. Do you accept the broad conclusions of the chapter, or do you think that they should be corrected or modified?
3. Do you have direct personal experience of the way that rural economies are affected by the forces described in this chapter, or by other forces which come from outside those areas?

If so, what does that experience tell you?

4. If you had the powers and resources that Napoleon had, what would you do at national level to protect, strengthen or diversify the economies of rural regions in your country?
5. What forms has pluri-activity taken in the rural areas of your region? Has it helped to keep the young people in the villages and small towns?
6. What new forms could pluri-activity take in your region, to make the most of available resources and help develop the rural economy?
7. Can you single out some of the effects of globalisation on the rural areas of your region? Have local businesses reacted to the globalisation trends?

Part II: Elements of an Answer

CHAPTER 3.

The policy framework

Introduction to Part II

3.1. In part I, we defined the concept of the diversification of rural economies; described the existing weaknesses in many rural economies in Europe, which may justify efforts to strengthen and diversify those economies; and described also the forces which have contributed to the weakening or narrowing of rural economies, and which must be taken into account in these efforts.

3.2. We now turn to the elements of an answer to these problems, and address this through five aspects:

- The policy framework at European and national level (chapter 3)
- Farms and farmers (chapter 4)
- Small and medium-sized enterprises (chapter 5)
- Public services and infrastructure (chapter 6)
- Human capital (chapter 7).

Chapters 4 to 6 roughly coincide with the three sectors of the economy – primary, secondary and tertiary – which were described in chapter 1.

Chapter 7 addresses the issue of how people may be enabled to take initiative in efforts to strengthen and diversify their rural economies.

Recognising the problem

3.3. In Chapter 2, we described how governments in both western and Central Eastern Europe had focused after World war Two on the strengthening of agriculture, and how this had contributed to the narrowing of the rural economies in many areas. The 1980's brought a realisation that all was not well in the rural areas, and that policies based solely on agriculture were not alone enough to address the problems.

3.4. **Food surpluses.** In western Europe, the change in thinking was prompted partly by the sheer success of the Common Agricultural Policy (CAP), and related national programmes of support to farming, in boosting food production. In 1984 and subsequent years, the EU moved into surpluses of milk and milk products, grain, beef and wine. Since the support payments to farmers were based on the quantity of food produced, these sur-

pluses rapidly over-stretched the financial resources of the EU. For this reason, urgent measures (such as the imposition of milk quotas) were taken to limit production and to control the over-run of costs. This provoked new thinking about the role of farmers, their place in rural economies, and the impact of farming on the environment.

3.5. **Rural well-being.** At about the same time, there was growing concern about the well-being of the people who live in rural areas. The Council of Europe ran a well-publicised European Countryside Campaign 1987 to 1988, calling attention to the social, economic and environmental problems of many rural areas. In 1988, the European Commission published a report, 'The Future of Rural Areas'. This report recognised that the two broad strands of EU policy – the CAP, and the Structural Funds – had failed to address the needs of those parts of rural communities and rural economies which were not agricultural (European Commission, 1988).



Back to nature: a study group in the 3rd Summer Academy in Poland, July 2004

3.6. In response to this recognition, the EU began to introduce measures which addressed the needs of rural areas. In the 1988 reform of the Structural Funds, the restructuring of agriculture was brought within the policy for Objective 1 regions, which are those suffering from basic structural weaknesses in their economies. In the Objective 5b regions,

which are those rural regions affected by serious disadvantage, new measures were introduced to support rural development, including diversified agricultural production. In 1991, the LEADER Initiative was introduced, to promote the creation in rural regions of partnerships between public, private and non-government interests and the launch by those partnerships of integrated rural development programmes (the LEADER Initiative is described later in this chapter). 1992 brought the Reform of the CAP, with a reduction in production supports, accompanied by new measures to support early retirement among older farmers, payment to farmers for environmental work, and the afforestation of marginal agricultural land.



Old farm barns can be adapted to promote rurality

3.7. So, by the mid 1990s, the EU had a range of different tools and instruments that reflected objectives such as agricultural restructuring, territorial/local development and environmental integration. However, these instruments, conceived at different moments to address specific issues, were in need of being put together into a more coherent framework. The pressure for change came from three sources:

➤ The first came from rural areas and stakeholders themselves. In November 1996, Agricultural Commissioner Franz Fischler hosted the European Conference on Rural Development, at Cork in Ireland. This conference issued the Cork Declaration, which among other things called for a simpler, more integrated rural development policy.

➤ The second pressure came in the form of the need for a further set of reforms of the Common Agricultural Policy and Structural Funds, to increase the competitiveness of European agriculture, to integrate environmental concerns, and to prepare for enlargement of the EU.

➤ A third pressure, linked to the first two as well as to international concerns, was a changing understanding of the role of agriculture in Europe. In addition to producing commodity outputs, agriculture also has a role in producing environmental and social public goods.

Agenda 2000

3.8. By the end of the 1990s, the need for a more comprehensive rural development policy was felt, which besides agricultural restructuring, addressed environmental concerns and the wider needs of rural areas. This thinking was taken by the EU into the scope of Agenda 2000, which was adopted by the Council of Ministers in 1999 as the major policy framework for the management of the Union in the period from 2000 to the end of 2006.

3.9. Under Agenda 2000, rural development was officially recognised as the Second Pillar of the Common Agricultural Policy, with roughly one-tenth (4 billion euro per year) of the total funding under the CAP. All the existing measures and instruments under the CAP were brought into a single legal framework based on multi-annual programming. The Rural Development Regulation 1257/99 offered member states and regions a menu of 22 measures from which they can design their rural development programmes. These measures fall within three broad categories: agricultural restructuring; management of the environment; and rural development beyond the farm. In addition to these mainstream rural development programmes, the Community Initiative LEADER continued in its 3rd generation (LEADER+), fostering innovative and bottom up approaches to local integrated rural development.

3.10. **Mid-Term Review.** Agenda 2000 provides the current policy context for rural development within EU-15. However, this has been significantly modified by the Mid Term Review (MTR) of the CAP, agreed by the Council of Ministers in 2003. This provides for reform of the 1st pillar of the CAP, by changing the basis of support to farmers. From 2005, this support will be 'decoupled' from food production, and will take the form of a Single Farm Payment (SFP) based on an historical reference to what each farmer previously received and on 'cross-compliance', which means statutory and other conditions to be respected by the farmer in managing his land. To put this simply, farmers will in future receive support related not to the amount of food that they produce but to the proper management of their land. Subject to that proper management, they will be free to choose what they produce, according to their reading of the market. In the next chapter, we point to what this may imply for the role of farmers in diversifying their own incomes, and for the wider rural economies.

3.11. The Mid-Term Review provides for a gradual increase in funding for rural development, by means of a 'modulation' scheme which will gradually reduce the amount of money spent in support to farmers, and will transfer these funds from the 1st to the 2nd pillar of the CAP. As to the scope of rural development policy, it was decided not to alter the basic framework. However, two new chapters were added to the rural development regulation, in the light of consumer concerns about food safety and quality and about production methods.

These new chapters enable member states to help farmers to meet demanding standards on food quality and to safeguard animal welfare.

The accession countries

3.12. Agenda 2000 also provided the policy framework for the planned expansion of the European Union to embrace the countries of central Europe, Cyprus and Malta. The 10 central European countries (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Romania and Bulgaria) had previously been receiving help from the EU under the **Phare** programmes, with a focus on infrastructural investment. Under the Accession Agreements with the Union, these countries had committed themselves to meeting the *acquis communautaire*, which is the set of rules or standards by which the Union operates in a wide range of fields (legal, fiscal, financial, regulatory etc). In order to help them to meet these standards in the rural field, and to make structural adjustment in their agricultural sectors and rural areas, the EU offered (within Agenda 2000) a Special Accession Programme in Agriculture and Rural Development (SAPARD).

3.13. **SAPARD** came into effect in January 2000. It provided for assistance to a range of measures for structural and rural development, within programmes to be proposed by the accession states and approved by the EU. These include:

- > investments in agricultural holdings ;
- > improving the processing and marketing of agricultural and fishery products;
- > improving the structures for quality, veterinary, and plant health controls;
- > promoting agricultural production methods that aim to protect the environment;
- > diversifying economic activities in rural areas;
- > setting up farm relief and farm management services;
- > setting up producer groups;
- > renovating villages and preserving the rural heritage;
- > improving and re-parcelling land;
- > establishing and updating land registers;
- > improving vocational training;
- > developing and improving rural infrastructure;
- > management of water resources;
- > promoting forestry, including afforestation, investments in forest holdings owned by private forest owners, and processing and marketing of forestry products;
- > financing and technical assistance, including studies.

(Source: *Special Accession Programme for Agriculture and Rural Development, EC - DG VI A. II. 1/98/09, 11/98*).

SAPARD measures in Bulgaria.

One of the SAPARD measures implemented in Bulgaria is called "Development and diversification of economic activities, provision for multiple activities and alternative income". This measure provides support to private investments in order to improve working and economic conditions so that population is retained in rural areas. Under this measure aid is available for investments in the following sectors: rural tourism; local craftsmanship and agro-industry; timber sawing, carpentry and bio-fuels; silkworm breeding; bee keeping; horse breeding; aquaculture; mushroom production; and processing of essential oil plants and other herbs.

According to the available statistics, 271 projects have so far been approved: almost one third of them have been already implemented but less than 15% of the overall budget has been spent. Among the approved projects, almost 40% concern the promotion of rural tourism; 23% are focused on bee-keeping; and about 25% (using over 8 million Euro, about one third of the total budget allocated to this SAPARD measure in Bulgaria) on timber sawing, carpentry and bio-fuels production. Apart from the direct economic benefits to rural communities, this measure is expected to contribute in the conservation of the Bulgarian environment and the protection of wild flora and fauna.

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3.14. It will be noted that the list at paragraph 3.13 includes (at the fifth indent) 'diversifying economic activities in rural areas' (the subject of this Guide). In practice, however, the emphasis on the *acquis communautaire* has meant that the bulk of the money under SAPARD has been spent on the first three items on the list, in order to bring farms and food processing plants up to the EU's veterinary, phyto-sanitary and hygiene standards. This expenditure has done little to create new jobs. However, SAPARD has provoked thinking in the accession countries about rural development, and has equipped them with paying agencies and monitoring systems which will enable them to pursue rural development programmes effectively in the future.

3.15. **New member states.** Of the ten accession countries in central/eastern Europe, eight became full members of the EU on 1 May 2004. At that point, their use of SAPARD funds effectively finished (though SAPARD continues in Romania and Bulgaria). From the moment of accession, the new member states became eligible for the CAP, though in somewhat modified form. The levels of payment to farmers from EU funds under Pillar 1 of the CAP (see paragraph 3.10 above), when applied in the new member states, are set initially at 30% of the level in EU-15, rising progressively over the next 10 years. The member states are allowed to 'top up' these direct payments, using funds from Pillar

2 of the CAP. Several of the states are using funds in this way, with the result that fewer funds are going into rural development 'beyond the farm'.

3.16. The 'menu' of items within the Pillar 2 regulation, as described for EU-15 at paragraphs 3.9 and 3.11 above, is expanded for the new member states, to include also the following items:

- LEADER-type programmes, to support local action groups (see further comment at 3.34 below);
- Support to 'semi-subsistence' farms, where the farmers bring forward plans to become viable farms within three years. This item is notable, in view of the 7.5 million farms of less than 5 hectares in the accession countries (see chapter 2, paragraph 2.5).



Horse breeding in a Polish farm

Looking ahead

3.17. At present, there is hot debate within the EU about the broad approach to the Union's policies and financial programmes beyond 2006. In February 2004, the European Commission published a Financial Perspectives document, suggesting policy priorities for the period 2007 to 2013 (European Commission, 2004a). Key issues in this were:

- the scale of total EU expenditure, which the Commission proposes should be fully up to the previously agreed nominal ceiling of 1.27% of the Gross Domestic Product of EU-25 (it is expected that some member states, notable the 'net payers' such as the United Kingdom and Germany, may press for a much lower figure);
- the balance in expenditure between 'competitiveness' (reflecting the so-called Lisbon agenda, through which the EU aspires to become the 'strongest knowledge-based economy in the world') and 'cohesion' (which relates to addressing the serious disparities in average income levels, per head of population, between different countries and regions of the Union); and
- the total expenditure on (a) agriculture and (b) rural development, and the balance between the two.

3.18. The Commission's proposals provided for spending on agriculture (Pillar 1 of the present CAP) to fall in real terms between 2007 and 2013; but for spending on rural development to rise in real terms, from 11.1 billion euro in 2007 to 14.1 billion euro in 2013. This total on rural development includes funding now within Pillar 2 of the CAP; money transferred by 'modulation' from Pillar 1 (see paragraph 3.11 above); a sum transferred from the Structural Funds; and half of the money now spent on the LEADER+ Initiative, which the Commission proposes to discontinue from the end of 2006.

3.19. **Optional approaches to rural development.** At the same time, the Commission was pressing ahead with preparing draft legislation for the rural development component of their proposals. To provoke discussion on this, the Commission published in May the document (previously mentioned) on 'Rural Development Policy post 2006'. This used maps and statistics to describe the state of the rural regions in EU-25 (including information which we quoted at chapter 2, paragraph 2.5). The document set out options for the possible basis of the rural development regime to apply from 2007 onwards. The difference between the options relates mainly to three issues:

- the amount of direction which the European Commission should give to the member states in shaping their rural development programmes;
- the degree of focus upon disadvantaged rural areas; and
- the balance which should be aimed at between three 'policy axes' of rural development, namely (a) restructuring of agriculture, (b) enhancing the environment, and (c) enhancing the quality of life in rural areas and promoting diversification of economic activities through measures targeting the farm sector and other rural actors.

3.20. The three options stated by the Commission were:

➤ (Option 1) **Improved status quo.** Under this option, Member States would design their rural development programmes for 2007-2013 by choosing from the current menu of measures, grouped according to the three policy axes. They would choose the geographic level of programming, either one national Rural Development programme for their territory or several regional programmes covering the territory. Each programme would be based on an ex-ante evaluation and a SWOT analysis of the rural areas covered, and would be designed by the competent authority taking into account the results of stakeholder consultation. For each axis, quantified objectives would be determined where possible and appropriate.

None of the mainstream rural development measures would be compulsory, with the exception of agri-environment and animal welfare in axis 2.

➤ (Option 2) **A more strategic approach.** Under this option, the Commission would prepare a strat-

egy document setting out the EU priorities for the three policy axes. This strategy would identify the strengths and weaknesses at EU level, and would state indicators to measure progress in achieving the EU priorities. It would be adopted by the Council after opinion of the European Parliament, and would then form the basis for the preparation of national rural development strategies by the Member States. Each national rural development strategy would translate the EU priorities to the national situation after stakeholder consultation; would set core result indicators; and would demonstrate the complementarity of rural development programming with other EU policies, in particular Cohesion policy. It would contain a strategy for each of the three axes, with quantified objectives and core result indicators. To ensure a balanced strategy, a minimum funding for each axis (of at least, say, 20% of total programme funding) would be required.

➤ (Option 3) **A more territorial approach.** This option would follow the strategic approach of option 2, but would introduce territorial targeting for all three policy axes. To concentrate on the need to restructure the farm sector in poorer regions, axis 1 would be limited to the two framework measures targeting human resources and the physical endowments of farms in lagging rural areas, which would be defined by the Member State on the basis of objective criteria. Since the long-term viability of many farms depends to a large extent on other income sources on and off the farm, funding for axis 1 at Member State level would be limited to a maximum [say 15%]. More emphasis would fall on axis 2 (to be implemented as under option 2) and in particular axis 3 to be implemented through the LEADER approach (with exclusive implementation of Rural Development measures in the selected territories). The minimum funding for axis 3 would be [say 30%] to be concentrated on lagging rural areas.

3.21. In July 2004, after widespread consultation on the options stated above, the Commission adopted a proposal for a new regulation for rural development policy (memo 04/180 of 15 July 2004), introducing a Single Rural Development Fund from 2007 within the overall Financial Perspectives package for 2007-2013. This was based essentially on option 2 of the consultation document. It provided for the Commission to prepare a strategy document, which would then form the basis for the preparation of national rural development strategies by the Member States.

3.22. The draft regulation outlines the different schemes available to Member States under four categories of measures, called "axes". The scope of these axes is summarised below

1. Measures to Improve competitiveness of farming & forestry (at least 15% of spending): Four types of measure are outlined.

a. Improving human potential (vocational training, start-up grants for young farmers, early retirement

schemes, use of farm/forest advisory services, setting up farm management or relief, and farm/forest advisory services).

b. Restructuring physical potential (farm modernisation, better economic value for forests, added value for primary farm or forest production, infrastructure for developing and adapting farming or forestry, restoring production potential after natural disasters, and preventative actions).

c. Improving quality (support for meeting EU standards, food quality schemes, support for producer groups in promoting food quality schemes).

d. Transitional measures for the New Member States (restructuring semi-subsistence farms, setting up producer groups).

2. Land Management (at least 25% of spending):

Two types of scheme are foreseen:

Support for the sustainable use of agricultural land (Less Favoured Areas -LFA- payments to farmers in mountain areas and areas with other natural handicaps, compensation for disadvantages from Natura 2000 schemes and on-farm non-productive investments linked to Natura 2000, agri-environment and animal welfare payments;

Support for the sustainable use of forestry land (setting up afforestation schemes & agro-forestry systems, Natura 2000 payments, forest environment schemes, restoring forest production potential).

3. Measures to diversify the Rural Economy & the Quality of Life in Rural Areas (at least 15% of spending):

Diversification (support to farmer families for starting non-agricultural activities, start-up and development of micro-enterprises, promoting tourism, managing natural heritage).

Improving quality of rural life (essential services for the economy & rural population, village renewal, conserving rural heritage).

Vocational training in the aforementioned areas.

Measures to stimulate & acquire skills for a local development strategy.

4. LEADER approach (at least 7% of spending spread across the other 3 Axes): Support should be available for implementing measures aimed at achieving the objectives outlined in the other 3 Axes, but run through local initiatives tailored for local needs – notably through a bottom-up approach. These should also include the networking and cooperation of local partnerships.

Rural Networks & Technical Assistance: In order to improve cooperation and information exchange, the Commission also proposes the establishment of both national and EU-wide Rural Development Networks – with up to 4% of each programme allowed to be used for technical assistance.

National policies

3.23. So far in this chapter, we have dealt only with the policies and programmes of the European Union. It is worth remarking that there are significant countries within Europe which are not members of the EU, including some – Norway and Switzerland, for example – which have a good record of maintaining strong rural communities with diversified local economies. But the more significant point is that national and (in many states) regional governments in the EU have a greater say in rural development programmes, and may spend much more money on those programmes, than the European Union. This will remain the case even if the EU expenditure on rural development is at the level proposed by the Commission (see paragraph 3.17), and if the Commission's proposals of July 2004 (see paragraphs 3.21 and 3.22) are approved.

3.24. We do not have space here to summarise the policy approaches of 25 countries to rural development. These approaches vary enormously according to the cultural and political systems of the countries and the circumstances in the rural areas. Some countries have been actively committed to rural development, including efforts to strengthen and diversify local economies, for a very long time. For example, in England, the (Rural) Development Commission was set up in 1909. Austria has been assisting the farmers in its mountain areas to diversify their farm incomes (e.g. through tourism) since the 1960s, as described in chapter 1. Other countries have come into the activity more recently. For example, Slovenia launched its Integrated Rural Development (CRPOV) programme very soon after it gained independence in 1991.

3.25. **LEADER.** We bring in LEADER here because of the stimulating effect which it has had on the thinking of member states. The LEADER Initiative was introduced by the European Union in 1991, to promote the creation in rural regions of partnerships between public, private and non-government interests, and the launch by those partnerships of integrated rural development programmes. It has had three phases – LEADER I from 1991 to 1994, LEADER II from 1995 to 1999, and now LEADER+ from 2000 to 2006. All of these were confined to the EU countries, which of course grew during this period from 12 to 15 in number by the accession of Austria, Finland and Sweden.

3.26. LEADER was novel, indeed for some countries shockingly innovative, in that it was:

- 'bottom-up' in conception, i.e. designed to stimulate action in rural development arising not from government but from the rural people;
- 'territorial', in that the funding is focused upon rural development programmes related to specific rural areas, within the normal limits of between 10,000 and 100,000 population;
- based (in each such territory) upon a formally-agreed partnership between the public sector (e.g.

local authorities), the private sector (entrepreneurs, chambers of commerce etc) and non-government bodies (e.g. civil associations): these partnerships are normally called Local Action Groups (LAGs)

- 'integrated' in scope, in that it was concerned with all sectors of local economies and with the social and environmental well-being of the areas concerned.



A traditional farm house, part of an agricultural museum in Hungary

3.27. A further crucial dimension of LEADER was that it gave specific encouragement, through earmarking of part of the EU funds, to networking between the LAGs in each country, and to transnational exchanges between the whole European network of LAGs. This process was assisted by setting up LEADER Network Units in each country, and a European LEADER Observatory (based in Brussels) to animate the transnational exchanges. The effect of this has been to ensure the rapid spread of good ideas.

3.28. In LEADER 1 (1991-94), the LAGs were chosen and part-funded directly by the European Commission: matching funds came from national or regional governments and from the local partners. A total of 217 LAGs were set up. Their programmes varied greatly in scope and emphasis, according to their conception of the needs of each area. But almost all of them placed major emphasis on job creation and the diversification of their local economies. It is estimated that the equivalent of about 25,000 new full-time jobs were created in the 217 rural regions, as a result of the work of the LAGs. It should be noted that this includes a large number of part-time or seasonal jobs, which can have high importance in providing additional income for farming families and other local residents. (Champetier, 1999)

3.29. In LEADER II (1995-99), the LAGs were chosen by the national or regional governments and the EU funds were channelled through these governments. The emphasis in the rural development

programmes was as broad as in the earlier phase, with a strong focus on job creation. It is estimated that the equivalent of about 100,000 new full-time jobs were created in this phase of LEADER. These jobs arose partly from expansion of existing activity, or from adding value to local products (e.g. by processing milk or timber), and partly from new activities such as rural tourism. The stimulus for job creation might come from an entrepreneur, a local authority, or the collective ideas and action of the local community. (Champetier, 1999).

3.30. The current phase of the Initiative, LEADER+ (2000 to 2006), has a sharper emphasis on innovation and on enhancing the professional skills of people within rural communities. The LAGs are chosen by the national and regional governments, and are each obliged to focus on one of a set of four optional themes. The funding is more generous than that of the previous phase, because the funds through DG-Agri have been increased by the transfer of 5.35% of the budget of the Structural Funds (about 2 billion Euro) to LEADER+.

3.31. **Impact of LEADER.** The text above shows that LEADER has had a significant impact in terms of job creation and diversification of rural economies. This impact should not be over-stated, since many of the areas concerned are still grappling with low incomes and high levels of unemployment or under-employment. But the innovative nature of the Initiative - with its 'bottom-up', territorial, integrated and partnership-based approach - has stimulated thinking, and has animated action at local level in many rural regions of the EU. It has shown that:

- > an integrated approach to rural development can reveal, and realise, new sources of income for rural people;
- > every region has at its disposal a unique set of resources (social capital + environment + financial capital) which can be used in the development;
- > clear thinking about these unique resources can be a starting point for action to improve the lives and the income of local people;
- > the creation of new jobs in rural areas by initiatives at local level can be a more effective and sustainable solution than initiatives proposed from outside.

3.32. The acceptance of such principles by governments, and the impetus and enthusiasm of Local Action Groups, has led to widespread calls for the continuation of LEADER beyond 2006. However, the European Commission has made plain, in its Financial Perspectives document (European Commission, 2004a) and subsequent statements that it does not wish to see any of the present Community Initiatives (LEADER, EQUAL, URBAN, INTERREG) continue beyond 2006. Instead, it is proposing that LEADER be 'mainstreamed' i.e. that the LEADER principle - bottom-up, territorial, integrated, partnership-based programmes - should be applied, to a greater or lesser degree, in national rural development programmes. For this

reason, LEADER is shown as one axis in the national strategies for rural development, proposed in the draft Rural Development Regulation of July 2004 - see paragraph 3.22.

3.33. Mainstreaming of the LEADER principles is already applied in some EU countries. Spain, for example, introduced a national programme PRODER, which supports Local Action Groups on the LEADER model in many regions which do not have LEADER Groups: in total, about 80% of rural Spain is covered by either LEADER or PRODER Groups. Ireland has a complete coverage of its rural region by either LEADER or by Local Action Groups funded by the state. The most fully developed system is perhaps that in Finland (see box opposite).

3.34. The concept of mainstreaming also appears in the Rural Development Regulation for the new member states (see paragraphs 3.15 and 3.16 above). The 'menu' which these states can choose for their Rural Development programmes, with EU funding, includes a 'LEADER-type' measure. We have yet to see how effective this measure will be. Some of the new member states, e.g. Slovakia, do not intend to use that measure; some, such as Poland, are putting most of their 'rural development' funds into topping up of direct payments to farmers; some, such as Estonia, are taking the LEADER approach very seriously.

Local Action Groups in Finland

Effectively the whole of rural Finland is covered by Local Action Groups (LAGs), broadly of the character described in paragraph 3.26. Altogether, there are 58 LAGs. These are funded from four different programmes. 25 groups receive funding from the EU Initiative LEADER+, 19 are funded from the Regional Rural Development Programme (ALMA), 6 from the Objective 1 Programme, and 7 from the national programme for local initiative POMO. One group is funded from both ALMA and the Objective 1 programme. The areas covered by the LAGs vary from 1,000 to 49,000 square kilometres, and from 14,000 to 80,000 population.

The principles for the work of the LAGs are the same, whatever their source of funding. They are all registered associations, open to all local people and organisations. The Board of each LAG is tripartite, in that one third of the members represent municipalities, another third the local organisations, and a final third consists of individual local residents.

Each LAG draws up a development plan, which is implemented through development and business projects. Decisions on projects are made jointly by the LAGs and the government's Employment and Economic Development Centres.

The total funding for the Finnish LAGs, over the 6-year period 2001 to 2006, is estimated at 220 million Euros. Of this total, 85 million comes from the EU, and 90 million from the State.

The rest comes partly from municipalities and partly from the private sector; the proportions vary between the four programmes.

The number of projects funded by the LAGs up to the end of 2003 (halfway through the 6-year programme) was 3,500. About 85% of these projects were development projects, and 15% involved aid for enterprises. All LAGs may give aid to enterprises which are connected to farms. LEADER+ groups may also support other small rural enterprises, including those with no connections to farming, provided that these employ less than five workers; and they may support training for all local residents. The content and objectives of the projects vary greatly. Many of them concern the development of villages, tourism, cooperation, young people, culture and enterprises. The aid to enterprises may be targeted to buildings, purchase of machinery and equipment, training, and wage costs when starting up an enterprise.

An integrated approach to national rural policy

3.35. As mentioned above, the most fully developed system of Local Action Groups is perhaps that of Finland, described in the previous box. Finland is remarkable also for its attempt to take a fully integrated approach to national rural policy. The gov-

ernment focuses not only on 'narrow' rural development, i.e. the programmes which are specifically designed to promote new activity in rural areas, but also on 'broad' rural development, which embraces all the many parts of government which affect the rural services and infrastructure. The justification for this is very simple. A decision by the national health board to close a rural hospital may remove at one blow as many jobs as would be created by 5 years of job-creation work of a Local Action Group. Conversely, the intelligent use of funding for a major infrastructure project may help to regenerate a local economy by creating new sources of jobs and income for local people.

3.36. For this reason, in Finland, the government's Rural Policy Committee brings together representatives of key Ministries and government agencies; and reaches agreement with them on sector-specific policies and inter-sectoral cooperation which reflect the need to protect and enhance rural services. The Rural Policy Committee has close contacts also with the Local Action Groups described in the previous box; and with the national pattern of groups at village level which are described at paragraph 7.21. In this way, the action at different levels, and in the different sectors which we explore in the next three chapters, can be linked.



A winery in Hungary where wine-tasting is offered alongside folk dances

Questions arising from chapter 3 for you to reflect upon.

1. Focusing on your own country, which of the measures covered by the Rural Development Regulations in EU-15 (paragraph 3.9 and 3.11), or by SAPARD (paragraph 3.13) or the expanded Rural Development Regulations (paragraph 3.16) in the accession countries, do you think could best be used to achieve diversification of rural economies?
2. What experience do you have of LEADER, or of local partnerships or programmes based on LEADER-type principles? What conclusions do you draw from this experience about the efficacy of these principles in stimulating the diversification of rural economies?
3. Focusing on your own country, what do you think would be the best balance of effort and expenditure between the four axes of development outlined in the Commission's draft Rural Development Regulation (paragraph 3.22) in order to stimulate rural development, including efforts to diversify rural economies?

CHAPTER 4.

Farms and farmers

4.1. This chapter focuses upon the people who work in what we described in Chapter 1 as the primary activities, namely those related to the growing, gathering or extracting of raw materials, for example through agriculture, forestry, fisheries, mining or quarrying. We are talking about ten of millions of people, throughout the rural areas of Europe, who live on farms or in woodlands and who gain a livelihood or an income from the use of the land. Our main focus here is on farms and farmers, but the principles that we offer can also be applied to forests and other sources of primary products.

4.2. As we explained in chapter 2, the number of people who are working full-time in farming has fallen drastically during the last two centuries, as a result of three main processes – the mechanisation brought by the agrarian revolution, the intensification of farming in western Europe since World War Two, and the collapse of the collective and state farm system in Central Eastern Europe since 1989. The labour force working in agriculture, hunting, forestry and fisheries is now reduced to an average of 4.1% of the total national labour forces in EU-15, and 9.3% in EU-10 (the countries which joined the Union in May 2004). There is significant variation between countries in these figures, e.g. (in EU-15) from 1.4% in the United Kingdom to 16.3% in Greece, and (in EU-10) from 2% in Malta to 19.1% in Poland (figures for the years 2000 to 2002, from European Commission, 2004b).

4.3. This variation between countries in the relative size of the farm labour force is largely explained by the variations in size of farm holding. In some countries – for example the United Kingdom, Denmark or the Czech Republic – most of the farms are large, with full-time workers. In some other countries – Greece, Italy and Portugal, in EU-15; Latvia, Lithuania, Poland and Slovenia, in EU-10 – there are very large numbers of small farms. As we noted in chapter 2, the new member states, plus Romania and Bulgaria, contain 7.5 million farms of below 5 hectares in area, of which 'most cannot provide sufficient income for the farm household' (European Commission, 2004b). This is one major reason for the low levels of average income, and the high levels of unemployment, in the predominantly or significantly rural regions of the new member states of the European Union and some of the more peripheral states of EU-15 (Portugal, Spain, Italy, Greece, Finland).

4.4. **Pluri-activity.** The facts above serve to explain why, already, millions of farm families have needed to diversify their sources of income. Indeed, this is not a new phenomenon, in historical terms. As we explained in chapter 2, farmers in

mediaeval times would commonly have a great variety of livestock and crops on their farm. Many of them would add value to these products, for example making cheese out of milk or bread from their own wheat. Many of them would also gain food, fuel, other resources or income from non-farming activity, such as forestry, fishing, mineral extraction, wood-carving or weaving. These traditions, which we may call 'pluri-activity', continue to this day in many areas. Less than 25% of farmers, and only 10% of their spouses, are working full-time in agriculture; and 30% of farmers, and over 25% of their spouses, have another gainful activity (European Commission, 2004b).



Checking the crop's size

4.5. Current changes in policy are likely to increase the need among farmers to diversify their sources of income. Within the European Union, the change in the system of support to farmers, described in chapter 3, will oblige millions of farmers on the larger farms to react increasingly to the commercial markets for the products that they can produce, rather than to the subsidies previously offered by the EU. They may also be able to draw income from the agri-environment schemes which may have a growing role in the EU support systems. But many of them will also need to secure non-farming income, to supplement what they make from farming, if they are to remain in business.

4.6. This point will apply even more forcefully to farmers on the smaller farms. Let us take Poland as an example. When the process of creating collective farms hit Poland in the late 1940s, some two million farms managed to resist the process, aided by the Catholic church, and stayed in private hands. But these small farms, of average size less than 5 hectares, could not support a family; many

of the men therefore went to work in the towns, leaving their womenfolk to run the farms. After the political changes of 1989, many of these men lost their urban jobs and were obliged to return to the farms. They now form a large part of the high rural unemployment and under-employment in the rural areas of Poland.

4.7. The reaction of the EU to this phenomenon in Poland and the other new member states is to include in the Rural Development Regulation a provision for three years of subsidy to those 'semi-subsistence' farms which submit a business plan showing how they can (within those three years) become 'competitive'. One way for a farm of less than 5 hectares to become competitive will be to grow in size, i.e. to take over a neighbour's farm. It has been suggested, indeed, that the 1.6 million Polish farms of less than 5 hectares should be amalgamated to form (say) 400,000 farms of average four times that size. But that would throw 1.2 million farm families off the farms, causing terrible suffering and unemployment or mass migration to the cities, unless ways are found to offer jobs in the countryside to those families.



Flower cultivation can prove to be a very profitable activity

4.8. This vividly illustrates the need to diversify the income of farmers where possible and to diversify the rural economies in areas with high levels of unemployment and under-employment. **Case study 4.5** offers four examples of ways in which farmers in Poland are indeed diversifying their incomes.

Options for diversifying the income of farmers

4.9. Experience from many parts of Europe suggests that there is a wide range of options which can be considered by farmers who wish to diversify their sources of income. The relevance of the different options to any particular farmer will depend greatly upon the skills and interests of the farmer and his/her family, the physical resources available to them, the local markets etc. We explore these points later in this chapter. But first we outline some of the main options, in the following order:

- Diversifying farm products
- Adding value to farm products
- Environmental work
- Farm-based tourism
- Other activity, on and of the farm.

4.10. **Diversifying farm products.** We described in chapter 2 how the agrarian revolution, coupled with the growth in world trade, tended to oblige farms to become more specialised. The increased exposure of farmers to the competitive market, as a consequence of the changes in EU support systems and in world trade, may well oblige the more intensive farmers of Europe to become even more specialised. But the growing interest in local products, organic food, alternative energy and similar ideas is offering farmers a new choice of things that they might produce.

4.11. Three examples may illustrate this. **Case study 4.1** describes a family in **Poland** who have increased the size and profitability of their farm by moving into production of ostrich meat. In **England**, there is growing demand for organic vegetables and fruit supplied direct from the farm to the consumer, who may receive each week a box of seasonal products. This has prompted a growing number of farmers to move into vegetable production, instead of what they were doing before. In **Sweden**, there is growing use of biomass as a source of energy. Power stations to produce electricity from biomass have been built in regional towns; and these enterprises make contract with farmers to plant fast-growing willow, which is cropped every few years – see **Case study 4.2**.

4.12. **Adding value to farm products.** In chapters 1 and 2, we described how the local link between the production and the processing of farm products, which used to be very close in mediaeval times, had to some degree broken down, because of changes in economic structures. The effect of this is to make the economy narrow, and to deprive many rural areas of the added value which can come from locally-based economic chains. Farmers may receive only the basic prices for the primary products, while the additional money that gets attached to those products may stay mainly in the cities.

4.13. Nowadays, there is growing interest in reviving the idea of adding value to farm and forest products within their areas of origin. In this way, more of the 'links' in the economic 'chains' (described in chapter 1) may be kept in the rural areas, and it is even possible to knock some of the links out of the chain, so that the producer relates more directly to the consumer. **Case Study 4.3** offers an example in England, where a Wood Products Producer Group has been set up to promote sustainable woodland management and more efficient marketing of woodland products.

4.14. There are many different ways to add value to farm and forest products. First, the quality of

the product may be improved, in order to justify increase in its sale price. The intense world competition in the wine industry, for example, is leading wine producers in many countries to raise the quality of their product. This enhanced quality is then the subject of intensive marketing, often with an emphasis on the distinctive quality which a product has by reason of local tradition and local growing conditions etc. This idea of distinctive local quality has been reinforced by the system adopted by the European Union for protecting foods of local origin, see box.

Protecting foods of local origin

Throughout Europe there is a very wide range of high-quality foods, of long-established local origin. These can be a great asset in the effort to sustain and value of food in local economies. However, when a product acquires a reputation extending beyond national borders, it can find itself in competition with products which pass themselves off as the genuine article and take the same name. This unfair competition not only discourages producers but also misleads consumers. That is why, in 1992, the European Union created systems known as PDO (Protected Designation of Origin), PGI (Protected Geographical Indication) and TSG (Traditional Speciality Guaranteed) to promote and protect food products.

***PDO** is used to describe foodstuffs which are produced, processed and prepared in a given geographical area using recognised know-how. With **PGI**, the geographical link must occur in at least one of the stages of production, processing or preparation. **TSG** does not refer to the origin but highlights traditional character, either in the composition or means of production. The aim of these designations is to encourage diverse agricultural production; to protect product names from misuse and imitation; and to help consumers by giving them information on the specific character of the products.*

In order to register a product name under one of these categories, a group of producers must define the product according to precise specifications. They must send an application, including the specifications, to the relevant national authority, where it will be studied first and thereafter transmitted to the European Commission. Here the application will undergo a number of control procedures. If it meets the requirements, a first publication in the Official Journal of the European Communities will inform those in the Union who are interested. If there are no objections, the European Commission will publish the protected product name in the Official Journal of the European Communities.

4.15. Second, value can be added by selling products directly to the consumer, for example through farmers' markets, farm shops or direct supply to hotels and other outlets. In this way, the farmer can gain the full retail price of his product, rather than accepting say half price or less from a whole-

saler or a supermarket company. For example, the Cilento region in Italy has achieved a remarkable growth of the mozzarella cheese industry, following an effective and clever marketing of this traditional product through direct sales to tourists at farm outlets along main roads. At Barenton, France, the Regional Park authority of Normandie-Maine has converted a group of traditional farm buildings to form the "House of the Apple and the Pear", where visitors can discover the local traditions of growing fruit and producing cider, calvados and other drinks. From the centre, the car-borne tourist can follow itineraries to visit farms to sample and purchase these products. Thus spending by visitors flows out into the local economy and helps to sustain the traditional farming activity.

4.16. Third, value can be added by processing the products on or off the farm. **Case study 4.4** describes an example from Sweden of a farmer who processes his own meat. Styria, in Austria, has a provincial law which permits farmers to run farm-based restaurants, which are called '*buschenschenken*' because their standard symbol is a cut bush mounted on a pole. The law imposes two conditions – that the farmer may not offer hot food, which would compete directly with traditional restaurants; and that at least 80% by value of the food and drink sold in the *buschenschank* shall be produced by the farm itself. The result is that several hundred farms are able through their farm restaurants to get full retail value, plus a service charge, for their wine, cider, meat products, bread, vegetables, fruit, milk etc; and the people from surrounding towns are able to find an agreeable meal in a rural setting.

4.17. **Environmental work.** There is growing concern, among governments and international organisations throughout Europe, for the maintenance and enhancement of the quality of the rural environment. This concern is reflected in the EU Birds Directive, the Habitats Directive, the Natura 2000 programme, the Pan-European Biological and Landscape Diversity Strategy, the European Landscape Convention and other measures and programmes. Under these measures, a formidable network of sites, covering roughly one third of the total land areas of the EU, has been identified as needing protection and care; and there is growing realisation that sound environmental management is needed in virtually all rural landscapes, with their heritage of both natural and cultural features.

4.18. Across a large part of Europe, these qualities of biodiversity and landscape have been created by the activities of farming, livestock husbandry, forestry and related activity. In other words, the habitats and landscapes have been created or changed by human action. If these habitats and landscapes are to be maintained and enhanced, this human activity must continue. That is why there has been growing emphasis, within the CAP, on the 'agri-environment' schemes which were first introduced in the United Kingdom in the 1970s and have since become an integral part of the CAP – indeed, the

only element in Pillar 2 of the CAP that member states are currently obliged to include in their rural development programmes. These schemes, under which farmers receive grants in return for active work in maintaining and enhancing wildlife habitats or landscape features on their land, now give a useful secondary income to many tens of thousands of farmers in the EU.

4.19. The Mid-Term Review of the CAP, described at paragraph 3.10, may change the basis of support for environmental work by farmers, in that farmers will be expected to undertake the proper management of their land as a condition of the Single Farm Payments (SFP). This means that in future, the agri-environment payments (which are additional to the SFP) will relate to work beyond that which falls within what is defined as proper management. However, the European Commission's proposals for the regime that will apply beyond 2007, as described at paragraphs 3.21 and 3.22 above, do provide for continuation of agri-environment schemes. Such schemes will, in particular, apply in large parts of Europe's Less Favoured Areas, where the marginal character of farming and the fragility of social structures are often accompanied by high environmental values which can justify long-term public support for action to protect those values. So, it should be possible for many farmers to gain income from environmental management, for which they traditionally have both the skills and the equipment. Moreover, this work can extend beyond the farm, as shown by the fourth part of **Case study 4.5**, which describes the services offered by an enterprising farmer in Poland.

4.20. **Farm-based tourism.** Many thousands of farmers in France, Germany, Italy and other countries gain a significant second income through offering accommodation or activities to tourists. These services, often referred to as agro- or agri-tourism take a variety of forms, for example:

- Bed and breakfast - the visitor is accommodated in the farmhouse and offered a substantial breakfast as part of the service. Some visitors stay one night or two, others for a week or more.
- Half, or full, pension - an evening meal may be added (half pension) or both mid-day and evening meals (full pension), all provided by the farmer. In France, the offer of evening meal is called *table d'hôte* (the host's table): this means eating, with the farmer, a generous meal with dishes made from the farm's own products, with local wine. In this way, the farmer offers a special experience to the visitor, and adds value to his own products.
- Self-catering accommodation - many farmers do not wish to cook for their visitors, but have buildings which they have converted into holiday flats or cottages, equipped so that the visitors can cook their own meals.
- Activities for visitors, who may either be staying on the farm or simply coming in for the day. The activities may include horse-riding and pony-

trekking, fishing, shooting, water sports, educational visits, and opportunities to 'pick your own food' (such as soft fruit). Gize farm (case study 5.2 in Euracademy Thematic Guide 1) provides a versatile example of this.

4.21. Such farm-based holidays bring money into the farm economy, and promote contact between rural people and town-based visitors. They are often marketed through national organisations, such as Gites de France, Urlaub auf dem Bauernhof (Germany), Magyar Falusi Turizmus (Hungary), Irish Farm Holidays, Agriturismo (Italy) and Privetur (Portugal). These national organisations work together for international marketing, through Eurogites (the European Federation of Farm and Village Tourism), see www.eurogites.org. The quality of the accommodation, and of other services provided, may be regulated by these associations or by national tourist boards. The marketing may also be handled by individual farms, or by local associations of farms, using the Internet. Case study 7.3 in Euracademy Thematic Guide 2 describes the co-operative marketing of farm guesthouses in the Peak National Park in England.



Innovative and imaginative attractions organised in farms can prove to be a magnet for tourists

4.22. **Other activity, on and off the farm.** The seasonal nature of much farming activity, and the opportunities provided by the rural location of farms, have contributed to the historic pattern of pluri-activity by farmers and their families. Examples are the combination of livestock farming and forestry among the farmers in the Alpine valleys of Austria; of farming and weaving of tweed among the crofters of the Hebrides islands in Scotland; or of fishing and farming on the west coast of Ireland. Members of farm families throughout Europe may live on the farm but work in the shops, banks, factories and other enterprises in the locality.

4.23. The growing emphasis on multi-sector rural development, described in chapter 3, may provide a growing range of opportunities for farm families to diversify their income in this way. The farmers themselves can become entrepreneurs, using the resources of land, machinery etc that they control.

This is well illustrated by **Case study 4.5**, already mentioned; and by **Case study 4.6**, which is an ambitious example of a farm-based enterprise designed to bring visitors to the farm and thus to create employment there.

Implications for the farmer

4.24. A farm family which is looking for new sources of income should think clearly about what resources will be needed in order to attract that income. A new economic activity may make demands upon the time, skills, land, buildings or capital of the farm family. To comment briefly on these:

➤ **Time.** A new enterprise or activity may be time-consuming. The farmer should be sure that he/she or members of the family can spare the time from the continuing farming activity. This may be achieved by focusing a new activity on the season which has little farming activity. Where the farming and the new activity must coincide, the responsibility for each may be taken by different members of the family: for example, most farm-based tourism enterprises are managed by the farmer's wife, while the farmer takes the lead on the farming.

➤ **Skills.** Farmers tend to have practical skills, and some ability as entrepreneurs. But this does not necessarily mean that they can easily run other businesses. If they seek to diversify into new activity, they may need to ensure that they or their family or employees gain skilled advice and training in order to be confident.

➤ **Land.** A new activity on the farm may make demands upon land, and must therefore be accommodated within the existing farm regime. For example, land may need to be taken out of the normal rotation pattern for use in growing willow for biomass energy.

➤ **Buildings.** Activities such as farm shops, food processing or farm-based tourism may need covered space, which may be produced by converting existing farm buildings and by new construction. On larger farms, the buildings which are surplus to farming needs or no longer suited to modern agricultural use, may be the 'trigger' for new economic activity. For example, many of the *gites* which are offered as holiday accommodation on French farms have been converted from old barns of traditional character, which adds to their attraction to visitors. The farmer needs to work out which buildings he can spare, and how the different uses can be accommodated, in order (for example) to keep cattle and holiday-makers separate.

➤ **Capital.** New enterprises, whether on or off the farm, tend to need money to launch them. Farmers are often rich in 'fixed' capital (e.g. land and buildings), but not in 'liquid' capital i.e. money to spend on new enterprises. Help may be needed, in the form of loans from banks or grants from public bodies, to fund the new enterprises.

4.25. Because of these implications for the use of the farmer's resources, many of the new activities or enterprises launched by farmers tend to start small and to expand progressively, which (as we shall see in the next chapter) is characteristic of small enterprises generally. The implications stated at paragraph 4.24 also explain why farmers may need active support from public and private bodies in their efforts to diversify their income. This support may come from banks, in the form of loans; from farm cooperatives and groups, in terms of joint purchasing, joint marketing etc; from organisations which offer training and advice; from local authorities whose permission and support may be needed for new uses of land or buildings; or from governments in the form of fiscal or financial help.



Ostrich farming has been promoted in the framework of the LEADER Initiative and has supplemented farmer's income

4.26. A good example of governmental support is provided by the action of the Austrian government in the 1960s to encourage the farmers in the Alpine valleys to diversify their income through development of farm tourism, as described in chapter 1. The government offered 60% capital grants towards the costs of creating tourist accommodation on farms, up to a maximum of 20 tourist beds per farm; and also granted a 10-year tax holiday to these new tourist enterprises. The result is that a high proportion of the farmers in these valleys offer tourist accommodation, and gain a higher net income from this activity than from farming.

Questions arising from chapter 4 for you to reflect upon.

1. What action do you think should realistically be taken to address the financial needs of the 7.5 million farmers (in the new EU member states, plus Romania and Bulgaria) on farms of less than 5 hectares in extent, many of whom are living at our near subsistence level?
2. Do you have direct contact with farmers? If so, what do they think about their own future? What action do they think should be taken by the EU and /or by governments to assist them? Do you agree with them?
3. Looking ten years ahead, what changes do you expect in the structure of farms in the rural region that you know best? What effect will those changes have upon the economy and the landscape of that region?

Case study 4.1.***African ostrich farm in Pluznica, Poland***

Pluznica is a small village in Central Poland. A family in the village used to have a 5 hectare farm, with old cherry trees and other conventional plants that were no longer profitable. They decided to put their savings into ostrich farming, a rather high-risk investment which they expected however to be more lucrative than these conventional farming activities.

They expanded the farm area to 16 hectares, including an open area for the ostriches and fields for production of cabbages and lucerne. They took advice about breeding ostriches from other Polish breeders, and imported ostriches from Denmark. They

now have 25 adult ostriches, in the proportion of one male to two females. The facilities are well organised and maintained. The nestlings and juniors are separated in a heated building, and the adults are protected in a wooden shack: there is also an incubation room.

The farm is run by the family, mainly the father and son. The logistics are quite efficient as the market is nearby. They sell nestlings, eggs, and ostrich meat, and they export live animals to Russia, Ukraine and Lithuania. They receive day visitors who come to see the farm and to buy their products.

The father is chairman of the Polish Association of Ostrich Breeders. He is a strong advocate of ostrich meat, and is active in promoting it on the Polish market as a clean, low-cholesterol product. However, ostrich farming is still marginal in Polish agriculture; the meat is quite expensive and still

unfamiliar to Polish people, which increases the need for efficient marketing, both in Poland and abroad.

This is a good example of sustainable rural development and diversification of rural economies. The family's experience is that ostrich farming is five times more profitable than the conventional farming and less labour-intensive. This kind of activity is supported by the local authorities

and through EU subsidies, but may be hindered by excessive regulations and bureaucracy.



The incubator room for the nestlings and junior ostriches

Contact: www.euracademy.org

(Source: this case study was taken from the report of the study tours made during the 3rd Summer Academy)

Case study 4.2.***Yttregård – products from willow, Sweden***

Yttregård is a small farm in Hålland county, in the south of Sweden. It has 25 hectares of arable land, plus a further 15 hectares on a long-term lease.

The owner Per-Erik Yttregård took over the farm in 2001 from his father, who in 1978 had decided to use all the arable land for production of fast-growing willow (*salix*), for use as wood-chips in producing biomass energy. By the 1990s, competition with other energy sources had reduced the profits from this activity, so father and son decided to explore new markets for the willow.

They sent a sample of long willow sticks to the Swedish National Road Administration, with a suggestion that these be tested for use as road-markers in place of the plastic markers. The test was successful, and the Yttregårds began to deliver willow road-markers over the whole of Sweden. The demand for this product is such that they had to take on more land on a contract basis. They harvest the willow every 2nd or 3rd year, up to the age of 20 years; after that age, the willow needed to be replanted, using cuttings. They also supply cuttings to other farms, which produce willow for energy purpose.

During the last five years, they have developed other ideas, using the flexibility and durable quality of the willow. They now offer plait baskets, fences, shelters and other products for the garden, all made of willow. They sell directly from the farm, or by mail order through a Website. They use garden centres and garden-tool shops as sales agents in Sweden, Denmark and Germany. The enterprise provides jobs for three people.

Yttregårds' experience is an interesting example of innovation within a farming enterprise, the search for new markets, and the use of non-food crops. The starting-point was a crop that they were already producing. They have diversified the use of this product, and developed their own skills and technical solutions in the process. Yttregårds now has good prospects for the future.

Contact: Per-Olof Yttregård, Yttregård, 311 96 Heberg, Sweden, www.salixprodukter.se



A plait fence and wheel-card made from willow in Yttregård farm

Case study 4.3.**Woodland Products Group, United Kingdom**

This project, funded by LEADER+ and starting in January 2003, was designed to address the decline in woodland owners' income, to promote the traditional coppice management system, and thereby to enhance biodiversity, landscape and recreational value of the woods, and to maintain local jobs within the woodland industry.

In the past, coppiced woodlands formed an important part of the British regional rural economy. But coppicing (which involved cutting the stems of trees on a cycle of about 15 years, then allowing re-growth) has declined because of changes in work patterns and competition from imported timber and wood products. The hills of the mid-Kent Downs are heavily wooded, with an active remnant coppice industry mainly producing chestnut fencing materials and firewood. There are many woodland owners ranging from substantial estates to farms, who have been expressing increasing concern over the loss of what was, in the past, a steady income with little outlay.



Pale bundles awaiting collection

The Woodland Products Producer Group arose from a project which aimed to pursue a radical approach to restructuring the supply chain. The objective was to enable woodland owners to work together to respond to market opportunities. Many large retailers now require all wood products to have FSC (Forestry Stewardship Council) certification to re-

assure consumers that they are contributing to sustainable woodland management, but it is expensive for individual woodland owners to achieve this certificate.

A proposal for grant aid (160,000 Euros) was submitted for setting up a Wood Products Producer Group to produce management plans for harvesting programmes and a group certification scheme. Preliminary meetings were held and a consensus was reached among woodland owners that a collective Producer Group, with a non-profit organisation status, was the best way forward. Such group could coordinate all aspects of the supply of wood products and could shorten the supply chain, benefiting end users, and hence operating more successfully in the market place. In the long term, it is expected that the Producer Group will be a self-financing viable business and will no longer require any form of grant aid. One of the 'drivers' for this initiative was that a large commercial charcoal company was looking for premises in the area, creating a new demand for considerable quantities of FSC timber.

Although the bid was successful it is now being revised and rewritten as changes have taken place in national policy resulting in grants being made available directly from the Forestry Commission to produce the plans needed to achieve certification. Meanwhile the charcoal production company has been set up in South Wales – a deprived area with objective status – where they could get capital funding to set up the factory.

So the original rationale for the project has become obsolete and funding will now be concentrated on setting up a marketing (or producer) group and on direct marketing of timber and wood products.

Contact: Debbie Bartlett at debbiebartlett@compuserve.com (participant to the 3rd Summer Academy)

Case study 4.4.***Mostorps farm – Integrated production of meat, Sweden***

Mostorps farm is in Hålland county, in the south of Sweden. The farm dates from the 16th century, and has been in the same family for many years. It is 300 hectares in extent, used for grazing of cattle and production of animal feedstuffs, mainly silage.

The owner and manager is Peter von Braun. He took over the farm from his father in 1988, after studying at Agricultural University. At that time, the main production was cereals. Peter decided to introduce cattle and to add value by processing meat, to be sold directly to supermarkets, restaurants and private customers.

He started in 1988 with 40 cows of mixed race (Charolais, Simmental, Hereford and Angus), suited to meat production. He sent the calves to a private slaughter-house, not far from the farm. He delivered the meat to shops, and used advertisements in local newspapers to attract private customers to buy directly from the farm. He developed the production and increased the numbers of cows.

By 1995, he had 400 cows and calves. He then invested in his own slaughter-house and processing room for the production of sausages, hamburgers, liver paste and brawn. His label "Meat from Mostorp" became well-known, with a guarantee of ecological production, and this helped to increase the demand. More recently, he has invested in a modern barn, for use mainly by the calves. Part of the barn is connected with the slaughter-house, so that the calves can go quickly to slaughter without becoming nervous.

Today, there are 800 animals on the farm, including 230 cows. Peter feels that this is the best size for the enterprise, and he does not plan any further increase, even though he cannot meet all the demand for his meat. However, each year he buys calves from other farms. He himself feeds the animals and manages all other work on the farm. He uses a contractor to harvest the silage; in this way, he does not need to invest 250,000 Euro in machinery which would only be used for two weeks in the year.

The enterprise now employs three people in addition to Peter von Braun – a part-time butcher, and two people working in the processing room. Peter delivers meat and other products twice a week to 40 shops and supermarkets in the south of Swe-

den; and also to private customers in packages of 20 kg or 40 kg. His marketing costs are very low. The website and the "Meat from Mostorp" label are very important for this purpose.



The well-known "Meat from Mostorp" label advertising local, ecologically produced farm products

In comparison with other farmers who only deliver their animals to a slaughter-house, Peter gains on average a 50 % higher price for his meat. The customers pay for the high quality of the meat and the knowledge of the well-being of the animals on Mostorps farm.

Mostorps farm is good example of how to go from conventional farming to a more market-oriented production with high added value. It is also an example of good farm management, and how to use and combine the resources inside the farm. It shows how an enterprise can grow gradually over a period of time, as the farmer learns from the process, avoids too great risks and uses the profits to generate the money needed for growth.

Contact: Peter von Braun,
Mostorps Gård, 31044 Getinge, Sweden,
www.mostorpsgard.se

Case study 4.5.***Different enterprises run by small farmers in Poland***

Four examples may illustrate the variety of new enterprises started by farmers in Poland, in order to diversify their income:

a. **Processing of plastic.** Tomasz Prusak has a farm of 15 hectares, breeding pigs and growing grain and potatoes. He wanted a new source of income, and in 1995 started an enterprise to buy used plastic and process it. He had the necessary knowledge and some financial resources, plus a barn to house the activity. He started with simple research into the market for processed plastic, made contact with like-minded entrepreneurs, and took out a loan to buy the equipment. He buys and processes the plastic and then sells it in the form of granules. He operates on a cash basis, and has loyal customers but no long-term contracts. The business is developing well, despite some obstacles from local authorities. Mr Prusak hopes to keep the production on the current level and not expand it.

Contact: Tomasz Prusak, Szabda 28, 87-300 Brodnica, Poland, tel. +48 56 498 1984

b. **Horse riding.** Marcin Lewandowski has a farm, producing vegetables and grain, within the area of Nadwisillanski Park Krajobrazowy nature reserve, close to the Bory Tucholskie forests. This provides a perfect countryside location for horse riding. In 1993, he was given a horse by his father; this prompted him to diversify his farm business by breeding Wielkopolska horses. In 1998 he gained a certificate which allowed him to provide horse-riding services. He then opened a horse-riding centre, which offers recreational horse riding for the general public, including beginners, and special services for handicapped people.

The business involved some modernisation of the farm buildings, which he financed. He now owns 10 horses and equipment such as carts and sledges. He employs two persons full-time around the year, and several more during the summer. The services are advertised in the local press, internet and horse riding publications. The business has close co-operation with the local authorities. In the future, Mr Lewandowski would like to be able to provide accommodation for horse-riding tourists on his premises, and also to broaden the range of his horse-riding services.

Contact: Marcin Lewandowski, ul. Kniatek 24, 86-170 Nowe, Poland, tel. +48 52 332 7750

c. **Transport services.** Hanna Siebor has a farm of 19 hectares, producing grain and breeding and feeding horses. Her husband has his own separate transport firm. In 1992 she started her own transport service business to diversify her income. Demand for this service did not pick up until 1999,

but since then the activity has expanded. The service is based on transporting trade material such as construction materials or stones. The service is nation-wide, but relies mainly on local customers; the timing is very flexible, so that drivers and transport are on full 24-hour availability.

The business employs one full-time person. In emergency, Mrs Siebor can rent vans from her husband's firm. The business is promoted in various ways including Internet, local press, and local yellow pages. It has proved to be profitable. Mrs Siebor has secured long-term customers with 3-year contracts, which gives her confidence to develop the business further. As a sign of that, she has taken out a bank loan, to supplement her family's financial support. She also hopes to diversify her focus to agrotourism, building on her personal interest in horses.

Contact: Hanna Siebor, Bruki Unislawskie 10, 86-260 Unislaw, Poland, tel. +48 56 686 6247

d. **Forestry services.** The final example is a non-farming enterprise started by a Polish farmer to supplement the income from his very small farm. This farm is 1.8 hectares in size, producing vegetables, poultry and pigeons. Since the farm is so small, and with poor soil, almost all the food produced is consumed by the household. Some of the vegetables are sold through a local food shop, run by the farmer's wife.

The farmer, who is now age 47, decided in 1995 that he must bring additional income to the household. He had some experience working in forestry. He owned a delivery vehicle and petrol-powered saw. With this equipment, he set up a business to offer forestry services, and the sale of firewood and of tree seedlings. He has relied on his own financial resources; and has managed gradually to expand the range of his equipment, now including 2 power saws and 3 mowers, which have allowed him to offer a wider range of services.

The enterprise is based on planting and taking care of trees; gathering available forest wood, for conversion into firewood; and the sale of this firewood and of tree seedlings. The orders come mainly from the forest inspectorate, and from individual customers. The farmer is not very optimistic about further development of his enterprise, because he has very little money to invest. However, he intends to continue the work, and is planning to buy a new delivery van to transport the wood.

Case study 4.6.***Multiple enterprise on a farm, England***

Forrest Hills farm is set in the county of Lancashire, in North West England, 8 kilometres south of the historic town of Lancaster (population 140,000). The farm is 70 hectares in extent, including 2.5 hectares of woodland and a large area of undulating open grassland. This was previously used for livestock farming, with production of milk, beef cattle and sheep. Now, the farm offers a fishing lake, a golf course, management training courses and other facilities.

This radical change has been master-minded by two brothers, Ken and Colin Newsham. Their first thoughts on diversifying the farm enterprise were prompted in the early 1990s by government announcements in the farming press, stating that grants of up to 25% were available towards the capital costs of creating new enterprises in farms. The Agricultural Development Advisory Service offered advice on diversification and put the brothers in touch with a local architect. He advised them to focus on the river which flows across the farm. They used the river water to flood some low-quality fields, creating a 2-hectare lake. They funded the project by selling the topsoil and the beef animals.

The lake was then used as the basis for a fishing centre, where visitors pay to fish. This was so successful that the brothers decided to add an area for clay-pigeon shooting. They built a wooden lodge, where fishing and shooting guests can eat a buffet lunch prepared by outside caterers. The next step was to take some of the poorer land on the higher slopes and turn this into a four-wheel driving course, with soil excavated from the lake; now, off-road driving lessons are given for jeeps and other all-terrain vehicles.

The brothers had been considering whether to sell the milk quota that was attached to the farm. This

quota had risen in value, and the brothers decided to sell the quota and to use the money to create a 9-hole golf course. Lancaster University then approached the brothers, and asked them to provide management training and team building courses on the site.

The result of all these changes, taking place incrementally over a 10-year period, is that Forrest Hills has been transformed into a many-sided enterprise, harmonising recreational activities and training courses into a once totally agricultural business. The new enterprise was profitable from the second year. Although current profit levels are similar to those achieved when farming, the turnover and the workload are lower. The profits are continually re-invested in developing the site, and there is capacity for further growth, whereas the previous farming business was operating at its maximum capacity with few options for increasing turnover and profit. The business now uses less than half the available buildings and land, leaving considerable options for development. The farm had employed only two people; Forrest Hills now provides employment for the two owners, two full time and one part time staff, a bookkeeper and a local caterer. It also provides office space for a management training company and workspace for a community



The Newsham brothers in their picturesque farm

composting company.

The Newsham family did nearly everything themselves. They have received hardly any subsidies and the investments are covered by income. Although 80% of their income is now generated by non-agricultural activities, they still think of themselves as farmers.

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CHAPTER 5.

Small and medium-sized enterprises

5.1. This chapter focuses mainly on the people who work in what we described in Chapter 1 as secondary (or processing) activities. However, the principles to be explored may apply to small and medium-sized enterprises in all sectors of the rural economy.

5.2. **What are small and medium-sized enterprises?** The European Union defines small and medium-sized enterprises (SMEs) as:

'enterprises which have fewer than 250 employees, and have either an annual turnover not exceeding ECU 40 million or an annual balance-sheet total not exceeding ECU 27 million.'

Within this broad category, a small enterprise is one which has...

'...fewer than 50 employees, and either an annual turnover not exceeding ECU 7 million or an annual balance-sheet total not exceeding ECU 5 million.'

Micro enterprises are

'enterprises having fewer than 10 employees'. (European Commission 1996).

5.3. **The importance of SMEs.** Some indication of the importance of SMEs in the economy of Europe may be gained from statistics relating to Europe-19 (the EU countries, Iceland, Liechtenstein, Norway and Switzerland). In 2002, there were in those countries over 20 million enterprises in non-primary private enterprise, providing employment to almost 122 million people. The vast majority of these enterprises were SMEs, representing two-thirds of this total employment; about half of this total in SMEs were employed in micro enterprises (European Commission 2002a). In the same year, in the then 13 EU candidate countries, SMEs made up 72%, and micro enterprises made up 40%, of total employment (European Commission 2002b). In Poland, SMEs currently provide almost 4.8 million jobs, which is 83% of all registered employment in the private sector and almost 60% of total employment in the country; however, most of these jobs are located in urban areas.

5.4. **SMEs in rural areas.** SMEs are especially important in rural economies, since these economies tend to have a low component of enterprises larger than 250 employees. As an example at national level, most rural enterprises in Finland are micro-enterprises; 86% of all rural companies employ less than 4 people. The total turnover of these rural micro enterprises is only 11.1% of the total turnover of all companies in Finland; but their importance to the rural economies is far higher than that (Statistics Finland 2003). For that reason, the

creation, survival and growth of SMEs in rural areas is a key aim of rural development strategies throughout Europe.

5.5. **Advantages.** Rural areas and SMEs are, in fact, well suited to each other, in the following ways:

➤ Rural settlements tend to have small populations, so that the available labour-force is not large; but this means that a few jobs in a small or micro enterprise can make a great difference in the local economy

➤ Wage levels tend to be lower in rural than in urban areas, so the rural SMEs can avoid high wage costs; moreover, the workforce in many rural areas tends to have good skills and good motivation

➤ Similarly, rural rents tend to be low, which allows SMEs to avoid high costs on premises

➤ Rural areas often offer clean, quiet, attractive environment and high quality of life, which may attract entrepreneurs

➤ Rural areas offer raw materials (e.g. from farms and forests), traditional skills and other resources, which may provide a starting-point for the creation of SMEs. **Case study 5.1** provides an example of an enterprise in Poland based on processing of local organic food.

5.6. **Disadvantages.** However, one must also recognise the disadvantages which SMEs may find if they are located, or consider location, in rural areas. These may include:

➤ The limited size of local markets in rural areas, and the long distance to larger urban markets in which their products or services may be sold

➤ The narrow range of training and other expert services which may be available in rural areas

➤ The difficulty for rural SMEs to specialise, because of the shallow local demand of their products; this may force them to work part-time or to diversify their activities, thus stretching further their scarce resources

➤ The lack of local competition, and the low wages and low wastage rate of personnel, may mean that the rural SMEs have little incentive to invest in development activities and innovation

➤ The lack of other enterprises in the same field of business may mean that there is limited stimulus for creative thinking

➤ Rural areas may lack the infrastructure which some enterprises need, such as good transport routes or high-grade telephone services. In Thematic Guide Two, we emphasised the 'digital divide', whereby some rural areas simply do not

have access to the broadband cable and other services which are essential for those enterprises which need to make intensive use of ICT technologies. (North & Smallbone 2000)

5.7. The entrepreneur. In considering how SMEs may be enabled to appear, to survive and to grow in rural areas, one should focus first on the entrepreneur, whose personal abilities are indeed the most vital element in any business. The need is for people who are independent-minded, willing to act and to take financial risk, and well organised. Such people can certainly be found in many rural areas. In the study of SMEs in Europe-19, the average age of a new entrepreneur was found to be 35, showing that the decision to start a business is taken after completing education and acquiring some experience in working life. More than 29% of all entrepreneurs in Europe-19 are women. Their enterprises are mainly active in retail, business and personal services; just one in ten enterprises owned by a woman is in transport and communication (European Commission 2002b).



Study group participants in the 3rd Summer Academy learning to make objects from clay in the ethnographic museum of Torun, Poland

5.8. The process of creating and running a small business should be seen as a learning process influenced by the character of the individual entrepreneur. That character tends to determine the nature of the enterprise (Littunen 1994). Luoma (1994) describes successful entrepreneurs as considerate, analytical and perceptive. Less successful entrepreneurs try to make fast decisions, cannot distinguish the essential factors, find it hard to make right decisions and experience new things as threats. Kupiainen *et al* (2000) list features such as determination, sound planning, clear analysis of options, strong orientation towards success, a sense of responsibility, the need for challenges and a sense of enjoyment when responding to those challenges.

5.9. Other factors for success of SMEs may include:

➤ From within the enterprise, good products, good market intelligence to ensure that the products remain suited to the markets, competent and mo-

tivated personnel, good location, up-to-date production technology and methods, efficient accounting and control systems (Laitinen 1989); plus good customer relationships, quality of services, flexibility and reliable delivery (Ruokokangas 1996)

➤ From outside the enterprise, factors such as legislation, competition and demand for the products (Ruokokangas 1996).

➤ Support from other entrepreneurs, through co-operation networks both locally and on the markets. Such support can be particularly valuable in relation to market information, marketing, supply chains, joint purchasing, loan of equipment, and personnel training. These are fields of activity which can place heavy demands on the stretched resources of small companies, so that outside help may be especially useful (Ruokokangas 1996).

5.10. Support for SMEs. The brief summary above of the factors for success of SMEs points towards the ways in which public bodies and others can support the creation, survival and growth of SMEs. The main areas of support may be:

➤ Simplicity and flexibility in tax systems, social security etc affecting SMEs. Those who manage SMEs can readily become overburdened by all the regulations that they must understand and observe. Tax holidays can be a significant incentive to the creation of new SMEs, see for example the description of how farm tourism enterprises were encouraged in Austria, paragraph 4.26 above.

➤ Grants towards the capital costs of establishing or equipping enterprises can influence not only whether an enterprise is created, but where it is located. Grants may come from government agencies, LEADER Groups, Foundations and others. **Case study 5.1** provides an example of grants from a Foundation.

➤ Loans, including access to credit even where the SMEs are unable to offer an individual guarantee. In the study of SMEs in EU-19, it was found that 65% of the SMEs were satisfied with their banking services; of those that needed a loan in the previous three years, 84% had obtained it (European Commission 2002b). Meeting the needs of micro enterprises may require flexible solutions, such as the mutual guarantee funds for micro enterprises in south-east Poland, for which initial funds were provided by the Carpathian Foundation.

➤ Provision of support services, such as technical, legal and managerial advice and information centres. In the study of SMEs in EU-19, support services in general were seen by SMEs as positive, but the use of them appeared to depend partly upon the skills of the entrepreneur; the higher the educational level, the more the new entrepreneur made use of the support services (European Commission 2002b).

➤ Training for employees. In small rural enterprises, the long distances and the fact that the production process binds the employees to their work may make it difficult for the personnel to par-

ticipate in training or other development processes. One solution for this could be provided by Information and Communication Technology (ICT), which can liberate enterprises from some hindrances of time and place (Karjalainen & Era 2001).

➤ Provision of buildings to be rented by the enterprise. This can be a significant help to an entrepreneur, because it means that he/she does not need to devote precious capital money to buying and converting a building, but can rather put those funds into equipment, marketing and other operational costs.

5.11. A proactive approach. Support of the kinds described above may be given in a reactive way (i.e. responding only to the initiative of the would-be entrepreneur) or a proactive way (i.e. giving vigorous leadership). The experience of LEADER Groups and others is that a proactive approach can lead to the creation or attraction to a particular area of enterprises that might not otherwise arise or might go elsewhere. The initiative may be taken by local authorities, micro-regional groups, Local Action Groups, Chambers of Commerce or other organisations. They can provide the support out-

lined in the previous paragraph, and may also take an active role in the provision of infrastructure, business information, marketing opportunities etc.

5.12. Tradition or innovation. One distinctive feature of the rural SMEs is that they are 'socially localised', i.e. they emerge in a specific geographical area and local cultural environment. This may mean that they can call on traditional local resources and techniques, linking them where appropriate with modern technology. **Case study 5.2** shows how a new small enterprise has been created through restoration of traditional furniture. **Case study 5.4** shows the efforts to revitalise the carpet-weaving industry in Finland through a cooperation network of companies. The sawmill described at **Case study 5.5** uses modern techniques for the conversion of local timber. **Case study 5.6** describes a jam processing enterprise in Hungary which uses local fruits and local labour force. Other enterprises may be created completely by innovation. This point is well illustrated by Jari Maki Ltd in Finland, see **Case study 5.3**; and by the description of the Rock Festival at Hulfred, Sweden, at Case study 7.1 in Thematic Guide One.



An entrepreneur making traditional chestnut paling fencing in the UK

Questions arising from chapter 5 for you to reflect upon.

1. In the rural region with which you are most familiar, what is the pattern of enterprises? How is this pattern changing?
2. In the rural areas of your country, is there a spirit of enterprise? Are people willing to take risks? Is the government giving positive encouragement to existing and new SMEs?

Case study 5.1.**'BIO FOOD' organic fruit and vegetable factory, Poland**

The ecological fruit and vegetable factory 'BIO-FOOD' at Bialkowo near Golub-Dobrzyn is the only factory in Poland where all fruit and vegetables come from certified ecological farms.



Organic farming is at the basis of the bio-food factory in Poland

The owner, Tadeusz Szykiewicz, was inspired by the idea of processing organic food during work at an organic food factory in France. It seemed to be a practical solution to the problems of the fruit and vegetable trade in his home region. He wanted to support and help to expand the local ecological farming and to guarantee a daily supply of fresh fruits and vegetables to customers, without transportation over long distances. So he started to de-

velop the idea of an ecological food and vegetable factory.

In order to develop appropriate processing methods, Mr Szykiewicz made research, consulted doctors and nutrition advisers, and studied methods used for organic food processing in France. All this influenced his final decision to eliminate processing methods like homogenisation, percolation, sterilisation and spinning, because of their negative effect on the processed food.

He obtained finance from the Heinrich Böll Foundation's programme of support for ecological farming in Eastern Europe, and managed to purchase the necessary equipment and machinery. There are now 7 people employed year-round in the factory, expanding to 25 employees during the summer season. The main line of production is based on organic fruit juice, as well as various forms of pickles. Fruits and vegetables come mainly from a 15-hectare ecological farm in Plomienna village. The customers are nation-wide, and consist mainly of wholesale firms and retail networks. Plans for the future include direct product deliveries to individual customers. Internet has been widely used as a marketing and visibility tool for the business.

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Case study 5.2.***Restoring old furniture in Alberuela de Tubo, Spain***

The adventure of the Restalber started in 1996, after a training course in furniture restoration organised by a local training organisation FOREM in Alberuela de Tubo. This small town in Los Monegros county has only 131 inhabitants. FOREM wanted to support the community by introducing the idea of starting a business to repair and restore old furniture. They believed that there was demand for that in the region, but no service providers to meet it.

In the FOREM course, the participants learned how to restore domestic furniture as a "hobby"; but soon the viability of the idea was realised and led to the setting up of an association to restore old furniture. In 1997 the Asociación Restalber was



A showroom for old, traditional furniture

created, with the aim to recover the furniture heritage of Los Monegros. The association was established by 12 partners, with strong support from the local priest and the municipal council of Alberuela de Tobo. The Monegros Development Centre provided 3,8 million pesetas, as a loan to cover 50% of the capital costs of the workshop infrastructure.

During the next three years, the Association's work focused on training. FOREM and Leader II provided training courses on furniture restoration techniques, marketing etc. The training took the members of the association to different churches and properties in the area, which gave them the opportunity to work for both institutional and private customers and to make themselves known. After some administrative difficulties, the Restalber company was established in 1999, and seven jobs were created in the spirit of the first promoters of the idea. Since then Restalber has completed many private orders, and has worked with public institutions on heritage restoration projects. This includes restoration of furniture in Huesca cathedral and churches at Albalatillo, Casbas Huesca, Grañén, Capdesaso and elsewhere. Restalber also carried out Monegros' local signposting in wood.

The company provides half-time employment for seven people (five women and two men). In addition to the restoring work, they demonstrate their skills in different local fairs and also in festivals of the bordering French towns. In the future they hope to consolidate present jobs and create new ones. To this end, they have organised a furniture restoration course for beginners in Sariñena. Restalber has become a well-known example of self-employment for the rural women of the area.

The Restalber company is a good example of strategic local development. The idea has been adopted by LEADER II local action groups in Aragon and Cataluña.

(Source: Leader Observatory)

Case study 5.3.***Jari Maki Ltd – a piece of USA in rural Finland***

Jari Maki Ltd carries the name of its owner, who has a life-long affection for the USA and for all "Americana". He has turned this affection into a successful importing and retailing business of car equipment, spare parts, western clothes and accessories, toys etc. despite the remote location of the enterprise in a rural part of Western Finland.

His interest in the USA was born when, as a boy, he watched the TV news about the shooting of President Kennedy in 1963, and began to wonder what that country is actually like. He travelled to many parts of the States, especially to Texas, and in 1989 decided to start importing American goods to remote Finland. He realised that he was not the only Finn to be interested in the "golden land", and that there were no domestic suppliers to meet the demand among enthusiasts in Finland for American car equipment and spare parts. So, he started by importing those.

At first, only Mr Maki and his wife worked for the company. But as the business has grown over the years they have employed three full-time workers, plus additional help during the summer. They have made big investment in storage space and shop facilities, as the range of products has grown. In addition to sale of cars and parts, they also hire out special cars for weddings, birthday parties, exhibitions etc. These special cars include the Cadillac which was used by three presidents of Finland,



A limousine available for hiring by Jari Maki Ltd

a genuine Sheriff car and a few other interesting vehicles.

The enterprise is located at Koskenkorva village, about 30 km west from Seinajoki. The local economy is still dominated by farming, but the whole South-Ostrobothnian region is well known for its self-employed people and hundreds of SMEs. Jari Maki is a good example of an innovative and gutsy entrepreneur who has managed to shape his own interests to a successful business idea, despite his remote location and the novelty of the idea. In fact, there are similarities between the South-

Ostrobothnian region and Texas, with wide-ranging flat country, long distances, rural culture and independent, proud and stubborn people.

One key factor to the success is that Jari Maki knows how to market his enterprise and products, and is himself the best spokesman for them. Amongst his main target groups – car enthusiasts

and western dance buffs – he is already a household name; but a much wider public is also aware of his activities, thanks to clever marketing and use of publicity. He has introduced more than one of his special car purchases on national TV, and his special hire cars always attract attention. He appears to be set for continuing success.

Contact: www.jarimaki.fi

Case study 5.4.***Carpet-weaving network in South-Ostrobothnia, Finland***

The carpet-weaving industry has traditionally been an important business sector in South Ostrobothnia, going back to the early 1920s and 1930s. Although its role has since diminished, companies in this sector continue to have an important role as local employers. Most of the 200 or so carpet-weaving companies in Finland are located in South Ostrobothnia. However, they include dozens of small companies which lack specialised know-how and resources to promote innovative product development and marketing.

Earlier attempts in cooperation or networking have mostly failed because the participating companies have been of similar size and none of them has had a very strong market position. Also, their products have been very similar. Moreover, these earlier cooperation projects have not made full use of expert outside help.



Modern design in carpets made by VM-Carpet Ltd

In 2004, a project was put forward, co-funded by LEADER+, to create a cooperation network, which would make a more efficient use of the existing know-how, marketing channels, production capacities, international marketing contacts and export knowledge possessed in the sector. The coordinator of the initiative is the VM-Carpet Ltd, a leading company in the carpet-weaving industry in the region, which is ready to offer experience and know-how to other smaller companies in the cooperation network. Cooperation in the network would enable investments in latest production technology and joint purchase of materials. In order to make the network and the local area known both to national and foreign markets, a new local interior textiles brand was created. The network emphasises outside expert help and to this effect has worked in close cooperation with local design schools, vocational schools, polytechnics and the Technical University of Tampere. Training sessions for the network members have also been organised.

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Case study 5.5.**Sawmill, Poland**

This is an example of a significant enterprise which started in order to diversify the income of a farmer. The owner has a farm of 30 hectares, focused on pig production, with 500 pigs normally in hand.

The farmer, who was then 42, decided in 1996 to start a sawmill, in order to gain additional income. The first steps were to secure permission from the local authority, and to establish cooperation with the forestry industry in order to gain the allocation of timber. He then constructed the sawmill, including a new transformer to meet the high demand for electrical power. This investment was funded partly from his own savings, partly from agricultural credits.

The firm now employs 5 employees during winter months and up to 10 employees during the summer. The main production is of planks and roof-frames. The customers are mainly individuals, but about 30% of all orders are from construction firms. The mill has its own transport for delivery of orders. The services are advertised on local radio and local press.

The owner intends to expand this enterprise further. He plans to build a drying house, and to buy new equipment in order to introduce floor panels as a new product. Further developments are also planned for the farm. All investments will be financed from the farmer's own resources, plus agricultural credits.



Products of the sawmill enterprise in Poland



Case study 5.6.***Jam processing enterprise in Sokoropátka, Hungary***

Sokoró micro region is situated in western Hungary, about 20 km from the county capital Győr, and includes 30 settlements. The jam processing enterprise was set up in 2000 by Sokoró Ecological Park Foundation with central and regional government funding, as well as funding from a private foundation.

During the first year of its operation, the product structure was consolidated but actual production started in 2001. The project focused on adding value to local products and promoting multiplier effects to the whole rural community, through the following:

- raw material production (fruits produced by local farmers in the micro region, introduction of organic farming techniques)
- processing based on a labour force of local women
- use of own vehicles for transportation of products.

The jam processing enterprise ensures seasonal working for 6-8 women and during the peak operation (i.e. fruit collection period) 10-12 persons can

be employed. It produces annually 40 to 60 tonnes of jam, but could produce up to 250 tonnes of jam if working at full capacity.

The initiative is a model project, and has stimulated similar development projects in other regions. The jam processing enterprise took account of the local socio-economic circumstances, as well as the market and consumer needs. It secures a source of stable employment for local farmers (on the basis of medium and long term delivery contracts); it encourages the use of organic farming techniques; it provides a supplementary income to several village women in the age of 20 to 60; and it ensures satisfied consumers. The main problem of the jam processing enterprise, which operates without any subsidies, is at times the urgent need for floating capital.

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A delegation from the Euracademy end-of-project conference in November 2003 visiting the jam factory run by the Sokoró Ecological Park Foundation

CHAPTER 6.

Public services and infrastructure

6.1. This chapter focuses mainly on what we described in Chapter 1 as tertiary (or service) activities, with a particular focus on public services and infrastructure.

6.2. **The importance of public services.** Many rural areas in Europe, both in EU-15 and the new member states, are ill equipped with technical and social infrastructure or essential services. They may lack adequate provision of infrastructure, such as roads, sewerage or telecommunications. They may have poor access to public services, whether provided by the state or by the private sector, such as banks, post offices, schools, medical centres, cultural or social care institutions. These shortcomings may not only reduce the quality of life of the local people, but also - within the theme of this Guide - seriously hinder the diversification of economic activity. Adequate facilities and services in rural areas are a vital factor in ensuring quality of life for the local people, halting depopulation of such areas and making them attractive for new economic activity and inward investment.

6.3. **The 'vicious cycle' of decline.** Ironically, it is exactly the process of depopulation, i.e. the moving of people away from rural areas, especially of the young, that has precipitated the deterioration of public services in many rural areas. The recent history of rural Poland offers a vivid example of this. Thousands of local railway lines have been removed, many small village schools have been closed down and other local public services have been withdrawn, on the basis of insufficient local demand resulting from depopulation. This process can easily turn into a vicious cycle: depopulation leads to cuts in public services, which accelerate depopulation and eventually lead to further cuts in services.

6.4. **Breaking the vicious cycle.** In this context, a key element in many rural development programmes must be to find ways to break this cycle of decline. There is, indeed, the potential in many areas to replace it by a 'virtuous cycle' of increased population, because the quality of life in rural areas is more and more appreciated by urban residents. In many European countries, urban people are choosing to live in rural settlements, often returning to their place of birth and family home, either in their retirement or to work. They appreciate the closeness to nature and the quiet life of rural settlements, coupled with the opportunities offered by ICT to work from a distance. However, they need a reasonable quality of local services.

6.5. To break the vicious cycle and to attract newcomers into the countryside, we must find ways to maintain public services, such as shops, post offices, banks, hospitals, schools and public transport, even in remote rural areas. We must also en-

sure that jobs are created and sustained in the rural areas, by diversifying the local economies, which is the theme of this Guide. Public services and infrastructure are already a very significant source of jobs, and can contribute more employment in many areas.

6.6. **The twin role.** So, the improvement of infrastructure and public services in rural areas can be seen as having a twin role, in terms of the diversification of rural economies:

➤ First, it can encourage local development, by providing the necessary access to the area and by establishing a reasonable quality of life for the local population, so that economic activity may proliferate and thrive;

➤ Second, infrastructure and services constitute an economic sector in themselves, which can offer job opportunities, business opportunities or additional income to rural people.

Maintaining public services

6.7. Throughout Europe, there is lively concern among rural communities about the survival of the local schools, shops, post offices, banks, bus services, clinics, care centres etc. No week goes by without the news that another school is to be closed, with anguish expressed by parents that their children will have to travel even longer distances to school or that they may themselves feel obliged to move to the next town, thus contributing to the vicious cycle which will threaten the viability of other services.

6.8. The underlying issue is that (in every country) public services are provided and managed by a variety of public, semi-public or even private bodies, each focused on a particular sector. They may include local education authorities, health boards, national postal services, regional bus companies, international banks. Most of these organisations are based in cities or large towns; they may have no particular commitment to, or understanding of, the needs of rural areas. They work to regional, national or even international norms, which may point towards closure of a local service if turnover falls below a certain level or the number of children drops below a certain threshold.

6.9. Rural communities, and the local authorities who represent them, may need to point out to this disparate group of service providers that a sectoral approach is damaging not only to the integral life of rural communities but to an overall view of public finance. Cutting costs in one service sector may raise costs in other sectors. For example, a decision to close down a school may cause young par-

ents to leave the area, thus removing their ability to look after their elderly relatives, who will thus become a burden on the social services. Similarly, the closure of a local health centre may impede preventative treatment and lead in due course to greater costs in treating ill-health. The loss of jobs in the school or health centre may itself increase public costs on unemployment benefits or reduce the government's income from taxes.

6.10. The situation in Poland provides striking evidence of under-provision of services in rural areas. Statistics show that average life expectancy is lower in rural than on urban areas - 72.7, as against 72.9, years. The cause for this appears to be the lower standard of living in the country, the generally lower standard of health care, the poor diet, and the limited access to medical help. After the political changes of 1989, the number of medical centres fell sharply. It was estimated in 1995 that the rural areas would need 7,200 doctors and 6,200 dentists, but only 5,500 doctors and 2,200 dentists were actually in place (Jarosz and Kosiński 1995).

6.11. These points provide strong support for the broad policy approach which (as described at paragraph 3.35)

is taken by the government in Finland. They focus not only on 'narrow' rural development, i.e. the programmes which are specifically designed to promote new activity in rural areas, but also on 'broad' rural development, which embraces all the many parts of government which affect the rural services and infrastructure.

6.12. Europe is rich in examples of rural services which have been sustained and enhanced by sensitive, cooperative or imaginative action by public bodies and other service providers. For example:

➤ In England, the Countryside Agency has given wide publicity to ways in which local services may be combined in order to increase their viability – for example post office + bank facility + local shop; or school + library + telecottage. A similar example is offered in **Case Study 6.2**, which describes the initiative "Store 2000" in rural areas of Germany.

➤ In the Scottish Highlands, the Post Bus brings together the postal and public transport services.

➤ In the village of La Porcherie in the Haute Vienne in France, the mayor decided to take direct action

to save the village school from closure for lack of pupils. The schoolmaster's house was empty, so the mayor took out a national newspaper advertisement for a family with a large number of school-age children who were willing to move to the village. Out of 70 applicants, he chose an unemployed lorry driver from Lille, with 10 children. The family moved to the village, the school was saved and the lorry-driver retrained as the village carpenter.

➤ In Sweden the mobile postal service offers all the services that can be found in the post office of a small town. In other countries, there are many kinds of mobile service, with libraries, grocer's shops, butchers, doctor's surgeries, libraries and play-centres all travelling round the rural communities.

➤ Many countries offer examples of self-help by rural communities in sustaining or creating their own services, such as community shops, petrol stations, schools, care centres for the elderly etc. Such self-help may receive positive encouragement by public bodies, with flexible interpretation of service norms (e.g. related to the minimum number of children in a village school), financial support, exemption from local taxes etc.



Maintaining an adequate level of infrastructure is essential in rural areas

Infrastructure

6.13. **Water supply, sewerage and waste disposal.** Because of their small size, many rural settlements have failed to attract serious investment in water supplies, sewerage and waste treatment. With the growth in population, in industry and intensive agriculture, the inadequacy of infrastructure in these three fields has become increasingly apparent in many places. In some areas, this inadequacy now represents a serious impediment to new economic activity, and thus to the diversification of rural economies.

6.14. In Poland, for example, many rural areas lack adequate water supply, sewerage and waste disposal systems. The result is a growing problem of pollution of water courses and of ground water, and severe inhibition on the expansion or creation of rural enterprises. The government has now committed itself to a major programme of investment, assisted by EU funds. The coming years will see a great improvement in:

➤ the rural sewerage and water supply network, with the building of about 2,000 sewage treatment

plants capable of taking the output from farms and food-processing enterprises;

> solid waste management, with the aim to build new waste dumps, and to seal off existing inadequate dumps, in over 2,000 communes by the year 2010;

> the rural electricity network, with plans to install at least 20,000 medium- and low-voltage lines in rural areas in the coming 5 years, and to modernise about 6,000 transformer stations each year.



An exhibition park in Przysiek, Poland

6.15. Roads and railways. Many rural regions suffer from the lack of good roads or from the closure of railways. This lack of good transport links can inhibit the creation or activity of enterprises in rural areas, particularly those which are seeking to serve a wider than local market. For this reason, the improvement of road access to all regions in the EU has been a priority policy of the successive Community Support Frameworks. Many of the less developed regions of the EU, such as Objective 1 areas, have benefited from this investment. There is some irony in this, in that better roads have made it easier in some rural regions to export raw materials (such as timber) for processing elsewhere, thus losing the potential for added value in the countryside. But good roads clearly bring a net benefit for local economies, by enabling easy movement for all economic and social purposes, plus easy access for tourists. Continuing investment is needed in this field.

6.16. Telecommunications. In economic terms, the rural areas have long suffered from two prime disadvantages – sparsity of population (and thus small local markets), and distance from suppliers, information sources and wider markets. These two disadvantages have been greatly reduced in recent years by the advent of the Information Society and the dynamic development of Information and Communication Technology (ICT). These can enable rural enterprises to communicate easily and on equal terms with suppliers and customers throughout a region or country, and indeed throughout the world. ICT can thus permit enterprises to be located in rural areas; can be a chan-

nel for services which are not otherwise locally available; can be used as a tool in enterprises in many different sectors; and can be the direct inspiration, and main resource, for the creation of new enterprises, for example telework and ICT-based businesses.

6.17. These strengths of ICT and the Information Society are fully spelt out in Euracademy Thematic Guide Two, 'Information Society and Sustainable Rural Development'. That Guide also shows how ICT can help to sustain and to modernise public services, such as health and education, in rural areas. For example, telemedicine services can be used to enable the general medical practitioner in a rural area to gain immediate access to advice from specialists in a regional hospital. ICT can be used by schools in remote areas to link up with teachers and other schools located elsewhere, in order to create the 'critical mass' that is needed to sustain high-quality teaching.

6.18. However, these advantages of ICT for rural areas can only be realised if those areas have access to good-quality ICT services. In Thematic Guide Two, we emphasised the 'digital divide' which affects many rural areas, in that they are deprived of broadband services and other ICT infrastructure which are readily available in most urban areas. The gaining of this infrastructure is now as critical for rural areas as the construction of main roads used to be. Governments are therefore putting increasing efforts into bridging the digital divide, by infrastructural investment. Also needed is an intensive and continuing investment in education and training, in order to enhance computer literacy and the ability to handle ICT, in rural areas.

6.19. Jobs in construction. The creation and maintenance of infrastructure—roads, railways, water supplies, sewerage, telephone and telecommunication systems, electricity – can be a significant source of jobs in rural areas. But this benefit will only be fully realised if the public organisations responsible for the infrastructure determine to use workers and contractors who are based in the rural areas. Construction work, if awarded to local contractors, can bring new jobs to local people and encourage the development of small rural businesses, with skills which they can subsequently use. Maintenance contracts to local people can provide regular employment where it is much needed, or supplementary income to farmers and others.

6.20. For example, road construction creates a demand for labour, materials and services for a limited time; while other works, linked to conventional or restoration building activities, create a demand for specialist building skills that may sustain a business in the long term. Both types of opportunities are welcome in a rural community, because they provide additional income. However, the development of building skills that are usable in the long term can be particularly valuable, espe-

cially when they are linked to local building traditions and local materials.

6.21. Rural building programmes that preserve the specific character of local architecture can have the multiple benefits of protecting the cultural heritage, creating jobs directly in the building work, and also supporting jobs in the supply of stone or other traditional materials. In the Peak National Park in England, the Park Authority insists that all new buildings shall be faced in local stone, which helps to secure jobs in local quarries. The Authority also grant-aids the maintenance and repair of dry-stone walls, which are a significant feature in the Park landscape. Work on the walls provides income to local farmers, and full-time jobs for about twenty dry-stone wallers.

6.22. **The infrastructure of tourism.** Tourism is itself a major service industry, of growing importance in the world economy and in very many rural economies throughout Europe. We do not focus on it in this Guide because it was the subject of the first Euracademy Summer Academy, and our thinking is fully explained in Thematic Guide One. But we should emphasise here the importance of the infrastructure of tourism, in terms of the quality of the experience that is offered to visitors and the employment that can arise from the creation and maintenance of that infrastructure.

6.23. In any rural area, the creation of a sustained and sustainable tourism sector may depend upon achieving capacity and quality in several aspects of infrastructure – accommodation, attractions, recreation facilities, information

services, shops, restaurants, roads, cycling or riding paths, public amenities, cultural activities, emergency services, the natural environment and the cultural heritage. Some of these aspects may already exist to serve the local population, and certainly that population may be year-round users of services mainly created for visitors. But the infrastructure must be there, in sufficient capacity, and its quality must be maintained and indeed progressively enhanced if the area is to continue to attract visitors over the years in a competitive market.



Efficient public services promote the welfare of the countryside

6.24. This challenge of assuring capacity and quality in tourism infrastructures implies the need for careful planning, as emphasised in Thematic Guide One. Excessive or ugly development can too easily damage the environment and local culture; a shrewd balance must be found between social, economic and environmental concerns. However, a static vision of cultural and natural heritage is not enough to build a sustainable tourist product. Modern infrastructure and amenities may need to be provided, in order to sustain and enrich the appeal of the area to the visitor. Both public and private investment may be needed. The maintenance and enhancement of the infrastructure of tourism, including the quality of the environment, is a responsibility that may lie with many different bodies. They should all feel that they are taking part in a cooperative effort; and they should ensure that this work brings jobs and income to local people.

Public services as a source of jobs

6.25. The provision of public services, besides improving the quality of life for the local inhabitants, offers also employment and supplementary income opportunities. Some characteristic examples are given below.

6.26. **Education, research and advisory services.** The decentralisation of educational and research centres in rural areas offers opportunities for new types of jobs, made possible by the improved communication systems and modern information technology. Technical advice and planning services, addressing in particular local and regional

development, can also be beneficially decentralised to rural areas, using local workers as much as possible. These services should also include technical support to farmers on a variety of issues, including land cultivation and product marketing methods, as well as advice on the best way to benefit from EU subsidies.

6.27. **Communal services.** The contracting-out of communal services to private interests can also provide a source of income for local people. For example, many local authorities give contracts to farmers and others to clear litter from public spaces, to collect and deposit domestic and indus-

trial refuse, to clean ditches and sewers, to cut roadside grass and hedges, to clear snow from roads, or to maintain public gardens. This provides full-time work for some people, or extra income for farmers and others who can use their own transport and equipment to do the work. Another example is offered in **Case Study 6.3**, which describes the innovative initiative of an individual in Spain, who offered services to immigrants and, implicitly, benefits to the indigenous rural population.

6.28. Social care. A similar process of contracting out may also apply to social care services for the very young, elderly, the sick and the disabled. Such services are essential for sustaining a reasonable quality of life and for retaining the population in rural areas, especially young families; but they may be difficult to maintain in areas of sparse population. The cost of providing such services may be kept low, if the staffing is provided by local people on a part-time, "supply and demand" basis rather than by employing permanent staff. **Case Study 6.1** describes an experiment by the Greek Ministry of Interior to fund a large number of part-time, short-term jobs to meet the social care needs of rural settlements. The Ministry is urging

local authorities to test the feasibility of such a policy in their areas, so that the activities can continue when the central subsidies cease. In other regions, work in social care may be funded privately by the recipients of the services; or supported by EC-funds as shown in **Case Study 6.4**, which describes the creation of new jobs and services for the elderly in Finland; or provided "in kind" by people who are prepared to exchange services (e.g. alternating babysitting organised by a group of mothers) or offer them voluntarily, in the context of the rural culture of neighbourly help.

6.29. Multiplier effects. The development of efficient infrastructure and public facilities and services may have a multiplier effect on the rural economy, if they lead to capacity building among the local population. Of particular importance is the development of skills that in the long term may sustain the beneficial effects of income creation that occurs during the construction phase of infrastructure or the initial phase of subsidised service provision. These skills are especially valuable in the rural communities of the new EU member states, because they may give rise to new businesses or self-employment and may stimulate a business culture among the rural population.

Questions arising from Chapter 6 for you to reflect upon.

Thinking about your own country:

1. What is happening to rural services (shops, post offices, bus services, primary schools etc)? Are they declining, or static, or increasing, in number? What about their quality?
2. What is the state of the infrastructure (roads, railways, water supplies, sewerage, waste disposal, electricity supplies) in the rural areas?
3. Do rural people have effective access to ICT services? Do they take advantage of that access?
4. Do local authorities seek to employ local people in the social and environmental services that they manage?

Case study 6.1.**Part-time jobs for local people in Artemision, Greece**

Artemision is a rural local authority, on the north-east edge of the island of Evia, in Greece. It covers a coastal and an inland forested area, with a large number of small settlements, ranging from 200 to 1500 inhabitants each. Artemision has taken advantage of a recent policy of the Ministry of Interior, which offers subsidies to rural local authorities to appoint part-time local staff for two years to run their public services more effectively and improve medical and social care, school security, child care, environmental protection etc.



A citizens' service centre

In total, 28 new jobs have been created in a variety of posts, including:

- social worker, nurse, and home helps, to offer home care to chronically sick persons, the disabled and old;
- sport coaches, to help children and adults to develop sport activities;
- administrative personnel, to run an information centre for citizens;
- artists and secretarial staff to run the activities of the local cultural centre and to introduce arts and crafts classes;

- school wardens and school security guards, to ensure the safety of children and school property;
- environmental scientist and workers to monitor the pollution in the sea and inland waters, and to guard the forests to prevent fire risks;
- doctor and nurse to run a mobile medical centre;
- site guards and workers to patrol the monuments and archeological sites and clean up the overgrowth, to ensure access for visitors;
- childcare staff to expand the day care services for babies and infants;
- administrative and professional staff to offer information to tourists and to tourism entrepreneurs.

Most of the jobs have been taken up by women and young people, making a significant contribution to employment in the area, which suffers from high unemployment rates, affecting mostly the under 25s and women of all ages.

The question that arises now is what will happen after the subsidies run out. The Mayor of Artemision voiced his hope that most of these jobs will be sustained in the long term through local resources. The local authority intends to raise a special fund to finance some of these jobs; but private initiative is hoped for, since some of these posts could be sustained as private services if there is enough demand to allow their provision at a reasonable cost. The Mayor believes that the improvement in the quality of life in the area will be so substantial that it may encourage emigrants to return, and may even prompt new people to come to live in the area. Also, some of the new or improved services are aimed at visitors, which may assist the growth of tourism in the area.

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Case study 6.2.

The “Store of 2000” initiative in Germany

The “Nachbarschaftsladen 2000” (“Store of 2000”) project was introduced by the German Federal Ministry of Regional Development, Housing and Spatial Planning. The aim was to improve the quality of life for rural populations by providing better, multi-functional public facilities and services under the same roof (e.g. post office, local retail and wholesale shop, opportunities to buy products through postal orders).

In the 1990s, the Ministry had supported the implementation of 12 programmes, which were administered by public bodies, local associations or individual entrepreneurs. An independent private consultancy was commissioned to assist with the selection of the programmes and provide technical assistance and know-how. The following criteria were used to assess and identify the businesses eligible for subsidies:

- The stores are located in rural settlements with less than 1000 inhabitants;
- There is no other store within 5 kilometres;
- The retail area of the store is at least 80 square metres so that there is enough space for the attractive display of products and the conduct of services;
- The conversion of the store does not require a big investment; and
- The store owner, or other public or private bodies responsible for running it, show strong incentives and personal interest regarding the initiative.

From early stages, it was realised that the store managers needed to adapt to competitive and innovative methods of trade and marketing in order to achieve a more effective management of their businesses and increase profit. Also, the negative

image of the small traditional shops, called in Germany “Aunt Emma’s shop”, had to be overcome. For this reason, public subsidies of about 15,000 Euro were offered to store managers on the basis of improved access to social welfare, as well as provision of services and facilities that are missing or lagging behind in rural areas. Store managers were trained in the delivery of the new services introduced, and also in accounting and trading.

An important outcome from the evaluation of the action “Store of 2000” was that these businesses could be sustained through private initiatives if the following conditions were met:

- the investment was not very high or was subsidised by public funds;
- wholesalers were offering them competitive prices;
- public or other agencies (i.e. post office, sales through post order, etc) have developed trust towards entrepreneurs to carry out their services and facilities; and
- the store manager had demonstrated sound entrepreneurial skills.

Wholesalers supported the initiative and offered reduced prices to these stores. Moreover, the exchange of experience and know-how has greatly assisted capacity-building among the participating stores.

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(Source: LEADER Magazine, Summer 1995 Edition, Vol. 9)



Public facilities and services offered under the same roof in one of the “Stores of 2000” in Germany

Case study 6.3.**Public services for migrants from El Alto Guadiato, Spain**

This is a successful example of a private initiative motivated by the need to service the large number of people coming from the Andalusian region "El Alto Guadiato" in Spain, who have migrated to bigger cities in Spain or abroad. Many of them, who are now living in Barcelona, Bilbao, Valencia or other European cities, have kept their official papers at the local town registry and have also left property in the El Alto Guadiato region. This meant that in order to issue official documents or find a tenant for their property they should travel to El Alto Guadiato. However, their main opportunity to carry out such simple transactions was during their holidays.

The promoter of this initiative, who lives locally in the small town Fuente Ovejuna, has run a solicitor's agency for many years. He received many orders from emigrants who left El Alto Guadiato, asking for assistance with several legal and business transactions. This demand led him to introduce an Emigrants' Service Centre to offer assistance to his clientele for issuing official documents or renting out their houses. All he needed was a small office based locally, with one permanent employee and computer equipment. The capital investment was 18,000 Euros, 36% of which was covered by a LEADER II grant.



A scenic view of the El Alto Guadiato region in Andalusia

The Service Centre has greatly facilitated many emigrants to resolve their problems without having to travel all the way to El Alto Guadiato region. It also created a permanent resource through which they could learn news about their hometown through the Internet.



Checking information in the Emigrants' Service Centre

Although this initiative mainly facilitated urban dwellers from the region to carry out their transactions easily and from a distance, it had a considerable added value for the rural population of the small town. More specifically, it shows how a low investment can improve the employment opportunities of rural people and at the same time strengthen the social and psychological links of the emigrants with their hometown. This example resulted to a permanent job offered to a local resident, and assisted many others from all over Andalusia in carrying out legal transactions and in their search for a house. Moreover, the added value of this initiative is that it can be very easily transferred to other places, servicing specific clienteles with similar problems. This example also shows how a private initiative can supplement and overcome shortages in public services provision.

Contact:

<http://www.nodo50.org/panc/Pedrochs.htm>

(Source: Leader Observatory)

Case study 6.4.***Creating new jobs and services and helping the elderly, Finland***

The Municipality of Ristijärvi lies in the region Kainuu, 600 km north of Helsinki and 45 km from the nearest town, Kajaani. There are 1700 inhabitants and the population density is 1.9 people/sq.km. The whole region had a reputation of "dying villages"; most residents were old, with their relatives living away and the area suffered from severe unemployment and poverty. Nine years ago, Ristijärvi was in the worst position in the Kainuu region with an unemployment rate exceeding 20%, negative prospects and low self-esteem.

The new mayor questioned the then focus on sustaining small industrial units, which offered employment to very few people and were overall doing badly. In cooperation with some outside experts and professionals, he identified as major strengths of the Municipality its original and skilful residents, the local food and the peaceful environment.



Elder residents come together in gatherings organised by the "substitute relatives"

In this context, the Municipality's strategic plan shifted emphasis from industry to welfare services and care. They kicked off a project, initially funded by LEADER II and then LEADER+, Objective 1 and EQUAL, with the central aim to train people in taking care of old people and to offer enhanced social services, so that old people would feel safe in the area and could go on living in their own homes. Improved services would certainly benefit other residents too.

The participants to the training were called "substitute relatives", as most of Ristijärvi's residents have their relatives living away. The "substitute relatives" pay regular visits to old people, helping them with domestic work, taking them out etc. The project funded 30 free visits at the beginning, while the idea was that the more affluent relatives would pay the "substitute relatives" after the project ended.

Today, Ristijärvi has about 30 people working in the care cooperative that was formed. 10 of them are full-time domestic helpers. Another training session was delivered in autumn 2004 and new clients are attracted slowly but steadily.

The Ristijärvi project has become known as an exemplary initiative and spread in the whole region. The project has helped to reverse past negative trends and to change the image of the Municipality. The unemployment rate fell to 16% and is now the lowest in the Kainuu region. Old, beautiful buildings have been restored. A senior training centre, a local handicraft shop and a small but well-organised museum have been opened. A new supermarket and new senior apartments have been built. Ristijärvi seems to be turning to a better off community and its residents are proud to live there.

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(case study by Liisa Hame, participant to the 3rd Summer Academy).

CHAPTER 7.

Human capital

7.1. In this chapter, we focus on how people can be enabled and encouraged to take initiative in action to improve their own lives in rural areas, including action to diversify the rural economy. The emphasis is on human capital and how it can be strengthened and applied, rather than on the distinct sectors which were considered in earlier chapters.

7.2. **Human capital.** By human capital, we mean the resources of knowledge, know-how, health and vital energy inherent in people, both individually and collectively, which may enable them to take initiative in action to improve their own lives. Human capital, in this sense, may be seen as the single most important factor in determining the possibilities of sustainable human development (UNDP 1990).

7.3. In Chapter 1, paragraph 1.18, we offered the following definition of rural development:

Rural development is a deliberate process of sustained and sustainable economic, social, political, cultural and environmental change, designed to improve the quality of life of the local population of a rural region.

7.4. Here, we re-emphasise the aim stated in the definition above, '... to improve the quality of life of the local population'. The diversification of rural economies, the subject of this Guide, is not an end in itself, but simply one part of the means by which that aim may be pursued. The focus is on people, and the quality of their lives.

7.5. **Community-based development.** This leads to a further crucial point. People are not only the main beneficiaries of rural development; they may also be seen as the main actors in that development. In Thematic Guide One, we suggest that rural development should be community-based, i.e. it should be ...

'based on the interests, and the involvement, of the community living in the area. By 'community', we mean all the people living in a given rural area. They are the basis for sustainable rural development because:

- *they know best what are their problems and needs;*
- *they control many of the resources - land, buildings, local products- upon which development is based;*
- *their skills, traditions, knowledge and energy are the main resource for development;*
- *their commitment is vital (if they do not support an initiative, it will die).*

Moreover, the more lively and active a community is, the more likely it is to attract people to move into the area, and to keep people from moving away'.

7.6. This concept of community-based development is becoming widely accepted in the field of local development throughout the world, and specifically of rural development in Europe. We described in chapter 3 the rising interest in the 'bottom-up', partnership-based approach, which has been effectively promoted by the LEADER Initiative and which is becoming 'mainstreamed' in the rural development programmes of some countries. However, many examples in this Guide show: (a) that this 'bottom-up' approach is certainly not yet universally followed, (b) that local communities vary greatly in their desire and ability to work together in development programmes, and (c) that much of the local initiative is in fact taken by individuals seeking to improve their own lives or that of their immediate families, households or enterprises.

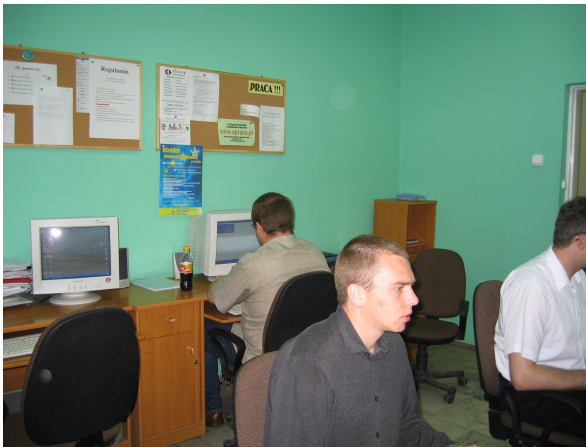
7.7. In considering how human capital may be strengthened and deployed, we therefore focus first on the individual and then on the community.

The human capital of individuals

7.8. Previous chapters of this Guide placed much emphasis on the ability of farmers and farm families to adapt to change and to diversify their enterprises (chapter 4) and on the ability of entrepreneurs (chapter 5). This emphasis on the individual farmer or entrepreneur justifies a focus here upon the capacity of individuals.

7.9. **Change and complexity.** Looking at the modern economy from the perspective of the individual, one is struck by two characteristics of that economy - change and complexity. There have been times in the past when little changed in the rural areas for decades, even centuries, at a time; farmers, tradesmen and craftsmen were able to pursue an established pattern of life and work, protected by their lords, their guilds or their geographic isolation from the need to change that pattern. Even in recent times, the relative continuity of (for example) public support systems to farmers within the EU provided stability as to the crops and livestock that the farmers produced and as to their assumptions about the viability of their profession. In the same way, state and collective farms in central Europe relied for four continuous decades on the Soviet market for their products, and followed the guidance of the command economy.

7.10. Now, however, things have changed, and continue to change rapidly. Since food surpluses were achieved in the EU, the old certainties for the farmers have disappeared. They have faced three reforms of the CAP in less than twenty years. Within the next two years, they will no longer receive clear financial incentives to grow particular crops. They will have to make their own judgements about what to grow. In the new member states, the farmers must learn to compete with others throughout the EU, without any guaranteed market and without much guidance from government. As we showed in chapter 4, many millions of farmers must seek new sources of income if they are not to go under. They may need skills in entrepreneurship which they did not previously need.



Training in information technologies can benefit members of rural communities in multiple ways

7.11. As for entrepreneurs in other sectors, they too must face the cold winds of competition, while coping with the internal demands of running a business and the external pressure of regulations and other aspects of governmental intervention. Nor are the workers in the public sector exempt from the pressures of change and uncertainty. Fifty years ago, people entering the public service could expect a continuous career, without thoughts of radical change or interruption. Nowadays, it is common for people to be on short contracts, to be forced to change their jobs at frequent intervals, to need new skills in mid-career, even to make a radical change in the work that they do. They may need to cope with changes in technology, including the widespread applications of ICT.

7.12. This need to cope with change and complexity, and increasingly to make independent entrepreneurial decisions, will be a testing challenge to people everywhere in Europe, including those who live in rural areas. The European Union has recognised this through support for the training programmes of the European Social Fund, the massive expenditure on research and development, and the 'Lisbon agenda', which states the aspiration that the EU will become the strongest knowledge-based economy in the world by 2010.

7.13. **Capacity-building in the rural areas.** What does this imply for the building of the capacity of individuals in the rural areas? The answer may lie in a combination of the following:

➤ High-quality education systems, from primary to University levels, easily accessible to people wherever they live, which provide not only a strong grounding in essential life skills but also a training in personal resourcefulness, adaptability and initiative.

➤ Effective systems of vocational education, rooted in strong professional disciplines but constantly adapted to the changing demands upon the professions that they serve. For example, the training for farmers must reflect the changing roles that they are expected to play as environmental managers or as pluri-active entrepreneurs.

➤ Systems of lifelong learning, to enable people to gain the refreshment and change in their skills that may be needed as the demands upon them change. Leadership in such systems may come from the folk high schools, Open Universities and similar bodies. These organisations tend to be more fully developed in the countries of north and western Europe than in those of the south and east; there is clear scope for new initiative here. Euracademy itself will strive to contribute to this campaign of lifelong learning.

➤ Public education and training in modern technologies, notably ICT, and in languages and other aids to multinational discourse. Leadership here may be taken by schools, colleges, adult education organisations, telecottages and others. The focus should be both upon the technical use of ICT in different professions and upon the formidable strength that ICT has as a means of seeking and handling knowledge. The building of personal capacity in this field may truly, as we suggested in chapter 6, enable those who live in rural areas to tap the knowledge and ideas of the whole world, and to compete on equal terms with people everywhere despite the apparent disadvantages of sparse population and distance. **Case Study 7.1** offers an interesting example of ICT training offered to rural women in Austria.

➤ Systems for business support and advice, which need to be strengthened in many rural regions. There may be a strong case for bringing together, into a single professional service, the advisory systems aimed at farmers and those aimed at entrepreneurs in other sectors, because increasingly those two broad groups of clients will overlap and merge.

7.14. Some indication of the size of the challenge in upgrading educational systems to meet these needs is provided by studies of the educational system in rural Poland. During the 1990s, the levels of general education in the rural areas rose each year, as educational facilities were improved in the villages and small towns. But only 35% of pre-school country children were able to attend

nursery schools. Rural primary schools and some secondary schools suffered from poor physical conditions and low teaching standards. The total number of rural secondary schools was too low. The educational restrictions for country children contributed to the fall in access to further education for rural young people. In the 1980s, one in 14 rural children attended university; in the 1990s, the number fell to one in 130. Barely 3% of rural inhabitants were attending university, against the Polish average of 7.8%.

7.15. The value of education in enhancing the capacity of people involved in development is illustrated by the success of the first Postgraduate Pilot Studies in Distance Learning, run by Nicolaus Copernicus University in Poland, using the Euracademy distance learning course on Developing Sustainable Rural Tourism. In order to receive their diplomas, participants in this course were asked to produce proposals for local development projects in the framework of the Structural Funds accessible to Poland after the 1st of May 2004. In October 2004, a Polish radio station announced that the majority of local development projects that will be implemented are in the County of Kaliska, from where 18 people took part in this course.



A participant to a study tour in the 3rd Summer Academy in Poland having a hands-on experience in kneading

The human capital of communities

7.16. In the paragraphs above, we have focused on those aspects of rural development (or of the diversification of rural economies) which depend upon, or permit, initiative by individuals; and upon what is needed to strengthen the capacity of individuals to take that initiative. But there are other wide areas of necessary action which place demands upon communal initiative, and communal capacity. They include a large part of the services sector, as described in chapter 6, and also those aspects of local life where social, economic and environmental issues intertwine.

7.17. **Leadership from above.** In the feudal societies of the Middle Ages, the initiative in communal activity would come from the lords, and there were clear structures for those activities which de-

pend upon people working together, for example for decisions about the number of animals that each peasant might put onto the common grazing lands. In some European countries, these common structures survive, for example in the daily shepherding of sheep or goats in Spain, Romania and elsewhere, or the shared responsibility for maintenance of municipal woodlands in the Alpine valleys of Austria. Where new activities were needed in order to strengthen the local economy, the leadership might come from within these common structures or from the lord or landowner. An amusing example of such lordly leadership and of the reaction of local people to what we might today see as 'top-down' initiative, is provided by the energy of Napoleon during his exile on Elba – see **Case study 7.2.**

7.18. **Leadership by local authorities.** Since the 19th century, most European countries have created structures of local government which are designed to take initiative in meeting the common needs of communities. The range of their duties and powers has developed over the years, and now tends to embrace social services, the provision of infrastructure, maintenance of public spaces and amenities, i.e. the subjects that we discussed in chapter 6. In some countries, local authorities are also expected to take the initiative in local economic development.

7.19. Now, the structure of local authorities varies considerably from country to country, notably in the size and powers of the 'lowest' or most truly local authorities. Some countries – for example France, Hungary and the Czech Republic – have local authorities at village or commune level, with the power to raise local taxes and to take significant initiative. The action of the mayor of La Porcherie, described at paragraph 6.12 above, illustrates the ability of mayors in such countries to take initiative. Other countries – for example Sweden, England and most of the German *länder* – have structures in which the smallest local authorities with any serious power are the districts or *gemeinde*, which may have a population of over 100,000. Such authorities may have significant resources, but they are not truly 'local'.

7.20. **Sub-regional cooperation.** These differences in the structure of local government help to explain the pattern which is now evolving in different parts of Europe, of both local and sub-regional mechanisms for taking initiative and for involving the citizens in local development. On the one hand, those countries which do have local authorities at village or communal level are finding that they need to evolve ways whereby those communes can cooperate on a sub-regional level on projects that demand the resources of more than one village, such as creating a water supply or a sports stadium or a business advice centre. Examples of this are the Feldbach sub-region in Styria, where the local authorities came together to create a new water supply and are now actively cooperating in diversified local development; and the micro-

regions of Hungary and the Czech Republic, where the local authorities have formed formal partnerships, often working closely with sub-regional non-government organisations on local development programmes.

7.21. **Participative democracy.** On the other hand, those countries which have lost (or never had) local authorities at village or commune level are evolving ways to take action at that level. In rural Sweden, for example, each elected local authority at district level may not only serve a large population, but may cover an enormous area, so that a village may be two or three hundred kilometres from its district capital. Remoteness of settlements, and hard winters, meant that the Swedes were always accustomed to being self-reliant as individual and as communities. So, when (in the 1960s and 1970s) they faced growing difficulties in the villages because of the loss of village schools and other threats to local services, they reacted not only by protesting to the district authorities but also by taking action themselves. From this has emerged a remarkable pattern of local action groups, which vary in their formal or informal structure, but which may be seen as a form of 'participative democracy', to set alongside the elective democracy at the district level. **Case study 7.3** describes how this pattern of local action groups has evolved in Sweden, to the point that there are now over 4000 such groups throughout that country, supported by county-level federations of these groups and a national movement, the Popular Movements Council.

7.22. **National rural movements.** The case study of Sweden shows how the local action groups were created, often on the initiative of individuals whom the Swedes call 'fiery spirits'; and how their activities have evolved to embrace not only social and environmental work but also many efforts to diversify their local economies. Finland has seen a similar evolution of local action groups, which are now served at national level by the Finnish Village Action Association, and which are seen by the Finnish government as being an integral part of the overall partnership of public, private and non-government organisations who together pursue the programmes of rural development in Finland.

7.23. The model of local action groups developed in Sweden and Finland has been adopted in Estonia, where a growing network of such groups is represented at national level by the organisation Kodukant. Similar networks already exist, or are in process of being created, in Lithuania, Latvia and other new member states or accession countries, with support from the PREPARE partners (www.preparenetwork.org). Thus a pattern of national rural movements is emerging in the countries of northern and eastern Europe. Similar organisations exist in some countries of EU-15, for example the Netherlands and Wales.

7.24. Alongside these networks of truly local organisations are the networks of LEADER groups in EU-15, which we described in chapter 3. Similar networks are likely to emerge among the 'LEADER-type' groups to be created in the new member states under the new rural development programmes described in chapter 3. Many of the sub-regional partnerships which have been, or are being, created in both LEADER and LEADER-type programmes include the micro-regional groups of local authorities and the village action groups mentioned in our preceding paragraphs.

7.25. **Public involvement.** Local action groups, community associations and similar bodies are living examples of the active local involvement of rural communities in action to improve their own lives. Much of this involvement has arisen spontaneously, from a common reaction to a perceived threat (e.g. the closure of a school) or a perceived need (e.g. a joint project to promote tourism in a locality). Such spontaneous action may arise naturally in communities which have been accustomed to self-reliance or contain active individuals. But there are many parts of rural Europe where communal action may be inhibited by poverty, apathy, past reliance on the command economy, or other factors. In such places, public or non-government bodies may need to take deliberate initiative to stimulate public involvement and to strengthen the communal human capital which is needed for sustained local development.

7.26. Examples of such initiative are offered in **Case study 7.4** and **Case study 7.5**, describing the 'Rural Livelihoods for Sustainability' programme in central Europe and a Rural Development Centre in Spain, respectively. Many ideas related to public involvement in rural development programmes may also be found in Chapter 7 of Euracademy Thematic Guide One, and Chapter 7 of Euracademy Thematic Guide Two.

Questions arising from Chapter 7 for you to reflect upon

1. Has your own career been affected by the change and complexity described in this chapter? If so, have you felt the need for mid-career training, lifelong learning or other forms of capacity-building? Have you been able to satisfy that need?
2. In your country, are the systems of education, training, business advice etc well suited to the needs of rural people?
3. In your country, what is the pattern of local authorities? Are they truly local, or effectively sub-regional? How does this affect the way that the local authorities operate? Are they able to involve, and to stimulate action by, local people?
4. Is there a national rural movement in your country? If so, what contribution does it make to the well-being of rural people, including the diversification of rural economies? If not, do you think that a national rural movement should, and could, be created?

Case study 7.1.***The “Tele-Zentrum Otztal”: ICT training for rural women in Austria***

This example shows the added value of ICT in rural economies. The initiative came from two women farmers from Otztal in West Austria, in the late 1990s. They proposed to the local LEADER group Sall-Woll-Otztal the creation of a telecentre in the Otz valley in order to promote ICT training to assist farmers and provide opportunities for supplementary income to farming activities.

The investment for the establishment of the telecentre was about 150,000 Euro, of which 40% came from EC-funding and the rest from public funds. The telecentre developed a pioneering training programme called “Telematics for women farmers” which is delivered in the telecentre’s classrooms through a course of 64 hours spreading over 4 months.

The course, which is recognised by the state, concentrates on a variety of subjects, such as accounting, management, public relations and marketing. The focus, apart from introduction to basic ICT skills, is to promote capacity building in fields directly related to the effective planning of existing farming activity. For this reason, the participants had to take a mandatory module through which they were asked to plan and manage “a virtual and an ideal farm”. All functional parameters were incorporated in the software used in this module, and participants gained valuable know-how for diversifying and managing their farming businesses.

Moreover, the telecentre has dedicated resources for teleworking, mainly on the design of websites and the promotion of e-commerce. Several participants use the telecentre to supplement their farming income, working for a big company in Tyrol codifying data, for another record company interested in the promotion of e-commerce, and for the design of the web page for the more efficient tourist promotion of the region. The area attracts over 2,5 million visitors annually, but tourist operators were initially not persuaded that the Internet could bring benefits to their businesses. However, the

Internet introduction courses for adults and the discussion fora through the website have persuaded them to cordially adopt ICT and to join the Information Society.



Women can supplement their farming income through telework

Over 100 women have taken the course in the Otz valley and about 250 more from other neighbouring areas have also benefited from the training offered. They take exams in the end and a formal certification recognised by Agricultural Chambers in Austria. Following the successful example of the Otz Valley Tele-Zentrum, it is planned that more telecentres will be introduced in Austrian rural areas to help farmers to strengthen and diversify their rural businesses through more efficient management techniques and supplementary income.

Contact: <http://www.oetzi.com>

(Source LEADERII Magazine, Winter 1998-1999, Vol. 19)

Case study 7.2.

Napoleon on Elba

When Napoleon abdicated in 1814 after military defeat, he was exiled to the island of Elba with a new official title of 'Emperor, and Sovereign of the Isle of Elba'. He arrived there by ship on the 4th of May. Vincent Cronin tells the story of his action to improve the local economy ;

"Next morning at four Napoleon was off on horseback to look at his new kingdom. He found it small – only eighteen miles by twelve – mountainous, and terribly poor. The 12,000 inhabitants fished tunny and anchovy, grew vines, and worked the open-cast mines which covered the eastern part of Elba with a red-dish dust. There was little agriculture, and most food had to be imported from the Italian mainland, five miles away. All in all, Elba was a poor, tumbledown little place.

"...Napoleon ... saw that the Elbans were poor and decided to help them better their life. He began at once. Since the first essential was to make Elba self-supporting, Napoleon opened a campaign for the growing of potatoes, lettuces, cauliflowers, onions and radishes. He planted olives imported from Corsica among the vines to replace the ubiquitous fig, which prevented the grapes from properly ripening. He planted young chestnuts on the slopes to check erosion...

"Napoleon set an example himself. He dug his own garden, he tried his hand at plough-

ing with oxen, though his furrow left much to be desired, he went out with the tunny fishers and harpooned tunny. He ... next gave his attention to Portoferraio (the island capital). Formerly rubbish had been allowed to rot in the streets. Napoleon gave orders for refuse collectors with large wicker baskets on their backs to go through the town, blowing trumpets, whereupon housewives were to empty their refuse into the baskets. This got rid of the flies... He paved the streets, put up lamps every ten yards, laid out grass borders outside the barracks, put benches along the quays. He planted the streets and Elban roads with trees. 'Plant only mulberry trees, which are useful to a country without meadows, and later may provide food for silk worms.' He found at Poggio a naturally sparkling spring water which relieved his dysuria, and he helped the Elbans to develop it commercially as Aqua minerale antiurica. All these were real improvements, but they cost the islanders much unaccustomed effort. Over the first months Napoleon wore everyone out, while continuing to remark, 'What a restful island!'"

from 'Napoleon', by Vincent Cronin, Harper Collins , London 1994, pp. 374-6

Case study 7.3.**Local action groups in Sweden**

Ten years of popular mobilisation in rural Sweden has led to the creation of over 4,000 active local community groups, spread all over the country. They operate at the village or commune level, and they work hard to develop their communities. The local groups are organised in various ways - local associations, cooperatives, networks etc.

Cooperation between local action groups is also common. There are now networks of such groups in nearly 100 of the 288 municipalities of Sweden; and regional networks in most of the 21 counties. These come together at national level to form the Swedish Popular Movements Council, which operates under the provocative title or slogan *HELA Sverige Ska Leva* (ALL Sweden shall live) - to indicate that the rural areas expect equal treatment from the Government and others.

The local groups handle a great variety of tasks - for example cultural activities, developing tourism, improving roads, building village halls, or building factory premises. Local cooperatives run shops, petrol stations, telecottages, or organise child care and care of old people. They are thus directly involved in the task of diversifying the local economy, as well as generally enhancing the quality of life in their areas.

In many cases the activity starts with a crisis, such as the closing down of a post office, shop or school. The activity often grows from a single activity to bigger and more complex tasks, and to a comprehensive approach to the development of the community.

Leading this process are many local enthusiasts or dedicated persons, whom the Swedes call "fiery spirits". Many people participate, however, and the ambition is that everybody should join. Often the women take the lead. About 100,000 people are directly engaged in the village movement, and several millions are affected.

This village movement has strengthened democracy and improved the living conditions in the rural areas. People feel that they have a say in decision-making and that their words count. The work done by the local groups also strengthens the economy; it generates economic growth in all of Sweden.

Calculations show that the work done by the village groups themselves is worth about one billion Swedish kronor a year (about 110 million Euro). It is also very efficient. Local resources, both natural and human, are used. In the hands of the village people, the money from the authorities produces greater results.



Promoting dialogue amongst different stakeholders in rural areas is bound to promote consensus in decision-making

Contact: www.bygde.net

Case study 7.4.

Rural Livelihoods for Sustainability in Central Europe

In 2001-2003, the Environmental Partnership for Central Europe teamed up with the German Marshall Fund of the United States and the Deutsche Bundesstiftung Umwelt to initiate the project 'Rural Livelihoods: Model Environmental Projects for Rural Sustainability'. The aim was to encourage an exchange of learning and experience between small geographic areas in the Czech Republic, Hungary, Poland and Slovakia, and thus to generate a wider movement in the rural areas of Central Europe to promote social, economic and environmental sustainability.

In the chosen geographic areas, the programme identified rural initiatives and projects which are model or exemplary in promoting progress towards sustainability in four thematic areas – sustainable agriculture, sustainable tourism, energy efficiency, and renewable energy.

The report on the programme, 'Rural Livelihoods for Sustainability', describes a large number of local or community-based initiatives, which (in the view of the promoters of the programme) have 'successfully mobilised local resources, participation and enthusiasm for sustainable development as a practical approach to generating rural livelihoods in a globalising world'.

The experience in the programme was drawn upon at a Workshop held in Krakow in November 2002, at which participants formulated the following definition of what is meant by a successful sustainable community.

A successful, sustainable community fosters and celebrates healthy people and biodiversity, and the linkages between them. Asserting those linkages, it invests in capacities, institutions and partnerships that restore, enhance and monitor natural, social and economic capital and widely communicates status and trends. It willingly shares knowledge and know-how. It promotes inclusive, stakeholder-driven planning and collaborative adaptation to changing conditions. Products and services generated locally are preferred and produce triple bottom-line profits-social, economic and environmental. Citizens understand and avoid detrimental impacts of their decisions locally, regionally, globally and inter-generationally.

The promoters comment that the communities and projects described in the report do not approximate to that ideal, but that they point towards clear principles for the revitalising of rural communities. These principles are:

- The importance of people – their vision, ideas and enthusiasm and their initiative to put these ideas into practice is essential for any project or initiative to succeed.
- The importance of partnership – joint action provides opportunity to identify priorities, mobilise resources, share risks, and ensure that benefits are shared by all sections of the community.
- NGOs and civics associations have a key role to play in helping to generate, organise and exchange ideas and experience.
- The public sector has a key role in generating initiatives and projects.
- Small initiatives can make a big difference – individual projects and initiatives can be powerful if they are integrated into a vision that is shared by all sectors of the community.
- Local leadership and responsibility - local project organisers very quickly transform into local leaders.
- Concern for heritage – a focus on the importance of local history, traditions and places is crucial to building local pride and self-confidence.

Taken from *Rural Livelihoods for Sustainability*, published by Environmental Partnership Consortium for Central Europe, 2004

Contact: www.epce-consortium.org

Case study 7.5.***The Rural Development Centre of Campiño Sur, Spain***

The Rural Development Centre of Campiño Sur (known locally as 'CEDER') is a non-profit association set up in 1994 by a group of municipalities in the Badajoz province of Extremadura Region, Spain. Their aim was to provide a focal point for cooperative action by municipalities and other actors to improve the economy of the area. CEDER has benefited from EU support through LEADER II and LEADER+.

The area covered by CEDER extends to 3000 square kilometres, with a population of 35,000 living within 21 municipalities. It is a sparsely populated rural area, with three main types of habitat – the mountain *sierras*; the rolling *dehesa*, with its handsome cover of ever-green oak trees; and the fertile *campiño*, with fields of grain, olive groves and vineyards. Its economy is mainly agricultural, based on sheep, pigs, wine and olives. There was, in 1994, very little development in other sectors, such as tourism or the agro-food industry.

CEDER was set up by a group of municipalities, without much initial involvement of the private or voluntary sector. With LEADER II money, they offered support to projects and to training and investment for enterprises. The response from firms and others was slow, because people did not feel a sense of identity with the chosen area. So CEDER focused on promotion of the area and on projects with the municipalities such as local amenities, provision of free public access to the Internet, and encouragement to tourism. Public acceptance gradually grew, and projects began to come forward for support.

Since 2000, when CEDER secured funding under LEADER+, there has been greater demand for help from enterprises and others. CEDER has been able to give help to a significant number of enterprises. For example, the vineyard Bodegas Otero received a grant of 60,000 Euro from CEDER under LEADER II to enlarge the cellar for wine-making, and a further grant of 42,000 Euro under LEADER+ to build

a reception area (where groups can come to taste and buy the wine) and a laboratory.

CEDER also gave grants to a small bakery, recently started by two local women to produce traditional cakes; a small ceramics workshop, run by a married couple, producing hand-made tiles and flooring in Moorish style; and a factory which produces galvanised steel components for electricity pylons and other purposes. These three enterprises are all

housed in industrial buildings which had been constructed by one of the municipalities. This meant that the enterprises did not have to spend precious capital on buying or constructing buildings. The CEDER grants were for equipment.

CEDER has also given grants to support many social facilities in the area, such as a day centre for handicapped people, a children's day centre, a kindergarten, and an old people's centre. They provided funds for the creation of a delightful ethnographical museum in the town of Azuaga, and for interpretation in tours in a nature reserve.

Support for CEDER's work has widened. All 21 municipalities are now in membership, together with over 340 private or non-government members. These include cultural groups, women's organisations, trade unions, cooperatives, chambers of commerce etc. The CEDER programme is controlled by a Board, in which the municipalities have half the votes, and the private members have the other half.



Mina La Jayona is a popular tourist attraction in Fuente del Arco

Contact: gerencia@cedercampisur.com

CHAPTER 8.

Further Reading

We offer below a reading list, which may help you to go deeper into the background of the subjects covered in this Guide.

Europe: A History, by Norman Davies (Pimlico, London, 1997) is a brilliant review of the history of this continent, from earliest times. It is full of insights into how society, agriculture, industry, trade and commerce evolved; and is therefore an excellent aid to understanding the fascinating complexity of modern Europe.

The two earlier **Euracademy Thematic Guides** – *Developing Sustainable Rural Tourism*, 2003; and *Information Society and Sustainable Rural Development*, 2003 (both published by PRISMA Centre for Development Studies, Athens) – provide a detailed appraisal of the issues in these two fields of rural development, which overlap considerably with the theme of this new Guide. They also contain Further Reading lists. Both Guides may be accessed through the members area of the Euracademy Association website or ordered through www.euracademy.org

European Commission – the main policy documents published by the EC, including those mentioned in the reference list below, may be found at website: <http://europa.eu.int/pol/agr/index>

Websites worth visiting include those of:

- > **EURACADEMY** – European Academy for Sustainable Rural Development at the website www.euracademy.org
- > **ECOVAST** – European Council for the Village and Small Town www.ecovast.org
(see particularly the ECOVAST 'Strategy for Rural Europe')
- > **PREPARE** – Pre-accession Partnership for Rural Europe www.preparenetwork.org
- > **Eurogites** – the European Federation of Farm and Village Tourism, www.eurogites.org

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