



# The Future of Rural Policy

FROM SECTORAL TO PLACE-BASED  
POLICIES IN RURAL AREAS

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Territorial Development  
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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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## FOREWORD

The conference “**The Future of Rural Policy**” was held in Siena, Italy, 11-12 July 2002. The OECD Territorial Reviews and Governance Division organised this conference with the co-sponsoring of the Province of Siena and the Nomisma Consulting Group. This event was intended to provide a forum to discuss both the new orientations of rural policy in the context of globalisation, and the specific instruments needed to inform and operate sustainable rural development. It brought together high-level policy makers, international experts on rural development and NGO representatives. Speakers included Mr. Fabrizio Barca, Chairman of the Territorial Development Policy Committee and other high profile political figures.

The OECD has had a long-term involvement with rural development and its policy implications, since the creation in 1990 of the OECD Group of the Council on Rural Development. One of the central messages put forward by the OECD regarding rural development designates it as a territorial issue, not a sectoral issue to be dealt with by agricultural policies. This has emerged particularly in the OECD Territorial Reviews of Teruel, Spain (2000), Tzoumerka, Greece (2001), and Siena, Italy (2002). This conference has focused on this vision, providing inputs from different international experiences of rural development.

This publication contains a selection of the papers presented at the conference in Siena. It is supplemented with a preface by Ms. Margaret Clark, Director of the UK Countryside Agency, Chair of the OECD Working Party on Territorial Policy in Rural Areas, who also chaired the first day of the conference. This preface highlights the terms of the current policy debate on rural policy reform which were also brought forward in Siena.

This publication was prepared by Mrs. Arantzazu Aramburu, Administrator, under the direction of Mr. Mario Pezzini, Head of the Territorial Reviews and Governance Division of the OECD, who contributed the introduction of this publication with the approval of the OECD bodies.

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## **PREFACE**

**Margaret Clark**  
**Chair of the Working Party on Territorial Policy in Rural Areas**

I said at the start of the conference on the Future of Rural Policy, held in Siena in July 2002, that I expected it to be interesting and stimulating. I was not disappointed. Over the two days we were fortunate to hear from speakers from around the world – Europe, Japan, Mexico, and the United States – and to have an international audience which took part in the debate about the issues and the solutions.

The conference was timely. As we heard, many countries were reviewing or reconsidering policies affecting their rural areas. In the United Kingdom, as the Minister for Rural Affairs explained, the outbreak of foot and mouth disease in 2001 had a severe impact, not only on farmers but on the wider rural economy and on the country as a whole, resulting in a more general recognition of the needs of rural communities and economies and a significant programme of action to tackle the problems. The driver for action and new policy development in many countries has stemmed from the changing role of agriculture: for example, in Japan, we heard that there is a growing problem of rural depopulation and a significant decline in those engaged in farming with resulting difficulties associated with an ageing rural population: 53% of farmers were over 65 years of age in year 2000, compared to 13% in 1960. In the United States we learned that, despite large farming subsidies, there was still considerable poverty amongst farmers and that agriculture and rural policy had lagged behind what was happening elsewhere in the economy.

Shortly before the conference the European Farm Commissioner, Mr. Franz Fischler, had published his proposals for the mid-term review of the Common Agriculture Policy, which threw into stark relief many of the issues raised at the conference.

But we did not only focus on national or international policy but also on local experience. It was helpful to hear from those working on rural development at a local level, who were trying to marry policy with reality, and

examples of different approaches, such as those in Spain and Sweden, but which all underlined the importance of local leadership and the human dimension.

Some of the messages I took away from the conference were:

- Agriculture continues to play an important role in rural economies and its impact on the landscape, the environment and rural amenities is critical, but it is no longer the only industry in rural areas – nor even in many areas the major employer.
- A recognition that rural areas and rural economies have diversified and need to continue to do so to be competitive in increasingly global markets.
- Policies and subsidies focussed on sectors, such as agriculture, tourism, etc., miss the diversity of rural areas and will not meet the needs of today. There is growing acceptance of the need for place-based policies which recognise and build on the opportunities and advantages of areas or which seek to tackle their disadvantages.
- Regional policies play an important role but they need to understand and be sensitive to the differences between urban and rural areas within the region (and between different types of rural area) which may require different approaches. Regions may, in themselves, be at too high a level and sub-regional approaches may be needed, as demonstrated by Mexico’s focus on micro-regions.
- Rural areas are not just problems; they also present opportunities and the potential to contribute positively to competitiveness, for example through the growth of micro-businesses, niche markets and the increasing role of women entrepreneurs.
- There are clear moves away from centralised “top-down” policy and delivery towards more local “bottom-up” approaches within an agreed policy framework, although there are still issues about the balance between these and what institutions and governance are needed in support.
- The importance of infrastructure, such as communications, ICT, and enhancing social capital to increase the competitiveness of rural areas. The capacity of local people and organisations to



participate, however, needs reinforcing. How do we find tomorrow's leaders and entrepreneurs?

There remain many challenges for those concerned with future rural policy. In particular, we need to make sure that rural policy is not simply a construction from sectoral policy or an adjunct to something else rather than a dynamic policy with clear objectives in its own right. We must also look ahead and build policies robust enough to meet tomorrow's demands and needs and not just focus on dealing with yesterday's problems.

All of this underlines the importance of the work of the OECD's Territorial Development Policy Committee and its rural working party. The Siena conference was an opportunity for countries to listen, learn and share their experiences. The fact that there was so much common ground and enthusiasm for continuing to work together on the problems and to grow the opportunities was very encouraging. I have no doubt that the rural working party will want to consider the results of the conference carefully and to take forward the issues and ideas which emerged as part of its future work programme.

## **INTRODUCTION**

### **TRENDS IN RURAL GOVERNANCE**

By loosening national ties and enforcing international competition, globalisation confronts regions with previously unknown development opportunities and threats. On balance, it is expected to bring gains to economies on the whole, but will nonetheless pose severe adjustment problems to a number of regions. Moreover, international economic integration is increasing the interdependence of nations, thereby modifying the traditional policy instruments through which governments influence the process of economic and social change. Given their limited efficacy, these instruments need to be upgraded and in many cases substituted with more appropriate ones.

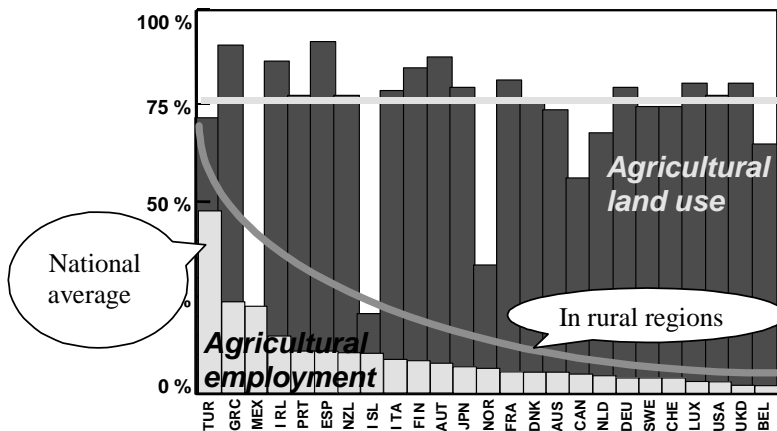
Rural regions are particularly confronted with the shift in the economic base away from primary industries. In terms of policies, rural areas should undertake a significant change going beyond agricultural policy, and offering trajectories of development for rural areas. To lay the groundwork for this discussion, this chapter in two sections provides an overview of key trends in rural areas as they appear in the OECD territorial reviews at the regional level — Teruel (Spain), Tzoumerka (Greece), Moravska-Trebova (Czech Republic), Champagne-Ardennes (France), and Siena (Italy) — the horizontal work conducted by the Working Party on Territorial Policies in Rural Areas<sup>1</sup> as well as the statistical work on rural indicators and factors of growth. The first section focuses on the comparative advantages and obstacles to development. It stresses the territorial success and decline that often result from uneven distribution of and capacity to valorise local collective goods. The second section intends to suggest issues to render the policy design for rural areas more capable of facing the challenges related to structural change. It addresses the issues of governance as well as policy objectives and instruments.

## Trends for rural regions

### *Development trajectories in rural regions*

Rural regions face significant challenges in comparison to metropolitan and even intermediate areas. Problems are particularly evident in terms of employment opportunities in sectors that were crucial up to now: the agriculture and public sectors. Although farming is still important in shaping land use, employment opportunities in agriculture are declining in relative and absolute terms. Most regions have become less dependent on resource industries and specialisation in these sectors is risky, given the vagaries of international commodity markets and trading regimes. The role of commodity agriculture in rural development has weakened, due to the exceptional increase of productivity during the last decades. The modern supply-chain production of commodities includes relatively few farm producers (so to minimise the costs of managing highly integrated business alliances) and lead to geography based on concentration in relatively few rural places.<sup>2</sup> With few farmers and fewer suppliers in these locations, one is tempted to state that agriculture is no longer the backbone of rural regions (Figure 1). Moreover, decline is also affecting public sector employment. In the past, this source of jobs had been the main component of rural employment growth, but in a climate of fiscal restraint, the labour market is likely to contract. Adjustment and transition to new economic sectors and activities are therefore priorities, and many member countries opt for policies of diversification.

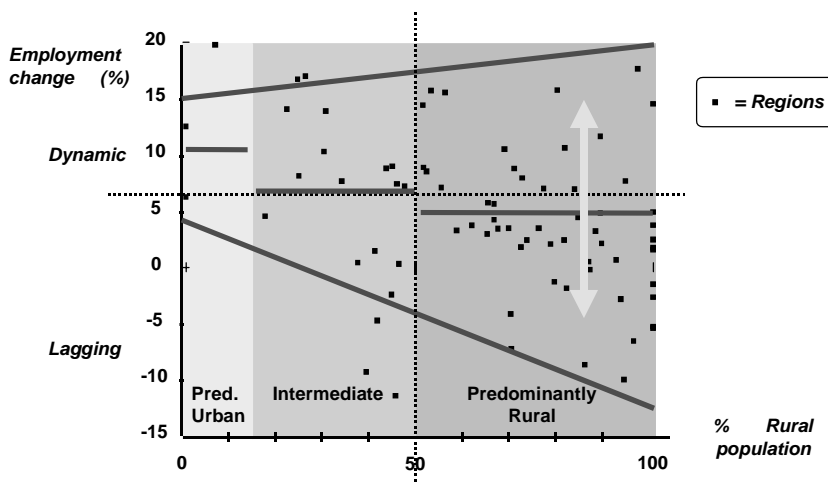
Figure 1. Rural employment and land use



Although crucial, unemployment is just one in a wider spectrum of problems affecting rural areas. Out-migration of young people caused by lack of employment opportunities and inadequate access to educational and leisure facilities, along with in-migration of retirees in some places, has led to significant ageing of the population. The resulting demographic structure is often inappropriate to support the provision of local public services. Moreover, most rural regions have difficulty establishing the necessary critical mass of facilities, producer services and infrastructures to support economic development. Consequently, entrepreneurs face specific obstacles in starting up enterprises in rural regions. Finally, in many cases, the above problems are interrelated and thus, produce an additional, crucial obstacle to development: a vicious circle locking regions in a sort of permanent under-development.

However, despite important economic and demographic challenges, rural regions are not necessarily synonymous with decline. Sustained and sustainable development have been observed in a remarkable amount of cases. As an example, in Austria, although on average rural regions are lagging behind urban and intermediate ones, some rural regions perform very well, even better than urban ones (Figure 2).

Figure 2. Employment change in Austria, 1980-1990



Why do certain rural regions perform better than others (Annex I)? Transport infrastructures and towns in the region or the vicinity of a major urban centre are often mentioned as important factors. Clearly, they limit the consequences of weak economies of agglomeration by providing access to services of larger cities. Moreover, they attract urban dwellers demanding amenities, as improved transport links make recreation in rural areas feasible. Still, accessibility does not appear to be a sufficient condition for rural development and sometimes, it is more a source of population *leakage* than of economic *linkage*. In many cases, the explanation is different: endogenous resources drive development. But given that almost each region has different combinations and levels of capital endowment (physical, financial, human and social), what counts is the availability of one form of capital or another as much as the ability to properly exploit it. This is the appropriate strategy. In some cases, the most intangible aspects (entrepreneurship, cultural identity, participation, and partnerships) are the most important in making the difference. It is difficult to transform stocks into flows: *i.e.* valorise natural and man-made assets, strengthen the economic environment, invest in human resources, improve institutional capacity.

If strategies are key for development, which ones are the most effective? Local rural development (measured in terms of employment creation) often tends to specialise in one of a few main trajectories. At the base of the OECD Territorial Reviews and statistical work, two strategies appear more traditional and have limited chances of being replicated in other places. They are related to the exploitation of national resources or major public expenditures. The other two strategies are more endogenous forms of development and forward-looking: amenity-based development and the diffusion of industrialisation in an “urbanised countryside”.

### ***“Mining” natural resources and major public expenditures***

Some regions succeed well in exploiting wood, oil, minerals or hydro-electricity. The rural regions with the fastest employment growth in OECD countries are often remote places that are highly dependent on one of these resources. The discovery of oil in the North Sea was a boost for the economy of the Highlands and the Islands (United Kingdom). Sometimes, technological progress changes the fate of regions: new mining techniques allowed a county like Elko (United States) to venture into low-grade gold extraction. In other places, for example Soyn and Fjordane (Norway), the production of hydro-electricity generates sufficient income to ensure high levels of investment in infrastructure and services. The difficulty in these types of places is to manage

the effects of the price fluctuations of the resource (which induce rapid economic booms and declines) and to retain value added.

Few regions succeed in hosting establishments like prisons, dumps, waste recycling plants and nuclear power plants. Indeed, some rural areas specialise in settlements that, although beneficial to society, generate a certain number of nuisances. In these cases, low population density is an advantage. It may be questionable to base a rural development strategy on these types of establishments, but given that they will be erected, they are likely to be placed where the least number of people will be affected. One of the driving economic forces in Ely County (which ranks among the remotest places in the United States) is a federal prison. The province of Sanliurfa (Turkey) has reaped many economic benefits from the construction and development of a large dam. Both are extreme but illustrative examples of how public investments of a controversial nature can promote the development of specific regions. The greatest problem is that even when these establishments are properly remunerated, they conflict with other forms of development.

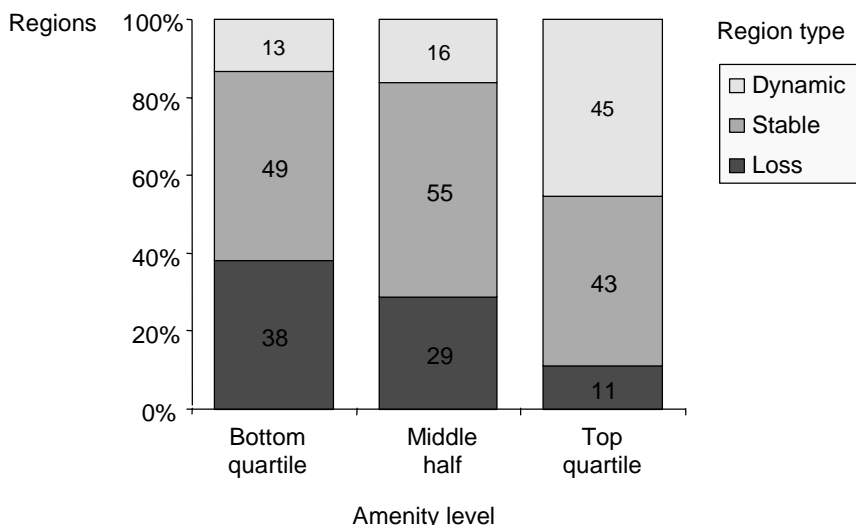
### ***Cultivating amenity-based development***

A large part of successful rural regions has been able to valorise public or quasi-public goods such as a clean environment, attractive landscapes and cultural heritage (including food). Their increasing value is related to the improved transport links that make recreation in rural regions increasingly feasible as well as residential location more affordable. But most of all, it has to do with both a growing demand on the part of urban dwellers for rural areas and a local capacity to co-ordinate several economic actors to supply and promote a local collective good: the local fabric. Potential economic opportunities range from developing green tourism packages, promoting local products, attracting temporary (secondary homes) or permanent (active or retired) residents to the area in conjunction with building synergies among all the above factors of growth.

There are several examples of regions that have become successful by “cultivating” their rural amenities. Relying not exclusively but in large measure on rural amenities, the area of Siena has been able to improve its position relative to other Italian provinces in terms of per capita income. Employment creation has also been impressive with the province demonstrating high rates of labour force participation for men and women. But Siena is far from being an isolated case. Tiroler Oberland (Austria), Mugla (Turkey) and Tasman (New Zealand) are similar regions that thrive on the tourism industry. Other regions, such as Engadina Bassa (Switzerland), Alpes de Haute

Provence (France) or Dare County (United States) also attract workers, enterprises or retirees. In some cases (Peloponissos in Greece, Yamanashi-Fujihokuroku in Japan), the accessibility of the regions has been the facilitator of development, in other places remoteness has been turned into an attraction (Notio Aigaio in Greece, or Mie-Iga in Japan). Finally, a recent exercise conducted by David MacGrannan confirms the importance of amenities in rural development in the United States at a more aggregate level (Figure 3).

Figure 3. **Natural amenities and employment change in rural regions of the United States, 1970-1995**



Source: David MacGrannan/USDA.

In these cases, farming can continue to play a role in and remain a tool for rural development. Farmers often engage in creating, maintaining and valorising distinctive places and products, ensuring green credentials for marketing or directly contributing to the regional tourism supply. The point is that in all successful cases, farmers participate in a restructuring process that encompasses agriculture as one component of a comprehensive and place-based strategy for rural development. Furthermore, it is important to dispel the outdated notion of the “full-time farm business” with the household wholly

dependent upon agricultural income. Farm households often have multiple income sources. In other terms, the health of the farm and non-farm economies in rural areas is inexorably linked. This is why the established notion of a separate national economic sector seems blurred and farmers should come to be seen and valued for their role as “rural entrepreneurs” and “local environmental managers” as well as for their role as food producers.

### ***Clustering and networking small firms***

Additionally, important parts of regions have been able to remain competitive in industries such as clothing, toys or mechanic. They may have an old industrial tradition: the Jura (France), Viège (Switzerland), Bardajov (Slovak Republic) and Macon-Rabun (United States). Or they may have succeeded in recent decades: the Southeast region (Ireland), Luxembourg (Belgium), Oberpfalz (Germany), and Hiroshima-Kamo (Japan), Ascoli Piceno (Italy) rank among these places. They benefit from two factors: *a*) activities such as accounting, software development, or the assembling of electronic components are decreasing in dependence on the physical proximity of markets to remain their competitiveness; and *b*) businesses are increasingly attracted to locating to places based on factors other than cost, such as availability of skills and quality of life. Still, these rural regions face challenges such as weak agglomeration advantages and good levels of service provision to permanently increase the competitiveness of businesses. Thus, strong local initiatives, backed with specific national policy measures are often important ingredients.

However, industrialised regions tend to be more “borderline” than typical rural regions. Even if the dissemination of best practices is advisable, their impact will be important but limited in scope. Industrialised regions share largely the same density of population and type of economic base as intermediate areas. As such they differ from *predominantly* rural regions where industrialisation started much later or even failed to occur. In spite of some notable exceptions – those linked to industrial districts, many rural areas record below average enterprise creation rates. Some of the major constraints impeding the birth and development of new enterprises outside agriculture include: physical inaccessibility to customers and suppliers, a restricted occupational structure with limited range of skills and low proportion of educationally qualified individuals, and difficulty in accessing external training. Some of these constraints may be amenable to policy action, but several are beyond the reach of policy makers.



## ***Building strategies and detecting demand for rural areas***

Amenity-based development and industrial clustering seem to offer sustainable prospects for more rural areas than those already benefiting from them.<sup>3</sup> Of course, prospects for development may not be limited to valorising natural and cultural resources or networking small firms, but cover a much wider set of possibilities. The above successful trajectories cannot pretend to be exhaustive and represent all possible development paths. However, they could orient the development strategies of many rural regions that have amenities not yet translated into private goods. At the same time, they could help rural regions with mere agglomeration of small firms copying from successful clusters how to strengthen inter-firms co-operation.

Together with increased connectivity due to information technologies, a greater and diversified **social demand on rural areas** has widened the range of regions considered as having marketable values. This demand has to do with higher disposable incomes, more sophisticated consumer preferences and a growing interest in ecology. Market segmentation has opened up niche opportunities for a variety of agriculture-related, industrial and service activities in rural areas. Opportunities include attracting tourists, retirees and enterprises by making use of the natural environment that offers a good quality of life in combination with an adequate supply of consumer services (hotels, restaurants, museums, crafts, etc.) and in some cases, financial incentives to newcomers (e.g. lower taxes or lower property values). These are just a few examples. Identifying and measuring the various natures of the demand for rural areas require additional efforts. In particular, the following issues should be analysed:

- trends in residential demand for rural areas (including the analysis of urban sprawl and development of suburbs);
- trends in tourist demand for rural areas (which types of areas are concerned, what type of tourists);
- trends in demand for niche agricultural products (including the analysis of nature and diffusion of labelling).

However, even when opportunities exist, market forces do not always grant their adequate and appropriate use. Thus, the new demand on rural areas may face a diminishing supply resulting from demographic changes, lack of economic growth, and the declining importance of traditional sectors. Independently from the original endowment, some areas may face obstacles in capturing new opportunities and require *pro-tempore* policy intervention to facilitate the design and implementation of development projects.<sup>4</sup> Obstacles are

particularly evident when dealing with natural and cultural values, but they may equally occur for what concern industrialisation. Even in areas with industrial tradition and already existing agglomeration of small firms, co-operation among firms may be difficult to develop. Although close to each other, firms are often juxtaposed and face high transaction costs in business-to-business relationships. They do not fully exploit the advantages of proximity in order to specialise in the same production chain and develop co-operation. They often fail in developing a local pool of skilled labour, in attracting buyers and suppliers, and in reducing unit costs by sharing activities such as marketing and technical services. In these agglomerations, subcontracting to potential competitors for orders that exceed a firm's capacity is also rare because of mistrust about reliability and standards. These features discourage flexible specialisation that might allow for production of differentiated goods with high value added as well as for keeping local wages higher and unemployment lower.

### **Governance in restructuring rural regions**

The key trends in rural areas highlight comparative advantages and obstacles to development. They stress that rural development and decline often result from the capacity to valorise local collective goods, such as well-established inter-firms relations within clusters, and accessible and valuable natural and cultural resources that increase the sustainable attractiveness of places. At the same time, the analysis underlines that opportunities related to these collective goods are often unexploited and their valorisation must struggle with obstacles to be addressed by governments. The demand for policy raises several issues concerning: *a*) a shift in the policy objectives and the instruments of policies; *b*) a shift in the unit of analysis and intervention; and *c*) a shift in the governance framework.

### ***Objectives and instruments for rural policies***

The needs for economic restructuring are most urgent in rural regions. Many rural regions of member countries have been experiencing a transition from traditional rural industries such as agriculture, forestry and fishing to other types of economic activities, such as manufacturing, tourism and other service industries. Despite shared challenges, the success of some of these regions is forcing a re-examination of the objectives and instruments of rural policy. More robust and versatile local rural economies need to be based on sufficiently diversified income sources. Therefore, the most pressing problems lie with those localities where the rural economy is dependent upon a narrow economic base and/or with weak relationships among the actors belonging to the same

local economy. It follows that the focus for promoting rural development and employment should be on transforming and developing new and distinctive economic functions. The interests of the majority of rural citizens, and even most farm families, seem to be best served by a development strategy based on investments to build local assets, to realise village renewal and development, to ensure conservation of rural heritage and to promote a skilled strategy for tourism as well as craft facilities. In turn, this requires a different business environment and competencies, as well as some structural reforms for basic services and investments. Therefore, discussions on policy objectives and instruments for policies in rural regions should address the following issues:

- enhancing “competitiveness” of rural regions by targeting local collective goods (amenities, clusters, etc.) as a means of generating new competitive advantages;
- shifting from an approach based on subsidising declining sectors to one based on strategic investments in order to develop new enterprises in new activities (including agri-tourism or eco-tourism) and diversify the local economy;
- shifting from a sectoral to a place-based approach, including attempts to improve co-ordination and to integrate the various sectoral policies at regional and local levels;
- promoting framework conditions in fields such as logistics and business infrastructures for upgrading product standards and promoting labelling in order to support or attract enterprises indirectly;
- enhancing business assistance and networks of knowledge and expertise to diffuse new technologies;
- developing human resources through vocational training, including an important emphasis on entrepreneurial skills, and “capacity building” for policy actors at local levels;
- ensuring new ways of providing public services in scarcely populated areas, combining service centres and distance learning through information and communications technologies.

### *Micro-regions as units of intervention for rural policies*

The restructuring of rural areas is suggesting a shift concerning the unit of intervention of public policies. Simplistic distinctions between rural areas, as opposed to urban areas, need to be reconsidered as they no longer reflect the present structure of rural areas and have become obsolete. Daily commuters from scarcely populated municipalities in suburban areas have values and behaviours closer to those of inner city residents than to the values and behaviours of residents in small towns in rural regions. In this context, the crucial unit of analysis and intervention is the functional region (for example, defined in terms of the local labour market or commuting area). Rural and urban can no longer be an easy substitute for sectoral *visions* and interests. The change in unit of analysis and intervention is of course closely related to a more selective approach using packages of co-ordinated measures focused on the development of the economic fabric of a given rural region.

In many countries, co-operation between municipalities is a long-standing and very widespread practice, but new trends are appearing. Partnerships have often been the result of the over-fragmentation of municipal government and of compulsory amalgamation policies that have frequently met with failure.<sup>5</sup> The rationale is that municipalities can share costs and manage certain services jointly (particularly infrastructure, such as sewerage mains and municipal waste treatment). In recent years, partnerships have assumed a broader objective, reflect a place-based approach to development and cut across traditional administrative boundaries. In the new context, municipalities constitute micro-regions, territorial pacts, and different sorts of consortia that tend to become the interface through which policies will be implemented. Areas that are defined by local economies are gradually superseding the administrative and geographical territorial units, which were once the basis for policy implementation.

While policy making frequently focuses on administrative or macro regions, partnerships between municipalities are increasingly related to the fact that development is often a local phenomenon. Italy serves as an example. From the mid-1960s, Italian southern regions have diverged not only from the “industrial triangle” (Turin, Milan, Genoa), but also from the so-called “Third Italy” (the centre and north east of the country). As a consequence, researchers and practitioners have often concluded that Italy is condemned to a permanent dualism. On the contrary, trend analysis based on local labour market areas reveals unsuspected signs of economic and social dynamism in southern areas. In these, as well as in many other cases, the traditional administrative regions are inappropriate to register crucial phenomena as clusters. The functional organisation of countries overlaps with their politico-territorial structure that

dates decades or even centuries back, creating various gaps and inconsistencies in policy making. This poses not only analytical problems; it requires the design of appropriate forms of governance, and in particular of co-operation between different local jurisdictions.

The development of rural areas is based more and more on interactions with adjacent areas. The inter-regional aspect is not always taken into account at the international level because these cross-border zones do not coincide with traditional administrative divisions. Differing regional fiscal and regulatory regimes as well as diverging levels and rates of development are obstacles to the intensification of spatial relationships between neighbouring areas. Co-operation between communities and the setting up of horizontal partnerships between public and private actors over areas sufficiently large to define coherent, common strategies have been seen as the most effective means by which to take into account these new forms of territorial development. These flexible forms of governance permit governments to better exploit local complementarities and, notably, to ensure continuity in infrastructural development through the sharing of public investments.

Although shaped by a specific institutional and structural context, varying in size and having different economic performances, these territorial units share certain similarities. Municipalities co-operate with each other because they see that they cannot resolve their social and economic problems on their own. They tend to cluster around a lead municipality and often share a sense of belonging to a common identity. Often central or supra-national governments encourage partnerships through a system of incentives and an accompanying legislative framework (France, Italy, Mexico, European Union initiative LEADER, etc.). In many cases, central governments participate directly in the decision-making process in order to deal with large infrastructure as well as with positive or negative externalities overlapping the border of the micro-region. Consultation and decision making are complex processes suffering from lack of information and opportunistic behaviour. Budgetary and human resources available to associations of municipalities are inappropriate and limited compared with the resources of most municipalities.

The practice to design and implement policies with and for micro-regions is likely to spread throughout OECD countries. To date, studies have been based only on administrative units (municipalities, districts, regions, etc.), it is important to analyse the exact role that these associations play and to propose a framework for maximising their contribution to rural development. Among the principal issues to focus on are:

- structures and rules that governments put in place in order to promote or support these initiatives;
- inter-sectoral co-ordination and coherence;
- finance and incentives (own tax revenues, contributions, subsidies, etc.);
- contracts and the process of negotiation; A frequent hypothesis is that a negotiation process values, on the one hand, the richness of information available at the local level and on the other, the potentially wider vision of the central government. How does it work?
- learning processes to strengthen their role in the design and implementation of development policy, which raises the issue of the human resources available and capacity building;
- actors involved (including civil society participation and role).

Successful pilot projects in Europe and the Americas, such as the LEADER initiative, the Mexican Micro-Region programme, local pacts and policies in France and Italy, and others, hold substantial promise. By assessing some of the more promising recent initiatives, analysis of these changes will provide recommendations to assist member countries in improving their methods in the strategic phases of conception, negotiation, implementation and evaluation of place-based policies for rural development. Few types of policies should be selected. In the first phase, they could constitute case studies that are treated individually and culminate in separate reports. In the second phase, a comparative analysis of such experiences could be carried out and constitute the OECD Territorial Thematic Review on Place-Based Policies for Rural Development.

### *New actors and a new governance framework*

From the perspective of the national governments, rural policy design and implementation address the fact that local and regional governments have a greater role. Diversity among rural places makes it very difficult to design a national policy which can take into account local, specific needs at the same time as geographically balanced objectives of national economic development. Traditional concerns related to fiscal federalism, the effort to secure effective citizen participation in decision making, as well as the necessary consensus to

design and implement policy imply an active role for different levels of governments (local, regional, national and international). Many countries have thus embarked upon reviews and reforms moving in the direction of decentralisation and devolution. Depending on the chosen degree of decentralisation, governmental entities at the lowest levels have to cope with a multiplicity of issues (*e.g.* environmental problems involve ecosystems and unemployment affects employment areas). Increasingly, these different areas cut across separate administrative entities. To adapt to a scenario of shared authority, territorial dynamics and new economic realities, central administrations have begun to prompt the formation of new structures for territorial governance by encouraging and setting up forms of vertical and/or horizontal co-ordination between the institutional parties involved.

At the central government level, there often remains room for improvement in co-ordinating the various ministries and departments responsible for rural development policies. Judging by recent developments some key elements seem to be:

- decentralisation towards regions and localities, sometimes involving community “empowerment” efforts in order to better meet the diverse needs and conditions found in rural areas and tap local knowledge and other resources;
- support for “bottom-up” development initiatives, for example through the Canadian Community Futures Programme and the EU LEADER programme;
- attempts at better co-ordination of policies affecting rural areas at central levels through inter-departmental and inter-ministerial working groups or committees, sometimes paralleled by rural affairs committees in national parliaments, and possibly involving various forms of “**policy-proofing**” to ensure that all policies consider the rural dimension (policy proofing is the process by which a designated body “proof-reads” legislation to verify that rural issues have been adequately considered);
- allocation of rural co-ordination responsibilities to one senior ministry or department which must chair the inter-departmental or inter-ministerial group;
- ensure a good flow of information through **national or supra-national networks of local partnerships** (as for example in the European LEADER Observatory) which exchange

information, run training seminars, and provide documentation on “good practice”.

## **Conclusions**

Rural policy has seen significant developments in the past two decades. As we will see in the following papers, several member countries have completely overhauled their rural policies in recent years, while most have undertaken significant reforms. The key elements of these shifts have been:

- decentralisation of policy administration and, within limits, policy design to those levels;
- increased use of partnerships between public, private and voluntary sectors in the development and implementation of local and regional policies.

Even though in many countries, sectoral policies, centralised sectoral administration and subsidies to maintain existing activities remain very important, there seems to be a consensus that rural policy is evolving. However, in many cases, these refinements and innovations are recent and still limited in scope to certain OECD countries. As such, they have not been comprehensively evaluated. Additional work will be needed to ascertain the durability and transferability of these initiatives on a wider international scale. Nevertheless, these conference papers lend support to the argument that rural policy has now gone beyond agricultural policy in many countries, both providing a complement to sectoral policy approaches and offering new trajectories of development for rural areas.

With the objective of advancing the discussion on rural development and policies, the book is divided into four sections. Section one provides concrete examples of policy approaches that differ according to country and rural specificity. By examining the LEADER programme in Europe and the Contigo programme in Mexico, section two evaluates the effect of territorial policies on rural areas. Section three is largely devoted to the endogenous and sustainable development in rural areas. It identifies the untapped rural resources of regions as well as the need for greater local development. In presenting local experiences of rural development, the final section highlights some of the common problems found in rural regions.



## Annex I

The following table is the result of an exercise conducted by OECD on growing rural regions. It illustrates different forms of capital and shows which ones may be considered most critical to the success of predominantly rural regions. In order to *explore the paradox*, experts from several member countries were asked to participate to a survey<sup>6</sup> where they named the three most important factors that explain the success of individual leading regions in their own country. The table presents the absolute frequency of responses. In many cases, the presence of public goods such as rural amenities is the factor that clearly emerges.

Table 1. **The factors that make the difference for a rural region to become leading**

	Factors	Number of times factor was ranked among top 3
1.	Natural endowments	
–	Exploitable resources	8
–	Settlement pattern	
–	Amenities (natural/man-made)	22
–	Urban-adjacent	8
–	Presence of towns	0
–	High population density	0
2.	Infrastructure	
–	Transport	16
–	Telecommunications	4
–	Other	3
3.	Production costs	
–	Labour	6
–	Land and premises	4
–	Other	0
4.	Human resources	
–	Skills of work force	5
–	Entrepreneurship	6
–	Work ethics	1
5.	Innovation capacity	
–	Research	3
–	Training	2
6.	Quality of the services	
–	Producer services	2
–	Consumer services	4
–	Financial services	0
7.	Local institutions	
–	Public/private partnerships	6
–	Local leadership	7
–	Industrial relations	3
8.	Regional identity	
–	Political/fiscal autonomy	1
–	Cultural identity	12
–	Other	0
9.	Other	
–	Other	2

## Notes

1. The most recent outputs of horizontal work include: a synthesis report on Rural Amenities that was completed for the January 2002 Rural Working Group Meeting, following a seminar in December 2001 in Japan; a publication on the Role of Information and Communication Technologies in Rural Areas, work was completed in 2001; a report on Environment Management Systems will be published in 2003 following an international conference in March 2002 in Italy.
2. Of course, some rural places still owe their growth to the new ways in which agriculture produces commodities. In some regions, farmers still assure income and even employment development by signing contracts with major food companies to deliver precisely grown products on a pre-set schedule. However, such a successful move to a “supply chain” organisation changes not only *how* agriculture does business but also *who* does business and *where*.
3. These results were confirmed at the 1997 OECD organised conference in Albarracín (Spain) where examples for successful development based on natural and cultural amenities were presented.
4. Other areas may have almost pure public goods – the best-known examples being those concerning natural endangered species – for which a real market is and will be difficult or impossible to establish.
5. Municipalities may also join associations of local authorities to get support, advice, training and lobbying.
6. The questions used to structure the interviews were the following:

What activities are the economic engines of the region? Share of total number of jobs? Contribution to total change in jobs number? Annual growth rate?

What are the main determinants that make the difference for the growth of the region? Natural, physical, financial, human or social capital?

Has the course of the events in the region been shaped mainly by exogenous (economic, social/political, policy) factors, or by endogenous (local) actions?

If national or other top-down policies influenced the determinants identified above, why were such policies more effective in this region than in lagging regions?

If endogenous factors were predominant, what were the critical actions/strategies undertaken by local authorities and civil society that could be described as the ingredients for the success of the region?

If there has been a significant change in trend (*i.e.* a leading region starts lagging behind the national average), what was the main reason?

## **PART I**

### **COUNTRY EXPERIENCES**

This session aimed at comparing different institutional approaches to rural development and at linking them to the new rural challenges. In the last decade the rural question has been increasingly shaped by some major policy concerns and notably: 1) the growing consumer concerns for safe, healthy and high quality foods, environment and cultural heritage and landscape; and 2) the increasing recognition of the necessity of a shift towards more sustainable production and living patterns in both urban and rural areas. The emergence of these new demands has resulted in the design and application of new policy approaches that now need to be assessed.

Although the factors which triggered the new policy initiatives have often been different in the different countries, these new policies are based on a number of assumptions that are widely shared among OECD member countries. These assumptions, which were underlined by most of the speakers in the session, are the following: first, agricultural policies and rural policies conceived from a sectoral perspective are clearly ineffective. Second, farmers are no longer the only interest group in the rural world. Other groups (urban people, tourist businesses, environmental NGOs) are increasingly the drivers for change. Rural policy makers should take their demands into account if policy results are to be expected. Third, rural policies are increasingly focussing on the diversification of production within and beyond the primary sectors. It is indeed more important to better tap the rural assets and exploit the territorial competitive advantage rather than to promote policies for compensating perceived handicaps in the area. From that perspective, the cost of rural policy can be decreased and efficiency in terms of job and wealth creation can be significantly enhanced.

The presentations underpinning this session analysed three country cases.

Mr. Alun Michael, UK Minister for Rural Affairs assessed the impact of the foot and mouth disease on British rural activities in the last period and

stressed the main policy issues in these areas (*e.g.* affordable housing, transport, rural services and stakeholder involvement). He also explained the main changes brought about in the policy framework in order to better tackle rural problems in his country.

Mr. Mark Drabenstott, Vice President of the Federal Reserve Bank of Kansas City reviewed the changes affecting rural America and discussed the shift from sector to place and from subsidies to comparative advantages that increasingly confront US rural policy.

Mr. Etsuo Kitahara, Deputy Director General of the Rural Development Bureau of the Ministry of Agriculture, Forestry and Fisheries of Japan, insisted on the weakening link between agriculture and food and in general on the role of agriculture in rural regions, the need for stable supply, sustainability and the attention to multi-functionality. In the case of Japan, he gave several goals for new rural policy: increasing rural attractiveness for urban residents, strengthening ties between urban and rural areas, promoting rural tourism and enhancing policy planning.

The recent development of rural policy in these three industrialised countries indicates the following key issues as relevant for future rural policies:

- In all the examples considered, there was recognition that the *post-war approaches to rural development have been changing* and adapting to new demands recently. This is true at an international level.
- The *motivations indicated for such changes are different in each case*: in Japan, change was driven by urban needs, in the United Kingdom by the farm crisis and in the United States by the increasing gap between the farm policy costs and its effectiveness in solving rural problems. Such differences may be explained more in terms of *how the policy makers found out* about the new needs of rural areas rather than *what kind of changes* have taken place in rural areas, where there was more convergence.
- All speakers stressed the ineffectiveness of agricultural policy and of rural policies conceived from a sectorial perspective for solving the new needs of rural areas. There was a suggestion from Mr. Drabenstott that rural policies conceived in a different way might help farmers to stay in business better than agricultural policy has done until now.

- In all cases the *needs of other interest groups alongside farmers* were indicated as the main driver for change in future rural policies (urban demand for space in Japan, the rural tourism sector in the United Kingdom and the redefined partnership and competition approach in the United States). Whether we call the inclusion of other interest groups in the objectives of rural policies a territorial, horizontal, or multi-sectorial approach does not make a big difference, so long as we address the multiplicity and diversity of situations with adapted rural policies, linking different stakeholders and different policy areas.
- *Development through diversification of activities and competitive assets, rather than compensation for perceived handicaps* – no longer perceived as such – appeared to be the most appropriate strategy for rural areas. Because of this, the cost of rural policy needs not to be a high and self-perpetuating expenditure policy.

## **UK Rural Policy: A Holistic Approach**

**Alun Michael**  
**Minister of State for Rural Affairs**  
**Department for Environment, Food and Rural Affairs**

### ***Abstract***

*This paper outlines the recent changes and developments in the United Kingdom's approach to rural policy. The economic consequences of the outbreak of foot-and-mouth disease have negatively affected farming as well as other rural economic activities. In the UK, income from the traditional rural activity of farming has declined, leaving tourism as the predominant economic activity. Responding to this trend, the UK government has adopted a new approach to rural policy, apparent in the recent creation of the Department for Environment, Food and Rural Affairs. In co-operation and partnership with Regional Development Agencies, the Department's objectives are to maintain a sustainable natural environment, sustainable rural economies and communities and a competitive farming industry. To this end, it seeks to provide affordable housing, reliable transport and a range of rural services.*

### **The United Kingdom's approach to rural policy development**

The most significant and disastrous single event to hit our rural economy in the past 18 months was the outbreak of foot-and-mouth disease. A more pernicious, more devastating and more indiscriminate affliction upon the countryside is difficult to imagine.

Much of the critical comment about the Government's response to the outbreak has ignored the unprecedented speed with which the disease spread and the fact that it was brought under control within 32 weeks – the same time taken during the much less severe outbreak in the 1960s.



The economic consequences of the disease were severe – and not just for farmers but for many others whose businesses are located in rural areas. The cost in personal terms for those whose livelihoods have been devastated has been heartbreaking.

In March 2001 the Prime Minister established the Rural Task Force – which I chaired – to lead action to alleviate the impact of foot-and-mouth, and the measures taken to control it, on the non-farming rural economy.

Representatives from a diverse, and often conflicting, range of interests sat on the Task Force and did much to ensure that the Government focused on the issues which rural people determined to be paramount.

Farmers were directly affected either because their livestock was infected, or because their animals were culled to prevent the further spread of the disease, or because of the ban on movement of livestock.

But the economic consequences extended far beyond the farm gate. The whole spectrum of rural businesses were affected by the sharp decline in visitor numbers, resulting mainly from the closure of footpaths. It made us realise how much had changed – farmers were telling me “*we hadn’t realised how inter-dependent farming and tourism had become*”.

As traditional sources of income from farming had declined, tourism had become the dominant economic activity in many rural areas. Rural tourism is worth nearly GBP fourteen billion a year. It supports 380 000 jobs in the English countryside, compared to 374 000 in farming in 2000 – including farmers and their spouses.

Rural tourism brings in GBP 9 billion from day visits by UK residents and GBP 4 billion from trips of one night or more. Going to the countryside and its small towns and villages together accounted for 42% of all trips taken in England in 2000 – some 140 million trips.

But a range of other businesses were also hit by the closure of the countryside. So a package of short-term measures were put in place to assist affected rural economies, including: an GBP 80 million Business Recovery Fund, to help small businesses equip themselves to take advantage of new market opportunities after foot-and-mouth disease; interest-free deferral of income tax, Value Added Tax and National Insurance Contributions; increased funding for local authorities to provide property tax relief for businesses facing hardship; GBP 15 million to match charitable donations towards relief of hardship; GBP 18 million for tourism promotion; and nearly GBP 4 million to

help local authorities reopen footpaths – places where our people had rights of way.

Running the Business Recovery Fund taught us some important lessons. Small businesses – which dominate the rural tourist industry – are slow to change and don't naturally think of taking professional advice.

A survey in the West Midlands at the height of the epidemic showed that, of businesses suffering losses, 70% had sought no advice, and 60% had made no change to the way they operated. We therefore focused the Fund especially on helping businesses plan effectively so they would prosper after the crisis. We also put in a lot of effort into ensuring that visitors returned to the countryside in 2002.

The “*Your Countryside, You're Welcome*” campaign has brought together nearly 50 organisations to promote the wide-ranging benefits of the English countryside and to remind people that the countryside is well and truly open for business.

With a little pump-priming from the government, this has tapped a rich vein of enthusiasm and expertise, among national organisations as disparate as the Ramblers Association and the country landowners, and many regional and local voluntary and community organisations keen to attract visitors back to their area.

Members of rural Women's Institutes were organised to write to their urban friends and relations to tempt them out to see the delights of the countryside. And I was surprised to find myself in Leicester Square, in the heart of London's entertainment district, with Hollywood actress Joan Collins, a collection of ferrets and sheepdogs herding geese to grab the attention of our urban public, but everyone was doing their bit.

One of the few good things to emerge from the outbreak of the disease was a recognition by farmers and rural tourist businesses that they were in the same economic boat. I am encouraged by the innovative and co-operative ideas for stimulating rural recovery that emerged. We are working closely with local regeneration partnerships in some of the worst affected areas such as Cumbria in the north-west of England and Devon in the south-west.

Foot-and-mouth was a trauma – a shock to the system. It woke up a reluctant nation to the decline in our rural communities and economies, and the need for everyone to unite behind the radical policies which had already been set out by the Labour Government in a White Paper – a major statement of

policy and intent – in November 2000. The Government accelerated its work, with the creation of a new Government Department and a significant programme of action. So I shall now outline that new approach of the UK Government to rural policy generally.

### ***The creation of DEFRA***

From the point of view of the machinery of government, the most significant event has been the creation of the new Department which has a three-fold responsibility – three “pillars”, if you like. The first pillar is **Farming and Food**. The second is **Environment**: from local air quality to global warming, and from encouraging local farm birds to protecting our most beautiful landscapes – our national parks. The third pillar is **Rural Affairs** – nurturing our rural economies and communities.

These three pillars of action are brought together in a vision which encompasses a high-quality and sustainable natural environment, diverse, vibrant and sustainable rural economies and communities; and productive, competitive and sustainable farming industry.

The Department for Environment, Food and Rural Affairs has published objectives covering each of the three pillars. Those which are aimed specifically at promoting the social and economic well-being of rural areas in England include the enhancement of opportunity and the tackling of social exclusion by promoting sustainable rural areas with a dynamic and inclusive economy, strong rural communities and fair access to services; the promotion of a sustainable, competitive and safe food supply chain which meets consumers’ requirements; improved opportunities for the enjoyment of an attractive and well managed countryside for all; and the promotion of sustainable, diverse, modern and adaptable farming through domestic and international actions and further ambitious CAP reform.

Fine words – and after a year we are starting to match achievements to the words. Taken together, these objectives demonstrate that we do not view the countryside as a burdensome adjunct to the industrial and urban core, or an agricultural production line, or an expanse of pretty, but otherwise unproductive, landscape. We see the countryside as a *distinct, vital and diverse balance* to urban England upon which we must devote as much care and attention as upon urban areas.

## **A wider responsibility**

Rural England does not stand or fall on the performance of my Department alone. Rural England is home to some 28% of the population and 35% of registered businesses. People and businesses located in rural areas have the same need for the full range of essential services as their urban counterparts. And I am sure many of your countries also find that provision in rural areas does not always match up to the standard of provision in urban areas.

Businesses in urban areas are likely to be relatively well provided for in terms of transport infrastructure, availability of skills training for their staff and good Information and Communication Technology provision. Those in many rural areas are likely to be at a competitive disadvantage by being less well provided for in each of these services.

Let me take just one example – the provision of high-speed broadband connections. Stimulating broadband across the whole of the United Kingdom is one of Government's top priorities. So we are taking measures to extend broadband availability which include: encouraging infrastructure sharing by telecommunications companies to reduce the cost of rollout; facilitating satellite broadband deployment, with a fast-track, on-line licensing regime and a review of planning regulations for satellite terminals; and using more effective procurement of the public sector's broadband requirements to drive broadband into rural areas and also to improve value for money. In addition, Regional Development Agencies are developing schemes for extending broadband into areas that appear commercially unattractive, helped by a GBP 30 million fund.

However, to meet our goals for broadband it is not just a case of providing the infrastructure: we need to stimulate a virtuous circle in which demand and supply grow in parallel, each reinforcing the other.

## ***Affordable housing***

Affordable housing is another big issue. House prices in many rural areas of England are now simply beyond the means of people on modest incomes. Prices continue to rise as they attract "holiday home" owners, an increasing number of commuters and people wishing to retire to the countryside for a more tranquil quality of life. In addition, the sale of many houses which had previously been owned by local authorities and rented out to those who were typically on lower incomes, has removed a substantial amount of the rented stock.

Without an adequate supply of affordable housing, many rural communities will become unsustainable. We want to promote inclusive communities that support children, young people, families and older residents alike. People should have access to affordable housing within their community. For this reason, we committed ourselves to achieving a higher proportion of affordable homes in rural areas, in both market towns and small villages. We want to support *mixed communities* in a living, working countryside and help young people to remain in the area where they grew up. We expect to deliver around 9 000 affordable homes annually in rural areas by April 2004.

### ***Transport***

The other major need of people in rural areas is good transport. The lack of access to frequent and reliable transport is a key factor in contributing to disadvantage and social exclusion in rural areas. It can prevent access to both essential and non essential services and facilities such as work, training opportunities, shops, education, childcare facilities, social and leisure facilities. The Rural White Paper recognised that transport has a major role to play addressing social exclusion in rural areas. So we are providing the means for people in rural areas to get the transport services they need. Some GBP 239 million over three years will provide for a range of new and improved travel services in rural areas. The emphasis is on flexibility and making services more responsive to local need; using rail, buses, minibuses, taxis, cars, cycling and walking.

### ***Rural services standards***

But it goes further than housing and transport. People in rural areas have a right to reasonable access to a range of services to meet their various needs. For the first time, the Rural White Paper set out a series of Rural Service Standards showing what people should be able to expect. We are setting minimum standards and targets covering access to public services in rural areas and measuring what happens.

### ***Rural proofing***

Given that the levers for delivering these improved service standards lie in the hands of a range of Government Departments and agencies, it follows that all these Departments and agencies must ensure that the needs of rural areas are fully reflected in their plans for delivery – a process we call “rural

proofing”. Each Department is required to evaluate its policies at all stages from inception to delivery, to ensure that they will provide equitably for those in rural areas. What is more, each Department and agency is accountable for their performance in this regard. I am happy to report that the first independent annual report of the Government’s performance on rural proofing showed that we had made a good start, although much remains to be done.

### **The Countryside Agency**

In promoting the interests of rural England, the Government works through the Countryside Agency (the Monday-to-Friday home of our distinguished Chair today). The Agency helps Government on the conservation and enhancement of the English countryside and helping the public to enjoy it. It also operates a range of programmes promoting economic and social development in rural areas.

To give just one example from many, the Agency’s “Vital Villages” programme, worth GBP 35 million over three years, supports rural councils who wish to improve the levels of service provision for their local communities, either through their own direct action or by articulating the community’s needs to other service providers.

### **Regional Development Agencies**

And at a regional level, our key partners in the development of rural economies are the Regional Development Agencies, or RDAs. Created in 1999, these eight agencies bring together existing funding totalling some GBP 1.3 billion a year devoted to holistic regeneration in both urban *and* rural areas. My Department contributes GBP 40 million to this overall sum.

The RDAs have considerable freedom of decision and action over the whole regeneration field. Although their emphasis is on the economic aspects of regeneration, they can fund socially orientated projects where there are no other partner bodies in a position to fund them. Co-operation and partnership are at the very heart of their work. Their task is to spur others into action as well as to make their own direct contributions to regeneration. So the RDAs have each developed a comprehensive regional economic strategy, in partnership with other regional, national and local bodies with a stake in the region. Rural elements are prominent in all of them, with a range of initiatives covering all sectors from farming to tourism, from small business support to skills improvement, and from market town revitalisation to rural IT projects.

The RDAs played a key role in the distribution of the funds we made available to small rural non-farming businesses to assist their recovery from the effects of the foot and mouth restrictions.

### ***Stakeholder involvement***

But it would be a mistake to believe that the development of rural policy is a matter solely for Government and national or regional agencies. In the Rural White Paper, we also committed ourselves to establishing rural sounding boards to ensure that rural concerns are represented at the very heart of Government. We want to make sure that people in rural areas, and organisations involved in rural issues, can take a full part in shaping England's rural policy.

I now chair the Rural Affairs Forum for England to provide a new and clear voice for those who live and work in the countryside. This builds on the experience of the Rural Task Force, whose role I explained earlier. Similarly, the regional Rural Affairs Forums bring together all aspects of rural opinion in each English region (except London), with action-based sub groups involving other stakeholder organisations in the detail of rural policy.

The experience of the Rural Task Force showed that such Forums can and should be much more than just talking shops. We should listen to and understand each other. But we need to do much more than that. We need to share a vision for the future of our rural communities and societies and then work together with energy and commitment to achieve that vision. Vigorous exchanges are welcomed because if a policy is to be successfully implemented, it must be capable of justification in the crucible of public debate.

### ***Extending the evidence base***

But policy makers have a problem if they lack a robust base of evidence upon which to build. And that is a real problem in rural England. The countryside is often seen as an affluent, healthy, desirable place to live. Generally that's true. But averages often mask issues such as homelessness and poverty. Pockets of social exclusion exist in otherwise well-off areas. Individuals and families feel forgotten and left out – small in number but important nonetheless.

Because of its dispersed nature, issues of social exclusion can be statistically hidden in rural areas, overlooked by official indicators of

disadvantage which show clearly the nature and scope of poverty in urban communities. To make good the evidence deficit we are commissioning an extensive programme of research on social and economic issues as they impact upon rural areas. We shall also continue to draw upon the expertise of the academic community within the United Kingdom and have plans for a seminar later this year to find new ways of mapping rural reality and reaching those who need our help.

### ***The Policy Commission on Food and Farming***

But in highlighting the consequences of foot-and-mouth disease to the wider rural community we have not forgotten our farmers. Even before the disease had finally been eradicated, we established the Policy Commission on the Future of Farming and Food. We gave the Commission a big task to do in a short time – to advise on how we can create a sustainable, competitive and diverse farming and food sector which contributes to a thriving and sustainable rural economy, advances environmental, economic, health and animal welfare goals, and is consistent with the Government's aims for CAP reform.

We welcomed the ensuing report and its proposals. It urges the Government and the industry to move farming closer to the market – their customers – and away from a dependency on producer-related subsidy. And it puts co-operation at the heart of our strategy for the farming industry.

### **Conclusions**

The UK Government is absolutely committed to enhancing opportunity and tackling social exclusion through promoting sustainable rural areas with fair access to services for people who live there, creating and nurturing a dynamic and inclusive economy in rural areas (especially remote areas) and improving enjoyment of an attractive a well-managed countryside.



## **The New Frontier for US Rural Policy**

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### ***Abstract***

*This paper assesses where U.S. rural policy is likely to go in the period ahead. Most U.S. rural communities are searching for new economic engines. To adapt to this new reality, rural stakeholders increasingly agree that rural policy must change. While rural policy is still a frontier, agreement is emerging on what it should be. It should focus on regions instead of one sector. And, it should invest in new sources of competitive advantage instead of subsidising established sectors. In the future, three challenges will shape the debate on U.S. rural policy. Supporting a new generation of rural entrepreneurs will be important to the success of whatever rural policy emerges. Forging new forms of regional governance will be critical to implementing rural policies that encourage more regional partnering. Inventing new public institutions (or re-inventing old ones) to implement rural policy will be essential in making rural policy more effective.*

### **Introduction**

The frontier has always been an important idea shaping the course of American history. The word “frontier” has, of course, evolved over time, from referring first to America’s West, to describing exploration of space, and now to advancements in digital technology. In much the same way, frontier is a useful word to describe evolutions in major policies in the United States. Indeed, the “New Frontier” was a major policy initiative in research and science launched by President John Kennedy to put a man on the moon.

In the same vein, “frontier” is apropos in describing the evolving interest in new rural policy in the United States. The nation is at the very threshold of this frontier, with many questions remaining about how rural policy will involve. However, a few key facts are now well-known. The US rural economy is undergoing fundamental changes, with the most visible outcome being much more mixed economic growth. Rural policy, meanwhile, remains heavily concentrated on the agricultural sector; the recently enacted Farm Bill provides new confirmation of that. Thus, while US rural policy has not changed much yet, more and more rural stakeholders agree that it must.

In short, US rural policy is entering a frontier where policy is likely to catch up to a new set of rural economic realities. This paper describes in three steps where US rural policy is likely to go in the period ahead. The first section reviews the need for a new approach to rural policy. The second section examines an emerging framework on which new US rural policy might be framed. And the final section assesses the challenges that lie ahead in building new rural policy in the United States.

### **The need for new rural policy**

There is mounting evidence that the United States needs a new approach to rural policy. The most compelling piece of evidence is the growing ineffectiveness of agricultural policy in fostering broad economic gains in rural America. The unevenness of the rural economy and powerful demographic shifts lend further support. While these factors point to the need for a new approach, questions linger over the public goals that will justify any new rural policy.

### ***The farm policy dilemma***

There is a growing disconnect between the farm and rural economies in the United States. Whereas most rural counties depended on agriculture as their leading economic engine a half-century ago, today roughly one in every ten rural counties is “farm-dependent,” or counts agriculture as its leading source of income. Thus, it is not altogether surprising that agricultural policy provides less and less ballast to the rural economy.

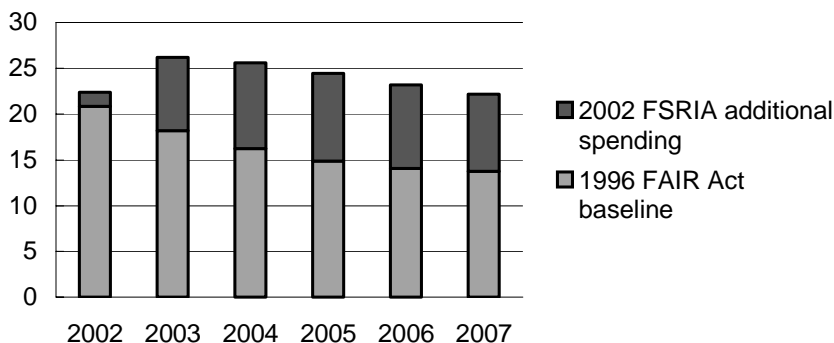
What may be more surprising is the fact that government payments to farmers actually provide relatively little economic boost to the very counties where agriculture is *most* important. In the 1990s, US federal payments to farmers totalled USD 104 billion. Despite that significant expenditure, three of

every four farm-dependent rural counties had below average economic growth (as measured by growth in jobs). Moreover, one of every two farm-dependent counties lost population between 1990 and 2000.

The dilemma arising from the size of agricultural payments and the limited gains in rural economic growth could worsen in the period ahead. The new Farm Bill will actually raise farm subsidies compared with the previous bill (Figure 1). But the bill remains overwhelmingly focused on payments to commodity growers. Nearly 70% of total spending over the six-year life of the bill is for commodity support, with less than 1% going for broader rural development initiatives (Figure 2).

Figure 1. **Government subsidies on the rise**

In USD billions



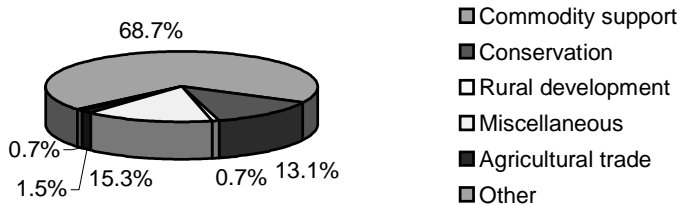
1. Excludes Nutrition programme spending.

Source: Calculations based on CBO estimates of total outlays, Center for the Study of Rural America, FRBKC.

Figure 2. **Subsidies tie farmers to commodities**

Distribution of FSRIA spending

Total spending = USD 143.9 billion from 2002-2007



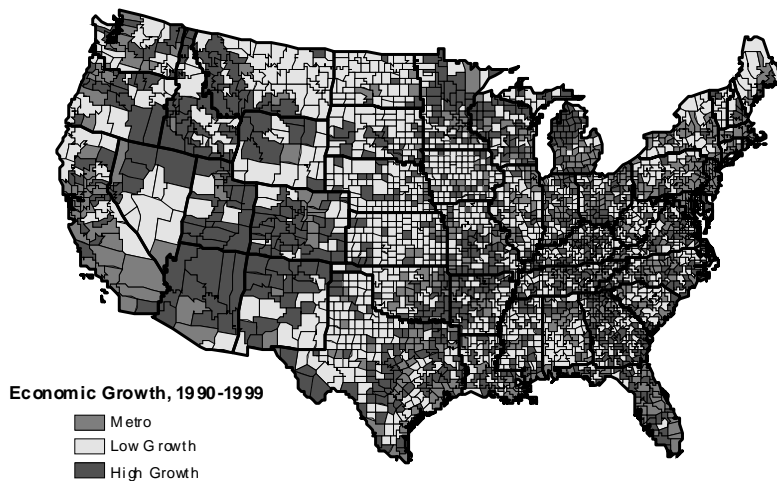
1. Excludes Nutrition programme spending.

Source: Calculations based on CBO estimates of Total Outlays, Centre for the Study of Rural America, FRBKC.

### ***The uneven US rural economy***

The need for a new approach to US rural policy is also evident in the ongoing performance of the rural economy. Economic growth is highly mixed, with most of the growth concentrating in roughly four of every 10 rural counties in the United States (Figure 3). Counties that are enjoying robust economic growth tend to have one of three characteristics: scenic amenities (such as in the Rocky Mountains), proximity to metro areas (common to the fringe areas of nearly all major metro areas), or are emerging retail and financial hubs (the solitary growth centres scattered throughout the nation).

Figure 3. **The US rural economy**



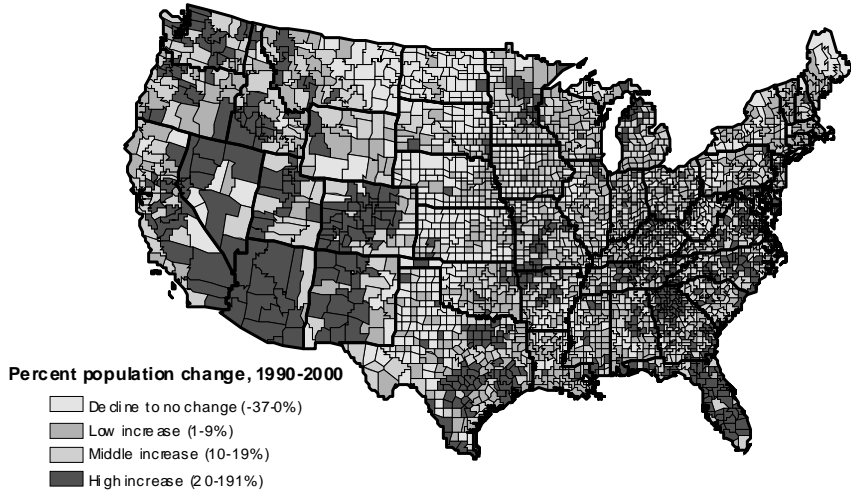
Source: BEA, Center for the Study of Rural America, FRBKC.

Put the other way, though, six of every ten rural counties are struggling to find new economic engines. These rural places tend to be remote, depend on traditional rural industries (such as agriculture), or are plagued with ageing infrastructure.

### ***Big shifts in rural population***

Dramatic shifts in population provide another piece of evidence that a new approach to rural policy is needed. The 2000 Census illustrates the other side of the coin to economic performance. Many rural places with strong economic gains also experienced strong in-migration, while weak economies often saw an outright loss in population (Figure 4).

Figure 4. Population shifts reinforce economic trends



Source: US Census Bureau, Center for the Study of Rural America, FRBKC.

Finally, labour market statistics show that unemployment remains highest in the most remote rural places – and also more variable. It is not surprising to see that the suburbs in the United States had the lowest unemployment rates in 2000, while the most remote rural places had the highest (Figure 5). What may be much less well known, however, is that the most remote rural areas also had the most variability in their labour markets. This suggests that a rural policy heavily aimed at agriculture has not brought lasting benefit to many rural job markets, including those that are historically the weakest.

Figure 5. Average unemployment rate and county rurality



Source: Center for the Study of Rural America, FRBKC.

In sum, spending on agricultural policy continues to go up in the United States, but economic benefits to the broader rural economy are doubtful. Much of rural America is looking for new economic engines, and support grows for new rural policies that might assist that economic transition.

### The emerging rural policy framework

Historically, agricultural policy has been rural policy in the United States. This stream of policy thinking extends up to and including the recently passed US farm bill. That said, there are probably more cross currents in policy thinking today as a new frontier of policy comes into view.

By focusing rural policy on agriculture, US rural policy has essentially been built on three foundations. First, it was a *one-sector* policy. The presumption was that helping agriculture would help all of the rural economy. Second, it was a *one-firm* policy, focused especially on the farm firm. There was little thought given to agglomeration or clusters. And third, it was a *one-size-fits-all* policy. That is, there was little if any flexibility to recognise regional variation in the rural economy. The presumption was that what was good for the Midwest was good for the South and West too.

More and more rural stakeholders acknowledge the shortcomings of building rural policy on these three foundations. Indeed, a national conference on rural policy sponsored by the Federal Reserve Bank of Kansas City concluded that agricultural policy *alone* is no longer able to meet 21<sup>st</sup> century challenges in rural America (Drabenstott and Sheaff, 2002).

A new framework for rural policy has not been decided in the United States. However, policy experts increasingly point to two principles that are likely to undergird any push toward a new rural policy. The first is a focus on places instead of sectors. The second is a focus on investments in new competitiveness instead of subsidies.

### ***The shift from sector to place***

Making rural places a focal point of policy will not happen easily since public policy has never explicitly put a specific value on rural places. When agricultural policy began in the Great Depression, one of every four Americans lived on a farm. So, with the economy in depression, there was a natural public affinity for helping the distress that plagued the countryside. Accordingly, there was a *de facto* value attached to lifting the economy of rural places.

Today, public officials are beginning to discuss more openly the value of the countryside to the rest of the nation – quite apart from agriculture. Four public goals are receiving more attention. *Protecting the scenic benefits of the countryside* is increasingly viewed as a public good that has inherent value for tourism, recreation, and historic preservation. *Avoiding urban congestion* is taking on greater meaning to the 80% of Americans who live in cities, many of which are becoming much less liveable. This goal may have taken on deeper meaning in the wake of the tragedy on September 11. *Preserving community culture and values* is viewed as offering valuable lessons for the rest of America. Put another way, Norman Rockwell’s America lives on in countless Main Streets across the nation, but more and more of those Main Streets are at risk of significant decline. Finally, *producing well-educated future citizens* is of great long-term value to the nation. One of every four students in the United States is in a rural classroom, often without the same resources as their metro counterparts.



## *The shift from subsidies to competitive advantage*

Similarly, the shift to new investments in competitive advantage will be difficult given the strong legacy of subsidies. Rural America has, in fact, grown dependent on two forms of subsidies. One is agricultural subsidies. The other is subsidies for industrial recruitment. Many parts of rural America have paid out significant sums in the post-war period to attract manufacturing facilities. The debate still rages over the net benefits of that approach.

The fact remains that much of the rural economy remains tied to low value commodities – whether agricultural or industrial. Thus, the new emphasis on investments in competitive advantage is spurred by the quest for higher value, competitive products on which to build a new rural economy.

Both founding principles of new rural policy are built on strong theoretical underpinnings put forward by leading economists in the 1990s. Paul Krugman (1991) and others pointed out that regions, or places, matter in a global economy where trade expands. Put another way, the location of economic activity is a crucial adjunct to international trade theory and policy (Krugman, 1991). Meanwhile, Michael Porter (1990) showed that regions must constantly invest in *new* sources of competitive advantage while avoiding the temptation to protect *old* competitive advantage (Porter, 1990). Taken singly, both ideas might lend support to regional policy. When *combined*, however, the two ideas point to a considerable need for economic policies that focus on regions.

The new push on competitive advantage is fortuitous, since rural America appears to have an exciting new menu of competitive opportunities. That said, all of them will require new types of investment and new business models in order to be successful. *Agri-tourism* is a significant opportunity where agriculture coincides with scenic or heritage amenities. In New York state, for instance, many small dairy farms converted to wineries, creating a vital new tourism destination in the Finger Lakes region of the state. *Advanced manufacturing* is an opportunity to move rural manufacturers into higher technology products. The state of Minnesota is supporting this thrust through what is, in effect, a new manufacturing extension service – Minnesota Technology Inc. *E-commerce* remains an economic holy grail for many rural areas, although it remains more promise than reality. The lack of broadband access remains a major hurdle in many parts of rural America.

One of the most exciting new sources of rural competitiveness is *farmaceuticals*. Farmaceuticals is the process of growing pharmaceutical inputs in crops or animals instead of factories. In 2001, the first field of farmaceutical

corn was harvested in Iowa. The corn was genetically engineered to produce a special protein used to make a drug to combat cystic fibrosis. There was a powerful economic incentive to grow the protein in a field instead of a factory – it was seven times cheaper in the field. Farmaceutical plants represent the highest value crops ever.

The Iowa experiment is now moving to a regional effort. To supply all the protein required for the drug, 3 000 to 4 500 hectares of the special corn must be grown. To do that will require 350 to 500 farmers all agreeing to grow the same crop the same way. The first farmer who grew the corn certified his farm to the equivalent to ISO 9000 production protocols. Getting 500 farmers doing the same will not be easy. However, the potential economic boost to the region is enormous. If that many farms can join together, then an USD 80 million processing facility could be build in the region. This would provide many high-skill, high-wage jobs, in addition to boosting the incomes of the farmer growers.

This example illustrates two important threads in rural America's new economic landscape. First, the effort is regional in scale. One farm is not enough – critical mass is essential. And regional partnering is the only way to build such critical mass. Second, the effort underlines a crucial shift in rural business culture. Historically, rural America has celebrated its *independence*. But the most exciting new business opportunities are founded on *interdependence*. If they want to go beyond low-value commodities, for instance, farmers must be able to work together *and* build strong business relationships with businesses that may range far afield from food and agriculture.

Many rural stakeholders increasingly acknowledge the need for such a shift. The National Corn Growers Association, one of the most important farm commodity associations in the nation, made this statement in a major report looking at the future of US. agriculture: *A loss of independence might be lamented. But interdependence is much preferred to growing dependence on federal farm subsidies.*

In sum, there is growing consensus among policy analysts that new rural policy must be guided by two key principles. First, it should shift from a focus on a single sector to a new focus on regions and rural places. This begs the question of why public policy should attach value to rural places, but new public goals are being put forward, including preserving the scenic benefits of the countryside and avoiding the costs of further urban congestion. Second, it should shift from a long legacy of subsidies to new investments in competitive advantage. Fortunately, this new thrust comes at a time when rural America

appears to have some exciting new economic opportunities, including growing pharmaceutical inputs in crops. However, in addition to new investments in public infrastructure and research, new interdependent business strategies will also be needed.

## **Seizing the new rural policy frontier**

With the framework for a new US rural policy just now coming into focus, obviously a lot of work remains in building such a policy. Indeed, every frontier has its challenges that must be met. In the case of US rural policy, there appear to be two avenues for thinking about developing new policy. One is to innovate agricultural policy. The other is to explore other legislative avenues for writing rural policy. In either case, new rural policy institutions will almost certainly be needed to implement rural policy.

### ***Innovating agricultural policy***

Currently, rural development is firmly located within US agricultural policy. That is, rural development is one of several “titles” of the new farm bill. The new farm bill does contain an important innovation, one that may be a harbinger of even bigger policy innovation in the future.

The *Regional Strategic Investment Program* is an intriguing new part of the US farm bill. It represents a new policy thrust that aims to do two things. First, it will create new Regional Investment Boards. These boards will help plan and implement regional development strategies. Second, it creates a new multi-jurisdictional Regional Planning Program. This program will encourage regional partnering among local municipalities and governments.

By focusing on places and creating regional partnering, this new programme represents a valuable new policy initiative. However, it is funded at a minimal level, and is still dwarfed by commodity programs in terms of dollar impact.

A lingering question is whether agriculture committees can write rural policy. Is there an inherent conflict of interests that simply cannot be resolved? This question remains a basic one at both the federal and state levels, where agriculture committees are an important legislative institution.

### ***New rural policy avenues***

Another approach would be to look to other legislative vehicles for framing new rural policy. There may be interesting alternatives at both federal and state levels.

At the federal level, other executive departments may get more involved in rural policy discussions historically left to the Agriculture Department. For instance, the Department of Health and Human Services (HHS) is undertaking a comprehensive review of all 300 Department programmes with the goal of understanding the unique impact on rural regions. HHS accounts for 17% of all non-defence federal spending in the United States, and thus could lend considerable influence to new rural policy directions.

At the state level, new regional alliances among governors could bring new focus to rural development initiatives. For instance, 2003 marks the bicentennial of the Lewis and Clark Expedition that mapped the American West. Governors along the expedition trail may launch a new tourism initiative to spur economic growth.

### ***Building new rural institutions***

Regardless of the path new rural policy takes, public institutions will be crucial in implementing it successfully. This raises a dilemma, since most public institutions that serve rural America still have agriculture at their heart and soul. There is a powerful inertia to this legacy of agriculturally based public institutions. How can existing institutions be re-directed? Or, how can new rural institutions be created?

A historical analogy provides some useful insights on these questions. About a century ago, the US rural economy was extremely weak. Acknowledging the economic hard times, President Theodore Roosevelt created the "Country Life Commission" and charged it with studying the rural problem and making recommendations to correct it. The resulting report led to the creation of three highly important new institutions for rural America: the Co-operative Extension Service, the Farm Credit System, and passage of the agricultural co-operative law that led to the formation of countless new agricultural co-operative businesses.

In short, the United States may be approaching a similar point in history where major innovation will be needed in the public institutions that implement rural policy. There are signs of innovation already. The Rural Policy

Research Institute at the University of Missouri is a new centre for rural policy analysis. The Office of Rural Community Affairs was created by Texas to focus new rural initiatives in that state. The National Office of Rural Health in HHS is leading the review of HHS impact on rural places. And the Centre for the Study of Rural America marks a new commitment by the Federal Reserve System to track and analyse leading economic issues in rural America.

## **Conclusions**

The US rural economy is undergoing dramatic changes. Economic gains are highly uneven, leaving most parts of rural America looking for new economic engines. Rural policy has not adjusted to the new rural economy, but signs of change are emerging. More and more rural stakeholders agree that rural policy must change. This vanguard group advocating for change even includes many agricultural producers.

While US rural policy is still very much a frontier, agreement is beginning to emerge on where policy should go. A framework with two guiding principles is gaining more acceptance. First, rural policy should focus on regions instead of one sector. And second, rural policy should aim to invest in new sources of competitive advantage instead of subsidies.

Every frontier has its challenges, and new rural policy will be no different. In the period ahead, three challenges may be especially important. Supporting a new generation of rural entrepreneurs will be important to the success of whatever rural policy emerges. Forging new forms of regional governance will be critical to implementing rural policies that encourage more regional partnering. And inventing new public institutions to implement rural policy – or re-inventing old ones – will be an essential step in making rural policy effective where it really counts, in the thousands of communities that make rural America the unique place that it is.

## Notes

1. The views expressed are strictly those of the author and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

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## **The Direction of Rural Development Policies in Japan**

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### ***Abstract***

*Five major trends have been observed in Japan over the past 40 years: a) the decrease in the farming population and ageing of the rural population; b) the decrease in agricultural land and the increase in abandoned farmland; c) the decline in economic and social vitality in rural areas and the increase of non-farm population in rural villages; d) the sharp decline in the food self-sufficiency ratio; and e) rising expectations for agriculture and rural areas. These trends have influenced the direction of rural development policies. Thus, to reflect increasing demand for agriculture and rural areas, five policy directions have been introduced: a) enhancing attractiveness of rural areas including environmental preservation; b) strengthening ties between urban and rural areas taking advantage of ICTs; c) promoting rural tourism; d) increasing opportunities for urban residents to move into rural areas as farmers; e) involving the stakeholders in the process of policy planning and its implementation.*

Rural development is confronted with many challenges, which are of mutual concern to many countries. I hope that my presentation and those made by others will enhance your understanding of Japanese rural policies and offer food for thought on the issue of “the future of rural policy”.

My presentation consists of three major subjects:

- 1) Background information on food, agriculture and rural areas in Japan.
- 2) The recent change in the Japanese legal policy framework with regard to food, agriculture and rural areas.
- 3) The direction of rural development policies – a future perspective.



## **Food, agriculture and rural areas in Japan**

### ***Natural conditions constituting the features of the Japanese agriculture and rural areas***

Japan, which stretches from north to south, has a large percentage of hilly and mountainous regions, unsuitable for farming. Forest represents 66% of national land.

Farmland in Japan accounts for only 14% of total national land, which is considerably lower than in some European countries (United Kingdom 71%, France 54%, Germany 48%, Italy 54%; FAO statistical data base, 1999).<sup>1</sup> The relatively small size of agricultural land is the major constraint in providing sufficient amounts of food for Japan's population of over 120 million people. The size of agricultural land per person is only 0.04 hectares, considerably lower than in other countries (0.29 hectares in the United Kingdom, 0.50 hectares in France, 0.21 hectares in Germany and 0.28 hectares in Italy.)

Japan is located in the Asian monsoon climate zone, where rice is the most suitable crop given the climatic conditions of high temperatures and humidity during the summer season. In order to optimise rice productivity, highly organised networks of irrigation and drainage canals have been developed throughout the country. The main irrigation and drainage canals reach up to 40 000 km in length. However, if the calculation includes the smaller network of canals, the total length extends to 400 000 km, which is equivalent to 10 times the earth's circumference. Traditional communal practices in rural villages have developed to produce rice effectively. These communal practices include joint rice planting and harvesting. Rural communities have also co-operated in the maintenance of irrigation and drainage canals and facilities. There are 135 000 agricultural communities in Japan. It is these agricultural communities that have been managing the farmland and have taken care of the vast stock of the irrigation and drainage system.

## ***Five major trends in food, agriculture and rural areas in Japan***

*a) The first major change is the decrease in population and advancement of ageing in rural areas.*

The rural population has continued to decrease due to the migration from rural areas to urban cities. The movement of the workforce from villages to cities was one of the major factors which sustained Japan's economic development between the 1960s and the 1980s. In 1960, the rural population was 39 million, representing 42% of the total population of 93 million. In 2000, the rural population decreased to 32 million, which now only represents 25% of the total population of 126 million.

On this occasion, I would like to point out that there is no universal definition concerning "rural areas". In this analysis, we have used the population density of 500 people per km<sup>2</sup> as a benchmark to draw the line between rural and urban areas. This was the figure given for Japan, as stipulated in the OECD rural development programme in 1992. In the OECD Rural Development Programme, it was decided that the boundary between urban and rural is to be set at a population density of 150 people per km<sup>2</sup>. However, when the figure is applied to Japan, only forest regions can be classified as rural areas. Therefore, Japan adopted a population density of 500 people per km<sup>2</sup> as the threshold for rural and urban areas in RDP work. In Japan, we define the rural areas as areas other than the Densely Inhabited Districts (DID). DID is defined as a group of districts (the total land of Japan is sub-divided to 1.8 million small districts) that qualifies two conditions simultaneously: 1) population density over 4 000 people per km<sup>2</sup>; and 2) total population exceeds 5 000 in a group of districts that qualifies the first condition.

The pace of ageing in rural regions has been greater than in urban regions. At present, 21% is the ratio of the population over 65 years of age in rural areas, which is much higher than the national average of 17%. You can understand the quick pace of the ageing of Japanese society by comparing the number of years it took for the ratio of population aged 65 years or older to increase from 7% to 14%. The United Nations sets 7% as a benchmark for a country of advanced ageing status. It took 115 years for France (1864 to 1979), 85 years for Sweden (1887 to 1972), 47 years for the United Kingdom (1929 to 1976), 40 years for Germany (1932 to 1972) and 55 years for Italy (1935 to 1990). This process took a very short time in Japan; only 25 years (1970 to 1994). This seems to be caused mainly by a combination of a decrease in the birth rate (2.37 in 1955 to 1.36 in 2000) and an increase in the average life expectancy (from male 63.6 and female 67.75 in 1955 to male 77.72 and

female 84.68 in 2000). In Japan, there are 1 378 cities, towns and villages, out of 3 230 in total in which over 25% of the total population is 65 years or older.

Let us now look into how farming areas have been affected by demographic change. The decrease in the workforce and increasing life span of the population have caused serious problems in the agricultural sector. The total farming population decreased from 15 million in 1960 to 4 million in 2000, showing a reduction of 73% over 40 years. Agricultural workers represented 6% of the total working population in 2000 as opposed to 33% in 1960. This decline in farmers is a universal trend.

Moreover, the proportion of farmers aged 65 years or over, has sharply increased from 13% in 1960 to 53% in 2000. With senior farmers approaching retirement, Japan is faced with the imminent emerging problem concerning who will take the leading role in the farming sector. Farming labour represents the total of people of 15 years or older, engaged in agricultural work only and those engaged in both agricultural and other work but with more working days devoted to farming than to other work.

*b) The second major change is the decrease in agricultural land and the increase in abandoned farmland.*

A lot of farmland has been converted to residential and industrial areas, in the process of the rapid economic development since the 1960s. This change in land use resulted in a sharp decrease in agricultural land, from 6 million hectares in 1960 to only 4.8 million hectares in 2000. The land utilisation ratio has also decreased from 134% in 1960 to less than 100% in 1994. Recently, due to an increase in wheat and soybean production, the land utilisation ratio stopped decreasing further and has stabilised at around 95% in 2000. Furthermore, the area of abandoned farmland has gradually increased from 97 000 hectares in 1985 to 210 000 hectares in 2000. This reflects the ageing of farmers and the unsuitable situation of the farmland in question.

*c) The third major trend is the decline in economic and social vitality in rural areas and the increase of non-farm population in rural villages as a result of the outflow of the workforce and of ageing farmers still in practise.*

In particular, a sharp population drop and serious ageing is very noticeable in hilly and mountainous areas. In some of these areas, it is rural communities themselves which are difficult to maintain. As rural areas experience progressive ageing and depopulation, the quality of life is

worsening. For example, in those areas, some residents are encountering difficulties in accessing shops as well as educational and medical facilities.

At the same time, rural communities have undergone a qualitative change, with a shift from homogeneous farming societies to heterogeneous mixed societies. In other words, the ratio of farming population in rural communities has dramatically decreased over the years. For example, in 1970, over 78% of total Japanese communities were rural communities in which more than half of their residents were engaged in agricultural production. In the year 2000, the ratio dropped to only 39%.

In the past rural communities were considered as farming communities. However, they are now compiled of mixed societies and residents exercise different professions. Within this context of mixed habitation, problems have emerged due to the fact that residents, who are not implicated in farming, do not feel concerned by old communal practices including matters such as the maintenance of rural roads and canals. Nowadays, it is getting difficult for some rural communities to organise co-operation in crop planting and harvesting, maintenance of common public facilities like irrigation canals and village roads. The loosening of social ties in rural villages may also cause a loss of cultural heritage such as traditional festivals and musical and dance festivities, which have perpetuated from generation to generation.

The changes in rural communities and the negative effects on the multiple functions of agriculture and rural areas as a result, are a major concern today.

*d) The fourth major trend concerns the sharp decline in the food self-sufficiency ratio in Japan.*

The major problem concerns the drop in rice consumption, the national staple food, whereas there is an increased demand for meat, dairy products and fats. These are the results of the changes in national dietary habits in the process of globalisation. The demand for animal products has led to the increase in imports of agricultural products from overseas. In 2000, the food self-sufficiency ratio in Japan was as low as 40% in terms of calories. This shows a sharp decrease from 73% in 1965. The grain self-sufficiency rate also decreased from 62% to 28% over the same period. This is mainly due to the inability to provide a sufficient amount of agricultural products including animal feed on Japan's own land because of land resource constraints. The major constraint, in an attempt to improve our food self-sufficiency ratio, is the inability to provide abundant quantity of feed such as corn. Japan currently

depends on imports from overseas for more than 60% of its food supply on a calorie basis. Of the total imports by domestic products, an additional 12 million hectares of farmland in Japan would be necessary. This represents 2.5 times more than Japan's total farmland, which covers about 4.8 million hectares.

*e) The fifth trend is a positive sign. There are rising expectations for agriculture and rural areas.*

According to a public opinion poll conducted in 2000, 52% replied that the current food self-sufficiency rate (40%) is too low. In the same survey, 78% of the responses reflected people's anxiety concerning a sufficient food supply in the future. Moreover, in 2000, 84% of the population answered that even if it is more costly than imported food, it would be better to produce food domestically to the best possible extent, by lowering production costs. In addition, consumers have become more concerned about food safety in the wake of the BSE (so-called mad cow diseases) crisis. Furthermore, according to the same opinion poll in 2000, 64% of rural and urban residents attached great importance to the multifunctionality of agriculture and rural areas. It has been noted that Japanese people are wondering how agriculture and rural areas should play roles in demonstrating their multiple functions to the maximum extent possible.

### **The change in the legal policy framework**

Very recently, Japan underwent the new alignment of the legal policy framework aiming to develop and implement various policy initiatives to respond to issues covering food, agriculture and rural areas. The title of the preceding law was the Agricultural Basic Law, which solely focused on agriculture.

In contrast, the new spirit is embodied in the title of the new law of 1999. It is called The Basic Law on Food, Agriculture and Rural Areas. As its title demonstrates, the new law has been enacted to address policy issues encompassing food, agriculture and rural areas from a holistic point of view rather than on a segmented basis for each policy field. Our new approach has been developed based on the intensive review of the former policy framework under the Agricultural Basic Law which was abolished in 1999.

Prior to the enactment of the new Basic Law on Food, Agriculture and Rural Areas, policy makers questioned what should be done for farmers or farm

households in rural areas. These questions turned out to be no longer of relevance due to the mixed habitation of farmers and other residents which has experienced gradual progression in rural areas over a long period of time. In fact, people who are not farmers have lived together in a majority of places in many parts of rural areas in Japan. According to the Agriculture Census of 2000, more than 50% of residents are non-farmers in 70% of agricultural communities. And, on average basis, farming households shares only 11% or 23 households out of 213 households per one agricultural community.

Let me explain further how the new Basic Law of 1999 differentiates from the old Basic Agricultural Law of 1961. Under the Agricultural Basic Law of 1961, policies were focused on the improvement of agricultural productivity in an endeavour to narrow the income gap between the farming sector and other industrial sectors. In line with the provisions of the old Basic Law, policy measures were implemented to promote selective expansion of agricultural products. The concept of selective expansion aims to encourage farmers to increase their production of crops which have shown growing expected demand. Price support of agricultural commodities was also undertaken in order to stabilise the income of farmers.

When we examine the outcome of the Basic Law of 1961, we can say that there have been some successes and some failures. Selective expansion of agricultural products was achieved for some fruits, vegetables and dairy foods. In this sense, the basic law partially achieved one of its targets. However, despite an increase in agricultural productivity (as for rice, between 1964 and 2000, required labour hours per unit of land decreased by 80% and at the same time, unit yield increased by 34%), the productivity gap between the agricultural sector and the industrial and service sector still exists since the productivity growth of industrial sector is greater than that of the farming sector. The expansion of farm management size did not take place as expected. Many farmers expected the price of their farmland to get higher and decided to keep patches of farming plot. This made it difficult for farmers who wanted to expand their farming size by purchasing additional land. Therefore, the average farming size did not increase as expected.

## ***The four basic principles of the new Basic Law on Food, Agriculture and Rural Areas of 1999***

*a) The first principle is “stable supply of food”. This remains to be of primary importance to the nation.*

We think that it is the responsibility of the national governments to ensure a stable supply of quality food at reasonable prices since food is the most basic commodity for sustaining our lives. This task requires joint efforts by both producers and consumers because the food self-sufficiency is defined as the ratio of domestic supply to total consumption. The national target for the food self-sufficiency rate has been set at 45% on a calorie basis to be achieved by 2010.

*b) The second principle is the “fulfilment of multifunctional roles”.*

In the OECD, the multi-functional characteristics of agriculture were clearly recognised at the Meeting of the Committee for Agriculture at the Ministerial level in 1998. I quote paragraph 10 of the communiqué:

*“Beyond its primary function of supplying food and fibre, agricultural activity can also shape the landscape, provide environmental benefits such as land conservation, sustainable management of renewable natural resources and the preservation of bio-diversity, and contribute to the socio-economic viability of many rural areas. In OECD countries, because of this multifunctional character, agriculture plays a particularly important role in the economic life of rural areas.”*

Multi-functionality of agriculture cannot be obtained through trade. It can be realised only through sustainable agricultural activities in each country. Therefore, it is essential to introduce measures in order to ensure that agriculture and rural areas continue to play important roles in demonstrating multifunctional characteristics. The general characteristics of multi-functionality are as follows:

- The benefits of multi-functionality can not be obtained separately from agricultural production (joint production).
- It is difficult to preclude people from enjoying the benefits of multi-functionality at no cost (public good aspect).

- It is difficult to properly evaluate the benefits of multi-functionality in monetary terms in the agricultural market (externalities).

*c) The third principle is “sustainable development of agriculture”.*

This is a universal subject facing most countries.

*d) The fourth principle is the “development of rural areas”.*

Rural areas serve as places of agricultural production as well as places of residence for local people including farmers. Therefore, policies focusing solely on agricultural production cannot achieve the goal of sustainable rural development. A coherent approach is necessary to promote local societies as a whole. In this context, it is symbolic that the Rural Development Bureau has been established in the Ministry of Agriculture, Forestry and Fisheries in order to promote the comprehensive development of rural areas in close co-ordination with related Ministries. Also, we are proceeding to give more powers to local governments as a part of institutional reform to encourage local initiatives for a holistic rural development.

### **The direction of rural development policies**

When we try to deliberate on new policy initiatives for rural areas, we often find it quite useful to assess how people live in urban areas. By observing phenomena taking place among urban residents with regard to their dietary habits, emerging issues and how to address them are easily identifiable. In this regard, I would like to touch upon the issue of the “widening distance between food consumption and agricultural production”. The “widening distance between food and agriculture” signifies that, from the urban side, many consumers feel remote or isolated from the scene of the real agricultural production process. On the rural side, there are many farmers who find it difficult to grasp what consumers expect from farm products, because their needs are not easily conveyed back to the upstream production sites.

I would like to introduce to you an interesting survey as one example of the “weakening link between food consumption and agricultural production”. A Japanese private research institute conducted a survey to look into the interests of school children in farming by asking them to draw pictures related to agriculture. This survey addressed children from Grades 5-9 living in Tokyo.



They were split into two groups. The children who were familiar with farming through their contacts with relatives or via their own living experiences in rural areas drew pictures with clear and concrete messages. On the other hand, the children who were not familiar with farming drew irrelevant pictures such as fish or baseball. Some children were unable to draw any pictures simply because they did not understand the meaning of agriculture.

This survey shows that even the most basic activities for sustaining our lives are in danger of losing their significance among the younger generation in urban societies. According to the Input Output Analysis of Japan, expenditure for the fresh food decreased from 32% in 1975 to 20% in 1995. However, expenditure for pre-cooked food increased from 46% to 50% and expenditure for eating outside increased from 23% to 30% in the same period.

In contrast to a seemingly “widening distance between farms and tables”, people are now becoming more attentive to issues related to health and the environment because they appreciate values associated with mental satisfaction and spiritual comfort. As a parallel movement, there is a new trend whereby an increasing number of urban residents express their willingness to visit villages in search of “clean water”, “fresh air” and “beautiful scenery”, either for a short period as tourists or on a permanent basis as residents. According to a survey by a private company, the percentage of rural born urban residents who wish to move back to their hometown in rural areas increased from 25.9% in 1997 to 31.6% in 2000. The ration of urban born residents who wish to migrate to rural areas has also increased from 10.1% in 1997 to 18.9% in 2000. Also, according to the survey, 90.5% replied that they think retail shops should provide consumers with more information on food production, 86.5% requested high quality of labelling for agricultural products. There are several patterns for urban people to stay or live in rural areas, including participating in rural tourism, enjoying gardening at farm plots located in rural areas, migrating in rural areas and commuting to urban areas for work, or migrating to rural areas after retiring from urban jobs.

***Five policy categories intended to promote the interactive movement between urban cities and rural areas.***

*a) The first policy category is to enhance the attractiveness of rural areas towards urban residents.*

One approach to enhance rural environment and amenities is to encourage the adoption of environmentally friendly agricultural practices such

as organic farming and low-input agriculture, wherever feasible. In addition to that, we have established a new discipline in implementing agricultural and rural development projects such as the construction of irrigation and drainage facilities, rural road networks and rural sewage systems. These projects are now legally requested to take environmental consideration into account when designing the projects.

Since the 1990s, the agricultural and rural development projects have been implemented with attention given to the environment, including wildlife habitats. After revision of the related law in 2001, project plans for agricultural and rural developments are requested to take into the rural governments' master plan for environmental harmonisation and opinions of all related stakeholders. So far, 1 191 local governments of cities, towns and villages have made master plans for environmentally harmonised project planning.

In this context, I would like to refer to the introduction of the new direct payment to farmers working in hilly and mountainous areas. These areas are less popular than flat areas due to the inconvenience of farming in sloped areas, which entails extra production costs, since as is often the case, mechanisation meets the challenges of natural conditions. The payment is to compensate part of the difference of production costs between flat areas and less favoured areas. Since the fiscal year of 2000, the government has introduced the direct support system for farmers located in hilly and mountainous areas, in order to compensate for the unfavourable conditions, aiming to prevent cultivation from being abandoned and to ensure the multifunctional roles of agriculture by enabling sustainable agricultural production in these areas. These payments are classified as "payments under regional assistance programmes" of the Green Box and are in conformity with the provisions of the WTO.

Legislators are now considering presenting a new bill to the parliament on the restoration of natural environment. In the new bill, a large framework will be laid out in order to guide the projects for restoration of natural environment to ensure the full participation of a wide range of stakeholders in the planning and the implementation process. In 1999, the Promotion of Introduction of Sustainable Agricultural Production measures Act was legislated. In the law, prefecture governors are given authority to certify farmers who minimise use of agricultural chemicals and chemical fertilisers. Certified farmers are eligible for special treatment including tax reduction or financial aid. In 2002, the total number of certified farmers reached 7 650.

Also, in order to promote consumer confidence in organic food and to expand its market, the Law concerning Standardisation and Proper Labelling of Agricultural and Forestry Products was revised in 2000 to introduce a new

system of inspection, certification and labelling of organic foods. Under the system, over 3 400 farms (0.1% of total farms of 3 120 000) are certified as organic producers so far, and certified farmland area is more than 5 600 hectares (0.1% of total farmland area of 4 790 000 hectares). In addition, the number of farms who introduced some form of reduced chemical farming reached almost 400 000 (13% of total farms of 3 120 000) in the year 2000.

Transforming the biomass such as food wastes, animal wastes, wood waste and non-food crops into manure, feed, energy sources or decomposable plastic can contribute significantly to the environment, including measures for global warming. This utilisation of biomass can help in revitalising the rural areas by providing new business opportunities and potential sources of income. The related technologies for this biomass utilisation are still in the research stage. However, we would like to study the possible policy options for promoting biomass use.

*b) The second policy category aims to strengthen ties between urban and rural areas.*

We have observed that it is necessary to create the environment in which rural residents enjoy equal access to the latest information and communication technologies (ICT) in rural areas. Therefore, we are trying to develop infrastructures in this field on a nation-wide scale, including high speed Internet facilities.

I would also like to mention recent development relating to food safety. Consumers' confidence has been lost since the occurrence of BSE in Japan followed by several cases of false labelling on various foods. To revitalise agriculture and restore consumers' trust in food and agriculture, the Ministry of Agriculture, Forestry and Fisheries announced the new policy package. The bottom line of the new policy package is to put consumers first.

Along this line, we are considering to introduce a traceability system for food. It is a system to provide production information from farmers to consumers to restore and build up consumers' confidence in food and agriculture. The idea of a traceability system originally emerged from the necessity to trace the entire marketing process of genetically modified foods such as GM corn and GM soybeans in order to avoid the possible mixture of genetically modified foods and non-GM foods. The traceability system is also being employed with beef to provide information on the feeding record by cattle growers and the marketing record by distributors. The enlargement in scope of

the traceability system could be one way of shortening the distance between food consumption and agricultural production.

We are also thinking that it is useful to encourage the activities of urban-based non-governmental organisations (NGOs) which are working actively in the countryside to conserve the rural environment. Some NGOs are joining forces with rural residents to preserve paddy fields in sloped areas and forests surrounding villages. We are considering introducing measures to facilitate the activities of NGOs because they can act as a catalyst to strengthen the relationship between rural and urban areas.

*c) The third policy category is the promotion of rural tourism.*

We have been promoting rural tourism so that urban residents can visit and stay in rural areas during their holidays and enjoy refreshing activities through a rural life or farming. Rural tourism also offers economic opportunities for rural villagers in increasing their income. The total number of people who enjoyed rural tourism in Japan is estimated to be 10 million in the year 2000. As another form of rural tourism, there is a growing recognition in utility of rural areas as an educational field of a rural life and actual agricultural activities for school children from urban cities. This could be another useful approach in shortening the distance between farms and tables.

*d) The fourth policy category, which is under consideration, is to increase opportunities to allow urban residents to move into rural areas as farmers.*

In Japan, there are legal restraints for new entries into farming from the viewpoint of maintaining the minimum scale of farming. Specifically, the Farmland Act and the Law Concerning the Establishment of Agricultural Promotion Areas have restricted the transfer of rights to use farmland as it is and restrained the conversion of farmland for non-agricultural purposes to protect agricultural use of farmland.

There is also mounting public expectations for the introduction of measures to facilitate movement of urban residents to rural communities as farmers. We are now studying a new legal framework to facilitate the entry of urban residents into rural areas either on a temporary basis or on a permanent basis through acquisition of farmland.

*e) The fifth policy category is to get all the stakeholders involved in the process of policy planning and its implementation.*

This approach is becoming very important as rural societies transform from a homogeneous agricultural societies to diversified societies as a result of progress of mixed habitation. In the new scheme introduced in 2001, municipalities in rural areas are encouraged to make master plans for rural development, with full and active participation of all the stakeholders including local residents and NGOs. The revised Land Improvement Act of 2001 also reflects this policy direction by formally introducing a system in the planning process of agricultural and rural development projects. In the newly introduced system, project implementing body should consult with local government. Also, it is requested to publicly display the project plan. Any stakeholder can submit their opinion for the plan.

## **Conclusions**

We are faced with a lot of challenges in pursuing sustainable development of agriculture which will underpin a stable supply of food and sound development of rural areas.

We need to move forward to strengthen ties between consumers and producers through the exertion of multiple functions of agriculture and rural areas to the maximum extent possible.

## Notes

1. Agricultural land = arable land + land for permanent crops and permanent pasture.

## **PART II**

### **LESSONS, LIMITS AND POTENTIAL OF TERRITORIAL POLICIES FOR RURAL AREAS**

The need for territorial policies emerged from the recognition that rural development is not a sectoral issue but a territorial one. Given the varied nature and the multiplicity of problems that rural areas are facing, they cannot be addressed solely by agricultural policies. A multisectoral approach is thus crucial to respond to rural demands. To increase efficiency it is also important to focus on functional regions (*i.e.* territories where people both live and work) and to involve local actors within the decision-making process. Both the LEADER and Contigo programmes in Europe and Mexico respectively are examples of multisectoral approaches that can be carried out in terms of functional regions.

Inputs for this session were provided by the following experts.

Mr. Laurent Van Depoele (Catholic University Leuven) addressed the European LEADER programme and its main features, notably its bottom-up and integrated nature. This review of European policies shows that public initiatives for rural areas are increasingly emphasising governance aspects and promoting a better adjustment to the local context. Also underlined in his speech was the need to draw lessons from past experience, to exchange information about country experiences and promote policy learning processes.

Mr. Gerardo Priego (Mexico) described and analysed the Mexican government strategy for micro-regions which aims at tackling the problems of underdevelopment in the country. The Contigo Programme is a combination of social assistance and financial support for economic growth and development and mainly addresses the challenges facing rural areas.

## **From Sectorial to Territorial-Based Policies: The Case of LEADER**

**Laurent Van Depoele  
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### ***Abstract***

*The argument that rural development is essentially a territorial and not a sectoral issue does not mean that the "traditional" rural sector of agriculture is no longer important. It simply means that development activities need to be stimulated, organised and supported at a territorial level which is meaningful for people in terms of their culture and identity, networks, participation and production and consumption activities.*

*Convinced of the necessity to increase the competitiveness of rural areas and considering rural development mainly as territorial development, in 1991 the EU launched the Leader Community Initiative as part of an integrated rural development strategy. This initiative aim to experiment with local, small-scale actions, invented and executed by local players, using the endogenous potential of the territory. In this paper, the major components of the Leader Community Initiative are analysed, leading to the conclusion that territorial dynamism results from a genuinely bottom-up, integrated and participatory process.*

### **Rural development is a territorial issue not a sectoral issue.<sup>1</sup>**

Since the end of the 1980s and particularly since the European Commission's 1988 Communication, "The Future of Rural Society", the awareness has arisen that in order to contribute to sustainable development rural society should be kept as a fundamental part of the European model of society and a multitude of economic and social activities (in rural areas) have to be promoted beyond agriculture and forestry. Rural areas are defined as territorial entities with a coherent economic and social structure of diversified economic



activities and may include villages, small cities and regional centres (Terluin, 2001).

The transition to a Single Market made it more imperative than ever to reduce the disparities between lagging regions facing structural handicaps and the objective to create more successful, prosperous regions within the European Community, which consequently led to the articulation of the commitment to achieve cohesion as is found in the Single European Act of 1987. The Maastricht Treaty (1993) strengthened this commitment as well as the legal basis for EU rural development policies, by anchoring them firmly in the context of EU efforts to achieve economic and social cohesion through the incorporation of the words “including rural areas” to Article 130A (Amsterdam Treaty, 1999). In 1997, the Agricultural Council recognised that *“the maintenance of a living rural fabric, which reflects the pattern of European society, is an important ‘objective’”*.

**A rural development policy at the European level is also important for the following reasons:**

- More than 80% of the EU territory is rural and over one-quarter of its population lives and works in the countryside.
- The diversity of Europe’s rural areas, the rich variety of their natural landscapes, and the skills and cultural heritage of Europe’s rural communities are an essential part of Europe itself. The rural areas contain a range of assets that are increasingly prized by society as a whole, not just by rural residents. This creates new opportunities but also new pressures and challenges. However, while rural areas in Europe have much to offer to society, they are also particularly sensitive to structural change and have to face particular challenges.
- Technical progress and the continued liberalisation of markets for agricultural products imply that agriculture is no longer the backbone of the economy in many rural areas. The number of agricultural holdings in the EU-15 is continuing to fall. The total fell from 8.6 million in 1989 to less than 7 million in 2000. While the agricultural sector continues to shed employment, jobs are not being created fast enough in other sectors in rural areas to absorb the persons concerned. A main feature of the situation in many rural communities in Europe is often a rate of unemployment above the national average. Agriculture’s average share of total employment within the EU is now some 4.5%, but the situation varies between

Member States; for example, in the United Kingdom, where the process of agricultural re-structuring is well-advanced, direct employment in agriculture now accounts for only 2.2% of total employment, while in Greece the figure is still over 20%. Furthermore, 50% of the workers are over 55 years of age and 60% are part-time workers.

It has become clear that rurality is no longer synonymous to agriculture nor is it synonymous to decline. It should be noted that the socio-economic situation of rural areas within the EU is very diverse – some are facing continued population loss, high unemployment and low income levels, while others are experiencing inward migration and have experienced considerable employment growth in their non-agricultural sectors and in services (see results from Terluin and Post, 2001).

The rural areas in the EU are currently and will continue to face major structural changes. EU rural development policies are intended to help rural areas meet these challenges.

Looking ahead, the pressure for a shift from agriculture to rural development (or from the first to the second pillar of the CAP introduced by Agenda 2000) is expected to continue, particularly given the prospects of the current World Trade Organisation (WTO) negotiations on agricultural trade, society's increasing aspirations for a more environmentally friendly and quality orientated agriculture, and the prospect of EU enlargement to the Central and Eastern countries.

**Convinced of the necessity to complement the rural development policies by increasing the competitiveness of rural areas, the EU launched the Leader Community Initiative in 1991.<sup>2</sup>**

## **What is LEADER?**

LEADER is part of an integrated rural development strategy. It is **experimental and** allows experiments with local, (territorial-based) small-scale actions (pilot projects) using the endogenous potential of the area. These actions should be innovating, invented and executed by local players (**bottom-up**) and should, if successful, be transferable to other territories. Therefore there is a need for co-operation between rural areas within the Member States (inter-territorial co-operation), between the Member States (transnational co-operation) and between the EU and similar approaches outside the EU. Also,

rural development is a process of collective learning, consequently LEADER requires **networking**.

So far we have had LEADER I (1991-1993), LEADER II (1994-1999) and LEADER + (2000-2006). LEADER is based on the following major components, of which we will highlight the most important ones:

- the bottom-up approach;
- the establishment of a territorial strategy;
- the integrated and multi-sectoral approach;
- enhancing the local potential;
- the horizontal and private-public partnership;
- a decentralised and complete management of funding;
- networking.

### ***The bottom-up approach***

As a Community Initiative, Leader itself originated from a top-down decision. A Community Initiative is a special financial instrument of structural policy which the European Commission, on its own initiative, proposes to the Member States to support measures that help solve problems having a particular impact at the Community level. Today there are four Community Initiatives: INTERREG, Equal, Urban and LEADER. Together they have a financial envelop of EUR 10.5 billion for the period 2000-2006, which represents some 5.4% of the Structural Funds for the next seven years.

Leader advocates a bottom-up rural development approach. It is an approach that allows the local community and the local players to express their views and to help define the development course for their area in line with their own views, expectations and plans. The bottom-up approach has four levels of participation:

- 1) *Information* through public meetings for the entire community (farmers, non-farmers, residents, etc.).
- 2) *Consultation* or a kind of “village audit” of active community groups.
- 3) *Joint development* of projects by the Local Action Group.
- 4) *Collective decision making* concerning actions and strategies.

The advantages of the bottom-up approach are: more clearly identified local problems and needs; better organisation of development players; better understanding of local decisions by the community; greater acceptance of local decisions by the higher authorities and stimulation of ideas and project leading to innovative local actions.

### ***An integrated multi-sectoral approach***

Leader is **not** a sectoral development programme. The local action plan obeys a multi-sector rationale, integrating several sectors of activity. Integrating means that the actions should be linked so that the rural innovations programme becomes more coherent. One example of the horizontal integration approach is when local restaurants include in their menus typical food products from local producers, thereby stimulating local tourism as well as sales of local products.

### ***Networking***

The promotion of innovative local initiatives is a valuable supplement to the concept of regional programming and partnership. LEADER has successfully demonstrated the value of this approach. Rural areas can often learn more from each other concerning development strategies than they can from urban models. Better communication between rural areas will stimulate further development. Furthermore there is no reason why the process of learning from each other should stop at the borders of a Member State. A broad trans- and multi-national approach will be more successful in providing rural areas with new ideas and concepts. But networking does not stand on alone. Animation is essential. Experience has shown that an Observatory, such as AEIDL, which equally plays the role of animation is not only extremely useful but also absolutely necessary.

## Some lessons learned

- Local/territorial identity is at the core of a rural development strategy. Many areas have sought to reinforce their links and coherence by focusing their development project on a strong element of local identity. Areas that were formerly anonymous have now become “unique” areas with strong identities. Placing an element of local identity at the core of a territorial strategy has made it possible for unused, neglected or even forgotten resources to regain their value and to give rise to unique products resulting from unusual combinations of different elements and sectors. Good examples are the “Village of Bread” in Belgium, the “route du vin” in France, etc.
- Local players are best placed to “imagine” a future for the rural area. It is remarkable to note the strong participation of women in local action groups. The decline of certain areas, even where this is advanced, is never terminal because local players make it possible to explore new avenues of development. In some cases, visionary players came forward to present a totally new product or service that had a multiplier effect. Also new technologies have been introduced, *i.e.* “tele-medecine” in France.
- Networking. A vital European LEADER network of local groups has been established for the purpose of exchanging experiences, of mutual willingness to learn from each other and for the possibility of co-operation between rural areas. Cross-border co-operation not only serves the purpose of planning and carrying out joint projects but also demonstrates the possibilities for the development of rural Europe.

## Conclusions

Rural areas in the EU, seen as territorial entities, are confronted with an array of problems likely to seriously affect their viability, such as ageing population, rural de-population and job losses, but some areas have confronted them successfully. They have managed, with the aid of the structural funds and the LEADER Community Initiative, to create a territorial dynamism that attests to their ability to invent new solutions in response to the challenges they face.

The bottom-up approach, which implies listening to the voice of the local citizens and increasing their participation in the local/regional decision

making, is one of the key elements for a successful development. Time has come to generalise (“to mainstream”) the applications of this approach in structural policies.

## Notes

- 1 See also Bryden (2000).
2. Liaison entre Actions de Développement de l'Economie Rural – Links between Actions for the development of rural economy.

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**Contigo:  
Strategy for Micro-regions**

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***Abstract***

*The Strategy for Micro-regions provides essential benefits for the population and stimulates human development as it promotes interaction among the three branches of government and enhances their relationship with society. It undertakes the particular dynamic each territory has in order to overcome poverty and promote sustainable integral development in areas with high degrees of isolation. Under this premise, the federal government concentrates human and material resources through a focused effort that seeks the civil society's direct involvement and especially considers the demands of indigenous and marginalised populations. This sets the ground to offer suitable answers, which consider public needs as well as inter-institutional, territorial and community potential and capacity.*

*The strategy's core unit is the Strategic Community Centre, which implies the study of socio-economic and demographic conditions in a given place by means of cartographic analysis that result in the deduction of the impact of such Centres upon its socio-economic and demographic environment. Once the Micro-regions with the highest marginal status are identified, a regional diagnosis takes place so as to locate specific needs for infrastructure and services. Known as White Flags, these services represent priorities as stipulated by urgency and social relevance. Many of them are the minimum desirable conditions for living and act as triggering factors for micro-regional development. The joint effort of 12 federal agencies is the basis for the strong and rapid response of the Strategy for Micro-regions, which includes the united endeavour of the Ministries of Finance, Economy, Communications, Public Education, Health, Tourism, Environment and Natural Resources, Agriculture, Labour and Agrarian Affairs, under the co-responsible co-ordination of the Ministry of Social Development.*

## Introduction

*Contigo* is a vision of social progress for Mexico that provides essential benefits for the population and stimulates human development as it both promotes interaction among the three branches of government – federal, local and municipal – and enhances their relationship with society. *Contigo* is a combination of basic social assistance for the population, which include financial support for economic growth and development. This programme is the government's current response to problems of underdevelopment, aimed to overcoming a limited success in public policies.

The Strategy for Micro-regions is instrumental to articulate *Contigo*'s four main goals: developing skills, creating opportunities, providing protection, an generating wealth. To achieve those goals, *Contigo* comprises several tasks.

First, it allows a territorial understanding and ethnic regard to poverty, for it attends populations that live in geographic and economic isolation who belong to minority cultures. The involvement of communities in the planning of their own development underlines the idea of a shared responsibility and promotes integral development with respect for the culture and identity of local people. Second, efforts concentrate in locating areas with the highest potential for enabling sustainable regional growth, so that private sponsors find it profitable to invest their money in local development. Third, inter-institutional co-ordination is implemented so as to avoid duplicity of functions and optimise the use of resources, which aims to give unity and coherence to programmes and actions involving the participation of the three branches of government, academic institutions, private sector and civil society.

In other words, identifying and ranking social needs implies a territorial location of marginal populations for the target is to overcome poverty and promote sustainable integral development in areas with high degrees of isolation. Under this premise, the federal government concentrates human and material resources through an articulated effort that seeks the civil society's direct involvement and puts special attention to the demands of indigenous populations. This would set the grounds for offering suitable answers insofar as they take into account both public needs and inter-institutional capacities. Three key issues are recognised to improve the speed and quality of public responses to social demand:

- Supporting governmental policies on public consultation; Achieving agreements for short, medium and long term investment and actions through the assistance of micro-regional planning organisations;
- Consolidating the Subcommittees for Attention to Priority Regions (SARP *due to its abbreviations in Spanish*) as an arm of the Planning and Development Local Committees (COPLADES *due to its abbreviations in Spanish*).

However, none of these combined efforts would make any sense if they target the incorrect locality. For the latter must suit a series of requirements such as being a strategic location within a region, *i.e.* where the confluence of populations follows a “natural” pattern. It is there that a Strategic Community Centre ought to be settled so as to supply disperse populations with the infrastructure they need. Finding the most appropriate place to direct public investment is perhaps the core contribution of a territorial approach to poverty and isolation.

### **Strategic Community Centres**

The identification of Strategic Community Centres (CEC *due to its abbreviations in Spanish*) implies the study of socio-economic and demographic conditions in a given place by means of cartographic analyses. From a territorial standpoint, the target is to help overcoming poverty and promote sustainable integral development in highly isolated areas. Once the micro-regions with the highest marginal status are identified, a regional diagnosis takes place so as to locate specific needs for infrastructure and services. Known as *white flags*, these services represent those priorities as stipulated by time urgency and social relevance. Many of them are actually the minimum desirable conditions for living and act as triggering factors for micro-regional development.

White flags include Community Learning Centres with satellite connectivity (CCA *due to its abbreviation in Spanish*), basic school infrastructure, service coverage of electric supply, environmental protection, access to medical services and adequate healthcare infrastructure, encouraging productive activity through savings and loan associations, sufficient running water installations, dwellings with solid floors, rural telephone service, access via rural roads throughout the year and connected to the highway system.

## Inter-agency co-operation and co-ordination

The joint effort of 12 federal agencies is the basis for the strong and rapid response of the programme *Contigo*. Included in this endeavour are the ministries of finance, of social development, of economy, of communications, of public education, of public health, of tourism, of environment and natural resources, of agriculture and rural development, of public administration, of labour relationships, and of agrarian affairs. The objectives of the co-operation between agencies are to encourage and guarantee a co-ordinated team effort, to stimulate an efficient use of resources in micro-regions, and to promote integral and sustainable development.

Apart from the above mentioned 12 federal agencies, this collaboration involves 18 local governments, private corporations, academic institutions, and municipal authorities as they concur upon Social Development Agreements (CODESOL *due to its abbreviation in Spanish*). A mechanism designed to link municipalities, the so-called municipal partnership, is an example of this attempt to integrate social efforts. Regarding the concurrence of academic institutions or private corporations, the following are specific examples of co-ordination with SEDESOL:

- ITMS-SEDESOL, combines actions to bring education, training, information and communication to highly marginal communities by close co-ordination with *e-México*, field training for promoters.
- CEMEX-SEDESOL, benefits over 7.5 million citizens throughout the country as it furnishes 1.5 million homes with antibacterial cement floors.

An information system is designed to identify actions in priority regions through the integration of proposals and demands, the Record of Actions in Micro-regions (RAM). Its main goal is to provide information on investment and actions taken by federal agencies, local government, and regional municipalities. Volunteers that devote themselves to promote social development by encouraging corporations, universities, foundations and society at large to participate in this process are also part of the Strategy.

The overall achievement of *Contigo* is measured through the execution of specific actions that function as operation rules that guarantee the allocation of resources on time and reaching intended recipients, and that it fits legal conditions and allows the work of governmental agencies. The evaluation of progress and social impact should take into account indicators for public management, public accountability by community assemblies or similar

organisations, information on investment and actions in micro-regions, analysis and publication of evaluation results.

Supporting the Strategy of Micro-regions as a whole, the theoretical construction of a territorial understanding of poverty is at stake.

### **A territorial understanding of poverty and marginalisation**

The concept of micro-region represents a geographic region in rural areas where the lack of basic infrastructure and public services are registered in highest rates. Whether they include one or several municipalities, the characteristics of micro-regions are linked with ethno-cultural and geo-economic dynamics. Migratory pressures worsen in these territories due to population dispersion, scarce communication and the subsequent inefficiency of the production-distribution-consumption circuit, as well as the limited supply and lack of job opportunities. Further, the exhaustion of productive systems makes this scenario even more adverse, for it allows the growth of drug industry, the rise of inter-ethnic and religious struggles, and the strengthening of negative local leadership or *cacicazgos*. Still, most micro-regions not only are potentially productive but also house invaluable biological wealth.

Beyond territorial diagnosis and geo-economic comparison, the concept of micro-region offers an alternative methodology vis-à-vis traditional solutions to poverty and isolation whether geographic, cultural or economic. For that reason, the territory is an axis towards dispersed communities to allow people's participation in the definition of key actions and improve productive schemes and infrastructure, and the provision of services. This approach aims to encourage the development of Strategic Communitarian Centres (SCC) that would assist minor communities under their influence with infrastructure, services and work capacities.

In 2001, 250 micro-regions integrated by 476 municipalities were identified as very high marginal areas according to the classification used by the Consejo Nacional de Población (CONAPO) and data obtained in the Population and Housing General Survey of 1995 by the Instituto Nacional de Estadística, Geografía e Informática (INEGI). These micro-regions involved 17 states: Chiapas, Chihuahua, Durango, Guanajuato, Guerrero, Hidalgo, Jalisco, México, Michoacán, Nayarit, Nuevo León, Oaxaca, Puebla, Querétaro, San Luis Potosí, Veracruz and Yucatán. Here, it is relevant to underline that of the 5.8 million inhabitants registered in the 2001 Census, 3.4 million were indigenous populations.

Seven variables were used for measuring the rates of marginalisation: illiteracy of people over 15 years (Survey, 1995), inhabitants per house with no sewer (Survey, 1995), private houses with no electrical supply (Survey, 1995), inhabitants per house with no water pipes (Survey, 1995), overcrowded houses (Census, 1990), inhabitants per house with soil floor (Census, 1990), employed population earning less than two minimum wages (Census, 1990).

Using the information of 12<sup>th</sup> General Census of Population and Housing, the CONAPO updated the formula and index of municipal marginalisation by the end of 2001, including two new variables, the population over 15 with no elementary school and the population of towns smaller than 5 000 inhabitants. Taking into account current available information, the following is considered when deciding on the criteria to define a micro-region for the 2002 exercise:

- the 476 municipalities previously selected would still be considered as micro-regions;
- new municipalities of very high marginalisation would be added up according to the 2000 Census;
- following the criteria of “Mexican Population in the New Century” (CONAPO), municipalities with 40% or more of indigenous-language speaking population of 5 year old and over would be added up independently of their degree of marginalisation;
- high marginalisation municipalities would be added up according to the Census 2000.

Under these criteria, 1 321 municipalities from 26 states are selected, while five states did not fulfil the established requirements: Aguascalientes, Baja California, Baja California Sur, Coahuila and Colima. Still, since the problem of poverty cannot be ignored, an Index of Relative Marginalisation (IRM) was elaborated so as to take into consideration high marginal territories in relation to those states only, as if they were a whole.

As a result, the *Contigo Manos a la Obra* programme aims at restoring the marginal conditions of a total universe of 263 micro-regions distributed in 1 334 municipalities of 31 states, a universe of 19.9 million inhabitants. Several Strategic Communitarian Centres are located in 539 municipalities distributed in 155 micro-regions and 18 states (Campeche is added to the first 17). This group includes the 476 municipalities by which

the strategy initiated in 2001, 36 municipalities of very high degree of marginalisation according to Conapo's classification of data from the Census 2000, and 27 municipalities with more than 40% of indigenous populations whose rates of marginalisation are distinct from very high and high degrees.

### *Social and demographic profiles*

The universe described above involves 99 800 localities with characteristics that must be considered for micro-regional policy planning: according to the Census 2000, 62.3% of them have less than 50 inhabitants, 20 100 localities have from 100 to 500 inhabitants, and around 2 000 register populations over 1 500 inhabitants.

In the 539 municipalities under serious conditions of marginalisation, few more than 35 400 localities were detected of which 54.8% have less than 50 inhabitants; only 246 localities are bigger than 2 500 inhabitants (by convention, these are non-rural areas). Studies about town altitude, another key element in a territorial understanding of poverty and marginalisation, reveal that 55 400 localities (55.5%) of 1 334 municipalities settled between 500 and 2 500 meters above sea level. That is, 10.1 million inhabitants, 50.7% of 1 334 municipalities' total population. Similarly, 23 800 localities (67.3%) are located in ranks that vary between 500 and 2 500 meters, and a population of 3.8 million inhabitants. It is interesting to note that beyond 2 500 meters above sea level, 1 148 localities have 223 700 inhabitants (195 people average by locality).

In 1 334 municipalities of marginal micro-regions, lower living conditions are rather clear: 27.5% of the population does not count on sewer, 15.3% does not have electrical energy, 30.2% lacks drinkable water, 41.4% live in houses with soil floor, 23.2% of people over 15 are illiterate and 51.9% have not completed elementary education. More than a fourth of the population over five years speaks an indigenous language (26%), whilst 76.3% of the employed have incomes under two minimum wages. Among the universe of 539 municipalities of extreme marginal conditions in Campeche, Chiapas, Chihuahua, Durango, Guanajuato, Guerrero, Hidalgo, Jalisco, México, Michoacán, Nayarit, Nuevo León, Oaxaca, Puebla, Querétaro, San Luis Potosí, Veracruz and Yucatán, 30.9% of the population have no drainage, 25.5 % have no electrical supply, 40.7% have no drinking water, 62.7% inhabit houses with soil floor, 53% speak indigenous languages, 33% are illiterate, 61.1% quitted elementary school, and 85.4% earns up to two minimum wages.

### **PART III**

#### **ENDOGENOUS AND SUSTAINABLE DEVELOPMENT IN RURAL AREAS**

The shift in the dominant concepts of rural development favouring sustainability and endogenous approaches is notably linked to the diversification from primary sectors towards industry and services that is taking place in a majority of rural areas. Given the volatility of branch plant investment and the vulnerability of small firms in the rural context, sustainability of communities is increasingly a concern. Not only is the focus on local development related to the need to embed investment in the territory, it is also pertinent to the necessity to better tap rural resources, notably territorial capital and amenities. Thus far, this focus has been weak and rural policies have remained ancillary to agricultural policy; however, this is changing. For example, the EU has set up many measures in support of rural development in the second pillar of the European Common Agricultural Policy. Moreover, there is a need to rethink traditional agricultural policies due to their rural insignificance and to avoid negative side effects. As these traditional policies are dominated by commodity market interventions, they cause major market distortions but have limited leverage on rural development. In addition, these agricultural policies do not score well on equity grounds since they benefit mainly large farms, which are usually well off in terms of income and assets. They contribute little to rural poverty alleviation and to the maintenance of the rural environment.

These issues were introduced by several speakers.

Mr. David Freshwater (University of Kentucky) addressed the question of manufacturing activities in rural areas. Although declining, the manufacturing sector will continue to contribute to rural development, especially for intermediate value added products. Branch plants and clusters of small firms will nevertheless need to face continuous structural adaptation in those areas.



Mr. David Baldock (Institute for European Environmental Policy) analysed recent trends in the EU policy within the framework of cohesion policies and of the Common Agricultural Policy (CAP). He showed how environmental issues and directives are increasingly impinging on the rural agenda and changing the rural environment in Europe.

Mr. Ken Ash (OECD Deputy Director for Food, Agriculture and Fisheries) assessed the impact of agricultural policies on farms and the rural economies. He pleaded for rural reforms that could provide long-term benefits even if they will incur adjustment costs in the short term. In his view, agricultural and rural policies are distinct, but they both need to comply with national policy objectives and broader policy approaches.

Mr. Francesco Mantino (Italian Institute of Agrarian Economy) focussed on the main aspects of rural development planning within the EU Agenda 2000 (*i.e.* the concentration of interventions, the simplification of instruments and the strengthening of management instruments).

Mr. Jesús Regidor (Autonomous University of Madrid) insisted on the duality of agriculture (*i.e.* its territorial and commercial aspects). Territorial agriculture is an asset for sustainable development and should receive priority support especially in lagging regions. So far the CAP is putting too much emphasis on commercial agriculture.

Mr. Paolo de Castro's (NOMISMA Italy) argument was that the CAP has to respond to the new demands of citizens. This will affect rural development which will need to be made more flexible since the enlargement will modify the distribution of funds while support will have to be compatible with WTO regulations.

Mr. Bertrand Hervieu (INRA chairman France) gave some insight into the debate on the multi-functionality of agriculture and on the French policy about territorial farming contracts.

Finally, Mr. Jan Douwe van der Ploeg concentrated on high quality products and regional specialities; an area where a lot of value added could be generated. In certain areas saturation could be overcome through carefully designed rural policies.

## **Will Manufacturing Remain a Pillar of Rural Development?**

**David Freshwater**  
**University of Kentucky**

### ***Abstract***

*Manufacturing was one of the major sources of rural employment growth in OECD countries in the post World War II period. Much of the growth of manufacturing reflected the relocation of firms from urban centres to rural places in an effort to reduce operating costs. Most of these firms only moved production facilities to rural locations and kept higher order functions in cities. However a number of rural areas were able to develop an indigenous manufacturing sector that was based upon locally owned small firms. In many cases, these firms adopted a strategy of collaboration to synthesise scale economies in production and marketing. More recently many rural manufacturing firms have relocated to developing countries or closed.*

*The argument made in this paper is that while the nature of rural manufacturing is changing in important ways, it will continue to be an important source of earnings and jobs. Further while OECD countries are far less competitive in the production of low-wage, low-skill, high volume goods, there is still considerable potential for growth in higher skill manufacturing organized as clusters of locally owned firms. However there is also the possibility of investments in new branch plants of multinational firms. Rural areas of OECD countries have tended to lose employment from domestic firms, but there has been significant rural investment by multinationals outside their home country. In addition there is growing evidence of firms from developing countries making their first external manufacturing investments in rural areas of OECD countries. This suggests that rural manufacturing is changing, but that it will continue to follow a range of organisational models.*

## **Introduction**

For nations the process of development is widely held to involve a transformation from a predominantly rural and agricultural based socio-economic system to one that is predominantly urban and dependent on manufacturing and services. Most OECD member countries have passed the point where their population has become predominantly urban and many are thought to have entered a post-industrial era where the service economy surpasses the manufacturing economy in terms of being the main engine of national economic growth (OECD, 2001, Part II; Pezzini, 2001). Even those that believe manufacturing remains an important project, a smaller sector is driven by advanced technology and skilled labour (Cohen and Zysman, 1987).

Yet even in all but the most urbanised nations, there is still a significant rural population, and in rural regions the stage of development is typically less advanced than in larger urban centres. While most rural regions are no longer dependent only upon agriculture, many remain dependent upon manufacturing or a combination of manufacturing and some resource based industry (OECD, 1996, p. 114). Even those rural regions that rely upon the service sector as an engine of growth typically provide services that are based upon natural or cultural amenities (tourism). This is a very different set of services than the advanced producer services that are common in large cities and that are the core of the “new economy” (Coffey, 1993).

This suggests two significant questions for those interested in rural development in the OECD. The first is, what is the comparative advantage of rural areas in the OECD region? In a world where the broad development process entails countries moving from subsistence to market based agricultural systems, and then on to manufacturing, what can rural areas in the most developed nations do to remain competitive? The second question is, how do rural regions within a given nation, or trade block, relate to a predominantly urban society and post-industrial economy that is diverging from rural regions at a rapid rate? Most analysis suggests that rural areas are at a significant disadvantage in the new economy because they lack many of the central institutions that make it function (Coffey, 1993). These include: research universities, corporate research centres, sophisticated financial intermediaries, a large supply of skilled professionals, and most importantly the critical mass that allows all these components to function efficiently. In economic terms it appears that the new economy relies upon significant economies of scale and unless rural areas can find ways to mimic these scale effects it will be difficult to keep up.

A significant part of these two questions involves the fate of manufacturing as a pillar of rural economic development. Given its current importance, the fact that there are concerns that manufacturing might have a limited future in rural areas of the OECD countries is significant (Barkley, 1995; Gilmer and Pulsipher, 1992; Glasmeier and Lychenko, 1999). Rural manufacturing is threatened by two factors; the general decline in manufacturing as a share of GDP in the most developed countries, and the parallel growth of manufacturing in the developing countries. The two phenomena jointly suggest that manufacturing, like agriculture, is a stage in the development process and rural economies in the OECD should expect to see its role diminish. If manufacturing is to survive as a key part of the rural economy how will it have to change to accommodate competition from developing countries and structural change in the domestic economy? If rural manufacturing has a bleak future, then what will replace it?

The standard story of rural manufacturing is based upon the domestic product cycle (Galston and Baehler, 1995; Roth, 2000). It holds that manufacturing takes place in rural areas as a result of firms in a higher-cost urban environment determining that it is more profitable to locate their production processes in peripheral rural areas while keeping the corporate offices, product development and marketing functions in the urban centre. An integral part of the product cycle is an evolution in the production technology of the firm that allows both the separation of production from these other functions and the use of a generally lower skill labour force. Typically most rural manufacturing has relied upon low-skill workers who would have limited alternative employment opportunities if this type of job disappeared.

The second part of the product cycle is that the search for lower cost production does not end with relocation to rural areas in industrialised countries. Firms soon find ways to move to even lower cost locations in the developing world. This shift has been enhanced by trade liberalisation, lower transport costs and technological change. Until recently we could say that rural areas in the OECD seemed to face the dual challenge of being the least developed part of the developed world and simultaneously the most developed part of the developing world.

This model suggests that rural places that rely upon manufacturing have four choices: find some other source of income and employment; find a way to compete with urban areas for the remaining sophisticated manufacturing activity; find a way to compete with developing countries for routine manufacturing; or cease to exist. Although in an abstract sense these are the choices, in reality the outcome is less clear cut and a given place may choose to try a blend of approaches.

## **Sustainable rural development**

With the pressure on manufacturing, there has been an increased interest in the sustainability of rural areas. Sustainability is often thought to imply continuity, stability and a resilience to forces of change. In this sense it fits well with the natural conservatism of rural communities and the sense that rural places are the main repository of social and cultural values (Howarth, 1995; James, 1991). But the notion of sustainability as permanence and resistance to change, is in many ways in direct contradiction with the past evolution of rural places. In some cases for example, communities dependent upon extractive industries such as mines, the main economic process that sustains the community is not sustainable. Thus if the community is to survive when the mine no longer is profitable there must be a major shift in the core economic function.

Even in communities that do not face the challenge of depletion a similar process of change is at work. As time passes, communities that rely upon agriculture or manufacturing can find that they are no longer competitive suppliers of particular products even though they have the same underlying potential to produce as they had in the past. For these places it is not resource depletion that leads to pressure for change but a shift in market structure.

Agriculture, the quintessential rural industry, has experienced some of the most rapid structural changes of all sectors over the recent decades. While agriculture has shrunk in many ways, it still continues to be a significant rural industry. Rural manufacturing may well be in the same position of having to adapt to change, but through adaptation there may be a new future. However the change manifests itself, to remain viable the community has to undertake a significant shift in how it is organised. This suggests that a more appropriate concept of sustainability is one that is based upon a dynamic process of adaptation to change in a way that keeps core elements of the community intact.

The key question then is, what are the core elements of community? This is the issue that makes each place unique. Each community has to assess what it is prepared to give up from the past in order to have a future that keeps it sustainable. For some places the change is relatively minor, while for others it is high. Finally in some places, despite a desire to change, there is so little economic opportunity that it is impossible to hold the resources of the community together, and so people leave and the community declines. The current focus on strategic planning and locally based development options is driven by the recognition that every community has to make fundamental choices about how its future will evolve. Similarly a community can grow and

not be sustainable, if the growth process leads to changes that so fundamentally alter the nature of the place that it becomes something very different.

An important element of sustainability is the idea that it defines successful development as something other than simple growth. In some sense a rural place that becomes more densely settled and more urban, either through steady internal growth, or because it was absorbed by an expanding urban agglomeration, has not exhibited sustainability. In either case the essential character of rurality has changed to a point that we are now dealing with a very different community. While increasing urbanisation is one form of development, it is generally not what is meant by “rural development”.

A second element of recent development theory is the notion of endogenous growth. In a local or rural development context endogenous growth is generally seen as being more desirable than growth that is driven by external forces, because it, in some way, is more determined by local values. Once again this links back to the idea that the values of the community drive the growth process. However endogenous growth in a local development context is not really endogenous. Formally, an endogenous growth process is one where the determination of growth is within the model, rather than from some external factor (Barro and Sala-I-Martin, 1995, pp. 38-40; Basu, 1997, pp. 50-55). At a global level, growth is endogenous because we can consider the earth to be a closed system. At a national level it may still make sense to think of the economy as being relatively closed, although this is a much harder decision today than in the past. But in terms of rural economic development it is unrealistic to discuss endogenous growth processes.

All rural places are small economic units that generate only a portion of the goods and services they consume internally. Over time the share of self-supply has declined so rural places are now more reliant upon external markets than they were in the past. Given this dependency on the larger world and the impossibility of recreating a “Robinson Crusoe economy” it is important to understand that endogenous growth in a rural development context deals with a very weak concept of endogeneity. It really means that local economic agents observe external conditions and try to realign their community with new opportunities, rather than having change take place in the community without a conscious effort to shape at least some aspects of the process. In either instance external pressure for change is the dominant factor that drives the adaptation process, and this reflects the simple fact that rural communities, far more than nations or even large cities, are small truncated economies that must specialise in the production of a relatively small number of tradable goods and services to remain viable. Further, it is hard to argue that there is any real degree of reverse

causality since rural areas individually, or in aggregate, do not significantly influence national or global economies.

Because rural areas have to import a large fraction of the goods and services they consume, it is important that they export to the rest of the world a sufficient value of goods and services to pay for their imports. This makes businesses that can produce for external markets particularly valuable. Manufacturing and agriculture both fall into this category of export-oriented activities. This is one of the reasons they constitute pillars of rural development. Tourism is another potential pillar because it generates income from non-residents. However most of the service industries within rural areas, including restaurants and shops, local hospitals and schools, and local government organisations mainly serve residents and do not generate much external income.

While agriculture and related renewable resource based activity was the traditional economic base of rural areas, the set of important externally oriented economic activities in rural space is now much larger. Manufacturing, tourism, and senior level government facilities of various types are now important sources of external income in many rural areas. Indeed those areas that still depend primarily upon farming, fishing or forestry are typically less well off in terms of a broad range of economic indicators (OECD, 2001, pp. 247-254; OECD, 1994, pp. 35-54). The only sense in which agriculture remains as important in the current rural economy as it did in the past is in terms of the share of land used.

The process of modernisation of agriculture in the OECD countries was a major impetus for diversification of the rural economy. As agriculture modernised it increased output by substituting capital for labour and which also led to the average size of farms increasing. The result was a substantial excess supply of labour in rural regions. While rural to urban migration was a major means for relieving this pressure, the creation of alternative forms of employment, notably manufacturing, was an important way to absorb surplus labour while maintaining rural areas. From the 1950s through the 1970s national governments in most countries made a concerted effort to encourage rural manufacturing by providing various financial incentives to firms that would locate outside traditional manufacturing areas. Although many of these firms were successful, a number, including some of the largest in terms of size and level of subsidy, proved to be viable only with high levels of ongoing subsidy. Not only were these firms an ongoing drain on the national budget but they became a source of trade conflict as international trade agreements limited the allowable level and form of subsidy to domestic firms.

Consequently if we are to think about sustainable rural development processes we must look beyond agriculture in most places. As was argued earlier, this follows from the fact that the development process at the national level is typically couched in terms of an evolution from primary industries to secondary, including manufacturing, and then on to tertiary, or services (Basu, 1997). The process involves an urbanising of the country in terms of where people live, but it also involves a shift in how the rural population lives and earns its livelihood. Rural out migration is an important part of development, but so too is a broadening of the economic base in rural areas to encompass non-farm employment opportunity for those people who do not leave.

### **Manufacturing as a pillar of rural development**

Centuries ago a large share of manufacturing was a rural activity at the time when the main sources of energy were animal power, water and wood. Each of these motive forces is easier to manage in a low population density environment. One of the quintessential first manufacturing sectors, textiles, began through a “putting-out process” where individual rural residents were provided with raw materials and produced cloth that was collected by the merchant. Similarly the production of flour from grain took place on the banks of streams in villages using water wheels. Only with the industrial revolution did manufacturing become an urban industry; because of the shift in motive power to steam, the change in transportation technology with canals and railroads, and the creation of new ways of organising business using corporations and rudimentary assembly line procedures.

In the post World War II era rural manufacturing can be thought of as having developed in one of two ways. The first is the result of an effort by the community, or some higher level of government, to encourage firms to relocate from another place to a specific rural community. This process, commonly referred to as industrial recruitment, has a long history in the United States and other countries. Its origins can be found in the late 19<sup>th</sup> century when manufacturers were first able to escape central cities for lower cost rural areas (Roth, 2000). Prior to the development of railways, water based transportation systems greatly constrained locational choices for manufacturing. During the post civil war reconstruction period in the US south, a significant number of firms left the industrialised north-east to reduce their costs. The central advantages of the south were lower wages, cheaper land, and greater freedom from government control and union activity. These advantages overcame the higher cost of transportation, the absence of firms that could provide support services or machinery, and higher costs of co-ordination. For over 100 years



many rural places, and the rural south in particular, were able to exploit these advantages and establish a significant manufacturing system.

However this system was based upon external ownership and a limited set of internal linkages. The effect was very similar to the old “putting out system” only on a larger scale. For the most part only a single stage in the production process took place in any rural town. Consequently the benefits to the community were mainly the direct employment created by the factory. Without any significant opportunity for local inputs or for additional steps in the production process, there were few opportunities for the community to acquire either greater knowledge of the various elements that make up that specific industry or a broader set of skills that could be applied to other industries. In this sense the development potential of industrial recruitment can be limited. Without an opportunity to learn, the community remains reliant upon a stable flow of firms moving through their town in the search for lower cost production opportunities.

The second major manufacturing system is based upon the indigenous development of various firms. This approach focuses on the creation of small and medium size businesses, none of which dominates the local labour market or local economy. In particular there is great interest in the potential for these firms to capture synergies by working together in a cluster (Bekar and Lipsey 2001; Bernat, 1999; Henry, Barkley and Zhang, 1997). The benefits to the community from this system are obvious. Local firms are more likely to purchase within the community and to consider the external impacts of their decisions. Because the family of the firm owner lives in the community and that person grew up there, it is more likely that the well-being of the community will enter into the firm’s decision process. Local firms are also more able to rely upon informal arrangements because they know their counter-parties which can reduce transactions costs and enhance competitiveness. Further a large body of literature has developed over the last decade suggesting that at the national level small firms are more likely to be a source of new ideas and are a major source of employment growth. Finally small firms are more likely to be able to find an adequate supply of workers in a rural community and require levels of finance that are within the scope of local capital markets.

Given the clear local benefits from smaller manufacturing establishments it is not surprising that this type of system has found favour with those searching for more sustainable development. By contrast, industrial recruitment has been criticised as ineffective, mainly because it cannot ensure that a firm once attracted will remain in the community.

It is a mistake however to dismiss industrial recruitment as a strategy for rural development. In the first place the community does benefit in the form of an infusion of investment by the firm and the income that is generated by the workers at the firm. This source of funding can be critical to the short-term survival of the community and its residents. The recruitment process is best thought of as a symbiotic relationship between firm and community. The firm is looking for labour and a production location and provides capital, expertise and a distribution system. The community is looking for current income and employment and can provide labour and a building site. In the process the community may be forced to add financial inducements in the form of tax abatements, low interest loans and training programmes for workers, but it should be aware that these all reduce the net benefit it receives from the relationship. Arguably the community is in a position to bid no more than the firm is worth to it, but there is clear evidence of communities paying too much for a firm. This points out the importance of understanding the full costs and benefits associated with a given branch plant, but it does not mean the strategy is inherently damaging.

Second in many rural communities there is no tradition of an indigenous entrepreneurial class and little experience in small-scale manufacturing. In these places, especially those with limited natural amenities, the potential to diversify beyond agriculture is mainly a function of the ability to attract outside industry. An external firm provides the initial link to the larger world, and while it may be difficult to exploit the linkage its existence remains potentially valuable. Communities could receive greater benefits from the firms they recruit if they bargained for skill development and a larger role in marketing and distribution during the negotiation to increase the level of local knowledge. In this way the firm would leave greater residual value in the community when it moves on and there would be greater opportunity to move from lower skill activities to higher skill ones either with a recruited firm or with one that develops locally.

### *Sustainability of rural manufacturing systems*

Sustainability has become a concern for a number of reasons. These include for those communities that have relied upon branch plants:

- the fairly rapid shift of large parts of the rural manufacturing base; for example, textiles, shoes and electronics assembly, offshore in the last decade;

- the relative decline of manufacturing in urban areas which has reduced the flow of new firms into the product cycle pipeline;
- increasingly intense competition among virtually all rural places for the remaining set of firms looking for new sites, which both raises the cost of attracting a new firm and lowers the probability of success.

At the same time changes in production technology that increased minimum efficient scale of operation, the growth of supply chain relationships, and the dominance of mass marketing have made it more difficult for smaller firms to compete in a number of manufacturing sectors. This has led to problems for many rural places that rely upon smaller local firms.

Nevertheless manufacturing will likely remain a central element in rural development. While many places are trying to expand the role of tourism this is not a real option for rural communities that are too inaccessible or lack a high enough level of amenities to attract visitors. Similarly there is little potential for producer services playing a major role in most rural places. Almost by default, the survival of many rural communities will depend upon maintaining a manufacturing base. Viability will be based upon a combination of: manufacturing being the comparative advantage of rural areas, simply because much of the service economy is restricted to urban centres; the fact that while manufacturing is relatively less important in the economy, this is primarily the effect of rapid growth in the service sector, not a collapse of manufacturing; and the ability of at least some portion of the rural manufacturing base to remain competitive in the face of foreign competition.

In terms of sustainability there is in principle little reason to argue that one form of rural manufacturing system dominates the other. While locally based systems have the obvious advantage of being more firmly embedded in the community, they too leave rural places when they are too successful. Because it is difficult to efficiently operate a large business from a small place even with modern telecommunications, the very successful local firms move to larger cities. For example Gateway Computer was founded in a small city in South Dakota but eventually moved to California because of difficulties in attracting skilled employees. Similarly Mrs. Field's Cookies was founded in the relatively small city of Palo Alto, California but relocated to Salt Lake City because it was more centrally located and had better airport connections. Even Boeing, which prospered for over 50 years in Seattle, relocated its corporate headquarters to Chicago. Production facilities may remain in the original location but management leaves and over time the level of new investment declines. While these are examples of very large firms in relatively large cities,

the same phenomenon exists for mid-size firms in smaller communities. The loss of a smaller locally based firm can have a relatively bigger impact on a community than the loss of the head offices of a large local firm, because the smaller firm is more likely to move its entire operation.

While any given branch plant firm may have a limited life span in a community, a strategy that recognises this fact and works to find replacements on a regular basis can be effective. Mount Sterling in Kentucky is a city of 6 000 people. In the late 1980s it relied upon two large branch plants that provided roughly 4 000 jobs for the region. Within two years both plants closed, leading to an unemployment rate of over 20%. Since then Mount Sterling has continued to rely upon a recruitment-based strategy but has tried to attract a larger number of smaller firms. The city now has two industrial parks with about ten firms in each with aggregate employment in excess of 5 000. While they still experience plant closures, the adverse effect on the city is much smaller and it is easier to find another medium size replacement firm.

Both these points suggest that large firms, relative to the size of the community, can present significant development problems. A large firm dominates the local labour market and as it grows it can crowd out other firms because it offers better pay or better benefits. If a large firm leaves it is less likely that another firm will require either the same number of workers, or workers with the same composition of skills, so there will be a more difficult recovery process. Another potentially adverse effect of a large firm is the creation of a “company town” where the firm plays a central role in social and cultural aspects of the community as well as dominating the local economy.

If the aim of rural development is to preserve core values of the community while generating income and employment, then large firms can be dangerous. This suggests that a critical issue for some communities is to not be captured by a too successful firm, since along with short term prosperity there is the risk of future losses in the form of the firm departing, or of the community losing its core values.

There is also little reason to believe that one system dominates the other in terms of stability over time. Declining rural industrial areas are common in many parts of the developed world, typically reflecting a failure of the local economy to remain competitive in a changing global economy. While the process of industrial decline of branch plant economies has been analysed more frequently, there are parallel examples of locally based industries that were once profitable but failed to adapt. Much of the furniture industry in North Carolina was until recently comprised mainly of relatively small locally owned firms, but they were unable to adapt to a combination of changing tastes,

shifts in retail structure from independent furniture stores to large chains, and lower cost foreign competition.

Because all rural places have to adapt to external change, the critical questions for manufacturing revolve around the characteristics that enhance viability. One measure of adaptability is the level of innovation. Research suggests that those places with the highest rate of innovation tend to dominate national economies in terms of household income, employment rates and population growth. But this analysis has concentrated on relatively large cities, and the factors that are considered to underlie innovation, including: the presence of a large research university, a diverse economic base and sophisticated financial and professional services, are rarely found in rural areas.

For rural areas a more relevant measure of adaptability may be one that is drawn from agriculture. Most of the new ideas in farming now originate either in universities or in the research arms of large corporations, not in rural areas. But successful farmers are those who are both early adopters and who can identify the most promising of the new ideas that are generated each year. Rural manufacturers in the OECD countries are in a similar situation. To maintain their competitiveness they have to adopt new technologies and processes to offset the lower labour costs that are a principal advantage of developing countries. Thus for rural manufacturing firms the critical question is more one of modernising an old economy than leading the changes in the new economy.

In this regard it is important to distinguish between firms and plants. Only in the case of small firms is the plant and the firm the same unit. But, the firm and plant relationship can be complex. In the case of European industrial districts one can think of a group of small firms acting in concert to essentially form one large plant. In the case of much of rural America the plant in a community is a part or branch of a much larger firm. The literature on innovation is mainly about firms, not plants, and it suggests that firm size is not a barrier to innovation. Sony and 3M are two examples of large multinational corporations that innovate on a continuous basis. How innovation at the firm level translates into practices and profitability at the plant level is an area where we need more research. Conversely although small firms are often seen as the main source of innovation there are large numbers of small firms that are not particularly innovative.

So for rural areas this raises the important question of whether small indigenous firms or branch plants will provide a more sustainable economic base. The simple answer is that this depends on something other than firm size and the location of the owners. The branch plant of an innovative firm can provide more stability to a community than can a cluster of relatively

unimaginative small firms. The central empirical question at the national level is whether there is a larger incidence of small innovative firms in rural areas than branch plants of large innovative firms. At the local level the question is more stark – what type of firms are present in your community?

Another important dimension reflects what we understand by the term sustainable. The simple notion of permanence is clearly inappropriate since in world where change is constant and rural firms are exposed to competition the only way to survive is to adapt. This means that sustainable manufacturing is more than a firm continuing in place for 50 or 100 years. In general what we are most concerned with is sustainability of the community, and not of the firm. This suggests that even if a particular firm only has a short life within a community, but its presence is instrumental in improving social and economic conditions so that the community is better positioned to adapt to future change, then that firm contributed to sustainability. Conversely if a firm or group of firms is kept alive through a process that weakens the community, for example subsidies or by the firm clinging too long to an obsolete production system when resources should have been shifted to a new activity, then the survival of the firm(s) actually reduced sustainability.

## **A broader typology of rural manufacturing**

To better understand the opportunities for agriculture in rural areas we need a richer structure for thinking about manufacturing than the simple branch plant, local firm dichotomy that has been used to this point. There are significant differences within these two broad groups in terms of future prospects for rural manufacturing. For rural communities it is increasingly important to understand the type of manufacturing system that best fits their community not just the type of product that is being produced.

### ***Branch plants***

The domestic product cycle has clearly played an important role in the evolution of rural manufacturing. But its future is seen as limited for the reasons described above.

However another basis for rural manufacturing has been the inflow of firms from other developed countries seeking a production location closer to significant markets. The quintessential case in this regard is foreign auto-manufacturers in North America, all of which have located their facilities in either rural or small city locations. These firms are in rural areas mainly

because of marketing and transport cost reasons, not simply because they are looking for lower labour and land costs. Over the last 20 years the inflow of plants from other developed countries has provided an important new source of manufacturing income and employment in a number of rural regions but there has been little recognition that this is a different process than the traditional domestic product cycle.

Finally in the last decade technological progress in much of the developing world has reached the point that rural areas in the OECD nations are now less advanced than some parts of developing countries. A consequence of this is that we are now beginning to see a parallel flow of foreign investment from developing countries to rural areas in developed countries. For example a Brazilian manufacturing company announced in late June that it will be opening a branch plant in rural Kentucky to serve the North American market (Lexington Herald Leader, 26 June 2002). As in the case of the US branch plants of foreign firms from OECD countries, the main reason for the rural location is a combination of market access and production cost. The likely distinguishing feature between branch plants from developing countries and those from industrialised countries may be the level of technology embedded in the product and the production process, with more sophisticated products being associated with the industrialised country subsidiaries.

***Small indigenous firms***

Much of the literature on the development role of small firms is based upon industrial districts in Europe where firms are in the same or related industries and have a significant degree of co-operative interaction. But this is only a subset of the ways that small firms can be found in rural areas. A simple four part category captures the main groups. The two dimensions are whether the firms are in the same industry or in different industries, and whether the firms co-operate or compete (Table 1).

Table 1. **Simple two dimensional taxonomy of small firm relations**

Same industry, firms compete	Same industry, firms co-operate
Different industry, firms compete	Different industry, firms co-operate

The industrial district model where firms in the same industry co-operate clearly has the best potential results for a community because it provides a mechanism for firms to pool their resources when it is advantageous

and operate independently when it is not. This flexibility is not costless however because it only works in an environment where large investments have been made in building and maintaining non-market relationships among the participants. From the community perspective this can be seen as another advantage to the model because it helps strengthen local institutions.

A second co-operative model involves firms in unrelated businesses that co-operate to reach a common goal. The simple example of this would be an effective Chamber of Commerce that is made up of business owners who work together even though their individual firms are not directly linked together. Similarly, when a group of retail business owners form an association to improve the appearance of their portion of a town by renovating storefronts and cleaning up sidewalks, this provides another example of collaboration that has clear spill over benefits to the community at large.

However the most common situation is one where a group of small firms co-exist without any significant level of co-operation. The firms in almost any industrial park are the most visible example of this situation. The only common element they share is their address. From the community perspective this situation results in no synergies but it also reduces risk. If firms are unrelated the failure of one has no bearing on the future of the others. In small towns without industrial parks there is also a high probability that firms in different aspects of manufacturing have no close relationship. Thus we cannot simply assume that the presence of small firms will result in meaningful co-operation.

Perhaps more telling is the case where there is a cluster of small firms in the same industry that are competitors. This example is easy to find in the retail sector where one finds automobile dealerships in close proximity to each other, and a large number of fast food establishments on one block and none for a considerable distance. The same phenomenon can exist in rural manufacturing. There are two significant clusters of manufacturers in rural Kentucky that fit this situation. The largest group of houseboat manufacturers in the United States is located in Somerset, Kentucky, while in Liberty, Kentucky there is a collection of metal fabrication shops that produce the vast majority of all the metal farm gates sold in the United States. In both cases these firms are in active competition with each other, and in the case of the houseboat industry a number of firms were started by people who had been in partnership but broke off in direct competition. This example further clarifies the danger in assuming that a rural location and small firms will normally lead to co-operative behaviour.



As a counterpoint to the argument we can consider the effect of “just-in-time” production practices. The auto industry in the southern part of the United States is characterised by branch plants located in rural areas. However, all of the branch component plants are firmly integrated into a production complex managed by the auto assembly company. Over time this linkage has evolved from a strict market based relationship to one that involves significant elements of co-operation. Thus one could conclude that one of the best examples of co-operative behaviour in rural manufacturing involves branch plants of multinational corporations, not small local firms.

The issue of co-ordination has not been adequately examined in rural manufacturing. We know firms rely upon both market based (price signals and non-market based (exchange of protocols, etc.) as means to co-ordinate supplier relationships. In addition large firms often manage co-ordination through vertical integration and absorb their suppliers. For smaller firms in thin markets where potential suppliers may be few in number the issue of how you manage co-ordination through either market or non-market forces is critical. A large part of the interest in clusters can be understood as a way to enhance co-ordination (Scorsone, 2002).

### ***Factors influencing the presence of manufacturing***

Different types of manufacturing are likely to be found in different types of rural area and require different environments. We know the most about domestic branch plants because they are still the most common, and so are the most studied type of rural manufacturing as well as being the target of most local and state policy. Critical factors for these firms include: an adequate supply of labour at relatively low cost; ready access to transport to move inputs into, and product out of the community; cheap land; and minimal government restrictions. Willingness to provide significant financial inducements is almost a necessary condition now, but these payments only matter at the margin. They determine which place among those that are equally acceptable to the firm gets the plant.

Much of what we know about domestic branch plants is also applicable to foreign branch plants, although those from other developed industrial nations tend to be the most demanding in terms of location criteria. Because this latter group tends to be part of a global production and distribution system, a fully developed transportation system is critical to their location choice. In addition many of the larger multinational plants bring with them a network of preferred suppliers that must locate in close proximity to the primary plant. This means that local labour markets have to be relatively large in order

to accommodate the needs of all the linked firms. In addition these plants typically require a significant number of relatively well-skilled workers who often have to receive specialised training that is specific to the firm. Only relatively large rural communities in good locations are likely to be able to meet all these requirements.

By contrast, branch plants from developing countries are more likely to be smaller, stand-alone operations that do not require a highly sophisticated work force. They do need reasonable transportation systems and are probably more sensitive to costs since they are typically engaged in more competitive markets. Since this is an element of rural manufacturing that is very recent, our knowledge of how to best accommodate it is still limited.

Locally based firms, particularly when these firms have established some sort of collaborative process have become a major focus for rural development. They are widely held to provide most of the benefits of branch plants but with few of the drawbacks. Local firms are more likely to have strong ties to the community, both economic and social, and are seen as being more likely to innovate. However, while we can point to numerous examples of rural places where these firms exist we are far less successful in knowing how to establish them in places where they do not exist. It is far easier to determine what it takes to make a rural community attractive as a branch plant location than to create a network of small scale entrepreneurs in that community.

In particular it is extremely difficult to establish the sort of industrial district that is lauded in the literature. Not only do the firms have to be economically viable, but the owners have to believe that it is in their best interest to co-operate over an extended period of time. Since this may involve short-run sacrifices for long run profits, there are considerable incentives to shirk or cheat, which creates the potential for failure.

A group of studies conducted for TVA Rural Studies establish the difficulties associated with any manufacturing-based rural development strategy. Winders (1998) finds in a study of south-eastern states that small businesses do have stronger community links and when successful lead to higher levels on indirect employment than do branch plants, but that there is no strong correlation between higher earnings and increased number of either small or large businesses. Maliza and Winders (1999) in a study of high growth firms in Georgia found that while those small businesses that have high rates of growth do result in significant employment increases, it is not easy to determine which small firms will grow rapidly. Most small businesses do not add many jobs. *“Fewer than four Georgia enterprises in 100 added 20 jobs or more in five years from 1989 to 1994. Only 1.4 in 100 businesses remain important*

local employers after ten years. This result pertains in a state that sustained very rapid economic growth during the study period.” (Maliza and Winders, 1999, pp. 10-11). Thompson and Hammond (2001) found that in the south, employment instability increases as the degree of rurality increases and as the share of a county population that lives in an urban centre decreases. They also found that instability of employment increases as the number of employers declines, confirming that higher risk is associated with specialisation. Finally, Henry, Barkley, Bai and Espey (2000) found that the type of industry appears to dictate the type of manufacturing system. Some types of manufacturer are more likely to rely upon independent branch plants, others on small local firms. However while they were able to find industries that do not cluster, their analysis found no statistical evidence of clusters as a positive factor in employment growth (Table 2).

Table 2. **Plant size and cluster effects on employment, TVA region for two digit rural establishments, 1981-1996**

Industry	Employment change 1981-1996 (%)	Employment 1996 (in thousands)	Cluster effect	Big plant better	Small plant better
Food and kindred products	49.7	239		+	
Tobacco products	-38.3	5			
Textile mill products	-14.7	338	-		+
Apparel and other products	-30.7	271			
Lumber and wood products	24.6	246	-		+
Furniture and fixtures	20.7	119			+
Paper and allied products	12.7	100	-	+	
Printing and publishing	45.4	71	-		+
Chemicals and allied products	-12.2	93	-		
Petroleum and coal products	-21.6	4			
Rubber and miscellaneous plastics	67.5	131			
Leather and leather products	-62.9	14			
Stone, clay and glass products	5.2	60			
Primary metals	16.8	62			
Fabricated metals	24.5	117			
Industrial machinery	42.6	188	-	+	
Electronic and other electric equipment	-5.7	120	-		
Transportation equipment	91.4	115			
Instruments	50.6	32			
Miscellaneous manufacturing	5.3	33			

1. Small plant: less than 50 employees.
2. Large plant: more than 250 employees.

Source: Henry, Barkley, Bai and Espey (2000).

In aggregate this collection of research confirms the obvious point that local leaders have limited ability to influence the path of development in their community. Certain industries are more likely than other to be attracted to a place and each industry has a preferred means of organising that is driven mostly but market conditions not government policy. This in turn suggests that the obvious strategy is to be open to various types of firm and to different means of organisation, and not commit the community to only recruitment or only locally owned business.

## **Conclusions**

The introduction to the paper set out two key questions; what are the comparative advantages of rural areas in the OECD countries, and how do rural regions relate to their urban counterparts? These linked issue because the competitiveness of rural places depends upon what happens in both the urban areas of the OECD countries and what happens in the developing world. As more urban centres enter a post-industrial economy this creates an opportunity for rural regions to take over their previous manufacturing role. However the ability of rural areas to do so will be tempered by steadily higher levels of development in other countries. Already some parts of what used to be the less developed countries are more technologically sophisticated than most rural regions in the developed world. This suggests that manufacturing strategies based upon higher levels of skill have no assurance that they will not soon face the same level of foreign competition as did low skill firms in recent years.

The second question of how rural areas will relate to a post-industrial urban society is answered by recognising that rural areas have always been different and have a distinct development path. For rural areas a major mistake would be to use large cities as a development model and to assume their future can be translated into a rural equivalent. Urban markets are critical for rural places, but the way in which they are served by rural firms will be based upon local conditions. It is in this sense that an endogenous rural development policy can be defined.

Local government with an interest in enhancing manufacturing should look to agriculture which continues to play an important role in rural areas despite its absence in urban places and the existence of foreign competition. An obvious parallel is the mix of bulk commodity and high value production in agriculture and standardised and specialised manufacturing. Similarly the path for success in both farming and manufacturing involves steady improvements in technology. Since agriculture is generally found in all rural regions where manufacturing is present, it presents other opportunities. Agricultural

processing at both large and small firms is an obvious form of manufacturing that offers potential stability if it is tied to regional products. Further, in those places where manufacturing provides mainly low-wage employment the combination of farm and wage income may be a useful way to increase aggregate household.

Evidence of the importance of this adaptive process comes from the loss of much of the manufacturing base of rural regions, while other portions have remained viable and new types of manufacturing activity are being added in other places. While most rural manufacturing was once a clear example of a core-periphery relationship with ideas and firms trickling out from domestic urban centres, this is less the case today. Globalisation has broken down the old urban dominance over a rural hinterland that defined core-periphery models. Firms in rural regions now may be part of a foreign multinational, or locally owned but with global markets. While the domestic product cycle has declined in importance, there are alternative ways to keep manufacturing an important part of the rural economy.

The stages of growth argument that suggests that manufacturing has declined in importance to OECD economies is appealing at an aggregate level but it has less validity when it is applied to smaller areas. General trends to a service driven economy do not imply that all places in a country will follow that path. For rural areas there are good reasons to believe it is an unlikely future. As manufacturing becomes less important in an aggregate sense, it can remain vitally important to some areas. Certainly some rural regions will find other export oriented industries to replace manufacturing, and some regions that continue to rely upon manufacturing will experience job losses and lower income levels. However it seems that manufacturing will still remain relatively important to rural regions. This is of course the story of agriculture in the OECD countries.

What distinguishes rural manufacturing is its intermediate position. For a number of reasons including: access to sources of innovation, limited labour supply (both in terms of skills and numbers), distance from supporting firms, weaker capital markets and distance from end users, most of the more advanced manufactured products will take place in urban areas. At the other extreme, rural areas will continue to lose industry to developing countries where rapid access to markets is not important and wages of low-skilled workers are a major element of cost. Rural areas can also expect to see developing companies take an increasing share of moderate and high skill manufacturing firms as skill levels in these countries improve.

While rural areas historically were able to attract and support semi-skilled manufacturing from urban areas in the home country when it was searching for a lower cost production location this is a much harder proposition than in the past. Not only is much of this manufacturing bypassing rural areas in the OECD countries for locations in developing countries when it relocates, but as low-skill manufacturing plays a smaller role in urban economies there is a smaller volume to relocate. However the traditional rural niche may still exist with a reverse flow from developing countries that are looking for a low cost location to serve the large markets in the industrialised countries. The Brazilian firm may be the vanguard of a new wave of rural manufacturing investment, especially if border concerns make a domestic production site more attractive.

The manufacturing niche for rural regions is likely to be increasingly determined by locational factors in a global context, and only secondarily by cost. For foreign firms that require a presence in an OECD country to adequately serve that market, a rural area can be an appropriate choice. These firms are unlikely to require the sophisticated support available in urban centres and consequently have no need to pay the higher costs associated with an urban location. What they will require is good transportation access, both road and air and possibly rail, so that inputs can be shipped in and product shipped out. To date globalisation has been seen as mainly involving investments by developed countries in developing ones, but the logic of globalisation implies reciprocal flows as developing nations “catch up” and seek access to the large OECD markets.

This suggests that for rural regions in aggregate there will continue to be a mix of branch plants and indigenous small firms making up the manufacturing sector. But, different places will continue to tend to specialise in one form or the other. In general we would expect to see local firms continue to dominate in those areas where they have an existing presence and perhaps develop in areas with relatively strong education levels, a willingness to engage in entrepreneurial activity and good social and institutional networks (Armington and Acs, 2002). Unfortunately these conditions do not describe a lot of rural regions. This suggests that recruitment will have to play the main role in many rural regions, but even in these places there will be preconditions of reasonable transportation access, openness to external investment and an adequate supply of appropriately skilled labour.

Perhaps the central feature of the new economy is the continuous adaptation process that takes place. It is clear that rural areas are not well positioned to originate the ideas that drive this process, but they have to be able to respond to the changes. Agriculture provides an example of how this adaptation can occur, albeit with significant change. At their best both branch

plants and clusters of small firms can carry out the adaptation function. Branch plants, if they are connected to innovative parent firms and are part of a co-ordinated production network, can bring new processes to rural areas. Similarly, clusters of small firms can synthesise the critical mass to do the same thing. In both cases the critical question for the rural community is whether other pieces of the puzzle are available. An adequate supply of qualified labour and the communications and transportation networks to support innovative business are critical for this to happen.

Without innovation, rural areas will have to continue to rely upon proximity to urban markets, relatively low costs of production and natural resources as attractive forces. While this may be enough for some rural places to maintain a viable manufacturing sector it will not be enough to maintain the current level of production and manufacturing will become less significant as a source of income and employment.

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## **Natural Amenities and Sustainable Rural Development: Policies for Integration?**

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### ***Abstract***

*In the endogenous model of rural development, the environment is clearly a critical element of local character as well as a resource that can be used for social and economic benefit. This leads us to give more attention to the best means of maintaining, enhancing and utilising environmental resources in rural development. It is not only an issue of protecting the environment. There is a growing literature on exploiting the provision of rural amenities and environmental competitiveness. For these reasons, policies for integrating the management and use of natural amenities are likely to be seen as an increasingly important element in making rural development more sustainable. This paper will focus particularly on Europe and recent experience with the major EU policy instrument, the Rural Development Regulation, which needs to be seen in a wider international context.*

### **Introduction**

Over the last 20 years there has been a shift in the dominant concepts of rural development to give greater emphasis both to sustainability and to endogenous approaches. These focus on the utilisation of natural, human and cultural resources of a particular rural area as the foundation for forms of development, which embody local distinctiveness as well as long-term viability.

There are various, competing concepts of what constitutes “Sustainable Rural Development”, both in an OECD and wider international context. Very often sustainability is defined in terms of outcomes on the ground, an acceptable level of resource consumption and social capital creation for example. However, other approaches are possible. Some put the emphasis

on the processes driving rural development, such as stakeholder involvement, rather than on outcomes. In both cases, there tend to be shared assumptions regarding the utilisation of specific local resources, building a future from the ground up.

### ***Agenda 21***

At a global level, a more integrated approach is evident in Chapter 14 of Agenda 21 which underscores the importance of food security, human resource development, wider participation in decision making, land and resource conservation and improved environmental planning.

The leading concept in Agenda 21 is “Sustainable Agriculture and Rural Development” (SARD). A range of different policy tools are identified for taking forward this approach, including:

- rural policy and agrarian reform;
- public participation in decision making;
- diversification of income away from pure dependence on agriculture;
- land conservation, including appropriate management of soil and vegetation;
- improved management of agricultural inputs, such as fertilisers, fuel and pesticides.

There has been a widespread response to this framework in both the developed and developing world, with many local communities and projects seeking to put a new approach into practice. It is difficult to find an authoritative appraisal of progress achieved and barriers encountered but the sense of movement forward is palpable.

### ***The Cork Conference***

At a European level, the Cork conference in November 1996, organised by the European Commission in partnership with the Irish Government, strongly endorsed this new approach. “*Sustainable rural development must be put at the top of the agenda of the European Union, and*

*become the fundamental principle which underpins all rural policy in the immediate future and after enlargement.”* A similar, if less ambitious, form of declaration can be found in government statements from several other OECD countries.

The Cork Declaration which emerged, although without complete consensus, from the event, proposed certain principles that should guide rural development policy. The fourth of these stated that policies should promote rural development that sustains the quality and amenity of Europe’s rural and cultural resources. The fifth emphasises that rural development policy must be “as decentralised as possible”, utilising a bottom-up approach.

Cork proved a vision which informed the European Commission’s proposals for the future of agricultural, rural and regional cohesion policies in the EU. These appeared as the Agenda 2000 package in July 1997 and launched rural development as a major strand of the CAP. They were followed five years later by proposals for extending the CAP to EU candidate countries which envisaged rural development funding on a similar scale to that available to agricultural support, for an initial period. (European Commission 1997 and 2002.)

### **The growing role of environmental policy in rural areas**

As rural development policy has moved forward, environmental policy has also developed over the last decade, impinging more on the rural development agenda. The significance of this is not always appreciated. Several trends have helped to propel environmental concerns nearer the core priorities of agricultural and rural policies at the same time as rural development thinking has reached out towards the management of natural amenities. In Europe at least there have been several elements in this change. For example:

- Over the last five years in particular legislation and policy development in the water sphere has focused more on protecting soil, air and water from diffuse pollution, mainly from non-industrial sources. In most countries agriculture is a major source of such pollution and the focus of increasing attention from regulators and water suppliers.
- At the same time there has been a reduced inclination at a European level to exempt farmers from environmental legislation applicable to manufacturing and other sectors. Farmers are facing

increased obligations with regard to waste management and disposal, air pollutants and pesticide use for example.

- Over a longer period there has been a shift in nature conservation policy. The tendency is to reduce reliance on small highly protected areas for meeting conservation goals and to increase the scope of measures seeking appropriate management of land subject to agricultural, forestry or other commercial uses. Sustaining biodiversity in the wider countryside is seen as a key challenge affecting many rural land users in OECD countries. The EU's "Natura 2000" network of key sites is now thought to extend to about 15% of the land area (European Commission, 2002).
- There has been a strengthened focus on positive environmental management of forests and farmland, often in return for an economic incentive. These initiatives already cover nature conservation and cultural landscapes, and are potentially expanding further to embrace carbon sinks and new forms of renewable energy.

The momentum behind these trends and the implications for rural policy should not be underestimated.

### ***Challenges for implementation***

The vigour behind these two agendas has opened the challenge of delivering a new model of rural development in practice. Numerous examples of local initiatives pursuing these objectives can be found in the OECD countries and the developing world. Many have built on a commitment to local capacity building and public participation, supported by both territorial and economic planning and often reinforced by a strong sense of local identity and exceptional leadership.

In short, some of the main challenges for implementation can be summarised as:

- establishing the sustainable development model;
- transferring authority and adequate resources from the centre to the appropriate level;

- shifting structures and resources from a sectoral model to a more integrated approach;
- enabling genuine and informed participation;
- incorporation of the environmental dimension at all stages in the development model;
- ensuring accountability and transparency;
- generating economic, social and environmental benefits;
- managing adjustment, *e.g.* winners and losers;
- administrative simplicity and affordability;
- choosing appropriate policy tools.

It is perhaps not surprising in the light of this that the established top-down model has proved more enduring than some of the political rhetoric would suggest. The process of transferring resources to the appropriate local level and empowering new actors is not always comfortable. Efforts to transfer funding from the agriculture sector to a more broadly based rural approach have met with frequent resistance and mixed success. Sectoral objectives, attitudes, budget lines and institutional machinery remain close to the centre of rural policy making in many countries. The choice of policy tools and instruments to pursue a more integrated rural agenda with a stronger environmental dimension has required a period of innovation and experimentation not always appreciated or fully recognised as such. For example, it is widely agreed that to achieve the necessary level of transparency and accountability there needs to be an enhanced commitment to monitoring, reporting and evaluation and an increasingly sophisticated deployment of appropriate indicators. Aiming at agreed indicators can itself take many years.

In short, winning acceptance of this approach and making it operational is not a change easily compressed into a short period. Some pioneering schemes, such as LEADER in the EU, have been in place for several years and have already generated evaluation studies and useful lessons for the future. However, many policy tools have yet to be deployed for a sufficiently long period to yield as much empirical evidence of their impact as policy makers would wish.

## **Rural development policy in the EU**

Many of these themes can be discerned in the EU's "second pillar" of the Common Agricultural Policy, the Rural Development Regulation (Regulation 1257/1999) and in the pre-enlargement assistance to EU candidate countries, SAPARD (Regulation 12681/1999). There are a number of different levels at which these initiatives seek to incorporate an environmental dimension into rural development planning and finance. These will be examined briefly on the basis of two recent studies undertaken by the Institute with partners from eight European countries with funding from WWF and the UK countryside agencies.<sup>1</sup>

### ***The Rural Development Regulation***

The launch of Regulation 1257/1999 on Rural Development (the "RDR") as part of the Agenda 2000 package signified a broad commitment by the EU to a new phase in rural development support. This measure – often described as the "second pillar" of the Common Agricultural Policy (CAP) – would be applied to promote a wide range of rural development measures through integrated, area-based programmes in all the Member States. A progressive expansion of funding for this pillar was clearly envisaged from the outset and has subsequently been proposed by the European Commission as part of the recent mid-term review of the CAP.

The RDR provides a single EU structure for a package of measures partly funded by the CAP budget, the EAGGF, standing separately from the EU structural funds which also address rural development. Member States can choose which measures to adopt within rural development plans drawn up for this purpose. The only obligatory measure is the introduction of agri-environment schemes offering farmers' incentives for complying with landscape, nature conservation, pollution control and other objectives, many devised locally. Other measures cover farm investment, aid for young farmers and early retirement, support for agriculturally less favoured areas, assistance for woodland management and afforestation, training and a wider range of rural development options less closely attached to farming. These measures are part funded by the EAGGF up to a maximum of 50%, or 75% in less developed "Objective 1" areas. The rural development plans have to be approved by the European Commission but there is a substantial measure of national or regional control, subject to EU rules. There is an emphasis on the need to integrate the different measures in the Regulation and a requirement to monitor and evaluate implementation.



In a related process, a new SAPARD pre-accession EU aid measure was introduced to contribute to the implementation of the *acquis communautaire* concerning CAP policies in central and eastern European Candidate Countries. SAPARD is intended to address priority issues for the adaptation of the agriculture sector and rural areas. It has a much stronger emphasis on institutional capacity building and technical measures, such as adapting to EU veterinary and food safety standards, than the RDR. There is a modest budget and direct payments to farmers are excluded outside pilot agri-environment zones. Nonetheless, many of the measures in the RDR assembly are also to be found in SAPARD.

Both SAPARD and RDR plans combine land-based aids, some of which promote sustainable farming and public benefit from the management of rural areas (*e.g.* agri-environment programmes and forest expansion), with assistance intended to stimulate and support more diverse and competitive rural economies.

The RDR offers some new scope to governments to tailor measures more effectively to meet the varied local needs of rural areas, by simplifying the detailed specifications of certain measures, offering some entirely new ones, and allowing for combined instruments and payments between measures. However, since it is based on CAP funding rather than the regional policy approach and budget of the Structural Funds, the RDR brought with it new controls and procedures over the suite of measures offered. These result from the requirements of certain EAGGF Regulations. The procedures have proved to be a significant influence upon programme development and implementation, and the equivalent rules for SAPARD have been even more influential in shaping the experience of EU Candidate Countries.

### *The environmental dimension of the Regulation*

Under the Treaty of Amsterdam, the EU is committed to integrating the environment into all Community policies. As key instruments to promote sustainable development of rural areas, the RDR and SAPARD should ensure that environmental considerations and opportunities are fully integrated into all the plans. Recent work, including an ongoing project studying implementation of the RDR or SAPARD in eight countries, gives some impression of how integration is working in practice.

Ultimately it is the environmental and amenity impact of activities, which have been funded under the plans which is of central importance. This can only be judged when there is sufficient evidence from the ground. However,

early experience of the procedures adopted to draw up plans and establish national and regional measures, together with critical analysis of phases of implementation since 2000, provides some indication of potential outcomes.

There are several ways in which environmental considerations are reflected in the requirements of the RDR, both in the substance of the measures and in the procedures required. These begin with the overall orientation of the Regulation, which emphasises sustainability more than previous policy in this area. More concretely, the environmental and amenity dimension rests on certain key elements.

First all the Plans are required to include a quantified description of the environmental situation and to propose strategies with clear objectives and priorities. The descriptions should provide the starting point for integration, and for identifying environmental objectives for the Plans. In some countries, this has clearly been an important feature of the planning process. For example:

- In Sweden, environmental considerations have clearly exerted a strong influence on the Rural Development Programme. Not least, the RDP is intended as the main instrument for delivering the National Biodiversity Plan.
- In Austria and France, considerable weight is given to the environment as an integrated element of programmes that are concerned with supporting and reorienting agriculture.

In other countries, such as Spain, the environment is frequently mentioned in the Plans but they tend to contain fewer specific environmental objectives and delivery mechanisms. In both Candidate Countries examined (Poland and Hungary), while environmental protection is a specific objective of their SAPARD plans, it appears to be secondary by comparison with the strong emphasis upon agricultural modernisation measures.

In principle, RDR and SAPARD plans could play an important role in promoting effective implementation of EU Environmental Directives. Some plans do make this link, for example, to EU nature conservation legislation and the establishment of the “Natura 2000” network of important conservation sites. The sites cover substantial areas of farmland, forest and coastal zones within rural areas. Overall, however, not many countries have used the new scope within the Regulations to support the implementation of “Natura 2000”.

Second, there is a requirement to involve national or regional environmental authorities in planning and monitoring programmes. In most

countries the preparation of the Plans has involved environmental authorities and stakeholders. For several, this has been an important new development in the delivery of EU rural and agricultural policy. Involvement by environmental authorities in implementation and monitoring appears less substantive in some countries such as Austria, Spain and Hungary, while in the United Kingdom, Sweden and France it appears to be strong at both national and local levels, involving new consultative and steering arrangements. This has been a valuable means of widening focus and generating innovation in structures which have often been dominated by agrarian institutions.

Third, an environmental element has been inserted or strengthened in a range of individual measures within the RDR, relative to previous legislation. One of the new requirements is that farmers participating in two major schemes should meet “Usual Good Farming Practice” standards. National authorities are asked to specify verifiable standards, in a move designed to make the general stipulations of the Regulation more concrete. In another example, support for Less Favoured Areas has been modified both to add an emphasis on sustainability and to alter the form of payment. Farmers now receive compensation payments per hectare, rather than per head of livestock; this is expected to reduce overstocking.

The precise impact of such measures is difficult to judge but the re-orientation of the LFA system has been sufficiently pronounced to generate considerable debate in several Member States. The change to headage payments can create significant winners and losers and considerable energy has been devoted to minimising impacts on the latter. The greening of rural development measures has mainly affected agriculture but the forestry component of the Regulation now has a greater focus on sustainable woodland management.

Fourth, agri-environment policies are the only compulsory measure required of every Member State in their plans. On the other hand, national authorities have considerable latitude in designing their own measures and determining how much of their rural development plan budgets are devoted to agri-environment schemes. This compromise seems to be widely accepted. Implementation levels have been increasing over time and our understanding of the impacts of these schemes is growing, although a comprehensive European overview of achievements, failings and lessons learned is still lacking.

Some national plans allocate a substantial proportion of their budgets to primarily environmental measures, largely in the form of agri-environment payments. In contrast, others clearly see these measures as a relatively low priority by comparison with agricultural development, most notably assistance for farm investment and infrastructure. In general, the pattern of resources

allocated to the environment is weighted more to northern European countries and does not fully reflect the likely distribution of amenity provision or wider environmental requirements on the ground. For example:

- It is clear that many Candidate Countries face major environmental threats, such as the widespread abandonment of marginal farming areas of high ecological value. Although pilot agri-environment measures were originally a feature of SAPARD plans in several countries, it now appears that these will not be implemented in the near future because of problems associated with the authorisation of paying agencies and procedures. Candidate Countries introducing national agri-environment schemes outside SAPARD, such as Slovenia, have been able to move ahead faster;
- In the United Kingdom, although agri-environment measures represent the largest proportion of RDR expenditure, the total national RDR budget is particularly small by comparison with most other Member States. (It represents only 3.5% of the total EU budget for the RDR, whereas the United Kingdom contains over 12% of the total agricultural land area in the EU.) Most farm land therefore remains untouched by environmental schemes.

Whilst there are many examples of well-designed and implemented agri-environment schemes, further information and analysis regarding their impacts are needed. Not all schemes appear of great value. The environmental case for providing a significant share of agri-environment aid for certain crops such as sunflowers, for example, has been questioned by NGOs.

In principle, the safeguards in the RDR are intended to screen out funding for projects that damage the environment. However, this form of integration is not always successful. There remain elements within national rural development plans and programmes that are of potential environmental concern. These include investments in new irrigation schemes, forest roads and certain aspects of farm investment and modernisation aid.

Nevertheless, it is clear from most programmes that the RDR has the potential to make an important contribution to environmental protection and enhancement, and has increased the relative importance given to environmental considerations in agricultural and rural development policies. Likewise, the SAPARD planning process has certainly raised the profile of agri-environment issues in most Candidate Countries, although it is yet to result in much implementation.

Fifth, a more “top down” approach to integration should be recognised, although it is not formally referred to in the RDR. Before expenditure of EAGGF funds by Member States was authorised, the European Commission insisted on a form of cross-compliance. Member States were to have achieved a certain level of implementation of both the “habitats” and “Nitrates” Directives before funding could be released. In several Member States, this undoubtedly helped to accelerate the implementation of these two measures, which was lagging seriously behind the prescribed timetable. Thus intervention at the European level complemented the predominant emphasis of subsidiarity in the RDR.

Finally, there is the option, available to national governments, to “modulate” CAP payments so that a proportion of the CAP support payable to farmers in relation to production is transferred to national implementation of the RDR. Governments choosing this route have to supplement EAGGF receipts with their own funds, thus allowing more ambitious rural development plans. Only France and the United Kingdom have chosen to do so thus far, although other Member States are considering this approach. A form of modulation may become compulsory following the mid-term review of the CAP.

## **The implementation experience**

The formal mid term evaluation of the RDR has yet to occur and it is too early to judge the performance of the monitoring and evaluation procedures. Nonetheless, the first three years provide some pointers to broader issues arising in rural development programmes. Tensions between financial accountability under EAGGF rules, vigorous public participation and local autonomy and full implementation of environmental legislation need to be recognised and explored further in an evolving debate.

There is clear evidence of greater ambition on environmental integration and more institutional involvement at local level. However, there remains uncertainty about the outcomes in many areas and it is notable that the deployment of RDR funding outside the agricultural sector has been limited in most countries.

Budgetary questions remain central. In most countries, there is a perception that the budget for the second pillar of CAP remains insufficient to tackle the range of objectives included within the RDR. In the short term, only modulation under EU Regulation 1259/1999 offers some means to increase these resources at national level, subject to various requirements imposed at EU level. Nevertheless, many stakeholders believe that the overall second pillar

budget will be too small to adequately deliver against programme objectives in the period 2000-2006 and that a substantial increase will be required beyond 2006. This perspective is shared by the European Commission, judging by their recent proposals for the mid-term review.

## Notes

- <sup>1</sup> See Baldock *et al* (2001). Further work is in process under the title “Europe’s Rural Futures”.

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## **Perspectives on Agricultural Policy Reform and the Rural Economy**

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### ***Abstract***

*This presentation highlights the impact of agricultural policies, and related reforms, on farm family households and the rural economy. While agriculture plays an important role in the economy of some rural areas, its overall economic importance is low and declining. Agricultural policy has not prevented, and cannot prevent, the long-term downward trend in agricultural employment and de-population in many rural areas. Agricultural policy reform can imply significant adjustment costs for some individuals and areas in the short term, but the long-term benefits to both farm and non-farm households, and to rural areas generally, can be considerable. Agricultural policy and rural development policy both pursue a diversity of objectives. In both cases, a clear understanding of the underlying economic relationships that preclude the desired economic developments from occurring is pre-requisite for effective policy design. Any sectoral, multi-sectoral or territorial policy should be consistent with national policy objectives and broader policy approaches.*

### **Introduction**

The socio-economic development of rural areas and the management of the rural environment are important policy issues in many countries. Rural areas differ, of course, in their physical endowments, economic structure, cultural and historical influences, social conditions, and so on. They are affected in different ways, and to different extents, by on-going social, economic and policy developments that occur nationally and internationally. Some rural areas have adapted very well to such changes, while others continue to experience economic and social difficulties. Understanding these processes of change and adjustment is essential for policy formulation.

This presentation draws primarily upon work undertaken within the Food, Agriculture and Fisheries Directorate of the Organisation for Economic Co-operation and Development (OECD/AGR).<sup>1</sup> The aim is to highlight the impact of agricultural policies, and related reforms, on farm family households, the rural economy, and society overall. Broad policy implications are noted.

Unlike other perspectives presented at this conference, perhaps, my point of departure is agricultural policy and not rural policy *per se*. This reflects, of course, the particular competence of OECD/AGR (as well as my own competency). A brief discussion of the links between agriculture and rural areas follows. Agricultural policy in OECD countries, and related impacts, are then examined. This is followed by a brief review of the opportunities and expected effects of policy reform, in particular for the rural economy. Finally, some general perspectives on policy implications are summarised.

## **Agriculture and rural areas**

The nature and degree of linkages between agriculture and rural areas depends on many factors, and the relationship is both two-way and dynamic. The rural non-agricultural economy provides alternative uses for labour, land and capital, and shifts in demand for these factors will affect farm structures. For example, a large non-agriculture economy can provide more off-farm income opportunities for farm households, improve their wealth (as well as income) position, reduce overall income risk and influence the farm production mix. A rural economy with lower alternative demand for labour, land and capital can become more dependent on agriculture as farm households seek to expand operations in pursuit of fuller employment and higher incomes.

The fact that most rural land (and water) is used by agriculture highlights the essential relationship between farm production and the rural environment. For example, there can be positive contributions, such as in maintaining a particular form of landscape, or negative effects, as in the case of groundwater pollution. There is a widespread and growing awareness of the importance of the various linkages between farm practices, rural amenities and environmental sustainability.

Changes in farm structure, output, labour and incomes vary across and within countries, of course, but some trends are clear and consistent. Total farm numbers continue to decline and average farm size continues to increase, but such data mask an important structural shift. While there are more larger farms, the number of small farms continues to be very high, and the greatest declines are in the numbers of “middle-size” farms. This bi-modal distribution reflects

the strong reliance of smaller farms on off-farm income sources, on the one hand, and the continued growth of very efficient, larger-scale farm operations on the other. Overall, farm household incomes are now generally equivalent to average household incomes in OECD countries.

While farm output continues to increase, farm employment continues to decline, and real commodity prices continue to decrease. These trends are more than 100 years old, and will continue. The share of agriculture in total output and employment is low in most OECD countries (currently averaging approximately 3% and 8%, respectively), and continues to decline. The economic contribution of sectors upstream and downstream from primary agriculture in many cases is larger than that of farming itself, and is growing in absolute terms. Technological developments that enable supply to respond more effectively to a wider range of consumer demands are expected to maintain this trend for more “value-added” product attributes.

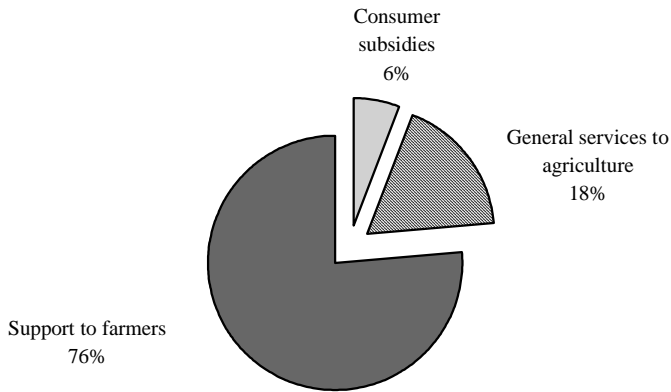
In short, while agriculture continues to play an important role in the economy of some rural areas, in many cases, and certainly in overall terms, its economic importance is relatively low and can be expected to decline further. Agriculture cannot, in most cases, comprise the long-term foundation of rural economies. Nevertheless, the link between agriculture and the rural environment remains strong, as farms, particularly small farms, remain the custodians of much of rural land and water resources.

### **Agricultural policy in OECD countries**

OECD/AGR has been monitoring and evaluating agricultural policies in OECD countries for more than 15 years. A substantial database covering both the level and the nature of agricultural support has been developed within the framework of the Producer Support Estimate (PSE) methodology.<sup>2</sup> In this context, the associated level of support to agriculture is measured and the nature of the policy instrument is described, with a view to assessing the potential impacts of various categories of support on production, consumption, trade, incomes and the environment. The PSE is the only comprehensive and internationally recognised benchmark of support across countries and over time.

In 2001, total support to OECD agriculture was USD 311 billion, representing 1.3% of GDP across the OECD area. While this total includes both support to consumers and to general services (such as agricultural-related research, extension, and inspection), much of this support is directed at producers (Figure 1).

Figure 1. **Total support estimate (agriculture)**

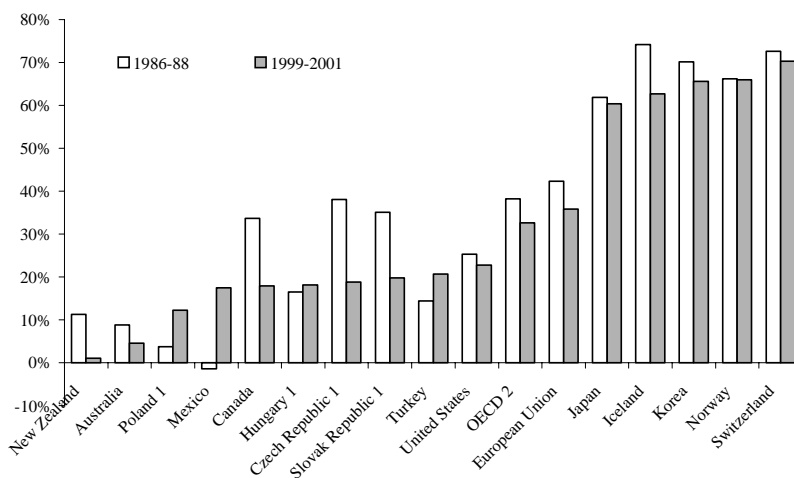


Source: OECD/PSE/CSE database (2002).

To enable meaningful cross-country comparisons, the (absolute) PSE is expressed as a percentage of the value of gross farm receipts (% PSE). There has been some fluctuation since the mid-1980s, though the % PSE remains high at 33%, down slightly from 38% a decade and a half ago (Figure 2). In other words, producers across the OECD area continue to receive, on average, one-third of their farm receipts as a consequence of agricultural policy. There are, of course, wide variations in the level of support across countries and across commodities.

Figure 2. **Producer support estimate by country**

Per cent of value of gross farm receipts

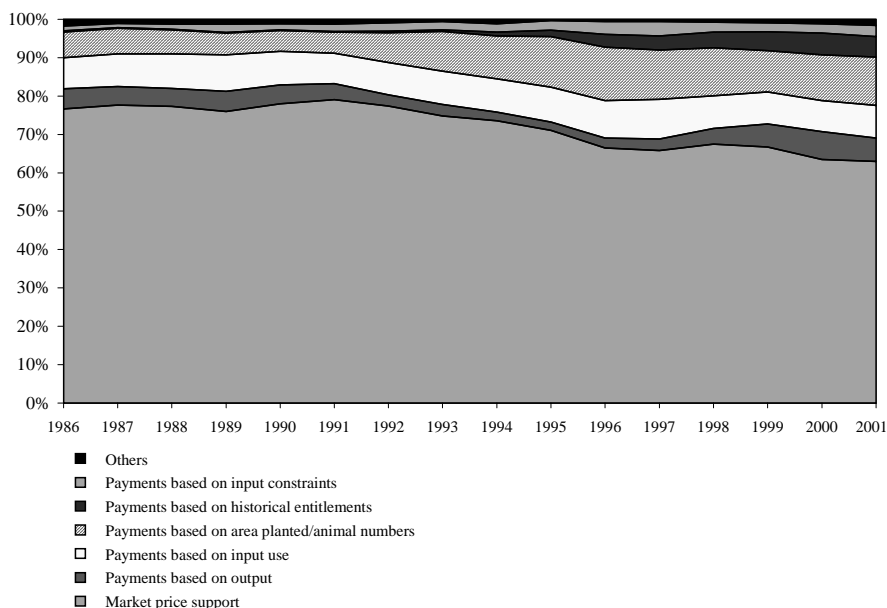


1. Countries are ranked according to 1999-2001 levels.
2. For the Czech Republic, Hungary, Poland and Slovakia 1986-1988 is replaced by 1991-1993.
3. For 1986-1988, the Czech Republic, Hungary, Poland and Slovakia are excluded.

Source: OECD/PSE/CSE database (2002).

But for the purposes of this presentation, the more important story relates to the nature of this support. Again, since the mid-1980s there has been only a modest shift in the type of support provided (Figure 3).

Figure 3. **Composition of Producer Support Estimate (PSE), 1986-2001**



Source: OECD, PSE/CSE database (2002).

Market price support (MPS) measures the gap between higher domestic prices received by producers and paid by consumers, prices paid on world markets. These higher prices are regulated (or administered) by governments, and maintained via border protection. This type of support distorts production, consumption and trade, and can have a negative effect on the environment. By raising domestic prices, it effectively acts as a regressive tax on consumers. Payments based on output are budget (taxpayer) financed, and affect prices received by producers. As such, they distort production and trade and can harm the environment, but do not affect consumption. Payments based on input use are also budget financed, and serve to reduce certain input costs. They can be more or less distorting than the above two categories, depending on the input concerned, and can have a negative effect on the environment. Taken together, these three categories of support represent more than three-quarters of support to producers. The remaining categories of support (payments based on area planted/animal numbers, historical entitlements, and

other payments, such as those based on farm income) tend to be more decoupled from production decisions and less trade distorting.

How does this high level of support, largely coupled to production, affect farm households? At present, only about USD 0.25 of every USD 1 spent on producer support actually finds its way into the producer's pocket. The balance of the support is either capitalised into asset values, particularly land, or is transferred up or down the food chain to input suppliers, processors and distributors. Because so much of the support is reflected in higher land values, the result over time is a higher cost structure and reduced farm competitiveness. While there may be a wealth gain for farmers that own land at the time such policies are introduced, farmers who must rent or purchase land at these higher prices will face reduced profitability and lower incomes. The same applies, of course, to land costs for alternative, non-farm uses.

There is another consequence of such a high reliance on price and output based support. The largest farmers, who are generally also the most profitable (and the most wealthy), receive most of the benefits. In very general terms, 20% of farmers produce 80% of the output, and would be expected to receive a corresponding share of support. Across the OECD the largest 25% of farms produce 72% of the output and receive 68% of support, though again this varies considerable across countries and commodities.

Taken together, then, these analyses suggest that much of existing policy serves to widen the income gap between large and small farmers, rather than narrow it. And this seems to be confirmed by structural trends which broadly confirm an increasing number of large farms, a more stable number of small farms (with a high reliance on off-farm income), and continuing decreases in the number of medium size farms.

At the same time, there have been a number of positive developments. The share of producer support that is provided through more decoupled and better targeted policy instruments is increasing somewhat. Agri-environmental measures and rural development policies, for example, are beginning to play a more prominent role at the same time as reliance on many traditional farm production programmes is declining. The farm policy debate seems to be shifting as the unintended consequences of many traditional policy approaches and the benefits of focussing policy efforts more precisely on the desired output are becoming more widely understood. The benefits sought will only be realised, of course, if movement away from agricultural support policy towards rural development policy is substantive, and not simply traditional farm policy under a different name.

Finally, what about the indirect contribution of agricultural policy to the rural economy? The magnitude of output, employment and income multipliers differs significantly across regions, and the strength of these linkages depends on many factors. While results should not be generalised, one study of agricultural and other households in Turkey found very weak links between increased expenditures of rural farm households and rural non-agricultural household income increases, and much stronger links to urban household income increases (Brooks and Tanyeri, 1999). In this case, at least, support to farm households had little spin-off effect on other rural residents. This serves to emphasise the importance of establishing actual linkages between agriculture and the rural economy, rather than simply assuming that they exist.

### **Agricultural policy reform in OECD countries**

Given the very high levels of production and trade distorting support to agriculture in OECD countries, policy reform implies both lower levels of support and different types of support. The expected effects of such reforms on agriculture and the rural economy are substantial.

Reform would reduce costs to consumers and taxpayers, and free up resources that could be better spent by consumers and taxpayers themselves, or by governments providing required public services (in rural areas, or elsewhere). It would help ensure that market signals, and not government rules, guide producer decisions and stimulate income and employment growth in other parts of the economy. Reform would reduce stress on the environment, as moving away from production-based payments would reduce incentives to intensive use of inputs on fragile land. It would improve trade opportunities for competitive suppliers, and expand choices for discerning consumers, as artificial barriers to more open markets are removed. And most importantly, perhaps, agricultural policy reform would enable support to be targeted to where it is needed, and where it can be most effective in achieving clearly stated public policy goals.

Policy reform would reinforce structural adjustments that can lead to a more sustainable use of resources in agriculture and in the overall economy. Analyses of the aggregate effects of reform suggest an increase in average real incomes in the economy overall, less hired farm labour, lower land prices and rents, less capital intensive use of land, and a rise in world prices for many agricultural commodities. Some farms would cease production, and others would expand, with similar developments in both upstream and downstream sectors. In general, production agriculture would shift towards rural areas with favourable natural factor conditions and necessary infrastructure, and the



relative incentives to diversify and add value to output would increase. Rural employment and other economic benefits would be expected to shift from regions producing traditional bulk commodities to those producing more highly value-added products.

Agricultural policies in OECD countries have not prevented the long-term downward trend in agricultural employment and de-population in many rural areas. However, the introduction of such policies may well have had a positive, one-time effect on employment, for example. As such, reform of these policies may have a corresponding one-time negative impact on some areas, though the aggregate effects would be small.

The adjustment process would be a dynamic one. In the short term, marginal farms and displaced labour would face considerable difficulties in responding to a new business environment. Such effects will not be evenly distributed. Some individuals and rural areas will fare worse than others, and transitional policies will need to recognise the social and economic costs of adjustment and provide appropriate temporary assistance. As land prices adjust downwards, both agricultural and non-agricultural demand would be expected to offset some of this decline, and land use might shift to better reflect its physical suitability (whether for agriculture, forestry, natural habitat, etc.). In the longer term, a more efficient allocation of resources would improve rural economic opportunities and contribute to more sustainable development opportunities. Farm and non-farm households in rural areas would benefit from clearer market signals, and removal of existing disincentives to diversification into new enterprise and new product development would open up new business opportunities.

OECD countries share many interests in agricultural policy reform. These include: achieving further trade liberalisation; allowing for a greater influence of market signals and improved producer responsiveness to them; strengthening world food security; improving the structure of the agro-food sector and enhancing its contribution to the viability of the rural economy; protecting the environment and ensuring sustainable management of natural resources; recognising consumer concerns; encouraging innovation, economic efficiency and sustainability of agro-food systems; and, taking account of the multifunctional role of agriculture. To achieve these various goals OECD countries also recognise that policy approaches will need to be more transparent, better targeted, appropriately tailored, sufficiently flexible, and equitable across and within sectors and regions.

## **Conclusions and policy implications**

There is no single, fixed relationship between agriculture and the rural economy. Neither is there a single, simple relationship between agricultural policy and rural development policy. Clearly, agricultural policy and rural development policies cannot be considered as synonymous. Agricultural policy is sector-specific, while rural development policy is multi-sectoral, territorial policy. In both cases, there are a multitude of objectives, some of which may be conflicting, and a multitude of sectoral and regional circumstances in which they would be applied. Agricultural policy cannot be relied upon to achieve rural objectives, and vice versa.

For OECD countries, the following general conclusions continue to be relevant (OECD, 1998):

- A clear understanding of the underlying economic processes which generate disparities in the development of rural areas is necessary for identifying coherent rural development objectives and policies.
- Rural policy goals should be consistent with the overall national policy objectives.
- Economic efficiency and social aspects of agricultural policy must be clearly distinguished.
- Agricultural policies should aim to enable the sector to respond promptly and flexibly to new opportunities, while at the same time dealing with any problems of market failure directly.
- Sufficient factor mobility will be of primary importance in the adjustment process.
- Appropriate cross-sectoral policies, tailored to complement agricultural policy reform, could be desirable to accelerate adjustment in rural areas.
- If environmental benefits for rural areas are intrinsically linked to farming, farmers should be encouraged to alter their farming practices to (maintain) enhance those benefits.

- An indispensable precondition for the effectiveness of these measures is that policies should yield environmental benefits above those which would result from "good" farming practice.
- Rural development requires a cross-sectoral approach.

Countries outside the OECD, in general, are characterised by an agricultural sector that is much more important in economic terms, and perhaps also in social terms, to rural areas and to the economy and society overall. Non-member countries can both benefit from, and can inform, policy formulation within the OECD area. Even though the reliance on agriculture for economic growth and employment opportunities is much greater in many less developed economies, policy conclusions are similar.

The proper policy mix between broad based rural policies and sectorally defined agricultural policies must be found in each country depending on the specific situation. However, when formulating policy, short-term considerations should not dominate over long-term perspectives. In the long run, over-dependence on agriculture and a shortage of alternative off-farm employment opportunities may cause the economic decline of rural areas with all its negative social, cultural and economic consequences.

Rural development policies, even if much more comprehensive and wide ranging than purely agricultural policies, are not a panacea for all the problems of rural areas. The most important task of national governments is to pursue macroeconomic policies conducive to sustained economic growth. The second major responsibility is to implement programmes aimed at reducing the isolation of rural areas, such as ensuring access to educational institutions at all levels, good public transport and accessible modern communication systems. Other non-sector or area policies, such as social policies or tax policies, are in many cases a more efficient way to create transfers between regions than policies specifically oriented to rural development. The more specific role of rural development policies should be to exploit the comparative advantage of rural economies...and correct market failures. Among the prerequisites for making rural development policies successful are: strong participation of local communities, a transparent institutional framework with clearly identified institutions specifically responsible for rural development policies, decentralisation of the decision-making process, retraining of local administration, and a proper legislative framework.

As in every other area where governments choose to intervene, rural development policies should be transparent, minimise economic distortions and be cost-effective in comparison with alternative policy options. Any assistance should be well targeted and limited in time. (OECD, 1997)

## Notes

1. Documents described in the references contributed substantively to this presentation, in particular *Agricultural Policy Reform and the Rural Economy in OECD Countries*, OECD (1998). Any inaccuracies or misinterpretations are the sole responsibility of the presenter.
2. This section draws in particular on the 2002 edition of *Agricultural Policies in OECD Countries: Monitoring and Evaluation*.

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## **Rural Development Policies in the European Union after Agenda 2000: Assessment and Future Prospects**

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### ***Abstract***

*Community policies to fund development interventions are of considerable importance in the national context. Nowadays, in many areas, the existence of such policies is a potentially important factor in development. In light of these considerations, this paper focuses on the assessment of some fundamental aspects of rural development planning, to which Agenda 2000 has also drawn attention. Three key points on which to base the reform process are the concentration of interventions, the process of simplifying instruments and the strengthening of management instruments.*

*As defined by Agenda 2000, rural development policies only partially meet the need for effective instruments for promoting development in rural areas. There are two reasons for this: firstly, the reform to which Agenda 2000 gave rise has failed in crucial respects (i.e. tackling some of the fundamental problems associated with the planning and management of interventions); secondly, only very limited use has been made of the opportunities offered by the reform to improve the quality of rural development policies. For example, rural development policy reform has not progressed towards greater concentration. On the contrary, it has moved in the opposite direction to that taken by regional policy. This has to some extent influenced the strategies adopted by the regions, which, despite a few exceptions (the Objective 1 regions in particular), have not laid down a rural development policy with a clearer and more definite territorial dimension. In light of the imminent EU enlargement and mid-term review of the CAP, the debate surrounding agricultural policy will be opened once again.*



## **The added value of community policies**

Community policies to fund development interventions are of considerable importance in the national context. Nowadays, in many areas, the existence of such policies is a potentially important factor in development. There are various reasons for this.

First of all, considerable resources are being deployed.

Secondly, these policies are very ambitious in their strategies and objectives. They are not individual, *ad hoc* public interventions, but a complex system of instruments which function as a complete development strategy for a given region or area.

Thirdly, they involve many actors in the process of general planning, programme management and, in some cases, local planning of interventions. This involvement, in the context of a broad-based partnership, is one of the distinguishing characteristics of community intervention.

For these reasons, community intervention differs sharply from more traditional practice. Above all, it differs from many national policies, which simply provide support and incentives in different sectors of the economy.

It needs to be recognised, in this respect, that many of the more innovative forms of public intervention in the economic and social fields are the result of community policies and the impetus they have imparted to national and regional policy. Think for a moment of community-initiated programmes such as INTERREG, LEADER, URBAN, EQUAL. They introduced totally new instruments, objectives, intervention methods and procedures, previously unknown in the context of national or regional development policies. These forms of community intervention, generated by specific initiatives on the part of the Commission, have had considerable impact on traditional thinking in the area of national and regional policy, and in many cases they have revealed the deficiencies, difficulties and outright inability of domestic technical and administrative structures to keep abreast of modern conceptions of public intervention. Where the ground was more fertile and prepared to receive these innovations, they have taken root and spread to national and regional interventions, which now fund and include them in policies.

In the field of rural development policy, we find some key aspects of community added value. We certainly find a generous provision of financial resources, which seems to have grown over the years, especially when

compared with the financial resources deployed at the national and regional levels over the same period.

We also find ambitious strategies and objectives, formalised in the Operational Programmes (OPs) of Objective 1 regions and in the Rural Development Plans (RDPs) of other regions. Finally, we also find many different actors involved in defining programme strategies and objectives.

The area in which results have not come up to expectations is in the real degree of innovation that rural development policies have introduced into the traditional system of Italian rural policy. There are some significant exceptions; in particular the LEADER programme and some forms of integrated planning now becoming apparent in regional programmes.

It is possible to make an assessment of some fundamental aspects of rural development planning, to which Agenda 2000 had also drawn attention, identifying them as key points on which to base the reform process. In particular:

- the concentration of interventions;
- the process of simplifying instruments;
- the strengthening of management instruments.

### **What strategy: concentration or diffusion of policies?**

The principle of concentration is certainly one of the key principles behind the workings of the Structural Funds. The European Union tends to ensure compliance with this principle in various ways. Over time, in the different planning cycles that have come and gone since the late 1980s, the EU has gradually increased the degree of concentration in order to make the Funds more effective.

The concentration principle is implemented in the following basic ways:

- a limited number of priority objectives are defined, which are then further reduced to just three;
- the largest shares of the Funds are devoted to regions which are behind in their development;

- the population benefiting in relation to each objective is reduced over time;
- a series of thematic intervention priorities is selected.

These concentration procedures have resulted in a growing mass of resources being channelled to:

- particular territories (territorial concentration);
- particular horizontal problems (thematic concentration);
- particular population groups (concentration by type of beneficiary).

The concentration resulting from the latest reform of the Funds is undoubtedly a combination of these three types of approach and with a tendency to put more emphasis on the territorial aspect. Indeed, Objective 1 regions receive the lion's share: Italy absorbs 78% of Community resources. Moreover, even within Objective 1 regions, the new programme provides for further concentration on ITP (Integrated Territorial Project) areas, *i.e.* areas of limited size where projects are conceived and implemented with the aim of encouraging/accelerating territorial development as a matter of urgency. The financial concentration has effectively resulted in the allocation of a financial "reserve" in favour of ITPs in Objective 1 regional programmes. This further concentration within Objective 1 regions, which has also been taken as a model by Objective 2 SPDs (Single Programming Documents), albeit in a less general way, is part of a national planning strategy intended to enhance the effectiveness of the Structural Funds.

Any strategy involving the concentration of development policies has enormous consequences, in terms of both planning and management. The main implications are as follows:

- Concentration means deliberately deciding to channel resources towards particular priorities and therefore making the objectives quite plain, assuming definite political responsibilities.
- It also mean organising the development strategy, defining its content, quantifying its objectives, in short fully exercising the planning function.

- Concentration has major implications for management procedures because it involves greater integration of the Structural Funds and of the activities permitted between the different Funds. In the operational planning and projects management phases, it also involves local partnerships, which must be appropriately structured and organised.

For all the above reasons, it is easy to understand that concentration, as compared with traditional public intervention methods based on generalised financial support for individual enterprises, also involves greater technical and administrative complexity. Moreover, it means that the public administration has to exercise a different function, more geared to strategic planning than merely acting as a post-box for funding applications. It is therefore not surprising that concentration can encounter friction and difficulties in implementation, to a greater extent than traditional public funding procedures.

Rural development policies are clearly out of step with this general trend towards greater concentration introduced by the Structural Funds. The fact is that these policies apply to the entire national territory, without significant distinction between areas that fall into one or another priority-objective categories. This has come about because, under the new Agenda 2000 arrangements, rural development policies have ceased to be regarded as policies for backward areas or rural areas in decline and have come to be viewed as policies promoting the structural adaptation of the different areas of the Union.

Although the new rural development policy that emerges from Agenda 2000 is characterised by its extension to all territories, the regulations on rural development open the way, in the context of decentralisation and subsidiarity, for targeted interventions on the part of the authorities responsible for RDPs. In light of the Italian experience, it is evident that the concentration principle has permeated rural development planning in the period 2000-2006 only to a limited extent.

In Objective 1 regions, the way forward is essentially linked to the implementation of Integrated Territorial Projects (ITPs), within which there is an emphasis on the needs of agriculture and rural areas, and more specific sectorial planning instruments (integrated projects for rural areas – IPRA – and integrated projects for “filières” – IPFs), borrowed from the ITPs themselves. It should be stressed that the resources for these instruments are by no means inconsiderable. Consequently, the challenge to be met over the next few years will be decisive for testing the possibility of greater concentration and integration in rural development policy. More generally, it will be decisive for introducing innovative elements into a policy which, in many ways, still retains

many of the characteristics of a “generalised” territorial policy and, at the same time, of mere productive modernisation.

These characteristics are even more apparent in non-Objective 1 areas and are clearly evidenced by an analysis of RDPs. These are not only deficient in territorial priorities, which are at most restricted to a few measures; they also contain no sectoral priorities, because the application of the measures embraces a broad spectrum of productive sectors.

The lack of a territorial dimension is perhaps one of the main deficiencies of the RDPs. Such a dimension might have provided an organic approach and rectified the extreme fragmentation of the financial plans into many measures. This deficiency is not only generally apparent in the way the RDPs are drawn up, but also in the definition of individual measures, for which precise identification of the territories in question is vitally important if the measures themselves are to be effective. The deficiency is particularly evident in the case of agro-environmental measures, for which territorial concentration and the proximity of the farms benefiting from support is vitally important in ensuring that the measures have a positive impact on environmental resources.

The territorial dimension is, however, one of the distinguishing characteristics of the LEADER programme. Indeed, we can say that it is, without a shadow of doubt, innate to LEADER, because the initiative is based on a series of local development projects in areas of given size and characteristics. And the new LEADER+ initiative undoubtedly has a more focused and solid territorial dimension than LEADER II, which was applied to many regions on an “extensive” basis, to the point of covering the whole regional territory. The territorial concentration of LEADER+ has been reinforced by two factors: on the one hand, a reduction in the number of LAGs (Local Action Groups); on the other, a prior decision as to which areas are admissible. This second factor makes for more rational use of scarce resources (scarcer in fact than in the previous 1994-1999 planning cycle).

In conclusion, as originally drawn up, the rural development policy reform has not moved things in the direction of greater concentration; on the contrary, it has tended in the opposite direction to that taken by regional policy.

This has to some extent influenced the strategies adopted by the regions, which, despite a few exceptions (the Objective 1 regions in particular), have not used their existing room for manoeuvre to lay down a rural development policy with a clearer and more definite territorial dimension.

## **The simplification process: what point have we reached?**

Where simplification is concerned, Agenda 2000 and the successive regulations deriving from it have tended to slim down the whole (rather complex) mechanism that the reforms of the Structural Funds had created in the previous planning cycles. This has resulted in a reduced number of objectives, programmes, community initiatives, etc.

Some effort has been made to simplify planning and financial management: programme preparation times are being shortened and less complex – but more rigorous – mechanisms introduced for the provision of funding. It should, however, be noted that the changes introduced in the regulations have not in fact shortened the programmes planning phase. In fact, experience of recent negotiations for the approval of (Objective 1 category) programmes has shown that the five-month period stipulated between the presentation of plans and a Community decision approving them is often exceeded: the average time for the adoption of a programme is between eight and 12 months.<sup>1</sup> Of the 123 planning documents presented to the Commission in respect of Objective 1 regions, only three were in fact approved within the five-month deadline, while 71 took between eight and 12 months to be approved and then 29 programmes required negotiations in excess of one year. In many cases, the delays were due to requests from the Commission for further information on the programme components which did not conform to the regulation requirements: the quantification of objectives, prior assessment of the expected impact, the environmental compatibility of the proposed interventions, financial management procedures, compliance with the principle of additionality, etc.

The Programming complement (Pc) preparation also took longer than expected. The deadline of three months for transmitting the Pc to the Commission was respected in only a few cases. In fact, in mid-June 2001, of the programmes approved not even half were supported by a Pc. The introduction of the Pc was a response, on the one hand, to the need to “lighten” the preparation of Operational programmes and SPDs by dispensing with detailed description of the measures and implementation procedures and, on the other, to the need to devolve some operational aspects to the level of the programme manager. In fact, these two objectives have been only partially achieved and the planning process has been burdened by a further phase, in which the Commission services have played a major role, contrary to what was intended in Agenda 2000 and expressly provided for in the general regulations. The European Commission itself has recognised that, where simplification is concerned, no substantial progress has been made since Agenda 2000.<sup>2</sup>

All these factors have caused friction in the planning process and resulted in delays in the programmes becoming fully operational: a large part of the Objective 1 programmes were approved in or soon after the summer of 2000, and the SPDs for the regions and provinces of Italy in the period between February and December 2001.

While, in the context of the Structural Funds, attempts have been made to simplify the drafting of the planning documentation by reducing the amount of detail and concentrating on an improved specification of objectives, strategies and intervention priorities, the rural development planning process has moved in a different direction, requiring just one plan (the RDP) characterised by a very detailed definition of the intervention measures.<sup>3</sup> The different approaches have considerably disorientated national and regional administrations in the work of drafting their programmes and have led to a difference in treatment of regions included in and excluded from the Objective 1 category despite being in the same Member state. A large part of the non-Objective 1 programmes were approved by September 2000, whereas those of the Objective 1 regions were approved between January and June 2001. This time difference is explained by the fact that negotiations relating to OPs were given priority in the Objective 1 regions, because of the magnitude of the financial resources at stake and because of the need for unitary planning of the various funds concerned, including the EAGGF. As a result, the presentation and negotiation of the RDPs were given a lower priority.

The planning of LEADER+ also suffered some delay, because priority was given to negotiating the larger programmes. The Commission gave the LEADER+ regional programmes the green light in two stages: the first, which included all the central and northern regions, between September and December 2001; the second, included all the southern regions, in January and February 2002. Apart from the issue of planning times, the amount of detail required by the regulations of LEADER+ was totally inappropriate, given that this programme is intended to stimulate, facilitate and guide the planning of local bodies, not make it more rigid.

On the whole, the innovations introduced under the new rules have not prevented a margin of delay in the new programming becoming operational – a delay which, all things considered, was acceptable where the Objective 1 programmes and RDPs for the central and northern regions were concerned (one year), but over-long (two years) in other cases (Objective 1 RDPs and LEADER+ programmes). Where compliance with expenditure objectives was concerned, the LEADER+ programmes give some cause for concern, as they still have to complete the Local Action Groups selection phase

and, obviously, the whole of the following phase during which the Groups select the appropriate projects.

### **The problem of policy management: a bottleneck?**

The issue of management is regarded as one of the most critical where use of the Structural Funds is concerned. Already in the previous planning cycle, the assessments concerning the extent to which Italy had implemented the programmes showed that considerable improvements in efficiency of expenditure could be achieved by rationalising the management systems. This was true of all administrative departments, both national and regional. In addition, in its report on the programming of the Structural Funds in Objective 1 regions, the Commission indicated that the description of the management and control systems was often the weakest part of the planning documentation.

In light of these considerations, in March 2001, when programming had already begun, the Commission adopted two sets of regulations intended to provide fairly precise and binding standards as regards management and control systems [Reg. (CE) No. 438/2001] and financial rectifications [Reg. (CE) No. 448/2001]. It is therefore quite understandable that there were delays in organising the systems concerned.

Where the efficiency of management systems is concerned, the most critical areas pertain to the following conditions:

- technical/administrative structures which are under-staffed and/or where the staff is not adequately qualified to deal with the procedures required by Community programmes;
- delays in arranging public procedures for the selection of projects;
- the existence of a large number of funding applications – a situation typical of some areas of intervention (such as training, agriculture and rural development, small businesses, etc.) – which considerably slows down the administrative departments' preliminary enquiries, especially in situations where computerised methods of data collection, data and project assessment are still in their infancy;
- the quality of the planning, which does not meet the requirements for selection procedures in some cases.



The process of sub-regional decentralisation must be added to these factors which, although positive, will require a running-in period before the local structures are up to speed.

The new system of planning associated with the Structural Funds has led to intense efforts to establish new management systems. However, it does not yet seem that the existing problems have been decisively resolved. There have been some very interesting initiatives – single outlets for dealing with applications (one source of information and technical assistance for funds applications), a monitoring system, a manual of control guidelines, the definition of assessment methodologies, etc. – but these initiatives have not had a profound impact on the more structural deficiencies of the public administration.

In the case of rural development policies, these deficiencies are keenly felt in many regions and are aggravated by the fact, as stated earlier, that there is a very large number of funding applications to deal with. A recent survey carried out by the INEA on the state of procedural progress of interventions in Objective 1 regions came up with some rather interesting results in this respect:

- Many of the measures provided for by the OPs were being implemented.
- Concerning the measures under implementation, approximately 56 000 applications had been submitted in the Objective 1 regions as a whole.
- The number of applications that went beyond the preliminary phase and judged admissible was also very high (15 500), although this figure represents only 27% of the applications submitted. The total public money that could be granted if all the admissible applications were in fact funded was more than EUR 1.0 billion, or 22% of total public resources for the period 2000-2006.
- Finally, the applications for which it was decided to grant funding numbered 8 600, representing a total investment of roughly EUR 950 million and EUR 600 million of public spending (12.7% of planned public resources for the period 2000-2006).

These figures show that, if the implementation of approved projects and the approval of those that have passed the preliminary phase were accelerated, the Ops' measures need not result in automatic disengagement. Of

course, numbers such as these are a heavy burden on the technical/administrative capacities of the regions, as evidenced by the wide discrepancy between applications submitted and those judged admissible. And this applies not only to the evaluation and selection process but also to financial control, monitoring and accounting for payments.

In these latter areas of activity, which are important in facilitating and rationalising programme management, unjustified delays and deficiencies still occur. This holds true even though these activities have been made obligatory by regulations and significant penalties can be imposed in the event of failure to comply.

The future of rural development policies will depend on these management factors, whether we look to the immediate future or further ahead (post 2006). The existence of automatic penalty measures (automatic disengagement) will mean that no concessions are made to any public administration. This will result in fierce competition between regions, programmes, Funds and productive sectors. Managerial and organisational inefficiencies, if they persist, could produce very negative return/feedback effects, which would have implications for the financial resources available for future years. Obviously, this is true for all the regions, regardless of which section of the EAGGF funds their programmes.

### **Future prospects: enlargement and medium-term review of the CAP**

Rural development policies, as defined by Agenda 2000, only partially meet the need for effective instruments for promoting development in rural areas. There are two reasons for this: firstly, the reform to which Agenda 2000 gave rise has failed in crucial respects to tackle some of the fundamental problems associated with the planning and management of interventions; secondly, as we pointed out above, only very limited use has been made of the opportunities offered by the reform to improve the quality of rural development policies.

These problems are again exercising the main institutional and social actors as two major events are set to reopen the debate on agricultural policy: the enlargement of the EU to include the new applicant countries, and the medium-term review of the CAP. These two events are closely inter-related, given that the decisions taken during the debate on enlargement are bound to have consequences on proposals for the medium-term review, and vice versa. The review of the CAP will concern both of the so-called pillars: market policy and rural development policy.

The negotiations over enlargement have involved 13 countries in all, but only some of these countries can be expected to join the EU during the period which concerns us here. Following the decisions of the European Council meeting in Berlin, the negotiations turned out to be longer than anticipated, casting doubts over the planned entry of certain countries in 2002. More recently, the European Council, meeting in Laeken (December 2001) stated that: “*if the present rate of progress is maintained in the negotiations, Cyprus, Estonia, Lithuania, Latvia, Malta, Poland, Slovenia, the Czech Republic, the Slovak Republic and Hungary could be ready (in 2004)*”. Romania and Bulgaria, on the other hand, might be in a position to join at the end of the programming period (1 January 2007). Finally, this statement was confirmed in the Copenhagen meeting held in last November, where the European Council has taken the decision to implement the enlargement for the ten new candidate countries in January 2004.

Taken as a whole, these countries are obviously in a position of relative economic backwardness compared with the existing 15 members of the Union, but in fact they differ considerably one from another. On the basis of the main socio-economic indicators and indicators of agricultural structure, we can divide them into two main groups: the first, comprising Poland, Latvia and Lithuania among the early entrants, together with Bulgaria and Romania, is characterised by a higher level of backwardness in development (as evidenced by their distance behind the 15 existing members in terms of GNP per head), higher unemployment and the greater preponderance of agriculture in the economy as a whole. In these countries, the agricultural sector fulfils not only a productive function but also, and in some cases to a very great extent, the function of a reservoir for the active population having no alternative occupation. This gives rise to the very widespread phenomenon of hidden under-employment in rural areas, which in some countries is far higher than the overt under-employment and unemployment found in urban areas. It is therefore not fortuitous that a very rural country like Romania, where 43% of the population is employed in agriculture, has apparently an excessively low unemployment rate (6.3%) for a country whose economic structure is so underdeveloped. Romania is an extreme example of how agriculture can function as a reservoir for the active population without employment alternatives. The most obvious consequence of this function is the extremely low productivity of agricultural labour; this is true of the five countries mentioned, but dramatically obvious in Romania and Poland.

The second group of countries – Hungary, Slovenia, the Slovak Republic, the Czech Republic and Estonia, all candidates for entry in 2004 – is also characterised by a position of relative economic and social backwardness. In terms of development, their distance behind the existing 15 EU members is

still considerable, but less drastic than that of the first group. The gap in terms of GNP per head is such that we can undoubtedly expect all of these countries to be classified as Objective 1 regions (and of course this is even more certain for the first group), but their levels of unemployment appear to be more contained. Agriculture absorbs a smaller proportion of the active labour force, as evidenced by the rate of employment in agriculture, and this makes it possible to increase the agricultural sector productivity. However, as we have noted, the difference between the two groups is relative, given that they still lag behind the existing 15 EU members in terms of productivity, with none of the countries in the second group achieving adequate productivity levels (levels are 50% lower than the productivity of European labour).

From the point of view of agricultural structure, the specificities of their size and ownership structures do not enable us to draw profiles indicating obvious differences between the two groups of countries. It should be stressed that some countries are characterised by a large number of small-scale, individual enterprises, occupying between 50% (Poland and Czech Republic) and 100% (Romania) of the total agricultural area. Many of these farms, characterised by technological backwardness and lack of capital, are in fact semi-subsistence farms, producing for the family's own consumption and generating only a very limited income. It is this type of enterprise that accounts for a large proportion of the hidden unemployment or under-employment that inflates the agricultural employment rate and, at the same time, depresses productivity in the agricultural sector. The semi-subsistence classification includes not only small and very small plots producing food for the family, but also medium-sized enterprises. This phenomenon is linked to a gradual deterioration in the terms of trade in agriculture, which occurred during the transition to a market economy and has also affected enterprises larger than those producing merely for family consumption. Today, semi-subsistence enterprises account for approximately half of agricultural production in the CEEC countries (Pouliquen, 2001). In terms of total area, where this can be quantified, the proportion of the land occupied by semi-subsistence enterprises ranges from 40-50% in countries such as Poland and Hungary to 20-25% in Estonia and the Czech Republic.

As well as modernising their production structures, the candidate countries are also faced with the problem of upgrading their administrative organisation. Where use of the Structural Funds is concerned, these countries are severely deficient in instruments in the following fields (European Commission, 1997):

- regional policy in the strict sense of the term (few or no resources, poorly developed instruments, reduced administrative structures, etc.);
- absence of co-ordination procedures between the various administrative structures and ministries involved in sector policies and territorial development;
- ineffectiveness of local authorities, currently lacking in financial resources and technical experience.

Concerning the intervention requirements that the European Union have to face, the aim is therefore to provide adequate financial support for investment and, at the same time, encourage the growth of technical and administrative capacities, transferring the planning and management methods of the Structural Funds to the candidate countries. This capacity will inevitably have to be built up gradually and will have a decisive weight in the future management of the Structural Funds in these countries.

The enlargement of the ten new member countries presents a great challenge to the European Union and the policies that it has deployed over the last 15 years.

The European Commission, with Agenda 2000 and the regulations deriving from it, has met this challenge with a series of analyses and proposals intended to prepare the way for the entry of the new countries and provide them with the necessary resources and instruments, in both the pre-accession phase (ISPA, PHARE and SAPARD) and when they actually join.

More recently, the Commission drew up a series of integrative proposals intended to spell out the quantity of resources available and the nature of the instruments, both as regards market policies and structural and rural development policies.

The Commission's proposals and, more generally, the policies that will be available to support agriculture and rural areas in these countries should be evaluated in light of three crucial factors:

- 1) the adequacy of the financial resources deployed;
- 2) the adequacy of the instruments being proposed;
- 3) the implications of enlargement to the very foundations of Community policies.

Regarding the adequacy of the financial resources devoted to rural development policies, an evaluation presupposes quantification of the resources involved, but the resources are not fully detailed in the Community documents. Estimates made elsewhere (see the quantification carried out by the INEA, 2002) enable us to affirm that the funding deployed is by no means negligible in relation to the productive dimension of the agricultural sector and the agricultural land area. During 2004-2006, the ten countries will be provided with sufficient resources to enable them to meet the demands of structural adjustment.

The real problem lies not with the resources available but with the adequacy of the instruments. In the case of rural development policy, the intervention instruments consist of a series of measures outlined in Council Regulation No. 1267/99. For candidate countries, Regulation No. 1268/99 defines the applicable measures and is concerned with funding the SAPARD programmes. In fact, this second Regulation consists partly of a sub-set of the package of measures contained in the general Regulation and partly of a new set of measures introduced specifically for these countries. The Commission's recent proposals amplify the measures applicable in 2004-2006 and adapt some of the measures already in force in the SAPARD programmes. The question that arises in this context concerns the appropriateness of these measures to the specific situations of the candidate countries and, more generally, the very foundations of rural development policy as currently adopted. The structure of agriculture in the candidate countries and, more generally, the state of development of their economies are very different from those of the 15 existing member countries. There is no comparison with the enlargements the European Community faced in the recent past, when the applicants were undoubtedly more backward in socio-economic terms, but already had operational market-economy systems in place and some tradition of institutional and productive structures with roots their societies. Their social and economic circumstances were not in fact dissimilar from those pertaining in the existing community member countries. The applicant countries of central and eastern Europe, on the other hand, especially the larger ones, are characterised by structural problems that have not yet been overcome in the course of the admittedly tough transition phase to a market economy. It is true that their situations differ considerably one from another, but there is a group of countries characterised by real poverty, structural weakness, high unemployment and, in the agricultural sector, hidden underemployment and low productivity. These economic and structural problems are compounded by the weakness of the institutional and technical/administrative system destined to carry out rural development as well as development policies. It is not fortuitous that in recent years, partly with Community support, intense efforts have been made with aid

and technical assistance to encourage the acquisition of the necessary techniques and administrative capacity to introduce the *aquis communautaire*.

However, the process of structural and institutional upgrading would seem to be more complex and time-consuming than anticipated by the community documents themselves, taking into account the restructuring and development needs exhibited by these countries and the outcome of the pre-accession programmes, which have proved difficult to implement.

In other words, we are impelled to ask whether the rural development policies, as set out in the Regulations and the Commission's recent corrective proposals, are able to meet the needs being expressed by these countries. Probably, they are able to do so in part; and in the countries characterised by greater structural and institutional backwardness, only to a very limited degree. The EU rural development policies that emerged from the recent reform of Agenda 2000 are perhaps better suited to the more developed circumstances of the existing 15 members.

What is really needed in these new situations is an approach to rural development characterised by the following key elements:

- close integration with structural and regional development policy (in actual fact, an approach characterised by the separateness of the various policies is being re-proposed, to the point of separate programmes being envisaged);
- close co-operation with social and human resources training programmes;
- the formulation of a strategy which, as well as making (justified) demands for the modernisation of production, considers priorities and appropriate instruments for diversification of production in rural areas (quite contrary to this approach, the SAPARD programmes tend to list measures without any clear definition of territorial and thematic priorities);
- a real simplification of some measures, which are mere income supplements masked and weighed down, from an administrative point of view, with pointless and inappropriate requirements (I am referring to aid intended for semi-subsistence enterprises);
- more incisive and substantial actions to strengthen administrative structures and managerial and planning capacity.

But enlargement also has major implications for the Community policy system itself. The problems posed by the present system in the context of the applicant countries have to do with both implementation and the real effectiveness of the instruments deployed. The developmental backwardness of some rural areas is so great that rural development policies are not alone sufficient to tackle the problems associated with the modernisation of the agricultural sector or with the economic and productive diversification of rural areas.

In the existing countries of the European Union, on the other hand, the present rural development policies are certainly better suited to meeting the demands of structural upgrading, but not the need for economic and productive diversification in rural areas. This is the result, on the one hand, of a sort of strategic deficit in national and especially regional programmes, which almost everywhere in Europe favour traditional-style intervention for organisational structures and the transformation and marketing of products. On the other hand, it is because the promotion of development in rural areas – where it actually occurs – is the result of particularly dynamic situations, where there are autonomous entrepreneurial resources and the people concerned know how to exploit the resources available to them, not only under rural development policies but also from other public initiatives.

This strategic deficit can be made up of a combination of solutions:

- a more decisive reform of the CAP, with a larger share of resources allocated to the second pillar;
- a system or rural development policy planning based on three vital principles: mechanisms to reward the quality of a strategy, more resources earmarked for innovative interventions, a simpler system for approving aid management for enterprises;
- a rural development policy management system which included a system of penalties and rewards, not only for those who prove capable of spending rapidly, but also and more especially for those programmes which achieve quantified objectives, adopt best practice, and encourage the adoption of significant innovations in the institutional system and territory concerned;
- a more complementary relationship between rural development interventions and other programmes financed by the Structural Funds (for example, Community initiatives).



On these critical points, we need a profound review of the CAP, that is able to provide answers to the challenges that an enlarged, more complex European Union will have to meet in the coming years.

## Notes

1. See, on this subject, the Commission's Communication to the Council, the European Parliament, the Economic and Social Committee and The Committee of the Regions (2001).
2. See, on this subject, the relevant section of the Communication relating to the first update of the report on economic and social cohesion (European Commission, 2002).
3. Bear in mind that this is true for the non-Objective 1 regions, whereas in the Objective 1 regions the programming of rural development, being funded by the EAGGF-Guidance, follows the more general Structural Funds rules.

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## **Territorial Agriculture and Rural Development : From Agricultural Support to Territorial Policies**

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### ***Abstract***

*Over the years, agricultural policies in OECD countries have evolved to reduce the number of farms and farmers (“structural adjustment”). A good indicator of the impacts produced by these policies is the structure of farm transformation. Now countries are moving toward a dual structure of farms and farmers, while maintaining the agricultural support level. In many countries, two principal types of agriculture became common: “territorial” agriculture and “commercial” agriculture. Although territorial agriculture does not have to disappear, it is necessary to make policy changes. In order to avoid the underdevelopment of rural areas, different types of agriculture call for differentiated policies. Not only does “territorial” agriculture contribute to sustainable rural development, it is important in many rural areas. Nevertheless, new instruments of agricultural and rural policies will be necessary.*

### **Introduction**

There are several relationships between agriculture and rural development, but these links often do not distinguish between the two, the former being considered a synonym of the latter. In developed countries, this confusion no longer has any meaning, because in the majority of rural areas the share of agriculture in the economy is decreasing in importance.

Anyway, traditionally, we place more attention and importance on agricultural policies than on rural development policies. For example, it was only just over a decade ago that rural development was introduced as a subject

*per se* in the OECD agenda, creating a specific and permanent working group in this organisation. Nevertheless, the countryside in our developed countries still suffer from relative socio-economic backwardness, especially the high level of agricultural support, despite the agricultural policies. Why?

Partially, because during this period in many of the OECD countries agriculture became a dual sector (“territorial” and “commercial”) with different importance and characteristics, while a “structural adjustment” of the agricultural sector took place everywhere. The benefits of these policies for these two kinds of agriculture, and farmers, were very different, producing a more unequal breakdown of incomes in the countryside.

But now, the future of many rural areas in our countries is linked with maintaining this “territorial” agriculture. This kind of agriculture, because of its contribution to the maintenance of employment and rural population and its multi-functional character, is an asset for a more sustainable rural development. In fact, what we would need is less agricultural and more rural policies, particularly to lead from an agricultural support to more territorial policies and instruments.

This paper shows the strong similarity in the evolution and general trends of our agricultural sectors, pointing out the need for a radical change in the priority of policies and in the allocation of budgetary resources.

### **Agricultural policies in developed countries: evolution and effects**

The evolution of agricultural policy in the OECD countries during the last 20 years has some common elements. Generally these policies were orientated to reduce the number of farms and farmers (“structural adjustment”), questioning the use of instruments such as subsidies with different compositions. At the beginning of this period the main four policy instruments were “market support price”, “deficiency payment”, “production quota”, and “direct income support”, which were assessed usually in terms of the efficiency of the government transfers to farmers from taxpayers and consumers (OECD, 1995). But later these instruments were changing their relative weight, using less “market support price” and more “direct income support” and other instruments such as “export subsidies” or “payments on input use” (OECD, 2002).

The reform of policies varied widely between countries depending on the composition of these instruments, although it seems that effects were quite similar. If we take into account simply some major countries (Japan, USA, EU

and Australia), in all of them change in agricultural land area, in the number of farms and, namely, in the number of farmers went in the same direction. The general effect of this evolution was the concentration of this activity in a smaller geographical area with fewer professional farmers. In the countryside that produced a profound change in the economic, social and ecological situation.

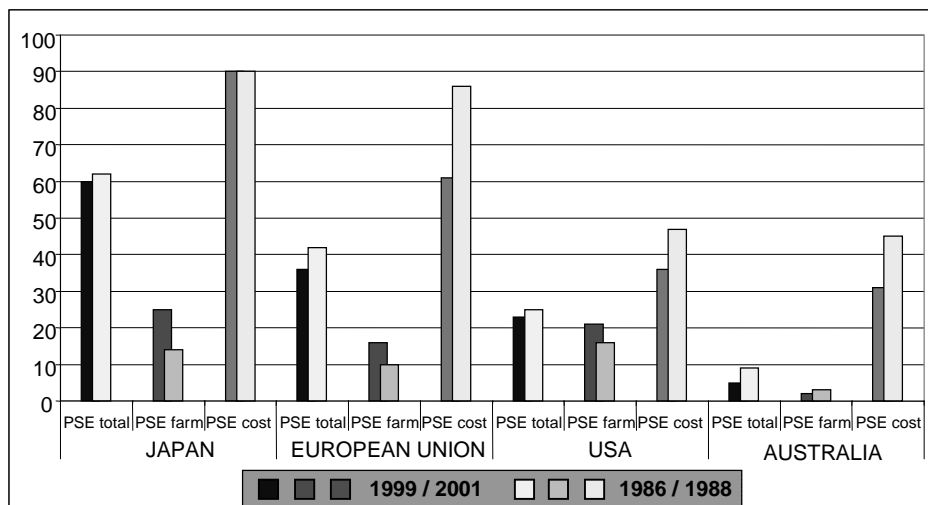
The share of agriculture in the rural economy became a minority in absolute and often relative terms. In many rural areas the agriculture is just a simply extractive sector in a new agro-food sector, in which transformation and distribution activities are dominant. The possibilities of retaining these two sub-sectors in the countryside appeared to be limited, being sited mainly in urban areas. Therefore, improving rural economy called for an economic diversification in these areas looking for the localisation of new economic and residential activities.

From a social perspective the falling numbers of the farmers and other social collectives linked to them contributed to the reduction of the rural population. Today, many rural areas continue to lose population, but territorial distribution of the population seems to be changing through more polycentric and less hierarchical patterns, in which little country towns are playing an important role. Consequently, some rural areas recover population although with a different social structure.

Finally, the situation of rural environment presents at least two faces. On the one hand, some areas sustain a high degradation, notably produced by the intensive technology used in the new agriculture; on the other hand many areas retain a large part of the natural resources. The amenity of these areas is often directly proportional to their socio-economic backwardness.

Nevertheless, since these policies are still in use this overall evolution and effects are far from finished. As we can see in Figure 1, the level of agricultural support has been reduced somewhat during the last period (1986-2001) in all countries, but indicators show important differences. While the level of agricultural support (PSE total) was coming down everywhere, and also was reducing the use of “market support price” (except in Japan), the relative level of support (PSE/farm) grew (except in Australia). What does it mean? Clearly, the beneficiaries of these policies in the countryside are socially more concentrated.

Figure 1. Level of agricultural support 1986-1988, 1999-2001



Source: OECD (2002).

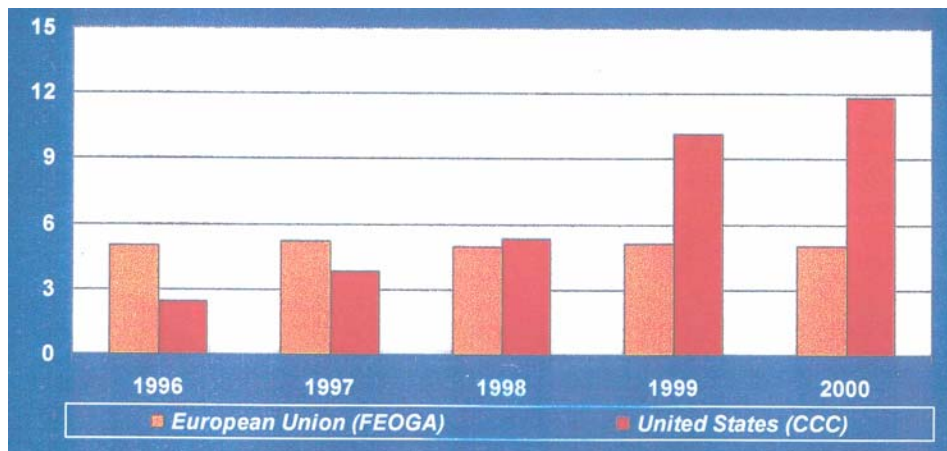
The best indicator to see the impacts produced by these policies is the transformation of farm and farmers structure. Thus, in Japan agricultural population has fallen by 50% since 1980, and the number of farms has fallen more than 20% in a decade, with a cultivated area per farm household of 1.6 hectares. Likewise, in the European Union in the major producer countries (France, Germany, Italy and Spain) the number of farmers has fallen between 45% and 60% (excepting Germany) in 20 years, while the farms have decreased between 30% and 15% during the last ten years. In the United States the number of farms has decreased by 10% in the last decade, with an average farm size of more than 175 hectares. Finally, in Australia the number of farms has fallen by 20% in the last ten years, with an average farm size of 4 000 hectares. Then, all countries were going towards a new structure of farms and farmers. But, at the same time, the agricultural support level was maintained, as we can see in the major OECD countries, reducing a few total supports while per farm support grew very much, which is especially true in the main agricultural producers.

Thus, if we compare the payments per farm made recently by the EU and the United States (Figure 2), it seems that agreements underwritten in 1994 in the World Trade Organisation (Uruguay Round) led the main agricultural producer and exporter countries to maintain or increase their subsidies. In the

case of the United States, for example, these payments have been growing during the last years, reaching the highest level of the period.

Figure 2. **EU and United States payments per farm, 1996-2000**

In USD thousands



Source: EC (2000).

The consequences for the rural areas have been clear. There is a more unequal breakdown of agricultural incomes between farmers; thereby more and more farmers look for new sources of income engaging in other economic activities in the countryside (multi-activity). As we will see later, in the European Union for example, which has a so-called “familiar model of agriculture”, 10% of holdings obtain two-thirds of the economic results. And there are also in many countries bigger farms versus less farming occupation, “part time employment” being a general feature of the new farmers. In the United States, for example, only 50% of operators in this sector have agriculture as a principal occupation. To sum up, the relative socio-economic backward countryside in our countries is still indeed a stylised fact of our economic development.



## General trends: “territorial” and “commercial” agriculture

In many countries two main types of agriculture became normal. There is a “territorial” agriculture and a “commercial” agriculture. These two categories, whose features are resumed in Table 1, do not allow us to classify all farms exactly. However, this classification gives to us precisely a good scheme to distinguish the two main situations that face farmers in the countryside: either preserving a holding as a marginal or complementary economic activity or maintaining it as a professional and business activity.

Table 1. **Territorial and commercial agriculture**

“Territorial”:	“Commercial”:
Small and medium-size farms: small geographical and economic dimension.	Medium-size and big farms: modern and viable farms due to their economic dimension.
Minority farmland, production and results: little land and low proportional market value of agricultural products sold.	Majority farmland, production and results: high geographical and economic importance, retaining a large part of agricultural incomes.
Maintenance of employment and rural population: high level of farming occupation in some rural areas.	Linked with international markets: their products are often commodities affected by world prices.
More multifunctional?: attention and preservation of natural resources and cultural traditions in less economic developed territories.	Less multifunctional?: intensive agricultural technologies and their impact on territorial and ecological degradation.

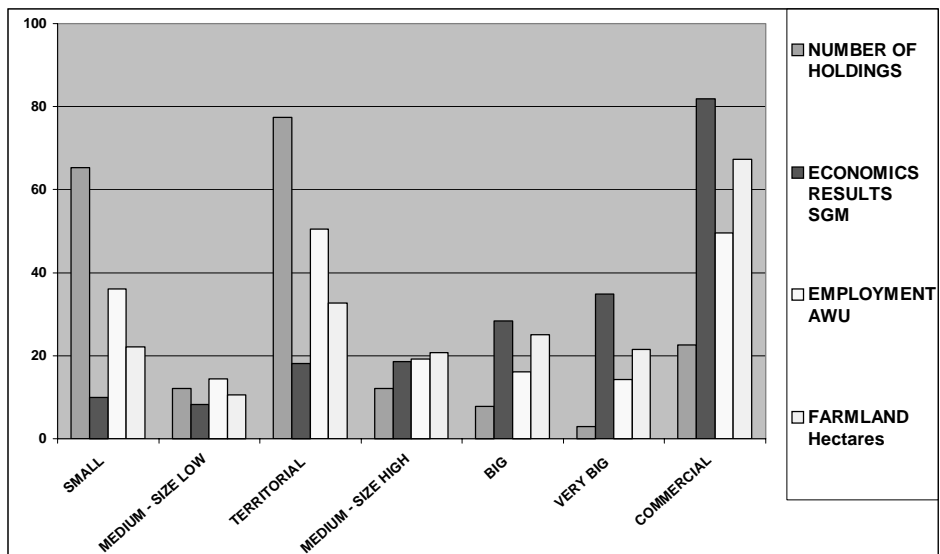
*Source:* Coulomb (1993) and Regidor (2000).

These two kinds of farms, made up of small and medium-size economic dimension farms and medium size and mainly big farms, have a different importance in the economy of the countryside, depending on the type of rural areas. Very often in the economic “lagged” areas (“predominantly rural areas”, using the traditional OECD classification) “territorial” agriculture is dominant, but in the more “intermediate” areas (“significant rural areas”) “commercial” agriculture is more present.

Thus, in spite of their reduced economic dimension these “territorial” farms play an important role in some “lagged” areas. In short, they are more important in the maintenance of employment and rural population, and natural resources, than for their contribution of agricultural production. On the contrary some others, as often happens in “intermediate” areas, “commercial” agriculture, which have the most farmland, production and economic results, and are linked with international markets, are less determinant because of their economic development.

Consequently, the high importance of this “territorial” agriculture is taken into account in many countries. In the European Union, for example, their social and environmental dimension, more than economic, is a determinant factor for the future of many rural areas in the process of depopulation and desertification. Although this same kind of categories is not used by the common agricultural policy (CAP), “less favoured areas” and “sensitive environmental areas” have been used for a long time with another definition.

Figure 3. Territorial and commercial agriculture in the European Union



1. SGM: Standard Gross Margin. AWU: Active Working Units (farm labour force). Source: EUROSTAT (2002).

As indicators show (Figure 3), while a “commercial” agriculture minority in a number of holdings has the majority of economic results measured by the participation in the total Standard Gross Margin, subsidies included, a “territorial” agriculture majority in a number of holdings remains important as a source of employment measured by the number of Active Working Units engaged and in geographical terms (farmland). Obviously this dual structure of holdings is more striking in some countries (in the Mediterranean countries, for example), while in others the lower categories of “commercial” agriculture (“medium-size high” and “big”) has become greater.

Some particular remarks on this case are that, first, the “commercial” agriculture in the EU receives the majority of the subsidies provided by the CAP (more than 80%). This means nowadays that it is few holdings that benefit mainly from a “direct income support” policy, which represents more than 50% of the CAP budget. Second, these two kinds of agriculture have a similar importance as a source of employment (50-50%) in the EU rural areas, since normally “territorial” agriculture is more intensive in the use of labour.

And third, although the geographical importance of “commercial” agriculture is bigger (two-thirds of the EU farmland), the presence of a “territorial” agriculture is still remarkable (one-third of the EU farmland). Moreover this importance is irregularly distributed in the territory, being dominant in many European regions (in the Southern countries, for example).

In conclusion, it arises as a general question if most of this kind of “territorial” agriculture has to disappear. It seems that in our developed countries we must maintain this activity in many rural areas for economic and, above all, social and ecological reasons, but the general trend is going towards a geographically concentrated agriculture with few professional farmers. A territorially more balanced economic development, a greater socio-economic cohesion, call for maintaining and improving this activity. And, what do we need to change to achieve this?

For this reason it would be necessary to change the attention paid to the diverse policies. The generic “agricultural policies” should play a less important role in the future vis-à-vis the “territorial policies”. As experience from this period reveals, with emphasis on only one sector, it will be impossible to avoid underdevelopment of the countryside. Diversification of activities requires diversification of policies, with two main orientations.

In the sector (“agricultural”) policy, different types of agriculture call for differentiated policies, because until now the target usually supported “commercial” agriculture. If we want to maintain “territorial” farmers in some rural areas, they need to be the direct beneficiaries of policies, over and above the cereals, meat and other product policies.

At the same time, other “territorial” policies would be able to introduce new instruments for a sustainable rural development. As we set out below, the “territorial” agriculture would just be an asset for a sustainable rural development in many areas.

## “Territorial” agriculture: an asset for a sustainable rural development

As is well known, a sustainable rural development needs to achieve simultaneously three main objectives: economic, social and ecological. The contribution toward this kind of development by the “territorial” agriculture can be important in many rural areas, because of allowing the maintaining of economic activity, recovering some social collectives and valuing natural-cultural goods. The contribution to all these objectives by the “territorial” agriculture will be obviously partial, but more or less relevant depending on the type of rural area (Table 2).

Table 2. Territorial agriculture and sustainable rural objectives

Main objectives	“Integrated” areas	“Intermediate” areas	“Lagged” areas
Economic:	<ul style="list-style-type: none"> <li>– improving a safe agricultural production</li> </ul>	<ul style="list-style-type: none"> <li>– maintaining agricultural activity</li> <li>– improving a safe agricultural production</li> </ul>	<ul style="list-style-type: none"> <li>– maintaining agricultural activity</li> <li>– improving a safe agricultural production</li> <li>– new products and linked activities</li> </ul>
Social:	<ul style="list-style-type: none"> <li>– maintaining some collectives of rural population</li> </ul>	<ul style="list-style-type: none"> <li>– maintaining some collectives of rural population</li> </ul>	<ul style="list-style-type: none"> <li>– recovering some collectives of rural population</li> </ul>
Ecological:	<ul style="list-style-type: none"> <li>– preserving natural resources &amp; species</li> </ul>	<ul style="list-style-type: none"> <li>– preserving natural resources &amp; species</li> <li>– valuing social-cultural goods</li> </ul>	<ul style="list-style-type: none"> <li>– preserving natural resources &amp; species</li> <li>– valuing social-cultural goods</li> <li>– improving and extending natural protected areas</li> </ul>

Source: Regidor (2000).

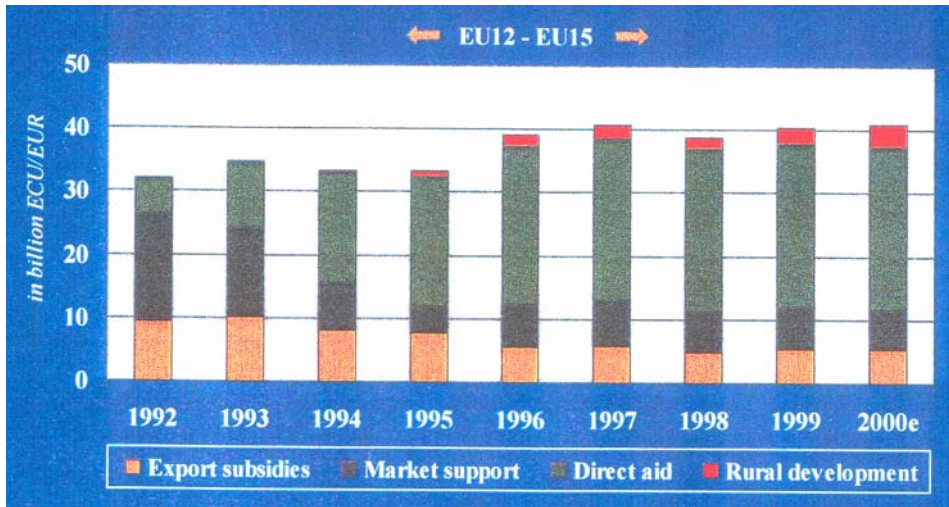
In “integrated” rural areas (those existing in the OECD “predominantly urban areas”), the “territorial” agriculture is residual, its possible economic objective being to improve a safe agricultural production versus a limited “commercial” agriculture with problems of consolidation. Maintaining some rural population will be also necessary to preserve a natural environment, which is often depredated.

In “intermediate” areas, where “commercial” agriculture is in majority, there is often a substantial part of “territorial” and “medium-size high commercial” farms with a difficult economic viability, which activity should be maintained only under some social and ecological conditions. In this case maintaining a part of these “part-time” or “professional” farmers would be justified by fulfilling these conditions (maintaining employment and preserving natural resources, for example).

In “lagged” areas, on the contrary, where “territorial” agriculture is very often in majority but their economic results are not enough, maintaining this activity is a necessity as a complementary source of income while new activities are going to emerge. In these areas a greater specialisation in safe agricultural productions and other products with market niches, would be able to maintain and recover a rural population. This limited population can play an important role as managers of an extended territory, with several activities linked to ecological targets (preserving soil and water, cultural traditions and protected spaces, for example) which must be economically compensated by the private and public sectors.

Nevertheless, to achieve these objectives new instruments of agricultural and rural policies would be necessary. As the EU case points out (Figure 4), the process to improve the territorial approach is going slowly, and until now resources in rural development programmes have been scarce compared with other budgetary resources and namely agricultural subsidies. Thus, during the 1990s “market support price “was replaced by the “direct aid”, while “export subsidies” slowed down and “rural development” measures in the PAC budget appeared with little significance.

Figure 4. **Improving the territorial approach**



Source: EC (2000).

The last proposal of the European Commission (EC, 2002) in this regard seems to go in the right direction, since it is considering the increase in the future of the attention paid to the rural development measures, reducing the resources engaged in the dominant PAC instruments. Nevertheless, as this new PAC reform is related with other important items (enlargement of the EU, Millennium World Trade Round, new American Farm Bill), it is not clear what will be the content of the final decisions adopted.

Anyway, in many OECD countries this type of “territorial” agriculture would be considered an asset for a sustainable rural development, as the case of the Siena region has shown, but to do that radical changes in current policies and instruments would be necessary. A synthesis of these new policies and instruments is displayed next.

Of the different agricultural policies, it would be more adequate to use differentiated direct aids for “territorial” agriculture. This sort of positive discrimination is justified by the unequal breakdown of incomes caused by the actual agricultural subsidies, as we commented before. Likewise, these aids have to be conditioned by economic and social characteristics of farmers’ beneficiaries and by ecological commitments accepted by them.

The main instruments linked with this new application of subsidies would be a delimitation of rural areas with “territorial” agriculture, the use of a

“pay for services” principle (*e.g.* the French “Territorial Management Contract”) and some measures to enhancing attention to any kind of more biological agriculture. All of these instruments must be substituted by other existing ones and will be able to produce a budgetary saving.

And when it comes to the new rural policies, it would be better to introduce specific rural development programmes for farmers with “territorial” agriculture, than maintain the same sorts of programmes in any kind of territory and for any kind of beneficiary. Consequently, this specific policy would imply giving more resources for rural development programmes in some areas than in others (the “lagged” one, for example).

As instruments for these new rural policies, it should give priority to farmers with “territorial” agriculture in the rural development projects subsidised, and in general involve much more this collective in the application of rural development measures. The introduction of these instruments would not need additional budgetary resources.

In conclusion, these orientations would be a new way of reintroducing the agricultural activity as an asset for a sustainable rural development.

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## **The Role of Rural Development in the Common Agricultural Policy**

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### ***Abstract***

*Throughout its long history, the CAP has witnessed a continuous series of changes. Today, many elements have emerged with force and imply the necessity of a new phase of redefinition for the CAP. Among the factors to be taken into consideration, there are the next round of WTO negotiations on international trade, EU enlargement and increased EU trade with non-Member countries. In addition to economic factors, we should highlight the profound changes in European public opinion. With the citizen/consumer very attentive to issues related to the environment, food security, biological production, treatment of animals, the EU is required to provide increasingly advanced policy responses.*

*In this context, there is a need to radically restructure the CAP. This restructuration should address both the role of agricultural enterprises (as a tool to reach CAP objectives) and the objectives of rural development. In this framework, rural development should be understood as a means to sustainable development, synthesising the cross-sectoral needs of the environment, health, landscape and territory in coherence with the new requirements of today's CAP.*

### **The role of rural development in the CAP**

Rural development is one of the most recent and innovative aspects of agricultural policy, particularly in the EU. It should be borne in mind that some of the most important measures in this area have in fact been taken during the past ten years. For example:

- specific regulations governing the registered designation of origin have been defined;
- the regulatory framework for organic products has been established;
- the foundations of an EU food safety policy have been laid, initially by the White Paper on Food Safety and as from 2001 by the “Food Law”;
- Agenda 2000 has made it possible to implement the Regulation on Rural Development, the “second pillar” of the CAP.

Until now, the last of these instruments has perhaps been ineffective and has had scant resources, but in fact it has now become the main tool for managing policies aimed at ensuring quality and preserving the environment, including at the local and regional level. The changes that have been made are not confined to instruments, but also encompass contributions and the budget. In the 1991 CAP reform, known as the “Mac Sharry” reform, 91% of the budget was devoted to market support measures such as export subsidies, while direct payments only accounted for the remaining 9%. At that time, rural development measures were only provided for in the “guidance” section of the EAGGF budget.

Under Agenda 2000, partly because of the need to adapt to WTO constraints, market measures have been reduced to 21%. Direct payments have risen to 68% of EAGGF guarantee funds, while the rural development programmes covered by the EAGGF guarantee section account for the remaining 11%, for an annual amount of some EUR 4.3 billion. This is a key step and in some respects an obvious one since rural areas constitute 80% of all European land.

Beyond the financial aspects, it should be pointed out that the new rural development policy is responding concretely to the problems and expectations of today’s society by ensuring the harmonious development of all rural areas in Europe and by creating jobs. This policy is targeting certain key objectives, such as strengthening the agricultural and forestry sector, improving the competitiveness of rural areas and, lastly, preserving the environment and rural heritage.

This rural development policy is based on four basic principles:

- The *multifunctional role of agriculture*, i.e. the fact that it plays many roles besides simply producing agri-food products.
- *An integrated, multisectoral approach* to the rural economy aimed at diversifying activities, creating new sources of income and employment and preserving the rural heritage.
- *Flexibility* of support to rural development, based on subsidiarity and the promotion of decentralisation, regional and local co-operation and partnerships.
- *Transparency* in the development and management of programmes, based on simplified and more easily accessible legislation.

### **The CAP today: new developments and objectives**

In its long history, the CAP has undergone a continual process of adaptation and change, culminating in the reforms of 1991 and 1999. However, despite the fact that the Agenda 2000 negotiations were completed only three years ago, there have been major new developments that make necessary to launch a new phase of reform. The upcoming international trade negotiations at the WTO (World Trade Organisation) will lead to further trade liberalisation, which will obviously also affect the agriculture and food sector.

At the same time, there will also be a further opening up of the EU's trade policy towards third countries, both for the least developed countries and important partners such as Mercosur, North Africa and the Balkans. Of particular importance in this regard was the openness shown by the European Commission in the initial months of 2002 to extending the EBA ("Everything but Arms") Agreement for liberalising trade with the world's 49 poorest countries to all countries of the ACP (African, Caribbean and Pacific) Agreement.

The enlargement of the EU will also raise major problems for the CAP, with the extension of direct payments to farmers in new member countries at a time when budgetary restrictions will make it more difficult to find balanced solutions.

However, it should also be pointed out that, over and above these economic factors, there has been a weakening of the public consensus over the CAP, for, in a society in which the rules of the market now apply across all sectors (and have been assimilated into a widely shared culture), the public is beginning to wonder whether the policy of protecting and supporting farms is justified. This public consensus has been further undermined by the failure to prevent serious contamination and diseases within the food system (cases of dioxin, BSE, etc.), as well as by stories of misappropriation of subsidies that periodically appear in the news. More generally, it must be borne in mind that there have been profound changes in public attitudes over the past twenty years, and today's citizen-consumers are acutely aware of the environment, food safety, organic production and animal welfare and expect the EU to be increasingly responsive to these issues.

The media are largely responsible for this awareness, which is also a new development. Ultimately, it has led to increasing public scrutiny of the CAP in recent years. The main criticism levelled against this policy is that it consumes a large share of the EU budget – nearly 50%, with an annual expenditure of over EUR 40 billion – but also that it has failed to prevent crises, such as the BSE and swine fever epidemics, and more generally that it has been unable to ensure the safety of consumers and citizens.

This has raised the issue of the quality of agricultural policy rules and instruments, but also of how acceptable they will be to public opinion in the future. In this regard, the results of the 2001 Eurobarometer Survey, which studied what European citizens thought that the CAP's objectives should be, are extremely interesting (Table 1).

Table 1. **What European citizens expect of the Common Agricultural Policy**

Objectives	Ranking by priority (in %)
Ensure that products are safe and healthy	90
Preserve the environment	89
Protect small farms	82
Adapt agriculture to consumers' needs	81
Improve living conditions in rural areas	80
Make EU agriculture more competitive	78

*Source: Eurobarometer Survey (2001).*

This table shows clearly that new needs have emerged that differ from the objectives assigned to the CAP in the past. The priorities now expected of the CAP are the need to ensure that products are safe and healthy, to respect the environment and preserve the social base of rural areas. In other words, there is a clear and unambiguous demand for rural development.

At the same time, issues relating to farms are seen as being less important. Although there is a certain concern over the fate of small and medium-sized farms, the objectives of defending farmers' incomes (77%) and protecting farmers' interests within the sector (71%) have a very low priority.

Consequently, a radical rethinking of the CAP is required. However, in addressing this problem, Europe must not lose sight of the fact that it does need an agricultural policy, just as all countries in the world, including the most free-market oriented ones such as the United States, New Zealand and Australia, etc., have their own agricultural policies. The agricultural sector is different from other sectors of the economy for a number of economic, political and social reasons that justify having a specific intervention policy in this field.

The problem does not seem to be the cost of agricultural policy *per se*. It is believed that the overall cost of the CAP is less than 0.51% of the gross domestic product of the EU. Rather, the problem is the interrelation between the cost of the CAP and the objectives targeted. If the objectives defined in the revised version of the Agenda 2000 programme being prepared for 2003 are in line with citizens' "new" demands, there is every reason to believe that it will be possible to launch a policy for the development of the agri-food sector and farm businesses that will be genuinely sustainable over time.

## **New prospects for rural development**

In this new situation, it is necessary to rethink not only the role played by farms in achieving the objectives of the Common Agricultural Policy, but also the very objectives that rural development should pursue. This reappraisal should focus on three elements:

- objectives;
- resources;
- instruments.

Regarding objectives, it is necessary:

- to provide farm businesses with new tools and means of action that will enable them to select and shift to better adapted farming models, moving away from a rationale of broad support to specific types of production and national systems;
- to grant support on the basis of the behaviour of farms and farmers;
- to consider farms and farmers as the prime actors of rural development.

At the same time, in light of what has been said above, rural development must be understood as a model of development that is sustainable over time and an approach that is aimed at meeting the cross-cutting needs of the environment, health, the local area, the landscape and other factors, in line with the overall requirements of the new CAP. As regards farms, agricultural activity must shift towards a multi-functional approach. The fact that an agricultural activity is carried out within an area can in fact have an enormous environmental, social and cultural impact, due to a series of interacting factors that affect the identity and values of residents, the organisation of space and productive activities. However, experience shows that the mere presence of agricultural activities within an area does not always have positive effects, for in some cases overly productivist models can also cause serious environmental damage.

It is only if agricultural policy is given a strong environmental orientation that the multifunctional role of agriculture will be able to have its full positive impact and contribute effectively to sustainable rural development. Consequently, quality and the multifunctional role of agriculture are the two cornerstones of rural development that must be promoted. An agri-food system based on quality and which fully plays its multifunctional role within an area will meet the expectations of citizens and consumers and can also constitute an economically valid response in the context of globalisation.

However, it must be borne in mind that the “new rural development” must be compatible with the following future constraints:

- The enlargement of the European Union. The countries that are candidates to enter the EU have 60 million hectares under cultivation and nearly 10 million agricultural workers; consequently, there will be a shift in the distribution of financial

contributions, but above all rural development will have to be made more flexible (social aspects of the environment and animal welfare).

- International trade. Rural development will have to be implemented in ways that are “compatible” with WTO agreements. Multi-functional services and activities will have to target a specific market, with a supply (that of multifunctional farm businesses) and a demand (even if it is from the public sector).

As for the resources made available to rural development, financial resources for market measures for rural development should be increased with the medium-term revision of Agenda 2000, which should bring the share of agricultural expenditures devoted to rural development from 11%, as set in Agenda 2000, to 20-25%. Nevertheless, the expected results cannot be achieved simply by assigning new resources to implementing the Regulation on Rural Development as it stands today. The quality of the results will not be determined solely by administrative and regulatory aspects, but will also require a more careful reappraisal of the measures being used to ensure rural development.

An important step has been taken in this direction in the draft medium-term revision of Agenda 2000, which seeks to strengthen regional development by laying down new accompanying measures in the field of food quality and safety (in this regard, the chapters on the promotion of farmers’ participation in quality certification and guarantee schemes – PDO, PGI, organic labelling, etc. – and on support for the promotional activities of producers’ associations are interesting), as well as that of health and animal welfare.

In conclusion, if we can succeed in promoting within the EU a rural policy that is consistent with the constraints of the general economic system and developments in the agri-food sector and with the needs of civil society, then it will be possible to make a comparison with other systems in order to define common foundations of rural policy that will be valid beyond EU borders.

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## Multifunctionality and Agriculture

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### *Abstract*

*The concept of agricultural multifunctionality is the fruit of intense debate of which the initial phases date back to the early 90s. Its main phases include the principal of sustainable development ratified at the Rio Summit (1992), that of decoupling agriculture subsidies adopted in the Marrakech Agreements (1994) along with the concept of an integrated rural policy put forward at the Cork Conference (1996). In France, the Agricultural Orientation Act (1999) designates the principal points and results of this debate. In this country with a rich farming tradition, the crisis affecting the agriculture of the developed countries has been the mostly deeply felt.*

*There are five dimensions to this crisis: the demographic and socio-political crisis of the farming community; the emergence of extraordinary territorial fragility; the increase of disregard to food among the citizenry; the growing manifestation of a split with the living; farmers' uncertainty in identifying their own profession. In confronting this crisis, multifunctionality is a concept, which can give meaning to the farming profession and to agriculture. Indeed, it shows that farming activity plays many roles that can be illustrated through five distinctions: foodstuffs and non-foodstuffs, production and transformation, material and immaterial wealth, private and State goods, market and non-market goods. To be meaningful, these different functions must be apprehended and encouraged globally. Here is where one finds the interest of an agricultural policy based on the "decoupling-recoupling" principal: "decoupling" the different functions of the act of production so as to assure their remuneration then "recoupling" them so as to preserve the links uniting agriculture to the territory, to nature and to the living.*

The debate on multifunctionality emerged from a profound crisis in the agricultural world. Although this crisis has affected all developed countries, it has been felt particularly strongly in France, a country with an old farming tradition. That is why this debate has reached such proportions in this country.

## **The concept emerges**

The crisis to which we refer has the following five dimensions:

### ***The agricultural population***

The first dimension concerns the agricultural population. One has to appreciate what it is for a social group to suddenly discover that it has become a minority in society. Exactly a century ago the agricultural working population accounted for half of the French working population. In this respect, farmers are the only social group that, in just a century, has gone from an absolute majority to a minority.

*The French farming community is not a social group like any other. It is a group with a history marked by the various missions that different governments have entrusted to it over time. When this group suddenly realised that it had become a minority among others and that its missions had changed considerably, an immense feeling of discontent emerged.*

### ***The agricultural world's relationship with the land***

The second crisis that the agricultural world had to deal with in the late 20<sup>th</sup> century concerned its relationship with the land. The reasoning had always been that, by nature, agriculture held the land – until it was realised that all agricultural production required only a small portion of our territory.

When we look at France's ten main agricultural products, we see that ten *départements* – that is 10% of the territory – produce as much as 45 departments, that is 45% of the territory. Those ten *départements* are all situated north of the Loire River, while the 45 others are situated south of it. Taken one by one, these ten *départements* all consider that, technically, they could probably double their production – and that is true. In other words, if there were no constraints, about 20 *départements* instead of 100 would be enough. There is clearly an extraordinary *territorial weakness* here.

### ***The relationship with food***

The relationship with food is another source of tension and thus of fragility, for a major historical break occurred in this respect in the late 20<sup>th</sup> century. For the first time, an entire generation is living as if it were sure to have enough to eat to the end of its life. This is something never witnessed before in the history of humankind, and it radically changes the way in which we consider those producing the first link in our food chain: the farmers.

We are thus in *an entirely new situation, characterised by a lack of worries about food quantity*. Basically, this has caused farming to be seen as relatively unimportant. Not only has it become a minority, it has also become just one among others because in the food chain it is simply one of the links.

Along with this feeling of abundance we find an immense lack of knowledge. *We have never eaten so well and we have never known so little about what we eat!* This is another factor creating a *lack of understanding*. Ignorance breeds misunderstanding.

### ***The question of nature***

The fourth major break concerns nature.

While society was being urbanised, the agricultural world believed that, in a sense, it remained the guardian of humans' ancestral relationship with nature. Then suddenly the public opinion woke up and said: "Hey, what you're doing with nature is not what we expected!".

Society realised that the agricultural world had a relationship with nature that was a *relationship of modernity*, that is to say, one of exteriority. It realised, above all, that animals were seen only as machines for transforming plant protein into animal protein. Gone was the romantic view of nature.

There was a kind of awakening which, in France, resulted in extremely forceful debate. Moreover, agronomic research was largely, although not solely, responsible for the extraordinary modernisation of French agriculture. *This question of nature thus arose in both the agricultural and the scientific worlds.*

### ***Definition of the farmer's occupation***

The last difficulty is related to the very definition of farming as a profession. The traditional farmer (*peasant*) of the late 19<sup>th</sup> century became the commercial farmer (*exploitant agricole*) of the post-World War II era. There is currently a trend away from the latter term, although nothing has clearly replaced it. Interestingly, French farmers' unions increasingly use the term *peasant*, because of its historical and social positive connotations.

There is a debate in our country around this term. Farmers are entrepreneurs who put production factors into perspective and develop economic calculation, some say. Why should they not be considered as company managers, a term with important social value in our society?

If everyone were a company manager, I think it would be rather boring. Of course, there have to be company managers, but what is interesting in a society is precisely *being able to name the diversity of that society rather than reducing it*.

### **From the multifunctionality concept to agricultural policy**

It was thus in this context of profound crisis that the concept of multifunctionality emerged at the end of the 1980s. A full decade was needed, however, before the concept was translated into agricultural policy. Those ten years were marked by the following key dates.

It was at the Rio Summit in 1992 that the concept of sustainable development, closely linked to that of multifunctionality, was first highlighted.

In 1994 the Marrakech agreement closed the Uruguay Round of trade negotiations. This treaty laid down a new conceptual framework for public agricultural policy. The idea of uncoupling aid, that is, of dissociating it from quantities produced, was firmly established.

Between 1995 and 1998 the European Union focused on that issue. The Commission submitted for discussion the concept of integrated rural policy, centred around environmental and territorial approaches. A conference was organised in Cork, under the Irish presidency, to validate this debate, but the European Council of agriculture ministers in Dublin subsequently cancelled that guideline.

In parallel, between 1996 and 1999, first the OECD and then the FAO – at the Maastricht Conference in the autumn of 1999 – discussed the concept of multifunctionality. The OECD promoted it; the FAO rejected it.

In France the key date in this debate was unquestionably 1996 when the FNSEA, the largest French farmers' union, called for a new blueprint law: "*loi d'orientation*". It considered that the 1960 and 1962 laws, which still largely governed agriculture, no longer corresponded to the current situation and had to be amended.

Thus, in 1997 and 1999 the multifunctionality of agriculture was at the heart of debate on the blueprint law. The question was: "is this law intended to build French agriculture on 250 000 farms or is it intended to maintain agriculture everywhere in the country?".

Answering this question meant that one acknowledged the fact that agriculture is more than a volume of production. It meant, in the final analysis, that having agriculture on the entire national territory was a *political will* and not only the outcome of an economic logic. Naturally, it meant that the situation was more complex than expected.

All these debates culminated in the agricultural blueprint law of July 1999 and the creation of the "Contrat Territorial d'Exploitation". At just about the same time, during the debate on Agenda 2000, the Council of Ministers in Berlin created the second pillar of the CAP on the basis of rural development and multifunctionality.

## **The concept's five dimensions**

Why develop this notion of multifunctionality as an answer to the agricultural crisis? Because multifunctionality is the way in which we can name the fact that agriculture has an exceptionally rich range of outputs. And this means that this sector is not meaningless but, on the contrary, rich of sense and perspectives. To illustrate this point I shall make five distinctions.

### ***Distinguishing food from non-food***

The first distinction is the fact that the agricultural world produces both food products and non-food products. I won't insist on this distinction since it has always been acknowledged by the agricultural world, especially as regards the question of energy.

### ***Distinguishing production from processing***

The second distinction concerns production and processing. Agricultural producers are expected, collectively, to be producers both of raw materials and of processed, identified and qualified products linked to a territory. We clearly see that the market is expressing strong expectations as far these processed products are concerned, and that there is a revival rather than a decline in this respect.

### ***Distinguishing material from immaterial wealth***

The third, less obvious, distinction is the fact that the agricultural world produces immaterial wealth along with material wealth. What do we mean by immaterial wealth? We mean, for example, landscape, management of the soil and the subsoil, biodiversity, etc. The fact that agriculture produces immaterial wealth has highly important cultural effects that must absolutely be taken into account.

### ***Distinguishing public from private goods***

These immaterial goods have two characteristics that constitute my fourth distinction: the agricultural world produces private goods and public goods. Private goods mean that farmers' production belongs to them (agro-tourism for example).

On the other hand, farmers are considered more and more as agents producing public goods in the course of their private activity: landscape, environment, culture, and so on.

All of these things are in demand. Interestingly, a large number of these public goods cannot stem from strictly public action; they can only be the outcome of public policy implemented by private actors. Thus, the construction of landscape relies on private actors, in a totally private framework, yet it is a public good, and by that I mean *a good which is for everyone's benefit and which benefits to the present and the future generations.*

### ***Distinguishing market from non-market goods***

The fifth distinction is between market and non-market goods. A part of what a farmer produces is for the market and a part is non-market although it

is a valuable asset. I think that the interest of the debate on multifunctionality in agriculture is its emphasis on the fact that *wealth can consist of a non-market good*.

It is therefore a highly important distinction, and that is where the problem lies. How can we ensure that this non-market wealth continues to be produced, not alongside material market production, but through material and market production?

This non-market qualification is thus of interest in two respects. First, it enables us to identify what belongs to the market and what needs to be regulated on an economical point of view. Secondly, it facilitates the construction of a policy dedicated to the remuneration of non-market wealth for the benefit of all.

## **A renovated approach to agricultural policy**

### ***A new definition for the farming profession***

That is the advantage of the decoupling-recoupling approach in which this production of wealth is “decoupled” in order to be “recoupled” afterwards. If we refer to the French case, the idea is not to have 20 *départements* that are strictly market-oriented and 50 that are strictly non-market oriented. In all the *départements*, we must have market and non-market productions, material and immaterial wealth, private and public goods, food and non-food productions.

Only this type of approach can give cohesion, coherence and legitimacy to public budgets. That is the ultimate goal of the “Contrat Territorial d'Exploitation”, the immediate aim of which is to reward – through an economic and market-oriented project – the environmental, social and cultural functions fulfilled by agriculture.

Over and above that, this policy is also *intended to recognise a profession* which is, in the final analysis – and that is probably what makes it so original – a profession of synthesis.

This job is not the direct heir of ancestral peasant. It is rather a highly specialised and complex job. It deploys a range of competencies that are not inherited but, more and more often, are learned.

The originality of this profession is its capacity to articulate several missions and different types of know-how – far more than those implied in the definition of the agricultural producer prevailing in the latter half of the 20<sup>th</sup> century. It is the reconstruction of a profession of synthesis, not an equivalent of the 19<sup>th</sup> century *paysan*. I believe that, from this point of view, the farmer is *a very modern entrepreneur*. An entrepreneur who has the particular characteristic of being as much in phase with the market as with the rest of society, through public policies.

In the final analysis, this very strong recomposition around multifunctionality can be seen as an *historical opportunity* to redefine the role of agriculture in modern society.



## **High Quality Products and Regional Specialities: A Promising Trajectory for Endogenous and Sustainable Development**

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### ***Abstract***

*Distinction is the keyword for the definition of high quality products and regional specialties. Four dimensions of distinctiveness exist, which when combined permits us to understand the considerable heterogeneity entailed in the production of high quality products in Europe. By referring to both inter- and intra-regional comparisons, we see that high quality production is relevant within regional economies. Moreover, it has an estimated overall impact on the EU level as a whole. In terms of net value added, this impact is superior to the impact of overall Dutch agriculture. Such an impact might be increased considerably through interlinkages with agro-tourism and the management of nature and landscape. Furthermore, we see that the development of high quality production is basically an endogenous process, upon the basis of which some policy recommendations are made in this paper.*

### **Towards a definition**

In the land that excels in products such as *carne Chianina* (the basis for the well-known *bistecca Fiorentina*), *formaggio Parmigiano Reggiano* and *Chianti* wine, it might appear, at first sight, quite a ludicrous operation to try to define the notion of “high quality food product”. This is especially the case when the one who is trying to do so comes from faraway, *i.e.* from the Netherlands. Nonetheless, at a more general level, the development of a proper definition of high quality and/or regional products is, I believe, quite a useful activity. This is especially the case when the interface between the production of high quality food and rural policy is to be discussed.

Distinction is the keyword for any such definition (Bourdieu, 1986; Barberis, 1992; Allaire and Sylvander, 1995). It is distinction that resides in the distinctiveness of the primary process of production. A key feature here is often the use of (specific) local resources, a keen embedding in local ecology and an ample use of local knowledge (Roep, 2000). Distinction also resides in the distinctive nature of the process of transformation: the artisan nature of the transformation process (as opposed to industrial) often turns out to be a decisive feature here (de Roest, 2000). Thirdly, there may be the distinctiveness in the process of commercialisation: short chains and the central importance of regional markets might be important in this respect (van der Meulen, 2000). Fourthly, we have to include the distinctiveness of the final products. Taste, appearance and/or freshness will be for sure among the important criteria at this level. But it is more than these: there will be a close, albeit dynamic “fit” between the products concerned and the reigning social definitions of quality (van der Meulen and Ventura, 1994; Maffesoli, 1996; Featherstone, 1991). This “fit” is often the outcome as well as the vehicle of strong culinary traditions. Price is equally a vehicle of distinctiveness at the level of the quality products. From recent research we know that a higher price (as compared to non-quality or “bulk” alternatives) contributes significantly to distinctiveness (van Ittersum, 2001).

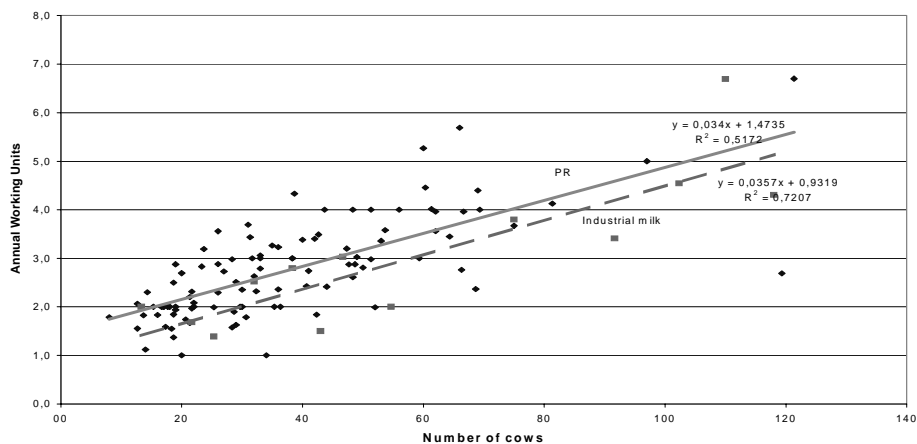
The more a product distinguishes itself along these four dimensions, the more it emerges as a high quality food product and/or as a regional specialty.<sup>1</sup> Hence, there are degrees of distinctiveness – just as there are different trajectories for developing more distinction.<sup>2</sup> Equally it can be stated that the more a high quality or regional product is made distinguishable, the higher the net value added per unit will be on the level of the concerned farms. This finding, then, introduces a fifth dimension of distinction: that is its relevance both for the farm economy and the regional economy. I will illustrate this aspect with some comparisons.

### **On the relevance of high quality and regional products**

In a recent study, de Roest (2000) compared the socio-economic impact of Parmesan cheese (*PR*) production with that of conventional dairy farming specialised in the delivery of “industrial milk”. Figure 1 summarises some of his findings.

Figure 1. **Employment rate per cow in industrial and Parmigiano-Reggiano dairy farms**

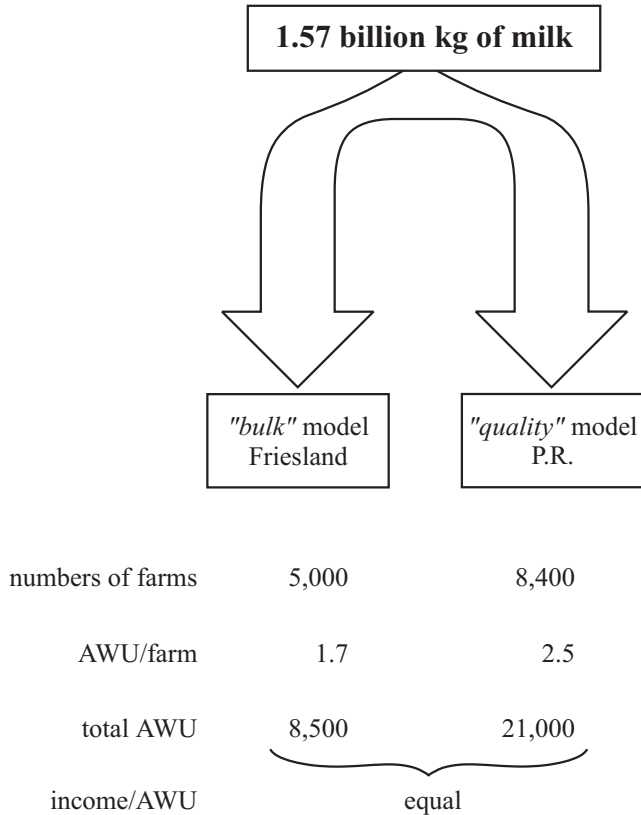
Only farms in the plains



Due to the particularities of producing good cheese milk (suitable for transformation into *PR*), labour input is higher on *PR* farms than on farms producing “industrial milk”.<sup>3</sup> Making good cheese milk requires more work (other circumstances being equal) than producing “plain milk”.<sup>4</sup> Taking into account the herd-size distribution, de Roest concludes “*that the production of Parmigiano Reggiano cheese is able to double the amount of employment available on the dairy farms*” (de Roest, 2000; de Roest and Menghi, 2000, p. 445). Instead of 11 290 AWU, the regional employment in primary dairy production is 21 154 AWU.

The regional impact of quality production is reaffirmed by a comparison that was made between the province of Friesland in the Netherlands and the *PR* area in Italy (Figure 2). Both areas dispose of exactly the same milk quota. In Friesland this associates with a direct employment effect in primary production of 8 500 AWU, in the *PR* area it is 21 154 AWU. Income-levels per AWU are, on average, the same (van Broekhuizen and van der Ploeg, 1999).<sup>5</sup>

Figure 2. Friesland and Emilia Romagna compared

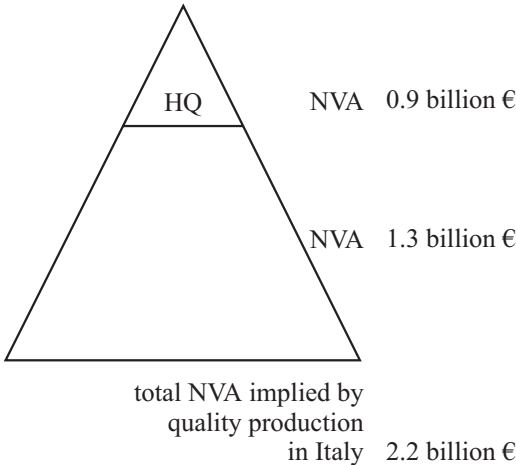


It is important to add that the relevance of quality production to Rural Development is not limited to the generated regional income and employment only. “*Parmigiano Reggiano farms in the plains show [...] a total nitrogen loss of 239 kilograms of nitrogen per hectare [which] compares with 309 kilograms/ha for the industrial dairy farms – a difference in the order of almost 30%*” (de Roest and Menghi, 2000, p. 445).<sup>6</sup> The dimension of sustainability is also highlighted by Ventura (1995 and 2001) who demonstrates that the “resource use efficiency” (notably of energy) is, in the case of *Chianina* meat production, considerably higher than is the case in “industrialised” animal fattening of the feed-lot type. For another high quality meat sector (*Barroso* meat in *Tras-os-Montes* in Portugal), van den Dries (1995 and 2002) shows that per unit of the most scarce resource (*i.e.* irrigation water), employment and income effects are two to three times higher than is the case within newly introduced, more “modern” farming systems in the area. Due to their particular

history and especially due to the high degree of fine-tuning to the local eco-systems, the production systems of high quality food and regional specialities tend to be more sustainable than conventional systems. Taking into account issues of landscape and bio-diversity tends to the same type of conclusion.

So far for *PR* cheese. Italy has 113 officially recognised PGI and PDO products, with another 150 in the process of recognition. Taking all recognised quality products together (including meat, wine, olive oil, etc.) it was concluded (van der Ploeg *et al*, 2002) that, in 1998, these products represented a total net value added (at the level of primary production) of EUR 2.2 billion.<sup>7</sup> This might be broken down as follows: EUR 0.9 billion is to be considered as *delta* NVA, that is, strictly speaking, the extra NVA that stems directly from the fact that we are dealing here with quality products characterised by premium prices (and by a somewhat different cost structure). This extra or *delta* NVA comes, as it were, on top of the NVA that would have been realised if the raw materials concerned had passed through current “non-quality” channels and had therefore received the current market prices (Figure 3).

Figure 3. **Economic structure of high quality production in Italy**



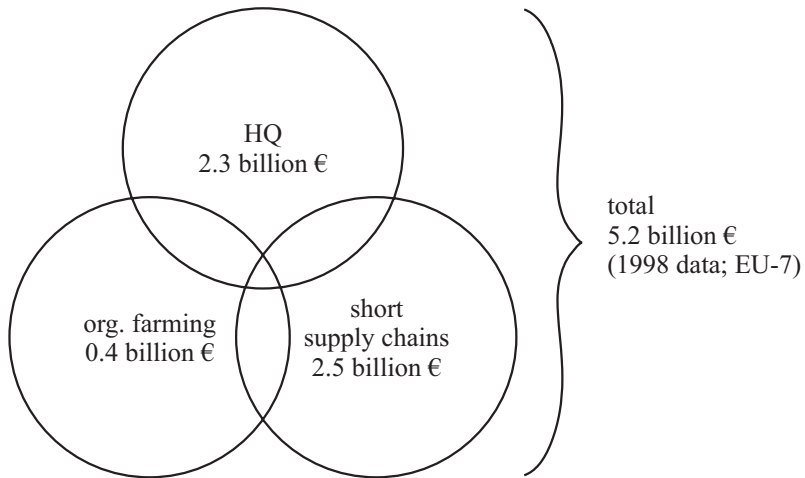
Thus, two types of observations are possible. First, by entering into the high quality segments of the markets, the implied set of agricultural enterprises raises its NVA by some 70% (from EUR 1.3 billion to

EUR 2.2 billion). Second, not only is considerable extra NVA generated through quality production – but it is quite probable that it is precisely because of this orientation to quality production that agricultural activity as such (that is the basis of the triangle in Figure 3) is sustained and maintained in the areas concerned. Without the upgrading as implied by quality production, this “basis” would probably disappear from the regional rural economy (see also Roep, 2002, who arrives to the same conclusion for the northwestern areas of Europe).

High quality production in agriculture is not a phenomenon that is just limited to the domains of production and transformation. The results of a recent European study of the socio-economic impact of rural development<sup>8</sup> permit a further view on the ways in which high quality production is linked with other domains. Going back to the top of the previous triangle (that is to *delta* NVA resulting from high quality production), we find, in the first place (Figure 4) that at European level at least EUR 2.3 billion *extra* NVA was generated in 1998 through high quality production. At the same time, though, it results that high quality production is closely associated with the creation and use of short supply chains (for further discussions see Marsden, Banks and Bristow, 2000 and Miele, 2001). Through this actively created synergy an additional extra or *delta* NVA of EUR 2.5 billion is created. And finally this constellation increasingly embraces organic farming as well. That makes for an extra NVA of EUR 0.4 billion. Taken together a constellation emerges that accounts for a *delta* NVA of EUR 5.2 billion (van der Ploeg *et al*, 2002).

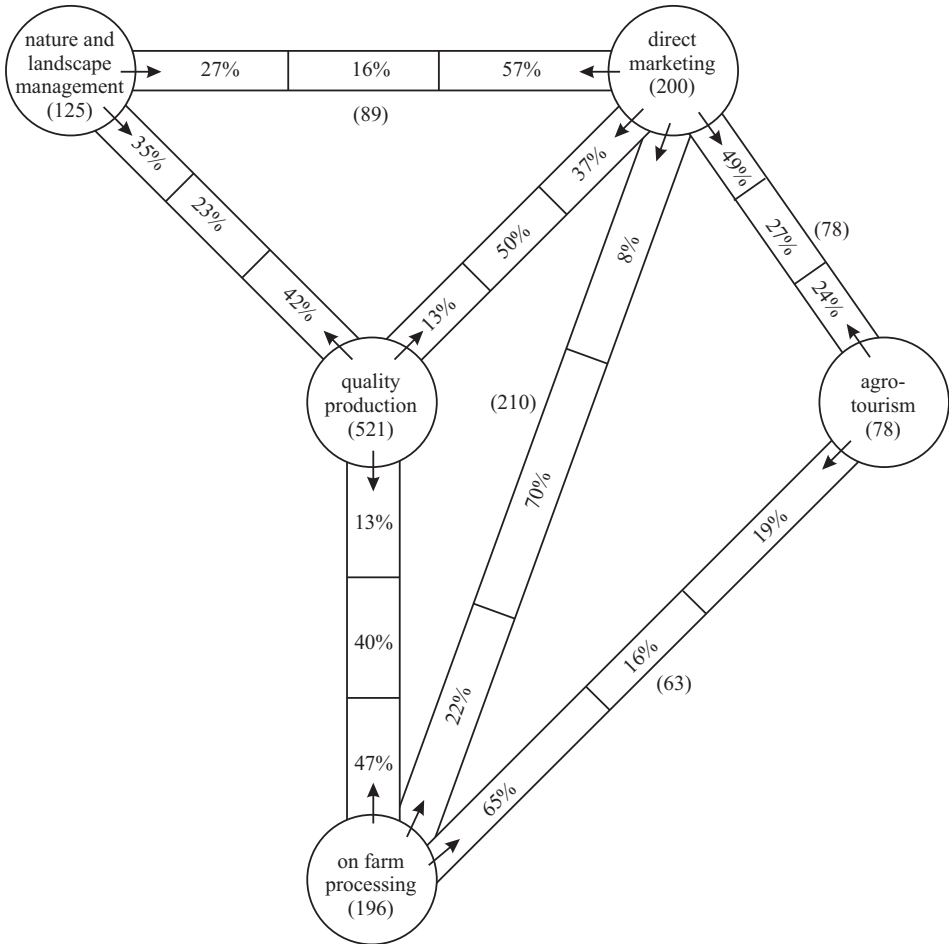
Within Europe, the Netherlands is often considered to be an agricultural giant. However, if we take into account that in 1998 the agricultural income in the Netherlands equalled some EUR 4 billion, we cannot but conclude that in the meantime another giant has developed. That is, high quality production as a widespread and multi-dimensional phenomenon.

Figure 4. **Interlinkages between different rural development domains**



The newly emerging linkages in which high quality production is increasingly embedded are also shown in Figure 5 (which is based on the outcomes of a European wide survey amongst farmers,  $n = 3\,500$ ; see Oostindie van der Ploeg and Renting, 2002). Apart from the already discussed axis that links high quality production to direct marketing, it shows that new axis are developing that interlink the former with phenomena such as nature and landscape management, on farm processing and agro-tourism. From the 521 producers involved in high quality production, 125 are also involved in the management of nature and landscape. Of these cases, 42% of this newly constructed synergy started from high quality production (which subsequently evolved to include the management of nature and landscape). In 23% of the cases there was a mutual start, while in 35% involvement in nature and landscape management was followed by the start of high quality production.

Figure 5. Interlinking different types of rural development activities



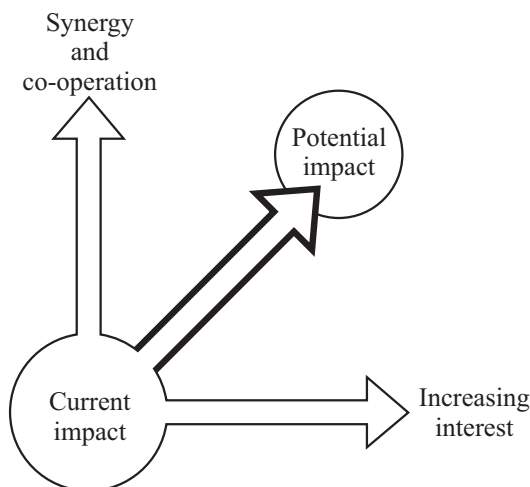
### Prospects and policies

When discussing the prospects of high quality food products and regional specialities it is often argued that in one way or another a kind of “upper ceiling” has been reached. This implies that a further expansion of this segment is not very probable or could even be a kind of self destructive process, in which mutual out-competing would be the key word.



The prospects for further development have been studied in the research programme already referred to. The “jump” from actual to potential impact has been conceptualised, in this programme, as the vector of two different, albeit interlinked processes. These are growing interest amongst other farmers and the active construction of synergy (Figure 6).

Figure 6. **Potential impact as vector of growing interest and creating synergy**



As far as interest is concerned, the European wide survey indicated that apart from those already involved in high quality production, a further 31% of European farmers is interested in a change towards high quality production (going from 10% of Dutch farmers to 46% of German farmers). More telling though is the synergy dimension. At the level of the EU as a whole, farmers who are involved in just one rural development activity derive on average 38% of their farm income from that particular activity. However, farmers who are simultaneously involved in two types of RD activities (through “webs” as illustrated in Figure 5) derive 57% of their income from these activities. And farmers involved in three or more activities obtain 64% of their income from this multiple involvement.

In my opinion these data allow for two types of conclusions. First, they show that by combining different activities (that is through the active construction of synergy) considerable additional income effects might result.<sup>9</sup> That is, multiple involvement in rural development activities as *e.g.* high quality

production combined with direct marketing and agro-tourism, emerges here predominantly as *endogenous* process, that is spurred by the well understood interests of those involved. Secondly, the very presence of this phenomenon of actively constructed synergy, indicates that *beyond* the markets as such, there is room for further development of high quality food products and regional specialties. By combining such activities with other RD activities, an important line of defence is generated vis-à-vis adverse market tendencies (Milone and Ventura, 2000).

The construction of synergy not only depends on individual activities. Synergy might also be constructed at higher levels of aggregation. I will discuss one example, especially because it is here where the (potential) relevance of rural policies of co-operation, and new rural districts are emerging.

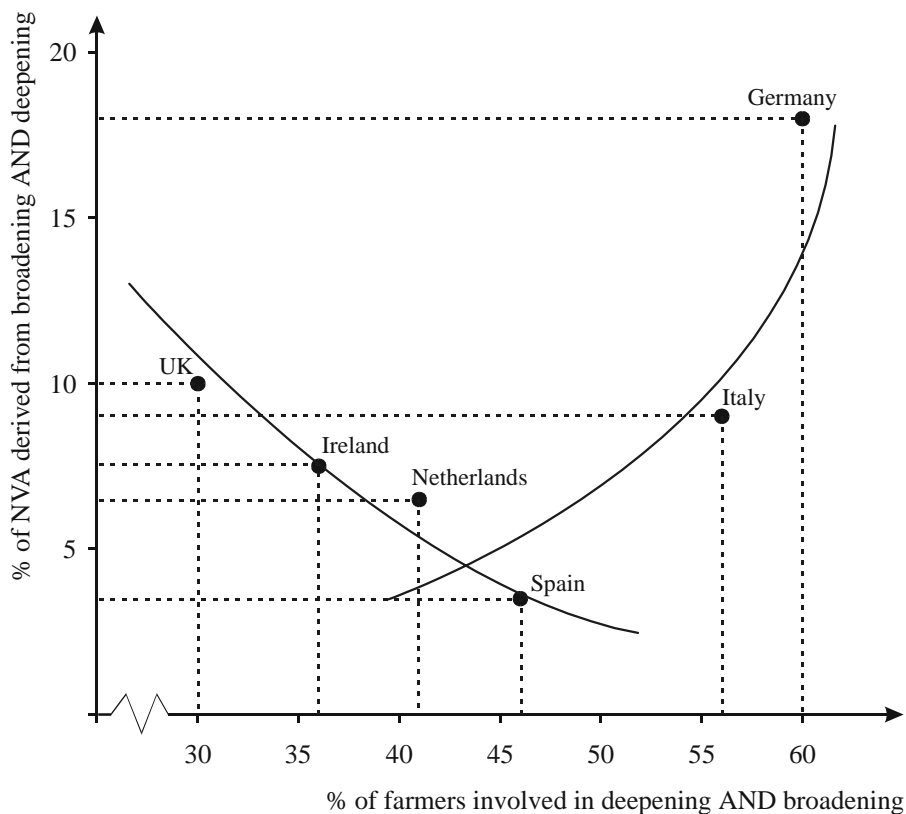
The *Costa degli Etruschi* wine route is the outcome of the concerted action of a range of actors, amongst them wine producers, recreational entrepreneurs, local and regional authorities. It offers tourists the possibility to come to know and to experience the scenic landscapes, the cultural heritage, the wine, the culinary specialties and gastronomic products of the area (Brunori and Rossi, 2000). For the concerned entrepreneurs, farmers included, there is a common set of rules aiming at a high quality supply of services. The creation of the wine route resulted in an unfolding chain of (measurable) direct and indirect effects. One effect of the wine route is a considerable and continual increase in the number of tourists. This translates into an increasing demand for agro-tourist facilities and an increased demand for direct sales. This is followed by increasing sales volumes and an increased value per unit.

Equally there is an increasing awareness of customers for regional specialties, which in turn is translated into an increased demand for bottled wine and an increased demand for indirect sales. This is followed by premium prices and an increased net value per unit. Taking together all these different effects, there is – as a consequence of this joint effort – an *extra* net value added (on top of the already existing NVA of EUR 3 598 500) of EUR 1 079 550 (a prudent estimation) to EUR 1 439 400 (a more optimistic estimation).

Figure 7 refers to the percentage of farmers involved in RD activities (amongst them involvement in high quality production) and to the per cent of NVA at sector level that is derived from these activities. The distribution of countries within this space suggests the presence of two tendencies. The first (going from the United Kingdom to Spain) indeed reflects a downward trend: the more farmers involved, the lower the relative income contribution. But there is as well a reversed trend (one that runs via Italy towards Germany). Here an increased participation in RD activities translates into a growing share of RD

generated income. It is not too adventurous a hypothesis to assume that this again relates to the relevance of rural policies and the formation of new rural districts, that is to areas with an integrated and mutually reinforcing whole of RD activities. In other words, areas of the *Costa degli Etruschi* type (see for a further discussion Iacoponi, Brunori and Rovai, 1995).

Figure 7. **Involvement and income effects at sector level**



Is it possible to create *new* high quality and/or regional products? Is the construction of *new* rural districts possible? Evidence from all over Europe (ranging from the *Scalogni di Romagna* in Italy, via the *Waddenproducten* in the Netherlands to *Lynn beef* in the United Kingdom,<sup>10</sup> shows that this is indeed possible, although the difficulties are often enormous (van der Ploeg, 2002).

On the positive side is the fact that European farmers involved in the creation and further development of high quality products and regional specialities refer to market opportunities as one of the main driving forces for their involvement (83%). Of equal importance are the “suitability of the area” (82%), “personal interests and skills” (80%) and the availability of “necessary assets (land, labour, buildings)” (81%) (Oostindie, van der Ploeg and Renting, 2002). Thus, RD and especially the creation and embedding of high quality food production systems emerges as a market-led development, that links both the global (new market opportunities) and the local (the area, skills, assets, etc.).

On the negative side, though, there is the fact that *restrictive regulations* are seen by 69% of farmers involved in high quality food production as a major constraint for any further development. Interestingly enough, most farmers (75%) perceive the European Union in this respect to be a favourable factor, while only 26% perceive “national government” as favourable.

From here on, some suggestions for adequate rural policies might be formulated.

- 1) The (endogenous and market-led) development of new circuits for the production, transformation and commercialisation of high quality and regional food products runs increasingly counter to different layers of regulation. Supra-national, national and regional policies (especially the ones concerning hygiene and food-safety) not only frequently exclude the development of new regional quality products, but also threaten the consolidation of existing quality production systems. I believe that there is just one satisfactory, albeit at first sight a somewhat radical solution to this problem. That is, to decentralise the responsibility for food safety to the consortia and co-operatives that regulate the different quality production systems. Hence, food safety and especially the way to secure it might differ from one area to another, from one system to another (*e.g.* artisan versus industrial). The existing PGI and PDO structure could very well be used for such an approach (which, *inter alia*, would be perfectly in line with the principle of subsidiarity). For new high quality food products with regional origins, some experimental room needs to be created.
- 2) Rural districts, especially those having a high quality food product as pivotal centre, should be facilitated and strengthened as much as possible. Temporary investment subsidies for small and medium

enterprises that transform and commercialise the high quality products could be an important mechanism to do so.<sup>11</sup> The “second pillar” as well as the modulation mechanism are the proper fields for introducing such a mechanism.

- 3) Public Research and Development activities should be far more focussed on the further specification of existing high quality food products and on the creation of new ones. Especially in the north-west and the eastern parts of Europe there are hardly any such public R&D facilities. Public research mainly follows trajectories and research agendas as specified by large agri-business groups.
- 4) Rural policies should allow especially for the active creation of synergy, both at on-farm level and at local and regional level. Currently, spatial planning policies, agro-environmental schemes, etc., often run counter to the creation of such synergy.
- 5) A last element I would suggest here is that in the context of rural policies, new programmes need to be developed that aim at a wider recognition of the cultural heritage and values of the countryside (high quality food products and the way they are produced being one of the central elements) within European society as a whole.

## Notes

1. Throughout this text I will use high quality products and regional specialities as synonyms. All known high quality products use a regional or local origin as a benchmark for distinction. On the other hand, there are only market changes for regional and/or local products if they distinguish themselves in terms of quality.
2. An interesting example might be derived from the domain of the *Parmiggiano-Reggiano*. Recently a special *PR* has been developed which is made exclusively from milk produced by the old, regional cattle breed, the *vacche rosse*. The same applies for *PR* coming from the mountain areas in the *PR* district. And finally one might refer to *PR* made from organic milk. All these examples refer to a further proliferation along the first dimension of distinctiveness.
3. This evidently concerns the second dimension – artisan production – relevant here are particularities such as forbidding the making and use of silage, the need to have a considerable percentage of luzerne cultivation in the cropping pattern, and the associated need to work with well-ripened manure instead of slurry.
4. The more so since *PR* is made out of “raw milk”. It is not pasteurised, as is the case with industrial cheeses.
5. Indirect employment is, in the case of *PR*, also considerably higher.
6. This difference is partly due to the centrality of alfalfa in the cropping pattern on *PR* farms. It is telling though that de Roest and Menghi (2000) conclude, on the basis of a multivariate analysis, that “*with increasing stocking rates, industrial dairy farms are confronted with a more rapid deterioration of their nitrogen balance than dairy farms that deliver milk for making Parmigiano Reggiano cheese*”.
7. The total GVP at farm level was some EUR 3.5 billion, whilst after transformation, that is at the level of the food market, this represented some EUR 8 billion.
8. This study was carried out in Ireland, England, the Netherlands, Germany, France, Spain and Italy. Its results are summarised in *Living Countryside: Rural Development Processes in Europe*, to be published by Elsevier in September 2002.
9. See for a further theoretical discussion Saccomandi (1998). See also Panzer and Willing (1982) who discuss the differences between economies of scope

and economies of scale. Multi-product firms might obtain considerable cost reductions when one and the same set of resources can be used to generate a multiple range of products and services (see also Scherer, 1975).

10. See respectively Menghi (2002), Roep (2000 and 2002) and Banks and Bristow (2002). See also van der Meulen (1998) on “hidden” starting points for regional quality production.
11. The high degree of monopolisation of the food industry is probably one of the biggest hindrances to the emergence of new high food quality constellations.

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## PART IV

### LOCAL EXPERIENCES OF RURAL DEVELOPMENT (ROUND TABLE)

Local approaches to rural development are shaped by the type of partnership put in place in the local context (*who* carries out the project), the strategy followed (*what* are the objectives and methods of achieving them), and the definition of the appropriate or pertinent scale (*where* is the local territorial project carried out). Bearing that framework in mind, it is not surprising that the following presentations describe different situations, given the different contexts and backgrounds of experts participating to the roundtable. Nevertheless, these presentations underline some common problems, at least in lagging rural regions. First, the participation of local people and entities need to be organised. Second, local people should be willing to propose projects and to manage them. Third, local groups and networks do not necessarily possess the expertise and knowledge for undertaking such projects. Finally, awareness of environmental problems is often not satisfactory. As a consequence, policies and governance systems should pay attention to the social capital in these areas as well as to the diffusion of information and skills and the animation of networks.

Mr. Staffan Bond's presentation was about the Village Movement in Sweden; its role, scope and specific features. This provided the author with an opportunity to suggest changes to make rural policy more democratic, more decentralised and more based on the empowerment of citizens and enhanced human capital.

In the second presentation, Mr. Alessandro Piccini introduced the SPIN-ECO project, a comprehensive effort to commit the province of Siena (Italy) to sustainable development. A rigorous approach is followed and a battery of sustainable indicators are used to assess the state of the environment in all the municipalities of the province. On this basis environmental products and activities will be certified using ISO international standards.

Mr. Guy Beaufoy analysed the trends affecting the La Vera district of Extremadura (Spain) (*i.e.* socio-economic progress and environmental decline). He also stressed the challenges ahead given the gradual phasing out of the Structural Funds and underlined the need to upgrade human resources, increase the quality of organisational structures and improve the efficiency of agri-environmental programmes.

## **Issues for New Rural Policy**

**Staffan Bond**

### **The Popular Movements Council for Rural Development in Sweden**

*“All Sweden shall live!”*

#### **The Village Movement**

- The Swedish Village Movement has grown out of a troublesome situation in many rural areas. People felt a lack of influence and the development was negative. A crisis was often the starting point for local action, *e.g.* factory or school closing down.
- The local action groups deal with all kinds of matters; cultural activities, tourism, building factory premises, running shops, schools, making village plans, etc.
- Characteristic is co-operation over traditional boundaries in the village. In 100 out of 300 municipalities and 22 regions, all but one, the village action groups co-operate in networks.
- The movement has matured from dealing with simple to more advanced tasks, from leisure to developing the local economy, from specific actions to a holistic view on local development, from neglected single actions to a respected popular movement.
- Now it is an integrated part of Swedish society that vitalises and strengthens both democracy and economy.
- There are similar movements in the Nordic countries and also in Estonia, Hungary, Slovakia. Others might follow, like Scotland.

- International networks are formed, like “All the North shall live” in the Nordic countries and PREPARE (Pre-accession partnerships in Rural Europe) assisting in the candidate countries.

### *The Popular Movement’s council for rural development*

- The council was established in 1989 after a campaign for Rural Europe in the late 1980s.
- The main aims are, in short, to encourage and support local democracy, community initiatives and rural development.
- It is organised of two parties:
  - 1) The Village Movement: 4 200 village action groups all over Sweden, the number is growing and it is covering one-third of the Swedish Population
  - 2) Fifty-three NGOs, most of them national, like the Farmers Union, the Consumers Cooperative
- A Rural Policy Program is written as a common platform

### **Some ideas to create a new rural policy**

#### *Three most important changes for local territorial approach*

- 1) **A local democratic structure** for common discussions, giving priorities and making decisions – and for actions. Different models exist. The Swedish Village Movement is one example of participative local democracy. And citizens’ participation is important! Empowering people, building the human capital is necessary.
- 2) **A decentralised and sector-integrated organisation of society** that gives economic and administrative power and capacity to the local level. A multi-level system for territorial governance should be developed. In Sweden there are relatively strong municipalities that could administrate territorial rural programs (and does). This brings agricultural policy closer to citizens and consumers.

- 3) **A true and efficient local three-party partnership**, where citizens' organisations are important partners, for example the Village Movement. Leader offers an example. Territorial programmes should be formed and implemented. They should be the main stream, not additional. Finland has mainstreamed the most.

### ***Main changes in funding mechanisms***

- More money should be transferred from traditional price support to integrated rural development – from 1<sup>st</sup> to 2<sup>nd</sup> pillar in EU agricultural policies. But not the same measures and not limited to farmers.
- “Dynamic modulation” as suggested in the midterm overview seems to be a useful instrument. Also simplified, flexible support as “decoupled farm income payment”.
- Measures for promoting quality food, safe food, locally produced and profiled food, energy crops, environmental care are necessary (a multifunctional agriculture).
- A rural stewardship of the landscape and the natural renewable resources should be promoted. This is the farmers' new mission. Citizens' organisation can help the farmers and should have possibilities to get economic support.
- Maybe most important: Territorial integrated programmes for sustainable rural development should be formulated at different levels of society from village to county.

### ***Changes in governance to reinforce integration***

- It is necessary to create a multi-level system of territorial governance from village to county.
- Decentralisation and sector integration is needed. We should move from sectoral to place-based policies and organisation.
- Special support is important to create local democratic and public structures like the Village Movement.



- Empowering citizens and building the human capital is essential.
- Support to the NGOs and the social economy's actors (especially in candidate countries) is needed. Influence and money must be ensured.
- Communication, relations and interplay between citizens and authorities must be improved.
- Planning processes should start at village level and aggregate – bottom-up!
- Form the local partnerships where business societies, farmers, citizens, consumers, etc. co-operate.

### *Conditions for efficient local partnerships*

- Three-party partnerships should be formed and citizens' organisations like village groups should be encouraged.
- Territorial identity, common history and traditions are important pre-requisites.
- The area should not be too large – co-operate instead in networks to ensure the necessary “critical mass” – in “a light but strong honey comb structure” as they say in the sparsely populated areas in the very north of Sweden.
- Legitimacy, administrative and financial power should be given to the partnerships.
- Broad participation must be ensured – youths, women, unemployed.
- And dedication is needed: passion, vision, action means development.

## Local Rural Development Experiences

**Claudio Galletti**  
**Agriculture Counsellor**  
**Province of Siena, Italy**

The Province of Siena was chosen by OECD for analysis, as a complex and developed web of economic, territorial and social inter-relations. It shows, together with other areas, that rural is not synonymous with agriculture. In Siena, agriculture plays a crucial role for further development and for maintaining employment growth without scarifying sustainability.

One of the actions set regarding the infrastructure endowment of our rural system, in addition to maintaining and developing the more traditional infrastructures such as roads, water systems, electricity, telephone service and the like, includes a project for cabling the entire territory of the province over the next few years. This will certainly be a competitive **advantage** for the rural system as a whole, since these are low-use and low-demand areas.

Among our other actions, besides seeking to maintain and improve the quality of life, is ensuring the modernisation, competitiveness and sustainable development of the agricultural, agri-food and forest system. The forest system has not been sufficiently studied and exploited in this province, despite the fact that 40% of the territory is covered by woodlands. Woodlands are a renewable resource and unquestionably a heritage that must be protected and made more productive.

Many other actions can be described, but the one I would like to stress in particular is the quality control and certification of agricultural products. The local government has been working together with economic actors and representative associations to request and obtain the certification of a wide range of products. This provides a guarantee to consumers, increases the value added of the products and establishes a link between products and places. Labels have made it possible to develop policies for promoting the rural system, to enhance competitiveness and growth and to assist the numerous small and

very small farms and businesses that are a fundamental part of the heritage of the province.

The farmers and the business community have supported agri-environmental measures that have led to the steady growth of integrated and organic agriculture, and that have contributed to improving the environment, in some case even using processes aimed at restoring the natural environment.

What are we planning to do to make our entire system even more competitive? It would be advisable, and also consistent with the anticipated CAP reform, to diversify production by converting land where cereals are currently being grown to olive and vine cultivation. This would certainly lead to greater competitiveness of products and farms, without being detrimental to environmental sustainability and development.

We should also maintain our heritage in the field of animal production, maintain and develop crop rotation, improve soil quality and maintain bio-diversity in the crops grown throughout the province. This means moving towards policies aimed at ensuring the quality and diversification of production.

We must promote integration processes among farms and businesses and among the agricultural, manufacturing and craft sectors in order to promote innovation in processes and products. We know that tourism supply must be adjusted to demand, which often is not the case; we know that the rural world as a whole is still largely unaware of its full potential; and we know that rural and urban areas must be more closely integrated.

In order to achieve these objectives, appropriate policies of the EU and central and regional governments are required. However, we realise that local development is increasingly determined by the governance initiatives that we take as local actors.

Moreover, we must find ways to promote stronger dialogue with associations, institutions and society.

I believe that one of the problems faced by all Western democracies is to find ways of enabling citizens, businesses and associations to become more involved and participate more fully in governance. In the Province of Siena, over 90% of farmers are affiliated with an association. Obviously, this is helpful to fostering the dialogue and co-operation on agricultural policies continuously promoted by the provincial council on which I sit, the Agricultural Council.

However, we must take this process a step further, as “rural” encompasses a reality that is not limited to agriculture alone.

**The Commitment to Sustainable Development:  
The “Spin-Eco” Project**

**Alessandro Piccini  
Environment Counsellor  
Province of Siena, Italy**

The concept of sustainable development arose from a desire to preserve natural resources by ensuring that they are used in a balanced way, preventing them from being exhausted and making it possible to hand them on intact to future generations. This requires making a commitment to ensuring that economic, environmental and social development go hand in hand, to producing goods without depleting resources and to disposing of the waste generated. These are conditions that are already being met to a considerable extent within the territory of the Province of Siena, where social, economic and environmental factors are closely interwoven, and where a strong link exists between local products and the territory in which they are produced, particularly in the agricultural sector.

Our entire territory is willing to make a clear and dedicated commitment to defending conscientiously all aspects of its environment and landscape. The Strategic Development Plan of the Province of Siena was prepared in light of these considerations, aiming to sustainability in the broadest sense. The Plan includes projects aimed at enhancing sustainability, such as the Provincial Energy Plan, the Provincial Waste Management Plan, the Agenda 21 Programme of the Province of Siena and the Environmental Certification Projects of local governments.

We will describe here this latter project, called the “SPIN-ECO” Project (“Sustainability of the Province through Eco-dynamic Indicators”), which is being carried out in co-operation with the Department of Sciences and Chemical Technologies and Biosystems of the University of Siena.

## **The first step: a study on the sustainability of the province**

In spring 2000, it was decided to undertake a study comparable to a CAT scan (or MRI) of the territory of Siena aimed at identifying more accurately, and with the greatest possible scientific rigor, its strong and weak points with regard to sustainability.

The Province of Siena is recognised as being one of the areas that strikes a most harmonious balance between nature and the development of human activities. Why then is it necessary to undertake a study on the sustainability of the Province of Siena? Firstly, because the results of a serious scientific study sometimes show that things are not as they seem. This is the case, for example, when, despite low pollution levels, resources are not being used rationally. Although pollution levels are monitored by local governments and the regional environmental protection agency (ARPA), currently there is no monitoring of the use of resources. One of our objectives is precisely to make a “snapshot” of the status of the Province of Siena in this regard and identify the factors that may limit sustainable development in the future, thereby safeguarding the interests of future generations, as well as those development factors that are currently undervalued.

The major novelty of this project lies in the fact that sustainability is not defined only as the sum of economic, ecological and social components, but from a more complex standpoint and within a more homogeneous interpretative framework, using of a series of indicators borrowed from thermodynamics. The thermodynamic analysis should provide a number of answers that will show, among the constraints to which all complex systems are subject, the many contradictions inherent in the economic system.

The indicators used will reflect the following methodologies:

- **Emergy:** an assessment of economic and environmental products and services in terms of quantity of solar energy used.
- **Natural capacity:** the environmental accounting of how much nature contributes to the production of goods.
- **Life cycle assessment (LCA):** an evaluation of the entire history of a product from “cradle to grave”, from the raw materials and energy used to management of the waste generated.

- Exergy: a method for verifying the efficiency of a system both in terms of the energy consumed in individual production processes and at the territorial level.
- Ecological impact: a composite indicator for estimating the impact that the consumption of a population has on the environment.
- Greenhouse gas assessment: measurement of how much CO<sub>2</sub> (carbon dioxide), which is primarily responsible for the greenhouse effect, is produced in the Province of Siena.
- Analysis of satellite data.

These indicators will be used for the first time in an environmental study, on an experimental basis. Together, they are aimed at covering virtually all aspects of sustainability within the Province of Siena and its 36 communes.

### **The second step: the process of territorial certification**

The rigorous territorial analysis contained in the sustainability study will provide us with a solid scientific and technical basis that will enable the Provincial Administration and all of the territory's 36 communes to launch a process of environmental certification in compliance with ISO international standards, in this case ISO 14001, and also with the EU Regulation on EMAS II. Rules of reference for an EPD (environmental product declaration) will also be provided for the products mentioned above that can be used by firms that intend to launch an LCA in compliance with ISO 14040 standards.

The path of environmental certification was chosen for a number of reasons. Firstly, it leads those involved to assess themselves, making risk prevention and reduction of environmental impact a tool for growth and managerial efficiency. This enables firms to lower costs, improve their image and increase the value of their products. It also generates similar benefits for government by enabling it to organise environmental management better, reduce the need for monitoring and enhance its credibility by applying good practices. It also gives it considerable leverage over the actors (above all firms) and trends within the territory, since it can use its own planning tools to guide, encourage and even compel firms in all sectors to follow the same path, but especially in the agricultural and tourism sectors. Today we know that the market is increasingly receptive to this type of commitment, particularly with regard to food products. A policy of adopting ISO 14040 standards for conducting an LCA (life cycle analysis), which ensures the traceability of a

product in order to guarantee that it is genuine, will not only be a factor for strengthening well-established markets for products such as well-known fine wines, but will also create new opportunities for the weaker rural areas also found within our territory that produce products that are perhaps less prestigious, but which will be guaranteed as being traditional and genuine.

At the same time, the Provincial Administration has launched procedures for promoting local Agenda 21 programmes based on the concepts developed at the United Nations Conference on Environment and Development held in Rio de Janeiro in 1992. These programmes should go hand in hand with the work of the SPIN-ECO project, for without Agenda 21 programmes, a project of this scope would lack the necessary “bottom-up” input, while the scientific support of the SPIN-ECO project, will allow an Agenda 21 programme to address issues of greater importance and impact.

In conclusion, I would like to say that I am aware of the fact that sustainable development is an expression that is too often used as a promotional strategy, although the concepts of sustainability are in fact limited to secondary aspects. This is not what we intend to do. The rigorous nature of the data gathered and the commitments required by environmental certification guarantee the seriousness of our approach.



## **Rural Development and the Environment**

**Guy Beaufoy**  
**Institute of Sustainable Rural Development**

### **Introduction**

Rural development policy in the EU and Spain focuses on subsidies, in terms of agricultural production under CAP Pillar I as well as for structural development and compensation payments to farmers under Pillar II. The policy debate surrounding rural development focuses on the distribution of funds between these different subsidy packages and between EU member states and regions.

In a district such as La Vera, sustainable rural development cannot be “bought” merely by making available a collection of subsidies to different economic sectors. Two essential elements for sustainable rural development programmes are absent: the organisational structure to deliver these aid packages in a way that produces the desired results and the local population’s capacity and motivation to respond to policy measures and objectives.

To address this problem and implement sustainable rural development, investment is needed in human resources to build the capacity of local organisations and local people. This capacity-building should be designed and planned in an effort to realise a set of basic principles needed to implement new rural policies:

- inform, involve and stimulate local people;
- develop a shared vision based on objective analysis of problems and opportunities;
- design appropriate targets and measures, with local involvement;
- facilitate effective delivery on the ground, with local involvement;
- monitor outcomes, with local involvement.

The needs of La Vera may be common to other rural areas in Spain and across Europe, but there are also areas with more developed institutional structures where the rural population has an improved capacity to respond. In developing new rural policies in Europe, the distinct needs of different areas and regions should be clarified and policies tailored accordingly.

### ***Brief description of the area***

La Vera is in the north-east of the province of Cáceres, Extremadura. The district covers approximately 900 km<sup>2</sup> and is bounded to the north by the Gredos mountains and to the south by the river Tiétar. Altitudes range from 400 to 875 metres. The population of the district lives mostly in small towns and villages, with an average density of 33.1 inhabitants per km<sup>2</sup>.

The district has important natural values, associated with the diverse land cover, the large proportion of forest, scrub, grassland and the presence of numerous water courses, some with well-conserved riverine woodlands. La Vera is notable for its bird populations, including Black Stork, Red and Black Kites, Booted Eagle and Short-toed Eagle. The river Tiétar and several of the smaller mountain rivers in the district are proposed as Sites of Conservation Importance under the EU Habitats Directive, for their fish species, otter and riverine woodlands.

In economic terms, La Vera is a predominantly agricultural area (over 30% of the active population are employed in farming), but also has considerable tourist activity, as well as an increasing presence of second homes established by people living in Madrid (2.5 hours away by car).

The lowlands are dominated by tobacco cultivation, a situation reinforced since 1986 (EC accession) by the CAP tobacco regime, which provides a price subsidy equivalent to over EUR 8 000 per hectare. It is estimated that the 4 300 ha of tobacco production provides EUR 35 million in farm subsidy and sustains as much as 80% of the economic activity in the district (Pérez Yruela *et al*, 2000). This subsidy seems certain to be phased out by the EU over the coming years. To date, the regional authorities have developed no strategy for adapting the district to this dramatic policy change.

Much of the uplands (and some lower altitude areas) are under forest and scrub, part of which is in public ownership, the main use of which is goat grazing. The main upland crops are cherries and olives, with some raspberry production in greenhouses.

Holdings are mostly small, with over 90% having only 1 to 10 hectares, and farming is generally combined with other sources of family income (bars, hotels, holiday lettings, unemployment subsidies, etc.). Holdings in the uplands tend to be much smaller than in the lowland area.

## Socio-economic progress

As with most rural areas in Spain, the population of La Vera declined due to emigration from the 1950s. At the beginning of the 1980s, only 22% of the population had received primary schooling, and illiteracy rates were high. The district was isolated from other districts by poor roads, while basic services (hospitals and medical centres) were limited.

From the 1980s and Spanish accession to the EU, public funds combined with economic growth to produce major changes. EU Structural Funds have helped to improve transform communications by road both within the district and with Madrid. Basic services, especially health, have been similarly transformed, through construction of new hospitals and local medical centres.

Public subsidies (CAP, unemployment benefits, pensions) have provided a great increase in the level of basic financial support for the rural population, compared with the past. From 1991, the population decline was halted, and the total number of inhabitants registered an increase in the period 1991-1994 (Pérez Yruela *et al*, 2000).

Considering the three sides of the sustainability triangle (*i.e.* social, economic and environmental development), there has been considerable progress on the first two aspects. However, the heavy dependence on CAP tobacco subsidies is not politically sustainable in the longer term (Table 1).

Table 1. **Comparison of expenditure on CAP product subsidies and PRODER (local rural development scheme)**

	Tobacco	Olives	Goats/ sheep	Suckler cattle	PRODER
Approximate total subsidy (in thousand EUR)	000 (1)	280 (1)	540 (1)	620 (2)	430 (3)
Number of beneficiaries	800	384	233	180	–
Number of hectares or livestock	300	300	1 271	595	–

1. (1) Estimate 1995 (2) Estimate 1994 (3) Average annual budget available 2000-2007.

Source: Extracted from Pérez Yruela *et al*, (2000).

## **Environmental decline**

Much less progress has been made on the environment. The expansion and intensification of agriculture and other sectors, such as building developments and new roads, are causing a degradation of environmental values. The problems are exacerbated by inadequate measures for controlling and reducing impacts. Some of the more significant environmental problems in the district include:

- Clearance of semi-natural forest and scrub for new land uses, especially fruit plantations and construction. Greenhouses are also appearing in increasing numbers, including at high altitudes where semi-natural habitats have been cleared to allow the change of use.
- Pollution of rivers from urban waste water, agricultural run-off and specific bad practices, such as washing pesticide containers in rivers.
- Over-exploitation of rivers for tobacco irrigation.
- Bad land management practices, including burning of forest and scrub, excessive soil tillage and intensive herbicide use in olive and fig plantations.
- Very limited conservation actions for the most significant natural values of the district (rivers and semi-natural habitats) and no public participation in environmental protection.

Underlying many of these problems is a lack of environmental awareness and information among local people. Furthermore, the few environmental initiatives which take place tend to be executed by the Regional authorities, with little or no local involvement.

## **Making rural policies work for sustainable development**

The EU's Rural Development Regulation aims to promote sustainable rural development as the Second Pillar of the CAP. The introduction of this Regulation in 1999 raised expectations in some circles of a new approach to rural policy, in line with recognised principles of sustainable development. In order to fulfil this aim in La Vera, a triple challenge must be met:

- To maintain the current level of economic activity when tobacco subsidies are withdrawn, but with a more balanced distribution of wealth.
- To give greater priority to the conservation of the natural values and resources which must underpin an alternative development model.
- To develop the participation of local people in the planning and execution of rural policy.

The district has considerable potential for alternative development approaches which could help to create new areas of economic activity, for example, through quality local products, diversification of agricultural products and rural tourism.

The environmental challenge requires a change in the behaviour of local people, particularly farming practices, as well as investment in new infrastructure and new actions (*e.g.* water treatment plants, forest management) on the part of the regional and local governments.

Several opportunities are available under the Rural Development Regulation, including agri-environment incentives aimed at improving farming practices, measures for forest management and nature conservation, and PRODER, a bottom-up, local development measure under the Spanish implementation of the EU Regulation. These measures are implemented in the district, but their impact has been marginal. For example, only two farmers have participated in the agri-environment scheme since it was first introduced in the mid-1990s.

The relatively small budgets allocated to these measures are only part of the problem. At least three other essential elements seem to be missing:

- The Spanish rural development programmes have no clear objectives or quantified targets concerning environmental improvements, or the development of more sustainable economic activities. This stems in part from the weak or non-existent analysis of environmental problems and opportunities at the outset.
- There are no effective organisational structures to promote and deliver these new measures to the local population or to stimulate their participation. The new policies operate in response to

demand. This passive approach goes hand-in-hand with the absence of clear objectives and targets.

- Local people lack the motivation and the capacity to respond to the new policy measures. They are not aware of which measures exist, why they exist or what they aim to achieve, because nobody has told them.

Pérez Yruela *et al*, (2000) emphasise the lack of initiative and entrepreneurs amongst the local population of La Vera, including political leaders of the Municipalities. NGOs and other fora have developed little. Underlying these weaknesses is a dependency mentality, developed during the years of dictatorship and consolidated since the 1980s by the apparent security of CAP and other subsidies.

Furthermore, local experience suggests that when initiatives do emerge from the local population, these are often stifled by the unresponsive bureaucracy of the Regional Government. The lack of information and transparency, the complex forms and legal “jargon” and the plethora of different departments and offices present an insurmountable barrier to the majority of local people.

The local office of the Agriculture Department is dedicated to administering the CAP subsidy regimes; advisory visits to farms are rare and there is no active promotion of the agri-environment scheme, for example, or initiatives to address problems such as soil erosion in partnership with farmers. Grants are provided to farm co-operatives to employ advisors on integrated pest control, but there is a lack of continuity to these grants, and they do not form part of an overall strategy for agriculture.

Box 1. <b>Rural policy and the environment: what does it mean to local people?</b>	
Rural policy	= subsidies, usually received by “other people”
Environment	= government controls
Extension services	= form-filling bureaucracy
Local authority	= self-interest
Local people	= irrelevant (in the eyes of political decision makers)

The current approach to rural development policy in the EU does not address these fundamental problems, because it does not invest in human resources and organisational structures. The main focus is on subsidies, whether for agricultural production under CAP Pillar I, or for structural development (rural roads, irrigation, afforestation, village renovation) and compensation payments to farmers (agri-environment and Less Favoured Area schemes) under Pillar II. The policy debate is concerned mainly with the distribution of funds between these different subsidy packages.

Faced with having to implement a complex set of funding programmes in a tight timetable, the Spanish and regional governments tend to concentrate on actions they are familiar with, and which are relatively straightforward to execute and monitor. They continue to take a predominantly “engineering” approach to rural development, focusing on the construction of roads and dams, farm infrastructure and afforestation.

The tradition of rural development projects involving local people, as found to a greater or lesser extent in most other parts of western Europe, is largely absent in Spain, and particularly in less-developed regions such as Extremadura (Beaufoy, Atance and Sumpsi, 2002). Thus, although some more innovative measures are made available within Spanish programmes, the local authorities, farm extension services, co-operatives, NGOs and individuals mostly do not have the experience or the knowledge to respond.

In these circumstances, policy makers cannot expect sustainable rural development simply to be “bought” by making available a collection of subsidies to different economic sectors, and waiting for people to respond. It requires a more imaginative and challenging approach, involving the building of human and organisational capacity at the local level.

At the most simple level, this means investment not only in farms, physical infrastructure and businesses, but also in people who will make things happen, and who will actively promote the objectives of new rural policies: farm advisors, facilitators, rural *animateurs*, whether they are employed by local authorities, NGOs or co-operatives. In some cases, the bottom-up process requires a powerful top-down stimulus and facilitation to make it happen.

## REFERENCES

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## KEY CONCLUSIONS

### AGREEING ON THE NEED TO EXPAND ACTIVITY BEYOND AGRICULTURE

This international conference on the future of rural policy, organised by the OECD and the Province of Siena, confirmed the important role that agriculture plays in many rural regions despite the fact that it is not clear whether current agricultural policy has effectively promoted rural growth and development. Developing the differentiation and increasing the quality of agricultural products may increase the contribution of agriculture to rural development. Proposals from the mid-term review of the Common Agricultural Policy released by the European Commission on 10 July were regarded as consistent with this objective but provoked debate as to whether the reforms went far enough.

Many of these issues are elaborated in the OECD's *Territorial Review of Siena, Italy* released at the start of the conference. As a predominantly rural province that has enjoyed considerable success, the study provides insight for formulating new rural development strategies. Fabio Ceccherini, President of the Province of Siena has proposed developing a network of other rural areas that are also pursuing, or wish to pursue, development that is based on the full valorisation of a territory's natural and cultural amenities.

This conference concluded that the policy shift requires both a broader definition of the countryside as well as the recognition of the inter-dependence of rural and urban areas. To guarantee the future vitality of rural areas, rural policies should shift from focusing on a single sector – agriculture – to developing a wide range of economic activities.

Two additional key policy changes were identified:

- A shift from distributing subsidies to support specific activities toward mobilising investment in emerging opportunities that take full advantage of local resources and capabilities. Tapping the

potential in rural areas is often hindered by the need for collective action.

- Continuing the shift from top-down incentives to the development of bottom-up projects targeting co-ordinated development. A bottom-up approach stresses the ability of rural citizens to identify problems for intervention, to formulate strategies and to be full partners in implementation.

A critical issue that must be resolved in policy reform is the difficulty in replacing old policies. Successful pilot projects of place-based development in Europe and the Americas hold substantial promise. But can territorial policies, such as the European Union LEADER initiative, the Mexican Micro-region programme, and local pacts and policies in Italy and France, form a comprehensive basis for reform?

It has been suggested that place-based policies are, in any case, likely to do a better job of fulfilling social demands than the current sector-based policies. A demand for analysis to examine the effectiveness of cross-cutting policy was one of the principle outcomes from the conference. These issues will be examined in a follow-up conference to be held in Washington, DC in 2003, organised by the Federal Reserve System and the OECD.

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