

Between successful development initiatives and institutional capacity shortcomings: the case of Trikala in Greece

This article originates from the analysis carried out by the EN RD Thematic Working Group No 2 (TWG2) on links between agriculture and the rural economy in EU rural areas and presents findings for the region of Trikala, Greece (NUTS 3 area). The analysis shows the existence of considerable local assets which facilitate such links, but emphatically points out that the improvement of local institutional capacity is a *sine-qua-non* condition for promoting synergistic forms of rural economic activity.

In the last decade EU rural development policy has evolved from a type of public intervention dealing with the structural problems of the farm sector to a policy addressing the multiple roles of farming in rural areas. Within this context, as part of its mandate, the EN RD established the TWG2 with the aim to identify and analyse relationships and potential synergies existing between agriculture and the wider rural economy in various types of EU rural areas. To this end, 18 local (NUTS 3) EU regions exhibiting different characteristics were selected and analysed in order to: identify main structural characteristics and trends affecting development potential in these areas, including a better understanding on the economic relationships between agriculture and the rest of the rural economy at the local level; assess how current development policies and institutional arrangements contribute to the enhancement of links between agriculture and the wider rural economy; utilise these findings to suggest ways forward for EU rural policy to positively affect economic diversification in these regions. This article presents the findings of this work for the area of Trikala, located in Thessaly, Greece, characterised by a declining agriculture which, however, still remains an important sector in this local economy.

Structural characteristics and trends

Trikala is a mountainous prefecture located in the region of Thessaly (NUTS 2). Its land area covers nearly 3,700 Km² and its population amounts to 138,000 inhabitants. Mountains surrounding Trikala occupy 72% of its land area. Between these mountains lies the plain of Trikala which is the base for both agricultural activity and the majority of the local population who mainly reside in the cities of Trikala and Kalabaka. Trikala is rich in terms of natural resources, namely its fertile agricultural land, forests, water and recreational sites; indicatively, forests cover 31% of land, while 61% of total area is designated as Natura 2000 site. Undoubtedly, this rich natural resource provides an opportunity for economic diversification within and outside agriculture and constitutes an asset which positively influences local development prospects.



As several rural areas in Greece, Trikala went through a significant economic transformation which lasted from the early 1980s until the mid-1990s. Agricultural employment declined sharply in that period, while the service sector (especially tourism-related activity) expanded. Farm investment and structural development assistance signalled the end of agricultural adjustment in the mid-1990s. However, this rather severe

adjustment process generated several negative repercussions for the local socio-economic system. Despite some positive trends in economic growth (mostly during the last 10 years), income per capita is still quite below the national average, while depopulation accelerated in several parts of the region (especially in the mountains), raising pessimistic concerns about both farm succession and entrepreneurial capacity.

Undoubtedly, morphology and physical characteristics significantly affect the distribution of local economic activity and thus population in Trikala. This significant heterogeneity is without any doubt a constraint for the development of the mountainous part of the area. A rather high level of remoteness, coupled with inadequacies in transportation and social infrastructure constitute important constraints for local economic development and largely determine the still existing depopulation trend in this

part of Trikala. Agricultural activity is characterised by low productivity, specialisation in livestock production (sheep, goat and cattle grazing, milk, cheese, etc.) and by abandonment, which often results into the expansion of the local forest. In the non-farm economy, high transaction costs and depopulation have inhibited the development of alternative forms of economic activity. However, in recent years, rural and structural development measures have improved infrastructure in the Trikala mountains and, in parallel, provided incentives for the establishment of several modern units specializing on rural tourism. This new (for the area) form of rural economic activity is based on the strong natural and cultural heritage of the region and is currently performing very well in terms of attracting customers from Greek urban centres and abroad. Further, it generates links with other local sectors (such as farming) and constitutes a significant opportunity for economic diversification and in a more general sense, local economic development.

On the other hand, fertile land in the Trikala plain is the base of a highly productive local agriculture which can be quite intensive in some areas and specialises in cotton, wheat, maize, olives, fruit and vegetables, livestock, etc. Despite its decline in recent decades, agriculture is still an important sector, representing around 10% of local output and 20% of employment. As in the rest of Greece, farm holdings are small, with

80% of them being less than 5 hectares. Given the small size of farms, most farm households are (or intend to be) pluri-active, benefiting from employment in the main urban centre (city of Trikala) or in towns, while others supplement their farm incomes with other economic activities (construction, timber, wood processing, rural tourism, etc.). Hence, the potential for diversification is more than evident in this region.

Further, the Trikala plain concentrates most of the manufacturing and service enterprises existing in the area and constitutes an economically-dynamic area,

well connected with main national markets and relying on the presence of urban and semi-urban centres. Several Small and Medium Enterprises (SMEs) operate in manufacturing and in the case of the Food industry

The qualities of Trikala

- ✓ Mountainous region, rich in natural resources
- ✓ Plain areas are the base of agricultural activity, which is still an important sector
- ✓ Morphology determines the distribution of economic activity
- ✓ Significant economic transformation in the 1980s and 1990s
- ✓ Still, a significant potential for economic diversification
- ✓ Decline in agriculture during this period
- ✓ Nowadays high-quality local food products link well with local farming, tourism and trade



they can be characterised by being innovative and highly competitive in the national market. These units have been developed by local farmers and new arrivals, both benefiting by the local positive perception of entrepreneurship. Trikala has a tradition in the production of well-known, quality farm products and these food industry units have managed to utilize and even “upgrade” this brand name. They link well with local farming, while selling mainly on niche markets (also building on the reputation of local farm products) and serving local tourism. These high links between agriculture and the rest of the rural economy in Trikala were further confirmed by interdependence analysis carried out in the context of TWG2 activities. This analysis has confirmed the existence of strong links between sales by farmers and output in local food processing, trade and hotels and catering, that is four sectors which constitute the backbone of the local economy. Consequently, these high links characterise agriculture as key sector in Trikala, associated - directly and indirectly - with the creation of a high number of jobs.

Development policies and institutional capacity

In any rural context, the effectiveness of the institutional framework in the design and implementation of development policy interventions largely determines policy outcomes and hence, local welfare.

Since the 1990s, a wide range of public interventions have been realised in Trikala. The support deriving from the Common Agricultural Policy (CAP) first pillar and rural and structural development measures constituted the most significant policy instruments in terms of both financial weight and strategic relevance. As in other Greek areas, CAP support to farm incomes and prices helped to maintain farm activity and population in Trikala. However, at the same time it affected structural adjustment of the farm sector and contributed to intensification of farm practices and (in some cases) environmental degradation. In turn, rural and structural development initiatives improved local infrastructure and induced several successful private investments, mostly associated with food processing and rural tourism. The analysis carried out by TWG2 has confirmed previous findings that public intervention largely financed by the European Union facilitated structural adjustment in this area through successful initiatives, which promoted economic diversification.

Indicatively, the diversification of the local economy and the enhancement of links between farming and the

Development Policies in Trikala

- ✓ Wide range of rural and structural development interventions;
- ✓ Improvements in infrastructure and investments mainly in food processing and rural tourism;
- ✓ Several shortcomings in policy design and delivery;
- ✓ Lack of strategic coherence and coordination;
- ✓ Still, a significant number of investments have materialized, linking local farming with the wider rural economy;
- ✓ Unhelpful institutional arrangements act as disincentives to investors;
- ✓ Local people utilize market opportunities through investment.

rest of the economy, are often stated as a development policy objectives. However, despite the existence of several successful development policy initiatives, the institutional capacity specific to Trikala shows weaknesses which are common in most of Greek rural areas. The design, delivery and coordination of development policy is largely fragmented and characterized by a complex designation of responsibilities which at the same time is highly centralized and bureaucratic. This results – simplifying - into a lack of

communication between institutions, negatively affecting the formulation of a coherent strategy and the effectiveness of the policy.

Thus, despite the positive performance of the KENAKAP LAG in promoting endogenous and integrated local development through a partnership approach, several development measures and initiatives suffer from poor targeting, while complementarity between action promoted by different development instruments leaves much to be desired.

In spite of the problems associated with institutional capacity, a wide range of investment projects creating links between agriculture and the wider rural economy and promoting diversification have materialized in Trikala. Examples of such successful projects are observed in the case of meat processing and wine making units utilizing local farm production and in the accommodation and catering sector (HORECA), which again links well with local agriculture and food processing in an effort to valorise local rural traditions and heritage. Beside the abovementioned links, projects have generated a good number of local jobs and in some cases, supplemented farm income (more information about project examples can be found in the ENRD website [here](#)).

However, the lack of policy coherence and unhelpful institutional arrangements often result into several obstacles for investors. These include delays in programme implementation, the approval of projects and payments, and lack of advice and support. More than often, these also include problems in obtaining the necessary permits from civil service departments and poorly defined selection criteria. Certainly, these shortcomings act as disincentives to both actual and potential investors.

Ways forward for policy

The analysis carried out by the EN RD TWG2 for the area of Trikala has clearly highlighted factors contributing to the promotion of economic diversification through the enhancement of links between agriculture and the wider rural economy.

The rapid economic transformation which Trikala experienced in recent decades has created problems, but recent positive developments in terms of local economic performance have facilitated the upgrade of such linkages. Also, the structure of local agriculture is such that induces farm diversification initiatives. Furthermore, the natural resources and landscape, the potential of local agriculture and the location of the region facilitate economic diversification both within and outside agriculture. In parallel, the existence of a strong agri-food industry producing traditional food products, vibrant landscapes and a strong cultural heritage associated to untapped tourist demand match

- Ways forward for policy**

 -  Strong potential for local development: high quality farm products, food processing; high value natural and rural heritage
 -  Institutional capacity is an important constraint
 -  Priority actions:
 - ✓ an “upgrade” of local institutions;
 - ✓ a simplification of institutional structures and jurisdictions;
 - ✓ coherence in development strategies;
 - ✓ coordination of development actions;
 -  Forthcoming reform of regional government is a promising step.

– from the supply side - the high productive potential of the food industry, the availability of tourism infrastructures and a local positive attitude towards entrepreneurship.

In contrast to the above-mentioned positive aspects, institutional capacity is characterised by fragmentation and several constraints regarding policy design, delivery and coordination. This hardly encourages investors

to be engaged into action which promotes the development of local businesses and contribute to the strengthening of the links between agriculture and the rest of the rural economy.

Hence, an improvement in policy effectiveness in this rural area passes through the set up of a well-structured local policy design, programming and, delivery system, which should be characterised by simple institutional structures with clearly defined responsibilities, a coherent development strategy and related actions. To this end, the forthcoming reform of regional government in Greece – which, amongst others, foresees a significant decentralization of policy domains (from the central to the regional and municipal levels) - could be a step towards the right direction. The establishment of a decentralised delivery system will endorse several priority improvements on aspects such as bureaucracy, territorial targeting, project design and selection criteria.