

# Links between agriculture and the wider rural economy

**TWG2: Presentation of results**

**June 7<sup>th</sup> 2010**



## Main focus of analysis

- To better **understand the relationship** between agriculture and rural economy and its multi-functional contribution
- To determine the **policy coherence and consistency** in promoting linkages
- To identify the **key factors** that promote or discourage linkages

## Input-output linkages

- **Selection of 18 NUTS3 regions** for analysis, using a combination of input-output techniques and more general economic assessments of economic performance and potential
- Areas ultimately grouped into **3 traditional clusters: Northern, Southern, New Member States**
- Detailed analysis of the relationship between agricultural activities and other sectors, and the impact of changes in agricultural activity through:
  - **Backward linkages** – suppliers to the sector
  - **Forward linkages** – local purchases and consumers of agricultural output

## Backward & forward linkages - findings

- ***Backward linkages:*** The estimated effects of changes in agricultural output on suppliers were found to be **generally low, or average**, in line with estimates from other studies
- ***Forward linkages:*** The effects on the local economy of sales of increased farm output to other sectors in the region were found to be **high in most areas**

## Forward linkages - findings

- In terms of forward linkages, **agriculture is identified as a 'key sector'** in 14 out of 18 areas studied, in the sense that increases in output in the sector result in above-average increases in output elsewhere in the region, compared with the average results for all sectors in the region
- Agriculture has especially **high forward linkages with food processing, hotels and catering and trade**, all sectors that, in turn, have further high links with the rest of the rural economy

## Economic and social strengths and weaknesses

In order to analyse of the strength and weaknesses of the 18 NUTS3, the input-output results were considered alongside more general characteristics of the areas:

1. Economic factors
2. Human resources and entrepreneurial capacity
3. Natural endowment – land, countryside
4. Competition for resources between sectors



## Economic and agriculture development factors

- A key determinant of the strength of the local rural economy seems to be the **capacity and timeframe required to respond to structural changes**
- The challenges for the agricultural sector in many New Member States (NMS) and some older Member States (MS) appear to be critical
- Evidence suggests past and current CAP Pillar 1 and Pillar 2 support has often tended to favour larger scale producers over traditional family-owned farms

## Human resource factors

- Levels of education / business capabilities appear to be one of the main underlying factors determining the level of dynamism, entrepreneurial capacity and responsiveness of a region.
- Rural populations are not always significantly older, on average, than those in other areas, although the loss of young people from rural areas is often a significant factor in decline.
- Unemployment data suggests that rural areas tend to fare better than the national average, but these figures do not take account of high levels of under-employment and inactivity



## Natural endowment and infrastructure factors

- **Richness of the natural resource base and infrastructure** critical factors influencing the ability of a region to react to economic and structural change, retain human capital and/or diversify economic activities
- The **peripherality** of a region prevents accessibility and connection, and more remote areas tend to have fewer opportunities for diversification outside of agriculture, with the exception of areas of high natural beauty
- **Closeness to larger urban centres** influences the opportunities for a region to strengthen forward linkages, providing more direct demand for agricultural products and other linked services

## Resource conflicts and competition factors

- Agriculture is the most significant user of rural land (averaging 40%) in all case study regions
- Little evidence of conflict between alternative uses or demands upon the land identified in the current case study examples, (even though conflicts over water, land, environment, energy, and other resources clearly exist in some regions)
- Some evidence that conflict over land use may be taking new forms, particularly in respect of forestry development and the development of renewable energy supplies

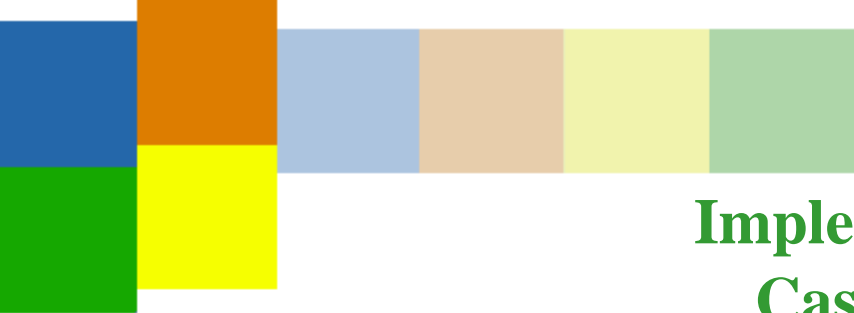
## Policy coherence and institutional quality/capacity

In terms of policy and institutional arrangements, the NSPs, RDPs and other funding related documents applicable in each of 6 study regions were reviewed in detail with respect to:

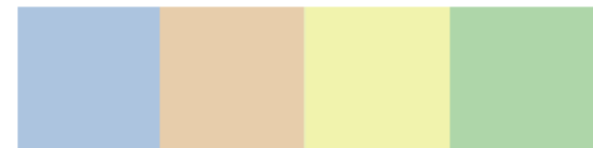
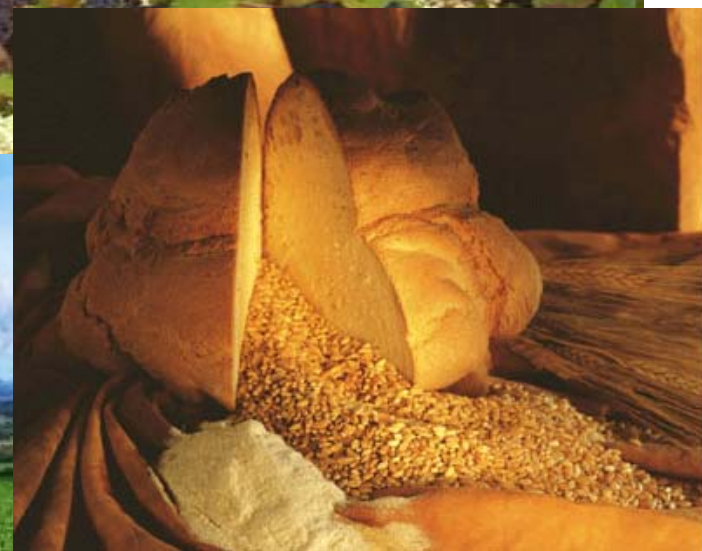
- Coherence between national, regional and local level policy goals;
- Coherence between various goals, the chosen policy axis, and eligible measures;
- Complementarity between rural development policies and other funding programmes

## Policy and institutional review - findings

- Re-enforcing the linkages between agriculture and the wider rural economy is **not significantly embedded in the majority of RDPs**
- Similar objectives are pursued under different axes regarding linkages between agriculture and other sectors, with the same objective pursued under different axes with different measures
- There is little complementarity between the EAFRD interventions and other support – whether EU or national
- The structure and nature of institutional arrangements vary greatly between Member States. Some ensure consistent planning and delivery, but others do not.



# Implementation review: Case study findings





# Implementation review: Case study findings (1)

- A wide range of **projects are being developed** that create or promote linkages, despite the apparent policy and institutional weaknesses
- **Linkages between primary agriculture, food processing, tourism and trade** (both on and off farm, large and small scale) tend to be the most important

## Implementation review: Case study findings (2)

### Positive factors:

- Natural advantages of the local rural economy and the strength of the wider national and regional economy
- Entrepreneurial capacity of the local rural population, and the propensity to form various types of partnerships and to share risks/benefits
- Ease with which financial support can be accessed
- Range and capacity of institutional support and advisory services
- Appropriateness of the range of measures and other support available to area-specific characteristics and comparative advantages

## Implementation review: Case study findings (3)

### Obstacles to progress :

- Onerous procedures for applying for funding including frequent administrative/licensing obstacles
- Infrequent commitments rather than continuous funding possibilities
- Long delays in getting agreements or receiving payments
- Lack of transparency and openness of institutions and administrative support services



## Step 3 summary findings

- **Rural development policy objectives and programmes** that are limited to indicating eligible areas of action or intervention and the types of support measures for which actors can compete appear to be **inadequate in effectively promoting linkages** between agriculture and the wider rural economy
- A more **cross-cutting and integrated policy framework and programme structure may be required** to promote such linkages, possibly defined more in terms of desired outcomes, such as:
  - the creation, preservation, or diversification of jobs;
  - the generation of additional income or value-added;
  - the attraction of additional investment;
  - the enhancement of productivity etc.

## Next steps: Step 3 & 4 reports

- By the end of June, a final draft of the Step 3 report and a draft outline of the Step 4 report to be completed
- Planned to develop a compendium of relevant case studies for future publication/wider dissemination
- Based on the evidence obtained, the Step 4 report will seek to draw up guidelines for consideration of how best to enable, promote and assist in development of linkages between agriculture and the wider rural economy