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The Challenge of Rural Development in the EU Accession Countries

Third World Bank / FAO EU Accession Workshop
Sofia, Bulgaria, June 17-20, 2000

Csaba Csaki
Zvi Lerman

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Part Four: International Experience and the Role of International Organizations in Supporting Rural Development in the EU Accession Candidate Countries

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List of Country Studies

The following country studies presented at the Workshop are available from the World Bank in electronic format. Copies of these individual studies can be obtained via e-mail from David Bontempo (debontempo@worldbank.org). The studies on rural development in the European Union were commissioned and sponsored by the World Bank, and those on rural development in Central and Eastern Europe were commissioned and sponsored by FAO.

Rural Development in the European Union

Ireland – F. O'Donnell
Italy: Emilia-Romagna – C. Malavolta
Portugal – A. Cunha

Rural Development in Central and Eastern Europe

Lithuania – S. Cironka
Poland – A. Wos
Romania – V. Florian and M. Rusu
Turkey – E. Kutkan

Foreword

The World Bank's Strategic Compact Initiative included a set of coordinated activities that leverage the World Bank's comparative advantage in economic analysis and worldwide development experience to help the ten EU accession countries achieve EU membership. Activities included studies designed to facilitate the implementation of policy and institutional reform in preparation for accession. The studies were followed by workshops and seminars to disseminate the results and improve the analytical skills and policy analysis capabilities in the respective countries.

The First EU Accession Workshop, held in Budapest in June 1998, related regional and international trade policy issues to experiences with regional trading agreements. The workshop discussed the implications of Central and Eastern European Free Trade Agreement (CEFTA) and World Trade Organization (WTO) membership for EU accession countries. The Second EU Accession Workshop, held in Warsaw in June 1999, focused on how farm structures and supporting institutions will need to evolve in order to enable the transition countries to withstand the competitive pressures of accession. The workshop sessions dealt with an assessment of the current farming structure in the EU accession countries and explored the changes in land laws, land market institutions, and provision of farm services that are necessary for market-led restructuring and improvement of agriculture's productive efficiency. The Third EU Accession Workshop, held in Sofia in June 2000, was devoted to the challenge of rural development in the process of EU accession. It discussed the international experience with rural development, the constraints to rural development faced by accession candidates, and the details of EU assistance programs for rural development. The discussion of these issues was facilitated by the presentation of studies that had been especially prepared for the workshop as part of the work program of the World Bank and the FAO Subregional Office in Budapest.

We hope that the publication of the major findings of the Third EU Accession Workshop in the present volume will assist the countries in the process of preparing for EU accession. The conclusions drawn from this Workshop were used as direct inputs in the preparation of the rural institutions and land tenure components of the FAO's work program for the region. This volume will also serve as a useful information resource for organizations and individuals interested in issues of EU accession in the rural sector.

Kevin Cleaver
Director
Environmentally and Socially Sustainable
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The World Bank

Santiago Funes
Director
for Rural Development
The United Nations
Food and Agriculture Organization

Abstract

This volume examines the reforms and policy changes necessary in the rural sectors of the ten countries that have started the accession process for eventual membership in the European Union (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia). The papers in this volume are selected from the presentations at the Third World Bank/FAO EU Accession Workshop held in Sofia, Bulgaria, on June 17 – 20, 2000, and are organized around four topics: (i) Defining the Concepts of Rural Development – Options for EU Accession Candidate Countries; (ii) Rural Development in the European Union; (iii) Rural Development in Central and Eastern Europe; and (iv) International Experiences and the Role of International Organizations in Supporting Rural Development in the EU Accession Candidate Countries. This volume is intended for agricultural policy makers and government officials in the candidate countries, EU officials, World Bank and FAO staff, development scholars, and all others interested in the process of rural development in Central and Eastern Europe.

Preface

The World Bank, under its Rural Sector EU Accession Initiative, sponsored the Third EU Accession Workshop in Sofia, Bulgaria, between June 17-20, 2000. The Workshop was organized in cooperation with FAO and in close coordination with the European Commission and the Bulgarian Ministry of Agriculture.

The Workshop participants included over 70 key government officials, all deeply involved in their countries' preparation for EU accession negotiations in the rural sector. In addition, fifteen experts and academics from both EU member countries and EU accession candidates participated in the workshop. The participants came from all ten accession countries: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. For the fist time, Turkey, Cyprus, and Malta also sent delegates to the workshop.

The Directorate-General for Agriculture (DG-VI) of the European Commission in Brussels, was represented by Alan Wilkinson, Kaj Mortensen, and Peter Berkowitz. Lord Henry Plumb of Coleshill actively participated in his capacity as former President of the European Parliament. The World Bank was represented by Robert Thompson, Director of the World Bank's Rural Development Department, and Laura Tuck, Rural Policy Sector Leader Director of the World Bank's Europe and Central Asia Environmentally and Socially Sustainable Development Unit, both of whom actively participated in the seminar, together with additional World Bank staff members. The FAO delegation included Santiago Funes, Director of FAO Rural Development Division in Rome, Jaroslav Suchman, FAO Subregional Representative for Central and Eastern Europe in Budapest, and five additional FAO headquarters and subregional office staff.

The organization of the workshop was coordinated by Csaba Csaki from the World Bank and Jaroslav Suchman, FAO Subregional Representative in Budapest. Administrative support was provided by Christin Cogley from the World Bank headquarters in Washington, and by Janos Juhasz from FAO headquarters, and Stjepan Tanic from the FAO Subregional Office in Budapest.

This proceedings volume presents a selection of papers from the workshop and a summary of the deliberations. In addition to the papers published in this volume, a rich variety of country case studies were also presented and discussed at the workshop. The proceedings volume was compiled by Csaba Csaki and Zvi Lerman and processed for publication by Alan Zuschlag under the guidance of the editors. The assistance and support provided by the Bulgarian Ministry of Agriculture is very much appreciated, specifically the assistance of Minister Ventislav Varbanov and Deputy Minister Andriana Toscheva-Sukova

Abbreviations

CAP	Common Agricultural Policy
CAS	Country Assistance Strategy
CEE	Central and Eastern European
CEE –10	Central and Eastern European Accession Candidate Countries
CEECs	Central and Eastern European Countries
CEFTA	Central and Eastern European Free Trade Agreement
CGIAR	Consultative Group on
CI	Community Initiative
CRDC	County Regional Development Councils
DFID	Department for International Development
EAGGF	European Agricultural Guidance and Guarantee Fund
ECU	European Currency Unit
EU	European Union
FAO	Food and Agriculture Organization (of the United Nations)
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GDP	Gross Domestic Product
GNP	Gross National Product
LAG	Local Action Group
LIS	Land Tenure Units
IRDP	Integrated Rural Development Projects
ISPA	Instrument for Structural Policies for Pre-Accession
LEADER	Liaison Entre Actions de Development de l'Economie Rural
MARD	Ministry of Agriculture and Regional Development
MIS	Market Information Systems
MLP	Multi Layer Perceptrons
NFRE	Non-Farm Rural Economy
NGO	Non-Governmental Organization
NN	Neural Network
NUTS	Nomenclature of Territorial Units
OECD	Organization of Economic Cooperation and Development
RDP	Rural Development Project
SAPARD	Special Accession Programs for Agriculture and Rural Development
SGM/AWU	Standard Gross Margin per Annual Work Unit
SME	Small and Medium Sized Enterprises
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization

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Summary of Workshop Deliberations

Csaba Csaki
Zvi Lerman

The World Bank in cooperation with the FAO and the European Commission organized in 1998-2000 three workshops that were designed to facilitate the preparation of candidate countries for EU accession in the rural sector. The first workshop was held in June 1998 in Budapest and focused on lessons learned from regional and international trade agreements. The second workshop, held in June 1999 in Warsaw, focused on structural changes and competitiveness in the farming sector and on how supporting institutions need to evolve to EU standards. The participants of the 1999 Warsaw workshop cited Rural Development as the highest priority area in which their countries most needed advice. Rural Development was accordingly chosen as the theme for the third workshop, held in Sofia in June 2000

Throughout the accession countries, there is increased recognition of the importance of integrating agriculture with the rest of the rural economy. The social problems of rural regions create pressures on agricultural policies in many countries. Governments in the region are struggling with the design of rural development policies to alleviate these problems. The policies supporting infrastructure and public services to bolster off-farm activities require as much attention as those associated directly with agriculture. In the past, the focus was almost exclusively on agriculture and we have a fairly well developed set of recommendations and instruments in this area. We are much less equipped to address off-farm issues and interventions. This set of issues, which are becoming of increasing importance in the process of EU integration, is in the focus of our attention, as achievement of a certain level of rural development is a prerequisite for accession.

The workshop was intended to support rural development in the region by providing an analytical framework for the discussion of rural development and a forum for examining EU and international experience. A significant part of the workshop was devoted to discussing the status of rural development in the accession countries, and the implementation of the EU's SAPARD program that began in January 2000. The participants also discussed the potential role of the World Bank, FAO, and other international organizations in supporting rural development in the region.

The workshop deliberations clearly emphasized that rural development should get considerable attention in the process of EU accession and requires a new approach, which blends the traditional focus on agriculture with appropriate attention to non-agricultural components of rural life. The workshop provided a good example that, although international and EU experiences can be valuable for the accession countries, there are no magic blueprints. One of the

most important lessons of EU countries is that the tools and instruments of rural development should be sufficiently flexible to allow for natural diversity across the region and inside each country. The workshop accordingly offered a framework for the discussion of SAPARD-related issues among the accession candidates and interaction with the responsible EU officials.

The workshop was organized as a regional event. All the accession countries, including for the fist time Turkey, Cyprus, and Malta, accepted the invitation and sent delegates to the workshop. A large number of international experts, including Lord Henry Plumb, former President of the European Parliament, willingly contributed to the workshop deliberations. Although no further workshops are planned in this series, the World Bank and its international partners remain firmly committed to supporting the accession process in all candidate countries.

As part of the rural development theme, the workshop participants enjoyed an opportunity to discuss the importance that off-farm employment generation and non-farm sectors have in economic and social development of rural areas in accession countries. The importance of the non-agricultural sector is largely due to its potential in providing new choices, opportunities, and incentives for community-based development and reducing rural-to-urban migration. Additionally, the farm sector is linked to the larger economy through a network of input purchases and products sales. The workshop identified and emphasized a number of priority issues in accession countries. In addition to the standard transition priorities, which include sustainable intensification of agriculture, land consolidation, improvement of land tenure institutions, vertical and intersectoral integration, marketing efficiency, and food safety, the workshop participants debated issues relating to participation and empowerment of rural producers, farmers' organizations, and rural communities; better distribution and access to knowledge and information; enhanced support to women, youth and other disadvantaged groups; adequate and efficient rural financial systems; and improved financial resource flows. The provision of public goods and services must be improved so as to facilitate local initiatives and private investments in agriculture and rural areas.

The World Bank and other international organizations are committed to support agricultural and rural development policies while reducing poverty and food insecurity pockets and promoting general economic growth. In practical terms, differentiated assistance has to be provided to countries in accordance with their diversity and specific circumstances and agricultural traditions and cultures. Of special significance is the reduction of disparities and imbalances in the European region and assistance to less favored areas in their self-conducted development. Rural development cannot be seen as a single development strategy that consists of agricultural and non-agricultural policy measures. Rural areas include people, economic activities, natural resources, infrastructure, institutions and a wide diversity of organizations. As emphasized in the Cork Declaration, a rural development policy requires a multidimensional approach.

OVERVIEW OF WORKSHOP PRESENTATIONS

The Sofia workshop was organized around four main sessions: 1) defining the *concept of* rural development – options for EU accession candidate countries; 2) rural development in the European Union; 3) rural development in Central and Eastern Europe; 4) international

experience and the role of international organizations in supporting rural development in the EU accession candidate countries. The presentations combined description of EU practices and procedures, international overview of rural development, regional analyses, and country case studies. The World Bank and FAO presented their field experience with rural development in CEE countries. The EU representatives provided specific guidance with various assistance mechanisms offered by the European Commission. The main issues addressed in these sessions are summarized below. The rest of the volume contains a selection of presentations delivered at the workshop.

Session 1: Defining the Concept of Rural Development – Options for EU Accession Candidate Countries

The four papers in the first session provided a conceptual framework for the approaches to rural development in the EU and in North America. **Peter Berkowitz** and **Willi Shulz-Greve** described the evolution of rural development policy in the EU and the current policy measures. **Alan Wilkinson** provided a practical "accession candidate's manual" of how to access the EU support programs. **Roberto Esposti** and **Franco Sotte** presented a theoretical approach based on neutral networks to analyzing the impact of EU policies on the basic rural decisions, such as developing commercial farming versus non-farm activities. **David Freshwater** painted a broad canvas of the history and practice of rural development in US and Canada, as an example of the approaches used in a different social and political environment.

Session 2: Rural Development in the European Union

Lord Henry Plumb of Coleshill shared with the participants the perspective of a veteran European politician on the evolving approaches to rural development in the EU. The rest of the papers in this session described the specific experience of three EU member states – Ireland, Italy, and Portugal – with the implementation of rural development programs. The experience of Ireland as a relatively rural western European country was discussed in two papers by **Frank O'Donnel** and by **Joseph Mannion, Jim Kinsell,** and **Pat Bogue**. The first paper presented an overview of rural development policies in Ireland since 1988 and the second paper specifically focused on the implementation and the outcomes of the LEADER Communitive Initiative in Ireland. **Secondo Tarditi** presented a wealth of empirical data describing the structural adjustment of Italian agriculture to EU agricultural and rural policies. **Carlo Malavolta** specialized the Italian experience to the case of Emilia-Romagna. **Arlindo Cunha** analyzed the structural dimension of Portuguese agricultural, focusing on the strategy negotiated between Portugal and the EU for both the pre-accession and the transition period.

Session 3: Rural Development in Central and Eastern Europe

After the detailed discussion of the EU rural development policies and experiences, the focus shifted to the ten accession candidate countries in Central and Eastern Europe. **Aladar Zichy**, his unique perspective as a Hungarian private farmer reinforced by the broader vision of international consulting, reviewed the main requirements for rural development in the accession countries. **Johan Swinnen, Liesbeth Dries,** and **Erik Mathijs** used the information from SAPARD country plans and rural surveys in several accession countries to identify the

constraints to rural development in the region. **Junior Davis** and **Douglas Pearce** continued with an empirical analysis of survey data to demonstrate the need for rural development in accession countries and the impact of various policies during the last decade. The three general papers were followed by six country case studies focusing on specific rural development issues of the accession candidates: Hungary by **Katalin Kovács** and **Zsuzsanna Bihari**; Bulgaria by **Diana Kopeva**; Lithuania by **Saulius Cironka**; Poland by **Augustyn Wos**; Romania by **Violeta Florian** and **Marioara Rusu**; and Turkey by **Emre Kutkan**.

Session 4: International Experience and the Role of International Organizations in Supporting Rural Development in the EU Accession Candidate Countries

The last session dealt with the experience of international organizations in the implementation of rural development projects and policies in the accession countries. **Laurent Van Depoele** provided examples of actual achievements of rural development programs in EU member countries. **Janos Juhasz** and **Santiago Funes** described the FAO approach to agricultural and rural development, with special focus on transition countries in Central and Eastern Europe. **Robert Thompson** reviewed in his presentation the World Bank's approach to rural development in a global perspective (his paper with **Jock Anderson** in this volume provides a statement of the World Bank's rural development strategy). **Hoonae Kim** and **Piotr Wilczynski** described in detail the design and implementation of two World Bank rural development projects in Central and Eastern Europe – Lithuania and Poland. **Kaj Mortensen** explained how the applications of candidate countries for assistance are handled by the EU. The session ended with a review by **Judith Symonds** of the role of NGOs and other international institutions in rural development in transition.

Although the participants had ample opportunity for interactive discussions during the three days of the workshop, a special session was devoted on the last day to impromptu contributions from the audience. Substantive comments were offered in this session by **Tomas Doucha** (Czech Republic), **Andrzej Halasiewicz** (Poland), **Tadeusz Hunek** (Poland), **Krisztina Loncsar** (Hungary), and **Rolf Moehler** (Germany). Officials from the World Bank (**Laura Tuck**) and FAO (**Santiago Funes** and **Jaroslav Suchman**) summarized the proceedings, stressing the important contribution of the workshop to our understanding of rural development issues in accession countries and reiterating the continued commitment of major international organizations to agricultural and rural development throughout the world.

Part One

Defining the Concept of Rural Development: Options for EU Accession Candidate Countries

Defining the Concept of Rural Development: A European Perspective

Peter Berkowitz
Willi Schulz-Greve

In June 2000, the European Union formally opened Accession negotiations in the field of agriculture. We will need to make use of the Pre-Accession period to ensure that Candidate Countries are as much prepared as possible for membership of the Common Agricultural Policy on the day of Accession. After Accession, we will need to ensure that the promise inherent in membership is fulfilled and that our common policies meet the expectations of farmers and the rural population in the new Member States. Both before and after Accession, rural development will play a crucial role in meeting these challenges, first through SAPARD and other preparatory measures and then through full-scale programming. Finally, we should not forget that the implementation of the European Rural Development Policy as set out in the relevant legislation is part of the Acquis.

The European Rural Development Policy is a living policy, born of political decision-making processes and of the implementation on the ground. The political and legal texts surrounding the policy reflect *what should be done* rather than a detailed exposition of *what it is*. This also reflects the diversity of approaches across the European Union. For this reason, we would like to take a broad view of rural development in the European Union and identify a number of key features from the perspective of the European Commission, rather than providing hard definitions and concepts. Finally, we draw some conclusions in the perspective of enlargement.

THE DIVERSITY OF RURAL AREAS IN THE EU

The term *rural area* covers a multiplicity of landscapes, activities, and functions. Rural areas include natural and cultural landscapes, parks and wilderness, villages, market towns, research centers and commercial sites, which are mixed with varied agricultural areas and forests ranging from intensive monoculture to traditional systems. Our understanding of rural areas concerns more than how land is used by nature and man. It relates to economic and social structures in which farming and forestry, handicraft, and small, middle, or large companies produce and trade, where services, from the most local to the most international (such as tourism), are provided. All these factors interact, compete, create, and evolve.

Beyond that rural areas provide living space, not only for the people who work there, but also for many commuters who work in the city. They offer living space for flora and fauna and fulfill important balance functions for overloaded centers of dense development, particularly through the preservation of an ecological balance, as buffer zones and recreation areas. All these structures and functions together make rural areas diverse and complex places, something that is often forgotten. This diversity and complexity is a key feature of European rural areas, which plays an important role in shaping rural development policies.

Rural regions were more strongly affected than non-rural regions by population declines, and their per capita income generally lies below the national average in most EU Member States. Many rural regions suffer from high unemployment and low activity rates, as declines in agricultural employment were accompanied by declines in traditional branches of industry. On average across the EU, the number of employed decreased in most rural regions by nearly 3% between 1986 and 1995, while in non-rural regions it rose by more than 5%. As a result of these developments, we observe out-migration of qualified young people from many rural regions. This leads to gradual aging of the rural population and to skills shortages in the affected areas.

There are nevertheless a number of rural regions that completely contradict this picture. These exceptional regions enjoy not only economic growth, but also achieve significant job creation. In particular, some rural regions rank among the most dynamic regions in Europe by GDP growth. It would be therefore wrong to equate rural areas automatically with disadvantaged economic development and problematic labor markets.

Rural areas went through a profound change in the last decades in many parts of Europe. The development of the Common Agricultural Policy with its consequences for agriculture has been an important factor. Changes in technology, lifestyles, consumer expectations, and communication have also profoundly changed the rural areas, which becomes clear when we examine the developments in countries with agricultural policies of their own. This leads to two important conclusions. First, agricultural policy has limited scope for achieving broader objectives, such as employment, economic growth, or environmental goals in rural areas. Increasingly, we need to tackle the problems more directly through rural development policies. Second, the forces driving change in rural areas are themselves increasingly diverse. The need for locally tailored rural development is therefore becoming ever more important.

EVOLUTION OF RURAL DEVELOPMENT POLICY: MULTIFUNCTIONAL CHARACTER OF EUROPEAN AGRICULTURE

Rural development policy today essentially reflects three different concerns. The first is the need to restructure and accompany change in the agricultural sector; the second is the promotion of economic and social cohesion through regional development policy; and the third is integration of environmental considerations into the Common Agricultural Policy.

The approaches to a common structural policy in agriculture were introduced at the beginning of the 1970s and covered, among other things, investment grants for the modernization of holdings, early retirement funds and retraining aids, as well as start-up support for young

farmers. In the late 1980s the need for a rural development dimension to regional policy was recognized, and the First Reform of the Structural Funds integrated rural development into programs designed to reduce regional disparities. A third policy development reflected growing environmental concerns. Agriculture and forestry using 80% of land in the EU largely determine the character of the European landscapes and play an important function in producing environmental benefits. By the end of the 1980s the public had become increasingly aware of the role – positive and negative – agriculture and farmers have to play in environmental protection and in the preservation of rural landscapes. It was becoming accepted that farmers, in addition to being food producers, could also be managers of natural resources and providers of environmental services. Since farmers are not normally paid to provide such services by the market, a case for public intervention was acknowledged where society values environmental services. The 1992 Reform of the Common Agricultural Policy accordingly provided the possibility of paying farmers for agri-environmental services and afforestation.

By the middle of the 1990s, the European Union had a range of instruments that reflected the differing objectives of rural development – agricultural restructuring, regional development, and environmental integration. These instruments had evolved over a long period and were in need of being put together into a more coherent framework. This was achieved in Agenda 2000 – a set of reforms of the Common Agricultural Policy and Structural Funds whose objective was to increase the competitiveness of European agriculture, integrate environmental concerns, and prepare for Enlargement. Agenda 2000 also reflected the changes in our understanding of the role of agriculture in Europe. It highlighted the multifunctional role of agriculture, which in addition to producing food commodities also has a role in producing environmental and social public goods.

In the discussions of the agricultural part of Agenda 2000, rural development was repeatedly emphasized as a core task of a future European agricultural policy. Rural development policy would help agriculture produce more efficiently both commodity and non-commodity outputs (such as environmental preservation). The goal was to create a coherent and solid framework for rural development policy to accompany the reform of market policy. This would secure the development of a competitive, multifunctional agricultural sector. Rural development policy would become the second pillar of the European agricultural policy. In practice this was achieved in three ways. First, all measures were brought into a single legal framework based on the principle of a rural development program. Second, it was decided that rural development policy would genuinely accompany CAP reform by operating across all of Europe, thus complementing geographically targeted regional development policy and national employment strategies. Third, the links between agri-environmental measures in rural development programs and environmental requirements were made explicit; in particular, the notion of good agricultural practice became a guiding principle.

The last point in this context concerns the LEADER+ initiative for the development of the rural area (LEADER is the acronym for Liaison Entre Actions de Development de l'Economie Rurale). It pursues the goals of development of local action groups to support innovative pilot projects, promotion of exchange of experience, and cooperation among countries.

THE FOCUS FOR MEASURES

The main fields of intervention of the new integrated rural development policy can be broadly summarized under three headings: (a) measures to strengthen the competitiveness and viability of the agricultural sector; (b) measures to improve the quality of life and economic opportunities in rural areas, particularly for communities closest to changes in agricultural structures; (c) measures to promote good environmental practices and the provision of services linked to the maintenance of habitats, biodiversity, and landscape.

Promoting Agricultural Competitiveness and Viability

One of the most important measures for the improvement of farm competitiveness is support for investment. This helps farmers modernize buildings and equipment, improve the quality of management, and develop alternative production potential on the farm, particularly in higher value added products. Investments to improve veterinary and phytosanitary hygiene, reduce environmental problems, and promote animal welfare are also supported. The conditions for EU investment support have been clarified and simplified. Part-time farmers are now fully eligible for support. Specific sectoral restrictions have been abolished. The general principle remains that investment is only possible in sectors where additional production has clear market outlets. A second set of measures to improve competitiveness and develop new markets focus on the improvement of processing and marketing structures for agricultural products. Here again, there is scope to help farmers improve their orientation to consumer expectations, particularly as regards quality, safety, and application of traditional and organic production methods.

Another key area to strengthening competitiveness is human capital. Basic and advanced vocational training is available to farmers who wish to improve their expertise in business management, technology, or new production processes. This can help enhance productivity, production quality, and the environmental performance of their holdings. The improvement of the age structure of the agricultural labor force can be supported by early retirement programs, retraining, and set-up help for younger farmers. Finally, measures can be undertaken to improve land, consolidate holdings, manage water resources for agriculture, or support infrastructure associated with agricultural development. All these measures are intended to strengthen agricultural competitiveness.

Lying closer to viability than competitiveness are the compensatory allowances for less favored areas. These now focus on compensating farmers for natural disadvantages in areas where they have an important role in the provision of non-commodity outputs, such as landscape, agri-tourism, or other rural amenities. Compensatory allowances can also be granted to farms operating in areas subject to specific environmental constraints. An important additional change has been the shift from headage payments to area payments.

Improving Quality of Life and Economic Opportunities for Rural Communities

This second group of rural development measures represents in many respects one of the most innovative and challenging parts of the EU policy. These measures concern above all the

improvement of the quality of life and economic opportunities for rural communities outside the core area of agricultural production and marketing. Support is available for the diversification of economic activities, both on and off farm, ranging from broadening the mix of local products to the development of crafts and agri-tourism. Forestry is recognized as an important part of development in rural areas. In addition to traditional investment grants for modernization and rationalization, a new aid for the sustainable management of forests and forestry resources has been introduced. Support is also available where forests play a special role in environmental protection, as a buffer zone or protection from natural disasters, e.g., fires.

An improvement of the economic conditions and the quality of life in rural areas can be achieved through better access to basic services and infrastructure facilities. Measures have been designed for the redevelopment and renewal of villages and the maintenance of rural cultural heritage. This not only makes rural areas a more attractive place to live, but can enhance new economic activity and support the further development of tourism potential. It is essential to ensure that rural development and regional development measures work effectively together in areas eligible for support in the form of regional development programs. In areas not eligible for support under European regional development policy, national public policies can complement the Community's rural development programs.

Promoting Sustainable Agriculture

The third group of measures concerns agricultural environmental protection and the preservation of the countryside. Behind this lies the goal of sustainable agriculture and forestry, which reflects the broader concern of sustainable development in rural areas. Sustainable agriculture means ensuring that the benefits of natural resources and Europe's unique environmental heritage are available to future generations. We should acknowledge both the negative environmental impact of agriculture and the positive contribution of farming to landscape and biodiversity. The complex ecology of flora and fauna has adapted to and been influenced by farming activities. In Europe, this relationship has evolved, not only over centuries, but over millennia.

The core of the Community's agri-environmental strategy within the CAP accordingly includes targeted agri-environmental measures that reward farmers for environmental services in rural areas over and above good agricultural practice and compliance with environmental legislation. The public in Europe accepts that, if farmers follow basic good practices, resources should be made available to help them provide additional environmental services. This environmental dimension is therefore at the core of the EU rural development programs.

THE METHOD OF RURAL DEVELOPMENT

A number of principles govern the management and implementation of rural development in the EU. These can be summarized as programming, partnership, decentralized management, monitoring, and evaluation.

Rural development measures are designed based on an analysis of the strengths and weaknesses, opportunities, and threats to the rural area concerned. This analysis leads to the development of a strategy with quantified objectives. Expenditure is then *programmed* on a multi-annual basis to meet these objectives. The program developed for a particular region is submitted to the Commission, which works in close collaboration with the applicant to ensure that the document meets the regulatory requirements. The program is co-financed by the EU and public authorities in the Member State. It is developed and managed by a *partnership* bringing together the concerned parties in a given rural area. The financial and administrative management of the programs is *decentralized* to the competent national and regional authorities and is based on close *monitoring*, often by a specific committee. The program is *evaluated* ex-ante, at mid-term, and after completion.

At present, the Commission is in the phase of examination and approval of the programs for the period 2000-2006. Altogether about 170 proposals for rural areas have been submitted, and certain tendencies have already been discerned. The proposals to a large extent are continuations of past policies. Most of the financial resources are directly concentrated in agriculture, and other important areas of the rural development have not always received the support they warrant. Revenue support and compensation measures are generally preferred to investment aids; plans involving long-term investment for the improvement of competitiveness are infrequent. Many Member States have not fully exploited the possibilities of decentralizing rural development policy and shifting the relevant competencies to the regional levels;

The somewhat one-sided orientation of the development plans can be partly attributed to lack of financial resources. Indeed, the resources available in the Community Budget for rural development continually fail to meet the ambitions of many Member States. This would tend to support those who see an ever greater role for rural development over the coming years.

LESSONS FOR EU ENLARGEMENT

While current levels of resources may not be sufficient to allow the EU rural development policy to fully meet its ambitions, it has clearly been established as a second pillar of the CAP. We should not forget that previous CAP reforms have created a patchwork of regulations and a territorially fragmented approach to rural development. Local and regional actors and rural communities were unable to fully play their role. The current reform establishes a new framework for rural development built on the Cork Declaration, which in November 1996 called for a simpler, more integrated rural development policy Programming, which now covers all rural areas, is both simpler and more flexible and, indeed, is also compatible with the principles of sustainable development. It will tap into the potential of people and agencies living, working, or operating in rural areas, and be reinforced by a Community initiative for local rural development. Above all, the Community now has an instrument with the potential to accompany further changes in CAP. What then are the lessons that we should draw in the perspective of enlargement, both before and after Accession?

The first lesson concerns the complexity of rural areas in their structure, their functions, and their diverse economic performance. Enlargement will bring only greater complexity and

diversity. This is not a negative attribute, as richness, complexity, and diversity give the European rural areas their specific character. However, it places a heavy responsibility on those who develop region-specific programs and strategies, as they must reflect local opportunities and threats and fully tap into the local potential.

Second, we need to take a long hard look at the different policy objectives – agricultural competitiveness, regional development, and environmental integration – and ensure that the instruments available are used in a complementary fashion. Nowhere is this clearer than in rural areas in the Candidate Countries, where the challenges of agricultural restructuring and the creation of new economic opportunities are so great. Nor should we forget the broad range of high natural value farming systems and rural areas across the Candidate Countries, potentially under threat from intensification or marginalization.

Third, we need to ensure that an appropriate mix of measures are selected that reflect both our broad objectives in terms of competitiveness, economic opportunity, and environmental quality in the context of specific regional characteristics *and* limited resources. The implication of this is a need for clear targeting of resources to those areas where the greatest impact can be achieved.

Fourth, it is not only *what* is done that matters, but also *how* and *by whom.* In this respect, good administration, transparency, monitoring, and partnership are essential to successful programs. At the end of the day, as LEADER+ has shown us, unlocking human potential can be the key to transforming rural areas. Any region's greatest asset are its inhabitants, its organizations, its companies, and the institutional capacity they can marshal toward collective objectives.

Fifth, from the perspective of the Commission, the importance of rural development can only grow in the coming years, particularly in the context of the challenges of enlargement.

Finally, the lesson of recent years is that exchange of experience and good practice have proven a key driving force in making rural development policies across the EU ever more effective. This workshop provides an important opportunity for us to better understand the needs and potential of rural development in the context of enlargement.

Evolution of Rural Policy and Agricultural Policy in North America

David Freshwater

The broad objective of the paper is to review the development of federal policy affecting rural areas in Canada and the United States, and to assess its effects on rural residents. In doing so, the focus goes beyond policies that are explicitly rural in nature. Today broader social policies are the major federal influence on rural areas in both nations. In part this reflects the simple fact that these programs are where the vast bulk of state outlays occur, but it is also the case that the availability of a set of basic social welfare programs is a vital building block in the rural development process. Having set out the objective, it is important to recognize that in the federal systems of government of Canada and the United States the national level is only part of the picture, and that states and provinces increasingly play a larger role in rural development policy. Finally, it cannot be overemphasized that successful rural development is almost always a fundamentally local phenomenon. Ultimately, successful rural development depends on local initiatives.

The salient geographic feature affecting early forms of rural policy in North America is scale. The size of the land mass and the corresponding low population density and reliance on resource-based activities imposed development problems distinct from those in most of Europe. The distance factor in land-extensive systems resulted in a different division of labor between country and city than was the case in more land-intensive systems. Even today, communities in the hinterland of urban areas face different problems from those in frontier areas. Canada and the United States are similar countries in many respects. Both are large land masses, with large portions of each country having low population densities. In both nations the vast majority of the population is urban and the degree of population concentration in the largest metropolitan areas is increasing. Similarly, an increasing share of national economic activity is also taking place in urban areas.

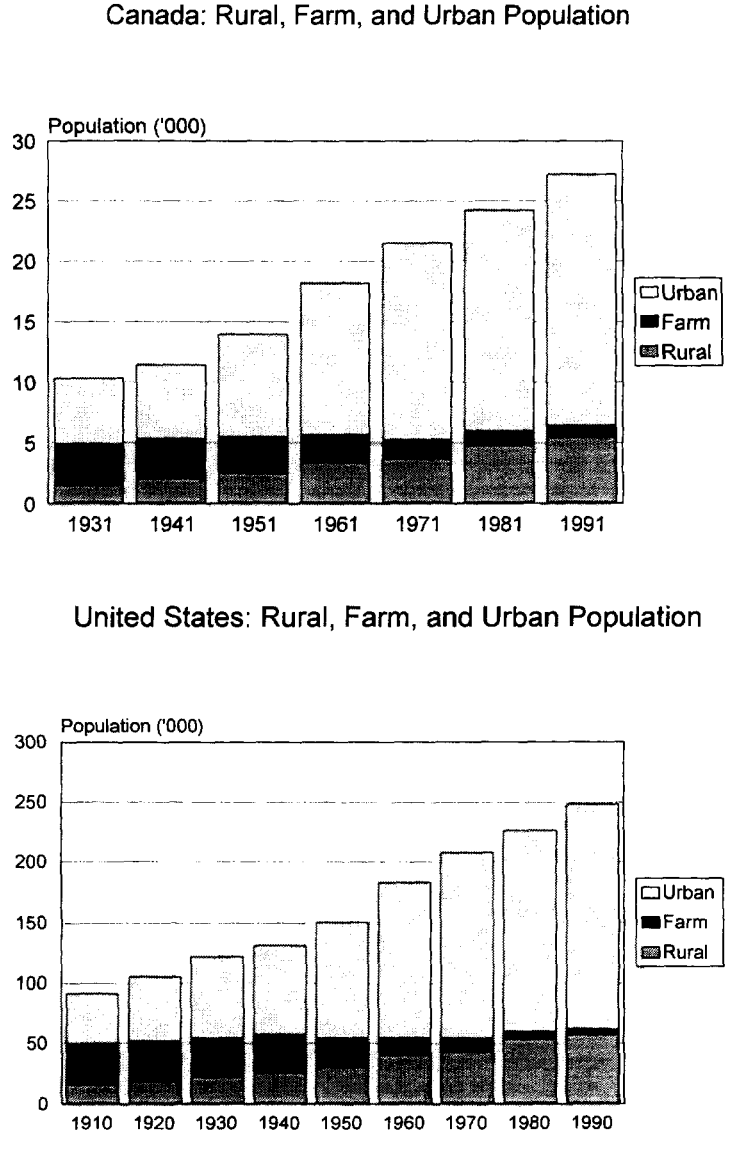
THE ECONOMIC STRUCTURE OF RURAL AREAS

Virtually every academic model of the economic development process of nations suggests a reduced role for agriculture in GDP as a primary indicator of economic development. While the absolute value of agricultural production may continue to increase, as might the value and

volume of agricultural exports, the significance of agriculture as a source of employment and as a percentage of the national economy declines. In Canada and the United States this process has occurred steadily over the twentieth century (**Figure 1**).

The development process in North America has essentially been one of urbanization and more recently suburbanization. In this process population and economic activity have moved to urban centers. However, what is striking about **Figure 1** is the fact that the aggregate rural population has stayed fairly constant in both countries. Net population growth has been in urban places, while in rural areas the decline in the farm population has been offset by an increase in rural people who are not engaged in agriculture. The shift in rural population reflects the growth of non-farm employment opportunities in manufacturing, the service sector (trade, tourism and various support functions), and government and education.

Figure 1: Changes in the Farm, Non-farm Rural, and Urban Populations in Canada and the United States in the Twentieth Century



As a result, the occupational composition of rural North America, on average, does not look that much different from the distribution of occupations found in urban North America. Although there is a somewhat bigger share of the labor force employed in the primary sector (agriculture, forestry, fishing, etc.), the bulk of employment in both the urban and the rural case is in the tertiary sector (services and government) and in the secondary sector (manufacturing). Thus from a national perspective the path of economic development seems to occur as a single process that has had a uniform impact on urban and rural space

However, while development from the national level appears to entail a simple decline in the relative role of agriculture and a parallel set of transformations of both rural and urban economies, the nature of development is more complex when examined at the regional and local level. While the economic structure of rural areas may, in aggregate, look like urban areas, it is clear that no specific rural area looks anything like any urban area. Further while agriculture plays a steadily declining role in the national economy, it remains the major economic engine in a fairly large part of rural North America. A band of rural territory stretching from the prairie provinces of Canada (Manitoba, Saskatchewan, and Alberta) down through the central portion of the United States into Texas and Oklahoma still depends upon agriculture as its major source of economic activity. This region roughly corresponds to the area that Garreau (1982) described as the "Empty Quarter" referring to the low population density, a disproportionately small number of large urban centers, and relative scarcity of economic activity.

In most other rural parts of the two countries agriculture still remains the primary land use (indeed there was at least as much land in crops in the year 2000 as there was in 1900), but only a small percentage of the population and local income is farm related. Yet these non-agricultural rural places are also different in important ways from urban centers. The most striking economic difference is the degree of specialization. A necessary characteristic for the economic viability of rural places is a high degree of specialization. Because the local population is small, the only way to reach a minimum scale of efficiency in almost any activity in rural areas is by dedicating a large share of the local labor force to one or two industries. As a result, rural places are highly dependent upon trade, because they produce a relatively small proportion of the goods and services they consume. While it is tempting to think of rural residents as being relatively self-sufficient, this is far from the case. In reality, any rural place is less self-sufficient than a large urban center, in that a smaller proportion of the items and services it uses are produced locally. Consequently rural places are at least as dependent upon stable trade flows as are urban centers.

In both Canada and the United States, rural development policy has historically been formulated as agricultural policy. For approximately the first half of the twentieth century this was an effective development approach. A large portion of the rural population was either directly engaged in agriculture, or was found in small communities that supported agriculture. Within large geographic regions farms were fairly uniform in size and in the mix of products they produced, and had strong links to the local community. This meant that development programs that focused on agricultural research, enhancing rural transportation systems, stabilizing the prices of a few key commodities, and in providing credit to farmers had a pretty positive and uniform impact both directly on farmers and indirectly on the balance of the rural residents.

An important consequence of these earlier agricultural development efforts has been a major change in the structure of agriculture. New technologies have encouraged the growth of farm size and specialization. Credit programs and improved transportation facilitated these adjustments. As a result, the number of people involved in agriculture has declined, links to local communities have weakened, specialization in agricultural production has taken place, and in some regions of the country less productive farmland has been abandoned. At the same time manufacturing expanded into rural areas, providing rural people with alternative employment opportunities. The result is that traditional farm based development programs no longer have any meaningful effect on most rural areas and to a considerable degree have little real impact on a large share of the remaining farms. Thus agricultural development policy is no longer an effective rural development policy.

EARLY EXPERIENCE WITH RURAL POLICY

There are many notions of what rural development involves. Among those commonly articulated are: a prosperous agricultural sector, stronger integration of rural places with urban centers, the preservation of traditional rural culture and protection of the natural environment, and equal access for rural residents to the goods and services enjoyed by urban residents. Each of these notions has been an integral part of rural development concepts in North America, yet none of them individually offers an adequate definition of rural development. Yet, in some sense each is an important part of a complete definition of rural development.

Prior to the beginning of the twentieth century the majority of North Americans lived in rural places, so almost all development policy was really rural policy. Now the vast majority of North Americans live in urban centers and very little national development policy has an explicitly rural orientation. This change took place over an extended period of time in both countries. Four distinct phases can be traced in the evolution of North American rural policy. Although all four policy regimes have been experienced in Canada and the United States, they did not take place at exactly the same time in each country, nor did each regime last the same length of time.

In each country the first period of rural policy consisted of land settlement and the expansion of natural resource exports to Europe. In both countries this interval started at the time of initial European settlement and occupied the first phase of nation-building. The most important characteristic of this phase was the effort to settle the land, i.e., to ensure that no other group or nation would be able to claim part of the territory for itself. This involved policies that provided farms to immigrants and required the development of canals, railroads and roads to improve transportation systems. From the start, the development of rural North America was highly export oriented. This phase of policy continued until roughly the late nineteenth century in the United States and the early twentieth century in Canada.

A second stage, which can be described as the era of scientific agriculture, began with the closing of the open frontier, when the majority of the potentially arable land had been brought into production. At this time it was recognized that any further increases in agricultural output

would have to come from a more intensive use of land, rather than expanding the land base. This led to the creation of government supported research centers to enhance agricultural productivity, the creation of agricultural colleges and universities, and the development of an agricultural extension service to disseminate new scientific methods to farmers. In the United States this interest in scientific agriculture began after the Civil War with the creation of the Land Grant Universities and expanded funding for agricultural research. In Canada the process started somewhat later, but it was well in place by 1900. As in the first stage of rural policy, agriculture was still the central focus, because farmers still made up the dominant share of the rural population. But the form of rural policy had significantly changed. Rather than agriculture being the main means for financing the development of the rest of the nation, it was now a sector that required external investment to allow it to increase its productivity. During this second phase, rural areas were displaced by urban areas as the place where most economic activity took place, and subsequently where the bulk of the population lived.

The second period can be thought of as losing its dominant status with the onset of the Great Depression in the 1930s. The collapse of the farm sector in both countries made it clear that rural development could no longer rely solely upon agriculture. This led to a search for ways to diversify rural places. The chosen means were to introduce manufacturing jobs into rural economies that had previously relied solely upon agriculture. The first coherent effort in this respect took place in Alabama through the "Balance Agriculture with Industry" program that began in the mid-1930s. The state government made a concerted effort to recruit manufacturing firms from the northern part of the United States to relocate in rural Alabama. The advantages they promised were cheap land, cheap labor, financial assistance and limited government regulation. The intent was to provide rural communities with alternative sources of income that supplemented earnings from agriculture. Soon other parts of the southern United States, and then other rural areas throughout the continent, followed Alabama's lead.

A second important feature of the third stage of development policy was the introduction of broad social welfare programs. For the first time the federal government provided pensions and other forms of assistance to the general populace. This safety net provided greater security to all residents the country irrespective of where they lived. It can be seen as a major shift in policy approach because the programs are not driven by geography or economic sector, but by the status of people. Over time, both the types of assistance and the level of support increased, reducing the necessity of depending upon family support and improving the quality of life of urban and rural residents. However the impact in rural areas was arguably greater because few rural residents were able to receive the types of employer paid benefits that were provided to workers in large urban firms.

During the first two policy stages agriculture had been the dominant economic sector and, more importantly, agriculture provided a mechanism for the modernization of the country at large. Following the Depression and World War II the modernization process took place and agriculture became a fairly minor factor in terms of total national production. This third stage lasted through the 1970s and carried into the early 1980s. It was marked by major out-migration from agriculture and increased dependence upon manufacturing as a major source of rural income and employment.

After 1950, the economies of rural areas became increasingly diverse. Not only did the economic base of rural places change from being mainly driven by agriculture, but the nature agriculture also changed. In particular, farmers became more specialized, so the interests of farmers diverged. However the main change was that the local economy of most rural places became dependent upon something other than agriculture. By the 1970s important sectors in rural North America included; agriculture, manufacturing, tourism, government installations, retirement destination places, and mining and timber communities. This has led to a fragmentation of rural interests. As the diversity of rural areas increased it became increasingly difficult to develop a coherent national rural policy.

At the same time the urban interest in rural places became a more significant policy factor. Urban residents increasingly saw what went on in rural areas as having an impact upon them. They became increasingly concerned with the quality of the rural environment. This growing concern has led to the fourth phase of rural policy (Swanson and Freshwater). Rural policy now is mainly driven by urban considerations, not rural ones. One important consequence has been an increase in the role of government in rural places. In the past government acted to enhance the economic development of rural areas, now in many ways it constrains economic development to meet urban objectives.

By the late 1960s agriculture had been displaced by manufacturing as the dominant economic sector in rural areas. However in the 1970s manufacturing in North America began to face increased competitive pressures from foreign firms. In addition, increased income and wealth in urban areas and an enhanced ability to spend leisure time in rural places have led to a greater concern with the quality of the rural environment. Urban people began to value rural places not for the production that they could provide, but more importantly for their esthetics. This led to a new type of rural policy that was not concerned with what went on of rural areas in terms of maximizing production, but rather was interested in the characteristics of rural places. In the last few years the notion of development is taken on new meaning. It is becoming a richer concept embracing both environmental and economic values. Preservation of the environment, both natural and cultural, has become an essential aspect of development. Where a focus on jobs was once the primary criterion by which development projects were considered, now a broader set of objectives is taken into account.

An important aspect of the evolution of rural policy has been a steadily increasing role for government. In the first phase, rural areas were seen as the main source of funds for development activity. In this era government policy was designed to maximize revenue from the use of rural resources by facilitating exports. In the second phase government begin to make significant investments in increasing the productivity of rural areas, particularly farming. In the third phrase policy expanded to introduce new types of economic activity in rural areas and to provide rural people with access to a greater set of social services. The final phase has seen government take on an even larger role in the rural economy, where it now establishes a much more complex set of rules under which development can take place. Government intervention has been an inherent force in the emergence of post-1945 rural economic diversity. Public attention has been focused on the degree of government involvement in agricultural production and trade, but agriculture is fairly typical in terms of the influence of policy on rural economic activity.

One of the more obvious aspects of government influence is through the types of infrastructure that are available. The government has had a long involvement with transportation facilities, but it also influences the location of power lines, oil and gas lines and sets standards for water and air quality. In both countries the development of a federally funded highway system clearly helped those communities it connected while harming those that were not served. The most recent example of the influence of public policy on the modern rural economy is the development of telecommunications regulation. Access to the Internet is now a necessary feature for modern life and commerce, but it is predicated on proximity to physical infrastructure that is expensive to install and maintain. Low-density places are inherently unattractive places to make investments that have short useful half-lives, and a deregulated telecommunications system has little incentive to make investments for the social good if this harms profit margins. Federal government decisions to abandon principles of universal service have clear implications for who has access to telecommunications.

REFOCUSING RURAL POLICY IN THE TWENTY-FIRST CENTURY

The process of rural structural change has led to the fundamental question of what, if anything, to do for the people who reside outside the growing urban areas. Historically, rural development policy has been of national interest in Canada and the United States because rural people were, if not a majority, a large minority of the population. More importantly, as long as agriculture was the dominant rural industry there was at least the appearance of a common bond among the rural populace that created an obvious vehicle for delivering policy. Now however in many parts of each country the rural population is a minor share of state or provincial populations and the nature of rural economies at the local level is so fragmented that the old policy mechanisms are not effective.

This has led to an argument that in industrialized nations where local economies are integrated components of the national economy and national policies reach citizens in all parts of the nation, there is no longer any reason to have specific programs for rural areas, because national programs can adequately serve all the legitimate needs of the population whether they are rural or urban residents. However, while the problems of rural people and places are in general the same as those in urban areas, there are important differences that justify a specific focus.

> Rural areas differ from national areas in a number of ways. Rural areas have lower labor force participation rates, which is symptomatic of their smaller degree of integration into the broader economy. Residents of rural areas also tend to be less well protected by the social safety net and less subject to employment protection than their urban counterparts. Rural labor markets tend to be thin with a limited number of employers and in many remote areas the potential supply of workers is far in excess of feasible demand. Because rural workers are predominantly engaged in the production of low wage, low skill tradable commodities they are highly exposed to the effects of globalization. But, because they have low skill and education levels relative to urban workers, and there are fewer employment opportunities in rural areas, many face a particularly severe transition to the global economy (OECD, p. 35).

This quote from OECD suggests that a central issue in rural development policy for all levels of government, national, state and local, is how the chances to enhance employment can be improved. Historically, rural development policies of national governments have not had a strong direct focus on enhancing employment. Instead rural policy in North America has tended to be defined in terms of either sector-based policy or in terms of place-based policy. In the first case governments provided support to some specific rural industries, most commonly agriculture, in the expectation that enhancing the sector would, in turn, create direct and indirect employment effects that would benefit the rural populace. In addition to agriculture, the most common sectors for this type of support were forestry, fishing, and mining. To the extent that these sectors were either only found, or mainly found, in rural areas their support implicitly became rural policy.

For the second type of policy, governments identified specific places and provided resources to those places to enhance their development, in the belief that by improving the infrastructure of the community, or by providing tax concessions, there would be a resulting increase in economic activity and once again employment opportunities would result. This could be justified in terms of efforts to stimulate "growth poles" or for social equity reasons in the case of providing assistance to specific communities that had fallen below some performance threshold, such as average family income level or level of unemployment.

Industrial sector based approaches have a significant record of past success, but also notable failures. However they are less likely to be effective in the future. Traditional rural sectors, like agriculture and the other resource based industries, are shedding jobs and replacing labor with capital. In the process they not only create less direct employment but they also provide less indirect employment because their industrialization replaces linkages to the local rural economy with linkages to the larger regional or national economy as a source of inputs and markets. In a parallel development, place-based efforts to attract new business now face lower success rates as firms increasingly consider foreign as well as domestic sites (Glasmeier and Conway). Now, even when attraction efforts are successful, they often lead to people from outside the community receiving a large share of the new jobs, because local workers lack the necessary skills, so the social or economic indicator that triggered the policy initiative is not affected.

An alternative approach is that, instead of rural development policy being structured in terms of helping places and sectors, it should be organized as a way to help rural people (Winters). By ensuring that people have appropriate skills one ensures that they have the best chance to lead a productive life, and by doing so, they can contribute to a rural community if they choose to reside there. Or, if they determine that their future lies in another place they leave the rural community with the skills to be successful somewhere else.

This suggests that policy to enhance employment opportunity in rural areas should emphasize the accumulation of human capital. The changes we are seeing in the industrialized economies make it clear that the set of skills a person has are major determinants of how well they will live (MDC, Winter). In the United States, where unemployment rates are at record or near record lows in most states, there are large pockets of unemployment, mainly in rural areas and urban cores, where worker skills are limited. In a decade of record prosperity we find that the

real income and wealth of the least skilled portion of society has declined, because they are unable to effectively participate in the economy.

While it is clear is that past policy approaches no longer fit current conditions in most rural places, identifying new rural policies has not been an easy task. The diversity of rural conditions, combined with large geographic areas and low population densities in rural areas requires that each place have an almost independent approach. But this type of complex approach is not possible to implement as a national policy. In practice only a small number of programs can be effectively managed by any government agency, so the challenge is to design a limited set of programs that can be combined in a number of ways to address rural development needs in different places.

Issues in Implementing Rural Policies

Despite the great similarities and the increasing degree of economic integration between the two nations, striking differences remain. These are most obvious in cultural and political institutions. In particular their approaches to rural development have differed considerably. In a rhetorical sense, if we ask which country has the most rural policy, the answer is simple – the United States. Canada has rarely had any explicit rural policies while the United States has a considerable body of legislation that is explicitly rural. But, how do you measure rural policy? Is it by the amount of legislation on the books, whether or not it is implemented? Is it by the amount of federal dollars spent in rural areas? Is it by the vitality of rural areas, assuming that federal influence has a bearing on vitality? Is it by the level of out-migration?

All of these measures provide some evidence, but none are adequate. Ultimately we are not interested in whether a country has more or less policy, but in the quality of life of rural residents both in an absolute sense and relative to urban residents. To address this issue we must look beyond just counting explicitly rural policies and examine broader policy questions, such as:

- How do general economic policies affect rural areas? What is the effect of monetary policy, banking regulations, minimum wage laws and other policies on rural regions?

- Is the set of general economic and social programs adequately meeting the place-specific need s of rural areas? Do broad social programs meet rural needs? For example, Canada's health policy guarantees universal access to health care in the sense that an individual's income and wealth does not affect the level of service he receives. But, place does, as there is no requirement that services be extended to particular areas.

- If place specific policies are desirable, is it institutionally possible to develop effective place specific rural programs? Even if we would like to provide additional support to rural areas do we know how to do it?

OECD Policy Regimes

Approaches to political economy, among OECD countries have been clustered in three broad groupings or policy regimes that are termed "neoclassical," "corporatist," and "social democratic," respectively. This classification follows the comparative analysis of social policy systems in the OECD (Epsing-Andersen), which is extended to include strategies of intervention or non-intervention in market economies.

Neoclassical regimes emphasize the primacy of social choice through unhindered market mechanisms in the realm of both social policy and the economy. A citizen's rights to social and economic well-being in neoclassical regimes are very closely tied to the sale of his or her labor as a commodity. Social program benefits are either tied to past labor market performance (e.g., US social security payments) or emphasize needs tests for access to program benefits. Benefits for the "neediest" tend towards minimal payments for restricted periods of time. Compared to other OECD countries, the neoclassical regimes restrain the coordinating and innovating role of government in the general economy. There is an instinct that unfettered markets are the optimal vehicles for optimizing collective economic performance and well-being. The neoclassical regimes include the United States, Canada, Australia, New Zealand, and the United Kingdom.

Corporatist policy regimes emphasize a close integration of economy and society. Citizens' access to a minimum of social and economic well-being are a matter of rights rather than being conditional on demonstrating severe need. Benefits are more generous, cover a wider range of activities, and are available for longer intervals of time. Beyond minimum benefits, there are gradations in benefits that are linked to an individual's rank in the occupational hierarchy. Benefits also tend to be calculated in terms of the perceived rights of family units rather than to individual rights. Salient examples of corporatist approaches to political economy are Germany, France, and Japan. The corporatist approach extends beyond individual social welfare rights to a sense of the obligation and rationality of governments as a means to coordinate the national economy and promote national comparative advantage. It can also involve a more cooperative relation between labor and management than is the case in laissez-faire systems.

Social democratic regimes predicate social policy on an egalitarian system of rights with high levels of social benefits that are independent of market performance. In contrast to corporatist systems, benefits tend to be allocated to individuals rather than families: child support systems, for example, will be directed towards high day care payments that encourage women's participation in the labor force and whose levels are not linked to the spouse's earnings. High levels of social program benefits imply a high degree of government intervention intended to maintain high employment rates. State-owned enterprises play an important role in the economy. The social democratic regimes include Sweden, Norway, Finland, Holland, and Austria.

Comparative Fiscal Federalism

The political systems of OECD countries adopt a wide variety of arrangements for dividing political power between national, regional, and local levels of society. Systems of division of power do not coincide with, and cannot be subsumed under, the kind of economic policy regime. For example, two corporatist policy regimes, Germany and France, stand at opposite poles of the decentralization versus centralization continuum. The neoclassical regime in the United Kingdom is highly centralist while its major offspring, the United States, Canada, and Australia, have all adopted federalist political institutions. In parallel, the distinction between unitary and federalist political systems does not coincide with, and cannot be subsumed under, the distinction between land-intensive and land-extensive rural resource systems. Long distances do not necessarily result in a decentralization of authority via federalism, nor is a compact scale necessarily associated with a unitary system. Sweden and Norway have unitary political systems while Germany and Switzerland have adopted federal systems with a highly decentralized federal division of powers.

The baseline measure of the distribution of power between different levels of government is the relative amounts of money spent at national, regional, and local levels respectively. An initial estimate of these distribution patterns in OECD countries is presented in Ehrensaft and Freshwater. The ratios of national to total civilian government expenditures demonstrate both: a) a clustering of federal systems at lower levels of national to total expenditures; and b) within federal systems, a greater degree of national centralization in the United States and Australia compared to Germany, Canada, and Switzerland.

Another layer of complexity is imposed on the analysis by the fact that there is also not an overlapping of division of powers between: a) legislative, executive, and judiciary powers within national and state/provincial governments; and b) the distribution of federal powers between national, state, and local governments. The Swiss federation follows the US model of dividing legislative and executive authority, but is on the opposite end of the spectrum in terms of centralization versus. decentralization from the US. The parliamentary systems of Canada and Australia, which follow the British precedent of combining legislative, executive, and judiciary power in a prime minister and collectively responsible cabinet, also stand at opposite ends of division of powers between national, provincial, and local governments.

With respect to rural development issues it is relatively easier to address rural issues in corporatist and social democratic regimes than in neoclassical ones. The corporatist and social democratic regimes attach as much importance to groups as to individuals in the interface between markets and society. A system that specifies group rights by occupation or by social class is more readily inclined to assign group rights by place than is a market-oriented regime.

The political culture in neoclassical systems, with its emphasis on individual rights and welfare, has a more difficult time dealing with issues of place. The European notion that rural society constitutes a "cultural landscape" that is a highly valued part of a nation's heritage, and therefore deserves a high degree of policy support, is a hard sell in North America. The North

American reaction is to lament the decline of rural areas but to view it as an inexorable result of market forces.

Many policy-makers and analysts consider programs that facilitate out-migration by rural individuals towards higher standards of living as legitimate and principal strands of rural development policy. This is the perspective, for example, expressed by Tweeten and Brinkman: rural development involves improving the well-being of rural people, wherever they eventually reside. For some rural communities, there are few prospects for viability and out-migration may be the best available option. In this case, we should label this accurately and honestly as closing down communities, not "rural development."

Short of a fundamental shift in the North American political economy regime, a key issue in rural development is how to accomplish the difficult but necessary task of assigning a higher degree of legitimacy to places within a neoclassical system. The most viable route for addressing place issues in North America is on the basis of equal access to opportunities. Almost three out of ten North American citizens reside in rural and small town areas where they have less access to opportunities, because of the poor access of rural communities to the programs and facilities that foster economic development. Redress in the form of rural development policy is necessary to ensure that this thirty per cent of the population can fully participate in the national economy and make the greatest contribution to national productivity.

A second proposition is that support from urban-based environmental movements is likely to emerge as an important component of North American political coalitions that transform rural needs into place-oriented rural policies (Swanson and Freshwater). The other side of the coin of a market-oriented individualistic political culture is a high propensity to form social movements and pressure groups to advance perceived individual rights. It is likely that one strand in the creation of North American rural development policy in the future will further develop from the urban movements which demanded the conservation of forest land as national and state/provincial parks. As urbanization and income levels increase, more people feel a need and a right to enjoy the amenities of nature.

In summary, Canada and the United States exhibit modest but significant policy differences in their approaches to public policy. While both are clearly market oriented, or neoclassical regimes, Canada has a larger role for the state and is a more typical federal system when compared to other OECD nations. Despite these differences there are greater similarities than differences.

SOCIAL PROGRAMS AND RURAL DEVELOPMENT

All policies are not created equal. The degree of importance that governments attach to competing issues can be measured along three dimensions. The first is rhetoric or the extent to which government talks about an issue, including speeches by politicians, resolutions, legislative proposals and program developments. The second measure is outlays, which show how the government spends its scarce resources indicating true priorities. This includes both direct

outlays and tax expenditures or foregone tax receipts. The final measure is the extent of mandates by the federal government, which compel other parties to assist rural areas. In a sense they are a form of indirect expenditure where the government requires others to act on its behalf.

All three measures are useful indicators of the importance of rural issues. The first is a measure of moral suasion and indicates awareness of rural issues by politicians. It is generally a leading indicator of the degree of rural concern, since politicians typically test the water for support before allocating funds. Because rhetoric is inexpensive and political issues appear and vanish continuously, it is not a very strong indicator, nor is it one that necessarily reflects longer term reality.

The importance of rhetoric in rural policy discussions is best seen through the power of the perceived link between agricultural and rural policy beginning in the 1970s. For more than two decades the Rural Development Division of the Economic Research Service of USDA, along with the majority of the university community engaged in rural development research in Canada and the United States, argued that farm policy was no longer an adequate rural development policy. At the end of the 1980s it appeared that continuous repetition of this argument had made an impact. The 1990 Farm Bill contained a title that included far more rural policy than had been seen since the 1970s and Members of Congress actually appeared to have become comfortable talking about the need for a rural policy that was something other than farm policy. Similarly, in the early 1990s the Canadian government created a Rural Secretariat within Agriculture Canada that was to coordinate the activities of all ministries where they influenced rural people and places, and the speech from the throne in 1992 explicitly identified rural development as a significant issue for the government. It truly appeared that perhaps inertia had finally been overcome and there was a brighter future for rural areas and rural policy.

By the end of the 1990s, despite clear evidence to the contrary, farm policy was once again being described as rural development policy (Stauber). A new farm crisis had returned agriculture to the politicians' attention and the desire to help a favored constituency led to a revision of policy. Members of Congress in the United States once again rely upon the metaphor of agriculture when they speak of rural, the initiatives of the Rural Secretariat in Canada have been greatly diminished, and the Rural Development Division of the Economic Research Service has been eliminated. Yet rural policy issues are at least as pressing as before, and changes in public policy, including reductions in social safety nets and greater trade liberalization, are exposing rural residents in Canada and the United States to far more pressures than are commonly acknowledged

Outlays are traditionally seen as the prime expression of government interest. If rural programs receive increases in their spending authority, then the government has clearly determined that there are needs that must be addressed. Outlays, *per se* however, say nothing about the effectiveness of the support. Another problem with simply looking at aggregate outlays is the possibility of considerable year-to-year, or regional, variability in what the money is spent on and who receives it. If the opportunities for funding are fleeting and vary by category, then communities are unlikely to develop coherent development strategies. Instead they will simply

take whatever money is available, even if it does not really fit their needs, simply because that is what is available at the time.

Finally, governments can influence the actions and outlays of other parties. This is becoming a more important feature as claims on the government increase and as discretionary revenues decline. Governments can require that particular actions be taken through mandates or by linking assistance in one program area to behavior in other areas. In a balance sheet sense, for a particular group or region, government funds can be thought of as receipts, while government mandates are required expenditures. Either approach can foster economic development.

A full assessment of the supply of rural policies requires looking at how these three forces have evolved over time in the context of changing rural conditions and differing allocations of responsibility. When one moves beyond the analysis of rhetoric to the analysis of action, direct outlay data is the dimension which is perhaps easiest to investigate. At present the United States, but not Canada, maintains a comprehensive set of data at the county level. These data are the basis for all sub-state analysis. However even in the United States the national interest in collecting data at this level is shrinking. For most national purposes data only has to be accurate at the state or provincial scale, which can be achieved with far smaller samples. Erosion of this database will make it impossible to continue to examine differences in the performance of small areas, especially rural ones.

Social programs are by far the largest expenditure category in the national budgets of both the United States and Canada. When expenditures by all levels of government are considered, Canada spends an estimated 13% of its GNP on social programs, including education, compared to 11% for the US (Brooks). The amount of social program money flowing into rural areas in both countries is far greater than from any other single source.

In terms of the analytic framework, social policy would qualify as a "maintenance" policy, as compared to a development policy. The existence of these programs, however, can also be viewed as valuable social infrastructure expenditure that increases the willingness and ability of people to stay in rural areas and work towards their transformation. From a strict neoclassical perspective, of course, these policies can also be viewed as an impediment to the free flow of people to areas where jobs are available.

National Differences in Social Programs

Canada not only spends a modestly higher proportion of its national product on social programs than the U.S., but it also allocates expenditures differently. It is not only important to measure how much money is spent, but also how the money is spent. One examination of how social program funds are targeted in OECD countries suggests that there are modest differences between Canada and the United States in the targeting of social programs that reinforces the differences in spending levels (Epsing-Andersen). Epsing-Andersen assigns decommodification scores to the content of social policies. Decommodification is the degree to which program benefits are unrelated to a person's performance in the labor market. For two major policy areas,

pensions and unemployment insurance, there has been a modestly higher degree of decoupling from market criteria in Canada compared to the United States.

Epsing-Andersen's combined decoupling score for major social programs indicates a clustering of countries into three groups (the higher the score, the greater the degree that social policies are decoupled from market performance). The first group, consisting of Australia, the United States, New Zealand, Canada, Ireland, and the United Kingdom, impose the strongest links between labor performance and benefits. Canada's score indicates that it is has somewhat more progressive policies regime than the United States: 22 for Canada versus 14 for the United States. This compares with an average score of 27 for all OECD countries. Maximal decoupling is measured in the 31-39 range for a group of countries composed of the Scandinavian countries, the Netherlands, and Austria.

Both Canadian and US studies show that federal social expenditures are somewhat skewed in favor of non-metropolitan counties. The geographic distribution of social program payments in favor of rural areas in Canada and the United States has little to do with rural pressures or the existence of policies intended to direct more resources towards rural areas. Pressures for program development came primarily from the urban majority. Demographic characteristics of the rural population relative to the urban population, such as a higher proportion of old people, have resulted in the skewed distribution of resources towards rural North America.

Canadians often pride themselves on having a more generous set of social policies than their southern neighbor. More accurately, Canada can be described as having social policies which resemble the United States far more than those in most other OECD member nations. Modest differences in social policy make rural Canada a modestly more attractive place to live than the rural United States. Canada's system of public medical care and regional equalization of educational funds within provinces reinforce these modest differences. These differences, however, are not the result of an explicit attempt to improve rural conditions.

In sum, Canada spends a modestly larger share of its resources on social programs than does the United States and program payments which are uncoupled from labor market performance to a modestly greater degree than those of the United States. As in the US, program benefits are skewed in favor of rural regions for reasons that have much to do with demography and little to do with rural political demands.

EXPLAINING DIFFERENCES IN RURAL POLICY

Different current approaches to rural development are a logical extension of past differences. In both nations policy formation is typically an incremental process relying on marginal change. In Canada there was a regional focus, but defined in terms of provincial units, while in the United States a more explicit rural policy was developed. In both cases the focus is not on income transfers but on improving economic conditions.

Beyond their common focus on agricultural development activities, the US policy emphasis remains on providing infrastructure and business finance, while Canada stresses planning and human capital. These differences reflect the legacy of past policies and the influence of interest groups who make it easier to refine and extend existing programs rather than create new ones. In the United States, USDA is the only federal agency with a strong presence in rural areas so administratively it makes sense to build policies around it. Within Canada, no federal agency has a strong network of local offices so there is far less ability to directly deliver programs.

The different approaches reflect national attitudes, especially toward the role of government and the degree of responsibility of individuals for their welfare. Canadian policy tends to be more interventionist in this sense, while US policy is more geared to facilitating individual action. Canada has a much stronger tradition of government intervention with an equalization mandate enshrined in the Constitution. Easterbrook suggests that Canada never experienced anything analogous to the influence of Jefferson, and consequently followed a more centralized system of development with less concern for individual rights and independence. Conversely, social programs are no longer an optional safety net policy in Canada, but have become more of a status quo property right (Courchene).

Differences in the sphere of influence of the respective national governments are also important. Each government has different strengths. Although in general the Canadian parliamentary system results in a stronger central government with power concentrated in the Prime Minister and the Cabinet, in terms of rural policy the United States government is far stronger. In Canada the federal government is checked by the assignment of important powers in this area to the provinces while in the United States the tradition of a strong federal presence and weak state influence make rural policy a predominantly federal issue.

Different political institutions result in very different degrees of responsiveness of elected officials to local concerns. This can be characterized as a place versus party orientation in the United States and the converse in Canada. The Canadian electoral system results in ridings that do not have an equal number of voters since seats are distributed among provinces on a formula basis. More importantly the nature of the Canadian system enforces strong party discipline with Members under great pressure to adopt party positions.

By contrast, in the United States party discipline is weak and individual members are primarily responsible for their own electoral fortune. In both the House of Representatives and the Senate, members are more likely to adopt positions that reflect the needs of their particular district or state than their Canadian counterparts. This helps explain a more visible rural policy in the US where politicians from rural areas have to show they are trying to support local issues.

Canada is characterized by a stronger sense of regional identification than exists in the United States. The most obvious case of this is in Quebec. Canadian policy evolves through a delicate adjustment of federal and provincial powers (Simeon and Robinson). Extensions of federal authority are hard to accomplish because popular support allows provinces to protect their authority. The United States is characterized by a stronger sense of commonality and collective

identity that facilitates national programs being developed. The US revolutionary war and the constitutional process established a country that had a common set of principles. By contrast the Canadian experience can be characterized as an economic union of diverse entities that sought to keep their own identity.

A greater concentration of economic and social power exists in Canada, as compared to the United States. Urban social and economic elites are able to make effective use of a centralized political process to maintain their position. Grassroots reform movements face a harder struggle in Canada. Social class distinctions are also more common in Canada than the United States. This structure makes it more difficult to advance a rural agenda.

THE FUTURE OF RURAL POLICY

Returning to the earlier questions about the need for explicit rural policy, what can be concluded? In both the United States and Canada there is a residual underlying social contract which holds that people have rights to equal opportunity. One of the strong trends in both societies is growing recognition of this right; both as a result of new policies and as a result of judicial decisions. While market forces remain the dominant means of allocating resources and distributing wealth, they are not the sole means of making decisions. Legal rulings have extended these rights in both countries and while the rulings have not always been on the basis of unequal opportunity for rural people, many of the decisions have clear implications for differences in opportunity between central and peripheral regions.

In many cases we know that general social programs or specific macro-economic policies may have adverse consequences for particular regions. Rather than changing the programs, it may be more appropriate to compensate those adversely affected by implementing other programs targeted to their needs. From a pragmatic perspective it may be easier to introduce place-specific amendments rather than restructure core macro policies.

Making programs address rural needs will require major redesign and implementation efforts. Many current economic development programs tend to miss rural areas needs. For example a major development interest in the United States, enterprise zones, is almost always seen as an urban program although the legislation authorizing these zones requires one third to be in rural areas.

Providing programs that treat all parts of a nation, or all groups, equitably may require that the programs treat various parts or groups differently. Conditions vary among different parts of each nation and consequently if we want to see equal outcomes, we may need to provide different resources on the basis of local needs. If there is going to be equality of opportunity then the federal government in each country will have to play a major role since it is the only level of government concerned with national standards. In the North American context where functional regions cross borders, national governments have a role in ensuring that policies are harmonized on an international basis to meet development needs. This may be one of the main advantages of greater continental integration

National governments are also best placed to observe what is happening in other nations and in facilitating an exchange of experiences. In the United States the growing interest in education and health care as critical factors in rural development suggests the desirability of looking at the Canadian experience. In Canada, the limited success of regional development programs defined on provincial boundaries suggests looking to the United Stares for information on specific rural programs. Beyond the two nations, the most likely places directly relevant lessons are other land extensive nations, Australia, New Zealand and the Nordic countries, since they share common problems of scale, distance, and capital intensity.

General economic and social programs, even if extended beyond their current levels, will not be capable of dealing effectively with the problems of distance, scale, and the loss of critical social mass in rural areas. Only by grafting place-specific programs onto the set of core social programs will we allow equality of opportunity irrespective of place. While the traditional emphasis on improving human capital to allow out-migration is important and necessary, it too requires place specific approaches. Ignoring the attachment of people to place weakens the likelihood of success of any program since it results in no sense of community and common purpose, and therefore must rely solely on individual self-interest.

In the neoclassical policy environment of North America the most effective way to legitimize rural policy is through appeals to increased efficiency. In this context enhancing employment becomes the basis for rural development. Arguments that are constructed around efforts to reduce unemployment or underemployment by bringing rural people into the economy in more effective ways will be more likely to gain support than arguments based upon equity considerations. Because rural communities are open to both national and international trade influences they are under considerable pressure to adapt to the global economy. What they need are the resources to facilitate a speedy adjustment, otherwise they will place a significant burden on the rest of the nation, whether the people in rural areas remain there, or if they move to urban centers only to find they lack the skills to find employment.

Are there lessons from North America that are applicable for other nations? Perhaps the most important is the difficulty of untangling agricultural policy from rural development policy. Well after agriculture has ceased to be the dominant force in much of rural North America it continues to drive the policy process. A second lesson is that rural places will evolve in very different ways once they progress beyond being farm dependent. A national rural policy that does not have a strong role for local leaders is thus unlikely to be effective, especially in large nations like Canada and the United States. A third lesson is that there is still a need for territory specific policies. National policies may be the most important influence on rural development, but they are too blunt an instrument to bring about uniform growth in all parts of a country. The final lesson is that the appropriate mix of rural policy is driven as much by social conventions as by fiscal capacity. To be effective, rural policies have to fit within the nature of the social contract between the government and the people of a country. Countries as similar as Canada and the United States have adopted very different development strategies because their societies and institutions remain distinct. Pieces of the North American experience may be useful elsewhere, but North America is not a good model for other regions.

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Institutional Framework and Decentralization in Rural Development

Roberto Esposti
Franco Sotte

In the last decade a new relevant concept in the literature on rural development has emerged: the local rural system. It has emerged as a specific subject in the general analysis of local economic systems, whose study has an established tradition, especially in countries with very strong local industrial development in the last decades. The Italian case can be considered one of the most relevant examples (Saraceno; Cecchi and Basile; Esposti and Sotte).

The literature on local economic systems intersects with rural development in its emphasis on the local economy as a self-organizing system, i.e., a set of formal or informal institutional arrangements between local actors resulting from the interaction between their strategies and expectations. The institutional interpretation of the functioning of the local economy has progressively shifted the attention to collective learning as the crucial aspect of the formation and evolution of local economic systems (Camagni). This stream of literature has found many points of contact with the application of the principles of artificial intelligence to the modeling of artificial societies and social simulation (Castro Caldas and Cohelo; Dosi; Terna,). These points of contact are mainly due to the emergence of some shared theoretical principles in the analysis of the functioning of local economic systems: heterogeneous agents interact dynamically, spontaneously generating institutional arrangements; agents are not fully rational, but they behave according to some procedural rule; complex interaction of such agents makes the local system highly capable of adaptation and learning.

A theoretical analysis of the prevailing institutional framework in the rural local context is of great interest in policy design. In particular, the issue of the territorial dimension of EU agricultural and rural policies is of special importance in rural areas, where numerous new policies and institutions have recently been implemented to foster rural development. In these cases, the local consistency of EU policy in its entirety is extremely relevant, and the outcome may prove to be particularly surprising and diversified. Indeed, the subject of the regional dimension of EU policies is not a new topic in the literature. On the one hand, much research has been devoted to assessing the regional distribution of these policies across the EU and, in some cases, to evaluating disparities and biases (Sotte). On the other hand, attention has focused on how regional lobbies, interest groups and policy makers are able to shape the overall EU agricultural and rural policy formation (Nuppenau and Thiele; Rausser).

However, this literature does not address the reverse side of the problem: given the policy, how does the local context react? This question is crucial because if we are interested in the effects and outcomes of policies, we have to know what the local context is, who really decides on local resource use, and to what extent the policy actually affects this use according to its declared objectives. This perspective also changes our view about the topic of decentralization in rural development policies. The local governance is always decentralized, by definition; the issue is then how to decentralize government in rural areas according to the existing and functioning decentralized local governance.

This paper focuses on the effects of the EU policies when considered at the local level: how they interact with the local context to create new institutions, behaviors, and strategies. We first introduce the crucial idea of territorial governance, or in other words, the complex systems of actors and strategies that effectively decides on the local use of resources. We then deal with EU agriculture policies as viewed from the local perspective and their interaction with local institutions to form specific territorial governance. This system of interactions is described in detail for the farming family. A neural network model provides the analytical framework to derive the governance outcome from the interaction between policy provision and delivery and between agents and institutions at the local level. This abstract model is used to illustrate, through a simple simulation, how the main theoretical foundations of the functioning of local systems, their institutional framework, and the set of heterogeneous and interacting agents can be studied on the basis of artificial societies with a capacity for adaptation and learning.

THE TERRITORIAL DIMENSION

We distinguish between the generic terms "region" and "territory" in the sense that the latter defines the genetic properties of the former. A territory is the entire set of geographical, natural, cultural, and socio-economic features of a region. This set is unique and generates the complex systems of individual and group strategies, objectives, and interactions, which ultimately define the genetic development perspectives of the region (Esposti and Sotte). It is genetic because it also depends on the environment: the external (to the region) market and the political conditions, which also affect its development.

This interaction between the territory and the external conditions is unique. If policies can be considered as external conditions, then they act differently at each local level. We may thus expect heterogeneous local outcomes from homogeneous policies. Moreover, the social actor operates locally at a different interdependent level. Therefore, different political and institutional levels cannot be represented in a hierarchical framework, because horizontal and cross-wise interactions predominate (interlocking directorates). As a consequence, external policies are unable to control for territorial specificity, which is highly complex and changes continuously and often chaotically. They can only affect agent behavior and strategy, but in a way that is highly unpredictable. An appropriate mix of EU-wide and local (specific) policies may significantly narrow the range of possible outcomes and may avert unexpected effects. However, if this mix requires the addition of many policies and institutions, the effect may be an increase, rather than a reduction, in the range of possible outcomes and the expectation that undesirable results will ensue.

Institutional economics and the sociological literature have dealt with the local rules that apply within a territory as a result of the interaction between local systems and external conditions and policies (Ercoli). The term *governance* synthesizes this concept. It substantially differs from the term *government*: that is, the political will to control and manage a territory by wielding consistent and exclusive political power. Governance, in contrast, is the actual capacity to control and manage local resources through formal and informal social norms and institutions and through the consensus and cooperation of local agents. Government and its policies are only a part, and not necessarily the most important part, of local governance.

The problem of actual territorial governance is of particular interest in the case of rural areas for two main reasons.

- Many new EU policies and related institutions have been implemented in rural areas since the mid-1980s. These policies have been often developed in parallel with traditional agricultural policy at both the EU and the national level. However, this parallelism does not exist locally: each policy is territorial and local when viewed from the beneficiary's standpoint. Therefore, the "new" rural polices and the "old" agricultural policies potentially define a new, unexpected and specific territorial policy.

- Rural areas frequently display very strong endogenous territorial governance regardless of the formal institutions and policies implemented therein. The creation of close-knit informal networks is often the typical and successful reaction of these areas to their alleged disadvantages with respect to urban ones. The spontaneous and quite complex governance now emerging in rural areas has been studied in the literature, usually with reference to industrial districts (Foster; Danson and Whittam; Becattini; Esposti and Sotte).

The combined effects of many rural and agricultural policies and of dense local networks make it particularly hard to analyze the interaction among all the components that shape the so-called *rural regime* – the system of emerging institutions that controls and manages the set of local resources. What, we may ask, is the actual impact of rural policies in rural areas when they are considered jointly with the local action of EU agricultural policies and with the existing formal and informal governance? Is this impact consistent with the declared objective of EU policies themselves? To provide an answer we need an appropriate theoretical framework.

RURAL AND AGRICULTURAL EU POLICIES VIEWED FROM THE LOCAL LEVEL

The question of the complex interaction between policies and institutions within a territory is particularly important in rural regions with substantial industrial development, which display a "high density" of formal and informal strategies, institutions, and actors (so-called industrial districts). Accordingly, our analysis will focus mainly on these cases. Assuming that local lobbying at the rural level has a low impact at the EU level, we examine how local actors react to EU policies, how these policies are actually delivered, and what form territorial governance takes. From this perspective, policies are the input to the system and local action is the output, rather than the reverse sequence considered in the conventional lobbying literature.

Policies do not provide governance directly. Locally, governance is determined by the actual behavior of the actors and institutions affected by policies and by many other aspects. Moreover, all policies at each political level provide incentives, constraints, and bureaucracies, and their mixture is usually specific and largely unknown. Policies (EU, national, or local) do not interact directly with the intended beneficiaries, whether farmers or other actors (for instance entrepreneurs in other sectors). Instead, they interact with some local formal institution or bureaucracy, which is actually responsible for the local delivery of the policy. Furthermore, farmers and actors interact locally according to their strategies, and this interaction usually takes the form of some kind of organization. The shape and nature of this organization is linked to the policies and to the formal institutions/bureaucracies in order to derive the maximum advantage from them for the organized actors.

On this basis, what are the relevant rural and agricultural EU policies? When viewed from the local level, any policy is a rural policy inasmuch as it has an impact on the rural area in some way. Therefore, EU agricultural policy in its entirety (the CAP) is the sum of an implicit rural policy and an explicit one. The difference lies in the kind of governance that they involve in delivery at the local level. The EU agricultural and rural policy according to Agenda 2000 provides for three levels of governance.

- *Implicit rural governance (or simply CAP):* this is the traditional sectoral policy directly targeted by the Commission on farmers, with no intervention from other institutions or national/local policies. The policy measures are delivered by the Commission's bureaucracy. This constitutes the main action provided by the EU policies at the local level, involving about 90% of the budget for the entire reform period (2000-2006). The policy mainly concerns cereals, oil and protein crops, dairy production, and livestock. These represent only a marginal part of regional agricultural GDP (under 15% on average in Southern Italy), but they involve a large area of land (about 80% on average in Italian regions). Implicitly, this policy provides an incentive for production through price support, but much more importantly it provides rents to land or livestock ownership in the form of direct payments, premiums, and quotas.

- *Multi-level governance*: about 10% of the CAP budget according to Agenda 2000 is devoted to rural development: in the form of either traditional accompanying measures directly oriented to farmers, or modernization and diversification measures which may involve other actors as well. The main difference from the previous case is that these policies are not directly delivered by the EU to the farmers: other political and institutional levels are involved. All rural development measures are managed at the regional level. The regions are committed to drawing up a 7-year Rural Development Program, and they may also arrange individual contracts with farmers. The national level is also involved, as Agenda 2000 allows each member state to define rural areas. Finally, under a fixed ceiling, every member state may adjust direct payments to the overall employment and economic situation of farms, and cross-compliance measures must be instituted to modulate payments according to the environmental impact of the farm activity. The delivery of these measures to farmers thus involves many existing and new institutions, procedures, and actors whose main task is to manage the incentives in the form of direct payments. This clearly creates a new conditioning power in the territory. However, an even more important aspect is that regions and member

states already have an (implicit or explicit) territorial policy regarding the location of public services (hospitals, schools, etc.), public investments (infrastructure, education, etc.), and other sectoral policies (in particular, industrial policies). All these policies involve other institutions and actors and closely affect the multi-level governance of the territory.

- *Agency governance:* this is the least explicit and poorest of the EU rural policies. Its philosophy is neither to deliver incentives in the form of direct payments through regional/national institutions nor to pay farmers directly for some production. The intention is to create new institutions whose main aim is to foster local development. A typical example is the LEADER+ initiative. Although LEADER+ has an allocation of only 1.7 billion ECU and cannot compete with other levels of governance in terms of resources managed, it may have a strong impact locally. It is able to organize wide and non-sectoral interests and actors (Local Action Groups) without appealing to existing institutions and without the intermediation of the multi-level governance. LEADER+ can also manage projects and resources in the context of rural development measures. For this reason, it often conflicts with existing institutions and bureaucracies of the previous level of governance or is simply absorbed by that level.

Territorial governance is always a self-organizing process. The different levels of governance create a complex and locally specific system of incentives, institutions, and bureaucracies so that the final outcome is difficult to predict. We need a framework to describe this system and determine its output.

POLICIES AND ACTUAL TERRITORIAL GOVERNANCE

The complex interaction between local economies and EU policy delivery involves so many aspects, actors and interests that it is impossible to include all of them in a theoretical framework. Here we consider the relevant policies, interest groups, and strategies and examine the institutions and adjustment mechanisms that emerge as a consequence. **Figure 1** is an attempt to represent this process by focusing on the strategies of the family farm.

In an environment characterized by rapid industrial development, the family farm has two alternative strategies. One strategy is to remove as many resources as can be devoted to the other emerging sectors where higher productivity can be achieved. If the emerging sectors take the form of industrial districts, they imply a physical shift of resources from rural areas to new urban and concentrated areas in the same region. The strategy is to remove labor and capital from the rural areas and keep the land (if it cannot be used to establish an industrial settlement). This implies a rent-seeking behavior, which endeavors to extract the maximum rent from land with the minimum use of capital and labor. This strategy is implicitly fostered by the direct payments envisaged by recent CAP reforms, and it also reinforces industrial development, allowing embryonic industrial clusters to find relatively cheap resources locally and achieve the critical mass necessary for the emergence of real industrial district (Esposti and Sotte).

The other strategy is to become a professional farm, which requires higher capitalization and entails devoting at least part of the family labor to farming activities. This strategy is clearly

promoted by the CAP price support policies, although it biases these farms towards growing the crops that receive the highest support. The increasing replacement of price support with direct payments, however, does not really have a negative effect on the latter strategy. The combination of price support and direct payments under the present CAP enables both rent-seekers and professional farmers to obtain rent and profit, respectively. This can be accomplished by means of specific institutional arrangements between the two actors, where professional farms provide labor and capital while rent-seekers provide abundant land. External service contracting, especially for machinery services, is the most widespread among these institutional arrangements. Formation of associations or partnerships between professional farmers and landowners is another example of such arrangements.

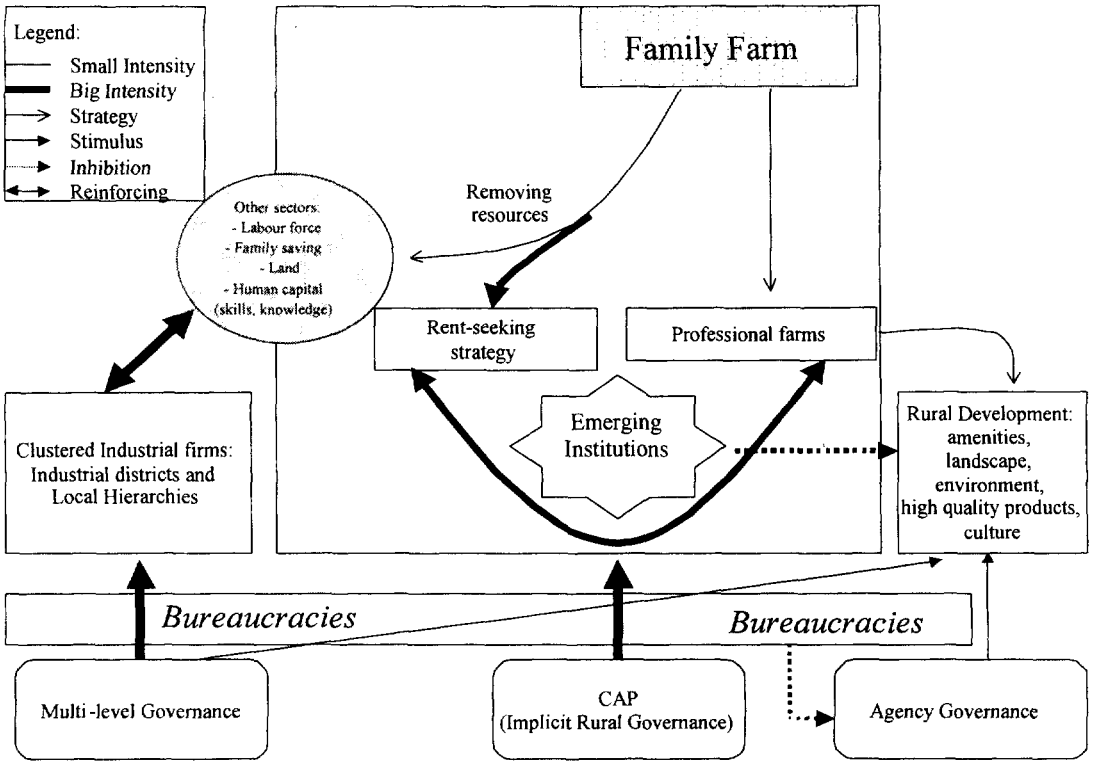
Under the present CAP, these institutional arrangements fit both strategies and therefore tend to reinforce each other. At the same time, however, these arrangements tend to inhibit the pursuit of alternative strategies by professional farmers. Indeed, in most rural areas, farmers could invest capital, labor, and land in alternative activities: unsupported high-quality and environmentally friendly crops, agro-tourism and landscape conservation, or even other sectors, such as traditional artisan products, cultural initiatives, etc. All these activities are in fact supported by the agency governance and by the multi-level governance, but with a much lower level of resources than those devoted to traditional CAP.

Furthermore, multi-level governance is locally a complex system of policies. If we consider policy delivery as a whole, including industrial settlement incentives, infrastructure, public services, etc., we note that they are usually biased toward the most industrialized areas, the industrial districts, which are deemed more crucial for the region's economy and for the local political competition (i.e., for building a local political consensus). This level of governance usually fosters territorial competition between the urban and industrial concentration and the rural areas within the same rural region, implicitly creating negative feedback on alternative strategies for professional farms.

Finally, different levels of governance imply bureaucracies with different powers. Multi-level governance and traditional CAP usually exercise a complex bureaucratic power that has been established locally, but also at the national and EU levels, for at least two decades. By contrast, agency governance is quite recent and by definition seeks to create a direct partnership between local actors with a low level of bureaucratic control. Consequently, strong and consolidated bureaucracies counteract agency governance or try to take part in it, thereby hampering its operation. The defense of the status quo and of territorial control explains why coalitions between bureaucracies and farmers interest groups are often formed to counter new policy delivery arrangements and new beneficiaries.

We shall now try to fit **Figure 1** with its complex interactions into a formal model. Neural Network (NN) models are frequently used to give an adequate representation to how institutions emerge endogenously from interacting heterogeneous agents and how they interact locally with exogenous policies. This model demonstrates how, given the external conditions and policy provision, some strategies and institutional arrangements locally generate the so-called dominant design (Luna).

Figure 1. Strategies, Policies, and Actual Governance



A NEURAL-NETWORK FRAMEWORK

Although it considers only some relevant aspects, the system depicted in **Figure 1** is still quite complex. The complexity is due to several factors. First, actors and strategies are heterogeneous. They also have expectations, and they shape their strategies according to them, but they cannot be considered as fully rational because only incomplete information is available on other actors' strategies and on ongoing processes. In any case, even if they knew the other actors' strategies, they could not pursue an autonomous strategy because of the dialectical relationship that binds them to the evolutionary path of the system as a whole.

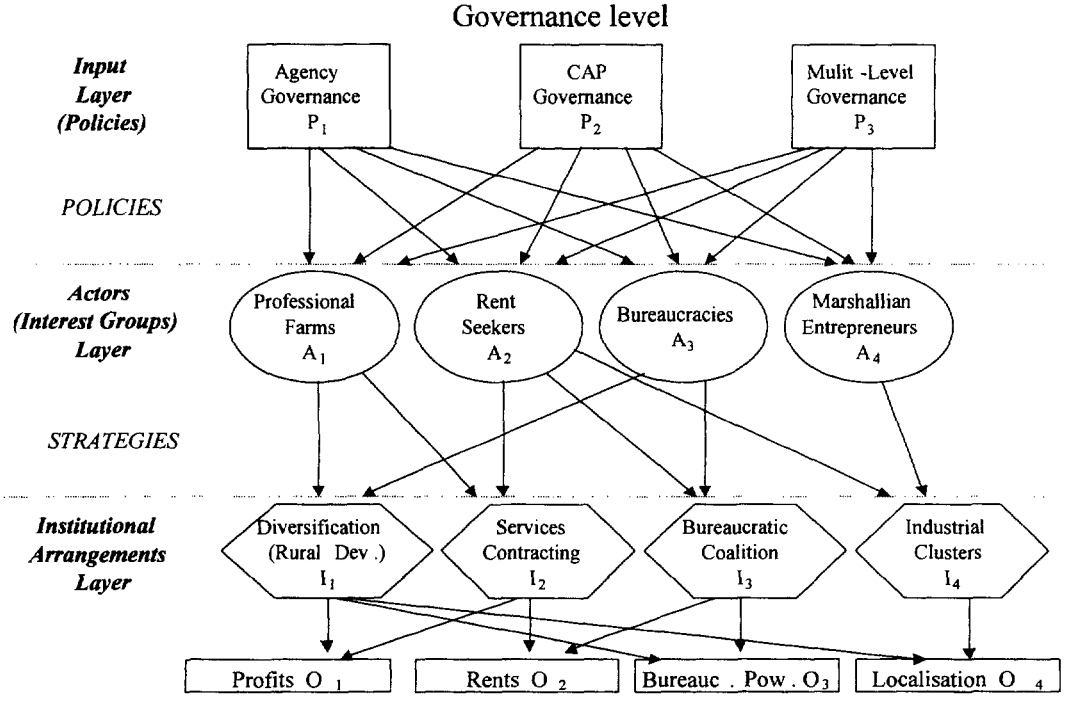
The system is dynamic in the sense that it changes over time in response to strategies and policies. Self-reinforcing mechanisms and negative feedback continuously reshape the system. In addition to its nonlinear dynamic behavior, the system learns from the past and adapts with the aid of emerging institutions (the dominant design). All this can explain why the same policies produce very different outcomes and governance in different territorial contexts.

How can this system be modeled to explain and predict the actual territorial governance observed at the local level? Although not widely used in the literature on agricultural policy impacts, artificial Neural Networks (NN) provide an appropriate tool. Here we are interested in their ability to represent complex systems and simulate them. We will now propose a neural

network representation of the interaction between policies and local actors depicted in previous sections (for a broader analysis see White).

Based on the previously discussion, the topology of the NN model can be described as follows (**Figure 2**). Policies are signals and stimuli (the input layer) aimed at heterogeneous actors. The actors react to these stimuli by formulating an expectation and a consequent strategy. This is the so-called actors layer comprising rent-seekers, professional farmers, industrial entrepreneurs (so-called Marshallian entrepreneurs seeking external scale economies), and bureaucracies implied by the policies. These actors transmit strategies as signals to the next layer, the institutional layer. Here different strategies interact to reach arrangements among themselves. We define four components of the institutional layer: industrial clusters; service contracting; bureaucratic coalition between bureaucracies and rent-seekers; and local diversification system in which economies of scope induce entrepreneurs to set up a local net of diversified activities to meet the needs of the rural community (which, after all, is the underlying idea of the concept of rural development). The final outcomes of these arrangements are rents, profits, bureaucratic power, and the localization of activities: this is the actual governance of the territory.

Figure 2. Topology of the Territorial Governance Neural Network



The NN model should account for all the qualitative information provided by the figure: the intensity of a stimulus (or its inhibition), the activation of a strategy, and reinforcing mechanisms. These aspects should eventually explain the emergence of institutional arrangements within the specific territory, and why they may differ across the same territory. We

can conceive of this model as a network of MultiLayer Perceptrons (MLP) comprising different layers in which several nodes (neurons) receive stimuli and process them to produce an output. The nodes of the same layer do not interact directly among themselves. Each node receives numerous input stimuli, which are weighted and summed to generate the output. The output is not a linear function of this weighted sum of inputs. Typically, the relation is discrete: the weighted sum may or may not activate the node, so that the output may be 0 or 1 depending on the intensities and the weights of the inputs. If an inhibiting relation is added, then the output may range between –1 and 1. Taking account of uncertainty and a stochastic environment (e.g., markets), the output is more realistically represented by a continuous exponential function (see Gallant for details).

In our model, a weighted sum of the policies activates the actors' strategies, and a weighted sum of the strategies in turn activates institutional arrangements that eventually generate the overall network output. In this context, a strategy implies allocating the resources of the family farm: land, labor, and capital. Rent seekers can allocate labor and capital to the embryonic industrial districts and land to professional farm operators. The professional farmers have two competitive alternatives: allocating their labor and capital to service contracting or investing them in diversified activities (including non-agricultural activities). Marshallian entrepreneurs concentrate labor and capital in industrial districts so as to take advantage of the implied localized scale economies. Finally, in delivering policies, bureaucracies act to conserve their local power by counteracting policy and institutional arrangements that may reduce their control or remove their power.

None of these strategies is the result of any rational expectation maximization process. Here we adopt a far less restrictive idea of rationality as reasoned behavior, or the directed, intentional behavior of agents seeking advantages by committing resources to activities. This is a version of rationality that entails nothing more than decision making, and therefore choices which seek to make the most of the resources available to the agent (Metcalfe and Calderini). According to this idea, actors react to changing external conditions merely by adapting their strategies.

This adaptation makes the institutional arrangements emerge or vanish. How does this adaptation work? In a context of NN models, we can talk about network learning. In fact, agents change and adapt their strategies according to the final network outputs, or in other words, according to the resulting rents, profits, and localization of activities. The most popular model of learning is the back-propagation network. The essential feature of this network is that each node corrects the weights according to the differences between the expected outputs and the outputs generated by the net. Learning and adaptation involve correction of weights by each node. In the present model, however, we have no particular expected output for the nodes, and they adapt the weights so as to improve the net output itself. We are thus dealing with an alternative learning device, the so-called reinforcement learning. This process is strictly adaptive, because the only information that the node receives from the environment through the net output is an evaluation of the goodness of its strategy. It does not receive information about what the correct strategy is. However, each agent has aspiration levels, which direct its choices. The most rewarding actions are discovered by a trial-and-error search in a dynamic environment (Kaebling et al.).

Learning through this correction of weights has a clear economic interpretation. In fact, weights in a neural network represent the strength of connections. When an actor increases the weight attributed to a policy, it assigns a more important role to this policy in defining its strategy. The reverse occurs when the weight is reduced. In the institutional layer, a weight increase means that the particular strategy plays a greater role in forming institutional arrangements. **Table 1** shows how the described general principles actually work in the territorial governance model. It lists the aspiration outputs (the "goals") of all actors and institutions and shows the signs of the corresponding weights. In choosing a particular strategy from the four available options A_1-A_4 (rent seekers, professional farmers, etc.), the network assigns weights to the three policies (P_1-P_3), which may be positive, zero, or negative depending on the impact of the policies on the aspirations. Similarly, in deciding on an institutional arrangement I_1-I_4 (service contracting, diversification, etc.), the network assigns weights to the four strategies (A_1-A_4), which again may be positive, zero, or negative depending on the impact of strategies on aspirations.

Table 1. Functioning of the Neural Network Model

Strategies	Weights Signs	Aspiration Output	Institutions	Weights Signs	Aspiration Output
Rent-Seekers	$w_{P_1}=0$ $w_{P_2}>0$ $w_{P_3}=0$	Rents	Service Contracting	$w_{A_1}>0$ $w_{A_2}>0$ $w_{A_3}=0$ $w_{A_4}=0$	Rents, Profits
Professional Farms	$w_{P_1}<0$ $w_{P_2}>0$ $w_{P_3}<0$	Profits	Diversification	$w_{A_1}<0$ $w_{A_2}=0$ $w_{A_3}<0$ $w_{A_4}=0$	Profits
Bureaucracies	$w_{P_1}=0$ $w_{P_2}>0$ $w_{P_3}>0$	Bureaucratic Power	Industrial Clusters	$w_{A_1}=0$ $w_{A_2}>0$ $w_{A_3}=0$ $w_{A_4}>0$	Localization
Marshallian Entrepreneurs	$w_{P_1}=0$ $w_{P_2}>0$ $w_{P_3}=0$	Localization	Bureaucratic Coalition	$w_{A_1}=0$ $w_{A_2}>0$ $w_{A_3}>0$ $w_{A_4}=0$	Bureaucratic Power

A SIMULATION

A simple simulation can demonstrate the capacity of the NN model from **Figure 2** to explain the impact of actual policies at the local level. The aim is to support the concepts of learning and emerging dominant strategies and institutional arrangements with some

computational evidence. In the case of the current CAP, 90% of resources are devoted to P_2 while only 10% to P_1 and P_3. Let us assume that P_1 and P_3 have the same share of 5%. Moreover, in a rural region with strong industrial districts, more non-agricultural policies from the national and regional level concentrate on the industrial areas increasing the intensity of P_3. Therefore, for the simulation we assume that the intensities of the three policies are 0.05, 0.90, and 0.05 respectively.

Figure 3. Output of the Actor Layer Nodes

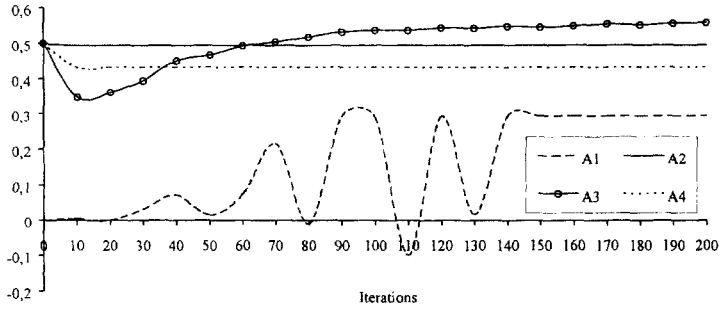


Figure 4. Output of the Institutional Layer Nodes

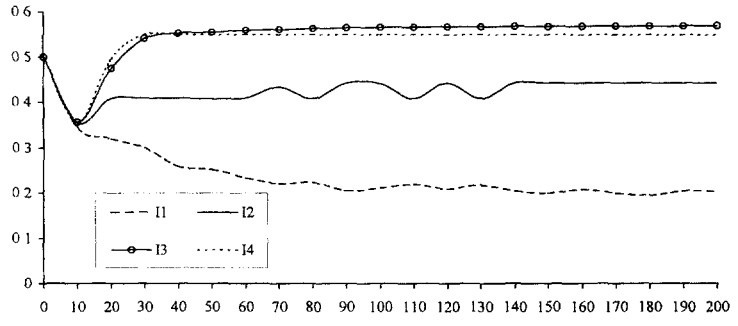
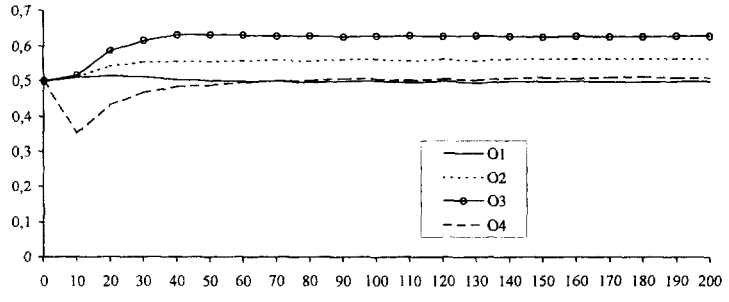


Figure 5. Output of the Output Layer Nodes



Figures 3, 4, and **5** describe the outputs of the nodes of the actor, institutional, and output layers respectively. The simulation was run for 200 iterations of the learning process with an assumed learning rate of 0.1. **Figure 3** shows that the professional farm strategy is the less stable. According to the NN model, the professional farm can choose between diversification (maximum output = –1) and service contracting (maximum output = +1). However, after an

unstable learning process, the professional farm strategy becomes clearly oriented toward service contracting. The emerging strategy also explains why in **Figure 4** diversification does not appear as a dominant design with respect to service contracting. The latter is also reinforced by bureaucratic coalition and industrial district formation, and this interaction between these institutional arrangements also explains the outputs in **Figure 5**. In this NN model, localization is assumed to vary between [–1, +1], where –1 means minimum concentration and it is induced by the prevalence of the diversification institutional arrangement and +1 means maximum concentration and it is caused by prevalence of industrial districts. Therefore, the NN model tends to find a steady state, which implies a significant concentration as an effect of the insufficient emergence of diversification strategies.

Figure 6. Output of the Actor Layer Nodes (alternative scenario)

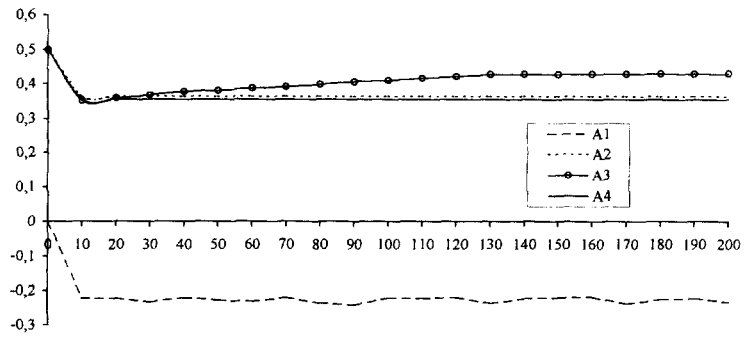


Figure 6 shows a further example of the potential of the NN model in explaining local policy effects. Let us assume an alternative policy scenario: the bulk of resources are devoted to P_1 and P_3, while P_2 is marginal. Also assume that there is no additive national or regional non-agricultural policy in P_3. The intensity of the policies is now 0.45, 0.10, and 0.45, respectively. **Figure 6** shows how, under this scenario, professional farms choose diversification as the dominant strategy over service contracting, although it still takes advantage of the positive feedback given by the presence of the strategies of the other actors, which indeed have no alternative. However, in this case other actor' strategies are less intense and this is a further evidence provided by the model about how different policy designs can also imply different equilibria at local level. Additional results of this alternative scenario are available from the authors on request.

CONCLUDING REMARKS

The paper has focused on the regional impact of EU rural and agricultural policies. The intention has not been to study how policies differ across regions, but rather how actors at the territorial level react and adapt to the given delivery of policies. This aspect is not widely considered in the literature, mainly because it requires a complex representation of the territorial context. First, an effort in the direction of some theoretical foundations about the institutional functioning of rural local systems is needed; all relevant actors, their aspirations, strategic

options, and interactions must be considered and modeled. Second, policies themselves should be rethought and classified in terms of the local governance they activate rather then in terms of the government level supplying them or their target sectors.

The paper constitutes an analytic effort in this direction. The overall delivery of policies at the local level is considered, with the stress on the different kinds of governance that they engender in a territory. According to these policies, local actors make different choices among alternative strategic sets; each choice interacts positively or negatively with another choice, according to the actors' aspirations. This interaction spontaneously gives rise to local institutional arrangements, which finally become dominant over alternative settings.

This complex system of dynamically interacting agents can be effectively viewed as a Neural Network (NN). Further study is needed to develop a realistic and complete topology of such a network. Nevertheless, the paper presents a highly stylized version of the functioning of the local system in reaction to policies modeled as a Neural Network. The aim is to show, through a simple simulation, that this tool has the potential to highlight how dominant strategies and institutional designs emerge locally, and how they are affected by the actual intensity and delivery of policies.

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Experience with Rural Development in the EU: Avoiding the Pitfalls

Alan Wilkinson

Under SAPARD (Special Accession Programs for Agriculture and Rural Development) in each of the ten EU accession applicant countries, the Community will reimburse up to three quarters of all eligible public expenditure incurred by the country concerned. The key word here is "eligible." The immediate prize of obtaining reimbursement is attractive. For the ten countries taken together, it is 529 million Euro (at 2000 prices). To secure this reimbursement requires achieving the lowest possible rate of error in applying for the programs. Where error entails non-eligibility, co-financing of expenditure by the Community will be refused. Errors come to light in particular when verifications are made in the context of "conformity clearance." This exercise involves a thorough examination by the Commission of expenditure declared for co-financing, to check that it was made in conformity with the relevant legal texts.

The pitfalls referred to in this paper are instances where non-eligible expenditure is detected. They are largely avoidable. Their location can at least be anticipated, probably with a good degree of accuracy, by referring to experience inside the Community. Most relevant are the rejected applications that arise during the verification of Member States' Agriculture and Rural Development expenditure submitted to the Commission for co-finance

PARALLELS BETWEEN MEMBER STATES AND APPLICANT COUNTRIES RELEVANT TO RURAL DEVELOPMENT PROGRAMS

Although the detailed provisions and objectives of the instruments applicable in Member States and in the applicant countries differ, both groups of countries obtain (or in the case of SAPARD are destined to obtain as soon as certain important formalities are completed) financial support from the Community for rural development. This support is available for projects completed in conformity with Programs adopted by the Commission. These Programs are based on plans drawn up by the countries concerned.

The legislative starting points for the Agriculture and Rural Development Programs in the applicant countries and within the Community are not the same. For SAPARD it is Council Regulation 1268 adopted in June 1999. The corresponding instrument for programs in the Community is Council Regulation 1257 adopted in May 1999. However, at the level of individual measures, it is possible for identical actions to be applied in both the Community and

the applicant countries. Differences in the detailed contents of programs for each Member State (and region) may be great. The same goes for the programs for applicant countries.

The Council specified that support under SAPARD should relate to one or more of 15 measures, namely:

- investments in agricultural holdings;
- improving the processing and marketing of agricultural and fishery products;
- improving the structures for quality, veterinary and plant-health controls, for the quality of foodstuffs and for consumer protection;
- agricultural production methods designed to protect the environment and maintain the countryside;
- development and diversification of economic activities, providing for multiple activities and alternative income;
- setting up farm relief and farm management services;
- setting up producer groups;
- renovation and development of villages and the protection and conservation of the rural heritage;
- land improvement and re-parcelling;
- establishment and updating of land registers;
- improvement of vocational training;
- development and improvement of rural infrastructure;
- agricultural water resources management;
- forestry, including afforestation of agricultural areas, investments in forest holdings owned by private forest owners and processing and marketing of forestry products; and
- technical assistance for the measures covered by this Regulation, including studies to assist with the preparation and monitoring of the program, information and publicity campaigns.

The measures eligible for support inside the Community are essentially the same as for SAPARD, with some additions. Programming of both SAPARD and Member States' measures involves plans covering a seven-year period from 2000 (in the case of applicant countries it is up to seven years to take account of the prospect of accession to the Community within that time frame).

On the basis of each country's plan, whether an applicant or a Member State, the Commission is to approve a Program for Agriculture and Rural Development. Prior to this the Commission consults Member States through the Agricultural Structures management committee (STAR). The financial allocation to each applicant country for pre-accession aid under SAPARD is set out in a Commission Decision of 20 July 1999 and is presented in **Table 1**. No direct comparison can be made between these figures and those for Member States. They are much lower than amounts of public money likely to be available for agriculture and rural development investments after accession. However, as in many Member States, the amount from the Community is significant in relation to all public money for such investments.

Table 1. Pre-Accession Aid Under SAPARD

Country	Total aid, '000 Euro	Country	Total aid, '000 Euro
Bulgaria	52,124	Latvia	21,848
Czech Republic	22,063	Poland	168,683
Estonia	12,137	Romania	150,636
Hungary	38,054	Slovenia	6,337
Lithuania	29,829	Slovakia	18,289
		Total	**520,000**

Another important similarity between SAPARD and support for agriculture and rural development in Member States is decentralized management. For the first time ever in its relations with third countries, the Community is in essence putting the task of project selection, and the subsequent management of the projects selected, in the hands of the third country. This is an innovation with potentially enormous implications. It deviates from one of the principles for management of Community external aid, which is normally project, not program based, with prior approval of projects and tenders managed by the Commission. In this regard, for SAPARD, the applicant countries are being treated the same as Member States. So too as concerns responsibility, in the event of non-eligible expenditure being detected. Hence the importance for the applicant countries to avoid the pitfalls.

PITFALLS INTO WHICH MEMBER STATES TUMBLE

The underlying assumption in this section is that the pitfalls encountered by Member States, leading to refusal of co-financing, are likely to be good indicators of difficulties applicant countries will face. In view of the similarities in Program content and the underlying conditions to be fulfilled to qualify for co-financing, this assumption is, at least for the time being, plausible. We can examine some examples that arise, not infrequently, with Rural Development Programs in Member States. Each case justifies the Commission refusing to grant Community co-finance. Most cases are uncovered through on-the-spot verification.

First, one underlying Community principle is that only expenditure actually borne may be co-financed. This may seem to be stating the obvious. However, insufficient attention is paid at national level to ensuring exclusion of all reimbursable charges from declared expenditure. Value Added Tax (VAT) is one such charge. Economic operators do not bear the burden of this tax, they only act as intermediaries. The entire VAT system is designed to put the incidence of the tax on the final consumer. Businesses collecting more VAT than they pay hand the difference to the treasury. Those paying more than they collect, receive the shortfall from that same department. VAT in all such instances is therefore not expenditure. The same applies for businesses operating under flat rate VAT. Under this system, available to certain small operators, they are compensated, globally, for the tax incidence. Consequently businesses - including farmers - choosing the flat rate system are likewise not subject to the burden of VAT and so it must be excluded from expenditure.

Perhaps by oversight, the beneficiary fails to exclude the VAT component from an expenditure declaration. In such cases the error is compounded when officials responsible for paying aid fail to note this and so accept VAT in the expenditure claim. The result is that the

Commission receives declarations of expenditure that are false. However, the Commission is not able to detect the error when it receives the claim. The reason is that such claims are at a Program level, for global amounts involving hundreds if not thousands of individual beneficiaries. The errors become visible to the Commission when it carries out on-the-spot controls and sees the individual expenditure claims.

Another example, resulting in a refusal to co-finance, is when administrative fees have been charged to the beneficiary. Such fees, unless they form part of the general system of taxation of the Member State, such as a stamp duty on official documents, are contrary to a requirement under Community provisions for beneficiaries to receive amounts due to them without deduction. The justification for this rule is to protect the legitimate interests of the beneficiary, and also to avoid Community money, in effect, contributing to the running costs of Member States' public administrations. The rule does not differentiate between charges that are levied up or downstream from the granting of aid. The catalogue of cases where such charges are levied is long. Moreover, it includes instances where the authorities claim that the fees are voluntary. The label "voluntary" is not appropriate when the authorities granting the aid know both the "giver," and the amount. This may be acceptable for some charities but not for public money, as there is more than a risk that those who do not "give" generously will find their subsequent chances of receiving discretionary aid significantly reduced. Where cases of administrative fees being charged are detected, co-financing is refused Furthermore, an additional work load may be incurred if a legal case is made for individual aid beneficiaries to be reimbursed amounts incorrectly levied on them.

Another problem is documentation, where evidence is insufficient to justify an aid claim submitted to the Commission for co-finance. This is a most worrying occurrence, because the documentation has at least been accepted by the authorities of the Member State as being adequate to permit payment of public money to the beneficiaries. Here the underlying issue is not that the rules for securing Community co-finance are particularly burdensome. It is much more that, whatever the rules of the Member State, the practical situation is that the audit trail between events is inadequate to justify the granting of public money. Problems of this nature occur when, for example, accounts used to support the claim for co-finance do not reconcile with other relevant documents, such as those held in the national audit office. At least as serious is the situation where the act of certification by the competent authority has been made, but the actual work that should have preceded that act is manifestly inadequate.

A further weakness, frequently encountered, is where a given receipt could have been used to support more than one expenditure claim, without there being any effective control system to prevent this happening. The solution is simple: only originals should be acceptable and they must be stamped with an indication of their use, to support a claim for public expenditure.

Another pitfall is the failure to respect public procurement provisions. It may sometimes be argued that the Community has too many detailed and esoteric rules that apply to co-financing, but no such case can be made concerning public procurement. The rules that apply are not specific to co-financing. Public procurement is one of the central elements of the internal market. Respect for the rules that govern this mechanism is fundamental to Community competition policy. Yet these rules are sometimes "overlooked," even for projects otherwise

eligible for Community co-finance. When detected by Commission controllers, the expenditure is rejected as non-eligible and other wide reaching consequences may follow if infringement proceedings are initiated.

These examples are but a sample of errors, each with - at least potentially - major financial implications. What is most relevant now for SAPARD, however, is not the detail of individual cases but the underlying circumstances that generate them. The pitfalls, and hence error rates involving loss of monies that the Union would otherwise contribute, can be avoided by following three main routes. The first route is by applying Henry David Thoreau's advice "Simplify, simplify; our life is frittered away by detail" not just to private lives but also to the SAPARD program. The more rules to be respected the greater the bureaucratic burden, and the greater the chance of non-respect of one or other provision and hence of co-finance being refused. Avoid introducing more rules than are needed. Whatever rules are introduced, check beforehand that it is feasible to apply them correctly. Reject them if the underlying conditions are not readily measurable and controllable and, while on the subject, relevant to the underlying objective of the measure. The point is not to jettison rules but to ensure that they are needed, and practicable.

The second route is to ensure that all officials engaged in managing programs involving public money, including co-finance by the Community, are properly trained. They must be equipped with the necessary tools, in particular written checklists of tasks to be carried out. Many difficulties could be avoided if officials charged with implementing programs, as well as controllers, participated in determining what rules should be applied, *before* those rules were adopted. Such a course of action could prove very cost effective. The third route is to have effective internal control. Whatever the rules and instructions, without effective supervision the entire exercise risks being a costly fiasco.

To reinforce the point concerning simplification, let us consider the workload program managers in applicant countries are faced with as soon as they start work. For many, the nature of the work will be new. They will first have to consider which projects are eligible. If there is an over-subscription for aid, eligible projects will need to be ranked on a priority basis. In the plans, the criteria for eligibility and for priority ranking are sometimes so highly complex that tasks of assessment, measuring and verifying would be bound to cause difficulties. Defining the precise age of the applicant poses no problem although is such a criterion relevant? More fundamental, how many program managers will have the skill to assess criteria of the type requiring judgement over the "management ability" of the potential beneficiary? Many, it is hoped, because plans from several applicant countries have recourse to that criterion. Even if the managers have this skill, will they have the time to exercise it properly? They may not, especially if over-subscription is marked.

The risk of mistakes in ranking could be far greater in applicant countries than in Member States. There are several reasons for this, all linked to demand on the SAPARD system. First, public monies are more limited in the applicant countries relative to the problems to be tackled. Second, the schemes under SAPARD are largely novel in the applicant countries, unlike in Member States where, to a large extent, Agriculture and Rural Development co-finance underpins ongoing State-aided measures. Announcement of SAPARD well before its application

will cause some operations to be postponed until the starting date, in the hope of receiving aid. Where SAPARD could come under such pressure, it is imperative to have clear, relevant, measurable and transparent criteria both for eligibility and ranking. Selection systems need not only to be efficient in terms of staff resources, they need to be perceived as fair by the applicants. This is particularly so for ranking eligible projects. Officials charged with this work need criteria that are simple and readily verifiable. Also, the more complicated the criteria the greater the scope for error.

The key criterion for selection could be value for money in delivering the agreed output of the program. An objective, relevant, method of ranking otherwise acceptable applications would be a bid system. This would mean that those who, within the population of eligible applications, offered to carry out the project at the lowest aid rate for a given set of outputs would be selected. This method would be simple and rapid, needing the addition of only one easy question to the application form: "if there are more eligible requests for support than public funds available, are you willing to accept an aid intensity below the maximum permitted?" A "yes" reply would require the beneficiary to state the figure acceptable to them, in a sealed envelope. This envelope would only be opened in the event of recourse to selection of applicants by bidding. Such a system would accord with the principles of sound financial management. It would also well reflect the basic SAPARD regulation that stipulates a ceiling, not a set level, on aid intensities. The scope for misuse would be very limited. In a more political context, a bidding method would almost certainly be seen as at least as fair, if not fairer, than any other system.

One of the worst outcomes for SAPARD would be for the funds not to be used in accordance with the relevant legal provisions, including project selection and ranking rules, agreed between the Union and the applicant country. Were that to happen, doubt could be cast on the ability of the country concerned to undertake, at least in the shorter term, the responsibilities of a Member State. This could have major political implications, to say nothing of the problems it would pose for the Commission itself. Success would bring not only the prize of 529 million Euro, but the even greater one of access to much larger funds available to a Member State.

Recovery of Community monies from the national budget would be particularly painful. This would be especially so if beneficiaries could not be required to reimburse the monies concerned. In this case the national exchequer would have to find four times the amount of money planned – not just the 25% of the aid initially envisaged but also the 75% the Community would otherwise have paid. Consequently, it is of the utmost importance that all applicant countries allocate the necessary technical and human resources to the tasks of managing SAPARD, in particular those related to building solid, reliable, competent SAPARD Agencies. Such agencies, accredited only if they have well-defined operating and control systems, should be able to avoid many if not most of the possible pitfalls.

Part Two

Rural Development in the European Union

Rural Development Policies in the Context of the European Union

Lord Henry Plumb of Coleshill

Following the widespread debate on the implications for agricultural policy of enlargement of the EU, two things become clear. First, the CAP has to evolve further and faster as economic and political circumstances change. Second, the challenge has to reconcile the dual approaches of improving the competitiveness of European food production on world markets with the growing move towards a coherent, integrated and sustainable rural policy.

Why does the CAP have to evolve? Expenditure on food accounts for less than one fifth of average household expenditure, and where agriculture contributes less than 2% of the fifteen countries GDP, employing just over 5% of the workforce, and this continues to decline.

Social priorities have changed. The Treaty of Rome, setting out in Article 39 its objectives for a CAP, focused on raising living standards of rural people by improving productivity and on ensuring the security of food supplies and stability of markets. When agriculture accounted for 20% of the workforce as it did in the six countries in 1960, and when there where nearly twice as many farmers – 14 million in the original six countries compared to 7.8 million in the 15 countries today – an agricultural policy based on price support could, broadly speaking, serve the purpose of being a social policy, a food supply policy, and agri-industrial policy, and even a rural policy. It was an essential part of the economic compromise embodied in the EEC and certainly seen as a critical element in the process of European construction.

However, by 1970, the implications of the scientific and technical revolution in farming and the rapid development of a European society became increasingly clear. In his famous *Memorandum on the Reform of Agriculture in the EEC*, Commissioner Sicco Mansholt warned in 1968 that market and price support policies alone cannot solve "the fundamental difficulties of farming' and that 'our prices are too high to enable us to export on satisfactory terms." His advice on restructuring agriculture was followed to a large extent, but his proposals on cutting prices were less bold and not followed. Therefore, it was not until 1992 when Commissioner Ray MacSharry introduced product quotas and production controls, the problems of structural surpluses, as predicted by Mansholt, that the much larger European Union found the will to cut farm support prices significantly.

Today, Europe's fertile soils are farmed by a technically skilled and well-educated work force drawing on internationally competitive, agricultural supply industries and serving the

innovative food industries of Europe, which can be a major force in global food markets. Farmers and farming families, however, are becoming "pluri-active," earning income increasingly from non-agricultural sources. The buzzword is "diversification" but the key word is "marketing" as competition intensifies and retailers become fewer.

The UK opted to stay out of the Euro-zone for political reasons and we are now witnessing a margin of 25% between a high-value Pound Sterling and a low-value Euro. This makes it impossible to export in a Single European Market. Furthermore, following the BSE crisis we have witnessed a devastating fall in farm income of over 70% in the UK. So more and more farming families are forced to turn to alternative sources of income. At the same time, today's society can afford to become more concerned with the way its food is produced, food quality and variety, the sustainable and environmental effects of food production systems and the balanced development of rural areas. Society is right to search for answers to these important questions but there is also a clear danger that consumers overreact to media headlines against biotechnology and distrust of modern farming.

Agricultural policies must adjust to new social priorities and focus much more on the joint challenge of international competitiveness and environmental awareness. These twin objectives are not necessarily in contradiction. Policy changes for Agenda 2000 could release farmers and food industry from the constraints of supply management and subsidized exports and direct land managers to the greater achievement of environmental objectives and rural development.

It would be a gross error to think that the challenge of enlargement is the sole reason for considering further changes in the CAP. There are powerful reasons why many agricultural, consumer and rural interests consider that we have not yet achieved the correct balance of operational objectives and instruments. The challenges of matching the rules of WTO are formidable, particularly regarding developing countries. The trend towards a more liberal trade regime will continue in the present round of multilateral trade talks under WTO, further propelled by the development of customs unions and free trade areas, which in the future will have fully to embrace agriculture. As the largest trading bloc in the world, the European Union has a strong internal imperative that the fullest benefits of freer trade are achieved for its citizens. Agriculture has stood for so long outside this movement, but it is now irrevocably and beneficially part of this worldwide trend.

The increased emphasis on the farmers' role as guardians of landscape and nature, the desire to shift emphasis from quantity to quality, and to better integrated agriculture in the rural economy, are inexorably pushing the CAP away from being a sectoral policy to becoming part of a set of territorial policies for rural areas.

Listing the reasons why the CAP has to continue to change may generate the impression of massive policy failure. It would be far from the truth to suggest that there have been no failures but whatever one thinks, it is an extremely complex set of interlocking regulations and directives, governing the operation of dynamically evolving commodity markets for a large range of products, evolving through the political balancing process over a period of thirty years.

It has had to face the major shocks of four enlargements, monetary crises, commodity market crises and budgetary crises.

I make no apologies for dwelling on the issues relating to the CAP whilst this conference is about sustainability of the rural economy. Adjusting to a common policy for possibly a further ten countries over a period up to 2010 is a major task and commitment for rural interest for which we have three choices:

(a) Keep the status quo to squeeze the new countries into the existing CAP.
(b) Dismantle the support arrangements under the CAP and adopt an intermediate option.
(c) Continue the reform process, move to a more integrated rural policy, and at the same time achieve some simplification of agricultural policy – the preferred route.

Whatever the outcome, we have to strike a more sustainable balance between farming and other forms of rural development, and the conservation of natural resources featuring the multi-functional role many farmers can play in this context. We have to move to a more qualified market-orientated system, which will reduce the consumer burden and eliminate the need for export subsidies and supply management.

By far the largest part of rural Europe is covered by agricultural land and forests, which have a strong influence on the character of European landscapes. In all forthcoming discussions and deliberations, we have to remind ourselves that agriculture must remain a major interface between people and the environment and that farmers have a duty as stewards of many of the natural resources of the countryside.

Rural Development Policies in the context of the European Union is a concept of integrated rural development, which is already an essential component of the implementation of the CAP. Current EU initiatives such as the Cork Declaration, Agenda 2000, SAPARD, and others, have serious implications for the accession countries in terms of developing their accession strategy. Evolving EU policies are moving towards the re-definition of the role of agriculture, placing increased emphasis on the natural environment, and as a result, redefining the whole concept of support policies in the rural sector.

There is a history of commitment in the EU's relations with Eastern and Central Europe. The PHARE program was the main financial instrument available to the Union to kick-start the applicant countries' pre-accession period. This program has two priority objectives, the improvement of administrative and legal capabilities, and investment linked to the adoption of the Community Acquis. SAPARD, the Special Accession Program for Agriculture and Rural Development, joined PHARE in 1999. Together they are involved in the Accession Partnership concluded with each of the applicant countries. Agenda 2000, together with PHARE and aid for development, proposed structural aid for the applicant countries on infrastructure standards, particularly with the Cohesion Fund in the transport and environmental spheres. ISPA, the Instrument for Structural Policies for Pre-Accession, finances major development program and has an annual budget of 1,040 million Euros.

Enlargement poses an historic challenge to the EU itself. The candidate countries will bring no less than 100 million new consumers, with an average purchasing power of roughly one third of that of the current Member States. At the same time, the total land area devoted to farming will expand by half, and the labor force will be doubled.

The EU completed its Agenda 2000 project in 1999. The budget effort has been consolidated, there is a greater concentration of resources, stricter implementation and hopefully more simplification and decentralization: a good preparation for the new Member States. As part of that preparation, I was asked to chair a conference in Cork (Ireland) by Commissioner Franz Fischler in November 1996. He had announced his ambition to address rural issues through a broader and more environmentally sensitive package of policies than the CAP. With more than 500 people present, representing rural interests including Agriculture and Finance Ministers from the fifteen Member States and beyond, we debated the common areas of interest, concern and scope for action throughout Europe's rural areas and a vision for a "living countryside." That vision must reflect a countryside that is of a high quality and attractive environment, with diverse and distinct local character. A place, which draws investment by virtue of its beauty and the recreational opportunities it presents.

If I may, I would speak briefly of the situation in my own country. Last month in the House of Lords, we debated the issue of Rural Tourism, which could be seen as another aspect of rural development. Tourism creates jobs and contributes considerably to the economy of rural areas and to maintaining an attractive, habitable and viable landscape for the enjoyment of others, which is vital since few people wish to visit a barren waste. At the same time, the negative effects of traffic congestion, over-development, badly sited mobile phone masts, loss of rural service, and the crisis in our agriculture have to be addressed for rural tourism will only prosper if the countryside is managed correctly. But the challenges facing rural areas are often thwarted by increased legislation and unnecessary regulations leading to increased costs and therefore, the demise of smaller rural businesses with negative influences on entire communities.

I have the privilege of being President of the Cotswolds AONB, an area which is internationally known as the quintessential English landscape, but the value of such an area as "one of outstanding beauty" is less well known. The view from the hotel, bed and breakfast, holiday cottage, caravan or tent business needs managing and requires investment to do so. In the Cotswolds we are criss-crossed by 17 local authorities, 3 Government offices, 3 Regional Development Agencies and 3 Tourist Boards. My AONB meets with a variety of accommodation providers to explore the potential for visitors to add a nominal sum to their bill to reinvest in the countryside. So we aim to exploit these natural resources in a way in which provision for tourism also provides for and assist local communities and services, not limited to improving provision of rural transport but also tourist information points within pubs, post offices, as well as realistic opportunities to promote local food and produce.

This can be seen as an example of progress in terms of cooperation across national regions. In the context of the EU as a whole, it should be emphasized that the forces for change such as the global economy, climatic change, advances in technology and biology recognize no state boundaries. They can be resolved only through cooperation across national and continental boundaries, in short – "to think globally and act locally."

The vision of a "living countryside" at the Cork Conference therefore was a further example of progress. We achieved great support in a Ten Point Declaration, which fully incorporates these points, which in turn have fully influenced the agreed policy for the year 2000 and beyond. I shall now summarize the main considerations of the Cork Declaration.

(1) **Rural preference (aims)**
- $ Reverse rural out-migration
- $ Combat poverty
- $ Stimulate employment
- $ Equality of opportunity
- $ Respond to demand of quality
- $ Health, safety, leisure, general well-being
- $ Environmental objectives
- $ Fair balance of public spending

(2) **Integrated approach**
- $ Multi-disciplinary in concept and multisectoral in application, with a clear territorial dimension
- $ Apply to all rural areas; co-financing for areas more in need
- $ Economic diversification: small and medium sized enterprise
- $ Rural services
- $ Management of natural resources
- $ Promotion of culture, tourism and recreation

(3) **Diversification**
- $ Strengthen role of small towns and villages
- $ Focus on providing framework for private and community based initiatives
- $ Investment and technical assistance

(4) **Sustainability**
- $ Sustain quality of landscape - natural resources, bio-diversity and cultural identity

(5) **Subsidiarity**
- $ Decentralize where possible
- $ Bottom-up approach (Areas of Outstanding National Beauty)

(6) **Simplification**
- $ A limitation of red tape and regulations - greater flexibility

(7) **Programming**
- $ Transparent procedures
- $ Cooperation

(8) **Finance**
- $ Promote productive investment and diversity of rural economies
- $ Encourage continuation of public and private funding

(9) **Management**
- $ Partnership and sharing of research
- $ Networking between regions and between rural communities

(10) **Evaluation and Research**
- $ Monitoring, evaluation and beneficiary assessment
- $ Guarantee good use of public money
- $ Stimulate research and motivation
- $ Enable informed public debate

So Europe has a commitment to promote, in all possible ways, local capacity building for sustainable development in rural areas and, in particular, private and community-based initiatives which are well-integrated into global markets.

The LEADER Community Initiative: Lessons and Possible Applications for Pre-Accession Countries

P. Joseph Mannion
Jim Kinsella
Pat Bogue

Within the framework of actions for the development of rural areas in the EU a significant intervention was the introduction of the LEADER Community Initiative in 1991 (LEADER is the acronym for Liaison Entre Actions de Development de l'Economie Rurale). While the main purpose of this paper is to review the LEADER experience over the last eight to nine years, it is critical to set the review within the context of the changing EU policies through the 1990s. As the LEADER Community Initiative is funded from the EAGGF (Guidance Section of the Common Agricultural Policy – CAP), its evolution is particularly associated with changes in the agricultural and structural policies. Consequently, the paper is divided into four parts as follows:

- The evolution of EU policy from 1988 to 2000, with particular reference to agricultural and structural policies.
- The LEADER Community Initiative – from LEADER I to LEADER +.
- Lessons from the LEADER experience, illustrated with examples from Ireland.
- Lessons from the LEADER approach applicable to accession countries.

EVOLUTION OF EU POLICY 1988-2000

The European Union's changing agricultural and structural policies are central to an understanding of the origin and growth of the LEADER program in Ireland. The evolution of these policies can be viewed in three distinct time periods as they relate to the changes in EU policy measures for rural areas namely: the 1989-1994 period, which is the context for its emergence; the 1995-1999 period in which LEADER grew; and the future (beyond 2000) as reflected in Agenda 2000.

1989-1994. Arising from the need to address the growing pressures from CAP and rural decline as well as preparing for the Single European Market, the Commission reformed and doubled its Structural Funds to play a greater role in the development program of those member states and regions in which development was lagging behind. The Structural Funds were viewed as being at their most effective when they responded to locally generated ideas and translated into additional and tangible actions on the ground. The new value placed on rural areas and direction adopted by the Community was best expressed by the then Commission President J.

Delors who said, "Rural development is a collective good which is fundamentally linked to regional planning. It requires a new approach and cannot be left solely to market forces because the market is incapable of providing the requisite guidance." This reform represented the first steps in the move towards programs of development for these areas and incorporated a combination of sectoral and territorial based programs through the Community Support Framework and the Community Initiatives (CIs) respectively.

1995-1999. The relative success of the Structural Funds in contributing to the development of member states such as Ireland, Greece, Portugal, and Spain supported the continued growth of these funds and enhanced their role in rural areas. Over the ten years from 1984 to 1994 the Structural Funds grew from 12% to 26% of the Community's budget and this increase was offset by the decline, in relative terms, of the proportion of the budget allocated to the CAP. The emphasis of the Structural Funds in the development of rural areas became more focused on supporting sustainable development through the enhancement of human and physical capital in these areas.

The European Commission's Conference on Rural Development in November 1996 set out future perspectives on rural development within a document entitled *The Cork Declaration – A Living Countryside*. In recommending a ten-point program for the development of rural areas for the European Union, the Cork Conference emphasized the need to promote local capacity building for sustainable development in rural areas; to enable participatory approaches to development harnessing the creativity and solidarity of rural communities; to enhance subsidiarity in decisions and decentralization of policy implementation; and to emphasize integrated sustainable rural development programs.

2000-2006. In recognition of the multifunctional nature of rural areas the Agenda 2000 policy for agriculture has moved the basis of support away from being a sectoral policy for agriculture based on commodity price support toward being a more integrated policy for rural areas. This is reflected in the current European Model for Agriculture (Commission for European Communities, p. 7), which envisages the future agriculture as

- competitive and not over subsidized;
- employing environmentally friendly production methods that emphasize quality;
- traditional and diverse and not just output oriented;
- simple in policy requirements and implemented by Member States;
- expenditure-justified in line with the expectations of society at large.

This model of agriculture is distinct from previous policies in its sympathy with the broader societal concerns of sustainability and in its responsiveness to the needs of consumers and to environmental concerns. It is also very different from the prevailing models of EU competitors which are generally "market-led" and indifferent to issues and concerns which are not articulated through the market system. The EU Commission has stated that the Agenda 2000 agreement is based on a model for change which is distinctly different from those pursued by the EU's competitors elsewhere and recognizes that seeking to be competitive should not be confused with blindly following the dictates of a market which is far from perfect (EC 1998).

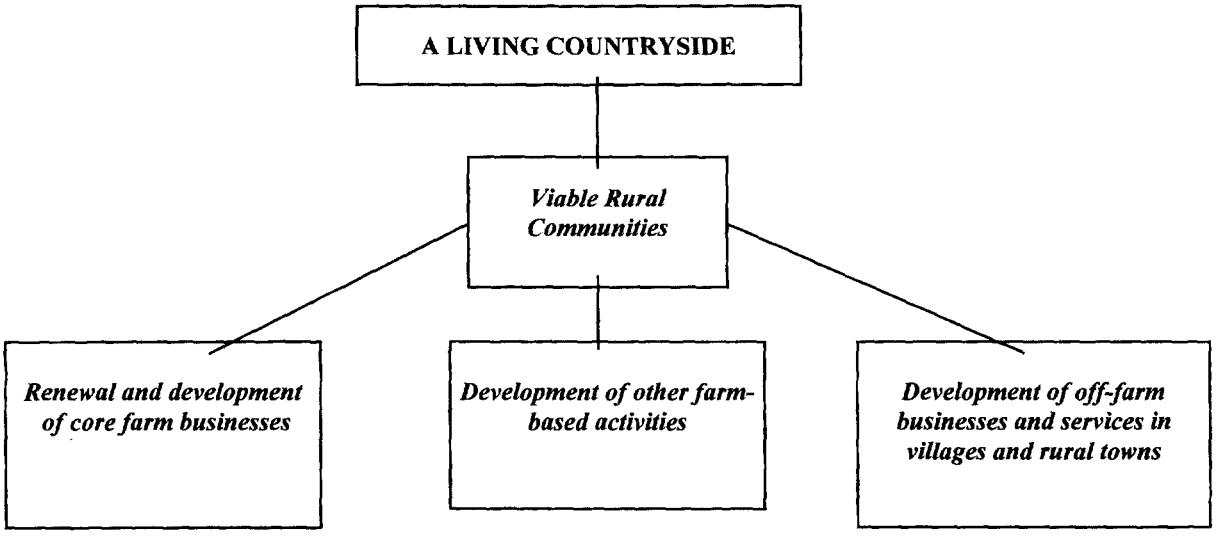
Living Countryside Agenda

The twin pillars of the 1999 CAP reform involve the creation of a competitive, sustainable, quality-oriented agriculture meeting environmental requirements and a new rural development framework. In combination these set the context for the "living countryside" agenda within EU policy for viable rural areas. The Living Countryside Agenda is based on three principles:

- no rural development without agriculture;
- no agriculture and no farmers without other activities; and
- no other activities without the development of villages, small and medium-sized towns.

The key challenge is to create the support environment that enables the emergence of a diversified rural economy built on the unique assets of particular rural areas. It includes measures that allow for the continued development of farming coupled with the progressive emergence of a strong rural industry and service sector (Kinsella et al.). This scenario is presented in **Figure 1**.

Figure 1. The Key Components of a Living Countryside



A multisectoral approach to the development of rural areas, as depicted in **Figure 1**, is at the very core of striking the balance in securing a living countryside. This is highlighted by Kearney et al. in their evaluation of LEADER I: the stability of the rural population as a whole is dependent on a wider spectrum of activity than agriculture. It is within this context of the European Model of Agriculture and the Living Countryside Agenda that any proposals for the development of a rural policy framework for new members need to be pitched.

THE LEADER COMMUNITY INITIATIVE

The Community Initiatives (CIs) arose from the reform of the Structural Funds in 1989 and were established to support measures of significant interest to the Community, not covered by Member States' development plans. They provided specific means by which Community interests and priorities could be reflected in the allocation of Community resources, supplementing the Member State-initiated priorities in the Community Support Frameworks and giving additional emphasis to the pursuit of Community goals. A key aim of the CIs was to have genuine added value in terms of their development impact (EC 1993). These initiatives have three features that give them "added value":

- support for transnational, cross-border, and inter-regional cooperation;
- an emphasis on innovation;
- a "bottom-up" implementation.

The fifteen Community Initiatives between 1989-1993 received around 9% of the total value of Structural Funds (5.8 billion ECU). The number of CIs was reduced slightly to thirteen in 1994-1999 and they again were allocated 9% of the Structural Funds commitment (13.5 billion ECU). For 2000-2006, the number of CIs has been reduced to just four, and they have been allocated 5% of the Structural Funds (10.9 billion ECU). As part of its response to the changing nature of agriculture in Europe the LEADER Community Initiative was targeted specifically at the rural areas of member states to assist in the diversification of the economies of these areas. There have been two phases of LEADER undertaken since 1991 (LEADER I and II) and a new LEADER+ program has been agreed for 2000-2006.

LEADER I (1991-1994)

LEADER I was established in 1991 to support integrated bottom-up development efforts through encouraging local development groups to work together. The priorities of LEADER I included promotion of innovation in response to the problems of rural development; transnational cooperation projects based in the rural areas, giving practical content to their solidarity; and sharing of project experience and know-how through a network of rural development groups.

LEADER I involved 217 local action groups (LAGs) throughout the Community and these groups undertook a wide range of actions ranging from grants assisting rural tourism accommodation projects to vocational training for employment. The European Commission, in reflecting on the lessons of LEADER I, recognized that the measures supported under the LEADER Initiative "could be improved and that many of them would gain from being managed in a decentralized way" (EC 1993). It suggested that this type of action should be directed at strengthening technical assistance at regional and local levels.

LEADER II (1995-1999)

The LEADER II program received almost four times the amount of public funding allocated to LEADER I and aimed to build on the successes and lessons of its predecessor. The objectives of LEADER II were: to encourage model local rural development initiatives; to support innovative, demonstrative and transferable measures which can illustrate the new directions that rural development can take; and to promote the exchanges of experiences, strategies, and know-how. While similar in its objectives, LEADER II differed significantly in its operating rules from LEADER I in that it placed greater emphasis on capacity building and animation, enabling local people and communities to participate actively in the process of local development. By June 1998 LEADER II had expanded to include 850 LAGs and 59 other collective actors throughout its member states.

LEADER+ (2000-2006)

The objective of the new initiative is to continue to encourage, on the basis of local partnerships, the emergence of and experimentation with rural territorial development strategies, both integrated and in a pilot form. These new models of rural development will be disseminated and will increase their value through a significant level of networking (EC 1999). The LEADER+ initiative will be exclusively financed from the EAGGF and is applicable to all rural areas of the Community with particular concentration on areas that demonstrate a real willingness and capacity to experiment with new and original forms of territorial development.

The new initiative has three strands:

- support for integrated development strategies of a pilot nature for rural territories relying on the bottom-up approach and horizontal partnership;
- cooperation between rural areas in both inter-territorial and transnational dimensions;
- creation of networks of actors.

THE LEADER PROGRAM IN IRELAND

The LEADER program in Ireland was launched in 1992 and has, since its establishment, secured a high profile at local, regional, and national levels in the development of rural areas. LEADER in Ireland is synonymous with rural development. The LEADER program is administered at the national level through the Ministry of Agriculture, which is the intermediary body between the Commission and the LAGs.

LEADER I

In Ireland there were 17 local action groups (LAGs) involved in LEADER I and they covered approximately 60% of the country's land area. The areas represented had an average population of 62,500 people and covered on average 2,500 sq. km. The LAGs were managed through boards, which were formal partnership structures responsible for the implementation of the local area programs. The LEADER boards averaged 14 members and were made up of

representatives of community groups (average of 36% of board members), the private sector (29%), state agencies (21%), and local authorities (14%). The majority (65%) of the groups had been in existence before the LEADER program, while the others were established to avail of LEADER support (Kearney et al.).

The total public expenditure (EU and Irish government) in LEADER I was IR£35 million. The measures which received the LEADER I funds in Ireland were rural tourism (51%); small enterprise, such as crafts, engineering, and furniture making (20%); and natural resources, including agricultural and horticultural production as well as food processing (19%). Vocational training and other technical support received 8% of the LEADER I funds.

LEADER II

LEADER II began operations in Ireland in 1995 and increased the number of LAGs to 34 pluse three other collective actors. It covered almost all rural areas of the country. Of the 34 LAGs approved for LEADER II , four were categorized as pre-development groups and were allocated funding to assist in their progression towards full involvement in the program over the following year (1995/6). The 34 rural areas represented had an average population of 67,500 people and covered on average 2,000 sq. km. The LEADER II boards had typically between 16 and 17 members and were made up of representatives of community groups (average of 40% of board members), the private sector (30%), state agencies and local authorities (30%).

The total public expenditure (EC and Irish government) in LEADER II was IR£94 million. It was allocated to animation and training (27%), rural tourism (23%), small enterprise development (14%), preservation of the environment (11%), agricultural, fisheries, and forestry products (8%). Administration and other technical support accounted for 17% of public funds invested in LEADER II.

LESSONS FROM THE EU LEADER EXPERIENCE

Strategies for rural development that have an area-based or spatial element and a bottom-up implementation are now perceived as essential in complementing and reinforcing the traditional range of national macro-economic and structural policy instruments of development (OECD). The European Commission, through its policies, programs and initiatives, has implemented with Member States measures with a regional and bottom-up dimension. This is particularly the case of the Community's LEADER Initiative, which emphasizes partnership, a large participation of citizens, and people's capacity building. Given the territorial and multisectoral dimensions of rural development, the LEADER groups are generally comprised of actors representing the public, private, and voluntary sectors.

The experience and lessons from LEADER indicate that the key elements of a local development approach are the following: an area-based rather than a sectoral development strategy; a competent local action group (LAG) to develop and manage the area-based development program, which is representative, democratic, and accountable and places a high

value on linkages and networks; a major emphasis on measures that enhance the capacity of people and institutions at the local level to manage their own development; and a strong emphasis on innovation and adding value to top-down and sectoral approaches. The experiences and lessons from LEADER under these main headings are highlighted below.

The Area-Based Approach

The area-based, bottom-up approach of LEADER is an alternative to the traditional top-down forms of policy making. It allows for the identification of desirable policy measures through the consultation of relevant interest groups at the local level. Rural areas have a different set of resources and have different problems to resolve; measures adapted to each case are required. Centralized decision-making becomes inappropriate or insufficient as it cannot be adapted to take into account the particularities of each area. LEADER has promoted and encouraged participatory decision-making which can ensure, insofar as it functions efficiently, a wide and fair representation of all groups of interest, thus creating an occasion for building up a consensus, dealing with conflicts and fostering interrelationships between sectors and groups.

Local involvement is important because the design of development policies at the local level may turn out to be more effective and manageable (Saraceno et al.). It allows for the mobilization of the local resources, including physical, environmental, cultural, human, economic, financial, institutional, and administrative. The experience from LEADER I in member states, other area-based partnerships, and early results from LEADER II indicate that the greater the depth of involvement, ownership, and control by local communities, the higher the level of innovativeness in the projects implemented to tackle the development problems in the areas in question. The rationale behind the area-based approach is linked to the new importance given to the role of endogenous resources (rather than exogenous resources) in the promotion of sustainable development. The emphasis on endogenous resources has led to the creation of more sustainable jobs because the resources are not widely available (Saraceno). The skills and knowledge to exploit them is not widespread either.

LEADER in Ireland has clearly recognized this rural diversity and has fostered a culture whereby local people are encouraged to develop and exploit indigenous and unique resources. This approach adds value and mobilizes previously underestimated or under-utilized resources. For example, the West Cork LEADER initiative has, with the strong support of the food and tourism sectors of the region, resulted in the development of a branded identity – Fushia Brands – for selected locally produced products and services. Such an identity was designed to emphasize excellence and quality and reflect positive local characteristics, environmental quality and the richness of the heritage, culture and landscape (Fushia News).

In Ireland, LEADER has mobilized large numbers of people (almost two-thirds of the national population) and harnessed local voluntary effort in a manner which could not be achieved through any other initiative. The value of the huge voluntary input arising from widespread participation means that the LEADER program provides excellent value for money, leveraging at least twice as much private investment as that obtained from public funding.

Local Groups as Partnerships

The local action groups (LAGs) approved in the framework of LEADER more often than not reflect the way in which the national, regional, and local authorities in each of the EU Member States view rural development. However, the outstanding feature of the LEADER groups is the extent to which they have succeeded in getting meaningful involvement of a range of representatives covering the main sectors of economic and social activity in the rural area. Broadly, these include the local community (political and community leaders), statutory/sectoral agencies, and the business sector.

By making the largest partnership possible a requirement for devising a common strategy for area-based development, LEADER has had a decisive influence on the behavior of rural actors, be they institutional or private. Moreover, the emphasis on the role of animation has opened up concrete areas of participation by the different local actors and provided an incentive for the organization at local level of a series of information and training activities. This has led to increased prospects of development through diversity of ideas, points of view, and aspirations of the local actors (LEADER Magazine).

The single greatest strength of the bottom-up approach is its potential to bring a new dynamism to local development. Where it has been successful, this has been achieved through harnessing community spirit, idealism and pragmatism towards what is necessary and possible to achieve locally, in partnership with national and local government agencies and the private/business sector. The evidence from the LEADER program in Ireland is that the LAGs now have the professional capacity to develop and implement innovative measures within natural areas of development. The level of commitment and voluntary effort going into these groups is tremendous. The collective effort of voluntary board and staff together has proven to be a highly effective model for local rural development.

Representation, Accountability, and Democratic Legitimacy of Local Groups

To achieve actual economic development at a small community level requires a genuine and effective partnership approach to developing local solutions, which actively involves the private and voluntary sectors, public bodies, and individuals as well as democratically elected representatives (Copsey and Fitzpatrick). The LEADER LAGs represent such a partnership approach. However, for area-based development to be sustainable, partnerships must be perceived as having democratic legitimacy and accountability both by their local constituencies and by central authorities (EU, national, regional and local levels). The 1996 OECD Report on local partnerships in Ireland, while recognizing that the partnerships are "extraordinarily innovative", concludes that they have been better at creating new actions than at building stable institutions. The particular problem hinges around the fragile democratic legitimacy of the area-based partnership and their accountability to local constituencies and to central authorities.

At the heart of improving accountability is the matter of clarifying and coordinating what the connections should be between local partnerships, local and regional government, and national agencies. How the coordination and connections can best be achieved will depend on

the traditions and realities in relation to the administrative structures of national, regional, and local government in Member States. However, two issues need attention in relation to the bottom-up partnership approach. There must be a coordinating agency or mechanism to prevent duplication of activities and to improve legitimacy and accountability. Incremental reform in government agencies and their functions may be necessary to improve the level of responsiveness to bottom-up initiatives (Mannion).

A recent study concluded that there is a considerable degree of representativeness on LEADER II boards in Ireland. Representation was classified according to whether members were from communities, state agencies/local authorities, and social partners, where the last group is comprised of farming and rural organizations, employers, and trade unions. In groups not involved in operating area partnerships (Irish Government, Operational Program for Local Urban and Rural Development), the representation from the trade unions or socially disadvantaged is weak. In the average LEADER II board, about 40% of the membership represents communities, 30% is from state agencies/local authorities, and the balance represents the social partners (Kearney).

Some LEADER companies made considerable efforts to ensure that they are representative of their area. To ensure that the Board of IRD Duhallow continues to be geographically representative, and that those elected are accountable to their communities, the 28 Duhallow communities were divided into three subregions, thus encouraging participative democracy and embracing the EU principle of subsidiarity. Each region elects an 18-member panel; two from each community, with each of the three panels electing two representatives to the board. To further enhance their participative structure and to ensure the representation of all interests and sectors, nine strategic working groups were established representing youth and education, enterprise, community development, equality and migrants, the enterprise network, rural resettlement, social economy, agriculture, and employment and training.

Linkages

The name LEADER explicitly states that actions and projects both within and between LEADER groups should not be individual and separated measures but should be coordinated and well integrated where possible. The main objective for emphasizing different forms of integration between actions and their multisectoral character is to reorganize and coordinate the different sectoral approaches predominant in rural development policies into a coherent set of policy measures, ensuring that they are neither implemented independently nor in opposition to one another.

Linkages have been essential to the success of LEADER because financial resources were limited and innovation was being encouraged. Linkages led to a synergy and an overall enhanced development effort. The holistic, integrated, and linked approach to planning applied in LEADER created or exploited existing synergies among different sectors; increased the overall effectiveness of the program and the sustainability of individual actions; and encouraged the diversification of the rural economy, thus creating an alternative to the declining agricultural sector and strengthening its capacity to respond to sectoral crises (Saraceno et al.).

The main flow of public funds (EU and national) potentially available for rural areas follows a sectoral rather than an area-based route. This highlights the importance of linkages, inter-relationships, and getting the balance right. It is critical to recognize the significance of sectoral funding in the context of its potential support for enterprise and employment in rural areas and the comparatively limited role that area-based approaches can play in directly doing likewise. Area-based partnerships have the potential to be the central cog linking local needs and priorities with the sectoral cogs (sectoral programs, funding, and related agencies), which can supply the energy necessary for balanced and sustainable rural development. Without this linkage, LEADER groups and partnership companies can only make a limited contribution to achieving the goal of multisectoral development and a stable rural population.

Networking and transnational cooperation provided the framework for the exchange of information and experiences among all those involved in rural development actions. LEADER II has set up many ways of networking and exchanging, which included including the LEADER Observatory facilitating exchange of experience at the European level; national coordination units, which have been set up in eleven of the EU countries; and transnational cooperation between LAGs from several Member States (Saraceno et al.).

The Irish LEADER Network was established in 1992 in response to the needs expressed by the local LEADER groups. The Network has played a vital role in training, facilitating interaction and exchange of information between groups, setting up best practice models, and computerized records for the local action groups. This central cog in development concepts is evident in the operation of the LEADER groups in Ireland. The South Kerry Development Partnership currently delivers twenty European and State Programs. The main programs operating in South Kerry are the LEADER II and the Local Development Programs, RECITE II, the Leonardo da Vinci Program, and the Local Employment Service (LES). Similarly, the Louth (Ireland) LEADER II LAG has been pro-active in the establishment of a community network, which draws groups from around the county. To date over 30 groups play an active role in this network, which acts as a forum whereby groups meet to exchange ideas, information and experience; provides a collective voice for the county-level voluntary and community groups; and acts as a sub-committee to the Louth LEADER II board with the role of highlighting issues relevant to the community sector.

Capacity Building

Capacity building has become one of the most important functions of the LEADER program. It strengthens the capacity and ability of the target population to participate in their own development and that of their community. It can even be said that the degree of success of this capacity building will be decisive for the success of the bottom-up approach to development as a whole.

Local development capacity building means strengthening the knowledge, skills, and attitudes of people so that they can establish and sustain the development in their area. People create and adapt local institutions. It is people who create and shape the policies and measures that support their area's development. Changing institutional structures or policy measures

without equipping people to manage and implement them is inadequate. Similarly, equipping management and field personnel (e.g., project staff) in the absence of support structures and conditions is inadequate.

Capacity building is necessary for all those involved in establishing and sustaining development in a rural area. It includes individuals and groups in the target area, as well as the key persons working within the institutional environment, be they front line service providers or managers and decision-makers who support them. This is of particular importance in the context of local action groups and other bodies responsible for implementing the LEADER program. Candidates for capacity building also include national, regional, and local government agency representatives who have to see their role as "partners" and not "power-brokers." This implies new attitudes and a new type of capacity building. Their previous experience mainly relates to managing and implementing top-down and sectorally focused development initiatives. A considerable amount of relearning is necessary if they are to successfully implement the bottom-up partnership approach. The knowledge, skills, and attitudes required to implement the bottom-up model of local development differ considerably form that of being in control of service delivery on a territorial basis.

Conventional methods of stimulating interest and response are sufficient for capacity building in the progressive sector. Capacity building for the less progressive and the "rural disillusioned" (e.g., rural youth) requires a different response from local development support agencies. This is particularly the case in rural areas where the existing level of local organization is low. It also applies to economically marginalized rural areas where the residual population may be apathetic and defeatist in attitude. Particular emphasis needs to be placed on developing the capacity of these people to realistically appraise how their area may be able to provide the quality of life to which they aspire and how they can be meaningfully involved in shaping its development. The educational and training institutions at all levels (primary, secondary, tertiary, and adult) have a major responsibility in ensuring that rural people have the capacities and the skills necessary to contribute to and be rewarded for the development of their own community.

Providing the newly capacitated with opportunities to be involved in the area-based development process must be a priority for the partnership groups and companies. With the area-based partnership there is a danger of local development ending up in the hands of the few. A small group of able people who have the skills and experience to carry forward local development may continue to do so with little or no reference to the members of the community which they purport to represent. The challenge for LEADER groups and partnership companies is how to avoid institutionalizing a system of "devolved patronage." The other trap in which the advocates of the bottom-up approach sometimes fall is to seek "instant success." A lot of emphasis is placed on the number of jobs and businesses created and other economic indicators. Consequently, more often than not only the most successful local actors benefit from financial support. Like development as a whole, building people's local development capacity is a slow process. Elected officials, European, national, regional, and local decision-makers, "development activists," and many others must be aware of this and support a long-term approach despite frequent pressure to show immediate and visible results that are usually short-lived.

Through the practice of empowering individuals and groups LEADER has unlocked local financial, physical and human resources that no other system of intervention could access. It is important that the focus is kept on this capacity building role of development programs. The importance that the LEADER LAGs in Ireland placed on capacity building is evidenced by the LEADER II evaluation report, in which all 34 LAGs express the view that there is an ongoing need for animation and capacity building in the future. This need is further illustrated by the Animation Program implemented by Westmeath Community Development Ltd., which has concentrated on informing groups of the wide range of assistance available to through LEADER and other programs; organizing structured training programs to develop skills and improve understanding of community development in local groups; and organizing seminars to encourage community groups to learn from each other and from similar experiences in other parts of the country.

Innovation

The bottom-up and partnership approach advocated by LEADER is a novel experiment in making EU and Member State rural development policy more sensitive to local conditions. One of the aims of LEADER II was to stimulate innovative measures in all sectors of rural activity. Since 1991 LEADER in Ireland has been innovative in its structure, programs, training, capacity building, and in the selection of supported enterprises and projects. It offered rural areas new ways to plan and manage their economic and social development. It provided vital support, both financial and advisory, which enabled many creative ideas to be turned into successful business ventures.

The Irish LEADER Network concludes that the encouragement of innovation within the LEADER program has enabled local groups to develop the type of creative responses to local issues which mainstream structures could not permit. LEADER groups are often the initiators of local development activities in rural areas. In addition, they act as key catalysts in increasing coordination of activity between local agencies, thus increasing the efficiency of local service delivery and maximizing the use of financial, physical and human resources. Through their work they pilot models of development some of which can be mainstreamed. By their proactive initiatives, LEADER groups motivate others and create an impetus for other agents of development to act.

LESSONS FROM THE LEADER APPROACH FOR ACCESSION COUNTRIES

The potential contribution of the LEADER approach as a key component of a rural policy framework for EU accession countries is best understood within the context of the European Model of Agriculture and the Living Countryside Agenda. Apart from the CAP, the LEADER initiative has had most significant impact on the rural-based populations of many EU member states. It has proven to be an important stimulus in rural areas that were lagging behind. However, it should not be viewed as a "quick fix" for the problems of rural decline, but rather as a long-term investment in building the capacity for development – particularly where community and local institutional confidence and capability have been seriously eroded.

The important positive aspects of the area-based approach as evidenced in the LEADER program can be summarized as follows. The bottom-up area-based methodology embodied in the LEADER initiative

- complements and reinforces traditional economic and structural adjustment policies;
- provides the basis for an integrated and holistic approach to development and maximizes the use of resources (human, social, institutional and financial);
- integrates what is being developed with the wider context of regional, national and European strategies;
- recognizes the diversity of rural areas and their differing needs;
- increases the opportunities for citizen participation in their own development and deepens democracy;
- brings a new dynamism to local development through harnessing community spirit and stimulating partnerships with national and local government agencies and the private business sector.

The success of the LEADER program to date is due to the adherence to a number of important principles:

- A process of inclusion which involves the widest possible participation of citizens in identifying and tackling local needs and generating local solutions for local development.
- A partnership structure to manage local development that is representative, democratic and accountable and that has the capacity to be innovative and successful in stimulating multisectoral local development.
- An institutional framework for rural development that is built on the partnership principle to enable the bottom-up approach to be the mainspring of rural development policy strategy. It is the key principle necessary to ensure that there are strong vertical and horizontal linkages between the bottom-up approach and sectorally driven policies which impact on rural areas.
- A real commitment to capacity building as the keystone of inclusive local development by the Commission, Member States, and local development groups/agencies.

This commitment to capacity building must give recognition to the fact that capacity building takes time, is people-intensive, and requires resources. The rural development policy and the supported initiatives must ensure that capacity building measures are included, resourced, and implemented. This includes improving the capabilities of the institutions that impact on rural development, as well as the skills of those who work for or direct the activities of such institutions.

These are the key principles which the Accession Countries need to understand and take into account should they choose to follow an area-based LEADER style approach as part of an overall rural renewal strategy. The bottom-up approach as implemented in the LEADER Community Initiative should become one of the mainsprings of European rural policy for the Accession Countries. Development strategies based on this approach help ensure cohesion and coherence between agricultural and rural development policies. There are obvious risks attached to empowering local communities, particularly for those who have to share power, but this may well be the price that has to be paid to have a more socially inclusive and expanding EU.

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Structural Funds and Rural Development: Suggestions from the Italian Experience

Secondo Tarditi

Rural development is now considered the second pillar of the CAP, partially replacing the traditional "structural policy" of the European Union. The urgent need for a "structural policy" complementing the price support policy was already stressed in the Messina and Stresa Conferences before the implementation of the CAP. The first consistent set of measures concerning structural adjustment were proposed in the Mansholt Memorandum (1969) leading to the first Community program for agricultural structures. The principal aim was to restrict investment aid to viable farms. This was extended in 1975 by the directive on agriculture in mountainous and hilly areas and in certain less-favored areas, which was intended to maintain farming activity, if socially desirable, even where local conditions were not favorable. These measures were reformulated in 1985 in the regulation on improving the efficiency of agricultural structures. As part of the 1988 Structural Funds reform, investment of resources from the FEOGA Guidance section was coordinated with investments from the European Regional Development Fund and the European Social Fund for two objectives: promoting the development and structural adjustment of backward regions (Objective 1) and facilitating the development of rural areas (Objective 5b). Support for adjustment of production and processing structures in agriculture and forestry (Objective 5a) is financed exclusively from the FEOGA Guidance section and is not tied to a specific region.

If the Italian proverb *sbagliando s'impara* – people learn by making mistakes – is true, then in Italy we all should be almost professors of structural policy. After joining the EC, Italy implemented probably the worst structural policy in Europe, which led to very poor results in agricultural adjustment: small non-viable farms, disguised unemployment, low farm incomes in rural areas. Such poor performance is a consequence of both the agricultural policy measures implemented by national and regional governments and the CAP, where we can blame the price support policy as well as the local implementation of EU directives on structural policy and rural development. Farmers and policy makers are ill-informed on the actual disguised unemployment that frequently exists in many rural areas. Evaluation procedures of structural funds are almost always partial, "sectoral" in nature, as they do not compare costs and benefits of agricultural and non-agricultural projects. The inter-sectoral allocation of resources invested in structural policy or rural development is not decided at regional or local levels according to the differences in social productivity of the available resources, but is a consequence of inter-sectoral allocation of public financial resources decided in Brussels or Rome, often under the almost unilateral pressure of specific vested interests.

The allocative efficiency of investment in structural policy and rural development can be improved in the interest of both farmers and the entire society by instituting targeted policies for independent remuneration of the various contributions to social welfare generated by agriculture. Output price support, for example, usually produces conflicting effects: positive externalities maintaining agriculture in poor marginal areas (e.g., hilly and mountainous areas in the Alps) and negative externalities increasing pollution in rich and intensively cultivated areas (e.g., the Po Valley). The present disguised unemployment, which is a consequence of the EU price support policy and of national and regional support to agriculture, should be identified at the regional and local level in order to implement more targeted policy measures in structural adjustment and rural development. Monitoring structural adjustment and rural development should be implemented jointly by producer and consumer organizations, in order to avoid corporate biases and constantly pursue the joint interests of farmers and citizens.

STRUCTURAL ADJUSTMENT IN ITALY

Farm incomes may be increased in two ways: (a) by increasing productivity and reducing production costs, which is achieved in the short term through better management and in the long term by adjusting farm sizes to new technologies, or (b) by transferring money to farmers from the rest of society via direct government subsidies or manipulation of market prices. The objectives of the CAP stated in article 33 of the Treaty Establishing the European Community are very clear on this issue:

> The objectives of the common agricultural policy shall be (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture...

The increase of the standard of living of the agricultural community should be a consequence of increased productivity of labor, in the interest of the whole society, not a consequence of costly and inefficient transfers of income from consumers and taxpayers. The long-term result of such transfers from consumers to producers is inevitably lower productivity of resources invested in agriculture and a general decrease in social welfare.

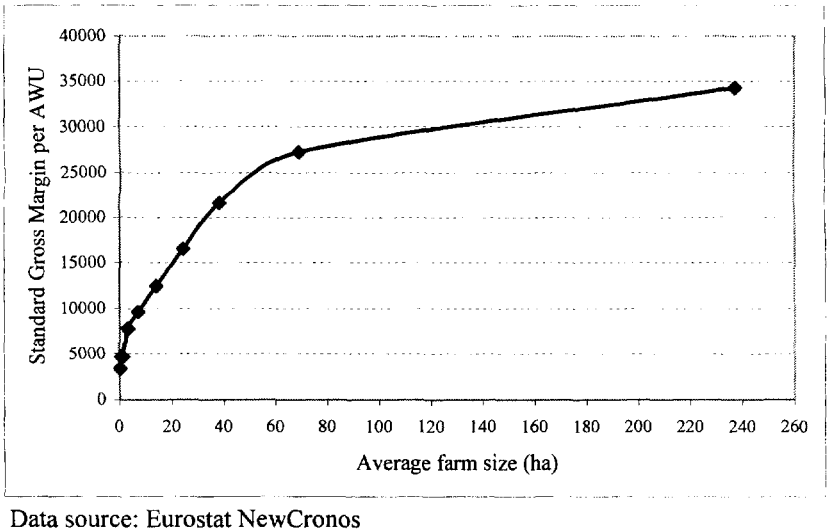
Opportunities for increasing labor productivity in agriculture by increasing the average economic size of the farm are apparent for all farm types from the data in **Table 1**, which shows the productivity of agricultural labor as a function of farm size for farms of various specializations. The productivity of labor is expressed as the average standard gross margin (SGM) per annual work unit (AWU) in ECU/year, and the farm size classes are expressed in terms of the economic size unit (ESU), where 1 ESU = 1,200 ECU per year since 1990. The scale economies are obviously different for different farm types, but labor productivity in very small farms is always much lower than in medium-sized or larger farms. It is also clear that scale economies diminish for farms larger than 100-200 ESU. Scale economies for all Italian farms are plotted in **Figure 1**, where farm sizes are in hectares, and not in ESU.

Table 1. Scale Economies in Italian Agriculture: Agricultural Labor Productivity by Farm Size for Farms of Various Specializations*

Farm specialization	Size class in Economic Size Units							
	0-2	2-4	4-8	8-16	16-40	40-100	100+	Total
Specialist cereals, oilseed, and protein crops	3866	7107	9718	13909	21624	37085	53327	21412
General field cropping	2166	4307	6485	9670	16850	31467	46934	17774
Specialist horticulture	2527	4702	6046	8221	12566	21802	45197	25097
Specialist vineyards	3065	5757	7921	9600	14972	22560	28893	13526
Specialist olives	3337	6056	7532	10227	12690	15738	20033	7398
Permanent crops combined	2940	5143	6741	8921	13356	20710	33418	12323
Specialist fruit and citrus	3848	6690	8343	10528	14349	19832	22175	11623
Specialist dairying	1545	2753	4455	7415	14858	30375	47675	19280
Mixed cropping	2006	3329	5405	8017	13591	23040	28380	9560
Mixed livestock (mainly grazing)	1376	2058	3797	7144	14570	26178	31792	8750
Crops and livestock combined	1778	3037	5132	8282	16299	33331	45045	15196
All holdings	**2414**	**4226**	**6220**	**9071**	**15410**	**28203**	**40973**	**15321**

* Labor productivity is expressed as the standard gross margin (SGM) per annual work unit (AWU) in ECU/year; farm size classes are expressed in terms of the economic size unit (1 ESU = 1,200 ECU per year since 1990).
Data source: Eurostat NewCronos

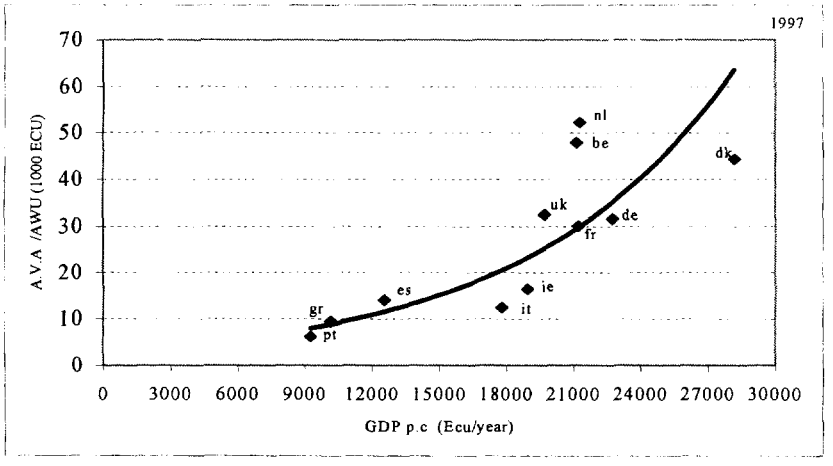
Figure 1. Scale Economies in Italian Agriculture: Agricultural Labor Productivity vs. Farm Size in Hectares (1997 data)



Data source: Eurostat NewCronos

As a general rule, labor productivity in agriculture is related to labor productivity in other economic branches of the economy due to inter-sectoral mobility of labor. **Figure 2** shows the correlation observed among EU member countries between the level of economic development (measured by the average per-capita GDP) and labor productivity in agriculture (measured by the average value added per annual work unit). Higher productivity is generally observed in higher income countries, but some countries perform much better than expected at their level of economic development (e.g., the Netherlands), while other countries perform much worse than expected (e.g., Italy).

Figure 2. Labor Productivity vs. General Economic Development: 1997



Data source: Eurostat NewCronos

A basic reason for such differences in agricultural performance between Italy and the Netherlands can be traced to the very different structure of farm holdings. **Table 2** shows the distribution of various structural parameters by farm size classes. In Italy the number of farms and the farm labor are concentrated in the smaller size classes (less than 40 ESU), where the average labor productivity is very low, while in the Netherlands the number of farms and the agricultural labor are concentrated in the larger size classes, where the average labor productivity is much higher (**Figure 3**). The total area and total gross margins in the Netherlands also show a much sharper concentration in the large farms than in Italy (**Table 2**).

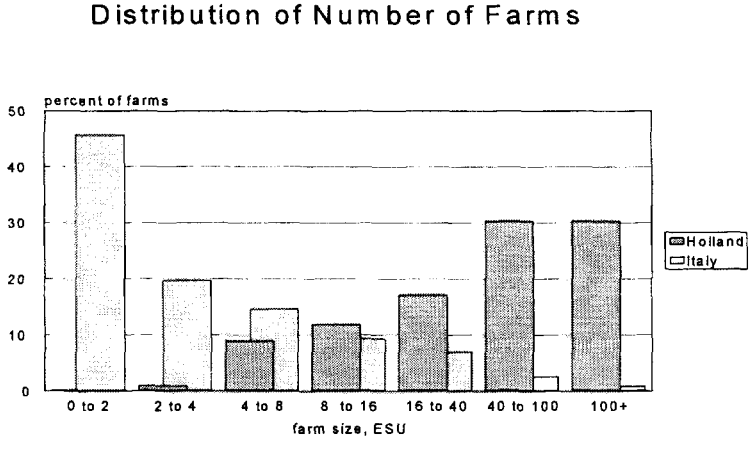
These differences in basic features between Italian and Dutch agriculture are well known, although they are not always clearly quantified. Given the small difference in general economic development and the large difference in farm structure, we would expect a much more rapid change in Italian agriculture, catching up in terms of technical progress and structural adjustment. These expectations, however, prove to be totally false when we compare the distributions of structural parameters in 1990 and 1997 (**Table 2**). Dutch agriculture is rapidly adjusting its structure and improving resource productivity by increasing the shares of the larger farms (over 40 ha) in all structural parameters. Italy, on the other hand, is lagging behind with negligible changes in the distribution of farms, labor, land area, and economic performance across different farm size classes and virtually no increase in the shares of the larger farms. The dynamics of change between 1975 and 1987 in the two countries follows the same pattern as between 1990 and 1997, despite differences in statistical definitions in the two periods.

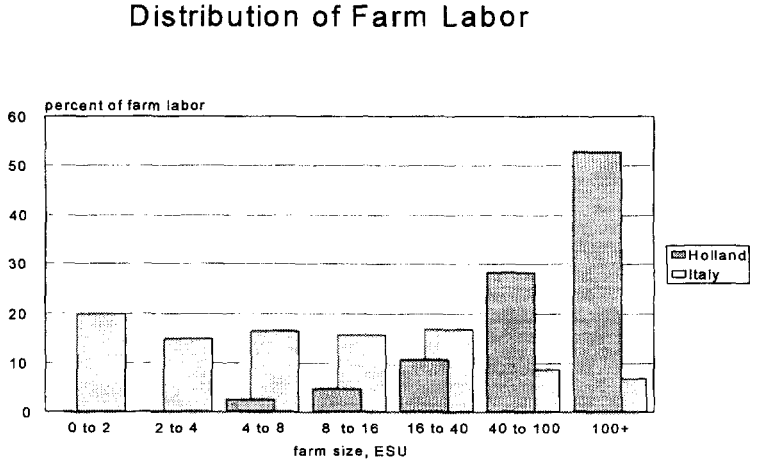
Comparison with the dynamics of structural adjustment among EU Member states shows that Italy is lagging behind not only compared to star performers, such as the Netherlands, but also compared to the EU-15 average. The Standard Gross Margin per holding in EU-15 increased at an average annual rate of 1.0% between 1990-1997, while Italy registered an annual decline of –3.4%. Since the agricultural labor decreased at about the same rate in EU-15 and in Italy (–4% and –3.6% respectively, measured in Annual Work Units), the productivity of agricultural labor increased considerably in EU-15 and remained practically unchanged in Italy.

Table 2. Distribution of Farm Parameters by Farm Size Classes in Italy and the Netherlands: 1990-1997

	Size class in Economic Size Units							
	0-2	2-4	4-8	8-16	16-40	40-100	100+	Total
Italy								
Number of holdings (1990)	50%	18%	13%	9%	6%	2%	1%	100%
Number of holdings (1997)	46%	20%	15%	9%	7%	3%	1%	100%
Agricultural area (1990)	10%	9%	13%	15%	20%	14%	18%	100%
Agricultural area (1997)	9%	9%	13%	16%	21%	16%	17%	100%
Standard Gross Margin (1990)	6%	7%	10%	13%	21%	19%	25%	100%
Standard Gross Margin (1997)	5%	7%	10%	13%	22%	19%	24%	100%
Farm labor force (1990)	22%	14%	16%	15%	16%	9%	8%	100%
Farm labor force (1997)	20%	15%	17%	16%	17%	9%	7%	100%
Netherlands								
Number of holdings (1990)	0%	3%	12%	13%	23%	38%	11%	100%
Number of holdings (1997)	0%	1%	9%	12%	17%	30%	30%	100%
Agricultural area (1990)	0%	1%	3%	5%	17%	52%	22%	100%
Agricultural area (1997)	0%	0%	2%	4%	9%	31%	54%	100%
Standard Gross Margin (1990)	0%	0%	1%	3%	12%	47%	36%	100%
Standard Gross Margin (1997)	0%	0%	1%	2%	5%	25%	67%	100%
Farm labor force (1990)	0%	1%	4%	7%	19%	42%	28%	100%
Farm labor force (1997)	0%	0%	3%	5%	11%	28%	53%	100%

Figure 3. Distribution of Number of Farms and Farm Labor by Farm Size in Italy and the Netherlands: 1997





STRUCTURAL RESULTS OF THE CAP

Why is Italian structural adjustment so slow? Is this a consequence of CAP price support and structural policies, or a consequence of inadequate public administration in Italy and of national and regional policy measures? There is probably joint responsibility in this case, but let us examine the likely effects of CAP price support and structural policies.

Impact of Price Support on Structural Adjustment

The level of producer revenue support (market price support plus payments directly related to production volume) is still quite high for many agricultural commodities in the EU. It ranges between two and three times the border price for durum wheat, barley, oats, sugar, milk, beef and veal, mutton, and olive oil. The short-term effects of price support on farm income are easily understood. If output prices increase this year, the higher revenues are almost totally translated into higher farm incomes, because all resources are already invested and variable costs constitute a minor share of total costs. In the long term, the results of a high level of price support are definitely not the same. If factor markets are sufficiently competitive, resources flow where profits are higher, and higher prices generate higher marginal and average costs, thus reducing farm incomes.

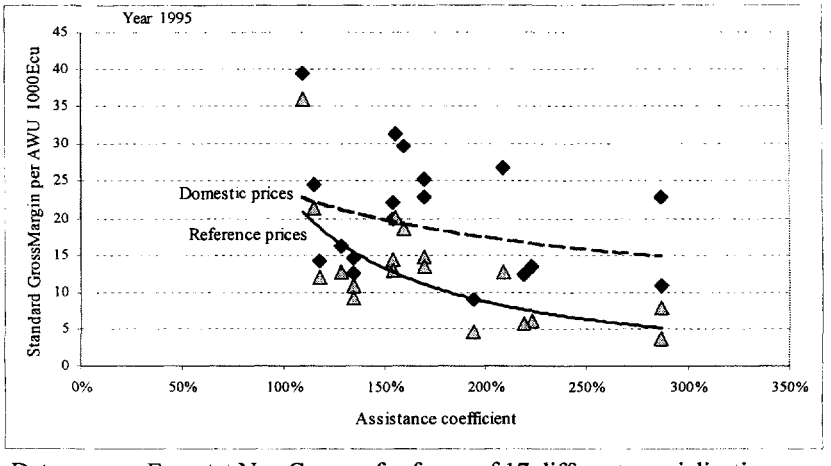
Higher price levels may have little or no impact on increasing the gross remuneration to farm labor. On the contrary, they may reduce the physical outflow of resources from farming, where income elasticity of demand is fairly low while the annual increase in farm yields per hectare is quite high. As a result, labor productivity declines, average farm costs increase, and structural adjustment is delayed. While in the short term income transfers are not a social cost for the society as a whole (they remain within the society: a cost for households is a gain for farmers), in the long term the same transfers remain a cost for households but are no longer a gain for farmers. They become a net deadweight loss for the society as a whole, which is saddled with a less efficient farm sector misallocating the available resources. There are clear losers – consumers and taxpayers, but no winners.

Is this negative interpretation of the likely effects of price support policy confirmed by empirical evidence? Long-term economic development is a very complex process in which national and local factors play a considerable role. However, some hints on the answer to these questions may be obtained by plotting the farm labor productivity (measured by the average standard gross margin per annual work unit, SGM/AWU) against an indicator of different levels of price support, e.g., the nominal assistance coefficient computed by OECD. The results of this exercise are shown in **Figure 4**, where the labor productivity SGM/AWU is estimated using both actual SGM and "reference" SGM computed at border prices (the OECD reference prices). The nominal assistance coefficient varies with commodity, and the points in **Figure 4** represent farms of 17 different specializations, such as cereals, vineyards, olives, dairy livestock, mixed crops and livestock, etc.

We expect a negative correlation between the reference productivity and the level of nominal assistance, and this is indeed observed in **Figure 4**. (nonlinear regression based on reference prices, R^2=0.6). On the other hand, we a priori expect a positive correlation between

the actual SGM/AWU and the level of assistance (price support), i.e., we expect that at least part of the huge transfers from consumers to producers ultimately materialize in higher labor productivity. This is not the case in **Figure 4**, where the nonlinear regression curve based on domestic prices has only a slight negative slope. Since the regression fit is very poor (R^2=0.1) and the slope coefficient is not significantly different from zero, we cannot argue that increased levels of price support generate lower levels of labor productivity. Yet we cannot prove the converse either. There is no empirical evidence that in the long run price support increases significantly the level of farm revenue per worker.

Figure 4. Long-Term Effects of Price Support Policy for EU-15 (1995 data)



Data source: Eurostat NewCronos, for farms of 17 different specializations.

Our results suggest that we must take into serious consideration the hypothesis that, in the long run, price distortions generated by price support policies result mainly in poor structural adjustment and in an inefficient agriculture. In other words, agricultural price support produces deadweight welfare losses for society as a whole.

Impact of CAP Structural Policies

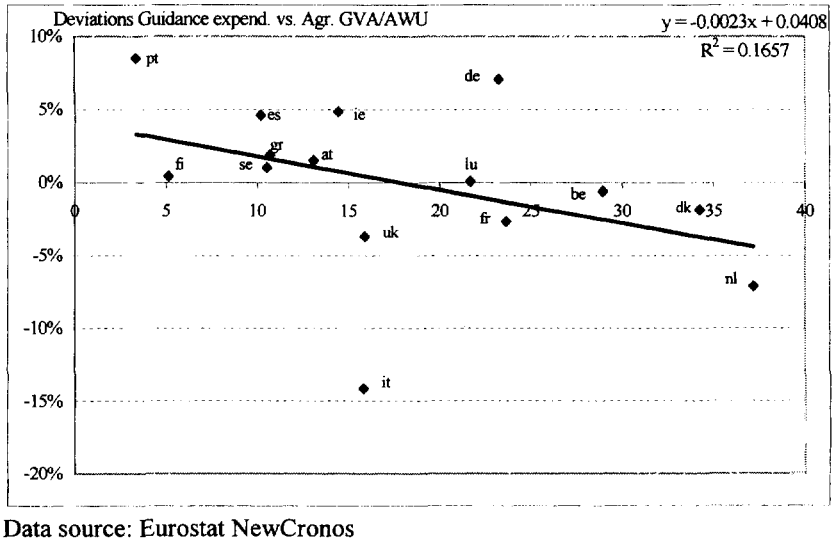
The EU structural policies in agriculture are implemented mainly through the FEOGA Guidance section. Their major objective is the improvement of agricultural structures in poorer countries, regions, and rural areas. It is appropriate to ask how structural funds are fulfilling their objective by redistributing resources from richer to poorer countries and thus increasing cohesion among EU member states.

If FEOGA Guidance funds earmarked for agriculture had been evenly allocated in proportion to the size of each nation's agricultural sector, then each country would have received its proper share of funds without any redistribution from rich to poor countries. By analyzing the deviations of the actual allocation of FEOGA Guidance funds from this "neutral" allocation, we can check if there is a bias in favor of the poorer countries. By plotting the deviations against an indicator of the average level of income in member countries (e.g., per capita GDP), we should be able to detect redistribution from rich to poor countries. By plotting the deviations against an

indicator of average agricultural income (e.g., gross value added in agriculture per average work unit), we should be able to detect biases in favor of the poorer agricultural people in the EU.

The second indicator measuring the impact of structural funds on income redistribution from agriculturally rich countries to agriculturally poorer countries is shown in **Figure 5**. The richer countries in the right-hand side of the chart generally have negative deviations from "neutral" allocation of agricultural aid, i.e., they receive less than their share of EU agricultural aid. The poorer countries in the left-hand side of the chart generally have positive deviations, which means that they receive more than their share of EU agricultural aid. The regression line has a negative slope, which suggests some redistribution from rich to poor countries. On the whole, however, FEOGA Guarantee funds paid in 1998 generated very limited income redistribution from richer to poorer countries: the slope coefficient is very small and the regression fit is quite poor. This general picture is obtained with both agricultural value added and per-capita GDP as measures of country wealth, although only the former is shown in **Figure 5**. The apparently poor redistributive performance is mainly due to two countries: Italy receiving much less than its share in EU agriculture and Germany receiving much more than its share. Omission of these two countries from the analysis produces a substantial improvement in correlation between the deviation and the agricultural income measure (R^2 increases from 0.17 to 0.56). We thus conclude that on the whole the redistributive impact of structural funds is positive and it acts to reduce disparities among the EU member countries. It can be improved, however, by reducing the Italian and German anomalies.

Figure 5. Impact of FEOGA Guidance Funds on Income Redistribution



Data source: Eurostat NewCronos

The ratio between funds committed by Brussels and the actual payments received by farmers in each country provides a measure of the administrative capacity for using the EU funds. By this measure, Italy is not utilizing efficiently the large flows of financial aid to farms. The ratio of actual payments to commitments for Italy is 45%, compared to the EU average of 85%. Italy should improve its administrative management of structural funds and thus reduce the amount of resources committed but not paid by Brussels.

EVALUATION OF STRUCTURAL EXPENDITURE

In Italy the evaluation of structural funds in agriculture is still not fully performed. Ex-ante evaluation of structural projects rarely takes into consideration the possibility of alternative uses of resources between agricultural and non-agricultural projects. Usually structural funds are already earmarked in Brussels or Rome to agricultural projects, and in project appraisal the choice is limited to alternative agricultural options. Cost-benefit analysis is rarely performed (for less than 4% of all EU projects). If such an analysis were correctly performed using shadow prices for agricultural output (which are closer to border prices than to domestic supported prices), the allocation of taxpayer money probably would be more efficient and the disguised unemployment in agriculture would be reduced through adoption of non-agricultural activities in rural areas.

The evaluation of structural funds should take into account and independently remunerate all positive externalities generated by agriculture. In this way, farmers will improve their agricultural productivity in social terms and get parallel income supports related to environmental or territorial parameters. Correct assessment of positive externalities remains an open problem. Tuscany is one of the most advanced Italian regions in regional planning. The largest share (about 50 million ECU in 1997) of its regional agricultural expenditure is devoted to agro-environmental measures and specifically the reduction of polluting inputs, mainly fertilizers. Farmers are paid to reduce fertilizer use and, hopefully, pollution in rural areas. However, it is impossible to control if farmers complied with their commitment to the regional administration. There is no scientific method to prove that the use of chemical fertilizers has been reduced, neither by chemical leaf analysis nor by soil analysis. A survey of Tuscany farmers conducted in 1998 by Lorenzo Bronzi of the University of Siena revealed that farmers themselves recognized the impossibility of meaningful controls. As a consequence, such agricultural expenditure may prove to be even more inefficient and inequitable than transfers through price support policies. In addition, it may result in a diffuse incentive for fraud. Notwithstanding the apparent difficulties, the assessment of positive externalities produced by farmers is necessary in order to separate the remuneration for agricultural work from remuneration for farm work invested in other environmental or social activities.

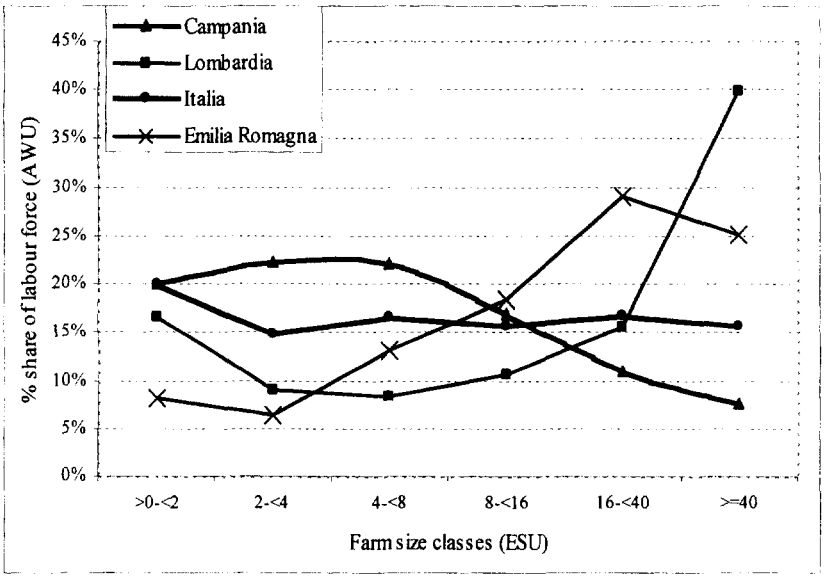
QUANTIFYING DISGUISED UNEMPLOYMENT

Why is Italian agricultural adjustment so slow despite the increasing amount of excess resources invested in agriculture and their low productivity? The main reason is lack of correct information. Neither policymakers nor farmers, and certainly not citizens in general have a clear perception of the misallocation of economic resources generated by the CAP. On the contrary, mass media go on repeating old slogans, such as "the number of farmers is diminishing, and it is in the interest of society to keep more people in farming." This may be true in some disadvantaged areas, but cannot be taken as a general rule to increase the support to agriculture as a whole.

It would be very useful to quantify the existing excess of resources in the sector in terms of some sensitive and clearly understandable parameters. Employment is probably the most politically understandable and sensitive indicator. The excess labor force, or disguised

unemployment maintained by the present price support policy should be quantified at the local level: the region, the province, or possibly a homogeneous agricultural area. The more detailed the analysis, preferably distinguishing among farm types within the same area, the better the results. Nevertheless, we suggest a possible approach to identifying excess labor in a cross-section of Italian regions, without differentiating between farm types.

Figure 6. Distribution of Labor Force by Farm Size

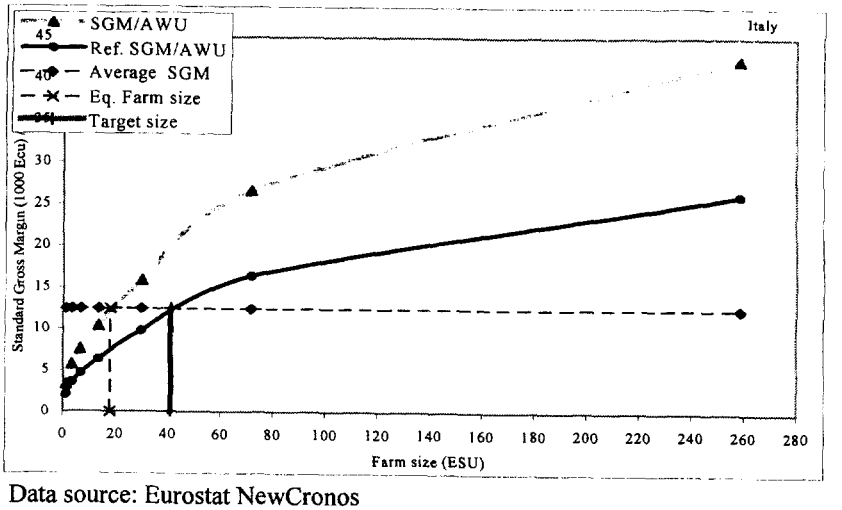


Data source: Eurostat NewCronos

The distribution of agricultural labor force varies among the Italian regions, as we see in **Figure 6**. In some rich agricultural regions, such as Lombardia or Emilia-Romagna, farm labor is mostly concentrated in viable farms of medium to large size. In other regions, such as Campania, the labor force is concentrated in non-viable small farms, where labor productivity is very low. Italy as a whole shows a fairly even distribution of labor among small, medium, and large farms. **Figure 7** shows the overall relationship for Italy between agricultural labor productivity and farm size, calculated both in terms of domestic prices and in terms of reference (border) prices, i.e., net of the existing government assistance to agriculture. The average labor productivity in Italy in 1997 was about 12,400 ECU/year and the estimated assistance coefficient was 162%. Consequently, the reference (border) value was approximately 7,600 ECU. In order to reach the present level of domestic labor productivity without government support, the average productivity of an annual work unit should increase from 7,600 ECU to 12,400 ECU, i.e., by 62%.

According to the present relationship between labor productivity and farm size shown in **Figure 12**, the average farm size should increase from present 18 ESU to 40 ESU (1 ESU = 1,200 ECU of Standard Gross Margin), i.e., farm sizes should at least double. This is obviously a long-term objective that can be reached by improving the technology and increasing the capital, not necessarily by doubling the cultivated area.

Figure 7. Gross Labor Productivity by Farm Size (1 ESU = 1,200 Ecu)



Data source: Eurostat NewCronos

The relationships between farm size and labor productivity vary across regions. A long-term objective of agricultural policy could be to formulate a targeted structural policy aimed to raise the local labor productivity to the national average. If this is the policy objective, the richer regions, such as Emilia-Romagna, Lombardia, and Trentino-Alto-Adige, should not require specific structural policies, as their "reference" labor productivity is already higher than the national average "domestic" labor productivity.

Preliminary computations at the regional level based on 1995 data indicate for Italy a minimum 30% excess farm labor force if present SGM should be reached in all regions by increased productivity in substitution to present levels of farm revenue support. On the other hand, if present "reference" labor productivity should be increased only up to the present national average labor productivity as a sufficient target, then the excess labor is estimated at about 25%.

In our opinion, estimates of physical parameters indicating the existing excess labor in agricultural regions, although often politically unpalatable, would be extremely useful in convincing policymakers to perform a better structural policy in the long-term interest of farmers and of society as a whole.

Part Three

Rural Development in Central and Eastern Europe

The Status of Rural Development in Central and Eastern Europe

Aladár Zichy

This paper traces some aspects of rural development in the accession countries (CEE-10) that do not emerge from statistical analyses. The information is drawn from a number of country studies focusing on rural development, most of them commissioned by FAO, from a number of SAPARD plans prepared by individual governments, various regional and country assessments done by the EU Commission, and the author's personal experience. The quantity, and in particular the quality, of information available on CEE-10 has improved immensely during the past decade, especially in the field of rural development. Although ethnic issues are still delicate at some places, research in general, and rural development research in particular, seems to be free everywhere, increasingly promoted and targeted. Rural development as a topic is becoming even fashionable in CEE-10. Thos is one of the basic achievements of transition in the region.

RURAL REGRESSION AND NORMALIZATION

Most rural regions in CEE-10 appear desolate and the rural population resigned. This is the heritage of the past. Pre-World War II conditions were characterized by unequal distribution of resources and poverty of the average rural dweller. This was followed by five years of war and then 45 years of communism. The communist regime made considerable investments in rural development. It built physical infrastructure (roads, water, and electricity supply), promoted general education, medical services, and culture. Yet something went wrong with this style of rural development. Communist policies aimed at central planning of production and distribution, leading to elimination of market forces. They nationalized and collectivized the resources, and encouraged concentration of the population in urban or at least larger rural centers. All this was deemed necessary to achieve centralization of power and control. The communist state remained virtuallthe only employer, and people were deprived of the opportunities a free market offers for gainful economic activities.

The totalitarian approach produced resistance, lack of motivation, and lack of interest of the people in common affairs, in profitability, and in the state of the environment. It led to loss of the work ethic and depopulation of rural areas. In no communist country did rural development work. In no country did it produce wealth, a clean countryside, and satisfaction with the system, basically because the people were not motivated and did not participate in development efforts. The failure of the communist rural development model should be a warning for the choice of future rural development approaches.

The radical decision made in 1989 to abandon the centrally planned economic system and to move to a market economy has held in CEE-10 despite loss of external markets, looming unemployment, and inflation, despite the vested interests of the former managerial class, and despite the fact that disbelief, fear, or nostalgia returned conservative-style governments to power in some countries. The political determination in favor of the reform had to be first translated into reform-oriented legislation. The major pieces of reform legislation that concern rural development include

- establishment of free markets (for labor, goods, capital and services including rules for competition;
- reintroduction of political, social, and economic subsidiarity, which implies decision making at the lowest possible level of competence (instead of referring decisions to higher levels);
- compensation for expropriation and other unjust measures;
- reversal of forced collectivization;
- privatization of public economic activities that can be managed privately without damaging public interests.

CEE-10 have achieved considerable progress in introducing the necessary legislation. The EU monitors the performance systematically and issues an annual avis (opinion) on which the associate countries are called to comment. Effective implementation and enforcement of reform laws is, of course, a different matter than the simple establishment of the legal framework. Implementation needs time and endurance. It requires resources and is subject to obstruction at times.

Decentralization of decision making and with it introduction of plurality, encouragement of self-initiative, reintroduction of responsibility, readiness for and capability of management, is being implemented at two levels: through empowering of local and regional administrations and through privatization of the economy. Local capacities cannot unfold unless municipalities, regional authorities, rural economic units are granted power of initiative and decision. The biggest impact of decentralization is observed in public administration: the empowerment of local municipalities. Local municipalities are generally independent within the framework of the national legal system. In many countries they have their own source of income. These are the institutions that are becoming the genuine motors of rural development

Restitution of nationalized property and elimination of former production cooperatives created a new sense of individualism crucial for economic and rural development. It is relatively safe to say that CEE-10 as a group have made an enormous progress in the past decade. About half the countries have managed by now to adopt what is considered essential for transition, while the other half are also on a clearly marked road to a market economy. The transition period has had an enormous impact on rural conditions in all CEE countries. In fact, it has totally changed the framework for rural development.

RURAL REALITY TODAY

In the five-level nomenclature of territorial units used by the EU (NUTS), large parts of CEE-10 are predominantly rural, the majority of land is significantly rural, and a smaller portion

of the land is predominantly urban. Rural development ought to be an important activity in CEE-10. It obviously was not in the past, because problems with depopulation, aging of populations, unemployment, poverty, pollution, inertia, isolation, social and physical infrastructures, lack of resources, etc., are enormous.

Following OECD methodology, the EU recommends watching the rural world through three sets of data: a) infrastructure, b) human resources, and c) the productive sector. The CEE countries are required by the EU to use this methodology for comparison with conditions in the EU and for the preparation of SAPARD plans. Large differences have become visible between EU-15 and CEE-10, and also among CEE-10, in terms of infrastructure, human resources, and productivity. What remains undetected are the many aspects that statistics is unable to measure correctly, such as quality of policy or legislation, motivation, or capacities of organization and management. The essence or degree of change, and the probability that change happens, have to be captured by other methods. With the above in mind, this paper reviews the three elements necessary for development in rural regions: concepts, institutions, and means for implementation of plans and programs.

Concepts

An underlying element to any socio-economic system is the political determination expressed in policies and strategies. Rural development as a policy focus is recent even in the Western world. The EU had its first rural development planning cycle in 1993-99. It was only in 1996, at the Cork Conference, that Europe defined its concept of sustainable agriculture and declared its credo on rural development. CEE-10 emerging from the central planning trauma just in 1990-91 could not have been expected to switch in full swing to rural development, let alone integrated rural development planning. At that time, these countries were laying the basis for civic society, struggling with unemployment, inflation, and denationalization. They had no energy, either intellectual or financial, to focus on anything else, let alone to articulate a comprehensive rural development policy.

Today, the CEE-10 governments, having opted for the EU candidate status in the second half of the decade, are busy trying to understand and assimilate the EU-15 approach to rural development. Some would argue that they accept the EU-15 rural development policy out of opportunism in expectation of EU aid. The author has the impression CEE-10 realize that their countryside and rural conditions have been badly neglected. Their concurrence is based primarily on genuine conviction, even if the financial assistance aspect is most welcome. Consequently, no significant policy gap and no difficulties of cooperation on the part of CEE-10 need to be feared in this area.

Institutions

Policies are implemented by institutions. The institutional differences between EU-15 and CEE-10 were enormous at the outset, given that the institutions in CEE-10 before 1990 were all geared toward completely different policies.

Governments are still not at ease with the subject of rural development subject. Some ignore it and do not give it a place on their agenda. Others cannot distinguish between rural development and regional development, and look to the EU for guidance. They get confused, because they see the giant bureaucracy in Brussels with a Directorate General for Regional Development (DG XIII) with relatively little resources, and do not see any institution for rural development, although the big money is going for that purpose – out of the pocket of the Directorate General for Agriculture (DG VI). Additionally, these governments have usually two or more ministries responsible for the various aspects of rural development, which complicates the fate of rural development due to difficulties in coordination. The entire issue is dominated, and has been for at least the past two years, by the EU accession process in which rural plays an important role.

Rural development institutions abound at the lower levels. The framework of this paper is insufficient to overview, classify, and qualify them in detail. These are all institutions with the vocation of doing something in one of the subsectors of rural development. We start with the institutions on the agricultural side, and then discuss briefly the institutions on the non-agricultural side.

Agricultural/rural extension services are considered a key to development. Both forms, private (for pay) and public (mostly gratis) exist. The latter form dominates as governments feel that the budgetary load of extension constitutes a lesser damage to the national economy than ignorant and disoriented agricultural entrepreneurs. Agricultural/rural extension services seem well established across CEE-10 by now. In most countries, this network received start-up support from PHARE; recurrent financing is national responsibility and a constant headache. The need for extension is still growing and it is practically unlimited for feasibility study/financial plan/business management types of services, while the need for marketing help has not even been discovered yet.

Agricultural research bodies have declined during the transition. Their traditional sponsors, the governments, have limited resources available, as they are under pressure to focus on general reconstruction. Additionally, they are being out-competed by commercial companies with more resources, more flexibility, and international links. In a desperate quest for income or at least cost-coverage, a number of research institutions venture into private competitive business, giving up longer term research as a survival tactic. Many of them fail to understand, however, that certain priorities have to be set, and that adjustment of their research program is a must. For both governments and research institutions, it has to be warmly recommended to elaborate a sensible longer-term strategy. In this context, basic options for denationalization have to be considered.

Rural financial institutions are extremely underdeveloped in CEE-10. Credit interest subsidies are the only facility generally institutionalized in most countries, and that at the state budget expense. Agricultural credit is weak. Even specialized agricultural banks prefer to lend to other sectors to avoid the high risk/low return combination inherent in the agricultural sector. Agricultural mortgage banks do not exist or do not function well because agricultural mortgaging as an institution is itself a problem: land administrations lack solidity, so the basic condition for mortgaging – security of collateral – is missing. However, even if land administrations

functioned reliably and expeditiously, land prices are so low in CEE-10 and land markets so inactive that only small amounts could be raised through land mortgaging. Despite these difficulties, there are signs of a slow start in mortgages in some places. What is really hopeless for the time being is long-term credit for agriculture. Life insurance was a dead business in socialist times, and CEE-10 lack the only natural source of funds for long-term loans.

Rural interest representing organizations are a very weak spot across the board. Legislation has been introduced in all CEE-10 allowing, and even promoting, interest representation. The general recognition of the importance of these organizations, the knowledge about their potential, their identity is at a low level. As a result, they are unable to raise the financial resources necessary for existence. It is not by chance that in the SAPARD program, where CEE-10 have the possibility for allocating funds to promotion of producers' associations, there is little interest in this opportunity.

On the non-agricultural side, the main rural development institutions include infrastructure development and maintenance, various rural services, SMEs, and of course the education sector as an engine for the development of human resources. Although still in reorientation and reorganization, the education sector is booming. Just as for infrastructure, the institutions are in place. Financing is short, but due to state backing, ultimately forthcoming. The most needy is the SME sector. PHARE and other donors have started catering to small entrepreneurs a few years back and this has resulted in a support network in some countries offering small-scale credit as well as business know-how to entrepreneurs and would-be-entrepreneurs. Trailing the donor initiatives, commercial banks have also discovered these lending opportunities. Chambers of commerce, chambers of economy, and chambers for arts and crafts usually cater to their specific interest representation. Unquestionably the most important non-agricultural institutions in rural development are the regional and local governments. Their role and situation will be discussed in a separate chapter.

Among the missing or still very deficient institutions one ought to mention those necessary to ensure enforcement of the veterinary, phytosanitary, food quality, and environmental regulations. However, it is unclear whether this belongs to rural development or perhaps more to other categories of accession concerns.

Means

What is certainly missing very much in the rural regions of CEE-10 is capital – capital in existing productive assets, capital for new investments, and human capital. The inherited facilities are run down, necessary investments have been postponed for many years, and new concepts have never been realized. The transition contributed to the crippling of economic and social infrastructures as installations waited for ownership change, new management structures, and the appearance of new markets. Disorientation hampered the development of fresh manpower, the slow-down or stoppage of production prevented income generation and consequently capital accumulation.

Fundamentally it needs to be accepted that, in terms of capital availability, even the best among CEE-10 are ages behind the EU pioneer nations. We have shown that the institutional structure in CEE-10 on the whole resembles the institutions of democratic and market-oriented countries, and these countries are ready to adopt EU concepts and policies. Where the gap in development and potential is very large indeed is in the means available for work: facilities and assets, know-how and funds.

THE EU CONNECTION

All CEE-10 have a clear common goal: joining Europe. Europe is the goal in a double sense: first, as a socio-economic model; second, as geopolitical and cultural home, as a rediscovered identity. Paired with sympathy and support from Europe, a partnership developed that represented three progressive challenges for CEE-10: (a) transition to democracy and market economy; (b) upgrading to the requirements of the EU single market; (c) adjustment of the economy, and particularly of the rural economy. The EU has been supportive in response to all three challenges, which have a major impact on rural development.

Transition to Democracy and Preparation for the Common Market

Since 1994, the EU has been fairly explicit in the preconditions for joining Europe:

- practicing the rules of human rights;
- governing on the basis of democratic principles;
- defending public security and safety;
- respecting the rules of the market and fair competition;
- guaranteeing quality of products and services;
- reshaping the countryside.

In order to provide guidance in the maze of market competition and safety rules, the Commission issued in 1995 a specific collection of EU community rules. This voluminous guide, known as the White Book, lists the common achievements (acquis communautaires) that need to be accepted and applied by all newcomers, whether they come from a market economy or a former centrally planned economy. Its implementation has started in all CEE-10 countries. Completion of some actions will take years. After the signature and ratification of association agreements, verbal and written consultations have been institutionalized, and these provided excellent guidance to CEE-10 in reforming their systems and hence laying the very foundation for rural development. The current "gear-up" stage in CEE-10 includes achieving the acquis (i.e., reaching the EU standards in terms of veterinary, phytosanitary and quality control, market regulations, environmental protection, safety monitoring and management) and restructuring the economy so as to be able to withstand the pressures of competition when customs borders between EU-15 and the accession countries fall.

In rural areas, agriculture, food processing and marketing, and the environment have to be tested for compatibility with the EU. They will not pass the test if rural infrastructure, the human resources, the background services, and even the scientific facilities do not support these

branches adequately. The tasks are complex. Technical assistance is needed, combined with strict management. The EU provides both, the former through the PHARE and TAIEX programs, the latter through the so-called screening exercises. CEE-10 generally showed neither the respect for nor the systematic application and enforcement of laws, rules, and standards approaching the level of enforcement required in the EU. It is not incidental that the two pre-accession programs (ISPA and SAPARD) cater for improvement of the technical infrastructure, including the ability to control animal, plant, food, and environmental quality hazards.

The first measures in this area started back in 1994 with PHARE financing. Progress has proven slow, however. None of the CEE-10 countries have completed preparations, and this may delay the otherwise feasible accession of more than one country. The EU-15 are not likely to compromise on these issues, because in a borderless single market their own safety would be put at risk when new members are not in full control.

Rural Development and Structural Adjustment

As part of accession efforts, CEE-10 also face a major program of structural adjustment, or as some define it, rural development. The proposed program, if implemented, will contribute to consolidating the basic market-oriented reforms, help the qualification efforts regarding the single market challenge, and force governments and administrations to start thinking in a more integrated way about agricultural and agro-industrial structural adjustment, the environment, and rural development. Support for these structural adjustment and rural development activities is provided by SAPARD (Special Accession Program for Agriculture and Rural Development), which is financed entirely by EAGGF (European Agricultural Guidance and Guarantee Fund) under the management of DG VI (Directorate General for Agriculture).

The SAPARD formula is simple: CEE-10 receive substantial grant aid if they prepare a seven year (2000-2006) agricultural and rural development plan acceptable to EU and establish a national institution capable of administering adjudication, disbursement, control and reporting on the funds according to EU practices. SAPARD is a hybrid program. The set of fifteen measures eligible for financing is a mixture of agricultural measures and non-agricultural rural development measures.

The first official deadline for the delivery of the seven-year plan was December 1999 and the original accreditation deadline for the paying agencies was September 2000. Not all countries submitted the plan in time. Some plans have been returned already twice for correction and completion. None has been accepted yet.

The SAPARD exercise has given significant insights into the capabilities, or lack thereof, of the CEE-10 governments. The plans submitted to Brussels were characterized by descriptive instead of analytical and diagnostic thinking. As a result, the strategy parts of the plans were weak. Most countries had difficulty in establishing and articulating priorities. Weaknesses became apparent in inter-institutional communications and teamwork. Finally, serious coordination difficulties emerged wherever rural development was not explicitly the responsibility of one ministry or directorate.

SAPARD is a vast exercise of continental scope. Apart from the projects it intends to support in CEE-10, SAPARD forces the countries to rethink their structural and rural development strategy; demands internal coordination and priority setting; helps harmonizing with EU principles, regulations, and usage; plugs CEE-10 into the EU planning and programming rhythm; promotes international exchange among CEE-10 and with EU-15; creates training opportunities for CEE-10 in EU bureaucratic matters. A highly useful obligation is the establishment of the Paying Agency. This is intended to introduce CEE-10 to the rigors of application of the EU regulations, incorporate financial and management audits into the CEE-10 administrative practice, and provide opportunity for timely preparation and training of future paying and market intervention agencies.

RURAL PROGRESS

So far, CEE-10 have been preoccupied with laying the conceptual, legal, administrative, economic, financial, and human foundations of a democratic society. Macro-economic categories like unemployment, inflation, denationalization, and deficits have monopolized the attention. Little time and energy have been left for other, secondary, issues, and particularly those requiring multidisciplinary coordination, like integrated rural development. The time has come to change this. But as progress is made with rural development in CEE-10, at least three fundamental issues should be kept in mind: (a) the fragmentation of land ownership produced by restitution and decollectivization; (b) motivation and participation of rural people; (c) access to markets. These three issues may well be the potholes on the road to the future.

Fragmentation of Land Ownership

Fragmentation of land holdings is one of the negative effects of the reform measures implemented during transition. Fragmentation has to be tackled as quickly as possible to avoid lasting damage to agricultural production. Several large-scale land consolidation programs are already at hand. Experience shows, however, that these programs are very difficult to prepare, extremely complicated, slow in implementation, and prohibitively costly. For the magnitude of the problem in most countries, these programs would certainly be the wrong response.

Instead of adopting formal land consolidation problems, it is recommended to encourage landowners to move and themselves identify solutions. These solutions could include voluntarily selling, granting, exchanging, purchasing of land, or a combination thereof. For a given period of time (say 2-3 years), landowners engaging in these actions would enjoy tax holidays (e.g., from property transfer tax) and exemptions from administrative fees or even from some selected administrative procedures. These targeted incentives will greatly facilitate ownership mobility. They will breathe life into the land market, especially if the fiscal and administrative measures last only for a limited time. The state will naturally forego financial revenues for that period, but this loss is likely to be a small percentage of the overall (and incalculable) macro-economic gains to the country. Such measures will eliminate the bulk of land fragmentation, and only then it may be justified to start thinking in terms of conventional land consolidation programs.

Motivation and Participation of People

The political explosion that shook CEE-10 a decade ago was rooted in popular determination. The force of the popular will was demonstrated. Individual motivation and the voluntary popular participation need to be provoked again if rural development is to succeed in CEE-10 in the future. Subsidiarity in politics, in the economy, and especially in public services is the key to both. CEE-10 ought to review their policies and practices as to the mandate and financial resources they give to local authorities, whose field of action is the closest to the citizens' daily life and their purview. Understanding, involvement, justice, and interest are elements that can and should be built into all measures affecting rural development.

Access to Markets

In the central command system, the peoples' motivation was strongly diminished by the fact that the only thing they were supposed to sell was their labor, and then only to the state. They would have hoped to achieve greater income by offering their products (containing elements of their inventions, work, organization, investments) to a range of buyers. But there was no market that could reward them for their efforts. Rural development increasingly may be running the risk of creating a somewhat similar situation these days in that rural inhabitants are getting excluded from the markets, but this time because of oversupply and over-competition.

It is high time to bring about an official turn in agricultural policy in favor of rural development. International donors typically cater to large-scale commercial agriculture. This sector employs at best 5% of the population. Most of the rural population is deprived of market opportunities, and yet more labor-intensive and environmentally friendly production methods could open the access to markets for the poorer strata of the population. The main enemies of rural development sit among the agricultural policymakers. It needs to be forcefully stated that local development potential in CEE-10 is suffocated because giant corporations monopolize the market with the support of national and international policymakers and the big capital. We need to discuss whether small and medium-sized producers can at all function profitably in this situation if they respect health and environmental regulations. Then we have to debate how to limit the output without offending basic human, economic, and competition rights.

The author is confident that the small rural producers can compete in everything – investments, product quality, and environmental sensitivity – with the big commercial units. He is equally convinced that environmental criteria can offer easy solutions for quantitative limitation of production. Coupling the number of animals with the land available for their production could also be a useful criterion. Instead of trying to provide people with the cheapest food using economies of scale, we should perhaps try to ensure that rural inhabitants get the opportunity to produce for and supply to the market. They will then earn their living – or at least part of it, perhaps in part-time – in dignity.

Critical Constraints to Rural Development in Central and Eastern Europe

Johan Swinnen
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The economic and institutional transformation process in CEE has severely affected the rural economy. While the impact on employment and activity in general and in rural areas has differed between countries, a significant decline in output and employment has followed the initial reforms. In some CEECs, such as Poland, recovery started soon after the initial economic decline and the overall economy has grown strongly since the mid-1990s, while unemployment has declined. In most CEECs, however, the rural economy is lagging behind in recovery and employment creation.

Rural development and the viability of rural areas depend on the willingness and ability of people to live and function there. This in turn depends on several factors, including income opportunities; the availability of infrastructure services (water, electricity, etc.), social services (education, health, etc.), and consumer goods and services; the quality of the environment (social milieu, access to recreational and cultural activities); or the proximity to other areas offering such services. This paper analyzes the critical constraints to rural development in CEE. The paper has three parts. In the first part we review and discuss the constraints to rural development and the weaknesses of the rural economies as they are identified by the countries themselves. In the second part we analyze the rural labor market in CEE and more specifically what is affecting the reallocation of labor previously employed in agriculture, the main rural employer. In the last part we discuss constraints on business development and creation based on detailed surveys in several rural CEE economies.

CONSTRAINTS IDENTIFIED BY THE ACCESSION COUNTRIES

All accession countries submitted SAPARD proposals to the European Commission in the spring of 2000. These proposals were intended to justify requests for financial support for structural adjustment and rural development and they contained, among other things, a list of weaknesses and strengths of the rural economy and of the agricultural and agri-food sectors as perceived by the authorities of the respective countries. Below we summarize the main weaknesses that emerge from the SAPARD proposal of the accession candidates.

Weaknesses of the Rural Economies

- Incomes are low, especially in agriculture.
- The population structure is problematic and has worsened during the transition due to out-migration of young people to urban areas resulting in an aging rural population.
- Infrastructure is generally identified as "poor;" specific problems include difficult access to information and communication facilities and the poor state of the roads.
- The education level is said to be low in general. Typically the average education level in rural areas is below the national average. It is too closely linked to agriculture, and one of the specific problems is lack of training for starting or managing a business, including private farming.
- Unemployment is high in rural areas, and is often of a structural nature.
- Capital for investment and for start-up of firms is lacking.

Weaknesses of Agriculture

- Farm structure: small farms, with fragmented plots.
- The land market is not functioning well, although the causes seem to vary. In some countries the land reform process is not finished, leading to uncertainty in property rights. In other countries basic legislation for land transactions is missing or not implemented.
- Access to credit is a widespread problem for CEE farms. Interestingly, the two countries that have invested most budget resources for subsidizing loans and credit for farmers (Poland and Romania) have not solved this problem; and the only country where high farm indebtedness is mentioned is the Czech Republic, where successive governments have allowed farms to continue operating with impunity despite large debts.
- Farm technology is generally characterized as outdated, obsolete, in serious need of modernization and investment, and under-mechanized.
- Market access is identified as a problem, with specific references to the absence of institutions linking upstream and downstream activities, such as cooperatives, associations, or market chain organizations.

Other weaknesses identified in SAPARD proposals include problematic access to services and inputs; low quality of products; low productivity and yields; and poor skills of (potential individual) farmers in a market economy.

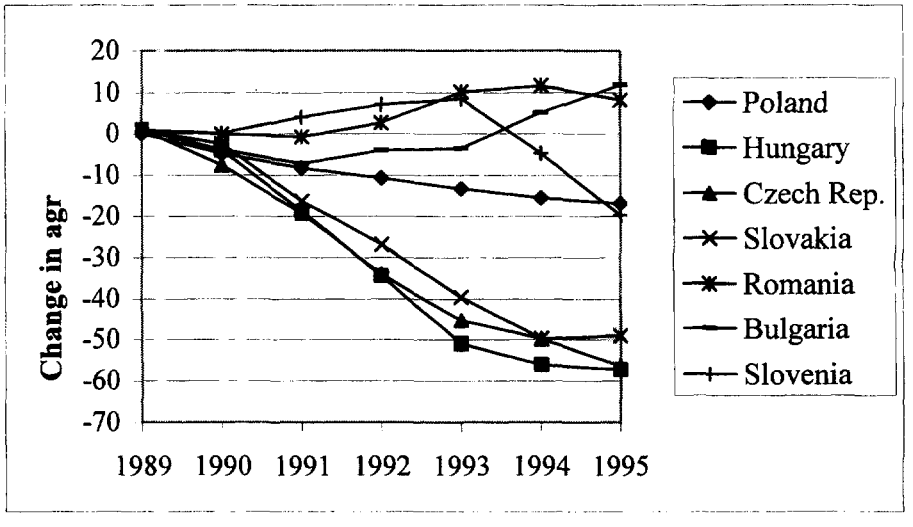
Weaknesses of the Agri-Food Sector

- Excess capacity of the companies in the agri-food chain as a whole.
- A need for consolidation in the sector, with too many and fragmented plants working at sub-optimal scale.
- Equipment and technology are outdated.
- Low level of investment.

CONSTRAINTS TO REALLOCATION OF RURAL LABOR

One of the most important objectives of rural development should be to improve the welfare of people in rural areas. The rural labor market and the adjustments taking place in rural labor allocation are therefore of special concern. Agriculture was the main employer in most rural areas of CEE. In general, while labor in most sectors of the economy was inefficiently employed, many studies suggest that this was especially the case in agriculture. This implies that the shift to a more efficient distribution of labor in the economy would coincide with a reallocation of agricultural labor and, more specifically, an outflow of labor from agriculture to other sectors. It is unlikely that sustainable rural development can occur unless such reallocation of labor takes place. However, transition is not occurring at once and the transition process itself is associated with major disruptions in various sectors of the economy. Therefore, the reallocation of agricultural labor may take some time.

Figure 1: Change in Agricultural Labor Use in CEECs (1989-1995)



Source: Swinnen et al.

Still, one can observe remarkable differences in labor reallocation among CEECs and even within them (**Figure 1** and **Table 1**). During the first five years of transition, labor employment in agriculture declined dramatically (by around 50%) in the Czech Republic, Slovakia, and Hungary. In contrast, agricultural employment increased during the first five years of transition in countries such as Romania. An important difference can be observed among the Baltic countries. Estonia experienced a dramatic decline in agricultural labor, while Latvia experienced only a moderate fall in agricultural employment and Lithuania saw a significant increase of labor use in agriculture. Poland and Slovenia are "in the middle" as labor use in agriculture declined by 15-20%. However, that the average numbers for Poland hide important regional differences in labor adjustment: labor outflow was strong in the northern and north-western regions, while much less in the eastern and southern regions (Dries and Swinnen).

A remarkable observation from comparing the evolution of unemployment, GDP, GAO and agricultural employment in Poland is the fact that, in this country, the reallocation of

agricultural labor to the rest of the economy is not reacting to improvements in the general economy. Since 1992 the general economy has been characterized by strong growth (average of 5.3 % annually between 1992 and 1998), and, with two years delay, by an impressive decline in unemployment: from 16.5% in 1994 to 10% in 1998. However, despite the fact that the output in agriculture has not followed this growth path (GAO declined by 2% between 1993 and 1998), there has been no net outflow of labor from agriculture to the rest of the economy since 1994.

Table 1. Unemployment Rate, Change in Agricultural Employment, and Change in GDP and GAO[1]

	Unemployment	Ag employment	GDP			GAO		
	1998, %	Δ89-95	Δ89-98	Δ89-93	Δ93-98	Δ89-98	Δ89-93	Δ93-98
Albania	16.9	-3	-11	-34	23	51	12	39
Bulgaria	16	12	-32	-24	-8	-39	-36	-2
Czech Rep.	6.1	-56	-11	-22	11	-30	-24	-7
Estonia	5	-44	-22	-37	15	-56	-42	-14
Hungary	9.5	-57	-8	-21	13	-29	-35	7
Latvia	9.2	-8	-42	-49	7	-64	-43	-21
Lithuania	6.9	12	-52	-60	8	-37	-35	-3
Poland	10	-17	18	-12	31	-13	-10	-2
Romania	10.3	24	-22	-24	2	-5	-6	2
Slovakia	15.6	-49	0	-25	25	-20	-30	10
Slovenia	14.6	-20	4	-16	20	10	-3	12

[1] Unemployment rate is measured in actual numbers, while agricultural employment, GDP, and GAO are changes for the specified periods.
Source: OECD; Swinnen et al.

The question is obviously, why not? What is constraining this reallocation of rural labor, which is so important for rural development, for labor productivity growth, and for the restructuring of agriculture? In the rest of this section we discuss the causes of the differences in labor adjustment, and what has happened to labor that has left agriculture.

What Has Caused the Differences in Labor Adjustment?

In general one can conclude that the different patterns of labor adjustment are due to a combination of initial conditions (i.e., pre-reform characteristics) and differences in reform policies. A decline in agricultural terms of trade, caused by price and trade liberalization and the cut in consumer and producer subsidies, reduced profitability and hence the demand for labor in agriculture in all CEECs. This reduction in demand was offset by an increase in labor demand due to increasing prices for other inputs vis-à-vis wages. The latter caused a substitution of other inputs by labor (Macours and Swinnen). This effect was particularly strong in Romania and contributed there to the increase in agricultural employment during transition. In the Czech Republic, Slovakia, Hungary, Poland, and Slovenia stronger liberalization of the economy reduced constraints for inter-sectoral labor mobility. In contrast, overall liberalization in Romania and Bulgaria moved much more slowly, constraining inter-sectoral labor flows.

Furthermore, in low income countries such as Romania, agriculture and household farming provided food and social security, in contrast to countries such as the Czech Republic, Slovakia, and Hungary, where the state provides more extensive social security, unemployment

benefits, and pensions. This household security limits the outflow of labor from agriculture in the poorer countries where individual and household farms have developed more extensively.

Farm restructuring strongly affected labor adjustments. The outflow of labor is strongest in countries such as Czech Republic, Slovakia, and Hungary where the large-scale farms have remained dominant in agriculture. The shift to individual farms is much stronger in transition countries such as Romania, countries which experienced an inflow or preservation of the labor force in agriculture during the first years of transition. The break-up of the collective and state farms in labor-intensive agricultural production systems in these countries induced strong gains in labor efficiency (Mathijs and Swinnen). These efficiency gains have reduced the outflow of labor from agriculture. In contrast, reformed collective and state farms with independent company management have laid off large numbers of workers, beyond those that voluntarily left the farms for other employment. The difference between the Czech Republic, Slovakia, and Hungary versus Poland and Slovenia can be attributed to this factor. Both Poland and Slovenia are characterized by a dominance of small family farms, even pre-reform. These structures have reduced the outflow of labor.

In Poland, a strong correlation is observed between the regional outflow of labor from agriculture and the importance of state farms in the region. In other words, family labor on small private farms has mostly stayed in agriculture, while many workers employed on the large former state farms have been laid-off. The increase of agricultural employment in some regions (such as the south-east) is due to workers laid-off in other sectors, such as heavy industry, returning to small farms with which they have a family-connection (Leiprecht). Hence, the statement that agriculture is playing a "buffer role" in Poland is only valid for the small family farms and does not apply to the transformed state farms. Finally, it should be mentioned that the statistical information may hide the fact that many people registered as "employed in agriculture" work part-time in other sectors. For example, according to estimates of the Institute of Rural Development and Agriculture in Warsaw, 60% of rural inhabitants are "connected to a farm," but for only 20% of them it is their main occupation, and for only 10% their only source of income (Stzanderska and Piotrowski).

An important constraint on labor moving to other sectors is the low level of education. As much as 43% of agricultural employees in Poland have only elementary and lower education (compared to 16% in construction, 13% in industry, and 8% in services) and 33% have basic vocational education. Leiprecht using labor survey data finds a strong relationship between the level of education and the likelihood of finding another job in the service sector or in industry. In particular those with the lowest level of education are handicapped in their attempts to find alternative jobs.

What Has Happened to Labor that Left Agriculture?

Little information is available on this, but what is available suggests that it varies significantly between countries and regions. For example, in the Czech Republic, the number of farm workers declined from 533,000 (of which 150,000 worked in non-agricultural activities) in 1989 to 201,000 (of which 30,000 worked in non-agricultural activities) in 1997. The total

decline in farm workers was 332,000, of which 120,000 (approximately 30%) was due to separation of non-agricultural activities from farms (i.e., a "statistical effect"). The "real" adjustment occurred as follows: about half of the 212,000 farm workers involved in agricultural activities retired, about 45% transferred to other sectors (75% of them moving to urban areas and 25% remaining in rural areas), and only about 5% became unemployed (OECD). The remarkably low level of agricultural unemployment is related to the low overall level of unemployment during the early years of transition in the Czech Republic, a level which has grown significantly since 1996 and which is now causing higher unemployment in rural areas as well.

The adjustments in Slovakia are similar, and have the same order of magnitude, although a larger share of workers became unemployed (10-12%), with Slovakia's level of unemployment considerably higher than that of the Czech Republic: it rose quickly to over 10% in the early 1990s and has stayed there.

In Poland, unemployment has gone up dramatically during the first years of transition. Many of the laid-off farm workers were unable to find alternative employment in the first years of transition. The importance of the "push factor" (lay-offs of former state farm workers) in determining labor adjustments in Polish rural areas is consistent with the fact that, with the exception of the south, most labor outflow occurred in regions where unemployment rates are higher than in the regions with less outflow.

There is an interesting question then why workers formerly employed on state farms in Poland stayed unemployed rather than taking up self-employment as individual farmers, as was the case with workers laid off in industries who returned to farming in the south-eastern regions, or with labor who stayed "under-employed" on family farms. The reason has probably to do with capital in various forms: human capital, social capital, and access to financial and physical capital. Former state farm workers may lack both the practical and managerial experience (specialized tasks in state farms) to start up individual farming. Furthermore, physical capital (land and machinery), needed for the exploitation of a farm needs either to be leased or bought. The uncertainty of future returns due to the relative price shocks and the investments necessary for the start-up of a farm may make the difference between unemployment benefits and expected agricultural earnings smaller than in the case where you already have a farm and thus no supplemental investments are needed. Having a family farm thus substantially reduces costs for taking up or continuing farming and decrease the probability of agricultural labor outflow to unemployment. Social capital plays a role as industrial labor returning to agriculture was mostly family-connected with the family farms and therefore had easier access to capital and land needed for farming.

CONSTRAINTS ON RURAL ENTREPRENEURS AND BUSINESS DEVELOPMENT

Another way of identifying critical constraints for rural development is to look for factors that influence the establishment and growth of enterprises, both within and outside agriculture. We refer to this process as enterprise development. Central to a study of enterprise development are the entrepreneur and his or her constraints. Entrepreneurs evolve following a learning process about their abilities to manage a business over time as they become better informed about their true knowledge of their abilities. The acquisition of entrepreneurial skills by entrepreneurs

(general abilities, new technologies, location, market demand, and ways of doing business) varies over the life cycle of the firm and across different industries. For example, individuals face liquidity constraints and thus have to accumulate assets in order to start viable businesses. As a result, while young entrepreneurs show the highest willingness to start up a business, they are often constrained by a lack of experience and start up capital (Jovanovic; Evans and Jovanovic).

The emergence of entrepreneurship is quite different in economies in transition compared to well-developed market economies. Transition has stimulated more frequent job changes and self-employment due to overall economic and institutional deregulation, but may also push people into self-employment due to increased unemployment (particularly in rural areas), and reduced provisions of social services. Institutional reform, opened up opportunities for private and individual initiative, but in many cases also hindered enterprise development, e.g., as a result of the institutional vacuum created by transition.

In order to identify the most important constraints hindering business startup and development, we report the results of several studies carried out using firm-level survey data. These results focus on entrepreneurship in agriculture as measured by three attributes of enterprise development: (a) the *startup* of new enterprises, as measured by the shift towards individual farming in Romania (Rizov et al.); (b) the *efficiency* of enterprises, as measured by the technical efficiency of private grain and dairy farms in Bulgaria and Hungary (Mathijs and Vranken); (c) the *commercial behavior* of enterprises, as measured by the share of output sold by private dairy farmers in Hungary (Bojnec et al.). Generally, four sets of factors are found to play a role in enterprise development: (1) human capital; (2) physical capital; (3) market institutions; and (4) the policy environment. While these studies all focus on farming enterprises, many of the conclusions are more generally valid and some results are specific to non-farming activities as well.

Human Capital

Education has a positive effect on enterprise development. All studies show that better education increases the probability of a business start-up by the farmer and on the efficiency of the farm. The impact of education is nonlinear. Beyond a certain level of education individuals tend to leave agriculture and choose for non-agricultural employment.

Age is negatively correlated with enterprise development. This finding confirms the general wisdom that younger people are more likely to engage in more risky and entrepreneurial activities. In a static environment, older people are likely to have more experience. However in transition economies, previous experience on collective and state farms is less relevant to starting individual enterprises. The effect of age on enterprise development, efficiency, and commercialization is nonlinear. The relationship between age and commercialization in Hungarian dairy farms is effectively U-shaped. Commercialization decreases with age down to retirement age (65). However, after retirement several households increase their private business activities and their commercial output. This is consistent with arguments by Fuchs that individuals tend to expand their entrepreneurial activities after retirement.

Physical Capital and Finance

The impact of availability of physical capital on enterprise development depends on the stage of market development. In Romania, where markets are still ill developed, all physical capital and finance variables, such as ownership of machinery, buildings and livestock, have a positive and statistically highly significant impact on the likelihood that a household will start up an individual farm. This is consistent with the hypothesis that with imperfect capital markets direct access to farm assets is a key factor in stimulating individual farming. However, in Hungary, ownership of machinery, buildings, or livestock did not have a significant impact on the degree of commercialization of dairy farms. This may reflect the fact that markets have developed further in Hungary than in Romania. In particular, several institutions that have emerged in Hungary contribute to reduce capital constraints, such as leasing and vertical contracting. Hence initial ownership of assets is no longer a major constraint on enterprise development.

A further result from the Romanian study is that access to alternative sources of income within the household, such as wages and pensions, positively influences the decision to farm individually. The external income provides income smoothing and insurance, and an external source of capital large enough to allow the household to overcome some required hurdle level for the initiation of individual farming.

In general, these results provide strong support for the hypothesis that capital constraints play an important role in limiting the development of individual farming, especially in those countries where rural finance and credit markets are absent or functioning imperfectly.

Market Institutions

The emergence of vertical coordination institutions has facilitated enterprise development by substituting for market imperfections. In particular, two vertical coordination strategies have had a significant and positive influence on enterprise development.

First, contracting with upstream processors has had a positive and significant effect on technical efficiency both in Bulgaria and Hungary. Contracts facilitate entrepreneurs' access to credit, inputs, and new technology, but their prime role is to relieve cash flow constraints and uncertainty, e.g., by guaranteeing prompt payment (Gow and Swinnen). Second, membership in a cooperative or a company generally increases efficiency and commercialization as it facilitates the access of farmers to marketing opportunities, information, and strategic inputs, such as machinery. This suggests that, at least in some cases, former production cooperatives are effectively taking up new roles in a market environment, e.g., as service cooperatives. Sedik et al. stress the importance of the presence of reliable channels of supply and sales to reduce the amount of resources devoted to search and to deal with the uncertainty associated with institutional transformation.

Table 2 provides additional evidence that marketing problems play a more important role in Hungary than factor market problems. Farmers were asked to assess the constraints to increasing their income opportunities. Most mentioned low profitability in the form of too low

producer prices as their most important constraint. However, about one third of the Hungarian farmers listed "problems selling products" and a quarter listed "payment delays" as important problems. Access to labor or land seemed to be considerably less of a problem.

Table 2. Constraints to Expanding Income Opportunities: Percent of Respondents in Hungary Identifying the Constraint as Important

	Subsample of dairy farmers	Full sample
Producer prices are too low	72	68
Policy problems	41	31
Cannot sell product	32	35
Cannot obtain loan	31	27
Buyers pay with delay	25	24
Cannot find labor	17	15
Cannot obtain land	15	13

Source: Bojnec et al.

Delayed payments are not only an important constraint for farms, but for many companies in general. In a recent survey of food processing companies late payments was identified as the single most important obstacle to company growth in the Czech Republic and Slovenia, and it ranked third out of 12 possible causes in Hungary (**Table 3**). In Hungary, macro-economic factors, such as high interest rates and inflation, were considered the most serious concern, which again may reflect the relatively advanced stage of market institutional development in this country.

Table 3. Importance of Various Barriers to Growth for Food Processors

Type of barrier	Average survey scores (1 – 4)		
	Czech Republic	Hungary	Slovenia
Exchange rate instability	2.16	2.52	2.04
Inflation	2.41	3.17	2.69
The level of interest rates	3.19	3.15	2.77
Access to credit	2.45	2.43	2.38
Activities of organized crime and gangsters	1.58	2.03	1.73
Government price controls	1.74	1.57	2.67
Other government intervention	1.25	2.62	2.67
Your company having high levels of debt	2.48	2.02	2.23
Late payment by customers	**3.44**	**2.70**	**3.54**
Enforcement of bankruptcy laws	2.10	1.29	2.21
Activities of state monopolies	1.90	1.91	1.83
Problems with privatization	1.61	1.49	0.94

Note: 1 describes "no problem," 4 "a major barrier."
Source: Gorton, Buckwell, and Davidova.

Environment

The environment in which enterprises operate has an important impact on their development. Differences in environment can be due to differences in physical attributes, institutions, and policy. The policy environment obviously played an important role in transition and for rural business development. In several countries, privatization and transformation regulations have complicated business startups or the decollectivization of large farms.

Particularly the costs related to withdrawing assets from state or collective farms are determined by policy and can play a crucial role in enterprise development (Mathijs and Swinnen).

Land reform and privatization continue to affect investment and, more generally, business development. For example, the Romanian study showed that security of land property rights had an important positive impact on the emergence of individual farms. This is an important constraint on rural development as the implementation of land reforms has been slow in several CEECs, including Romania, creating uncertainty of property rights. Several other studies also confirm that clarity and security of property rights is a key for business development and investment. Business surveys in five CEECs and FSU countries (Johnson) show that weak property rights limit reinvestment of profits in startup firms, while access to credit does not appear to explain differences in investments.

Policy problems are also mentioned as a major problem for growth and development both by the Hungarian farms and by food companies in the Czech Republic, Hungary, and Slovenia. The policy environment affected firms in several ways, such as by interfering with market prices, through macro-economic policies, and by how the institutional reforms and macro-economic policies have affected the climate for investment and for the inflow of foreign direct investment. The latter has played an important role in reducing liquidity constraints and providing inputs, technology, and know-how throughout the food chain, as well as in other economic sectors.

There are important regional differences in the start up and the growth of rural business, reflecting both cultural (social capital) and physical (location and infrastructure) differences. For example, the commercialization of Hungarian dairy farmers significantly differs by region. Farms located near Budapest tend to be less commercialized, reflecting the availability of better employment and income opportunities from non-agricultural activities. In Romania, more new farms were started up in areas that already had a tradition of private farming before 1989, that is, where institutions and a culture conducive to private farming were already in place. Better access to physical infrastructure, such as roads, transportation facilities, etc., is correlated with more enterprise startups in Romanian agriculture.

Critical Constraints and Market Development

Factors constraining enterprise development differ according to the stage of market development. In Hungary, which is in a more advanced stage of market development than Romania, capital constraints and access to inputs and marketing channels are reduced by a variety of new institutional arrangements. For example, contracts with upstream processors facilitate the adoption of technology and the access to credits. Innovative business arrangements and vertical coordination, often connected to foreign direct investment, have substituted for imperfect and missing markets, which are characteristic for transition economies.

The analysis of Hungarian dairy farmers reveals that most of them have commercial activities and that both entrepreneurial ability and marketing constraints play a bigger role than capital constraints in the off-farm commercialization of dairy products. Successful dairy farmers are younger, use external advice services, and either use cooperatives or integrate with processors to solve product marketing problems. These results suggest that a prime role for

policy support is improving human capital, extension services and marketing infrastructure, rather than providing cheap credit. Still, the situation is not yet perfect and access to credit remains an important concern in all countries (see also the results of the food company survey in **Table 2**).

In rural economies less advanced on the way to a market system, such as rural Romania, human capital and marketing problems also play an important role in enterprise development, but capital problems are severe and critical. Imperfect land and capital markets are a very important constraint limiting the development of enterprises and hence rural development. Direct access to capital goods (machinery, buildings, and livestock) and secure land tenure have a significant positive effect on the shift to individual farming. Furthermore, access to external income sources, such as pensions and wages, stimulates enterprise development as it provides income smoothing, insurance and a capital source for investment and working capital. Finally, the positive and significant effect of household size on the use of land for individual farming in Romania suggests the presence of considerable labor market constraints hindering individuals to engage in off-farm activities.

In general, these results suggest that removing important constraints by improving the functioning of factor markets should be the priority of government to stimulate private small-scale entrepreneurship in addition to investment in human capital.

CONCLUSIONS AND IMPLICATIONS

This paper has reviewed three sets of sources of information and insights on constraints to rural development and the viability of rural areas in CEE. Several conclusions and implications for policies and pre-accession support can be drawn.

Insufficient *education and skills* not only constrain enterprise management improvements and adjustments to a market economy, but also the emergence of new rural businesses, as well as the opportunity of unemployed workers (and underemployed labor on farms) to take up alternative jobs. Investment in education would therefore contribute to several objectives, consistent with the overall objective of rural development, such as the improvement of productivity of existing enterprises, the growth of new enterprises, reduction of unemployment, and a shift of underemployed farm labor to other activities, thereby increasing labor productivity of the remaining farms. Finally, investments to improve education could also reduce the incentives for young people to leave the rural areas.

Problems with accessing *credit and finance* constrain productivity, employment, and investment in rural areas. These constraints themselves result from a combination of problems inherent to the transition process, general market imperfections, low profitability, and imperfect property rights (Swinnen and Gow). Empirical evidence suggests that, while external factors are usually indicated as the main factors limiting access to capital, internal factors may be just as or even more important. In other words, it is one thing to claim that interest rates are too high and no credit is available for enterprises used to getting zero interest credit and facing soft budget constraints, and another to be able to repay loans at market interest rates with hard budget constraints. Another factor is that weak and unclear property rights are a key constraint to

lending by banks or other financial institutions, and to investments of earnings. Here, the policy implications are obvious: focus on reducing the property rights problems.

In terms of investment assistance, government rural loan guarantee programs have been quite successful in some CEECs, and some not. Programs that use strict criteria and careful guaranteeing have typically taken longer to get established and to have a significant impact, but have turned out to be sustainable and have a much more positive impact on the medium and long run. This in contrast to some countries where lax criteria have been applied and which consequently have resulted in major defaults and sometimes a collapse of the system itself.

Often, the main immediate constraints on business activities concern short-to-medium-term capital, which is usually provided through forward contracts or informal lending also in market economies. Solutions for these problems should be sought in the emergence of institutional innovations such as contracting between suppliers and processors, and leasing, not only of land but also of equipment, machines, etc. These institutional innovations have already been quite successful in the most advanced CEECs. Policy implications here are to focus on the legislation and regulations that are required for such institutional innovations, such as leasing, to have a legal basis and an appropriate regulatory framework. A final comment here is that foreign direct investment has played an important role and that, from a policy perspective, general economic and institutional reforms which contribute to the inflow of foreign direct investment importantly contribute to reducing these constraints.

Third, a poor *rural infrastructure* is widely mentioned as a constraint. There are several aspects to this. One is the infrastructure needed for business development, another is infrastructure for human capital development (education, health, etc.), and another is infrastructure contributing to the cultural and environmental quality of rural life. Obviously all three are important for the viability of rural areas, and some are mutually reinforcing (e.g.. education).

Fourth, low *incomes* are mentioned as a key weakness of rural areas, often related to the decline of agriculture. In general, the best solution, and the only sustainable solution, is to focus on increasing the productivity of the rural enterprises, including the farms. This needs to be done by reducing capital constraints, improving human capital, investment in infrastructure (see above for all these) and continuing privatization where still needed. The efficiency analyses by Mathijs and Vranken show huge differences in efficiency between the farms within a country. In Bulgaria, the average efficiency level of all the farms is less than half the efficiency level of the best farms. This implies that improvements in management can have a major impact on the average productivity level of the agricultural sector, and hence on the profitability and incomes of these farms.

In general, rural development can only be sustainable if it based on economic activities that are profitable in a market economy and on increases in productivity and improved management. Countries that have supported unproductive and poorly structured farms and other rural companies by subsidizing credits, raising import tariffs, etc., and by using privatization procedures that limited restructuring and foreign capital inflows are likely to have created more constraints for rural development, instead of reducing them.

Finally, sustainable rural development does not (necessarily) imply the continuation of all economic activities in the same regions as they existed prior to 1989. While structural changes in the location of activities may occur as part of general development processes, they are especially relevant in transition countries. After all, the pre-reform situation was highly distorted, not only in its output structure but also in its location of industries and economic activities. Economic activities, including farming, were sometimes located in regions that were not suitable for these activities, causing environmental damage and socially wasteful and inefficient use of resources. As the introduction of better incentive structures leads to the reduction of certain activities in these regions, this may have a positive effect for the environment and the welfare of the country as a whole.

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The Non-Agricultural Rural Sector in Central and Eastern Europe

Junior Davis
Douglas Pearce

During the central planning era, rural development in Central and Eastern Europe (CEE) was frequently associated with agricultural development. Recently, opinion has begun to move away from this position. Attention is now focusing on the role of the non-farm sector in the context of rural development because of this sector's potential for absorbing excess labor from agriculture, alleviating problems caused by urban-rural migration, contributing to income growth, and promoting a more equitable distribution of income. At the beginning of the transformation process in transition countries, economic policies focused mainly on macroeconomic problems, and the increasing income disparity between rural and urban regions was ignored. We now know that the increasing inter-regional divergence in the transition economies is one of the major transformation problems. This is one of the reasons why the World Bank, OECD, and the EU have formulated special rural development strategies.

In most transition countries a sizeable part of the population still lives in rural areas. Overall, agriculture's share of employment in some transition economies has increased since 1989 due to the voluntary return of discharged urban workers of rural origin and the agricultural sector's role as an employment buffer. However, the agricultural sector is failing to provide a decent source of livelihood for its workforce. The rural labor force cannot be productively absorbed in the agricultural sector and poverty is growing. Recent studies on the rural situation in CEE (Pearce and Davis; Breitschopf and Schrieder; Heidhues et al.) identified a number of factors shared by the CEECs that contribute to a sense of alienation among the rural population and to lack of rural entrepreneurship:

- Rural areas suffer from unemployment (direct or hidden), low incomes, and lack of economic opportunity.
- Levels of human capital, in terms of education and skills, are dramatically lower than in urban areas.
- Health and other social services are not adequate.
- Rural infrastructure, including roads, telecommunications, water, and waste management, is in need of upgrading.
- Lack of access to suitable rural finance and credit facilities for small- to medium-sized enterprises (SMEs).
- Inadequate support for business in the form of information and mutual organization.

CHARACTERISTICS OF THE NON-FARM RURAL ECONOMY

The non-farm rural economy (NFRE) is defined as being all those activities associated with wage work or self-employment in income generating activities that are not agricultural but located in rural areas (Lanjouw). Non-farm activities may include manufacturing (i.e., agro-processing) and be accumulative (e.g., setting up a small business), adaptive (switching from cash crop cultivation to commodity trading in response to drought, coping through non-agricultural wage labor or sale of household assets as an immediate response to a shock), or comprise a survival strategy as a response to a livelihood shock. NFRE is not homogenous. It is essentially heterogeneous, incorporating self-employment, micro and small/medium-sized enterprises (SMEs), traders, and migration. The NFRE sector incorporates jobs that require significant access to assets, whether education or credit, and self-employed activities, such as roadside hawking of commodities, which may have low entry barriers (or none at all) and low asset requirements.

The expansion of NFRE and diversification of income are desirable policy objectives because they give individuals and households more options to improve their livelihood security and their living standards. Economic theory suggests that risk-neutral farmers will divide their labor supply between on-farm and non-farm employment opportunities such that the expected marginal returns to all activities are equal. If farmers are risk averse, less time will be allocated to the more risky jobs when the expected returns are the same, or alternatively the farmer will accept lower wages in a less risky environment (pay a risk premium). Off-farm labor can be used by farmers to reduce the total variance of their income, i.e., the overall risk, or to increase the total returns to labor.

In poor rural areas some households will make a positive choice to take advantage of opportunities in the non-farm rural sector, taking into consideration the wage differential between the two sectors and the riskiness of each type of employment. Rising incomes and opportunities on-farm reduce the supply of labor off-farm. However, other households are pushed into the non-farm sector due to a lack of opportunities on-farm, for example, as a result of drought or smallness of land holdings. For policy makers it is important to understand why an individual is entering the non-farm rural market. One of the key areas of discussion in the literature is to understand if individuals respond to new opportunities in NFRE – *demand-pull*, or are driven to seek non-farm employment because there are no opportunities on-farm – *distress-push*. The key features of distress-push and demand-pull diversification are outlined in **Table 1**.

Table 1. The Push and Pull Factors of NFRE Diversification

Push factors	*Pull factors*
• Population growth	• Higher return on labor in NFRE
• Inadequate access to fertile land	• Higher return on investment in NFRE
• Low farm productivity	• Lower risk of NFRE compared to on-farm activities
• Low returns to farming	• Generation of cash to meet household objectives
• Lack of access to farm input markets	• Economic opportunities, social advantages offered in urban centers and outside the region or country
• Decline of the natural resource base	• Appeal of urban life to younger people
• Temporary events and shocks	
• Lack of access to rural financial markets	

Pull factors are at work when returns to NFRE are higher than to farming, or when returns to farming are more risky (Reardon et al 1999). Conversely, push factors are at work when farm output is inadequate, opportunities for consumption smoothing (credit and crop insurance) are missing, or input markets are absent. Islam (1997) suggests that factors leading to demand-pull include increase in the income of lower- and middle-income households and increased demand from urban areas for rural products. Successive droughts that depress farm income and increase the need for alternative sources offering low-skill cheap income are identified as a distress-push factor. As evidence of distress-push, wages or incomes are likely to be lower in the non-farm rural economy. It is important that policy-makers make this distinction between distress-push and demand-pull because each may require different policy responses. The former may require policymakers to develop appropriate social safety net and interventionist policies to mitigate the short-run negative effects that sometimes accompany this type of diversification (e.g., over-rapid urbanization placing tremendous pressure on urban centers, negative environmental impacts etc.). Where demand-pull factors are driving the process of diversification, policy-makers might seek to provide a suitable "enabling environment" to support the development of NFRE and sustainable rural livelihoods.

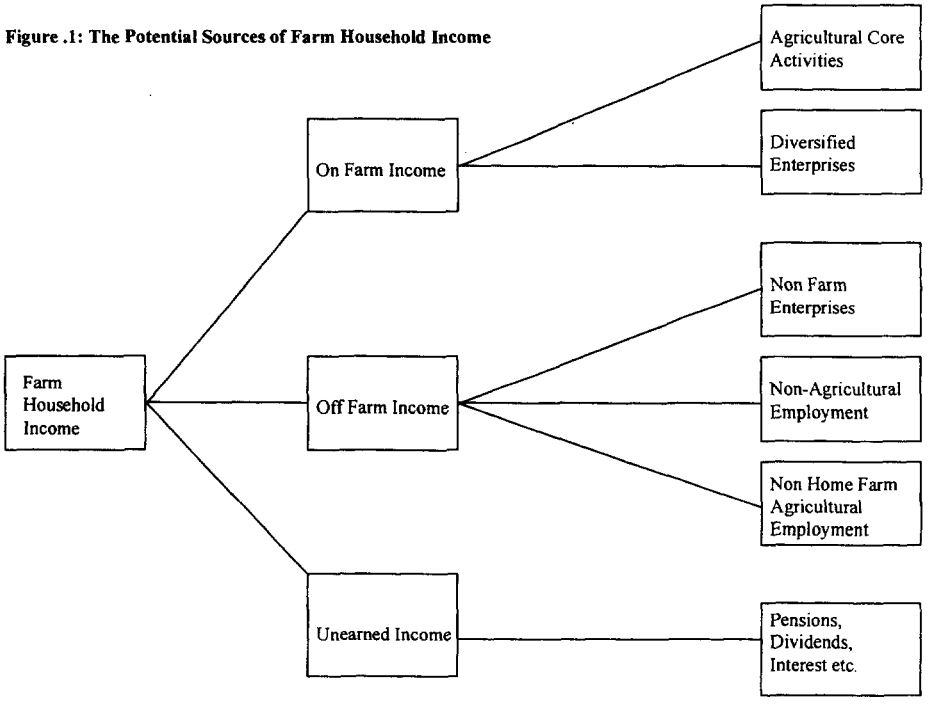
NFRE Income

Livelihood diversification includes on- and off-farm activities that are undertaken to generate extra income via the formation of agricultural and non-agricultural products, the sale of wage labor, self-employment in small firms, and other strategies to spread risk, including radical migration strategies. A plethora of terms to capture the NFRE activities of farmers have emerged: diversification, multiple job holding, pluriactivity. This has lead to a series of binary classifications: between full-time and part-time farmers, pluriactive and non-pluriactive farmers, diversified and non-diversified occupiers. However these simple dichotomies are unable to capture the absolute and relatively diverse nature of income sources. The traditional and main component of income in rural households has been income from agricultural core activities. These may be defined as enterprises taking place in predominantly agricultural units based on primary production of food or fiber. In addition, Islam (1997) identifies five distinct sources of non-farm income: (a) non-agricultural activities within the household; (b) activities in small rural towns; (c) work in large cities (involving commuting); (d) remittances from household members in cities; and (e) remittances from household members overseas.

Figure 1 is an attempt to systematize the diverse income sources of rural households. On-farm income can come from both agricultural core activities and diversified enterprises operating from the farm. Potential sources of off-farm income can be divided into three components: income from non-home farm enterprises, non-agricultural employment, and non-home farm agricultural employment. As such, one can distinguish between enterprise diversification and income diversification. Enterprise diversification activity embraces both on- and off-farm business creation outside of agricultural core activities. Income diversification embraces these two components plus any movement toward non-home farm employment (whether agricultural or not). Finally, a third source of revenue is unearned income (such as pensions, dividends, and interest). Although often ignored, this source can be very substantial in certain cases and

decisions made in this sphere may have an important bearing on such crucial choices as time of retirement and intensity of farming.

Figure .1: The Potential Sources of Farm Household Income



There is generally a positive correlation between higher income level of rural families, higher potential for diversification of income sources (NFRE), and higher productivity in agricultural activities. Recent NFRE research has also shown a positive correlation between higher diversification of non-farm activities and a number of qualitative factors, such as the level of education; quality and access to infrastructure; quality, objectives, and organization of services; opportunities created through local, regional, and national government policies; and access to credit and financial services.

Potential sources of income are likely to vary substantially in importance among farmers and exhibit wide variations in their attractiveness as sources of pecuniary gain. These variations between components of income have a major effect on the decision-making of farmers and there is a need to understand the importance of each rather than subsuming them all into binary classifications, such as the part-time/full-time dichotomy. The implications of not recognizing the diversity of potential sources of non-farm income by policy-makers could be quite serious. For example, it might lead to the development of inappropriate sectoral policies that support commercially viable farming activities at the expense of others, which although much less remunerative may be of vital importance to the livelihoods of more vulnerable groups in society.

NON-FARM RURAL ACTIVITY IN THE CEECS

In the CEECs a sizeable part of the population still lives in rural areas (**Table 2**). Although rural development policies and interventions have tended to focus on the agricultural sector, the rural population derives its income from multiple sources – even where the national economies are relatively undiversified. Income from non-farm activities is used to increase or smooth family income, reduce risk (through diversification), and improve future employment prospects (by acquiring skills or capital). In some cases, these livelihoods may exist in rural areas; in other cases, they may require daily travel to rural towns or even involve migration that generates remittances.

Table 2. Population in Rural Areas (% of total population)

Faster-track CEECs	1996	1997	Slower-track CEECs	1996	1997
Slovakia	40.8	40.3	Albania	62.4	62
Slovenia	48.4	48.2	Bulgaria	31.3	31
Czech Republic	NA	75.9	Croatia	43.8	43.4
			Romania	43.6	43.2

Source: OECD.

Rural households in the CEECs commonly depend on non-farm sources for 30-50% of their income (Davis and Gaburici; Greif). This is similar to the proportion found in southern Africa (on average 40% (Ellis) and in South Asia and Latin America, where rural households are around 60% dependent on non-farm income (Lanjouw; Reardon et al.). The share of the rural population involved in non-farm activities varies widely, ranging from around 7% in Poland to 65% in Slovenia. In most CEECs between 5-20% of family farms participate in non-farm activities (**Table 3**). The proportion of enterprises with supplementary activities is highest in regions with large-scale agriculture (15-20%). In countries with scattered rural structures (e.g., Bulgaria, Poland, Romania and FYR Macedonia), the demand for additional employment is high, but opportunities are less numerous. Creating more opportunities for non-farm work in the CEECs has become a formidable task for policymakers given the high levels of rural unemployment and depth of poverty compared to the EU (Milanovic). The rural non-farm sector has the potential to play an important role in poverty alleviation for the rural population in CEE.

Table 3. Participation in Non-Farm Activities: 1996-1997

Country	Rural population	Persons engaged in agric.	Number of farms	Subsistence farms	Performing additional and subsidiary activities			Rural unemployed
	'000	'000		%	farms	%	persons	%
Czech R.	3,610	760	26,900	NA	4,170	15	120,000	(5)
Slovakia	2,255	580	8,900	NA	1,800	(20)	115,000	15
Hungary	3,690	1,900	1,200,000	80	107,000	9	250,000	14
Slovenia	736	350	156,700	10	100,000	65	180,000	8
Poland	14,700	8,800	2,048,000	60	162,000	5-7	480,000	40
Romania	9,490	2,750	3,190,000	75-90	320,000	(10)	275,000	35

Note: Numbers in parentheses are estimates. In Hungary, about 1,100,000 "mini producers" normally produce for self-supply and farming is mainly a secondary activity. A similar situation is observed throughout most of CEECs but is not clearly registered.
Source: Greif.

During the central planning era, large-scale collective and state farms performed many other activities beyond basic agricultural production. Labor allocation to non-farm activities has decreased on large-scale farms with the spinning-off of these activities during the transition period. Yet part-time farming and non-agricultural activities appear to have grown in importance for small-scale individual farms. For example, in Albania, which is dominated by small-scale private agriculture, non-agricultural incomes are very important; they include mainly service activities and remittance payments to rural households from post-1991 emigrants working in Greece and Italy (Pearce and Davis). Similarly, small farmers in Romania obtain non-farm income through non-farm wages and pensions (Davis and Gaburici). Farms with close links to urban and tourist markets earn incomes greater than the average.

Diverse income portfolios often include income from agriculture, migration, remittances, daily travel to nearby urban employment, local wage labor opportunities or self-employment in trade, agro-processing, tailoring, or services. **Table 4** indicates the importance of various NFRE activities for rural households in CEECs that form the main sources of additional income. Without this supplement of revenues a great part of the rural economy and society in the poorer CEECs could not survive. However reliable statistical information about income data are scarce due to insufficiencies of the national statistical systems and the prevalence of informal (hidden or illegal) activities as concomitant phenomena of transition.

Table 4. Main Sources of Non-Farm and Additional Incomes (percent of farms involved)

Country	Second jobs		Self employment		Sales receipts
	Commuting to non-farm jobs	Construction and ag services	Business	Rural tourism	Processing and direct sales
Czech Republic	-	26	21	(3)	-
Slovakia	-	(25)	(25)	(3)	-
Hungary	< 1	30	(50)	(2)	(2-10)
Slovenia	14		17		(50)
Poland	-	38	26	(3)	7
Romania	-	(20)	(10)	-	(2-5)
Latvia	-	(20)	(10)	-	(5)

Note: Figures in parentheses are rough estimates.
Source: Greif.

A wide variety of activities are undertaken from which the rural population derives income (bed and breakfast, hotels, industrial work, social work, crafts, direct marketing services etc.). However, due to lack of data it is difficult to measure the rate of growth of these activities in the rural context during transition. A large proportion of the non-farm activities in the CEECs are livelihood-oriented, and are neither a source of innovation nor a provider of significant economic returns as enterprises in their own right. The main uses of non-farm incomes in the CEECS according to their relative importance are as follows (Greif):

- consumption and improvement of living standards;
- investment in non-farm business in rural areas;
- investment in up- and downstream activities;
- investment or expansion of farm business.

It is very difficult to assess the proportion of farms or rural dwellers that actually have the capacity or opportunity to earn non-farm incomes. Recent studies show that there remains a lack

of non-farm employment opportunities in the rural economy and that governments need to develop a coherent set of policies to promote local private activities downstream and upstream of agriculture, such as agro-processing, inputs, and mechanical services (Jehle; Davis and Gaburici; Breitschopf and Schrieder; Horská and Spešná). This requires an adequate macroeconomic environment and institutional support in terms of credit, training, advisory services, information technologies, and the simplification of administrative and bureaucratic procedures. Business creation and development depends on the availability of credit and human capital (e.g., educational levels). In the CEECs the main issue of education is to foster employment and business on a regional basis. In Romania, current World Bank and government initiatives (Chirca and Tesliuc) focus on developing a new program of rural comprehensive and vocational education that emphasizes agricultural education (farm management, production technology, food processing), craft education (craft techniques, management, information technology, consulting), and services (marketing, accounting and business management).

The key factor driving non-farm employment changes in the CEECs is the impact of the macroeconomic environment and structural reforms on labor adjustment in agriculture. These factors in turn depend upon how the reforms affect demand for labor in agriculture; how they affect the opportunity costs for farm labor, including the demand for labor outside agriculture and access to social benefits; and how difficult it is for farm labor to move to other sectors, either rural or urban (OECD).

NFRE Activities in the Czech Republic

The agricultural sector always contributed a relatively minor share of the Czech economy, and it has declined further since 1989 due to transformation processes (VUZE 1999). As shown in **Table 5**, the per capita GDP in rural areas is only 58% of that in urban areas and rural wages are much lower. The EU Special Accession Program for Agriculture and Rural Development (SAPARD) identifies 22 districts in the Czech Republic where farmers' incomes are below 80% of the national average. The share of the agricultural workforce in total employment in the Czech economy decreased from 9.8% in 1989 to 4.2% in 1998. The creation of new jobs is central to the Czech National Development Plan for 2000-2006 as rural unemployment is 12% higher than in urban areas, and employment growth is much slower. **Table 5** suggests that there is a need to develop rural areas by encouraging the development and creation of jobs, both in agriculture and in NFRE (SMEs, crafts and rural services, recreational activities, and tourism).

Table 6 shows the proportion of agricultural enterprises with non-farm rural activities in different regions as at September 1995. The table is based on agro-census data, where non-farm rural activities, called subsidiary gainful occupations, comprise services to agriculture (crop spraying, sheep shearing, etc.), meat, fruit, and vegetable processing, milling, baking, dairy services, soft drinks and wine production, construction, tourism, business development, and transport services. About 15% of enterprises occupied in agriculture as the main activity had subsidiary activities. Of these, agricultural companies and cooperatives represent the most numerous group (3,536 of 4,152 enterprises): around 59% of agricultural joint-stock companies and 58% of agricultural cooperatives carry out subsidiary activities (Greif). The proportion of

non-farm activities among individuals is considerably lower: around 10% of private farms. However for the larger private farms with more than 100 ha of agricultural land this proportion rises to 24%. Non-farm activities include agricultural services (26% of large enterprises, 4% of small private farms), non-farm business (21% of large firms, 2% for small private farms), transport (20% and 1%, respectively), and construction (4% and 0.4%, respectively). A new law on agricultural cooperatives introduced in 1997 may contribute to an expansion in non-farm rural activities. The new law allows the choice of a broad range of entrepreneurial activities for cooperatives.

Table 5. Regional Differences in GDP, Average Wages, and Employment in the Czech Republic

Indicator	Czech Republic	Regions	
		Rural	Urban
Per capita GDP in 1996 (Euro):	3627	3219	4899
Relative to EU (%)	58.7	52.1	89.3
Relative to Czech Rep. (%)	100.0	88.8	152.2
Average wage in 1996 (Euro)	269	253	312
Relative to Czech Rep. (%)	100.0	94.2	123.2
Unemployment in Dec. 1998 (% of labor)	7.5	7.7	6.9
Relative to Czech Rrep. (%)	100.0	102.7	89.3
Difference in employment 1989-1996	-226,211	-300,705	+74,494
% of initial situation	-4.3	-6.7	9.8
Change in agricultural employment 1989-1996	-393,397	-373,349	-20,048
% of initial situation	-57.3	-56.5	-76.0

Source: VUZE 1999.

Table 6. Agricultural Enterprises with Subsidiary Gainful Occupations in the Czech Republic: 1995

Region	Number of enterprises	Percent of enterprises in the region
Central Bohemia	592	13.8
South Bohemia	466	12.8
West Bohemia	296	14.2
North Bohemia	273	12.8
East Bohemia	747	15.9
South Moravia	1,296	21.2
North Moravia	464	12.0
Prague	18	19.1
Czech Republic	**4,152**	**15.4**
Total agricultural enterprises	26,904	100.0

Source: VUZE 1995. Shaded areas denote regions in which the agricultural sector is of greater significance than the national average in terms of gross agricultural production (CSO).

A survey of 255 rural SMEs conducted in 1997 found that the main reasons motivating the establishment of a firm included the desire for independence and the hope of improving the personal financial situation (Jehle). Some of the respondents were more market oriented and maintained that entry was based on a good idea or a good market opportunity (demand-pull diversification). The survey identified lack of money for further investment as a major constraint, especially among small firms complaining of poor access to credit. Former cooperatives, on the other hand, most often reported problems due to the distance from the markets. The firm's location relative to local and regional markets, the quality of public transportation, and the quality of education and housing were also found to be important factors for the establishment and development of SMEs.

Credit. Although financial services and stock exchange boards have developed quite quickly in Prague, they are virtually unavailable for SMEs in rural areas. The financial density of banks in the Czech Republic is low and there is evidence of reluctance to lend to rural SMEs due to lack of information or experience in dealing with them. In Jehle's survey, 11% of respondents encountered significant financial problems (largely liquidity constraints), 25% felt that they could no longer survive due to financial problems, and only 10% of the sample maintained that they encountered no financial problems. The low level of access to credit is attributed by respondents to the feeling that interest rates are too high or to lack of sufficient collateral.

Much of the SME support is targeted through a direct approach, due to a preference for solving the individual business financial problems. The government has emphasized broad support for enterprise development, instead of focusing on economic development in territorial terms The government has concentrated most of its NFR enterprise creation efforts on financial support, including grants, guarantees and subsidies. The support programs foster new investment projects in enterprises whose business plan fulfills certain profitability criteria. The programs are available nationally and target particular sectors or promote particular activities. To date, only two programs focus on problem regions. The REGION and ROZVOI programs became a core element of the government's efforts to combat unemployment through the creation of small business, but most respondents to Jehle's survey did not know of the existence of either of these institutions. There is also support for initiatives to establish local credit guarantees for venture capital programs in regions undergoing serious problems of unemployment and restructuring. The Czech Republic has taken important steps forward in establishing non-farm rural SME support programs and guidelines, but there remains some doubt as to whether the necessary "enabling environment" exists.

Rural infrastructure. Basic problems with infrastructure, scarce information, poor utility services, and low skill levels mitigate against the successful development of the NFRE sector in many parts of the Czech Republic. Rural areas have a marked disadvantage in terms of the level of rural infrastructure, with telecommunications and gas supply being the types of infrastructure in which rural areas are most notably deficient (**Table 7**). Municipalities in the Czech Republic are well financed relative to the slow-track economies, having enjoyed access to long-term credit since 1993 (World Bank 1999). Yet Czech municipalities lack revenue autonomy, which hampers their plans to upgrade infrastructure and services. In addition, Czech statistics define as "rural" settlements with less than 2,000 people, thus excluding the relatively more prosperous rural towns. The combination of these factors may explain to some extent the rural-urban differences highlighted in **Table 7**.

Transport accessibility is an important factor in the development of viable NFRE opportunities and labor mobility. The quality of the rural road network is difficult to assess, but most regions have requested road repair funds (VUZE 1999). Road repairs and upgrading have been neglected due to the high costs of these investments. Discussions with key stakeholders (ministries, researchers, rural dwellers, etc.) suggest that there is an urgent need to improve the neglected network of rural roads. Long-distance transport is to be addressed as part of the EU Instrument for Structural Policies for Pre-Accession (ISPA) program for the Czech Republic, and the program recommends that the construction and repairs of rural roads (particularly those linking villages) be given national priority to meet rural needs.

Table 7. Infrastructure in Rural and Urban Areas of the Czech Republic: 1998

Indicator	Czech Republic	Regions	
		Rural	Urban
Number of municipalities	6244	5943	301
Percent of permanently used flats with:			
water supply	89%	98%	99.5%
sewerage	68%	63%	82%
gas	50%	43%	70%
telephone	30%	23%	50%
Percent of municipalities with:			
water supply system	76%	75%	92%
sewerage system	26%	25%	38%
gas	31%	30%	63%

Source: VUZE 1999.

Telephone density in the rural areas is quite low, and the quality of service provision and technological infrastructure is in need of upgrading. An improved telecommunications infrastructure will be important for rural areas in developing NFRE opportunities, particularly for SME development. It is thus an important regional priority, although central government policies do not treat it as such.

Human capital. The level of education and access to it are also important considerations, as education appears to be correlated with entry to non-farm SME activity. The Czech education system does not really reflect the business needs of its rural firms and should encourage the dissemination of business (management and accounting) skills and also crafts. The government should place greater policy emphasis on raising the skill levels of its rural population.

The human capital dimension of rural employment also has a gender implication. Women have on average lower skills and fewer training opportunities than men (Jehle). Rural women earn lower agricultural wages than men: 7,173 CZK for women and 8,207 CZK for men in 1998 (Horská and Spešná). The unemployment rate for rural women is higher than for rural men 13.6% for rural women and 4.9% for rural men in 1999), and it is increasing much faster in recent years.

NFRE Activities in Romania[1]

Whilst overall employment levels in Romania fell by 25% between 1990-1995, the agricultural sector experienced growth in its labor force. In 1997 agricultural employment was 108.7% of the 1990 level, while industrial employment fell to 60.4% of the 1990 level (**Table 8**). Agricultural production during the same period increased to 105.6% of the 1990 level, less than the increase in agricultural labor force. Agricultural productivity in Romania is thus declining. In 1997 Romanian agriculture accounted for around 37% of the total labor force, while contributing only 18.8% to GDP (EBRD). Unemployment in Romania is increasing: the unemployment rose from 6.6% to 8.8% during the period 1996-1997. There has been a small net out-migration from

[1] This section is largely based on data collected during 1996-1998 in a survey of private farms and rural SMEs in the counties of Brasov, Dolj, and Timis. The survey was financed by PHARE-ACE as part of a study of rural financial market development in Romania and it is referred to as the Romania rural finance survey 1997/98.

rural to urban centers, but the current employment situation is forcing the agricultural sector to assume the role of a buffer, which leads to widespread and increasing underemployment and hidden unemployment in rural areas.

Table 8. Employment in Romania 1990-1997 (in thousands)

	1990	1997	Level of employment in 1997 compared to 1990 in %
Total employed	10,840.0	9,022.7	83.2
Agriculture	3,055.0	3,322.1	108.7
Industry	4,055.0	2,450.0	60.4

Source: Official statistics.

The rural population is not young: in two-thirds of the rural households the average age of the adults is over 50, and in one-third over 65. In 1996, the number of elderly people living in rural areas was 2.3 million, approximately 66% of the elderly in Romania. The worst affected villages are mostly located in mountainous regions but also in some plains, where the demographic balance has been altered due to out-migration.

Almost two-thirds of the rural population work in agriculture, and the remaining one-third have agriculture as their main occupation. Agriculture is thus the basis of the rural economy. Yet at least one adult per household has either a second job (in trade, transport, or crafts) or is not active (usually receiving pension benefits). There are few significant alternative sources of income, but nevertheless, according to a survey conducted in 1997/1998, NFRE activities involved 41% of the active population (**Table 9**).

Table 9. Employment Activities in Rural Romania: 1998 (counties of Brasov, Dolj, Timis)

Activity	Male	Female	Total	% of Active Population
Active population	9,304	9,601	18,905	100.0
Agriculture (farmers)	6,396	6,800	13,196	69.8
Trade (merchants)	233	245	478	2.5
Teachers	208	299	507	2.7
Engineers and technicians	220	121	341	1.8
Medical profession	32	30	62	0.3
Veterinarians	15	9	24	0.1
Sanitary personnel	53	105	158	0.8
Pharmacists	4	16	20	0.1
Public servants	210	172	382	2.0
Private employees	125	118	243	1.3
Crafts	542	180	722	3.8
Seasonal labor (unqualified)	845	545	1,390	7.4
Other employment activities	1,966	1,523	3,489	18.5
Non-farm rural employment	**4,453**	**3,363**	**7,816**	-
% of active population	**48%**	**35%**	**41%**	-

Source: Romania rural finance survey 1997/98.

The non-farm component of family income was also prominent in the 1997/1998 survey, because only half the household members reported full-time employment on the family farm and most of the others devoted the rest of their working time to off-farm occupations (Davis and Gaburici). On average, 35% of the respondents earned non-agricultural incomes, and 57% of

respondents with non-farm income were wage earners. About 23% of the farms surveyed had at least one pensioner, 18% two, and 5% three. The value of pension income was around 10% of monthly off-farm earnings. **Table 10** ranks the primary and secondary sources of income according to their importance for total farm income. On-farm incomes are of prime importance to the financial viability of private farms, but off-farm wages (26.8%) and small businesses (primarily the sale or trading of farm services, usually locally, 13.2%) are also important primary sources of income. Off-farm income accounted for as much as 45% of total farm income in the survey. However, agriculture remains the single most important source of income and is also important as a secondary source of subsistence for those whose primary activities is non-farm (e.g., small business).

Table 10. Primary and Secondary Income Sources of Private Farms in Romania: 1997

	Primary income source		Secondary income source	
	Number of farms	%	Number of farms	%
Sale of vegetable products	68	30.9	76	34.5
Sale of animal products	56	25.5	61	27.7
Small business (trade, etc.)	29	13.2	34	15.5
Wages	59	26.8	22	10.0
Pensions	8	3.6	12	5.5
Others	--	--	2	0.9
Total	220	100.0	207	94.1

Source: Romania rural finance survey 1997/98.

Logistic regression analysis of the determinants of farmer access to rural finance show that the existence of off-farm sources of income (from a small business, or even wages and pensions) would increase the probability of obtaining credit by 2.7 times. Romanian banks appear to prefer lending to these farmers because they consider them to be less of a risk: they are not dependent on farming for the sole source of income. The development of rural industries and an adequate national rural development program will be essential to the financial viability of small private farming in Romania. Initiatives such as the Romanian-German project for the establishment of a farmers' producer association in Eastern Carpathians for the purchasing, sale, and use of farm inputs should be greatly encouraged. Perhaps the best-received aspect of the project has been a program for local women to encourage non-farm income generation. Thishas been promoted through the sale, design, and improved marketing of traditional wool products, dressmaking, and greenhouses for home food supply. Although the project is small, this type of activity has proved both financially successful and a useful tool for fighting rural poverty

Rural-urban migration has been highly selective, with the watershed traditionally being entry into secondary education. In a 1997/1998 survey of small and medium sized non-agricultural enterprises in Brasov and Dolj counties, the education and vocational training level of the entrepreneurs is clearly above the county average (**Table 11**). Compared to the national average, non-farm entrepreneurs more often have a high school degree or a university degree. Thus, the general and vocational education levels play an important role for the establishment, development, and promotion of non-farm SMEs in rural areas.

Table 11. Level of Education by County: 1997 (%)

	Elementary school	Secondary school	Vocational	University
County averages				
Timis	40	32	10	17
Dolj	42	33	7	18
Brasov	35	25	7	33
Interviewed non-farm entrepreneurs				
Timis	22	37	22	20
Dolj	5	62	19	14
Brasov	7	61	7	25

Source: Official statistics and Romania rural finance survey 1997/98.

Table 12 lists the main non-farm rural activities in Brasov and Dolj counties as identified by respondents to the 1997/1998 SME survey. Trade and retail trade (stores, soft drinks, bakeries, confectioners, restaurants) comprise 63% of all non-farm SME activities. Most of these activities have low barriers to entry, and their gender dimension is often very important both for total household income and for intra-household labor allocation. As **Table 9** suggests, women play a significant role in the NFRE sector, and **Table 12** probably under-reports the number of female entrepreneurs involved in NFRE activities. Women are not always available to be interviewed despite being central to the SME operation, and for social reasons men are more likely to be the named manager of the enterprise.

Table 12. Non-Farm Rural Activities of SMEs in Brasov and Dolj Counties

Enterprise activities	Entrepreneurs		Number of entrepreneurs by gender	
	Number	%	Male	Female
Trade (including agro-tourism)	32	44	25	7
Agricultural services	3	4	3	-
Retail trade	14	19	13	1
Manufacturing	4	5	4	-
Non-agricultural services	8	11	7	1
Agri-processing	4	5	3	1
Industrial processing	5	7	4	1
Crafts	2	3	2	-
Others	1	1	1	-
Total	73	100	62	11

Source: Romania rural finance survey 1997/98.

Most firms in the survey (69%) employ fewer than five persons and many depend on family labor (**Table 13**). Firms in this group are generally involved in low labor productivity activities serving as a residual source of employment (trading and crafts). Rural SMEs contribute to rural employment because they are generally more labor intensive, facing lower labor costs and higher capital prices. These relative factor proportions correspond more closely to the true relative scarcities of inputs in rural areas, the development and startup of SMEs should be encouraged in rural areas (Lanjouw and Lanjouw).

The main reasons for starting a NFRE enterprise in our sample were the desire to utilize a potential opportunity to diversify with the aim of preserving the family's financial security and the identification of a favorable economic environment for a particular service or product Both are demand-pull factors. Distress-push factors, such as lack of capital, family tradition, or unemployment, play a minor role in determining entry to NFRE activity.

Table 13. Firm Size by Number of Employed and Use of Family Labor

	Firms		Number of firms employing family members		
	Number	%	1-2	3-6	Total
Firm size (<5)	51	68.9	12	3	15
Firm size (6-10)	12	16.2	3	5	8
Firm size (11-30)	4	5.4	1	1	2
Firm size (31-100)	2	2.7	1	-	1
Firm size (>101)	5	6.8	1	-	1
Total	74	100.0	18	9	27

Source: Romania rural finance survey 1997/98.

Previous work on small private farmers in Romania found that significant access constraints to credit existed and affected the financial viability of farms and their potential to diversify into non-farm activities (Heidhues, Davis, and Schrieder). Similarly, the present survey of non-farm SMEs found that access to finance is an important issue to the development of non-farm SMEs. The respondents identified a number of other constraints to SME development, such as insufficient road, communication, and market infrastructure, and widening gaps in the relative prices. Apart from these bottlenecks, deficient price information systems and lack of extension and other consulting services offering technical expertise represent impediments for potential entrepreneurs and existing SMEs.

Breitschopf and Schrieder in their study of rural development in Romania (utilizing the Brasov and Dolj sample from the same survey) found that inputs, institutions, infrastructure, and employee training have a strong influence on SME productivity and revenues. Their regression analysis produced the following results:

- Capital is not a constraining factor for SMEs in rural areas. As their marginal return of capital is low, the SMEs either operate inefficiently or have to deal with other constraints, such as lack of raw materials.
- A high capital efficiency leads to sufficient liquidity and not vice-versa.
- The positive impact of labor input and employee training on capital efficiency combined with the high level of education of SME managers reveals that the major bottleneck is qualified education and vocational training.
- Neither infrastructure nor contacts with institutions show significant values. This may be a technical effect attributable to lack of variability in the sample, as infrastructure quality was positively evaluated by the majority of the respondents.

As most of the new rural SMEs in Romania are in their infancy, the government is currently considering a number of potential interventions: investment grants for rural entrepreneurs starting or developing a business and subsidization of startup activities through small business development centers or business incubators. In Romania, but also in most of the other CEECs, some of the social problems related to agricultural reform, e.g., over-staffing or hidden unemployment, an aging rural demographic structure, low incomes and rural depopulation need to be addressed by an effective job-creating rural development strategy that helps retain and usefully employ the younger rural population.

POLICY OPTIONS FOR NFRE IN THE CEECS

To date for most multilateral donors, the single most promising way of achieving greater NFRE improvements (particularly in income and equity) has been to put emphasis on employment and creation of micro, small, and medium-sized enterprises (to which we collectively refer as SMEs). Many donors and NGOs have emphasized SME promotion and credit provision to SMEs as the core of their non-farm rural employment interventions in both transition economies. Disguised unemployment and declining productivity in the agricultural sector in the CEECs require shifting labor into the non-farm rural sector. Market failure in transition countries has often led to the misallocation of production factors resulting in excessive rural labor market stress because of:

- the slow expansion of the private sector which could absorb the excess labor (from disguised unemployment in the private agricultural sector);
- the low formal qualifications and high average age of the agricultural labor force;
- the high market transaction costs for goods, services and production factors; and
- mobility constraints, which are exacerbated by shortages on the housing market in transition economies.

Lessons from the Czech and Romanian NFRE Case Studies

The case studies in the Czech Republic and Romania show that education and the lack of working capital are key elements for non-farm SME development and entrepreneurship. Additional bottlenecks include under-developed infrastructure, communications, and institutions. Even in a fast-track accession country such as the Czech Republic, the level of infrastructure is significantly lower in rural areas than in urban areas. This may have a detrimental effect on the competitiveness of rural firms and on the opportunities for income diversification into non-farm activities.

In both the Czech Republic and Romania, technical assistance in terms of adequate extension and consulting services to support SME creation and diversified (income-generating) non-farm activities needs to be developed both regionally and nationally. Some of the policies and institutions being established in the Czech Republic as part of the SAPARD effort (e.g., training courses for SAPARD, rural business development and training consultants nation-wide) can be adopted by Romania. The Czech Republic has a more developed regional advisory and information service center network than Romania, but this can still be improved. The Czech Republic has quite significant regional differences and has probably made more progress than Romania in addressing this from a regional development perspective.

In both countries, entrepreneurs appear to have been motivated to enter the non-farm sector for demand-pull reasons. Unemployment among other distress-push factors seems to play a lesser role in determining entry to non-farm enterprise startup. However, there has been very little empirical investigation of these issues. The micro enterprise sector is generally overlooked or under-represented in official data and surveys because many informal enterprises are unregistered, being based in the household or in temporarily rented space, or not reported in surveys due to their small size or their unofficial nature. Reasons for temporary migration to find

paid employment may also be relatively hidden, as remittances are likely to be under-reported due to their unofficial nature and due to poorly developed or unreliable banking systems for effecting international transfers of funds. More data and information need to be generated about the nature of CEEC non-farm activities, part-time farming, sideline activities and non-farm incomes across the agricultural sector. This will enable more informed formulation of appropriate rural development objectives and planning measures for both on-farm and non-farm activities.

Policy and Institutional Environment Conducive to NFRE Development

Governments have a key role to play in supporting the development of non-farm rural enterprise activity. Key means through which the government can support rural enterprise development are ensuring that the legal and judicial system supports low-cost contract enforcement, and ensuring that the policy "playing field" is level in terms of ease of registration, taxes, and investment incentives for both small and large enterprises (Levitsky). The government can also play an important role in promoting a socio-cultural context that values entrepreneurship. A more open and positive attitude towards the informal enterprise sector needs to replace the prevalent negative attitude that tends to over-regulation and control rather than measures to support such enterprises and assist them in joining the formal sector.

It is important that biases at the economic policy level be removed (e.g., distortions in capital markets caused by government intervention in interest rates and socially owned agricultural land). Effectively functioning markets will provide the correct signals to encourage investment and specialization in areas of comparative advantage, will promote the development of the private farm and non-farm sectors, and will encourage efficient and realistic allocation of financial resources. Incentive-distorting measures that have been implemented to support the rural economy should be removed, except perhaps where they compensate for past deficiencies that have impeded growth in key economic areas. With respect to the remote rural areas, policy reforms are needed to encourage mobility, promote efficient rural markets, and better target social assistance.

Factors acting as constraints to the development of the private farm sector, such as poorly developed or inefficiently functioning financial markets and lack of marketing information, should be recognized as also affecting the growth of the non-farm sector. Provision of rural financial services is key to both the farm and non-farm sectors, and it may be that a healthy non-farm sector attracts financial service providers who would otherwise have been put off by the increased risks and complications of agricultural credit. The World Bank is now shifting from lines of credit through banks toward the creation of interim sustainable non-bank intermediaries and toward addressing the reasons why private banks do not lend to rural areas (World Bank 2000). Appropriate non-bank intermediaries can include finance companies, savings and credit associations, and even NGOs (depending on the legal and regulatory framework of each country). Measures to address the lack of rural financial institutions include reforms to the legal framework to recognize non-mortgage collateral, strengthening of the courts system to speed up default and debt collection proceedings, development of leasing laws, revisions of the financial sector regulations, and strengthening of banking supervisory agencies.

Institutional reconstruction is needed to mitigate market and government failures and to complement opportunities offered by the market. Institutional change takes time and cannot be implemented in an abrupt way, with more direct interventions needed in the meantime. NFRE development strategies should not only provide incentives for the rural population to engage in profitable non-farm rural employment activities but should also be based on a consensus among interest groups involved in the reform process. Consensus and credibility help form a strong base for successful reforms.

Infrastructure and Services

A minimum level of efficiently functioning infrastructure is necessary to enable non-farm activities in rural areas to develop and thrive. Transport accessibility plays an important role in the development of local industries as well as agriculture. Improved access in rural areas opens up potential new markets, improves the viability of rural service activities, and introduces higher levels of competition. Social safety nets, infrastructure, and education opportunities in remote rural areas clearly require increased investment and attention. This will help promote the development of NFRE and the private sector, and over time redress the imbalance between urban and rural areas. Attention should be paid to the type of employment creation being promoted in the rural non-farm sector, i.e., unskilled and relatively poorly paid jobs, or more highly skilled and specialized jobs. Barriers to entry to employment in NFRE need to be addressed. Vocational training improvements should be utilized to assist those within agriculture to shift to other jobs or in the case of children from farms to have sufficient skills to avoid having to enter the agricultural sector.

The provision of public services and infrastructure to rural areas is key to attracting investment and promoting SME development. Population centers in rural areas can constitute key growth points. Enterprise support measures may include business incubators, phased financial assistance to startups, advisory and networking centers, and training and consultancy services for SMEs. The needs of SMEs and small farms could also receive priority in publicly funded agricultural research and extension.

Emerging trends in the provision of rural infrastructure with relevance to policy are: (a) private contractors and local communities taking key roles as implementers and managers of infrastructure at a local level; and (b) employing labor-intensive methods in infrastructure projects, in recognition of the important stimulus to the economy of rural areas that such employment may provide. Solving the issue of financing for rural municipalities in poorer CEECs or in economically depressed regions is a difficult issue. Where rural social services and infrastructure have been transferred to the municipalities in the context of decentralization processes, the question of the financing is in many cases not fully resolved. In the faster-track accession countries effective fiscal and administrative decentralization processes, private sector activity, and a decline in unemployment has led to improved ability of rural areas to provide social services and infrastructure. However in the slower-track accession countries rural infrastructure, such as roads, sewage, telecommunication and social services, is in a dilapidated state. While the development of municipal debt markets is important in providing municipalities

with commercial sources of credit, central government transfers and external donor support may have to play a role in less economically favored municipalities.

Policies that Foster Positive Linkages with the Agricultural Sector

A number of recommendations relating to agricultural support policies can made to foster the positive linkages between the farm and non-farm sectors. First, it is necessary to remove the distortions to rural markets (including land markets, produce markets, financial markets, etc.) resulting from government policies or subsidies. Second, the privatization of the agro-processing sector should be treated as a priority task, because it is expected to promote competition within sectors and at the same time encourage investment. Third, polices that favor the farm sector at the expense of the non-farm sector should be abandoned, as they are detrimental to the development of the rural economy and the livelihoods of those dependent on it.

Subsidiarity, Participation, and Decentralization

The accepted role of government in the provision of enterprise support services is changing, with the idea of subsidiarity gaining prominence. Subsidiarity in this context is essentially the idea of "who can do what best", meaning that responsibility is delegated to the lowest possible level and that government focuses on its own unique role rather than getting involved where private sector markets should operate (Gibson). Governments need to shift from a model of direct service provision to more innovative models of service provision in partnership with the private sector. In remote and economically depressed rural areas the government may have to play a more dominant role due to lack of interest, absence of a strong private sector, and low levels of demand for services, but civil associations could still play a key role.

Equity considerations logically imply the full participation of poorer people in rural policy formulation processes. They need to be consulted on the priorities for public investments from which they are expected to benefit or through taxation help finance. It is therefore important that methods are used or developed whereby this participation is facilitated both prior to a non-farm rural development project and through subsequent evaluations of it.

Decentralization of government functions to the district level is key to facilitating responsiveness in decision-making to specific local conditions, and thereby helping ensure better distributional characteristics. Decentralized decision-making may indeed be necessary due to the heterogeneity of the rural non-farm sector, which leaves little scope for general broad policy descriptions (Lanjouw). The process of decentralization should be accompanied by capacity building of local government, local-level democratization, and the transfer of fund-raising powers from the center. Decentralization is more effective in providing services if four conditions are satisfied: (a) local governments are not vulnerable to capture; (b) local governments have access to adequate local financing sources; (c) there are no inter-jurisdictional externalities in service provision; and (d) local governments have all the bargaining power and access to relevant cost information vis-à-vis public enterprise managers (Bardhan and

Mookherjee). If any of these conditions is absent, decentralization may actually perform worse than a centralized system.

CONCLUSIONS

The non-farm rural sector has an important role to play in the CEECs in promoting the transition to a market-led economy, accession to the EU, and the development of rural areas. It enables rural households to diversify income sources, smooth income streams, and more effectively manage risks. The relationship between the farm and non-farm sectors takes many forms, but on the whole is a beneficial one, with positive income and expenditure multiplier effects promoting a more viable rural economy.

Country case studies show that NFRE activities in accession countries are usually market-based and trade-driven. Therefore, appropriate rural development strategies and policies should be market based, e.g., oriented toward small-scale enterprises, including agro-industries, agro-processing, business services, marketing, trade, and financial services. Enterprise support to promote NFRE activities should be based on market principles, responding in a low-cost and flexible way to identified needs and demands for services by SMEs. Governments and donors should seek to promote the role of the private and civil sectors in providing enterprise support services, acting as facilitators rather than service providers where feasible.

In both case study countries effective support of NFRE requires coordination between sectors through established mechanisms and linkages. Therefore, the development of NFRE requires operational links between institutions (e.g., ministries) and organizations (e.g., development banks, commercial services). It also requires that governments play an enabling role creating linkages between partners, not separating them and locking them into "sectors" and "departments."

There are considerable challenges and opportunities for rural areas in the CEECs in the context of the EU accession process. Enterprises face the opportunity of potential new markets and the challenges of increased external competition and compliance with EU import grades and standards. To adapt successfully, a minimum level of rural infrastructure and the provision of enterprise advisory and support services are needed. Investment in education, the elimination of market distortions, and continued privatization and demonopolization are needed for economic growth in the non-farm sector to be equitable and to benefit the rural poor.

As opportunities to earn remittances from employment in the EU will increase, the banking sector needs to develop payments transfer mechanisms and to improve their attractiveness to depositors in order for these funds to benefit the rural economy through increased bank lending in the rural sector. Investment in property and land for leisure use in countries bordering the EU will increase if these countries manage to ensure personal and investor security, improve transport infrastructure for accessibility, and upgrade utilities telecommunications and electricity. Key policy issues for CEECs in the context of EU accession include the financing of necessary investments in less favored rural areas, building an institutional environment conducive to enterprise growth and poverty reduction, and ensuring positive results from decentralization processes.

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Concepts, Policies, Programs, and Institutions of Rural Development in Hungary

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Hungary is one of the CEE countries that have adapted fairly successfully since 1989. The relatively smooth transition coupled with a steady growth of 3-4% each year since 1994 has allowed GDP to return its pre-transition level by 1998. As a consequence, Hungary belongs to the group of countries that are expected to join the EU in the first accession round in 2003, and it has initiated an advanced preparation program encompassing all spheres of state administration, the economy, and society at large. Agricultural and rural development are particularly influenced by the process of accession. The position on rural development has brought about a radical reorganization at the level of state administration as policy-makers try to find a new approach that stands closer to the EU concept of rural development, while still making use of the experiences gained from domestic history. The challenges that rural (and regional) policies have to face are demanding, given the spatially uneven distribution of the development potential and the growing regional disparities of the last decade. Compared to the huge efforts and the massive amounts of state-sponsored investment in infrastructure, most structural crisis zones and traditionally backward rural areas have been restricted to a very small pace of development, if not stagnation or even decline. This paper attempts to provide an overview of the contemporary history of the two pillars of an integrated agricultural and rural development policy, the challenges it has had to face, and the prospects that the approaching EU accession preparation provides, with special reference to the SAPARD initiative.

THE RESTRUCTURING AGRICULTURAL SECTOR

Land restitution and property decollectivization policies resulted in a fragmented ownership structure that does not fully coincide with use patterns. Although there is a clear tendency for the large-scale sector to shrink and for the small-scale sector to grow, large-scale farming still prevails in Hungary – particularly in the western part of the country – on the basis of rental schemes. As a result of another tendency – the shift from cooperative farming to companies – the share of limited liability companies in the control of tangible assets of agricultural corporations grew from 4% to 30% and the share of joint stock companies grew from 5% to 19% between 1992 and 1997, while the share of cooperatives dropped from 77% to 51%. Empirical studies moreover indicate that an essential part of the assets reported by cooperatives are in fact rented out to limited companies, and the importance of cooperatives in production is even less than the asset ownership numbers suggest. These tendencies are related to

a spontaneous, market-driven organizational and ownership restructuring of the large-scale sector, within which the successors of agricultural production cooperatives are declining because of their structural weaknesses. The business shares, which immediately became tradable in 1992–93, functioned as a vehicle of ownership change, generally resulting in slow property concentration and initiating a relatively smooth organizational shift from traditional cooperatives to new companies.

Table 1. Registered arable land by users in 1999

Regions	Organizational form					Farm size			
	Full-time farmers	Part-time farmers	Coopera-tives	Compa-nies	Total	Below 5 ha	5-20 ha	20-100 ha	Over 100 ha
	Number of farms					Distribution by farm size, % of farms			
Western Transdanubia	1,941	9,435	155	374	11,954	34.9	53.4	8.1	3.6
Central Transdanubia	1,436	9,298	106	294	11,171	34.2	52.8	9.6	3.4
Southern Transdanubia	2,058	12,531	151	536	15,346	31.4	55.4	9.7	3.5
Central Hungary	998	4,168	58	226	5,465	29.3	56.0	10.6	4.1
North Hungary	1,146	9,875	146	348	11,557	37.0	49.8	9.8	3.4
Northern Great Plain	4,164	44,632	202	761	49,906	51.6	41.9	5.4	1.2
Southern Great Plain	8,267	29,123	197	556	38,349	41.1	50.1	7.1	1.6
National total	**20,696**	**120,303**	**1,887**	**4,398**	**147,916**	**40.8**	**47.6**	**7.3**	**4.3**
	Structure of land use by organizational form, % of registered arable land					Structure of land use by farm size, % of registered arable land			
Western Transdanubia	12.3	22.3	38.5	26.3	100	2.7	19.1	9.9	68.2
Central Transdanubia	11.7	22.5	26.7	38.7	100	2.4	16.7	10.2	70.7
Southern Transdanubia	9.7	22.6	32.6	34.0	100	2.1	17.7	10.1	70.0
Central Hungary	13.6	24.8	26.5	34.3	100	2.2	19.2	11.6	66.9
North Hungary	10.0	28.9	39.0	21.6	100	2.8	19.4	12.5	65.3
Northern Great Plain	10.4	41.5	23.4	22.8	100	8.3	29.5	12.7	49.5
Southern Great Plain	10.5	32.8	27.3	21.8	100	5.2	27.1	13.2	54.5
National total	**12.0**	**29.8**	**29.7**	**27.2**	**100**	**4.3**	**22.8**	**11.8**	**61.1**

Source: MARD.

Land-use data also highlight the diminished importance of cooperatives (**Table 1**). According to the land-use registry data of 1999 covering 3.7 million hectares, or 85% of arable land in Hungary, individual land users, including full-time and part-time farmers (small-scale commercial farms), control 42% of registered arable land and agricultural companies (classified as large-scale farms) control another 27%. Cooperatives (also large-scale) use 30% of registered arable land, or about 1.1 million ha. The remainder of arable land (654 thousand ha) is cultivated by hundreds of thousands of unregistered small producers (small plot farms), who produce mainly for self-consumption and generate additional sales income of less than 250,000 HUF per year. The decline of the large-scale sector in Hungary has been modest compared to Lithuania and Latvia in the Baltics or Romania and Bulgaria in south-eastern Europe. Instead of total deconstruction of the large-scale sector, Hungary pursued the related processes of size reduction and change towards market-conformity.

The strict bankruptcy law that came into force in 1992 accelerated the structural adjustment process in agriculture. The diversified cooperatives and state farms have been replaced with smaller and more specialized agricultural ventures providing less than half the number of jobs that cooperatives provided prior to transition. By 1998, the share of agriculture in employment had dropped to one-half of the 15% pre-transition level.

In sharp contrast with the rest of the economy, the volume indices of agricultural GDP remain under 75% of the 1989 level. In 1999, agriculture accounted for 4.7% of GDP, 8% of exports, roughly the same share of employment, and 3% of investment (Zaher 2000a.). These represent one-half to one-third of the pre-transition shares of agriculture in the economy. The main impediments to growth in agriculture are the following: (i) lack of agreement between the political forces on the strategic goals of agricultural development; (ii) the exclusion of corporations and foreigners from land ownership, which hampers the inflow of domestic and foreign capital to this sector; (iii) the low return on capital in agriculture, which cannot attract capital and deters banks from lending agriculture; (iv) the relatively low level of subsidies that does not ensure reasonable income for producers; and finally (v) lack of reasonable concentration and security of ownership. The importance of ownership uncertainties for farmers emerged clearly in a survey conducted by the Institute for Economic Research in the spring of 2000. Ownership problems were classified as the fourth most important constraint to economic growth by agricultural respondents and the eleventh by producers in other sectors (Zaher 2000b).

Table 2 summarizes the restructuring status and the main challenges faced by the three groups of actors in Hungarian agriculture – the large-scale cooperatives and companies, the small-scale commercial farms, and the small plot farms. For purposes of SAPARD assistance, it is necessary to decide which actors and what range of problems should be addressed. First, who is more in need of support: the "isolated" plot farmer, the "lonely" commercial farmer, or the "integrated" large- to middle-scale corporate farm that provides large quantities of produce and remains the largest employer capable of relatively quick progress? Should the most capable or the least capable be assisted? Should only farms or also upstream and downstream industries be addressed? Second, which block of problems should be addressed by EU assistance? The problem of the discrepancy between ownership and use of assets and land, or the problem of the lack of modern farm buildings and equipment? Should the EU funds be used for moving towards a less production-oriented agriculture emphasizing landscape preservation, environmental friendliness, quality products; or is the main goal to trigger quantitative recovery? It is difficult to refuse any of the rural demands, but selection is essential. The Hungarian SAPARD plan has made various decisions that answer some of these questions. In the next section, we put this plan in a proper context by reviewing the post-socialist rural scene in Hungary.

Table 2. Agricultural actors' access to development potentials

Actors	Dimensions of evaluation			Transformation processes and outcomes
	Access to capital	Access to land	Access to markets	

Large-scale farms	reasonable	critical	reasonable	• structural changes:
				  • from diversified to agricultural
				  • from large-scale to medium-scale
				  • from production cooperatives to companies
				  • from collective ownership of members to joint ownership of investors
				• shrinking employment and land use
				• modest progress in upgrading, modernizing, and introducing environmentally friendly cultivation
				• relatively well-organized vertical (market) links

	"integrated"			
Small-scale commercial farms	critical	limited	weak	• modest share of land and equipment • slow and ambivalent strengthening • lack of willingness to cooperate • loosely integrated into vertical (market) systems
	"lonely"			
Small plot farms	Irrelevant: farming for subsistence and supplementary income			• shrinking numbers • important role in securing livelihood and supplementary income in the absence of alternative earning opportunities
	"isolated"			

THE RURAL SCENE

Decentralization of Government

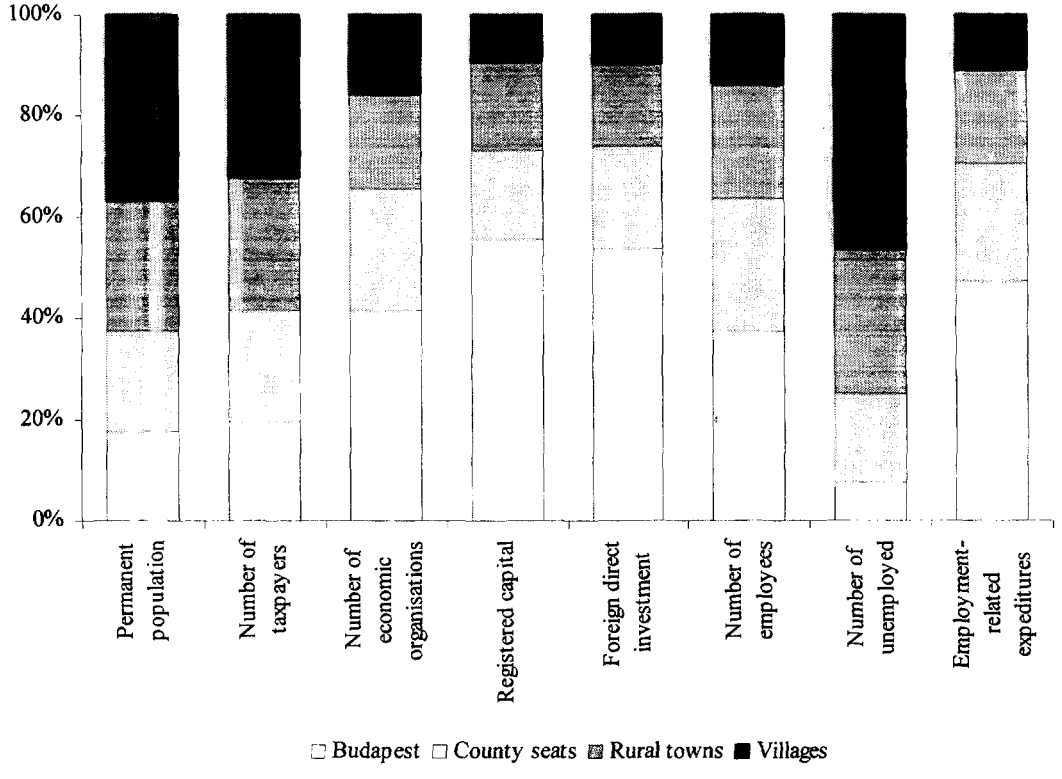
A very strong tendency of decentralization was observed in the first couple of years following the political changes of 1989, resulting in a full rehabilitation of local government compared with the socialist era. The 1990 Local Government Act provided for the separation of villages from administrative centres, allowing 700 villages to re-establish their autonomy. As a result, 3,036 elected local governments, managed and administered by 2,148 administrative units, replaced the 1,600 councils that had worked in the last year of the socialist era. (Horváth 2000) The county "meso-level" was weakened to a considerable extent, leaving much more room for independent decision-making to local leaders. Villages experienced significant changes in their access to development sources, and they lived up to the new opportunities: extensive investments in infrastructure and institutions were completed in the first 4-5 years of the post-socialist era at a pace never experienced before.

However, not everybody is happy with this level of decentralization. Experts emphasize that the Hungarian local government system has become very strong in terms of democracy and very weak in terms of efficiency (Pálné Kovács). Some serious consequences of fragmentation of local authority can be identified. These include (i) lack of effective cooperation, leading to high operating costs in the system; (ii) increasing indebtedness of local governments as a result of miscalculating their financial capacity and operating their institutions inefficiently; (iii) concentration of the rural economy in larger and stronger localities, leaving most small settlements with a very limited tax base.

Rural-Urban Inequalities

Rural economies are frequently discussed in terms of differences between villages and the categories of towns and cities. For historical reasons, Budapest, the capital of Hungary, is the only city with almost two million inhabitants, roughly ten times the population of the regional centres. Symptoms of over-centralization have been inevitably present, and tensions have frequently generated a bipolar contrast in public discourse between Budapest and the rest of the country, which has been commonly classified as "rural". In this section, we introduce some indices that highlight the inequalities between Budapest at the top and villages at the bottom of the hierarchy (county seats and rural towns are the other two categories in this hierarchy). Data usually show that the universal pattern of "richer" towns and "poorer" villages prevails also in Hungary, but in addition we observe some consistent regularities across all four categories of the hierarchy of settlements. The inequalities within the Hungarian hierarchy of settlements are summarized in **Figure 1** and discussed in some detail in what follows.

Figure 1. Examples of inequalities across the hierarchy of settlements



Income tax figures clearly reflect the gap between rural and urban incomes. According to 1998 income tax returns, personal income tax per capita was 33,764 forints in the average village. This was 30% of the income tax in Budapest, 48% of the income tax in a county seat, and 69% of the income tax in the average rural town. Although 37% of the population live in villages, the proportion of villagers among taxpayers was as low as 16% in 1998. As the Hungarian saying goes, "The poor are the poorest". In this context, it means that rural residents

in the traditionally backward regions are in the worst situation in terms of income. In the north-eastern part of the country, the average personal income tax is 30% of the national average, one-sixth of the income tax in Budapest, and one-third of that for villages in Pest county, which is located in the Central Region near Budapest. The personal income tax in villages in Pest county was only marginally lower than that in a nearby county seat. These figures show that income inequality is influenced by the geographical pattern of economic development, and not only by the rural-urban dichotomy.

The collapse of large-scale collective farms and of rural industries that used to provide jobs for unskilled and semi-skilled labor deprived many rural families of their livelihood. The spatial structure of unemployment has not changed in the last ten years, with high unemployment rates (more than 12%) observed in the eastern and northern regions of the country and also in large patches in the south-west (Nemes Nagy). The economic growth (4–5% annual increase in GDP) was triggered by foreign investments, which favored the dynamically developing districts – the three north-west Transdanubian counties and the capital city (which attracted 54% of foreign direct investment and produced more than 40% of the country's GDP). Large investments in infrastructure, financed mostly by the state in the hope of increasing the capacity of underdeveloped territories to attract capital, could not counterbalance the lack of business-sector investments in backward areas in the north, north-east, and south-west, where both industry and agriculture suffer from structural problems. Because of the low industrial base, the share of agriculture is relatively high in the backward regions.

The share of enterprise capital registered in villages is 9.2%; the rest of the capital is in Budapest (55.8%), the county seats (17.5%), and rural towns (17.4%). The distribution of foreign direct investment (FDI) is similar to that of registered capital. The value of registered capital per capita is 13 times higher in the capital than in the average village. The county seats and rural towns are close to one another in this respect: the rural capital per capita figure is almost four times higher in Budapest than in the average county seat, which reflects the disproportionate and outstanding attraction of Budapest for investments. Employment figures follow a similar pattern, but with a significant difference. Only 14% of employees worked for village enterprises in 1998. The share of Budapest was surprisingly low – only 37% of employed, while the share of towns was unexpectedly high – 26% for county seats and 23% for rural towns. This means that the same amount of capital provides livelihood for roughly twice the number of employees in every settlement category compared to the capital, which is related to the much lower level of wages outside Budapest.

Despite lower wages, unemployment was much higher in rural areas than in urban centres. The unemployment rate in 1998 was as high as 8.2% of the adult population in villages, 7.2% in rural towns, 5.5% in county seats, and as low as 2.8% in Budapest. Almost half the unemployed lived in villages and 27%. Enterprise density indicators were inversely related to unemployment: they were lowest in villages for each enterprise category and highest in Budapest.

Differences in Human Capital

The last census was conducted ten years ago, in 1990. The detailed demographic data are somewhat outdated, but they still show a clear picture of rural-urban differences. In 1990, the proportion of population with higher education among those older than 25 years of age decreased from 18.2% in Budapest to 3.9% in villages, with a country average of 9.2%. We suspect that the situation has not changed much since 1990, and the distribution of highly educated population remains biased toward the upper posts in the hierarchy, particularly in Budapest.

The demographic and migration data, however, clearly depart from the patterns considered so far (**Table 3**). The age structure of the population was the least favourable in the capital and the out-migration was the highest in this city. The figures in villages showed the most favourable picture. Villages are the only settlement category where the migration balance was positive between 1990 and 1998. Although the representation of the elderly was slightly higher than the average, the proportion of young people under 18 was the highest in villages.

Table 3. Age structure, migration, and natural population decline by settlement categories

	Budapest	County seats	Provincial towns	Villages	Hungary
Population					
Over 60	22.5	17.9	18.2	20.3	19.6
Under 18	17.1	20.2	21.7	22.3	20.8
Between 18-59	60.4	61.9	60.1	57.4	59.6
Migrants per 1000 inhabitants 1990-1998	-14.7	-4.5		13.9	0.0
Natural decline per 1000 inhabitants 1990-1998	-62.2	-18.9		-6.8	-23.1

Source: Official statistics.

The social context of spatial processes provides an explanation for these trends, which at a first glance seem to contradict the pattern of differences in economic wealth among settlement categories. Beyond the general pattern of aging in advanced societies (e.g., the Budapest population), it is the process of western-type suburbanization that explains the high out-migration in Budapest and the spectacular immigration in the villages of the adjacent county (the migration balance was –1.1% and 7.7% respectively between 1990-97). Families in the middle and upper classes move from the most elegant districts of Budapest to the beautiful hills west of the capital, a process that started back in the mid-1980s and accelerated, with a different social content, in the 1990s (Váradi). The sharp rise of property prices in Budapest allowed also out-migration of the less well-to-do, but to less fashionable areas. The elderly and the unemployed were attracted to remote villages by the cheap prices of houses and by the household gardens, where part of the family consumption needs could be produced. The urban poor became migrants, causing serious problems in villages chosen by them as target areas (Kovács 1999).

However, it is not villages in general, but only villages in developing areas that have been experiencing positive demographic processes in the last decade. The migration index between 1990 and 1997 was positive only in seven out of the 19 counties, most of them around Budapest and in the prosperous north-west. On the contrary, out-migration exceeded immigration, producing a negative migration balance of around –3% in seven of the nine eastern counties, located in the structural crisis zone and in the traditionally backward regions.

The previous discussion suggests that the eastern part of the country and large patches in the south-west underwent a serious transformation crisis in the last decade. The sense of crisis is particularly acute for the villages of these areas. Villages tend to be less developed, less viable, and less attractive in terms of entrepreneurship and job creation than urban areas. Rural development policies should aim to rectify the situation. While some of the small villages continue to move towards oblivion, the luckiest will remain part of a living countryside, integrated into the economy that is growing around provincial towns and regional centres. This is a scale that allows investors to think about larger investments, which ultimately will provide alternatives to jobs lost in agriculture. When we consider the rural economy as an economy of regions, with interlinkages between villages and towns, then infrastructure issues, such as development of communications, transport, public and business services, coordination, and cooperation, come to the forefront as factors that may strengthen the regional capacity to create an environment attractive for large-scale investors.

HUNGARIAN RURAL POLICIES

The roots of the Hungarian rural policy go back to the 1980s, when a campaign of intellectuals directed the public interest toward remote rural areas and depopulating villages. The symptoms of rural problems were explained in different ways. Some viewed the situation as a natural consequence of industrialization and urban development, an equivalent of the rural exodus in western Europe (Enyedi). Others accused the over-centralized institutional system and the unfair urban bias of centrally directed redistribution (Vági). Yet others tried to understand the phenomenon as a long-lasting consequence of anti-peasant, anti-proprietor, anti-village policies of the early years of socialism that distorted the normal selection processes of rural communities by expelling the "pillars" of village societies – the kulaks (Kovács 1990).

Remote villages in backward regions became an explicit target of regional development policies in 1986, in compliance with the 1985 government decree on long-term regional development strategies. This first coherent regional development concept can be regarded as a direct predecessor of present-day regional development approaches for its two major features. It defined the least developed settlements, mostly villages with predominance of agriculture and small settlements in hilly aras, as target territories for development. Some goals of the strategy were in line with the present approaches, such as creating the preconditions for indigenous development through economic restructuring and modernization, as well as integrating the principles of environmental protection and nature conservation (Horváth 1998). Most of the limited results of this first initiative vanished soon after 1990, partly because of insufficient financial resources and the lack of an appropriate institutional system, partly because of the overall collapse of the socialist economy. One of the results that have survived is the institution of "village caretaker", who acts as an intermediary between clients and service providers in remote small villages.

After 1989, the new regime created a separate ministry with responsibility for environmental and regional affairs. A Regional Development Fund was established in 1991 for financing regional development. The principal tasks included (i) regional crisis management and economic strengthening of depressed and backward regions; (ii) implementation of infrastructure

projects in backward regions, and (iii) establishment of the basis for internal and international coordination. The new legislation formulating the tasks and means of regional development addressed for the first time specific rural development issues, such as making investments for the protection of natural beauty and agricultural areas, development of human infrastructure connected with the creation of new jobs, and development of village tourism. On the basis of the new criteria, the number of assisted settlements increased from 964 in the late 1980s to 1,325 and the proportion of the eligible population reached 17% (Horváth 1998).

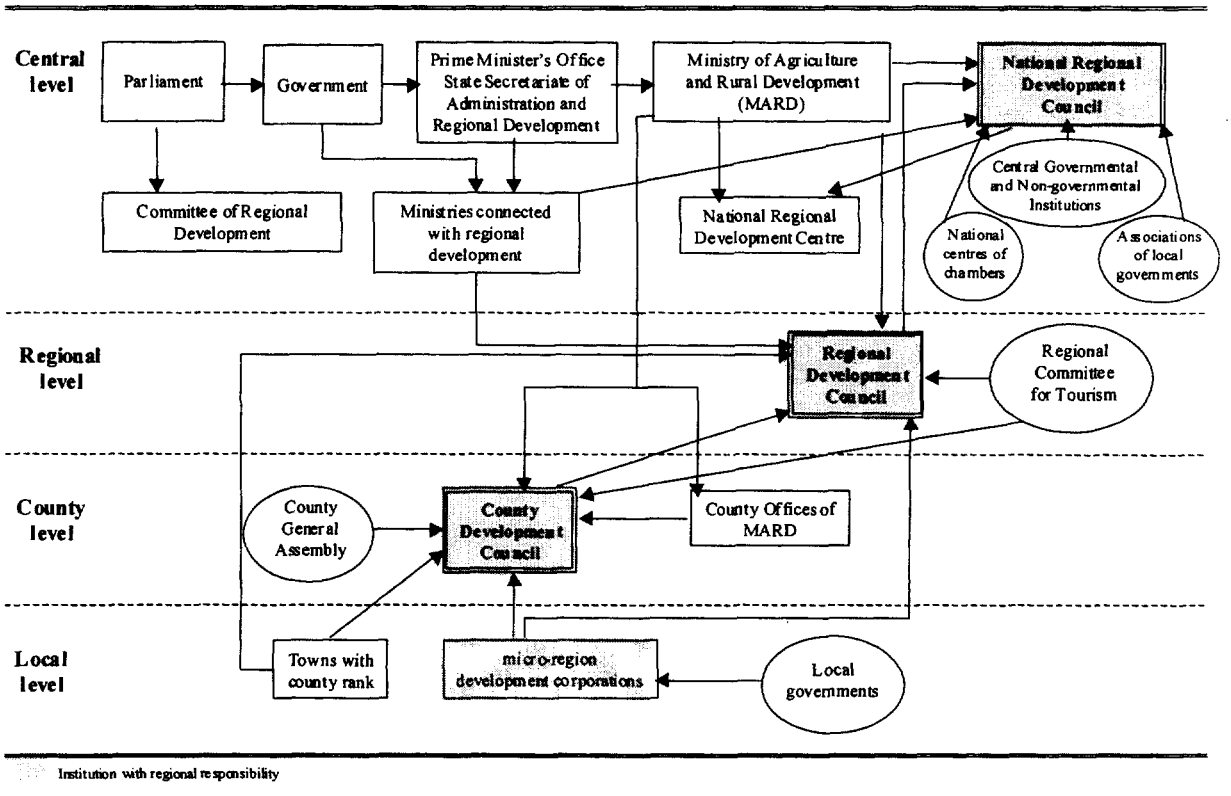
The basis of the present regional and rural development policies was laid down in the June 1996 Act on Regional Development and Physical Planning. The country was divided into five statistical and planning regions according to the five-level EU nomenclature of territorial units (NUTS). The first level is the country as a whole; the second level (NUTS-II) covers the seven regions; the third level (NUTS-III) comprises the 19 counties and the capital; the fourth level (NUTS-IV) covers 150 micro-regions (each roughly the size of a former district with about 10-30 settlements and a total population of 20,000-120,000); and the fifth level (NUTS-V) comprises 3,131 settlements.

An institutional regional development hierarchy was established. The hierarchy included (i) regional development councils at the top NUTS-II level, (ii) county development councils in the middle, at the NUTS-III level (19 bodies based on partnerships between local authorities, active participants in economic life, and representatives of the central government), and (iii) micro-region local government associations at the bottom, in the 150 NUTS-IV level micro-regions. The establishment of local government associations in the micro-regions was not compulsory, but as half the state grants for regional development was decentralized to the county level and placed under the control of county regional development councils (CRDC), the chances of influencing the distribution of these funds and participating in policy-making encouraged the establishment of such associations. The law did not allocate financial resources to the micro-region level. The associations had to cover operating expenses from membership fees. They could apply for support from CRDC budget if they decided to implement specific projects.

The most important task of the 1996 Regional Development Act was institution building, and it managed to fulfil this task, at least in part. An amendment passed in October 1999 aimed at strengthening the regional level institutions at the NUTS-II level under the pretext of accession preparations. All seven regional development councils have been active since 1999, their operation budgeted with state funds. However, the amendment raised a strong criticism from two interest groups, the representatives of the economic players and the micro-region local associations. The economic players criticized the changes, because the chambers of agriculture, the chambers of commerce and industry, and the Hungarian Foundation for Enterprise Promotion were not allowed to vote in the county and regional development councils, although they retained their full participation right in the National Development Council. The micro-regions were critical were critical for two reasons. First, the law continued to deprive the micro-region level from budgetary funds. Second, the number of micro-region associations that could represent the interests of local government in the CRDC was reduced from six to three. This curtailed direct representation and direct participation in policy-making at the county level, reducing ambitious local leaders in micro-regions to coordinating functions. The diagram in **Figure 2** schematically shows the structure of regional and rural development institutions that

has emerged from the 1999 legislation (this diagram updates the 1996 scheme published by Horváth 2000).

Figure 2. The actors in regional and rural development: 2000



The Regional Development Act sets the target areas of regional development at the micro-region level using a system of multivariable indicators. The disadvantaged regions and villages are divided into four types:

- areas underdeveloped by social and economic criteria,
- areas affected by a change in the industrial structure,
- backward areas of agricultural character,
- other areas faced with persistent significant unemployment

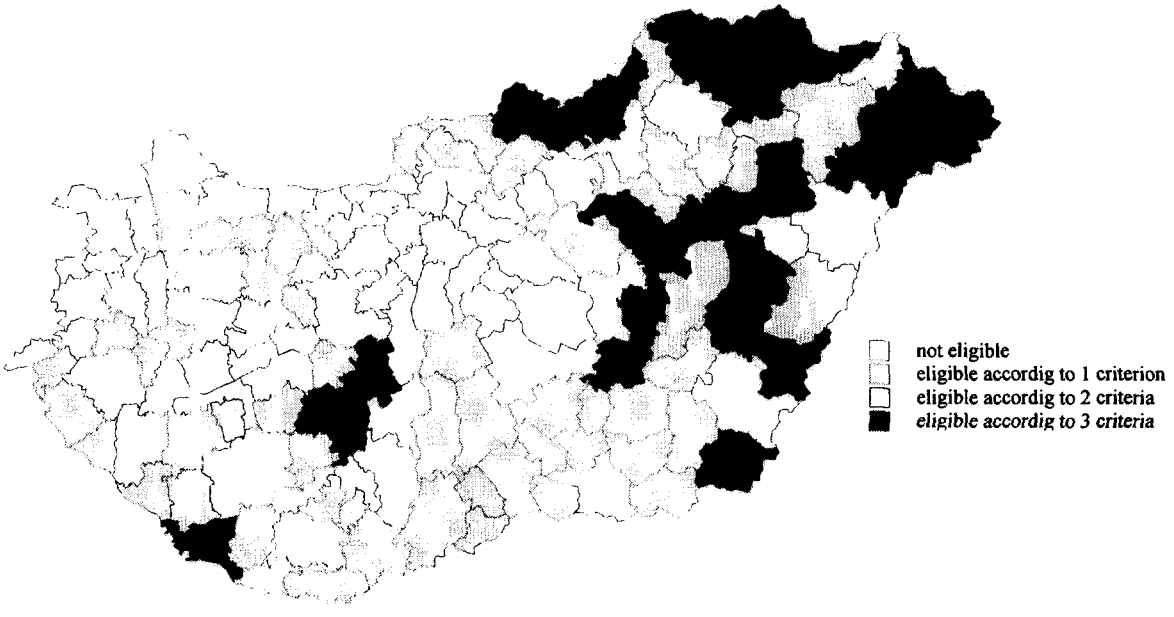
The villages and micro-regions eligible for regional development assistance are shown in **Table 4**. Their spatial distribution is displayed on the map in **Figure 3**.

Table 4. Micro-regions and settlements eligible for rural and regional development assistance 1997-1999

Eligible micro-regions	Micro-regions	Population 1997	Settlements
Underdeveloped micro-regions	83	3,017,400	1,650
Regions of permanent unemployment	41	1,742,100	911
Regions of industrial restructuring	6	383,500	94
Backward regions of agricultural character	38	1,321,800	840
Assisted settlements outside eligible regions		322,400	322
Total eligible regions and settlements	88	3,730,000	2,071
Percent of eligible regions and settlements	59%	37%	66%

Note: One region may be in more than one category.
Source: MARD.

Figure 3. Areas eligible for regional and rural development assistance



© CRS HAS, Source: MARD

The Regional Development Concept was issued in March 1998, almost two years after the Regional Development Act. The main regional development goals laid down in the Concept were specified as (i) the enhancement of the restructuring process in declining industrial areas, (ii) the implementation of more complex development in rural areas, and (iii) the creation of new jobs in areas with long-term unemployment. With reference to rural development goals, the Concept states the following (Horváth 1998):

> The structures of agricultural production must be fostered, and the cooperation of farmers (including further processing of products) in sales corporations and integrated systems must be encouraged. The spread of additional, part-time jobs among the agricultural population, together with the growing numbers of jobs in the tertiary sector, must be supported, as well as programs concerning social policy within the agricultural sector. The development of communities at the local level and the preparation of development programs – with an emphasis on the protection of nature, the landscape, and the environment – should be supported.

A multisectoral approach coupled with partial decentralization has been essential for integrated rural and regional development policies. Through institution building driven by regulations, they promoted the introduction of major European principles into everyday practice, such as partnership, subsidiarity, additionality, and concentration of resources. These are the major strengths of the policies. As it was a first attempt, it did not achieve its goals fully, but major steps were taken in the desired directions. The lack of safe monitoring system, the absence of the civic sector and the faint presence of the bottom-up approach undoubtedly represented the weakest points of these regulations. However, this spatial policy alone has not been able to show up great achievements, simply because of the inappropriate funding that never exceeded 1.8% of the GDP between 1991 and 1997.

The New Rural Development Policy

The parliamentary elections in 1998 brought about substantial changes in the organization of regional and rural development. Within an overall reorganization of ministerial responsibilities, rural development was separated from regional development for the first time, and both were moved from the Ministry of Environmental and Regional Development to the Ministry of Agriculture and Regional Development (MARD). The Hungarian name for MARD actually includes the term "rural development", and accordingly the Chief Department for Rural Development Programs (DRDP) was established in the ministry alongside the Chief Department for Regional Development (DRD). A clear separation of rural development from regional policy was thus made explicit at the level of government, although the legal situation did not change and rural development policies continue to be guided by the Regional Development Act and the Regional Development Concept. The separation of the two policies was further strengthened with the introduction of separate budgetary allocations in 2000. To cover the implementation of Regional development policies were budgeted at 11.5 billion forints, while rural development was allocated an additional 3.7 billion forints in the 2000 budget. The two programs together roughly equal the total public funds that will be available each year under the SAPARD scheme and one-tenth of the total amount of agricultural subsidies.

The principles of the new rural development policy were laid down in a 1998 mission document prepared by DRDP. The main objectives were listed under four broadly formulated priorities: (i) development of human resources, (ii) enhancing economic potentials, (iii) the management of natural resources, (iv) protecting the environment. These priorities express the country's commitment to two EU rural development approaches: the rural development policy as a second pillar of the CAP and the LEADER initiative.

The objectives listed in the DRDP mission document highlight the new lines of rural development policy with a marked move from a large-scale, multisectoral, exogenous development approach of the previous integrated rural and regional development policy towards a smaller-scale, one-sector, endogenous development approach. The earlier policies tried to foster capital-inflow from the outside, while the new policy concentrates more on resource management and it is closer to agricultural and agri-environmental issues than the earlier approaches.

HUNGARY'S SAPARD PLAN

SAPARD assistance at a level of 38 million Euro annually was targeted to help Hungary's agriculture and rural areas toward sustainable adaptation in the pre-accession period. This amount represents about 8% of the budget for domestic agricultural support programs in the year 2000. Preparation work for the Hungarian SAPARD Plan started at the end of 1998, when a unique multi-layered planning procedure was launched by DRDP. This procedure produced during 1999 separate plans for different levels: the county level (NUTS-III), the regional level (NUTS-II), and finally the national level. Micro-region level (NUTS-IV) plans were being prepared throughout the year 2000. Thus, paradoxically, one of the main goals – the bottom-up construction of the whole procedure – could not be met in full: the "bottom", representing the micro-region strategic programs, was the last in the planning sequence. In general, it should be noted that the multi-layered planning procedure, including full-country coverage, was inherited from traditional regional planning as prescribed by the 1996 regional planning law.

Table 5 summarizes the measures aimed at fulfilling the main agricultural and rural development goals and the proportion of joint financial resources allocated to the two groups of measures. The table is based on the second draft of the Hungarian SAPARD plan, which is the last version released for public scrutiny in March 2000 after lengthy discussions within MARD and between MARD and EU officials. The plan was criticized for failing to meet the requirement of concentration of financial resources. Many critics objected to the sectoral preferences favoring the traditional branches of animal husbandry (pig, beef and dairy cattle, poultry) and fodder production instead of encouraging a structural change toward market-oriented gardening and fruit production. The most dubious measure of the plan is probably the support of agri-processing. Over 60% of the food industry was dominated by foreigners in 1997 (Raskó), and the foreign share has been increasing continuously since then. There is thus a danger that at least part of the SAPARD funds will shift to foreign multinational firms. This would sharply contradict the original philosophy of SAPARD aid as formulated in the relevant EU legislation.

Table 5. Assistance measures and allocation of financial resources in the Hungarian SAPARD Plan

Sectoral classification of measures	Title of measures	Share of available funds (%)
Agricultural measures	Investments in agricultural holdings	28.3
	Improvement of vocational training	1.7
	Improvement of the processing and marketing of agricultural and fishery products	20.0
	Agri-environment measures	4.2
	Setting up producer groups	7.3
	Processing and marketing fishery products	0.5
Agriculture total		**62.0**
Measures in rural development	Renovation of villages	9.0
	Economic activities providing alternative income	15.4
	Improvement of rural infrastructure	12.0
Rural development total		**36.4**
Technical assistance		1.6
Total		**100.0**

Although no clear decision was made in the SAPARD plan as to what farm types are to be supported, the category of small-scale individual farms was totally excluded from participation. Instead of direct SAPARD support, small farmers would enjoy the benefit of premium points via assessment criteria that take into consideration a variety of factors, such as time devoted to farming, farm specialization, relevance of investment, farmer's age, participation in a cooperative, and regional characteristics.

Major controversies concerned the geographical scope of the plan. Despite the detailed EU definitions of predominantly and typically rural areas at the micro-region level, the plan opted for the single index of population density (equal or below 120 persons per sq. km) as "appropriate to indicate rurality". Thus, settlements with relatively low population density become eligible for rural development measures instead of micro-regions. One of the most important merits of the Hungarian SAPARD preparatory work, the spatial (regional) approach, seems to have disappeared from the recent drafts, leading to a serious contradiction with the basic principles of the planning procedure.

Implementing institutions for the agricultural and rural development parts of the plan will probably be different. The agricultural measures will be managed by MARD county offices with extended staff, while the rural development measures will be administered and monitored at the NUTS-II level by the seven regional offices. This practice again will bring rural development closer to regional development, and agricultural development projects will probably link up smoothly with domestic agricultural support programs.

The Hungarian SAPARD Plan was grounded within a multi-layered planning procedure, which is a modified version of the practice of regional planning introduced by the 1996 Regional Development Act. The new approach successfully eliminated two major shortcomings of the earlier practice – its weaknesses in bottom-up design and monitoring, but it lost a lot in terms of multisectorality by linking rural policy with agricultural and agri-environmental policies and shifting to a resource-management approach. This should not cause serious problem if the responsibility for addressing structural adjustment needs and job creation is assumed by regional policy and if cooperation between rural and regional policies can be assured.

CONCLUSION

Integration of rural and agricultural policies is one of the main tasks that needs to be addressed if agriculture is to be reinstate as one of the success sectors of the Hungarian economy. The necessity of such policies and the idea of integration had been present in the Hungarian development philosophy prior to 1998, when the concept of rural development appeared. The development concepts aimed at preventing peripheral villages and underdeveloped areas from further decline, while fostering the links to agriculture in regions where it provided the major source of income. In the post-socialist era, rural policies focused on infrastructure investments, as the most important goal was attracting capital and strengthening the development potential in the declining areas. Unfortunately, insufficient financial means did not make the fulfilment of these goals possible.

The new rural development policy is more integrated with regional development than with agriculture, as it remains under the guidance of the amended Regional Development Law. Yet in reality it distances itself markedly from regional development, trying to find its own special approach and field of intervention. The SAPARD preparations have played a major role in this respect.

What, then, is the prospect for rural policy? Will it remain separate, in between, or integrated? And if integrated, then with what? We believe that integration has to be extended, in an improved way, to embrace all segments of the rural economy. Rural development policies, in a firm alliance with regional development policies, have to stand above sectoral policies, including agricultural policies and those for other sectors of the economy. Present tendencies do not favor such developments, and in many respects opposite processes are taking place. Nevertheless, we hope that integration of the two spatial policies in an improved way will happen in the longer run. Otherwise, there will be insufficient alternatives in the non-farm sector, and agriculture will remain overburdened, as it is today, or will be abandoned.

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Part Four

International Experience and the Role of International Organizations in Supporting Rural Development in the EU Accession Candidate Countries

Major Achievements and Gaps in Rural Development in the European Union

Laurent Van Depoele

The EU's current structural policies for rural areas have evolved progressively from the structural policies first introduced for the agricultural sector in the 1960s, shortly after the introduction of the first CAP market regimes. Since 1988, the EU approach to structural policies for rural areas has been considerably strengthened and widened, and the financial resources allocated to rural development considerably increased. Rural development policies are now a key component in the EU efforts to achieve economic and social cohesion, with 30 billion ECU of Community funds allocated to rural development policies for the period 1994-1999.

WHY WE NEED A RURAL DEVELOPMENT POLICY

More than 80% of the EU territory is rural, and approximately 20% to 25% of its population lives and works in the countryside. The diversity of Europe's rural areas, the rich variety of its natural landscapes, the skills and cultural heritage of the rural communities are an essential part of Europe itself. Our 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. While rural areas in Europe have much to offer to society, they are particularly sensitive to structural change and have to face special challenges. Rural areas are often characterized by their low population density and fragile environment.

Technical progress and the continued liberalisation of markets for agricultural products mean that agriculture is no longer the backbone of the economy in many rural areas. The number of agricultural holdings in the EU continues to fall – the total dropped from 8.6 million in 1989 to 7 million in 1998. 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 5%, but the situation varies between Member States: from 2.2% in the UK, where the process of agricultural restructuring is well advanced, to over 20% in Greece. The average age of half the workers in the sector is over 55 and much of the agricultural workforce is employed only part-time. Looking ahead, the pressure for change in agriculture is expected to continue, particularly given the prospects of the next World Trade Organisation (WTO) negotiations on agricultural trade, the society's increasing aspirations for a more environmentally friendly and

quality-oriented agriculture, and the prospect of EU enlargement to the Central and Eastern European countries.

In addition to the situation within agriculture, the development prospects for rural areas are often limited by poor infrastructure, gaps in service provision, shortage of employment possibilities outside agriculture, and a lack of training facilities. Young people often leave the villages to look for jobs and a higher living standard in urban areas. In some rural areas which are experiencing inflows of population there may be a lack of affordable accommodation for the offsprings of local families who want to set up homes of their own in the area, forcing them to leave. This outflow of young people deprives the villages of their most valuable human capital and further endangers their future. The socio-economic situation of rural areas within the EU is extremely diverse. Some countries are experiencing continued population loss, high unemployment, and low income levels, while others are experiencing inward migration, pressure on the natural environment and services, etc. Rural areas in the EU are facing and will continue to face major structural changes. EU rural development policies are intended to help rural areas meet these challenges.

ECONOMIC AND SOCIAL COHESION

The turning point for structural policies for rural areas, as we know them today, took place around 1988. In July 1987 the *Single European Act* came into force. Its aim was to achieve a single, united European economic area. The move to a Single Market made it more imperative than ever to reduce the disparities between backward regions facing structural handicaps and to create more successful and prosperous regions within the Community. The Maastricht Treaty of 1993 strengthened the EU commitment to achieving cohesion. It turned cohesion into one of the three pillars of European construction, alongside economic and monetary union and the Single Market. It also strengthened the legal basis for EU rural development policies, anchoring them firmly in the context of EU efforts to achieve economic and social cohesion by adding the words "including rural areas" to Article 130A of the Single European Act:

> In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the level of development of the various regions and the backwardness of the least-favoured regions, *including rural areas*.

This language clearly reflects an explicit recognition that wide disparities are intolerable in a union.

The European Council meeting in Edinburgh in December 1992 adopted the Delors II financial package, which applied from 1994 to 1999. It gave further financial solidarity to the political commitment to cohesion. It was also agreed to double the Community financial resources allocated to the Structural Funds and confirmed that by the end of the period 1994-99, expenditure on cohesion policies should reach 0.46% of the Union's GNP. The rural development policy has to be seen as an instrument to narrow over time the economic and social disparities between Member States, regions, and social groups and to improve the overall harmonious development of the EU.

RURAL AREAS

Rural Europe, as it is generally understood, extends across regions, landscapes of natural countryside, farmland, forest, villages, small towns, pockets of industrialization, and regional centers. It encompasses a diverse and complex economic and social fabric: farms, small shops and businesses, commerce and services, small and medium-sized industries. Home to great wealth of natural resources, habitats, and cultural traditions, it is assuming an increasingly important role for relaxation and leisure activities. The success of terms like "rurality" and "rural areas" lies in their apparent clarity. They are immediately understood by everybody because they evoke a physical, social, and cultural concept which is the counterpart of "urban". But, in reality, building an "objective" or unequivocal definition of rurality appears to be an impossible task.

Member States have generally developed their own definitions of rural areas. These are often based on socio-economic criteria (such as agricultural patterns, density of inhabitants per square kilometer, or population decline) and are quite heterogeneous and not universally applicable. At the EU level, there is no common definition. OECD has recently developed a simple definition of rural areas for the purpose of making international comparisons of rural conditions and trends, which has proved useful despite the great differences in rural problems, perspectives, and policies at the national level. The definition distinguishes two hierarchical levels of territorial unit: local and regional. At the local level, OECD identifies rural areas as communities with a population density below 150 inhabitants per square kilometer. At the regional level, OECD distinguishes larger functional or administrative units by their degree of rurality, depending on what share of the region's population lives in rural communities. To facilitate analysis, regions are then grouped into three types:

- predominantly rural regions: over 50% of the population living in rural communities;
- significantly rural areas: 15 to 50% of the population living in rural communities; predominantly urban regions: less than15% of the population living in rural communities.

In the framework of the EU Structural Funds policy until 2000, rural areas were under Objectives 1, 5(b), and 6. For the programming period 2000-2006 all rural areas are covered by the rural development policy. Rural areas under Objective 5 (b) were defined as regions with low levels of socio-economic development as assessed on the basis of GDP per capita that additionally satisfied at least two of the following three criteria:

- a share of agricultural employment higher than the EU average;
- a level of agricultural income below the EU average;
- a low population density and/or a significant depopulation trend.

The predominantly rural areas under Objective 6 (established at the accession of Sweden, Finland, and Austria) have a population density of 8 persons per square kilometer or less. For the period 2000-2006 these areas are included in Objective 1.

COMMUNITY SUPPORT TO RURAL AREAS

Community support under the Structural Funds policy is targeted to overcoming structural handicaps and to contributing to the revitalization of rural areas. **Table 1** presents the breakdown of funding by programming periods. A comparison between the first programming period (1989-1993) and the second programming period (1994-1999) leads to the following conclusions:

- The financial resources of the Structural Funds on a yearly basis nearly doubled. For the present period (2000-2006) there is only a slight increase compared with the previous period.
- The share of the financial resources available for agriculture and rural development under Objectives 5(a) and 5(b) also doubled and it constitutes about 10% of the total amount available. The average yearly amount available for the LEADER II Community initiative was substantially increased from 1991 to 1994. The financial resources for LEADER+ (2000-2006) are maintained at the 1994-1999 average yearly level.
- In Objective 1 regions the share of EAGGF support for "agriculture and rural development" was between 15% and 18% of the structural funds available for Objective 1 during both periods.

Table 1. Structural Funds by Period (in billion Euro)

Objective	Period 1989-1993	Period 1994-1999	Period 2000-2006
Objective 1	43.8	94	136
Objective 2	6.1	16	22.5
Objective 3&4	6.6	15.2	24
Objective 5(a)	4.1	6.9	now EAGGF guarantee
Objective 5(b)	2.2	6.8	now EAGGF guarantee
Objective 6	-	0.7	now Objective 1
Total by objectives	63	139	184.5
Community initiatives*	5	14	10.5
(LEADER)	(0.45)	(1.7)	(2.02)
Total structural funds	68	153	195
Average/year	13.6	25.5	27.8

* Community Initiatives are special financial instruments of structural policy which the Commission proposes to the Member States on its own initiative to support measures that may help solve problems having a particular impact at the community level.

Objective 5(b) regions covered in the programming period 1994-1999 about 26% of the EU area, representing 32.7 million people or 9% of the EU population. Objective 1 and 6 regions covered in the period 1994-1999 roughly 47% of the EU territory and 93 million people or 26% of the EU population. The whole of Greece, Ireland, Portugal, and the German New States were classified as Objective 1 regions plus 77% of Spain and 41% of Italy. In budgetary terms, Objective 1 received 70% support of structural funds expenditures while Objective 5(b) regions received 5%. Expressed in per capita terms, EU support for Objective 5(b) ranges between 135 Euro (Denmark) and close to 400 Euro (Spain) for the whole period, which is about a fifth of the amount spent per capita within Objective 1. Community co-financing can reach 75% in Objective 1 and 6 regions (80-85% in exceptional cases) and 50% in Objective 5(b) regions.

On the basis of the national or regional programs in 1994-1999 one can see that there are considerable differences in the way Member States allocated the funds for agricultural and rural development. In Objective 1 and 6 rural areas of Ireland, Sweden, and Finland compensatory allowances for farmers in less favoured areas swallowed the major part, while Belgium focused on investment at the farm level and in the agri-food industry. In Spain, Italy, and France, spending on diversification of the non-agricultural sectors, including assistance for SMEs, predominated. The Netherlands, Germany, and the UK dedicated most of their allocations to wider rural development measures such as renovations of villages and rural infrastructures. In Objective 5(b) regions in Spain and France the emphasis was on the improvement of the agricultural and forestry infrastructure, while in Belgium, the Netherlands, the UK, Finland, and Sweden more attention was paid the non-agricultural sectors. In Germany and the Netherlands measures for the protection of the environment became extremely important. Public infrastructures were targeted in Spain, whereas private economic actions were given priority in Italy.

MAJOR ACHIEVEMENTS

Agricultural income is only one component of the total income of many agricultural households. Part-time farming, pluri-activity and the general reliance on other sources of income increased over time and will probably continue to grow. Like farm structures, agricultural incomes are highly differentiated between regions, such as mountain areas, less favoured areas, etc. Among the areas with agricultural incomes above the EU average we find nearly all the northern "favored" areas, i.e., France, Germany, the UK, Ireland, Benelux, Denmark, as well as parts of Italy and Spain; many northern less favored areas, especially in France, Germany, the UK (except Northern Ireland), as well as some in Spain and Italy; and most of the French mountain areas as well as some mountain areas in Spain and Italy. Among the areas with incomes below the EU average, it is relevant to distinguish between those where incomes have evolved better than the EU average and those where they have evolved worse. In the first group we find in particular Ireland and many areas of Spain and Italy. In the second group we find nearly all the areas of Greece and Portugal, as well as several in Italy.

In the past, many Member States encouraged the installation of industrial units, with a view to diversifying their rural economies and taking advantages of the available workforce and cheap building sites. This kind of employment was often based on labour-intensive, low-skill industries such as textiles, clothing, leather and footwear, which have suffered substantial job losses in recent years. More recently, other kinds of activities have emerged, linked in varying degrees with agriculture and rurality. Public services and activities expanded in rural areas during the years of strong economic growth and have had an important territorial effect. In Sweden, every third job in predominantly rural areas is in the public sector, including community, social, and personal services. However, given the need to reduce budget deficits in some Member States, strong reliance on public sector employment may prove an even greater handicap for rural areas than their past dependency on agriculture. The banking system is of crucial importance for rural areas, not so much as an employer but mainly as a provider of financial services, especially to SMEs, which represent the majority of rural businesses.

Two other possibilities that have gained a lot of currency in certain rural regions over the last decade and which will certainly see further growth over the coming years are rural tourism and the use of telecommunications and information technology. Employment related to rural tourism, both on- and off-farm, is already an important source of income in many areas. In particular, it provides part-time jobs for many people who would otherwise have difficulties finding suitable employment. The link with the natural, environmental, and cultural amenities offered by the region is obvious. However, tourism is certainly not a panacea for all rural areas, and failures have been registered, especially where the availability of accommodation, leisure infrastructures, and marketing skills do not develop at the same pace. Training programmes and all kinds of information are now available on-line, and rural areas as a result no longer need be cut off from the mainstream. Rural development policy is becoming a policy from "the field to the internet".

Between 1989 and 1999 rural economies managed to create employment to compensate for losses in the declining sectors, although in general at a rate below national job creation rates. Some rural regions, however, are among the most dynamic in the EU in that they have been more successful in generating a higher level of new employment opportunities than the national economies as a whole. Rurality is not in itself an insurmountable obstacle to job creation; it is not synonymous with decline, as urbanization and agglomeration are not automatic guarantees for prosperous development. The regional disparities in employment are higher than the disparities in GDP evolution, which highlights the importance of the development strategies implemented at regional level.

The success of the dynamic rural regions is not based on any special sectoral mix. Like most other rural regions they normally have a share of declining industries above the national average. The creation of rural employment results from a specifically territorial dynamics which may not yet have been systematically analyzed at the EU level, but which seems to include such features as a sense of regional identity and social cohesion; an entrepreneurial climate, a capacity to link up with the economic mainstream, public and private networks; a good educational level; and an attractive cultural and natural environment.

The Development of New Forms of Partnership and Cooperation Reflecting Subsidiarity

In the conclusions of the Agricultural Council of September 22-23, 1997, one can read the following important sentence:

> The maintenance of a living rural fabric which reflects the pattern of European society is an important objective for all delegations. To attain that, action must be based on partnership and cooperation with respect of the principle of subsidiarity.

This involves close collaboration at all stages in the programming between the Commission and all the relevant authorities and bodies at national, regional, and local level, including economic and social partners appointed by each Member State. The aim is to involve all authorities more closely in the Union's future and to encourage the best possible use of public money. This has two-fold significance: it means more responsibility for all concerned and a more decentralized management. In the context of the LEADER Community Initiative, it has made

financial resources, technical expertise, and know-how immediately accessible to local rural communities, families, and young entrepreneurs in a manner not previously known or available. Thousands of such communities, families, and individuals across the EU can now engage in self-help projects and acquire new skills and confidence. Here the principle of subsidiarity is operating in its most creative and effective form. In terms of local democracy at work, it is all here: the bottom-up approach, the collective voice of local citizens, the participation of individuals in the development and management of their own enterprises, the social esteem, and the social inclusion of marginalized rural communities that follows from such activity.

The Promotion of an Integrated Development Strategy

For far too long the sectoral approaches towards sustaining rural communities and regions of the EU, i.e., approaches focusing the agricultural, social services, and manufacturing sectors, have dominated policy thinking and practice at all levels. This has led to a fragmented response to the development of rural communities. It is now widely accepted that rural problems cannot be addressed except through a more comprehensive and integrated development strategy. Rural development policy is seen as a broad notion encompassing all important issues pertinent to the individual and collective vitality of rural people and places. The following development elements are recognized as the key dimensions of the integrated approach:

- **Economic:** development of regional/local resources.
- **Social:** access to public services, such as education, training, healthcare, transport, telecommunication, housing, water, and related services.
- **Environmental:** protection and enhancement of the total ecosystem and the environmental habitat.
- **Cultural:** provision for the preservation and renewal of regional/local culture.
- **Communal support structures:** informal caring networks and adequate personal security for rural people, with particular reference to senior citizens.
- **Basic legal and social rights:** provision of relevant information about rural citizens' entitlements and opportunities for active participation in local development and about rights for protection against poverty and social exclusion.

Local Identity: 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 a strong identity. The power of expression of an area that has emerged from anonymity changes the way people see the area; the image and uniqueness increase the area's appeal and its products become more desirable. Placing an element of local identity at the core of a territorial strategy has made it possible for unused, neglected, or forgotten resources to regain their value and to give rise to unique products resulting from unusual combinations of different elements and sectors. In some cases, the launch of an image or slogan associated with one of the area's identity components has made it possible to bring scattered products together and create new product ranges.

"Village du Pain" (Village of Bread) was the theme chosen by the inhabitants of Bovenistier (Belgium) to revive their social and cultural life and redevelop this little village of 370 inhabitants. After taking stock of the human and physical resources available so as to decide what was feasible to achieve locally, a local group chose to adopt the "theme-village" strategy, which consists of grafting a variety of projects onto a single theme. Bread was the chosen theme, in view of the importance of wheat growing to the region and the existence of a school of traditional bakery in the town of Waremme, as well as a traditional bakery in Bovenistier itself. The first Bread Festival was organized in 1993. In view of the success of the event which grew year by year, the public authorities redeveloped the village (public facilities, green areas), the bakery sector flourished once again with new shops opening in the towns of Waremme and Liege, studies were undertaken with a view to developing craft industries, children's creative workshops were set up, etc. Jobs were created, attracting new inhabitants: in 1996, the Bovinestier school catered for nearly 70 children, compared with only 23 nine years previously (LEADER European Observatory, December 1999, p. 12)..

Local Players: Best Placed to "Imagine" a Future for Their Area

The decline of certain areas, even if quite advanced, is never terminal because local players make it possible to explore new avenues of development. In some cases, an effort is made to enhance and restructure existing activities, but in other cases, when the situation has deteriorated too much, a completely new project may be envisaged in an area for which a new identity and image has to be created.

The upper Loire Valley (Rhône-Alpes, France) has an exceptional archaeological heritage which, since 1973, has been the subject of archaeological research but as has had no direct no direct spin-offs in terms of local development: for nearly 25 years, researchers and local players were blithely unaware of one another's existence. The launch of the local LEADER II program in 1996-97 marked a new milestone: the aim now is to build bridges between research and territorial development by creating a product that is totally new to the area – "volcanic tourism." A meeting between scientists and the LEADER group provided an opportunity to discuss their respective views and wishes. The scientists wanted logistical resources in order to examine in more depth, define assess the research results amassed over their 25 years of work, whilst at the same time expressing their willingness to seek the means to publish the knowledge they had acquired. With this knowledge, the LEADER group expected the scientist to help redefine and promote a territorial identity. An agreement was reached, as a result of which a series of scientific activities has now been organized, including the preparation of monographs of prehistoric sites, the organization of permanent and travelling exhibitions, the organization of guided tours and introduction/demonstration days for groups on request, and publications, brochures, films, etc, for both scientists and the general public. These activities have provided the momentum for a territorial development process on scientific and cultural tourism on the theme of early history and volcanoes.

In some cases, visionary players came forward to present a totally new product or service that had a multiplier effect.

In the Greiz area (Thuringia, Germany), an east German region that has been hard hit by unemployment, the "ARTigiani" association was created at the initiative of a young joiner, specialized in renovation, who, with LEADER support, restored an abandoned half-timbered house. The building was then turned into an art gallery and cultural center, which went on to attract artists, students and craftworkers, before leading to the creation of the ARTigiani association, which works to bring arts and crafts together.

Networking

A vital European LEADER network of local groups has been established for the purpose of exchanging experiences, broadcasting news of mutual willingness to learn from each other, and announcing possibilities of cooperation among rural areas. Cross-border cooperation not only serves the purpose of planning and carrying out joint projects but also demonstrates the possibilities for the development of rural Europe.

MAJOR GAPS

The Dilution of the Concentration Principle

In the programming period 1994-99 the Structural Funds were covering 51% of the EU population with 0.46% of the Union's GNP. As the First Cohesion Report presented by the European Commission in 1997 pointed out, "scarce resources should be better targeted on the most serious problems and problem areas while addressing priority concerns which are relevant to the prevailing economic circumstances." The principle of concentration of resources on the most disadvantaged regions has been approved for the programming period 2000-2006 since at the end of this period the total assisted area coverage will be reduced to 40% of the EU population. However, a danger of dilution still remains since the phasing-out principle (transitional support to those areas which no longer meet the eligibility criteria) will in practice maintain the said population coverage. The geographical concentration of financial efforts on a limited number of areas is of vital importance.

A Strategic Approach

Regional programming is a major feature of the Structural Funds. This requires a good strategic approach, which is often lacking or limited in scope. In most cases the strategy is limited to sectoral options and improvement of infrastructure. There is quite often a loss of efficiency due to a lack of a sufficient number of dimensions of regional strategy and this partly as a consequence of time constraints in preparing a development plan.

An Integrated Approach

The integrated approach has affected only certain rural development sectors (tourism, handicrafts and produce, in particular) with the other sectors continuing, for the most part, to depend on sectoral approaches at central level –especially anything to do with infrastructure, spatial planning, large-scale agricultural production, service provision, social policies, etc.

Partnership

Partnership working is often confined to the local level, with only limited impact on major national and regional policies.

Administrative and Technical Constraints

The success of the implementation of the structural funds policy in a region largely depends on the administrative and technical capacity of the team in charge of the preparation, the management and the monitoring of the programme. In general, the most fragile regions often have the weakest administration and consequently have a serious handicap compared with stronger regions.

CONCLUSION

Rural areas in the EU are confronted with an array of problems likely to seriously affect their viability, such as an ageing population, rural depopulation, and job losses. Some areas have confronted these problems with success. They have managed, with the aid of the Structural Funds, to create a territorial dynamism that attests to their ability to invent new solutions in response to the challenges they face. The possibilities for the development of rural areas depend on many factors, the most important of which may be summarized as follows.

- The political will of the competent authorities to create economic and social cohesion between the different regions, which implies transfer of public money.
- The establishment of a multisectoral policy: there are no rural communities without agriculture, but there is no viable agriculture without living communities based on diverse economic activities.
- Good infrastructure, including public and social services, education, consumer goods, etc.
- The availability of recreational and cultural activities.
- The quality of the environment, which in the context of a multifunctional agriculture becomes an important service to be offered by farmers.
- The links with the urban areas.
- The administrative and technical capacity of the team in charge of rural development.
- The bottom-up approach, which implies not only listening to the voice of the local citizens but also increasing their participation in the local/regional decision making. Although we note the emergence of civil societies, there is still a deficit in "social capital", i.e., the capacity of the people to work together for common purposes.
- The ability to develop all the resources (tangible and intangible) by structuring them around promising focal points;
- A global strategy instead of a sectoral one, which deals with the whole range of available instruments from "the field to Internet".

FAO Experience and Main Thrusts in Rural Development in the EU Accession Countries

Janos Juhasz
Santiago Funes

Over the past decade, world food supplies have increased faster than overall population growth. Nonetheless, the extent of food insecurity in the world remains severe. FAO estimates that, in the mid-1990s, 824 million people, 96% of whom live in developing countries, did not have sufficient food to meet their basic nutritional needs. The problem is not one of aggregate supply but of geographical distribution and lack of access. These people have either limited access to productive resources or lack the income to produce or purchase the food they need. In addition to the chronically undernourished, millions more suffer from temporary food emergencies as a consequence of natural and man-made disasters, including a rising number of conflicts. Rural development is all the more essential because the vast majority of people who suffer from chronic or temporary hunger live in rural areas. Although the proportion of the world's population living in rural areas has been declining, the absolute number has surpassed 3 billion people and is expected to stay at that level at least for the next 30 years.

FOOD SECURITY IN THE WORLD

Food security exists when all people, at all times, have access to sufficient food, both in terms of quantity and quality, necessary for a healthy and active life. Asia still accounts for two-thirds of the total number of undernourished, although spectacular progress has been registered in East Asia and some other Asian countries. Africa south of the Sahara is still home to 23% of the world's hungry. In this region, which is plagued by the highest proportion of the undernourished in the population, there has been no progress in decreasing these numbers. In Central and Eastern Europe poverty and food insecurity are severely affecting pockets of rural and urban population as well. It is worth noting that, in the period from 1980 to 1996, among the 13 countries in the world that have managed to reduce most substantially the proportion of food-insecure in their population, five were in Africa. Thus, there are signs of hope.

To us in FAO, sustainability of rural areas has a fundamental meaning. It describes the conditions whereby, over time and in the course of a society's social and economic development, the rural space maintains its attractiveness for people to live and to earn a living. For rural development to be sustainable in this sense, it is necessary that policies and institutions provide for an equitable balance of services between rural and urban areas as well as equitable access to resources. It must also ensure empowerment for participation in the political processes and

provide job opportunities to choose from under changing market conditions. The alternative to such a strategy would be a continuation of excessive rural-urban migration.

RURAL DEVELOPMENT POLICY IN CEE

The overall objective of FAO's rural development policy in CEE is to reduce poverty and support economic growth. The practical implementation of this approach can be achieved by providing differentiated assistance to the countries in the sub-region in accordance with their diversity. Of especial significance is the reduction of disparities in the European Region and assistance to less favored areas in their development. Therefore, rural development cannot be seen as a single development strategy that consists of agricultural policy measures. Rural areas include people, economic development activities, institutional, economic and social infrastructure and natural resources. As emphasized in the Cork Declaration, a rural development policy in the European region requires a multidimensional approach.

The main objective of the transition process in CEE was to restructure the centrally planned allocation of production factors into a market-oriented allocation process. This transformation implies a fundamental change of all institutions, e.g., restructuring of property rights and distribution, political and organizational framework and the formal and informal rules regulating the relations between citizens, organizations and the government. Although the agricultural sector is still a dominant sector for income generation in rural regions, attention is increasingly given to the non-farm sector and its role in the rural economic development, to social aspects and environmental issues. The importance of the non-agricultural sector is largely due to its potential in absorbing excess labor from the agricultural sector and urban-rural migration. Additionally, the farm sector is linked to the larger economy through a network of input purchases and product sales. It purchases its inputs such as equipment, fertilizers, feed, seed and labor from upstream sectors. In turn, it sells its products to downstream sectors that process, transport, distribute, manufacture, retail, or consume the products.

POLICY INSTRUMENTS FOR RURAL DEVELOPMENT

The strategy of FAO focuses on support to agricultural growth, consideration of the diverse roles of agricultural production and support to rural development by fostering institution building and community development. However, policy instruments have to consider the particular situation in each country. Therefore, three groups of CEE countries can be distinguished: the first group has introduced public policies which are relatively encouraging to the emerging markets in the sphere of prices, trade policy, tax, land ownership, and legal reform (the more advanced Central European pre-accession countries). In the second group of countries, reforms began later and therefore these countries are still engaged in privatization of farmland and agricultural enterprises and in deregulation of markets (e.g., Bulgaria). In the third group, several policy instruments have been introduced but the policy framework and institutional environment are neither market-based nor anchored in government strategies or plans (e.g., Azerbaijan, Georgia). Significant to all groups in the European Region is the need for policy instruments based on a cross-sectoral context taking into consideration the relationship of the

rural population to the different rural sectors existing in rural areas and, additionally, the system of links between urban and rural areas.

FAO assists CEE countries in building up a market based food and agriculture system and protecting national resources. Moreover, an efficient private service sector in rural areas has to be established which would include, according to the level of development and stage of transition, those institutional aspects (e.g., property rights and organizational framework). Comparative advantages of FAO are in the area of community development, training in trade, market and price policy. In this context, FAO assistance in pre-accession countries focuses on the provision of a conceptual framework and analytical tools, to assess how macro- and micro-economic policy measures may affect economic and social development at the individual and household level. Within the framework of its Technical Cooperation Program, FAO assists these countries in conducting agricultural sector reviews, and formulating rural development strategies by selecting policy instruments according to the local and regional situation and regional development objectives. In the future FAO rural development policy has to foster diversification of a rural economy and to support the creation of micro-businesses by assisting in training and implementation of advisory services.

RURAL SPACE: ATTAINING SUSTAINABLE LAND MANAGEMENT

Rural development is linked, above all, to the use of rural space, which, in practical terms, is defined through the process of spatial organization. A prerequisite for efficient land use planning and sustainable land management is land consolidation. FAO's approach in this respect is based on a number of new principles (Riddel and Rembold):

- Land consolidation has to be participatory, democratic and community driven.
- The focus is on rural livelihood rather than on primary production of food staples.
- The end result is community renewal, that is, sustainable economic and political development of the whole community.
- It is founded on the principle of assisting the community define new uses of its resources and then reorganize its spatial components (parcels) accordingly.

This approach requires the combination of classical land consolidation techniques with the participatory approaches that have been made possible with the advances made in spatial data technology. Indeed, when FAO was founded it was just assumed that some form of land consolidation would be necessary for rural development. Parcels had to be reorganized to take advantage of new equipment, drainage, irrigation and so forth. However, under the existing technological constraints it proved too slow and laborious a process. Some kind of cadastre had to be made of the existing parcels to ensure that under the new plan, everyone would get land of equal value. By the time the existing situation was recorded and mapped to everyone's satisfaction, the process would be held hostage to the resolution and sub-division of the property of those who had died in the meantime. It was taking 25 years or more to complete the consolidation of a single village and by the time it was done, a whole generation had passed away and it was time to start again. Many Member States sought to shorten the process by imposed land consolidation programs, which never worked. Indeed, by the 1970s the whole concept of land consolidation had fallen into disrepute as too expensive and too slow.

Spatial data techniques (orthophoto mosaics, high resolution satellite imagery, digital thematic mapping and so forth) have provided the technical fields associated with land resource planning with a powerful means of discussing land use and administration across decision-making boundaries, from the farmgate to the national planning office. It has proven an effective tool for community participation in every situation in which we have been able to try it. Therefore, it is our conclusion that the technology of spatial data infrastructure (GIS, LIS, etc.) is a groundbreaking conceptual frame that crosscuts all the resource planning fields and the people who depend on them. Thus, we can help people to easily see the relationship between their land tenure units (LIS) and the land use planner's agro-ecological zones or the land administrator's environmental protection areas. It provides a basis for meaningful dialogue because the concerns of the land user, the planner and the administrator can be discussed at the same intuitive level. Another important aspect is that none of the parties has to be an expert in the technology. Often the government administrator in charge of environmental planning decisions, for example, has no more knowledge of the technology than does the land user. It is a tool, not the answer, and it is a cost-effective way to include in all our projects the means of allowing the land users to truly participate.

These new participatory tools made possible by the advances in spatial data techniques have revolutionized another critical aspect of land consolidation programs. This is the presentation of alternative solutions. For participation to be a truly democratic process it must at the same time be a truly interactive bargaining process. Land users must have an idea of all the possibilities, the effect of planning restrictions, policies and directives and to see the impact of their own proposals, change their proposals and have the time to think about the implications.

RURAL INSTITUTIONS AND CAPACITY BUILDING

During the last ten years in most of CEECs one of the main objectives of agricultural policies was to transform large-scale collective agriculture to more efficient and privately owned farming units. Consequently many new family farms have emerged in all countries. In Poland and countries of former Yugoslavia, such type of farm structure was dominant even before the transition period. Regardless of the initial situation, in both groups of countries, implemented policies did not have a positive impact on the performance of family farms that are still striving to adjust to the new economic and social environment.

It is generally recognized that governments would have a significant role to play in transforming the economy efficiently, both from an economic and a social point of view. The most important critical factors affecting the adjustment of family farms to structural change, and which makes them less efficient and competitive, are related to the macroeconomic environment and agricultural policy measures, but there are also several factors that have their origin in the micro environment of the farms. Nevertheless, family farms have a high potential to improve their livelihoods, provided that they have a higher degree of specialization and better position as well as improved access to input markets. The major constraints to the improvement of family farm livelihoods in CEE fall into three major categories: (a) inappropriate human capital; (b) inadequate services; and (c) incomplete institutional framework.

The dismantling of former large-scale cooperative farms created a hiatus of service providers as yet unreplaced by either the private or the public sectors. Services are generally underdeveloped and service providers are missing in rural areas. This applies to agricultural as well as non-agricultural services, such as education, extension, health and childcare, etc. Civil society organizations are also in a transitional stage. Generally speaking, CEECs are characterized by two types of civil society organizations. On the one hand, a significant number of old organizations have survived and operate, although reformed to a greater or lesser degree, under the new conditions. On the other hand, an increasing number of new organizations emerge with a great variety of activities.

Based on the above, both farm and non-farm institutions and organizations play a determining role in rural development and need significant assistance in CEE. To that end, large parts of the policy analysis methodologies consist of analyzing existing institutions and their role in development. Furthermore, the support to institutional change and strengthening development management capacities at decentralized levels is necessary. Decentralization can favor the establishment of the necessary mutually supportive relationship between central governments on the one hand, public sector and non-governmental organizations and groups operating at sub-national levels, on the other. Moreover, the development of a local capacity for identifying, preparing and monitoring socio-economic interventions is felt to be the necessary corollary to successful policy implementation. In addition, the coordination of different policy issues is required at a regional level. This is necessary in the same way for the different groups of countries. The ACC Network on Rural Development and Food Security in Central and Eastern Europe could play a significant role in supporting this coordination. Existing and active FAO National Committees could support these activities.

MARKET INFORMATION SERVICES

The provision of market information has been recognized by nearly all EU accession countries as vital for rural development and all (except Slovenia) have now established market information services (MIS), usually with assistance from PHARE/TACIS, the World Bank, or USAID. A recent review by FAO of market information services in CEE countries noted, however, that MIS have not, to date, been particularly successful in meeting the needs of smaller farmers as they tend to have an administrative rather than a market-oriented focus (Shepherd).

Farmers can use market information in the short term to improve their negotiation skills with traders or to decide whether or not to sell products on a particular day. On occasions farmers or traders can use information to decide to which of two or more markets they should send or take their products. This particularly applies to horticultural produce, where prices can change rapidly. However, MIS presently disseminate price information too infrequently for it to be of much use in this regard. Most MIS only send out prices on a weekly basis, sometimes less frequently. In the longer term farmers can use annual price series to make decisions about what and when to plant. Thus market information can be helpful in encouraging crop diversification and off-season production. All MIS are collecting and disseminating information that can be used by farmers to make such decisions. Unfortunately, few are presenting the information in a form in which it is easily accessible to and easily understood by farmers. Where analysis of

annual price trends is carried out, circulation of reports is limited and farmers are frequently unaware of the availability of such information. Training of extension services in marketing matters can assist and, in fact, is being introduced in a number of countries. On the other hand, in some countries the extension services are weak or almost non-existent and other ways of getting information to farmers need to be considered.

AGRICULTURAL KNOWLEDGE AND INFORMATION SERVICES

Knowledge is one of the key areas of rural development. Many issues are common in CEE countries and need special attention when formulating agricultural knowledge policies and strategies. Agricultural knowledge and information services in almost all countries are focusing on technology and production aspects and there is little attention given to human aspects. The drive for privatization of extension services most probably has resulted from the fact that hundreds of researchers and subject-matter specialists who used to work on vast state farms became suddenly jobless when the state farms were divided into small farms and given to new owners. The concept of grassroots extension program planning is rarely followed. The countries are hardly looking beyond the extension experiences of West European countries, possibly in their zeal to join EU. As a result they are not benefiting from the experiences in other parts of the world and are not taking into due consideration their own circumstances and requirements. Rather than working in a self-centered way, the countries should have a wider view of their own region, identify the agricultural strengths and gaps in individual countries and then plan a regional agricultural strategy, keeping in view the global market rather than limiting themselves to the EU market, and avoid competing with one another.

According to a recent survey, small farmers receive the lowest priority from extension services in a situation when the main challenge for the owners of farms is how to run their farms as an enterprise, since they have no past experience in this field. However, most of the extension advisors, being narrow specialists in a single discipline at state farms in the past, are now faced with the difficulties in advising farmers on the management of the entire farm in a comprehensive way. Obviously, the quality of extension advice is questionable. The countries have all kinds of financing for extension services ranging from fully public funding to partially and fully privatized services. However, extension impact assessment is normally not done.

RURAL FINANCE

The financing of agricultural and non-agricultural activities in rural areas of CEE is still one of the biggest bottlenecks. It has considerably improved since the beginning of the transition process, but particularly in less advanced pre-accession countries, rural financial systems are not functioning properly. In many countries the banking system continues to provide credits for large farms and enterprises but there are no provisions for credits to the private sector and, in particular, to micro-businesses.

Lack of liquidity and poor management qualifications are among the main constraints in the restructuring of enterprises. To meet the tasks faced by the financial sector during the process

of transformation is challenging. First, it is crucial to build the required institutions, legal and regulatory framework that is pertinent to guarantee an independent, reliable, and competitive financial sector. Countries like Hungary and the Baltic states are comparatively well advanced, while others have still a long way to go in modernizing this crucial sector (EBRD). Second, economic stability is pertinent for a well functioning financial sector; if not, it is difficult for financial organizations to mobilize savings and offer long-term credit lines when inflation is high (Heidhuis et al.). Third, human capital formation is crucial to create an efficient financial sector. The implementation of new rules of the game requires training in banking, information technology, legal aspects and business administration. Fourth, the development and consolidation of the privatization of assets are needed to facilitate financial intermediation. In particular, access to long-term loans depends on the availability of marketable private assets and collateral due to information asymmetries (Schrieder et al.).

WOMEN AND YOUTH IN DEVELOPMENT

The reality of women and men living in rural areas throughout the EU accession countries is being influenced and transformed by the wider socio-economic and political context. Rural women in the accession countries are a heterogeneous population. Their socio-economic situation and their roles differ depending on the characteristics of their respective country, household and farm structure, and personal characteristics, such as level of education, age, and marital status. Rural women are vital and viable actors in the sustainable development of agriculture and rural areas. It is essential that the impacts of different processes and additional specific variables influencing their socio-economic situation and participation in public and political life be analyzed and taken into consideration by researchers, planners, and decision-makers. FAO through its various activities has been striving for recognition of rural women's contribution to development and for their empowerment in the public and political spheres. The dissemination of methodologies to increase awareness of gender issues in agriculture and rural development, regional and national capacity building on gender analysis and technical fields, and facilitation of the international exchanges of experiences represent an important part of FAO's activities in accession countries.

In CEE, as in other parts of the world, youth represents the future and hope of every country. The high returns on resources invested in young people today have both immediate and long-term benefits. Where they exist and are functioning well, rural youth programs play an important role in building life skills of young individuals; strengthening families and communities; and working towards sustainable agricultural and rural development as a major contributor to the overall progress of a country. Young people in CEE, if given adequate training and support, can play a significant role in agricultural and rural development.

Rural youth are involved in economic activities and every attempt to enhance the knowledge, skills, and experiences of young people and increase their access to resources through rural youth programs will have an immediate positive impact on rural economies. Youth programs have the potential to empower youth to become agents of change in their local communities. Youth need to be viewed as resources for development rather than as objects of development. There is also a potential to strengthen families. Although focused on young people,

community-based rural youth programs easily lend themselves, with a little planning and effort, to the active involvement of all family members. Furthermore, rural youth programs can help young people feel good about themselves through positive activities and significant accomplishments of personal and group goals. It has been demonstrated over and over again that young people tend to take a special interest in conservation and the management of natural resources. They are more ready to accept and promote sound environmental practices than adults are. Youth have demonstrated a readiness and ability to exert a significant influence on society as a whole in this critical area. Rural youth programs can become the catalysts that energizes the process of environmental education in a country leading to practical applications on a large scale, thus contributing to sustainable development.

PRIORITY ISSUES AND CHALLENGES FOR SUSTAINABLE AGRICULTURAL AND RURAL DEVELOPMENT

To better understand and develop ways to strengthen sustainable rural development, it is worth briefly mentioning some priority areas where challenges are most urgent for accelerated sustainable agriculture and rural development and the eradication of food insecurity. One of these is sustainable intensification of agriculture. The production increases required to improve food security and to meet the needs and changing demand patterns of a growing and increasingly urbanized population will have to result mainly from intensification of agricultural production — either in the form of higher yields or through increased cropping intensity. However, growth in cereal yields, both in developed and developing countries, has been declining since the green revolution of the 1970s. Higher yields will depend on an increased priority being accorded to investment in primary agriculture and upon the agricultural research and extension system making a wide range of modern technologies available and accessible. However, though partial intensification of agriculture has already been achieved in many regions, the sustainable intensification of agriculture without further degradation of natural resources and the environment still remains a challenge.

The future of land consolidation/amelioration programs will rest on our ability to successfully bring together into a single conceptual package the needs, capabilities and aspirations of rural populations with the knowledge of agro-ecological planning, farm-gate level agricultural economics, and sound sustainable environmental planning. For the first time we have the tools needed to achieve this level of sophistication. The future prospects of sustainable rural livelihoods look much brighter on the land tenure front.

Another important agenda item is to improve vertical and inter-sectoral integration. Rising productivity should be stimulated by suitable price incentives arising from efficient markets for inputs and agricultural produce. Increasing supplies of agricultural products will help to support economic growth and generate employment in economically dynamic rural areas and in high population areas near urban centers. This occurs through the vertical integration of production systems, leading to increases in value added before produce reaches the ultimate consumer. Conversely, the full benefit of higher productivity will be felt only if it is accompanied by increases in marketing efficiency at each point in the marketing chain. Addressing consumption patterns and the distribution of benefits and ensuring food safety along all links of the food production and processing chain should form part of a wider agricultural

development and food security strategy. Input and output linkages to other sectors — especially the non-farm rural sector — have also proved to be critical in ensuring agricultural development and viability and in offering additional employment and income-earning opportunities to rural people. The promotion of agro-industries and closer economic integration with fisheries, forestry and tourism are therefore of great importance.

Another priority area is the still high level of support and protection to agriculture in developed countries that adversely affects agriculture in other countries. These support policies depress commodity prices, which reduces returns to farmers and undermines agricultural investment in developing countries. While net food-importing countries have benefited from the commodity surpluses, over the longer term the access to cheaper imports has led to reduced incentives for domestic agriculture. The remaining distortions have mostly negative consequences for non-subsidizing exporting countries, including developing countries. Reduction of support and protection in higher-income countries, including the reduction of export subsidies, could make a significant contribution to both agricultural trade and, more generally, to sustainable agriculture and rural development in developing countries.

Information, participation, and empowerment are critical to sustainable rural development. There is a need for increased access to modernized information technology for capacity-building and for making farmers better informed about practices, prices and access to inputs and output markets. Empowerment of local communities through enhanced knowledge and access to information, new skills, and greater capacity to plan and manage their affairs is vital to the success of sustainable agriculture and rural development. This needs to be backed by institutional reforms including strengthened governmental implementation processes and budgetary management. The importance of active participation of farmers in producer associations, field schools and other local community groups involved in sustainable intensification and diversification processes has been amply demonstrated. Better distribution of knowledge and information is essential for achieving sustainable agriculture and rural development. One could reasonably expect that the next years will witness more rapid progress in reaching sustainable agriculture and rural development goals, based upon improved knowledge management and access to information leading to greater transparency and better co-operation.

Success in achieving strengthened sustainable agriculture and rural development will largely depend on resource flows and financing mechanisms in the rural sector. It is necessary to explore ways to attract investments and to develop modalities for ensuring that a larger share is channeled to agriculture and to rural areas in general. Potential synergies between public and private investments in agriculture and rural areas need to be reexamined. However, private investments can only be attracted if adequate levels of public goods and services are provided.

CONCLUSION

To conclude, there is a need to stress that all of the above mentioned areas are interrelated. Success will come developing all these areas at the national and international level to move toward the common goal of sustainable rural development and world food security.

Although some progress has been made towards improving individual policy measures and developing better programs for natural resource management, rural development and poverty alleviation, the challenge of designing and effectively implementing complementary policies still remains. Success depends on a conducive policy environment that can deliver increasing agricultural investment, recognize the realities of farming in an increasingly global market, promote natural resource conservation, and enhance human and physical infrastructures that enable all stakeholders to contribute to sustainable agriculture and rural development goals.

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Rural Development and the World Bank: Varied Experience and Continuing Challenge

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This review describes progress in the World Bank and elsewhere towards improved rural development, based on the lessons learned over the past five decades or so. The importance of agricultural and rural development in broader economic development of the less-developed world has long been recognized in the World Bank and by its many partners in the development effort, not the least being the governments of the many countries that are still highly dependent on the contributions made by their rural sectors. By the 1990s, there was growing recognition that all was not going as well as it should and could be. Several institutional changes in the Bank in the mid-1990s led to a major rethink of rural development. First, there was a reaffirmation that poverty alleviation was the central objective in all Bank effort, an aspect that had not been so explicitly a feature of all project interventions in the past. A new rural development vision was articulated that also highlighted the necessity for ensuring that agricultural and rural growth would be widely shared in rural communities. The traditional Bank concern for food security at all levels was also included, but several new dimensions were added, including a commitment to foster sustainable natural resource management. Second, explicit recognition of the Bank's new commitment in the 1990s to work on rural development issues in the CIS and CEE brought a new set of strategic considerations. The mechanisms adopted for putting the vision into action, some of the problems encountered, and current progress, are described. The lessons being carried forward to guide development in the new millennium are sketched.

THE SETTING FOR AN IMPERATIVE CHALLENGE

Rural development is a central element of economic development. Of the nearly one billion poor identified in some 60 poverty profiles completed by the Bank, over 70% live in rural areas. Despite rapid urban growth, a majority of the poor will continue to live in the countryside for decades to come. Without a major sustained effort to reduce rural poverty, the global efforts in poverty reduction cannot be successful. Clearly, efforts by the Bank and others on the past have been insufficient, and questions must be asked if the developing countries have benefited as much as they should have by past interventions. Policy makers and development analysts surely must give more attention the poor who live in rural areas.

But there is more to rural development than just alleviating poverty. The rural environment is being compromised in many places to the point where the ecosystem can hardly be described

as healthy; witness the many problems of heavy-metal pollution of soil resources in CIS, for instance. Connectivity to the world economy is poor in many rural areas distant from urban centers, and often effectively disconnected from trade opportunities. The global interdependence of nations increased phenomenally in the past three decades because of rapid growth in international capital markets, adoption of flexible exchange rates, and the information technology explosion. In the realm of trade, barriers have been reduced but there is still far to go.

Hundreds of millions of private farmers, men and women, working farms small and large, are the stewards of the vast majority of the globe's natural resources. Most recognize the importance of maintaining and enhancing their productivity, and have shown that they can do so, given proper incentives. But the accounting methods, policies, and institutional frameworks in place are not always as conducive as they should be to responsible management. Of the world's fresh water used directly by people, agriculture uses (or mis-uses) more than 70% for irrigation. Many water-linked ecosystems are in bad health (Water and Nature), and one has to think no further than of the lands bordering the Aral Sea, to encounter disturbing examples. Agricultural practices are major contributors to non-point source pollution. Deforestation remains a critical issue. The global challenges of climate change and loss of biodiversity require major efforts. Doubling production per unit of land in 50 years will require sustainably intensified production systems be developed in supportive policy and institutional settings for rural development.

There is growing recognition of the diverse contributions that forest resources make to development and to the global commons; providing not only wood but nuts, fruits, soil and water protection, flood control, recreational opportunities, carbon sequestration to offset global warming, and perhaps the most complex and extensive source of wildlife habitat. However, capture of the benefits from forest cover – especially by people living in or near forests – is frequently impeded by tenure and forest-use policies (von Amsberg). The lack of effective mechanisms to transfer compensation from those who benefit from sustainable use and conservation of forests to those who can gain more from conversion of forest land, compromises sustainability. In many countries, forests continue to be exploited without due regard to the long-term interests of societies, because of the combination of strong rent-seeking behavior by commercial users and forest officials, and highly centralized and bureaucratic forest services. This leads to poor forest management and protection, and a stifling of local communities' participation in the use and protection of the resources.

The non-farm aspects of rural development remain systematically under-attended, in part because of the lack of adequate understanding of what works, and how governments and development agencies can most effectively intervene (Ellis; Reardon et al.). These questions are being specifically addressed in the new Bank identifying more cogent and more broadly based rural development processes in the early part of the new millennium.

RURAL IMPORTANCE IN ECONOMIC DEVELOPMENT

Early development economists tended to disregard the role of the rural economy in playing much of a part in development. In the 1950s and later in many countries, the emphasis was on industrial investment to foster economic growth, usually with a strong urban bias. At best, the

rural areas were seen as merely the source of underemployed labor that could be re-deployed in industrial enterprises. The many failures of this model led to an eventual reconsideration of possible agricultural contributions to development, particularly after the successes of the green revolution, and especially so in South Asia.

The extensive literature of this history has been analyzed by many observers, such as Johnston and Mellor; Hayami and Ruttan; Krueger, Schiff, and Valdés; Norton and Alwang; Mellor; and Carruthers and Kydd, among many others. Notwithstanding the lessons of the deep past, in most of these and earlier development discussions, the rural environment seldom featured prominently or at all (until the late 1980s, as noted by Staatz and Eicher).

As is outlined in following sections, the recent World Bank rural strategy (World Bank 1997, hereafter *VtoA*) departed from the earlier tradition of mainstream development economics, and gave rural development a central place in economic development of agrarian countries. This was not just as an engine of growth but as a primary focal point of poverty alleviation, and responsible use of the natural resources underpinning agriculture and the rural landscape (Crosson and Anderson). The vision of responsible resource management was widely shared among key players in rural development such as the FAO, bilateral donors, non-governmental organizations (NGOs) and the multilateral development banks.

RETHINKING RURAL DEVELOPMENT STRATEGY AT THE END OF THE CENTURY

As rural development moved up in the development agenda during the 1960s and early 70s, analysis of problems in the rural sector and project interventions therein identified many issues of ownership, design, implementation and supervision. The era of Integrated Rural Development Projects (IRDPs) had emerged in the early 1970s. Fortunately, there has been a good deal of reflection on the experiences of this era in the Bank, donor, NGO and academic communities (Belshaw; World Bank 1978).

Several basic concerns drove the IRDP approach to rural development (Ruttan). The multiplicity of constraints faced by smallholders were felt to be inadequately addressed in projects with a piecemeal approach to selected weaknesses in local institutions and infrastructure. In preparation for Robert McNamara's influential 1973 Nairobi speech, there was a renewed interest in the Bank to strive to benefit the poor. Explicitly addressing human development aspects such as health, nutrition and education, along with directly productive aspects of the agricultural environment, were felt likely to be both socially vital and synergistically productive. Special efforts are needed to reach the weakest and most remote members of society, who seldom benefit from "trickle down" effects of interventions not directly targeted to them. Active participation by *all* potential beneficiaries in change processes was desired so as to move marginalized members of society from oppressive dependency structures. Designing project interventions to reflect these constraint-removing desiderata proved difficult from the outset, dating from USAID efforts in North Africa and elsewhere in the 1950s and 1960s (Kumar). Activity levels and project preparation among the donor community and the

Bank increased in the 1970s, when enthusiasm for broad-based projects of this type reached a high pitch (Smith, Lethem, and Thoolen).

Critical scrutiny of many aspects of implementation, such as by Lele; Klitgaard; Korten and Alfonso; Moris; Johnston and Clark; and Chambers, and in a World Bank Operations Evaluation Department (OED) study in Brazil, also grew rapidly in the 1970s, leading to a proliferating literature on key design issues. Among the many concerns was the consistent tendency for under-performance in the planned monitoring and evaluation work designed in the projects (Clapp-Wincek), because the same inherent complexity in scope of project activities led any effective monitoring to be similarly complex, difficult and expensive. With this history, it was inevitable that the OED would review experience in this area of rural project work, and a study began in 1987. The draft report was discussed and contrasted to the experience of other donors in a Development Assistance Committee (DAC) Meeting of June 1988 (a synthesis was given eventually by Binnendijk), and later published (OED).

The OED review of the Bank's rural development experience was critical of many design elements, including setting up enclave projects outside regular administrative structures, excessive reliance on expatriate technical assistance, and a tendency to up-scale projects before adequate pilot experience had been gained. Linkage to civil society was usually vague and fragile, especially in the early projects, although subsequent project preparation, along with considerable institutional commitment in the 1990s, and implementation of rural development initiatives, has emphasized close working arrangements with diverse NGOs. Also, this has come with a sharpened understanding of the need for more decentralized approaches and administrative structures to engage effectively with communities in both design and implementation of rural development efforts. The problems of World Bank rural development work in this era have been well documented (Donaldson), and understanding of the intrinsic weaknesses featured strongly in the thinking for the Bank's new rural vision, reflected in the 1996/97 strategy (*VtoA*) as well as the Bank's recent general development Framework (the "CDF", defined and discussed below).

VISION AND ACTION

A vision of what was needed was put together in 1995 by distilling the lessons of past endeavor in and outside of Bank operations, and an action plan for a new rural development strategy (*VtoA*) was debated and accepted by the Bank's Board of Executive Directors. Thus *VtoA* became one of the planks of a new Strategic Compact for Bank renewal, with special additional funding for a period of four years (terminating in fiscal 2000).

The new rural strategy ***From Vision to Action*** had four interrelated goals:

- Poverty reduction
- Widely shared growth
- Household, national and global food security
- Sustainable natural resource management.

These goals were to be guided by five key principles (*VtoA*, p.5). First, the policy and institutional framework must be supportive of project success. Second, where possible, the private sector must be mobilized to provide investment capital, production, and most services. Third, the state must shift away from heavy intervention in the economy toward promoting enabling macroeconomic, fiscal and sectoral policy environments. Fourth, a plurality of institutions must be involved: community-level groups and lower-level governments, as well as central ministries. Fifth, where feasible and advantageous, projects and programs should be decentralized, and designed and executed with a high degree of influence and participation by community associations, and local governments. In addition, a Strategic Checklist for Rural Development was developed (*VtoA*, p. 8) which included key implications (such as for land policy reform) for rural development initiatives in CEE.

NATURAL RESOURCE MANAGEMENT ISSUES IN *VISION TO ACTION*

The diagnosis in *VtoA* went from the global to the regional as follows. Future increases in food supplies must come primarily from rising biological yields, rather than from area expansion and more irrigation, because land and water are becoming increasingly scarce (Mitchell, Ingco, and Duncan). Many new lands brought under cultivation are marginal and ecologically fragile, and cannot make up for the land being removed from cultivation each year because of urbanization and land degradation. The sources of water that can be developed cost-effectively for irrigation are nearly exhausted, and irrigation water will increasingly need to be reallocated for municipal and industrial use. Thus expansion of irrigation or increased intensification through irrigation are not viewed as major opportunities. New irrigation projects are increasingly expensive and subject to much stricter environmental standards. The analysis identified that production on existing rainfed land will need to nearly double to provide a diversified, storable, and transportable food supply to an expanding urban population.

REGIONAL PRIORITIES FOR RURAL DEVELOPMENT

For brevity in this forum, let us focus on the immediate region. The main challenge in CEE was to reform agricultural policies that in the past encouraged inefficient and environmentally unfriendly farming and other practices (Hertzman). The strategy was to base rural lending on a graduated response to thresholds of policy reform, including price and trade liberalization, agribusiness and farmland ownership change, demonopolization and deregulation of marketing, and financial sector reforms. Exceptions were to be made for projects with long lead times, such as research, or for activities such as land registration that will enable a policy change, when made, to take effect promptly. A second major challenge, unique to the region, is the severity of the needed restructuring and rebuilding of agriculture and the agro-industrial complexes. This was a task without precedent. The Bank was to continue to devote a large share of its resources to non-lending services, particularly to analyze land and rural property issues, and the impact of privatization on efficiency and equity, and to assist with determining the necessary legal and regulatory framework for agribusiness, environmental and rural services. Needs identified for other regions (World Bank 1997) varied greatly, and differed significantly from these, but we do not have the opportunity to go into them here.

PROGRESS IN IMPLEMENTING THE NEW STRATEGY

While *VtoA* did not set World Bank targets for rural lending, there was a clear expectation that the identified actions would result in a resurgence of lending for agriculture in particular, and continued growth in other rural lending. The overall trend has been generally positive, although not as pronounced as had been anticipated:

- Rural lending was expected to increase from about 60 to perhaps 75 projects a year, if present intentions come to pass. The uncertainties, however, are considerable, and there has been considerable year-to-year volatility, with frequent deferment of conceived operations.
- In terms of commitments, agricultural projects were expected to increase from $2.6 billion a year in FY98-9 to $4.3 billion in FY00-01, with rural non-agricultural projects increasing from $0.8 billion a year to $1.2 billion. Total rural lending was thus anticipated to increase from $3.4 billion a year to $5.5 billion, or approximately 20% of total Bank lending, but it has generally slipped behind this expectation.

Reviewing Country Assistance Strategies

VtoA featured a strategy to ensure that rural development is better reflected in Country Assistance Strategies (CASs), which identify the investment priorities for Bank lending. CASs in the late 1990s became the vehicle through which key decisions about resource allocation are made, in a program dominantly country driven. But was the rural dimension of development being adequately addressed in the emerging CAS practice?

A 1999 review by OED showed that the new strategic approach to rural development was judged to be broader than before, but the extent of this breadth was underestimated; and there was no integrated strategy that addresses the larger role that rural areas play in the Bank's work program. There were several reasons advanced for this. The Bank's knowledge base was judged to poorly serve the cause of rural development. Rural sector work was still declining. Poverty assessments rarely contain really good and reliable estimates of the incidence of rural poverty, even in that majority of countries where most of the poor live in rural areas. Many agreed that off-farm employment is important but the dynamics of rural non-farm enterprise were still poorly understood. There was no consensus about which of the lengthy menu of possible rural development interventions is likely to have the largest payoff in terms of growth and poverty reduction.

Further improvements in quality of rural projects will surely require more focused attention to institutional development, a message that is reiterated in the latest and still emerging Bank development thrust in the late 1990s: the Comprehensive Development Framework. The Framework or CDF includes the following as one of its five principles: "Sustainable poverty reduction requires holistic, long-term country development strategies with equal weight to the social and structural as to the macro and trade agenda". Recent analysis of aid effectiveness (World Bank 1998) reinforces this message. Now that many of the macro and sector policy distortions identified in the 1980s have been sorted out, a good case can be made for paying more overt attention to institutional capacity. Much emphasis is also given to effective partnerships, a concern fortunately increasingly mirrored by many of the potential partners in and

outside the OECD (FIPA/IFAP; Bathrick). Most of the Bank's partners now have their own vision of how better to proceed with future rural development work, and there is an active interplay between these and the Bank's own emerging thinking as it seeks to work more effectively with its many partners. By way of illustration, one of these is that crafted by the UK Department for International Development (DFID), namely Sustainable Rural Livelihoods (Farrington et al.). In this, the central focus on poverty elimination is set around an appreciation of different types of capital (human, financial, physical, social and natural) available to rural households, their vulnerability to change, and instruments to increase their well-being without undermining the natural resource base.

The "logical framework" approach officially adopted by the Bank makes clear distinctions between outputs, project development objectives, and sector-related goals from the Country Assistance Strategy; but this intended procedure is not yet being used consistently in Bank documents and procedures. At present the framework is applied to project documents as a means to ensure clarity in stating objectives and systematic description of project design. Although the new project documents require Task Leaders to specify indicators, the discussion of monitoring is often skimpy, and the situation is not aided by the scarcity of government collection and assembly of "rural" data. The framework's potential as a participatory planning tool is not yet being fully exploited.

As the Bank (on this occasion in close alignment with the Fund and in close consultation with other development partners) moves into the new millennium, another new approach is being developed, namely the Poverty Reduction Strategy Paper (PRSP) approach. This approach gives primacy to a poverty focus in development work, and is to be championed by the Borrower countries, which will be supported to put in place effective poverty-focused initiatives. These naturally will pay particular attention to the needs and opportunities for poverty reduction in rural areas.

THE CHANGING WORLD BANK PORTFOLIO

Changes by sub-sector have been significant in the Bank's "rural" portfolio, defined by recent institutional convention to include all agricultural operations, along with rural roads, natural resources management, and rural water supply and sanitation operations, but to exclude other "sectoral" investments in rural areas such as in education and health, for instance:

- Irrigation and drainage continues to be by far the most important rural sub-sector. While its share in number of rural projects has been close to 20% for some time, its rather larger share in commitments has now slipped from its high of nearly 33% in FY98 to about 28%.
- Adjustment and community-based rural development (and in FY99 also rural roads) are the sub-sectors that have grown most rapidly, particularly in terms of the volume of commitments.
- Forestry, perennial crops, extension and livestock have declined, both by number of projects and commitments (although part of the decline in free-standing extension and livestock projects has been offset by the inclusion of these components in agricultural services projects or agricultural sector investment programs).

A perspective on this portfolio can be gained from OED assessments of completed operations. At the subsector level, aggregating the rural subsector rankings of outcome, sustainability, and institutional development, suggested that the best (according to these ratings) interventions in projects closed in the past three years were in rural roads, livestock, Other Agriculture (a miscellany of projects including among other things emergency drought, Integrated Pest Management, rural poverty, biodiversity, area development, credit, and land reclamation), and in agricultural adjustment lending. For livestock in particular, this represents an improvement over the past weak performance. At the other end of the scale, the least successful were annual crops, forestry, agro-industry, natural resources, and irrigation and drainage. Sustainability ranking is highest for agricultural adjustment and lowest in forestry and annual crops. Institutional development ranking is highest in rural roads, and lowest in annual crops. OED also systematically seeks to draw out "lessons" from the project experience. The three most frequently mentioned lesson categories were "institutions", "ownership", and "participation". One or more of this trio, featured in just under one-third of the projects.

Progress *has* been made in rural development but there is much to do, and it is increasingly urgent. In the current global picture, there are still too many poor people, too many in poor health, too many living in poor housing, too many poorly fed and subsisting in deteriorating environments. The discussion above has concentrated on project-level interventions, but there are also other entry points for the Bank.

On the global environmental agenda, the Bank is mainstreaming the relevant international conventions including the Conventions on Climate Change and Bio-diversity, and it is working towards capturing the benefits that sustainable land management provides in conserving bio-diversity, sequestering carbon, and reducing global warming. Neglected areas of land management and fisheries are also being tackled, the latter in a proposal to form a world-wide coalition of the multilateral agencies, development banks, bilateral and private donors, civil society, national governments, and the private fishing and processing sectors.

The major Bank successes in the rural development sphere include strong support for investment in agricultural research. This is manifestly the case at the international level, with the Bank's pioneering and sustained commitment to support the research institutes coordinated under the CGIAR (Anderson, Herdt, and Scobie; Anderson and Dalrymple), along with complementary investments in infrastructure, particularly for irrigation. In this way, the Bank played a key role in the Green Revolution, a significant achievement in broad-based rural development. Other complementary investments in agricultural research at the national level were also key, but perhaps because of the central role of institutional development in often-times difficult civil-service contexts, achievement has been more checkered (Purcell and Anderson), and there is still great need to repair and reform public organizations engaged in agricultural research, and to enable private research entities to play their needed roles.

CONCLUSION

There is clearly much yet to be done in fostering stronger rural development. Many of today's greatest development challenges are in the rural sectors of developing countries. The

commitment to work closely with all the relevant players is at the center of the new Bank approaches, both to the rural sector specifically through our recently embarked strategic re-visioning exercise, and more generally through the emerging PRSPs.

A full integration of non-agricultural rural activities is one of the major challenges of the strategic exercise now underway. There is a need to bring rural infrastructure, the development of rural education, and health, and other social services, as well as the rural non-agricultural business activities into the mainstream of rural development activities. This must be done with appropriate attention to rural-urban interfaces and migrations -- the understanding in urban areas of the importance and needs of rural livelihoods and vice versa -- and innovative installation of more effective institutional linkages. The intention will be to stimulate off-farm rural enterprises and creating off-farm employment opportunities by a series of activities that are as yet, not very common in our development portfolio. Social funds assisting rural communities, including small cities and market towns, are likely to be increasingly demanded by our clients and will be an instrument used more frequently for rural infrastructural investment. In short, a fresh attempt to use the most effective even if non-traditional instruments will be made to pursue most vigorously the rural development imperatives that confront the world today.

For CEE, there are many specific changes to be made before rural development could be said to be reaching anything like its potential contribution to development in the region. Responding to globalization, boosting competitiveness, adapting to the EU environmental agenda, dealing with property rights in land, reforming the legal and regulatory arrangements, and reaching out more effectively to the less-developed peripheries of CIS, are just some of the considerable challenges to be met. We in the Bank will be doing what we can to assist in this work, and to facilitate accession.

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World Bank Support for Agriculture and Rural Development in Latvia

Hoonae Kim

In late 1992 the World Bank began a support program for the development of the agriculture and rural sector in Latvia. A comprehensive sector and policy analysis of Latvia's agriculture was prepared, which was followed by an agricultural policy update in 1996. The first investment project supported by the World Bank – the Agricultural Development Project ($25 million) – was approved in January 1994 and successfully completed in 1997. The second project – the Rural Development Project ($25 million) – was approved in 1998 and is currently under implementation. In November 1999, Latvia was chosen as one of five countries to have in-country consultations with key stakeholders to evaluate the World Bank's global rural development strategy (World Bank 2000a). This report briefly summarizes the main rural development principles and goals of the World Bank, their relevance to Latvia's own strategy, and the actual implementation results of the World Bank's support in Latvia to date. The report ends with a brief summary of the country's own assessment of the World Bank's performance in its support to the sector.

GENERAL COUNTRY BACKGROUND

As a transitional, rather than a developing country, and as an associated country of the European Union, Latvia's circumstances and prospects are significantly different from those of the other World Bank client countries in the Europe and Central Asia (ECA) Region, as is evidenced in Table 1.

Table 1. Latvia: Major Economic Indicators

	1990	1995	1998
GDP (1990=100)	100	49.6	57.7
Agricultural product (% of previous year)	-10.2	3.2	-3
Share of agriculture in GDP (%)	22	14	7
Share of agriculture in employment (%)	18	16	17
Unemployment rate (%)	2.3	6.6	9.2
Inflation rate (%)	10.5	25.0	4.7
Exchange rate (LVL/US$)		0.53	0.59

Source: Ministry of Agriculture, Latvia

Since regaining independence, Latvia has made impressive strides towards creating conditions for market-led growth in the rural sector while achieving a high degree of macro-economic stability. After a dramatic initial decline (which included a halving of agricultural

production and sharply lower real incomes when compared with 1990), economic growth resumed in 1995, albeit modestly. Despite some recent weakening of macroeconomic performance due to the Russian financial crisis of 1998, the fundamentals of the macro and sectoral policies are sound. Latvia has made great strides in private sector development and decentralization. Farm inputs are provided by the private sector, and advisory services are provided by the Latvian Agricultural Advisory Services, which is still state-owned but operates on high levels of cost recovery. Equally rapid progress has been achieved in defining new directions in external economic relations. Latvia achieved founder-member status of the World Trade Organization, is a member of the Baltic Free Trade Association, and is well advanced in the process of EU accession. Each of these agreements has had a profound effect on the process of agricultural development and on conditions in the rural sector.

Latvia recognized early on that a system for recording ownership, values, and use of land, as well as other land-related data is essential for a market economy to work properly. In addition to support from the World Bank, Latvia has received substantial technical and financial support for land reform from the EU, Sweden, Denmark, and Norway. In the seven years since full-scale land reform was launched, Latvia has restored private ownership of property, refined user rights and transfer rights, recognized fiscal implication of land taxes, and developed clear and simple legal procedures for restitution and for the right to sell, transfer, lease, and mortgage property.

While Latvia has made considerable progress in a relatively short period of time, many challenges still remain. The shrinking of the agriculture sector and the declining social indicators reflect the difficult adjustments associated with the transition to the market economy. About 30% of the population live in rural areas, where the frequency and depth of poverty are worse (especially to the east of the country away from the main cities and the coast). Few new non-farm rural income opportunities exist (World Bank 2000b). Social problems of despair and alcoholism are common and undermine rural entrepreneurship. Rural to urban migration is widespread, especially among the young and the better educated; with no increase in the total population, the absolute number of those living in rural areas is decreasing. To ensure balanced growth, the most pressing rural sector issues need to be addressed. Rural development must be based on diversification of economic and employment opportunities in rural areas, where the private sector takes the major initiatives, while government at all levels strives to create a conducive environment for private investment to flourish. With real hardships faced by the elderly and the handicapped, such policies must be also accompanied by affordable and sustainable social protection policies

THE WORLD BANK'S RURAL DEVELOPMENT STRATEGY

The World Bank's rural development strategy is to reduce poverty while encouraging a broad-based economic growth (World Bank 1996), based on the following principles:

- creation of a supportive policy and institutional framework for rural development;
- mobilization of the private sector;
- development of new roles for the state;
- promotion of community-level ownership and participation; and
- decentralization.

The World Bank adheres to these principles through analysis, budget support, and investment support targeted at specific policy and institutional reforms in rural areas. Much effort is spent to build capacity to govern and to manage local institutions and non-governmental organizations through establishing partnerships with community groups, local government, other donors, and the private and academic sectors.

This strategy has varying immediate relevance to Latvia. The reduction of poverty has become a major challenge in Latvia since the breakup of the USSR. Latvia's poverty assessment, undertaken largely by local researchers with support from the World Bank and UNDP, has revealed the alarming depth of poverty, notably rural poverty, and has played an important role in focusing the attention of policy-makers on poverty. Many services, including credit and advisory services, are still not reaching poorer groups in rural areas sufficiently. The World Bank's Agricultural and Rural Development Projects in Latvia are considered to be fully relevant to the principle of orienting assets and services so that they are more accessible to low-income people.

The anti-poverty approach adopted by the government and the World Bank is based on assisting to achieve broad-based economic growth in transition. To this end, a combination of stabilization and a fundamental restructuring of the economy and of the role of government has been pursued with some measure of success, although the adjustment process is far from complete. In rural areas, growth is being addressed through agrarian reform, including the land reform program, the privatization of key rural services, and the decentralization of decision-making to local government, and through programs seeking to stimulate non-farm growth by diversification. Both the EU and the World Bank have been active in these areas, with specifically designed support programs to create jobs, retrain surplus farm workers, and disseminate information on new opportunities. However, a large part of the rural population is not benefiting from the current recovery. This exclusion results from geography (large depressed areas in the eastern part of the country), the weakness of community organizations and networks, and inadequate rural infrastructure. On the social front, the impact of age is ambiguous. Various studies show that poverty is positively correlated to age. Social safety nets will be required for some recipients on a transitional basis only; but for others, there is little prospect of their being able to participate in even a successful economy.

The rural development strategy needs to be embedded in a wider strategy for national development and for regional policy. Based on poverty reduction as the primary key objective, the government recognizes that a recovery in agriculture – through increased productivity - is a necessary element of successful rural development in Latvia. However, modification of farmers' thinking towards maintaining adequate levels and stability of income rather than on production per se is also necessary. Income diversification, based largely on promoting rural business and new non-farm enterprises, should be central to a sustainable reduction in poverty in rural areas. Cross-sectoral perspectives covering health, education, training, and infrastructure need to be integrated into a holistic understanding of what is needed to develop rural areas, the latter being the government's approach to supporting depressed areas.

There is agreement on the need and justification for the private sector to take the lead role in both production and in service provision. There is an active role for civil society in promoting participation and in service provision. At present the number of NGOs, which include farmer

associations and other entrepreneurs, is growing. Unfortunately the rural poor in Latvia are relatively uninvolved in these organizations. This is largely due to an unfortunate historical legacy that militates against cooperative action. Latvia lags behind in this area. The World Bank's Country Assistance Strategy provides an appropriate emphasis on partnerships with diverse organizations, including local NGOs, but more work still needs to be done on this issue.

The role of the state in Latvia's rural economy has changed fundamentally in the past decade – mostly in directions that are broadly consistent with the World Bank's strategy, which recommends that the state must shift away from heavy intervention in the economy toward promoting an enabling macroeconomic, fiscal, and sector policy environments. The state has a critical role both in contributing to resolving transitional problems of a weak private sector and providing public goods and addressing equity issues over the long term. These roles are also consistent with the broad view internationally that the state's role is justified in addressing market failures or intervening to achieve distribution or other social objectives. There is also agreement in Latvia that a viable decentralized government is important for rural development. Local authorities, however, lack human and financial resources to effectively design, implement, or assist economic and social development at local levels. The World Bank shares this view which is supported both in the Country Assistance Strategy and in the lending program.

WORLD BANK'S AGRICULTURAL AND RURAL DEVELOPMENT PROJECTS

The dialogue between the World Bank and the government on agriculture and rural development has, in recent years, primarily been over the design and implementation of two projects, the Agricultural Development Project (ADP) and the subsequent Rural Development Project (RDP).

The first agricultural project in Latvia, the ADP for $25 million, was approved in January 1994, during a time when Latvia was experiencing major economic and political change following its independence. The country lacked institutional and human resources to support emerging private farmers. The ADP was designed to fill such gaps by providing support in the form of credit, privatization, and restoration of private land ownership, business development support, and other institutional strengthening that is needed to promote a competitive agricultural sector. In addition to the credit line component, the ADP also offered support for land reform, private business development, and related support services such as marketing, agricultural extension, and project management.

Since then, the follow-up RDP was approved in 1998 as a two-phase Adaptable Program Loan (APL). During the first phase ($10.5 million), the government has placed priority on strengthening institutional capacity for rural development policy formulation, stimulating the flows of commercial bank financing to rural areas, and advancing land reform. The second phase ($14.5 million) will further the policy and financing aspects and will expand into support for investment necessary to ensure the compatibility of Latvia's institutions and services with those of the EU.

The two projects aim to increase the efficiency and growth of rural enterprises, diversify sources of income and employment for the rural population, develop a self-sustaining system of

rural finance, and strengthen local institutions. While the ADP focused primarily on revitalizing the agricultural sector, the RDP is designed to address broader rural issues beyond agriculture. The first phase of the RDP lays the groundwork for improving income levels and raising living standards of the rural population. It does this primarily by promoting economic diversification and growth activities in rural areas which include

- introducing participatory approaches to rural development to increase stakeholders' ownership and commitment;
- providing credit and technical assistance to generate employment and income opportunities in rural areas;
- cementing rural banking practices and rural business development networks consistent with principles applied in the EU;
- increasing the amount of financing available for rural clients and refining government support programs for rural poor.

Both projects have produced concrete results on the ground. The main achievements are summarized below.

Creation of a sustainable rural finance system. When the preparation of the ADP started in 1993, there were no commercial banks in Latvia that were interested in, or had adequate capacities to serve, a large number of physically dispersed small-scale private farmers. Under the auspices of the ADP, a non-bank financial institution – the Agricultural Finance Company (AFC) – a was established as an interim measure to overcome weaknesses in the banking sector. AFC was absorbed into the commercial banking sector when it merged with Latvia Mortgage and Land Bank in 1997. Because of the relatively small size of the country and the need to reduce fixed costs, the mobile credit officer (MCO) concept was created to serve all corners of Latvia. The MCO concept allowed frequent and regular interaction with clients for continuous monitoring and support. The concept of "a bank coming to the client" also helped overcome the transportation problem frequently faced by farmers. Today, three commercial banks participate in the RDP.

Establishment of a commercial credit culture. The projects established a rural financial system based on commercial lending terms and conditions that are now being adopted by other commercial banks. They also demonstrated to commercial banks that rural lending can be viable. They established discipline among end-borrowers and an understanding of terms and conditions of commercial lending, established land titling, collateral, and a functioning land markets. The projects also strengthened extension services for agricultural production and business development; created a cadre of lending staff, trained in rural lending, loan appraisal, risk assessment, loan servicing, and information services; and finally established a model for rural finance projects elsewhere.

Special support for rural poor. In addition to a commercial credit line, the RDP includes a special credit line to provide targeted support to small-scale entrepreneurs who have not yet benefited from commercial credit to the sector. Through a combination of these schemes, the government of Latvia hopes to demonstrate that lending to rural enterprises can be profitable to banks. Under the special credit line, there is a subsidy in the form of a grant complementary to the loans provided to farmers and rural entrepreneurs. The maximum loan is up to LAT 2,000

(about $4,000). In this scheme, previous ad hoc subsidies were consolidated and transformed into a direct, more transparent and accountable subsidy program. Commercial banks appraise the financial viability of all sub-loans and one-third of the principal is written off as a grant if two-thirds are repaid on time. Eligible borrowers can borrow only once and must use the loan for investment purposes to generate income. The RDP, through the special credit line, enables loans to be provided in smaller amounts and for lower income borrowers than would have occurred through the private sector alone. However, it is not intended to reach the poorest segment of the population, and the project does not pretend that it does.

Strengthening local capacity for rural development through community driven development initiatives. With the ultimate goal of joining the EU, rural populations in Latvia are preparing for competition within the EU. Local Action Groups (LAGs), broad-based community action groups comprising political officials, teachers, and farmers, were formed for this purpose. The National Rural Development Program of Latvia called for a broad approach to rural development based on an "inclusive policy" to support less developed areas through local community initiatives. In October 1998, the success of the pilot program under the RDP was recognized by the United Nations Award of Excellence for community-led development. As of May 2000, about 650 small-scale loans were made through the special credit window and another 450 borrowed under the general commercial credit line. Repayment performance continues to be good. Technical assistance for LAGs and business development is being prepared.

Progress on land reform and emerging land market. ADP and RDP also offered support for land reform, private business development, and related support services such as marketing, agricultural extension, and project management. Support for land reform was based on the premise that it is the critical foundation necessary to revitalize rural development, while improving access to rural financial services with an improved collateral system. More than 65% of the total land area (or more than 550,000 land units) is now registered in the Cadastre, representing about a 40-fold increase since 1993. The land market is now vigorous, with over 42,000 parcels having been bought and sold by 1998. Land is being consolidated through market transactions, and credit security has been enhanced through improved access to information on collateral, benefiting both lenders and borrowers.

Increased awareness of rural issues. The projects raised awareness for rural issues beyond traditional agricultural issues and broadened ownership and institutional responsibility for rural development, traditionally the realm of the Ministry of Agriculture, to other key ministries such as Economy, Environment and Regional Development, and Finance.

Lessons Learned

The main lesson from the Latvia agricultural and rural development projects is that macro-economic stabilization, market liberalization, and privatization are all prerequisites for effective financial interventions. Other lessons include the following:

- The main outcomes and impacts achieved by ADP and RDP to date were mainly due to focused objectives, a simple design, and the presence of innovative features.

- The success of the projects was a result of the government's strong commitment, an effective and committed project management team in Latvia, and a continuously strong sense of ownership of the projects by the country.
- Four key elements of a successful rural finance project are: (i) legally based property ownership; (ii) a functioning legal system; (iii) functional financial institutions; and (iv) a system for effective farm advice and business development support.
- Improving the collateral system is a prerequisite for a successful credit system.

Lessons from the experience in Latvia can be applied to other transition countries in the ECA region. The Kyrgyz Republic and Moldova have already adapted similar models, which can be replicated elsewhere if certain basic conditions are met.

LATVIA'S OWN ASSESSMENT OF THE WORLD BANK'S RURAL PROGRAM

The World Bank has conducted a worldwide survey on the effectiveness of its rural development strategy. In Latvia, county-level focus group meetings with the government, NGOs, civil society, farmers, academics, and other concerned people contributed to this review in November 1999. Overall, the World Bank is perceived to have operated capably and consistently at the level of macro-economic stabilization and adjustment. At the sector level, in its economic and policy work, engaging in a dialogue with the government, and in designing and supporting implementation of two projects supporting the agriculture and rural sector, the World Bank is perceived to have the advantages of knowledge of international best practices and to have provided quality and continuity of staffing in key positions. On the project front, ADP and RDP have made good progress in establishing a solid foundation for a sustainable rural financial system while advancing land registration and the registration of other collateral. These projects are seen as both relevant and well implemented. They have been based on the premise that land reform is essential to revitalize rural development, while effective and inclusive rural financial services are a critical element in achieving sustainable and broad-based rural development.

The main rural problem for Latvia is not how to produce more; rather it is how to bring about broad-based growth of incomes, and how to augment quality and secure market access. In these challenging areas, the World Bank is perceived to be an effective partner which can play a catalytic role to enhance the government and the general population's awareness of the rural issues, while also addressing the need to diversify income sources and encourage entrepreneurship by ensuring that assets and services are widely available among the population.

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The Poland Rural Development Project

Piotr Wilczynski

Unemployment remains a key issue in Poland. Even though the unemployment rate has fallen in the last five years from 16.4% to 12.1%, it is unequally distributed across regions. In addition, because of the high degree of over-employment in agriculture, unemployment in rural areas is expected to increase in the medium- to long-term. In the post-reform period, agriculture has served as a buffer accommodating excess labor in the economy, thereby creating a high share of hidden unemployment in rural areas. In the process of Poland's accession to the EU, the farming system will need to be reformed, and the number of people employed in agriculture will have to be reduced to make the sector competitive with other EU countries. Unemployment in rural areas will rise because of the additional outflow of labor from agriculture. Moreover, there is a higher proportion of youth and children in Poland's rural areas than in the cities, and young adults are surprising immobile, so issues of job creation and relevant education are particularly critical in rural areas.

Since the early 1990s, the fastest growth in durable employment in Poland has been in Small and Medium Enterprises (SMEs) concentrated in urban areas. SMEs provide almost 4.8 million jobs, 83% of total registered employment in the private sector, and almost 60% of all employment in the country. These enterprises have reasonable access to bank credit, although lack of collateral and failure to present bankable business plans often stand in the way of obtaining commercial credit. The sector is supported by a large number of institutions and agencies for SME promotion and development. However, the SME sector and its support structure are concentrated in urban areas. Rural areas, so far, have not seen this small enterprise sector develop to the same extent because of constraints to entrepreneurship, including the limited availability of banking services, the reluctance of many rural dwellers to deal with banks and the limited collateral value of most rural properties.

Some segments of the rural population possess entrepreneurial spirit, but lack skills. A large number of both youth and adults are structurally unemployed as a result of having insufficient, unmarketable, or outdated skills that are no longer needed in the local or regional labor market. The current reform of education has been designed to address some of these issues. The proposed changes in school curriculum, teaching, management and financing are designed to make education more flexible and responsive to the demands of the workplace and the local community. Gminas (villages and townships) have now the responsibility for managing pre-school and education for the first nine grades, therefore they will play an important role in implementing this reform. Since most rural gminas have limited administrative and managerial capacity in this field, they will need assistance in implementing the reform.

Since January 1999, Poland is implementing a comprehensive reform of its administrative and fiscal structures by decentralizing public services and finances to two new levels of democratically elected local government: powiats (counties) and voivodships (regions or provinces). The decentralization of public services and finances to local self-governments is placing great demands on public administrators, especially in rural areas. Councilors and board members in rural areas seldom have the necessary organizational and managerial skills. There are new functions to administer and new processes to apply. Moreover, local and regional administrators have insufficient capacity to implement EU pre-accession adjustments, thus affecting the possibility for rural areas to absorb EU pre-accession and structural funds.

Inadequate infrastructure is one of the most significant barriers to the development of rural areas. The rural road network system is underdeveloped, and needs rehabilitation and expansion. Water supply networks and facilities need to be developed, or in many cases replaced and modernized. Proper wastewater collection (either on site, or off site with a collection network) and treatment are lacking. Poor wastewater disposal practices are not only a threat to the environment and health, but also to the regions' ability to attract investment, which requires at least minimally acceptable conditions. Storage in landfills is the common method of disposing of solid waste in rural areas, but many communities lack landfills or have facilities that do not fulfill legal, safety and sanitary requirements. The organizational and institutional structures and the regulatory environment do not support the efficient delivery of services, which results in unaffordable higher unit costs. As a result services either are subsidized or remain delivered below acceptable standards.

The Rural Development Project (RDP) has been designed to provide medium-term support to the development of the rural sector in Poland. RDP will increase the level of off-farm employment in rural areas; contribute to the on-going decentralization of self-government and regional development; and assist in building institutional capacity to absorb EU pre-accession and structural funds.

KEY FACTORS IN DESIGNING A RURAL DEVELOPMENT PROJECT

Only a comprehensive program that tackles simultaneously the different causes of rural unemployment can provide sustainable solutions. A sectoral approach risks curing one of the symptoms without improving overall conditions. A multisectoral approach is required to tackle the problem of unemployment in rural areas. RDP has been designed to include three components dealing respectively with private sector development (component A), human capital development (component B), and infrastructure (component C). Investments in education, training, health and safety of rural families will improve the productivity of rural people and increase their opportunities to be employed in off-farm jobs. The focus is on off-farm employment, and RDP will concentrate on facilitating the future transfer of employment outside the agricultural sector. Investments in rural infrastructure and training of local officials will be implemented in the whole country, while the other components will be implemented in seven voivodships: selected on the basis of four criteria: unemployment rate, GDP per capita, education level, and over-employment in agriculture. These criteria were identified in cooperation with the government and Polish experts, and with the involvement of the local communities.

A participatory approach is essential to the whole idea of regional development. Self-governments have to be involved in the decision-making for the allocation of funds, as support provided without involving the beneficiaries risks to be ineffective in the long run and create dependency. Moreover, a participatory approach is now required by the on-going decentralization of administrative functions and finances in Poland, as voivodship self-governments develop and submit proposals for regional development to the central government. RDP has been accordingly designed with a bottom-up approach. Requests for support from the project have been submitted by interested gminas, powiats and voivodships. These proposals reflect priorities incorporated in local development programs, and as such have been approved by local self-governments. Regional Steering Committees including representatives from all sectors of society have been formed with the purpose of ranking the submitted proposals. In parallel to that, social assessments have been conducted to better reflect local needs and priorities in the project design. In the next phase, local beneficiaries will be able to choose from a menu of options.

The risk that the most developed rural areas will prepare proposals for co-financing while undeveloped ones will be cut off from the support of the project has been considered. For this reason, criteria for the selection of projects have been developed that will target resources on the unemployed, while limiting the share of funding to certain activities, such as public works, that otherwise might absorb a disproportionate share of resources. Moreover, matching funds requirements have been structured in a way that takes into account the ability of the beneficiaries to contribute, in a further attempt at social equity. The Regional Steering Committees has already ranked a preliminary set of sub-projects using a set of criteria that also addressed social equity issues. Attention has also been given to selecting sub-projects where the use of public funds will not be a substitute to the use of otherwise available private funds, but will be a complement to it.

The preparation of EU funded rural development initiatives requires the Ministry of Agriculture and Rural Development (MARD) to present a plan for the absorption of SAPARD funds. The plan has to be prepared in consultation with stakeholders (the voivodship self-governments), and must present financial tables for the allocation of funds for the next seven years. RDP will provide technical assistance to people responsible for the preparation of regional development plans in the voivodship self-governments. Parallel financing by the EU of investments in rural infrastructure and institution building in local governments is foreseen utilizing the mechanisms of both SAPARD and EU-PHARE programs. As RDP will be partly financed by the EU, EU criteria for parallel co-financing of sub-projects have been taken into consideration while designing the project. The RDP will put together an institutional mechanism that contributes to the absorption of EU pre-accession and post-accession structural funds.

PROJECT COMPONENTS

RDP is designed so that individual elements from any component can be implemented at the local level, singly or in combination with others. For example, a gmina may identify the need for a waste-water treatment investment, training for several unemployed in business management, and a credit to help an entrepreneur start a small business. A package of services and investments will be developed to meet these needs drawing on resources across all project components. Such packages will form part of the broader investment program submitted by

gminas to the regional authorities for co-financing. The following are the components and sub-components financed under the project:

Component A: ***Microcredit*** ($19.05 million). This component is centered on the development of micro-enterprises. Its objective is to reduce hidden and registered unemployment in rural areas, while also allowing an empirical comparison of the micro-credit approach with the cost of the current regime of social assistance (welfare). In particular, the component will promote off-farm self-employment in rural gminas of five voivodships. To achieve its objective, the component will finance: (a) small, one-time grants to cover the minimum social insurance premium that beneficiaries will have to pay if they decide to leave their status of unemployed. This will allow for a wider participation to the micro-credit program; (b) micro-loans up to $5,000 to new and existing rural micro-enterprises; (c) advisory services for newly established micro-enterprises created under the component; and (d) operational cost and technical assistance on micro-lending to NGOs or financial institutions which will be selected to assist in the implementation of the component as service providers. The service providers will enter into a legal agreement with the National Economy Bank (BGK) and the relevant voivodship self-government. This agreement will cover the terms and conditions for the operations of the micro-credit programs including risk sharing, and the conditions for technical assistance and training.

Component B: ***Human Capital Development***

Sub-component B-1: *Labor Redeployment* ($44.84 million). The objective of the sub-component is to assist economically disadvantaged in rural communities to expand and use their human capital in response to economic and labor market opportunities. The sub-component will finance two main tasks: (a) economic and labor market surveys; and (b) labor redeployment services, such as specialized employment services, on-job and institutional training, support to temporary community employment, small business assistance services, small business incubators, and local economic development planning grants. The menu of labor redeployment will be made available to economically disadvantaged and unemployed citizens in rural communities, through local service providers to be selected on a competitive basis.

Sub-component B-2: *Education* ($24.67 million). A key component in the effort to attract new businesses in rural areas is the implementation of a comprehensive program for the development of a strong education and training system, capable of providing graduates with the level of knowledge, skills and capacity to learn required by a modern market economy. The overall objective of the education sub-component is to improve the efficiency of the education system and the quality of graduates in target gminas by enhancing the quality of teaching in rural primary schools and gminas, and improving the utilization of educational resources. The education sub-component will finance five major activities: (a) a program for improving the quality of teaching in primary and secondary schools in target areas through training; (b) a program for improving the quality of school equipment through the provision of instructional material; (c) a program for supporting the introduction of computers for instructional purposes in rural gminas; (d) a program for improving school facilities, and education efficiency, through activities leading to the consolidation of the school network; and (e) support to project dissemination, implementation and monitoring. The project will be implemented in a sub-set of gminas covered by the project based on an assessment of the current situation of their education

system. Gminas will select from the above menu a combination of investments which addresses the main problems and challenges identified during the assessment.

Sub-component B-3: *Institution Building in Local and Regional Administrations* ($12.62 million). The overall objective of this sub-component is to increase the level of efficiency and effectiveness in eligible units of local and regional administration (gminas, powiats and voivodships) within the voivodships covered by RDP, through institutional development, training programs, and capacity building measures, thus improving the conditions for the creation of non-farm employment in rural areas. An efficient public administration will improve the provision of goods and services to the public and the private sectors, thus facilitating economic activities. The project will finance: (a) institutional development programs (IDP) in selected pilot units to develop a framework for improving the general efficiency of regional and local administrations, including management of human and financial resources; (b) training programs to improve the quality of services delivered by local officials and public servants, and build capacity for implementing EU rules and regulations; (c) and a capacity building program aimed at supporting the Ministry of Interior and Public Administration in linking IDP and training activities, and at developing surveys and studies. Training will be provided to selected public officials, i.e. elected councilors and board members, and public servants operating at different administrative levels in the regions supported by RDP. The training will place special emphasis on public management and administrative services important for the successful implementation of RDP and its project components.

Component C: *Rural Infrastructure* ($194.89 million). The development and improvement of infrastructure is regarded as a prerequisite for stimulating private sector development. Areas with developed infrastructure attract investors, whereas areas with inadequate infrastructure place a burden of additional costs on potential investors, who may need to build roads, water supply, waste water collection, access to district heating, telecommunication, etc., in order to start and operate a new business. The objective of this component is to improve technical infrastructure in rural areas, in order to stimulate private sector investments, facilitate the creation of non-farm jobs, improve environmental and health conditions, introduce alternative organizational and institutional structures for the sustainable delivery of affordable services, introduce market oriented approaches in the development and operation of infrastructure networks, and finally narrow the gap between rural and urban areas in economic development. The project will finance water supply systems, sewage collection and treatment facilities, solid waste management systems and rural roads. The limitation to investments in the water, waste water, roads and solid waste sectors reflects the relatively low demand expressed by local governments for telecommunication and energy projects. Proposals for investments in rural telecommunication were only 0.8% of the total investment portfolio, and eligible energy projects were only 1.3%. The average size of a rural infrastructure investment financed under the RDP will be $460,000. High-priority sub-projects have been identified by the local governments in seven voivodships. The sub-projects will be further screened and evaluated during implementation according to technical, financial and institutional requirements. A comprehensive training and technical assistance program has been developed to provide technical staff, project staff in the voivodship and local government officials, with the skills necessary to implement the project.

Component D: ***Project Management*** ($3.77 million). The project will also finance the costs of a Project Coordination Unit (equipment, staff, and O&M), and a provision is made for the costs incurred by the project teams in the line ministries and the Voivodship Project Implementation Units.

INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

The implementation arrangements for RDP are designed to ensure efficient and transparent achievement of the objectives. The project will have two main levels of decision making: (a) gminas and regional self-governments will have the programming and implementation function; (b) central government will have a coordination and support function. Gminas have already begun to pick from a menu of options the investment activities that are essential for addressing the objectives reflected in their local development strategies. The RDP operations manual provides the guidelines and the procedures to help gminas make rational and financially sound decisions. In addition, the sub-component on institution building in local and regional administrations will provide assistance to gmina, powiat, and voivodship self-governments in rationalizing their decision-making process. RDP will lead to better resource utilization at the local and regional level, increasing overall economic efficiency. Once a portfolio of sub-projects is identified and approved by the gmina, it is reviewed by the powiat to ensure the harmonization of sub-regional investments. RDP will enhance economies of scale by giving preference to gminas that jointly decide to develop one landfill, instead of having a landfill built in each one of them; sub-regional schools, instead of a costly system where there is a primary school in nearly every village; or common water supply and waste water treatment facilities, instead of scattered expensive investments that will have a limited positive environmental impact.

In the case of the infrastructure component, all project proposals applying for SAPARD co-financing will be submitted to the local office of the Agency for Restructuring and Modernizing Agriculture (ARMA) for review. The local offices of ARMA will have three weeks to check the proposals against eligibility criteria for SAPARD co-financing and perform the financial and economic analysis of proposals. ARMA has no approval power, and after evaluating the proposals, the local offices of ARMA will send the documentation to the Voivodship Project Implementation Unit/Regional Steering Committee with a copy to the applicant. To ensure efficient evaluation of proposals, the local offices of ARMA need to have the capacity to assess the economic, financial, environmental, and technical quality of projects, and a financial management system satisfactory to the World Bank.

Once the project proposals are sent for review to the Voivodship Project Implementation Unit (VPIU), they are screened and checked for compliance with regional development policies and against criteria, procedures and standards as defined in the operational manual and required by local law. For this task, the project will use the expertise already in place in the Regional Development Agencies (RDA). A Regional Steering Committee (RSC), consisting of representatives of the voivodship, powiat and gmina self-governments, chamber of commerce and/or industry and trade, chamber of agriculture, curator and NGOs, will rank eligible sub-projects which are submitted by local governments and reviewed by the VPIU concerning technical, financial, economic, environmental and institutional requirements. The RSCs have

begun to prioritize sub-projects following a set of agreed criteria. The package of investment projects as ranked by RSC will form the basis for the contract that the governors will negotiate with the central government for the allocation of funds among voivodships. Based on the funds available for each voivodship, RSC will approve the individual sub-projects in the order of the ranking list.

Although MARD has the overall responsibility for rural development, various ministries and agencies responsible for specific aspects of rural development will be involved in providing assistance to self-governments in implementing the project. These include Ministry of Finance (MOF), Ministry of Economy (MOE), Ministry of Labor and Social Policy (MOLSP), responsible for the implementation of components A and B-1, Ministry of National Education (MONE), responsible for the implementation of component B-2, and Ministry of Interior and Public Administration (MIAPA), responsible for the implementation of component B-3. MARD will coordinate all the issues related to the implementation of RDP and be directly responsible for the implementation of component C.

A National Steering Committee (NSC) composed of the ministries mentioned above and chaired by the Minister of Agriculture will allocate project funds among voivodships, oversee project implementation, review annual audits, resolve any problems arising in the coordination of the different activities, and approve changes to the operational manual. Provincial governors will participate in the working sessions of the NSC. By making the governors members of NSC, RDP strengthens the cooperation between local and central government and creates a forum for discussing the process of allocating limited funds among the different regions of the country. RDP establishes procedures and criteria that will enable consensus building between local, regional, and central layers of government, thereby supporting the decentralization process. The procedures for identifying priorities and allocating funds will allow better use of local and EU pre and post-accession funds.

Under current Polish regulations, there is no recognition of a paying agency. Therefore, until changes are introduced, funds will flow directly from the Special Account registered by the Ministry of Finance in the National Bank of Poland to the voivodship financial departments. If the Public Finance Law is amended to reflect a role for ARMA as paying agency, the funds will flow according to that amendment. VPIU will prepare co-financing agreements to be signed between the provincial governor and the gminas. Once these agreements are signed, the gminas will start the implementation process with the assistance of VPIU. In the case of the institution building activities, the paying agency will directly pay the service providers on the basis of the invoices authorized by MIAPA. The Ministry of Finance will transfer a portion of the overall approved amount as an advance (no more than 20%). Once 50% of the advance has been used, VPIUs will submit a replenishment request to the Ministry of Finance. Provisions will be made for funds to be returned in the event of cost-savings or ineligibility of expenditures.

By keeping the programming and implementing function separate from the paying function, the process for decision-making under RDP is subject to public control and allows for a transparent allocation of funds. It therefore allows for better governance and introduces a clear division of responsibilities between local, regional and national governments.

NSC will be supported by a Project Coordination Unit (PCU) located within the Foundation for Assistance Programs for Agriculture (FAPA), an independent agency reporting to the Minister of Agriculture and Rural Development that has demonstrated its capacity in implementing similar projects. PCU will have the responsibility for the overall coordination of the project, and fulfill the role of the NSC secretariat. PCU will receive periodic progress reports from VPIUs and project teams in the responsible ministries and will prepare consolidated reports for the government, the World Bank, and other co-financing organizations. PCU will be responsible for the project launch workshop and for providing assistance to all levels of project management.

The Minister of Agriculture, as NSC Chairman, will sign the Implementation Agreement with the Minister responsible for each sub-component. The Implementation Agreement will define the responsibilities of each ministry and the reporting procedures. Each ministry participating in the project will have a monitoring function for its line of responsibility. These project teams will cooperate at the central level with PCU and provide information on the implementation in line with the project indicators.

Project progress reports will be submitted by all lower-level implementing units to VPIUs or, in the case of institution building activities, directly to PCU. PCU will prepare periodic consolidated financial management reports for NSC, the Ministry of Finance, and the World Bank. These reports will be part of a project Management Information System, providing reports on the achievement of objectives compared to funds spent. A periodic RDP evaluation process (initially every six months), at both the regional and central levels, is built into the project implementation schedule for continuous process improvements.

The Potential Role of International Organizations and NGOs in Supporting Rural Development in the EU Accession Countries

Judith Symonds

The overall concept of rural development and its importance and role in Europe have been undergoing a major evolution in the past ten years. At the same time, the transition countries have been making their own adjustments to market economy and democratic government, while working to join regional and global structures such as the EU, WTO and OECD. Rural development, rural development policy, and funds for rural development most often become a political football within the EU itself. Most rural development specialists and practitioners admit that the Cork conference on rural development did not develop the political will needed to give rural development a less ambiguous place and increased real resources in Agenda 2000. It is within this highly charged and political context that CEE countries have been given the mandate to establish rural development policies and prepare a suitable institutional infrastructure for their implementation in the process of EU accession.

This paper looks at the potential role of "other" international organizations and NGOs in supporting rural development in EU accession countries based on experiences in this process to date. The "other" international organizations are the bilateral or national institutions that work in concert with the World Bank and the EU in the accession countries.

RURAL DEVELOPMENT IN THE CEE CONTEXT

As it is generally argued that most of the small scale farms emerging in the CEECs are non-viable as full-time units, rural development will have an essential complementary role in providing alternative employment and land use as the inevitable restructuring and rationalization take place. Several CEECs modified their rural development programs (or indeed, created them) in 1998, reflecting both the growing rural problems and responding to the explicit rural development provisions in Agenda 2000 (OECD 1999). For example, in Poland, the Ministry of Agriculture and the Food Economy (MAFE) recently changed its name to the Ministry of Agriculture and Rural Development (MARD). The Polish situation provides a dramatic example of both the problems of an accession country's agriculture and its aptness for a comprehensive or integrated rural development policy. It is estimated that as much as 54% of the 4.13 million people counted as farmers obtain their income mainly from sources other than agriculture.

"Real" farmers (those producing for the market) represent only 12% of total employment instead of the official figure of 26.7% (Zawalinska).

The definition of rural development in the CEECs has evolved with that of the EU. The following activities are usually considered rural development in the CEEC context:

- Developing rural institutional infrastructure: markets and warehouse systems, producer organizations, marketing groups, and institutional capacity for meeting the acquis in agriculture.
- Strengthening and developing the financial infrastructure: cooperative banking systems, mortgage credit, microcredit systems.
- Enterprise development for employment diversification: investment, training, incubators
- Rural tourism and heritage preservation.
- Physical infrastructure: roads, telecommunication networks

All of the above elements are interdependent with the simultaneous success of the modernization and restructuring of agriculture.

NGOs ACTIVE IN RURAL DEVELOPMENT IN CEE

The definition of NGO has many variations, beyond the meaning of the acronym – Non-Governmental Organization. The term NGO will be used in lieu of other terms that often appear interchangeably, such as third sector, independent sector, or non-profit sector (USAID). Generally, an NGO is almost any non-state organization around which civil society organizes itself. NGOs are found in all sectors: economic, social, and political. They may or may not have an advocacy or policy role. They are always groupings of people with a shared interest. Their legal structures and means of funding vary from one society to another. It is important to note, though, that 'civil society' organizations have an increasing role in policy making world-wide. Some common characteristics of NGOs include:

- Grassroots and bottom-up approach to problem solving and issues management.
- Federated structure, bringing all the stakeholders in a region together.
- Community-oriented approach on a local, regional, or national level.
- Capacity-building, enabling approach.
- Advocates of comprehensive regional development planning.

One large and prominent sector of NGOs are the foundations. They have a particularly strong presence in the United States and the United Kingdom, but this sector has been expanding throughout Europe over the past twenty years. Foundations are of three types: grant-giving, program-operating, and a combination of the two. Another key NGO sector are the professional organizations: employer and employees, sector-specific, cooperative/mutualist, and many more. Examples in the rural and agricultural sectors include producer associations, agriculture chambers, and others.

NGOs play a dual role in rural development and other areas of society in the CEECs as elsewhere. First, they are resources for funds and transfer of know-how. Second, they are local actors, bringing about and implementing rural and other policy initiatives. The NGO structure

and approach are compatible with building consensus around and implementing rural development strategies. This is increasingly the case in OECD countries with examples such as the Community Futures Program in Canada and the LEADER program in the EU (Bryden). Other EU examples of effective NGO activities in rural areas are the agriculture chambers in France and the environmental NGOs active in rural areas in Germany.

US foundations and USAID were the earliest to make a concerted effort to encourage the development of the virtually non-existent civil society in the CEECs. At the beginning of transition, they decided that "support for local non-governmental organizations would be a critical element of strengthening civil society in the region" (USAID). The EU soon followed with democracy programs that included support for a full range of NGO initiatives, as did UK and German foundations and other institutions. For historical reasons, NGOs in the CEECs tend to be more oriented towards service delivery and project implementation than pure policy focus, but the latter is developing with the encouragement of donor programs and the evolution of participatory democracy in the region. The focus has been on the environment, social issues (children, health, women), free market development, and democracy building. Support for agricultural reform or rural development, except as an outgrowth of environmental programs unfortunately has been very limited.

Foreign donor NGOs have played a significant role in developing civil society in the CEECs. The problem is that only a relatively small percentage of the total funds dispersed in the last nine to ten years (in the hundreds of millions of dollars if one includes the Soros Foundation) has gone for what could be categorized as rural development. For a variety of reasons, neither agriculture nor rural development are priorities for the major international NGO donors. One can speculate that they tend to shy away from agriculture-related issues because of their very political nature and because the major funds are already invested in agriculture by domestic governments, the EU, the World Bank, and bilateral agreements with foreign ministries of agriculture. NGO priorities are much more focused on the environment, entrepreneurship and civil society areas. As the following case studies illustrate, one way that rural development benefited from this aspect of foreign support was through environmental projects with rural development elements.

Below we list the NGOs that began to work in the early 1990s on various aspects of rural development. These institutions can be credited with beginning to prepare the policy environment and build local community development capacity for the policy changes that have taken place in the past few years. They can be credited with having at least some impact on the changes in approach taken by institutions such as the World Bank, DFID, and CEEC national ministries of agriculture. The list is divided into two parts: international donor NGOs and local NGOs that are emerging in ever increasing numbers throughout the region. Despite the dynamic development of the NGO sector in the CEECs, rural institutions lag behind. This fact is explained by their various organizational weaknesses (see **Table 1** below). Yet the Rural and Agriculture Forum in Poland has over 500 member institutions from all over Poland, which deal with everything from environmental, organic foods and social issues, so there is a basis for potential development.

International Actors

- *The Rockefeller Brothers Fund (RBF).* One of the first foundations to offer major support for NGOs in CEE. Much of their focus was on environmental issues and capacity building for grassroots initiatives in the field of civil society. They were a founding part of a leadership coalition of foundations (Charles Stewart Mott, The German Marshall Fund) that established the Environmental Partnership for Central and Eastern Europe. RBF also provided leadership within the donor community in finding solutions to the question of sustainability of the NGO sector and in dealing with institutions such as the EU or the World Bank. RBF formed a very strong lobby for CEE questions within the European Foundation Center in Brussels. David Rockefeller and RBF were the founders of the Foundation for Polish Agriculture (FDPA), the first private foundation in Poland. FDPA was created in 1989 to assist private agriculture as a response to the food crisis created by martial law. RBF has continued to support FDPA, particularly in its change of mission from support for production agriculture to a broader rural mandate. Other examples of RBF support that have impacted rural development through know-how transfer are its support for foreign NGOs such as the Atlantic Center for the Environment/Quebec Labrador Foundation, which has conducted several training workshops and fellowship exchanges with CEEC NGOs in the area of landscape conservation and heritage stewardship. RBF also funds the Euronatur foundation in Germany, which has operating projects in Poland that combine both pure environmental and agriculture-related elements.
- *The Ford Foundation.* Another early key donor to the CEE NGO sector. They do not usually provide support for agriculture, but did make major initial contributions to FDPA in Poland in its position as one of the first NGOs in the region. They recently provided a second grant of nearly half a million dollars to FDPA and three other NGOs in Poland to create pilot community development projects in both rural and semi-urban areas. In a complementary initiative, the Ford Foundation has made a $5 million program-related investment in a fund to support small and medium enterprises in both rural and urban areas. Part of the project concept has been mentoring by Coastal Enterprises, a very successful Maine-based community development enterprise with a substantial rural component to its development activities.
- *Charles Stewart Mott Foundation.* The Charles Stewart Mott Foundation is one of the most active NGO donor foundations in the CEECs along with the Soros foundations. Rural development is not one of its priorities, but is a major provider of funds for environmental programs, NGO capacity building, and community development initiatives, some of which encompass rural development elements. For example, Mott has contributed over $4 million to the Fund for the Development of the Carpathian Region (Slovakia, Hungary, Romania, Poland, and Ukraine) and over $1.5 million to the Environmental Partnership for Central and Eastern Europe. They have provided over half a million dollars in support to FDPA for rural women's programs and for institutional support. They belong to the leadership group of donor foundations in the region.
- *The German Marshall Fund of the United States (GMF).* Another important NGO donor and operating foundation. GMF was an early actor in CEE. Their contribution to rural development is made through their important support for the Environmental Partnership of Central and Eastern Europe and as the founding sponsor of the Rural and Agriculture Policy Forum at FDPA.

- *The Soros Foundations.* Rural development and agriculture have not been priorities for the Soros foundations. But like the other donors they have had an impact on rural life through programs such as their support for reform of agricultural education in Poland, microcredit initiatives, or the Community Partnership Support Initiative in the Czech Republic, funded jointly with the Charles Stewart Mott Foundation.
- *The Polish-American Enterprise Fund.* Provided $2 million in 1993 for FDPA to set up a microcredit system for women in rural areas in Poland. Their other activities in the rural and agricultural domain were focused on investment in medium-sized agri-businesses.
- *The World Wildlife Fund (WWF).* Very active throughout CEE in fund-raising for and operating environmental and rural development programs. Their projects are territorially based and must have an environmental rationale. WWF has been working with rural communities for many years and on a pan-European level since 1995. WWF is in the process of preparing a study, which will be an assessment of implementation of the second pillar of the CAP – the Rural Development Regulation. When completed, the methodology and results could become a useful tool for CEECs.
- *Corporate Donors.* Enterprises outside the agriculture and food sectors have had only minor involvement in rural development activities. These include contributions by Citigroup and Banker's Trust to FDPA's rural women's microcredit program and by the American Express Foundation to rural tourism development and heritage programs related to the rural environment in the region.

Local Actors

- *The Water Foundation/Rural Development Foundation, Poland.* Founded in 1989 with a $30 million grant from the US Government and other foreign funds. Has successfully fulfilled its mandate to provide water infrastructure to rural areas throughout Poland with strong community involvement. The Water Foundation has benefited from excellent management at all levels and has evolved to provide a broader spectrum of rural development services, renamed the Rural Development Foundation.
- *The Cooperation Fund, Poland.* Established by the Polish Government to manage the initial flow of funds from the European Union. Since 1990, the Fund has administered about 100 million Euro. Half of this sum was designated in the early 1990s for imports of agriculture feed and chemical inputs. The second half has been an on-going program (Agrolina) that provides loans, training, and extension services to farmers and runs an extensive modernization program for cooperative banks.
- *The Environmental Partnership for Central and Eastern Europe (EPCE).* A very special case of a network of local actor NGOs with increasing impact on rural development. Established in 1991 in the Czech Republic, Hungary, Poland, and Slovakia by the German Marshall Fund of the United States, the Charles S. Mott Foundation, and the Rockefeller Brothers Fund. Launched as a regional program of small grants to support the development of environmental NGOs and community initiatives. Total funding of $6 million contributed between 1994-1999.

Table 1 summarizes the strengths, weaknesses, and constraints of local NGOs operating in the area of rural development in EU accession countries. Rural NGOs "lack necessary management and administrative procedure and require a great degree of mentoring and training

support. Frequently they are isolated and lack access to networks. They often are relatively weak at advocacy and lack understanding of the public policy process" (USAID). The latter is a particular handicap in a sector that is so heavily controlled by public policy and public funds.

Table 1. Rural NGOs in CEECs: Strengths, Weaknesses, Constraints

Strengths	Weaknesses	Constraints
Structure adapted to local grassroots action	Weak management and administrative skills	Government reluctance to deal with NGOs
Existence of relevant examples in the EU (LEADER and beyond)	Weak fund-raising skills	Government reluctance to use NGOs, except at a local level
Mission-oriented approach	No access to networks	Infighting between ministries for control of rural development
Flexible and non-bureaucratic approach; structure adapted to cooperation with multiple partners	Weak capacity for advocacy, no understanding of public policy process	Lack of modality for the World Bank to work with NGOs as partners
Self-help mentality	Fragile sustainability	
Cost-effective operation principles	Evolving legal context for NGOs	

FOREIGN NATIONAL INSTITUTIONS

Funding and programs offered by foreign national institutions to CEE countries usually follow their own national policy agenda. EU member countries have all engaged in twinning programs to support the process of adoption of the acquis by accession candidates. The United States has focused on free markets and civil society development. It is hard to identify themes related to Swiss or Canadian assistance. Some of the most significant and indicative bilateral assistance programs and their contribution to rural development are listed below.

- *United Kingdom: Department for International Development (DFID) – The Know-How Fund (KHF).* Provides assistance to developing countries on the basis of country assessments from which a country assistance program is designed. The UK Government finances the programs and implementation is provided by a combination of British contract expertise (selected by open tender) and local institutions. DFID's assistance priorities changed dramatically with the election of the Labor government in May 1997. Assistance to the transition countries prior to the political change focused primarily on enterprise development, banking system support, and similar projects. It included some SME development in rural areas, but not a significant amount. After the change in government and the shift in focus of the EU agricultural policy, rural development has become an important element in DFID's assistance activities in the CEECs. DFID's new guidelines focus on eliminating poverty. Projects should address problems in the areas of social exclusion, the environment, public administration reform, and regional and territorial development. DFID works in partnership with local governments, the EU, the World Bank, and other international institutions.
- *Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ).* One of the world's largest service enterprises in the development field. The Federal German Government wholly owns it with over 8,600 staff in 135 countries. Its activities range from official bilateral development cooperation to consulting services contracted to third parties: nations,

multilateral institutions, and the EU. Agriculture and rural development are regarded as important activity areas in CEE for support by the GTZ. Their methodology is similar to DFID in that it is a combination of financial support and know-how transfer, often involving cooperation between German and local institutions. The brief examples of some country assistance profiles provide an example of the type of work being supported by the German Government through the GTZ. **Table 2** lists a selection of GTZ projects in CEE countries.

Table 2. GTZ Rural Development Activities in CEE

Country	Activities
Bulgaria	Promotion of the Lovetch Mountain Region: a fruit-growing and viticulture project to improve rural incomes. Linked to GTZ's Wholesale Market project in Sofia
Latvia and Lithuania.	Support to breeder associations and input suppliers to improve farm productivity and income. EU regulations are applied to facilitate EU accession
Macedonia	Modernization of Macedonian agriculture: support to producer associations (sheep breeders, beekeepers, vegetable producers) through workshops on production issues, EU standards, credit systems, and cooperation. Preparation of a new seed law
Romania	Development of the Bucharest Wholesale Market and six district assembly markets
	Support for a farmers cooperative association in the Vatra Dornei region to raise local incomes by improving farming practice after out-migration
	Apuseni Development Project to improve income for small and medium farms and non-farm enterprises (GTZ technical assistance with IFAD credit through local banks)
	Assistance to the National Cattle Breeding Association to improve organizational structure and ability to provide services, particularly to small holdings, and prepare for implementation of EU standards and procedures.
	Study of agriculture, rural finance, privatization, and rural development in the Timis district (Agricultural University of Timisoara and Agricultural University of Hohenheim, Germany)

- *USAID.* From the beginning of the transition process, USAID targeted considerable assistance to the strengthening of the NGO sector in CEE. They have made major contributions to upgrading the rural and agriculture infrastructure of certain CEECs in the areas of cooperative banking, grain warehousing, modernization (milk, livestock breeding, etc.) and micro credit. The focus was general agricultural modernization and organization of agricultural/rural structures and this assistance has contributed only indirectly towards EU accession. USAID programs are implemented by two US cooperative organizations: Land O' Lakes and ACDI/VOCA.
- *France: Fondation France-Pologne, Fondation France-Hongrie.* Agriculture and rural development are high priorities for France in its assistance to the CEECs in order to create allies in support of the French view of the CAP. Poland is a relevant example as it is considered by France to be a key agricultural country in CEE. As a complement to its ministry-to-ministry programs, the French Government created in the early 1990s separate foundations to provide more flexible assistance in Poland and Hungary. The two foundations are wholly funded by the French Treasury. A key feature of the French projects is know-how transfer and relationship building with similar French organizations (agricultural chambers, young farmers associations, producer organizations, regions and cities). The major program areas in Poland include government institution building (twinning, experts in ministries,

training, exchanges between agricultural administrations at different levels, particularly in the field of territorial planning and development, development of institutions for agriculture payment systems), partnerships with local governments and social-economic institutions, and university programs (joint programs between French and Polish agricultural institutions, the establishment of a graduate agri-food management school at the Warsaw University of Agriculture mentored by a French agribusiness faculty). Fondation France-Pologne is also a major sponsor, with EBRD, of the Warsaw market scheme (with EBRD) and of a series of rural tourism model projects.

- *Other EU Member Country Programs.* Denmark and Ireland also have active programs that are geared to building capacity to achieve the acquis and have thus impacted on rural development. The special feature of these programs is their flexibility: they can work with NGOs and local authorities, and not with national governments, as long as the project falls under the recipient country's accession program and is approved by its EU accession unit.

CONCLUSION

Bilateral assistance programs have an important role to play in rural development in CEE. The commitment of these programs to provide assistance to the accession countries and their agriculture, which now includes rural development as a component, remains at a level of nearly 50% of all EU programs. Now that the accession countries have established their framework accession programs, there is hope for greater impact from foreign national programs and less overlap with EU and other assistance.

The potential for NGOs is less clear. Although the quality of some specific examples of NGO involvement is encouraging, the financial assistance from donor NGOs is not at all on a scale of national or multinational public sector programs. An important argument comes from the EU rural development experience, where LEADER I, LEADER II, and LEADER+ have successfully tested the bottom-up approach within the EU institutional system. The ability of agriculture ministries in accession countries to take an integrated approach and the implementation of Agenda 2000 by the EU in the area of rural development will determine the vitality and impact of local actors in the promotion of sustainable rural communities. The World Bank also can have a positive impact on this process in CEE by promoting partnership with NGOs and other actors in the local environment. The demographics in countries such as Poland, Bulgaria and Romania make an urgent case for allocation of resources towards the viability of rural communities, before it becomes too late as it has become in many parts of the EU.

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Third World Bank–FAO EU Accession Workshop in the Rural Sector: The Challenge of Rural Development in the EU Accession Process

Sofia, Bulgaria–June 17-20, 2000

Program

SATURDAY, JUNE 17, 2000

Arrival of participants at the Hotel Rodina, Sofia, Bulgaria.

19:00-21:00 *Dinner*

SUNDAY, JUNE 18, 2000

7:30-8:30 *Breakfast*

8:30-9:15 **WELCOME AND INTRODUCTORY REMARKS**

Welcome
Mr. Csaba Csaki, The World Bank
Mr. Thomas O'Brien, Resident Representative, World Bank Sofia Office
Introductory Remarks
His Excellency Ventzislav Varbanov, Minister ofAgriculture, Forestry and Agrarian Reform, Bulgaria – Delivered by Deputy Minister Andriana Tosheva-Sukova

9:15-12:30 **SESSION I: DEFINING THE CONCEPT OF RURAL DEVELOPMENT – OPTIONS FOR EU ACCESSION CANDIDATE COUNTRIES**
Chairperson: Mr. Robert Thompson, the World Bank

9:15-9:45 *Definition and Concepts of Rural Development: A European Perspective*
Mr. Andreas Korakas, Director of Rural Development – Delivered by Mr. Peter Berkowitz, European Union

9:45-10:15 *Definition and Concepts of Rural Development. A Non-European Perspective*
Mr. David Freshwater, University of Kentucky

10:15-10:30 *Coffee*

10:30-11:00 *Institutional Framework and Decentralization in Rural Development*
Mr. Franco Sotte & Mr. Roberto Esposti, University of Ancona

11:00-11:30 *Experience with Rural Development in the European Union: Avoiding Pitfalls*
Mr. Alan Wilkinson, Head of SAPARD Unit, European Commission

11:30-12:30 Discussion

12:30-14:00 Lunch

14:00-18:00 SESSION 11: RURAL DEVELOPMENT IN THE EUROPEAN UNION
Chairperson: Mr. Alan Wilkinson, Head of SAPARD Unit, European Commission

14:00-14:30 *Rural Development Policies in the Context of the European Union*
Lord Henry Plumb, Former President of the European Parliament

14:30-14:50 *Ireland:* Mr. Frank O'Donnell, Government of Ireland

14:50-15:10 *Leader experience:* Mr. Joseph Mannion, University College Dublin

15:10-15:40 Discussion

Country Case Studies: Lessons for EU Accession Countries

15:40-16:00 Coffee

16:00-16:20 *Siena, Italy:* Mr. Secondo Tarditi, University of Siena

16:20-16:40 *Emilia-Romagna, Italy:* Mr. Carlo Malavolta, Government of Emilia-Romagna

16:40-17:10 *Portugal:* Mr. Arlindo Cunha, Member of EU Parliament

17:10-18:00 Discussion

19:30 Dinner and Reception

MONDAY, JUNE 19, 2000

7:30-8:30 Breakfast

8:30-12:30 SESSION III: RURAL DEVELOPMENT IN CENTRAL AND EASTERN EUROPE
Chairperson: Mr. Santiago Funes, FAO

8:30-9:00 *The Status of Rural Development in Central and Eastern Europe*
Mr. Aladar Zichy, Independent Consultant

9:00-9:30 *Critical Constraints to Rural Development in Central and Eastern Europe*
Mr. Johan Swinnen, Advisor, EU

9:30-10:00 *The Non-Agricultural Rural Sector*
Mr. Junior Davis & Mr. Douglas Pearce, Natural Resources Institute

Selected Country Case Studies

10:00-10:20 *Hungary:* Ms. Katalin Kovacs

10:20-10:40 *Lithuania:* Mr. Saulius Cironka

10:40-11:00 *Coffee*

11:00-11:20 *Poland:* Mr. Augustyn Wos

11:20-11:40 *Romania:* Ms. Violeta Florian

11:40-12:00 *Turkey:* Mr. Ernre Kutkan

12:00-12:30 Discussion

12:30-13:30 *Lunch*

13:30-17:30 **SESSION IV: INTERNATIONAL EXPERIENCES AND THE ROLE OF INTERNATIONAL DEVELOPMENT ORGANIZATIONS IN SUPPORTING RURAL DEVELOPMENT IN THE EU ACCESSION CANDIDATE COUNTRIES**

Chairperson: Ms. Laura Tuck, The World Bank

13:30-14:00 *Overall World Bank Experience in Rural Development*
Robert Thompson, Director of Rural Development, The World Bank

Current World Bank Country Experiences in the EU Accession Candidate Countries

14:00-14:30 *The Latvia Rural Finance and Rural Development Projects*
Ms. Hoonae Kim, The World Bank & the Latvian Delegation

14:30-15:00 *The Poland Rural Development Project*
Mr. Piotr Wilczynski, The World Bank

15:00-15:30 Discussion

15:30-15:45	*Coffee*
15:45-16:15	*FAO Experience and Potential Role in Rural Development in the EU Accession Candidate Countries* Mr. Santiago Funes, Director of Rural Development Division, FAO
16:15-16:45	*The Potential Role of Other International Organizations and NGOs in Supporting Rural Development in the EU accession Candidate Countries* Ms. Judith Symonds, International Consultant
16:45-17:30	Discussion
19:00	*Dinner and Reception with the Bulgarian Ministry of Agriculture*

TUESDAY, JUNE 20, 2000

7:30-8:30	*Breakfast*
8:30-9:30	**SESSION IV CONTINUED**

Chairperson: Mr. Gershon Feder, The World Bank

8:30-9:00	*Achievements and Gaps in Rural Development in the European Union* Mr. Laurent Van Depoele, University of Leuven
9:00-9:30	*Rural Development in the Pre-Accession Period: Comments on the C Current Status of Preparation and Short Term Perspectives by the European Commission* Mr. Kaj Mortensen, European Union
9:30-12:30	**CONCLUDING REMARKS**
9:30-10:30	Comments from the country delegations
10:30-10:45	*Coffee*
10:45-11:30	Comments from country delegations continued and open discussion
11:30-11:40	Mr. Kai Mortensen, European Commission
11:40-12:00	Mr. Santiago Funes, Food and Agriculture Organization
12:00-12:30	Ms. Laura Tuck, The World Bank

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