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CHAPTER 2 AND ANNEX 2

OF THE HANDBOOK ON RURAL HOUSEHOLD, LIVELIHOOD AND WELL-BEING: STATISTICS ON RURAL DEVELOPMENT AND AGRICULTURE HOUSEHOLD INCOME.

Paper submitted by the Task Force
on Statistics for Rural Development and Agriculture Household Income*

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II. NATIONAL AND INTERNATIONAL RURAL DEVELOPMENT POLICIES

II.1 A few examples of national rural development policies

A system of rural development statistics and the derived indicators must of course closely map the objectives indicated in the policies as they are formulated by governments. In case the policies are not very clearly formulated, the statisticians have to anticipate the set up of indicators being demanded and in this process apply international good practices as illustrated in the present Handbook.

To this end a number of national policy formulations are listed below as illustrations of the level of concreteness in the policies.

The stated national objectives for rural and countryside policy in **England** (Wales and Scotland have their own rural development policies) with the view “to sustain and enhance the distinctive environment, economy and social fabric of the English countryside for the benefit of all”, were as follows (HM Treasury, 2000):

- ◆ To facilitate the development of dynamic, competitive and sustainable economies in the countryside, tackling poverty in rural areas.
- ◆ To maintain and stimulate communities, and secure access to services which is equitable in all the circumstances, for those who live or work in the countryside.
- ◆ To increase opportunities for people to enjoy the countryside.
- ◆ To promote Government responsiveness to rural communities through better working together between central departments, local government and government agencies, and better co-operation with non-governmental bodies (Hill, 2003).

In **Sweden** the regional policy aims at creating conditions for sustainable economic growth, equity and freedom of choice so that similar living conditions are created for all citizens in the country. To this end the Swedish government has given the National Rural Development Agency the following task: “... *to coordinate different sectors of society and working for good living conditions and development opportunities for rural areas and rural populations ...*”. One of the ways in which the Agency is managing this task is by providing information about the situation in rural and sparsely populated areas so that it can be monitored and analysed (Jönrup, 2003).

In 1999, **Ireland**'s Department of Agriculture and Food published a White Paper on rural development ‘Providing for the future: a strategy for rural development in Ireland’ (McMahon, 2003).

The White Paper sets out a vision and framework for the development of rural communities in Ireland into the next millennium. It concentrates on defining an overall, strategic direction for Government in this area (McMahon, 2003).

The White Paper identifies a policy agenda, which refers to six areas of concern. These are referred to in very general terms in the following extract:

Future Vision and Policy Agenda.

The Government is committed to ensuring the economic and social well being of rural communities, to providing the conditions for a meaningful and fulfilling life for all people living in rural areas and to striving to achieve a rural Ireland in which

1. There will be vibrant sustainable communities with the range of age, income and occupational groups, such as to allow them to adapt to on-going economic, social, cultural and environmental change and to enjoy a standard of living and a quality of life which will make them attractive communities in which to live and work; the maximum number of rural households and especially family farms, will be retained; there will be equity in terms of opportunity both between rural and urban communities and between communities in rural areas; individuals and families will have a real choice as to whether to stay in, leave, or move to rural Ireland.
2. There will be sufficient income and employment opportunities to allow individuals and families to live with dignity.
3. Rural communities will enjoy access to education, training and lifelong learning and to an adequate level of social and other services and infrastructures.
4. Rural communities will participate effectively in the structures and decision-making processes affecting them in an inclusive society based on the principles of equity, particularly in relation to gender balance and social justice.
5. The cultural identity of rural communities, in particular the language, traditions, heritage and sense of community will be valued and retained.
6. The rural environment will be respected and development in rural areas will take place in a sustainable manner (McMahon, 2003).

In addition to these OECD country cases, a small sample of developing countries has likewise been covered (cf. section XIII.2.2). Some of their rural development policies are reported below.

According to **India**'s Ministry of Rural Development India has been a welfare state ever since her Independence and the primary objective of all governmental endeavours has been the welfare of its millions. Planning has been one of the pillars of the Indian policy since independence and the country's strength is derived from the achievement of planning. The policies and programmes have been designed with the aim of alleviation of rural poverty, which has been one of the primary objectives of planned development in India. It was realized that a sustainable strategy of poverty alleviation has to be based on increasing the productive employment opportunities in

the process of growth itself. Elimination of poverty, ignorance, diseases and inequality of opportunities and providing a better and higher quality of life were the basic premises upon which all the plans and blueprints of development were built.

Rural development implies both the improved quality of life in the rural areas as well as greater social transformation. In order to provide the rural people with better prospects for economic development, increased participation of people in the rural development programmes, decentralization of planning, better enforcement of land reforms and greater access to credit are envisaged.

Again, in 1999 Ministry of Rural Areas and Employment was renamed as Ministry of Rural Development. This Ministry has been acting as a catalyst effecting the change in rural areas through the implementation of wide spectrum of programmes, which are aimed at poverty alleviation, employment generation, infrastructure development and social security. Over the years, with the experience gained, in the implementation of the programmes and in response to the felt needs of the poor, several programmes have been modified and new programmes have been introduced. In order to ensure that the fruits of economic reform are shared by all sections of societies five elements of social and economic infrastructure, critical to the quality of life in rural areas, were identified. These are health education drinking water, housing and roads.¹

A partnership between the Government of the Republic of **Zambia** and the International Fund for Agricultural Development (IFAD) in implementing projects in Zambia has contributed to bringing about new approaches in the agricultural sector, which are aimed at empowering local communities. This was being done in line with the Poverty Reduction Strategy Paper (PRSP).

According to a first progress report of the Zambian PRSP (January 2002 – June 2003), agriculture is a key sector in Zambia's poverty reduction efforts, since most of the poor are predominantly in agriculture and also because of the presence of a large resource endowment and conditions suited for agriculture development. The strategy for agriculture is two pronged: (i) ensuring food security and (ii) diversifying agriculture production through promotion of both large-scale and small-scale producers (under out-grower schemes as well as opening up farm blocks). Government budgetary allocation to the agriculture sector in nominal terms was raised. A number of interventions were implemented in close partnership with other key players in agricultural development.²

In the area of promoting food security, the major programme undertaken was the Fertilizer Support Programme (FSP).

In the area of promoting small scale and commercial farming, the major programmes undertaken were support towards out-growers schemes, rural

¹ <http://rural.nic.in/i1.htm>

² The term rural development is not used in this Zambian Government strategy paper.

infrastructure investment programme and animal production and health programme. However, programme implementation was constrained by irregular and insufficient release of financial resources and therefore not much progress was made (GRZ, 2004).

In tourism, the programme was mainly directed towards the development of infrastructure in Livingstone as the premier tourist destination in Zambia and creating linkages with other tourist development areas or zones. However, no disbursements to eligible beneficiaries had been made as the modalities for disbursements were still being worked out (GRZ, 2004).

The Food Security Pack programme is implemented on behalf of Government through a NGO called the Programme Against Malnutrition. The programme's main objective is to improve agriculture productivity and household food security among the targeted vulnerable but viable farmers. This programme is in form of a grant.

Rural industrialization and micro, small and medium enterprises promotional activities were undertaken through the Small Enterprise Development Board utilizing poverty reduction projects (PRP) funds.

Access to electrical power in rural areas was increased by intensifying promotion of off-grid power supplies, not only through solar energy, but also through small and mini-hydro schemes. A certain amount was spent on implementing mainly rural electrification projects in order to attract agricultural development and investment.

Though most health institutions received drugs during the period covered, the health delivery system was however weakened by lack of equipment and shortage of qualified staff especially in rural areas.

The PRSP also aims at developing water resources infrastructure such as dams, boreholes and wells for improvement in water supply in rural areas and for agricultural use. However, the improvement of the water and sanitation in rural areas has been constrained by lack of funding (GRZ, 2004).

An internal **World Bank review** of the first round of 12 PRSPs covering both Africa and Latin America indicates major gaps in understanding rural poverty, in particular the linkage of defined actions to outcomes for specific groups of the rural poor and effective mechanisms for selecting and sequencing public sector choice to achieve desired outcomes.³ The review concludes that much more work is needed to underpin the PRSP process itself in the up coming PRSP rounds and through implementation to secure over time the desired outcomes – this requires greater consensus building between development agencies and country governments on core

³ The review used as its framework the treatment of rural content issues against the headings of participatory processes; poverty diagnosis; the targets and indicators; and priority public actions – these being the framework set by the World Bank and Fund Joint Staff Assessment (JSA) guidelines. It included an assessment of the PRSP documents and the related JSA documents and did not review related and underpinning working papers and reports. Annex 1 in Proctor (2002) provides further specific detail.

principles and whilst much has been done in taking forward strategic thinking within agencies – the dialogue between agencies and country governments must be strengthened for deepening the analytical underpinning and for shared learning on generic issues.⁴

II.2 Rural development from a sectorial based approach – agriculture

II.2.1 The agriculture perspective

Historically, agricultural policy has been synonymous with rural policy, or at least being perceived as such. Although farming is still important in shaping land use, employment opportunities in agriculture are declining in relative and absolute terms, at least in the OECD countries (OECD, 2003).

For a long time, economists saw the main role of agriculture as the supply of labour for the industrialized sectors (cf. Lewis, 1954) and, indeed, it is a necessary precondition for the development process. But by emphasizing this as the only important contribution, other significant functions of the agricultural sector tend to be overlooked.

Whereas most rural territorial units in most OECD countries depended on agriculture as their leading economic engine a half-century ago, today maybe only between one in five and one in every ten, depending on country, rural counties is “farm-dependent”, or counts agriculture as its leading source of income. Agricultural policy thus provides less and less stimulus to the viability of the rural economy (OECD, 2003).

Rural employment patterns and perspectives can therefore not be properly understood by focusing analytical attention exclusively on agricultural sector employment. But it is important, whether it is a developed OECD country or a developing country, to monitor the share of agriculture in regional employment and to compare the national average with predominately rural, significantly rural and predominately urban areas, both in absolute terms and in annual changes (OECD, 1994).

Data should also be recorded on territorial differences in part-time and **pluriactive farming**, including agriculture/forestry and agriculture/fishery activities. A large part of farm labourers are employed part-time and sometimes engaged in other gainful activities:

- ◆ Processing of agricultural products, e.g. cheese making;
- ◆ Non-agricultural activities on the farm, e.g. agro-tourism on the farm;
- ◆ Employment on other farms;
- ◆ Off-farm activities (OECD, 1994).

⁴ <http://europa.eu.int/comm/development/body/theme/rurpol/forum/papers/ProctorEn.pdf>

II.2.2 Trends in agriculture in the last 50 years – plummeting employment and skyrocketing productivity

Looking at the period from end of World War II until now, agriculture has gone through structural change of a dimension that hardly any other sector can match. It can be characterized by the following keywords:

- ◆ **Plummeting employment** (including self-employed);⁵ and
- ◆ **Skyrocketing productivity increase**; whilst in the same time
- ◆ **Cultivated farm land has been more and less stable.**

In Canada, for instance, about 1.2 million people worked on a farm as a main-job in 1946. By 1976, that number dropped to a little under a half a million and to 367,400 in 2000 (Trant, 2002).

One of the more interesting characteristics of the drop in farm employment is the fact that employment in agriculture has declined the most among self-employed farmers with no employees. This group is more likely to have smaller farms and probably more easily run as a second job.

In the 1996 Canadian Census of Agriculture it was reported that 46% of all farmers worked some days of off-farm work at some point in the previous year. The comparable figure in 1941 was 36%. Farmers were initially to be found in the forest, fishing, mining and petroleum industries but they are now participating in all sectors.

Falling farm employment, however, has not resulted in the large-scale abandonment of farmland. In fact, in some countries seeded area has actually shown a steady increase over time.

Improvements in **agricultural labour productivity** have been quite remarkable. Again taking Canada as an example, it increased more than 5-fold between 1961 and 2000, largely out-performing the 3-fold productivity gains in the goods producing sector and surpassed the gains in the service sector, which had somewhat less than a 2-fold increase in the service sector.

Another way to view productivity is to measure labour costs per unit produced. Again agriculture clearly appears to have led all industrial sectors in terms of productivity gains.⁶ In 1961 agriculture was labour intensive in comparison to the good producing and service sectors of the Canadian economy, sectors which at that time required half the labour of agriculture, to produce a unit of value added

⁵ This is of course not unique for agriculture. Manufacturing has followed the same path but with a lag. See Chapter V “Industrialization, trade and structural change,” in UNCTAD’s Trade and Development Report 2003. Capital Accumulation, Growth and Structural Change.

⁶ The 3rd edition of the ILO’s Key Indicator of Labour Market (KILM) provides estimates of productivity in agriculture, forestry and fisheries (table 18e). Labour productivity is defined as output - measured by gross domestic product (GDP) - per unit of labour input. For a substantial number of economies, the productivity measures for the total economy and manufacturing are complemented with measures of unit labour cost, i.e. labour cost per unit of output. The estimates the agriculture, forestry and fisheries sector are of an experimental nature.

production. By the year 2000 that relationship had changed. Labour costs had increased for all sectors as had production. Agriculture was the only sector however where production increased while employment declined. The result was only a 2-fold increase in labour costs per unit of real GDP produced in agriculture in comparison to a 4-fold increase in the goods producing sector and close to a 6-fold increase in the service sector (Trant, 2002).

II.2.3 The current situation for agriculture

Several different and emerging forces affect agriculture. First is the globalization of the world economy led by several factors including rising incomes in developing countries, reduction in trade barriers, and large countries moving from planned to market driven economies. For a country's farmers and agribusinesses to compete effectively in the global markets, a competitive agricultural system is needed. More than ever, the competitive structure of agriculture is affected by rules of trade, domestic policies, infrastructure development and new technologies (Vogel, 2002).

The increasing demand for food and fiber has been met by more intensive use of the land with increased use of irrigation and fertilizers, expansion of cultivation to marginal land more subject to erosion, and increased deforestation. The need for a country's farmers to provide food security for a growing population is leading to concerns that intensive use of land and water resources and the application of agricultural chemicals are having environmental consequences. Policy makers are faced with difficult decisions about appropriate actions to ensure that their agriculture system is competitive in the world markets, yet is sustainable and in harmony with the environment.

A third force affecting agriculture in many countries is the changing structure of the nation's farms into fewer holdings, but larger operations. This is happening to the extent that it is affecting the social structure of rural communities as the displaced farmers move elsewhere. On the other hand, there is a growing population of part-time farmers around urban areas who have employment elsewhere but desire the agricultural life style. While these producers contribute little to the overall agricultural production, they do account for a considerable amount of the land.

The primary issue facing statisticians is that all three forces are happening at the same time. Unfortunately, many countries have failed to recognize these forces and rather than increasing resources devoted to agricultural statistics, have instead reduced them based on the declining share of agriculture in the national accounts. The problem is that the agricultural sector's share of the gross domestic product is not an appropriate measure for allocating resources to agricultural statistics given that:

- ◆ Agriculture is at the center of issues concerning land use and the environment.
- ◆ Agriculture is the major user of a nation's land and water resources whilst at the same time requested to provide an adequate, safe, and nutritious supply of food - a basic goal of every country.
- ◆ Agriculture is an important part of many countries' trade balances; and

- ◆ Agricultural production, more than any other sector, is very volatile as it suffers from the vagaries of weather on top of market and policy driven effects.

In view of what was said above a viable agricultural statistics system needs to provide data to guide the making of governmental policy decisions as they relate to food security, income security, and economic issues. Governments are also becoming increasingly aware of agriculture's affect on its land resources and the environment. As policy makers grapple with food safety, land use, and environmental issues, they want to know more about how their policies affect the economic and social well being of farms and farm households. More important, they desire knowledge about the infrastructure and geographic distribution of agriculture so that policy can be made more directly to sub-sectors or geographic regions (Vogel, 2002).

II.2.4 Other characteristics of agriculture

Multifunctionality and Agriculture

The term multifunctionality is used to convey the notion that agriculture can play several roles in our societies in addition to its primary function of producing food. It implies that “...*the existence of multiple commodity and non-commodity outputs that are jointly produced by agriculture, and the fact that some of the non-commodity outputs exhibit the characteristics of externalities or public goods* (OECD, 2001).”

Multifunctionality applies certainly also to fishing and forestry policies as well as other economic activities but the examples here will be drawn only from agriculture.

The policy context lies in the increased demand for certain of the non-commodity outputs of agriculture. The issues to be addressed here are:

- ◆ *From the multifunctionality concept to agricultural policy*
- ◆ *Distinguishing food from non-food products.*
- ◆ *Distinguishing production from processing*
- ◆ *Distinguishing material from immaterial wealth.* The agricultural world produces material wealth along with immaterial wealth as, for example, landscape management of the soil and the subsoil, biodiversity, etc.
- ◆ *Distinguishing public from private goods.* Private goods mean that farmers' production belongs to them. On the other hand, farmers are considered more and more as agents producing public goods in the course of their private activity: landscape, environment, culture, and so on.

- ◆ *Distinguishing market from non-market goods.* A part of what a farmer produces is for the market and a part is non-market although it is a valuable asset (OECD, 2003).

II.2.5 Perspectives on Agricultural Policy Reform and the Rural Economy

Developed countries

While agriculture plays an important role in the economy of some rural areas, its overall economic importance in relative terms is low and declining. Agricultural policy has not prevented, and cannot prevent, the long-term downward trend in agricultural employment and de-population in many rural areas. Agricultural policy reform can imply significant adjustment costs for some individuals and areas in the short term, but the long-term benefits to both farm and non-farm households, and to rural areas generally, can be considerable. Agricultural policy and rural development policy both pursue a diversity of objectives.

Rural areas differ, of course, in their physical endowments, economic structure, cultural and historical influences, social conditions, and so on. Understanding these processes of change and adjustment is essential for policy formulation.

The fact that most rural land (and water) is used by agriculture, or forestry, highlights the essential relationship between farm production and forestry on the one hand and the rural environment on the other hand.

While farm output continues to increase, farm employment continues to decline, and real commodity prices continue to decrease. These trends are more than 100 years old, and will continue. The share of agriculture in total output and employment is low in most OECD countries (currently averaging approximately 3% and 8%, respectively), and continues to decline. In the United Kingdom, where the process of agricultural re-structuring is well-advanced, direct employment in agriculture now accounts for only 2.2% of total employment, while in Greece the figure is still over 20% (OECD, 2003).

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.

In short, while agriculture continues to play an important role in the economy of some rural areas, in many cases, and certainly in overall terms, its economic importance is relatively low and can be expected to decline further.

In 2001, total support to OECD agriculture was USD 311 billion, representing 1.3% of GDP across the OECD area (OECD, 2003).

Rural development policies, even if much more comprehensive and wide ranging than purely agricultural policies, are not a panacea for all the problems of rural areas. The most important task of national governments is to pursue macroeconomic policies conducive to sustained economic growth. The second major responsibility is to implement programmes aimed at reducing the isolation of rural areas, such as ensuring access to educational institutions at all levels, good public transport and accessible modern communication systems (OECD, 2003).

Developing countries

Countries outside the OECD, in general, are characterised by an agricultural sector that is much more important in economic terms, and perhaps also in social terms, to rural areas and to the economy and society overall (OECD, 2003). By the late 1990s, on average, more than 75% of the labour force in the least developed countries and other low-income countries was engaged in the agricultural sector and about 35% in other developing countries. Agriculture is thus a very important source of employment and income, with implications for other sectors of the economy. Raising the agriculture productivity is important for reducing poverty and promoting food security and nutritional well-being (cf. chapter 3 in ILO, 2004).

Having said this it is also clear that non-farm activities, which usually grow faster than farm production, will play an increasingly important role in expanding rural employment and income. Rural employment strategies should therefore also be developed in order to spur off-farm employment opportunities (UN, 2003).

II.2.6 The farm policy dilemma

In many countries, agriculture policies are or have been overwhelmingly focused on subsidies to commodity growers. In other countries trade issues or food security are the main focus of agriculture policies. Broader rural development initiatives only receive a fraction of the subsidies (OECD, 2003).

Countries are, however, increasingly becoming aware of the need to further progressive reductions in domestic agricultural support and border protection, and to shift away from policy measures that encourage higher levels of food production and input use, towards measures that are less distorting of markets and trade.

If productivity gains in agriculture tend to reduce the sector capacity to create jobs, then viable rural communities may better be assured by comprehensive area-targeted programmes than by traditional agricultural production-linked payments. In other words, shift from a sectoral to a territorial policy approach (OECD, 2001).

II.3 Rural development from a territorial based approach

II.3.1 Employment – the driving force of rural development

Labour force participation rates are generally lower in rural than in urban regions. Moreover, in most countries, rural women are underrepresented in the labour force. On the other hand, a salient point in many developing countries is that women are typically more likely than men to work in the agricultural sector. For example, women in rural Africa produce, process and store up to 80 per cent of foodstuffs, while in South and South-East Asia they undertake 60 per cent of cultivation work and other food production (UNIFEM, 2000). As was mentioned above, rural areas in developed countries will be confronted with substantial increases in the working age population. This will generate uneven territorial pressures for labour market adjustments (OECD, 1994).

In rural areas there are large variations in employment creation performance. In the OECD area, it has been noted that a group of dynamic predominantly rural regions, representing between 5 and 15% of the total national work force, has experienced employment growth considerably higher than the national economy as a whole. Thus, **rurality in itself is not a handicap for job creation** (OECD, 1994).

To this end more attention should be given to studies, which examine intra-regional populations and employment dynamics. Such studies should address the following questions:

- ◆ What role do towns and cities play in rural labour markets and rural development?
- ◆ Are there specific patterns of rural, as opposed to urban, employment and population developments?
- ◆ What is the economic base of urban and rural structures? Are there significant differences between urban and rural economic bases? (OECD, 1994).

II.3.2 Trends for rural regions

One of the main conclusions when analysing rural development is that rural areas and their economies are very heterogeneous with large variations from one area to another. In the United States, for instance, most of the economic growth is concentrated in roughly 4 of every 10 rural counties. Counties that are enjoying robust economic growth tend to have one of three characteristics: scenic amenities (such as in the Rocky Mountains), proximity to metro areas (common to the fringe areas of nearly all major metro areas), or are emerging retail and financial hubs (the solitary growth centres scattered throughout the nation).

Out-migration of young people caused by lack of employment opportunities and inadequate access to educational and leisure facilities, along with in-migration of retirees in some places, has led to significant ageing of the population. Moreover, most rural regions have difficulty in establishing the necessary critical mass of facilities, producer services and infrastructures to support economic development. Consequently, entrepreneurs face specific obstacles in starting up enterprises in rural regions.

Some rural regions perform very well, even better than urban ones. A central question is therefore why certain rural regions perform better than others? Transport infrastructures and towns in the region or the vicinity of a major urban centre are often mentioned as important factors. Each region has different combinations and levels of capital endowment (physical, financial, human and social). What counts is the availability of one form of capital or another as much as the ability to properly exploit it. In some cases, intangible aspects (entrepreneurship, cultural identity, participation and partnerships) are the most important in making the difference.

Some regions succeed well in exploiting their natural resources such as wood, oil, minerals or hydro-electricity or to attract major public infrastructure investments.

Another successful receipt has been to focus on amenity-based development schemes. A large part of successful rural regions has been able to valorise public or quasi-public goods such as a clean environment, attractive landscapes and cultural heritage (including food).

Farming can continue to play a role in and remain a tool for rural development. It is important to dispel the outdated notion of the “full-time farm business” with the household wholly dependent upon agricultural income.⁷ Farm households often have multiple income sources. In other terms, the health of the farm and non-farm economies in rural areas is inexorably linked.

Dramatic shifts in populations provide another piece of evidence that a new approach to rural policy is needed. Many rural places with strong economic gains also experienced strong in-migration, while weak economies often saw an outright loss in population. Labour market statistics also show that unemployment remains highest in the most remote rural places while the suburbs to large cities had the lowest unemployment rates (OECD, 2003).

In this context, analyses should be made of **demographic pressure indices**, that is the population between 5 and 14 in relation to the population between 55 and 64, which indicate potential new workers per retiring worker. Another key measure is the **dependency ratio**, which is defined as the population between 0 and 14 plus over 65 in relation to the active population in the age 15-64.

⁷ In this context, Ray Bollman from Statistics Canada has an interesting observation: “Historically, at least in Canada since the period of European settlement, a significant share of farm operators worked off the farm. Also, historically, a relatively small share of the time of farming families was involved in growing plants and husbanding animals. A large share of the time was involved in the manufacturing of horsepower (i.e. raising and maintaining horses) and in the production of fuel (i.e. growing and harvesting hay and oats) and in food processing (washing and sorting eggs, churning butter, separating the cream from the milk, canning fruits and vegetables) – today, work in these manufacturing sectors is classified as “off-farm work” but this manufacturing activity used to take place on farms. Thus, perhaps, the same share of farm household time is still allocated to tending crops and livestock – the difference today is that the manufacturing of farm inputs and the processing of farm products tends to take place off the farm.”

II.3.3 Entrepreneurship and job creation in rural areas

Well-established inter-firms relations within clusters, and accessible and valuable natural and cultural resources that increase the sustainable attractiveness of places are often cited as a common denominator for successful rural areas.

Amenity-based development and industrial clustering seem also to offer sustainable prospects for more rural areas. Together with increased connectivity due to information technologies, a greater and diversified social demand on rural areas has widened the range of regions considered as having marketable values.

Commuting has always separated where people live and work (Johnson, 1999). Improved transportation allows the separation to grow. Tele-commuting opportunities allows them to separate much more. Furthermore, spatially separated production using information technology to coordinate production activities separates the tradition workplace.⁸ E-commerce tends to separate where people live and spend their money. E-commerce is growing in double and triple digits and is including more and more goods and services (from stock to groceries).

The development of rural areas is based more and more on interactions with adjacent areas. Co-operation between communities and the setting up of horizontal partnerships between public and private actors over areas sufficiently large to define coherent, common strategies have been seen as the most effective means by which to take into account these new forms of territorial development (OECD, 2003).

II.3.4 Are manufacturing and services now the pillars of rural development?

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

Moreover, in some rural communities there is no tradition of an indigenous entrepreneurial class and little experience in small-scale manufacturing. In these

⁸ See ILO's World Employment Report 2001, which examines the employment challenges and opportunities emerging from the rapid growth of information and communication technologies (ICT) around the world. Recognized as among the major drivers of economic growth and wealth creation, ICT are raising productivity, reducing costs and increasing the speed of communications to help shape the new global economy. The effects of ICT on the emergence of new enterprises and the demand for new skills and knowledge are profound, and this study illustrates how they have changed labour market conditions and industrial relations as well. While analysing how new technologies influence the quantity, quality and location of work, the book also looks at where jobs will be lost and created in industrialized and developing countries.

places, especially those with limited natural amenities, the potential to diversify beyond agriculture is mainly a function of the ability to attract outside industry.

Nevertheless manufacturing will likely remain a central element in rural development. While many places are trying to expand the role of tourism this is not a real option for rural communities that are too inaccessible or lack a high enough level of amenities to attract visitors. Similarly there is little potential for producer services playing a major role in most rural places. Almost by default, the survival of many rural communities will depend upon maintaining a manufacturing base.

Large firms, relative to the size of the community, can present significant development problems. Besides that entrepreneurship tends to be much less prevailing if there is one dominant firm in the community, it might be highly risky if the commune stands and falls with this firm.

II.3.5 Merging industry sectors

Just as the computer industry merged with the telecommunication industry the same phenomena has happened with agriculture and agri-food. Synergies are also about to occur between agriculture and pharmaceuticals, agri-tourism and agri-environment. The pharmaceutical industry is about to introduce processes of growing pharmaceutical inputs in crops or animals instead of factories.

II.3.6 Industrial structures and characteristics of rural and urban economies

In all countries establishment size, in terms of persons employed, is smaller in rural than in urbanised regions. The average size of establishments differs considerably and systematically among types of regions and countries, the smallest establishments are found in predominately rural regions.

In this context, the average size and size structure of enterprises and establishments in relation to employment change should be highlighted (OECD, 1994).

In the context of industrial structure it should be noted that specialization in many rural economies has made them particularly vulnerable to business cycles and resource depletion, for instance in mining and forestry. A mix of business with respect to size and industrial branch seems to better lay the foundation for a more stable labour market (OECD, 1996).

II.3.7 Sectoral mix and territorial dynamics

Analysis by the OECD has shown that the economic structure, i.e. the mix of different types of economic activities and size of particular activities, restrains employment growth in predominantly rural regions. At the same time, it is region-specific factors that make a predominantly rural region leading or lagging (Bollman, 2003).

It has been further shown that 78% of OECD territorial disparity in GDP per capita is due to disparities in labour productivity (GDP per worker). In some countries, such as Denmark, Netherlands, Ireland and Canada, it exceeds 90% (Bollman, 2003).

Even with a fairly homogeneous group of countries such as the OECD there are a wide range in territorial disparities of GDP per capita, ranging from an adjusted Gini coefficient of between 0.15-0.20 in Italy, Hungary, United States and Mexico to below 0.05 in Norway, Check Republic and Sweden (Bollman, 2003).

The large differences in the performance of dynamic and lagging rural regions cannot primarily be explained by differences in their sectorial mix. Other characteristics such as networking and governance as well as a range of additional characteristics, often not yet identified or well understood, are responsible for generating positive territorial development dynamics, which more than offset the disadvantages stemming from unfavourable sectorial structures in rural regions (OECD, 1994).⁹

II.3.8 Education and employment in rural regions

The level of education of the rural labour force is an important indicator in any assessment of rural employment conditions and trends. Unemployment rates differ significantly according to educational attainment levels.¹⁰ People in rural regions tend to have lower education levels and are more likely to work in industries with low-skill jobs (OECD, 1994).

More than half of the world's population and more than 70 per cent of the world's poor are to be found in rural areas where hunger, illiteracy and low school achievement are common. Educating a large number of people in rural areas is crucial for achieving sustainable development. Poverty reduction strategies are now placing emphasis on rural development that encompasses all those who live in rural areas. Such strategies need to address the provision of education for the many target groups: children, youth and adults, giving priority to gender imbalances. This complex and urgent challenge should be addressed systematically, through an intricate set of policy measures, at all levels of education systems.

Rapidly changing technologies and increasing globalization also suggest that better education and training have become essential for sustainable livelihoods and the competitiveness of the rural economy.

⁹ See the current research activities of Vincenzo Spiezia, Head of the OECD Territorial Indicators and Statistics Unit, which focus on the analysis of regional comparative advantages and the assessment of policies for regional competitiveness (cf. OECD, 2004).

¹⁰ See the ILO KILM 11 'Unemployment by educational attainment,' which focuses on unemployment among workers categorized by their level of educational attainment. Specifically, the indicator is the percentage distribution of an economy's total unemployed according to five levels of schooling - less than one year, less than primary level, primary level, secondary level and tertiary level. Information for the indicator is given in table 11 for 105 economies, to some extent (Source: <http://www.ilo.org/public/english/employment/strat/kilm/kilm11.htm>).

For many years, the approach followed by policy-makers and education specialists has been to focus on practical and occupational agricultural skill training provided mainly at the secondary and tertiary levels. Yet, in a spatial and economic environment increasingly shaped by non-farming activities, and in a policy context dominated by the poverty reduction agenda, education for rural development requires a holistic approach going beyond the narrow boundaries of the traditional agricultural education and training concept.

II.3.9 The role of tourism

Tourism is a growth sector in terms of employment. It grows faster than total employment, 2 to 10 times faster than for the labour force as a whole, and is often considered an important potential source of employment for many rural areas. It helps to preserve local jobs in marginal rural areas, create new jobs where the activity prospers, and diversify employment but there are few hard figures to substantiate the claims (OECD, 1994).

Tourism-related statistics is hard to identify. There is an international definition but the delimitation is very unclear. In ISIC revision 3, which is the international activity classification, tourism covers:

- ◆ ISIC 55: hotels, restaurants and cafes;
- ◆ ISIC 60-63: transport and travel;
- ◆ ISIC 92: recreational, cultural and sporting activities (market and non-market services).

Of course not all jobs in the above industries can be attributed to tourism.

When analysing the contribution of tourism to rural employment large differences between countries are noted, which, however, are partly due to differences in the content of the statistical categories (OECD, 1994).

Agri-tourism is a significant opportunity where agriculture coincides with scenic or heritage amenities (OECD, 2003). The popular tourist regions in the predominately rural group all have in common a very low population density (OECD, 1994). The interdependence between agriculture and tourism can be illustrated by the following example. The economic consequences of the outbreak of foot-and-mouth disease in the UK negatively affected farming as well as other rural economic activities. In the UK, income from the traditional rural activity of farming has declined, leaving tourism as the predominant economic activity (OECD, 2003).

“We hadn’t realised how inter-dependent farming and tourism had become”. Rural tourism is worth nearly GBP 14 billion a year. It supports 380,000 jobs in the English countryside, compared to 374,000 in farming in 2000 – including farmers and their spouses. Rural England is home to some 28% of the population and 35% of registered businesses (OECD, 2003).

According to the *Zambian Poverty Reduction Strategy Paper (PRSP) (2002-2004)* section on tourism, the plan envisages two broad interventions – national and

zonal, both of which are expected to encourage investment in the sector. National interventions include rehabilitation of roads in tourist areas, rehabilitation of museums, tourist marketing, and human resource development. Zonal development refers to intense development work in identified tourist areas to make them attractive to tourist investment. It includes building or rehabilitating access roads, tourist roads, and airports where appropriate, and power (rural electrification).

Significantly, it also includes finding world-class investors (comparable in status to the Sun International) in the respective development zone, who will be the key engine in the area. Smaller lodges can feed off them. Within this framework, formulas have been designed regarding how the local people can participate in and benefit from the tourism expansion. The first priority zone is the Livingstone and Victoria Falls area because it promises the greatest impact with spillover effects to other parts of Zambia. It is followed by Kafue National Park (physically linking with Livingstone), the Lower Zambezi, and the Lusaka area. Other areas will follow in subsequent PRSPs.

Although many methodological problems are pending in measuring tourism it is clear that it is a powerful force of change in the economy in both the developed as well as in the least developed countries (OECD, 1994).

II.3.10 The importance of communications

The lack of access to frequent and reliable transport is a key factor in contributing to disadvantage and social exclusion in rural areas (OECD, 2003). However, scarce public funding must be prioritized. In this context, it could very well be argued that places that are growing “deserve” more public investment in their infrastructure and places that are declining have (almost by definition) too much infrastructure.

The Zambian PRSP (2002-2004) is once again a case in point of the issue of prioritization of public resources. The Government of Zambia pledges that the PRSP places a high premium on infrastructure development, particularly rural roads in order to facilitate faster and diversified agricultural activity. This is well reflected in the scarce resource allocation pattern during the PRSP period. To encourage rural-based agricultural processing and mechanisation, the energy sector is also receiving priority attention.

In any analysis of the employment situation and development trends in rural regions, mobility plays a significant role as a regional balancing mechanism for the labour market. Increased mobility in the form of commuting has consequences, not only for the labour market and for social policy, but also induces additional traffic and poses new challenges for transportation infrastructure policy (OECD, 1994).

Commuters are defined as persons who cross the regional borders to get from their place of residence to their place of work.

Peripherality has been defined in terms of distance from centres of economic activity, and as such is closely related to, but distinct from rurality, which is defined

more often in terms of (low) population density, (since rural areas may be very accessible, and some peripheral regions contain major cities). It is also distinct from the density-based definitions of rurality described above in being a continuous (as opposed to dichotomous) concept (Bryden, 2001).

The simplest measurements of the impact of location on the development of an area are those, which consider the transport infrastructure itself, expressed by length of distance or travel time to nearest nodes of inter-regional transport networks, for example:

- ◆ Road length by class;
- ◆ Distance from an international airport;
- ◆ Distance from a mainline railway station;
- ◆ Travel time to nearest urban centre (Bryden, 2001).¹¹

There are, however, many more types of measurement of accessibility that have been utilised by researchers and policy practitioners, for instance: access to network, distance to the nearest network node, number of direct connections, number of lines arriving at node, travel cost to one other node, average travel cost to all nodes, expected value of utility of visit to all nodes, potential accessibility, number of people reachable with a certain travel cost, inverse of balancing factor in spatial interaction model, and accessibility assessed by expert judgement.

II.3.11 Rural services standards

People in rural areas have a right to reasonable access to a range of services to meet their various needs (OECD, 2003). This concerns not only basic services such as health care, schools, postal services and other communication means, security (police, fire-brigades etc.) but also retail of non-public goods and services as well as access to leisure and cultural activities and participation in the political process.

II.3.12 Objectives and instruments for rural policies

The focus for promoting rural development and employment should be on transforming and developing new and distinctive economic functions. The interests of the majority of rural citizens, and even most farm families, seem to be best served by a development strategy based on investments to build local assets. In this context focus should be on:

- ◆ Enhancing “competitiveness” of rural regions by targeting local collective goods;
- ◆ Shifting from an approach based on subsidizing declining sectors to one based on strategic investments;
- ◆ Shifting from a sectoral to a place-based approach;

¹¹ There are many arguments from traditional location theory and more recent trade theory (Krugman, 1991) about where new development is likely to take place. Geographic concentration relies on the interaction between increasing returns, transport costs and demand. For an extensive discussion of the accessibility issue see Banister and Berechman (2000:50-54).

- ◆ Enhancing business assistance and networks of knowledge;
- ◆ Developing human resources through vocational training, including an important emphasis on entrepreneurial skills, and “capacity building” for policy actors at local levels;
- ◆ Ensuring new ways of providing public services in scarcely populated areas (OECD, 2003).

II.3.13 New issues in rural policy-making

The first issue has to do with the fact that past public policies have made simplistic distinctions between rural and urban areas, and furthermore have tended to focus on rural areas as homogenous, with uniform problems and similar opportunities when in fact every rural place has different assets (OECD, 2001).

Why do regions have such distinct performance profiles? Regions have certain basic resources and characteristics that to a large extent shape their development trajectory and potential-geographical location, proximity to markets, topography and climate, natural resource endowments, industrial heritage, endowment of human, social and physical capital. Even the new information technologies that obviously make the factor of distance less important do not necessarily lead to more uniform spatial patterns (OECD, 2001).

The need to develop tailor-made regional policies has been implicitly recognised by central governments and by, for instance, the EU (the LEADER initiative follows the bottom-up approach).

The development of rural areas is based more and more on interactions with adjacent areas. The inter-regional aspect is not always taken into account at the international level because these cross-border zones do not coincide with traditional administrative divisions.

In practice, a wide variety of institutional arrangements for the delivery of rural policy have been noted in OECD countries, but some common features are:

- ◆ Decentralisation towards regions and localities;
- ◆ Support for “bottom-up” development initiatives;
- ◆ Attempts at better co-ordination of policies affecting rural areas at central levels through inter-departmental and inter-ministerial working groups;
- ◆ Greater co-ordination and co-operation at regional and local levels usually through partnerships (OECD, 2001).

It is widely argued that development policy and practice must allow for diversity in the goals and objectives of development, must acknowledge that it should include social, cultural, environmental as well as economic dimensions, and should allow for democratic processes at all levels (OECD, 2001).

II.3.14 The role of information and communication technology for rural development

Access to information technology is not universal, not even within one and the same country. The Canadian case study shown in chapter IV of the present handbook shows that overall household Internet connectivity and use of computers are lower in rural and small town communes than in the urban counterparts. One reason for this is the difference in educational attainment between rural and urban areas.

Information technology provides possibilities for rural communities to have access a whole range of services without being hampered their disadvantage of distance to their providers. It also provides the independence of work from any physical location, which has favoured rural areas with excess labour supply, lower wages and lower cost-of-living. This is a feature of tele-working from home, but it also refers to the relocation of jobs from industrialized to developing countries, such as "back-office" staff located in call centres, data entry and processing, software development. First these kinds of services moved to rural areas in developed countries and now lately to certain developing countries, India in particular.

Work that is independent of location has a growing share of employment in industrialized countries. Almost one-fourth of the workforce in the United Kingdom now carries out at least some of its work at home. By 2003, there will be an estimated 1.3 million employed in call centres in the European Union, up from an estimated 670,000 in 2001. The technology is, however, universal. What was a chance for rural communities in developed countries to have access to a new labour market has also been a chance for developing countries.

More than 850 million people in developing countries are excluded from a wide range of information and knowledge, with the rural poor in particular remaining isolated from both traditional media and new information and communication technologies which would improve their livelihoods.¹²

Studies on information systems serving rural communities have focused on specific sectors such as agriculture or health, instead of covering the rural community needs in a holistic manner. Rural information systems must involve rural communities and local content must be of prime importance (Mchombu 1993). Traditional media have been used very successfully in developing countries, and rural radio in particular has played a major role in delivering agricultural messages.¹³

Using a popular radio programme called "*Kumuzi Kwathu*," (Our Village) and "*Chikaya chitu*" in Chewa and Tumbuka respectively, the Zambia Community Radio Project (ZCRP)-- a USAID-funded project under the Education Development Centre (EDC) Africa-- is reaching out to thousands of villagers, passing on life-saving

¹² Source: Communication for Development. http://www.rdfs.net/themes/communication_en.htm

¹³ **Special** [The role of information and communication technologies in rural development and food security](#)

Information and Communication Technologies for rural development and food security: Lessons from field experiences in developing countries. By Hilda Munyua, 2000. CAB International, Africa Regional Centre. Source: <http://www.fao.org/sd/cddirect/CDre0055b.htm>

information on HIV/AIDS and inspiring people to fight poverty through motivational success stories they profile on selected villages.¹⁴

The Internet is rapidly expanding in developing countries. This expansion is, however, largely an urban phenomenon and most rural communities are not yet able to take advantage of the services available to their urban neighbours. Pilot projects linked to rural and agricultural organizations can help ensure that rural communities and agricultural organizations remain part of regional and national Internet initiatives.

In 2003 and 2005, the United Nations organized the World Summit on the Information Society with the aim of developing strategies to reduce the “digital” divide, see Internet address below.

II.3.15 Rural policies in the European Union

The European Union has for a long time had a very ambitious and costly agriculture policy, the so-called Common Agriculture Policy (CAP). At the end of the 1990s, there was a gradual shift away from agriculture support towards support for rural development, the so-called Rural Development Regulation (RDR) from 1999. More details about the history and content of these policies are given in annex 2.

Total Community spending on rural development has been increasing and is expected to largely exceed €6 billion in 2003. As on average each Community euro is matched by a national euro total rural development spending is double the above figure. For the total period 2000-2006 the programme amounts to some €52.5 billion.

As for the 2003 reform of CAP the main points are:

- ◆ A single farm payment for EU farmers, independent from production although limited coupled elements may be maintained to avoid abandonment of agriculture land.
- ◆ Payment will be linked to the respect of environmental, food safety, animal and plant health and animal welfare standards as well as the requirement to keep farmland in good agricultural and environmental condition.
- ◆ A strengthened rural development policy with more EU money
- ◆ A reduction in direct payments for bigger farms to finance new rural development policy.
- ◆ A mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot.

II.4 Conclusions

The main characteristic of rural policies, at least in developing countries, is the **shift from a sectoral to a territorial policy approach**, including attempts to improve co-ordination and to integrate the various sectoral policies at regional and local levels. There is a shift from an approach based on subsidising declining sectors to one based

¹⁴ Chanda (2004).

on strategic investments to develop new activities. More attention is given to quasi-public goods and “framework conditions” which support enterprise indirectly. To this end there is an increased focus on local specificities as a means of generating new competitive advantages, such as amenities of an environmental or cultural nature or traditional or labelled local products (OECD, 2001).

Another salient feature of present rural policies is the increased use of partnerships between public, private and voluntary sectors in the development and implementation of local and regional policies. This has also implied decentralisation of policy administration and, within limits, policy design to those levels (OECD, 2001). There are clear moves away from centralised “top-down” policy and delivery towards more local “bottom-up” approaches within an agreed policy framework, although there are still issues about the balance between these and what institutions and governance are needed in support.

Regional policies play an important role but they need to understand and be sensitive to the differences between urban and rural areas within the region (and between different types of rural area), which may require different approaches. Regions may, in themselves, be at too high a level and sub-regional approaches may be needed, as demonstrated by Mexico’s focus on micro-regions. It is essential to identify, on an individual basis, each particular area’s opportunities and advantages as well as its disadvantages.

Agriculture continues to play an important role in rural economies - in many developing countries it is the key sector - and its impact on the landscape, the environment and rural amenities is critical.

Rural areas are not just problems; they also present opportunities and the potential to contribute positively to competitiveness, for example through the growth of micro-businesses, niche markets and the increasing role of women entrepreneurs (OECD, 2003).

The importance of infrastructure, such as transport, telecommunications, water and sanitation, power and gas, and major water works, and enhancing social capital to increase the competitiveness of rural areas is more and more in the focus of rural policies and not least how to create a good environment for entrepreneurship and local initiatives (OECD, 2003). Solutions and means for rural development are not necessarily coming from the “capital”, although there is a need for the latter to improve central co-ordination of a wide range of policies affecting rural citizens through institutional arrangements for inter-departmental and inter-ministerial co-ordination (OECD, 2001). Central support needs to provide more flexible arrangements for rural development.

Other conclusions, partly overlapping of what was said above, drawn from experiences of rural policies are in short:

- ◆ Efforts to create new institutional arrangements at local and regional levels to define policy objectives priorities and strategies, and implement policies and programs at these levels.

- ◆ A new focus on trying to improve the “competitiveness” of rural areas.
- ◆ Attempts to divert resources from programs which focused on subsidies to maintain existing rural activities in an effort to maintain these, to programs which focus on support for investment in human and social capital, diversification of economic activity and the related creation of new enterprises, key infrastructure, the environment, and innovation.
- ◆ Efforts to reinforce rural economies, principally through diversification of economic activities.
- ◆ Enhancing business assistance, especially efforts to diffuse new technologies through R&D and the development of specialised regional institutes or centres.
- ◆ Developing human resources through vocational training.
- ◆ Developing and commercialising natural and cultural “amenities.”
- ◆ Creation of local products based on local identity and aiming at a market niche.
- ◆ New ways of providing public services in rural areas.
- ◆ The increasing use of programme evaluation procedures both as a control and a learning mechanism (OECD, 2001).

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Annex 2

A summary of EU agriculture and rural development policies

The first move towards an integrated approach to sustainable rural development as part of EU policy came with the 1988 paper the Future of Rural Areas. Its main expression was given in the LEADER Community Initiative and the Structural Fund reforms. The **1992 Common Agricultural Policy (CAP)** reform along side the Treaty of Union ('Maastricht Treaty') confirmed that the development of rural areas was to be included as part of the Community Policies for economic and social cohesion (Article 130a) (Bryden, 2001) and that the EU "shall aim at reducing the disparities between the levels of development of the various regions and the backwardness of the least-favoured regions." An important element of the new policy approach has also been the emphasis placed upon the environment and the protection of natural habitats. The accompanying measures of the 1992 reform (in particular regulations 2078/92 on agri-environment and 2080/92 on afforestation of arable land), which consolidated the redefinition of market policy, responded to concerns on the relationship between environment, agriculture and the multi-purpose nature of agriculture. This so-called 'multi-functional' nature of agriculture has become a key word in the European Union's negotiating position in the Millennium Round of Trade Talks. In this respect agriculture and forestry, in particular are considered key sectors (Hay, 2002).

In 1991, the EU launched the **LEADER** programme designed to support local rural partnerships with 'bottom-up', integrated rural development programmes in the priority regions, defined in the reform of the Structural and Cohesion Policies. The concept underlying the LEADER initiative reflected the new thinking on rural development that was contained within the document '*The Future of Rural Society*' (Hay, 2002).

The original objective of the LEADER initiative was to find innovative solutions, which could serve as a model for all rural areas and ensure maximum integration between both rural areas and the various sectoral measures. As with LEADER I and II, the current LEADER + (a follow on from LEADER I in 1991–1994 and LEADER II in 1994–1999) will be delivered by partnerships based in clearly defined rural areas and made up of representatives of the public and private sectors (Local Action Groups – LAGs). The LAGs are responsible for devising and implementing rural development strategies for their areas.

LEADER +, whose budget for 2000-2006 amounts to €5,046.5 million (European Commission, 2003a),¹ is structured around "3 actions" to enhance local development through support for:

- ◆ Integrated territorial rural development strategies of a pilot nature based on bottom-up approach and horizontal partnerships;
- ◆ Inter-territorial and transnational cooperation;

¹ Of which €2,105.1 is funded by the EAGGF Guidance section and the remainder by public and private contributions (European Commission, 2003).

- ◆ Networking of all rural areas in the Community, whether or not they are beneficiaries under LEADER+, and all rural development actors (EU, 2005a).

In order to encourage ‘bottom-up’ development LEADER is very much based on local participation in both the design and implementation phases of projects which, amongst other things, aim to make products and services of rural areas more competitive, improve the quality of life in rural areas, and add value to local products. In many respects LEADER has been, and remains to be, the only policy that is directed at rural areas rather than being part of a wider agricultural policy (Hay, 2002).

In 1997, the CAP 2000 working document emphasised that issues of increasing importance to rural areas were economic diversification, quality of life and competitiveness. It highlighted that competitiveness itself depends on a range of crucial factors, including infrastructure, education, proximity of services and the capacity for innovation. Addressing such issues is a key objective of the emerging Community rural policy (Bryden, 2001).

The **Commission’s Rural Development Regulation (RDR)** (Council Regulation (EC) No 1257/1999 and amendments in Council Regulation (EC) No 1783/2003) and **Structural Funds Regulation (SFR)** provide the framework for taking forward the Community rural policy in the new millennium (Bryden, 2001). This was introduced as part of the **Agenda 2000** package agreed by Agricultural Ministers in 1999, and where rural development measures were brought together under a single regulation and became known as the ‘second pillar’ of the CAP (Hay, 2002).²

Agenda 2000 moved the focus more on the environment, food quality and the vitality of rural life. The reformed CAP was a step towards supporting the broader rural economy rather than agriculture production (EU, 1999). Price support is replaced by direct payments for spatial development and nature conservation and by a consistent rural policy (In the new approach to rural economies there are three main objectives:

- ◆ To create a stronger agricultural and forestry sector;
- ◆ To improve the competitiveness of rural areas;
- ◆ To maintain the environment and preserve Europe’s rural heritage (EU, 1999).

Concentration of financial resources is the watchword of regional policy reform under Agenda 2000. To this end it was decided to reduce the number of **priority objectives** from 7 to 3 and to allocate nearly 70% of total spending to **objective 1**: regions whose development is lagging behind. The two other objectives are:

² Agenda 2000: For a stronger and wider Union [COM(97) 2000], presented 16 July 1997 by the Commission.

- ◆ Objective 2: regions in structural crisis and assist them into growth and jobs;
- ◆ Objective 3: regions needing support for education, training and jobs; helping people to adapt and prepare for change (EU, 1999).

There are **four Structural Funds** under a common set of rules:

- ◆ The European Regional Development Fund (ERDF);
- ◆ The European Social Fund (ESF);
- ◆ The Guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF);
- ◆ The Financial Instruments for Fisheries and Guidance (FIFG) (EU, 1999).

Agenda 2000 reduces **Community Initiatives** from 13 to 4, one of which is the LEADER for rural development. The four initiatives are due to receive 5.35% of total Structural Funds in 2000-2006

Total Community spending on rural development has been increasing and is expected to largely exceed €6 billion in 2003 (Guarantee and Guidance combined). As on average each Community euro is matched by a national euro total rural development spending is double the above figure. For the total period 2000-2006 the programme amounts to some €52.5 billion. There is a range of 22 measures, which are available to member states in their rural development programmes. These measures can be grouped into three main categories:

- ◆ Group 1: restructuring/competitiveness;
- ◆ Group 2: environment/land management;
- ◆ Group 3: rural economy/rural communities (EC 2003a, 2003d).

About 52% of the Community contribution has been programmed for Group 2, followed by 38% for Group 1. Only 10% is allocated to Group 3: rural economy/rural communities. For the period 2007-2013, overall expenditures in nominal terms should be kept below the 2006 figure as concerns market-related expenditures and direct payments. The exception to this is spending on rural development.

The source of EU funding varies according to the regions concerned:

- ◆ In Objective 1 regions (the least developed regions) of the structural funds, the source of funding is EAGGF Guidance section (European Agriculture Guidance and Guarantee Fund);
- ◆ Outside Objective 1 regions, the source of funding is EAGGF Guarantee section. (EC, 2003a, 2003d).
- ◆ From 2007, rural development measures will be financed by the European Agricultural Fund for Rural Development (EAFRD) [COM(2004)490 final]. To ensure a balanced strategy a minimum funding for group 1 (competitiveness) and group 3 (wider rural development) of at least 15% of total EU programme funding will be

required and of at least 25% for group 2 (land management). For the LEADER axis a minimum of 7% of the EU funding is reserved. (EC, 2004).

On 26 June 2003, a fundamental **reform of CAP** was adopted which will completely change the way the EU supports its farm sector (EC, 2003c). The key elements of the new reformed CAP are:

- ◆ A single farm payment for EU farmers, independent from production although limited coupled elements may be maintained to avoid abandonment of agriculture land and ensured that it is maintained in good agricultural and environmental condition.
- ◆ Payment will be linked to the respect of environmental, food safety, animal and plant health and animal welfare standards as well as the requirement to keep farmland in good agricultural and environmental condition.
- ◆ A strengthened rural development policy with more EU money, new measures to promote animal welfare and to help farmers meet EU production standards starting in 2004
- ◆ A reduction in direct payments for bigger farms to finance new rural development policy.
- ◆ A mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot.
- ◆ Revisions to the market policy of CAP concerning the milk, cereals, rice, durum wheat, nuts, starch potatoes and dried fodder sectors.

The 2003 amendments to the Rural Development Regulation reinforced the rural development policy by increasing the range of accompanying measures as provided for in the Regulation. In particular chapters were introduced concerning meeting standards (for farmers), agri-environment and animal welfare, and food quality (EC, 2003b).

All of the elements of the Community rural policy conform to some important principles of EU operation, notably decentralisation, devolution or subsidiarity: an overarching goal of sustainable development including environmental, social and economic objectives; an 'integrated' and holistic approach to development at the territorial level; recognition of the huge and increasing diversity of rural Europe and hence, the need for policy flexibility at the EU level. This is an area of increasing co-regulation (Bryden, 2001).

In 1999, the EU Ministers responsible for Spatial Planning approved a **European Spatial Development Perspective (ESDP)**, which aims to ensure a balanced (equitable) and sustainable (efficient) development of the EU territory. The ESDP argues for integrated and diversified development of rural areas that can ultimately overcome the traditional dualism between the city and the countryside. Sustainable agriculture has been identified as one policy objective that can contribute to this goal. Integrating environmental concerns into wider agricultural policy has indeed been the emphasis so far in debates about rural development. However, a shift in emphasis from considering narrow agri-environment issues towards wider issues of sustainable rural development at a territorial level is occurring. This will be

encouraged by EU enlargement, where key priorities concern economic diversification, including the marketing and processing of a wide range of local produce, and service provision in rural regions. Environmental issues will remain very important, but will extend beyond the level of individual farmers to be considered as a pre-condition for sustainable development of rural areas, including the quality of life for those living in them (Bryden, 2001).

Arising from these policy developments is the need to be able to perform in-depth analysis of the regionally specific conditions and tendencies within rural areas as they undergo significant change. The data needs that arise from recent policy development, and future prospects relate to:

- ◆ The economic and social changes taking place in different types of rural areas, in different political contexts, information on which is essential for the monitoring of rural changes and the development of future policy approaches;
- ◆ The spatial levels which approximate to the levels, which reflect the diversity of rural Europe and at which policy is increasingly being implemented and devised (Bryden, 2001).

Although indicators have come to play a significant role with respect to environmental and other policy areas such as health and education, much less progress has been made with respect to rural development. In the past rural development objectives were broad, multifaceted and subsumed within a range of other wider policy objectives. The variety of rural development aspects, as highlighted in the document CAP 2000, continue to be treated at the sectoral rather than at territorial level in Member States. The RDR provides a major opportunity for the development of policy (response) indicators yet there remains a need to identify descriptive and analytical indicators that can meet the data needs identified above.

Thus, there have been significant developments in rural policy in the past two decades at EU level. It is increasingly accepted that 'rural' is no longer synonymous with agriculture. Having said this, however, the maintenance of agricultural practice is still important even if it is often as much for the protection of the environment and natural heritage rather than as a direct employer and contributor to the rural economy. Nonetheless, policy is recognising that rural areas are diverse, and that a territorial approach is required to deal with the changing nature of rural society (Hay, 2002).

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