

in permanent cropping or field cropping are more available to choose pluriactivity (graph 6), while farmers dealing with livestock may be more inclined towards on-farm diversification (graph 10). Like the farm size, the type of farming may also influence the kind of diversification activity set up: contractual work is more frequent on farms specialised in field crops, processing of farm products on farms specialised in permanent crops (graph 12). As for tourism, its – so far little - development is mainly linked to farms specialised in grazing livestock (graph 13).

Farm location can bring in advantages

Indeed, farms specialised in grazing livestock may be located in places rated as attractive for diversification activities such as tourism. Mountain areas, coastal areas or pleasant countryside may be critical advantages to attract potential clients (map 4). Similarly, farmers located in predominantly urban (PU) areas may have more employment opportunities than farmers located in predominantly rural (PR) areas, as well as better outlets for their diversification activities (maps 1 & 2): 37.5% of farmers living in PU regions are pluriactive, against 34.8% of farmers living in PR regions.

Human capital is decisive

Last but not least, human capital can make a decisive contribution: older farmers are much less pluriactive than younger ones: some 20% of family farm managers aged more than 65 y.o. are pluriactive, against close to 50% for those aged less than 54 y.o.(graph 7). Besides, a high educational attainment and an entrepreneur's mind are certainly advantages to launch new activities on farm.

The interest of rural development funding

Due to the impact on employment and income evaluated as rather positive –for example, diversified holdings occupy on average more people than non-diversified ones (Table 10) -, the setting up of diversification activities on farm is encouraged via rural development. It is planned that 1.7% of the EAFRD contribution - i.e. 12% of Axis 3 -will be spent on this measure during the 2007-2013 programming period. Moreover, this measure has long been implemented in the United Kingdom, France, the Netherlands, Austria, Italy or Finland, countries where a parallel development of diversification of farms has been observed. Nevertheless, the analysis carried out suggests that this solution can not apply to all farms. It also underlines the fact that most of EU-27 agricultural production is performed on farms where it is difficult for the farmers to diversify their income sources via external employment: on farms with more than 16 ESU – representing 75% of the economic potential of EU27 family farms - , pluriactivity is relatively modest (18%), and the diversification activities set up often consist in the prolongation of agricultural activity (contract work using the farm equipment, processing of farm products).

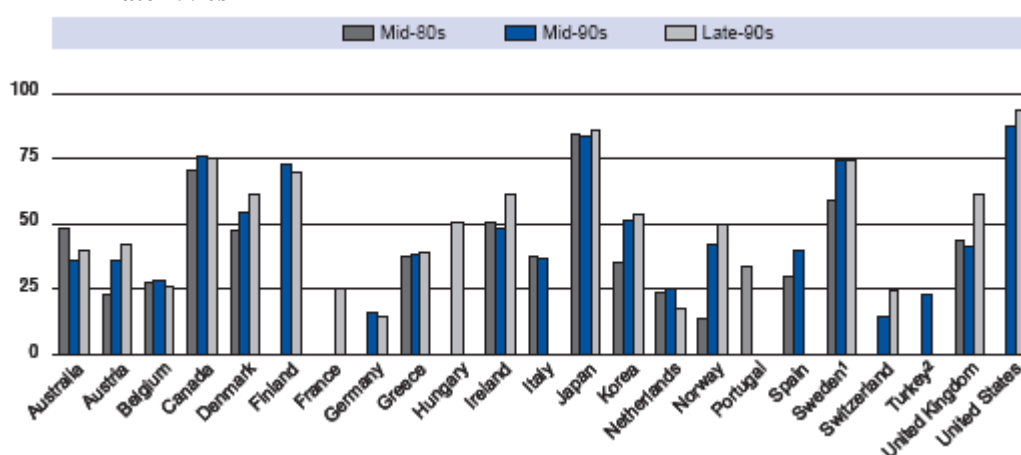
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1. INTRODUCTION

1.1. Overall context

In a 2003 publication², the OECD analysed the situation of farm household incomes. Though this exercise is difficult and quite risky due to the lack of harmonised and/or appropriate data, its results can be considered as informative, if not in absolute terms at least for the trends they highlight. It appeared then that on average, income levels of farm households are close to those in the rest of society – even though lower per consumer unit, and taking into consideration that farm income also has to reward entrepreneurial activity. There was nevertheless a higher incidence of low income among farm households than among other households and the low income gap (between low incomes and average incomes) was wider for farm households than for others. Moreover, it appeared that farm households derive a significant share of income from off-farm sources, mainly other gainful activities but also social transfers and property income. Importantly, the share of off-farm income had increased in many countries for which data were available.

Graph 1: Share of off-farm income in total income of farm households³ from the mid-1980s to the late-1990s



Average of two or three years whenever possible.

1. Income from independent activities.

2. Agricultural households in rural areas.

Source: OECD Secretariat's calculation based on national statistics and EUROSTAT database (EUROSTAT, 1999 and 2002).

The development of this phenomenon, in particular the increasing importance of other gainful activities for farming households raises many questions and expectations, from the statement that "farmers should look for complementary jobs" to compensate for a possible decrease in direct payments, to the focus on diversification measures in rural development programmes with a view to support employment in rural areas.

² OECD – Farm Household Income – Issues and Policy Responses – 2003

³ Definitions of farm households vary both with respect to who constitutes a household (which family members) and what constitutes a *farm* household. The United States, Canada, Japan, Finland, Denmark, Ireland, Korea, United Kingdom, Norway and Australia apply a broad definition of the farm household; whereas Sweden, Hungary, Austria, Greece, Italy, the Netherlands, Poland, Belgium, France, Switzerland, Turkey and Germany apply a narrow one.

1.2. Purpose of the note

The purpose of this note is therefore to provide with an overview of the other gainful activities in agriculture, followed by an analysis of the possible contribution of rural development measures. Overall pluriactivity of farmers and farm households is first examined, before focusing on the development of diversification activities on farms. Where possible, statistical information on the respective importance of pluriactivity and diversification is completed by considerations on farm households income. Rural development measures encouraging diversification are later analysed, providing elements concerning their importance, results, and associated success factors.

1.3. Data sources, definitions and related issues

The statistical parts of this note are mainly based on data collected by the Farm Structure Survey (FSS), which covers other gainful activities either at the level of the farmer (pluriactivity), either at the level of the holding (diversification).⁴ The Farm Structure Surveys are the only source of harmonised information on the structure of agricultural holdings in the EU. The surveys are carried out at intervals of two to three years, although a full census is carried out every ten years

For the purpose of this note, a family farm manager will be considered as **pluriactive** if he carries out any activity other than farm work for remuneration. This corresponds roughly to 3 cases: (1) the family farm manager is employed in a non-agricultural enterprise,

(2) the family farm manager is also employed on another agricultural holding

(3) the family farm manager has set up diversification activities on his/her holding, that do not include any farm work (e.g. tourism, handicraft...but not processing of agricultural products)

Pluriactivity is assessed at the level of the farmer. Not all farmers are covered but only those who are managers of sole holder holdings (managers of legal entities and group holdings are not included). Information is collected as to whether the farm manager has or not another gainful activity, and whether he spends or not more time on this activity than on farm work. No information is collected on the income generated by these other gainful activities in the framework of the FSS.

Farm diversification is assessed at the level of the holding. All types of holdings are covered. Diversification is understood as the creation of any gainful activities, that do not comprise any farm work but are directly related to the holding i.e. use its resources or products, and have an economic impact on the holding. Information is collected as to whether such an activity has been set up on the farm or not, and the type of activity set up. No information is collected on the income generated by these diversification activities in the framework of the FSS.

At EU level, despite numerous attempts, there is no source of information concerning the income of agricultural households. The few data presented in this note have been extracted from national case studies.

Economic information on other gainful activities at holding level (i.e. farm diversification) are available in the Farm Accountancy Data Network. Yet, because of coverage issues (in terms of activities that are taken into account and scale aspects), it has not been made use of this possibility.

⁴ For a detailed and precise delineation between farms whose manager is pluriactive and those with a diversification, see Annex D.

2. STATISTICAL DESCRIPTION: EXTENT AND OVERVIEW OF OTHER GAINFUL ACTIVITIES

As the position of agriculture in the economy is changing, farmers may seek to enhance their household income from sources other than farming activities on their own holding. They can look for other gainful activities and thus become pluriactive, either off-farm, or on-farm by creating new non-agricultural diversification activities. The aim of this section is to provide a description of pluriactivity of agricultural households, followed by an overview of farm diversification.

2.1. Pluriactivity of agricultural households

Quite common in some countries since the industrial revolution, farmers' pluriactivity - i.e. the existence of other gainful activities for farmers - has later experienced various fates.

For the purpose of this note, other gainful activities are defined as every activity other than activity relating to farm work, carried out for remuneration. This includes non-agricultural gainful activities carried out on the holding itself (i.e. farm diversification activities such as camping sites, accommodation for tourists, etc that will be analysed at a later stage) or on another agricultural holding, as well as activity on non-agricultural enterprise. Farm work carried out on another holding is included.

Due to data collection, this part of the analysis covers only sole-holder holdings, which will be referred to as family farms⁵.

2.1.1. One third of family farm managers are pluriactive in EU-27

In 2005, 36% of the managers of family farms of EU-27 had another gainful activity, ranging from less than 20% in Belgium to close to 75% in Slovenia. Overall, pluriactivity of farmers seems to be more widespread in the Northern and Eastern Member States than in the Western and Southern ones (Table 1 & Map 1).

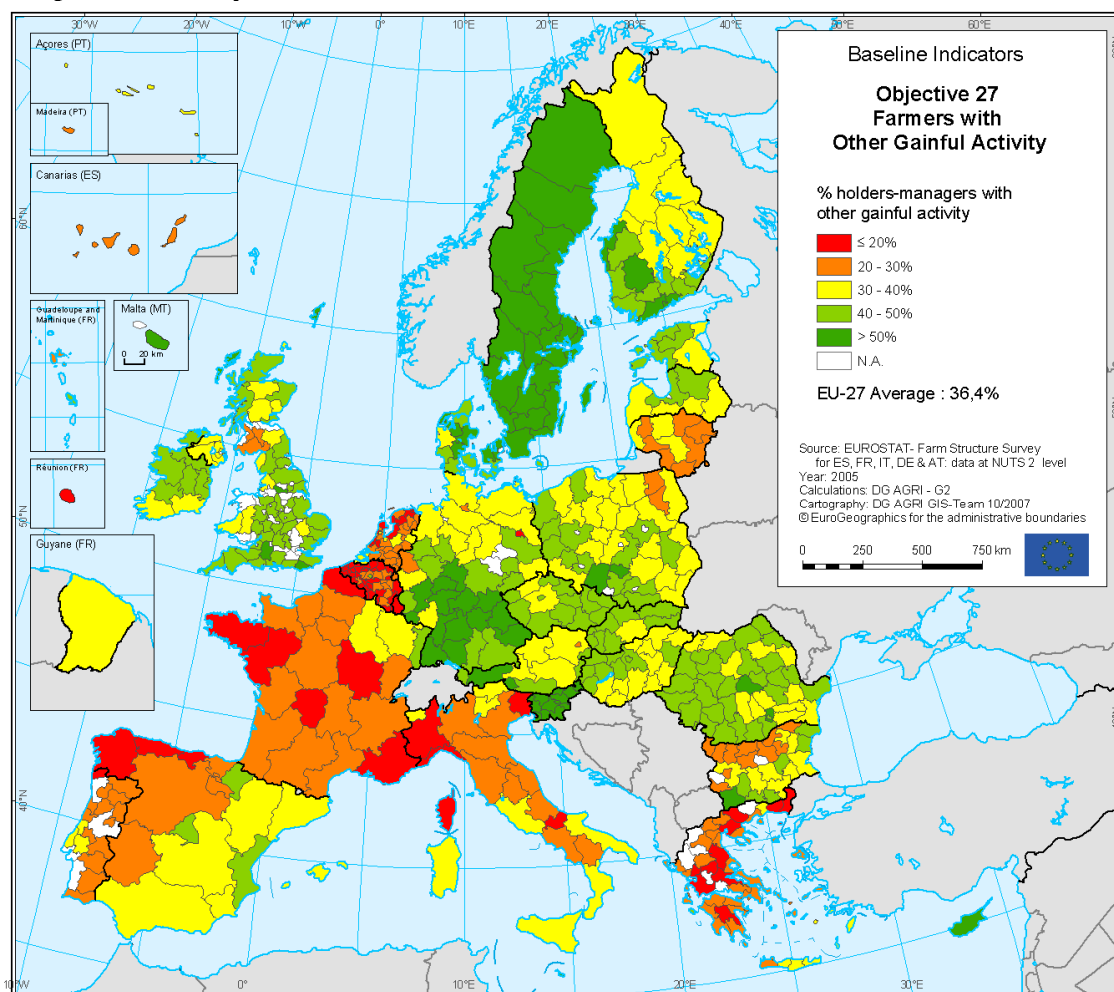
Table 1: Importance of farmers' pluriactivity in EU-27, 2005

% sole-holder managers with another gainful activity	EU-27	36.4%	From 17.1% in Belgium to 74.4% in Slovenia. Also important in Sweden (64.9%), Cyprus (54.3%), Malta (49.8%) and Denmark (49.0%)
	EU-15	31.0%	
	EU-12	39.8%	
	EU-27*		More than 70% in Slovenian regions and in Swedish regions: Västerbottens län, Västmanlands län, Västernorrlands län
	Predominantly Rural Areas	34.8%	
	Intermediate Regions	37.4%	
	Urban regions	37.5%	
	*at NUTS-2 regional level. Excluding few regions (DEE1, DEE2, FR92, FR94, AT13, UKD3, UKD5, UKE3, UKG3, UKI2)		

Source: Eurostat - Farm Structure Survey

⁵ The EU Farm Structure Surveys (FSS) cover other gainful activities of sole-holders managers only. More precisely, sole-holders managers are covered (but not the sole holders that are not managers), only one holder is surveyed in the case of group holdings, while managers of legal entities are not surveyed for this characteristic. Spouses are only covered on sole holder holdings (whether the holder is or not the manager). Due to the fact that when the size of the farm increases, legal entities and group holdings are more represented, this limitation may lead to an overrepresentation of other gainful activities on small farms (cf. Graph 16 in annex on population surveyed by size class). This may also be problematic in France, where 16.4% of the holdings are legal entities.

Map 1: Pluriactivity of farmers – 2005



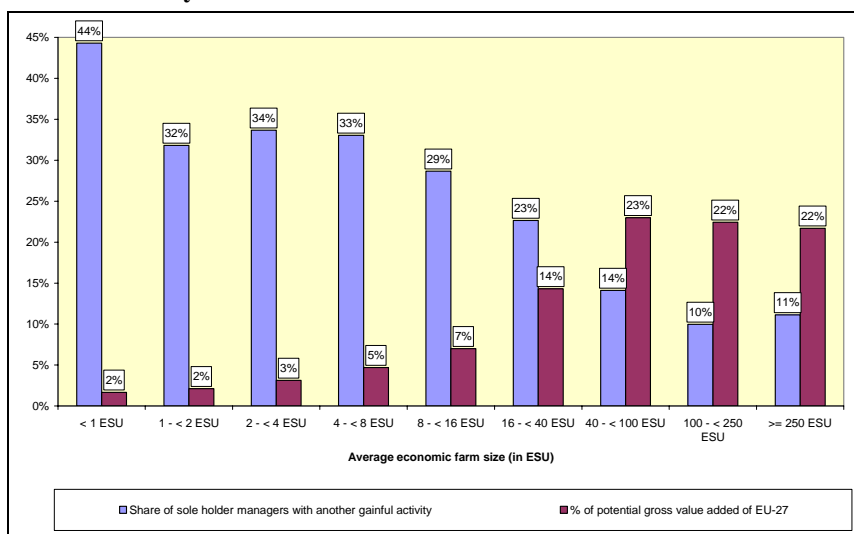
Source: Rural Development in the European Union – Statistical and Economic Information – Report 2007

Farmers' pluriactivity is quite little developed in Belgium (17.1% of pluriactive farmers), Luxembourg (18.2%), Greece (23.4%), the Netherlands (23.8%), France (24.3%), Portugal (25.9%), Italy (28.8%) and the North-Western part of Spain (less than 30%). On the other hand, it is particularly widespread in Slovenia, Sweden, South Germany and the Rhine Valley, Cyprus, Austrian Tirol where more than 50% of farmers are pluriactive; and to a lesser extent in the United Kingdom, along the west and South border of Poland, in the South of Finland, in Czech Republic, in Slovakia, in the North West of Hungary, in Ireland and Romania.

2.1.2. Pluriactivity is mainly a specificity of small farms

It is mainly managers of small farms in terms of economic potential who have other gainful activities. Namely, at EU-27 level, 44% of farmers with farm of less than 1 ESU have another gainful activity, and this share decreases when the economic size of the farm increases – which may explain why there are relatively few pluriactive farmers in France, Belgium and the Netherlands. It is worth noting that 75% of the economic potential of family farms of EU-27 is located in big farms (>16 ESU) on which only 18% of managers have another gainful activity: in other words, most of the agricultural production is performed by farmers who have no other gainful activities.

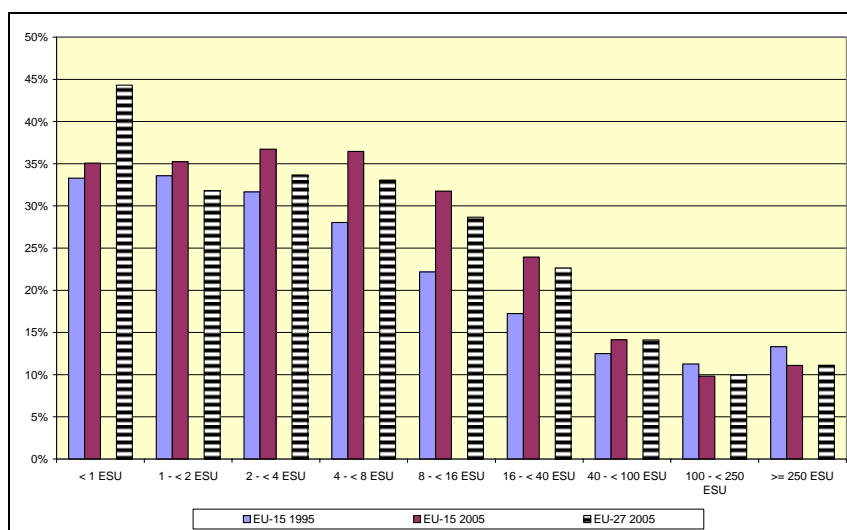
Graph 2: Distribution of family farm managers with other gainful activities and potential gross value added by classes of economic size – EU-27 - 2005



Source: Eurostat – Farm Structure Survey

Nevertheless, despite the increase of farm size over time, the overall share of pluriactive family farm managers in the EU-15 has been slightly increasing between 1995 and 2005 (from 28 to 31%), except on larger farms. The progression is particularly marked on family farms in classes from 4 to 40 ESU. However, managers of small farms still remain considerably more pluriactive than managers of large farms.

Graph 3: Share of family farm managers with another gainful activity than agriculture by economic farm size in EU-27 – 1995-2005



Source: Eurostat – Farm Structure Survey

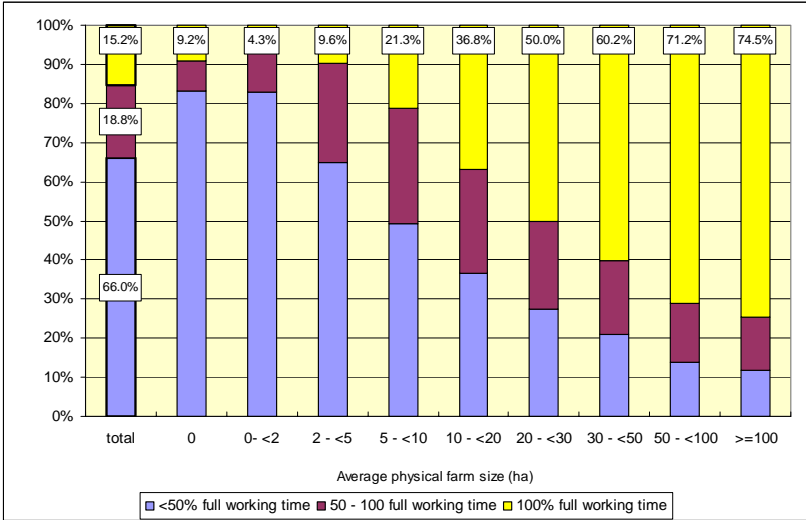
2.1.3. Pluriactivity and part-time farming

Indeed, at least two conditions have to be fulfilled to allow the farmer to have another gainful activity: there must be opportunities on the one hand, and he must have time on the other

hand. The question of opportunities through the creation of diversification activities on farm will be discussed at a later point⁶.

The question of time availability is linked with the size of the holding. In 2005, at EU-27 level, only 15.2% of the family farm holders⁷ were working the equivalent of a full time in agriculture. However, this share increases with the size of the farm: 76% of farm holders with more than 100 ha work full time in EU-15, 62% in EU-12, which may not leave enough time for another gainful activity. On the contrary, on holdings up to 10 ha, more than half of EU-27 farmers work less than 50% of a full-time equivalent in agriculture. They are therefore more able to cope with another activity than farming.

Graph 4: Distribution of family farm holders by working time and physical size⁸ of the farm – EU-27 – 2005

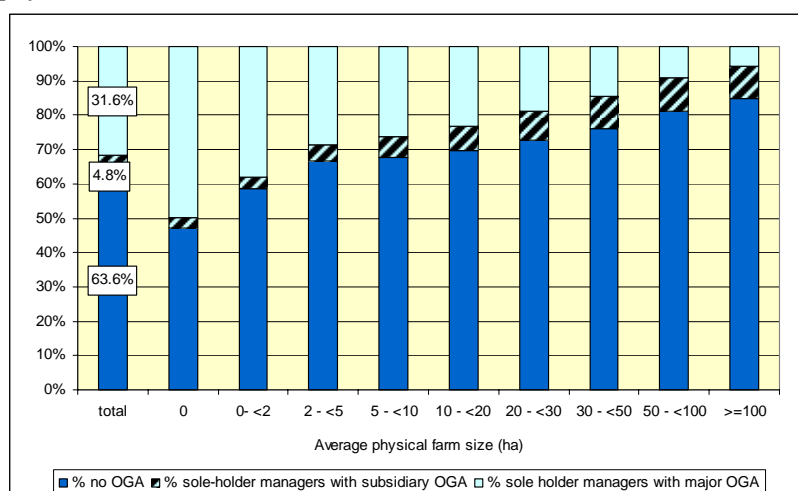


Source: Eurostat – Farm Structure Survey

This also influences the time devoted to the other gainful activity. When the farmer spends more time on this activity than on the farm work on his holding, the activity is qualified a 'major' other gainful activity, it is called 'subsidiary' in the other case. Overall 31.6% of family farm managers have a major other gainful activity, while 4.8% carry out a subsidiary one. Given the considerations on part time and the size of the farm, it is quite evident that the share of holders with major other gainful decreases when the size of the farm increases, while it is the contrary for the share of holders with a subsidiary other gainful activity.⁹

⁶ Off-farm employment opportunities are not discussed in this note.
⁷ As the family farm (sole holder holding) may not always be managed by its holder, there is a difference between sole holders and sole holders - managers (i.e. managers of family farms). Nevertheless, this has little influence on the overall picture: 14% of the managers of family farms work full time in agriculture in EU-27.
⁸ A physical size of 0 ha indicates off-land livestock farms (intensive pig, & poultry husbandry) or soilless cultivation systems.
⁹ Note that the notion of main or subsidiary other gainful activity refers "normally" to the working time spent on this activity relatively to farm work on the holding, and provides no information as to the income generated.

Graph 5: Frequency of major and subsidiary other gainful activities of family farm managers by physical size of the farm – EU-27 - 2005



Source: Eurostat – Farm Structure Survey

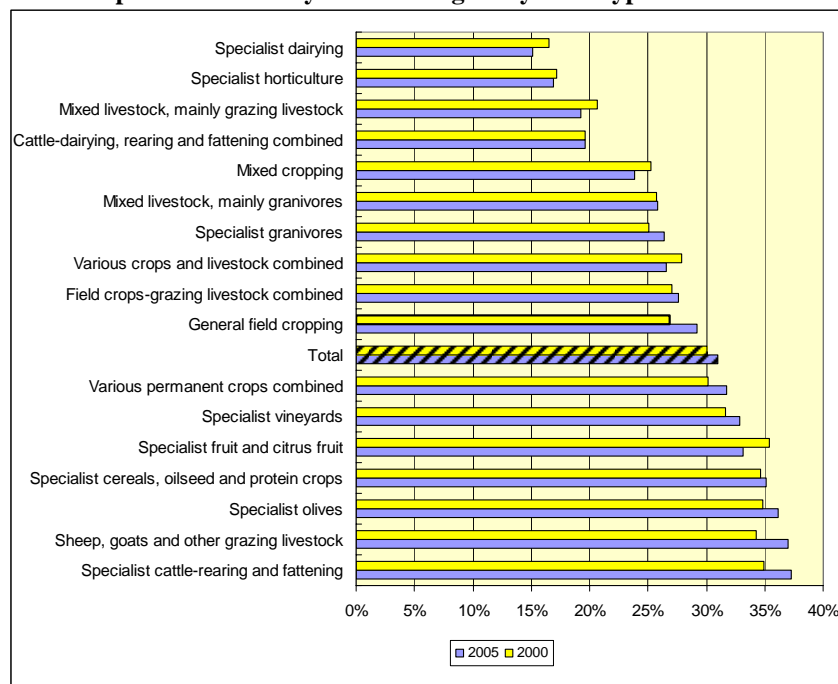
2.1.4. Pluriactivity and type of farming: dairy farmers are less pluriactive than others

Of course, time availability also depends of the nature of the production (which is only partly reflected in the size of the holding). Indeed, some activities are more labour intensive than others. Some require a daily involvement, while others have a seasonal character, which leaves enough time available for a regular other gainful activity during the rest of the year. It is therefore not surprising that farmers specialised in dairy production or in horticulture are about twice less pluriactive than average (with respective shares of farmers with another gainful activity of 15.2% and 16.9% whereas the average stands at 31.0% for EU-15¹⁰), while cereal growers or permanent crops producers are at the other end of the spectrum.

This may explain why, within the same country, some regions show remarkably less pluriactive farmers than other, e.g. in France, Brittany (18.8%) and Pays de la Loire (19.6%), two well-known intensive dairy & granivores regions are well below the French average (24.3%), while on the contrary over 40.4% of family farm managers in the "Département de la Marne" or in Alsace - both specialised in field crops and vineyards - are pluriactive.

¹⁰ Though data are available for EU-27, the analysis is restricted to EU-15: the high number of small farms in EU-12 makes the typology a difficult exercise, rather sensitive to small changes at the farm level, causing large changes in the number of farms within a given farm type from one year to another. In any case, the conclusions remain broadly the same.

Graph 6: Share of pluriactive family farm managers by farm type – EU-15 – 2000-2005



Source: Eurostat – Farm Structure Survey

Between 2000 and 2005, the type of farming also seemed to influence the evolution of the share of pluriactive farmers in EU, as the specialisations where the farmers were already the least pluriactive saw the share of farmers with other gainful activity slightly decrease, while the contrary happened for the specialisations where the farmers were already more pluriactive.

Though the type of farming seems determinant, there may however be other reasons allowing or hindering farmers' pluriactivity.

2.1.5. *Pluriactivity and opportunities: farmers in Predominantly Urban regions seem more pluriactive than others*

At EU-27 level (Table 1, or Table 6 in Annex), it seems that farmers located in predominantly urban areas tend to be slightly more pluriactive (37.5%) than farmers located in predominantly rural areas (34.8%). The German Rhine Valley is quite a striking example. This might reflect the fact that predominantly urban areas offer more opportunities than rural ones, in terms of employment outside agriculture as well as in terms of clients/outlet for farm diversification activities. This nevertheless might reflect only farm structure, as holdings are in general of a smaller physical size in predominantly urban areas. This however differs between Member States (perhaps due to different settlement patterns, or differences in competition for land between different activities, or for accessibility reasons).

2.1.6. *Other factors linked with pluriactivity: age and culture*

- *Pluriactivity has a long tradition in some places*

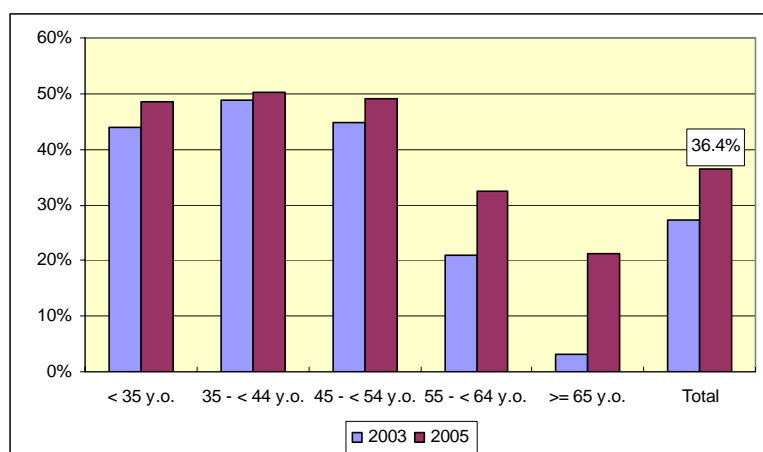
Whereas farmer's pluriactivity is quite a new feature of rural areas in some places, it has a long tradition in certain Member States or type of regions. This is for example the case in Ireland¹¹, Germany or in mountain areas such as the French Alps¹².

¹¹ Jim Kinsella, Susan Wilson, Floor de Jong, Henk Renting (2000) *Pluriactivity as a livelihood Strategy in Irish Farm Households and its Role in Rural Development – Sociologia Ruralis 40(4)*

○ *Pluriactivity and Age*

Yet none of the above mentioned factors helps understanding why in Italy or Greece - where the farms are rather small and where dairy farming is not the most widespread type - there are so little farmers with another gainful activity. A particularity of those countries is that they have a relatively high share of aged farm holders: almost half of them are more than 65 years old. More generally, in EU-15, small farms are mainly in the hands of aged people¹³, who may not have the possibility to carry out a complementary activity (access to labour market, physical condition), nor the willingness to do so, as they keep farming as a hobby. Moreover, they are quite often entitled to social transfers (pensions¹⁴) which may represent a significant part of their income, and might be financially more interesting than staying in employment. That's why, at EU-27 level, the share of pluriactive family farm managers decreases sharply after 55 years old: in 2005, around 50% of family farm managers aged less than 54 years old were pluriactive, against some 20% for those aged 65 years old and over¹⁵.

Graph 7: Share of pluriactive family farm managers by age class – EU-27



Source: Eurostat – Farm Structure Survey

2.1.7. Pluriactivity of other members of the household (spouse of the holder)

Responding to the need to complement income from farming, not only the farmer but also other members of the household can get involved in other gainful activities. Though the composition of agricultural households may differ from the one of the average household¹⁶, the focus is here on the other gainful activities of the spouse of the holder¹⁷.

¹² Perrin Sanchis T., Perret J., Gerbaux F.- *Cemagref Grenoble DTGR – CNRS Cerat Saint Martin d'Heres – "Pluriactivité et saisonnalité – Des atouts pour le développement des territoires"*; *Revue Ingénierie du Cémagref* n°12; 1997

¹³ See Graph 17 in Annex

¹⁴ E.g. in France, in 2000, more than half of the holders with less than 5 ha were retired (31% from agriculture, 25% from another category). Source: Agreste Primeur n°191, February 2007.

¹⁵ The increase in the share of pluriactive farmers in the age groups "55 to 64 y.o." and "over 65 y.o." between 2003 and 2005 is greatly influenced by Romanian data.

¹⁶ Agricultural households tend to be bigger than the average household, includes more often the ascendants, and the number of children is on average higher.

¹⁷ One of the difficulty here is that data collected in farm structure survey concern only legally wed spouses, other forms of cohabitation, though more and more widespread, are not taken into account.

The term "other gainful activity" of the holder's spouse reflects the situation of traditional agricultural households, where family members used to work on the farm. Thus, looking only at spouses carrying farm work on the holding, 35% had another gainful activity in 2005. Following the pattern observed for the holder, this share diminishes when their workload on the farm increases. Consistently also with the trend described for farmers, in EU-15, the share of spouses working on the holding and exercising a complementary activity has been increasing between 1995 and 2005. Nevertheless, for various reasons – such as higher level of education or non-agricultural origin -, a trend towards the non-involvement of spouses in farm work is more and more observed¹⁸. They may then have a job outside the farm¹⁹ which probably has a significant impact on the household's income. Overall, the share of family farms where spouses of the holder –whether they participate or not in farm work- have another gainful activity seems to increase with the size of the holding²⁰.

All in all, the presence of another gainful activity for the farmer and/or of his/her spouse, whether she/he works on the holding or not, reached 44% in 2005 for EU-27. This share increases over years: for EU-15, it grew from 32% to 40% between 1995 and 2005. This progression reflects the diversification of sources of income on European farms and probably also the overall trend observed in the rest of society towards a greater participation of women in the labour market. This might also be a sign of a shift from the traditional agricultural household to a more 'common' household organisation, with a greater specialisation of the roles, and a more entrepreneurial vision of the agricultural holding.

2.1.8. Pluriactivity may have a significant impact on income

Whatever the reasons motivating this situation, pluriactivity of the farming household has an impact on its income. Unfortunately, in spite of numerous attempts²¹ to collect information on this topic, data remain scarce. In complement to the findings of the OECD already quoted in the introduction, some studies have yet been conducted in certain Member States which bring in some information.

This has notably been the case in France²². Consistently with the findings of the OECD, the share of non-agricultural income²³ in the total income of farm households increased from 25% in 1997 to 38% in 2003 on average. In 2003, one agricultural household out of two declared revenues from a non-agricultural activity, against 40% in 1997. Revenues from off-farm activity, at 6 390 € on average, represent on average 66% of the non-agricultural income of farming households in 2003, that is on average 25% of the total income, against 15% in 1997. In one third of the farm households, these revenues from off-farm activity represent more than

¹⁸ See for example France: *INSEE – L'agriculture: nouveaux défis – 2007; article "De plus en plus de conjoints d'agriculteurs travaillent en dehors de l'exploitation"; Nathalie Delame, Gérard Thomas*

¹⁹ Information on other gainful activities of holder's spouses not working on the holding is only collected since 2005. It is therefore not possible to assess the trend of this characteristic.

²⁰ Leading to the remark that pluriactivity of farm household may also reflect dynamic holdings engaged in investment, and not only the worst economic situations.

²¹ Such as Eurostat Survey on Income of Agricultural Households, used in the quoted OECD study.

²² Cf. note 15

²³ Including revenues from non-agricultural activity, property revenues (25% of non-agricultural income in 2003) and pensions and retirement fees (9%)

5 800 € - i.e. half of an annual net SMIC²⁴, reaching on average 19 100 € and thus significantly increase these households' global income²⁵.

The situation in Denmark shows a similar trend. According to Denmark Statistics, the share of non-agricultural income in the gross income of farm households has been increasing from 55% in 2000 to 59% in 2004 on average. This is mainly due to the increasing importance of non-agricultural income in the gross income of full time farms²⁶, both in absolute and relative terms. Revenues from off-farm employment represent on average 60% of non-agricultural income, that is 23% of the farm household gross income of these full-time farms, against 39% when considering both full-time and part-time farms.

In the neighbouring Sweden, business activities only represent 21% of the total income of the agricultural households, according to the Swedish Board of Agriculture²⁷. The biggest part of the household's income – 77% - comes from employment, while 1% comes from income from capital. There is only a minority of agricultural households where the main part of the income comes from business activities. The only type of farming where income from business activities was higher on average was "dairy cows".

With 44% of agricultural couples having another gainful activity than farming in the EU-27, the choice of pluriactivity is increasingly a reality for agricultural households and contributes significantly to the global income.

²⁴ SMIC: Salaire Minimum Interprofessionnel de Croissance: French minimum wage

²⁵ See also Graph 18 in annex for the frequency of pluriactivity of farming household according to the agricultural income and relative weight of the income from pluriactivity in the global household income.

²⁶ When Standard Labour Input reaches 1665 hours, a farm is defined as full-time. In 2004, 47.2% of sole holder holdings were full-time farms.

²⁷ Swedish Board of Agriculture, "Other Gainful activities on the agricultural holding and income of the agricultural household", Statistiskrapport 2007:3

2.2. Diversification of farm activities

One option to generate a non-agricultural income for a farming household is to set up diversification activities on the farm.

For the purpose of this note, farm diversification is understood as the creation of any gainful activities that do not comprise any farm work but are directly related to the holding²⁸. This concerns inter alia tourism, accommodation and other leisure activities, handicraft, processing of farm products, wood processing, aquaculture, production of renewable energy for the market, and contractual work²⁹ using equipment of the holding....

2.2.1. *Extent of farm diversification*

- *In 2005, 12% of farms had a diversification activity in EU-27*

With only 12% of EU-27 holdings³⁰ carrying out a gainful activity outside agriculture in 2005, farm diversification is not so common.

The share of farms with a diversification activity ranges from 1% in Lithuania to 29% in Finland (cf. Table 8 in Annex). On the contrary of farmers' pluriactivity, farm diversification is more widespread in Western and Northern Europe - more precisely in Finland (29%), France (25%), the United Kingdom (24%), Germany (22.5%), the Netherlands (22.5%), Austria (21.4%), and Denmark (18.4%) - and seems less developed in Eastern and Southern Member States as well as in Ireland (see Map 2a in Annex).

2.2.2. *What kind of farms develop diversification activities?*

- *Larger farms are proportionally more diversified than smaller ones.*

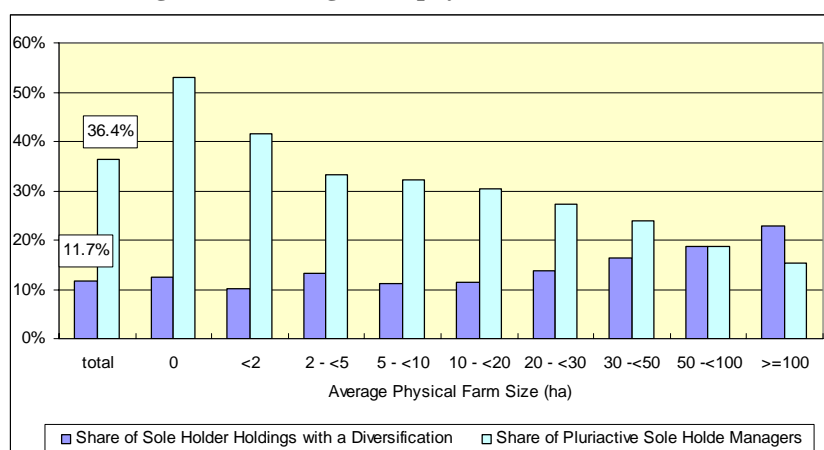
With farms with less than 5 ha representing 69% of farms with a diversification activity, small farms constitute the bulk of holdings with diversification. Nevertheless, the share of farms with diversification increases with the size of the farm: more than 20% of farms with a physical size of more than 100 ha have a diversification activity, against less than 10% of farms with less than 10 ha. This trend is the opposite of the trend in pluriactivity, and suggests a certain level of assets is needed to set up new activities. Indeed, in every Member State, "small" farmers tend to privilege pluriactivity -not related to the holding- to complement their income whereas this is rather achieved by on-farm diversification on larger holdings.

²⁸ Diversification of marketing channels – such as direct sales to consumers - is not understood as a diversification activity, though time consuming. Diversification of farming practices in order to conquer new outlets such as organic agriculture, or cultivation of "exotic" crops at the scale of the region is not considered a farm diversification activity either.

²⁹ Note that contractual work can consist in farm work, provided that it is not carried out for the holding itself. For a precise definition of the diversification activities in Farm Structure Survey of Eurostat, see annex B.

³⁰ The analysis of farm diversification activities covers all types of farms, whatever their legal status (sole holder holdings, legal entities, group holdings) when the analysis of pluriactivity was restricted to family farms managed by the holder (cf. footnote 1). The overall picture remains anyway fairly the same: the share of sole holder holdings with diversification is 12.0% for EU-27 against 11.98% for all farms; respectively 9.3% and 10.0% for EU-15, and 13.26% against 13.32% for EU-12.

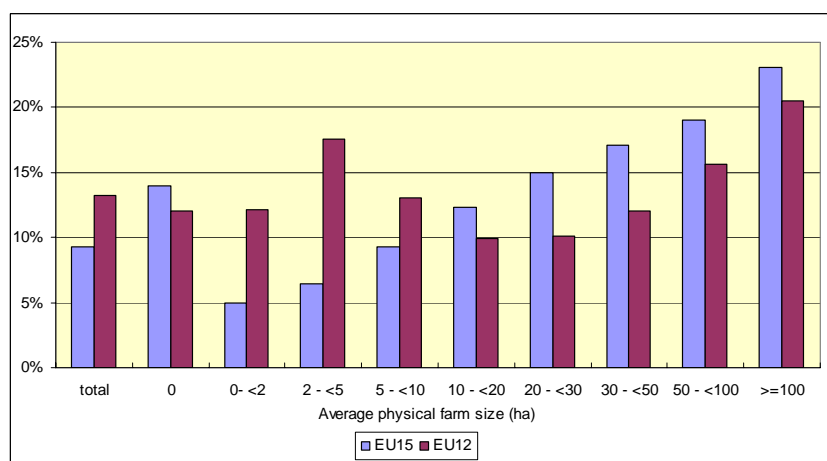
Graph 8: Comparative shares of sole holder holdings with diversification and pluriactive sole holder managers³¹ according to the physical size of the farm (ha) – EU-27 - 2005



Source: Eurostat – Farm Structure Survey

Farm diversification is therefore more widespread in EU-15, as the share of farms with a diversification activity (10.0%) is twice higher there than in EU-10 (5.1%)³². Besides, this phenomenon seems to be more rooted in EU-15: the share of farms with a diversification activity is systematically higher in EU-15 than in EU-12 on farms with more than 10 ha.³³

Graph 9: Comparative share of farms with diversification in EU-15 and EU-12 according to the physical size of the farm (2005)



Source: Eurostat – Farm Structure Survey

- *Farms involved in animal husbandry are proportionally the most diversified ones*

A second feature of the diversified farms is their main specialisation as reflected by the type of farming. Looking at EU-15, it seems that there are more diversified farms among farms

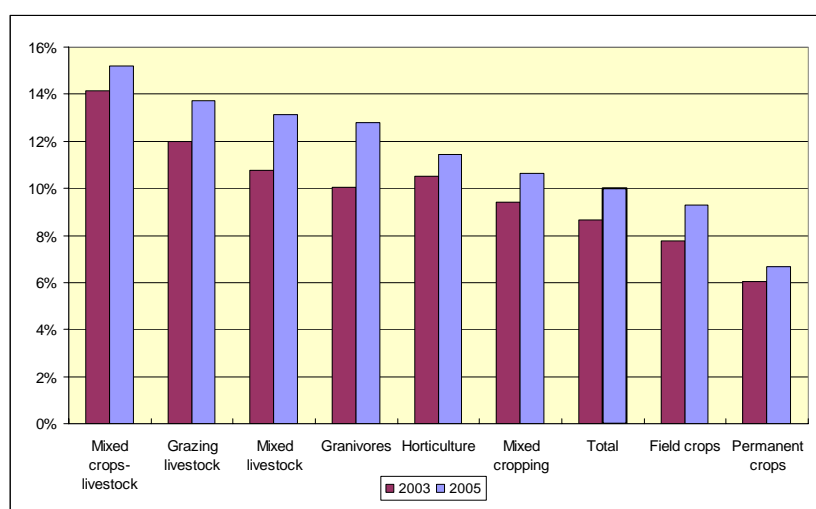
³¹ Note that due to data availability, the data presented in this chart do not relate exactly to the same sets of farms: diversification relates to the set of sole holder holdings, whereas pluriactivity relates to the subset of sole holder holdings managed by the holder (92.8% of sole holder holdings are managed by their holder).

³² When taking into consideration Bulgaria and Romania, due to the very high number of small holdings in Romania, the share of farms with diversification reaches 13.3% in EU-12.

³³ This conclusion remains true when comparing family farm diversification in EU-15 and EU-12 according to the economic size. Nevertheless, when taking into consideration all legal statuses, the share of diversified holdings with more than 250 ESU is much higher in EU-12 (38%) than in EU-15 (27%). This result probably reflects the presence of forms of organization inherited from the sovietic past.

involved in animal husbandry than among farms involved in cropping. Indeed, in 2005, 15.2% of farms with mixed crops-livestock have a diversification activity, followed by farms specialised in grazing livestock (13.7%), farms with mixed livestock (13.1%) and farms with granivores (12.8%). At the other end of the spectrum, farms with diversification represent less than 10% of farms specialised in field crops, and less than 7% of farms specialised in permanent crops. In EU-12³⁴, the picture is less clear-cut: farms with mixed cropping (17.9%), mixed livestock (16.6%) and permanent crops (14.3%) appear to be the most diversified ones. This picture is broadly the negative of the pluriactivity one. Namely, when comparing graph 10 with graph 6, and despite a different level of aggregation of farm types, it seems that specialisations that are labour intensive or require a constant presence on farm tend to put in place diversification activities on farm, whereas pluriactivity may be preferred when there are no constraints preventing off-farm work.³⁵

Graph 10 Share of farms with a diversification activity according to the type of farming – EU-15



Source: Eurostat – Farm Structure Survey

- *Farm localisation may also play a role*

Finally, at Member State level, it seems also that two types of regions may be more advanced as regards farm diversification (cf. Map 2b in Annex), namely regions located around main cities such as regions around Paris, London, Madrid, Stockholm, Copenhagen where there are a lot of potential clients; or regions with comparative advantages, be it mountains like the Alps (cf. FR, IT, AT), coast cf. Netherlands or countryside cf. Wallonia.

Farm specialisation as well as geographical location are therefore likely to influence the type of activity that will be set up³⁶.

³⁴ Cf. note 6

³⁵ Due to the very short time series, it is difficult to assess the influence of the economic situation by type of farming on the setting-up of diversification activities.

³⁶ Information as to the type of diversification activity set up is available in FSS, distinguishing between 8 categories: tourism, processing of farm products, wood processing, renewable energy, handicraft, aquaculture, contractual work and 'other'. The figures should anyway be interpreted with care: probably due to changing or unclear definitions, the 'other' category is very represented in some MS, and also causes difficulties when looking at time series.

2.2.3. What kind of diversification activities are set up?

First of all, it is worth noting that diversified farms seem to implement more than one diversification activity at once: the average of activities by farms is 1.2 at EU-27 level.

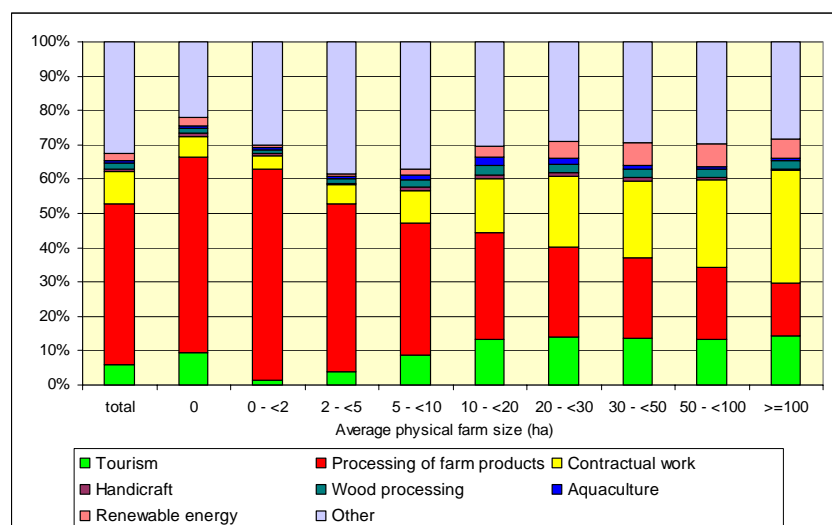
- *Transformation of agricultural products is the most widespread diversification activity*

This being said, at EU-27 level, the most popular diversification activity is the transformation of agricultural products, as it is practiced on 56% of the holdings with diversification. Far behind, contractual work is present on 11.3% of the holdings with diversification. Perhaps surprisingly, farm tourism does not seem to be so developed. It is present only on 4% of farms with diversification in EU-12, while in EU-15, it constitutes a diversification activity for slightly less than 20% of farms. All other types of activities are rather anecdotic at EU-27 level, though they might be quite important at Member State level (see Table 9 in annex), such as aquaculture in Poland (10%), renewable energy in Luxembourg (52.8%) or Hungary (38.3%) or wood processing and handicraft in Estonia (respectively 27.1% & 11.2%) and Lithuania (respectively 16.9% & 9.1%).

- *The type of diversification activity is linked to the size and the holding specialisation*

Looking a bit more in details, it appears that, like for the share of holdings with diversification, the type of diversification activity set up is influenced by the size of the farm.

Graph 11 Frequency of the types of diversification activities according to the physical size of the farm (ha) – EU-27 - 2005

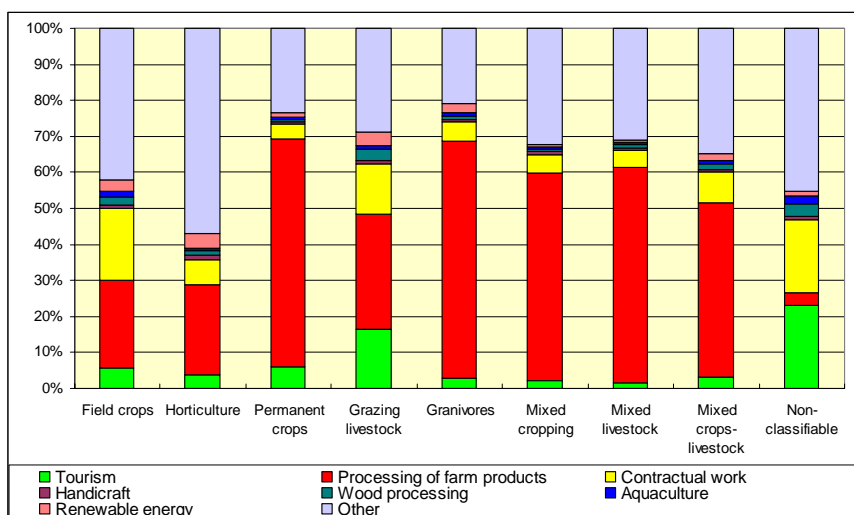


Source: Eurostat – Farm Structure Survey

Indeed, processing of farm products decreases when the physical size increases, while contractual work³⁷ increases. Small farms in terms of hectares are likely to be specialised in products easy to transform or at least have some labour force available for processing activities, while larger farms are probably better equipped in machinery.

³⁷ Note that in this context, contractual work covers only activities involving equipment of the farm holding. Hiring labour force only does not constitute a diversification of the farm, but rather pluriactivity of the farmer.

Graph 12 Frequency of diversification activities according to the farm specialisation – EU-27 - 2005

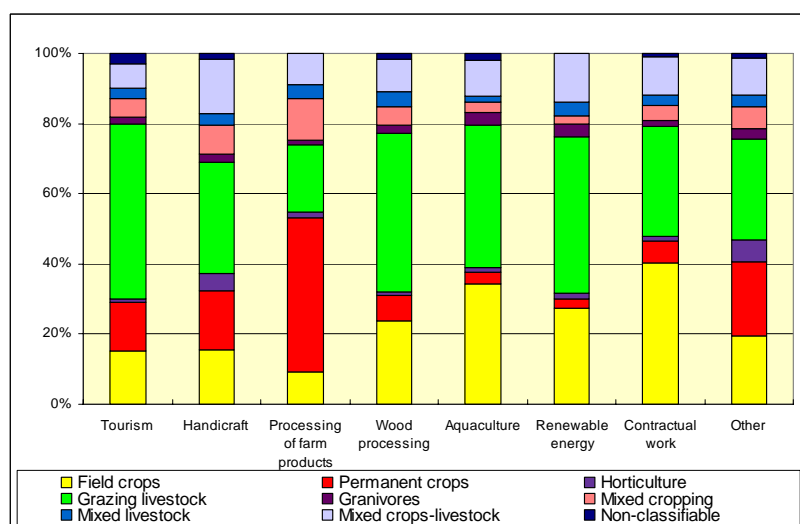


Source: Eurostat – Farm Structure Survey

This seems confirmed when looking at the frequency of diversification activities by farm type: though important for all farm types, processing of farm products is more frequent on farms specialised in granivores (mainly poultry), permanent crops – which usually cultivate a rather small area –, mixed cropping and mixed livestock. On the other hand, contractual work is more frequent on farm specialised in field crops, and grazing livestock. This latter type is also more frequently specialised in tourism activities, perhaps due to the rather tourism-friendly geographical location of this specialisation.

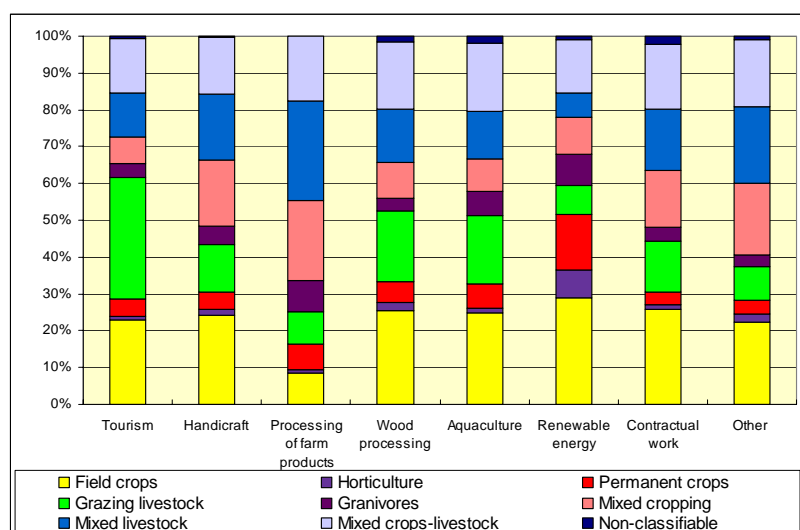
As, in EU-15, the share of farms with diversification is higher in farm specialised in grazing livestock than in the other sectors, it is not surprising to find a good representation of this type in all kinds of diversification activities, though it plays a major role for tourism and wood processing activities. Reinforcing the previous observations, farms specialised in permanent crops bring a significant contribution to the processing of farms products, whereas the same is observed for farms specialised in field crops and contractual work. The picture is somehow less clear cut in EU-12.

Graph 13 Relative importance of the main types of farming according to the diversification activity of the farm – EU-15 - 2005



Source: Eurostat – Farm Structure Survey

Graph 14 Relative importance of the main types of farming according to the diversification activity of the farm – EU-12 - 2005



Source: Eurostat – Farm Structure Survey

- *Local conditions also play a role in the choice of the diversification*

Focusing on the 3 main types of activities - processing of farm products, contractual work and tourism -, some interesting patterns emerge. With the exception of contractual work which is as popular in EU-15 as in EU-10³⁸, processing of farm products as well as tourism seem to be twice more popular in EU-15 than in EU-10. This may be due on the one hand to the scale of agricultural activity: there is still a huge amount of semi-subsistence farms in EU-10, which may not have enough resources to transform for selling on the market. As far as tourism is concerned, a possible explanation can be the still reduced purchasing power of the EU-10 population: there may not be enough clients for leisure activities.

Table 2: Importance of three selected diversification activities - 2005

% farms diversified in processing of farm products	EU-27	55.8%	From 1.6% in Latvia to 93.8% in Malta. Also important in Cyprus (92.5%), Portugal (86.2%), Italy (84.0%), Romania (73.4%), and Hungary (62.7%)
	EU-15	41.4%	
	EU-10:	17.1%	
	EU-12:	63.1%	
% farms diversified in tourism	EU-27	7.1%	From 0% in Malta to 46.8% in the United Kingdom. Also important in Austria (35%), Sweden (22.8%), Belgium (20.1%), Slovenia (20.0%) and Ireland (19.6%)
	EU-15	18.1%	
	EU-10:	6.6%	
	EU-12:	1.4%	
% farms diversified in contractual work	EU-27	11.3%	From 0% in Czech Republic to 72.8% in Bulgaria. Also important in Finland (55.9%), Greece (55.4%), Sweden (46.7%), and Denmark (43.8%)
	EU-15	19.8%	
	EU-10:	18.2%	
	EU-12:	7.0%	

Source: Eurostat- Farm Structure Survey

³⁸ The results for Romania strongly influence the overall picture for EU-12. Their evolution also raises doubts as to their quality. When excluding them, the remaining of the group is much more homogeneous, that is why the analysis focuses on EU-15 and EU-10.

On top of these general economic conditions, and as seen above, the agricultural country specialisation is important in the distribution of the activity: for example, processing of farms product is widespread in Southern Member States, where permanent crops are well represented (see also Map 3).

Last but not least, natural advantages such as scenery also play a role. It is quite striking in the United Kingdom where the on-farm tourism activities are particularly developed along the coasts in Wales and in the South of England. The same happens for the mountainous areas of Austria, for the Belgian Ardennes³⁹, or in Bayern. (cf. Map 4).

2.2.4. *How does this phenomenon develop over time?*

- *The share of farms with diversification seems to increase over time*

Though there are concerns about the comparability of the results over time, it seems that the share of farms with diversification would have increased between 2003 & 2005.

In EU-15, the share of farms with diversification increased from 8.7 to 10.0%. This increase concerns all the types of farms, and the progression would be more marked on non-classified holdings⁴⁰ and holdings specialised in granivores. The number of farms increased for all kinds of diversification activities, except wood processing, handicraft & aquaculture which were already the most marginal. Nevertheless, only the production of renewable energy and contractual work experienced an increase in terms of frequency of activity.

In EU-12, the comparison of 2003 & 2005 seems quite uneasy, due to very huge variation in Romania and the fact that some very popular activities were not covered for Poland⁴¹ in 2003.

2.2.5. *Some elements on profitability and impact on income*

The increasing number of farms deciding to develop diversification activities suggests that this is a profitable option.

- *Profitability depends on the type and the scale of the diversification activity*

A study conducted in England⁴² – where farm diversification is already well developed - investigated this aspect, and came to the conclusions that diversification activities generate "healthy net profits" (taken here to include both average profit levels as well as profit margins). It furthermore underlined that "the not insubstantial average net margins obtained from diversification, irrespective of the type of enterprise involved, compare very favourably with mainstream agriculture at the present time". This of course depends on the type of

³⁹ Though in the case of Belgium, it is not the natural advantages alone that explain this repartition, but also legal constraints in Flanders cf. part III

⁴⁰ The increase in the share of diversified non-classified holdings is mainly due to an increase for this type of farms in UK. They consist mostly in holding whose cattle have been slaughtered following sanitary crisis.

⁴¹ This concerns aquaculture and contractual work, which were not covered in the 2003 survey, whereas aquaculture is a diversification for 10% of the diversified Polish holdings in 2005, and contractual work for 23.6% of them. As 67% of EU-10 farms with diversification are located in Poland, this prevents from making any comparison over time.

⁴² *Farm diversification activities: benchmarking study 2002, University of Exeter final report to DEFRA, 2003.* See also annex C.

diversification activity⁴³: "clearly, 'miscellaneous services', 'agricultural services' and 'accommodation and catering' are very attractive financially, returning substantial net margin on average". Besides, "those enterprises primarily connected with tourism and leisure (i.e. 'accommodation and catering', 'recreation and leisure' and 'equine enterprises') appear to be very useful adjuncts to a farm business, with the first two generating above average net margins and very good net profit margins also; equine enterprises are typically smaller, but as a group show the best net profit margin of all."

- *A contribution to income which is not negligible*

The generation of profits also impacts on income, though this may not be the first reason to set up diversification activities. The above mentioned study also analysed this aspect, and showed that "it is clear that diversification makes a major contribution to 'total business income' on many diversified farms, with its average share of the total (before allowing for the value of the labour of the farmer and spouse) ranging from 24% on dairy farms to 103% on lowland cattle and sheep farms."

Table 3: Estimating the total business income (from farming and diversification) on diversified full-time farms in the sample, before farmer and spouse labour

	Number of farms	Average area (ha)	Net farm income (£ per farm)	Net income from diversification (£ per farm)	Estimated total business income (before F & S labour; £ per farm)	Diversification as per cent of total
Cereals	45	153	5,450	34,317	39,767	86.3%
General cropping	29	177	17,979	17,610	35,589	49.5%
Dairy	34	86	28,119	8,920	37,039	24.1%
Cattle and sheep (LFA)	18	188	2,368	4,648	7,016	66.2%
Cattle and sheep (lowland)	19	178	-359	13,377	13,018	102.8%
Mixed	23	160	4,883	15,884	20,767	76.5%

Sources: Information drawn from the Baseline Study of Farm Diversification 2002 and the Farm Business Survey 2001/02

At regional (England) level, and "although direct comparison with the aggregate income from agriculture in 2001 is not possible, it is concluded that farm diversification produced a total of some £785 million in that year. It is further estimated on the basis of the 2000 data that, assuming a similar level of income from diversification, farming activities alone would have produced an aggregate income of £1.03 billion. It is concluded that, in broad terms, farm diversification contributes about 43% of the total aggregate income from agricultural holdings of £1.815 billion."

- *Effects on employment*

Last but not least, at EU-27 level, 60% of the holders of the family farms with a diversification activity aren't involved in any other gainful activity⁴⁴: diversification activities are probably carried on by other persons. Bearing in mind that farms with diversification are more widespread among large farms, where the holder tends to work full-time, this result may not be surprising. This share is however decreasing over time, perhaps meaning that the

⁴³ Note that this study did not consider exactly the same definition of farm diversification, nor the same breakdown of activities

⁴⁴ This information is nevertheless difficult to interpret, as, first, the sole holder is not always the manager, and second some activities considered as a diversification of the holding may be counted as farm work for the farmer and thus excluded from pluriactivity.

holder takes part more to the farm diversification activity (maybe due to the increase in contractual work).

In most cases anyway, the farm diversification activity might be dealt with either by another member of the household, such as the spouse of the holder - the share of the spouses with OGA increasing also with the size of the farm would go in this sense -, or by an external person. The SERA study⁴⁵ underlined the important role played by women in the development of new income opportunities on the farm. It highlighted the fact that "it is often the farm wife who takes the first step and builds up new on-farm business of non-agricultural farm activities."

An analysis conducted in France⁴⁶ also showed that diversified farms employ more people than non-diversified ones: indeed, farms with diversification employ on average 2.1 AWU per farm, whereas it is 1.3 for the non-diversified ones, thus contributing to employment. The same situation is observed in every Member States (see table 12 in Annex), with the extreme cases of Czech Republic and Slovakia.

Though not to be considered as a panacea, this is one of the reasons which led to the encouragement of diversification activities at EU level, through Rural Development policy.

⁴⁵ *Study on Employment in Rural Areas, SAC, commissioned by the European Commission, 2006*

⁴⁶ *Exploitations diversifiées: un contenu en emploi plus élevé – Agreste Cahiers n°2 – Mars 2004- Danièle CAPT, Anne-Marie DUSSOL*

3. CONTRIBUTION OF RURAL DEVELOPMENT MEASURES

Through rural development policy, the European Union has long been encouraging the development of other gainful activities for farming households. These have been mainly targeted at the development of diversification activities on farm, pluriactivity being indirectly supported by measures encouraging participation in the labour market and creation of new employment opportunities in rural areas.

3.1. Support to diversification via Rural Development policy

- *One specific measure, but many others possibly contributing*

As diversification of farm activities can take many forms, several rural development measures may contribute to achieving this goal. Nevertheless a specific measure to encourage diversification was created with the launch of Objective 5b⁴⁷ in the framework of the 1988 Structural Funds Reform. Though this will not be the focus of this section, one must keep in mind that measures such as investment on agricultural holdings, improving processing and marketing of agricultural products, marketing of quality agricultural products, or village renewal may also have a significant impact on farm diversification, not to mention diversification actions encouraged via the Leader initiative or measures subsidised by other EU instruments or national / regional instruments.

- *An overall minor importance, but a long tradition in some Member States*

Table 4: Overview of the Rural Development support to diversification of agricultural holdings over time

Programming period	Name of the specific measures	Share of EU Rural Development budget	Main countries/programmes concerned
1994-1999 (Objective 5B)	Objective 5B - FG4: measures to achieve diversification, especially those providing multiple activities or alternative incomes for farmers - FG9: encouragement for tourist and craft investment, including the improvement of living accommodation on farms	Overall (FG4 &9) ⁴⁸ : 6.6% (% of EU Objective 5b initial allocation) - FG4: 1.7% - FG9: 4.9%	Analysed sample: - FG4: only 5 regions concerned; main one: Sweden: 25%, Manner Suomi (FI): 12% - FG9: 4 regions devoting > 10% of their budget to it: Auvergne (FR): 17% Tuscany (IT): 16% Denmark (DK): 12% Manner Suomi (FI): 10%

⁴⁷ The Objective 5b programme was funded by 3 EU instruments, namely EAGGF, ERDF and ESF. The initial EU allocation amounted to 6 877 million Euro, of which 2 872 million from the EAGGF. Not entirely funded by "agricultural" instruments, it is therefore not directly comparable with rural development programmes implemented in the 2000-2006 & 2007-2013 periods. Moreover, though EU rural development contribution to the individual measures over 1994-1999 & 2000-2006 are comparable in absolute value at programme level, this is not really the case for their shares in total EU Rural Development budget, as Objective 5b programmes correspond roughly only to article 33 measures and do not include agri-environment or LFA measures.

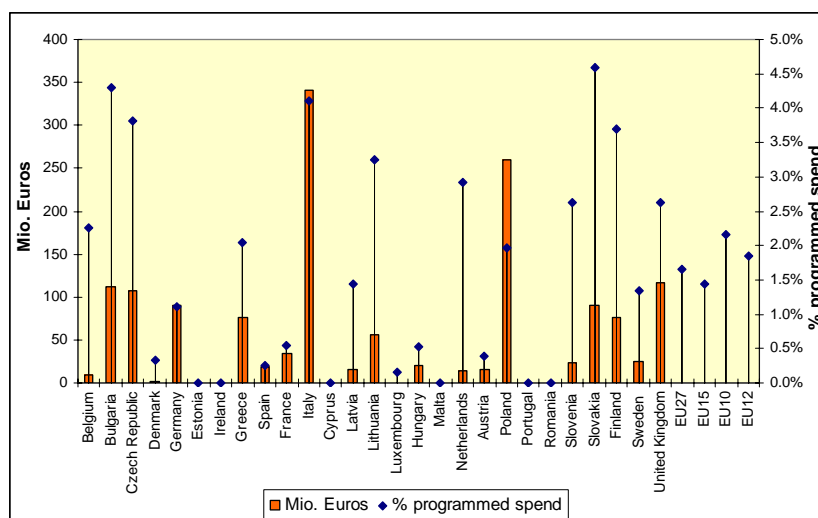
⁴⁸ Note that these data are taken from the ex-post evaluation of Objective 5b programmes for the period 1994-1999 (ADE, 2003). They do not cover the 83 objective 5b regions but refer instead:
- for the share of EU budget: to the 65 regions for which data were available
- for the main countries concerned: to the 20 regions sample on which deeper analysis was carried out

Programming period	Name of the specific measures	Share of EU Rural Development budget	Main countries/programmes concerned
2000-2006 (EC 1259/1999)	Article 33 - (p): diversification of agricultural activities and activities close to agriculture to provide multiple activities or alternative incomes - (s): encouragement of tourism and craft activities	Measure (p): ~ 1.1% of total EU contribution (522 mio €); 0.9% of Guarantee section EU-15 alone (281 mio €)	Measure (p) (EU-15 Guarantee section only): UK: 2.8% [NB: England: 5.2%, Wales: 0.2%] NL: 2.1% IT: 1.8% AT: 1.4% FR: 1.1% FI: 1% ES: Aragon: 2.5%; Baleares: 3.5%; Cataluna: 4.6%; Madrid: 1.2%; Basque Country: 1.7%
2007-2013 (EC 1698/2005)	Axis 3 (311) Diversification into non-agricultural activities	Measure (311) 1.7% of EAFRD contribution i.e. 12% of Axis 3 (1502 mio € 16 th most important measure at EU-27 level) (programmed expenditure as of 11/2007):	Measure (311) SK: 4.6% BG: 4.3% IT: 4.1% CZ: 3.8% FI: 3.7% LT: 3.3% NL: 2.9% SI: 2.6% UK: 2.6% BE: 2.3% SE: 1.3%

Note that measures FG9 & (s) were not specific to the farming sector.

One of the characteristics of rural development policy is the great flexibility in its implementation, as programme authorities choose themselves the measures most adapted to their situation. And indeed, not all Member States retained this measure in their programme. During the 1999-2006 programming period, taking only in consideration the non-Objective 1 regions, all of EU-15 Member States implemented this measure, as well as Lithuania and Slovakia. It will even be more widely applied during the 2007-2013 period, as only Cyprus, Malta, Estonia, Ireland, Portugal & Romania did not explicitly retain it.⁴⁹

Graph 15 Programmed Rural Development expenditure on measure (311) by Member State – 2007-2013



Note: situation as of November 2007.

⁴⁹ The same type of action may nevertheless be conducted via Leader.

It is also at Member State level that the type of encouraged diversification activities is decided. It appears that in 1994-1999, under the not so successful⁵⁰ FG4 measure, the main activities were transformation of agricultural products, use of water streams and costal areas and transformation of biomass. The measure FG9 encouraged various types of actions, from the development of tourist sites to the training of involved actors, promotion of the region or tourism services such as tourist information centres. In 2000-2006, agri-tourism was also strongly encouraged: out of the 3486 applications approved in 2005 (cf. table 12 in annex), above one third (35%) concerned agri-tourism, this share being significantly higher in Italy, Austria and France [but null in Belgium, Denmark, Lithuania, Finland and Sweden]. The average public expenditure per application – whatever the type of activity supported - reached 34 844 Euros, with strong variations among Member States.

The type of diversification activity encouraged, as well as their scale, appear therefore to be very different across the EU. It should nevertheless be noticed that none of the countries applying this measure in a given programming period dropped it in the following one, which may be a first positive indication on the success of this measure.

3.2. Impact of the diversification measure

- *A positive impact on the development of farm diversification activities and their sustainability*

Indeed, Member States where this measure has been applied long since or where amount spent are the most significant (>1% of the EU RD contribution) show the highest shares of farms with diversification.

Table 5: Diversification of agricultural holdings in selected countries – 2000 - 2006

Country	United Kingdom	Netherlands	Italy	France	Austria	Finland
% Guarantee RD spent 2000-2006	2.8%	2.1%	1.8%	1.1%	1.4%	1.0%
% farms with 2000 diversification	19.3%	2.9%	8.8%	22.7%	16.7%	21.4%
2005	24.0%	22.5%	6.1%	25.0%	21.4%	29.0%

Sources: DG AGRI & Eurostat Farm Structure Survey

Not only do the countries actively encouraging diversification show the highest share of diversified holdings, but they also exhibit an increase in the development of diversification, with the exception of Italy though. One can therefore conclude the diversification measure seems successful in promoting the setting up of new activities on farm⁵¹.

This was analysed more deeply for England: in view of the preparation of the new programming period, Defra launched a study⁵² to provide evidence base from which it may be established whether there is a rationale for continuing Government intervention to encourage farm diversification, in particular through making capital grant funding available to farm diversification projects. Based on the performance of recent support schemes and the farming industry's need to complete the transition to a market focused approach in the context of a multi-functional role, the study concluded that there is a need for the continuation of publicly-funded support for farm diversification. It seems in particular that receipt of grant aid is associated with an increased scale of operation. Grant aid is found to be important in

⁵⁰ In terms of inclusion in the programmes

⁵¹ Though this might also have happened without public support, in which case farmers benefitted from a windfall effect ("effet d'aubaine").

⁵² "The effects of public funding on farmer's attitudes to farm diversification", University of Exeter, 2006

facilitating the launch of a diversified enterprise for applicants who have already made the decision to diversify, particularly through the reduction in business risk. It has been an important influence in farmers' decisions on whether or not to diversify, and has had a positive rather than a negative impact on farmers' decision making. It also helped making the difference between doing something and doing it really well. Adequate capital is important in diversification and grant aid was also seen to contribute to success through increasing confidence amongst farmers and commercial lenders.

Yet, the objectives of rural development policy in encouraging diversification of farm are to sustain the income of farm households and employment in rural areas.

- *Impact on the income of farm households*

The syntheses of evaluations of rural development schemes bring some elements as to the impact of the diversification measure implemented in the rural development programmes.

Under Objective 5b programmes, the specific measure FG4 achieved only indirect effect on farmers' income, possibly due to the nature of activities developed. The measure FG9 encouraging tourism, though much more successful in terms of implementation, achieved variable results.

The synthesis of mid-term evaluations 2000-2006 notes a positive effect on farmers' income in some Objective 1 regions, though as the evaluation is carried out for article 33 as a whole, it is not always easy to isolate the sole effect of the specific diversification measure. "Interview evidence from France points to the significance of tourism related projects in maintaining and enhancing incomes. In Corsica, agro-tourism has been developed since 2002 and monitoring indicates that on average a 15-30% increase in income can be realised. Agro-tourism was also expected to contribute well to incomes post-retirement. In Guadeloupe, the development of tourism has impacted positively on the income of very small scale farmers and other rural residents (who would not have been able to invest in rural tourism in the absence of EAGGF assistance)." In other areas, the mid-term evaluation reports state too positive impact. For example, "in Baden Württemberg, Nordrhein-Westfalen & Rheinland-Pfalz, diversification activities and village renewal projects improved the income situation to a certain extent. In Finland, the mid-term evaluation report from the ALMA area states that gross farm income increased by 4.8% as a result of the scheme between 1999 and 2002. There was a 10% increase in income deriving from pluriactivity generated by off-farm assistance. The ratio of costs to turnover as a result of the scheme for dairy farmers decreased from 1.13 to 1.03 and for cereal producers from 1.61 to 1.32 between 1999 and 2000 as a result of the scheme. Forty percent of gross income earned by supported off-farm beneficiaries was generated by the measures, 80% of which related to tourism, 20% to crafts and local products. Half of the non-farming rural population has an income from transaction/employment generated by off-farm assistance. In Catalonia, measures relating to tourism, crafts and the marketing of quality products have had a greater impact on income than measures relating to agricultural diversification."

- *A rather positive impact on employment*

It seems that a positive effect on employment – be it as maintaining or creating jobs – is also observed.

The synthesis of mid-term evaluations relative to the period 2000-2006 points out a positive relationship between article 33 measures and employment maintenance (and to a lesser extent employment creation) in Objective 1 regions: "In most cases the bulk of employment

maintained/created has been on-farm rather than off-farm. Investments in agro-tourism under this chapter appeared to have had particularly positive effects on employment and employment seasonality, especially where projects provided facilities for all-year-round activities (such as conferences) and where projects have helped to shift people into more sustainable jobs/sectors".

Nevertheless, a study⁵³ based on survey evidence carried out in Poland, Hungary and Czech Republic investigated the effect of diversification on rural job creation. The results suggest that diversified enterprises are not a major source of new jobs, but when they are created, they do contribute to local employment: enterprise diversification by farmers is unlikely to generate sufficient jobs and solve the problem of high rural unemployment in CEECs.

3.3. Some elements on the success factors

The evaluations also helped identify some success factors or specific difficulties in the implementation of the measure.

- *Some activities require a clear strategy*

The Objective 5b areas had a competitive advantage for tourism development, thanks to their rich natural and cultural heritage. Nevertheless, the relevance of farm tourism depends on the existence of a clear and well-defined tourism strategy for the region, as could be observed in Wales, where significant displacement effects have been witnessed. This evaluation also pointed out to the fact that not every farmer can develop a tourism activity. If they wish so, they need to be motivated, to have well-developed communication skills, and appropriate accommodation capacities in place. Setting up guidance services, as was done in Wallonia may help in fine-tuning the project or discouraging inappropriate candidates. The demand for tourism being volatile, there is also a constant need to adapt, be it at the level of the regional authorities or for farmers.

- *Educational attainment of farmers is a key point*

One of the key points for the development of a diversification activity on farm seems to be the (general) level of education of the farmers. The higher it is, the most likely the farmer will have access to relevant information, or develop relevant entrepreneur skills. This factor seems to be determinant in EU-15 as well as in EU-10/12. Indeed, in France, managers of farms with diversification are more qualified than others. It was already the case in 1988, and it is even more pronounced in 2000 (33% reached at least secondary education). Interestingly, they also tend to be more involved in professional networks, and have often been more in contact with other social groups, be it because of a previous job out of agriculture, or of a non-agricultural origin. Likewise, the results of the study carried out in Poland, Czech Republic and Hungary show that "the level of general education has a positive and significant effect on the propensity to diversify".

- *Availability of public transports*

The same study also points out to the availability of public transport – either in terms of distance to public transportation or frequency - as being an important factor for the development of diversification activities.

⁵³ Hannah Chaplin, Sophia Davidova and Matthew Gorton; "Agricultural adjustment and the diversification of Farm households in Central Europe", 2003

- *National /local legal conditions*

Last but not least, one should not forget the role played by local conditions. Some legal or tax provisions may encourage or prevent the setting-up of diversification activities on farms. For example, in Belgian Flanders, the spatial planning policy restricts the number of tourist bedrooms to 4 per farms in agricultural areas. Knowing that the profitability threshold is estimated to be around 12⁵⁴, it is of no surprise that this activity is not so successful (cf. Map 3).

4. CONCLUSION

Over the past few years, pluriactivity of farmers and farming households has been increasing, and more than one third of EU-27 family farmers carry out now another gainful activity. Though they are mainly small farmers looking for complementary income, they may also be animated by a genuine entrepreneur's will, and develop diversification activities on their own farm. Currently 12% of EU-27 holdings have implemented the latter option, which experiences a true success in countries such as the United Kingdom, France, the Netherlands, Austria, Italy or Finland. It is worth noting that those same Member States have long been putting emphasis on the rural development measure for diversification of holdings in their programmes, which achieved various results in terms of contribution to income or employment in rural areas but may overall be considered as a success. Nevertheless, setting up diversification on the holding is not possible on every farm. Elements such as the size of the farm, its specialisation or its location will make it more or less feasible. Individual characteristics of the farmer, in particular age, education level or motivation are also to be taken into account, not to mention the importance of the local conditions such as a potential market or legal provisions.

⁵⁴ *European Commission - DG AGRI-G2 internal note – "Tourisme rural – Mesure et Evaluation au sein de l'Union européenne – 2006"*

ANNEXES

Annex A: Tables & graphs

Table 6: Pluriactivity of farmers according to the OECD type of region – 2005 (RD Report 2007)

Table 3.5.1.a

Objective 27 - Farmers with Other Gainful Activities % holders with other gainful activities - 2005 - NUTS 3						
Country	(1)PR	(2)IR	(3)PU	MS Summary of available data		MS value
Belgium	18.8	17.3	16.9	17.2		17.1
Bulgaria	30.8	36.5	24.1	34.1		33.7
Czech Republic	41.1	44.5	44.4	44.1		44.1
Denmark	48.3	50.2	53.5	49.0		49.0
Germany	-	-	-	-		47.2
Estonia	45.3	40.8	34.0	41.4		41.4
Ireland	42.7		42.9	42.7		42.7
Greece	23.2	25.7	28.8	24.1	excl. GR114, GR131, GR132, GR134, GR213, GR243, GR245, GR413	23.4
Spain	-	-	-	-		31.4
France	-	-	-	-		24.3
Italy	-	-	-	-		28.8
Cyprus		54.3		54.3		54.3
Latvia	40.3	33.4		36.8		36.8
Lithuania	24.7	29.7	27.6	27.7		27.7
Luxembourg		18.2		18.2		18.2
Hungary	37.3	41.2	40.0	38.9		38.9
Malta			51.3	51.3		49.8
Netherlands	17.4	22.5	24.7	23.9		23.8
Austria	-	-	-	-		36.4
Poland	36.0	41.5	45.9	39.0	excl. PL127, PL213, PL227, PL415, PL514, PL633	39.0
Portugal	-	-	-	-		25.9
Romania	41.1	40.9	40.6	41.0		41.0
Slovenia	-	-	-	-		74.4
Slovakia	38.4	46.6	41.4	43.0		43.0
Finland	42.2	44.8	50.5	43.0		43.0
Sweden	71.7	63.8	69.9	68.9		64.9
United Kingdom	-	-	-	-		42.0
EU27	-	-	-	-		36.4
EU15	-	-	-	-		31.0
EU12	38.4	40.5	39.8	39.5	excl. SI	39.8
EU25	-	-	-	-		34.4

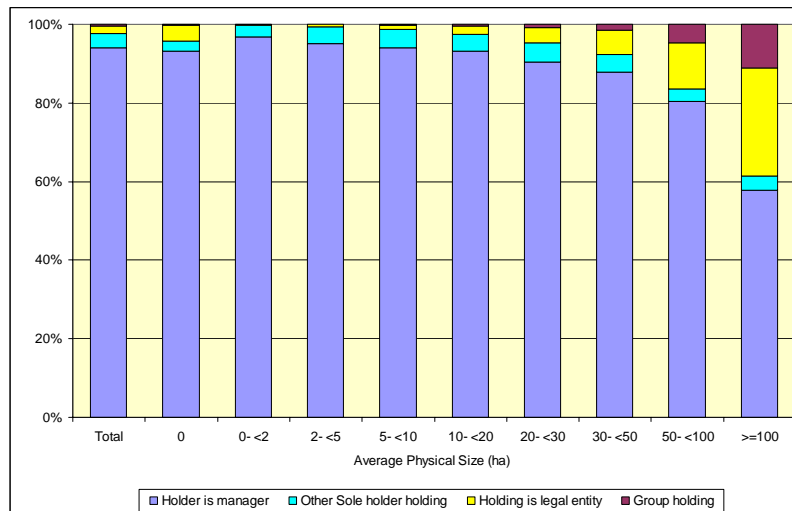
Note: The total for France and therefore the European aggregates include the overseas departments.

Table 3.5.1.b

Objective 27 - Farmers with Other Gainful Activities % holders with other gainful activities - 2005 - NUTS 2						
Country	(1)PR	(2)IR	(3)PU	MS Summary of available data		MS value
Belgium	19.3	20.6	16.3	17.1		17.1
Bulgaria	23.9	35.4	37.9	33.7		33.7
Czech Republic		44.1	44.4	44.1		44.1
Denmark		49.0		49.0		49.0
Germany	52.2	46.5	47.1	47.3	excl. DEE1, DEE2	47.2
Estonia			41.4	41.4		41.4
Ireland	45.4	39.8		42.7		42.7
Greece	24.1	20.7	28.8	23.4		23.4
Spain	30.0	28.3	39.0	-		31.4
France	21.1	24.9	19.7	24.4	excl. FR92, FR94	24.3
Italy	32.5	30.5	28.9	-		28.8
Cyprus		54.3		54.3		54.3
Latvia			36.8	36.8		36.8
Lithuania		27.7		27.7		27.7
Luxembourg		18.2		18.2		18.2
Hungary	37.1	40.6	43.5	38.9		38.9
Malta			49.8	49.8		49.8
Netherlands		23.2	24.0	23.9		23.8
Austria	36.8	35.5	35.3	36.5	excl. AT13	36.4
Poland	36.2	40.2	42.9	39.0		39.0
Portugal	28.1	25.4	29.5	25.9		25.9
Romania		41.0	41.2	41.0		41.0
Slovenia	74.4			74.4		74.4
Slovakia		43.1	41.4	43.0		43.0
Finland	42.0	45.2		43.0		43.0
Sweden	65.6	60.6	69.9	64.9		64.9
United Kingdom	47.2	41.3	43.1	42.0	excl. UKD3, UKD5, UKE3, UKG3, UKI2	42.0
EU27	34.8	37.4	37.5	36.8	excl. few regions	36.4
EU15	31.3	30.9	34.5	31.7	excl. few regions	31.0
EU12	37.6	40.1	41.3	39.8		39.8
EU25	35.1	34.1	37.3	35.0	excl. few regions	34.4

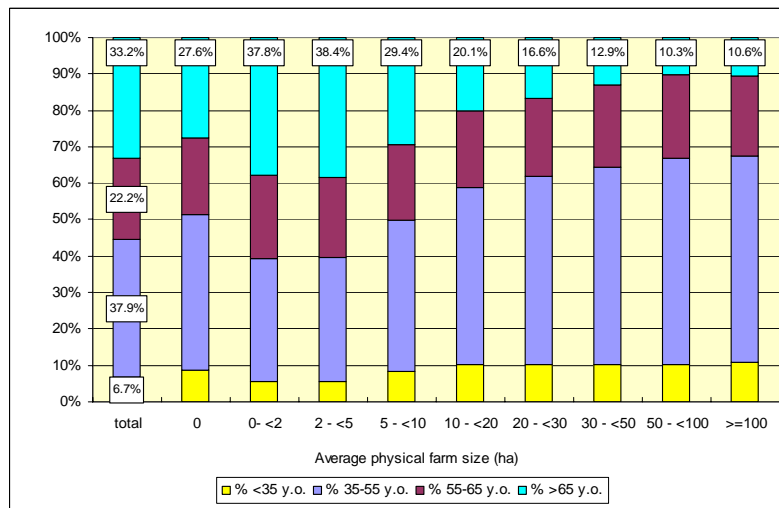
Note: The total for France and therefore the European aggregates include the overseas departments.

Graph 16 Distribution of legal statuses of the farm holdings according to their physical size – EU-27 - 2005



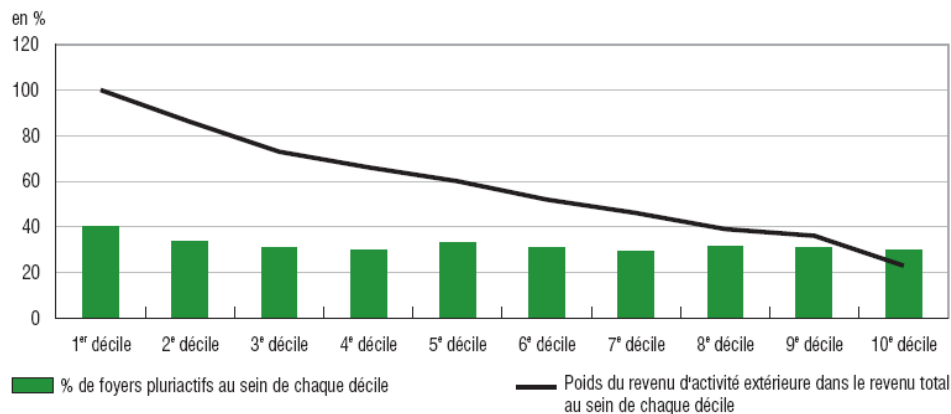
Source: Eurostat – Farm Structure Survey

Graph 17: Age distribution of sole holders according to the physical size of the farm – EU-27 – 2005



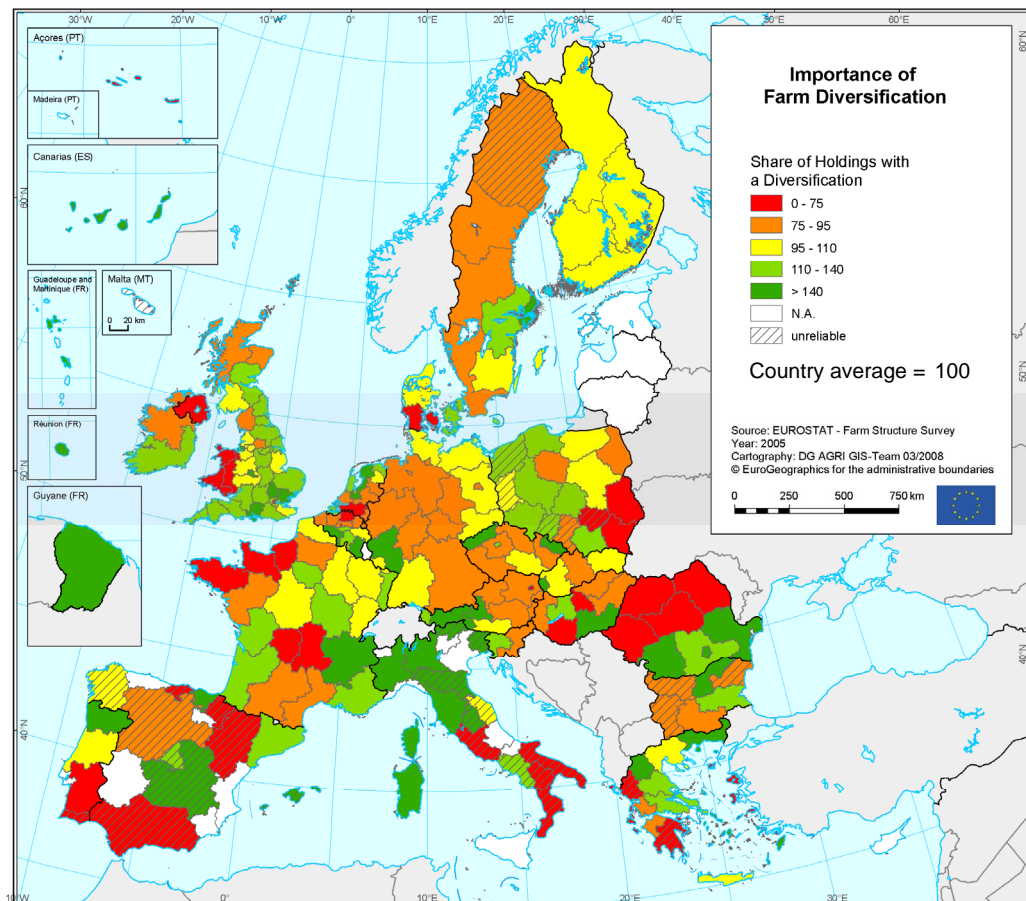
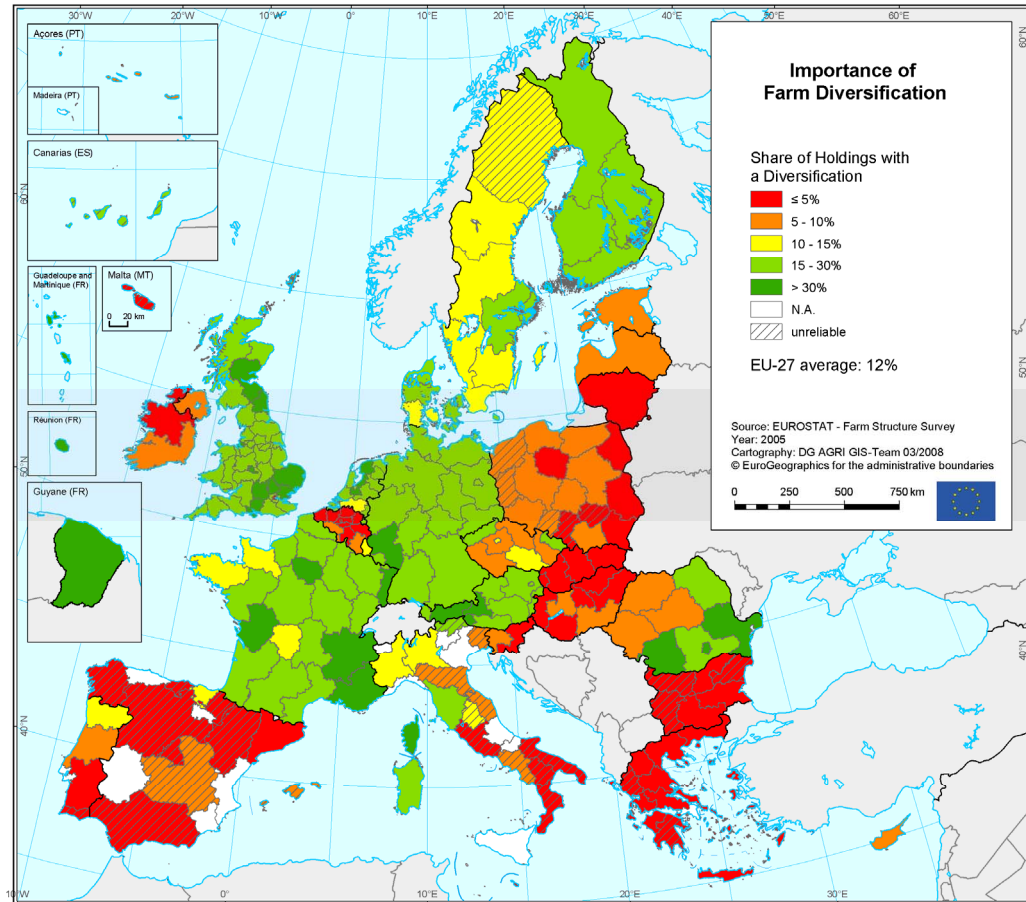
Source: Eurostat – Farm Structure Survey

Graph 18: Frequency of pluriactivity of farming household according to the agricultural income in France - 2003



Note de lecture : parmi les 10 % de foyers d'agriculteurs ayant les plus faibles revenus agricoles (1^{er} décile) 40 % sont pluriactifs ; ce pourcentage est de 30 % pour les 10 % d'agriculteurs ayant les revenus agricoles les plus élevés (10^e décile). Pour les foyers pluriactifs ayant les plus faibles revenus agricoles, le poids des revenus d'activité extérieure dépasse 100 %. Ce poids est inférieur à 25 % pour les foyers pluriactifs disposant des revenus agricoles les plus élevés.
Sources : DGI, Scaes, Insee.

Maps 2a & 2b: Diversification of agricultural holdings – 2005



Maps 3 & 4: Importance of Processing of farm products (3) & Tourism (4) in Farm Diversification – 2005

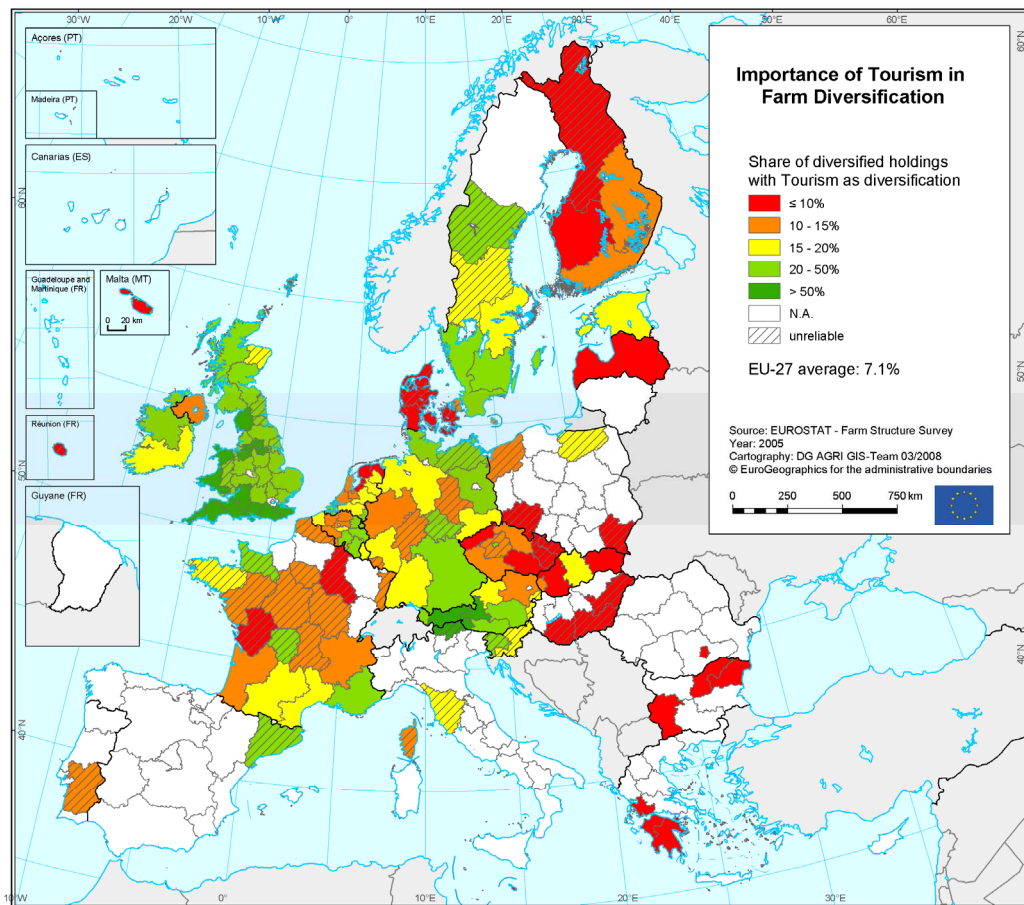
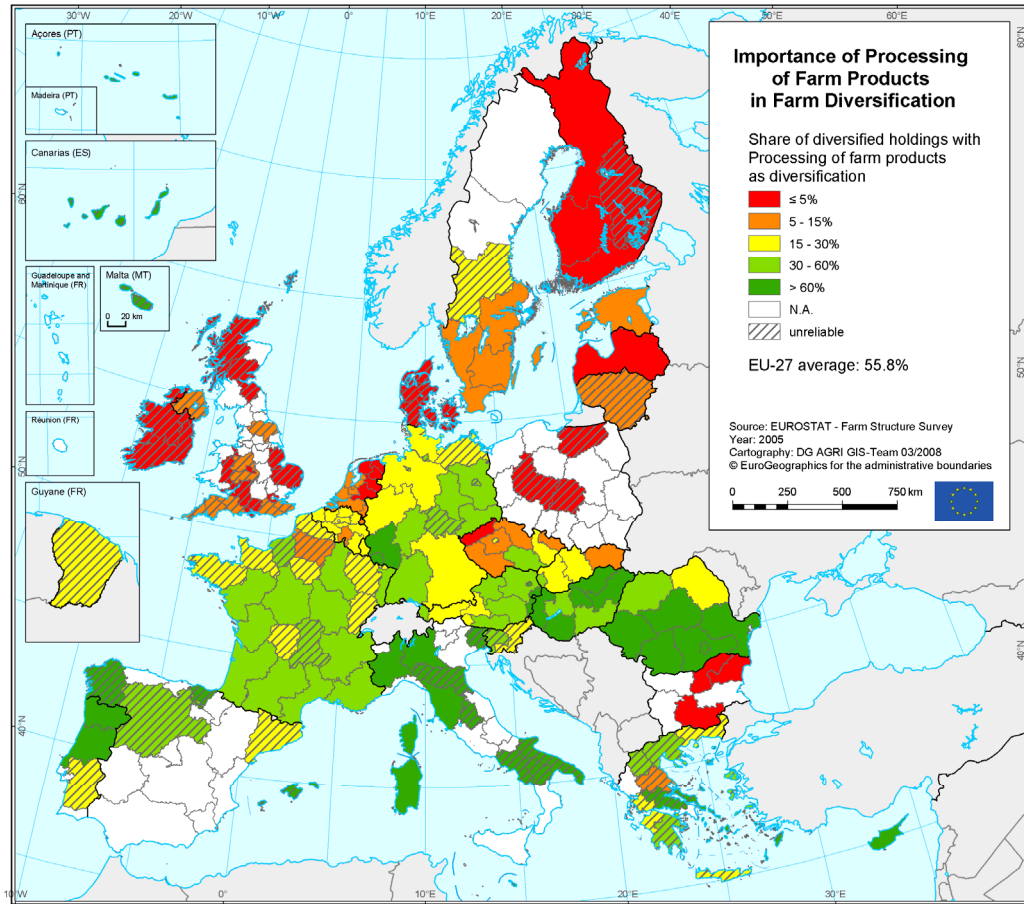


Table 7: Importance of farm diversification in EU-27, 2005 (share of farms with diversification activity)

EU-27	12.0%	From 1% in Lithuania to 29% in Finland.
EU-15	10.0%	Also important in France (25%), the
EU-12	13.3%	United Kingdom (24%), Germany (22.5%), the Netherlands (22.5%), Romania (22.1%), Austria (21.4%) and Denmark (18.4%)
<u>In Regions:</u>		<p>More than 30% in</p> <ul style="list-style-type: none"> - German region: Rheinland Pfalz (46.9%); - French regions: Ile-de-France (31.5%); Alsace (30.1%); Poitou-Charentes (31.4%); Provence Alpes Côte d'Azur (31.4%); Rhône Alpes (35.7%); Corse (55.1%); Guadeloupe (68.8%); Martinique (50.3%); Guyane (65.6%); Réunion (43.7%); - Netherlands regions: Friesland (38.8%); Flevoland (32.5%) & Utrecht (33.5%) - Austrian regions: Tirol (35.5%) & Salzburg (34.1%) - Romanian regions: Bucuresti-Ilfov (71.3%); Sud-Vest Oltenia (37.3%); Sud Est (34.3%) - Finnish region: Aland (34.9%, u) - UK regions: Merseyside (36.5%); Essex (36.0%); Northumberland and Tyne and Wear (33.2%); West Midlands (34.4%); East Anglia (30.5%); Bedfordshire and Hertfordshire (34.2%); Berkshire, Buckinghamshire and Oxfordshire (31.4%); Hampshire and Isle of Wight (34.6%); Eastern Scotland (30.0%)
*at NUTS-2 regional level		

Table 8: Evolution of the share of holdings with a diversification activity

Country	2000	2003	2005
Belgium	3.1	3.8	4.2
Bulgaria		4.1	2.1
Czech Republic		8.1	10.7
Denmark	11.6	14.3	18.3
Germany		19.4	22.5
Estonia		7.5	6.8
Ireland	3.6	4.8	4.4
Greece	1.4	1.3	1.7
Spain		2.3	3.3
France	22.7	24.7	25.0
Italy	8.8	4.6	6.1
Cyprus		6.1	5.7
Latvia	10.2	3.0	8.5
Lithuania		1.7	1.0
Luxembourg	7.5	11.0	14.7
Hungary	4.7	11.2	5.1
Malta		4.0	4.4
Netherlands	2.9	29.7	22.5
Austria	16.7	18.7	21.4
Poland		3.3	5.4
Portugal	8.2	9.9	9.0
Romania		4.2	22.1
Slovenia	4.6	3.72	4.1
Slovakia	3.4	3.92	2.4
Finland	21.4	25.30	29.0
Sweden	7.0	12.8	13.1
United Kingdom	19.3	16.3	24.0
EU-27	n.a.	6.2	12.0
EU-15	n.a.	8.7	10.0
EU-10	n.a.	4.9	5.1
EU-12	n.a.	4.5	13.3

Source: Eurostat – Farm Structure Survey

Note: Due to some changes, results may not be directly comparable from one year to another. These may be either changes:

- in the diversification covered: e.g. PL & CY between 2003 and 2005; DE, ES, NL & SI between 2000 and 2003

- in the coverage of farm size classes (UK & RO between 2003 and 2005)

- in the definitions

Table 9: Frequency of given farm diversification activities by Member States (% of farms with diversification) - 2005

Country	Tourism	Handicraft	Processing of agricultural products	Wood processing	Aquaculture	Renewable energy	Contractual work	Other
Belgium	20.1	6.1	20.6	2.8	0.9	0.5	25.2	42.5
Bulgaria	3.4	1.5	8.0	0.6	1.6	0.0	72.8	15.8
Czech Republic	8.0	2.9	25.3	21.1	0.0	0.7	0.0	51.8
Denmark	4.6	8.9	3.2	0.0	0.0	12.1	43.8	43.2
Germany	17.1	1.2	38.3	3.2	1.7	18.2	19.8	24.7
Estonia	16.0	11.2	13.3	27.1	3.7	1.1	36.2	12.8
Ireland	19.6	3.9	3.6	3.1	2.0	2.2	32.3	43.5
Greece	5.0	1.1	37.2	0.6	0.4	0.2	55.4	1.8
Spain	13.1	1.0	42.8	0.4	0.2	0.8	10.4	35.0
France	12.6	1.4	36.2	3.1	0.1	0.2	16.3	71.8
Italy	12.1	0.9	84.0	1.2	0.1	0.2	2.4	5.0
Cyprus	0.8	0.4	92.5	0.4	0.0	0.0	6.3	0.0
Latvia	9.3	2.2	1.6	6.4	1.6	0.5	16.6	75.6
Lithuania	9.8	9.1	13.4	16.9	2.0	0.0	12.6	41.7
Luxembourg	16.7	2.8	25.0	8.3	0.0	52.8	13.9	5.6
Hungary	3.3	0.9	62.7	1.9	2.0	38.3	0.0	4.5
Malta	0.0	0.0	93.8	0.0	0.0	0.0	12.5	0.0
Netherlands	15.5	0.0	5.8	0.0	0.3	11.5	19.7	70.4
Austria	35.0	0.9	44.2	3.2	0.8	6.2	28.7	0.0
Poland	6.8	1.6	4.0	6.8	10.2	0.2	23.6	51.1
Portugal	2.7	0.5	86.2	2.4	0.0	0.6	5.7	4.7
Romania	0.3	0.5	73.4	0.6	0.1	0.0	3.8	41.2
Slovenia	20.0	5.4	26.3	14.3	0.3	2.5	25.4	20.3
Slovakia	9.3	5.6	18.0	5.6	1.2	0.6	33.5	54.0
Finland	10.0	1.3	4.3	5.1	0.4	7.4	55.9	39.9
Sweden	22.8	5.6	11.1	9.8	1.8	8.7	46.7	21.2
United Kingdom	46.8	1.5	5.0	2.3	0.6	0.9	33.6	36.5
EU-27	7.0	0.9	55.8	1.9	1.1	2.3	11.3	38.7
EU-15	18.1	1.4	41.4	2.5	0.5	4.4	19.8	33.9
EU-12	1.4	0.7	63.1	1.6	1.3	1.3	7.0	41.1

Source: Eurostat – Farm Structure Survey

Note: as holdings may set up more than one diversification activity at once, the sum over types of activities does not equal 100%

Table 10: Comparative average labour force on farms with or without a diversification activity (AWU per farm) – 2005

Country	Total	Farms without any diversification	Farms with diversification
Belgium	1.35	1.34	1.54
Bulgaria	1.17	1.11	3.78
Czech Republic	3.6	2.72	10.93
Denmark	1.17	1.05	1.71
Germany	1.65	1.52	2.09
Estonia	1.33	1.19	3.22
Ireland	1.15	1.14	1.34
Greece	0.72	0.71	1.35
Spain	0.92	0.9	1.55
France	1.51	1.3	2.14
Italy	0.8	0.75	1.46
Cyprus	0.63	0.61	1.12
Latvia	1.07	1.02	1.62
Lithuania	0.88	0.84	4.16
Luxembourg	1.63	1.52	2.25
Hungary	0.65	0.56	2.35
Malta	0.37	0.34	1.07
Netherlands	2.13	2.13	2.09
Austria	0.98	0.89	1.28
Poland	0.92	0.91	1.01
Portugal	1.23	1.18	1.72
Romania	0.61	0.55	0.8
Slovenia	1.23	1.21	1.67
Slovakia	1.44	1.13	14.57
Finland	1.18	1.18	1.18
Sweden	0.94	0.88	1.3
United Kingdom	1.18	1.05	1.6
EU-27	n.a.	n.a.	n.a.
EU-15	n.a.	n.a.	n.a.
EU-10	n.a.	n.a.	n.a.
EU-12	n.a.	n.a.	n.a.

Source: Eurostat – Farm Structure Survey

Table 11: Rural Development support to the diversification of agricultural holdings

Country	2007-2013:		2000-2006 Guarantee Spend on measure (p) – mio €
	Programmed EAFRD expenditure on measure (311) €	% programmed exp.	
Belgium	9 474 872	2.3%	0.1%
Bulgaria	112 341 336	4.3%	
Czech Republic	107 249 676	3.8%	
Denmark	1 502 756	0.3%	0.4%
Germany	90 109 166	1.1%	
Estonia	0	0.0%	
Ireland	0	0.0%	
Greece	75 564 774	2.0%	
Spain	18 131 473	0.3%	0.5%
France	34 731 649	0.5%	1.1%
Italy	340 631 918	4.1%	1.8%
Cyprus	0	0.0%	
Latvia	15 000 000	1.4%	
Lithuania	56 723 795	3.3%	
Luxembourg	145 680	0.2%	0.1%
Hungary	20 175 441	0.5%	
Malta	0	0.0%	
Netherlands	14 210 000	2.9%	2.1%
Austria	15 251 656	0.4%	1.4%
Poland	259 185 000	2.0%	
Portugal	0	0.0%	
Romania	0	0.0%	
Slovenia	23 663 250	2.6%	
Slovakia	90 420 000	4.6%	
Finland	76 685 000	3.7%	1.0%
Sweden	24 500 000	1.3%	0.3%
United Kingdom	116 510 576	2.6%	2.8%
EU-27	1 502 208 018	1.7%	
EU-15	740 764 520	1.4%	0.9%
EU-10	572 417 162	2.2%	
EU-12	684 758 498	1.8%	

Table 12: Monitoring data relative to the measure 'Diversification of agricultural activities' – EU25 - 2005

Measures for Promoting the Adaptation and Development of Rural Areas							
(p) Diversification of Agricultural Activities and Activities Close to Agriculture to provide Multiple Activities or Alternative Incomes (2005)							
Member State	Total eligible cost ('000 EUR)	Amount of public expenditure		Total costs borne by the beneficiaries ('000 EUR)	Number of applications approved		Average public expenditure per application (EUR)
		TOTAL	of which EAGGF		TOTAL	of which agri-tourism	
Belgium	302	117	84	185	8	0	14 651
Czech Republic	NP	NP	NP	NP	NP	NP	-
Denmark	2 133	1 066	533	1 066	25	0	42 640
Germany	6 058	2 328	874	3 797	87	15	26 759
Estonia	NP	NP	NP	NP	NP	NP	-
Ireland	NP	NP	NP	NP	NP	NP	-
Greece	NP	NP	NP	NP	NP	NP	-
Spain	47 585	10 289	3 952	39 096	425	15	24 210
France	5 999	2 693	1 347	3 306	860	351	3 132
Italy	90 883	40 541	12 264	50 342	673	578	60 239
Cyprus	NP	NP	NP	NP	NP	NP	-
Latvia	NP	NP	NP	NP	NP	NP	-
Lithuania	689	344	244	344	2 (u)	0	172165 (u)
Luxembourg	643	257	64	386	8	7	32 165
Hungary	NP	NP	NP	NP	NP	NP	-
Malta	NP	NP	NP	NP	NP	NP	-
Netherlands	13 188	9 927	2 654	5 583	51	20	194 639
Austria	59 287	18 240	9 120	60 318	395	193	46 177
Poland	NP	NP	NP	NP	NP	NP	-
Portugal	NP	NP	NP	NP	NP	NP	-
Slovenia	NP	NP	NP	NP	NP	NP	-
Slovakia	268	80	40	188	1	1	80 400
Finland	22 371	10 228	3 147	12 111	495	0	20 663
Sweden	13 757	4 127	1 032	9 630	177	0	23 316
United Kingdom	52 759	21 230	10 615	31 529	279	47	76 092
EU25	315 921	121 468	45 969	217 879	3 486	1 227	34 844

Annex B: Definitions of farm diversification activities

In the Farms Structure Survey, information is collected on whether the holder and/or the spouse or other family members or one or more partners on a group holding carry out any gainful activities that do not comprise any farm work, but which are directly related to the holding – i.e. use either the resources of the holding (area, buildings, machinery, etc.) or the products of the holding - and have an economic impact on the holding. Several such activities can be carried out on the same holding. These should all be recorded.

Non-separable gainful activities on the holding as well as forestry activities are excluded. If only the non-family labour force and no other resources of the holding are used, the workers are seen as working for two different set-ups, and these activities are thus not seen as being directly related to the holding. Activities where no direct relations exist, for example a shop where no own products are sold, are not to be covered.

The different types of activities recorded are defined as follows:

- Tourism, accommodation and other leisure activities: All activities in tourism, accommodation services, showing the holding to tourists or other groups, sport and recreation activities etc where either the area, the buildings or other resources of the holding are used.
- Handicraft: Handicraft either manufactured on the holding by the holder or the family members, or by non-family labour force, provided that they are also carrying out farm work, regardless of how the products are sold.
- Processing of farm products: All processing of a primary agricultural product to a processed secondary product on the holding, regardless of whether the raw material is produced on the holding or bought from outside. This includes, *inter alia*, processing meat, making cheese, wine production, etc. All processing of farm products belongs to this item, regardless of whether it is seen as being part of agriculture (for example winemaking is in some regions seen as a part of the wine growing process, where in other areas it is seen as being a different process). Sale of the farm products directly to consumers is included here, except if no processing at all of the product is taking place on the holding (for example milk sold directly to neighbours is not included, since no processing is required). Production of farm products for self-consumption only or the sale of a possible surplus of such products is not included.
- Wood processing (e.g. sawing, etc.): The processing of raw wood on the holding for the market, (sawing timber, etc). Further processing, such as producing furniture from the timber, belongs normally under handicraft.
- Aquaculture: Production of fish, crayfish etc., produced on the holding. Activities involving only fishing are excluded.
- Renewable energy production (wind energy, strawburning, etc.): Producing renewable energy for the market, *inter alia*, wind mills or biogas producing electricity, selling agricultural products, straw or wood to energy production facilities, etc. Renewable energy produced only for the holding's own use is not included here.
- Contractual work (using equipment of the holding): Contractual work, usually using the equipment of the holding inside or outside the agricultural sector, e.g. clearing snow, haulage work, maintenance of the landscape, agricultural and environmental services etc.
- Other: Other gainful activities not mentioned elsewhere, *inter alia*, raising fur animals.

Annex C: Profitability of farm diversification activities in England

Results of the "*Farm diversification activities: benchmarking study 2002, University of Exeter final report to DEFRA, 2003*

• ***Enterprise output***

The first indicator of scale in the diversified enterprises studied is enterprise output, which reflects the amount of resources committed and the potential for generating profits. The average output from commercial-scale diversified enterprises on farms in England currently stands at £25,500 with a range by type of enterprise between £8,836 (equine enterprises) and £38,251 (agricultural services).

The overall mean is clearly influenced by the scale of the 'agricultural services', for which the average output is 1.5 times larger. This category is dominated by agricultural contracting, which ranges in scale from relatively small through to substantial business enterprises which in some cases dominate the original farm business. Two other types of enterprises recorded an average output significantly above the overall mean of £25,500, namely 'unconventional crops and crop-based processing' (£34,931) and 'trading enterprises' (£30,608). 'Equine enterprises' were by far the smallest in terms of turnover, at £8,836.

Overall more than four out of five diversified enterprises have an output below the mean, and this general characteristic is evident for all types of diversification. Thus, relatively few large scale operations in each enterprise type tend to dominate the picture compared to the numerically much more important smaller scale enterprises.

There is a general tendency for larger diversified enterprises to be located on larger agricultural holdings.

Horticultural holdings have the smallest diversified enterprises, in output terms, closely followed by farms within the less favoured areas. Both 'lowland cattle and sheep' and 'dairy' farms also recorded levels of output from diversification which were well below average. At the other end of the spectrum, 'pigs and poultry' farms had a very large scale of farm diversification, with an average enterprise size some 2.7 times larger than the overall mean.

• ***Enterprise operating costs and net profit***

The sample mean for retained profits from diversified activities – net profit as a percentage of enterprise output – is 27.8%, giving an overall net profit of £9,474 per enterprise. With average operating costs of £16,026, direct costs represented about 43% and overhead costs 57%.

Given the very obvious range in the size of diversified enterprises discussed above, a number of important features about farm diversification have been identified. This summary of the cost and profit structures of farm diversification highlights those which are important in understanding the nature of this farm business activity:

- on average, direct costs represent about 43% of total operating costs and overhead costs 57%

- however, cost structures vary widely by type of enterprise, with overhead costs accounting for between 36 and 78% ('trading' and 'recreation and leisure' respectively) of total operating costs;

- the average diversified enterprise brings in a net profit per farm of £9,474, with a range by type of enterprise of between £5,617 ('trading enterprises') and £12,546 ('miscellaneous services');

- for all diversified enterprises, the average net profit margin is 27.8%

- profit margins also vary widely by type of enterprise: they are lowest for 'trading enterprises' (at 18.4%) and highest for 'equine enterprises' (at 64%).

- Variability from the overall mean by enterprise type is greatest for total operating costs, and least for net profits, with variability in output levels somewhere in between. Based on these findings, some broad categorisation of the various forms of diversified enterprises has been attempted. The one type of diversification which can be classed as high output, 'agricultural services', scores poorly in terms of net profit ratio, at least in terms of its relative ranking under this factor. Conversely, the two low output categories, 'equine enterprises' and 'accommodation and catering', also have the two highest net profit ratio. At the average levels of profitability identified by this study, it is very evident that farm diversification is making an important contribution to overall business profitability on many farms. Against the background of the farming recession, an average net profit of £9,474 from diversified enterprises appears to compare very favourably with the margins from conventional agriculture.

- ***Imputed costs and net margins***

While net profit offers the best representation of enterprise performance in financial terms it is not a complete measure of the true costs, since it does not account for the value of the non-traded resources that are utilised in production. These costs associated with these resources have to be imputed, and relate to the unpaid labour of the farmer, spouse and family workers and the rental value of owned land. Deducting these additional imputed costs from net profit produces the net margin, the residual available to the entrepreneur as the two-fold return on (a) the investment in tenant's capital and (b) management performance.

Because of the importance of land and family labour in the essentially family-based businesses of farming the imputed costs are typically significant elements in the overall cost structure of the industry. Thus, while the net profit may be high enough to suggest that the performance of the enterprise is satisfactory, the real economic outcome as reflected by net margin may well tell a different story. This is not to imply that the enterprise is not worthwhile, of course – the perspective here is principally that of the farming industry regarded as sector of the national economy.

The overall effect of accounting for imputed costs was to reduce the net profit by almost 40% (£3,681), giving an overall net margin across all enterprises of £5,793. Although this varied by enterprise type, the differences were not as great as might have been expected: 'trading enterprises' and 'equine enterprises' fared worst, at £1,679 and £2,379 respectively, while 'miscellaneous services' achieved the best net margin at £9,311. The observed differences in cost structures mean that the rankings by type of enterprise change quite dramatically depending on whether output, net profit or net margin is chosen.

So, what do these results mean show about the current profitability of farm diversification? Several important points emerge:

- the existence of healthy net profits (taken here to include both average profit levels as well as profit margins) in an era when profitability in conventional agriculture is weaker than for many years provides clear evidence of the importance of diversification features of the modern farming sector.

- furthermore the not insubstantial average net margins obtained from diversification, irrespective of the type of enterprise involved, compare very favourably with mainstream agriculture at the present time;

- clearly, 'miscellaneous services', 'agricultural services' and 'accommodation and catering' are very attractive financially, returning substantial net margin on average;

- those enterprises primarily connected with tourism and leisure (i.e. 'accommodation and catering', 'recreation and leisure' and 'equine enterprises') appear to be very useful adjuncts to a farm business, with the first two generating above average net margins and very

good net profit margins also; equine enterprises are typically smaller, but as a group show the best net profit margin of all.

- *Income effect*

Table b: Estimating the total business income (from farming and diversification) on diversified full-time farms in the sample, after farmer and spouse labour

	Number of farms	Average area (ha)	Management and investment income (£ per farm)	Net margin from diversification (£ per farm)	Estimated total business income (after F & S labour) (£ per farm)	Diversification as per cent of total
Cereals	45	153	11,119	27,735	38,854	71.4%
General cropping	29	177	7,309	15,738	23,047	68.3%
Dairy	34	86	6,106	6,590	12,696	51.9%
Cattle and sheep (LFA)	18	188	-2,902	2,091	-811	..
Cattle and sheep (lowland)	19	178	-12,986	8,327	-4,659	..
Mixed	23	160	-6,683	10,237	3,554	288.0%

Sources: Information drawn from the Baseline Study of Farm Diversification 2002 and the Farm Business Survey 2001/02

Annex D: Delineation between pluriactivity of farmers and diversification of the holding

Farm status		Pluriactivity of the manager		Diversification of the holding
Family farms (sole holder holdings)	Sole holder is the manager	Manager is pluriactive	<i>Outside the farm:</i> - on another holding - non-farm work - farm work - employment in a non-agricultural enterprise <i>On the farm, not using the resources of the holding</i>	<i>On the farm using the resources of the holding</i> at least the manager of the family farm carries out this diversification
				No diversification
	Sole holder is not the manager			(*) Another member of the family, or any other person carries out diversification activity
				No diversification
	Sole holder is not the manager			Not surveyed
				Diversification activity
Sole holder is not the manager			No diversification	
			Diversification activity	
Non-family farms (legal entities, group holdings)			Not surveyed	Diversification activity
				No diversification

Grey zone, due to definition

In Farm Structure Survey:

- **Pluriactivity** is defined as the existence of other gainful activities for the farmer i.e. the existence of any other activity than farm work carried out for remuneration. It includes non-agricultural activities carried out on the holding itself (such as accommodation of tourists), or on another holding (farm work on another holding is included too), as well as employment in a non-agricultural enterprise. Only sole holder managers are surveyed.
- **Diversification** is assessed at the level of the holding, and refers to the creation of any gainful activities that do not comprise any farm work but are directly related to the holding by using its resources or products and have an economic impact of the holding.

As can be seen from the graph above, the set of farms with diversification is not a subset of farms whose manager is pluriactive. It is not possible either to add up directly the share of farms whose manager is pluriactive with the share of farms with diversification; as:

- Pluriactivity and diversification are not surveyed exactly on the same set of farms: pluriactivity is surveyed on sole-holder holdings whose holder is the manager, while diversification is surveyed on all types of farms, whatever their legal status;
- Diversification activities of the holding may be carried out by other persons than the farm manager, such as his/her spouse, other members of the family or persons external to the household. In such a case, the holding will be diversified, without the manager being pluriactive;
- To be considered as a diversification of the holding, an activity must use the resources of the holding (other than only labour force). In case the manager does contractual work, he will be considered as pluriactive, but if he doesn't perform it using the equipment of the holding, this will not be a diversification of the holding;
- (*) Transformation of agricultural products is considered as diversification of the holding, though it may consist in farm work on the holding, and therefore not qualify as pluriactivity for the manager. For example, wine production is in some regions considered as a part of agricultural activity. As such, it is farm work and will not constitute pluriactivity for the farmer. Nevertheless, it will be regarded as diversification for the holding. Such cases are included in the "grey zone" of the chart.