

Study on Employment, Growth and Innovation in Rural Areas (SEGIRA)

Executive summary

Final



Client: European Commission, Directorate-General for Agriculture and Rural Development

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In cooperation with ÖIR, ECOTEC, IDEA Consult and CRE

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Executive Summary

1. Objective of SEGIRA

The European Commission, Directorate-General for Agriculture and Regional Development (DG AGRI) has initiated the **Study on Employment, Growth and Innovation in Rural Areas** (SEGIRA).

The aim of SEGIRA is to provide “a thorough assessment of employment and growth in rural areas with particular attention paid to women and young people, agriculture and the agri-food industry; the key conditions for stimulating economic growth in rural areas; and providing a classification of major drivers of employment and socio-economic development in rural areas”.

Although there have been many studies analysing employment and growth throughout Europe, only very few of them are at NUTS3 level and focusing on the development of specifically the 501 rural areas in comparison to the 495 intermediate and 307 urban regions¹.

2. SEGIRA consists of four main parts

Firstly, a *trend analysis* has been made of the trends on employment and growth in the rural areas throughout EU27 from 1995 onwards, based on literature and on NUTS3 data.

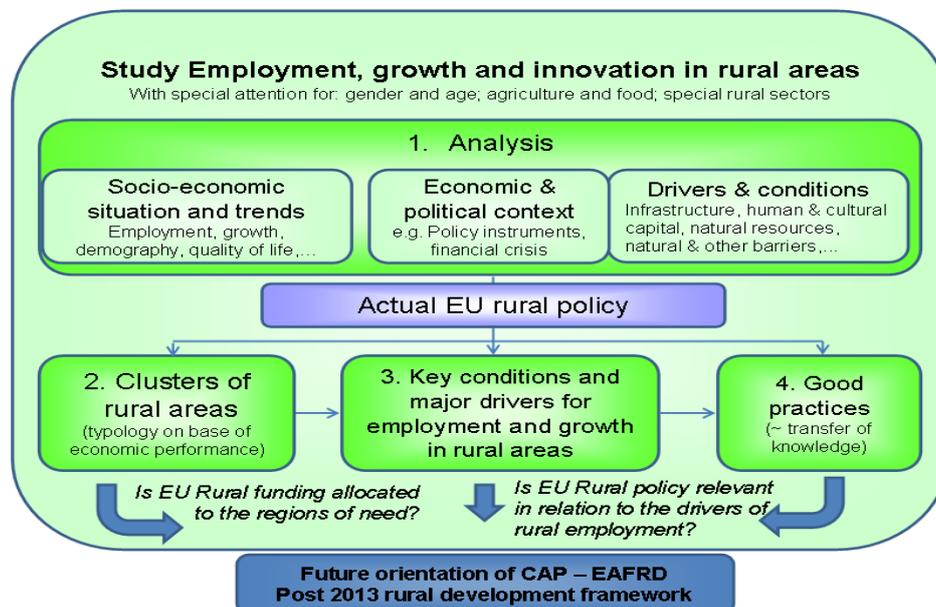
Secondly, rural areas have been *clustered* based on a set of socio-economic indicators which show the specifics of rural areas throughout Europe.

Thirdly, for *15 regional case studies* more qualitative research has been done on the drivers and barriers for employment and growth in rural areas.

Fourthly, *80 good practices* have been collected: all projects stimulate employment and growth in rural areas and are funded with EU rural development funding (2000-2007 and 2007-2013) that are regarded as good practices on stimulating employment and growth in rural areas.

¹ DG AGRI/DG REGIO classification

Figure 0.1 Overview of the four parts of the SEGIRA study



The research has been done by ECORYS Nederland in cooperation with IDEA Consult (Trend analysis), ÖIR (Clustering), ECOTEC (Case studies), CRE (Good practices) and with the support of country experts.

Part 1. Key Findings of the SEGIRA Trend Analysis

3. Approach of Trend Analysis

A trend analysis was made through 3 steps: 1) literature review, 2) identify and select indicators, 3) analyse 32 indicators.

All trends were analysed at NUTS3 level with an exception of the food industry and migration. At NUTS3 level the completeness and availability of data is a serious barrier for a reliable analysis. For this study indicators have been used that are considered most relevant and for which most data is available.

4. Importance of rural areas

More than half of the population of the European Union lives in predominantly or intermediate rural areas. These regions produce 45% of Gross Value Added and provide 53% of the employment of the EU27. In land use terms, rural areas represent 93% of the EU27 territory, with 20% of the population living in predominantly rural areas and 38% in significantly rural areas.

5. Higher growth in rural areas than urban areas

From the mid 1990s, both GDP/capita and the employment rate in rural regions have shown a positive trend. The growth of GDP/capita in rural regions is higher than in urban regions since 2001, due to a strong growth in New Member States especially from 2006 onwards. However, despite the positive trend that GDP/capita is increasing in rural areas, the gap between rural and urban is widening.

Additionally, the catching up of GDP/capita in rural regions is not reflected in employment rates: the growth in the employment rate in rural regions for the period 2005-2007 remains on average lower than the growth in all EU27-regions, although the employment rate in 2007 in rural regions is much higher than in the period 1995-2004.

A striking and very positive trend is the decline of unemployment rates in rural regions in the period 1999-2008 (before the economic crisis of 2008-2010).

6. Fast transition of rural economies

The economic structure of rural regions is in transformation: the share of the primary sector in GVA declines continuously, while the share of the tertiary sector grows. This is a general trend in all regions, but it is more pronounced in rural regions. The growth in tourism illustrates the growth of the tertiary sector. It is increasing in all regions (especially in Southern European countries) and is found as a main driver for growth and employment.

Rural areas across the EU have undergone profound changes in the last few decades. One of the most pervasive changes is the sectoral shift and the decline of the relative importance of agriculture in the rural economies of Europe, driven largely by productivity increases across the sector. In the EU27, while 96% of rural land use is agricultural (including forestry) only approximately 13% of employment is in agriculture, producing only 6% of gross value added in rural regions. Although the employment from the primary sector has declined from 18% in 2000 to 12% in 2006, the key activities (agriculture, forestry and fishing) remain important rural activities.

In rural regions across the EU27 the share of primary sector employment is more than twice the share of primary sector gross value added. It was observed that there is a tendency for fewer but larger farms (in ha and €) and that the average age of farmers is increasing. Critically, primary sector activities also act as a platform for many kinds of diversification activities.

The tertiary sector has become a more important job creator in rural regions. In both employment and GVA the tertiary sector increases. It was found that the expansion of the secondary and tertiary sector is one of the main drivers of economic growth in rural regions. New activities have grown up, including tourism, small scale, niche manufacturing and food production and business services.

The number of bed places per NUTS3 region in rural regions is lower than for EU27-regions in general, and the trend in rural regions is lagging behind compared with all EU27 regions.

There are strong input-output-interrelations in the food chain between the agricultural sector and the food industry. Based on an analysis of the performance of the food sector it can be concluded that the food sector in EU15 seems to have been a rather stable industrial sector.

7. Population: counter urbanization and declining share of active population

Alongside such changes to the economic base of many rural areas, demographic shifts have occurred, with many accessible rural areas across Europe experiencing counter urbanisation as more affluent, mobile people have chosen to move out of urban centres and into rural locations to commute, to start new enterprises or to retire.

Not all rural areas have seen population increases, however, and in many remote, mountainous parts of central and northern Europe and across much of southern Europe, depopulation remains the dominant demographic trend, particularly amongst the younger and economically active groups in the population.

Population growth in rural regions is limited, and falls below the growth of population of urban and intermediate regions. This is due to a lower birth rate in rural areas and a higher death rate.

While population density is relatively stable in all types of EU27 regions, the population of rural regions is older and ageing: the share of people more than 65 years old increases in rural regions and exceeds the share in urban and intermediate regions.

The analysis shows that the share of active population is declining in rural areas and this is considered to be an important barrier for future economic growth.

8. NMS versus EU15: GDP/capita in New Member States on 45% of EU15

There is a higher growth of GDP/capita in rural regions of New Member States than of EU15, but the GDP/capita level of the New Member States is only at 45% of EU15.

The employment rate is lower in rural regions of New Member States (59%) than in rural EU15 (64%), and there is not really a catching up by New Member States, even after 2004-integration. However, the evolution of unemployment in New Member States' rural regions is positive: unemployment rates have fallen in general, for men and women, and for youth, to levels below those of EU15 rural regions.

In addition, the share of the primary sector in GVA in rural regions of New Member States (9.3%) is more than double that of rural EU15 (4.7%). For the tertiary sector it is the opposite picture. The share of tertiary employment in rural regions of EU15 (64%) is much higher compared with the New Member States (50%).

There is still a divide in agricultural dynamics and structure between New Member States and EU15: agriculture in the New Member States typically employs more people, on a higher number of farms, which are on average smaller in size (in area size and economically). Semi-subsistence farming is much more a feature of the New Member States (60% of farms are between 1 and 8 ESU) compared to EU15 (24%).

Part 2. Clustering of Rural Areas

9. Approach for the clustering

In SEGIRA the rural areas have been clustered through 1) identify and select indicators, 2) use a correlation analysis, hierarchical algorithm and Ward's method to choose number of clusters, 3) three clustering exercises with 24, 27 and 20 indicators. This resulted in choosing the clustering on basis of 27 indicators; 4) analyse territorial distribution of EU policy.

10. Thirteen clusters were identified on the basis of 27 indicators

The clustering exercise on basis of 27 indicators provided a very concise and detailed specification of EU NUTS3 regions. The most determining indicators were:

- Socio-economic situation of the regions (in terms of employment, growth)
- Growth patterns of socio-economic situations (employment, unemployment, demography)
- Sectoral structure of the regions (in terms of primary, secondary and tertiary sectors as well as their development)
- Territorial specifics of the regions (in terms of built up areas vs. natural land)

Funding situation of the CAP in these regions (included only in exercise with 27 variables).

This resulted in the following clusters:

Cluster 1: "Large European Cities"

Cluster 2: "Semi-urban areas with land use pressure"

Cluster 3: "Cities not aggregated with their surroundings"

Cluster 5: "Balanced rural areas with declining manufacturing sector"

Cluster 6: "Southern and Northern periphery and Mountains"

Cluster 7: "Coastal and mountain areas"

Cluster 8: "Eastern periphery – agriculturally dominated" - This cluster categorises very remote rural areas at the eastern boarder of the European Union.

Cluster 9: "Strong" rural regions in new Member States"

Cluster 10: "Central and North European industrial regions"

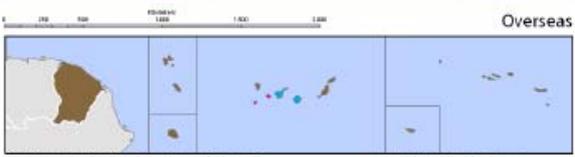
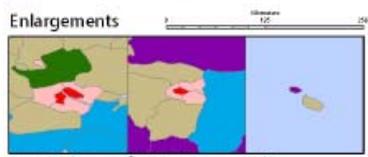
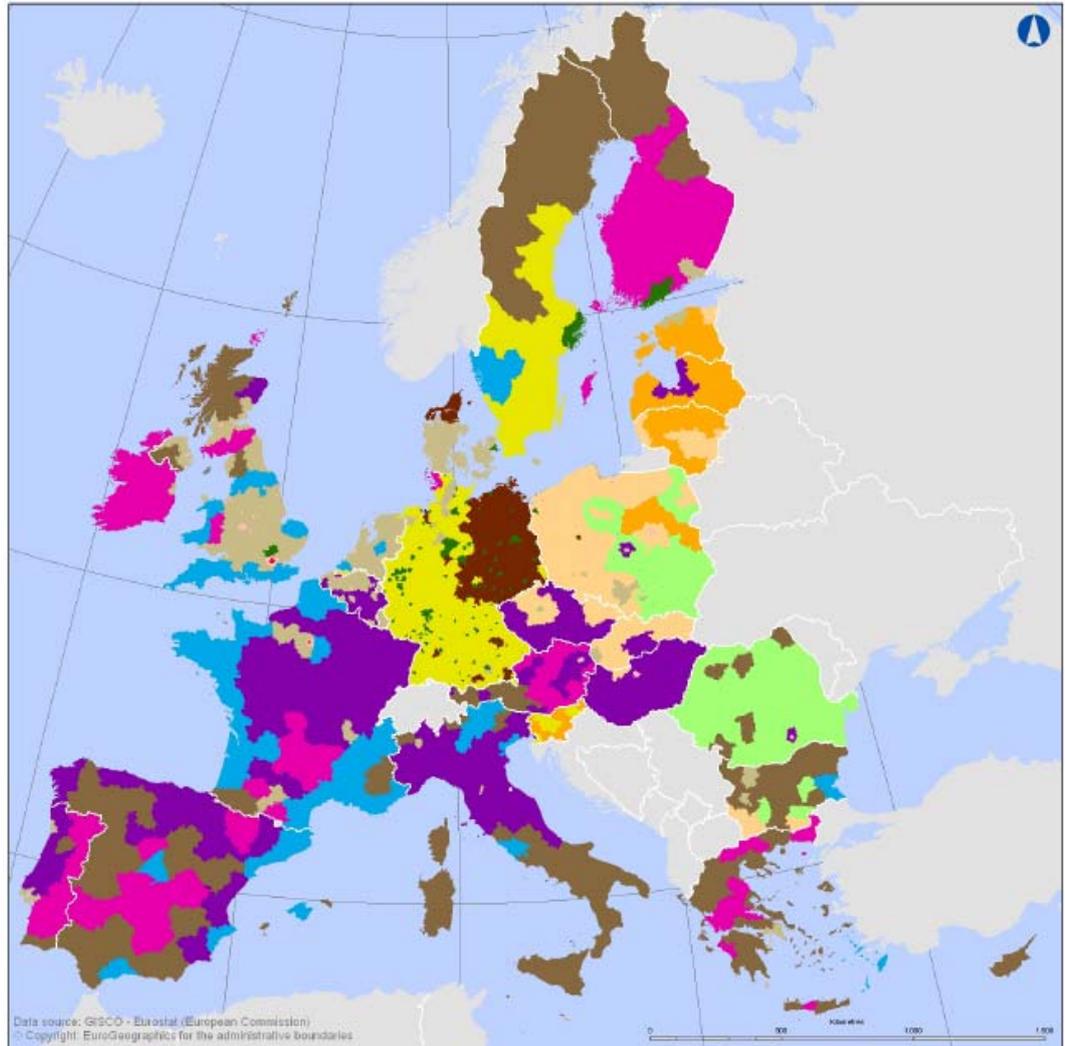
Cluster 11: "Rural Regions with significant Industry"

Cluster 12: "Global Cities"

Cluster 14: "Eastern periphery – industrialized"

Cluster 15: "Rural areas with strong rural development"

Map 0.2 Result of the clustering exercise



- Greater London CLUSTER**
- I - Large European Cities
 - II - Semi-urban areas with land use pressure
 - III - Cities not aggregated with their surroundings
 - V - Balanced rural areas with declining manufacturing sector
 - VI - Southern and Northern periphery and mountains regions
 - VII - Coastal and mountain areas
 - VIII - Eastern periphery - agriculturally dominated
- Ile-de-France**
- IX - 'Stomp' rural regions in new MS
 - X - Central and Northern European industrial regions
 - XI - Rural regions with significant industry
 - XII - Global cities
 - XIV - Eastern periphery
 - XV - Rural areas with strong rural development

- Variables**
- Ind_01_newurban
 - Ind_02_GDP_per_capita
 - Ind_03_change_gdp_pps
 - Ind_04_unemployment
 - Ind_05_change_unemploy
 - Ind_06_training_education_ago
 - Ind_07_emp_dev_pnm
 - Ind_08_change_emp_grihm
 - Ind_09_tamars_gairfu
 - Ind_10_tourism_beds
 - Ind_11_change_tourism_beds
 - Ind_14_lower_natural
 - Ind_15_lower_arid
 - Ind_16_pop_dens

Map developed by ÖIR
© September 2010

Sources:
DG AGRI (Expenditure Data)
'Study on employment, growth and innovation in rural areas' (2010) managed by DG AGRI.

11. A description of the thirteen clusters

The classification of rural and urban areas according to the methodology of DG AGRI/DG REGIO shows a mixed map, with rural, urban and intermediate regions scattered throughout Europe. The European periphery can generally be titled as rural, especially Ireland, Portugal, Greece, great parts of Scandinavia and the Baltic States (excluding capital agglomerations). Predominantly rural are also great parts of Eastern and South-Eastern European countries. In contrast most urban areas can be found in the United Kingdom and the Benelux countries.

When comparing the territorial classification with the clustering approach it becomes apparent that all ten rural clusters are covering all types of regions (from predominantly urban to predominantly rural). When looking at the predominantly “rural areas” it becomes visible, that some of them are characterized by a balanced mix of economic sectors with some specialisation in either way (i.e. either industrialized or more agricultural dominated). Apart from this sectoral division of EU NUTS3 regions the location of the regions played a role when grouping the regions. This is remarkable as accessibility has not been depicted in the indicator set for clustering. Still the “remoteness” of regions (e.g. mountain areas, Eastern and Southern periphery) determined some of the clusters. As such the clustering shows that there is no “typical rural region” in terms of employment and growth, but a different type of “rurality” as depicted in the different clusters of regions. The clusters with a rather high share of rural regions are clusters 15, 5, 6, 8, 9 and 11.

12. “Rural” regions are structurally not lagging behind

“Rural” regions are structurally not lagging behind. A significant amount of “rural regions” showed a quite satisfactory structural condition as expressed by: development of population, share of employment of women, development of economically active population (in primary, secondary and tertiary sector), share of commuters, share of nights spent in relation to resident population, tax quota of resident population. All of these indicators (as represented in the cluster analysis) show that many of the “rural” regions are performing better than “urban” ones.

13. More diversity of economic activities in rural areas

Economic activities are spatially more and more equally distributed – leading to a higher diversity of economic activities in all regions: this situation is important in several ways:

- Higher resilience of regions through better buffer capacities (adaptive capacities) against shocks. The more economic sectors are represented in a region, the better the social safety net if one of these sectors is affected by an economic downturn.
- The territorial conditions are thus becoming a regional finger-print and will lead to better competitiveness and specialisation of regions (Porter hypothesis) – with a concentration on regional strengths.
- Synergies between sectors (e.g. agriculture, crafts and services) may lead to more growth and employment than a monopolistic concentration in one sector. Thus

policy support has to take these horizontal/ cross-sectoral growth aspects into account.

14. “Rurality is determined by functions of spaces and not its economic activity

“Rurality” is rather determined by functions of spaces than economic activity within: all regions are determined by their multi-functionality, which defines their development paths and character. Examples of such spatial functions are: production and procurement, economic function (creating employment and income), education and culture, settlement and housing, social services, recreational function, deposit function, eco-services. Thus – once again – regions are characterized rather by this mix of functions than a single economic activity.

15. More differentiation needed

What has been visualised by the clustering analysis is the need to differentiate far more regional development by the regional contexts. Growth and employment in rural areas is based upon a wide variety of economic activities and the main lesson to be learned is that those regions are likely to perform better, which succeed in tapping on the synergies between economic sectors the most. It goes without saying that urban areas are still the motors and poles of growth and employment – however rural areas are apparently playing a far more differentiated role than just agricultural production pools and natural residual of cities, which build the counterbalance to their negative externalities. The analysis shows that the spectrum of functions of rural areas together with their potential for growth and employment has increased significantly, which could support an orientation towards a *place-based policy*.

16. Territorial distribution of EU agricultural policy support

The analysis of the territorial distribution of EU CAP expenditures at NUTS3 level shows that the CAP rural development policy followed the EU policy principle of territorial cohesion strengthening the Eastern peripheral regions by increased funding support. Interestingly enough this holds both true for Pillar 1 and Pillar 2, which for Pillar 1 (direct payments) is quite remarkable, as it does not follow in general the principle of cohesion policy and NMS are still in a process of phasing-in. Also in 2007-2009 this division continued.

Part 3 Regional case studies

17. Approach for the regional case studies

A set of 15 regional case studies were developed in SEGIRA to obtain more specific information in a diverse set of rural regions, through 1) develop typology for selecting case studies, 2) select case studies, 3) collect information per case study, 4) analyse trends, commonalities and to draw conclusions of the case studies.

18. Drivers of growth

In the case studies the following key drivers for employment and growth in rural economies were considered to be the most important:

1. Natural resources and environmental quality
2. The sectoral structure of the economy
3. Quality of life and cultural capital
4. Infrastructure and accessibility

These key sectors and drivers of growth have generally been well supported through co-ordinated local, regional, national and EU policy – and that this policy intervention has led towards increasing effectiveness in key sectors.

Interestingly, the public service and voluntary ('third') sectors are not cited as a driver of growth (or as a key sector at all) despite the fact that public services in, for example, education, health, transport, local government/administration are often cited by case studies as being integral parts of the local economic structure. Equally, the wider service sector in the private sector beyond that associated with the visitor economy is also notable by its absence – for example, retail, banking.

19. Barriers to growth

The key barriers reported through case studies to growth in rural areas are primarily:

1. Demographic evolutions and migration (loss of young people and ageing)
2. Infrastructure and accessibility
3. The sectoral structure of the economy

In addition, the relative narrow sectoral structure of the economy for many regions illustrates a fragility of regional economies, vulnerable to economic and political change. Finally, for those regions more remote from urban centres, the poor nature of communications infrastructure and accessibility continue to hinder economic progress.

The loss of young people and the corresponding replacement by an ageing population provides a critical threat to the ongoing vitality of rural economies and rural communities. This threat applies across sectors but may be particularly important in agriculture where the average age of farmers increases relentlessly. Equally, retirees to the countryside force up house prices and restrict the available stock for young people, further exacerbating the problem of retaining young people. An ageing population also brings new challenges to rural areas (and in fact new economic opportunities) relating to service delivery (health, social services) and accessibility for older and less mobile people.

Those regions where prioritisation has not been given to supporting young people to stay in their communities are potentially failing to address a key aspect of sustainability and supporting an ageing demography for rural areas, undermining both employment and growth targets.

Migration and migrants inclusion into the local society and labour market has been outlined as an issue in several cases. In some EU15 countries where an influx of

young workers from some New Member States have provided a degree of replacement for the loss of local workers, particularly for the farming and food processing sectors (e.g. in South West Ireland). There is a need of tolerance, need of cultural understanding, employed in non-stable/seasonal jobs, etc.

20. Key sectors in rural areas

For rural Europe as described through the case studies, the key economic sectors are currently 1) Agriculture; 2) Tourism; 3) Food and drink and 4) Construction. Within the first three sectors, diversification of regional economies is considered key in driving growth.

From a number of case studies it can be observed that the economic base of rural areas, whilst diverse within key sectors (many activities comprise agriculture, food and drink production and the tourism/visitor economy), is still relatively narrow and therefore fragile. This may be apparent in the area referred to as the New Rural Economy and in particular in relation to eco-system services. For most rural areas there is little emphasis placed upon the emergence of a new economy based on, for example, IT or sustainable energy production. Similarly, little emphasis was placed on lack of high speed broadband availability as a barrier to new economic growth, although it surely can be concluded that slow or even non-existent terrestrial broadband availability can only disadvantage rural economic growth and competitiveness. Farm diversification appears as a concept in almost all regions as a way of finding new income possibilities, especially for small-scale farms – in several regions major diversification activities are outlined. Furthermore Commuting seems important for a number of areas.

21. Impact of and responses to the economic crisis

The impact of the economic crisis has been extremely mixed across the rural regions of the EU. There is some indication that certain sectors have been more susceptible to the crisis than others – for example organic farming, added value processed food and drink. However, there is limited evidence to substantiate this presently.

Access to finance again is a potential barrier to growth for both start ups and businesses seeking to expand. However, no direct evidence is offered to suggest this is any more a problem for rural business as compared to urban ones.

It also seems that young people, those aged up to 25-30 years are most affected by the crisis in terms of unemployment and options for (starting) a job.

Policy responses to the crisis have generally been regarded as sub optimal.

22. Young people and women

The Case Studies have investigated the extent to which policy has supported the engagement with and involvement of both young people and women in securing economic success for rural areas. The case studies produce mixed conclusions, showing a relatively strong focus of policy upon young people, across both EU15 and New Member States but a less strong focus upon women, although again with no particular disparity across EU15 and New Member States.

23. Effect of rural development policy

Most regions studied were generally positive about the *effect of rural development policy* upon growth and employment, but with many regional variations of course observed. Tourism, agriculture and tertiary industry were all sectors noted as having been stimulated by policy intervention.

A well-based local / regional *integrated approach* is important for an effective utilisation of funds from different sources.

Complementarity and synergy between policies and funds should have an effect that leads to the successful economic development of regions, which as confirmed by the case studies.

Part 4 Good practices on employment and growth in rural areas

24. Approach for identifying and compiling a 80 Good Practices Database

The final aspect of the SEGIRA project was to identify 80 good practices and develop a database based on these for further dissemination. They are widely spread geographically (across all Member States), across the four RDP axes and for 2000-2006 and 2007-2013. The approach used was: 1) developing a selection criteria typology, 2) collecting a 'long list' of 170 potential good practices, 3) selecting 80 good practices for analysis, 4) complete project fiche per good practice, 5) summarizing the results.

They essentially perform a dual function of a) illustrating the effectiveness of rural development interventions and support and b) furthering the exchange of information and providing inspiration and a source of new ideas for practitioners in rural development across EU.

25. Sectors and topics of the Good Practices

There are Good Practices in the following 11 sectors, namely 1) Agricultural; 2) Producer 7) Agri tourism; 8) Basic services; 9) Village renewal; 10) ICT; and 11) Training/Skills. Furthermore also projects that focus on young people and women have been selected. Many projects are actually cross-sectoral and cover several areas.

An overview of the 80 good practices has been provided in this report on the below topics in order to highlight similarities and differences among countries, new and old Member States, geographical areas and sectors:

- | | |
|---|------------------------------|
| 1. Project sectors | 7. Application process |
| 2. Focus on young people and women | 8. Business plan development |
| 3. Focus on technological innovation | 9. Success factors |
| 4. Focus on partnerships / networking | 10. Lessons learned |
| 5. Focus on innovation in rural service provision | 11. Transferability |
| 6. Project size (as defined by total budget and EAFRD contribution) | 12. Employment situation |
| | 13. Other key points |

Some quantified analysis of the projects is possible but the commentaries which appear in the fiches are especially rich in qualitative information. There would be particular merit in encouraging further contact between projects, particularly those of a similar type which feature in the database.

26. Common strands emerging from the case studies

It would appear that *modernization of primary production* systems is the main priority for New Member States in deploying RDP funding. Conversely, *economic diversification* and *community services* and *infrastructure* feature more strongly in the more mature rural economies of EU15.

27. Project application

There is inevitably some criticism of the RPD project application, support and appraisal/approval process which is commonly accepted as being complex and time consuming to navigate. Overall however the sentiments expressed by projects managers have been mainly neutral or positive.

28. Lessons learnt and success factors

The 80 good practices provide a wealth of information on lessons learned and factors for success. It can be concluded that three elements are considered the most important for successful projects:

1. Management. Professional project management has been indicated as the most important success factor and good preparation before the application has been mentioned as the second most important lesson.
2. People. Regional support, good cooperation, enthusiasm and commitment have been mentioned as very important success factors. Under the lessons learnt the effective partnerships, professionals and experts are considered the most important lesson and furthermore a good organisation structure is an important lesson mentioned.
3. Content. A good project content has been mentioned as an important lesson and under the success factors a sound business development plan is mentioned.

It is recommended that DG AGRI explores how these success factors and lessons learnt can be used in future projects and programming period.

29. Other key points in the good practices

During the analysis of the good practices, a number of key points were observed that could not be placed under any of the sub-sectors used in the above analysis. These ‘key points’ fall into the following categories and are briefly discussed here:

- The *ageing population* structure and *out migration* of young people to find suitable employment is almost universal. Many of the good practices are designed to address this issue.
- *Unemployment rates* are especially high in New Member States (particularly among women) and this is despite the fact that rural areas tend to export their unemployment.
- *Employment in the primary sector* remains higher in the New Member States and remoter parts of the EU15 although productivity and farm structure are much weaker. There is a resistance to producer cooperation in traditional farming areas.
- Considerable emphasis is placed on the connections between *environmental quality and tourism*, and the scope for adding value to primary products. These are regarded as areas with scope for innovation and having growth potential.
- *Healthcare* has been identified as a potential growth sector and an expanding source of female employment in rural areas.
- *Renewable energy* is also regarded as a growth sector and some highly imaginative projects illustrate the potential.
- It is interesting to see that mostly projects on renewable energy are considered *innovative*. Furthermore there are several projects on innovation in rural service provision (on disabled people and broadband infrastructure for remote communities).
- *Adequate broadband* infrastructure is regarded as essential for the economic and social sustainability of communities in more remote rural areas.
- There is some apparent tension between *sectoral* (agricultural) development *versus territorial development* and between localisation vs. centralisation. Leader is often regarded as the essential mechanism for initiating local action and building capacity in rural communities.