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POLICY COHERENCE BETWEEN AGRICULTURE AND RURAL DEVELOPMENT

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INTRODUCTION

The relationship between agricultural and rural development policy is constantly evolving as the structure of rural economies changes. Similarly, there is no a single, simple relationship between agricultural policy and rural development policy. Agricultural policy is sector-specific, while rural development policy is multicultural, territorial policy. In both cases, there are a multitude of objectives – some of which may be conflicting – and a multiplicity of sectoral and regional circumstances.

In the past, the share of agriculture and its related activities in rural economies in many areas was such that the terms "rural" and "agricultural" were often used almost interchangeably. An important implication of the process of structural change witnessed in most countries over the past two or three decades is the decline not only in the proportion of total output and employment accounted for by agriculture, but also in the income derived by farm households from farming. In many countries and regions agriculture is no longer a driving force for employment and income in rural areas. This implies that measures confined to the agricultural sector will be limited in their ability to underpin the economic performance of rural areas. At the same time as the sector's economic significance has declined its structure and interactions with the rest of the economy have become more complex.

One of the major manifestations of structural change is that the nature and extent of linkages between sub-sectors is changing. Rapid advances and adoption of new technology in agriculture has strengthened the linkages between agricultural and non-agricultural sectors and the agricultural sector has become technologically more sophisticated. The extent and nature of these linkages have implications for the effectiveness of agricultural policies as well as on the effects of agricultural policy reform on the rural economy (OECD, 1998).

The context in which agricultural policy is being formulated has also changed to respond to growing society's concerns regarding food safety, food security, animal welfare, environmental protection and the viability of rural areas. There has been a

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shift away from production-linked support towards various types of payments that are often linked to land use. In many countries, this shift of agricultural policies is intended – to an increasing extent – as a vehicle for contributing to economic and social revitalisation of rural areas and not solely a means for maintaining farm incomes.

Nevertheless, the sectoral nature of these policies and concerns over their economic cost, have raised questions about their effectiveness in addressing non-agricultural objectives, including rural development.

On-going changes in agricultural policy reinforce the importance of more fully understanding the role of agriculture in rural economies. Most countries have begun to reduce their reliance on the most distorting forms of support to agriculture and are increasingly moving towards budgetary support which is linked to land. This trend in reducing such forms of support eases environmental pressure and offers the opportunity to more effectively target farmer incomes and the provision of specific rural and environmental benefits.

An important challenge that policy makers are facing is the design and implementation of coherent policies capable of contributing to overall rural development objectives without impeding structural adjustment or creating new distortions. Policy makers should balance the need for greater economic efficiency, with transparency and with environmental and social concerns in rural areas.

The effectiveness of agricultural policies in improving the economic well-being of rural areas depends upon several factors, including: linkages between the local rural economy and the agro-food sector; levels and type of agricultural support; and their coherence with cross-sectoral policies.

LINKAGES BETWEEN THE AGRO-FOOD SECTOR AND THE RURAL ECONOMY

Rural areas differ in their development experience, economic structure, natural and human endowments, geographical location, demographic and social conditions. They are affected in different ways, and to differing extents, by ongoing socio-economic and policy developments that occur nationally and internationally. There are rural areas which have successfully adapted to such changes, while others continue to experience economic and social difficulties. Understanding these processes of adjustment is crucial for policy.

The nature and degree of linkages between agriculture and rural areas depends on many factors, and the relationship is two-way, evolving over time. The rural non-agricultural economy provides alternative uses of labour, land and capital, and shifts in demand for these factors will affect farm structures.

In the past, the agricultural sector was often the engine for growth in rural economies in many countries as it was the predominant source of rural income, employment and output. Consequently, rural and agricultural problems were considered to be virtually synonymous and it was often assumed that rural and agricultural objectives could be pursued through a single set of policies focused mainly on commodity price support. That situation has changed dramatically for a variety of reasons.

Agriculture in most countries, like other industries, is continuously facing adjustment challenges stemming from economic and non-economic factors. Farm structures and changes in them affect rural areas in a variety of ways. Farm households in different farm size classes organise their labour, production methods, financing and marketing arrangements in different ways. The regional distribution of benefits from agricultural support policies is also influenced by the structural characteristics of the sector. Commodity- and input-coupled support, as well as any change in its level or form, has different rural effects because of the varying importance of each commodity among regions. The scope for changes in labour allocation on and off farms by farm families in different regions will also have a fundamental bearing on the extent to which adjustment process would be smooth in response to market signals or whether there is a need for policy intervention to address particular income or adjustment problems.

Further, farm structures at the rural level are influenced by a wide range of attributes of rural area such as economic structure of the area, the physical and social geography of the area, population, human capital characteristics. Increasing non-farm employment opportunities in a particular rural area could have an effect on the farmer’s perception of economic risk, with implications for the selection of farm product- and input-mix. Risk-averse farmers may be more likely to participate in non-farm employment and in regions where geography is not conducive to farming. Risk-averse farmers may prefer full-time off-farm employment to farm expansion. The rural characteristics could also affect a farm household's asset position. In general, as land values are influenced by expectations about the ability of the land to generate income, in regions where farming is the dominant economic activity, land values will be sensitive to expectations about farm income.

While structural change in the sector is not uniform among rural areas, some common trends can be discerned. The main results on agricultural structural changes suggest that there has been a continuation of a number of long-term trends in farm structures and increased diversity has become an important feature of the sector. The duality of farm structures in terms of land fragmentation, the size of farms, ownership and age structure is one of the specific characteristics of agriculture.

One universally recognised feature of structural change is that, as countries develop the proportions of total output and employment accounted for by agriculture

decline. This structural transformation of the economy has prompted farmers to migrate from rural areas to urban areas and seek alternative employment opportunities, especially in less-diversified rural areas.

Farm numbers, farm land and labour have declined, while farm output and average farm size have increased. In most countries there is a general tendency for an increasing proportion of "commercial" agricultural production to be concentrated in a declining proportion of farms. As farms have become more specialised, the number of commodities produced per farm has decreased. While the number of larger farms has increased, the number of small farms continues to be very high and the largest declines are in the numbers of "middle-sized" farms. This bi-modal distribution reflects the heavy reliance of smaller farms on off-farm income sources, on the one hand, and the continued growth of very efficient, larger-scale farms on the other.

The age structure of farmers shows that a major share is over 55 years old in many European countries. There are very few countries where the majority of entrants into agriculture are less than 35 years old. On average, in 2000 in the EU-15, 52% of farmers were 55 years old or older and only 8% were less than 35 years old. There are only a relatively small number of OECD countries where more than 40% of farmers have even basic agricultural training, although there are wide variations in the educational attainment levels of farmers across countries. This low level of training could reduce farmers' adaptability to new economic, social and environmental conditions in the future.

While there are clearly differences in the scope and definitions employed in the statistical surveys by countries, the incidence of full-time farm work, that is with agriculture as the main occupation, is less prevalent than part-time farming and its relative importance has declined over time. In the EU-25, of the 10 million people working in agriculture in 2003, 46% worked full-time. In Japan in 2002, 32% of the farmers worked full-time, while in the United States around 30% of hired farm workers worked 150 days or more per year. An important policy consequence of increased off-farm employment by farm households is increased reliance on off-farm income to maintain farm family well-being. For many farm households agriculture is no longer the only income source and often no longer the most important income source.

Another important feature of structural change is the increasing tendency to add value to the product. Rapid advances and adoption of new technology in agriculture and changes in consumer preferences have led to more complex patterns of processing and distribution of farm output. In addition, regional location, particularly in European countries, is often tied to products with a specific label and the characteristics and processing techniques are specific to the regions concerned.

Notwithstanding the reduction in the number of farmers, agriculture's importance to the well-being of rural communities should not be understated. The relevance of the agricultural sector to the well-being of rural economy cannot only be encapsulated in developments in the number of persons directly employed by the farm sector. Agriculture is the predominant user of rural territory and its manifold functions constitute an important function in the rural landscape. Farm practices can have positive effects such as maintaining a particular form of landscape, biodiversity, or negative effects such as causing groundwater pollution. There is thus a widespread and growing awareness of the importance of the various linkages between farm practices, rural amenities and environmental sustainability.

TRENDS IN AGRICULTURAL POLICY

Governments have long intervened in domestic and international markets for agricultural products. Most countries utilize an array, often complex, of domestic and trade measures to support their agricultural sectors. These include price supports, quantitative restrictions on outputs or inputs, budgetary payments, trade barriers and subsidies on inputs, reflecting multiple policy objectives and changes in priorities over time. These different measures influence the flow of resources between commodity sectors and regions and consequently inputs used, farm structure, incomes and the rural economy. Agricultural policies have generally acted to increase input returns and resource use in agriculture. However the pattern of this increased resource use and returns differs, largely depending upon the type of agricultural policy considered. Moreover, agricultural support policies resulted in excess of resources, particularly labour and land remaining in agricultural production, thereby boosting agricultural and rural populations, or at least curtailing their rates of decline.

Notwithstanding the aforementioned potential positive contribution of agricultural support policies to rural economy, a number of factors may reduce or even offset this benign effect. First, although in the absence of production-linked support, the incentives for rural to urban migration might have been much stronger, it is unlikely that such support would have been the most effective means of preventing the rural exodus and reversing the long-term trend of young people leaving the countryside in many rural areas. Second, the degree of support varies by commodity. Resources may have been attracted into less labour-intensive products (*i.e.* more land and or capital-intensive products). Third, the incentives created by agricultural support have not facilitated employment; on the contrary they have favoured more capital-intensive farming methods. Fourth, the policies were unable to prevent the widening of disparities in the agricultural sector and in the rural areas. In fact they may have even exacerbated such disparities because most of their benefits are conferred to the most affluent rural areas. Fifth, production-linked policies are neither very efficient nor very effective in correcting market failures as

positive externalities of agriculture are mostly related to the continuance of farming rather than on the intensity of production. Further, by bidding-up land rents, farm support might have deterred other non-farm industries from locating in rural areas. In general, policies designed to retain resources in agriculture effectively contributes to the problem of excess capacity in the sector, which in turn lowers the rate of return on farm labour.

The balance of support is either capitalised into asset values (land) or transferred up or down the food chain (input suppliers, processors, distributors). Because so much of the support is reflected in higher land values, the result over time is a higher cost structure and reduced farm competitiveness.

Broadly speaking, agricultural policy measures that are directly related to rural development could be grouped into three main categories:

- measures aiming at restructuring and increasing competitiveness of the agricultural sector;
- measures aiming at providing environmental services and for land management,
- including support for specific areas; and
- measures aiming at wider rural development.

TRENDS IN RURAL DEVELOPMENT POLICY

Following on from the discussion of the evolution of agricultural policy, the aim of this section is to identify some of the key policy (re-)orientations that are emerging as a result of the increased focus on rural development policy. The changes observed concern both 1) shifts in the policy focus and 2) adjustments to the governance structure, in particular:

- a shift from an approach based on subsidising declining sectors to one based on strategic investments to develop new activities;
- a focus on local specificities as a means of generating new competitive advantages, such as amenities of an environmental or cultural nature or traditional or labelled local products;
- more attention to quasi public goods or "framework conditions" which support enterprise indirectly;
- a shift from a sectoral to a territorial policy approach, including attempts to integrate the various sectoral policies at regional and local levels and to improve co-ordination of sectoral policies at central government level;
- decentralisation of policy administration and, within limits, policy design to those levels; and

- increased use of partnerships between public, private and voluntary sectors in the development and implementation of local and regional policies.
- The rationale for a territorial approach to rural policy is expressed in various ways of which the following are the most common:
- many but not all rural areas still suffer from relatively low incomes, high unemployment and under-employment, poor quality of employment, outward migration of young people, and low-quality services which raises localised issues of equity and cohesion;
- some rural areas contribute to the quality of life of society as a whole because they contain important public or quasi-public goods such as a clean environment, attractive landscapes and cultural heritage; relatively socially integrated and "safe" communities, and it is difficult or impossible to capture the relevant values through the market;
- the interests of the majority of rural citizens, and even most farm families, are only partially served by sectoral policies, since they increasingly depend on employment and income generated by a complex mix of interacting economic activities;

In some cases at least, these arguments are about local market failures – the best known examples being those concerning public and quasi-public goods, of which the natural and cultural heritage are most usually cited. But they may also be couched in terms of imperfect knowledge or information, restrictions on access to resources and services and other "market imperfections", as well as in terms of social goals of equity, political cohesion or sustainability.

Even though in many countries, sectoral policies, centralised sectoral administration of them and subsidies to maintain existing activities remain very important, there seems to be a consensus that rural development policy is evolving. The emphasis on rural development policy is partly a result of concern that traditional agricultural policies, notwithstanding the positive contribution of agricultural support policies to rural economies, are not, or are no longer, the most efficient means by which to achieve rural development objectives.

The new focus on rural development policy implies moving from agriculturally-based rural development to broader, place-based rural development. In the past, public policies have tended to focus on rural areas *en bloc* – treating them as homogenous, with uniform problems and similar opportunities. Such an approach no longer reflects the reality of diversity among rural areas. As a result, governments are increasingly recognising the need for a more locally tailored or "territorial" approach. Thus, the new course of action in many countries, has led to tentative to replace large-scale support programmes with a more selective approach using packages of co-ordinated programmes focused on the development of the economic tissue of underdeveloped regions and rural zones. These forms of aid

tend to offer collective services either to improve the quality of the business environment or build social and human resource capital thereby indirectly helping local enterprise.

The rural development strategies being introduced by member governments are, therefore, based on a multisectoral and global approach to the rural economy and take into account the interdependence of its components and the diversity of its structures. The recent trend to integrate sectoral action plans into more general territorial plans means that rural development is now viewed in most countries as being spatially oriented and a cross-sectoral policy area, which takes into account such issues as efficient and well-targeted agricultural policies, active labour market policies, the creation of new market opportunities, alternative uses of land (both within and outside agriculture), protection of the environment and improvement of the quality of life, the provision of services and infrastructures, and the need to address human capital issues.

The most successful cases of integrated rural policies comprise some or all of the following elements and policy objectives:

- efforts to reinforce rural economies, principally through diversification of economic activities;
- upgrading of transport and communications infrastructure, promoting networks of knowledge and expertise, supporting education and training, and increasing the attractiveness of areas for new enterprises;
- attempts to restructure agriculture through intensification, modernisation and increasing value added in productive regions, extensification and development of multifunctional agriculture in less productive regions, and internal diversification and quality products in areas of "traditional" agriculture;
- new ways of providing public services in rural areas, sometimes combined in service centres using information and communications technologies;

Bringing these different elements together into a multi-sectoral policy capable of promoting rural diversification and competitiveness, while increasing the quality of life of rural inhabitants, represents, to varying degrees, a challenge for most countries.

SUMMARY

The design and implementation of an integrated rural policy requires changes in the inter- and intra-governmental relations and between the public and the private sectors and the civil society. From an analytical perspective, relations between actors form along two different dimensions. First, a vertical dimension encompasses relations across levels of government from the supra-national level to the national and the local one. Within this dimension the role of different

institutional actors can vary substantially: in some countries the governance system is centred upon the national government, while in other countries a crucial role is given to regions or to a federal system. In the former case, a strong function of upper co-ordination has to be developed; in the latter case this should be efficiently complemented by co-ordination at the lower level. In regional or federal systems upper co-ordination does not lose its crucial role, it simply changes its function: it is more geared towards the definition of an overall policy strategy rather than towards the implementation of rural policies. The second key governance dimension is horizontal. The focus in this case is on co-operation mechanisms which need to be examined at both the central level of government (for example, between ministries) and at the local level (for example, between municipalities and other stakeholders).

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