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The contribution  
of rural community businesses  
to integrated rural development:  
“Local services for local people”

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## La contribution des coopératives rurales au développement rural intégré : de véritables services d'approvisionnement pour la population locale

**Résumé** – Les problèmes actuels des espaces ruraux européens impliquent moins des mesures sectorielles agricoles que des stratégies en faveur d'un « développement rural intégré ». Ainsi, la modernisation et la diversification des exploitations agricoles sont-elles souvent liées au développement d'une base économique plus hétérogène, comportant une part importante d'activités destinées à satisfaire les demandes résidentielles et récréatives. Cette stratégie suppose un haut niveau de coordination entre les différents agents économiques et, plus largement, avec tous les acteurs de la société locale. Cet article analyse la contribution des coopératives rurales d'approvisionnement au développement rural. Malgré des effets économiques directs et induits relativement limités, leur impact local est important en raison de l'activation des réseaux sociaux et institutionnels. Elles offrent effectivement des possibilités adaptées au service d'un développement rural intégré. Il ne s'agit cependant que d'un levier parmi une palette beaucoup plus large d'actions économiques, sociales et environnementales.

**Mots-clés** : développement rural intégré, coopératives rurales, impacts économiques, empreintes géographiques, action publique

## *The contribution of rural community businesses to integrated rural development: “Local services for local people”*

**Summary** – Policy responses to the problems facing rural areas across Europe have involved the replacement of “productivist” measures that subsidise agriculture to strategies promoting “integrated rural development”, emphasising the interconnections between various facets of the rural economy. Thus farm modernisation and product processing and marketing are linked with the promotion of a more diversified economic base centred on tourism and recreation and the maintenance of services for local residents. An essential element of this model is its reliance on collaborative actions involving a range of community or civil society actors. This paper examines the extent to which the operation of community-owned businesses in rural parts of the Yorkshire and Humber region in the UK corresponds to these ideals of integrated rural development. Evidence is presented on their geographical footprint with respect to both direct economic impacts and linkages with social and institutional networks. This allows an assessment to be made of the contribution that such enterprises make to rural economic development as a whole. The conclusion is that they do have the potential to assist integrated rural development, but only as a small part of a much wider series of economic, social and environmental actions.

**Key-words**: integrated rural development, rural community businesses, economic impacts, geographical footprint, volunteering

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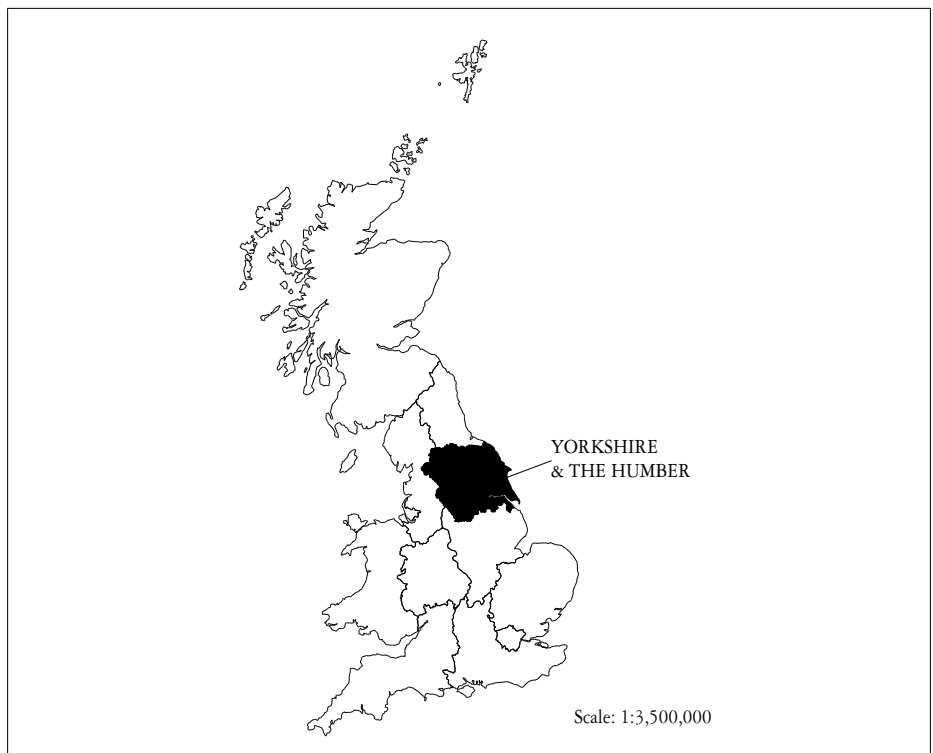
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This paper draws on evidence gathered as part of a research study undertaken in collaboration with the Humber and Wolds and Yorkshire Rural Community Councils. These organisations provide support to people and groups at grass-roots level who are working to improve the quality of life of their local communities. The study was funded by the regional development agency Yorkshire Forward, and was supported by the Countryside Agency. The full report (Gore *et al.*, 2003) may be found at: <http://www.hwrcc.org.uk/viewitem.asp?item=31>. An initial draft of this paper was presented at the Regional Studies Association International Conference, *Europe at the Margins: EU Regional Policy, Peripherality and Rurality*, in Angers (France), in April 2004.

**T**HIS PAPER examines the contribution of rural community businesses to policies of integrated rural development (IRD). IRD has come to prominence as an alternative to the agricultural production-based policy of Europe's Common Agricultural Policy (CAP) through emphasising wider economic, social and environmental objectives for rural policies over narrow agricultural policy objectives. IRD is based on the principles of indigenous development and growth, community involvement and decentralised government. At the same time there has been a growing interest in non-state, non-private sector responses to combating the problems of poverty, social exclusion and structural economic change. These responses have been termed the third sector, third system and social economy. There has also been considerable debate as to what might be included in this third sector (Evers and Laville, 2004).

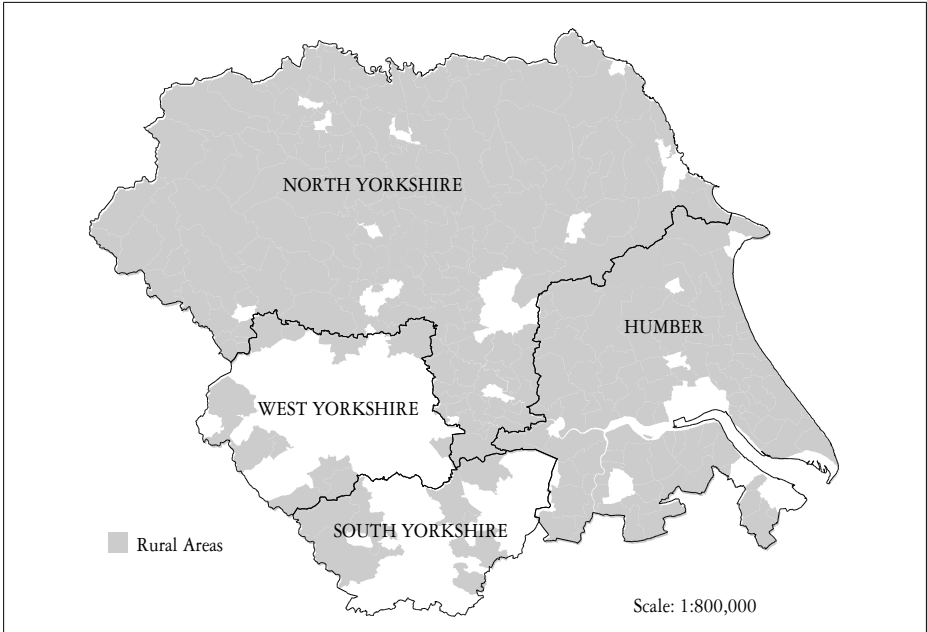
In this paper, attention is focused on the contribution of 'community businesses' to the rural economy of the Yorkshire and Humber region in the north of England (figure 1 shows its location within Great Britain). The article sets out a broad definition of these rural community businesses. The purpose for using a broad approach in the research on which the article is based was partly to ascertain the extent of such activity, and partly because it was a **formative** study at an early stage of a policy process. The intention was therefore to inform how IRD policies, as they emerged, should best target support.

Figure 1. Location of Yorkshire and the Humber



The Yorkshire and Humber region has a population of approximately 5 million and contains a mixture of urban and metropolitan areas with high population densities (focused on the cities of Leeds, Sheffield, Bradford, Hull and York) and extensive rural areas (see figure 2). The rural areas vary considerably in character. They include areas of intensive agriculture, pastoral grazing land, upland moors, former coal mining areas and parts of three national parks. The region comprises four sub-regions (West Yorkshire, South Yorkshire, North Yorkshire and Humber), with the latter two having the most extensive rural tracts.

Figure 2. Rural areas in Yorkshire and the Humber region



Source: Countryside Agency, 2002

Research for the paper was undertaken in 2003 and involved an initial scoping exercise to identify the scale and location of rural community-based businesses. This was followed by more in-depth case study analysis to understand and measure their economic and social contribution. The case studies used a Keynesian local multiplier to measure economic impacts. This falls short of a full multiplier analysis, in which the net impact would be mentioned, but in a formative sense is intended to inform the design of integrated rural development programmes.

The paper is divided into 5 sections. The following one sets out the theory and practice of integrated rural development, and the potential for community controlled businesses within it. Then, a functional typology of rural community businesses (RCBs) is elaborated which provides an operational definition. As indicated, this is intended both as a means to categorise the range of RCBs, as the basis for understanding how the contribution of different RCBs may vary, and to

provide an analysis of how RCBs are distributed across the region. After that, we present the evidence on the 'geographic footprint' made by RCBs in terms of their direct economic impacts. This allows an assessment to be made as to their contribution to local economic development. We then examine the linkages of RCBs to existing social, community and institutional networks, and through this draw out the social and economic benefits they bring to rural communities. The article concludes with an analysis of the potential contribution of RCBs to integrated rural development.

## Integrated rural development policies and rural community businesses

Some commentators argue that the most effective way to deal with the interrelated nature and the diversity of the features that comprise rural areas would be through "*‘bottom-up’ models of development which empower local communities to define their own needs and prioritise development schemes and projects*" (Ward and McNicholas, 1998, p. 29). This reflects dissatisfaction with traditional 'top-down' approaches which are seen as insensitive to specific rural circumstances (Ashley and Maxwell, 2001; Johnson, 2001; Terluin, 2003). Consequently, integrated rural development (IRD) policies linking economic, social and environmental actions have emerged as the favoured approach for the advancement of rural areas (OECD, 2003; Countryside Agency, 2005).

IRD is seen as a valuable mechanism in assisting rural areas of the European Union (EU) through the 'transition from subsidy' for agricultural production brought about by the continuing reforms of the CAP (Fitzpatrick and Smith, 2002). The reorientation of funding towards rural development is indicative that for most Member States agriculture is no longer the backbone of rural society. Instead, increasing prominence is being given to other issues such as environmental sustainability, food quality, animal welfare and the long term viability of rural communities (Ilbery and Bowler, 1998; Morris and Evans, 1999; Wilson, 2001). These gathered pace in March 1999 with the CAP reform agreement in Agenda 2000, which set out a strategy to establish the sustainable development of rural areas by bringing together all rural development measures into one single regulation (CEC, 1997). This is what is now known as the second pillar of the CAP, implemented under the guiding principles of decentralisation and flexibility of programming, thus allowing rural communities to shape their own development paths.

These IRD policies seek to address the contradictions and overlaps mentioned above by linking together economic, social and environmental actions with diversification of the economic base (Marsden and Bristow, 2000). This relates to the restructuring of the rural economy as a whole, while acknowledging the changing role of agriculture within it (OECD, 2003). The overarching principle is sustainability and in these terms IRD has been defined as: "*the process through which the economic, social, environmental and cultural resources of rural communities are organised in*

order to achieve and sustain the long term viability of those communities" (Fitzpatrick and Smith, 2002, p. 4). This "emphasis on sustainability reflects its potential to foster opportunities for economic growth by mobilising and better utilising human resources and developing linkages between different sectors" (Bristow, 2000, pp. 20-21). It involves harnessing the indigenous resources of an area, and co-ordinating local actors to promote a 'local collective good' through the integration of the different facets of the rural economy. This 'bottom-up' approach reflects a belief that rural communities are in the best position to respond to local needs, and so places decentralisation at its core. Thus, rural development is characterised by local participation in the formulation and implementation of objectives, and a preference for developing indigenous skills (Shortall and Shucksmith, 2001). It therefore follows that capacity-building, multi-sectoral partnership working, the development of institutional capacity and the availability of capital and the ability to exploit it are crucial.

Yet this commitment to 'localism' does not necessarily mean the abandonment of policies that can attract inward investment; on the contrary, evidence suggests that a synthesis of 'bottom-up' and 'top-down' approaches is most favourable. For example, Ray (1998, p. 87) has argued that the "*most successful LEADER programmes for the delivery of IRD have been those based upon the establishment of fairly solid development structures which link the local area and community to wider structures of governance*". Similarly, Terluin (2003) argues that because actors tend to have both local and external links, rural development can be seen as a complex mesh of networks and any analysis must stress the interplay between them. In other words, "*current trajectories of rural development and institutional construction and change mean that the regional level is increasingly seen as an appropriate and desirable spatial scale for IRD development and delivery*" (Bristow, 2000, p. 23).

Another key element of IRD is striking a balance between economic, social and environmental objectives. This highlights the difficulty of integrating disparate domains, the aims of which often appear as divergent rather than mutually reinforcing. Thus, whilst many recent rural programmes have certainly contained 'bottom-up' elements, it is questionable whether they have been fully integrated (Thompson and Psaltopoulos, 2004). This may be particularly the case in more deprived rural areas where there is greater pressure for a quick economic 'fix'. According to Pepper (1999), the dominance of economic considerations within some programmes stemmed from the notion that their function was to retain people in rural areas, and that economic development and job creation were the best means of achieving this. Conversely, an evaluation of Northern Ireland's Rural Development Council considered that it placed too much emphasis on the community development process and paid insufficient attention to social and economic regeneration (Shortall and Shucksmith, 2001). Overall, then, communities appear to focus on either economic or social and community issues, with initiatives incorporating the two being much rarer (Bryden *et al.*, 1997). Consequently, more recent EU initiatives, such as LEADER II and LEADER+, have sought to address these imbalances by placing greater emphasis on partnerships and networks of exchange (European Commission, 2003).

In this light, the tenets of IRD have direct relevance for the establishment and development of rural community businesses (RCBs). Their involvement in service provision and in supporting the active life of villages emerges strongly from the

study reported in this paper, especially in terms of mobilising volunteer activity and fostering social solidarity. There are also cases of RCBs contributing to economic diversification *via* group marketing schemes and tourist facilities. The examples studied also reveal innovative ways of combining financial and other resources in developing the scope of their activities. In other words, current EU policy on IRD certainly appears to be conducive to the expansion and development of RCBs.

## A definition and typology of rural community businesses

The purpose of this article is not to contribute to the plethora of definitions around the social economy and third sector. For this reason, the paper takes a broad definition, the basis and justification of which is set out below. Initial investigations in the case study region endorsed the findings of previous research that rural voluntary action, with respect to goods and service provision, tends to take the form of locally-run not-for-profit businesses, whose social benefit is seen as inherent in the activity that they undertake (Haugh and Pardy, 1998; Leeming, 2002). For this reason, the study reported here adopted the wider concept of 'community business'. Of course, this comprehensive approach brought with it the problem of definition. In fact, the term 'community business' has a wide and long-standing currency, although people have used it to denote different things in different contexts and at different times (Haugh and Pardy, 1998; Hayton, 2000; Leeming, 2002). Distilling their various components into a single definition suggested that such entities should be considered as:

*Community-owned organisations involved in trading activities that meet local needs and in which any surplus of income over expenditure is reinvested in the organisation to improve or widen the range of goods and services provided, or is used in other ways to benefit that community.*

The key elements are community ownership and trading. The former may encompass communities of both place (for example, village residents) and interest (for example, hill farmers). In terms of trading, the main qualification was for the business to be self-supporting on the basis of its economic activity, or to show evidence of aiming for and moving towards this status. This underlines the fact that there is a strong overlap between community businesses on the one hand and social enterprise and the social economy on the other, but that the two are not one and the same. This basic definition acted as a starting point for a more detailed functional typology of community businesses, which also incorporated possible activity types and economic impacts (see table 1). This was useful initially as a means of clarifying exactly what was to be examined, and subsequently as an aid in the identification of community businesses on the ground and as a framework for further research. In the context of UK company and charity law, such businesses may therefore take a series of forms, including private (for profit) businesses, community associations (registered with the Charity Commission), registered not-for-profit organisations, development trust associations, registered charities and faith organisations which have some trading activity. The key element for our research is that the business has a strong element of local community control and that surpluses (profits) are reinvested into the business or local community.



Table 1. Typology of rural community businesses

Function	Business Form
A: Local Goods	Village shop Post office Pub Cafe Food co-op/Network
B: Local Producers	Farm Food Producer Craft Manufacturer Other Producer
C: Transport Services	Bus Service Community Transport Car Club Rail-related Services
D: Social Services	Childcare Elder care Support services (respite, etc.) Education/Training
E: Local Services	Credit Union Post Office (see above) Tourist Facility/Attraction Recycling Service
F: Intermediaries	Farmers' Market Craft Market Marketing Scheme/Co-op Hire Service Business/Service Centre

The third key dimension of a RCB is its rural location. This drew upon a ward-based definition of rural Yorkshire (Countryside Agency, 2002; figure 2) to determine which businesses could be studied in more detail.

An extensive scoping exercise identified 90 RCBs operating within the Yorkshire and Humber region. More detailed investigation revealed the wide-ranging nature and legal structures of potential candidates, and an extensive array of methods by which community ownership had been secured. These included classic voluntary associations, representative bodies such as Parish Councils, local residents' groups and interests acting as majority shareholders in conventional businesses.

Table 2 summarises the distribution of RCBs by functional type and sub-region. Almost 60 per cent are involved in providing local goods, local services or transport services. There is also a markedly uneven spread across the region. While the majority of RCBs are located in North Yorkshire, which has the most extensive rural area of the four sub-regions, rural Humber emerges much less favourably than might be expected, with only 5 examples identified. It is noteworthy that many respondents suggested that the reasons for these differences were twofold: a longer history of supporting community businesses (North Yorkshire) and greater opportunities for

support grants (in particular, South Yorkshire). In this sense, the Humber sub-region appears to have been doubly disadvantaged.

Table 2. Number of community businesses by type and sub-region

Sub-region	Local goods	Local producer	Transport services	Social services	Local services	Intermediaries
Humber	-	-	3	-	1	1
North Yorks.	9	8	11	10	9	5
South Yorks.	2	1	2	6	8	1
West Yorks.	5	-	2	1	3	2
Total	16	9	18	17	21	9

*Note:* Some businesses undertake multiple functions but have been classified according to their principal purpose, for example a pre-school playgroup running a cafe as well will appear under social services.

From this brief review, it is evident that in most cases the emergence of rural community businesses has been a response to a community's perceived need for essential services. For instance, the community-owned (and run) cinemas identified in North Yorkshire have been developed as a direct response to the lack of accessible alternatives for many rural residents. Similarly, community childcare services such as playgroups and out-of-school clubs are found where there is a lack of public or private provision, due mainly to underdeveloped structures of provision and a consequent inability of mainstream organisations to respond to demand. Small customer bases and the related lack of profitability are clearly major factors in the decline of village services, especially shops, post offices and banks.

In other words, rural community businesses have generally developed where market failure or lack of a market response exist, and in this sense are providing extremely important goods and services, which may be crucial to the everyday functioning of rural society. At first glance, then, they would appear to dovetail neatly with the principles of IRD, since they represent ways of organising the resources available to rural communities as a means of sustaining their long-term viability. The specific nature of their contribution to these economic and social goals, and its relevance for IRD, is the subject of the next section.

## Measuring the contribution of rural community businesses

### Economic impact

Many proponents of community businesses, whether in urban or rural areas, have claimed that they are an effective vehicle for retaining money in the local economy. Thus, Ward and Lewis (2002) have argued that economic activity which is owned and controlled locally serves to increase trading between local companies and people, reduce the dependence on external trade (*i.e.* from imports) and may help to develop

an export base. In the terminology of Keynesian economic analysis, this is referred to as the internal blocking of the multiplier. In effect, the many types of RCB will seek to exploit the local multiplier process or else to systematically increase the size of the multiplier by directly influencing the critical component involving the marginal propensity to consume locally produced goods and services. In most cases, RCBs are owned and operated by the local community and trade on its behalf. Such businesses clearly have potential for raising the local multiplier, by retaining profits there, hiring (and paying wages to) local residents, and engaging in activities which retain spending power within local monetary flows.

Evidence from the Yorkshire and the Humber study can be utilised to illuminate the likely local economic impact of rural community businesses. This is drawn from case studies of 20 such businesses across the region, selected from the 90 RCBs identified in the initial scoping exercise using a stratified sampling procedure, so that the number of case study businesses of each type was approximately in line with its proportion of the total number. The sample was also drawn so that activity in each of the four sub-regions was included. An important finding from the study was that, as well as pursuing a wide range of activities, RCBs also have adopted different legal status and forms of ownership and control. The different legal status include charities, associations, companies limited by guarantee and public limited companies. The different forms of control include producer interests (*e.g.*, local farmers), immediate communities (*e.g.*, village residents) and wider geographic areas (*e.g.*, residents of a long valley connected by a transport link).

### **Inputs into the rural economy: Exports, investment and government spending**

Our case study methodology used component parts of local Keynesian multiplier analysis as a means of constructing an exploratory and descriptive analysis of their contribution to the local and regional economy. Research with case study RCBs involved interviews with their managers together with analysis of company accounts (and other financial information where available). From this it was possible to identify in broad terms the proportion of different elements of the local multiplier (*e.g.* share of exports comprising turnover). However, this evidence was insufficiently robust to support numerical implementation of the full model, so the findings presented in this section are necessarily indicative and illustrative.

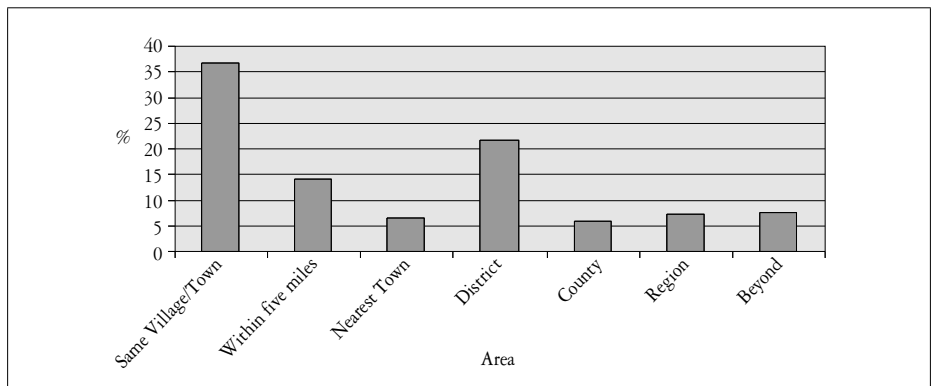
It should also be stressed that the rural community businesses displayed markedly heterogeneous characteristics. For example, the sample of 20 case studies included the following types of business:

- Village shops;
- Transport services;
- Childcare provision;
- Leisure activities;
- Produce marketing schemes;
- Product and material recycling.

Authors such as Armstrong and Taylor (2000) have developed multiplier models at a local geographic scale. Armstrong and Wells (2001, p. 263) highlight that “*genuine multiplier effects can only arise where money is injected into the local economy from outside. Orthodox economic theory identifies three main injections into the circular flow of income, exports, investment (from outside investment – autonomous investment) and government spending*”. For Armstrong and Taylor, analysis of multipliers should focus on these three components, which are a genuine injection into the local area’s circular flow of money.

Taking exports first, the case studies suggest that most rural community businesses face serious difficulties in generating income from outside their immediate area. Figure 3 shows that over half of their customers either reside in the same town or village, or are located within five miles. This reflects their strong local market serving role. However, there is considerable variation between the businesses. Thus, six organisations have a more dispersed customer base, albeit one still confined overwhelmingly to the same region. At the other extreme, four businesses have over 90 percent of their customers located within five miles. Only a few customers are out-commuters, spending some money locally from earnings gained outside the immediate area.

Figure 3. Location of customers



Notes: 1. Data extracted from case studies. 19 out of 20 case studies provided information on the location of their customers. 2. Case study businesses were asked to comment on the proportion of their customers from a particular area. 3. Five miles is approximately eight kilometres. The other categories refer to different administrative and spatial units.

There are probably three main reasons why rural community businesses have a weak export-earning profile. Firstly, they exist almost exclusively in the service sector, generally providing personal services or else services to the local community. Such enterprises are inevitably destined to be non-export earners. Secondly, some RCBs rely on income from the provision of contracted social services, where they operate effectively as local monopolies in what they do. This leaves a final group of largely commercial businesses providing goods and services over a much wider geographic area. These represent an exception to other RCBs in that they genuinely do bring in external contributions to the local circulation of money.

Two main defences can be made of this weak export performance. First, if export earnings are calculated at a much smaller geographic level, such as the village, then it could be argued that activity is being diverted towards specific rural communities. However, the subsequent analysis of the location of competitors shows that 65 per cent are located within the same district (see figure 4). In other words, in many cases this diversion is likely to lead to high levels of displacement even at this relatively restricted scale.

There may be cases where rural community businesses have introduced competition where it was previously absent. In such cases it could be argued that this displacement should be seen in a positive light, especially if it involves additional provision in a market dominated by a single player such as a large supermarket. Such developments can be interpreted as beneficial in terms of competitiveness and choice. However, this depends on the specific circumstances of each case, and a judgement can only be made on the basis of firm and detailed market intelligence. Sadly it was not possible to gather this information as part of the study. Even so, making the case for RCBs in this way presupposes that they are able to act as the most effective antidote in limiting the monopoly powers of supermarkets and other large corporations. In certain situations stricter planning policies or use of other legislative provisions might be more effective.

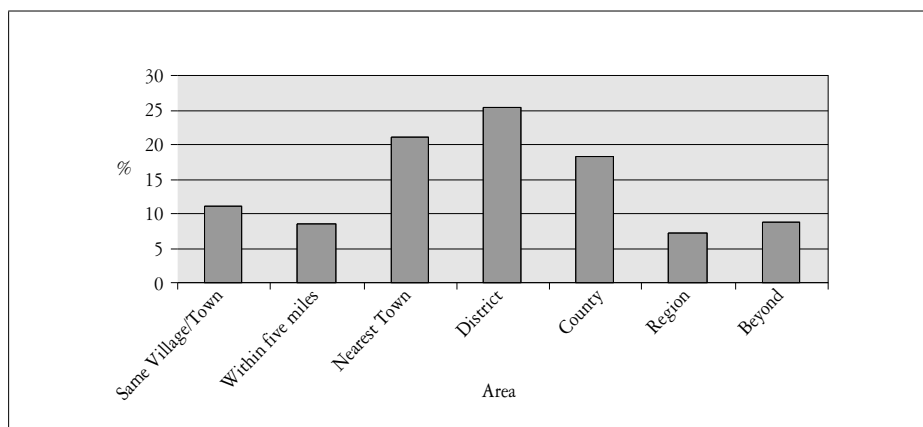
The second defence of displacement is more powerful. It suggests that targeting businesses, which support local customers, prevent imports into the rural community (*e.g.* from a supermarket or a furniture warehouse). In terms of economic impact analysis this appears to be a valid argument. If the goods and services being provided to local customers represent import substitution, then the money taken by the enterprises is not simply recycled local money, but is genuinely retained cash which would otherwise have departed from the rural community *via* one of the three main **leakages** from the circular flow of income (*i.e.* imports – the other two being taxation and savings). Import-substitution is a perfectly logical policy to follow and has long antecedents in development policy for less developed countries and in regional policies in countries such as the UK.

The critical question, therefore, is whether rural community businesses are genuinely stimulating import-substitution within rural communities. Here the evidence is rather mixed. At one end of the spectrum, there is a significant group of RCBs (*e.g.*, the auction marts and the tourist facilities) that have quite dispersed customer bases. Elsewhere, however, some local services (*e.g.*, village shops and furniture recyclers) have customer bases in a tightly defined geographic area. This contrasts significantly with community businesses operating in disadvantaged urban environments which overwhelmingly do not capture a significant share of local markets with most customers coming from outside the targeted community (Armstrong and Wells, 2001; Ward and Lewis, 2002). At the same time, the goods and services offered by RCBs will only be genuinely import-replacing if they compete with goods and services of firms **located elsewhere**.

Figure 4 shows the location of the main competitors for the case study RCBs. When combined with figure 3, the evidence suggests that initiatives supporting

rural community businesses are faced with some stark dilemmas as far as the economic growth dimension of IRD is concerned.

Figure 4. Location of competitors



Notes: 1. Data extracted from case studies. 2. Case study businesses were asked to comment on the proportion of their competitors from a particular area. 3. Five miles is approximately eight kilometres. The other categories refer to different administrative and spatial units.

– The export-oriented group of enterprises has the merit of being genuine ‘export-earners’ for the rural communities in which they are located, at least in the sense of serving customers outside the area. This group is unlikely to be in competition with local firms and therefore displacement, typically of jobs or sales, is relatively limited. However, there are relatively few RCBs of this type, and they play a limited role in sustaining the rural social fabric and in promoting social capital. However, they could play a variety of roles in terms of IRD, such as local job creation, economic diversification, sectoral linkages and human resource mobilisation. If rural development policy focused on this group, the multiplier would be increased (because there are more exports), but the community empowerment ethos would be at worst violated, and at best weakly supported.

– Small-scale locally owned RCBs appear to be doubly disadvantaged. They do not have the merit of being export earners on a large scale, since most customers are located within five miles. Moreover, they are not great import-substitutors since their competitors are generally located within the same district. Customers are effectively shared out between firms, and there appears to be a high level of displacement. In other words, such businesses are largely irrelevant in terms of the local multiplier since what cash they do earn comes largely from local residents.

– Finally, there is a small group of social enterprises, which do not appear to have any competitors at all. They are effectively local monopoly providers of social services and employment training. The purpose of these initiatives is primarily social rather than economic, and, apart from assisting in the task of developing ‘indigenous skills’, their potential contribution to IRD remains opaque. Their money typically represents local public expenditure, and it is often difficult to discern how much of

this is genuinely additional grant aid, and how much is existing spending that has been redirected to a different provider. Certainly they will inject some money into the local multiplier, since they employ local residents to deliver services, but there are questions about how extensive this is.

The second input, external investment, by definition plays an insignificant role in the development of rural community businesses. Even those structured like conventional businesses, with share capital, draw the vast majority of their finance from local sources. Where there are external resources made available for RCB establishment and development, this emanates from the final input, namely, public funding. Table 3 shows the wide range of funding sources that rural community businesses have accessed. The case studies indicated that nearly all RCBs have obtained some sort of public funding, although some have successfully managed without grants, typically relying on voluntary action. In volume terms, the main recipients of financial assistance have been the larger social enterprises and commercial (producer controlled) businesses, very often from multiple sources. The village-based RCBs, by contrast, typically secured small grants, rarely more than £5,000 (7,250 €), and often for start-up support, from local agencies such as the District Council. Operational costs are then met mainly from trading income, although in several cases volunteer support is also significant. For other RCBs, typically employing from five to fifty people, support came from major grant awarding bodies. The main examples are shown in table 3. These funds were awarded on a project basis and either for start-up capital or for short-term revenue expenditure. The scale of these grants ranged from £20,000 (29,000 €) up to £450,000 (653,000 €) for a major capital project.

Table 3. Sources of funding

Public grants	Public sector
Single Regeneration Budget	Health authority contracts
Yorkshire Forward Funds (Regional Development Agency)	Probation service
Local authorities (for example small grant schemes)	Community service contracts
Parish Councils	Social services departments
National lottery	Department for Education and Skills
Structural funds programmes	Royal Mail sub-post office contracts
Coalfields Regeneration Trust	
Volunteer bureau	
Countryside agency (Vital Villages Initiative)	
Landfill tax	
Rural Enterprise Scheme	
Private trusts and companies	Private income
Tudor Trust	Fund raising and donations
Lloyds TSB Trust	Membership fees
BIFA Grant	Bond issues
Scarman Trust	Share issues
Ecology Building Society	

Only certain types of local authority support are likely to represent 're-cycled' money and therefore should not be seen as an input into the local economy. All other grants can be seen as net injections of money into the local economy. However, there is an irony in that IRD and rural development policies generally place a strong emphasis on local renewal, local empowerment and indigenous development, yet the bulk of injections seem to be in the form of funding from external public bodies and charities. However, the resulting funding can all be included as a net input and therefore a welcome addition to the impact of rural community businesses.

An important element in the sustainability of community businesses concerns securing longer-term funding relationships with the public sector. Some organisations, typically social enterprises such as development trusts, sheltered workshops and childcare schemes, are beginning to agree longer-term contracts. These are typically with local public sector bodies, such as social services departments, health authorities and training agencies. Where such contracts have been agreed, they largely represent the recycling of money within the locality, and not a net financial injection.

### **Retention of inputs within the local economy: The effect of consumption and imports**

Turning from the inputs into the economy and to the components, which comprise the multiplier itself, it is necessary to consider the marginal propensity to consume, the marginal propensity to import, the marginal tax rate, and the induced government spending rate *via* welfare payments. Previous multiplier research has revealed that of these components it is the combination of **consumption and imports** (*i.e.* the marginal propensity to **consume locally-produced foods and services**) which is critical to the eventual multiplier impact (Armstrong and Taylor, 2000). Other research on the multiplier has revealed:

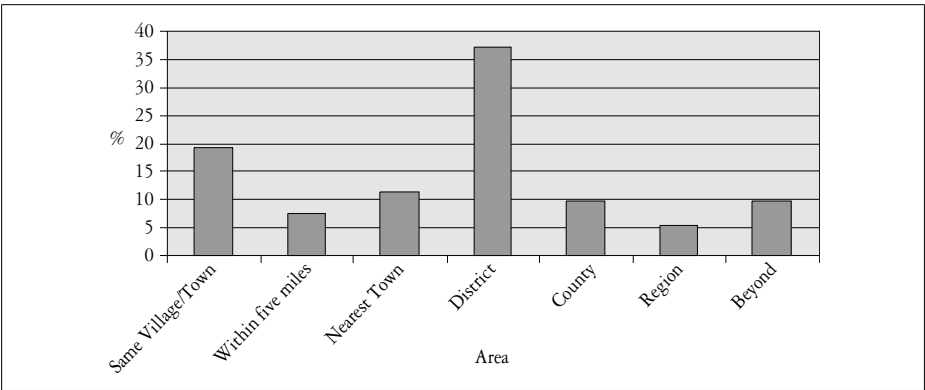
- The vast majority (around 80 per cent) of income and employment for small open economies occurs during the **first round** of the process (Sinclair and Sutcliffe, 1984).
- It is important to distinguish between **indirect effects** *via* supply chain purchases from other businesses in the local area, and **induced effects** caused by local residents finding that they have more disposable income to spend as a result of the multiplier. (Armstrong, 1993; Armstrong and Taylor, 2000).
- At very local levels, two leakage routes exist in addition to the usual ones of savings, taxation and imports. These are the tendency of local residents to make shopping trips to more distant centres; and the presence of in-commuters in the local area (who take their earnings out of the area to spend elsewhere) (Armstrong, 1993; Armstrong and Taylor, 2000).

The case study evidence provides an indication of the first round indirect effects of RCBs. In particular, detailed information on their supply chains enables a partial descriptive analysis to be made. Figure 5 shows the location of first round suppliers. From this it can be seen that the majority of RCB suppliers are located within the same district. The considerable number of suppliers located in the same village and



town is rather surprising. However, the figures may mask significant issues around volume. Location of suppliers has been used a proxy for supply chain linkages, rather than the volume or monetary value of purchases. When the latter were explored in qualitative terms with respondents, it emerged that most supplies in money terms were drawn from within the same district, but that there were also significant numbers of specialist one-off cash purchases which were made from outside the district (often at the start up stage).

Figure 5. Location of suppliers

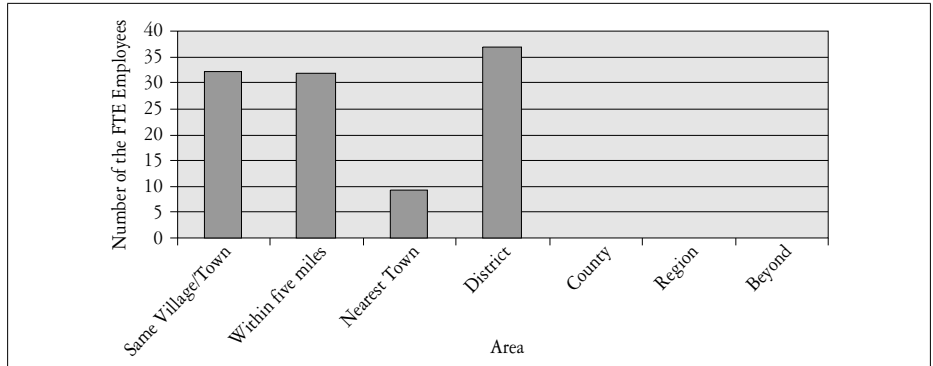


Notes: 1. Data extracted from case studies. 19 out of 20 case studies provided information on the links with suppliers. 2. Case study businesses were asked to comment on the proportion of their suppliers from a particular area. 3. Five miles is approximately eight kilometres. The other categories refer to different administrative and spatial units.

However, even when goods are purchased locally, they are likely to have been imported. In these cases Armstrong and Wells (2001) have estimated that 90 per cent of the price paid leaves the area. Moreover, a considerable proportion (around 37 percent) of employees of rural community businesses are in-commuters from the wider district (see figure 6). This contrasts with community businesses in disadvantaged urban areas where over 50 per cent of employees reside outside the same neighbourhood (an area which probably has a similar population) (Armstrong and Wells, 2001). The difference can probably be explained by distance and the economic role some localities may develop.

Taken together, these observations suggest that there is mixed evidence as to the effectiveness of rural community businesses in spatially targeting economic benefits. The main reason for this is that rural economies do not operate as closed entities, but rather work on a very open basis *via* their myriad external linkages. Exceptions to this are twofold. Firstly, some RCBs are effective in serving local customers; and, secondly, most recruit the majority of their employees locally. However, the wide-ranging nature of their activities and functions means that examples can be found of how the local multiplier is blocked, of import substitution, of local service provision and of local employment. However, when aggregated, the picture is much more confused and difficult to generalise. This reflects the diverse aims and aspirations of RCBs, and to a certain extent this fits well with the amorphous nature of IRD as a policy approach.

Figure 6. Residential location of employees (full time equivalents)



*Notes:* 1. Data extracted from case studies. 17 out of 20 case studies responded that they contributed directly to employment. 2. Full time equivalents (FTEs) are used as a standard measure of employment. FTEs assume a 35-hour or more working week. Part time jobs are counted as a proportion of FTEs based on the number of hours worked each week. Seasonal and temporary jobs are also expressed as a proportion of an FTE depending on hours worked. 3. Area refers to the residential location of employees. Where the employment is based in a town, responses for 'nearest town' were recorded as district. 4. Five miles is approximately eight kilometres. The other categories refer to different administrative and spatial units.

## The social benefits of rural community businesses

So far a traditional welfare economics approach has been used in a narrow sense to examine the economic impact of RCBs. A fuller social cost benefit analysis would also consider environmental and social impacts. However, such matters were not the focus of the Yorkshire and the Humber study. Nevertheless, some evidence was collected on the social benefits of RCBs, particularly in the form of volunteer involvement. Volunteering has been identified as a key indicator of civic engagement (Kendall, 2003), and some of the principles of IRD, such as decentralisation, participation, local identity and culture and the development of indigenous skills, all have relevance here, and there may be economic benefits as a result (Williams, 2002).

### Volunteering

The level of volunteer activity in RCBs ranges from zero and unimportant to all-encompassing and indispensable to the operation and survival of the business. Only six of the case study examples draw on no volunteer support, often because they are run as conventional businesses or have reached a certain scale and have a full complement of paid staff. Many smaller RCBs rely heavily on a few volunteers, and this is recognised as a factor, which could undermine them in the long term if no-one can be found to replace them if they leave. However, some village-centred RCBs

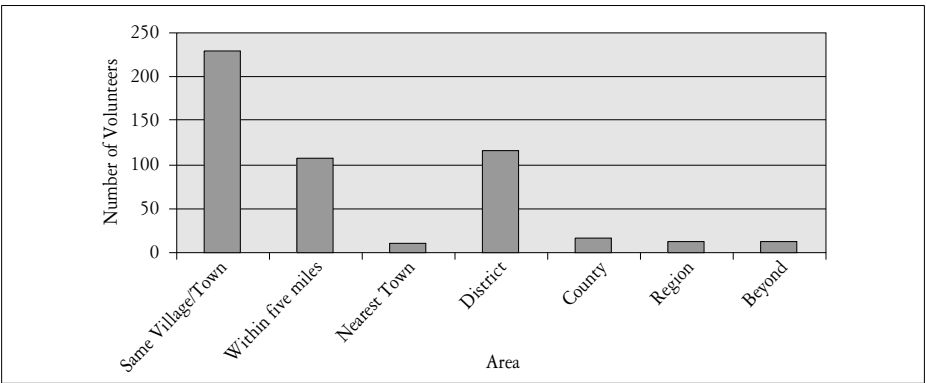
involve fairly large numbers of active volunteers (between 10 and 25 in this study). They provide a range of skills as well as their time, and are often engaged through local village forums. Three cases reported even greater numbers. However, one of these was a local exchange and trading scheme (LETS) initiative, in which participants act as suppliers and consumers who forego payment, rather than as volunteers.

Figure 7 reveals that nearly 67 per cent of volunteers involved in running and assisting RCBs reside within five miles of the business. This is a greater level of concentration than for employment, although there appears to be a similar set of explanatory factors:

- Volunteering is normally fitted in around other activities (close proximity to home is therefore required);
- It can be difficult to travel to the location where volunteer activity is provided; and
- there are normally no financial payments or support to cover travel costs.

However, of far greater significance is the fact that volunteering is a ‘community’ activity, which in the case of rural areas will most frequently centre on a village.

Figure 7. Residential location of volunteers



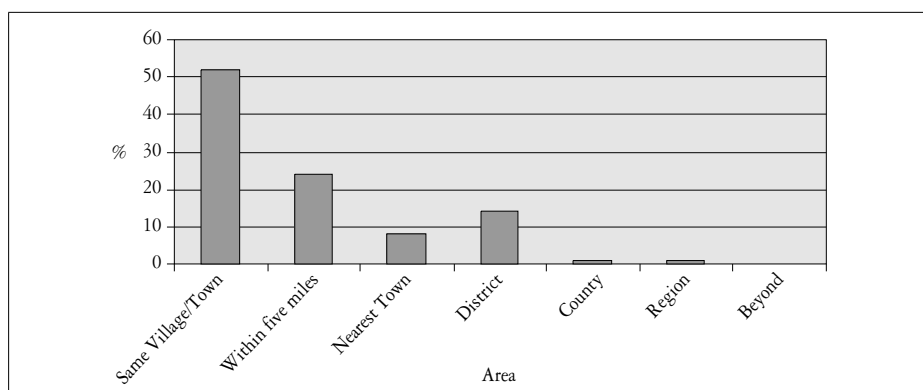
Notes: 1. Data extracted from case studies. 14 out of 20 case studies responded that they used volunteers in the course of running the community business. Volunteers were not counted who were involved as board members or in the setting up of the initiative. 2. The number of volunteers represents the total number of people who regularly volunteer and not full time equivalents. Some allowance is made for occasional volunteers (for example volunteering on a seasonal basis). 3. Area refers to the residential location of volunteers. Where the business is based in a town, responses for ‘nearest town’ were recorded as district. 4. Five miles is approximately eight kilometres. The other categories refer to different administrative and spatial units.

Beneficiaries

Five of the case study businesses support beneficiaries. These are people or groups who receive a service at zero or substantially reduced cost. Figure 8 shows that 52 per

cent of beneficiaries are located in the same village and 76 per cent within five miles. This reflects the ability of businesses to target client groups. Two organisations operate across a district, providing services for local authorities and social service departments on a rolling annual contract basis. To some extent these are monopoly providers of a particular service and appear to combine a social purpose with some small-scale economic activities, typically through trading.

Figure 8. Residential location of beneficiaries



*Notes:* 1. Data extracted from case studies. Five out of 20 case studies provided information on the location of their beneficiaries. 2. Case study businesses were asked to comment on the proportion of their beneficiaries from a particular area. Beneficiaries were defined as individuals, groups or other businesses which benefited from the provision of goods or services provided either free of charge or at a substantially reduced rate. 3. Five miles is approximately eight kilometres. The other categories refer to different administrative and spatial units.

## Community involvement

Reflecting the variety of RCBs in the case studies, community involvement takes a number of different forms. Typically this is reflected in the status, legal form and purpose of the organisation, and this in turn reflects the different types of 'community' that are represented. Four broad types of involvement were found which cut across the different goods and services provided:

- Area-based and controlled RCBs: This category accounted for the largest proportion of case study businesses. In general such RCBs have been set up by a group of residents either from a single village or from a group of neighbouring villages. This form is typical where the local community has responded to the withdrawal of a local service (for example, a bus service or local shop) or has identified the opportunity to provide a new service (for example, childcare). This form of rural community business tends to be highly inclusive of all residents or a group of residents (for example, parents with children).

- Social enterprises with a wider social purpose: Other RCBs, although providing services locally, often have an arm's-length or mediated link to a geographic community or a community of interest, even though most of their services may be

delivered locally. This type of business is typified by sheltered workshops providing support to groups with specific needs (due to learning difficulties, mental or physical health needs), or providing a service across a community (for example, furniture recycling schemes).

- Intermediary businesses owned by other businesses or stakeholders: The agricultural auction marts are the best example of these. They typically involve auction businesses diversifying into new areas of activity, which could provide a greater return for shareholders. The shareholders are drawn predominantly or even exclusively from the agricultural production sector, and hence form a distinct community of interest.

- Community-linked commercial businesses with a market serving role: These businesses have an arm's-length relationship rather than direct ownership and control links with the local community. Here the primary relationship with local residents, members or other businesses is a trading one. One model for this is where a local community-based organisation owns the premises but leases it out on a contractual basis to an individual or firm who then runs the business on a commercial footing. The prime example in the study is a combined post office, shop and cafe operating from a building owned by the local Parish Council.

These different types of RCB were found to have quite different economic and social effects on rural areas and they were found to have differing support needs (including financial aid and business advice).

Two common features of the case studies, regardless of the type of business examined, are the leadership of the organisations and the capacity at their disposal. These two factors appear to have a strong bearing on the relative success to date of the organisations and the likelihood that they would be sustained into the future. Leadership is exercised either by an individual or group of individuals (in the case of locally controlled businesses), or by a particular intermediary organisation or business (as in the case of the auction marts). In the latter case they are typically operating in an entrepreneurial fashion to develop new markets for their stakeholders (local farmers).

In general, rural community businesses can be seen to have stronger social than economic benefits. Their strength lies in their ability to mobilise local volunteer support. This has the potential to bring to the fore many hitherto untapped skills and resources. For the businesses themselves it brings operating advantages such as a lower cost base and high levels of commitment. There may be associated risks as well, especially for those RCBs that rely on a small number of volunteers. Those that are able to spread the load across a larger group have a greater chance of long-term survival. However, very few RCBs had direct beneficiaries, and those that did were less likely to feature volunteers. This points not only to the difficulties of establishing and running social enterprises in rural areas, but also to the clear distinction that exists between volunteer-based RCBs on the one hand and beneficiary-focused social enterprise on the other.

### ***Conclusion: Do RCBs contribute to integrated rural development?***

This paper has sought to examine the contribution that RCBs can make to integrated rural development. It has argued that IRD is essentially a response to the failings of post-war rural development policies, which have separated a primary focus on agricultural production from other aspects of the rural economy. Our empirical study draws on case study data from one region in England (Yorkshire and the Humber). It should be stressed that this is a relatively small-scale study and further cross-regional and cross-national research is required. Furthermore, the paper uses a broad definition of rural community businesses, and one which encompasses both the social economy and small commercial businesses, which have strong local community ties.

Many rural areas continue to face myriad problems, ranging from weak economic prospects to the withdrawal of services, issues of access and the undermining of their social fabric. IRD represents a response to these problems. Within an overall aim of securing sustainable development, IRD seeks to provide a model for indigenous growth and development, to increase community involvement, and to secure more decentralised forms of governance. Drawing on the evidence and analysis presented above, an assessment can now be made of the contribution that RCBs make to each of these three aims.

**Indigenous development and growth:** There is mixed evidence as to the contribution of RCBs to this aim. This, in part, reflects the plethora of different types of RCB. For small community controlled operations, the contribution to job creation and economic growth appears to be limited. In fairness, this is rarely their core aim. However, larger operations, whether social enterprises or commercial trading businesses, do appear to be generating additional jobs. In the case of commercial trading businesses, such as the auction marts or tourist businesses, they are able to draw on existing business support mechanisms. The small number of businesses in this category can be genuinely held to be export earning, bringing money into the area. The case of social enterprises, such as development trusts, is rather different. They are essentially local monopoly providers of social and employment services and their economic effects will largely be indirect: That is, through beneficiaries securing employment or moving closer to the labour market.

**Community involvement:** This is the facet of IRD to which RCBs make the most significant contribution. By definition, most RCBs are owned and controlled in some way by local people. Moreover, they provide a focal point for attracting volunteers, many of whom bring a wide range of skills into play. RCBs therefore appear to contribute to strengthening rural civil society. However, this observation should be tempered by caution, as this aim might be more readily achieved through other approaches, such as the establishment of a local volunteer bureau. There may also be opportunity costs for residents in choosing to support a RCB. What is most encouraging in the analysis of volunteer support is that it is seen frequently to be a *de facto* substitute for public support.

**Decentralised governance:** RCBs operate within the given tiered structure of government. However, they do engage with a range of different public sector agencies and partnerships. To some extent, they may be seen to be part of the wider

governance of rural areas. However, the success of their engagement in processes of governance is mixed. RCBs often succeed despite the complexities and inconsistencies of the support available, and consequently tend to focus on what they are seeking to do, and to keep involvement in wider governance matters to a minimum. The recent UK review of rural governance recommends much greater decentralisation of responsibility, especially in terms of implementation and delivery (Haskins, 2003). However, if this is part of the process which leads to sustainable IRD, the experience of RCBs suggests that there is still considerable progress to be made. All the evidence indicates that they are peripheral to this part of IRD, and moreover that existing governance structures constrain the contribution that they could make.

*Prima facie*, rural community businesses appear to have aims and objectives which are highly consistent with IRD and with sustainable development, although their main contribution lies in the way in which they can mobilise local volunteer action. They appear to be one mechanism of contributing to rural social development, and perhaps of strengthening the social fabric of rural areas. However, there remains considerable doubt as to whether they can contribute to economic goals (jobs and growth). The study did not consider the contribution of RCBs to environmental development (the third element of IRD).

However, IRD is a broadly defined agenda with different, and sometimes conflicting, aims. It is questionable whether RCBs, as a local response to particular rural issues, can contribute to all of these aims simultaneously, that is, to obtain **pure Pareto gains**. For IRD to be progressed, it needs to be defined and situated explicitly within the differing local contexts where it has to operate. From this point, it may be possible to design relevant and appropriate policies within which the promotion of RCBs may feature. However, whether there is a political will and drive to design a national and supranational policy framework through which such a bottom-up and locally situated response to rural development could be supported remains unclear and contested.

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