

## Diversification as a Factor for Sustainable Rural Development

Diversifizierung als Faktor der nachhaltigen Entwicklung des ländlichen Raumes

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### Summary

The EAFRD-implementation represented in the Rural Development Plan (2007–2013) of the Czech Republic contains the diversification of agricultural activities in its Axis III. In this context, diversification means the improvement of applied technologies, food processing on farms or the provision of services such as agritourism. This article deals with the question how this programme works in practice and what adoptions are needed for future programmes in the South Bohemian Region. The analysis for this research work was carried out in 2007. Important results refer to the activities that are preferred by farmers, to the required financial support from the farmers' standpoint and which further support should be provided by the regional authorities (e.g. the regional chamber of agriculture).

**Keywords:** Diversification, Czech Republic, EAFRD, South Bohemia

### Zusammenfassung

Die Implementierung des ELER-Programmes in der Tschechischen Republik umfasst auch Diversifizierungsaktivitäten in der Achse III des Programms für die Entwicklung des ländlichen Raumes. Hauptthemen dieser Prioritätsachse sind das wirtschaftliche Wachstum, die Schaffung neuer Arbeitsplätze und eine nachhaltige Entwicklung des ländlichen Raumes. Diversifizierung bedeutet hier die innovative Anwendung von Technologien, die Förderung der Weiterverarbeitung von Lebensmitteln direkt auf den Bauernhöfen sowie die Erweiterung des Dienstleistungsangebotes durch Tourismus-

dienstleistungen wie Agrotourismus. Dieser Artikel befasst sich mit der Frage der Anwendung von Diversifizierungsmaßnahmen in der Südböhmischen Region. Die Ex-Ante-Analyse bezüglich des Diversifizierungspotentials wurde im Jahre 2007 mittels mehrerer Erhebungen durchgeführt. Im Mittelpunkt standen einerseits die bevorzugten Diversifizierungsaktivitäten und andererseits die Unterstützungsleistungen der Landwirtschaftskammer und regionaler Institutionen.

**Schlagerworte:** Diversifizierung, Tschechische Republik, ELER, Südböhmen

## 1. Introduction

A wide range of business activities, services and production processes can be financed by the EAFRD Programme (HRABÁNKOVÁ and BOHÁČKOVÁ, 2007, 24). With the purpose of cutting expenditures the Czech Republic prepared a basic strategic document - the National Strategic Rural Development Plan of the Czech Republic for the period of 2007-2013 - which specifies in detail the measures for meeting the objectives of the development of rural areas of the Czech Republic (ŠIMKOVÁ, 2007, 266).

The programme consists of four axis (groups of measures), each of them meeting some of its specific objectives, for example improving the competitiveness of the agricultural, food and forestry sectors (Axis I), increasing biodiversity, water and soil protection and mitigating climate change is a joint objective of the second group of measures (Axis II) (MZE, 2007a, 12). The task of Axis III is to improve the quality of life in rural areas and to encourage the diversification of economic activities (JÁNSKÝ and ŽIVĚLOVÁ, 2007, 395). Axis IV or the so called LEADER approach supports residents of rural micro-regions (applying the "bottom-up" principle) with regard to the elaboration of local development strategies and the implementation of projects concerning the development of the region they live in. For the whole programme period of 2007-2013 the Czech Republic was allocated € 2.8 bn from the European Agricultural Fund and together with the finances from the state budget the total amounts to approximately € 3.6 bn (MZE, 2007b, 217).

The rural development in the Czech Republic should be based on activities that result in sustainable economic profit, stabilization of the local population in rural regions and improvement of the quality of life there. The diversification of agrarian activities (secondary or tertiary sector), part of Axis III of the Rural Development Plan, represents one means of support in order to meet the mentioned objectives.

For the classification of rural regions the European Union uses the OECD methodology based on the criterion of calculated population density. In significantly and predominantly rural regions in the Czech Republic there are 9.050,006 inhabitants, which constitute 88.6% of the total Czech population. Furthermore, rural regions cover 78,370 km<sup>2</sup>, or 99.4% of the territory of the Czech Republic (MZE 2007b, 47).

The Region of South Bohemia is predominantly a rural region and is facing common problems of other rural regions such as structural unemployment in villages, migration of the young population into cities or a limitation of public services. The altitude ranges between 400 and 600 m, two thirds of the region belongs to less favoured areas (LFA). The population density is 62 inhabitants per km<sup>2</sup> – the lowest in the Czech Republic. The region accounts for 11% of the country's agrarian production.

## **2. Objectives and Methodology**

In the frame of a research project granted by the Czech Ministry of Agriculture the main objective deals with the question how the EAFRD programme and its Axis III were used in the last programming period 2004–2006. Based on these results scenarios of the future implementation of the new programme can be derived. The analyses for this research work were carried out between May and September 2007 and at the end of 2009. The data show which activities were preferred by the farmers, how much money the farmers liked to use from the programme in the budget period 2007–2013 and what support the beneficiaries would like to get from the regional authorities, such as the Regional Agrarian Chamber. A further part of the analysis shows the topical state of fund usage in the middle of the programming period.

In the case of traditional local goods and diversified activities, like traditional crafts, we asked 47 representatives of museums in the South

Bohemian Region. This was a questionnaire-based inquiry submitted to the museums. The rate of returned questionnaires was 38%. This first part of the analysis was intended to create a base for the development of diversified activities according to the historical development of the region. The second analysis was based on an inquiry of 340 farmers in the region. In this analysis we could summarize the farmers' experience of the programme in comparison to previous support programmes (mainly SAPARD and EAGGF) and with the diversified activities at present. Furthermore, they were asked to express their future diversification strategies and what kind of help is required for the preparation of project proposals and the project implementation. The response rate of questionnaires was 34%. We expected a correlation between the experience of farmers in previous programmes and their willingness to participate in the new programme again, mainly for similar activities. A statistic  $\chi^2$ -analysis of the data obtained by the inquiry validated also the dependence between the willingness to register a project in Axis III and the practical experience with diversified activities.

The statistical evaluation of the data collected in both inquiries was a basis for the synthesis results of the project and the comparisons in 2009. The data for the comparative synthesis were obtained from the State Agrarian Intervention Fund.

### **3. Results**

The diversification of agrarian activities should not only contribute to higher farm incomes, but also to the creation of additional jobs in rural areas. For instance, some activities could make the countryside more attractive for leisure time activities such as tourism. Therefore diversification has become the most supported part of Axis III in the Rural Development Plan. The development axis has three priorities and its relative share of EAFRD fund allocation equals to 16.93%. For Axis III the total sum of financial support is € 635,553,634,- with a share of € 476,665,226,- from EAFRD.

The first inquiries showed that the typical activity in South Bohemia – farming – is traditionally connected with production of craftsmen. The traditional range of craft production is mostly represented by carpentry, smithery, glassmaking, stonework, pottery, basket-making,

beekeeping and garden-husbandry. Some craft production can be run as own businesses but some of them (like beekeeping or basket-making) are more like leisure activities. For the preservation of traditional craftwork it is important to organize frequently and repeatedly events such as fairs, workshops, hobby courses as the results of the inquiry showed. Less frequent but also very important are parades and carnivals. Such parades in South Bohemia are connected with typical local productions – such as the Fishery Parade and Local Fair in the town of Vodňany or the Trade Fair in Holašovice (UNESCO protected typical village).

The second important activity is the production of organic food on farms. Typical products of South Bohemia are potatoes, barley, beans, poppy seeds, vegetables, beef, pork, poultry, fish, and milk; furthermore processed products such as malt, beer, cheese and honey. In the South Bohemian Region the typical items are glassware, wooden toys, and ceramic products.

According to the representatives of the surveyed museums, a revival of traditional hand crafts can be observed promising an increasing interest in further diversification activities in the future. The very same aim has also been developed by the Rural Development Plan. The support comprises a wider spectrum of activities like the building of decentralized facilities for the production and use of renewable energy sources in order to meet the goal of a higher energy self-supply rate in the countryside and the fulfillment of the Czech Republic obligations to achieve an 8% portion of energy from renewable sources. Preferably it should be supported by utilizing existing buildings and premises (brownfields) but also by the promotion of innovative approaches.

Only one quarter of the surveyed farmers were concerned not only with primary agricultural production but also with diversified activities. Typically, the activities that have been supported in previous planning periods were highly developed and the farmers would like to see them entitled again for support in future. The most frequently mentioned activity of diversification was agritourism (41% of the farmers with diversification). The second popular diversification was the running of biogas plants. Although craft works have a high potential only four farmers participate in producing traditional goods at their premises.

The interview results concerning the next planning period are also very interesting and important. About 30% of the farmers are willing to register a project in Axis III. From the results of the questionnaire 34 projects were prepared in the year 2007, but presumably there will be more projects in practice because of the return rate of 34%. Therefore the amount of support can not be predicted at the moment.

The topics of the projects were also part of the inquiry. Most frequently mentioned were agritourism and tourism with 25 answers, biogas plants with five answers and craft works with three answers. Craft work seems to have a high development potential but the farmers do not have either the knowledge or skills. This fact could be a good motivation for the Ministry of Agriculture and Agrarian Chamber to extend the farmers knowledge by vocational courses and training.

We also asked for reasons of negative answers, why farmers refuse to register a project in this programme. The most frequent answer was that the process of these projects takes a long time (21 answers), the second most frequent answer concerned the absence of advisors, who would be needed for project adjustments and the third most common answer was that the project application process was too difficult.

We summarized the first analytical part as follows: There is a high potential for tourism and craft work. The previous programming period (2004-2006) showed that an increasing number of running activities stimulates the willingness of other competitors to conduct a similar project. This is well proved by the example of rural tourism and agritourism. A similar development should be supported in the case of craft works in the future programming period. The results of the project will be used for the further development of the support scheme in order to increase the competitiveness of farmers in the South Bohemian Region.

The comparative part of the analysis is based on the data from the first three years of the programming period 2007-2013. Till the end of 2009 there were eight calls for projects within the frame of Axis III. In the case of tourism 24 projects were approved in the second call and another 21 projects in the fourth call amounting to a total sum of CZK 103.7 m. The total number of project in the Czech Republic was 238 equal to a total support of CZK 567.4 m. This means that 18.9% of all realized projects with a share of total support of 18.2% were located in South Bohemia. This means that the South Bohemian Region

received the highest support with respect to the following objectives: the main objective of the projects was the development of an agritourism based offer of accommodation facilities. One project focused on the reconstruction of an open-air swimming pool facility and one project was allocated for the construction of a new horse riding arena. Twenty four projects were directed to establish new business in tourism as a diversified activity.

In the frame of traditional craft activities thirty eight projects aimed on joinery and wood cutting, with the support of CZK 26.1 m. Another important activity was "car repair service" matter of interest in eleven projects with a total support amount of CZK 5.9 m. Five projects were approved for the production of wooden green pellets and/or wood chipping technology (CZK 6.7 m). Other activities were mentioned only once during the period 2007-2009: for example metal cutting, bottling of water, storage of constructing material, book binding or furniture production. An overview on the mid-term situation of the Programming period 2007-2013 in the Czech Republic in comparison with the South Bohemian Region is displayed in Table 1.

258 projects or 22% of all projects were conducted in the South Bohemian Region. This indicates that the South Bohemian Region has an above average growth including a satisfying development of the region. As we expected in the first part of the survey - agritourism and the usage of renewable energy are the most supported projects.

Besides these diversification tasks (e.g. handcrafts activities and services in tourism) the Axis III also allows the support of renewable sources of energy. The main aim of these projects is to build new biogas plants. The remaining share of 39% or 9% of the granted amount of money in Axis III are devoted to projects in Priority 2 and 3 with the objective to improve services and infrastructure in rural areas and to protect the historical cultural heritage. These activities require a high level of cooperation between the local councils of villages and non-profit organizations.

Tab. 1: Proportion of diversification support of Axis III (Priority 1) in South Bohemia and in the Czech Republic (2007–2009)

Priorities and Objectives	Percentage of the Axis III support	Approved number of projects for subsidies		Sum of subsidies in million CZK
		South Bohemia	Total	Total
III.1.1. Diversification into non-agricultural activities	22.5	38	200	1,648
III.1.2. Support for business creation and development	15	130	624	971
III.1.3. Encouragement of tourism activities	12.5	90	355	907
<b>Total</b>		<b>258</b>	<b>1,179</b>	<b>3,526</b>

Source: ÚZPI 2010

#### 4. Conclusions

This paper shows that the enterprises in the South Bohemian Region use the skills of local people, historic experience with traditional crafts and current sources also in the case of support of diversification activities. The main orientation is on tourism and wood hand crafts. Modern innovative activities in metal production and machinery are also mentioned in some projects. It can be concluded that the diversification follows two different directions – on the one hand the service sector, where the operational radius in rural area is limited for competitors of agricultural businesses and their actions. On the other hand there are innovative products with higher added values which can be sold at world market prices.

Unfortunately the agricultural enterprises are not willing or able to develop the basis for all traditional craft works. Hence, some characteristic local activities will remain only in museums. Examples are the local production of glass ware or the weaving of baskets, for what the South Bohemian Region has been well known for many centuries. The financial support from the Rural Development Programme was higher for those activities, where output and input were balanced and was assumed to be sustainable also in the future.

For the next programming period it is essential to refocus the Czech Rural Development Plan in order to enable the support of the preservation of cultural heritage like traditional craft activities. These activities are also of interest for rural tourism and represent an additional value added for the region. As we thought in the very beginning, diversification activities in the traditional craft sector would be important because they can build on tradition, provide an additional income and represent the local production not only in the form of tourist souvenirs. Furthermore, the data from both inquiries and analyses showed that craft activities are not exerted because of the following reasons: farmers are more interested in modern technologies like bio-gas plants than in local traditional crafts, especially when they are not able to compete with successful competitors on the world market. The service sector seems to be more popular, especially in case of agritourism. Synergies between the local traditional craft production and the rural tourism e.g. parades or fairs, should be used more intensively. The new Czech RDP which will be drafted for the new funding period 2014-2020 should respond to these challenges.

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