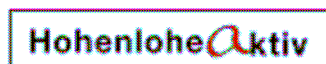




Work and income in and by agriculture

Effects of the Second Pillar in agricultural policy
on the example of the region Hohenlohe
– an empirical study

Summary



Authors:

European Nature Heritage Fund Euronatur
Katrin Seifert
Grabenstr. 23, 53359 Rheinbach
Tel.: +49(0)2226 – 20 45
Fax: +49(0)2226 – 1 71 00
E-mail: katrin.seifert@euronatur.org

in cooperation with:
Dr. Andrea Fink-Kessler
Agricultural and Regional Development Office
Tischbeinstr. 112, 34121 Kassel
Tel.: +49(0)561 – 27 224
Fax: +49(0)561 – 28 88 952
E-mail: Afink-Kessler@t-online.de

Scientific consulting:

Prof. Dr. Reiner Doluschitz
University of Hohenheim
Institute of agricultural business operations (410 C)
70539 Stuttgart
E-mail: doluschitz@uni-hohenheim.de

**This study was financed by the Rentenbank (Landwirtschaftliche Rentenbank).
It is based on a preliminary study which was commissioned in 2005 by the Regional Management “Hohenlohe aktiv” and financed with the support of the program “Regionen Aktiv” by the German Federal Ministry of Food, Agriculture and Consumer Protection.**

Regional Management “Hohenlohe aktiv”

WFG Schwäbisch Hall
Muenzstrasse 1
74523 Schwaebisch Hall
www.hohenlohe-aktiv.de

Landwirtschaftliche Rentenbank

Hochstrasse 2
60313 Frankfurt am Main
www.rentenbank.de

March 2007

Main results

To preserve jobs in agriculture and even create new ones is possible! Local diversification on farms and regional diversification in processing and marketing create new jobs. Processing and marketing directly on the farm and within the region have especially high economic potential.

To use these chances for agriculture, rural economy and rural areas in general, two things are necessary:

1. Affirmative action that supports both the specific needs of diversified agricultural farms and the establishment and expansion of regional agriculture-oriented value adding processes.
2. Political support on a regional basis that focuses more strongly on agriculture as an important economic factor connects it with other economic areas and thus provides a framework for operational and regional value adding.

These are the two main results of this study which was carried out by the European Nature Heritage Fund Euronatur with the support of the Rentenbank (Landwirtschaftliche Rentenbank) and the program “Hohenlohe aktiv” of the Hohenlohe region (with its two districts Schwabisch Hall and Hohenlohekreis). This study is meant to contribute to the discussion about how to preserve and create jobs in agriculture and in rural areas.

1. Starting point and question

Producing agricultural farms more than ever have to develop strategies to compensate for declining producer prices, keep their jobs and their family income and be able to transfer their businesses to the next generation. There are many, individual solutions, but mainly, they can be divided into two main approaches: (1) rationalisation and increase of output and (2) increase of the operational value added by diversification or income combination.

The perspective from a single farm is closely connected to the question of how to preserve and create jobs in the agricultural sector in rural areas in general. The internationalisation of agricultural markets (especially within the Single European Market) leads to a concentration of the industry which processes raw materials on fewer and logistically better locations. This means a loss of processing companies and therefore also of corresponding suppliers in many regions. Raw materials like milk, animals for slaughter or corn are primarily “exported” from these regions, while finished products, i.e. food, are “imported”. This does not only mean a loss in value adding and therefore decreasing income and work, but also a loss in competence.

The new European Agricultural Fund for Rural Development (EAFRD) and its Council Regulation No. 1689/2005 of 20th September 2005 deals exactly with this problem. EAFRD provides an own financial basis for both agricultural environmental policy and the support of income alternatives in rural areas, as both of them are important approaches which go beyond the traditional agricultural policy. Thus, the separate policy for rural development (Second Pillar) that has been started as part of the agricultural reform in 1992 plays a even more important role next to the compensatory payments (First Pillar) than before.

However, the distribution of funds has not yet been adapted to this shift of concentration, as still 80 per cent of all funds for agriculture go into the First Pillar, and only 20 per cent into the Second. Besides, EU grants for the Second Pillar were slashed: in Baden-Wuerttemberg nominally by 25.1 per cent¹.

On closer examination, the Second Pillar not only promotes innovation and diversification outside the traditional agricultural practices, creation of new, non-agricultural jobs and the production of quality products, as often presented in public discussions. In fact, it also includes the area-related compensatory allowance and a series of traditional instruments of agricultural structure policy like land consolidation, agricultural investment promotion, market structure measures and the “old” village renewal. It still offers great financial incentives for an agricultural development of cost reduction and increase of output (“Growing or disappearing”). This can also be seen in the three development axes of EAFRD: “(a) improving the competitiveness of agriculture”, “(b) improving the environment” and “(c) improving the quality of life in rural areas and encouraging diversification of economic activity”.

A main justification for the Second Pillar is the aim to preserve and create jobs in rural areas. Improving the competitiveness of agriculture, however, is only able to preserve jobs on single farms, as numerous evaluations of former grant periods have shown. On a regional level, both the addition to capacity of single farms and the rationalisation eliminates jobs (cf. Fasterding and Rixen 2005, Doluschitz at al. 2003 and 2005).

In contrast to that, the effects which diversification, as another part of the Second Pillar, might have on the job market are largely unknown. The reason for this is a lack of information in particular about medium and long-term effects and about region-related evaluations.

This study intends to fill that gap, however not by evaluating certain grant periods or instruments, as it has been done before. On the example of the region Hohenlohe, the focus is put on both local agricultural businesses with their multiple intentions to diversify, and on regional production structures. Thus, individual developments and their regional interplay can be examined.

The aim of the study is to determine the impact of operational and regional diversification strategies on jobs in rural areas and pull them together with rural development grants. On the one hand, it is meant to contribute to the discussion about future rural development policy, and on the other hand it wants to raise the awareness for the importance of agriculture as a regional economic factor.

¹ According to calculations by EURONATUR, nationwide reductions in Germany are at 13.7 per cent, in Baden-Wuerttemberg even at 26.7 per cent (incl. funds from the obligatory modulation and the inflationary adjustment). These calculations are based on first estimations of the Federal Ministry of Food, Agriculture and Consumer Protection for the financing period from 2007 until 2013.

2. Work in agriculture – results of the empirical study of diversified agricultural businesses

This study focussed on diversified farms, while diversification could mean further manufacturing or direct marketing of own products, agriculture-related services, rural tourism and/or supply of renewable energy. Out of 281 existing diversified farms, 70 farms were surveyed. The results of 66 farms could be used for the evaluation. These farms were questioned about the development of work between 1994 and 2005, their subjective opinion on the economic development of the farms, the usage of grants and their subjective opinion on the effectiveness of these funds.

The study revealed that there is no specific type of diversification, not even of a direct marketing farm or a processor. Diversification varies, and diversifying farms cut their own paths, while a rural family history (keyword: generational succession) often plays an important role – more than location factors or the external framework.

Structure of the surveyed farms:

An above-average number of 79 per cent of the surveyed farms provide the main source of income for their operators, and with an average agricultural area of 58 hectares, they are considerably larger than the average farm in the investigation area (28 hectares of agricultural area). 39 per cent are organic farms. Moreover, the variety of operational structures and orientations of the surveyed farms is remarkable, as many of them practise agriculture, use grasslands and keep one, two or even more species of animal in their stables. They are very similar to the traditional form of farming and thus somehow oppose the trends of specialisation. The widespread assumption that moving into diversification means dropping out of production could not be proved true.

For the majority of the questioned farms, the traditional farm develops toward some kind of holding. At least 44 of the 66 surveyed farms have transferred their diversification activities to one or more civil law associations and thus legally released them from the agricultural family business. Still, they are integral part of the farm and inconceivable without it – just as some farms would not exist without their diversification activities. Consequently, diversification is very often closely connected to the support of the family income and especially the assurance that the farm will devolve to the next generation. Other reasons are the post-children phase of female farmers or a business start-up.

Development of work and income on the surveyed farms

The analysis of the economic and work development on the surveyed farms shows their variety: some have a strong rise in work and preserve or create jobs, some experienced a positive economic development, and others had a strong income slump. However, positive developments on the farms predominate all in all:

- **The number of employees increased from an average of 2.46 man-work units (full-time employee) per business to 3.0 man-work units.** Thus, the surveyed farms are well above the average in Baden-Wuerttemberg with 1.2 man-work units per business.

- **36 new jobs were created in the 66 surveyed farms**, of which 17 are full-time positions. The rest is distributed to part-time work subject to social insurance contribution, regular or irregular temporary employment and seasonal work. All in all, 160 persons from the investigation area and, in addition to that, 44 seasonal workers (mostly from Poland) have benefited from these new jobs. Since 1994, the employment remained constant or increased (sometimes significantly) on 71 per cent of the farms. On the remaining 29 per cent of the farms, employment declined, especially because of the retirement of older generations.
- Successful development cannot be measured by the development of work. 13 of the 19 business managers that reduced employment on the farm during the investigation period still consider their farms' economic development stable or positive. Consequently, a decrease of work does not necessarily mean that the farms are unsuccessful or possibly close to bankruptcy.
- In two thirds of the cases, the business managers consider their diversification measures economically successful. About half of them think them in unison to the initial agricultural production, while the other half see them as a positive antipole to an unsatisfying initial production. The clearly stabilising effect that diversification often has, emphasizes the economically positive effects.
- From a regional economic point of view, agricultural farms are important business partners for suppliers, processors and consumers as well as for parts of the regional trades and various services. Additionally, a high degree of the added value remains in the region, especially because of the varying rural and agricultural processors within the region or directly on the farm.
- It is not possible to objectively evaluate the economic potentials of different diversification strategies on a basis of economic indices. Anyhow, the subjective estimations of the business managers allow the following conclusion: When the study was carried out, the strongest rise in income was being made with the construction and operation of fermentation plants (aiming to produce electricity). But if prices for raw material rise, the economic potential of such plants decreases. The further processing of own products, maybe even combined with direct marketing, holds high economic potential, too. However, direct marketing is only profitable when offering a big variety of goods combined with top professionalization.

Usage of grants

The survey revealed that area-related promotions (mainly from the MEKA-program of the Land Baden-Wuerttemberg) highly contributed to the family income, and hence to the preservation of over 50 per cent of the farms. Three quarters of the questioned farms made use of grants in order to finance operational investments within the last twelve years. Half of these grants were used for diversification by the construction of slaughter and cutting rooms, cheese dairies on the farms, restaurants, holiday homes, market stands, etc.

The most important instrument in this context was the agricultural investment promotion programme. Mostly small investment measures were implemented. This corresponds to the gradual development of a diversified branch, which can only expand with an appropriate market and consumer base. The LEADER-programme and the German ERL-programme contributed a lot to these investments, but also other programmes like the German "Promotion

of goods produced according to specific rules” („Foerderung von nach bestimmten Regeln erzeugten Produkten”) or “Innovative measures for women in rural areas” („Innovative Maßnahmen fuer Frauen im Laendlichen Raum”) were used.

Factors of success of diversification

- Diversification and employment developed most successfully on those farms which were established or realigned during the evaluation period. This happened either along with a generation change, a business start-up or free work power of women (when the children had grown).
- Diversification seems to be especially successful when the business manager disposes high management qualities and qualifications: Observing the market, choosing and leading the employers, deciding over the legal form and take the responsibility for associated organisational and administrative tasks (keyword: civil law association), marketing, etc.
- Value adding on the farm offers economically interesting opportunities, measures of further processing (concerning employment *and* economic development) representing the most effective potential for improvement (maybe in combination with direct marketing). Often, the family itself cannot cope with the additional work created through diversification, being too specific or just too much.
- Quality gets more and more important. This is of concern for direct marketers, processors and providers of farm holidays. In all sectors, the product and the quality has to be different from those in the retail industry respectively of other holiday providers.
- Diversified agricultural businesses are economically strongly interconnected within their region (relations for both purchasing and selling). Especially the meat processing industry often needs support from the local trades. Therefore, regional processing competences and structures as well as strong sales connections are essential for successful diversification. Political support to keep or establish new regional processing businesses and create regional marketing structures can ease diversification.

3. Work by agriculture

Since the 1970s, the investigation area has economically been fast-paced. In both districts there is almost full employment today. Despite strong commercial development in the area, both districts are still characterized by agriculture and agriculture-related commercial sectors. The region belongs to the most important processing areas in Baden-Wuerttemberg. Regarding the strong concentration of the meat industry, the variety of still existing and recently established slaughter and cutting facilities is remarkably high in the region. Another specific characteristic of the investigation area are the numerous **initiatives for quality meat production**. They vary in structure and market involvement, but all of them raise agricultural income, employment and thus value adding within the region.

Employment in agriculture (and forestry) in both districts constitutes 4.5 and 4.9 per cent and is thus above-average, although it decreased since 1999 by almost 30 per cent. Nevertheless, agriculture is an important economic sector within the investigation area. According to agricultural statistics, 15,590 persons were employed directly on agricultural businesses in

2003, and on the basis of data by the Institute for Rural Development Research (IfIS) and (uncompleted) own surveys, we can presume that the number of employees in agro business in both districts lies at about 4,000. Adding those two numbers, the average employment in the agricultural sector rises from 4.5 to 7.4 per cent.

Some of the value adding within the investigation area was examined more closely. As there are many processing businesses and initiatives (especially in Schwaebisch Hall), two **value adding chains** in the meat sector were chosen: The **“Independent producer community for quality piglets, UEG”** (“Unabhaengige Erzeugergemeinschaft fuer Qualitaetsferkel Hohenlohe-Franken w.V.”) and the **“Peasant producer community, BESH”** (“Baeuerliche Erzeugergemeinschaft Schwaebisch-Hall w.V). Besides that, one business of (organic) milk production, the **“Village cheese dairy Geifertshofen”** (“Dorfkaeserei Geifertshofen”), and one business of (organic) corn production, the **“Organic-biological producer community Hohenlohe, OBEG”** (“Organisch-Biologische Erzeugergemeinschaft Hohenlohe”) were chosen.

Alone in the two examined meat businesses, **292 new jobs were created** during the investigation period. In addition to that are the work effects on the 1,657 connected agricultural businesses as well as the monetary effects and the impact on the regional value adding.² Both value-adding processes made it possible that small and medium agricultural businesses could and can preserve or even raise their production. According to first estimates, businesses which supply quality meat within the trading area of both examined companies UEG and BESH took, after subtracting the variable costs, profits of 3 million Euros per year (0.5 million Euros by UEG and 2.5 million Euros by BESH).

Currently, eleven in a producers community organised organic farms supply the **“Village cheese dairy Geifertshofen”**, which was established in 1997 as a private initiative. The demand would be high enough to even raise production, but at the moment, there is not enough organic milk available on the market. All in all, **24 new jobs were created** during the last six years, mainly part-time jobs or mini-jobs (max. 400 Euro per month).

The **“Organic-biological producer community Hohenlohe, OBEG”** was established in 1989 by nine organic farmers in order to organise the marketing of corn. Today, OBEG has 50 members. 120 of them are suppliers for the farm cooperative, which then stores, cleans, peels and dries all kinds of corn, even special types like spelt and oats. The demand is not only regional, but in all Southwest Germany. Annual sales are 3.5 million Euros. Since its establishment, OBEG **created 21 new jobs**.

When expanding regional value adding chains which are geared to quality production, it is not only possible to preserve and create jobs and income in rural areas, but also to enable access to the market for those agricultural businesses which do not want or are not able to either modernise and increase output or diversify.

² To quantify them was not part of this study.

4. Promotion of rural development and employment

This study aimed at estimating the effects of Second Pillar promotion on the investigation area, the examined businesses and the tested value adding chains, with special emphasis on the third development axis “diversification of rural economy”. There is no estimation of the effects on employment by the First Pillar or those parts of the Second Pillar which are meant to promote competitiveness in agriculture and the agricultural environment.

Examined were the last two grant periods (1994 until 1999, 2000 until 2006), the total grants from 1994 until 2004 from the First and the Second Pillar and especially the grants that influenced the diversification of the rural economy.

Instruments and grants

In Baden-Wuerttemberg, a direct promotion of diversification measures took place through the **AFP-programme** (Agrarinvestitionsfoerderprogramm, AFP) in the grant period which ended 31st December 2006. This programme for agricultural investments promotion still remains important for diversification measures in the new grant period, although specific promotion for investments for diversification measures did not exist before the second grant period (2000 until 2006), more exactly not until 2002 and, moreover, the important guidance by the administration started rather slowly. Part of the “Big AFP-measures” supported diversification strategies directly on the farms (e.g. change to more livestock-friendly types of husbandry). Strongly used were furthermore the so-called “Small Investment Measures” of AFP. The investigation showed that more than half of all grants promoting diversification on farms fell into this category. As for the most part a commercial form of organisation was chosen, the grants of the **ERL-programme (essential supply)** were applicable and indeed were used by the examined farms.

The **LEADER-programmes** which exist since 1994 in certain communities provide a source of ideas and initiation. The new approach of an independent regional development was continued by “**Regionen Aktiv**”, a programme by the German Federal Ministry of Food, Agriculture and Consumer Protection. Both core districts Hohenlohekreis and Schwaebisch Hall had become the model region “*Hohenlohe aktiv*”. This programme at first realised the **subsidiarity principle for the fund management**. By an own regional fund management and allocation and therefore a paradigm shift in promotion, important impulses for regional development were given. The programme for further education “*Innovative measures for women in rural areas*” with its promotion of business start-ups and the creation of women’s networks in rural areas had initial effect, too.

Processing and marketing of agricultural products was promoted by the German **market structure law** (Marktstrukturgesetz) or the **guidelines to improve market structures** (Richtlinien fuer Marktstrukturverbesserungen), since 1994 respectively by the programme “Promotion of processing and marketing of organic or (since 1999 additionally) regionally produced agricultural products”, also “produced according to specific rules” (“Foerderung der Verarbeitung und Vermarktung von oekologisch oder (seit 1999 zusaetzlich) regional erzeugten landwirtschaftlichen Produkten”, auch “nach besonderen Regeln erzeugte Produkte”). All in all, about 9.3 million Euros were used for measures to improve the market structures in the investigation area between 1994 and 2004. The examined value adding chains furthermore received additional start-up and development aid.

During the last ten years (1994 until 2004), **public funds of about 600 million Euros** went into the agricultural sector of both districts.³ Almost 80 per cent were used for direct, production-, animal- or environmental-related payments for farmers, the rest for investment aids and other measures. **Only a small fraction of the funds was used to promote diversification measures:** according to our analysis, only 1.9 per cent of the AFP-funds (0.85 million Euros out of 44.9 million Euros) were used for specific diversification⁴ (in comparison: in Baden-Wuerttemberg, it had been 6.1 per cent between 2000 and 2004). Diversification was moreover financed by the ELR-programme (essential supply) and LEADER and made up about 1.8 per cent of the funds (ERL incl. LEADER), i.e. 0.66 million Euros out of 36.5 million Euros. Besides that, regional and not only single operational diversification strategies were financed by the German federal programme “Regionen aktiv” and the federal states programme “Innovative measures for women in rural areas” with 3.3 million Euros. What we cannot determine but just estimate is the share of the so-called “general AFP funds” which indirectly supported diversification strategies with investments for example for the establishment of stables or relocation measures. Furthermore, we cannot subdivide funds for the improvement of the market structure, which made up 9.3 million Euros.

In relation to the total funds of the Second Pillar (AFP, ELR/ LEADER and market structure), an estimated maximum of about 4.5 million Euros was used for diversification between 1994 and 2004 in the investigation area.⁵ Adding the partly single operationally, partly regionally used grants of “Regionen aktiv” and the innovative measures by the “Innovative measures for women in rural areas” (3.336 million Euros) and applies them to the **total agricultural promotion of the First and the Second Pillar and the federal states funds, the share of grants for diversification made up even 2.6 per cent.**⁶

Effects

In spite of the remarkably small share of diversification measures on the total funds, they had a great economic and structural impact. While AFP with its single operational promotion preserves employment on the farms, it regionally generates work, amongst other things by fastening structural change. In contrast to that, new income possibilities could be developed not only operationally, but also regionally, and thus jobs could be preserved or created new. This result of several studies of federal state promotion programmes was also confirmed by the questioning of businesses as part of this study.

³ The last grant period ended in 2006, the ascertainment of grants implicated only funds until incl. 2005.

⁴ AFP-funds especially for diversification only exist since the second grant period from 2000 until 2006. During this period, about 1.9 % of all AFP-funds were used for diversification measures. For the preceding grant period, the share could only be estimated on the basis of this number.

⁵ We calculated this share of 1.8 % when we compared the funds of AFP and ERL directly used for diversification measures to the total funds of the Second Pillar. The share of 5 % was estimated on the basis of the data for Baden-Wuerttemberg (share of diversification measures of 6.1 % on the total AFP-grants between 2000 and 2004) and the share of the “general AFP-funds” which were indirectly used for diversification, but could not be calculated exactly. In the following, we calculate with a maximum share on the total AFP-funds of 5 % and include the total 9.3 million Euros for the improvement of market structures. Thus, the calculated values are not maximum values.

⁶ The share of 1.1 % is an estimation, see preceding reference.

For the investigation area we can thus determine that AFP diversification measures had a positive effect and helped the farms a lot on their way to income combination. **Small Investments** often were important for the development of the surveyed businesses, as they were part of a whole investment chain. This is directly connected to the diversification strategies, as the businesses have to establish their market in their own. This process needs time and can therefore only happen gradually. In consequence, the necessary investment measures to enlarge diversification activities are only carried out gradually, too. In relation to the whole money volume, they are rather small measures than part of normal promotion. As they are straightforward regarding financial and employment-related consequences, this type of investment corresponds to the traditional rural, i.e. risk reducing, thinking and acting. Thus, it is no surprise that the use of these small measures and the making of rather small, gradual investments are typical for both the investigation area and the agriculture in all Baden-Wuerttemberg.

Small Measures furthermore are clearly **gender-related**. It is well-known that women who establish a business rather take small and gradual investments which are cautious and adjusted to their own capacity.

The businesses of the regional producers communities of the processing cluster raise **regional value adding** by integrating numerous value adding stages, create new jobs, preserve farms and thus strengthen the regional economy. Strong effects on employment and value adding are possible by getting in quality-oriented production.

Supporting diversification strategies with grants is just one part of a successful rural development. If new opportunities are to be created, operational reorientations must become “thinkable”, i.e. **we have to invest in minds and ideas**. The LEADER-programme, “Hohenlohe aktiv” and “Innovative measures for women in rural areas” have contributed a lot to this process and additionally supported it with money. In many regions and in parts of politics, a new step in thinking has to be taken until diversification strategies can be real alternatives for farmers and producers.

Sustainability and structural effects are considered as indicators for the legitimization of promotion grants. This study showed that both indicators are fulfilled: The examined businesses not only highly preserved and created jobs and thus proved the positive effect on the agricultural structure, but are also sustainable. The majority does not have problems of business succession, and more than once one or more children got into businesses or wished to do so.

5. Advice for action to promote employment and income in and by agriculture

On the basis of the results of the investigation, we can give the following advices for a future financial and political support of the development of rural areas:

- (1) **Diversification strategies for agricultural businesses** (and consequently for rural areas) have evidenced positive effects on single operational and regional income and employment and thus are at least coequal to strategies for the increase of output and the improvement of (international) competitiveness.

- Diversification strategies as an independent and sustainable way of agricultural development must make up a **much bigger part of the official advising** (Offizialberatung).
- The **Small AFP-Measures** are especially suitable to promote diversification strategies, as diversification on farms can only be realised in connection with a gradual expansion of the according markets, either for services or products. The intended new formulation of the AFP-promotion in Baden-Wuerttemberg for the new grant period from 2007 until 2013 which will complicate the promotion of small measures or even make them impossible should therefore imperatively be modified (reintroduction of the Small Measures especially for diversification, reduction of the minimum investment amount).
- **Simplification of the promotion applications and processes** is imperative. Complaints about high bureaucracy have shown how many working hours businesses lose when applying for grants. On the other hand, the responsible offices need a lot of time for the current administration, which complicates handling of applications and makes them disproportionately expensive. The lower the promotion volume is, the lower should be the administrative work.
- When regarding the **gender aspect** by preserving or even expanding specific support for women in rural areas, operational changes and modernisation can be encouraged.
- Important is moreover the consideration of the **agriculture as a sideline** (also for further education) as well as the promotion of business start-ups. Sideline agriculture is not only structurally important in Baden-Wuerttemberg. Sideline farmers usually dispose of high competence and experience in income combination. In order to not exclude those farmers from advisory service and promotion in the future, the new AFP promotion policy should be revised.
- Measures for **further education** and entrepreneurial learning (e.g. about business start-ups, the development of own concepts, budgeting, marketing) support farmers with changes or the reorientation of their businesses.

(2) To preserve and create jobs in rural areas, **the promotion and further development of regional processing and marketing capacities directly on the farms, agriculture-related or in the communities is of high importance.**

- The investigation showed that the processing and marketing of agricultural products directly on the farm offers high potential for employment, especially for products like meat or milk, but also for corn. The promotion of such operational diversification should therefore be as low-threshold as possible and the AFP-measures in Baden-Wuerttemberg redesigned accordingly (integration of measures to process and market agricultural products within the third development axis “diversification”).
- The investigation revealed as well that especially the **development of regional value adding that concentrates on quality products** can contribute a great deal to the creation of new jobs. The globalisation of agricultural markets demands a corresponding market differentiation (for both conventional and organic products) as well as a proof of origin for quality products. Therefore, it is necessary to preserve still existing medium-sized recording and processing capacities or establish new ones. In

addition to that, the foods sector and especially the **meat sector** play an important role for the supply of the local population as well as for the regional sales by diversified farmers.

→ The promotion possibilities as part of the improvement of market structures as well as of the essential supply of the ELR-programme should therefore include those target groups more strongly than done so far. Investment support can facilitate the upcoming EU-approval.

- (3) **Rural development** should concentrate on regional, integrative measures to connect agriculture and the regional trades.
- (4) Regarding the increasing urbanisation of the rural population, there is high potential in the **deepening of regional market relations**. Professional regional marketing works as a link between regional (single) suppliers and customers and can consequently strengthen the economic relations between farmers, the retail industry, the gastronomy and tourism as well as contribute to an increase of the regional value adding.
- (5) **Pay regard to the subsidiarity principle**: The best to promote regional development and a regionally adapted agriculture is to support it - also financially - on a regional level. The devolution of the decision-making authority for the award of funds to the regional management has proven effective – as shown on the example of Hohenlohe – and should not be changed.
- (6) To preserve and strengthen rural agricultural businesses in general and diversified farms in particular, **support of the regional politics** is needed. The example of the region Hohenlohe has shown how in particular regionally aligned farms benefit from an increased integration in the regional economic promotion. New ideas for products, services, cooperation and marketing structures as well as the initialisation and monitoring of the first steps of implementation strengthen the farms and offer them new opportunities.