Feasibility assessment

Title of report: Reimagining Rural Business Opportunities

Publication date: 2017

Short summary of report:

The report is one of a series (EU Review 24) published by the European Network for Rural Development (ENRD). The document sets out to explore some of the latest thinking and practice in how successful rural business can be supported to take advantage of emerging opportunities and latent potential.

A key principle is that local differences and characteristics can create different opportunities for rural business development. Rural development strategies need to be flexible enough to respond to these differences and must be proactive in supporting entrepreneurs within the local context. The report proposes a smarter type of rural business development within what it calls an "ecosystem "of business support.

The report proposes a new typology of rural areas which allows for a more nuanced approach to the development of rural business. The central argument is that different types of economic activity are more prevalent in these different areas.

The key themes resonate with the LEADER approach and provide a structure for a new form of rural business development support.

Feasibility assessment by panel of how this will feed into the project work:

The report has many echoes of the LEADER approach throughout. It devotes, for example, a chapter on to how opportunities can be grounded in the local experience and reality. It highlights the need for rural communities to be supported to understand and navigate their particular challenges and opportunities to make the most of modern business potential in their areas. Policies and programmes need to be flexible enough to allow them to do so.

The report explores how these local differences can create specific opportunities. This is very much an approach that has been adopted by LEADER.

The report advocates a smarter approach to rural business development involving a joined-up process of support from initial idea to business implementation. The pilot phase is particularly singled out as being useful. This resonates with the LEADER theme "facilitating pre-commercial development, business partnerships and short supply chains", within the

priority of "investigating and piloting new ways of encouraging entrepreneurship and test trading".

LEADER is referenced in the report in relation to support for initiatives such as GrowBiz in Scotland which adopts a hands on, holistic approach to business support.

Coordination of support is a key principle identified in the report. Approaches include setting up joint programming and selection committees, coordinating RDP delivery at provincial/local level (one-stop-shops), grouping measures into schemes or coordinating the business support services of publicly and privately funded bodies. Once more this has resonance with the LEADER approach.

One of the case studies used is from the Basque Country which is a strategic partner for Wales. The Basque project is called 'Katilu' (meaning bowl) which provides innovation brokerage and cooperation to add value to rural organisations. It aims to create a lively and attractive rural environment and generate new business models, products and services. Wales has a long and fruitful history of LEADER that a project such as Arsyllfa can pull on and the Basque and Scottish models could provide learning for a new Welsh model.

What are its key characteristics and how can they be applied to this project?

The report identifies five major overarching trends and pressures that impact on Europe's rural areas:

1. Technological change which can create opportunities e.g. new biotechnology products or improve access to markets for rural businesses. It can also pose a threat by for example replacing employment, (especially in agriculture) and encouraging rural residents to bypass local shops.
2. Environment and climate challenges which bring new responsibilities and obligations. Opportunities are most evident in the 'green', 'circular' and 'bio' economies.
3. Demographic change. Migrations between rural and urban areas result in ageing populations and in some European countries net out migration threatens the viability of communities. The arrival of migrants to some European rural areas pose challenges but also bring opportunities to revitalise villages.
4. Globalisation and evolving markets have left many primary producers vulnerable to fluctuating commodity prices at a global scale. Value chains are increasingly complex and globalised. Globalization can create opportunities to find cheaper suppliers and new market opportunities, but it also increases competition. Consumer preferences on the other hand can create new markets and opportunities to add value to products.
5. Political changes. Lack of an explicit prioritisation of rural areas can determine whether policies and programmes actually reach down effectively into rural areas or remain focused on urban centres. This is relevant, for example, in the use of business support programmes, regional development funding and roll-out of broadband infrastructure.

The internet provides opportunities to overcome geographical distance and create new forms of proximity to knowledge, markets and relationships. Meanwhile, new market opportunities are emerging in sectors as diverse as the food economy, the green economy, the bioeconomy, the experience economy and the residential economy

The report is keen to highlight the potential of rural digital hubs offering fast, reliable internet access, physical spaces for working and networking, and a range of business and community support services. There have been several projects promoting this sort of

development in rural Wales and this could be a useful strand of investigation as to what works and what doesn't in a rural Wales context.

In order to address these challenges and maximise opportunities, the report calls for smarter ways to deliver effective business support and target efforts. It identifies six steps of smarter rural business development:

1. Identifying opportunities and challenges based on the effective identification of local needs and opportunities.
2. Generating ideas through effective early business support.
3. Developing ideas by refining and improving early inspiration.
4. Writing business plans to set out how an idea will be taken forward.
5. Small-scale testing before investing too heavily to see if an idea works in practice and to test the market.
6. Successful scale-up. Once the business case is proved at a small-scale, a business can more confidently invest (and attract investment) in scaling up the idea.

Access to flexible finance is identified as a bottleneck for many potential new businesses.

The key to the smarter approach is the joined-up nature of the steps and support to business along the pathway. The approach advocated by the report moves away from models that limit themselves to 'one-off' interventions, towards approaches that accompany entrepreneurs along a 'support itinerary' through an ecosystem of support services. This concept of joined up support, built from the local level is also a key characteristic of the LEADER process.

Networking is an important part of LEADER. The report highlights the importance of peer credibility in both business support and networks, highlighting good practice where participants were similar enough to learn from each other (e.g. all are interested in short food supply chains) but diverse enough not to be each other's direct competitor (e.g. they want to set up short food supply chains in vegetables, dairy, or livestock).

How Rural Development Programmes can support rural business is a strong theme of the report and, although not directly relevant to rural Wales in future, the report provides some pointers to appropriate flexible forms of investment finance to rural businesses at different stages of their development.

How can these principles and values interact with fostering an entrepreneurial culture?

The report argues that business support needs to move away from the onus being on an entrepreneur to navigate the plethora of support available and connect to the right support at the right time. The established model is risk-averse, based on eligibility criteria which only benefits a lucky few, whilst excluding many potentially successful, innovative business ideas. The report argues for a new approach based on a 'support ecosystem' incorporating multiple elements and practices such as peer learning, shared workspaces, coaching, mentoring, training, incubators, accelerators, investment finance and shared technical equipment

A new smart business support ecosystem, the report argues, is based on:

1. Cohorts or groups of entrepreneurs.

2. Encouraging creativity and change from the bottom up which involves deep listening and understanding of the realities and constraints on the ground to create value chains across sectors.
3. Support tailored over time and a stepped approach.
4. Flexible support led by business need.
5. Integrated support combining tools along a support itinerary. There should be an emphasis on peer learning, networking and co-production.
6. A combination of public, private and social investment. This should include seed money for small-scale pilots and initial running costs, flexible grants, microcredits, community financing, (including crowd funding).
7. A learning-by-doing approach, ensuring that failure is embedded in the system and participants learn from mistakes.

The report stresses that the ecosystem should be viewed from the individual perspective. Beneficiaries it argues, should be supported all along their business pathway. They should not be left on their own to struggle individually to bring a new product or idea successfully to market. Rather, they are provided with a support itinerary, from creative thinking about potential challenges and opportunities in their sector all the way to scaling-up a successful business proposition. The entrepreneur should always have someone to turn to for support and advice.

The starting point for the business support itinerary is working with local businesses and (potential) entrepreneurs to understand their real issues and constraints and encourage ideas from the ground. Key principles here are that you are more likely to get one or two viable and successful businesses from a large pool of initial ideas and that new business ideas can emerge from the cross-fertilisation of smaller ideas in unexpected ways. These benefits are more likely to emerge from group work, sharing and dialogue.

Another key principle is that support has to respond to real needs and not pre-judged or anticipated. Once ideas have been developed, entrepreneurs can be directed to the specific support that they need in their particular situation. Whilst elements of group work and sharing can remain, businesses will require individualised support on many aspects.

This support ecosystem may include universities and research organisations, advisory services, funding organisations and existing companies.

The report praises the work of business accelerators and incubators whilst pointing out that these need to be adapted to the specific needs of rural businesses and entrepreneurs. Wales has good practice that could be shared in this respect.

Key findings

The report presents a new typology of local rural areas with the emphasis on the local characteristics at its heart. This is more nuanced than the OECD typology (based mainly on proximity to cities) and a typology developed by the ESPON - EDORA project, (based on socio-economic performance).

The typology in the report identifies six broad types of local rural area, based largely on the work produced for the ENRD Contact Point by Professor Bill Slee of the James Hutton Institute.

1. Productive heartlands dominated by highly productive agricultural and/or forestry sectors.

2. Peripheral areas which remain reliant on land-based productive sectors but lack connectivity and do not generate much associated economic activity in the area.
3. Connected commuter lands, defined by proximity to cities.
4. Attractive hinterlands outside commuter belts but attractive places to live. high demand for rural goods and services that feed affluent lifestyles.
5. Blighted backwaters suffering the negative legacy of rural industries that have largely disappeared.
6. Rural idylls which are the exception to the rule that rural opportunities rely on proximity to urban centres and markets. They have a thriving local economy based on particular local assets and appeal for which tourists are prepared to travel long distances.

Different types of economic opportunities will be prevalent in each of these areas, driven by the local circumstances. Recognition of this diversity results in a more nuanced and better targeted form of rural economic development. These different opportunities are described as the following types of economic activity:

1. Food economy. Major opportunities still exist to further develop the food economy based on increasing quality, adding value, improving market access and meeting consumer demand for high quality, local or regional specialities, organic and high environmental standard food. Smarter food supply chains are possible including direct selling, opening up public procurement and working on food education of consumers. Producers need support to be creative and innovative in overcoming logistical challenges.
2. Bioeconomy. This is a set of economic activities relating to the invention, development, production and use of biological resources to make new products development of new biomaterials, such as engineered wood or reed insulation, and in the production of bioenergy. The barriers to entry to the large-scale, high-tech bioeconomy are significant and it remains high risk.
3. Green and circular economies. The green economy is about taking advantage of growth opportunities that are environmentally sustainable, as well as improving environmental performance in ways that are economically and socially viable. The circular economy makes use of income streams from previously 'waste' materials.
4. Digital economy. Fast and reliable access is key for digital access to markets, digital services and digital marketing. Access to information, trading platforms, promotion of rural services and the ability to interact with consumers and potential visitors are also possible.
5. Social economy. Community-driven initiatives step in to fill gaps left by the cut back of public services. These initiatives can foster innovation in how services are delivered and/or tailored to the local situation.
6. Experience economy. New experiences such as instruction, guided visits or tasting sessions are built on natural features such as mountains, beaches and forests, sites of cultural or historic interest or local speciality products. They can support and help to develop new more 'generic' businesses including local shops, guesthouses, restaurants, cafés and even services such as transport
7. Residential economy. The incomes or pensions of older people moving into an area can generate opportunities for local shops and services. The silver economy services the needs of this element of the population e.g. healthcare, recreation.

The report points out that economic and business opportunities can be very different even within the same region. Business support policies therefore have to be sensitive to these spatial differences and respond to the evolving needs of rural businesses to help them take advantage of the emerging sectors.

Conclusions

1. The report reinforces the importance of the LEADER approach by its focus on local circumstances and the need for flexible, joined up business support tailored to local conditions.

2. The report provides a useful typology of rural areas and an analysis of the sort of economic activity that may be prevalent in such areas. This can lead to a more nuanced and better targeted rural economic development policy.

3. The concept of a smart support ecosystem of support drawing from experience within Wales and from partners in Scotland and the Basque Country could be one which Arsyllfa takes forward.

Appendices

Reimagining Rural Business Opportunities (2017). ENRD

_____