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**PLACED-BASED POLICIES FOR RURAL DEVELOPMENT**

**BASQUE COUNTRY, SPAIN (CASE STUDY)**

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This document was submitted for discussion to the Working Party on Territorial Policy in Rural Areas at its 6<sup>th</sup> Session held at the OECD Headquarters in Paris on 7 December 2004. The report will serve as an input to the OECD's Horizontal Review of Place-Based Policies for Rural Development.

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## Introduction

1. Rural areas still face particular challenges that require special attention from policy makers. Three specific concerns are often identified. First, employment opportunities in primary industries (largely agriculture) are declining. Second, out-migration of young people, along with in-migration of retirees in some places, has led to significant ageing of the population. Finally, most rural areas have difficulty establishing the necessary critical mass of facilities, producer services and investments to support economic development, so that entrepreneurs have difficulty starting up enterprises in the area.

2. Additionally, the recent phenomenon of globalisation confronts rural areas both with development opportunities and with threats not previously encountered, by loosening national ties and enforcing international competition. Globalisation is expected to bring gains to economies in their totality, but it will nonetheless pose severe problems of adjustment to a good number of rural regions. On the other hand, analysis of rural areas in OECD countries shows that a series of new opportunities are opening up, requiring appropriate policy support. These include increased demand on the part of urban dwellers for rural amenities, due to improved transport links either for recreational or residential purposes. Sustained endogenous development has also been observed, reversing patterns of economic decline and out-migration. The sources of economic success include dynamic SME clusters and industrial districts, development of diversified agro-industries, and rural tourism.

3. So far rural policy is still considered by many to be synonymous with agricultural policy in spite of important evolutions in this sector. Even among the most rural regions of OECD member countries, only one out of five jobs is in the agricultural sector (including forestry and fishing). An approach extending beyond agriculture is now required given that the majority of rural citizens, increasingly depend on employment and income generated by a complex mix of interacting economic activities. In this context, a shift is taking place in most OECD countries from traditional sectoral policies to place-based policies and this is evident in policies addressing development in rural areas.

4. Policy responsibilities and in some cases revenue-raising capacities have shifted from the central government to regional and local governments in the past decade in OECD countries. Not only specific tasks have been re-allocated to different agencies and the repartition of revenues revised, but more flexible institutional relationships have evolved. A wide range of governmental and non-governmental actors, including the voluntary sector and private enterprises, are gradually constituting policy networks within which solutions to common problems are jointly discussed and policy solutions developed. The functioning of these new forms of governance appears to have a number of key features.

5. First, formal mechanisms of horizontal and vertical co-operation between government bodies and partnerships with non-governmental actors are becoming more frequent. Local and regional authorities are building the necessary institutional bridges among themselves, with the central government, with social partners as well as with NGOs, so as to maximise local/regional participation in policy formulation and implementation. To facilitate these trends, central governments have, in some cases, begun to promote place-based agreements, such as inter-communal frameworks, regional platforms, territorial pacts and micro-regions. These structures promise more co-ordinated projects for local development and more coherent allocation of public resources. Given the increasingly favourable policy environment, local governments now need to further strengthen their own policy-making and implementation capabilities.

6. Second, in the context of these new partnership-based institutions, the role of citizen participation is increasingly emphasised. This permits public policies to be informed directly by representatives of the local community and grass-roots interest groups who have knowledge that can be harnessed to increase the responsiveness of public policy delivery. The bottom-up approach is increasingly anchored in the overall

system of territorial governance in member countries: the challenge is now to make it work more efficiently so as to effectively deliver more balanced, participative and inclusive governance.

7. Against this background, negotiation and contracts become central in establishing new governance structures and in creating dynamic interagency partnerships. Many OECD countries are reconsidering the importance of effective negotiation processes between sectoral government departments, between different tiers of government and between the government and private/voluntary sector actors (some of whom have a stronger bargaining position than others). The approach is based on the assumption that a negotiation process values, on the one hand, the richness of information available at the local level and on the other, the potentially wider vision of the central government. This process can then lead to a better assessment of relative need and thus to a more effective and accountable allocation of resources.

8. These shifts in territorial governance lie at the heart of the process of policy making in rural areas. These policies, present some common features such as:

- Shifting from a focus on a single sector to a new focus on rural places.
- Supporting specific activities to mobilise investment in emerging opportunities, taking full advantage of local resources and capabilities.
- Facilitating the shift from top-down incentives to the development of bottom-up projects targeting co-ordinated development. A bottom-up approach stresses the ability of rural citizens to identify issues, to formulate strategies and to be full partners in implementation.

9. Analysis of these changes, by means of assessments of some of the more promising recent initiatives of this type, will provide recommendations to assist member countries in improving their methods in the strategic phases of conception, negotiation, implementation and evaluation of place-based policies for rural development.

10. In this context a certain number of case studies on Place-based Policies and Rural Development have been requested to OECD. Analysis of the Mexican micro-regions strategy is the first one undertaken, followed by Spain with two case studies (Extremadura and the Basque Country). These are to be completed by Italy (Tuscany), Greece (Crete) and Hungary (Lake Balaton) in the course of 2005. These case studies will contribute to an OECD Thematic Review for Place-based Policies and Rural Development.

11. The following case study on the Basque Country is organised in four parts:

The context is presented in part one with developments on regionalisation and autonomy in Spain, a description of the specific governance features prevailing in the Basque Country and a profile of the rural areas within it. Part two is constituted by an analysis of the innovative rural development policies adopted by the Basque authorities, with a presentation of the successive strategic rural plans, the Social Pact and the Law on Rural Development. Part three analyses policy implementation through the Rural Development Programmes (PDRs), with the vision from the local level as well as that of the region. Part four contains an overall evaluation of rural development policies in the Basque Country and recommendations to improve their efficiency.

## 1. Context

### 1.1 Governance in Spain and the Basque Country

#### 1.1.1 A multi-tiered governance pattern

##### Autonomous Communities in Spain

12. Juan Carlos I became King of Spain at the end of 1975, the first free elections being held in 1977, followed by the approval in 1978 of a new Constitution allowing the formation of a type of federal system of government. Seventeen Autonomous Communities covering all of Spain were created between 1979 and 1983, the first ones being the Basque Country and Catalunya. As set out in the Spanish Constitution, all of the Autonomous Communities have a parliamentary form of government similar to the central government structure, set their own election dates, and have substantial law-making power. The creation of the Autonomous Community of the Basque Country (*Comunidad Autonoma del Pais Vasco* or CAPV), as authorised by the Constitution, was approved by the central government on 18 December 1979, after the vote of a “Basque Country Status” defining regional competencies.

**Figure 1. Regions in Spain: the Basque Country**



Source: OECD Territorial Database (2004).

### Sub-regional entities

13. The CAPV is formed of the three Provinces, or Historic Territories of Bizkaia, Gipuzkoa, and Araba. Following Basque tradition, the three historical territories also enjoy a large degree of autonomy: just as the CAPV, they each have their own parliament (*Junta General*) and provincial government (*diputacion foral*) nominated by the former. Thus, if the Basque government enjoys a large degree of autonomy, as compared to most regions in Europe, it shares many powers with its three constituent parts, entailing complex co-ordination mechanisms and practices. This is particularly the case for tax-raising and spending competencies, the collection of the former being delegated to the authorities of the three historical territories, while spending responsibility is a shared one (see below). Generally speaking, the three Historic Territories in the Autonomous Community of the Basque Country have a greater role than provinces in other Autonomous Communities.

### Municipalities

14. Below the previous level stand 286 municipalities, also exercising relatively extensive competencies (see further), with those in Araba sometimes divided into smaller units, (*Juntas Administrativas*). Because of their generally small size, municipalities in the Basque Country have a tradition of autonomous co-operation at the level of local areas called *comarcas*, but some *comarcas* encompass larger urban areas. The Basque country as a whole has 20 *comarcas*,<sup>1</sup> seven in Araba and Bizkaia and six in Gipuzkoa. These are based on history, geography, common economic features and the existence of one or two “hub” towns servicing the territory in case of typically rural areas. The rugged terrain of many parts of the Basque Country and, hence, easier access to certain areas than others, has facilitated this process, now maintained by travel times defining commuting areas. *Comarcas* are the level of choice in terms of rural development, as will be developed in part two. In historical terms, Araba has the longest tradition of *comarca* divisions (called *cuadrillas* there) within the Basque Country, dating to the 19<sup>th</sup> century, while *comarcas* in Bizkaia and Gipuzkoa began to appear only in the second half of the 20<sup>th</sup> century. Municipalities throughout Spain are also grouped into *comarcas*, but some regions have a long history of *comarca* divisions (Catalunya) while they are a much newer phenomenon in others (Aragon).

15. Provision of public goods and services in smaller municipalities is often ensured through a *mancomunidad*. These are small groupings of municipal governments that are often situated within a given *comarca*. The idea behind *mancomunidades* is that small municipalities seldom can provide on their own certain public goods and services where economies of scale are important, such as schools or hospitals. Consequently, these small municipalities need to group together in a *mancomunidad* to sub-contract or supply some specific services. The concept is quite flexible as *mancomunidades* can encompass municipalities from different *comarcas*.

16. *Comarcas* and *mancomunidades* are particularly useful for low-density areas and regions with many small towns. Both are particularly characteristic of Araba, as shown in Table 1. Araba has a much larger fraction of very small municipalities than do the other two provinces. Almost 90% of Araba’s municipalities have a population of less than 2 000. This compares with slightly over 50% in the other two provinces. Only 4% of Araba’s municipalities have a population greater than 10 000. This compares with 17.6% in Bizkaia and 21.6% in Gipuzkoa.

**Table 1. Size distribution of municipalities in the Basque Country, 2002**

	Number of municipalities	Percentage of municipalities with population						
		<=500	501-2 000	2 001-5 000	5 001-10 000	10 001-25 000	25 001-50 000	>50 000
Autonomous Community of the Basque Country	250	26.8	34.0	13.2	10.0	10.0	3.2	2.8
Araba	51	39.2	49.0	5.9	1.9	1.9	0.0	1.9
Historic Territories (Provinces)								
Bizkaia	111	20.7	33.3	18.0	10.8	8.1	5.4	3.6
Gipuzkoa	88	27.2	26.1	11.4	13.6	17.0	2.3	2.3

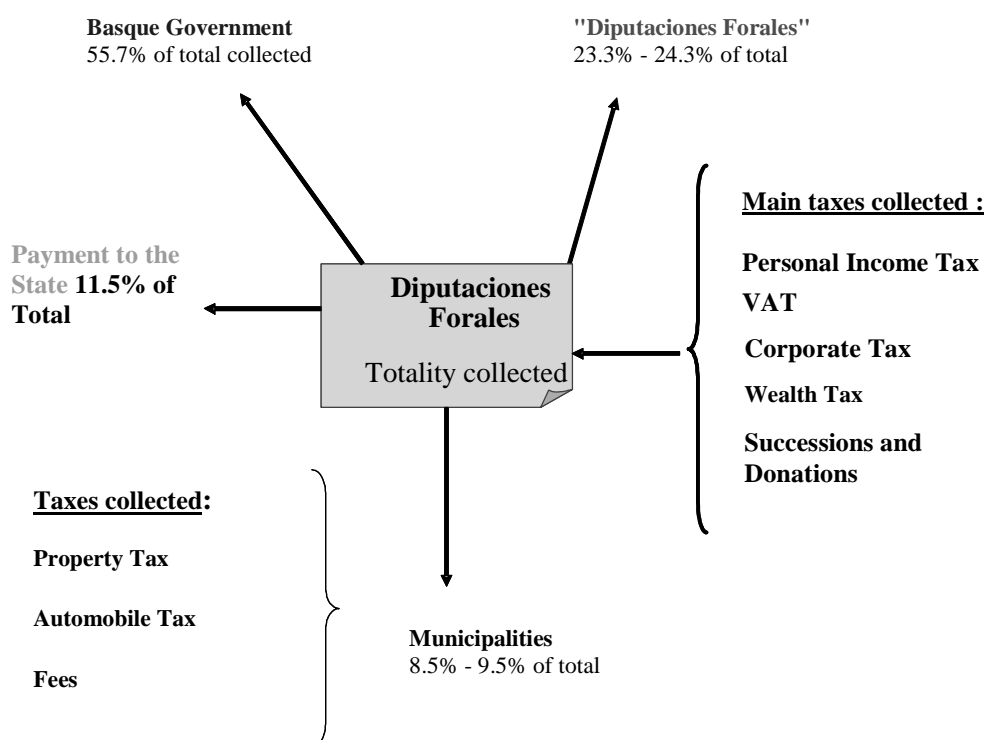
Source: EUSTAT.

### 1.1.2 Autonomous tax administration

17. The three provinces of the Basque Country (as well as Navarra) have historically had an arrangement of autonomous collection of revenue and distribution to a higher authority. This type of strongly decentralised public revenue arrangement for the Basque Country and Navarra has historically been part of the *fuero* tradition in these regions of Spain. The Constitution of 1978 maintained this historical revenue collection mechanism and for this reason the main taxing power rests with the governments of the Historic Territories, the *Diputaciones Forales*. These provincial parliaments, and not the national government, have authority over the personal income tax, the value-added tax, the corporate income tax, and the wealth tax in the Basque Country. However, these taxes must conform to the rate and base determined by the national government: in essence the three Basque provincial governments simply have the right to collect the tax. Figure 2 shows the complicated distribution of these tax revenues to different levels of government.

18. Part of this tax collection, currently 11.5%, is returned to the central government. The percentage returned is negotiated every five years with the central government, but the idea is that the funds pay for central government goods and services such as national defence and social security. A second portion of the taxes collected are distributed to the CAPV for its own budget, currently 55.7% of the total tax collected. A third portion is given to the municipalities within a province. Each province decides the portion to give to its municipalities and thus may vary between the three provincial governments, but the municipal portion is currently 8.5% for Araba and 9.5% for Bizkaia and Gipuzkoa. The remainder, currently 23.3% for Bizkaia and Gipuzkoa and 24.3% for Araba, is kept by the provincial government to finance its own spending. The CAPV also collects some taxes ceded to the Autonomous Communities of Spain, and the municipalities collect some fees and a property tax levied on structures (rather than land).

**Figure 2. Revenue sources and distribution in the Basque Country (2003 percentages)**



Source: Basque Government, Department of Agriculture and Fishing.

### 1.1.3 Spending competencies

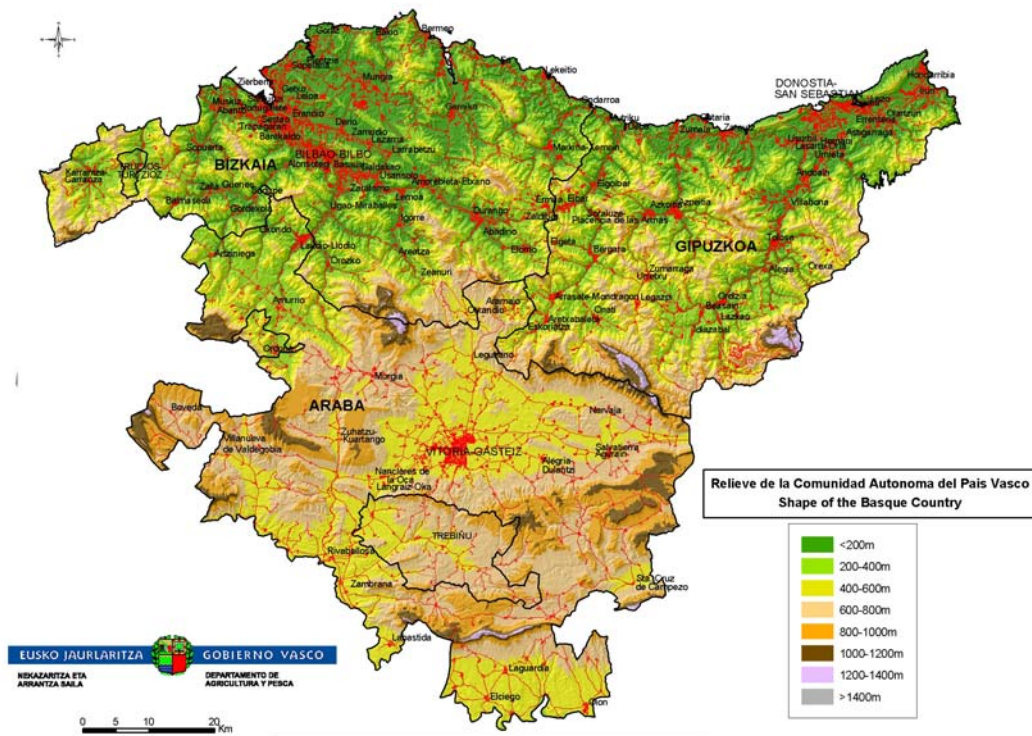
19. The spending competencies of the CAPV and the Historic Territories follow for the most part generally accepted spending assignments, with those of municipalities responding more to historic tradition. As defined by the Basque Country statute, the CAPV has exclusive responsibility in 31 areas including social assistance, scientific and technical research, economic planning, agriculture, forestry, fishing, canals, urban planning, housing, and industry. Thus, CAPV exclusive competencies, as assigned by the 1979 statute, encompass all areas associated with rural development. The CAPV does not exercise these competencies alone: it has delegated parts of these on an *ad hoc* basis to the provincial governments. This is particularly the case of rural development policy implementation. The exclusive responsibilities of the three Historic Territories are organisation and rules of their government institutions, rules regarding provincial and municipal services, their budgets, municipal elections, co-ordination of municipal services, supra-municipal services, help and co-operation on judicial, economic, and technical matters, provincial economic and social co-operation and development, and supra-municipal territorial designations.

20. In general, it is considered that municipalities should only have authority in areas that do not entail externalities, that cannot benefit from economies of scale, or for which equal provision across a larger territory is not deemed important. Municipalities in the Basque Country have, in particular, responsibilities in primary health care, social services, urban planning, housing, environmental protection, participation in school construction and school curriculum. Several of these seem to ignore the generally

accepted rules for expenditure assignment. For instance, environmental protection normally involves external costs and usually is the responsibility of a higher government level. Moreover, primary health care can achieve savings from economies of scale and could logically also be assigned to a higher level. In practice, the deviation from generally accepted expenditure assignment for municipalities in the Basque Country is partly compensated by the important development of municipal co-operation and co-ordination.

**1.2 Profile of rural areas in the Basque Country**

**Figure 3. Topography of the Basque Country and its historic territories**



Source: Basque Government Department of Agriculture and Fishing.

**1.2.1 Urban and rural diversity in the Basque Country**

21. The Autonomous Community of the Basque Country is situated in northern Spain, facing the Bay of Biscay and extending on the coast to the border of France. Its total landmass is of 7 270 km<sup>2</sup>. The population in 2002 was of 2 100 000 inhabitants. The Basque Country is a land of urban and rural diversity. The strong industrial tradition is represented by Bilbao (Bizkaia) and its former steel mills and shipping industry, with a remarkable reconversion towards the service sector, symbolised by the Guggenheim museum, located on a former industrial site. San Sebastian (Gipuzcoa) is well known for its

tourist amenities and its fashionable reputation as a seaside casino town. Vitoria (Araba), the capital chosen by the CAPV, has grown over the past 20 years from a sleepy and devitalised town into a bustling administrative and service centre. Rural areas located close to these three cities are submitted to intense urban pressure, creating challenges but also offering opportunities for rural development in these fringes.

22. On the whole, rural areas represent more than 90% of the territory of the Basque Country, but the population is predominantly urban. Thus, out of a total CAPV population of 2 033 172 in 2001, only 76 869 lived in rural areas,<sup>2</sup> where average population density is at 18.73 inhabitants per km<sup>2</sup>, as compared to an average density of 290 in the Basque Country. Within rural areas those classified as 2R, following EU criteria because of their economic and demographic devitalisation, represent 54.4% of the landmass, situated in 111 municipalities, but only 3.5% of the total population of the CAPV (74 144 inhabitants). Although it has declined over the years, the population working in agriculture in these zones stands at 19% in 2001, as compared to 2.47% on average for the whole Basque Country (Statistical Office of the Department of Agriculture and Fishing of the Basque Government).

### *1.2.2 Agriculture and forestry in the Basque Country*

23. The agricultural sector only represents 2.5% of total employment in the Basque Country in 2001,<sup>3</sup> which is far lower than the EU 15 average (around 5%) and than that of Spain itself (close to 9%). On the whole, the farming population is an ageing one: in 2002, there were more than four times as many farmers aged over 65 than those aged less than 40 and the former also represented a much higher percentage of land use for farming or cattle-raising. The primary sector in the CAPV generated a modest 1.01% of the GDP of the Basque economy in 2001, but export revenue corresponded to 4.4% of the Basque total the same year. On the other hand, food industries represent around 7.3% of the added value of Basque industry and are geared towards high quality and specialty niche markets (official Basque quality label). Agriculture and food industries together represent 3% of Basque GDP (Statistical Office of the Department of Agriculture and Fishing of the Basque Government).

24. The Basque countryside is highly forested: at 54% of the total landmass, this proportion being one of the highest in Europe, which explains that this activity represents 18% of total agricultural output in 2002. The share of soil devoted to pastures is higher (58%) than that used by crops (42%), although there are variations between the three historical territories, as detailed further. Araba, which possesses a small share of the renowned Rioja denomination wines extending into Navarra, is characterised by a higher crop output than its counterparts, whereas the other two provinces have a higher share of livestock output. Farming is developed mostly on the small family farm model<sup>4</sup> but the co-operative movement which is very powerful tends to compensate for the resulting fragmentation of activity. Only in Araba, which is the historical territory with the highest agricultural output (around 43% of the total for the CAPV), do farms have a higher average size than in other parts of the Basque Country.

### *1.2.3 Rural profiles and demography*

25. The three historic territories have somewhat different geographic terrains, as illustrated in the map above. Gipuzkoa has the most rugged terrain, with steep mountains throughout much of the territory. While San Sebastian provides a metropolitan environment, the mountains about the coast making travel between different areas difficult and time-consuming. This topography makes many towns in Gipuzkoa isolated and gives it a rural feel. Bizkaia is also a coastal province, but the terrain is much flatter in many parts. The presence of the large port city of Bilbao makes Bizkaia much less rural and more urban. Still, the western-most part of Bizkaia is characterised by many small and spread out villages. Araba is perhaps most classically rural. It is landlocked, depends more heavily on agriculture, and also has some mountainous regions that are relatively isolated. Araba is the largest in terms of area (a little over 3 000 km<sup>2</sup> versus about 2 000 km<sup>2</sup> for the other two), but has the smallest number of municipalities

(51 versus 111 in Bizkaia and 88 in Gipuzkoa). In spite of having the capital city of Vitoria and occupying a larger area, Araba has the lowest absolute population by far and thus the lowest density of the three provinces (Table 2).

**Table 2. Population, area, number of municipalities and densities in the historic territories, 2001**

	Population	Number of municipalities	Area (km <sup>2</sup> )	Density
Autonomous Community of the Basque Country	2 111 078	250	7 234.8	291.8
Historic Territories (Provinces)				
Araba	291 186	51	3 037.3	95.9
Bizkaia	1 136 451	111	2 217.2	512.6
Gipuzkoa	683 441	88	1 980.3	345.1

Source: EUSTAT.

26. The more classically rural character of Araba is evident in the higher amount of agricultural output as a percent of GDP (3.6% as opposed to about 1% in the other two provinces), as well as the higher employment in the agricultural sector overall and the higher rural employment in agriculture, as shown in Table 3. Employment in the agricultural sector in Araba is 2.8%, about twice as much as in the other two provinces, while rural employment in the agricultural sector is 16.3% in Araba and 9.4% and 9.8% in the other two provinces. The rural population also comprises a much larger fraction of the population in Araba, over 11% as compared to a little over 2% in the other two provinces.

**Table 3. Rural population, area, number of municipalities and densities in the historic territories, 2001**

	Rural density	Rural population as % of total population	Agriculture as % of GDP (2000)	% of population employed in agriculture	% of rural population employed in agriculture
Autonomous Community of the Basque Country		3.69	1.40	1.8	12.6
Araba	13.7	11.26	3.61	2.8	16.3
Historic Territories (Provinces)					
Bizkaia	32.9	2.31	0.97	1.5	9.4
Gipuzkoa	28.9	2.59	0.94	1.7	9.8

Source: EUSTAT.

27. These rather distinct features and in particular the more rural and agrarian nature of the economy of Araba do not translate into either a higher unemployment rate or a lower average income level than the average for the Basque Country, as indicated by Table 4. The Historical Territories have remarkably similar average incomes. The higher than average unemployment rate in Bizkaia is linked to the importance of the secondary sector in what is still the most industrialised part of the Basque Country.

**Table 4. Income and unemployment rates in the historic territories, 2001**

		Average income	Unemployment rate
Autonomous Community of the Basque Country		8 258	9.8
Historic Territories (Provinces)	Araba	8 301	8.3
	Bizkaia	8 163	11.8
	Gipuzkoa	8 399	7.2

Source: EUSTAT.

28. Rural areas in the Basque Country tend to have a slightly lower percentage of people under age 19, and a somewhat higher elderly population as shown in the demographic comparison of rural areas in Table 5. The higher than average proportion of elderly is particularly acute in Bizkaia. Those over age 65 comprise 25.3% of the rural population of Bizkaia, while only comprising 18.5% of the overall population of the same territory. The aged make up 21.3% of the rural population in Araba (relative to an overall average of 16% for the province) and 20.5% of the rural population in Gipuzkoa (relative to an overall 17.7% average in the territory).

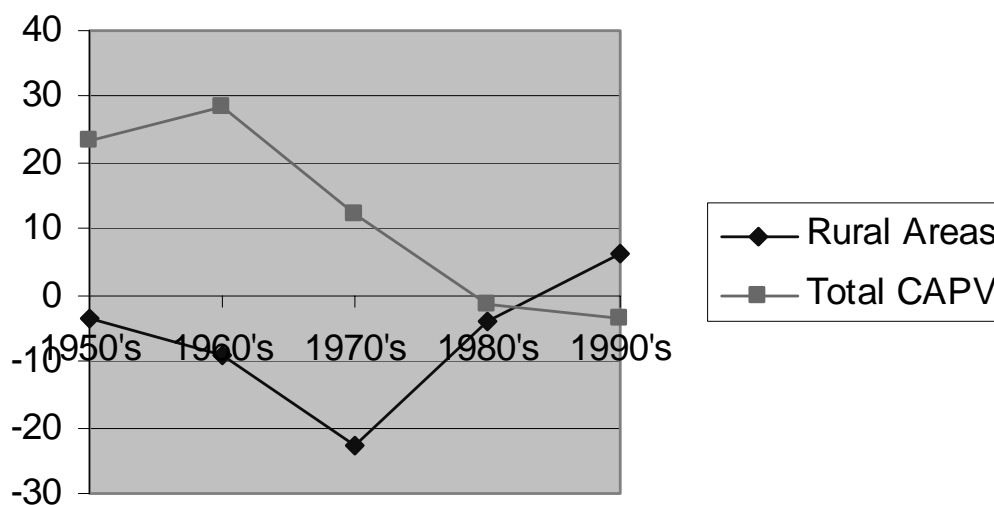
**Table 5. Demographic comparison of rural areas in the Basque Country, 2001**

	0-19 (%)	20-64 (%)	65+ (%)
Rural Araba	16.0	62.6	21.3
Total Araba	17.7	66.3	16.0
Rural Gipuzkoa	17.7	61.8	20.5
Total Gipuzkoa	17.5	64.8	17.7
Rural Bizkaia	14.6	60.1	25.3
Total Bizkaia	16.6	64.8	18.5

Source: EUSTAT.

29. The long-run population trend of rural areas in the Basque Country is shown in Figure 4, along with the population trend for the Basque Country as a whole. The figure shows a remarkable recovery in population growth in rural areas in recent years. The population of the Basque Country grew at double-digit rates during the 1950s, 1960s and 1970s, though the rate of growth was slowing in the 1970s. At the same time, the rural population in the Basque Country was falling and during the 1970s it was reduced by 23%. Over four decades, the rural population fell from 104 159 inhabitants in 1950 to 71 992 in 1991 (EUSTAT). During the late 1980s and 1990s population growth in the Basque Country as a whole became negative. The decline of the rural population started to slow, however, and in the mid-1990s it registered positive growth (74 434 inhabitants in 1996, increasing to 76 869 in 2001),<sup>5</sup> most probably under the combined impact of policies destined to stop rural out-migration (see next part) and a progressive change in life-styles (“return to the country”, development of commuting).

Figure 4. Long-run population trends in the Basque Country (population growth rate)



Source: EUSTAT and OECD calculations.

30. Despite the differences in density, municipality size, and agrarian and rural populations, education levels are quite similar across all three provinces as shown in Table 6. Araba has a slightly smaller percentage of people with no schooling, but somewhat more with only primary education, slightly more with some college training and about the same percentage as Gipuzkoa with a college degree. (The large percentage of the population without high school training in all three provinces is somewhat misleading since the figures count all those above the age of 10). A somewhat different picture emerges from a comparison of the education levels of rural and total populations in the three provinces in Table 7, however. The rural population of Gipuzkoa stands out as being the least educated. Eleven percent of the rural population above age 10 in Gipuzkoa has no formal education. This contrasts with only 5% of the rural population in the other two provinces. A lack of education beyond the primary level is a problem in rural areas of all three provinces, though less so in Bizkaia.<sup>6</sup>

Table 6. Distribution of education levels in the Basque Country, 1996

	Illiterate	No schooling	Primary	Professional	High school	Some college	College graduate
	%						
Autonomous Community of the Basque Country	0.80	5.56	47.79	14.62	15.70	5.97	9.46
Historic Araba	0.48	4.64	49.02	15.12	15.90	6.23	8.59
Territories Bizkaia	0.95	5.70	47.30	14.09	15.90	5.91	10.14
(Provinces) Gipuzkoa	0.68	5.72	48.11	15.32	15.50	5.97	8.67

Source: EUSTAT.

**Table 7. Distribution of rural/total education levels by province in the CAPV (% of population), 1996**

	Illiterate (%)	No schooling (%)	Primary (%)	Professional (%)	High school (%)	Some college (%)	College graduate (%)
Rural Araba	0.45	5.56	59.77	13.16	11.02	4.53	5.51
Total Araba	0.48	4.64	49.02	15.12	15.92	6.23	8.59
Rural Gipuzkoa	0.84	11.06	59.45	10.91	9.55	3.87	4.32
Total Gipuzkoa	0.68	5.72	48.11	15.32	15.53	5.97	8.67
Rural Bizkaia	0.77	5.00	54.89	14.77	12.14	5.28	7.15
Total Bizkaia	0.95	5.70	47.30	14.09	15.91	5.91	10.14

Source: EUSTAT.

#### 1.2.4 Contrasts between comarcas

31. A breakdown of the data by comarca in Table 8 shows that the provinces themselves are somewhat diverse and that the rural reality varies somewhat in economic and demographic terms from one historical territory to another, allowing even for certain contrasts between areas of this type within the same province. In Araba, four comarcas out of six have an undisputable rural profile (very low densities and usually higher agricultural employment) and one, the Montana Alavesa, has the lowest population density of all the Basque Country. In Bizkaia, only two comarcas have population densities much lower than 100 (but with low agricultural employment) while two others, at densities much higher than 100, also have a much higher agricultural employment rate. In Gipuzkoa, the mostly rural comarcas, four out of seven, have population densities over 100 that exceed by far those of Araba and even Bizkaia, but their agricultural employment remains low.

32. Looking more closely at contrasts within each territory, it can be noted that three comarcas in Araba have particularly high agricultural employment, constituting about 20% of total employment in the small area: Valles Alavesa, Montana Alavesa, and Rioja Alavesa. Of these, Valles Alavesa and Montana Alavesa also have very low densities, and a low percentage of young people. Another comarca, Etribaciones de Gorbea, also has a low density level, but is not nearly so agriculturally based, with about 6.5% of employment in agriculture. Bizkaia has three comarcas with important percentages of people employed in agriculture, albeit at relatively different levels: Markina-Ondarroa (13%), Gernika-Bermeo (9.4%), and Encartaciones (6.7%). Gipuzkoa has only a single comarca with agricultural employment greater than 3%, Urola-Kosta (where the reputed Txacoli white wine is produced), which registers 4%.

**Table 8. Density, age distribution, agricultural employment by comarca in the Basque Country, 2001**

Province	Comarca	Density	Age distribution			Percent employed in agriculture (%)
			0-19	20-64	65+	
Araba	Arabako Ibarrak / Valles Alaveses	7.3	12.5	63.0	24.6	17.45
Araba	Arabako Lautada / Llanada Alavesa	291.9	18.0	66.8	15.3	1.26
Araba	Arabako Mendialdea / Montaña Alavesa	6.4	10.9	60.0	29.1	21.80
Araba	Errioxa Arabarra / Rioja Alavesa	31.7	16.9	60.4	22.8	21.91
Araba	Gorbeia Inguruak / Estribac. del Gorbea	17.0	18.0	64.9	17.1	6.48
Araba	Kantauri Arabarra / Cantábrica Alavesa	98.5	17.3	66.3	16.4	3.33
Bizkaia	Arratia Nerbioi / Arratia-Nervión	53.1	16.6	62.8	20.6	2.78
Bizkaia	Bilbo Handia / Gran Bilbao	2 138.8	16.4	64.9	18.7	0.51
Bizkaia	Durangaldea / Duranguesado	285.1	18.0	66.1	15.8	1.14
Bizkaia	Enkartzioak / Encartaciones	69.1	15.8	62.6	21.6	6.73
Bizkaia	Gernika-Bermeo	155.2	16.1	62.5	21.4	9.38
Bizkaia	Markina-Ondarroa	128.2	16.5	62.8	20.6	13.03
Bizkaia	Plentzia-Mungia	214.3	19.7	65.9	14.4	2.43
Gipuzkoa	Bidasoa Beherea / Bajo Bidasoa	1 000.6	18.3	65.4	16.3	2.31
Gipuzkoa	Deba Beherea / Bajo Deba	300.8	15.7	63.4	20.9	1.69
Gipuzkoa	Deba Garaia / Alto Deba	178.0	17.3	64.8	17.9	0.83
Gipuzkoa	Donostialdea / Donostia-San Sebastián	1 017.6	16.9	65.3	17.8	1.28
Gipuzkoa	Goierri	180.7	17.6	63.8	18.5	1.43
Gipuzkoa	Tolosaldea / Tolosa	133.4	18.4	64.5	17.2	2.43
Gipuzkoa	Urola-Kostaldea / Urola Costa	203.0	19.8	64.2	16.0	4.02

Source: EUSTAT and OECD.

33. To summarize, the picture of the Basque Country that emerges is diverse. Araba has a much lower density, a higher rural population, and a more important agricultural sector than the other two provinces, Bizkaia and Gipuzkoa. Much of Araba's rural problems thus seem to stem from its low density. Moreover, Araba itself is somewhat diverse and this low-density/high-agriculture character is particular to three comarcas within Araba: Valles Alavesa, Montaña Alavesa, and Rioja Alavesa. Although low-density/higher-agricultural employment (as compared with other comarcas in the province) is also a factor in the Gipuzkoa comarca of Urola-Kosta, the major rural problem of Gipuzkoa relative to the other two territories is an insufficient level of education in the rural population. The major problem for Bizkaia relative to the other two provinces is a substantially higher proportion of elderly in the rural population. Thus, on a general level, each of the three provinces faces somewhat different rural issues, meaning that the elaboration of the *Programas de Desarrollo Rural* (Rural Development Programmes, PDRs) at the level of each comarca, analysed in the next part, presents the opportunity to elaborate true place-based strategies answering the differing local challenges of each rural area.

## 2. Rural development policy goals and framework

### *Introduction*

34. Rural development policy in the Basque Country is based on an overall vision aiming to ensure a balanced territorial, economic and demographic structure between rural and urban regions. Different tools of a complimentary nature, reflecting different types of concerns, have been conceived to this end: strategic operational plans (since 1992) that are regularly up-dated, a “Social Pact for the Development of Basque Rural Areas” (first signed in 1998) and a “Law on Rural Development” (1998).

35. The strategic operational plans that are renewed for four years since 1992 (six years for the current one covering the period 2000-2006) encompass the different sectoral measures based on the use of EU and Basque funds for agriculture and rural development. Their aims and content has evolved over the years as the concept and methods of rural development have become more far-reaching and synergistic. The “Social Pact for the Development of Basque Rural Areas”, signed in 1998 and renewed in 2004 is a solemn and consensual document bringing together public and private actors, which embodies the principles of rural development based on the affirmation of rural identity and potential. Finally, the Rural Development Law, adopted by the Basque Parliament in April 1998 provides guidelines for different policy fields in rural areas, defines and institutes the bodies and mechanisms responsible for the co-ordination of rural development policies while drawing up a framework for local initiative in the form of “Programmes of Rural Development”.

36. Rural development policies in the Basque Country over the more than 20 years since devolution have progressively evolved from a sector approach towards a cross-sector one, with the basic ideas of place-based policies (specific policies addressing the needs of certain rural areas and not only broad rural or agricultural support programmes) soon incorporated into these. The first measures adopted by the Basque government at the end of the 1970s and the beginning of the 1980s, following guidelines of EU policy, were typical programmes conceived to modernise agriculture: agricultural development translated into support programmes for investment in machinery, equipment and genetic improvement.

37. As early as 1985, positive discrimination measures benefiting mountain regions were introduced, a first response to the need for specific policies to help less favoured areas. Decree 394 of 1985 instituted a “Specific Regime for Agriculture in Mountain Areas”, establishing 20 “Comarcas” of Mountain Agriculture, including 195 of the 228 municipalities in the Basque Country. This new approach represented the first effort to institute in the Basque Country a structural policy with a precisely defined territorial base. It permitted to take into account, alongside basic agricultural development requirements in these zones, the broader pre-conditions for economic sustainability such as infrastructure improvement. More so, it initiated a networking process through the creation of local committees and “Associations of Mountain Agriculture”.

## ***2.1 The strategic operational plans***

38. The next decisive impulse was given in 1992 with the approval of the “Basque Country Strategic Rural Plan”, incorporating and bringing together in a holistic approach scattered policy tools such as EU structural funds and the first LEADER programmes, while adopting the wider logic of rural development rather than that of support mostly limited to agriculture. This strategic rural plan represented the first steps towards an organised policy of rural development with an integrated, participatory and dynamic vision for the future. This plan, covering a four-year period up to 1996, was elaborated through an intensive consultative process associating the public and private sectors. It anchored the concept of rural development in the Basque Country along the following lines:

- Competitiveness of the primary sector;
- Development of rural industries;
- Protection of the natural environment (creation of a network of natural parks and approval of a long-term forestry plan covering the period 1994-2020);
- Regeneration of the socio-economic fabric of rural zones through measures aiming to slow the depopulation process, in particular by improvement of rural housing and quality of life.

39. The 1997-2000 “Action Plan for the Development of Basque Rural Regions”, elaborated and adopted through a consultative process comparable to that of the strategic rural plan and containing similar types of measures, received strong impetus thanks to the adoption of the Rural Development Law (April 1998), recognising in particular the multi-functional character of rural areas (see below).

40. The 2000-2006 “Plan for Sustainable Rural Development” includes measures in favour of nine different policy areas, with a particular emphasis on the settlement of young farmers, the environment and tourism. Even though rural development measures are increasing in this plan, only two policy areas (the environment and “development and adaptation of rural areas”) are not linked to farming or forestry activities, with agriculture still receiving the bulk of attention, as indicated by the allocation of financial resources up to 2003 that is analysed in part three.

## ***2.2 The Social Pact***

41. Consulting and engaging the different rural actors not only in the elaboration of the action plan but in the solemn recognition of the societal values embodied in the affirmation of rural identity and regeneration also appeared necessary to give the necessary momentum to these new policies. This was accomplished through the signature of a “Social Pact for the Development of Basque Rural Areas” (1998), between all the public and private actors concerned (Basque and Provincial administrations and agencies engaged in rural development, professional organisations, NGOs). The Social Pact (excerpts in the box below) was renewed in a very solemn way in May 2004, in the presence of the *Lehendakari* (President of the Basque Government) and the Mayor of Bilbao who both signed the document. This high level recognition underlines the attention given to rural development in the CAPV and also stresses the importance of proper urban/rural linkages.

**Box 1. Social Pact for the Development of Basque Rural Areas**

“Rural areas constitute the place by excellence for all societies that pretend to promote their modernity and progress while being proud of their own idiosyncrasy and specificity. It is necessary for this reason that we should be able to make the rural space something animated, lively, the place where all activity is shared...”

**...For these reasons, by mutual agreement between farmers and the rural population on one hand and the society in general with its different public institutions on the other, the signatories hereby recognise:**

**Firstly.** Us the farmers, will develop our economic activity so that from it derives a generation of wealth by the production of quality food and raw materials, with character and guarantee for the consumer and the whole society, applying the material and technological means required and by striving to achieve the adequate professional qualification to obtain the best returns possible, compatible with the requirements of sustainable economic development and adequate management and conservation of natural resources, biodiversity, scenery and all that contributes to preserve and develop in a harmonious fashion rural communities, with their culture and idiosyncrasies.

**Secondly.** Us, the inhabitants of rural areas, we shall continue to develop our function of managers of rural spaces and their economic, environmental, social and cultural values, offering to the whole of society the service derived from such functions and the enjoyment of such values, adapting our conducts to the requirements of conservation and sustainable development of these areas.

**Thirdly.** Us, the citizens in general recognise the great value of the contributions and services rendered by farmers and the rural population, engaging ourselves in its knowledge and enjoyment with respect for its personality and idiosyncrasies, also expecting from the different public institutions, in the areas of their respective competencies, the adequate measures to render possible the maintaining and development of the engagements subscribed by agricultural organisations and the rural population.

**Fourthly.** We, the different public institutions, assume the engagement of establishing the measures of a legal nature, of sectoral character and incentives for farmers and the rural population that are deemed necessary so that these organisations can fulfil in a reasonable fashion the engagements they have taken.”

### ***2.3 The Law on Rural Development***

42. The “Law on Rural Development” adopted in April 1998 by the Basque Parliament defines policy objectives for the development of rural areas in a cross-sector approach and provides guidelines for the organisation of local initiative and strategies while setting up the bodies and mechanisms necessary to ensure proper co-ordination across levels of government.

#### *General objectives*

43. The preamble to the law introduces the concept of a “multi-functional rural space” meaning one that “generates revenue and employment; that protects the natural environment, nature and scenery; that encourages the sustainable management of the territory; that guarantees the existence of rural communities and that contributes to maintain a specific culture and life-style”. The link with Basque society in general and the quest for overall coherence of rural-urban linkages is clearly stated as follows: “The contribution of the multi-functionality of the Basque rural areas to the rest of society will depend on the attention that will be given to these areas in the socio-economic and territorial design of the country as a whole, seeking balance in its relations with the urban areas and creating the necessary conditions to shape an attractive environment, able to slow down depopulation and attract new residents and new activities”.

44. Positive discrimination in favour of rural areas experiencing decline is the second major principle referred to in the law. Such a positive discrimination of a general character is presented as allowing “to ponderate the use of criteria of an economic nature or minimal thresholds of population for the provision of

basic infrastructure”. The underlying logic is that the “integrated development of rural areas sought by society is particularly possible in the Basque Country because of its limited geographical extension and its high average density of population as well as a significant level of general economic development”.

45. The third major feature of the law is a strong cross-sector emphasis. The law thus states that it “strives to give satisfaction to the requirement of articulating the instruments that, equipped with the necessary flexibility, permit the co-ordinated projection of sectoral policies over the reality of the rural world, that transcends purely economic or production oriented aspects. This will reinforce co-ordination in the decision-making process and in strategic planning in favour of the rural world, bringing its application to the levels that are the closest to the problems faced by rural populations”.

#### *Cross-sector approach*

46. The policies that are specifically addressed by the law are the following:

- Spatial policy and land use;
- Agriculture and forestry;
- Diversification of the economic fabric;
- Education and culture;
- Housing;
- Infrastructure;
- Health and social services;
- Environmental protection;
- Tourism.

#### *Spatial policy and land use*

47. The main objective pursued is to ensure that spatial planning but also urban planning instruments are established by integrating the characteristics and requirements of rural areas, with a view to conjugate in a harmonised fashion the protection of natural resources and soil having high agricultural or forestry value with the pursuit and development of economic activities and an adequate level of services to rural populations. The aim is to properly take into account the consequences of urban growth in the countryside (land-use and sprawl but also demand for amenities) when “rural areas are attributed functions originating in the urban environment and destined to satisfy the needs of the latter, within the limits of compatibility with the objectives of rural development policy”.

#### *Agriculture and forestry*

48. The principal aim is to improve the competitiveness of these mainstays of the rural economy, through different methods. One is stimulation of product differentiation by quality and marketing in view of optimising productivity, with particular attention given to endogenous development and promotion in the closest markets. The same principles apply to the agri-food sector, in which high added-value is to be sought. Technical and management training as well as use of Information and Communication

Technologies are other priority areas of development. Creating jobs in agriculture and attracting young people back to farming are also proclaimed goals.

#### Diversification of the economic fabric

49. The creation of SMEs in the industrial sector is to be sought, with special attention to local firms transforming local products, as well as SMEs in the service sector. Due attention is to be given to new organisational models based on ICTs that improve working conditions. Overall job creation and equal opportunities are specifically targeted.

#### Education and culture

50. The law refers to the guarantee of adequate access of the rural population to education following criteria taking into account rural characteristics including compulsory education in the most remote and smallest settlements. It also mentions improving the quality of teaching, using innovative models adapted to the rural areas and facilitating knowledge of the rural world and culture by its inhabitants. Vocational training tailored to local needs should facilitate recruitment requirements of new firms, facilitate the recycling of the active population and introduce new technologies and production methods.

#### Housing

51. Adequate attention to housing issues is an important factor to mitigate negative demographic trends while preserving the attractiveness of villages. The law thus refers to a quality housing policy adapted to the specificity and requirements of rural areas, rendering these attractive as location for usual residence, avoiding speculation and encouraging access by young people.

#### Infrastructure; basic health services

52. Adequate provision of infrastructure in all areas, including telecommunications infrastructure, is stated as a requirement to ensure that all citizens have equal opportunities insofar as access to services is concerned. Offer of health services should progressively be organised so as to adequately take into account the needs of the smallest and remotest settlements.

#### Environmental protection; tourism

53. Sustainable development of rural areas and protection of bio-diversity are to be pursued bearing in mind the requirements of future generations. Promotion of rural tourism and of agro-tourism in particular will be organised so as to avoid the pitfalls of mass tourism, by maintaining adequate balance between traditional activities and the natural environment, with proper attention to endogenous initiative.

#### *Implementation: "Rural Development Programmes"*

54. The "Rural Development Programmes" or *Programas de Desarrollo Rural* (PDRs) defined by the law are an essential tool of rural development policy. It specifies that "policies specifically directed towards the development of rural areas in the Basque Country will adopt the form of "Rural Development Programmes". These programmes, approved by decree by the Basque Government and the *diputacion foral* (local area) include:

- A clear delimitation of their geographical territory and the period of application;
- A description of the socio-economic problems detected in the area and the corresponding diagnosis of the deficiencies and needs;

- The determination of the specific objectives to be attained in each sector of activity or area of administrative action;
- The programming of precise actions to attain the specific objectives, paying attention to the sectoral policies and plans applied in rural areas;
- Financial planning of the corresponding actions;
- The establishment of a system of evaluation.

55. Objective criteria are identified to help in establishing the perimeter of areas where PDRs will apply:

- Low population density;
- Strong depopulation trend;
- High ratio of agricultural employment as compared with total employment;
- Sensitivity of the area to the evolution of the farming sector, in particular with reference to CAP reform;
- Classification as a mountain or less favoured area following Article 3 of EU Directive 75/268;
- Environmental sensitivity of the zone and presence of elements of natural, cultural or scenic value.

56. On the basis of these broad criteria the law predefined nine comarcas where PDRs were to be drawn up within a delay of two years: six in Araba, two in Bizkaia, one in Gipuzkoa, leaving to the diputaciones forales the responsibility of including other areas responding to the same basic characteristics. Nine more have since been added. Out of this total of 18 PDRs, 10 have been formally approved by decree (the first only in March 2003) and eight others are in the process of approval mid-2004. The approval process is a long one, in which several bodies intervene (see below), so a pragmatic approach has been taken by Basque authorities: implementation of a PDR can start before formal approval. This raises the issue of possible initiatives that would not necessarily correspond to the general aims of rural development policy. On the other hand, the active role in the elaboration of the PDRs played by the officially recognised Rural Development Associations or ADRs (*Asociaciones de Desarrollo Rural*), which are presented further and that of Mendikoi, which reviews initial plans, can be considered as constituting guarantees until formal approval.

57. Actions contemplated in the comarcas within the framework of a PDR are organised around four policy areas. The first concerns development of economic and entrepreneurial activities and diversification, strengthening in priority agricultural activity, with particular attention to endogenous development initiatives. The second area relates to sustainable management of the environment, protection and restoration of nature. The third set of measures applies to development and upgrading of infrastructure. The fourth field concerns public services, with the goal of attaining the same delivery level as in other parts of the Basque Country.

58. The law also specifies the process of elaboration of a PDR, with joint initiative taken by the department of agriculture of the Basque Government and the corresponding diputacion foral that are competent in the field of agriculture and rural development. These administrations, at both levels of

government, are responsible for collecting from other administrative departments and agencies the sector information required that could apply to the proposed areas. They are also responsible for the management of the process and the formulation of the initial and then the definite proposal for the PDR. These proposals (draft and final) are the result of a discussion and negotiation with the local ADR, with the public agency Mendikoi (see below) validating the overall strategy. The process is a public one, with information released so that individuals and parties concerned can formulate their views. The overall process lasts around six months, with milestones indicated by the law. Execution of a PDR is a shared responsibility between the CAPV, the diputacion foral and the municipalities within each comarca having such a plan, following the division of administrative competencies indicated in the preceding part of this case study. Control of proper use of public funds is ensured, for each PDR, by a Follow-Up Committee (*Comite de Seguimiento*) comprising representatives of the EU, the Spanish government, the CAPV, the diputacion foral and the ADR.

### *Multi-level governance and institutions*

59. The law on rural development has instituted specific bodies and mechanisms to ensure proper co-ordination between the Basque Government, the diputaciones forales, the comarcas, municipalities and all local actors concerning elaboration and application of the PDRs. These bodies are: Landaberri (at the CAPV level) and, at the level of the historical territories, Landaraba, Landagipuzkoa and Landabizkaia. The law also defines the role of the officially recognised *Asociaciones de Desarrollo Rural* (Rural Development Associations, ADRs) in these processes, including conception/implementation of projects. In this context the public company Mendikoi created in 1994, placed under the responsibility of the Department of Agriculture and Fishing, that is present in all three historical territories, plays an important role in the preparation and implementation of the PDRs.

#### Landaberri

60. Landaberri is the supreme organ of co-ordination and inter-institutional collaboration in the field of rural development in the Basque Country. It is presided by the Basque Government Counsellor (minister) in charge of agriculture and rural development. Its statutory members are the CAPV counsellors in charge of spatial planning, industry, their counterparts from the three diputaciones forales in charge of agriculture and rural development; a representative of the rural municipalities of each of the historical territories, designated by a representative association of municipalities. Other administrations participate in the meetings on an *ad hoc* basis, depending on the agenda. Working parties can be created within Landaberri whenever necessary. The law also institutes within Landaberri a "Consultative Council on Rural Development". This council has the specific responsibility of establishing a report prior to the formal approval of each PDR.

#### 1) Landaraba, Landagipuzkoa, Landabizkaia

61. The membership of each of the three bodies corresponding to Landaberri at the level of the historical territories is determined by each diputacion foral. They also have the faculty of establishing working parties and a consultative council similar to the one at the level of Landaberri. The role of Landaraba, Landabizkaia and Landagipuzkoa is also to instruct each PDR proposal before it is transmitted to the diputacion foral itself for approval. This power also relates to any diputacion foral standard, decree or measure that might affect these rural areas, for which they must first be consulted. These three historical territories level co-ordination bodies were instituted as compulsory by the law passed in 1998 but setting these up has proved to be a lengthy process. Landagipuzkoa was set up in November 2002, thus permitting proper instruction of PDRs in that historical territory but Landaraba was only established in April 2004 while Landabizkaia is still in limbo. These delays raise the question of the effectiveness of the consultation process in the elaboration of the PDRs. Why constitute consultative

mechanisms if they are not implemented in a timely fashion? Will approval of the PDRs be just a formality or will pragmatic consultation mechanisms have replaced those of the delayed institutions?

## 2) Asociaciones de Desarrollo Rural (ADRs)

62. The Rural Development Associations (ADRs) are private law entities representing the different socio-economic sectors in an area where a PDR is instituted. Membership is open also to local public actors. These associations are (where they existed beforehand), the successors of the “Associations of Mountain Agriculture” that were created in 1985, meaning that they correspond to a long standing tradition of consultation and dialogue with public authorities concerning rural development strategies. Official recognition of the associations is to ensure that they are fully representative of all local interests by their membership.

63. Each ADR comprises an Assembly of members which elects a *Junta Directiva* (executive body) headed by a local manager supported by a permanent team of two to three people. Some of these are assigned specific tasks such as tourism development or ICT awareness and training. The association, usually headquartered in the offices of one of the municipalities of the comarca, disposes of a yearly operational budget (averaging EUR 90 000) funded by a combination of local and regional governments that differs somewhat between the provinces. In Gipuzkoa 80% comes from the towns and 20% from the Autonomia, in Bizkaia 60% is from the provincial government, 20% from the towns and 20% from the Autonomia, and in Araba 80% is from the provincial government and 20% from the Autonomia. The ADR’s intervention in the PDR process from inception to implementation of projects is clearly defined by a contract (*convenio*) to ensure that rules of public accounting in management of public funds are observed.

## 3) Local development agencies

64. Numerous local development agencies at the level of comarcas have been created as private entities, either with the support of local institutions or even with local government entities (municipalities) as shareholders. Local development agencies permit exchange of information and knowledge between stakeholders and offer support to local citizens and entrepreneurs as well as potential investors. As nearly all comarcas have a PDR and hence an Association for Rural Development, it is not clear if the role of each, although distinct, does not lead in certain cases to overlapping activities or, at the least, introduce complexity for citizens or small firms seeking funds for projects. Adequate co-ordination is essential in these matters in small areas.

## 4) Mendikoi

65. Mendikoi has the mission of planning and implementing training modules for agriculture and rural development and more generally of promoting rural development on the basis of the strategies deployed by the Department of Agriculture and Fishing. It was created in 1994 to promote rural and agricultural development and became a public agency in 1997 when it assumed training missions. Mendikoi employs 92 permanent staff but temporary contracts put the number of employees at the level of 100. The operational budget is around EUR 7.5 million, with 5 million devoted to salaries. However, the bulk of resources remains devoted to agrarian training as only 14 employees work on a permanent basis in the area of rural development. This might prove to be insufficient in the future, due to the expansion of rural development programmes and the increased number of projects. The agency is based in the rural heartland of the Montana Alavesa, in the village of Arraia-Maeztu (717 inhabitants) and it maintains offices in each of the historical territories, close to the provincial capital.<sup>7</sup>

66. Mendikoi plays an essential role in the elaboration process of the PDRs by ensuring proper co-ordination, encouraging effective participation of local stakeholders in the preparatory and than operational phase. It participates directly in the planning of the PDRs and follows implementation, with the aim of facilitating the management of resources. Concerning rural development, Mendikoi also ensures tasks linked to project analysis, with a focus towards SME creation and support. Lastly, it carries out studies concerning rural infrastructure and deployment of public services (social services, schools).

67. In the field of training, mostly in agriculture, Mendikoi co-operates with the Department of Education of the CAPV, Universities and research centres. Each of the offices has training facilities dispensing three types of courses:

- Agrarian training, following specific rules, with organisation and inspection supervised by the Department of Education, with an emphasis on farm management. It is planned to dispense such training in companies and abroad through scholarships.
- Continuous vocational training, with courses of less than 150 hours in areas that are defined under the sole responsibility of Mendikoi according to specific needs detected and linked to rural development potential (for instance agrotourism). The courses are managed by Mendikoi and financed by the European Social Fund.
- Intensive vocational training, with courses over 150 hours, following the same rules as the preceding category.

68. In the area of Information and Communication Technologies, Mendikoi is fast developing its role. The agency is in charge of the operation of the Internet and ICT bus that covers rural areas in the Basque Country to dispense ICT sensitisation and training courses. Also, Mendikoi ensures strategic tasks in the deployment of LEADER + projects in the Basque Country, entirely aiming to harness ICTs for the benefit of rural development: Mendikoi is one of the stakeholders, along 16 ADRs, in the Local Action Group called Mendinet (see part three), thus facilitating preparation, instruction and monitoring of projects.

##### 5) The World Rural Forum

The World Rural Forum (*Foro Rural Mundial*) is an association constituted in 1999 with the support of Basque authorities to “promote the multi-functional development of rural life in the context of globalisation”. Members of the association are co-operatives, firms and individuals. The association operates as a network mostly within Europe and also Latin America but also with Africa and Asia. It has agreements with institutions such as IICA (Institute for Co-operation in Agriculture) and the Spanish Network for Rural Development (Red Rural Espanola). The Forum organises seminars, conferences and various gatherings to further analysis on the effects of globalisation on rural life, societies, economies and the environment. It seeks to identify actions to ensure sustainable development in the context of globalisation and formulate proposals for integrated policies in the rural world. In doing so the forum strives to facilitate the exchange of experiences, based on its own activities within the Basque Country, where it also organises seminars and training sessions for Basque audiences.

### **3. Rural development policy implementation**

#### ***Introduction***

69. Rural development policies are implemented through a number of different institutional structures and co-operative mechanisms that reflect the decentralised character of Basque Country governance. Thus the main responsibility is within the hands of the Department of Agriculture and Fishing (Directorate of Rural Development) of the CAPV, overseeing the activity of Mendikoi, but each diputacion foral possesses its own department in charge of agriculture and these constitute important partners for the former in policy co-ordination and implementation.<sup>8</sup> The principal formulation of rural development policies is spelled out in the Rural Development Law of the CAPV. The main financial tool through which rural development policies are implemented is the Sustainable Rural Development Plan (PDRS) of the CAPV (2000-2006). This is a document that delineates general areas of rural development in accordance with guidelines established by the European Commission. The projects funded under the PDRS are co-financed by the EC with funds from FEOGA-G.

70. Now looking at policy implementation from the local level, each comarca within the CAPV has its own rural development program (PDR). Each PDR is designed separately by each comarca, although the same methodology, based on the Law of Rural Development, is used. Although the CAPV is the legal regional entity recognized by the EU through which funds are distributed and so presents the projects funded under the Basque Country PDRS to the Commission, the PDRS is designed with the local PDRs in mind and the latter are to be in conformity with the general aims of the former.

71. Rural development policies in the Basque Country whereby a local comarca with no own-revenue (except those of the constituting municipalities) plays a major role in designing projects while separate higher level entities (provincial governments, the Basque Government, and the EU) are responsible for financing rural development policies presents problematic issues in delivery. Major difficulties can arise from the separation of program development (the PDR) from the source of finance, although the ADRs mentioned above play a useful role as go-betweens to ensure that projects under consideration are both in conformity with the PDRS and eligible to financing. Nonetheless, there is an important need for *ex-ante* cost-benefit analysis of projects, with this role being played in certain cases by either Mendikoi or by private consultancies but it does not seem that there is a systematic approach to this problem.

72. Another difficulty arises from the fact that funding is only agreed on an annual basis, meaning that projects requiring multi-annual funding are more difficult to evaluate and implement, what with uncertainty linked to financing after the first year. The compulsory *Plan de Gestion Annual* (PGA) seeks to co-ordinate and secure resources for projects on an annual basis. The final objective is to finance all the projects included in the PGA. To do this, a consensus concerning the projects must be arrived at between the ADRs and public administrations. From a practical point of view, it can be noted that, in spite of the fact that the PGA is an obligatory procedure, some comarcas prepare their PGA with some delay, rendering the exercise quite theoretical.

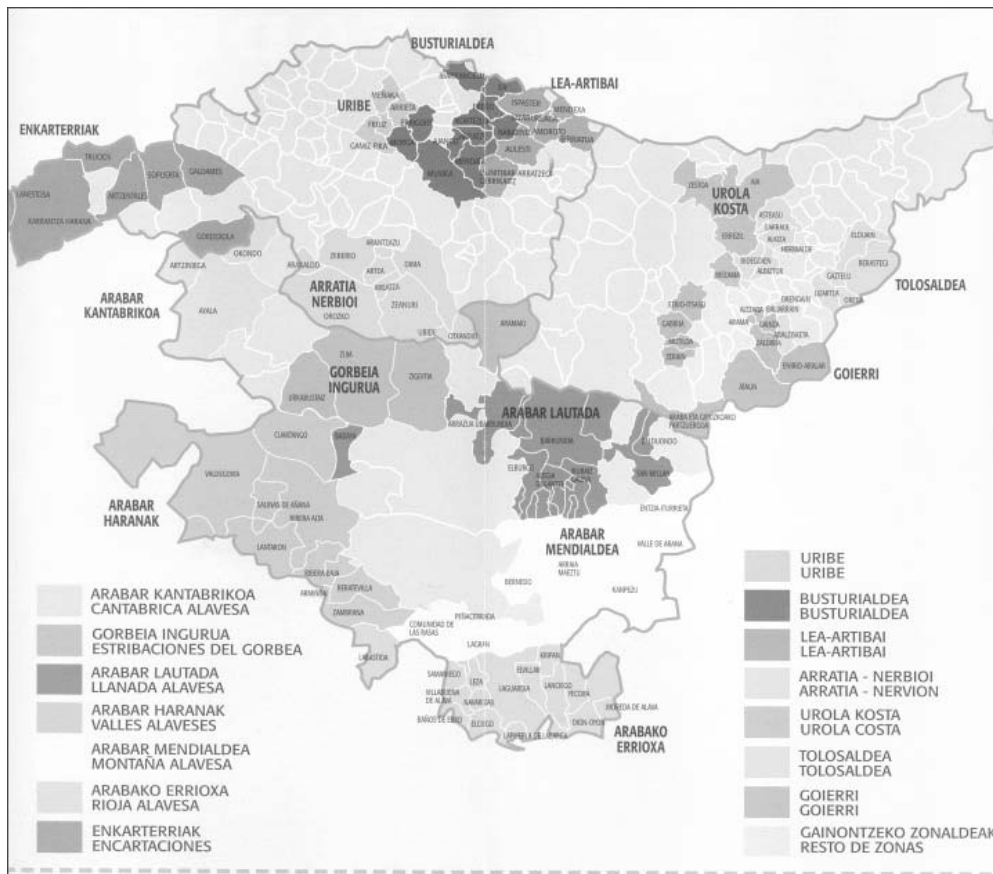
#### ***3.1 Rural Development Programmes: implementation***

##### ***3.1.1 PDR aims and characteristics: three examples***

73. As indicated precedingly, rural areas in the Basque Country present a great diversity, often linked to topography, agricultural production or proximity to an urban centre. This diversity was reflected in the very different characteristics of the three comarcas visited by the OECD team, one in each historic territory, so as to gather first-hand information on the implementation at the local level of place-based

policies through the PDRs. One feature that is to be noted is that PDR and 2R<sup>9</sup> perimeters do not necessarily coincide. In the Montana Alavesa comarca (Araba), all municipalities are classified as 2R, whereas in Urola Kosta (Gipuzkoa) or Encartaciones (Bizkaia), some do not qualify, although they are encompassed in the PDR. In all cases, even in the low-density Montana Alavesa, there are urban-rural linkages due to the proximity of urban areas or facilities of access.

Figure 5. 2R municipalities in the Basque Country



Source: Basque Government, Department of Agriculture and Fishing.

74. The three areas are of a comparable size (from 324 km<sup>2</sup> to 485) but demographic features are quite distinct. In Montana Alavesa, the population is only 3 150 inhabitants, whereas in Encartaciones it is around 10 times that figure and in Urola Kosta it is to be multiplied by a factor of 20. This reflects the more rural character of Araba, where population densities are low (6.50 on average) as compared to Encartaciones (close to 70 on average) or Urola Kosta (close to 205).<sup>10</sup> This underlines the existence of urban pressures in Encartaciones and even more in Urola Kosta, with strong internal contrasts: in Encartaciones the most rural areas only have a density of 27 and in Urola Kosta of 37.1, to be compared with 345.1 in the most urbanised parts of this last comarca.

**Table 9. Profile of three rural comarcas**

	Land mass (km <sup>2</sup> )	Population (2001)	Average density	Number of municipalities
Encartaciones (Bizkaia)	429.2	29 791	69.1 (27 in most rural areas)	10
Montana Alavesa (Araba)	485.3	3 150	6.49	6
Urola Kosta (Gipuzkoa)	324.4	66 500	204.8 (37.1 in most rural areas) (345.1 in most urban areas)	11

Source: EUSTAT and OECD.

75. Each of these comarcas and the deployment of rural development policies within these will be analysed following a sequence comprising: a brief presentation of the main economic and demographic features of the area, the different types of measures and projects implemented over the last 10 to 15 years, the PDR strategies and finally a summary evaluation of results obtained and challenges yet to be answered.

#### *Montana Alavesa*

76. The comarca of Montana Alavesa covers 485.3 km<sup>2</sup> for a population of 3 150 inhabitants, spread over six municipalities. The largest one (Campezo) totals slightly more than 1 000 inhabitants and the smallest (Lagran) has 191 inhabitants. The average density is 69.1 for the area but in the most rural parts this figure drops to 27. Overall population trends from 1991 to 2003 show a slight decrease from 3 197 to 3 150 but some settlements have decreased sharply (Valle de Arana, minus 13.74%) while others have increased markedly (Penacerrada, by over 20%). This can be explained by the attraction of Vitoria, where many inhabitants now work. This mountainous area is one where agriculture usually conjugates with cattle and where rugged scenery and well preserved nature (Izki Natural Park) offer a good tourism potential. Also industry is present in certain parts, particularly in the area of Arraia-Campezo.

77. Devitalisation of the area at the end of the 1980s, with loss of agricultural employment, out-migration and ageing, led to the first actions taken with the aim of reversing these negative trends. Representation of local interests was ensured by the Association of Mountain Agriculture "Izki", created in 1989, with a membership of more than 100 public and private stakeholders. At the beginning of the nineties the area was classified 5b by the EU and various projects were initiated on the basis of annual agreements with the Department of Agriculture of the CAPV, in particular to improve basic infrastructure, modernise farming, renovate housing and develop tourism (agrotourism and investment in two golf courses)<sup>11</sup>. Under the 5b and the LEADER I programmes more than EUR 15 million were spent between 1990 and 1993 to finance these projects (CAPV public financing and private funds represent approximately the same amount). From 1994 to 2003, continuation of the 5b measures, LEADER II and the Basque program Erein led to a total investment of EUR 28 803 854, subsidised by the EU at an average level of 34%, attaining more than 60% in two localities (Campezo and Lagran). During this period, the main focus was on industrial development.<sup>12</sup>

78. The period since the year 2000 is characterised by evolutions reflecting the changes in Basque rural policy, in particular the implementation of the consultative process that led to the formulation of a PDR, approved in April 2003, with the Association of Mountain Agriculture having transformed itself into an ADR, in conformity with the 1998 law on rural development so as to integrate wider interests. The PDR analysis, drawn up with Mendikoi and the consulting firm LKS, took into account the distinctive features of the different parts of the Montana Alavesa, divided into five zones as basis for future projects adapted to the potential and needs of each. The zone of Penacerrada is characterised by its agrarian (cattle) activity and its tourism potential and has practically no industrial activity. The zone of the Vega del Ega also has the same kind of agrarian activity and a nascent tourism and light industry activity. The Izki zone is similar, in economic terms, to that of Penacerrada. The Arraia-Campezo zone combines agriculture, industry and tourism. The Valle de Arana zone is similar, in economic terms, to that of the Vega del Ega.

79. The specific strategies defined for each zone are the following:

- *Penacerrada*: bring in new inhabitants by renovated housing and creation of new jobs, modernise farms, develop tourism (infrastructure and services), in co-operation with neighbouring Rioja Alavesa (wines), develop identity and culture and improve road infrastructure.
- *Vega del Ega*: develop the tourism potential (two new golf courses), support small industry in Bernedo so as to create jobs and quell out-migration, improve housing, basic services and roads.
- *Izki*: Develop tourism (Natural Park potential) through proper infrastructure capacity, develop farming (cattle), improve quality of life (education, health and transport services).
- *Arraia-Campezo*: consolidate the Arraia-Campezo axis as the main industrial are of the Montana Alavesa, pursue industrial zone development with adequate infrastructure, develop tourism (nearby Natural Park), improve housing.
- *Valle de Arana* (this area has experienced the highest population losses): develop housing and all basic infrastructure and services, including leisure, modernise agriculture, improve roads, develop the tourism potential (Entzia Natural Park).

80. It is too early to evaluate the impact of the PDR itself and of the most recent projects financed since the year 2000. On the other hand, overall demographic trends in the area show strong positive reversals in some parts (Arraia, Penacerrada) with still acute decline in others (Valle de Arana and Campezo, although to a lesser degree), with two more registering a modest decrease and one a small increase. Urban/rural linkages seem to explain the most positive trends, with many (new) local residents commuting to Vitoria for work while others have remained or settled in an area where these trends, linked to tourism development, have created new local jobs (retail, restaurants...). The challenge for the future will be to ensure harmonious development of all the comarca by truly offering the opportunity for the lagging areas to profit from the proximity of Vitoria and also receive a fair share of tourism income, without compromising the success of more dynamic parts still needing support to ensure sustainability.

#### *Urola Kosta*

81. The comarca of Urola Kosta covers 324.4 km<sup>2</sup> for a population of 66 500 inhabitants, spread over 11 municipalities, some localised on the coast and others in the mountainous interior. The largest one municipality, Zarautz, (21 078 inhabitants in 2001) is a fashionable seaside resort with a high population density (1 474 per km<sup>2</sup>). The smallest, Beizama, (160 inhabitants) is located in the interior and its population density is at a record low of 9 per km<sup>2</sup> (37 being the average for rural areas in the comarca). Only 7.7% of the population resides in rural areas of the comarca but these represent close to 50% of the

landmass.<sup>13</sup> From the point of view of rural development, only four municipalities thus qualify as 2R but the PDR integrates rural-urban linkages as it covers the whole comarca. Demographic trends since 1996, not surprisingly, show decrease in rural areas and increase in urban parts. Rural areas of the comarca comprise vast slopes for grazing, so agriculture is mostly oriented towards cattle. From the point of view of tourism, the well preserved mountainous interior boasts the Natural Park of Ernio-Pagoeta, while the large town of Azpeitia (13 708 inhabitants) is a magnet for visitors, as it is the birthplace of Saint Ignatius of Loyola, which boasts a huge baroque basilica.

82. Implementation of rural development policies in the comarca started at the end of the 1980s, with the creation of the Association of Mountain Agriculture of Urola Kosta (Urkome) in 1987. The objective of the association, integrating all 11 municipalities in the comarca, was to improve living conditions, in particular through delivery of adequate services, in its rural parts. Over the period 1987-2004, EUR 14 717 679 were spent on different projects,<sup>14</sup> mostly water supply (close to EUR 4 700 000), improvement of paths (EUR 3.900 000), basic infrastructure and services (close to EUR 2 million) and support to commercialisation of agricultural products (EUR 3 522 000). Out of this total, slightly over EUR 6 million were covered by subsidies (EU, CAPV, diputacion foral). Major investments and subsidies were concentrated in the localities of Aia (1 610 inhabitants, close to EUR 6 153 000 invested, subsidised at 19%), Errezil (615 inhabitants, EUR 4 313 537 investment, subsidised at 24%) and Beizama (160 inhabitants, EUR 2 021 500, subsidised at the level of 32%), with focus on the fields mentioned below.

83. Zoning in Urola Kosta follows a specific pattern deriving from the fact that it was drawn up at the same time as that of an adjacent area (Tolosaldea) that is particularly urbanised because of the proximity of San Sebastian. Out of the combined eight zones of Tolosaldea-Urola Kosta, (former 5b funding), only two belong to the latter: zones VII and VIII. It is contemplated in the future that the PDR revision for each area will be distinct, due to the fact that the Urola Kosta zones are more attracted to Azpeitia and Zarautz, the more urbanised localities of this comarca. Zone VII overlooks the coast in part and has cattle but also a tourism potential. The aim is to strengthen the industrial activity of the area, develop tourism infrastructure and improve service infrastructure (health, social services, and communications). Zone VIII has smaller settlements, located further away from urban centres, a stronger agricultural vocation and inadequate infrastructure and services. The strategy consists in intensifying a small but nascent industrial activity, developing housing and improving basic infrastructure (communications, water and sewerage).

84. *Aia* (zone VII) comprises an industrial zone and presents an important tourism potential (14 agrotourism facilities now established), linked to the proximity of the Natural Park of Ernio-Pagoeta. One of the original projects developed there is a multifunctional rural centre, which is both a retirement home and a day-time facility for elderly people who can still live in their house, thus offering diverse services (taxi for the elderly and handicapped) while maintaining social ties. *Errezil* (zone VIII) still has a high percentage of population working in agriculture (18%) so efforts are made to sustain this level and tourism is being developed. Health, postal and small retail services are now offered in a multifunctional facility housed in the town hall while another multifunctional facility located in a restored historic house combines a restaurant, a public Internet access point and a retirement home. *Beizama* (zone VIII) employs only 8% of the active population in agriculture so efforts are being made to diversify activities in this small municipality. An Environmental School, housed in a restored village house, offers basic course to school children from other parts of the province. It is combined with a municipal kindergarten, essential element to maintain a young population on the spot.

85. Past financing and present PDR efforts are, in this comarca, highly concentrated in a few localities that are truly rural, while the majority of these are distinctively urban. Contrary to other rural areas located close to bigger cities, urban pressures on the rural hinterland are little felt in Urola Kosta. On the other hand, urban proximity offers opportunities that have been seized to develop tourism but also to

stabilise the population, in particular through adequate housing and services (Broadband Internet for instance), catering to a new population often holding jobs as far away as San Sebastian. The challenge in the future will be to develop new activities to offer permanent local jobs, by capitalising on local assets such as a quality environment or cheap industrial locations, insofar as proper road infrastructure is developed to service the most remote areas.<sup>15</sup>

### *Encartaciones*

86. The comarca of Encartaciones covers 429.2 km<sup>2</sup> and has a population of 29 663 inhabitants in 2001, living in 10 municipalities. The largest one, Zalla, totals 7 857 inhabitants and the smallest, Lanestosa, has only 228. The average density is 69.1 inhabitants per km<sup>2</sup>, but in the most rural parts this figure is a low 27. Only 8 906 inhabitants reside in rural areas but these represent around three-quarters of the landmass. From the point of view of rural development, six municipalities representing close to 26% of the population, qualify as 2R. Population trends reflect an overall slight decrease but in some of the most rural areas there has been a slight rebound since 1996. On the other hand, ageing is a worrisome feature. The population aged 65 and over represents 21.6%, versus an average for Bizkaia of 18.5%, especially in the rural areas where 25.5% of the population is at least 65 years old. This area is characterised by several dual features: its coastal and mountain topography as well as its agricultural and industrial activity and rural and urban settlements, the latter also marked by the attraction of Bilbao, with the easternmost part of the comarca bordering its metropolitan area. There are important contrasts between the residential areas situated to the East and the remote rural areas to the West that are cattle land (the highest concentration in Bizkaia) and offer also a good tourism potential.

87. Created in 1991, the Association of Mountain Agriculture of Encartaciones was one of the first of its kind in Bizkaia, recently transformed into a Rural Development Association in compliance with the 1998 law. The main interesting feature of this association is that the diputacion foral, by a decree taken in 1994 mandated it to include eight municipalities belonging to the metropolitan area of Bilbao, so as to ensure harmonious development of the comarca by adequate attention to urban-rural linkages. The ADR now has 18 municipalities as members besides representation of other public and private stakeholders. Management of funds received for financing of projects is ensured by a distinct entity, the Agency for Rural Development of Encartaciones. Over the period 1994-2003, around EUR 25 203 034 were spent on different projects, mostly water supply and improvement of rural paths (approximately EUR 4 million), basic infrastructure and services (EUR 9 462 009), economic diversification (EUR 9 684 434) and housing (EUR 1 025 104). Out of this total, 34% were covered by subsidies (EU, CAPV, diputacion foral). Major investments have been concentrated in the localities of Carranza (2 887 inhabitants, EUR 5 417 651 invested, subsidised at 34%), Galdames (799 inhabitants, EUR 5 417 133 invested, subsidised at 40%) and Arcentales (655 inhabitants, EUR 3 172 779 invested, subsidised at 38%).

88. The PDR has divided the comarca of Encartaciones (ten municipalities) into four distinct zones. Zone 1 (Balmaseda, Zalla, Guënes and Gordexola) represents 75% of the population, bordering the metropolitan area of Bilbao. It is highly industrialised. The other three zones correspond to the rural (2R) areas. Zone 2 (Sopuerta and Galdames), a former mining area to the north, has a small agricultural activity and a potential in tourism (heritage). Zone 3 (Trucios and Arcentales) is deep rural with no industry but a tourism potential (future Natural Park of Armanon). The two areas are largely separated by an enclave belonging to Cantabria and accessibility is a problem. Zone 4 (Carranza and Lanestosa) is the most rural area of Encartaciones, with a particularly low population density and difficult access because of the broken topography. Agriculture is turned towards dairy farming (projected processing factory) and there is an interesting tourism potential (caves, architectural heritage). The diagnosis made for these rural areas in the PDR underlines the insufficient level of basic infrastructure, particularly in terms of roads to which a long-term plan of the diputacion foral should remedy. Also, educational facilities are lacking in Lanestosa and Galdames, requiring long travel times to the main settlements.

89. Projects initiated to stimulate rural development in the 2R areas are diverse. In the most agricultural part (Carranza) which is zone 4, two major projects are under way: the above-mentioned dairy facility (projected investment of more than EUR 3 million) and a video conferencing scheme for the training of farmers. In zone 3 a local radio covering the whole comarca has been launched and an alarm system is being tested as a pilot to facilitate elderly people staying at home, even in remote villages. An SMS messaging systems relays information to doctors, medical personnel and social workers for this LEADER + project. In zone 2, strong emphasis has been put on youth programmes and activities, particularly international student exchanges (Galdames). This municipality has also developed an extensive industrial zone where more traditional activities (iron components assembly, 24 employees) neighbour with ICT's. Lanalden, a private company launched four years ago with the financial support of a public venture capital firm<sup>16</sup> is a call centre, tele-work facility and computer archiving service. It permanently employs 20 people, mostly women but temporary recruitments sometimes bring this figure to 100. Lastly, a notable tourism project in Sopuerta is the renovation of an old iron mill (El Pobal), now belonging to the diputacion foral, with buildings dating from the 16<sup>th</sup> century.

90. Encartaciones offers an interesting approach to rural development problems in a rural area adjacent not only to urban settlements but also to a metropolitan area. The fact that the ADR comprises municipalities belonging to the metropolitan area of Bilbao can facilitate the solution of problems arising from land-use and transportation from and to the city area. It also offers the opportunity for the most urbanised parts of Encartaciones of being more than mere suburban towns to Bilbao but also of organising their development in relation with their rural hinterland, which offers amenities. Nonetheless, fruition of certain projects often require a high level of public investment, as is the case for roads or educational facilities in rural areas, or renovation of major heritage such as the El Pobal iron mill. The PDR process, properly conducted, can offer guidelines to this end for public decision makers at the provincial and CAPV levels, so as to strengthen the prospects of local development and projects based on use of local assets.

### ***3.2 CAPV vision: rural development policies and financing***

#### *3.2.1 Rural development during the last decade*

##### The 5b Program

91. Previous programs of rural development in the Basque Country were centered around towns and comarcas categorised as being lagging rural by certain EU criteria and called "5b", with the Basque government later extending these areas to include others also in decline, thus defining the perimeters of the 2R areas indicated in the previous map. 5b was the major rural development program of the 1994-1999 period during which almost EUR 122 million were spent. By comparison, EUR 18 million were spent over the same period in the other major rural development program, LEADER II. Thus 5b spending was over 85% of the total spent on rural development.

92. Table 10 indicates that the majority of 5b spending, EUR 87.5 million (67.8% of the total), was for projects related to employment creation. Moreover, most of this funding, 73%, came from the private sector. The EU contributed 14% and the Basque Government 11%. This investment if estimated to have led to the creation of 631 new jobs and 605 conserved jobs from 1994-1999. If we assume that roughly half of the funding led to the creation of new employment and half to the conservation of jobs, this suggests a cost of nearly EUR 70 000 per job created or conserved. As noted above, only about a quarter of the funding came from public sources, however. Hence, given the above assumptions, each job created or conserved had a public cost of roughly EUR 17 500, still a considerable sum. If it generally costs less to conserve a job than to create a job this figure would be an underestimate of the cost of creating a job and an overestimate of the cost of conserving a job.

93. Basic infrastructure was the second largest category of spending at 11.7%. In contrast to employment creation, most of this, 79%, was funded by the public sector, half by the EU. The third largest category of spending was improved rural housing at 10.5% of the total. This was also funded primarily by the public sector. The fourth largest category of spending was on natural resources and the environment at 7.1% and was almost entirely funded by the public sector, half by the EU.

Table 10. Financing of DOCUP O. 5b (1994-1999) in EUR for the Basque Country

Type of investment	Type of investment as % of total (%)	Total investment or expense	Total public (%)	Public financing					Private financing (%)	
				EU (%)	TOTAL (%)	National			Other (local) (%)	
						Central (%)	Regional (%)			
I.1. Rural infrastructure	11.7	14 225 298	79	40	40	0	0	0	40	21
II.1. Agrarian Diversification	16.7	20 367 568	29	15	15	0	11	4	4	71
III.1. Conservation of biodiversity	6.9	8 361 047	96	48	48	0	13	35	4	4
III.2. Protection of rural environment	0.2	275 180	99	50	50	0	0	50	1	1
IV.1. Dev. And Ren. Of rural nucleas	6.1	7 435 979	83	41	41	0	13	28	17	17
VI.1. Technical assistance	0.3	409 412	100	75	25	0	19	6	0	0
<b>TOTAL SUB-PROGRAM I: FEOGA-O</b>	<b>41.9</b>	<b>51 074 484</b>	<b>63</b>	<b>32</b>	<b>31</b>	<b>0</b>	<b>8</b>	<b>23</b>	<b>37</b>	<b>37</b>
II.2. Productive Investment	41.5	50 504 767	24	12	12	0	11	1	76	76
II.3. Rural Tourism	9.4	11 453 463	35	18	18	0	10	8	65	65
II.4. Research and Development Technology	0.2	221 386	100	50	50	0	50	0	0	0
IV.2. Service and Local Dev. Infrastructure	4.4	5 343 255	58	29	29	3	3	23	42	42
<b>TOTAL SUB-PROGRAM II: FEDER</b>	<b>55.5</b>	<b>67 522 871</b>	<b>29</b>	<b>14</b>	<b>14</b>	<b>0</b>	<b>10</b>	<b>4</b>	<b>71</b>	<b>71</b>
V.1. Employment assistance	0.4	537 454	100	50	50	0	50	0	0	0
V.2. Active training	2.2	2 620 137	96	49	47	0	46	1	4	4
<b>TOTAL SUB-PROGRAM II: FSE</b>	<b>2.6</b>	<b>3 157 591</b>	<b>97</b>	<b>50</b>	<b>48</b>	<b>0</b>	<b>47</b>	<b>1</b>	<b>3</b>	<b>3</b>
EJE I: Base Infrastructure	11.7	14 225 298	79	40	40	0	0	40	21	21
EJE II: Diversif., Activity, employment creation	67.8	82 547 184	27	14	14	0	11	3	73	73
EJE III: Environ. And natural resources	7.1	8 636 227	96	48	48	0	12	36	4	4
EJE IV: Improvement of rural housing	10.5	12 779 234	72	36	36	1	9	26	28	28
EJE V: human resources	2.6	3 157 591	97	50	48	0	47	1	3	3
EJE VI: technical assistance	0.3	409 412	100	75	25	0	19	6	0	0
<b>TOTAL DOCUP (5b)</b>	<b>100.0</b>	<b>121 754 946</b>	<b>45</b>	<b>23</b>	<b>22</b>	<b>0</b>	<b>10</b>	<b>12</b>	<b>55</b>	<b>55</b>

Source: Basque Government, Department of Agriculture and Fishing.

## LEADER II

94. The LEADER (*Liaison entre Actions de Développement de l'Economie Rurale*) program of the European Union seeks to bring an integrative approach to rural development programs by encouraging local initiative. It aims to finance projects based on public-private and inter-governmental co-operation and private sector participation in a particular geographic area encompassing many municipalities through innovative multi-sectoral projects. It has gone through three stages, LEADER I which started in 1991, LEADER II which was carried out from 1994-1999, and the current LEADER +, during 2000-2006.

95. The LEADER II Program in the Basque Country was much smaller in terms of budget than the 5b Program. Total investment in LEADER II in the Basque Country between 1994 and 1999 was EUR 18.2 million as compared to the already mentioned EUR 121.7 million of the 5b program.

**Table 11. LEADER II in the Basque Country 1994-1999 (in thousands of EUR)**

Type of program	Investment or expense	Public financing				Private financing
		Central	Region	Local	EU funds	
LEADER II	18 265.04	0.00	2 686.93	0.00	2 686.93	12 891.17

Source: Basque Government, Department of Agriculture and Fishing.

96. The major types of investments made in the LEADER II program in the Basque Country were in rural tourism (42% of all investments) and small businesses (48% of all investments). These areas show a strong element of private financing, with the public sector contributing about 28% of funds for rural tourism projects and 23% of funds for small businesses. The public funds were split evenly between the EU and CAPV.

97. LEADER II investments are estimated to have led to the creation of 184 full time jobs and 27 part-time jobs. It is difficult to know how much of the LEADER II investment is intended to create jobs, but if one assumes that half of the money spent on LEADER II projects is meant for employment creation, and roughly 200 jobs were created, the cost per job created is about EUR 45 000. Given that the public sector contributes about one-quarter of the financing, a rough estimate of the public cost per job created given the above assumptions is EUR 11 000. This is considerably smaller than the estimate of EUR 17 500 for the 5b program (probably an underestimate for creation of new jobs in the 5b program), though it should be noted that a key unknown part of the LEADER II calculation is the extent to which the LEADER II projects were used for employment creation, assumed above to be one-half.

**Table 12. LEADER II investment and financing (paid projects up to 31/12/2001)**

Thousands of ESP

Type of investment	Type of investment as % of total (%)	Total investment	Total public as % of total investment (%)	EU				National			Private as % of total investment (%)
				EU total as % of total investment (%)	FEOGA	FEDER	FSE	National as % of total investment (%)	Central	Autonómica	
B1 Technical assistance and rural development	4	109 907	96	48	49 630	3 278	0	0	48	52 908	4
B2 Professional training	2	53 490	95	47	0	0	25 392	0	47	25 392	5
B3 Rural tourism	42	1 274 451	28	14	43 741	136 079	0	0	14	179 820	72
B4 Small business	48	1 468 263	23	11	29 216	139 336	0	0	11	168 552	77
B5 Agrarian product development and commercialization	4	112 071	28	14	15 794	0	0	0	14	15 794	72
B6 Conservation and environmental improvement	1	15 215	23	12	0	1 777	0	0	12	1 777	77
<b>TOTAL</b>	<b>100</b>	<b>3 033 397</b>	<b>29</b>	<b>15</b>	<b>138 381</b>	<b>280 470</b>	<b>25 392</b>	<b>0</b>	<b>15</b>	<b>444 243</b>	<b>71</b>

Source: Basque Government, Department of Agriculture and Fishing and OECD calculations.

**Table 13. LEADER II impact**

Type of beneficiary		
Private persons		64
Men		37
Women		27
Business		61
Administration		31
Association		30
Cooperative		5
Total		191
Type of project		
Technical assistance		2
Training		5
Rural tourism		11
Small business		33
Development		6
Environment		2
Results		
New employment		221
Full time		184
Men		104
Women		80
Part time		27
Men		9
Women		28
New businesses		45
New organisations		2
Employment consolidation		109
Tourism/ # beds		195
Increased tourism		22

Source: Basque Government, Department of Agriculture and Fishing.

### 3.2.2 Current programs

#### The PDRS and FEOGA-G funding

98. As mentioned above, the main financial mechanism for implementation of rural policy in the Basque Country is the PDRS, a six-year plan covering the period 2000-2006, designed by the CAPV, which delineates general areas of regional development in accordance with guidelines established by the European Commission. Projects funded under the PDRS are co-financed by the EC with funds from FEOGA-G. The total public funding planned over the six years is of EUR 235 760 million of which 121 199 million represent the EU contribution. At mid-term the total investment from 2000 to 2003 has been EUR 355 million. Of this 226 million (64%) was private financing. Public financing was split approximately evenly between the EU and the Basque Country.

**Table 14. Basque Country PDRS 2000-2003 (expenditure in thousands of EUR)**

Type of program	Investment or expense	Public financing			Private financing	
		Central	Region	Local		
PDRS	355 602.92	0.00	18 359.71	45 855.84	65 402.83	225 984 52

Source: Basque Government, Department of Agriculture and Fishing.

99. PAC reform for the 2000-2006 period placed rural development measures within FEOGA-G funding, leaving aside the FSE social fund and the FEDER regional fund. This has resulted in a certain bias in the PDRS towards the primary sector and represents something of a break with the previous plans that had been designed with a more integrative view of rural areas. The priorities of the PDRS are to consolidate agrarian activity as integral to rural socio-economic development, including not only production but also the natural environment. The FSE finances training measures in rural areas with funding from the Department of Labour supporting Mendikoi programmes.<sup>17</sup> The Department of Finance oversees FEDER funding used in certain cases for rural infrastructure projects.

100. Projects financed in part by FEOGA-G are catalogued in one of nine categories, listed in Table 15 along with the number of beneficiaries, the total investment made, and the subsidised portion of each category during 2000-2003. Although the greatest number of projects is in forestry, subsidies amounts indicate four major funded categories: adaptation and development of rural zones (28.9%), improvement of marketing and quality of agrarian products (26.8%), forestry (20%), and investments in agricultural operations (20%). One notes a definite tilt towards agricultural as opposed to place-based projects. This is in part due to EU policies with respect to the FEOGA-G program, where the majority of types of projects that can be funded are agrarian in nature. Hence, most projects have an agrarian orientation.

**Table 15. FEOGA-G project categories and funding, 2000-2002 (millions of EUR)**

Category	Beneficiaries		Total investment			Total subsidy	
	Number	%	Millions of EUR	%	Subsidy as % of total investment (%)	Millions of EUR	%
I. Investments in agricultural operations	2 203	9.85	98.9	23	24.5	24.2	15.92
II. Establishment of young agricultural farmers	113	0.5	1.0	0.2	100*	1	0.66
III. Agricultural education and training	1 177	5.26	0.55	0.1	53	0.3	0.2
IV. Anticipated stoppage of agricultural activity	109	0.48	0.46	0.09	100*	0.46	0.3
V. Compensation for disadvantaged zones	2 555	11.42	8.93	2.08	100*	8.93	5.88
VI. Preservation of the Natural Rural Environment	1 223	5.47	2.17	0.51	100*	2.17	1.43
VII. Improvement of Marketing and Quality of Agrarian Products	178	0.8	164.4	38.3	24.8	40.9	26.9
VIII. Forestry	13 478	60.2	54.5	12.7	56.0	30.5	20.1
<b>IX. Adaptation and Development of Rural Zones</b>	1327	5.93	98.45	22.9	44.1	43.49	28.6
Total	22363	100	429.36	100	35.4	151.95	100.00

\* In these cases, the amounts of total investment and total subsidy are the same, because they are pure agricultural aids linked to agrarian activity.

**Table 16. Sub-categories of category IX: adaptation and development of rural zones**

Category	Beneficiaries		Total investment		Total subsidy	
	Number	%	Millions of EUR	%	Thousands of EUR	%
IXa- Land improvement	2					
		0.15	0.17	0.15	155.7	0.35
IXb- Reparceling of land	3					
		0.22	1.28	0.39	390	0.89
IXc- Substitution services and assistance for agrarian development	263					
		19.81	0.2	0.2	201	0.43
IXd- Commercialization of quality agricultural products	1					
		0.07	0.61	0.26	262	0.60
IXe- Basic services for the rural economy and population	203					
		15.29	19.745	6.7	6707	15.4
IXf- Renovation and development of small towns	227					
		17.1	16.864	7.1	7134	16.4
IXg- Diversification of agricultural activities	19					
		1.41	2.385	1.08	1083	2.49
IXh- Management of agricultural water resources	31					
		2.31	16.526	15.5	15540	35.7
IXi- Development and infrastructure improvement	388					
		29.23	20.373	7.3	7320	16.8
IXj- Development of tourism and arts and crafts	174					
		13.11	19.561	4.8	4891	11.24
IXk- Preservation of scenic routes and the agrarian and forest environment and economy	26					
		1.94	0.71	0.5	506	1.16
IXl- Recuperation of agrarian production capacity	6					
		0.45	0.03	0.02	23.7	0.05

Source: Intermediate Evaluation of the PDRS. University of the Basque Country. 2004.

101. Non-agrarian projects of the PDRS include categories VI, VII, and IX, which constitute about 9% of beneficiaries and 52% of spending. However, even within category IX, one notes a fair amount of agrarian categories. Table 17 lists the types of projects that might be considered non-farming within FEOGA-G, counting only the sub-categories of IXd, e, f, j, and k. This suggests only about 44% of IX funds are of a truly development nature and in total only about 40% of FEOGA-G projects. Apart from these, projects of a non-agrarian nature are those of the LEADER + program of the EU or within the EREIN program of the Basque Government, to be discussed further.

**Table 17. Non-farming measures within FEOGA-G projects**

	Beneficiaries		Total investment		Total subsidy	
	Number	%	Millions of EUR	%	Thousands of EUR	%
Non-Farming						
VI. Preservation of the natural rural environment	1 223	5.47	2.17	0.5	2 170	1.43
VII. Improvement of marketing and quality of agrarian products	178	0.8	164.4	38.3	40 900	26.9
IX. (d+e+f+j+k) Adaptation and development of rural zones	631	2.83	57.5	13.39	19 501	12.84
Total non-farming	2 032	9.1	224.07	52.18	62 571	41.17
Total farming	20 331	90.9	205.29	47.81	89 379	58.83

Source: Intermediate evaluation of the PDRS. University of the Basque Country. 2004.

102. Some of the social effects of the PDRS are shown in Table 18. The total number of beneficiaries is about 21 000, with somewhat of a bias towards male beneficiaries. Again, the percent of beneficiaries of non-farming is small, constituting only about 12% of total beneficiaries.

**Table 18. Social effects of PDRS (2000-2003)**

Investment category	Number of beneficiaries	Men	Women	Percent of women (%)
I	2 203	1 455	748	33.9
II	113	68	45	39.8
III	1 177	737	440	37.4
IV	109	46	63	57.8
V	2 555	1 854	701	27.4
VI	1 223	724	499	40.8
VII	0	0	0	
VIII (1)	13 478	5 823	1 696	22.4
IX	210	155	55	26.0
TOTAL	21 068	10 862	4 247	28.1

1. Data by sex is not available for Bizkaia (5 922 beneficiaries total).

Source: Intermediate evaluation of the PDRS. University of the Basque Country. 2004.

103. The Department of Rural Development has set up two programs within the PDRS, Agrotourism and Erein, to help guide assistance to seven areas that constitute the base of the plan. Agrotourism is funded under investment category I of FEOGA-G. Erein, which is generally what might be considered closer to true rural development, constitutes categories III, IXb, IXd, IXe, IXf, IXg, and IXj. It should be noted that Erein has three types of assistance: that co-financed by FEOGA-G which is discussed below, that for economic development and infrastructure in rural zones financed by own-funds, and employment assistance in rural zones.

104. Agro-tourism constitutes only EUR 2 million, or less than 1% of total funding. FEOGA financing constitutes about 38% of the total while the CAPV and the three provinces share equally the other 62% (35% of this last share corresponds to public funds, with private financing representing around two-thirds of the Basque contribution. After 2004, the CAPV will cease to contribute. Over half of these projects are centred in Gipuzkoa, with Bizkaia having about 25% and Araba 12%.

**Table 19. Number of agrotourism projects (by historic territory) and overall funding for 2000-2003**

	2000	2001	2002	2003	2000-2003
Araba	2	3	4	1	10
Bizkaia	6	12	6	4	28
Gipuzkoa	12	11	10	12	45
Total CAPV	20	26	20	17	83
Total subsidy (EUR)	347 672	668 167	487 217	502 546	2 005 602

Source: Basque Government, Department of Agriculture and Fishing and OECD calculations.

## EREIN

105. As mentioned, many of the non-agricultural projects are contained in the Erein program which constitutes categories III, IXb, IXd, IXe, IXf, IXg, and IXj. Table 20 shows that 95% of EREIN chapter II investment is concentrated in three areas: basic services (33%), town renovation (26%), and tourism measures (36%). The public sector contributes a surprisingly small amount in the categories that are normally the *raison d'être* of local government: basic services and town renovation. Total public financing is only 37% and 42% of total investment, respectively, and the EU contributes almost 40% of these figures.

**Table 20. EREIN Chapter II investment and financing (2000-2003)**

	%		Total public financing as % of total investment (%)	EU	
				FEOGA (EU) as % of total investment (%)	FEOGA (EU) (thousands of EUR)
Training	1	561	53	26	148
Reparcel land	3	2 050	31	15	303
Basic services	33	27 098	37	15	3 930
Town renovation	26	21 360	42	18	3 816
Diversification activities	1	646	37	18	119
Encouraging tourism	36	29 307	24	12	3 470
TOTAL	100	81 022	33	15	11 786

Source: Basque Government, Department of Agriculture and Fishing and OECD calculations.

106. Among the programs funded solely by own-funds are Chapters 3 and 4 of EREIN. There are two groups of projects, Chapter 3 constituting productive investments, and chapter 4, employment assistance. By far the greatest investment among these two has been EUR 1.9 million for productive investments, 95% of the total investment in the two chapters. Most of this (67%) occurred in 2002.

**Table 21. EREIN Chapter III and IV subsidies 2001/2003**

	Percent of 2001-2003 total			Total 2001-2003 (EUR)
	2001	2002	2003	
		%		
Chaper III - Productive investments	15.4	66.8	17.8	1 963 288
Chapter IV - Employment assistance	19.6	27.6	52.7	122 400

Source: Basque Government, Department of Agriculture and Fishing and OECD calculations.

#### LEADER +

107. LEADER +, continuation of the LEADER program for the period 2000-2006, applies, in the designated "2R" rural areas. Total planned funding over the six-year period is of EUR 23 760 000, of which EUR 12 million are to be financed by the CAPV, EUR 6 million by the EU and the remaining 5 760 000 by project beneficiaries, mostly the private sector. The main original feature of this programme in the Basque Country is that the CAPV has chosen to retain one single sector for eligible projects: that of Information and Communication Technologies (ICTs). To fit into the program, as specified by decree 229/2002 of 1 October 2002, an ICT investment must be one of six types, aiming to:

- Increase competitiveness of products and services;
- Increase quality of life in rural areas;
- Enhance local products, particularly by facilitating SME access to market by collective measures;
- Develop natural resources and culture;
- Provide equal opportunities for youth and women;
- Promote assistance in co-operation among rural territories.

108. As in all LEADER programs, Local Action Groups (LAGs) are required by the EU, to formulate projects, apply for financing and then manage them. In the case of the Basque Country, because of the small size of the territory and the single field of application of the programme, it was decided, to facilitate co-ordination, to retain only one LAG, federating all the local areas concerned. Mendinet, an association composed of Mendikoi and 16 rural development associations, plays this role.

109. Partly due to a slow start, with the application decree passed only in October 2002, the Basque Country spent a modest EUR 1.5 million on LEADER + at the end of 2002 and in 2003.<sup>18</sup> Three projects selected the last months of 2002, represent themselves a total cost of EUR 1.5 million, partly financed by the CAPV, to identify the broadband technologies best fit for rural areas. In 2003, 37 projects were awarded funding. The main investment retained (EUR 864 000) concerned an archive and filing service for SMEs, of which EUR 152 000 were subsidised (37%). Other major projects selected, representing each an investment of over EUR 200 000 include: an ISO certification project for the agrotourism network, a forestry simulation model and a fully equipped ICT and Internet training bus for rural areas.

**Table 22. LEADER + spending in the Basque Country 2000-2003 (thousands of EUR)**

Type of program	Investment or expense	Public financing				Private financing
		Central	Region	Local	EU funds	
LEADER +	1 015.73	0.00	261.99	0.00	261.99	491.75

Source: Basque Government, Department of Agriculture and Fishing.

**Table 23. Number, origin and amounts for LEADER + projects as of 2003 in the CAPV**

	CAPV	MENDINET	ARABA	BIZKAIA	GIPUZKOA
Total projects presented	50	4	10	15	21
Projects subsidisable	37	4	8	11	14
Total investment (EUR)	3 547 000	449	1 332	700	1 066
Spending eligible for subsidy (EUR)	2 872 000	449	781	657	986
Proposed subsidy (EUR)	1 703 000	449	368	456	428

Source: Basque Government, Department of Agriculture and Fishing.

110. The choice of the ICT sector for LEADER + is a logical one. ICT penetration and awareness in rural areas remains, as elsewhere, lower than in urban or intermediate areas. In the CAPV this was underlined by the results of a programme to facilitate the purchase of ICT equipment. In 2001, 90 000 computers were acquired this way (one per every 24 inhabitants on average), whereas in a rural area such as the Montana Alavesa, this ratio is of one for every 50 inhabitants and in intermediate rural/urban areas it is of 30. Also the Basque Government has an ambitious Information Society agenda, with 13 sub-programmes such as e-government (at all levels including municipalities) and tele-learning that can have strong impact in rural areas. Broadband deployment in all parts of the Basque Country, independently of population density, is planned under the KZLanda project, with measures in favour of rural areas now entrusted to a public company placed under the responsibility of the Department of Industry, Commerce and Tourism, which co-operates closely with the Department of Agriculture and Fishing and Mendikoi.

111. Delays in the role-out of the LEADER + programme leads one to voice concern over the possibility of its full execution over the six-year period, thus creating expectations and possible frustrations in a field that is important for rural development and also a proclaimed priority of several CAPV departments, as indicated above. It will certainly be necessary to raise the level of awareness in rural areas concerning the strategic value of ICTs for local development so as to increase the number of projects, better integrate citizens in the process (most projects are presented by individual municipalities) and promote projects at the comarca level. In some comarcas, rural development “dynamisers” have been recruited, devoting a lot of their time and energy to ICT sensitisation. Possible acceleration will require adequate resources for project analysis and decision but also monitoring, as will be indicated further.

## 4. Evaluation and recommendations

### 4.1 Evaluation

112. Rural development policy in the Basque Country seeks to harness local initiative, so it can be qualified as place-based, with its aims and mechanisms appropriately appearing quite innovative. Focus on the comarca level through the PDRs as well as the role played by the Regional Development Associations (ADRs) in the process of elaboration of these strategies reflect the understanding of the importance of the local level and its stakeholders in contributing to shape policies and in defining and implementing projects. The Rural Development Law and its symbolic offshoot, the Social Pact, underline the stakes at hand for rural development, solemnly considered in the Basque Country not only in its economic and social dimension but also in terms of identity and lifestyles of the rural population and of society at large. This holistic vision seeks to embrace, both in stated aims and in practical measures, balanced development between rural and urban areas, thus putting the CAPV in the forefront of countries and regions striving to develop synergies between its cities and the countryside. Specific governance institutions and mechanisms, taking into account the heritage of history and local autonomy, aim to ensure proper co-ordination with the EU and between all government levels to further the goals of forward-looking cross-sector rural development strategies.

113. The 1998 Law on Rural Development, which defines the strategic aims and structures of rural development policy undeniably constitutes a turning point, breaking away with past emphasis on agricultural development, to focus on economic diversification and the creation of new activities as a way to ensure the future of regions with reduced agricultural employment opportunities and to stem the tide of out-migration. Recent demographic trends in Basque rural areas show that the haemorrhage has been largely reduced if not overturned in many parts, with credit that can be given to the fundamentals of these policies, although their application is too recent to measure their true impact, with changes in societal trends probably being a key factor in this long expected change. On the other hand, analysis of Basque Rural Policy implementation leads to identify economic, financial and institutional shortcomings that can constitute serious obstacles to effective rural development in the future, particularly if more traditional policies continue to receive substantial resources while sensitisation to rural development issues remains low-key.

114. In economic terms, an important issue for rural development is that of attaining “critical mass” for development, with variable thresholds linked to the local environment, topography, spatial policy, infrastructure but also social capital and networking capacities. Since there is no “magic figure”,<sup>19</sup> appreciation of “critical mass” is more a question of offering the possibility of analysing local development potential in practical terms *ex ante*, in other words of being able to verify that the small local area possesses a certain number of assets and that its perimeter, population level and size ensure it with sufficient prospects for the future. In France, the *Pays* policy, which encourages the creation of small local entities entirely geared towards economic development, ensures that all necessary parameters are included when establishing the boundaries of the *Pays*. Employment basins, commuting areas, existence of services centres and hub towns, in particular, are taken into account, to check that a proposed *Pays* can be sustainable, given initial pump priming. In the case of the Basque Country, comarcas seem to be predefined entities resting on history and geography: their strengths and weaknesses are identified in audits (SWOT analysis) but the above-mentioned factors seem to be ignored by local strategies.

115. In other terms, up to what point can a comarca be a permanent reference for economic development, an entity perceived as more important from this point of view than the municipality? Field visits and documents produced on that occasion have shown that most local development projects remain at the municipal level within the comarca and that very few comarca-wide projects seem to exist. The comarca level is represented by the ADR and often also a development agency but the projects that they contribute

to define and implement are usually limited to single municipalities. Also, zoning within the comarca defines the profile of its different parts for identification of future projects rather than building on infra-local synergies. Neither were any particular financial incentives for municipal co-operation or the elaboration of comarca level projects identified, such as those existing in certain countries like the Czech Republic with a systematic bias towards projects at the level of the micro-region.<sup>20</sup>

116. From a financial point of view, a certain number of procedures and safeguards aim to ensure that public money is spent respecting initial funding criteria (project types, matching funds, etc.) but *ex ante* cost analysis, in other terms prospects for long term sustainability, seems to be largely absent. Lack of precise requirements in this area can lead to approving projects with only short-term benefits and, in all cases, will make it difficult to ensure proper project monitoring and evaluation. Limited own development funds available to municipalities (not to mention comarcas), make it difficult for these to go ahead with certain projects, as there is “financial insecurity” (lack of multi-annual funding). Since the PDR provides a given framework for development fields and goals, efforts are directed towards obtaining funds to finance projects. Following which criteria in the “Plan de Gestion Annuel” will projects be chosen if funding is not available for all those presented? From this point of view, another important financial issue relates to the fact that rural development funding still appears to receive a far more modest share (as indicated in part 3)<sup>21</sup> than that of traditional farming measures, with the PDRS for 2000-2006 focusing more on the latter than on economic diversification.

117. In terms of governance, the 1998 Law on Rural Development introduced a certain number of innovative approaches and mechanisms, the impact of which has been stifled by very long delays in implementation, with a risk of demobilising local energies. The first PDRs were formally approved by decree only in April of 2003, more than four years later. To compensate for this, ADRs and local authorities have been encouraged to go ahead with implementation of the PDR and related projects without waiting for formal approval. Nonetheless this introduces a certain degree of uncertainty if the approval process is an active one, with possible modifications to the PDRs. On the other hand, if the decree is just an *ex post* formal approval, why maintain such a lengthy process? In the future (PDR renewal), these delays need to be dramatically reduced.

118. Excessive delays have also been noted in the creation of the co-ordination bodies at the provincial level: Landagipuzkoa was created the first, in November 2002 (four years after) and Landaraba in April 2004 (more than five years after), while Landabizkaya is still nonexistent, the diputacion of Bizkaya considering that existing wider co-ordination mechanisms suffice. Without putting excessive emphasis on formal aspects, these delays underline either that co-ordination can be accomplished in any case (as in Bizkaya) or they possibly contributed to delays in other areas (overall implementation). Due to this situation, in the future, the role of these bodies needs to be better put into light, so that local authorities and ADRs are in a position to bring their contribution and inhabitants of rural areas are able to air their views, on the basis of a good understanding of multi-level governance processes. Lastly, in two comarcas of Araba,<sup>22</sup> the local ADRs have not yet been created, in spite of agreement in principle to do so. Apparently, lack of capable and motivated people at the local level explain the long delay, underlining the requirement for adequate attention to training and human capital development.

119. Looking at the functioning of the different formal and informal co-ordination mechanisms, a contrasted picture emerges. At the level of the CAPV; the “Mesa de Política Agraria y Desarrollo Rural” presided by the Minister of Agriculture and Fisheries, permitting co-ordination with the three diputaciones, seems to fulfil its role. Co-ordination between CAPV departments on rural matters, on an *ad hoc* basis seems also to function in terms of cross-sector co-operation. At the level of Landaberri, working parties have been created on matters of spatial policy and education and have seemed to serve their purpose. Co-ordination with and at the local level seems more problematic. Representation of municipalities and ADRs in Landaberri was not ensured<sup>23</sup> until mid-2003. At the local level, co-ordination seems particularly

difficult, with the number of different bodies operating in the same areas: ADRs, development agencies, mancomunidades. This complexity is reinforced with co-ordination requirements towards the diputacion and the CAPV levels. It could appear useful to reinforce in the future the role of the ADRs so they can appear to be *primus inter pares* on the field.

120. One of the shortcomings in policy implementation that has been underlined by numerous stakeholders at the local level in the Basque Country concerns the insufficient lack of awareness of many local officials, firms and citizens concerning the goals, resources and procedures of rural development policy. Visibility has been sought in a solemn fashion through the signature of the Social Pact and its renewal in 2004. Various gatherings organised by the Directorate for Rural Development and Mendikoi, such as “Technical Days” bringing together local actors from all three provinces or field meetings concerning comarcas within a historical territory have contributed to better explaining these policies and solving certain difficulties. However, such meetings, by definition, only concern those already motivated, the real challenge being to sensitise a wider array of local officials, entrepreneurs and citizens. This represents a permanent effort possibly requiring media coverage<sup>24</sup> but also use of ICT and the Internet. The latter can also facilitate networking and exchange of experience between ADRs and their members.

#### **4.2 Recommendations**

121. On the basis of the above-mentioned assessment, recommendations focused on four areas can be put forward to improve the implementation of innovative Basque rural development policies, so as to facilitate achievement of stated goals while better mobilising to that end all the stakeholders concerned:

1. Better integration of local economic and financial parameters when conceiving projects and stronger support to those relying on inter-municipal or comarca level co-operation.
2. Stronger emphasis on rural development logic and priorities.
3. More efficient governance to facilitate best use of the co-operative mechanisms set up by the Rural Development Law.
4. More dynamic networking, using in particular on-line resources, to accelerate exchange of information and dissemination of best practices.

#### *Economic and financial sustainability and local area projects*

122. A cost-benefit analysis needs to be set up for projects considered within PDRs. Current incentives are mostly to spend an amount of allocated money in the fields retained in the PDR. Are the projects really sustainable from a long-term economic perspective? Can the money spent be justified on an *ex ante* basis? There is a need to make programs more “forward looking” by developing some kind of cost/benefit analysis before programs are implemented. Some outputs are measured after a program is in place, but there seems to be no prior and precise analysis of results expected. This recommendation implies an upgrade in available data to conduct analysis, monitor project development and proceed to evaluation of impact.

123. Financial incentives should be used to encourage municipal co-operation in mancomunidades or comarcas and to develop projects at the latter level. Individual municipalities have difficulties in financing projects, particularly multi-year and large capital projects. Moreover, since municipalities are funded primarily by grants from the provinces, these grants can be designed to give incentives for municipal cooperation. For instance, additional money can be given to municipalities when they accept to fund projects that imply co-operation with others. It should also be recalled that LEADER + is a natural program for developing co-operation among municipalities, since this is one of its fundable focal areas.

124. Co-operative funding pools can further municipal co-operation. Larger projects, which are too expensive for any single municipality, can be made affordable by creating a co-operative pool from which funds would be drawn. Each municipality would accept to pay into the pool, via a *convenio* with the province holding the pooled funds. For example, four municipalities each want a tourist information office. None can fund it themselves, but they could each contribute one-quarter of the cost for four years. Each of the four years one centre would be built in each town (the order being accomplished through a random draw), and after four years each municipality would have a centre. The use of the *convenio* at the provincial level provides some assurance that all municipalities would have to honour their contributions, particularly since they receive grants from the province.<sup>25</sup>

*Stronger emphasis on specific rural development*

125. It has been indicated above that many actors are not sufficiently aware of the finality of the Rural Development Law nor of the potential of different funding sources and even less of the intricacies of the complex procedures that permit to trigger the processes. Focusing on rural development rather than on agricultural diversification/improvement means clarifying rural development as it is presented in the PDRS for 2000-2006 where it is entwined with measures of a strictly agrarian nature. Even if the latter also contribute towards the sustainability of rural areas, there is need to distinguish the presentation of the two policy areas. This will facilitate true appreciation of the efforts being made to promote rural development measures with impact on the whole community, such as delivery of public services, infrastructure development, and town renewal or heritage preservation.

126. Also, following the same logic, it has been noted that the main tool of rural development at the disposal of Basque authorities, Mendikoi, has its operational resources (funding and staffing) still allocated in a priority fashion to agriculture and farming (mostly training). Without decreasing these, as they permit to maintain farming activity and improve its efficiency, in particular by permitting young farmers to get established, it would be advisable to increase the overall budget of the agency so that resources devoted to rural development are sufficient (presently only 15% of staff) as regards the different tasks stemming from PDR implementation in each of the 20 comarcas concerned as well as activating a network (see below). Resources of Mendikoi presently seem to be spread thin, particularly with the tasks also assigned through the Mendinet association for LEADER + project implementation that need to be developed.<sup>26</sup>

*More efficient governance*

127. Setting up the governance structures planned by the 1998 law has proved a lengthy process, as well as the formal approval of the PDRs for each comarca. Excessive delays tend to demobilise local actors by introducing scepticism on expected results, as daily tasks blur the initial vision developed through participation in the definition of a local strategy. In the future it is highly recommended that PDR renewal and approval process be shortened and contained within a set timeframe, now that the corresponding entities are in place. On the other hand, local actors need to fully comply with different measures such as production of a formal "Plan de Gestion Annuel", to permit proper PDR implementation. Financing of projects should be strictly conditioned by the PGA.

128. Sensitisation and training, to increase human capital at the local level, requires from this point of view a permanent effort. Increased professionalism within ADRs as well as nurturing of new economic development competencies amongst municipal personnel are requisites for continued motivation and effective participation in the processes of place-based policies that are engrained in the 1998 law. Such an effort can only be accomplished by an agency such as Mendikoi, which also pleads in favour of increasing the resources at its disposal.

*More dynamic networking using ICT*

129. Although there is an Information Society programme in the Basque Country with broadband deployment now a priority and that LEADER + is entirely focused on ICT, use of the latter to further rural development through networking remains limited. Systematic use of ICT potential can greatly enhance policy implementation by facilitating access to information and procedures, permitting overall monitoring, while encouraging permanent dialogue and dissemination of best practices. For this reason it is suggested that an Internet Rural Development Portal be created and maintained presenting the following type of contents:

- A “rural development toolkit” that would present on-line all the features of the rural development law from a practical point of view, that is to say with indications on application of certain financing procedures. All the conditions, formalities, steps and delays necessary for presenting a project within a PDR would be clearly indicated and up-dated, thus facilitating prior work for applicants and reviewers (ADRs, Mendikoi) alike. The toolkit would be a permanent source of information concerning guidelines, methodology and financial resources for Basque and EU rural development programmes.
- A “rural development observatory” that would permit access to each of the PDRs in all the CAPV, with a precise presentation of each of the small area strategies (including by zones within comarcas) and comprising practical contact information at the diputacion and comarca levels (ADRs, development agencies). Information on PDR deployment and on advancement of projects would be systematically supplied and up-dated, with validation through each diputacion. Such an observatory would facilitate co-ordination through Landaberri and the corresponding fora at the level of each historical territory while providing stakeholders and inhabitants with the latest information for their area.
- A “rural development forum” that would permit dialogue with the public at large on one hand and with/between project carriers on the other on all rural development themes and issues, including practical questions on project implementation or advancement, the idea being that questions arising in certain comarcas may have already received answers/solutions in others. The forum is at the heart of the networking logic that brings added value to all, with ADRs, in particular, having interest to remain in permanent contact rather than exchange information mostly during occasional gatherings organised at the provincial or Basque Country level.
- A “local champions” competition that would permit to identify and award best practices in different fields (for instance diversification of activities in rural areas, original solutions for public service delivery). Dissemination of this kind of information through the proper channels strengthens motivation and can contribute to develop healthy emulation.

130. Such a project is by definition a co-operative venture supposing inputs and support from all rural development stakeholders in the Basque Country, at all levels (CAPV, diputacion, comarca and its municipalities). Project study and follow-up could logically be entrusted to Mendikoi, with supervision from the Department of Agriculture and Fishing (Directorate of Rural Development). Implementation of such a project would suppose a precise identification of manpower needs and the corresponding budgetary allocations, some of which could possibly be found within LEADER +. It would also require, at time of launch, an information campaign towards the public in general and more specifically towards potential users engaged one way or the other in rural development strategies and projects.

## APPENDICES

### Case study milestones

This case study concerning Place-based Policies for Rural Development in the Basque Country is based on OECD methodology, along the lines developed hereafter. A case study questionnaire was sent to the Department of Agriculture and Fishing in February 2004 so as to permit the production of a Background Report, initial step towards the drafting of the case study. An OECD Secretariat mission to the CAPV, organised at the beginning of April, permitted to explicit the case study process and prepare the field mission. The Background Report, produced by MIK Innovation & Knowledge and LKS consulting, was remitted to OECD mid-May and completed thereafter. At the end of May, an OECD team comprising a Secretariat member and one expert visited comarcas in the three historical territories so as to gather first-hand information on local strategy implementation.

The programme of the mission is as follows.

May 26<sup>th</sup>: **Montana Alavesa**. In Maeztu, presentation of Mendikoi, LEADER + and the comarca. Meetings with the ADR manager, mayors of Arana, Lagran, members of the diputacion foral de Araba (Agriculture and Rural Development Department Director) and the manager of the Urturi golf course. In Bernedo, visit of the Biomendi firm. In Villaverde, visit of an SME producing meat specialities (Edurtza SL).

May 27<sup>th</sup>: **Urola Kosta**. In Aia, presentation of the comarca by the manager of the ADR, and of different projects. Meetings with the diputacion foral (Head of Rural Development), the Director of Rural Development of the CAPV, the Mayor of Aia and a technician from the social services of Aia. In Errezil, meeting with the mayor, visit of different projects (health, postal and commercial centre, multifunctional rural facility of Borondegi, Mendinet Internet bus). In Beizama, meeting with the manager of the environmental project "Garrintza", visit of the kindergarten and of the wood-varnishing firm Illaun Barnizatuak.

May 28<sup>th</sup>: **Encartaciones**. In Artzentales, presentation of the comarca by the manager of the ADR and of rural development policy in Bizkaia by the diputacion foral (department of agriculture); meeting with the manager of the co-operative GUVAC; round table with the mayors of Karantza, Artzentales and Turtzios and counsellors from Gordexola and Galdames. Visit of the industrial zone of Galdames (Sopuerta metal-works and Lanalden call centre) and of the El Pobal restored iron mill.

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## **Websites**

Official website of the Basque Government: <http://www.euskadi.net>

Mendikoi: [www.mendikoi.net](http://www.mendikoi.net)

Nekanet: [www.nekanet.net](http://www.nekanet.net)

Rural Development Network (Spain): <http://redrural.mapya.es/web/default.asp>

## NOTES

1. Usually, comarcas are functional areas created voluntarily between municipalities receiving later official recognition. A comarca can incorporate new municipalities with the agreement of its members..
2. Source: EUSTAT.
3. Source: Statistical Office of the Department of Agriculture and Fishing of the Basque Government.
4. There were 40 016 farms in the Basque Country in 2002, with 50% producing less than EUR 2 400 per year and only 25% more than EUR 7 200 per year (Statistical Office, Department of Agriculture and Fishing).
5. Source: EUSTAT.
6. Since these figures count all people above age 10, demographic differences could explain part of the difference. However, rural areas tend to have slightly fewer people under age 19.
7. The locations are: Derio next to Bilbao, Zizurkil, next to San Sebastian and Arkaute, in the vicinity of Vitoria.
8. There is an organ for the co-ordination of Rural and Agrarian Policies, that includes representatives of the Departments of Agriculture of the Basque Government and the Diputacionones Forales, called “Mesa de Política Agraria y Desarrollo Rural”, presided by the Minister of Agriculture and Fisheries that meets on a quarterly basis with the Deputies and Directors of these administrations.
9. The 2R areas are divided themselves in three modules on the basis of different criteria so as to ensure that enough aid goes to the most distressed municipalities. Module one is characterised by a mix of small population (only one municipality in this category exceeds 1 000 inhabitants), usually strong population loss since 1960, particularly in the 20 to 60 age range and high dependency on the agricultural sector. The application of these criteria is however not rigid: municipalities experiencing population recovery can remain in this category, so that aid is not diminished at a time when positive trends need to be comforted. Module one municipalities number 61 in the CAPV (22 in Alava, 23 in Bizkaia and 14 in Gipuzkoa).
10. In Alava, PDR comarca populations range from 3 100 to 32 700; in Bizkaia between 21 260 and 90 495 and in Gipuzkoa from 44 344 to 383 000 (2001 figures, EUSTAT).
11. The two golf courses (Urturi and the smaller Lagran) in the area of Bernedo-Lagran constitute a successful response to an endemic sickness that eradicated hectares of potatoe fields. Reconversion into golf courses (Lagran is an 18-hole facility) created 25 jobs in the major location and an additional 25 indirect jobs (hotel and restaurant facilities...).
12. Biomendi, a successful firm producing plasma and antibiotics (for the Spanish and European markets) in the Bernedo industrial zone is a good example of utilisation of local assets (in this case absolutely pure water and also availability and low cost of land) for rural business development, insofar as these are made attractive by adequate infrastructure (the facility has proper road links). Biomendi, which now employs 40 people, is extending its plant. Some employees live in the area, others commute to Vitoria.
13. Such contrasts are to be found in other coastal parts of the Basque Country integrating mountainous rural areas within the same comarca, often at short driving distances.
14. Source: Urkome.

15. In Beizama; a wood-varnishing firm has created eight local jobs but inadequate roads in the vicinity of the village do not permit access to big trucks, thus creating a serious bottleneck for the expansion of its activities.
16. Interestingly, the main shareholders of this firm are the Departments of Industry and that of Agriculture and Fishing of the CAPV.
17. FSE financed Mendikoi programmes: EUR 2 431 400 from 2000 to 2003 out of a total expense of EUR 5 433 825. EUR 2 649 993 from 2004 to 2006 out of a total planned investment of EUR 5 835 855 (Source: Mendikoi, 2004).
18. Source: "Intermediate evaluation report of the operational LEADER + programme of the CAPV for the period 2000-2006. The evaluation was carried out by the consulting firm IDOM.
19. The comarcas visited by the OECD team vary in population from 3 000 to over 66 000.
20. Micro-regions are voluntary groupings of municipalities pursuing economic and social development goals. Micro-regions have no administrative or tax-raising powers.
21. In section 3.2.2 concerning the PDRS and FEOGA-G funding.
22. Llanada Alavesa and Cantabrica Alavesa. To compensate for this Mendikoi has temporarily assumed the role of an ADR in those areas, thus diverting scant resources from their main mission.
23. In July 2003 a seminar on the Rural Development Law and its application was organised by the Department of Agriculture and Fishing and Mendikoi, bringing together, in particular, representatives of municipalities, comarcas and ADRs. It was noted that neither municipalities nor ADRs were represented within Landaberry and that this omission was to be corrected.
24. During the July 2003 meeting mentioned above it was suggested that an advertising campaign be carried out on Basque television.
25. Multi-year budgets for capital projects explicitly guaranteeing the resources over a number of years can constitute an alternative to a co-operative funding pool.
26. LEADER + implementation got off to a slow start (see part three), so use of funds allocated over the six-year period till 2006 implies an acceleration of the yearly number of projects.

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