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## **The effects of public funding on farmers’ attitudes to farm diversification**

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with Donald Barr and Keith Howe



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Final research report prepared for Defra

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with Donald Barr and Keith Howe



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The views expressed in this report are those of the authors and are not necessarily shared by other members of the University or by the University as a whole

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## List of abbreviations

CAP	Common Agricultural Policy
CLA	Country Land and Business Association
Defra	Department for Environment, Food and Rural Affairs
DTI	Department of Trade and Industry
EU	European Union
ERDP	England Rural Development Programme
FBAS	Farm Business Advice Service
FMD	Foot and Mouth Disease
MAFF	Ministry of Agriculture, Fisheries and Food
NFU	National Farmers' Union
RDR	Rural Development Regulation
RDS	Rural Development Service
SPS	Single Payment Scheme
UK	United Kingdom

## Tests of statistical significance

On a number of occasions in this report comparisons are made between sub-groups of respondents. In these cases Chi-squares have been calculated to test the statistical significance of the differences between sub-groups. A 'significant' difference is taken to be one where there is less than a 5 per cent probability of the difference arising by chance. Further details are given in Appendix 1.



## Executive summary

### *The study brief*

E1 The overall aim of this research is to provide Defra with an evidence base from which it may be established whether there is a rationale for continuing Government intervention to encourage farm diversification, in particular through making capital grant funding available to farm diversification projects. The project's findings will inform the future role of government support, including whether other forms of support (advice, guidance and training) may be appropriate. Full details of the study brief are given in Chapter 1.

### *Key findings*

E2 The key findings of this research, by research objective, are as follows:

- The number and diversity of funding streams provides an overall picture of a complex and geographically variable provision of support. Despite the expertise and experience of ERDP scheme administrators, many felt the schemes to be over bureaucratic compared with other public funding, e.g. structural funds (Objective 1).
- Farmers, administrators and stakeholders showed clear support for the concept that grant aid added to the capacity of businesses to diversify, including its role in *building* capacity. Administrators drew attention to the *downstream* impact on economic activity and capacity. Receipt of grant aid is associated with an increased scale of operation which can be taken as an indirect measure of increased capacity (Objective 2)
- Grant aid is found to be important in facilitating the launch of a diversified enterprise for applicants who have already made the decision to diversify, particularly through the reduction in business risk. Grant aid has been an important influence in farmers' decisions on whether or not to diversify, and has had a positive rather than a negative impact on farmers' decision making (Objective 3).
- Overall, there is no conclusive evidence that public funding supports more innovative forms of diversification, and it is possible that the 'best value' constraints of public funding, and the need for financial probity, could militate against innovation. However, farm diversification itself remains a relatively innovative response to the challenge of restructuring in the agricultural sector (Objective 4).
- There was no significant difference in failure rates between publicly funded and other enterprises, but grant aid can mean '*the difference between doing something and doing it really well*'. Adequate capital is important in diversification and grant aid was also seen to contribute to success through increasing confidence amongst farmers and commercial lenders, and encouraging greater business awareness and planning (Objective 5).
- The research highlights the proliferation and diversity of advisory schemes. New and developing diversifiers pointed to areas where advice is essential: planning consents, securing grants, marketing and securing financing and these four areas were confirmed as the current major constraints to diversification. Most farmers who had received advice found it easy to obtain and useful. Inadequate market research, poor business skills and insufficient

capital are more likely to lead to unsuccessful enterprises than a lack of advice (Objective 6).

- There was no consensus on the issue of targeting, except that many felt targeting already happened, either directly or indirectly. This study has nevertheless identified strong support for the targeting of training particularly for 'embracers' and 'adapters', those who are most likely to make the best use of such support (Objective 7).
- There was a clear difference of view on the issue of the respective roles of capital grant or training support: stakeholders, administrators and advisers are strongly supportive of the importance of training and on-going mentoring, whilst many farmers remain unconvinced. There was an expressed preference for intensive training, away from the farm, rather than the current very short courses (Objective 8).

### *Background to the study*

E3 Farm diversification, encompassing both pluri-activity and the diversion of resources formerly used in traditional agriculture to alternative productive uses, is widely recognised as an important evolutionary process in the development of English agriculture. The government has a clear policy interest, supported by the report of the Curry Commission (Curry Commission, 2002), in broadening the business base of the farming sector and improving farm business viability. The planned introduction of a new RDR for 2007-13 requires an updated evidence base to inform the future role and shape of government support in this area.

### *Economic rationale*

E4 Obtaining the perceived benefits of publicly funding the process of farm diversification depends on farmers' motivations for farm diversification and their ability to translate their personal aims into actions. If facilitating diversification leads to positive externalities, public goods in the form of general rural environmental benefits, or multiplier effects for employment and income in rural areas, then public funding is justified. In short, public funding is justified where markets fail to provide society with all the benefits that it expects to get from farm diversification. It is even possible that commercially viable diversification may generate positive externalities, such as spin-off multiplier benefits for the wider local economy, for which society doesn't pay, these public benefits being socially costless by-products of private initiative.

E5 Public funding for diversification is also justified in the sphere of public information and skills training. Individual farmers may often not have the time to devote to discovering the possibilities for diversifying their farm businesses, or the understanding of exactly what knowledge, skills, and other resources are required to be successful if they do. The creation by government of the necessary institutional framework for information provision and skills training can help to lower the transaction costs of farm diversification, thus facilitating a process which creates both private and social benefits.

### *Overall summary*

E6 The research findings demonstrate the comparative effectiveness of public support, at least over the recent past, in encouraging and sustaining farm diversification. Taking the premise that support is still justified where markets will not

provide sufficient funding to deliver public goods, it is possible to draw as a definite policy conclusion that there is a need for the continuation of publicly-funded support for farm diversification.

E7 This conclusion is based on (a) the performance of recent support schemes and (b) the farming industry's need to complete the transition to a market-focused approach in the context of a multi-functional role. In particular, such a scheme should be designed to support the delivery of high level policy objectives for the rural economy by enabling projects which:

- encourage restructuring within the agricultural industry and enable businesses to cope with changes including the impacts of the Mid Term Review;
- assist the more effective integration of existing agricultural businesses into the wider rural economy;
- develop economic capacity in both upstream and downstream businesses in both the rural and urban economies;
- enable the provision of public goods, including landscape and environmental benefits, public access and improving rural skills;
- help to promote social capital through reducing isolation by encouraging farm households to become more involved in their local communities and wider society;
- enable profitable businesses to contribute to the Exchequer through direct and indirect taxation.

#### *Principal recommendations*

E8 The main recommendations arising from the various elements of this research, given the current climate for agricultural support and agricultural businesses and applying a degree of pragmatism, suggest that to be effective the continuing and replacement support regime should:

- (R1) Be flexible, which should include enabling applicants to bid for elements from a menu of support including capital grants, but also providing initial and ongoing advice, training and support, particularly in business planning and marketing.
- (R2) Be accessible to the extent of being more effectively publicised, ensuring that it is simple for farmers to identify potential sources of support, whilst still including a rigorous and searching application process turning on the quality of the business plan.
- (R3) Be delivered consistently, with the emphasis on greater consistency both from advisers and in the appraisal of applications and possibly supported by an accreditation scheme for advisers, subject to an early appraisal of the cost effectiveness of any such scheme.
- (R4) Include ongoing support, both post application appraisal and mentoring to ensure the most effective use of public funds.
- (R5) Be targeted, both by enabling appraisers to set local targets and by allowing initiatives to support dwindling areas (although not necessarily farm or land tenure types).
- (R6) Be facilitated by experienced and effective scheme administrators.

E9 Beyond the support regime itself, three other issues were identified as being important which, unless properly addressed, are likely to impede the future

development of farm diversification and hence the overall effectiveness of any new support regime:

- (R7) Issues related to the planning system, where stakeholders identified a continuing degree of unwillingness within Local Planning Authorities to embrace business development in the countryside, more frequently than central government policy guidance suggests should be the case.
- (R8) Taxation issues, where fear of adverse rating assessments and the impact of the possible loss of relief from capital taxation, most particularly Agricultural Property Relief, was felt to be a constraint for at least some on-farm diversification.
- (R9) The role of commercial funding, which it was felt might be a better source of capital funding if there was greater security over income streams within diversified business, such as might arise from longer term support.

E10 Diversification clearly has a role to play in enabling farmers to restructure to meet the new challenges of decoupled support and increasing competition. It provides benefits on and off farm and, perhaps most importantly, is a key element in integrating farmers into the wider rural economy. Government support has been an important element in facilitating this process over recent years, and the research shows that there remains a continuing role for public support in the immediate future, both financial and knowledge based. Such support should retain an element of competition to direct diversification grants to those who best demonstrate the potential to make effective use of them to deliver public goods.

### *Study methodology*

E11 The research has had to be completed to a very tight timetable, effectively three months, and for practical as well as conceptual reasons the primary empirical research was undertaken by means of a telephone survey of diversified and non-diversified farmers, chosen to ensure both timeliness of survey completion and to provide an opportunity for a more in-depth approach than could be provided by a postal survey. The detailed study methodology and the response rate are set out in Appendix 1. The project involved five principal research activities:

- Telephone survey of 1,000 diversified and non-diversified farmers.
- Postal survey (target response 100) of a range of advisers.
- Interviews with senior Defra staff (scheme administrators).
- Written consultation with a wide range of stakeholders.
- Consultation with expert stakeholders through a Focus Group.

### *Report structure*

E12 This report is structured as follows: an introductory chapter; a review of the context and rationale for public support for farm diversification; four chapters based on the empirical results of the research including a review of non-Defra support, the farm-level impacts of grant-funding diversification, the role of other forms of support and the scope for better targeting; and a concluding discussion and recommendations. The appendices present the detailed empirical findings.



# 1 Introduction and background

## Study background

1.1 Farm diversification, encompassing both pluri-activity and the diversion of resources formerly used in traditional agriculture to alternative productive uses, is widely recognised as an important evolutionary process in the development of English (and UK) agriculture. Moreover, there has been a clear policy interest, supported by the report of the Curry Commission (Curry Commission, 2002) and acknowledged in the Government's response to the Commission's proposals (Defra, 2002), in assisting and directing the process of diversification in order to broaden the business base of the farming sector and improve farm business viability.

1.2 Given the steady erosion of real returns from agricultural commodity production, and increasing interest in the countryside as a location for leisure and business activities, many farmers have already turned to new ways of growing their business as shown by Turner et al (2003) in the benchmarking study of diversification undertaken for the Department for Environment, Food and Rural Affairs (Defra) in 2002. Notably, that study also found increasing evidence of a growing acceptance by the farming industry of farm diversification as a valid feature of modern agriculture, perhaps signalling the onset of a more widespread 'culture change' among farmers. Whether or not this is so, it is clear that diversification is already an important component of the new economic paradigm for the English farm sector.

1.3 Over the past two decades or so farm diversification research has contributed to a comprehensive literature evidence base. Research commissioned by the Ministry of Agriculture, Fisheries and Food (MAFF) from the University of Exeter (McInerney et al, 1989; McInerney and Turner, 1991) identified the nature, incidence and economic significance of diversification in England in the late 1980s. During the 1990s there was a plethora of both academic and policy-focussed research which provided further evidence of the role of public support in fostering this form of agricultural restructuring, while also identifying some of the factors behind this trend (see, for example, Bryden et al, 1992; Ilbery and Bowler, 1993; Bateman and Ray, 1994; Edwards et al, 1994; Bowler et al, 1996; Bryden et al, 1997; NFU, 1999;

Hodge et al, 2000; FPD Savills, 2001; Hodge et al, 2001; Land Use Consultants, 2001; McNally, 2001; Milbourne et al, 2001; Shorten and Daniels, 2001).

1.4 More recently the role of diversification in the wider context of agricultural restructuring was explored through research for Defra in 2001/02 (Lobley et al, 2002), while the broad spectrum of the economic significance of diversified activities in England was the subject of the recent benchmarking study produced for Defra (Turner et al, 2003). Both studies explored the impact of land tenure as a constituent of restructuring and diversification. This was considered in greater detail in evaluations of the Agricultural Tenancies Act 1995 (Whitehead et al, 1997 and 2002).

1.5 A new dimension is that brought by the recent CAP reform, which may be expected to impact on farm restructuring and diversification across the industry in very individual ways. Its introduction has been far from straightforward, with substantial changes from the first published scheme to the dynamic hybrid eventually adopted coupled with delays which still, at the time of the research (Autumn 2005), left farmers unaware of the extent of individual entitlements, levels of payment and rules for transfer. Recent research commissioned by Defra, and expected to be completed in February 2006, focuses explicitly on the potential impact of CAP reform on the continued diversification of farms in the tenanted sector.

1.6 A key element in understanding the effective drivers of diversification is the need for a better understanding of the precise role played by public funding initiatives in influencing farmers to diversify. Clearly, a wide range of factors including farm type, size, location, market and policy expectations, the stage of both the farm family and farm business life cycles and, particularly, the scale of any investment required are all likely to be important variables in the diversification process. As one such variable, it is not self evident that the role of public funding has been, or remains, as significant an influence as might be expected. In the literature review summarised in Turner et al (2003), for example, it was pointed out that MAFF's own policy evaluations of the Farm Diversification Grant Scheme suggested that 'the majority of farmers would have diversified without its aid'. Crucially, it was not clear from the existing body of research whether the Scheme had had a more diffuse influence on

the process of diversification. The evidence base on the role of grant funding farm diversification, therefore, was inconclusive.

1.7 Moreover, the changing policy context in which farmers now operate brings an important new dimension to any attempt to understand and influence the direction of agricultural restructuring. It seems certain that the recent CAP reform, especially the introduction of the decoupled Single Payment Scheme (SPS), will impact on the future development of farm diversification in a variety of ways. For example, the effect of the SPS in reducing farmers' reliance on commodity production *could* trigger interest in a further phase of development of more market-oriented business activities, providing new incentives to diversify. Such a development would have important implications for the design of appropriate support mechanisms for diversification if, indeed, any are justified.

1.8 Crucially, although there is a comprehensive recent research base on many aspects of farm diversification (notably Lobley et al, 2002 and Turner et al, 2003; and the current Defra-funded study of the potential impacts of CAP reform on diversification on tenanted farms) there is no clear evidence about key aspects of the additionality achieved by previous and current support schemes. Indeed, the evaluation of the Processing and Marketing Grant Scheme (Elliott et al, 2003) found only weak empirical evidence in support of the economic rationale for public funding and also raised questions about the possibility of improved targeting. It is clear that, to date, the evidence base on the role of scheme assistance for diversification has been patchy, and with some pointers for scheme redesign.

1.9 Given the planned introduction of a new Rural Development Regulation for the period 2007-13, Defra has an identified policy need to review the scale and form of future support for farm diversification in the context of its Strategy for Sustainable Farming and Food, and to ensure the maximum value-for-money of any future public support. Further research was needed to provide an evidence base and to inform the future role and shape of government support in this area. The key issues are (a) whether the availability of grant funding influences the incidence and type of diversification, and (b) whether other forms of support (training, advice or other

guidance) may be as effective, or even more appropriate, in achieving the identified policy objectives over the coming period.

### **Terms of reference**

1.10 The overall aim of this research is to provide Defra with an evidence base from which it may be established whether there is a rationale for continuing Government intervention to encourage farm diversification, in particular through making capital grant funding available to farm diversification projects. The project will assess the contributions of grant and other support to farm diversification to date, and will collect evidence to inform the future role of government support for this activity. The study will consider, *inter alia*, whether the availability of grant funding influences the incidence and type of farm diversification, and whether other forms of support (advice, guidance and training) may be effective.

1.11 The study has a number of specific research objectives:

- (1) To identify the range of support currently available for diversification, in addition to support through the ERDP (e.g. through Regional Development Agencies).
- (2) To examine the impact of financial support on farmers' capacity to undertake diversification.
- (3) To explore the extent to which the availability of grant funding is a decision making factor for farmers considering diversifying.
- (4) To explore whether the availability of grant funding or other public supported initiatives has had any impact on the type of project funded e.g. whether support encourages innovation.
- (5) To examine the extent to which the receipt of grant aid influences the success/failure rate of diversified enterprises.
- (6) To explore the role of advice and guidance in encouraging diversification and in contributing to the success of diversified businesses, for example the Small Business Service/Business Links/FBAS, etc.
- (7) To assess whether grant funding or other assistance could be usefully targeted e.g. to tenanted farms, lagging areas, small farms etc.
- (8) To evaluate the respective contributions of capital investment and investment in skills and training.

## **Study methodology**

1.12 The research has had to be completed to a very tight timetable, effectively three months, and for practical as well as conceptual reasons the primary empirical research was undertaken by means of a telephone survey of diversified and non-diversified farmers, chosen to ensure both timelines of survey completion and to provide an opportunity for a more in-depth approach than could be provided by a postal survey. The detailed study methodology and the response rate are set out in Appendix 1. The project involved five principal research activities:

- Telephone survey of 1,000 diversified and non-diversified farmers.
- Postal survey (target response 100) of a range of stakeholders.
- Interviews with senior Defra staff (scheme administrators).
- Written consultation with a wide range of stakeholders.
- Consultation with expert stakeholders through a Focus Group.

## **Report structure**

1.13 This report is structured as follows: following this introductory chapter, a review of the context and rationale for public support for farm diversification; four chapters based on the empirical results of the research including a review of non-Defra support, the farm-level impacts of grant-funding diversification, the role of other forms of support and the scope for better targeting; and a concluding discussion with recommendations. The appendices present the detailed empirical findings.

## 2 The context and rationale of public support

### The business context of farm diversification

2.1 A very wide range of factors are currently involved in the evolutionary development of a more diverse, less agriculturally focused, farming sector in England (see, for example, Turner et al, 2003). One important finding regarding the question 'What initiates farm diversification?' gleaned from research evidence on farm diversification during the 1990s pointed to *internal* characteristics of the farm family as an important determinant in the decision to diversify, in addition to factors related to the economic environment in which the family's business operates. This insight provides one valuable facet of a conceptual view of diversification as a *process* in agricultural adjustment, illuminating and qualifying other evidence which points to the changing economic and business environment in which agriculture operates, coupled with sporadic policy initiatives over the last twenty years, as important drivers in the diversifying of farm businesses.

2.2 The identification of multiple drivers for farm diversification has long been recognised, of course. For example, the 1989/91 study of farm diversification (McInerney et al, 1989; McInerney and Turner, 1991) identified three key reasons for diversification:

- The financial need to find an alternative, supplementary source of income;
- The recognition of exploitable opportunities for diversification;
- The inclination to broaden the economic base of the farm business.

This study concluded that in any individual case there are likely to be one or two main factors coupled with one or more supplementary factors; and that the relative importance of each of these key factors can be expected to vary quite widely, both between farms and in a temporal sense when, for example, a second or subsequent diversified enterprise is introduced to an already diversified farm.

2.3 Much subsequent empirical work has provided further evidence to support these initial conclusions. A survey in the late 1990s, for example, found that although 45 per cent of farmers diversified, to compensate for falling farm incomes, the majority cited rather more positive reasons associated with taking advantage of new business opportunities (NFU, 1999). More recently, and probably reflecting the

persistence of widespread economic recession in the farming industry at that time, a study found that a quarter of farmers 'felt that they needed to diversify' because of low levels of profitability in agriculture (ADAS, 2002), highlighting the continued importance of the 'income push' factor.

2.4 The 2002 study (Turner et al, 2003) identified the income factor as quite clearly the most important motivation behind the establishment of a diversified enterprise, with six out of ten diversified farmers listing 'increase family income' and more than four out of ten citing 'maintain family income' as principal causal factors in their decision to diversify. However, clearly a wide range of forces are involved in the diversification of English agriculture, many of which are associated with the opportunity afforded by the development of a new, non-agricultural enterprise to make better use of existing farm resources. Thus the availability of 'buildings' (27 per cent), 'family labour' (23 per cent), 'spare land' (17 per cent), 'spare machinery' (14 per cent) and 'hired labour' (7 per cent) were all cited as important causal factors.

2.5 Evidence from the same study on other important motivations lends further emphasis to the need for farmers to develop an appropriate attitude of mind, which many identify as a central element in successful farm diversification. More than one fifth of study respondents considered that the diversification would enhance the asset value of their farm, an interesting observation suggesting that at least some diversifiers have an eye on their ultimate retirement or, at least, the sale of their present holding. An element of serendipity was introduced by the finding that 17 per cent of diversified respondents had grown their enterprise from what was originally an informal hobby while, in keeping with the small scale of many such enterprises, 16 per cent still regarded their diversification as little more than indulging an interest or hobby. Overall, five per cent had established a new, diversified enterprise in order to create employment for family members. As would be expected, these general findings varied very substantially according to the type of enterprise involved.

2.6 The 2002 study found that the criteria for success in diversification were broadly the same as in the 1980s. These include the existence of a market opportunity, the necessary on-farm resources (such as specific expertise,

management skills, marketing ability), and the need for careful scrutiny and assessment of business potential. Successful farm diversification was not found to be particularly relevant to small or to struggling businesses. On the contrary, it is hardly surprising that the evidence is that most successful diversified enterprises form part of an otherwise successful farm business.

2.7 Moreover, the study found that the conventional farming wisdom during the 1980s (which could be summarised as ‘diversify if you wish but don’t forget that farming is your core business’) was no longer appropriate in the context of the twenty first century. The current policy framework, including the Government’s *Strategy for Sustainable Farming and Food*, places considerable emphasis on diversification as an integral element in the development of sustainable and prosperous agricultural and rural economies. The research found many more cases where the diversified enterprise assumed a greater economic significance than the farm itself. Farm diversification should no longer be seen merely as a modest supplementary adjunct to the core farm business, but rather as an increasingly common engine of farm business success and prosperity.

2.8 The study also found that diversification as a business strategy was now a normal feature of the agricultural industry and almost universally accepted as such by farmers. Indeed, it was suggested that the characteristic resistance to innovation in the early stages of the adoption process has long since passed and that diversification was now moving towards the phase of late or laggardly adoption. If this conclusion is accepted, this clearly has potentially significant implications for the continuation and form of public support.

2.9 Finally, the 2002 study pointed out that the combination of (a) diversification having become the new norm for agriculture and (b) the persistence of challenging economic circumstances facing the agricultural sector, when taken together, might lead some farmers to make the wrong business decisions. Consequently, in policy terms it is important that the signal sent out to farmers is that they should scrutinise their business in the round, rather than adopt any particular strategy for business growth, pointing to the need for sound and independent advice tailored to the individual circumstances of individual farm businesses.



## **The economic rationale for government intervention**

2.10 Discussion of the role of public funding in farm diversification needs to be set in the context of a more detailed discussion of why diversification is necessary or desirable at all, how it can be brought about, and the opportunities for it, or obstacles to it, that exist without public intervention.

### *The purpose and scope of farm diversification*

2.11 The most commonly identified purpose of farm diversification, as previously mentioned, is to sustain or increase farm family net income by changing the existing use of farm resources and, in some instances, supplementing them with new resources and novel enterprises. Diversification can also help reduce net income variability, a source of financial uncertainty that adds to the complexity of running a farm business. Agricultural production is notoriously variable; it is still essentially a biological activity, and thus is affected by uncontrollable fluctuations in natural conditions, especially weather. Consequently, both prices and quantities of farm products sold, their associated input expenditures, and thus profits, are all subject to unpredictable variations over time. A partial solution to the problem is to combine farm enterprises so that less profitable periods for some are offset by more profitable ones for others. A classic example is growing cereals for sale or home feed and keeping beef cattle. The financial disadvantages of low price periods for marketed cereals is that some compensation results from availability of now correspondingly cheaper cattle feed from any cereals retained for on-farm use.

2.12 Nowadays, however, the concept of farm diversification extends far beyond making changes in the mix of traditional farm enterprises. Familiar examples are the creation of caravan parks, changing the use of farm buildings into self-catering holiday accommodation, adapting farmhouses for bed and breakfast, and even the creation of golf courses or recreational theme parks for tourists. It also extends to diversification into 'value adding' activities, such as on-farm processing of milk into butter, cheese and cream, or processing home reared cattle, sheep and pigs into various cuts of fresh or cooked meats, sausages, and pies. Direct retailing of these home produced items in farm shops or at farmers' markets has also become a significant area of farm business growth through diversification. In short,

diversification has come to mean the reallocation of farm resources, sometimes with supplementation, to any gainful use with the purpose of enhancing farm family income.

### *Incentives and capacities for change*

2.13 Making the best use of farm resources by finding the most remunerative enterprise structure on any given farm becomes imperative as agricultural policy reform weakens or removes price supports. Increasingly, the free interplay of market forces is expected to determine the prices farmers receive for their products. In contrast to the unwanted uncertainties that stem from random and uncontrollable fluctuations in business conditions, systematic movements of market forces in response to changing demand and supply conditions have a crucial function. They signal to farmers a need to reallocate farm resources when society's preferences change for the kind of outputs they provide and when more, or different and more productive, resources become available. These two elements - respectively demand and supply side factors - indicate what new configurations of different enterprises should now be adopted by farmers to give them the best income prospects.

2.14 Problems arise when there are obstacles to farmers making changes in desired directions. For example, the alternatives open to any given farmer because of geographical location, the existing farm resource base, and his or her present management skills, may be limited. In extreme cases, the rational response for a farmer may be to quit farming altogether. Assets are then sold to continuing farmers or, especially if land is favourably located, perhaps to urban developers with house building or industrial uses in mind. But these are still processes which markets normally take care of without need for external intervention.

2.15 More complex situations occur when there is still scope for a farm business to remain viable, albeit with a new configuration of enterprises and inputs, but the process of adjustment itself is the problem. Most obviously, since need for change is provoked by an actual or anticipated decline in farm net income, access to spare cash and credit is likely to be an obstacle. Normally financial resources will be necessary to effect changes in the business, either to smooth the course of adjustment or for investment in new activities. For example, new buildings or

equipment may have to be constructed, or those already in existence on the farm converted for other uses. In these circumstances, the solution is a persuasive business plan and access to a sympathetic bank manager or other potential creditor.

2.16 Implementing more radical plans for diversification, such as the introduction of value-adding or novel enterprises, noted above, are not substantially different in respect of the approach needed. Depending on the particular circumstances, any of these activities can require substantial initial capital outlays. Carefully considered and properly costed diversification plans will demonstrate to potential lenders the economic viability of a project. The same criteria apply to assessment of commercial potential as for any other kind of business proposition. But a further consideration is likely to be the need for farmers to acquire new skills, including a capacity to manage a different kind of labour force recruited specifically to work in these new areas of business activity<sup>1</sup>. In general, quite different sets of skills from those required for farming are needed to run, say, a leisure park, or a farm holidays or food processing business. Always, given the business options available, maintaining farm business viability and sustainability for the longer term depends crucially on a farmer's entrepreneurial and managerial capacities. Though crucial, assessing a person's business acumen and day-to-day management ability is more difficult by comparison than appraisal of a business plan. Moreover, such intangible attributes as new management skills are often difficult to acquire by farmers steeped in a different kind of work experience.

#### *Diversification in whose interests?*

2.17 In the above discussion it is assumed that farm diversification is only for private benefit. That is, the beneficiaries are farm families, and no one else. Economic logic therefore recommends that all costs of diversification should be born by farmers, the sole beneficiaries. But that is not the only consideration here.

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<sup>1</sup> It should be noted that this assessment does not contradict the empirical observation in the 2002 Baseline Study (Turner, et al, 2003) that successful diversification is typically associated with successful farm businesses (paragraph 2.6). The study findings provide a temporally-bounded 'snapshot' of the gradual refocussing of the farming sector on a broader range of markets and customers. As this process continues, in line with Government policy, there will be a continuing need to develop the skills base of farmers and rural workers.

2.18 The justification for public funding is that any such expenditures are expected to result in at least equivalent social benefits, of which farmers' private interests are only one part. Otherwise, they are an inefficient use of society's scarce resources. Public expenditures are those made by government on behalf of society as a whole. They are made from tax revenues which have an opportunity cost. In other words, they could be used for purposes other than helping farmers to diversify. Conceivably, the consequent benefits for society would be even greater in their alternative use, say by providing more, or better, hospitals and schools. Thus, if government acts responsibly, and responsively, on behalf of the voters, who typically are also the taxpayers providing those public funds, it will be sensitive to public opinion about how best its limited financial resources should be deployed.

2.19 It follows that there needs to be a clear perception of what the public expects to gain from providing resources to assist farm diversification. For example, if it is believed that there is an intrinsic value in maintaining the farm population, for whatever reasons, then providing funds to help those farmers who might otherwise quit is a rational response. But, for some such marginal farms, the options for adapting the business to new circumstances may still limit changes to a new structure of farm-based activities that are not commercially viable for the longer term. In this situation, public funding *could* be viewed as a misguided use of taxpayer resources because it fails to prevent farmers still going bankrupt. It all depends on how far society wants to go in singling out a particular group, in this case farmers, for special treatment. Conceivably there is a social preference for assisting the farm population, reflected in government policy, but not at any cost. Only those farms that can be made viable with some limited social assistance may be deemed worthy of financial support for necessary diversification. They are the ones managed by farmers capable of providing credible business plans. Alternatively, if keeping farms in existence for other than everyday commercial reasons is the objective, additional claims will be made on the public purse if some kind of subsidies - simply transfer payments from taxpayers to farmers - are needed to sustain commercially unviable farms in the interests of obtaining wider social benefits. If these benefits are deemed sufficiently large, then public expenditures to secure them *are* fully justified.

2.20 Sources of such social benefits are the outputs farming provides for which there is no market. And, with no market, there is no easily observable price to signal how much of them people want. Obvious examples are a beautiful landscape, rural areas used for amenity and relaxation, and a place where wildlife and flora habitats are conserved for the enjoyment of later generations<sup>2</sup>. These examples of, in a sense, by-products of farming are 'positive externalities', benefits enjoyed by people other than the farmers who created them<sup>3</sup>. Neither are the externalities explicitly taken into account by farmers when making their business decisions. They are 'public goods', freely available to everyone without exclusion. Moreover, one person's consumption of them is without detriment to anyone else's. No one's enjoyment of a beautiful landscape, say, ever prevents anyone else enjoying it too. Arguably, some of these attributes may also have the characteristic of 'merit goods', those things society thinks everyone should consume whether or not the individual wants them. Somewhere to enjoy fresh air, exercise, and relaxation, may be deemed altogether a 'good thing' for a modern, high stress urban society. Since farming typically dominates the rural landscape, there are certainly grounds for assisting farmers to provide such benefits for the wider public good.

2.21 In principle, the maximisation of people's economic well-being in society corresponds to the most efficient allocation of resources. But where there are no market prices to guide decisions about how society can make the best use of its scarce resources - a situation described as 'market failure' - public funding and/or regulation is justified. It can help to correct for otherwise free, unregulated markets failing to achieve a socially efficient allocation of resources. In effect, public funding is the social equivalent of the price any individual might be prepared to pay to get what he or she wants.

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<sup>2</sup> There is some research evidence that among these wider social benefits provided by the farm sector is the continuing role and importance, in many rural areas, of viable farm-based businesses (including farm diversification) in the rural economy. In this context, one element of the rationale for ensuring the process of farm diversification continues apace through the provision of appropriate public support is the mitigation of the otherwise sharp impacts of agricultural restructuring (see, for example, Lobley et al, 2002; and Lobley et al, 2004).

<sup>3</sup> It is acknowledged that some people may have unrealised preferences for wilderness areas untouched by farming and shaped entirely by the forces of nature. Although such countryside is extremely rare in Britain, any retreat of farming (presumably from the least favourable areas) would, in theory, increase its supply and so contribute to an overall greater social benefit. For such an outcome to be possible, however, a very great deal more would have to be known about the proportional preferences of society in respect of countryside and other rural goods.

### *Clarifying society's objectives*

2.22 It follows that any public funding to assist farm diversification should be informed by a clear perception of the objectives. If it is to assist a transitional process of farm business adjustment intended only to help improve farm family income (i.e. social expenditures aimed at enhancing private benefit) there is justification for providing funds in the form of a loan for eventual repayment. However, as previously noted, this function is best undertaken by institutions such as banks that specify terms and conditions for a loan depending on their analysis of a project's commercial viability. Only if banks are for some reason reluctant to provide funds to farmers on commercial terms is there a case for public intervention.

2.23 On the other hand, public funding to gain positive externalities is justified. From this perspective, diversification is a means to a different end than improving farm income. The situation gets complicated, however, when farm diversification has more than one objective. For example, diversification may help to increase income, but only to an extent still incapable of satisfying normal commercial criteria for an acceptable return on assets, while simultaneously creating positive externalities. For example, suppose that in a national park a marginal low-income sheep farmer benefits from diversifying into holiday accommodation and that the outcome is an improved total income. Society may benefit (and thus financial assistance is justified) if the farmer's continuing presence is nevertheless assured, and his work there contributes incidentally to the general appearance and environmental condition of the park. In that case, public funding for diversification could be interpreted in part as a policy instrument for society to maintain its public good provision by assisting the farmer's private endeavour.

2.24 In other circumstances, however, similarly motivated public funding may also lead to a wider range of measurable private benefits. For example, when new opportunities for farm accommodation attract more people into rural areas for holidays and recreation, those people bring a new set of demands and expenditures which benefit people who keep village stores, public houses, tea shops, garages, and so on. Thus potentially there are measurable multiplier effects for both rural employment and incomes engendered by public expenditures incidentally, or even intentionally, being mobilised to stimulate conventional market activity.

2.25 Assessing the magnitude of these wider effects requires empirical analysis of specific geographical locations and economic circumstances. These will take into account particular regional or local farming (and non-farming) conditions, including the availability of agricultural and non-agricultural resources and the potential for other gainful rural economic activities. Labour force characteristics, for example gender, skills and age structures, unemployment and wage rates, are all key considerations. So are the links between different areas of rural economic activity, and proximity to urban areas and the extent of interdependence between rural and urban areas. Input-output models are a foundation for such analysis. Research shows that, contrary to common belief, nowadays in the UK agricultural production is not in itself such a substantial or integral part of the wider rural economy<sup>4</sup>. Thus farm diversification into novel activities offers the prospect of re-establishing a network of economic links and interdependence conducive to the general well-being of rural communities, or creating new ones.

### *Conclusions*

2.26 Other than willingness by government to allocate funds to farm diversification, obtaining the perceived benefits in practice depends on two key factors. These are, first, farmers' individual and collective motivation for farm diversification and, second, their ability to translate their personal aims into actions. The former consideration points to a general willingness by farmers to respond to incentives for diversifying in pursuit of better incomes, rather than merely to endure a deteriorating business environment or quit. The latter concerns their access to resources, including technical and business know-how, since diversification can involve both changing the existing use of farm resources and supplementing (or substituting) them with new and different resources.

2.27 A risk of providing public funds for diversification is that some farmers may exploit an opportunity to use them unnecessarily to do what they were going to do anyway. They might already have access to the financial resources necessary to implement their plans. As noted, if a diversification project is expected to be commercially viable, it should normally be capable of attracting a loan on strict

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<sup>4</sup> See, for example, *Agriculture in the United Kingdom 2003*, Table 2.3.

commercial criteria. If a project is not expected to be commercially viable, there is no justification for public resources that mistakenly allow it to go ahead. If, however, facilitating diversification leads to positive externalities, public goods in the form of general rural environmental benefits, or multiplier effects for employment and income in rural areas, then public funding is justified. It can fill gaps by providing financial resources otherwise unavailable from banks or other lending institutions. The proper concern of these institutions is only with private costs and benefits. In other words, their focus is on farmers' own monetary outlays on inputs, receipts from farm production, and hence profits, and thus whether they can expect to earn a commercial return on their own investment of funds with farmers.

2.28 In short, **public funding is justified where markets fail to provide society with all the benefits it expects to get from farm diversification.** Incidentally, it could be that commercially viable farm diversification sometimes even generates positive externalities for which society never has to pay. For example, if creating facilities for on-farm tourism and accommodation with the aid of a commercial bank loan is both profitable and leads to spin-off multiplier benefits for the wider local economy, then these public benefits are socially costless by-products of private initiative.

2.29 One remaining area where public funding for diversification is justified is in the sphere of public information and skills training. Individual farmers often may not have time to devote to finding out the possibilities for diversifying their farm businesses, or knowledge of exactly what knowledge, skills, and other resources are required to be successful if they do. This is a classic instance of a situation where farmers may rationally calculate that it is not within their capacity to make a large-scale investment of their own time and other resources to search out what they need to know. Moreover, on the other side information provision often requires economies of scale to make it worthwhile. So, government can step in to create the necessary institutional framework for information provision and skills training, thus reducing costs of the whole diversification exercise for individual farmers from its conception to project maturity. Put another way, government intervention can help to lower the transactions costs of farm diversification, thus facilitating a process which creates both private and social benefits.



### 3 Review of the range of non-Defra support available

#### The policy background

3.1 This review of the range of non-Defra support available is made within the context of a number of relevant policy and scheme related studies including the Policy Commission study on the Future of Food and Farming (Curry Commission, 2002), the Mid-Term Evaluation of the England Rural Development Programme (ADAS/SQW, 2003) and the Economic Evaluation of the Processing and Marketing Grant Scheme (ADAS/University of Reading), also in 2003. A major review of Rural Policy Delivery undertaken by Lord Haskins (Defra, 2003), the Government's response to this review with the new Rural Strategy in 2004 (Defra, 2004b), and the more recent Rural Funding Review (Defra, 2004b), have also focused attention on the shape of rural support provision at present, and make a number of recommendations of relevance to the current study.

3.2 The Haskins Review, a study of the broad picture of the Government's Rural Delivery in England, identified inter alia *'the complexity of the current delivery landscape'* and *'the need to bring delivery closer to the customer by devolving greater power to regional and local organisations to deliver economic and social policy'* as key issues. The Review's recommendations included the transfer of responsibility for the successors of the existing business and farm diversification schemes, under the current ERDP, to the Regional Development Agencies (RDAs) (Recommendation 12). The report highlighted, as examples of good practice, the role played by *'dedicated, expert and experienced'* local staff, along with reference to the effectiveness of local delivery under schemes such as the EU-funded Leader +. Areas of dissatisfaction were also noted, including confusion over the roles of many organisations and the complexity of scheme application process. Recommendation 13 of the Haskins Review advised that Defra should review all funding streams and schemes, in order *'to achieve a more rational, transparent and comprehensible approach to the administration of financial incentives'*.

3.3 The summary of recommendations of the Rural Funding Review, published in July 2004 (Defra, 2004b), refers to the simplification of schemes, an improvement in advice, communication and information, the simplification of application procedures

and monitoring for 'customers', a better organised delivery and the clarification of objectives for the three new funding streams, namely sustainable food and farming, sustainable rural communities and natural resource protection.

**Objective 1: To identify the range of support currently available for diversification, in addition to support through the ERDP**

3.4 The diversification of farm resources away from conventional farming can initially lead the business manager into an almost unlimited range of options. Within the limits of the current project, and in response to the first objective of this study (Chapter 1), the detailed information tabulated given in Appendix 4 has been prepared. Given of the complexity of the support 'landscape', it should be understood that this represents an illustrative, rather than necessarily a definitive, picture of the full range of support relevant to rural diversification. In addition, the commercial market for such support is, of course, also available at a cost.

3.5 Searches of a wide variety of websites were made, along with gathering information from a range of other sources. In Objective One areas a considerable spread of initiatives is available and clearly accessible through the internet, as well as Business Links and the Objective One offices in each area. A number of these schemes are specifically relevant to farm diversification and are recorded in the appendices. This list is not exhaustible and, to the non-conventional diversifier, other support opportunities may also present themselves and, indeed, may be more appropriate. In certain activity areas of England, as defined by the EU, Leader + funding is also available for supporting integrated rural development and this is delivered through Local Action Groups.

3.6 For project funding a number of loan schemes exist, an approach which may be appropriate and accessible to diversifying small rural businesses. Grants are also available from the DTI for research and development - the support of technological innovation. In addition, a number of RDAs and County Councils offer grant aid for the conversion or refurbishment of redundant rural buildings and, where rural buildings are of historical significance, English Heritage may agree to grants for the maintenance and repair of such buildings, potentially included in a diversification scheme.

3.7 The landscape of provision for advice and training is, at first glance, more complex, although this may be perceived as less of an issue at the regional or local level, where much of this provision is made. Business Links provide diagnostic advice, information and brokerage of specific support to businesses. The Business Link website has a Grants and Support Directory which is searchable by business type or by Grant and Scheme name. It claims to list 2763 items and is national in coverage. In summary, therefore, what appears to be a geographically variable provision of regional and sub-regional support exists for a wide range of advice and training from planning advice in Cumbria and Lancashire and IT and business skills in South Yorkshire, to professional advice, with a range of specialist expertise, on the Kent Downs and training and advice for land based businesses, through Agribip, in the South West (except in Cornwall where Objective One provision is available).

3.8 It is, perhaps, worth commenting that the web sites of the RDAs were examined and, on the whole, they were found wanting in terms of accessibility to rural business support information. The word 'rural', which many still seem to use as a search parameter, can be hard to find on some sites and further 'mining' may be needed to turn it up. Home page links to those parts of the site relevant to rural development do not generally exist<sup>5</sup>. In the focus group and the administrator interviews some degree of concern was expressed over the future administration of rural grant schemes, with anxieties that these would be of low priority for some RDAs and, in particular, that those with significant urban regeneration programmes (e.g. Advantage West Midlands) would be unable to divert funds from these critical targets to rural areas.

3.9 All elements of the study confirm the findings of the previous work mentioned above, this time specifically focusing on farm diversification. In the focus group, there was a common reaction that the number, range and diversity of grants was a serious challenge to anyone seeking to secure grant aid, a fact self evident from the rise in the number of commercial grant advisers. Filtering grants should be a key role of "support agencies" and this was an important element in facilitation. It

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<sup>5</sup> The North West, South East and the South West RDAs proved to be the best, in this connection.

seemed that success with grant applications turned, very heavily, on securing an effective grant adviser, whether this person was in the public or private sector.

3.10 Most respondents to the stakeholder consultation element of the study also commented on the wide range of schemes currently available, ranging from those under the ERDP and Leader + to a number of others with a regional or sub-regional origin and focus. Typical comments included:

*‘Overall, the range and adequacy of existing farm diversification schemes is comprehensive’.*

*‘Too many schemes that have similar values but no common thread to join them together.’*

3.11 In the context of discussion regarding ease of access to grant funding, a number of respondents pointed to the need to rationalise and simplify the complexity of the scheme application process. Furthermore, some respondents also called for greater flexibility in the funding criteria for some schemes, as the following comments testify:

*‘It is felt that it would be useful to have fewer schemes for farmers to consider.’*

*‘...with flexible parameters for judging applications on the merits of outcomes’.*

3.12 The need for simplifying scheme provision was reiterated in the focus group, where there was a broad consensus on the view that ERDP funding was unnecessarily bureaucratic and unwieldy compared with other public funding, for example structural funds, which apparently had the same demands of probity and public accountability. These views were supported by the postal survey responses, where a number of respondents advocated less scheme bureaucracy and a simplification of information / the grant system. The following comment from the focus group illustrates this point:

*‘ERDP grants are a ‘curate’s egg’ and both bureaucratic and complex’*

3.13 Amongst the written submissions gathered in the stakeholder consultation, farmer awareness of the presence of support is found to be variable: variable in breadth and depth, as well as in appreciation of the source of the support. It was

stated that, typically, farmers *'just hadn't realised it was Government support'*. Respondents attributed this to a range of factors, relating to the type and level of promotion, followed by discussion of differing aptitude, access to information, or the simple need and desire to know, amongst farmers.

3.14 Many consider that, whilst farmers are generally well aware of the ERDP schemes as they have been well promoted, awareness of other schemes is less than universal. The following comments are representative of this viewpoint:

*'DEFRA did a good job publicising the ERDP schemes and, eventually, produced excellent documentation on how to apply and layout business plans.'*

*'Other schemes, such as the SEEDA Farm building scheme, are less well publicised'*

3.15 Several respondents point to the valuable role played by particular, regionally organised, facilities providing a 'single entry' point of contact for the enquirer such as the Business Links, the Rural Enterprise Gateway website and the Rural Directory in the SW, the Rural Business Desk in the East Midlands, the Cumbria Rural Enterprise Agency, Lancashire Rural Futures and the Warwickshire Rural Hub. The focus of the means of delivery of such services therefore varies, with some relying on the internet and others taking a more personal approach, the latter often mentioned as the most desirable:

*'Once we had secured funding for a dedicated support officer through the Rural Forum for Coventry, Solihull and Warwickshire, awareness of the grants....considerably increased'*.

3.16 Other promotion initiatives mentioned by respondents include Newsletters (e.g. the RDS SE Newsletter) and Factsheets (e.g. the Agricultural Factsheet in the South West).

3.17 Most regions appear to have dedicated support for such activities although, once again, other respondents indicate a lack of awareness of such initiatives and

look ahead to the Rural Business Advice Channel which is due to be launched this Spring:

*'Certainly, the intended move to a single point of provision will assist with the level of awareness of the range of existing schemes.'*

3.18 Some respondents suggested that farmers, whilst being aware that schemes exist, are not sufficiently appraised of the detail to enable them to appreciate what they would offer the business<sup>6</sup>. Suggestions are offered to explain this, such as the time constraints faced by many farmers working full time on the farm or farmers who have become more part time in their activities:

*'Farmers rely, in many cases, on a regular contact with a consultant to inform and advise.'*

*'Many small grants with face to face contact and low paperwork are delivering huge benefits.'*

*'...we are finding that there is a section of farmers who are not plugged into advice.'*

*'...small farmers, in particular, are often unclear where to go to find details of what exists.'*

3.19 One or two respondents believed that existing access to funding streams was adequate for those who sought assistance:

*'Those who want change, make themselves aware of grants.'*

3.20 The picture overall is one of considerable complexity of provision, of variability in the type and quality of promotion, and of diversity in the effectiveness of 'signposting' for farmers.

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<sup>6</sup> It has been suggested that, with the move to the SPS, farmers won't have to work long hours to get subsidies, so they can make rational choices about how to spend their time, whether this is on the farm, running a diversified business or applying for grants. While this may be something which becomes evident in the future, at present we judge this rather too theoretical an outcome of the likely impact of the SPS to influence assessments of the time pressures on farmers at the present time.

## **4 The impacts of grant funding on farm diversification**

### **Introduction**

4.1 This chapter focuses on the four research objectives most directly concerned with the farm-level impacts of public funding on the process of farm diversification: on the farm's capacity to diversify; on farmers' decision making; on the types of project established (particularly with regard to innovation); and on the success and failure rates of diversified enterprises. The general structure in each case is to begin with the empirical evidence from the farmers' survey before examining this in the light of the postal survey, the stakeholder consultation, the focus group and, where appropriate, the administrator interviews.

4.2 Before addressing these research objectives individually, it is worth noting that the primary disaggregation of the data collected in the farmers' telephone survey has been carried out on the basis of whether or not the farmers have applied for grant for the diversified enterprises with which they have been involved. In examining the empirical evidence in this way, the intention is to investigate (a) the experiences and attitudes of farmers and (b) to assess any differences, for example in diversified enterprise performance, as between these two distinct groups of farmers operating diversified businesses.

4.3 Recognising the specific structure of the farmers' survey sample (see Appendix 1), it is interesting to note that many of the diversified enterprises reported in this study (51 per cent of 1011 records) have gone ahead without grant aid; and that 83 per cent of these were set up without grant funding even being applied for (Table 4.1). The immediate and most obvious interpretation of this finding might be that these enterprises have been developed single-mindedly, without the use of public funding, perhaps in response to pressures on farm incomes, and perhaps led by pioneering farmers who are less averse to risk. If this is so, it may be asked, then what is the case for funding diversification when this the process is already happening without grant aid? Intriguingly, further analysis shows this conclusion to be somewhat erroneous.

**Table 4.1 Diversified enterprise type by application for grant aid**

	None applied for	None received	Some received	All received
Number in group* (N = 1011)	425	89	43	454
<i>As percent of total number (N)</i>	<i>42%</i>	<i>9%</i>	<i>4%</i>	<i>45%</i>
	As percent of number in group			
Agricultural services	6%	1%	0%	2%
Trading enterprises	9%	11%	9%	13%
Accommodation and catering	29%	30%	28%	32%
Equine enterprises	11%	11%	7%	11%
Recreation and leisure	7%	8%	12%	5%
Unconv. crops / crop processing	2%	2%	2%	7%
Unconv. livestock / livestock processing	4%	6%	5%	6%
Miscellaneous services	27%	26%	30%	17%
Mixed	3%	4%	7%	7%
	100%	100%	100%	100%

Chi<sup>2</sup> test shows a significant ( $p < .05$ ) association between grant aid status and profitability when applied to 'No grant applied for' vs. 'Grant applied for - all received'. Exact sig .030 Cramer's V .113  
Source: Farmers' survey

4.4 Further investigation of those diversified enterprises established without the benefit of grant aid was therefore warranted, and an interesting picture has emerged. A far large proportion of these enterprises have been established for 10 years or more (25% for between 10 and 19 years, and a further 18% for 20 years or more) (Appendix 5, Table 33). Many of these would have been set up when grants were not available and it not surprising, therefore, that they have been captured within the 'no grants applied for' category. Table 4.16 below confirms this point, with managers of 38 per cent of these enterprises reporting grants 'not available' and a further 58 per cent noting the availability of grants as 'not important' in the decision to diversify. The maturity of the enterprises could also partly explain the greater profit contribution these enterprises make to the parent farm businesses (Table 4.3).

4.5 Table 4.1 indicates the spread of enterprise types and shows that, taken together, a third of the enterprises which did not receive grant aid comprise agricultural services (6%) or miscellaneous services (27%). In fact this category accounts for three quarters of the 36 agricultural service enterprises picked up in this



survey and almost half of those offering miscellaneous services. Approximately a further third are in the accommodation and catering category.

4.6 The results of a further analysis, provided in Table 4.2, confirm the maturity of the businesses, as well as the diversified enterprises, many of which have arable cropping as the core of the farm business.

**Table 4.2 Characteristics of farm businesses and diversified enterprises where diversification has occurred, with and without grant aid**

	No grants applied for	Grants received
The businesses		
Years in farming >30	62%	47%
Robust farm type-cereals	37%	22%
With cereals	61%	45%
With other arable crops	36%	29%
Higher education	29%	37%
HE - agriculture only	57%	41%
Farms having a successor	41%	33%
The diversified enterprises		
No significant investment	34%	7%
Investment (0-10k)	47%	9%
Relevance of off farm work (Not applicable)	63%	53%
Turnover <10k	26%	14%
Mean full time staff employed in this enterprise	0.9	1.8
Training received for the enterprise	21%	55%
Advice received	46%	73%
Not significantly developed	56%	42%

Analysis of variance (ANOVA) shows the differences between means to be significant ( $p < .05$ ) only in the case of Part Time employees (Sig .040).

Source: Farmers' survey

4.7 Other variables, such as the low level of investment made, the moderate turnover for many, the relatively low labour involvement and the substantially lower numbers involving training and advice, suggest that the majority of these enterprises

are rather different from the many of the newer enterprises. Using existing resources such as the farmhouse, other available residential property, farm machinery and the skills that exist, in what can be seen as largely agricultural businesses, these enterprises have been developed, many over several decades, to supplement the core farm business and many, moreover, before the availability of grant aid for diversification.

4.8 These general conclusions are confirmed when the findings are compared with those farms which have diversified since the year 2000 (see the detailed findings in Appendix 5, page 192ff). It can be concluded, therefore, that this group largely represents the earlier and/or 'traditional' diversification activity and are thus essentially, and temporally, different from newer farm diversifications. They do not form a distinct cadre of diversified enterprises which more entrepreneurial farmers have set up without grants in spite of their availability.

**Objective 2: To examine the impact of financial support on farmers' capacity to undertake diversification**

4.9 The definition of 'capacity' for present purposes has been taken as the farmer's ability to establish a diversified enterprise as an adjunct to an existing farm business, which in practice is likely to be a reflection of business resilience associated with its financial health. If it is accepted that most significant diversified enterprises, like other business ventures, require an initial investment of time and capital, both of which have obvious opportunity and cash costs, then it also follows that not all farm businesses will be able to commit the funds necessary for an optimal start-up.

4.10 The financial position of farm businesses is well documented (Defra, 2005) and the FBS identifies a very wide range in the financial performance and financial positions of farm businesses. There are, for example, *a priori* reasons for expecting smaller farm businesses, those which are at an earlier stage in the business life cycle, those operated on tenanted holdings and those which are based on less profitable farming systems to be less able to undertake diversification than others (Turner et al, 2003). Moreover, a further factor is the apparent range in management

skills, as evidenced by the wide range of performance among farms of a similar size and type.

4.11 In this situation, it might be expected that the award of a capital grant to establish, or possibly expand, a diversified enterprise would provide in effect an increase in business capacity to fund a new (or expanded) diversified enterprise, enhancing the farmer's ability to restructure the business. It is implicit in this that diversification typically involves an increase in business risk, deriving both from the (possibly temporary) reduction in the financial health of the business (as measured by ratios of assets to external funding, for example) and with a direct increase in market risk associated with the move into a new market.

4.12 The telephone survey provides a comprehensive range of evidence on farmers' experiences in diversification, both with and without public funding. In Table 4.3 the farmers' assessment of the profitability of their diversified enterprise is shown in relation to their receipt of grant aid. It was made clear to respondents that 'significant' meant 'significant *to them*' in the context of their business, as even a modest profit may be significant because of its importance relative to the overall profitability of the farm business.

**Table 4.3 Diversified enterprise profitability by grant aid status**

	No grant applied for	Grant applied for, none received	Grant applied for, some received	Grant applied for, all received
Number in group*	396	63	36	409
Significant profit	58%	40%	53%	49%
Small profit	36%	43%	31%	40%
Breaks even	4%	13%	11%	8%
Small loss	2%	3%	3%	2%
Significant loss	0%	2%	3%	1%
Totals	100%	100%	100%	100%

\*Excludes cases where grant aid status or profitability is 'not known' or 'too early to say'

Source: Farmers' survey

4.14 The results suggest that grant funding has not materially altered the profitability of the diversified enterprises, with each of the four groups identified making broadly similar assessments. If the level of employment in the enterprise is considered as an indicator of financial vitality, there is some evidence of a difference

between grant aided and non-aided enterprises (Table 4.4). These data suggest that, whichever indicator of employment is used, there is a positive correlation between the receipt of grant aid and subsequent employment, with almost twice as many full-time, part-time and casual staff being employed where grant aid had been received.

**Table 4.4 Labour detail by grant aid status**

	No grant applied for	Grant applied for, none received	Grant applied for, some received	Grant applied for, all received
Number in group*	324	75	38	408
Full time				
<b>Mean</b>	<b>0.9</b>	<b>1.9</b>	<b>2.9</b>	<b>1.8</b>
Maximum	25	20	26	50
Sum	292	139	112	726
Part time				
<b>Mean</b>	<b>1.2</b>	<b>1.7</b>	<b>3.6</b>	<b>2.2</b>
Maximum	40	23	45	20
Sum	396	130	137	882
Casual				
<b>Mean</b>	<b>0.5</b>	<b>0.9</b>	<b>0.6</b>	<b>0.9</b>
Maximum	18	20	5	40
Sum	166	69	22	350

\*Excludes cases where grant aid status or labour is not known

Source: Farmers' survey

4.15 When farmers who had received grant aid for diversification were asked about what would have happened without it, their responses pointed to a clear increase in their capacity to diversify with the grant (Tables 4.5 and 4.6). Less than one in ten thought their enterprise would not have been greatly affected, the remaining farmers being split equally between 'enterprise would have gone ahead but reduced in some way' and 'enterprise would not have been established at all'. The commonest response, 'the business would not have gone ahead...because the project would not have been financially viable', appears to point directly to a grant-induced increase in capacity and was given by 148 respondents out of a total of 387 answering this question. The next most common response was 'enterprise would have gone ahead but at a reduced scale', again pointing to an anticipated reduction in capacity, this time for 104 respondents.

4.16 These are important findings which appear to substantiate a clear increase in additionality consequent on grant aid. Where the response was 'would have gone

ahead but at a reduced scale' most respondents expected the smaller scale to adversely affect the rate of growth, the profit margin and the overall rate of profitability, but were divided about its impact on the numbers of people employed with almost half expecting there to have been no reduction in employment. This appears to imply that family labour would have earned a lower return, and also provides some evidence that displacement of labour by artificially cheap capital has not been dramatic.

**Table 4.5 Expected impact of non-receipt of grant (where grant received): summary**

	<b>Number of enterprises</b>	<b>Percent of all cases</b>	<b>Percent of definite responses</b>
Enterprise would not have been greatly affected	34	8%	9%
Enterprise would have been reduced in some respect	179	41%	46%
Enterprise would not have been established	174	40%	45%
Definite response	387		100%
Not sure	4	1%	
Not recorded	45	10%	
All cases receiving some grants	436	100%	

Source: Farmers' survey

**Table 4.6 Expected impact of non-receipt of grant (where grant received): detailed findings**

	Enterprises receiving a grant	% of cases receiving a grant*	% within response group*
<b>A. The enterprise would not have been greatly affected</b>	<b>34</b>		
Because the grant was relatively small	13	3%	38%
Because the funding would have been made up from other sources e.g. borrowing	20	5%	59%
Because the project did not involve significant innovation (i.e. the exploitation of new ideas)	1	0%	3%
Because the project did not involve significant risk (i.e. was not particularly adventurous)	5	1%	15%
<b>B. The enterprise would have gone ahead but reduced in some respect</b>	<b>179</b>		
Would have been less innovative (i.e. new ideas would have been less prominent in the project)	9	2%	5%
Would have involved less risk (i.e. less adventurous)	9	2%	5%
Started at a smaller scale	104	27%	58%
The enterprise would have been simpler	36	9%	20%
The capital investment would have been reduced	80	21%	45%
The specification would have been reduced	46	12%	26%
The enterprise would have been established later	35	9%	20%
<b>C. The enterprise would not have been established at all</b>	<b>174</b>		
Because the project would have been too risky (i.e. too adventurous)	30	8%	17%
Because the project involved too high a level of innovation (i.e. the exploitation of new ideas)	4	1%	2%
Because the project would not have been financially viable	148	38%	85%
<b>Total giving a definite response</b>	<b>387</b>		

\*More than one sub-option could apply in each case so percentages do not sum to 100%

Source: Farmers' survey

4.17 But what of the possible benefits of grant aid beyond the initial setting up stage? Farmers were asked directly 'Has the grant had a clear positive impact on the on-going success of the project, beyond helping to get it set up?' and their responses are summarised in Table 4.7. Their response was clear but not unequivocal, with three out of four identifying a clear positive impact from the grant aid, but one in five unable to identify a clear positive impact.

**Table 4.7 Clear positive impact on on-going success**

	Enterprises	% of enterprises on which a response was recorded
Total	436	
Not recorded	47	
Yes	290	75%
No	81	21%
Don't know	18	5%
Total recording a response	389	100%

Chi<sup>2</sup> test shows a significant ( $p < .05$ ) association between grant aid status on initial establishment and significant development. Exact sig .026 Cramer's V .144

Source: Farmers' survey

4.18 Another way of considering the impact of grant aid on farmers' capacity to diversify is to explore the consequences of a grant refusal, for whatever reason. Farmers who had planned a diversification, defined here as having committed significant time and/or money to the planning phase, but who subsequently had abandoned the project, were asked about the reasons for this. Their answers, which relate to actual outcomes, are summarised in Table 4.8.

**Table 4.8 The most important reasons for not going ahead with a planned diversified enterprise**

	Grant applied for	No grant applied for	All
	31	30	62
Failure to secure grant aid	74%	0%	37%
Planning issues	6%	37%	21%
Market developments	0%	13%	8%
Financing issues	6%	7%	6%
Resources needed for alternative use	3%	7%	5%
Expected Profitability / financial return	6%	0%	3%
Conflict with farm needs	0%	7%	3%
Regulatory issues	0%	7%	3%
Management time	0%	3%	2%
Family circumstances	0%	3%	2%
Tenancy issues	3%	0%	2%

Source: Farmers' survey

4.19 The overwhelmingly most common cause of abandoning a project was 'failure to secure grant aid', cited by three out of four of the 31 cases identified. While this analysis has concentrated on the establishment of new diversified enterprises, it is important also to consider the possible longer term impacts of financial support during the initial phase of diversification. The survey explored aspects of significant later development of diversified enterprises, on those

businesses where this had occurred, and the results are set out in Tables 4.9 and 4.10.

**Table 4.9 Significant development of established diversified enterprises (4 to 9 years in operation), by receipt of initial grant aid**

	Grant status, on initial establishment	
	No grant applied for	Grant applied for, all received
Significantly developed	68	66
Not significantly developed	88	48
Total number	156	114
Significantly developed	44%	58%
Not significantly developed	56%	42%
Total %	100%	100%

Source: Farmers' survey

4.20 Table 4.9 looks at just those enterprises that had been in operation for between four and nine years, those enterprises at potentially the right stage for significant development. The numbers involved only allow a comparison between the two largest groups, those who had not applied for set up funding and those had received all they had applied for. The findings suggest that those enterprises where establishment funding had been received were significantly more likely to have undergone some subsequent development. In addition to the direct impact of additional (grant) funding, it is likely that such enterprises have benefited also from the rigour of the application process and the associated planning and advice. Table 4.10 summarises what would have happened had grant aid not been available at the developmental stage.



**Table 4.10 Expected impact of non-receipt of grant for enterprise development (where grant received): summary**

	Number of enterprises	Percent of all cases	Percent of definite responses
The development would not have been greatly affected	8	6%	7%
The development would have gone ahead but reduced in some respect	66	49%	54%
The development would not have taken place at all	48	36%	39%
Definite response	122		100%
Not sure	2	1%	
No response	11	8%	
All cases receiving some grant aid	135	100%	

Source: Farmers' survey

4.21 Compared with the responses to the same question in respect of grants at the initial establishment phase (Table 4.5), a higher proportion of projects would have gone ahead albeit reduced in some respect. These findings suggest an on-going impact on both the scale and the completion of projects, even where these relate to the development of established enterprises.

4.22 A wide range of opinions relevant to this review of farmers' capacity to diversify were expressed by farmers about the importance of public funding in fostering diversification. On the one hand, the central role of public support in building capacity is articulated by one as follows:

*'Capital is the main restricting factor for most people who are considering diversification, so grants are essential to help rural businesses, as the inherent profitability of many farm businesses does not generate capital to then invest.'*

This view reflects perhaps the perceived availability of capital for investment, the existing level of debt and the return on the investment in the early years. In the face of volatile, but increasingly depressed, returns from agricultural activity, many businesses would perhaps be unable to sustain commercially available funding for diversified businesses.

4.23 Concerns about the continuance of public funding were expressed, however, particularly related to the possibility of funding new diversifications in areas, and business sectors, where the supply/demand balance was already about

right, or even where supply was already saturated. While it could be argued that this may demonstrate a 'drawbridge' outlook among those who have already successfully diversified, this does not really detract from a valid argument. Others favoured the public funding of diversification as a means of assisting agricultural adjustment:

*'If farmers are not getting enough money for their crops they have got to do something else and they will probably need grants and public money. Difficult for small farmers to raise the capital to begin the diversification process.'*

4.24 Turning now to the views expressed by stakeholders involved in the postal survey, there appears to be broad support for the notion of public funding as building capacity to diversify. 'Financial constraints' was the most frequently rated constraint for the past five years, and expected to be the (equal) major constraint for the next five years. The majority view of these stakeholders was that most diversification projects have had adequate capital available during the start-up phase, but not during the major expansion phase (Table 4.11). Even so, their informed view is that lack of capital has often been an important problem, suggesting that, in the absence of public funding of a capital nature, the situation would have been even worse.

**Table 4.11 Stakeholders' views on capital availability in diversification**

	<b>Yes</b>	<b>No</b>	<b>Don't know</b>	<b>No response</b>
Sufficient at start-up?	53%	38%	7%	2%
Sufficient at major expansion?	38%	46%	13%	3%

Chi<sup>2</sup> test shows a significant ( $p < .05$ ) association between grant aid status and profitability when applied to 'No grant applied for' vs. 'Grants received'. Exact sig  $< .001$  Cramer's V .217

Source: Postal survey

4.25 This finding is amplified when their responses to the questions 'If all grants for diversification were withdrawn, what do you think would happen to the rate of establishment of new enterprises?' and 'In your opinion, how important a role is there for the continuation of publicly funded grants for farm diversification over, say, the next five years e.g. to assist the farming industry to continue to restructure?' As Table 4.12 shows, the consensus pointed to a fairly major negative impact on the rate of diversification if funding were withdrawn, suggesting public funds have been important in building capacity; and most saw an important continuing role for publicly funded grants over at least the next few years.

**Table 4.12 The effect of grants on the rate of establishment and the perceived importance of the continued availability of grants**

<b>Effect on rate of establishment Score</b>	<b>No impact 1</b>	<b>2</b>	<b>Moderate impact 3</b>	<b>4</b>	<b>Major impact 5</b>	<b>No response</b>
Negative impact	1%	11%	24%	35%	26%	4%
Positive impact	34%	27%	14%	8%	5%	13%
<b>Continuation of publicly funded grants</b>	<b>Unimportant 1</b>	<b>2</b>	<b>Quite important 3</b>	<b>4</b>	<b>Absolutely essential 5</b>	<b>No response</b>
	3%	7%	22%	26%	40%	2%

Note: Negative impact = encouraging unsuitable diversification; Positive impact = encouraging suitable diversification

Source: Postal survey

4.26 Further evidence of the views of the stakeholders as expressed in the responses to the postal survey came in the responses to the question ‘With the benefit of your experience, which of the following factors (if any) have been of most significance in unsuccessful attempts to establish diversified enterprise on farms?’ Four out of ten rated lack of grant aid, or timing of grant aid as ‘significant’ or ‘very significant’ factors; and more than half pointed to the inadequacy of start-up or working capital as serious problems. On a different note, they also identified poor technical and marketing skills as causal factors in unsuccessful diversified enterprises, and this issue is discussed in Chapter 5.

4.27 The findings of the written consultation are of particular interest, reflecting a considered response to the issues raised in this assessment. Almost without exception, respondents viewed the continued availability of grants as ‘crucial’, ‘essential’ or ‘vital’ for farm diversification. Shortages of reinvestment capital, pump priming funding, the reduction of risk (and payback period) and the assistance of grants to ‘*show a reasonable return on investment*’, are all advanced as reasons for this response. The one or two exceptions to this general view note that, ‘*many others do it without grant*’ and ‘*some schemes do not need grant aid to be successful*’, along with the suggestion that some farmers accept lower offers of grant, perhaps proof alone that grant is not always necessary at the levels initially requested, if at all.

4.28 Grants are also seen as important as a 'confidence builder' for the farmer to act (*'it helps remove inertia'*) as well as a providing confidence for lenders, such as banks, encouraged by the thought that the rigorous application process, including business planning, will have involved a close examination of the likely longer term viability of the enterprise. There is, however, a degree of concern over the perceived general encouragement of diversification in some areas, with duplication and displacement mentioned in some areas for some diversification types (tourism, regional foods and equestrian enterprises), along with issues of no, or low, additionality and a lack of innovation. The danger of the *'maximum spend attitude'* was specifically mentioned by one respondent and the encouragement that grants may provide to invest *'to satisfy a whim'*, by another.

4.29 Finally, the interview survey of senior scheme administrators also covered this question of the relationship between public funding and the capacity to diversify, though with equivocal results. It was recognised that the ERDP, now nearing its end at least in its current form, had provided a positive move towards diversifying agriculture, and there was a view that in this respect it had contributed to a modest 'rural renaissance'. However, there was also a view that grant percolated very rapidly beyond the farm gate, with significant downstream benefits,

*'In some areas the biggest beneficiaries seem to be rural builders'.*

### **Objective 3: To explore the extent to which the availability of grant funding is a decision making factor for farmers considering diversifying**

4.30 There is nothing new about the use of public funding as a policy tool to influence business development, in agriculture, as more widely. Since this is the primary objective of such schemes, it is important to consider both the effectiveness of grant funding in the present context, and the degree of additionality (in terms of delivering a greater incidence of diversification than would otherwise have been the case) which such grant aid has delivered. Again, it is a poor use of public funds if Defra is simply funding development which would take place anyway under the influence of market forces. These aspects of the research brief were explored through each of the empirical activities.

4.31 It is important to be clear about the relative emphases in this area. On the one hand, it may be judged a successful outcome if public funding is seen to be encouraging and facilitating the development of viable diversified enterprises as, for example, through increasing the capacity of the industry as a whole to restructure in line with government policy. On the other hand, such public interventions must be carefully judged to avoid undesirable outcomes, for example, duplication. Unless public funding is controlled, through rigorous appraisal of strong business cases, there is a risk of profligate funding supporting 'copy cat' enterprises, few of which would survive because there was no real market for their goods or services at a viable market price.

4.32 Between these two extremes lie a range of possible scenarios, of course, and essentially it is important to distinguish between what may be termed the negative impact of public funding on the decision to diversify and the positive impact. The grant appraisal panels have a major influence on this, of course. If the effect of public funding is to encourage those who are ill-equipped for reasons of temperament, skills, management ability or the quality of the available resources to survive and prosper as a diversified farm business, this may be regarded as a *negative* impact. However, if the effect of public funding is to facilitate those who wish to diversify, who have the ideas and other attributes necessary to have a good chance of establishing a successful diversified farm business, this may be seen as a *positive* impact.

4.33 The approach taken here is to review all the evidence with a particular focus on identifying whether, and at what scale, farmers' diversification projects might have been undertaken anyway. To a certain extent this covers ground already reviewed under section 4.1, which looked at the evidence of the impact of financial support on farmers' *capacity* to diversify. The broad findings were that public funding appears to have acted as an effective facilitating mechanism, with nearly half of those enterprises established with the help of grant aid unlikely to have gone ahead without such financial support. Moreover, grants appear to have acted to make possible the establishment of larger and, arguably, more viable enterprises, though the evidence in terms of subsequent profitability is less clear cut. These findings

from the farmers' survey were consistent with the views of the range of stakeholders consulted.

4.34 So if it is accepted that public funding has tended to increase the capacity of a farm business to undertake the transition from sole, or major, reliance on farming as a source of livelihood to a business more broadly based on farming plus a diversification, it is also reasonable to accept that public funding has played a role in farmers' decision-making processes. The farmers' survey probed respondents' attitudes to diversification through the question 'How would you describe your attitude to the decision to diversify in the first place?' (Table 4.13).

**Table 4.13 Diversified farmers' attitudes to the decision to diversify**

	Diversified - no grants applied for	Diversified - grants applied for but not received	Diversified - grants received
No response	1	1	2
Reluctant - viewed it as not real farming	13	6	21
Cautious - saw that it was necessary for the business to survive	46	23	62
Optimistic - thought that it would be a valuable support to the business	84	34	162
Enthusiastic - saw it as the future of the business	47	28	219
	191	92	466
Reluctant - viewed it as not real farming	7%	7%	5%
Cautious - saw that it was necessary for the business to survive	24%	25%	13%
Optimistic - thought that it would be a valuable support to the business	44%	37%	35%
Enthusiastic - saw it as the future of the business	25%	30%	47%

Source: Farmers' survey

4.35 While there are differences between those who had received grant aid and those who had not, the findings do not support the view that the availability, or receipt, of grants somehow tempts reluctant farmers into diversifying. Indeed, it is noticeable that only the most enthusiastic diversifiers (those who saw diversification as the future of their business) are more likely to have received a grant than those who diversified without grant. While this could be taken as downplaying additionality, since it could be argued that those farmers who felt so strongly about the importance

of diversification for their own business would have been those most likely to have gone ahead even in the absence of grant, it seems to show that grant aid does not typically provide an incentive large enough to overcome inherent scepticism. It would appear that to date public funding has had broadly positive rather than negative impacts on the decision-making process.

4.36 The issue of which have been the most important factors in farmers' decisions to diversify can be resolved from the information in Table 4.14 which lists both the overall frequency with which each factor was cited and those identified as the most important.

**Table 4.14 Farmers' reasons for deciding to diversify**

	Diversified - no grants applied for		Diversified - grants applied for but not received		Diversified - grants received	
	Cited	Most important	Cited	Most important	Cited	Most important
Poor returns from farming	79%	69%	77%	62%	80%	70%
Add value to the products	5%	1%	7%	4%	7%	4%
Saw a market opportunity	38%	10%	30%	9%	29%	8%
To improve the capital assets	14%	5%	23%	11%	15%	5%
To create family employment	14%	5%	12%	3%	13%	3%
Availability of government support	0%	0%	1%	0%	4%	1%
Broaden (business) horizons	7%	2%	8%	0%	8%	2%
Environmental or ethical reasons	1%	1%	3%	1%	2%	0%
FMD / BSE	1%	1%	1%	1%	1%	1%
Lifestyle change	2%	2%	2%	1%	4%	3%
Make use of buildings	2%	2%	0%	0%	2%	1%
Ill health / retirement	1%	0%	1%	1%	1%	1%
Other	2%	1%	2%	2%	4%	1%

Chi<sup>2</sup> test shows a significant ( $p < .05$ ) association between grant aid status and importance of availability of grant when applied to 'No grant applied for' vs. 'Grants received'. Exact sig  $< .001$  Cramer's V .751

Source: Farmers' survey

4.37 It is clear that, irrespective of whether grant aid had been applied for or received, the dominant driving factor in diversification has been 'poor returns from farming'. This is distinguished as the key factor requiring change and action. The sustained agricultural recession of the late 1990s onwards was not the first time that

this factor has been evident; the widespread fall in farm profitability during the late 1980s was also associated with a new openness to alternative business opportunities. Many of the comments made by the surveyed farmers express this eloquently, such as the following:

*'Farmers can't carry on farming and make a profit, they will have to diversify or leave the farm especially those paying rent.'*

and

*'Farmers are already diversifying through financial necessity. However, if the farm is a drain on the new enterprise it will not succeed. Farming itself needs to be profitable to allow strong businesses to develop so more effort should be given to raising farm-gate prices.'*

4.38 Having appreciated the need to restore the business to profitability through some form of diversification, a wide range of other factors were then cited, second most common of which was 'saw a market opportunity'. Again, this points to an essentially entrepreneurial approach in the decision to diversify, where farmers diversify their businesses because the market potential is seen to be greater away from traditional production agriculture. Accepting this as a second stage need, it will be noted then that the 'availability of government support' was almost totally absent as a driver in the decision to diversify. This suggests that 'grant chasing' is very low as an incentive for diversification.

4.39 These findings are consistent with those in the 2002 baseline study (Turner et al, 2003), which confirmed the existence of a very wide range of factors involved in the impetus towards a more diversified farming sector, with

*'...the income factor (that is, the financial need to find an alternative, supplementary source of income) as quite clearly the most important motivation behind the establishment of a diversified enterprise'.*

4.40 The generally successful achievement of these objectives to improve incomes can be gauged from the farmer survey, which went on to ask about the financial implications if the business did not have the diversified enterprise (Table 4.15). Upwards of three quarters of the farmers interviewed were clear that the business would suffer a significant reduction in income without the diversified



enterprise, with between a half and two thirds (of all diversified farmers) stating that 'business viability would be in question'. A small proportion would notice very little difference in terms of income, with or without the diversified enterprise, while for others the diversification was still too new an enterprise to be able to make a judgement. It is interesting that for the Objective 1 diversifiers, the proportion of those who felt that without the diversification there would be very little difference in income is higher than others who received grants and this is 20%, for the twenty recipients in the survey who dealt direct with the Government office.

4.41 The farmers' survey also found similar views regarding the future financial importance of diversification within the business, leaving little room for doubt that the diversification process is driven by economic necessity rather than the availability of public funding.

**Table 4.15 The current financial importance of diversified enterprises – anticipated impact of not having the diversified enterprise**

	Diversified – no grants applied for	Diversified – grants applied for but not received	Diversified – grants received	Diversified – RES grant received	Diversified – Objective One grant received
There would be a significant reduction in income	74%	76%	83%	85%	74%
<i>Of which: business viability would be in question</i>	52%	63%	68%	68%	66%
It would make very little difference	14%	5%	7%	6%	11%
Enterprise(s) is/are not yet fully established	8%	13%	5%	5%	9%
Not known/not applicable/other	4%	6%	5%	4%	6%

Source: Farmers' survey

4.42 Finally, the farmers' survey asked 'How important was the availability of grants in making your decision to diversify?' and the responses, recorded in Table 4.16, provide clear evidence that the nature of the interaction between public funding and the decision to diversify is complex. Not surprisingly, as already mentioned above, those who had not received grant because they had not applied, for whatever reason, provided a very clear response. Again, it causes little surprise that those who had received grant tended to rate its availability very highly as a factor in their

decision making, with only one in six rating it as 'not important'. Interestingly, those farmers receiving grant from Objective 1 sources were, apparently, less influenced by the availability of grants in their decision to diversify. Where farmers had applied unsuccessfully for a grant, but were nevertheless now diversified (not necessarily with the same enterprise, of course), the availability of grant was often cited as an important factor on a substantial minority of farms. This may suggest that the potential for grant aid had acted as a catalyst in the planning process, or may simply underline the central role that many farmers give to grant aid as a facilitating influence in business diversification.

**Table 4.16 Importance of the availability of grants to making the decision to diversify**

	Diversified - no grants applied for	Diversified - grants applied for but not received	Diversified - grants received	Diversified - Objective 1 grant received
Essential	1%	4%	27%	28%
Very important	1%	15%	36%	28%
Quite important	1%	18%	14%	9%
Helpful	1%	3%	6%	2%
Not important	58%	35%	16%	32%
Not available	38%	23%	2%	0%
No response	0%	1%	0%	0%

Source: Farmers' survey

4.43 Further evidence on this issue comes from the stakeholder consultation. Again, the responses are similar to those that stakeholder respondents gave in relation to the capacity question. Although most respondents identify the availability of grant funding as an important factor in the diversification decision, this is seen in the context of what is here termed a positive impact i.e. its role in *facilitating* the move to a diversified business structure. Many respondents also identify that grant funding does not guarantee success and is only one of several key factors that determine this, others mentioned including the stability of the core business and the availability of good advice to fashion the idea and to check the longer term viability of the enterprise. A clear perception of continuing financial pressures (from the recent CAP reform) no doubt encouraged the view, by many, that the availability of grant would continue to be an important factor in the decisions on the restructuring and repositioning activities of farmers in the foreseeable future.

4.44 The administrator interviews yielded the insight that ‘professional grant chasers’ could be unhelpful in the context of reaching considered decisions about a number of grant applications albeit there was considerable confidence that most were sifted out at the application stage. It was also accepted that some applicants were considered likely to go ahead with their diversification anyway, irrespective of whether they were awarded a grant; but scheme rules with the intention of strengthening additionality required applicants to declare that a grant was essential for the project to take place. One respondent identified local economy and community issues as the priority in making a decision on the award of a grant for diversification, relegating the applicant’s individual position to a secondary role and expressing concern that this approach might not survive a more prescriptive regime.

**Objective 4: To explore whether the availability of grant funding or other public supported initiatives has had any impact on the type of project funded e.g. whether support encourages innovation**

4.45 The focus of this objective is really the exploration of the hypothesis that the establishment of a diversified enterprise from the starting point of a more secure capital base, where existing sources of capital (from within the farm business, from personal sources, and from commercial sources) have been augmented from public funds through the award of a capital grant, should encourage the adoption of a more innovative project, or one which in some aspects is perceived to be more risky. Better capitalisation, in itself, reduces the level of financial risk which would otherwise apply, so it seems reasonable to expect that at least some applicants might use this to establish a more innovative project.

4.46 Innovation and risk are inevitably linked, with a tension between innovative projects (that is, those which successfully exploit new ideas) and the effective management of the greater risks (that is, uncertainty of outcome) associated with such innovation. However, there is probably an inherent systemic conflict within the very design and operating procedures of a publicly-funded grant scheme with respect to innovation and risk, as elsewhere on the public sector (NAO, 2000). Certainly there is a perception (from the focus group and the administrator interviews) that grant applications may stand less chance of success if they are innovative or out of the normal pattern, a view shared by this unsuccessful applicant:

*Defra are blinkered in the criteria that they expect diversifying businesses to meet. No flexibility from Defra especially for innovative projects. In this instance Defra have caused financial hardship to this enterprise.*

4.47 It is difficult to judge whether this is merely the predictable moan of a disgruntled applicant, or whether there is the kernel of an important truth here. Certainly the stakeholders' consultation lends some support to the idea that the exigencies of ensuring sound financial control in publicly funded grant schemes may not always be consistent with the fostering of more innovative projects. Among the stakeholders consulted, at least, the availability of a capital grant is, in itself, perceived as having little or no influence on innovation.

4.48 Rather, respondents referred instead to the greater import of the entrepreneurial interest and skill of the applicant. Moreover, it was even suggested that the grant availability may lead in some cases to increases in the scale or complexity of the project beyond the, perhaps more appropriate, evolutionary development of such an enterprise would produce. The pre-application advice and the process of application approval (the Regional Appraisal Panels) are identified also as substantially responsible for the shaping of the project, its innovation specifics and its scale.

4.49 Many stakeholders referred to the considerable value of good advice in shaping the proposal, several identifying the encouragement to adjust and amend ideas to arrive at more appropriate and competitive projects for the business and in the area. Crucially in the present context, innovation for some is '*stifled by risk averseness and the inflexibility of the schemes*' with '*the same old safe things coming through*'. This may reflect on the farmer or the adviser, where the 'safe' and 'familiar' is encouraged to the detriment of other more challenging possibilities.

4.50 Further training and funding for market research and product development was suggested as a means of advancing innovative thinking. Encouragement to visit other farms and farmers was also expressed as of significant value in developing ideas.

4.51 The evidence on this issue, then, is at best patchy and rather confused. The farmers' survey identified some differences between the types of enterprise established without grant aid and those which did receive grant aid (Table 4.17).

**Table 4.17 Grant aid status compared with diversified enterprise type**

	None applied for	Applied - none received	Grant aided	Not known / no response	Total
Agricultural services	27	1	7	1	36
Trading enterprises	40	10	64	4	118
Accommodation and catering	124	27	158	10	319
Equine enterprises	48	10	52	3	113
Recreation and leisure	29	7	29	2	67
Unconventional crops/processing	10	2	33	1	46
Unconventional livestock/processing	18	5	30	3	56
Miscellaneous services	116	23	90	7	236
Mixed	13	4	34	0	51
Agricultural services	75%	3%	19%	3%	100%
Trading enterprises	34%	8%	54%	3%	100%
Accommodation and catering	39%	8%	50%	3%	100%
Equine enterprises	42%	9%	46%	3%	100%
Recreation and leisure	43%	10%	43%	3%	100%
Unconventional crops/processing	22%	4%	72%	2%	100%
Unconventional livestock/processing	32%	9%	54%	5%	100%
Miscellaneous services	49%	10%	38%	3%	100%
Mixed	25%	8%	67%	0%	100%

Source: Farmers' survey

4.52 The data suggest that, for this sample of farms at least, 'agricultural services' and 'miscellaneous services' enterprises are less likely to be grant-aided, whereas 'trading enterprises', 'accommodation and catering', 'unconventional crops/crop processing' and 'unconventional livestock/livestock processing' are more likely to have been grant-aided. While this appears to point towards a possible case that public funding has been directed towards less predictably mainstream enterprises, that conclusion has to be treated with care in view of the comments made in the introduction to this chapter, as well as caution over the diversity of the sample and the absence of an age of enterprise dimension to the analysis.

4.53 Certainly the postal survey of stakeholders provided some evidence of a positive link between grant aid and more innovatory projects: overall the view of three out of four respondents was that the availability of grant funding does have an

effect on business innovation or risk taking (the question did not distinguish between the two). Interestingly, this view was more strongly held by RDS staff than by the private sector stakeholders, which may suggest a perception by RDS staff that this approach should be the case.

4.54 It is possible to produce a rational case for stating that public support for diversification is by its very nature essentially supportive of innovation. As farm diversification has become a policy prescription over the course of the last two decades or so, there has been a gradual but nonetheless real change in what may be termed the 'culture' of the farming industry with respect to the adoption of non-traditional enterprises as part of integrated farm businesses (but accepting of course that there are now many instances where what started as a diversified enterprise ends by becoming the entire business). This change has been documented in the literature and was discussed at some length in the 2002 baseline study (Turner et al, 2003).

4.55 The argument that public funding for diversification is intrinsically support for innovation starts from the position that diversification remains a relatively new phenomenon within English agriculture, certainly at its present incidence. Whilst the pattern is changing, the concept of a substantial minority of farms, and farmers, providing any of a wide range of services, or engaged in the production of a wide range of goods or other products, remains a relative novelty. Diversification typically involves a wide range of new skills, a close knowledge of a completely different market, new work patterns, and greater exposure to local, or wider, competitive pressures. Diversification is in itself an innovative approach to the problem of declining real incomes in agriculture. Grants which encourage diversification, and support the on-farm adaptation of facilities and skills, are essentially tuned to the delivery of greater innovation in the farming sector.

4.56 Of course, the detailed nature of the diversification reflects the skills and outlook of the farmer-entrepreneur, and their own predilections. This aspect of the farmer sample was explored using a modified version of the personality type classification used in previous socio-economic research in the farm sector. The

sample was classified into 'weak adapters', 'adapters' and 'embracers' based on their declared attitude to risk, as shown in Table 4.18.

**Table 4.18 Classifying weak adapters, adapters and embracers**

Statement	Abbreviation	Number in group
I like to stick to ideas that have worked well in the past	Weak adapter	68
I will follow new opportunities as long as they have been well tested.	Adapter	369
I like to be one of the first to take up new opportunities	Embracer	312

Source: Farmers' survey

4.57 These farmers are typically educated to a higher level (41 per cent of embracers had benefited from higher education compared with 32 per cent of weak adapters) and are much more enthusiastic about the need for diversification (Table 4.19). The breakdown by grants received reflects this with a much higher proportion of adapters and embracers in these diversified groups and little difference between the groups.

**Table 4.19 Diversified farmers' attitudes to the decision to diversify**

	Weak adapter	Adapter	Embracer
Reluctant - viewed it as not real farming	18%	5%	3%
Cautious - saw that it was necessary for the business to survive	32%	21%	10%
Optimistic - thought that it would be a valuable support to the business	22%	44%	32%
Enthusiastic - saw it as the future of the business	28%	29%	54%
RES grant receivers	7%	45%	48%
Objective 1 grant receivers	6%	51%	43%

Source: Farmers' survey

4.58 The embracers are also much more positive about the future role of diversification in their own business, with seven out of ten regarding it as 'crucial for the viability of the farm' compared with about half of the 'weak adapters'. The correlation between a more innovatory approach to their business and their risk classification is clearly evident in Table 4.20. 'Embracers' are almost twice as likely to expand their diversification as 'weak adapters', and four times as likely to be planning to upgrade their enterprise. They are also significantly more likely to be

considering setting up a completely new diversification. By contrast, one third of the 'weak embracers' plan 'no change' for their diversified enterprise.

**Table 4.20 Future plans for diversified enterprises, by attitude to risk class**

	<b>Weak adapter</b>	<b>Adapter</b>	<b>Embracer</b>
Expand overall	31%	54%	61%
Upgrade (quality/range)	6%	26%	27%
Set up additional diversified enterprises	16%	22%	27%
Reduce overall	1%	1%	1%
Close one or more enterprises	1%	0%	1%
Sell one or more enterprises	4%	1%	1%
Sell whole farm	1%	2%	0%
Other	6%	3%	4%
No change/consolidate/maintain	32%	20%	15%
Don't know	19%	6%	5%

Note: Percentages total more than 100% because more than one option could be selected.

Source: Farmers' survey

4.59 These findings are consistent with the identification in the 2002 baseline study of an emerging class of more entrepreneurial farmer-business people, whose focus is on business growth through the exploitation of market opportunities. It should be borne in mind that diversified farmers are themselves more likely to be those who are less risk averse than the general population of farmers so the 'weak adapters' may be seen as more innovative than many of their peers.

4.60 To conclude: there is no definitive evidence from this research that public funds tend to support more innovative forms of diversification, and it may even be that institutional factors associated with the need for financial probity in the administration of public funds militate against such an outcome. However, set in the context of the slowly developing new entrepreneurial culture in English farming, diversification itself remains an innovative farm-level solution to the problem of low incomes. Comments such as the following, which were very common throughout the farmer survey, underline the still novel position which diversification holds within the industry:

*'Shouldn't need to have to be diversified, should be able to get a fair return for agricultural products. Younger farmers and those coming in to the industry will be more receptive. However, will lose a whole culture from the countryside.'*

And that comment comes from a diversified farmer!



**Objective 5: To examine the extent to which the receipt of grant aid influences the success/failure rate of diversified enterprises**

4.61 The interpretation of what may be considered as the success or failure of a new venture may vary between business managers, rural communities in which the businesses reside, local, regional and national administration and policy makers.

4.62 However, with the contemporary emphasis on sustainable development, the impact of the enterprise on the economy, the environment, the communities in the rural area(s) may be of interest. Measures of enterprise profit, return on capital (internal and external), contribution towards the sustainability of an existing largely agricultural business, impact on upstream and downstream businesses, labour use and the opportunity for skills development may all be appropriate with regard to assessing the success of an enterprise in the rural economy.

4.63 Equally, however, the impact of the enterprise on the environment may be judged by the efficiency of resource use, the approach to energy use, transport impacts and the treatment of waste. Farm diversification, in a broader sense, also has the potential to contribute to sustainable communities through the provision of jobs, the maintenance of otherwise redundant rural buildings in the community and possibly the provision of housing.

4.64 These arguments were rehearsed in the focus group, where it was agreed that 'success might also include: new skills learnt by participants, new public goods, greater integration of farmers with their local and wider communities and longevity in sustaining businesses which might have failed if exposed solely to commodity farming.' It was, however, acknowledged that these wider policy benefits of increased skills, social inclusion and environmental benefits were notoriously difficult to measure; the overall impression was that diversification was an important contributor to delivering the relevant policy benefits and that grant aid was important in delivering successful diversification.

4.65 So, what of the businesses and enterprises captured in this study? The focus group identified that failure rates for diversification enterprises were generally felt to be low and, indeed, there was experience, amongst the group, of only one failure in

a grant aided business. This position was confirmed by the administrators interviews, and the farmers' survey goes further in registering that, of 1000 businesses interviewed, there were only thirty three significant enterprises that had been discontinued within the previous five years of the survey (Table 4.21). Discontinuation, of course, can be the result of failure and / or a range of other factors including, changes in the management of the business and changes in the direction of the business.

**Table 4.21 Discontinued enterprises, by grant status**

	Diversified - no grants applied for	Diversified - grants applied for but not received	Diversified - grants received	Not diversified
Number in group	191	92	466	251
Number or % having discontinued enterprises	10 5%	3 3%	27 6%	8 3%
Number or % having discontinued <i>significant</i> enterprises	7 4%	1 1%	17 4%	8 3%

Source: Farmers' survey

4.66 With the focus of attention in this study on the support of private enterprise from the public purse, it is perhaps fair to assume that enterprises will, in most cases, be judged internally by their return on capital. The key determinants of success will, therefore, be closely associated with the requirement for capital, the availability and cost of capital (including the opportunity cost), and an array of factors governing the return from the enterprise, including the market for the product or service provided, the productive performance of the enterprise and the available resource mix.

4.67 As a consequence, the availability of grant aid can influence the financial outcomes of the project in a number of ways, such as the reduction of servicing costs of alternative capital sources and by allowing for the optimum scale and / or quality of the enterprise to be achieved, with the resulting impact on the purchasing of inputs and the marketing of product or service; from the stakeholder consultees - grant aid can also '*mean the difference between doing something and doing it really well*'.

4.68 The issue of adequacy of capital for investment, arising out of the farmers' survey, has already been discussed in section 4.1. Confirming this situation, the postal survey shows that the RDS advisers and private consultants considered 'financial constraints' as the most significant barrier to diversification during the last five years (2000-2005), and likely to remain so for the next five years (the other two significant barriers being 'planning' and 'lack of skills'). When asked whether enterprise start ups had, in their opinion, had 'adequate capital available', 38 per cent of consultants said 'No'. This increased to 46 per cent where major expansion of enterprises was attempted. Further in the postal survey, the lack of sufficient investment capital or working capital were identified as 'significant or very significant' in unsuccessful attempts to establish diversified enterprises on farms by 53 per cent and 59 per cent of the same group of respondents, respectively (Table 4.22). Such a high profile was only over-shadowed by the inadequacy of business management skills / experience (57 per cent) and the inadequacy of market research / understanding of the market (73 per cent).

**Table 4.22 Factors of significance in unsuccessful attempts to establish diversified enterprise on farms**

1=insignificant to 5=very significant	1	2	3	4	5	No response	Av.
Inadequate market research/understanding of market	4%	3%	13%	38%	35%	9%	4.1
Insufficient working capital	1%	7%	21%	34%	25%	13%	3.9
Inadequate business management skills/experience	3%	6%	25%	31%	26%	10%	
Insufficient capital invested	1%	9%	27%	32%	21%	11%	3.7
Registration and regulatory issues	5%	15%	18%	31%	22%	9%	3.5
Lack of uptake of available advice	6%	13%	22%	31%	15%	13%	3.4
Poor technical skills	3%	10%	31%	28%	17%	12%	3.5
Management structure issues (incl. family issues)	6%	13%	29%	31%	9%	13%	3.3
Lack of or timing of grant aid	3%	22%	23%	17%	23%	12%	
Lack of uptake of training available opportunities	10%	15%	22%	29%	11%	13%	3.2
Conflicts with the farming business	6%	24%	20%	25%	13%	13%	3.2
Lack of suitable advice available	18%	18%	17%	26%	10%	11%	2.9
Tenancy matters	13%	24%	23%	16%	11%	13%	2.9
Lack of training opportunities	10%	30%	32%	13%	4%	13%	2.7

Source: Postal survey

4.69 Not surprisingly, then, publicly funded grants were seen to be of considerable importance in the past development of a more diversified farm sector. Interestingly, and wholly relevant to the question of enterprise survival, a high proportion of postal survey respondents also reflected on the importance of grant aid to the *continued* success and viability of enterprises (Table 4.23).

**Table 4.23 Importance of publicly funded grants in developing a more diversified farm sector**

	<i>Not important</i>		<i>Quite important</i>		<i>Absolutely essential</i>		
	1	2	3	4	5	No response	Average
In the establishment of diversified enterprises?	4%	10%	22%	38%	24%	3%	3.7
In the continued success/viability of div. enterprises?	13%	14%	38%	23%	9%	3%	3.0
In the expansion of diversified enterprises?	9%	16%	38%	28%	6%	4%	3.1

Source: Postal survey

4.70 In addition to direct financial impact, a number of other benefits are associated with the provision of grant aid:

- heightened confidence of the diversifiers, resulting from external formal or informal validation of the enterprise idea
- greater confidence of lenders – family, friends and commercial banks (comforted by the thought that the enterprise plan had been overseen by a knowledgeable third party and a decision made to approve the grant)
- greater awareness and planning encouraged by the rigour of the application process.

4.71 These more indirect, or less tangible, benefits of grant aid were seen as significant by stakeholders at the focus group and those involved in the administrator interviews:

*'the assessment process is rigorous – financially and considers additionality and displacement'*

*'better thought through proposals'*

*'the application process has raised the game'*

*'respective engagement of entrepreneur is very significant'.*

4.72 The stakeholder consultees reiterated the import of the rigorous application process and the business planning discipline required for the present schemes, along with the advice and encouragement for skills development that often accompanies the application process.

*'They forced unfamiliar disciplines on many of the applicants which helped the farmers to think more deeply about their projects, such as proving need.'*

*'Receiving a grant forces the recipient to take more care. The fear of DEFRA asking for the money back has a major bearing.'*

4.73 The availability of ongoing support after enterprise investment, via advice and access to further grant, was advanced as a key contribution to the sustainability of newly developed enterprises and this could be the focus of greater attention in the future.

### **The on-farm impacts of grant funding: an overview**

4.74 The study provides strong evidence of the significance of grant aid in the success of new enterprises, in a variety of ways. Clearly, a proportion of diversifiers have set up enterprises without grant aid. Further analysis of these enterprises, provided at the start of this chapter, has revealed that many of these were established some years ago, when grants were much less available or not at all available. In addition to this, the shape of the businesses and the enterprises entered into suggests that they were of a more traditional or mainstream nature, such as service provision using existing equipment and skills or accommodation in new enterprise including agricultural contracting and bed and breakfast provision, both features of farm businesses for decades. Competition from the growing provision of these 'service' enterprises, referred to in several elements of this study, suggests that alternative options will need to be investigated by prospective diversifiers in the future. Advice and guidance with such decisions concerning these less obvious options will be crucial.

4.75 The received wisdom from the various elements of this study points to grants as key to the continued encouragement of farmers to diversify, aiding not only their decision to act but also the short term viability of the enterprise, thus established. The farmers' survey registered that only 9% of grant aided enterprises would not have been greatly affected had grants not been available, with half of the rest reduced in scale in some way and the other half not started at all. As to the effect on success or failure, respondents reported that grant had had a clear positive impact on the on-going success of 75% of the enterprises in the farmers' survey. The postal survey results confirmed this, with almost two thirds (62%) of RDS/consultant respondents noting that grants were either very important or absolutely essential in the establishment of these diversified enterprises.

4.76 Respondents, again from across the elements of the study, were sure to point out that grants alone will not guarantee the long term viability of such new business. Instead, the enterprise should be properly researched and planned. As an additional benefit, the rigour of the application process, in this connection, received considerable support from the advisers and administrators and continues to offer the

opportunity to weed out unviable projects, as well as encouraging true engagement with the realities of the proposed enterprise outcomes.

## 5 The role of other forms of public support

5.1 This chapter reviews the sixth and eighth of Defra's research objectives for this study, looking in turn at the potential role of improved advice and guidance to diversifying farmers, and the issue of better access to, if not provision of, training relevant to the acquisition of the new skill sets required in non-farming diversified enterprises. Both advice and training are reasonably seen as highly important aspects of successful farm business diversification, and both offer specific possibilities for grant aid in support of the overall policy agenda.

**Objective 6: To explore the role of advice and guidance in encouraging diversification and in contributing to the success of diversified businesses, for example the Small Business Service/Business Links/FBAS etc.**

5.2 This study has been conducted against the background of recent policy recommendations which are having a significant impact on the delivery of rural services by Government. Foremost among these, the Haskins Review (Defra, 2003) identified the need to strengthen the RDAs' rural role as they gain lead responsibility for coordinating public sector rural business support and advice. The RDAs would also '*assume responsibility for the Business Links*' and should '*take steps to improve the quality and consistency of business support and advice*' (recommendations 1-13). The later Rural Funding Review (Defra, 2004b) recommendations further advise the need to '*strengthen and improve the quality of all advisory support including through working with RDAs, Business Links and the other partners to help ensure that there is a network of advice and service that is tailored to the needs of rural business*' (recommendation 3).

5.3 The new Farm Business Advice Service (FBAS), launched in the autumn of 2005, aims to provide 'a free, flexible regional service designed to help farmers consider the business implications of the Single Payment Scheme.' Other new Defra initiatives include the Whole Farm Approach (website and self-assessment questionnaire to be launched early in 2006), which aims to provide an integrated access point to Defra and related agencies, as well as the Rural Business Advice Channel, which will be available from March 2006. These are responses to previous findings that '*advice generated through Defra is often confused, patchy conflicting*



*and of variable quality.’ The advice thus provided will ‘highlight the key issues surrounding grants and funding, regulations and business advice and will offer clear signposting to enable users to obtain further information if required.’*

5.4 The administrator interviews indicated a degree of concern over the scale of the current restructuring and articulated fear of the danger that ‘areas of work may be lost between the RDAs and Natural England’. Facilitation was of the utmost importance to the development of the agricultural sector, and should be centred on local provision and be directed by agreed targeting statements. Sharing of best practice at both regional and sub-regional levels would further the pace and quality of development in provision.

5.5 Perhaps indicative of the complexity of the current support landscape and the need for such locally delivered advice, the telephone survey of farmers showed that just over 50 per cent of diversified enterprises had been set up without applying for grant (see also Table 4. and discussion). Further investigation indicates that, for 35 per cent of these, farmers were not aware of the availability of grants and a further 10 per cent felt that the application process was too complex (Table 5.1).

**Table 5.1 Reasons for not applying for a grant for diversification**

	<b>Setting up</b>	<b>Development</b>
Number in group	520	229
Not thought to be necessary	34%	32%
Not aware of appropriate grants scheme	35%	25%
Application process too complex	10%	17%
Found to be / advised not eligible	14%	21%
Predates grant schemes	5%	Not applicable
Other	6%	14%

Source: Farmers’ survey

5.6 This result is disappointing, considering that respondents reported that 46 per cent of those enterprises set up with grant aid would, without this support, have been reduced in some respect. For a smaller proportion of those with existing projects (25 per cent) farmers were apparently not aware of grants, with a further 17 per cent put off by the application process. The apparent lack of guidance and advice in these cases therefore, may already have lead to some sub-maximisation of resource potential.

5.7 New diversifiers and developing diversifiers point clearly to areas requiring advice and guidance when asked what the greatest challenge was in setting up the enterprise, referring to planning consent, securing grants, marketing and securing financing. Moreover, these four issues remain the most important once the enterprise has been established, in addition to concerns over the level of demand and/or competition. These foci of need were confirmed as the major constraints to diversification in the responses to the postal survey (section 4.3).

5.8 Less than complete knowledge of the new enterprise is also demonstrated by the small proportion of diversifiers who had ‘full knowledge’ of the enterprise that they were setting up (Table 5.2); only 11-13 per cent had full knowledge and 55-60 per cent had little or no knowledge of the new enterprise.

**Table 5.2 How much did you know about the business that you were diversifying into when you decided to set it up?**

	No grants applied for	No grants received	Some or all grants received
Number in group	374	81	478
Full knowledge	11%	11%	13%
Reasonable knowledge	30%	28%	31%
A little knowledge	23%	23%	22%
Very little	16%	26%	18%
Nothing	18%	11%	15%

Source: Farmers’ survey

5.9 These figures are matched by the group of respondent farmers who were considering, but had not yet established, new diversified enterprises, where only 7 per cent had full knowledge and 56 per cent had little or no knowledge of the new enterprise they were actively considering investing in.

5.10 It is then alarming that, of the farmers who had been involved with diversified enterprises (675), 30 per cent had not received any advice relating to the enterprise. Interestingly, this group of farmers has an age profile that is comparable with the rest of the diversifiers and there is no difference in the average highest education achievement within the group. With further analysis, it appears that these businesses (i.e. that are unadvised) account for 38 per cent of enterprises (Table 5.3). Not surprisingly, a high proportion of agricultural service enterprises have not

been the subject of advice, by comparison with most other categories, with equine enterprises the next least likely to have been established subject to professional advice. Of all the enterprises *not advised*, 33 per cent involve ‘accommodation and catering’, reflecting the high proportion of diversified enterprises overall in this category, along with, perhaps, the common perception of a more general familiarity with the subject. This finding does suggest a ‘gap’, which may point to a deficiency of appreciation in safety and / or hygiene regulation relevant to such enterprises.

**Table 5.3 Incidence of ‘no advice received’, by diversified enterprise**

	Not advised		% of not advised ents
	%	Count	
Agricultural services	82	27	7
Trading enterprises	44	48	13
Accommodation and catering	40	122	33
Equine enterprises	47	50	13
Recreation and leisure	28	17	5
Unconventional crops / processing	35	15	4
Unconventional livestock / processing	28	15	4
Miscellaneous services	30	67	18
Mixed	29	14	4
TOTAL	38	375	100

Source: Farmers’ survey

5.11 Turning to those enterprises that were the subject of advice, the mix was wide ranging in nature (Table 5.4), with advice on grants of great import and a range of other advice sought on financial, technical and legal matters. This provides a clear indication of both the scale of likely need and the potential benefits of such advice, although both need and benefit will undoubtedly vary from farmer to farmer and from situation to situation. Advisors will need to be well informed to provide the flexibility of support that this analysis identifies.

**Table 5.4 Range of advice received, current diversified enterprises**

	Diversified enterprises			Advised enterprises not set up
	No grants applied for	No grants received	Some or all grants received	
	180	57	350	45
Diversification in general	14%	21%	18%	15%
Technical (processes)	27%	39%	22%	17%
Financial (loans, tax etc.)	11%	19%	25%	14%
Marketing	14%	16%	21%	9%
Grants	3%	33%	37%	21%
Legal matters	21%	11%	7%	3%
Planning	15%	18%	15%	18%
Other regul'n/compliance	14%	5%	12%	3%
Environmental	4%	4%	4%	0%
Other	10%	2%	9%	0%

Source: Farmers' survey

5.12 So what of the experiences with advice thus far? The survey of farmers examined the usefulness of the advice obtained and the ease of obtaining quality advice. On the whole, the usefulness of advice appears to have been good, with almost three quarters of diversifiers seeking specialist advice, considering this as very useful or essential (Table 5.5 and 5.6). There was, however, a significant minority of cases where advice relating to 'diversification in general' and to 'grants' was found to be of 'no use' or even 'positively unhelpful'.

**Table 5.5 Farmers' rating of the usefulness of advice received – part 1**

	Diversification in general	Technical (processes)	Financial (loans, tax etc.)	Marketing
	100	144	115	109
Essential	7%	25%	16%	12%
Very Useful	51%	49%	56%	61%
Helpful	28%	24%	24%	21%
Not useful	10%	2%	4%	6%
Unhelpful	4%	0%	0%	1%

Source: Farmers' survey

**Table 5.6 Farmers' rating of the usefulness of advice received – part 2**

	Grants	Legal matters	Planning	Other regulation / compliance
	151	68	88	67
Essential	20%	31%	24%	13%
Very Useful	46%	53%	49%	63%
Helpful	22%	15%	22%	22%
Not useful	7%	1%	5%	1%
Unhelpful	5%	0%	1%	0%

Source: Farmers' survey

5.13 As to the ease of obtaining quality advice, most diversifiers (69 per cent) note that this was easy or very easy (Table 5.7). The group applying for, but not receiving grants, have apparently experienced more difficulty in finding 'quality advice'. This may be because they felt that they had not been well advised on their grant applications. The open answers indicate a level of variability of quality of advice from Defra staff and a good degree of disappointment that grant applications, encouraged by staff, involving much time and cost, were eventually unsuccessful. Further clarity over criteria for assessment is seen as necessary.

**Table 5.7 Ease of obtaining quality advice, by grant status**

	No grants applied for	No grants received	Some or all grants received
	187	57	339
Very easy	16%	12%	12%
Easy	56%	51%	57%
Average	16%	16%	13%
Some difficulty	8%	5%	11%
Difficult	4%	16%	8%
	100%	100%	100%

Source: Farmers' survey

5.14 Overall, the experiences of those diversifiers who took advice appears, for many, to have been good – they found it accessible, appropriate and useful. This is also highlighted by the experiences of those who applied for grants (whether or not received) who attached a much greater importance to advice than those who had not applied (Table 5.8).

**Table 5.8 Importance of the availability of grants and advice to making the decision to diversify**

	Diversified - no grants applied for		Diversified - grants applied for but not received		Diversified - grants received	
	Grants	Advice	Grants	Advice	Grants	Advice
Essential	1%	5%	4%	4%	27%	5%
Very important	1%	8%	15%	9%	36%	22%
Quite important	1%	7%	18%	23%	14%	18%
Helpful	1%	5%	3%	8%	6%	14%
Not important	58%	51%	35%	33%	16%	34%
Not available	38%	24%	23%	23%	2%	6%
No response	0%	0%	1%	1%	0%	0%

Source: Farmers' survey

5.15 Confirming these largely positive responses concerning advice, the postal survey (Chapter 4) indicates that the availability and uptake of advice is seen as less of an issue leading to unsuccessful enterprises, when compared with inadequacy of market research, business skills and capital availability.

5.16 However, when diversified farmers were asked about their overall experiences of getting advice from Government sources (Table 5.9) there is substantial variation in response. For those who had not applied for grants the majority confirmed that, for them, advice was unnecessary. The other farmers in this group were reasonably positive over their experience with advice from Government sources. A similar picture is given for those farmers who received grants, perhaps reflecting on their application success.

5.17 The third group, who applied for but did not receive grant, feel very much less positive. This may be a direct reaction to the failure to secure grant and confirms a good degree of frustration and dissatisfaction with the quality of advice given, as discussed above. This group earlier referred to technical, grant aid and diversification in general as the predominant types of advice sought and they may, therefore, account for those who found the advice 'not useful' or 'unhelpful' for these last two areas of advice. On a separate issue, there is evidence from the stakeholder consultation that the exact source of advice is not always clearly understood. Along with dealing with the identified 'gap' in provision, therefore, is the necessity to clarify sources of support.

**Table 5.9 Overall experience of getting assistance from Government sources - Advice**

	Diversified - no grants applied for (excl. not applicable and DK)	Diversified - grants applied for but not received (excl. not applicable and DK)	Diversified - grants received (excl. not applicable and DK)
Very good	9%	8%	19%
Good	39%	20%	39%
Average	27%	25%	20%
Poor	12%	15%	12%
Very poor	12%	29%	9%
Not applicable	64%	39%	24%
Don't know	3%	2%	1%

Source: Farmers' survey

5.18 As far as encouraging farmers to diversify in the future is concerned, it is quite clear that the farmers surveyed see advice of paramount importance, along with improvements to the provision of grants. Perhaps not surprisingly, those diversifiers who have engaged with the grant application process advocate more strongly for improvements to the grant provision than do the non-diversified farmers, who tend to focus more on improvements in the availability, publicity and quality of advice.

5.19 Responses from the stakeholder consultation confirm the importance of advice, the variability of advice in the past and the need for advice and training requirements to be well integrated in support measures available to farmers:

*'Often, the visits and advice help crystallize their aspirations and suggest avenues not previously considered, as well as some times 'shelving' unproductive or impractical projects.'*

*'...sound business advice and business planning is often of far greater importance in ensuring that any new venture will be successful and sustainable'.*

*'In Cornwall, Taste of the West offers a delegated grant scheme and advice – this is crucial'.*

5.20 Scheme applications are unfamiliar ground to many farmers and guidance is, in most cases, seen as a necessity. Business Links are suggested by some as having a key role in this, although there is also a degree of recognition that provision through BL, to date, has been variable in rural focus across the country (confirmed in

the Administrators Interviews). Such advice should, however, be easily accessible, early in the planning process (vital for the assessment of feasibility and viability) and preferably also carry on after the start of the enterprise. Advice should be of good quality and with the correct degree of ‘farming focus’, with appropriate breadth of experience for initial appraisal of options, followed by sufficient specialist knowledge to advance the chosen option:

*‘Past schemes have been limited by the skills and experiences of the consultants.’*

*‘FBAS advice has not been universally good in the past.’*

*‘I have heard reports that in the past the quality of the Farm Business Advisors was very poor in some cases.’*

*‘It is important that this advice is suitable, targeted and communicated effectively.’*

*‘Good facilitation is key, but this is not writing business plans but working with project proponent.’*

*‘Advice is vital and needs to be easily accessible, and on a one to one basis, tailored directly to meet the needs of the rural business.’*

5.21 One region reported the Rural Innovation project as encouraging entrepreneurship and supporting business advisers on issues relating to innovation.

5.22 These comments are perhaps not surprising when one considers the proportion of time spent working in farm diversification for the sample of consultants in the postal survey (Table 5.10).

**Table 5.10 Proportion of work spent dealing with proposals, planning and management of farm diversification**

	Work proportion involved				Total %
	A - 1-10%	B - 11-50%	C - 51-80%	D - over 80%	
RDS staff	15	19	19	46	100
Other farm advisors	41	44	11	4	100
All work sectors	34	37	13	15	100

Source: Postal survey



5.23 Many of the stakeholder consultees confirmed the considerable value of good advice in shaping the proposal, several identifying the encouragement to adjust and amend ideas to arrive at more appropriate and competitive projects for the business and in the area. Innovation for some is stifled by *'risk averseness and inflexibility of the schemes'* with *'the same old safe things coming through'*. This may reflect on the farmer or the adviser, where the 'safe' and 'familiar' is encouraged to the detriment of other more challenging possibilities. The pre-application advice and the process of application approval (Regional Appraisal Panels) are identified also as substantially responsible for the shaping of the project, its innovation specifics and its scale:

*'Public supported initiatives have in the past been limited by the skills and expertise of the consultants and staff employed to facilitate the process.'*

5.24 Once again these points were reiterated in the focus group with considerable variability of provision across the country, and Business Links were cited as very aware of rural issues in some regions but seen as not understanding farming issues in others. There was a clear feeling that advisors should be accredited, although given the range of different accreditation already on offer, the value of a further overarching accreditation was difficult to establish. It was accepted that designing an accreditation scheme that covered the range of technical, business and environmental skills would be very challenging. However the baseline value must be *"an understanding of the rural environment"*.

5.25 In this connection reference was made to the scheme operating in Scotland where "initial advisors" were accredited but they were not expected to provide the full range of advice necessary but, rather, could bring in other consultants to deliver specialist services. In addition, it was noted that in Cumbria, business and environmental advisors attend applicant's holdings on the same day but it was recognised that this approach might not be viable in all areas.

### **Objective 8: To evaluate the respective contributions of capital investment and investment in skills and training**

5.29 The research identified a fundamental difference in the approach to training, with the stakeholders, administrators and advisors typically advocating the

importance of training and the majority of farmers seemingly unwilling or unable to appreciate or to take part in training. However, and tellingly, the need for training, and particularly for *ongoing* advice and mentoring, was a consistent theme throughout the focus group discussion, thus “...*effective training is more likely to generate appropriate diversification*”. This, unsurprisingly, also reflected the responses to the stakeholder consultation, of which the following quotes are typical:

*“...the skills and training agenda is crucial to the success of the Strategy on Sustainable Food and Farming”*

*“...investment in skills and training is paramount before capital investment can be utilized to the greatest capacity and value”*

5.30 Going further, there was support amongst the focus group for a training needs assessment as part of any grant application. However, there was a reluctance to make training a condition of any grant not least because a number of participants noted farmers’ unwillingness, or in some cases inability through pressure of work, to commit sufficiently to training to make it worthwhile. This was contrasted with the perceived need for intensive training, perhaps a week long course, rather than the very short courses which seem to dominate the market at the moment. It was suggested that it might be appropriate to support the provision of replacement labour, to allow farmers to attend longer training courses, although it was recognised that some might find it difficult to relinquish control for that period.

5.30 This widespread perception of the importance of better training in the process of diversification was also reflected in the administrator interviews although, in the context of research Objective 8, there were conflicting views on the merit of funding migrating from capital grants to training. So, for example,

*“...are we over-supplied with diversification ... should we be funding and articulating something which is part of mainstream strategy ... upskilling, knowledge transfer and vocational training schemes?”*

which can be contrasted with:

*“...uneasy that policy makers will focus on training/skills”.*

5.31 This latter approach was coupled with the view that grant funding had a very direct impact on improving and maintaining skills levels in the rural economy, seen

as the natural preserve of training, through increasing demand for building and other skills demanded by diversification projects.

5.32 The postal survey of advisors also drew attention to the importance of training with 40 per cent of RDS staff answering a question put to them in isolation, identifying “skills and training” as an area that would benefit from Government support. However, this survey also offered an insight into the problem, with 40 per cent of all respondents identifying the lack of uptake of training opportunities as a “significant” or “very significant” factor in unsuccessful attempts to establish diversified enterprises on farms, whilst only 17 per cent placed the same emphasis on the lack of training itself. The suggestion that there was adequate training available, but a lack of willingness to take advantage of it, was also identified in the focus group and appears to be borne out by responses to the farmers’ survey where, amongst diversified and non diversified farmers alike, increasing the availability of training scored very low on the factors most likely to encourage more farmers to diversify.

5.33 The farmers’ survey indicated their relative lack of interest in training in general, and in overall terms the diversified farmers had had no training in 67 per cent of the enterprises which they had set up. This is disturbing when considered against the overall lack of knowledge of these enterprises indicated in Table 5.2. However, in this area the grant system appears to have had a clear influence. Those diversified farmers who had received a grant were much more likely to have had training, and whilst those enterprises with associated training were still in a minority (45%), this was nevertheless a considerably higher proportion than amongst those where grants had either not been applied for (21%) or not been received (27%).

5.34 This declared lack of enthusiasm for training appears even more marked in those situations where the decision had been taken not to set up a diversified enterprise, with 91 per cent not being associated with any training and little difference between those where grant had been applied for (93%) and those where it had not (90%).

5.35 Understandably, perhaps, given the knowledge gap, such training as was taken tended to be biased towards ‘technical’ matters although regulatory and compliance issues, business management and marketing were also popular (Table 5.11).

**Table 5.11 Training mix – current enterprises**

	No grants applied for	No grants received	Some or all grants received
<b>Number in group with training</b>	<b>81</b>	<b>22</b>	<b>218</b>
Diversification in general	5%	9%	6%
Technical (processes)	51%	73%	42%
Business management	12%	41%	24%
Marketing	12%	18%	21%
Grants	1%	0%	1%
Planning	1%	0%	0%
Other regulation / compliance	31%	23%	35%
Environmental	0%	9%	3%
Other	21%	0%	22%

Source: Farmers’ survey

5.36 Reinforcing the suggestion that the problem is not with the supply of training opportunities as such, over 70 per cent of those undertaking training found it either ‘very easy’ or ‘easy’ to find training (Table 5.12).

**Table 5.12 Ease of finding training**

	No grants applied for	No grants received	Some or all grants received
Number seeking training	94	25	228
Very easy	22%	28%	14%
Easy	50%	44%	56%
Average	14%	8%	16%
Some difficulty	6%	8%	7%
Difficult	7%	12%	7%
	100%	100%	100%

Source: Farmers’ survey

5.37 As with their experience of advice, farmers’ experience of training appears to have been generally good, with 71 per cent finding the training that they had received either ‘essential’ or ‘helpful’, with technical and business management training scoring higher than marketing or regulation/compliance training (Table 5.13).

Compared with the responses to advice, there was no real degree of adverse comment.

**Table 5.13 Farmers' rating of the usefulness of training received**

	Technical (processes)	Business management	Marketing	Other regulation / compliance
	149	75	62	107
Essential	35%	24%	13%	27%
Very Useful	46%	49%	52%	35%
Helpful	17%	20%	34%	33%
Not useful	2%	5%	2%	6%
Unhelpful	0%	1%	0%	0%
	100%	100%	100%	100%

Source: Farmers' survey

5.38 Respondents to the farmers' survey, when asked to comment on their overall experience of Government support in respect of training, were clearly dominated by those farmers who hadn't had training. Amongst the remaining balance there is considerable variety in the experience with 'good' or 'very good' responses accounting for 42 per cent of those to whom the question applied and who had not *applied for grants*, 28 per cent of those who had applied and not *received grants* (perhaps reflecting disquiet with the failed application) and 86 per cent of those who *had received grants*.

5.39 However, whilst farmers' experience of training appears to have been positive, with their overall rating it as being both accessible and useful, the underlying impression that farmers' attitudes to training is ambivalent at best is reflected in the response of those who didn't receive training: less than 4 per cent thought that this had had an impact on the long term success of the enterprise.

5.40 In marked contrast with the farmers' survey, both the focus group and stakeholders expressed some concern about the effectiveness of training, and particularly expressed disappointment with the Vocational Training Scheme, commenting on its bureaucracy and the poor level of uptake:

*"The training monies have been poorly used. The complexity or paperwork and long timescales have put people off".*

5.41 Turning to a comparison of the importance of both grants and training in the decision to diversify, there was conclusive support for the role of grants, both amongst those who had applied for and failed to receive grants, and those who had received grants (Table 5.14).

**Table 5.14 Importance of the availability of grants and training to making the decision to diversify**

	Diversified - no grants applied for		Diversified - grants applied for but not received		Diversified - grants received	
	Grants	Training	Grants	Training	Grants	Training
Essential	1%	4%	4%	0%	27%	4%
Very important	1%	4%	15%	7%	36%	8%
Quite important	1%	4%	18%	8%	14%	10%
Helpful	1%	5%	3%	2%	6%	8%
Not important	58%	58%	35%	57%	16%	59%
Not available	38%	25%	23%	26%	2%	9%
No response	0%	0%	1%	1%	0%	1%

Source: Farmers' survey

5.42 This reaction is supported by the postal survey of advisors who ranked lack of capital invested, insufficient working capital, regulatory issues, lack of business management skills and expertise and inadequate market research/understanding ahead of both the availability and, particularly, uptake of training in leading to successful enterprises. Albeit, this prompts the response that the skills and market issues might have been better addressed had more advantage been taken of training opportunities on offer.

5.43 Making the same comparison, focus group participants and administrators felt that grants and training fulfilled different roles and it was wrong to approach matters as a simple choice between two competing options for resource. Capital funding enabled businesses to develop the necessary fixed assets that could not be developed from within the farm business. Training enabled the business to improve its performance and to increase business confidence, both of which should generate a greater return from the capital funding.

5.44 Looking forward, there was clear support for training as part of any scheme, to ensure that the applicants made the best use possible of the investment that had been made in their business. Whilst it was recognised that farmers were unlikely to support continuous professional development, this was seen as the ideal, with a particular focus required on marketing.

5.45 There was also considerable concern, amongst both participants in the focus group and administrators, that rural training needs would not be sufficiently well provided for in the RDAs. The interaction between the RDAs and Business Links, as their preferred providers was thought likely to make things worse rather than better, both because of the likely weighting towards urban issues and a common perception that Business Links are not really interested in micro businesses.

5.46 Whilst technical training, for example in product management, was seen as important, training in core business management skills was seen to be equally if not more pressing, reflecting perhaps the findings of the postal survey regarding the key reasons for failure amongst diversified businesses. Allied to this there was a clear feeling that training should be market rather than enterprise driven, with strong support for the principle of financial aid towards part of the training cost. There was very considerable support for some trainers being drawn in from outside of the farming industry to provide the full breadth of business management expertise.

## 6 What scope for targeted support?

6.1 This chapter addresses the seventh research objective, which deals with the possibilities for improvements to scheme design to allow the more effective targeting of support for farm diversification.

**Objective 7: To assess whether grant funding or other assistance could be usefully targeted e.g. to tenanted farms, lagging areas, small farms, etc.**

6.2 The questions of whether support should be targeted, and if so how and to whom, were addressed to Stakeholders, the Focus Group, Administrators and Advisers and elicited a wide range of responses, although with little overall consistency. Many felt that targeting already happens, either directly through regional target statements and the close working of RDA and RDS representatives on the Regional Appraisal panels, or indirectly through the most effective advisers recognising favoured themes and encouraging applicants to address those areas.

6.3 Amongst attendees of the focus group and stakeholders, there was some concern that targeting, as it had operated to date, had been both too restrictive and had encouraged over supply in some sectors, of which farm tourism provision in the Lake District and South West, identified by a number of respondents, provides one example. Conversely, there was also anxiety that complex targeting could lead to the risk of working against market forces or of excluding potentially good scheme, as expressed by one stakeholder:

*(targeting) "too specifically means many good and worthy schemes won't happen".*

6.4 This led a number of stakeholder respondents and focus group participants to conclude that targeting would be a bad thing and that as uniform a scheme as possible would be the ideal. However, balanced against this were views not only that targeting is appropriate but, in some opinions, that it will be essential, given the lack of certainty over funding beyond 2007. In the context of respondents having the general impression that the overall level of support would be reduced over time, a list of priorities was seen as essential and there was seen to be a need to target grant far more effectively than to date.



### *Mechanisms for better targeting*

6.5 Advisers who considered that it was important that publicly funded grant schemes continue over the next five years were asked if they thought there was scope for better targeting. Almost three quarters (72%) said 'yes' and then went on to identify a range of measures that might be used to achieve this (Table 6.1).

**Table 6.1 Mechanisms to achieve better targeting**

Market analysis/understanding	8%
By merit of project/assessment of project	6%
Using partners or facilitators	8%
Raising awareness/better information	5%
Extending grant availability	12%
A more business focus/planning approach	8%
Identify and target priority groups	24%
Less bureaucracy; simplification of information/grant system	17%
Changing criteria reflecting more or less community benefits	8%
Other reasons	3%

Source: Postal survey

### *Defining appropriate targets*

6.6 Advisers were then asked to identify where future grant aid might be targeted and this produced an interesting mix of views, with suggested criteria including tenure, farm location, farm type, generic skills and types of diversified enterprises (Table 6.2). There was strongest support for something aimed at strengthening business development in the tenanted sector, and also for farmers facing particularly difficult economic conditions, including those with specifically remote or hill farms. However, there was clearly also a desire to use targeting to assist innovation and, to a lesser extent, to foster collaboration.

**Table 6.2 Potential targets for grant aid**

Tenant farmers	22%
Remote or Hill farms	20%
New and business skills	11%
New crops and related products	6%
Food and adding value	10%
Entry/Exit	9%
Collaboration and partnerships	6%
Project advice	9%
Other problems and opportunities	8%

Source: Postal survey

6.7 A similar divergence of views emerged amongst stakeholders, administrators and within the focus group, against a background of some in the latter being strongly against targeting. Stakeholder consultees identified a number of wider community benefits which might be targeted, including environmental improvements, upgrading of farm facilities for school use, employment enhancement, housing and community food initiatives. This approach was felt to be particularly appropriate for lagging areas, where the issue of match funding can perhaps be more easily satisfied by such wider benefits.

6.8 There was a range of alternative suggestions being mentioned, including focusing on farmer type, with small farms, new entrants and tenant farmers. It is noted that some assistance is already evident in the Fast Track system adopted in the South East which *“has been a big help and has encouraged many more, smaller, farmers to apply”*. There was a range of views over delivery mechanisms with, again, support for the employment of casual labour to provide essential cover whilst farmers seek advice or training. Higher rates of grant were also mentioned as worthy of further consideration for these groups.

6.9 Administrators also saw some merit in targeting and again returned to criteria including lagging areas, albeit with some reservation over the likely return on investment, and, to a lesser extent, farm tenure. However, there was a fear, amongst this group, that regions which were targeted too tightly, and hence had lower take up

rates for grants, might be placed at a competitive disadvantage, a point which clearly needs to be addressed if improved targeting is taken forward as a policy feature.

6.10 In contrast, some advisers saw merit in targeting existing family farms in an effort to maintain the social fabric of the countryside, with support mainly targeted on businesses where the primary income source was agriculture and focusing, perhaps, on those farms expected to be most vulnerable under the changes associated with the introduction of the Single Payment Scheme; typically these will be livestock, and particularly upland, holdings.

6.11 Whilst support for lagging areas and uplands were cited as possible targets in the focus group, there was some disagreement as to whether support for specific geographical areas was important. Some argued that support in the uplands was even more essential, in the light of the economic challenges of commodity production in those areas, and at the same time such targeting would offer the greater potential to deliver public benefits. Similarly, there was a view that grant aid is particularly important in encouraging diversification in “*extremities*”, where the underlying economy offered fewer opportunities to develop businesses. This was seen as an important role for public funding in developing sustainable businesses where the market alone is unlikely to deliver. However, others held a contrary view believing “*there should be no post-coding of advice*”.

6.12 This prompted a wider argument over the rationale for investing in agricultural businesses attempting to diversify, when the same opportunities were not available to other small businesses. The question, as posed, centred on whether or not it was right to give agriculture such a competitive advantage. Generally, the focus group agreed that, without grant funding, farm businesses would not have the ability to launch and sustain new businesses. That said, there was also strong support for rural community projects which have been provided by ERDP schemes in recent years.

6.13 There was little support in the focus group for targeting specific farm types, e.g. dairy farms, or the tenanted sector; the feeling was that the latter would be supported by the clearing banks, who were more interested in the ability to service

loans than security, or by their landlord. However, there was strong support for the view that some amendment to the capital tax regime was necessary to ensure that this was not a constraint to landlords allowing diversification, thereby blocking opportunities for tenants to develop their businesses away from agriculture. A number of participants held this view, which was tested hard by facilitators who have considerable experience of the TRIG debate and the apparent paucity of evidence produced on this issue to date. However, participants were committed to the view that the tax regime worked against diversification and remained convinced that attention was required to this matter, without which any investment in grants on tenanted farms could be wasted. A typical comment was:

*“...the interaction with the tax system is a difficulty for landlords ... by allowing diversification the landlord is effectively saying yes to a tax bill...”*

6.14 The stakeholder consultation addressed a number of other, broader, subject areas with suggestions that targets should be directed towards better training for and improvement of business management skills, leadership and communication skills, enterprise specific technical skills and linkage to local sourcing. Targeting support to fund market research, proper feasibility and viability studies, to adequately test the business model and help frame ideas, was suggested by a number of respondents as a very necessary adjunct to any future scheme.

6.15 Finally, there was considerable discussion of the possibility, and desirability, of targeting training and business mentoring. Adapting the classifications developed in a recent study into economic change (Lobley et al 2002) the focus group explored whether this should be directed at:

- *Embracers* who would be the most effective ambassadors of the scheme,
- *Adapters* who were inclined towards diversification, but might be in greater need of guidance; or
- *Resisters* in an effort to draw them into the change process.

6.16 The first two groups were seen as of key importance in this regard, with Embracers being an obvious target group for marketing schemes. For some respondents these distinctions, which go to the core of who will make the best use of public funds, were amongst the most important aspects of the targeting debate.

Tangential to the issue of targeting, it was noted that a number of schemes had to satisfy various cross cutting criteria including ICT, environmental conditions and equal opportunities.

## 7 Discussion and policy recommendations

### The farm policy and business environment

7.1 As the benchmarking study for Defra illustrated (Turner et al, 2003) the caricature of diversification as some sort of temporary aberration, “*not proper farming*” is, for most outside observers and for many diversified farmers, an outmoded view. However, that does not mean that, even today, there is not a substantial number of farmers for whom diversification remains a departure from long held ambitions and long practised skills, traditionally focused on commodity farming. Whilst there may be few alternatives for some businesses, such a fundamental shift in emphasis, which as this research and other studies have shown many businesses have had to make, often from a position of relative weakness rather than strength, still remains a leap of faith on a scale which few non-farming businesses operating in other sectors would undertake without very considerable thought and support.

7.2 This research has been conducted in the shadow of the Mid Term Review of the CAP, with its principal pillar of decoupled support, and a much greater emphasis on farmers supplying market needs, whether for commodities, diversified goods and services or public goods. The conceptual view is that this will provide a new-found “*freedom to farm*”, with farmers released from the shackles of subsidy-driven commodity production then able to supply these burgeoning markets.

7.3 The pragmatic reality is that, with entitlements under the Single Payment Scheme still not definitively established, and most farmers anticipating delays in support payments compared to previous years, the new regime is, temporarily at least, acting as a block to restructuring and significant investment decisions. Given the changes in the scheme since the first iteration was mooted, many farmers are anxious that any substantive change in their circumstances may prejudice their level of payment both now and in the future. Work by the research team elsewhere suggests that many appear to have concluded that they will wait, at least until they receive the first cheque, before committing to any major investment, diversified or otherwise.

7.4 Diversified farmers were asked to speculate about the likely impact of the SPS both on their income and on their future allocation of farm resources, and Table 7.1 summarises the findings for three groups of farmers: diversified, no grant applied for; diversified, unsuccessful grant application; and diversified, grant received. Whilst there was some distinction between the three groups of farmers on the question of income, their overall responses are fairly consistent. In the short term there is clearly uncertainty, but over the longer term more than 60 per cent in each category expect the impact of the SPS on their farm's income to be broadly unfavourable, ranging from 'little change to 'significant decrease'. Approximately one in three expect it to have little effect on total income, while between 10 and 18 per cent expect it to bring some enhancement.

**Table 7.1 Income expectations and the Single Payment Scheme**

	Diversified - no grants applied for	Diversified - grants applied for but not received	Diversified - grants received
<b>Short term</b>			
Significant increase	1%	1%	2%
Moderate increase	9%	17%	9%
Little change	33%	36%	30%
Moderate decrease	26%	20%	21%
Significant decrease	7%	10%	12%
Not sure	19%	13%	19%
Not applicable	4%	3%	7%
<b>Longer term</b>			
Significant increase	2%	3%	2%
Moderate increase	5%	11%	7%
Little change	15%	20%	15%
Moderate decrease	15%	14%	13%
Significant decrease	37%	33%	33%
Not sure	23%	16%	23%
Not applicable	4%	3%	7%

Source: Farmers' survey

7.5 The research found that this general assessment was shared both by the Stakeholders in the written consultation and by the members of the Focus Group. Farmers' responses on the expected allocation of their farm resources are set out in Tables 7.2 and 7.3. Again, there is a relatively significant correlation across the results with the responses from stakeholders and others.

**Table 7.2 Impact of SPS on the allocation of resources – short term**

	Diversified – no grants applied for		Diversified - grants applied for but not received		Diversified - grants received	
	Conv.	Div'n.	Conv.	Div'n.	Conv.	Div'n.
	<b>Percentage of those who had considered the impact of the SFP</b>					
Increase	2%	46%	5%	38%	7%	44%
No change	39%	48%	44%	59%	38%	50%
Decrease	57%	2%	49%	3%	50%	4%
Don't know	1%	4%	3%	0%	5%	3%

Note: 'conv.' refers to conventional farming, 'divn.' to diversification

Source: Farmers' survey

**Table 7.3 Impact of SPS on the allocation of resources – long term**

	Diversified - no grants applied for		Diversified - grants applied for but not received		Diversified - grants received	
	Conv.	Div'n.	Conv.	Div'n.	Conv.	Div'n.
	<b>Percentage of those who had considered the impact of the SFP</b>					
Increase	5%	46%	3%	46%	6%	46%
No change	37%	43%	44%	49%	34%	45%
Decrease	50%	1%	44%	3%	49%	3%
Don't know	9%	10%	10%	3%	11%	6%

Note: 'conv.' refers to conventional farming, 'divn.' to diversification

Source: Farmers' survey

7.6 Whilst a significant minority in each group (ranging from 34% to 49%) expected 'no change' in their allocation of resources, an average of 46 per cent of all respondents expected an increase in the allocation of resources to diversified businesses, compared with only between three and six per cent who expected an increase in their allocation of resources to conventional farming. The two options are not mutually exclusive, of course, and respondents could be planning to increase resource allocation across the board. However, the proportions expecting to allocate decreasing resources to each business sector show the obverse, with an average of 48 per cent of respondents expecting resources allocated to conventional farming to reduce whilst only between one and three per cent on average expected a reduction in resources for diversified businesses. These findings clearly suggest that a migration of existing farm resources is likely to take place, from conventional agriculture towards some form of farm diversification.

7.7 Whilst CAP reform is undoubtedly seen as a challenge, which will tend to reduce incomes and will require an adjustment in resource use in farming, elsewhere



the policy context is strongly supportive of the restructuring of farm businesses. The Government's *Strategy for Sustainable Farming and Food* places considerable emphasis on diversification as a fundamental element in a sustainable and prosperous rural economy. This support, coupled with continued low returns from commodity farming, the tribulations of successive animal health problems and their consequential bio-security requirements, and a cultural acceptance of diversification as a valid business activity has certainly encouraged more businesses to contemplate diversification.

7.8 Indeed there is a fear, expressed by a number of contributors, that the general pressure for change may have led some businesses to diversify for the wrong reasons, or at the wrong time for the business. Moreover, responses from the Administrator interviews and the Focus Group suggest that in some areas diversified markets are currently over-supplied, to the detriment both of the diversified enterprises and the parent farm businesses which are very often their hosts. This risk is well recognised by administrators and, indeed, grant appraisals are directed towards considering this very issue. However, it is wholly natural for businesses to pursue ventures in which others have demonstrated success and this failure may lie as much with the administration as with the architecture of schemes, if indeed it is scheme-related.

### **Broad conclusions, by research objective**

7.9 Chapter 2 of this report explores the rationale, both economic and political, for public funding for diversification projects. There are plainly good arguments against such support for farmers, not least that much of the benefit remains in private hands. However, the analysis concluded that there are potentially clear social benefits as well. Some public goods, as defined earlier, including such as beautiful landscapes, effective conservation and vibrant rural communities, offer benefits well beyond the immediate farming family. There is a theoretical case here for support to achieve these positive externalities, whilst recognising the complex inter-relationships between public and private, both funds and goods. This approach argues that public funding will be justified where markets are likely to fail to provide society with all the benefits it expects to get from farm diversification.

7.10 Subsequent chapters have explored the empirical evidence from the various surveys which have formed key elements of this study. Given its scale and mix of participants the Farmers Survey, in particular, has been able to collect significant amounts of valuable information. In some areas the findings are very mixed or inconclusive, but that is perhaps to be expected. Almost by definition diversified farm businesses are likely to produce a wide range of responses, reflecting their widely differing trajectories, the range of activities which they pursue and the entrepreneurial approaches of their proprietors. Nevertheless a number of key themes do come through from the Farmers Survey and the other elements of the study.

7.11 A cursory review of the Farmers Survey might suggest that public funding cannot be a critical issue for the majority of diversifying farmers when more than half (51%) of the diversified businesses reported in the study have gone ahead without grant aid; moreover, in 83 per cent of these cases grant funding had not been applied for. On the surface this seems to provide prima facie evidence that the market is sufficiently mature for diversification to take place without public funding.

7.12 However, a more detailed analysis of this sample shows that many of these enterprises have been long established, and that many would have been set up before grants were available. Further, two thirds are either agricultural or catering/accommodation diversifications, and the scale of both investment and turnover is generally small. When asked 38 per cent of the managers of these businesses said that grants were not available, and a further 58 per cent that the availability of grants was not important in the decision to diversify. The analysis concluded that this group largely represents early and traditional diversification activity, and this does not therefore provide robust evidence on the capacity of farm businesses to diversify in current market conditions without public support.

### *Objective 1 – alternative sources of support*

7.13 Chapter 3 (and Appendix 4) identifies the range of public support available for farm diversification beyond the programmes supported by the ERDP. The research has found considerable concern over the continuity of support for diversification beyond the current ERDP, particularly in the context of the administrative changes prompted by the Haskins Review. Respondents, particularly amongst Administrators and the Focus Groups were concerned that those responsible for the administration of the schemes in the future, including the RDAs and Business Link, had neither the experience nor the inclination to support small scale rural enterprise.

7.14 Conversely whilst the experience and expertise of those administering the ERDP schemes was noted the schemes themselves were felt to be bureaucratic and unwieldy compared with other public funding, e.g. structural funds. Further the number and diversity of funding streams was seen as a serious challenge to anyone seeking to secure grant aid. Respondents called both for simplification and at the same time greater flexibility in the schemes on offer. The overall picture is of a complex and geographically variable provision of support.

### *Objective 2 – the impact of financial support on farmers' capacity to undertake diversification*

7.15 Capacity, as defined in Chapter 4, has been taken as the farmer's ability to establish a diversified activity as an adjunct to an existing business. Thus it would be reasonable to assume that the award of a capital grant would increase the capacity of a business to diversify. The findings suggest that grant aid does not significantly affect the profitability of enterprises; however, there is a positive correlation between grant aid and employment suggesting that receipt of grant is associated with an increased scale of operation which can be taken as an indirect measure of increased capacity. Further, farmers in receipt of grant were clearly of the view that grants increased their capacity to diversify, less than one in ten thought the enterprise would not have been greatly affected by a lack of grant.

7.16 Looking beyond the establishment of a diversified enterprise, three quarters of farmers identified the receipt of grant as having a clear positive impact in terms of the on-going success of the enterprise. Amongst those who had had a grant

application refused and abandoned the planned diversification the relevance of grant was equally clear, and three quarters had abandoned their plans as a result of the failure to secure grant aid.

7.17 These findings were reinforced by the farmers, administrators and the Focus Group in response to open questions. There was clear support for the concept that grant aid added to the capacity of businesses to diversify, with strong emphasis in the latter two groups of the importance of public funding in *building capacity*, by deferring risk and adding to business acumen largely through requiring a robust plan as part of the application process. Administrators, however, drew attention to the *downstream* impact on economic activity and capacity, suggesting that grant funding percolated very rapidly beyond the farm gate. Again, in the written consultation the vast majority of respondents viewed public funding as 'crucial', 'essential' or 'vital' for assisting the process of farm diversification in a market place where it is often hard for the parent business, facing an extremely challenging economic climate, to generate a viable return on commercial investment.

*Objective 3 – the availability of grant funding as a decision making factor for farmers considering diversifying*

7.18 The theme of clear support for grants in building capacity was echoed in respect of farmers' decision-making on diversification. Indeed these issues are, to an extent, different elements of the same argument. Again, the reduction of risk, in an industry which has not been overexposed to risk in the post war period, was cited as an important effect of public funding.

7.19 Examining businesses in greater detail revealed that almost half of the businesses established with grant aid would not have gone ahead without that support. Further, as indicated above, grant aid appears to have contributed to the establishment of larger businesses with greater contributions to rural employment. Taken together it seems that grant aid has been an important influence in farmers' decisions on whether or not to diversify and, again, the evidence of business plans being abandoned when grant was not available supports this contention.

7.20 Concern has been expressed, and indeed is quoted in the section above, that grants may tempt farmers to diversify inappropriately, whether through naivety or avarice (the so-called 'grant farmer'). However, questions on diversified farmers' attitudes to diversification (Table 4.13) show that only the most enthusiastic diversifiers are more likely to have received a grant than those who diversified without grant. Farmers' reasons for diversifying (Table 4.14) show that only 4 per cent of diversifiers who received grant cited the availability of grant as important and only 1 per cent as the most important factor. Overall, this suggests the availability of grant aid has had a positive rather than a negative impact on farmers' decision making.

7.21 Again these findings are echoed by other elements of the study. Grants are seen as important in a positive context, that is facilitating the launch of a diversified business for applicants who, in the main, had already made the decision to diversify.

*Objective 4 – whether the availability of grant funding or other public supported initiatives has had any impact on the type of project funded e.g. whether support encourages innovation.*

7.22 The concept of innovation can be explored in a variety of different ways. If grant aid is seen as reducing risk for farmers embarking on new enterprises then it might be reasonable to assume that some of these enterprises will be in more innovative or risky sectors. This would clearly ease the risk of excessive competition in one or two over-supplied fields of activity. Alternatively it may be that for some farmers the simple decision to diversify is innovative compared to their previous approach to business management. Further, the concept of innovation is both subjective and multi-functional. An enterprise which may appear common-place in one part of the country, or on one type of holding, may be innovative in different geographic or economic areas. A farm shop may not seem particularly innovative, but aspects of the ethos, marketing or delivery (e.g. internet trading) may offer a very innovative approach.

7.23 There was some evidence of difficulty in this area, implicit in public-funding. There was a perception evident in both the Focus Group discussion and the Administrators Interviews that more innovative proposals, inherently viewed as more

risky and, perhaps, with few precedents against which to make a judgment, had rather less prospect of achieving a successful grant application than did a tried and tested enterprise. The Stakeholder's consultation lends further weight to the suggestion that responsibility for public funds often makes scheme administrators risk averse and that, at worst, there is an inbuilt bias against fostering innovation. Certainly amongst stakeholders there was no thought that the availability of public grant has any influence on innovation in choice of business.

7.24 There was a view that the entire grant process, from the advice given at the pre-application stage, through the development of the business plan and up to the work of the application panel are all important stages in shaping the nature and scale of a project. Good advice was seen as particularly important and relevant in this respect, and the most accomplished advisors as critical in influencing the choice and nature of projects most suitable to the business and securing support. Again, however, there was a contrary view which saw this as potentially stifling innovation, with advisors naturally tending to offer guidance towards enterprises which had proved successful for others and farmers naturally wanting that advice.

7.25 Conversely, as indicated above, evidence from the Farmers Survey is that diversification without grant is far more likely to have occurred in traditional areas, involving agricultural contracting and the like. This suggests there is an element of innovation arising from grant aid to the extent that those minded to apply for grants are looking beyond traditional, normally small scale, enterprises. The postal survey of administrators supported this view with 75 per cent of respondents feeling that the availability of grant funding does have an impact on innovation or risk taking.

7.26 It is possible to conclude from this that whilst the pressure of managing public funds may cause administrators to support what are perceived as safe options, that this is in fact a value judgement based on relative positions. More importantly, in encouraging potential diversifiers firstly to move away from the activity of commodity farming, and secondly to move beyond the traditional first points of that continuum, agricultural contracting or farmhouse B&B, there is some support for the view that public funding is prompting innovation within the agricultural community.

7.27 However, whilst further training and funding for market research and product development was seen as an aid to innovation overall the response was equivocal. Innovation is probably as much to do with the entrepreneurial flair of the participants as any external influence. Hence, applying the typology used by Lobley in assessing the economic impact of restructuring (Lobley et al, 2002), *embracers* are more positive about the role of diversification in their businesses and almost twice as likely to expand their diversification as *weak adapters*.

7.28 Overall there can be no conclusive evidence that public funding supports more innovative forms of diversification. It may even be that the 'best value' constraints of public funding, and the proper need to ensure financial probity in the administration of these funds, can militate against such an outcome. However, against a background of still developing responses to the demand for restructuring, farm diversification itself remains a relatively innovative response in the context of the agricultural sector.

*Objective 5 - the extent to which the receipt of grant aid influences the success/failure rate of diversified enterprises*

7.29 Here, as above, the need for caution in the management of public funds may have an overwhelming influence on the outcomes. That said, very few diversified businesses in the Farmers Survey had been discontinued, and there was no significant difference in failure rates between publicly funded and other enterprises.

7.30 However, business success is about more than mere survival and as one stakeholder consultee put it, grant aid can mean '*the difference between doing something and doing it really well*'. Adequate capital is important in this respect and '*financial constraints*' were seen as the most significant problem for diversification in both the recent past (2000 to 2005) and in the coming five years, followed by planning issues and a lack of technical skills. Inadequate capital was also seen as a significant or very significant factor in unsuccessful attempts to establish diversification (by 53% and 59% respectively) by the same group of respondents to the postal survey.

7.31 Unsurprisingly, therefore, publicly funded grants were seen by stakeholders as important in the past development of a diversified farm sector. Furthermore, 70 per cent of respondents also saw grant aid as 'important' or 'essential' to the continued success of enterprises. Grant aid was also seen to contribute to the success of diversified enterprises in a number of other ways including: increasing business confidence amongst diversifiers, increasing confidence amongst other lenders and encouraging greater business awareness and planning.

7.32 Beyond the financial sphere, successes identified particularly by the Focus Group included new skills learnt by participants, the provision of new public goods, greater integration between farmers and their communities and greater longevity for businesses which might have failed had they not restructured.

*Objective 6 – the role of advice and guidance in encouraging diversification and in contributing to the success of diversified businesses, for example the Small Business Service/Business Links/FBAS, etc.*

7.33 As with the range of grant aid on offer, the research highlights the proliferation and diversity of advisory schemes. Responses to the farmers Survey from businesses not applying for grant indicate that many potential applicants were either unaware of grants (35% of those not applying) or thought the process too complex (10%). This is a worrying finding given the apparent relevance and success of grant aid, as summarised under research objectives 2 to 5 above.

7.34 New and developing diversifiers both pointed to areas where advice was required: planning consents, securing grants, marketing and securing financing. These four areas were confirmed as the current major constraints to diversification (Table 4.3). Further there is strong evidence of a lack of knowledge amongst diversifiers (Table 5.2) with between 34 per cent and 47 per cent of the sample having little or no knowledge of their new enterprise prior to establishment. This figure is echoed amongst those recorded as currently considering establishing a new diversified enterprise, with 56 per cent admitting to having little or no knowledge of the business sector they were planning to become part of.



7.35 Encouragingly, most farmers who had received advice seem to have found this useful (Table 5.5) and most diversifiers (69%) note that it was 'easy' or 'very easy' to obtain relevant advice. Confirming this, the postal survey indicates that inadequacy of initial market research, business skills and available capital are more likely to lead to unsuccessful enterprises than a lack of advice.

7.36 Stakeholder consultees confirmed the value of good advice but there were anxieties, particularly amongst the Focus Group, that standards were very variable and some expressed a desire to see advisors formally accredited. However, it was accepted that designing an over-arching accreditation scheme covering the full range of skills would be a very challenging task.

*Objective 7 – whether grant funding or other assistance could be usefully targeted e.g. to tenanted farms, lagging areas, small farms etc.*

7.37 Questions of targeting were addressed to Stakeholders, administrators and advisors. Responses were wide ranging but with very little consensus, except that many felt targeting already happened, either directly through regional statements and the close working of RDS and RDA personnel, or indirectly through the influence of advisors.

7.38 Amongst the Focus Group and Stakeholders there was concern that such targeting as had applied to date was too restrictive and had encouraged over supply in some sectors. Accordingly, a number of stakeholders concluded that targeting was a bad thing. However, in contrast, others felt that targeting was not only appropriate but, in fact, essential if, as anticipated, public funding was constrained in the future. A list of priorities was seen as essential to direct funds.

7.39 Advisors, asked explicitly to identify where future aid might be targeted, produced a mix of criteria including tenure, farm type, location, generic skills and enterprises (Table 6.2). Tenant farmers were most favoured, followed by remote or hill farms. Thereafter suggestions about targeting tended to be more generic, focusing on new enterprises, and business skills, and food/adding value, amongst a range of broadly equivalent suggestions.

7.40 Stakeholder consultees, some of whom were strongly against targeting, produced a range of broader objectives for targeting including environmental improvements and upgrading of farm facilities for other uses. Other common elements between the various respondents included lagging areas and, to a lesser extent, farm tenure. The latter was tempered amongst Stakeholders by concern over the impact of taxation in the tenanted sector. Some advisors saw merit in targeting family farms in an effort to maintain the 'social fabric' of the countryside.

7.41 In summary, and with the possible exception of agri-businesses, the various constituent populations recommended between them almost every other form of agricultural structure and holding as a potential beneficiary of targeting! Any consensus on this issue was notably lacking with, for example, advocates of greater support in lagging areas (so as to support the development of sustainable businesses where the local economy would not, or could not, fulfil this role) robustly countered by critics of any form of 'post-coding' of support.

7.42 Finally there was considerable debate in the focus group over targeting of training and mentoring. Accepting the inherent resistance to training amongst the farming population, this study nevertheless identified strong support for training particularly for '*embracers*' and '*adapters*' (after Lobley et al, 2002) who would make the best use of support.

*Objective 8 – the respective contributions of capital investment and investment in skills and training*

7.43 Here, in contrast to the rest of the study, there was a clear difference between the responses, with stakeholders, administrators and advisors strongly supportive of the importance of training and farmers dismissive of its merits.

7.44 The need for training and ongoing mentoring was strongly supported in the Focus Group with suggestions being made for a training needs assessment as part of any grant application. However, on balance there was a reluctance to make training a condition of any grant, not least because participants noted the unwillingness or inability of farmers to participate. This was particularly difficult given

the expressed preference for intensive training, away from the farm, rather than the current very short courses.

7.45 This approach was also reflected in the administrator interviews, albeit with some contrast between two sets of views. On the one hand, there were those who saw training as a critical issue in the successful delivery of the wider objective of developing generic skills and those who were afraid that in the new administrative environment too much effort would be focused on training and skills.

7.46 The postal survey of advisors summarised the difficulty: 40 per cent of RDS staff saw skills and training as an area that would benefit from government support, and 40 per cent of all respondents identified the lack of uptake in training as either 'significant' or 'very significant' in unsuccessful attempts to establish diversified enterprises. This latter problem was brought into sharp focus by the farmers survey, where two thirds (67%) of diversified farmers had no training in the enterprise they set up, although those who *had* been through the grant system were more likely (45%) to have had training than those who had either not applied for (21%) or had not received (27%) grant aid. The lack of enthusiasm for training is even more acute amongst those who have decided not to diversify, with 91 per cent not associated with any training.

7.47 As with advice, those who bothered to take up training opportunities, of which there appears to be a more than adequate supply (Table 5.11), experiences were generally good, with 71 per cent rating the training they had received either 'essential' or 'helpful'.

7.48 Turning to the relative assessment of public funding of a financial nature *versus* direct investment in training, there was conclusive support for the role of grants amongst all farmers (Table 5.13). Whilst a maximum of 4 per cent thought training essential (in the samples that didn't apply for grants) 27 per cent thought grants essential (in the received grants sample). Conversely, amongst those who applied for but didn't receive grants, 35 per cent thought grants 'not important' while 57 per cent rated training 'not important'. Amongst those who received grants, just

16 per cent thought grants 'not important' whereas 59 per cent had the same view of training.

7.49 This level of support for grant aid was strongly echoed amongst advisors, whilst other stakeholders felt that grants and training fulfilled different roles and it was wrong to imply a simple choice between the two. In their view, grants helped to establish businesses whilst training helped to instill business confidence and improve performance, thus building on the benefits of capital funding. Indeed, this group saw training as an element of any future scheme.

### **Discussion and conclusions**

7.50 Taken together, the findings provide strong evidence of the significance of grant aid in the process of farm diversification in the past, and point to grants as an important key to the continued development of farm diversification. In particular, the important role of grant aid in relieving at least some of the risk for farm businesses which are diversifying was noted. Almost by definition, of course, such farms are going through a transition from an agriculture-oriented to multiple-enterprise oriented business structure.

7.51 The wider findings of the study suggest that attitudes among farmers to diversification as a valid business have changed, confirming the findings of the benchmarking study (Turner et al:2003). Diversification *does* appear to deliver a number of positive externalities, not least by enabling farm businesses to cope with the transition to a decoupled economy. There is a dichotomy here between, on the one hand, support for a degree of targeting, particularly if resources are limited, and on the other hand the recognition that targeting by greatest need (e.g. lagging areas, depressed sectors, etc.) may not generate successful, sustainable businesses.

7.52 Capital grant aid may not significantly influence the type or scale of project undertaken, nor necessarily promote innovation, in terms of the type of diversification pursued. However it does, very clearly, mitigate business risk during the crucial start-up phase, allowing farmers to innovate solely through pursuing diversification in the first instance. Grant aid, and indeed advice and training, is available from a very wide range of sources and consequently sourcing information about the most

appropriate help can be time consuming, thus creating difficulties for businesses which have already shed labour.

7.53 Furthermore, capital grant support *does* appear to strengthen business viability, either directly through providing financial assistance or, in most cases, indirectly by requiring applicants to develop and submit a clearly articulated and robust business case. These businesses in turn extend their economic activity with different suppliers and consumers, both locally and further afield. Despite that, a surprising number of diversifiers simply do not pursue grant applications, with a significantly larger element seemingly simply unaware of the support available, compared to those, as the popular but perhaps exaggerated myth would have it, confused, challenged or defeated by the application process.

7.54 This issue of awareness, reflecting perhaps increased isolation amongst some farmers and a shift in the emphasis of advice within Defra '*away from spoon-feeding*', is particularly challenging given the changes now taking place as part of the Haskins Review (November 2003). Whilst Defra may not be viewed as wholly farmer friendly by some industry stakeholders, it is at least a Department immersed in the rural economy. Significant fears have been expressed that RDAs, albeit augmented by Defra RDS staff, will simply be unable, or unwilling, to commit sufficiently to the rural sector and that the position *vis-à-vis* farmer support will, in fact, worsen.

7.55 Consequently, it is to be hoped that the Rural Business Advice Channel and complementary developments will prove successful in raising awareness and understanding amongst farmers of the options and opportunities available to them. We recommend that there should be an early evaluation of the implementation of the Haskins Review to ensure that any worsening of this position can be arrested at a very early stage.

7.56 Advice, training and capital grants are all important, but essentially distinct, support services for the farming sector at this time of transition. Grant funding enables businesses to develop the necessary fixed assets that often cannot be developed from within a low return farm business. Training and advice enables

business managers to improve business performance and increase business confidence, both of which should generate a greater return from capital funding.

7.57 Other recent studies conducted for Defra have analysed the very considerable impetus for farm restructuring, which is prompting a range of different reactions and tactics amongst farm households (Lobley et al, 2002), including a commitment to diversification. At the same time a number of recent events had had a profound effect on agriculture and the allied industries, and interrupted normal business development. Prominent amongst these are:

- the effect of FMD epidemic, both in terms of its direct impact through the measures introduced to control it, and its subsequent indirect and differentiated impact on farmers' financial wellbeing;
- the very considerable uncertainty caused by the Mid Term Review, again both directly in terms of potential financial impacts, and indirectly in terms of added compliance costs. These are apparently causing some farmers to put their decision making on hold until the situation becomes clearer.

7.58 In Chapter 2 the current rationale for public support for the process of farm diversification is set out. The subsequent chapters, reporting the findings from the different elements of the study, have demonstrated the comparative effectiveness of that support, at least in the recent past, in encouraging and sustaining diversification. Taking the premise that support is still justified where markets will not provide sufficient funding to deliver public goods, it is possible to draw a definite policy conclusion from the study, that there is a need for a continuing grant regime overtly in support of diversification, most particularly to support in delivering high level policy objectives for the rural economy by enabling projects which:

- (1) encourage restructuring within the agricultural industry and enable businesses to cope with changes including the impacts of the Mid Term Review;
- (2) assist the more effective integration of existing agricultural businesses into the wider rural economy;
- (3) develop economic capacity in both upstream and downstream businesses in both the rural and urban economies;

- (4) enable the provision of public goods, including landscape and environmental benefits, public access and improving rural skills;
- (5) help to promote social capital through reducing isolation by encouraging farm households to become more involved in their local communities and wider society;
- (6) enable profitable businesses to contribute to the Exchequer through direct and indirect taxation.

### **Recommendations**

7.59 The research reported on here gives rise to a number of recommendations related to ensuring that the support regime and its replacement offer as effective a range of measures as possible, in order to better encourage and support appropriate, sustainable farm diversification. Respondents to the Farmers Survey were asked how farmers could be encouraged to diversify. Acknowledging that this runs the risk of being a predictable 'wish-list', it may also assist in identifying priorities for continuing support. Amongst both diversified and non-diversified farmers alike, there was a fairly predictable range of responses: more money, more widely available and simpler and easier to obtain. The findings are summarised in Tables 7.4 and 7.5.

7.60 For non-diversifiers, increasing the availability of advice is given rather greater importance than amongst the diversified sample both in terms of the total number of respondents citing this as an issue and those identifying it as the most important issue (Table 7.5).

**Table 7.4 How farmers might be encouraged to diversify - diversifiers**

	Diversified - no grants applied for	Diversified - grants applied for but not received	Diversified - grants received
	<b>Percent citing</b>		
Make the application process easier	15%	38%	29%
Broaden the availability of grant funding	16%	32%	16%
Increase the amount of grant funding available	14%	12%	15%
Publicise grant funding opportunities better	14%	18%	13%
Increase the availability of advice	15%	9%	11%
Improve the quality of advice	11%	13%	10%
Current provision is sufficient	4%	4%	14%
Improve the integration of funding, advice, training	6%	11%	11%
Publicise advice opportunities better	8%	2%	7%
Planning / other regulation	7%	3%	4%
Schemes / advice more localised / personalised	3%	1%	4%
Reduce public involvement, leave it to the market	7%	4%	2%
Lower the cost of advice	2%	4%	4%
Increase the availability of training	4%	0%	4%
Improve the quality of training	3%	0%	3%
Publicise training opportunities better	2%	1%	3%
Will have no choice	4%	0%	2%
Co-operation, mentoring, model examples	1%	2%	3%
Motivation has to come from the farmer	2%	1%	2%
Overcome mindset	1%	0%	2%
Other	13%	14%	10%
Don't know	23%	21%	17%

Source: Farmers' survey

**Table 7.5 How farmers might be encouraged to diversify – non-diversifiers**

	North East	South West	Other regions
Number of farms in group	60	127	62
	<b>Percentage of farms in region</b>		
Broaden the availability of grant funding	12%	18%	19%
Increase the availability of advice	17%	13%	13%
Increase the amount of grant funding available	7%	14%	18%
Make the application process easier	10%	6%	16%
Publicise grant funding opportunities better	8%	10%	10%
Improve the quality of advice	8%	6%	8%
Will have no choice	3%	7%	6%
Planning / other regulation	3%	4%	10%
Should not encourage more - saturation	3%	8%	2%
Current provision is sufficient	2%	3%	8%
Increase the availability of training	5%	4%	3%
Improve integration of funding, advice & training	3%	2%	6%
Publicise advice opportunities better	0%	5%	2%
Improve the quality of training	0%	2%	6%
Other	15%	24%	23%
Don't know	42%	24%	24%

Source: Farmers' survey



7.61 Whilst support for the top four or five responses was strong in both samples, they are not without difficulty. Setting aside the straightforward increase in amount of grant the emphasis seems to be in making grants more accessible. An approach also mentioned by Stakeholders and the Focus Group. Whilst there is a strong rationale for better publication, given the number of diversified farmers who simply were unaware of grant, improving accessibility by, for example, removing the current emphasis on submitting an effective application would be a retrograde step. The application process is important not only in instilling rigour and discipline into the applicants farm business planning, but also in encouraging banks and others to support proposals based on robust projections and planning.

7.62 Thus, drawing from the various constituent elements of this research and applying a degree of pragmatism given the current climate for agricultural support and agricultural businesses, the findings suggest that to be effective the continuing and replacement support regime should:

- (R1) Be flexible, which should include enabling applicants to bid for elements from a menu of support including capital grants, but also providing initial and ongoing advice, training and support, particularly in business planning. and marketing.
- (R2) Be accessible to the extent of being more effectively publicised, ensuring that it is simple for farmers to identify potential sources of support, whilst still including a rigorous and searching application process turning on the quality of the business plan.
- (R3) Be delivered consistently, with the emphasis on greater consistency both from advisers and in the appraisal of applications and possibly supported by an accreditation scheme for advisers, subject to an early appraisal of the cost effectiveness of any such scheme.
- (R4) Include ongoing support, both post application appraisal and mentoring to ensure the most effective use of public funds.

(R5) Be targeted, both by enabling appraisers to set local targets and by allowing initiatives to support dwindling areas (although not necessarily farm or land tenure types).

(R6) Be facilitated by experienced and effective scheme administrators.

7.63 Beyond the support regime itself, three other issues were felt to be important by contributors to the project which, unless properly addressed, would inhibit the development and effectiveness of any new support regime:

(R7) The planning system, where there was still felt to be a degree of unwillingness within Local Planning Authorities to embrace business development in the countryside - more than central government policy would suggest should be the case.

(R8) Taxation, where fear of adverse rating assessments and the impact of the loss of relief from capital taxation, most particularly Agricultural Property Relief<sup>78</sup> was felt to be a constraint to farm diversification.

(R9) The role of commercial funding, which it was felt might be a source of capital funding if there was greater security over income streams within diversified business, which, in turn, might arise from longer term support

7.64 Diversification clearly has a role to play in enabling farmers to restructure to meet the new challenges of decoupled support and increasing competition. It has benefits both behind and beyond the farm gate and, perhaps most importantly over time, integrating farmers into the wider economy. To date Government support has been an important element in facilitating this process. Whilst there may be a temptation to remove this apparent discrimination in favour of farmers, the research findings strongly suggest this will have an adverse impact on the place of

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<sup>7</sup> Agricultural Property Relief from Inheritance Tax will be lost if a building is taken out of agriculture into an alternative business use and this will not be relieved by Business Property Relief unless the owner of the property is occupying the premises. This affects both owner occupier farmers who let buildings to (typically) small companies for business use and Landlords whose tenant farmers wish to diversify'

<sup>8</sup> The Research Team are aware of TRIGs interest in this area and the difficulty of adducing specific evidence to support this contention

diversification in the restructuring spectrum. There is a future, valuable, role for support, both financial and knowledge based provided it retains the current elements of competition which make diversification grants accessible to those who demonstrate, through effective application, the potential to make use of public funds to deliver public goods.

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## **Appendices**

- 1 Study methodology**
- 2 Outline of farmers' telephone questionnaire**
- 3 Stakeholders' postal questionnaire**
- 4 Non-Defra support for farm diversification**
- 5 Farmers' telephone survey: detailed results**

## **Appendix 1      Study methodology**

### *Overall structure and rationale*

A1      The research has had to be completed to a very tight timetable, effectively three months, and for practical as well as conceptual reasons the primary empirical research was undertaken by means of a telephone survey of diversified and non-diversified farmers, chosen to ensure both timeliness of survey completion and to provide an opportunity for a more in-depth approach than could be provided by a postal survey. The study methodology has been informed by previous research into diversification and by the growing importance of diversified activities within the rural economy and the implications for agricultural restructuring. The project involved five principal research activities:

- Telephone survey of 1,000 diversified and non-diversified farmers, using a structured sample drawn from several sources in order to capture the range of individual farm business situations.
- Postal survey (target response 100) of a range of stakeholders including samples drawn from private sector farm business advisers and relevant public sector scheme administrators.
- Interviews with senior officers responsible for the administration of the key schemes which provide support for farm diversification.
- Consultation with a wide range of stakeholders through inviting written responses on the issue of the role and shape of public funding support for farm diversification.
- Consultation with a smaller range of stakeholders through a Focus Group, held towards the end of the project.

### *The telephone survey*

A2      This involved 1,000 farmers who were initially contacted by letter which explained the purpose of the research, why it was being done and warned them that they might be contacted by telephone. The survey research was carried out during late September through to the first week of November 2005, and involved a structured sample (Table A1) drawn from four distinct sources. The sample was designed to encompass a wide range of farm diversification situations and the overall response was extremely positive.



**Table A1 Sample and sub-samples: structure and survey success**

Sample source	Sample description	Sub samples	Number available	Target completion	Interviews completed
RES	Applicants to the Rural Enterprise Scheme	Application successful - status 'complete'	819	350	360
		Application refused - status 'rejected other'	568	150	149
Obj 1	Applicants to Objective 1 for measures corresponding to RES	Processed by GO	77	50	57
		Processed by SW Business Link	21		
		Processed by SW Tourism	38		
2002 Baseline	Respondents to the 2002 Baseline survey who were anticipating future diversification activity	Planning a new diversification	277	175	131
		Expanding an existing diversification	280	175	147
Agric. Census	Holdings reporting no diversification in 2003 census	SW region	249	50	89
		NE region	240	50	67
<b>Total</b>			<b>2569</b>	<b>1000</b>	<b>1000</b>

A3 There was an overall recruitment rate of 39 per cent (Table A2). Apart from the Agricultural Census sample all of the available contacts were tried. The Baseline sample required a higher percentage of successful recruitment so that the contact lists had to be gone through many times and this is reflected in the relatively low percentage for 'unable to contact'. By contrast, the target for the Agricultural Census sample required a more modest recruitment rate so that it was not necessary to repeatedly try telephone numbers where there had been no answer. A substantial proportion of the Objective 1 sample were self-nominated, hence the low percentage who were unwilling to be interviewed.

**Table A2 Unsuccessful recruitment by sub-sample**

		RES Approved	RES Rejected	Objective 1	Baseline	Agric. Census	All samples
		Successfully recruited as percentage of total available					
<b>Overall recruitment rate</b>		<b>44%</b>	<b>26%</b>	<b>42%</b>	<b>50%</b>	<b>32%</b>	<b>39%</b>
		Percentage of unsuccessful contacts					
<b>Ineligible</b>	Not a farm business	10%	16%	16%	4%	4%	9%
	No commercial crops or stock in last five years	2%	9%	16%	4%	1%	5%
	Retired / deceased	1%	0%	1%	3%	1%	2%
	No longer at address / business ceased	1%	0%	2%	0%	0%	1%
	Other	0%	1%	0%	1%	1%	1%
	<b>Total ineligible</b>	<b>16%</b>	<b>26%</b>	<b>36%</b>	<b>13%</b>	<b>7%</b>	<b>16%</b>
<b>Unable to interview</b>	Unable to arrange a convenient time	12%	12%	2%	9%	3%	8%
	Unable to make contact	47%	38%	55%	36%	64%	43%
	Wrong number	6%	3%	5%	7%	2%	5%
	Away	1%	1%	0%	0%	1%	1%
	<b>Total unable to interview</b>	<b>66%</b>	<b>54%</b>	<b>62%</b>	<b>52%</b>	<b>69%</b>	<b>57%</b>
<b>Unwilling to be interviewed</b>	Too busy	12%	5%	2%	9%	7%	8%
	Not interested	4%	9%	0%	19%	11%	9%
	Over surveyed	0%	2%	0%	2%	0%	1%
	Anti DEFRA	0%	2%	0%	1%	1%	1%
	Personal circumstances	1%	1%	0%	3%	5%	2%
	Other	1%	1%	0%	1%	0%	1%
	<b>Total unwilling to be interviewed</b>	<b>19%</b>	<b>20%</b>	<b>2%</b>	<b>36%</b>	<b>23%</b>	<b>21%</b>
		100%	100%	100%	100%	100%	100%

### *The postal survey*

A4 The target completion for this survey of stakeholders was 100 completed questionnaires, the final total being 104. The sample was drawn from RDS staff involved in scheme administration, agricultural bankers and accountants, and agricultural consultants (with samples drawn from the RICS Rural Faculty and the British Institute of Agricultural Consultants). The survey was conducted during October and November 2005.

### *Administrator interviews*

A5 A series of semi-structured interviews was carried out during late October-early November 2005, involving team member Nick Millard, the purpose of which was to explore in depth some of the emerging key issues related to the public funding of farm diversification. Although it was primarily the RES which was represented here, there was also high level coverage of Objective One, and the interviewees also had good experience of other schemes.

### *Stakeholder consultation*

A6 In order to extend the range and depth of stakeholder input to this research, written submissions were invited with the request being based on the research objectives laid down by Defra. Twenty seven responses were received.

### *Focus group*

A7 A meeting with a panel of experts took place in Reading in mid-November. Continuing a theme previously employed in a number of projects researching agricultural restructuring. The objectives were to discuss the initial study findings, to add qualitative comment to the quantitative evidence available from the empirical work already conducted, to consider the impacts of policy changes and to identify the possible implementation of such measures. The organisations represented by attendees were:

- Cornwall Agricultural Council
- The National Trust
- Royal Institution of Chartered Surveyors
- National Farmers Union
- Country Land & Business Association

- NatWest Bank
- Institute of Chartered Accountants of England & Wales
- Diversified Farmer from Oxfordshire

### *Tests of statistical significance*

A8 The main purpose of the data analysis is to investigate the extent to which grant-aid status predicts other aspects of diversification. As such the most frequently reported sub-groups are based on grant-aid status - a 'categorical' rather than 'continuous' variable. In the majority of cases these aspects of diversification observed, or outcomes, are also categorical. Where the predicting and outcome variables are both categorical the Pearson Chi-Square is used to test whether or not there is a significant association.

A9 The limitation of the Chi-Square test is that it can generally only compare two distributions. It would, in principle, be possible to repeat the test for each possible pairing where the number of categories in the predicting variable is greater than two. However even when there are only three categories this will have a severe impact on the probability of having no Type I errors. If, for example the probability of having no Type I errors in each individual test is 0.95 then the overall probability of a Type I error would be calculated as  $1 - (0.95)^3 = 14.3\%$ . A further limitation is that the Chi-Square test may not be appropriate where the assumption that none of the expected values is less than five cannot be met.

A10 In order to produce some information on statistical significance Chi-Square has been used to test association between predicting and outcome variables using only the two extremes of the predicting variable. Typically this means comparing the distribution for cases where no grant was applied for with the distribution for cases where all grants applied for were received. The probability that the null hypothesis (that there is no association between the two variables) is true is recorded at the foot of the relevant tables. The strength of this association is measured using Cramer's V which has a range of 0 to 1, weak to strong.

## Appendix 2      Outline of farmers' telephone questionnaire

### Guidance to interviewers

The interviewer should ask to speak to the owner, or other senior director or manager of the business, or the person responsible for marketing. Briefly introduce the purpose of the survey, and the research client.

- There are eight sections in this survey. ALL respondents will complete sections 1, 2 and 3.
- Those who are currently diversified will complete sections 4 and 7 but not 8.
- Those who are not currently diversified will have to complete section 8 but not 4 or 7.
- Sections 5 and 6 can relate to both diversified and non-diversified farms and will be completed (or not) based on the responses given in section 3

### Outline of questionnaire

*Section 1. The attitudes and opinions of those who are **not currently diversified**.*

*Section 2. Basic information about the farm, establishing suitability for survey.*

*Section 3. Basic information about the respondent's background.*

*Section 4. The gateway section, identifying:*

- any current diversified enterprises*
- any discontinued enterprises,*
- any enterprises which were started but did not go ahead.*

*Section 5. Detailed information on Grants, Training, Advice and Challenges for **current diversified enterprises** (to be completed for up to three enterprises).*

*Section 6. Detailed information on Grants, Training, Advice and Challenges for **discontinued diversified enterprises** (to be completed for up to three enterprises).*

*Section 7. Detailed information on Grants, Training, Advice and Challenges for **diversified enterprises which have not gone ahead** (to be completed for up to three enterprises).*

*Section 8. The experience, attitudes and opinions of those who are **currently diversified**.*

The telephone survey was conducted using a purpose-designed spreadsheet-based questionnaire with in-built prompts and structured linkages to facilitate the conduct of the interview.

## Appendix 3 Outline of stakeholders' postal questionnaire

### Survey of Farm Business Advisers and other professionals

The postal questionnaire was designed to explore the experience and insights of a wide range of stakeholders, including RDS staff and other scheme administrators, chartered surveyors, consultants and advisers, agricultural accountants and agricultural bankers. The principal areas covered were:

- Questions about their work, job title and experience of farm diversification.
- Questions about their assessment of the recent and expected future trends taking place in the formation of diversification enterprises.
- Questions about the constraints to farm diversification, based on their experience:
  - Policy constraints.
  - Availability of enterprise capital.
  - Impacts of inadequate capital.
- Questions about the factors involved in unsuccessful diversification.
- Questions about the role and importance of public funding in the process of diversification.
- A question on grant aid and innovation and risk taking.
- A question about the expected impact of the withdrawal of grant on the process of diversification.
- A question about their view on the future role of a continuation of public funding to assist diversification.
- Questions about the scope for better targeting.
- Questions about general challenges facing English agriculture.
- A question about the expected impact of the Mid Term Review.
- Questions about the discontinuation of diversified enterprises.
- A question about farmers' attitudes to policy change.
- A question about current government support for the farming sector.

#### *For RDS staff only*

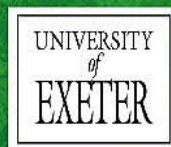
- Questions about possible improvements to the RDS scheme.
- A question about other issues related to diversification deserving support.

#### *All respondents*

- An opportunity for any other comments.

Virtually every question had space for recording individual comments and clarifications, and most respondents made good use of this opportunity.





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