

How to boost entrepreneurship in rural areas?



A Policy Brief from the Policy Learning Platform on SME competitiveness

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Summary

SMEs in Europe have long served as the main driver of the European economy and have been placed front and centre in most of the EU strategic and policy goals. Despite SME success in Europe, there remains a gap between urban and rural SMEs, leaving a potential avenue for growth underutilized. Rural SMEs have traditionally lagged behind their urban counterparts in terms of innovation and growth potential. However, with digitalisation driving the knowledge-based economy, the geographic location of SMEs is becoming less relevant, opening the door to new opportunities and markets. Considering these trends, rural SMEs show great potential as a source of economic growth and innovation in what has traditionally been a limited market.

With renewed interest in rural SMEs, regions are ideal spaces for policy experimentation and Interreg Europe provides an opportunity for interregional policy learning. There are many Interreg Europe projects that tackle the challenges of rural SMEs competitiveness and innovation. Projects such as GROW RUP, INNOGROW, RuralGrowth, Rural SMEs, SARURE, SKILLS+, SOCENT SPAs, P-IRIS and RATIO have gathered good practices from their consortium regions and worked to achieve policy changes to enhance rural entrepreneurial spirit and to develop a stronger business ecosystem.

Why this Policy Brief

The focus of this Interreg Europe policy brief is to put in the spotlight projects that have been funded to tackle the SME competitiveness challenges of rural or sparsely populated areas in Europe. The policy brief highlights good practices and relevant policy changes and developments from those regions.

The approaches already employed elsewhere in Europe may serve as inspiration for policy instrument improvement and implementation. Likewise, insights into SME competitiveness in rural areas can influence the content and focus of future strategies and actions. The policy brief is therefore relevant for all regions and policy makers facing challenges related to demographic and economic decline of rural areas. Based on the experiences of Interreg Europe projects some policy recommendations are also provided at the end of the document.

For readers interested in innovation in rural areas in a more general sense we also recommend reading the policy brief "[The challenges and necessity of rural innovation](#)" written by our Research and innovation experts



Introduction

With 24.5 million small and medium-sized enterprises (SMEs) in the EU, representing 99.8% of enterprises, 56.8% of the value added, and employing 66.4% of the EU labour force¹, SMEs are considered the backbone of the European economy. The prevalence and strength of SMEs has been shown to be a catalyst for economic growth. For example, after the financial crisis of 2009, economic recovery was benefited by a 20% increase in exports from 2012-2017, of which 88% were by SMEs².

Given their significance, the EU is committed to supporting the development of SMEs through several funds such as the [European Regional Development Fund](#) (ERDF), [Cohesion fund](#) (CF), [European Social Fund](#) (ESF), and the [European Agricultural Fund for Rural Development](#) (EAFRD).

However, there remains a disconnect between the number of SMEs and support for their development in urban areas compared to rural areas. For example, the share of [European structural and investment funds](#) (responsible for half of EU funding) that goes towards developing rural areas, including SMEs, is only 17% compared to the 82% that is used for supporting SME's in general³.

The disparity between urban SMEs and rural SMEs is to be expected to a certain extent. Given the proximity of urban SMEs to financial resources, youthful talent centred around universities, and a developed digital infrastructure, urban SMEs have a competitive advantage over their rural counterparts. The divide between urban and rural SMEs is further exasperated by challenges related to demographic changes such as an increasingly aging population and younger, skilled workers leaving the countryside for economic opportunities in urban centres⁴.

Rural areas also face an increasing digital divide compared to urban areas which is in part due to a lack of development of the digital infrastructure. On the supply side, many rural communities in Europe are lagging behind in terms of net generation access infrastructure like fiber internet connection or 5G wireless connection⁵. Additionally, rural areas face demand side limitations as there is a lack of basic skills and knowledge of the potential of digital technology in their daily lives⁶. Such shortfalls make the integration and adaptation of technological advances more difficult in rural areas.

Despite some disadvantages, SME development in rural areas could be an opportunity to create new jobs, stabilize rural populations, and spur innovation in industries that are representative of urban areas. In fact, it has been shown that SMEs in rural areas are comparable if not better than SMEs in urban areas in terms of age of business, exports, and economic growth. In a study comparing rural SMEs and urban SMEs in England, it was shown that rural SMEs achieved higher growth rates, longer life-spans, and higher exports than their urban counterparts⁷. Further, in the same study, it was shown that rural SMEs experienced

¹ European Commission Report, (2019). "EU Policy framework on SMEs: state of play and challenges". Retrieved from: <https://cor.europa.eu/en/engage/studies/Documents/EU-SMEs/EU-policy-SMEs.pdf>

² Ibid.

³ Ibid.

⁴ European Commission. (2018). "Demographic Change in Europe: Urban vs Rural". Retrieved from: <https://ec.europa.eu/futurium/en/housing/demographic-change-europe-urban-vs-rural>

⁵ European network for Rural Development. (2017). "Rural Digital Hubs. How to ensure that they successfully help rural businesses seize the opportunities of digitization?". Retrieved from: https://enrd.ec.europa.eu/sites/enrd/files/s4_rural-businesses-factsheet_digital-hubs.pdf

⁶ Ibid.

⁷ Phillipson, Jeremy & Tiwasing, Pattanapong & Gorton, Matthew & Maioli, Sara & Newbery, Robert & Turner, Roger. (2018). Shining a spotlight on small rural businesses: How does their performance compare with urban?. *Journal of Rural Studies*, Vol. 68, pp.230-239.



more challenges related to access to finance, higher taxes, regulations and red tape, and had more difficulties with recruiting skilled laborers⁸. These examples indicate that, given support, rural SMEs have the potential to be just as innovative and successful as urban SMEs.

Challenges specific to rural SMEs

This section explores more in detail the different challenges that rural SMEs face in starting, scaling and growing a company.

Digital Infrastructure

Digitalization is important for SMEs who rely on connection to high-speed broadband and wireless connection to access the internet. Through these high-speed internet connections, entrepreneurs can turn an innovative idea into a new company. Additionally, existing SMEs can improve their firm's efficiency with digital tools. For example, it has been estimated that an increase of 10% in broadband connections in a country could result in a 1% increase in GDP per capita per year and raise labour productivity by 1.5% over the next five years⁹.

This is where rural SMEs face one of their most crucial challenges. In mid-2017 in half of the EU Member States the coverage of high-speed broadband in rural areas was less than 50%, far less than the total coverage, and only 15% households in rural areas had access to ultra-fast broadband¹⁰.

Due to their location, rural SMEs generally have low population densities, making it cost prohibitive for communication companies to install the necessary infrastructure to connect SMEs to high-speed internet. Further, the demand for high-speed internet is often too low in rural communities to be profitable for companies who supply broadband. However, improving access to digital infrastructure has been shown to contribute to job growth for certain industries in rural areas. For example, in a study based in the United States, it was found that, within rural counties, broadband penetration contributed to job creation in financial services, wholesale trade, and health industries¹¹. Without access to quality digital infrastructure, rural SMEs are limited with their ability to innovate and apply new technology to modernize their operations.

Access to finance

SMEs in any context face special problems related to financing their company. Compared to large firms, SMEs are generally confronted with higher interest rates and credit rationing due to limited collateral¹². Further, regulatory burdens tend to be a major obstacle for SMEs as small or new companies tend to be poorly equipped to deal with issues arising from regulations¹³.

While it is commonly reported that access to finance for SMEs is difficult across the spectrum, rural SMEs are in an even more difficult situation compared to their urban counterparts. Investors are generally interested in SMEs with high growth potential, or larger firms which

⁸ Ibid.

⁹ EU Special Report. (2018). "Broadband in the EU Member States: despite progress, not all the Europe 2020 targets will be met". Retrieved from: https://www.eca.europa.eu/Lists/ECADocuments/SR18_12/SR_BROADBAND_EN.pdf

¹⁰ Ibid.

¹¹ Katz, Raul. (2012). "The Impact of Broadband on the Economy: Research to Date and Policy Issues". Retrieved from: https://www.itu.int/ITU-D/treg/broadband/ITU-BB-Reports_Impact-of-Broadband-on-the-Economy.pdf

¹² OECD. (SMALL BUSINESSES , JOB CREATION AND GROWTH : FACTS , OBSTACLES AND BEST PRACTICES. Retrieved from: <https://www.semanticscholar.org/paper/SMALL-BUSINESSES-%2C-JOB-CREATION-AND-GROWTH-%3A-FACTS/d712b9c55dc8f5a7ae599da3905b02993b4a96c8#citing-papers>

¹³ Ibid.



tend to be located in urban areas¹⁴. In rural areas, SMEs deemed as having “high-growth” potential or innovative are few and far between, making attracting new investors more difficult.

Additionally, access to information about funding options are more readily available in urban areas as oppose to rural areas. This is partially due to rural SMEs proximity to business experts like consultants, banks, and accountants compared to urban areas.¹⁵

Human Capital and Skills

Human capital and skills refer to the education and training of individuals who will be or are currently working for a firm. Knowledge based jobs require highly skilled and educated workers to catalyse innovation in their company and growth. Typically, this demographic is centred around Universities which are generally located near urban areas. Additionally, well-paying jobs are generally clustered in urban areas, attracting a majority of the most talented individuals.

This creates two distinct challenges for rural areas as it relates to human capital and skills. First, rural SMEs have fewer educational institutions to draw on to attract talented individuals to their company. This can limit a rural SMEs ability to attract and retain skilled workers, thus impacting their ability to grow and innovate. Second, one of the key external factors that influences the nature and extent of entrepreneurship is the behaviour and orientation of local institutions i.e. if local educational institutions encourage entrepreneurship, then SMEs near these locations will reflect that culture¹⁶. As rural SMEs are generally removed from such environment, the ability to draw on those institutions for new talent or resources to train their current staff will be limited.

Seasonal Challenges

Seasonal challenges provide a unique challenge to rural SMEs that is often not present for urban SMEs. Rural SMEs are generally less diverse in their economic activities. For example, farms, eco-tourism, ski resorts, boating, etc. are more common in rural areas and are also heavily impacted by the changing of the seasons. For example, a ski resort will generally be more active during the winter and when the seasons change, the opportunity to maintain a steady revenue will be limited.

Seasonal change for rural SMEs can lead to an inconsistent influx of seasonal workers for busy times of the year and an exodus of seasonal workers from the region when they are no longer needed. For example, German farmers often use workers from other countries, like Poland, to help with heavy harvest seasons¹⁷. When those workers leave, services that supported those workers also lose the commerce that they brought such as local shopping centres. Further, for SMEs relying on specific seasons for their customers, like ski-resorts or summer camps, the changing of the seasons will limit their earning potential, making it difficult for them to grow.

Access to new markets

Clearly, one of the disadvantages of rural SMEs is that their economic activities are centred in local markets, compared to urban SMEs which have a much larger economic sphere to operate

¹⁴ Smallbone, David. (2009) “Fostering Entrepreneurship in rural areas”. Retrieved from: <https://eprints.kingston.ac.uk/12043/>

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Schuler, Ulrike. (2005) “German Farmers Like Polish Workers Just Fine”. Retrieved from: <https://www.dw.com/en/german-farmers-like-polish-workers-just-fine/a-1543859>



in. One of the consequences of small local markets is that growth-oriented enterprises have to penetrate non-local markets at an earlier stage of their development¹⁸. This becomes much more difficult for rural SMEs as there is more separation between themselves and potential clients or customers.

Mentioned in the digital infrastructure section, access to highspeed broadband would help rural SMEs connect to larger markets and potential customers via the internet. However, if high-speed connections are not available, this further limits rural SMEs and their potential to expand their customer base.

¹⁸ Smallbone, David. (2009) "Fostering Entrepreneurship in rural areas". Retrieved from: <https://eprints.kingston.ac.uk/12043/>



EU support for SME development in rural areas

SMEs have received targeted support from the EU for over a decade. Most notably, the [small business act](#) (SBA), created in 2008, is the cornerstone policy document which establishes the framework for EU support for SMEs. Broadly, the SBA aims to improve the approach for entrepreneurship in Europe by simplifying the regulatory and policy environment for SMEs and remove barriers to their development¹⁹.

Also relevant to SBA is the overall EU strategy for economic and employment growth following the economic crisis of 2009. Formally known as [Europe 2020](#), this strategy formalizes key priorities for Europe for the period between 2010-2020. The EC has put forward seven flagship initiatives which aim to catalyse progress towards Europe 2020 goals²⁰. Initiatives such as “Innovation Union”, “A digital agenda for Europe”, “An industrial policy for the globalization era” and “An agenda for skills and jobs” have all been relevant in guiding economic policies in the past decade. The Europe 2020 strategy also references rural SMEs specifically when discussing the need to continue investments in research and development as well as innovation in education and resource efficient technologies that will benefit traditional sectors, rural areas and high skill service economies²¹. More specifically, Europe 2020 refers to rural areas in the context of promoting a digital society. To fully exploit the innovative potential of a digital society, the EC recognizes that connecting rural areas to high-speed internet could increase rural SMEs ability to innovate by taking advantage of the technological advances of a digital society. The goals of Europe 2020 have also been a reference point for Interreg Europe projects that seek to improve the rural entrepreneurship ecosystem.

EU Funding Mechanisms for SMEs

There are three primary funding mechanisms that align with SBA goals. These funding entities are the [European Regional Development Fund](#) (ERDF), [Competitiveness of Enterprises and SMEs](#) (COSME) and the [European Agricultural Fund for Rural Development](#) (EAFRD). It is important to note that the ERDF and COSME support SME development in general, with rural projects falling under these categories. The EAFRD supports rural development initiatives specifically, including SME development.

ERDF

The aim of ERDF is to strengthen the economic and social cohesion in the EU by correcting imbalances between its regions. To achieve this, the ERDF has identified four key priority of which one is “Support for SMEs”²².

Therefore, ERDF is one of the main sources of support for SMEs and entrepreneurship in general and the establishment of this fund is a critical component of EU support. While, support for SMEs can include a large spectrum of SMEs, the ERDF has funded several programs that have also specifically focused on SMEs in rural areas.

Competitiveness of SMEs is one of the thematic priorities of Interreg Europe which is also funded from the ERDF. Under this thematic priority there are projects related to rural SMEs.

¹⁹ European Commission. (2019). The small business act for Europe. Retrieved from: https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en

²⁰ European Commission. (2010). “Europe 2020 – A strategy for smart, sustainable, and inclusive growth”, Retrieved from: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>

²¹ Ibid.

²² The others are: Innovation and research, digital agenda and low-carbon economy



COSME

COSME, with the budget of 2.3 billion Euros, aims to support SMEs in the following areas:

- Facilitating access to finance
- Supporting internationalization and access to markets
- Creating an environment favourable to competitiveness
- Encourage entrepreneurial culture

As a part of their mission, COSME seeks to implement the SBA by achieving the above objectives. It can be said then that where SBA is the policy framework, COSME is the tool used to implement SBA goals. This is done through helping SMEs acquire loans for continued growth, connecting SMEs to larger markets, helping SMEs navigate bureaucratic hurdles, and providing support for young entrepreneurs to pursue their ideas²³.

EAFRD

Unlike the other two funding mechanisms, EAFRD specifically focuses on rural development, with a focus on fostering the competitiveness of agriculture, ensuring the suitable management of natural resources and climate action, and achieving a balanced, territorial development of rural economies which includes the creation and maintenance of employment²⁴.

Further, the EAFRD focuses on projects that are most commonly found in rural settings such as helping farmers utilize digital technology, investing in processing and marketing of agricultural products, support environmentally friendly management and investments for improving the performance of agricultural holdings²⁵.

Additionally, the EAFRD serves rural areas on a country by country basis, assessing key challenges faced in a rural area, then providing funding targeting those challenges. For example, Estonia received €993million of EAFRD funding for rural development. In this case, knowledge transfer and professional consultations are a high priority in order to help diversify the rural economy. It is estimated from these efforts, 225 new jobs will be created²⁶.

²³ COSME leaflet. (2014). Retrieved from: https://ec.europa.eu/growth/smes/cosme_en

²⁴ EAFRD website. European Commission. Retrieved from: https://ec.europa.eu/regional_policy/en/policy/what/glossary/e/european-agricultural-fund-for-rural-development

²⁵ European Commission. "Factsheet on 2014-2020 Rural Development Programme for Estonia". Retrieved from: https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/rdp-factsheet-estonia_en.pdf

²⁶ Ibid.



Interreg Europe projects on rural SMEs and rural entrepreneurship

This section focuses on interesting Interreg Europe project examples. The following infographic shows the most relevant projects related to rural SMEs and rural innovation.



Figure 1. *Interreg Europe projects focused on SME competitiveness and innovation in rural areas, authors own*

These projects focus on different challenges and opportunities linked to SME competitiveness in rural and sparsely populated areas. The projects strive to improve public policies by adopting and implementing territorial action plans.

Some projects take a broad perspective to finding solutions to a plethora of challenges such as lack of access to finance (including venture capital), communication and logistics difficulties, lack of access to knowledge and integration of R&D results, lack of cluster formation, minimal availability of innovation services and promotion of ICT and low level of internationalization. This is the case with the [Rural SMEs](#) project which focuses on **providing support for entrepreneurship and the creation of innovative SMEs in rural areas**. Likewise, the project [INNOGROW](#) focuses on refining regional policies that promote the **adoption of technology and business model innovations** by rural economy SMEs in order to improve their competitiveness. Enhancing competitiveness is also the focus of The [SKILLS+](#) project. The project promotes the **uptake and integration of modern ICT tools** in daily business routines. Although many rural areas are by now covered with the sufficient infrastructure, rural businesses still tend to fall behind in digitalization. ICT based systems serving marketing and distribution purposes are rarely developed.

There are also projects that seek to solve sector specific challenges. The [RuralGrowth](#) project focuses on **SMEs in the rural visitor economy**. In many rural areas there is a strong reliance on traditional activities and often the cooperation or cross-fertilisation between relevant sectors, stakeholders and local actors is lacking. The RuralGrowth project seeks to establish local and regional support schemes promoting entrepreneurship and innovative capacity development of SMEs operating in the visitor economy and to stimulate cooperation within the



sector. Another sector specific project is [SARURE](#). The project gathers best practices to **ensure the survival of rural shops** and to improve the policies focused on retail SMEs. Rural shops are central to rural communities as they supply the population with necessary goods, they provide employment in these demographically fragile rural areas and they also tend to be social hubs for local communities therefore contributing to the overall quality of life. Another interesting project is [GROW RUP](#). The project brings together **Europe's outermost regions** such as Canary Islands, Madeira, Martinique, Réunion and São Miguel. In a way these are rural areas of the extreme due to their highly isolated nature. Although they have their distinct characteristics regarding climate and tourism sector, they often face similar challenges like other rural areas when it comes to entrepreneurship development.

Social innovation which involves resolving societal challenges through mobilizing civil society can be an effective approach towards inclusive socioeconomic development and solving socioeconomic imbalances in rural areas. The [SOCENT SPAs](#) project seeks to improve regional competitiveness and inclusive growth through policies that focus on social enterprises. More precisely, the project focuses on social enterprises in sparsely populated areas.

The before mentioned projects are all Interreg Europe projects under the thematic objective of "SME Competitiveness", but there are also two highly related projects from the thematic area "Research and innovation." [P-IRIS](#) seeks to **improve rural areas' innovation systems** by professionalising networking activities and use of innovation tools. The project is set up to boost innovation in rural areas through triple and quadruple-helix cooperation practices. The [RATIO](#) project seeks to **reinforce innovation culture in regions by facilitating networks and clustering** between actors in rural areas so that beneficial exchange of experiences could occur. For more information on rural innovation see also the policy brief "[The challenges and necessity of rural innovation](#)" from 2019.

Good practices of supporting rural SMEs and entrepreneurship

Digitalization

Rural areas often lag behind their urban counterparts when it comes to relevant skills and knowledge on digital technology. Indeed, one of the obstacles for rural SME growth can be the lack of modern skills or basic infrastructure for digitalization. Given that digitalization is one of the main drivers of innovation and economic growth across sectors it is not surprising that many Interreg Europe projects focus on digitalization activities. Especially the [SKILLS+](#) project stands out as it seeks to enhance the competitiveness of rural areas' SMEs through the promotion of the uptake and integration of modern ICT tools in daily business routines. The large consortium of 12 partners from 11 different countries have mapped various good practices of supporting ICT uptake in order to improve their regional policy instruments.

For instance, to boost the e-skills of companies, the Latvian Ministry of Environmental Protection and Regional Development has been running awareness-raising campaigns "[e-Skills Week for Jobs](#)" that focus on informing entrepreneurs about opportunities in ICT. This is expected to boost cooperation between stakeholders and promote ICT skills and the use of ICT tools in SMEs.



Good practice: InnoChambers (Castilla y León, Spain)

Between 2012-2015 in the province of Valladolid (Spain) competitiveness of rural SMEs was supported by providing initial consulting in innovation management and advisory support during the implementation of a selected innovation activity. ICT uptake was promoted and as an outcome of the programme some companies developed their own web pages, introduced management applications, developed social media management plans or implemented e-commerce activities.

Under the InnoChambers framework The Chamber of Valladolid helped more than 250 SMEs located in rural areas. The Chamber of Spain has continued similar support activities since 2017 under the name ICTChambers.

Read more about the practice [here](#).

Increasing the skills of the local labour force

Providing entrepreneurship trainings to the local community is a measure that can be used to improve rural competitiveness. One of the challenges for rural areas is the outmigration of people to larger cities which tend to provide more labour and educational opportunities. The people who leave usually are better educated or connected with the relevant knowledge networks, leaving behind those who are less prepared to take the first steps in entrepreneurial activity. Therefore, some regions have sought to reduce local unemployment by providing trainings and coaching to encourage residents to set up their own companies or to increase their profile on the labour market.

In Latvia, the national programme [Trainings for SME for development of innovations and digital technologies](#) has been running since 2012 to provide trainings that improve ICT skills of SME workers and the self-employed. Although it is a national programme the content of the trainings could be transferrable to the local level of rural municipalities as well. The service has reached across 20 municipalities and has involved over 1500 SMEs in Latvia.

In Castilla y León (Spain) [trainings in forestry work for the promotion of biodiversity](#) have been set up for young people from disadvantaged rural environments while encouraging entrepreneurship to counteract depopulation in rural areas. In the region of Vale do Ave (Portugal) youth unemployment has been tackled with the good practice [ASA – Ave Social Angels](#) where awareness-raising and trainings for employability and entrepreneurship are provided for short-term unemployed and NEET youths. Another training good practice comes from Canary Islands where a business incubator [ECOINNOVA](#), with a relevant training programme, has been set up to support new initiatives (including new business models and social innovation) and strengthen entrepreneurial capacity in the local agri-food industry.



Visitor economy

Another approach taken by some rural areas is to invest in and to support the local visitor economy. This can entail a thought-out and coordinated tourism offer of the region or a thorough assistance of SMEs in the hospitality sector. The former has been precisely the focus of the [RuralGrowth](#) project where the challenge of weak cooperation is tackled by finding new ways of cross-fertilisation between relevant local actors. For example, in Castilla y León (Spain), the [Rueda Wine Route is](#) a tourism initiative implemented to support the local vineyards and wineries. Facing the challenge of limited public resources local actors and stakeholders used their own resources to cooperate in setting up the network and route of relevant businesses to the benefit of all parties involved.



Good practice: Collective brand “Bohinjsko/From Bohinj” (Western Slovenia)

Bohinj is a rural alpine destination in the Julian Alps and the Triglav National Park. The Bohinj collective brand “Bohinjsko/From Bohinj” is a local network of local providers of produce, culinary products and crafted products with the aim of ensuring coordinated cooperation and greater visibility of the Bohinj destination. It was set up to achieve greater efficiency and recognition of authentic experiences in the region.

This good practice also relies on certification to ensure the quality of products under the brand. By promoting and selling quality local goods of the Alpine region under one brand the competitiveness of the offer and the destination as a whole are supported while strengthening the local economy.

Read more about the practice [here](#).

The [SARURE](#) project on the other hand focuses on finding ways to ensure the survival of rural retail shops. Interestingly, this is sometime achieved by connecting other services with the shop location, one of which is functioning as an information centre for tourists. This is the case in Province of Teruel (Spain) where with the [Rural MultiServices in Aragón](#), rural retail activity is improved with complementary services such as providing tourism information. Thanks to the practice around 100 jobs have been created or retained in the rural areas and the quality of life has been sustained thanks to the additional services available at the centres. A similar good practice comes from Mellersta Norrland (Sweden) where local shops are incentivized to become [Service Points](#). The municipality provides grants for the service points and therefore helps to ensure the survival of local shops. The shops are important for providing basic goods and space for socialization within the community, but also benefit tourists as they become the go-to locations for information. For a local government, it can be a cost-effective way of making tourism information services available without the need of setting up a separate tourism information centre.



Social innovation

In certain territories, reality shows that the challenges for rural entrepreneurship require pragmatic and “step-by-step approaches”. The first goal is to sustain the quality of life and ensure the survival of local businesses that provide jobs to those who have remained. Past expectations of how the specific rural area should look like (based on the old “glory” days) might need to change and make room for new positive visions for the future of the region. This requires out of the box thinking, social innovation and involvement of the community. For the wellbeing of the citizens of an area the mindset from profit driven businesses might need to change towards business models that are more akin to social entrepreneurship. This could also entail rethinking the use of land and public buildings or promoting coproduction of goods and services.²⁷



Good practice: Cooperactivas (Castilla y León, Spain)

The Cooperactivas network is a soft support measure for social enterprises in a sparsely populated area. The network brings together various actors - public authorities, union of cooperatives, NGOs, SMEs and even private persons. It is a community building approach which relies on the voluntarism and initiative of various actors willing to share their knowledge, contacts, information on relevant events, services etc. Being a member of the network provides SMEs the benefits of receiving guidance, information about funding opportunities and easier access to relevant trainings and seminars.

Read more about the practice [here](#).

For example, in West Cork (Ireland) there was a real challenge in a small seaside village of less than 500 people when the last local convenience store shut down. Social innovation was needed to maintain the quality of life of the village residents. This led to the setup of the [Courtmacsherry Community Shop Co-Operative Society Ltd.](#)²⁸ The practice is innovative as it tapped into the potential of the community to solve the problem. By mapping the community’s willingness to contribute with a survey, it became evident that something like this could be set up. As an outcome, the community once again had a store for their essential goods. It even became a location to sell locally produced goods like breads and jams and therefore supports the local micro enterprises. Furthermore, the community shop has started offering more services to the local community and tourists – it is a place to exhibit local art, a book shop, a tourist information centre and a seasonal hotel.

²⁷ This paragraph was inspired by a presentation given by François Gallaga from DG Regional and Urban Policy in Brussels at an applicant seminar for Urban Innovative Actions on the 5th of November 2019. Although the presentation focused on declining urban areas some of the ideas are transferrable to rural areas.

²⁸ This good practice comes from the Interreg Europe project SILVER SMEs which focuses on silver economy and not rural entrepreneurship per se. However, it is nonetheless a relevant example in this context.



Policy impact of Interreg Europe projects

For Interreg Europe projects the ultimate aim is to learn from the good practices (such as the ones highlighted above) from various regions in order to **improve the design and implementation of policy instruments for regional development**. Although the projects mentioned in this brief are still ongoing, some have already succeeded in implementing policy changes at the local level. Some of the examples are presented below:



Thanks to the knowledge exchange within the RuralGrowth project, the Province of Drenthe (The Netherlands) has realized the need of a policy instrument which focuses less on investments and more on supporting the way entrepreneurs get new ideas. The Province of Drenthe has decided **to set up a regional fund** called Program Leisure and Tourism Economy. It includes a coaching programme where a team of experts visit companies and give advice on investments, marketing or sustainability. The idea to create such a service came from the experiences of project partner

Savonlinna Development Services Ltd. (Finalnd).

In the case of SKILLS+, the non-profit Pannon Novum West-Transdanubian Regional Innovation Non-profit Ltd. (Hungary) has managed to impact the Economic Development and Innovation Operational Programme for Hungary (EDIOP)²⁹ in the priority axis related to ICT developments. Applicant organizations in the EDIOP 6.1.6.-17 call “Workplace training support for micro, small and medium-sized enterprises’ employees” were **incentivized by getting more points** if they included ICT training in their planned workplace training.



Similarly, EDIOP has been impacted by the Rural SMEs project through the lessons learned by another regional innovation agency in Hungary. The Central Transdanubian Regional Innovation Agency Non-profit Ltd. achieved policy improvements by proposing **improvements to tender documentation** within EDIOP calls on flexible employment (5.3.2) and social enterprises (5.1.7). The Innovation Agency has described the importance of Rural SMEs project on the policy change as follows: “*These three main activities of the project [sharing and reviewing good practices, project workshops and study visits to other regions] supported us to collect, visit and adapt the valuable elements of the partners’ experiences into our policy change process.*”

Policy learning between different regions across Europe can also lead to the creation of new SME support frameworks. This was precisely the case in Municipality of Medina del Campo (Spain). By participating in the RuralGrowth project the municipality workers were able to learn about innovation hubs that were introduced in a presentation by the Advisory Partner from Newcastle University (United Kingdom). Inspired by this the municipality was able to receive 500.000 euros (ERDF) from the Regional Government of Castilla y León **to set up a regional centre for supporting rural SMEs** in Medina del Campo. Thanks to the project and regional support a further 800.000 euros were absorbed from the regional Ministry. Therefore, this Interreg



²⁹ https://ec.europa.eu/regional_policy/en/atlas/programmes/2014-2020/hungary/2014hu16m0op001



Europe project directly contributed to setting up a new centre for SME support that provides mentoring, training and other services.

What could regions do next?

This policy brief has highlighted that rural regions and SMEs in rural areas can face many different challenges when it comes to their competitiveness. In very general terms the regions have a need to find sustainable solutions in retaining and training their workforce, to sustain and create business opportunities while also ensuring that high-quality services are available to the local residents. It is up to policy makers to identify the most burning challenges in their regional context and then take the appropriate actions to address those challenges.

Here are some main takeaways from this policy brief:

- The solution with most potential in increasing the competitiveness of rural SMEs is **digitalization**. The world has become digital and physical locations have become less relevant on the digital market. Therefore, rural SMEs ability to innovate by taking advantage of the technological advances of a digital society are better than ever before. Naturally, this requires that the region is equipped with high-speed broadband and wireless internet connection. In order to promote ICT uptake and to utilize digital technology rural SMEs, entrepreneurs and youth might need incentives and support, whether in the format of trainings, mentoring or by providing co-working spaces with the relevant ICT hardware. Promoting ICT uptake and integration of modern ICT tools in daily business routines is the focus of the SKILLS+ project which was highlighted in this policy brief.
- Another important lesson is that sometimes it is necessary for policy makers to **facilitate cooperation among regional actors**. Especially local businesses might be used to seeing each other just as competitors but not as cooperation partners. The latter can be of key importance to raise the potential of the region by increasing the regional value offer. Cooperation and cross-fertilisation between relevant sectors, stakeholders and local actors make the regional ecosystem stronger and create a basis for innovation. This has been the focus of the RuralGrowth project highlighted above.
- For some rural areas the opportunities lie in the **tourism industry and the visitor economy**. This policy brief highlighted some good examples of how a thought-out and coordinated tourism offer of the region or a specific support measure for SMEs in the hospitality sector can go a long way in increasing the competitiveness of the region.
- And finally, it should be emphasized, that none of the challenges are easy and there is no silver bullet solution for supporting the rural entrepreneurial ecosystem. In some regions, workable solutions could instead require focusing on **community involvement, social innovation** and a completely new way of looking at the challenges and solutions.



Sources of further information

- European policies
 - [Cohesion fund](#) (CF)
 - [Competitiveness of Enterprises and SMEs](#) (COSME)
 - [Europe 2020](#)
 - [European Agricultural Fund for Rural Development](#) (EAFRD)
 - [European Regional Development Fund](#) (ERDF)
 - [European Social Fund](#) (ESF)
- Previous Policy Learning Platform policy briefs
 - [The challenges and necessity of rural innovation](#)
 - [Public-private startup accelerators in regional business support ecosystems](#)
 - [Digital transformation and SMEs: what regions can do](#)

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#SMECompetitiveness
#ruralSMEs #SMEsupport



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