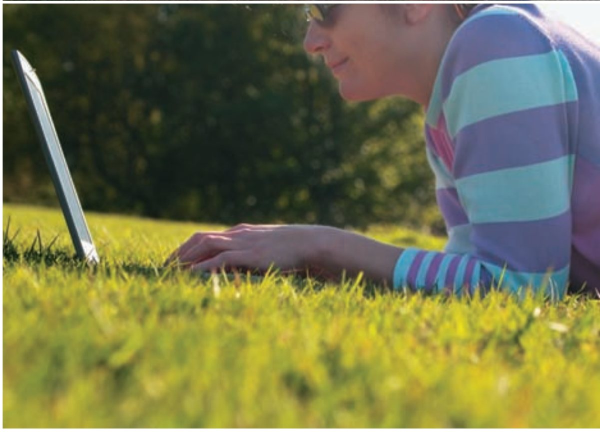
OECD Rural Policy Reviews

The New Rural Paradigm

POLICIES AND GOVERNANCE



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The New Rural Paradigm: Policies and Governance

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Foreword

With a dramatic reduction in farm employment, rural regions across the OECD now depend on a wide range of economic engines for growth. Increasing globalisation, improved communications and reduced transportation costs are additional drivers of economic change in rural areas. The theory and practice of regional policy have recognized that financial redistribution and agriculture-based policies are not able to harness the potential of these economic engines. This thematic report therefore seeks to explain the paradigm shift in rural development policies to account for these economic changes and the new approach to governance that these policies require.

Rural policy is beginning to take into account the diversity of rural region types. On the aggregate, rural regions face problems of decline with out-migration, ageing, a lower skill base and lower average labour productivity that then reduce the critical mass needed for effective public services, infrastructure and business development, thereby creating a vicious circle. However, there are many rural regions that have seized opportunities and built on their existing assets, such as location, natural and cultural amenities, and social capital. The success of such dynamic rural regions is evident in regional statistics.

Promoting integrated rural development poses numerous policy and governance challenges. It requires a less "defensive" approach to rural policy and stronger co-ordination across sectors, across levels of government, and between public and private actors. It also requires a new focus on places *rather than* sectors *and an emphasis on* investments *rather than* subsidies.

The multi-disciplinary nature of rural development calls for comprehensive analytic frameworks to analyse and evaluate multi-sectoral, place-based approaches. The OECD works with other stakeholders worldwide to fill this knowledge gap. The OECD's work on rural development through the Group of the Council on Rural Development, created in 1990, was intensified with the creation in 1999 of the Territorial Development Policy Committee (TDPC) and its Working Party on Territorial Policy in Rural Areas. These bodies provide governments with a forum for discussing regional and rural development. In early 2006, under TDPC's guidance the Directorate of Public Governance and Territorial Development (GOV) launched a series of national rural policy reviews to deepen international knowledge in this field.

Acknowledgements

The process that led to this report has included horizontal research, a number of case studies across OECD countries and several international conferences. This process was Directed by Mario Pezzini (Head) and co-ordinated by Nicola Crosta (Administrator) of the OECD Division of Regional Competitiveness and Governance.

The report was drafted by Nicola Crosta, Andrew Davies and Karen Maguire of the OECD Secretariat. Additional inputs came from Philip Wade (OECD), George McDowell (Professor Emeritus, Virginia Polytechnic Institute and State University) and John Bryden (Director, UHI Policy Web).

This report draws largely on the findings of the OECD conferences held in Warrenton, Virginia (US) and Oaxaca (Mexico) and on the following case studies carried out during 2004 and 2005:

- *Place-Based Policies for Rural Development: the Case of the Micro-regions Strategy for Rural Development (Mexico).*
- *Place-Based Policies for Rural Development: Extremadura, Spain (Case Study).*
- *Place-Based Policies for Rural Development: Basque Country, Spain (Case Study).*
- *Place-Based Policies for Rural Development: Tuscany, Italy (Case Study).*
- *Place-Based Policies for Rural Development: Lake Balaton region, Hungary (Case Study).*
- *Place-Based Policies for Rural Development: Region of Crete, Greece (Case Study).*

Useful inputs also came from the following reports provided by member countries:

- *ACTIVE REGIONS – Shaping Rural Futures, BMVEL (Germany).*
- *Local Strategic Partnerships in England, The Countryside Agency (UK).*
- *The Community Futures Program, Government of Canada (Western Economic Diversification Canada, Canada Economic Development, Atlantic Canada Opportunities Agency, Federal Economic Development Initiative for Northern Ontario).*

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Executive Summary

Predominantly rural regions account for about 75% of the land and almost a quarter of the population in OECD countries. Rapid changes in the international economy confront rural regions with some obvious threats but also with significant opportunities that rural policy must address. These changes include globalisation, improved communications and reduced transportation costs, changing trade patterns for commodities, and the emergence of important non-farm activities in rural regions. The issue is how to adapt current strategies – often sectoral and applied uniformly across a country – to take into account the different development trajectories of rural regions, many of which are based on exploiting local, place-specific resources. The experience and the insights coming from numerous initiatives that are being implemented across OECD countries offer possible solutions to these policy challenges.

How are rural regions coping with economic change?

OECD rural regions are lagging behind in aggregate terms…

On the most common indicator of economic performance, GDP per capita, predominantly rural regions were only at 83% of the national average across OECD countries in 2000. Furthermore, in more than half of OECD countries (13 out of 23 with data), GDP per capita in rural regions declined as a per cent of the national average between 1995 and 2000. This weaker economic performance is driven by a number of factors which often lead to a vicious circle driving rural decline. They include: 1) out-migration and aging, 2) lower educational attainment, 3) lower average labour productivity, and 4) overall low levels of public service.

… but "rural" is not synonymous with decline

The data on the average performance of rural areas across the OECD conceal great disparities among rural regions. For example, in more than one out of three OECD countries, the region with the highest rate of employment creation was a rural region.

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The assets of rural regions and improved transport links and infrastructure can serve to retain or attract people and businesses. The infrastructure helps reduce factor costs for businesses. In fact, the level of industrial employment in predominantly rural regions increased by 0.5% per year during the 1990s, while there was annual decline in urban and intermediate regions. Easier commuting across longer distances has expanded the sphere of influence of major urban areas enabling people to live in rural regions while working in cities. Rural assets such as quality of life and environment, natural heritage and other amenities are also more in demand and constitute real attributes that attract investment and workers. These factors have contributed to a reversal of the out-migration trend, as has been observed in France, England and the Netherlands for example.

What is the weight of agriculture and agriculture subsidies in rural economies?

While agriculture has an important role in shaping rural landscapes in many OECD countries, its weight in rural economies is often low and declining. Productivity increases in agriculture have driven the dramatic decline in agricultural employment across OECD countries in both absolute and relative terms. Currently, less than 10% of the rural workforce is employed in agriculture. Even accounting for the considerable increase in productivity, agriculture's share of gross value added remains low. In the EU-25, while 96% of rural land use is agricultural (including forestry), only approximately 13% of employment is in agriculture, producing only 6% of gross value added in rural regions. In OECD countries, the GVA of agriculture as a percentage of the total GDP has been steadily declining and reached 2% in 2001.

Despite its declining gross value added, agriculture continues to have an important influence on the rural economy, in some ways complementary to other activities and in others more competitive. For example, agriculture, and particularly productive agriculture, can be a major purchaser of local inputs, not only farm related but also business services. It can also provide outputs for local processing or manufacturing (agro-food businesses, for example) and contribute to provide some public or semi-public goods. And, of course, farms and farm households are local consumers. Perhaps more importantly, the increasing recourse of farm families to off-farm income (in most cases direct income from farming is less than half of household income) means that farm households are also interested in diversification of the rural economy into new sectors.

Against this background, there is concern about the effectiveness of agricultural policy and in particular agricultural subsidies as the predominant component of public policy for rural regions. Despite bringing large resources into rural regions, agricultural subsidies are not intended to trigger rural development directly and, in most cases, they do not do so. The main reason for this is that this type of policy is focused on a small segment of the rural population (farmers and others involved in agricultural enterprises) rather than on places. Evidence from the US and EU suggests that current subsidies-based policies are not effective in addressing some of the most pressing socio-economic challenges facing rural communities and have uneven impacts across the rural territory.

What are the new factors influencing rural policy making?

Developments in the international and domestic policy contexts are changing the rules for rural regions, necessitating new approaches. Three factors in particular are influencing rural policy making across OECD countries.

1) *Increased focus on amenities*. An important influence on the way rural development policy is conceived across OECD countries comes from the value that society (both rural and urban) is giving to natural and cultural amenities. Because over 75% of land in OECD countries is in rural areas, policies for rural places play an important role in land management and must integrate a range of environmental and economic development issues. Rural stewardship of a nation's natural resources is of concern to all given the potential for widespread harm that can occur through the failure to appropriately deal with natural systems related to land, water, air and other associated natural resources. Many rural places are also custodians of some of the most important antiquities, historical sites and other recreational amenities (such as ski and water resorts) important for rural economic development. Moving beyond a narrow focus on the multifunctionality of agriculture, policy makers increasingly emphasise the need to identify and valorise the wide range of resources of rural areas and to account for positive and negative externalities associated with different activities in rural areas. The stewardship of the multiple features of rural places has thus become a key pillar of place-based policies for rural development.

2) *Pressures to reform agriculture policy*. Besides considerations linked to the limits of agricultural policy and its potential negative spatial effects, pressure to reform the current agriculture-based approach to rural development come in at least two different forms. The first has to do with the obstacles that certain agricultural policies pose to international trade. The World Trade

Organization strongly questions the distorting nature of payments associated with farm policy. Recent world trade negotiations have shown that little progress can be made without reforms of farm subsidies in developed countries. This international pressure is coupled with internal budgetary pressures. In many OECD countries farm subsidies are increasingly questioned because of their impact on public finances thus nourishing debates on alternative uses of public resources targeting rural areas. In the case of the European Union, budgetary pressures are also strong due to the process of enlargement. This process raises the issue of how to sustain financially a system whose cost increases with the entrance of new member countries some of which contain a large farming sector and aspire to equal treatment as compared to "old" members.

3) *Decentralisation and trends in regional policy*. The theory and practice of regional policy have recognised that to address the characteristics of different regions and help them develop, financial redistribution is not enough. This has led in many countries to policies and programmes that have an explicit goal to develop rural places and make them more competitive by mobilising local assets. Since the 1980s, regional redistribution policy is becoming less prominent on the political agenda, while policies aimed at identifying and targeting local economic opportunities are growing in importance. Regional policy has thus begun a paradigm shift from a top-down, subsidy-based strategy to reduce regional disparities into a much broader family of policies designed to improve regional competitiveness. These new approaches are characterised by several factors. First, there is a strategic development strategy that covers a wide range of direct and indirect factors that affect the performance of local firms. Second, there is a greater focus on endogenous (local) assets and knowledge and less of a focus on exogenous investments and transfers. Finally, there is a collective/negotiated governance approach to

Table 0.1. **The new rural paradigm**

	Old approach	New approach
Objectives	Equalisation, farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Agriculture	Various sectors of rural economies (ex. rural tourism, manufacturing, ICT industry, etc.)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, NGOs)

such matters, involving national, regional and local government plus other stakeholders, with the central government taking a less dominant role.

How is the approach to rural policy evolving?

As a result of the above mantioned factors, several member countries are increasingly seeking to develop a multi-sectoral, place-based approach that aims to identify and exploit the varied development potential of rural areas. Two principles characterise the "new rural paradigm": 1) a focus on *places* instead of sectors and 2) a focus on *investments* instead of subsidies.

A new, integrated approach to rural policy can be seen in an increasing number of initiatives in member countries.

- Canada's "rural lens" aims to ensures that rural priorities are taken into consideration in the development of government policy and that there is policy coherence over rural objectives across ministries. The Community Futures Program promotes bottom-up economic development in rural areas.
- Finland's multi-year Rural Policy Programme, the first plan began in 1990, also seeks to draw attention to the specific needs of rural areas. "Broad" policies proactively integrate these needs into central government decision making in different sectors. "Narrow" policies specifically target rural areas.
- Germany developed the "REGIONEN AKTIV" programme to address inadequacies in existing agricultural and other sectoral policy approaches. Here a number of small model areas ("Regionen") were selected and local partnerships established to improve the focus of public policy for the region.
- In the United Kingdom, DEFRA (Department for Environment, Food, and Rural Affairs) was created in June 2001 to both broaden the focus of rural policy and to eliminate policy "silos" by gathering under one department several rural functions. The Rural Strategy, published in 2004, reinforced the changes to a more broadly based and locally focused rural policy. Several recent initiatives, including Rural Pathfinders and Local Strategic Partnerships (LSPs), are piloting some of these changes.
- The Mexican Micro-regions strategy adopts a holistic approach to rural development by co-ordinating policy initiatives directed to 263 rural micro-regions characterised by a high level of marginalisation. Every micro-region contains a Strategic Community Centre around which actions are focused based on priorities established through a highly participatory process including all sectors of the local communities.
- The Netherlands "Agenda for a Vital Countryside" published in 2004, introduced important changes in the Dutch approach to rural development.

While this Agenda details the national policy targets and budgets for the countryside, the regional and local authorities translate these policies into action and integrate them into local and regional development plans.

- Finally, the LEADER Community Initiative is one of the better known European rural development programmes and was conceived as an integrated and endogenous approach to rural development. The programme has been widely recognised as a success due to its innovative character and because of the results obtained in many rural areas despite the relatively limited budget.

Who implements policy for rural regions?

The "new rural paradigm" requires important changes in how policies are conceived and implemented to include a cross-cutting and multi-level governance approach. Designing rural development policy for different communities or territories requires the pooling of knowledge held by a wide variety of public and private actors. Traditional hierarchical administrative structures are likely to be inadequate to administer these policies effectively and adjustments are thus needed along **three key governance dimensions**: horizontally at both the central and the local levels and vertically across levels of government.

Central governments often struggle with overcoming their own sectoral approach in favour of an integrated policy approach to rural development. Co-ordination is needed to encourage the various institutional and managerial systems which formulate and implement rural policy to work together. Consistency is also required to ensure that individual policies are not contradictory, and that they converge in a coherent strategy. This process requires political commitment to overcome sectoral tendencies and an overall clarification of roles and responsibilities of different ministries or agencies in the field of rural development. Various horizontal co-ordination governance options include special high-level units, integrated ministries, "policy proofing" and inter-ministerial co-ordination via working groups and formal contracts.

Co-ordination is also needed at the local level to integrate sectoral approaches, to involve private partners and to achieve the appropriate geographic scale. Regional or local level administrative boundaries do not always correspond to development needs. Therefore, such entities co-ordinate with each other using a range of legal and economic forms, often with a distinction for the special needs of rural regions. Legally, co-operation types span from "areas of co-operation", associations of municipalities, or even inter-municipal co-operative authorities. In terms of economic forms, some groupings are functional whereby municipalities provide a specific public service jointly or from which another jurisdiction purchase services. They may also be more strategic and wide in scope to cover a range of economic development issues, in which case they are more likely to involve the private sector, often in public-private partnerships. The challenge is to organise this local initiative without stifling it.

A third main axis for co-ordination is vertical, *i.e.*, between the central government and sub-national actors. Developing a true partnership with sub-national governments implies participation in decision making and also in the implementation of the rural development policies that the regional or local government helps to design. These arrangements require a high level of commitment, effective knowledge sharing and competence on the part of local representatives. One of the key problems is how to ensure that the proper incentives are provided to make rural communities act in a way that is both dynamic and rewards initiative and experimentation, but that also promotes consistency in public policy across sectors and regions.

Integrated rural policies: do they work?

While there is growing interest of policy makers for place-based rural development policies, there is a paucity of research documenting their results and the determinants of successes and failures. This is due on the one hand to the objective difficulties to evaluate, especially in quantitative terms, cross-sectoral policies. A key challenge for policy makers is to identify indicators that fairly capture the impacts of policies when cause and effect are not always identifiable and where results may appear only in the medium to long term, especially since many integrated rural development programmes are in their early stages. The research and intelligence gap around rural policy is also due to the difficulty of bringing together the variety of analytical approaches that need to be involved when considering integrated rural development policy.

One common factor in these new policy strategies is that, even if they do not all yet involve significant funding, they contribute to important culture changes with respect to rural policy. First, the place-based approach at the local level has helped foster public-private partnerships and integrate new stakeholders and resources into the development process. Second, these initiatives are developing a culture of cross-sectoral co-operation within central and local governments and thus more coherent policy initiatives. Third, there is recognition that a place-based approach requires more bottom-up as opposed to top-down initiatives. This produces new ways of co-ordinating vertically across levels of government and a better use of local knowledge.

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A new research agenda in rural development should aim for two key objectives. *First*, the development of a comprehensive analytical framework for rural development policy that should include appropriate qualitative and quantitative sets of indicators to allow the evaluation and comparison of different policies across countries and across regions within countries. *Second*, a systematic review of country strategies for rural development should be carried out and its results made available to policy makers across the OECD. Through its Working Parties on Regional Indicators and on Policies for Rural Development the OECD is actively focused on these two analytical challenges.

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Chapter 1

The State of Rural Regions

Key points

- On the most common indicator of economic performance, GDP per capita, rural regions were only at 83% of the national average across OECD countries in 2000. Furthermore, in more than half of OECD countries (13 out of 23 with data), GDP per capita in rural regions declined as a per cent of the national average between 1995 and 2000.
- "Rural" is not synonymous with decline. According to the most recent data available, in more than one out of three OECD countries, the region with the highest rate of employment creation was a rural region. The level of industrial employment in predominantly rural regions increased by 0.5% per year during the 1990s, while there was annual decline in urban and intermediate regions.
- Easier commuting across longer distances has expanded the sphere of influence of major urban areas enabling people to live in rural regions while working in cities but also to attract to rural areas permanent investments and workers. These factors have contributed to a reversal of the rural out-migration trend, as has been observed in France, England and the Netherlands for example.
- Agriculture is no longer the backbone of rural economies. While agriculture has an important role in shaping rural landscapes in many OECD countries, its weight in rural economies is often low and declining. Currently, less than 10% of the rural workforce is employed in agriculture. Even accounting for the considerable increase in productivity, agriculture's share of gross value added remains low. In the EU-25, while 96% of rural land use is agricultural (including forestry), only approximately 13% of employment is in agriculture, producing 6% of gross value added in rural regions. In OECD countries, the GVA of agriculture as a percentage of the total has been steadily declining and reached 2% in 2001.
- Despite bringing large resources into rural regions, agricultural subsidies are not intended to trigger rural development directly and, in most cases, they do not do so. The main reason for this is that this type of policy is focused on a small segment of the rural population (farmers and others involved in agricultural enterprises) rather than on places. Evidence from the US and EU suggests that current policies are not effective in addressing some of the most pressing socio-economic challenges facing rural communities and have uneven impacts across the rural territory.

Introduction

The issue of rural development is high on the agenda of OECD governments. Policy makers increasingly realise that a policy for rural development is needed for at least **three reasons**: *First*, rural areas face significant challenges that undermine territorial cohesion within countries. *Second,* rural areas often possess largely unused economic potential that could be better exploited and thus contribute to the well-being of rural citizens and to overall national development. *Third*, neither sectoral policy nor market forces are able to fully account for the heterogeneity of challenges and potentials of rural regions and to cope with positive and negative externalities (spillovers).

Rural regions face significant challenges in comparison to other regions in OECD countries. The problems stem, in general, from a declining and ageing population and from distance to markets and services. These characteristics have an impact on enterprise dynamism and job creation, on the accessibility and quality of educational and other public service resources, on the quality and density of infrastructure, and so on. The difficulty of reproducing the same levels of service and access found in urban regions, from the perspective of both individuals and businesses, has been a key factor in explaining movements of population and economic activity out of rural regions over the past few decades.

Problems are particularly evident in terms of employment opportunities in sectors that were once crucial components of rural economies, namely agriculture and the public sector. The exceptional increase of agricultural productivity over the last few decades now means that the modern supply chain for commodity production includes relatively few farm producers and that there is increasing concentration of production in relatively few rural places.[1] Decline in agricultural employment has been compounded recently by falling public sector employment, which had been in many cases the main source of job growth in rural regions.

However, despite these important challenges, rural regions are not necessarily synonymous with decline. Policy makers are now confronting a very heterogeneous rural landscape, with evidence of growth in diverse rural regions. Why do certain rural regions perform better than others? Transport infrastructure or proximity to a major urban centre often stand out as the key advantages of some rural regions over others. Yet, accessibility is clearly not the key in all high-growth rural regions, nor does it appear as a sufficient condition for rural development *per se* (and sometimes it is more the source of population and other *leakages* than of increasing economic *linkages*). The challenge is to transform policy frameworks for rural regions, which have hitherto emphasised sectoral approaches, into policies and programmes adapted to these different economic development trajectories.

This chapter begins by restating some of the main shared challenges that affect rural regions and then highlighting some evidence of heterogeneity, showing the differential growth patterns that are driving the reconsideration of rural policy in OECD countries. The chapter then addresses the specific place of agriculture in the rural economy, arguing that while the sector still has an important place in shaping the rural landscape, it plays a relatively minor role in economic terms. It also discusses the role of agricultural policy, and in particular of support to commodity production, in developing rural regions. The question is: to what extent can a policy that focuses on farmers, rather than on places, fully respond to the development needs of different territories and their very diverse development trajectories? The assumption that the impact must be relatively limited argues then for an emphasis on place-based strategies based more directly on the potential of the region, its knowledge and capacities.

1.1. An increasingly diverse rural landscape: challenges and unused resources

OECD rural areas are lagging behind in aggregate terms…

According to the OECD's definition of rural, which is based on settlement structure within regions (see Box 1.1), more than 75% of the OECD land area is predominantly rural, and despite significant out-migration over the past few decades, about one-quarter of the residents of OECD countries live in predominantly rural regions (2000 data). There are strong variations around this average, indicating that certain countries retain a more rural character than others and there appears to be little relationship between national income and the rural population. The OECD definition of rural, as with definitions used by individual countries, is based on the assessment that rural regions have low population densities *and* are located in a region that does not contain a major urban centre. In combination, low population density and relative remoteness give rise to a range of problems that have an impact on economic activity and individual well-being. This, in general terms, generates some level of disparity between the situation of rural regions and that of other regions.

Rural regions must confront a number of challenges that contribute to weaker economic performance. They include: 1) out-migration and ageing; 2) lower educational attainment; 3) lower average labour productivity; and 4) overall low levels of public services. The most common indicator of regional economic performance is GDP per capita (see Figure 1.1, Figure 1.2, and 1.3). Overall, rural per capita GDP was only 83% of the national averages across all OECD countries in 2000. Furthermore, in more than half of OECD countries (13 out of 23 with data), GDP per capita in rural regions declined as a per cent of the

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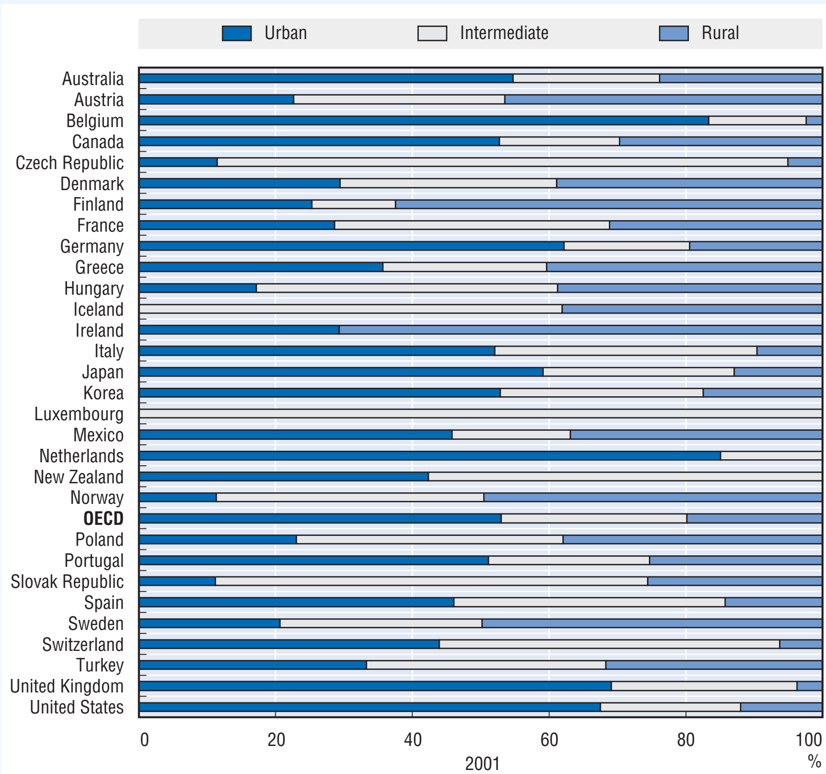
Box 1.1. **OECD regional typology**

The OECD has classified regions within each member country. The classifications are based on two territorial levels (TLs). The higher level (Territorial Level 2) consists of about 300 macro-regions while the lower level (Territorial Level 3) is composed of more than 2 300 micro-regions. This classification – which for European countries is largely consistent with the Eurostat classification – facilitates greater comparability of regions at the same territorial level. Indeed, the two levels, which are officially established and relatively stable in all member countries, are used by many as a framework for implementing regional policies.

Population distribution by region type in OECD countries



A second important issue for the analysis of regional economies concerns the different "geography" of each region. To take account of these differences and establish meaningful comparisons between regions belonging to the same type and level, the OECD has established a regional typology according to which

Box 1.1. **OECD regional typology** *(cont.)*

regions have been classified as predominantly urban, predominantly rural and intermediate using three criteria:

1. **Population density.** A community is defined as rural if its population density is below 150 inhabitants per km^2 (500 inhabitants for Japan to account for the fact that its national population density exceeds 300 inhabitants per km^2).
2. **Regions by % population in rural communities.** A region is classified as predominantly rural if more than 50% of its population lives in rural communities, predominantly urban if less than 15% of the population lives in rural communities, and intermediate if the share of the population living in rural communities is between 15% and 50%.
3. **Urban centres.** A region that would be classified as rural on the basis of the general rule is classified as intermediate if it has an urban centre of more than 200 000 inhabitants (500 000 for Japan) representing no less than 25% of the regional population. A region that would be classified as intermediate on the basis of the general rule is classified as predominantly urban if it has an urban centre of more than 500 000 inhabitants (1 000 000 for Japan) representing no less than 25% of the regional population.

This regional typology results in the above figure on population distribution by region type in OECD countries.

Source: OECD (2005g), *Regions at a Glance*.

national average between 1995 and 2000 (though disparities between rural and other regions did improve in some individual countries over the same period).[2]

Out-migration and ageing. Rural regions are increasingly dependent on in-migration to maintain population levels and labour force. For a long time, rural regions had positive natural balances and were net exporters of population to urban regions. This situation has changed with a large proportion of rural regions having negative natural balances and continuing to lose population, particularly younger residents. The fact that rural regions have been affected by out-migration and tend to have older populations is well documented. Although generally true, the extent of ageing in rural regions varies greatly across and within countries (see Figure 1.4). Japan, Korea, France, Portugal and Spain have rural populations that are significantly older than the national average. In most other OECD countries, however, the differences are not so marked. In a few countries, the difference is not clear at

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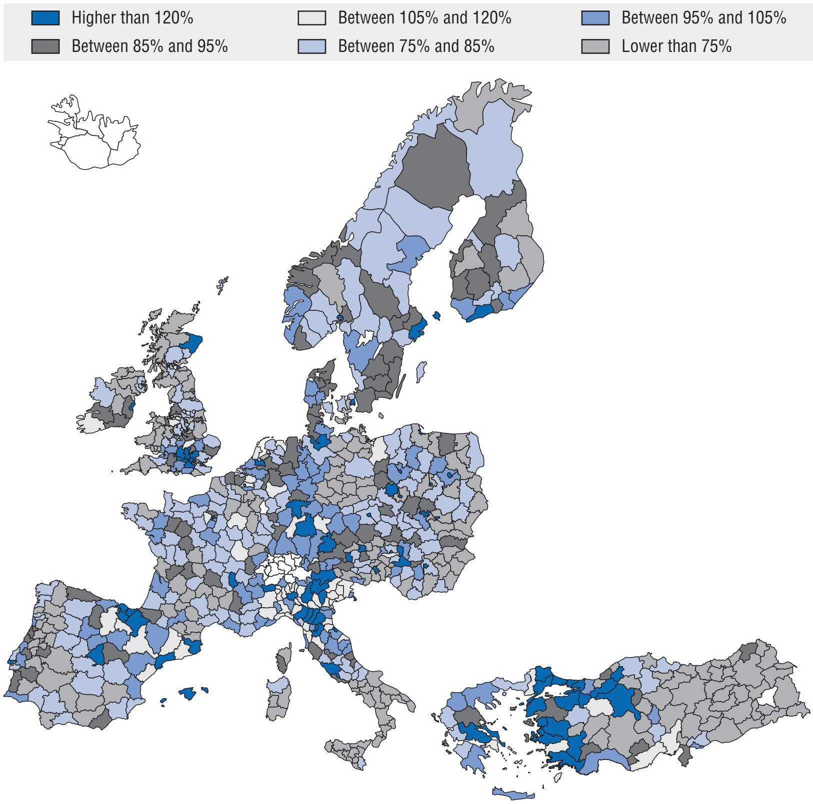
Figure 1.1. **GDP per capita by region 2001: Europe**

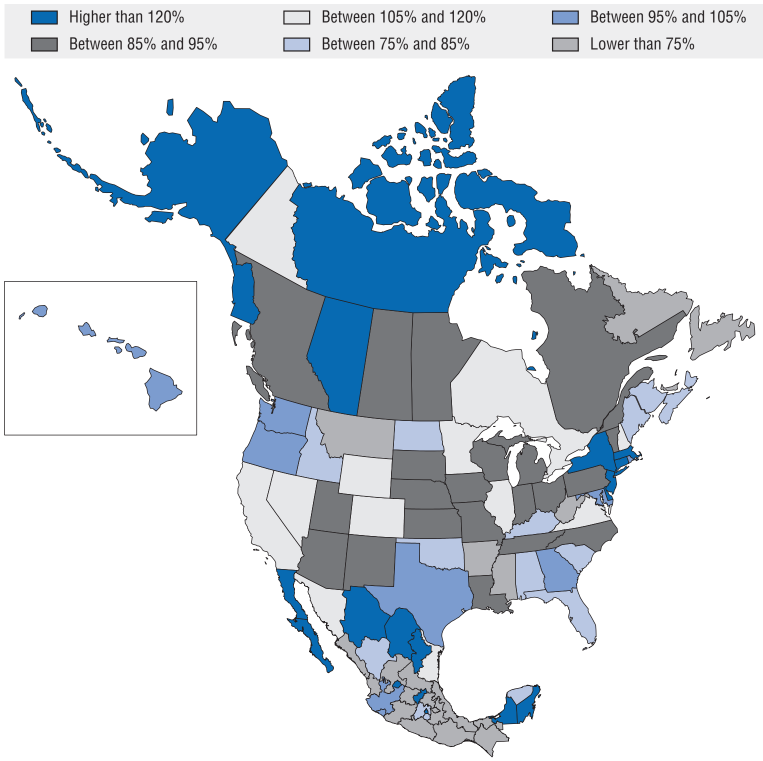


Note: Percentage of national GDP per capita.
Source: OECD (2005g), *Regions at a Glance*.

all. In Poland, for example, agriculture remains (though perhaps not for long) an important job provider in rural areas, which explains the presence of younger age cohorts. In Germany and Belgium, polycentric settlement patterns, diversified job markets in rural areas and relatively high levels of accessibility could explain why rural regions in the two countries retain a relatively higher share of young people than elsewhere. Recent evidence from France and the United States showing population increase in some rural regions suggests that inter-regional migration flows increasingly include rural-rural migration with older people as migrants (rather than being the population "left behind") and that migration by older people, for example to regions with climatic or other amenity advantages, is significant.

Educational attainment. Another rural disadvantage that is commonly cited is related to education. The general pattern in most OECD countries is

Figure 1.2. **GDP per capita by region 2001: North America**

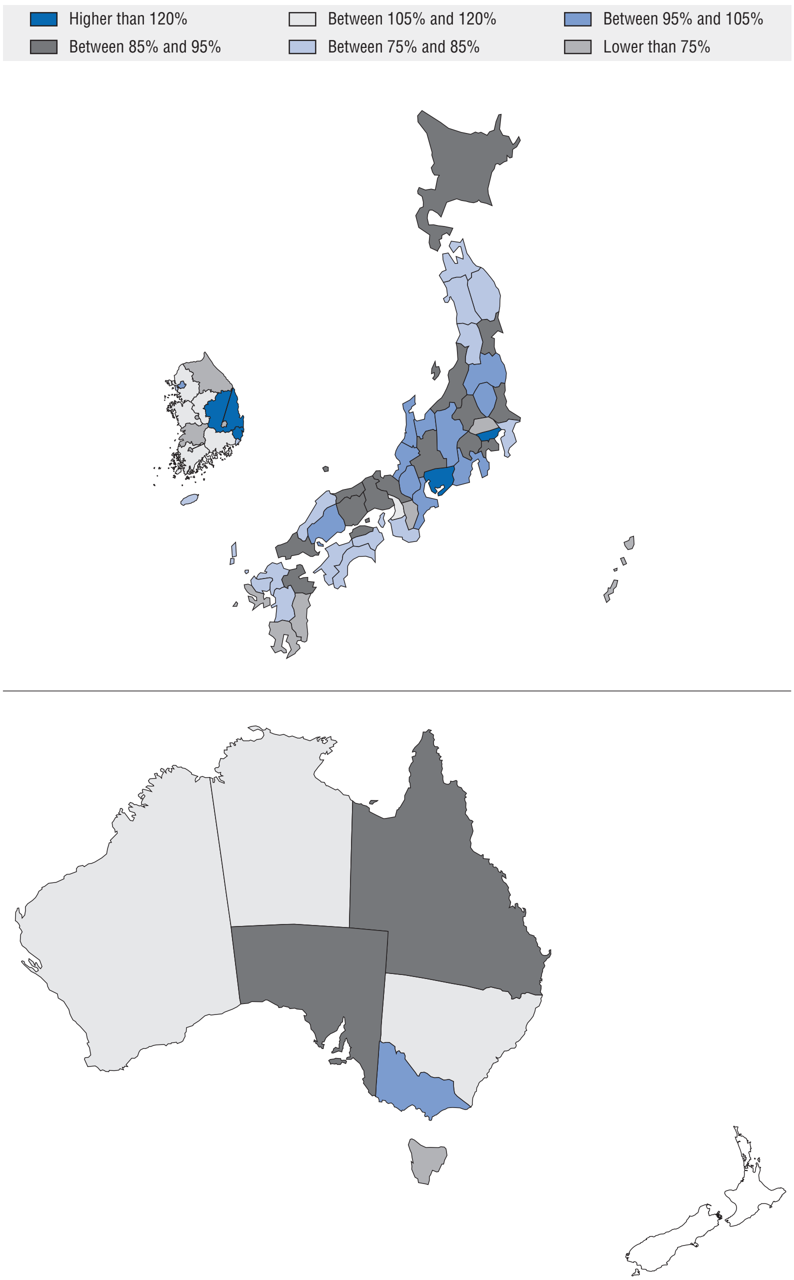


Note: Percentage of national GDP per capita.
Source: OECD (2005g), *Regions at a Glance.*

that the percentage of the population attending school up to upper secondary education is typically around or often above the national average in predominantly rural areas. On the other hand, the percentage of the rural population with tertiary education in all OECD countries is lower than the national average (see Figure 1.5). The gap is particularly significant in Canada and Japan, but is also significant in many OECD countries. The implication is that young people in rural areas attend school like their counterparts in other region types up to secondary level education and then leave the region to pursue tertiary education and find employment outside their home region.

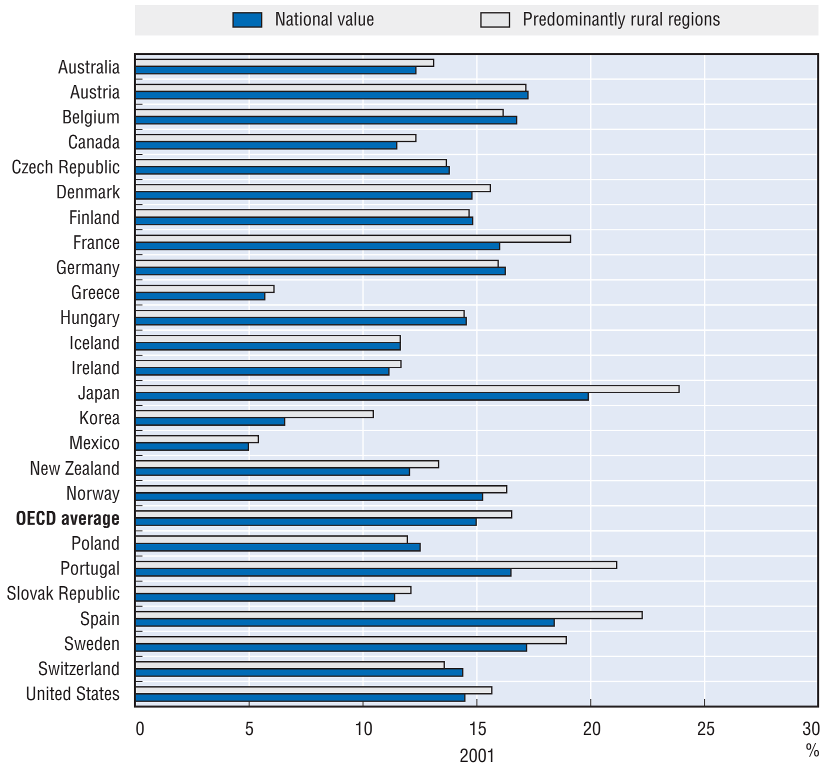
Labour productivity. The lagging economic performance of rural regions in the OECD is generally explained by lower average labour productivity. A lower GDP per capita could be due to a number of factors, including: specialisation in lower value added sectors (ex., agriculture *versus* industry or services); a lesser educated workforce; a lower percentage of the region's population in the labour force; a higher unemployment rate; a greater percentage of older

Figure 1.3. **GDP per capita by region 2001: Asia and Oceania**



Note: Percentage of national GDP per capita.
Source: OECD (2005g), *Regions at a Glance*.

Figure 1.4. **Elderly population (> 64) in OECD rural areas**

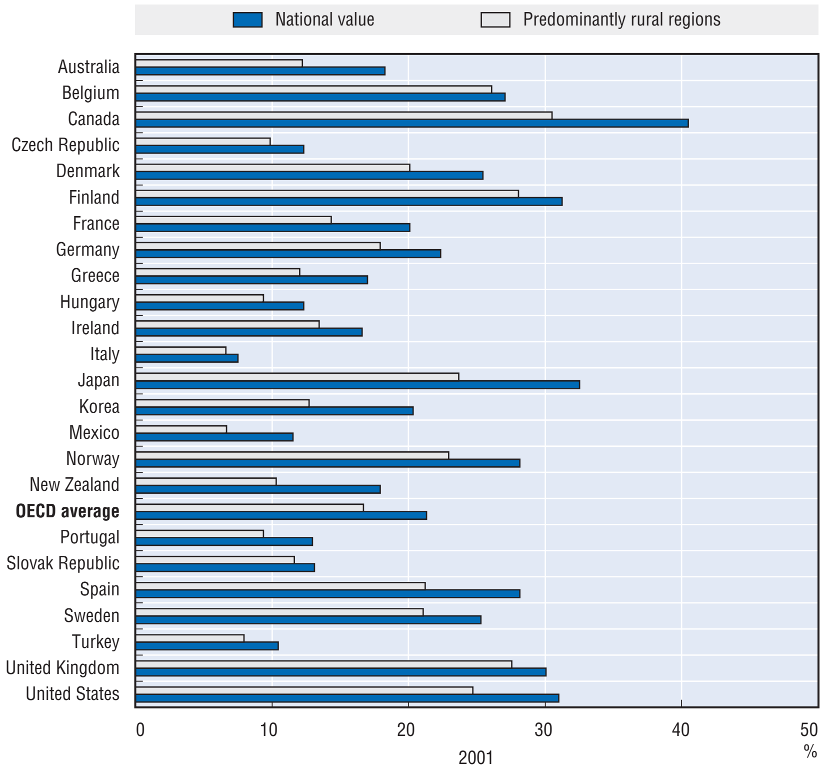


Source: Based on OECD (2005g), *Regions at a Glance*.

persons; a higher rate of commuters employed in other regions; or lower average labour productivity (*i.e.*, GDP per worker). As illustrated in Figure 1.6, when comparing rural regions with the national average on all seven of these factors, lower average labour productivity often explains the greatest amount of this variation in GDP per capita within a country (see Appendix 2 for further explanation of this calculation). Specialisation in lower value added sectors is another important contributor to a lower GDP per capita, often in OECD countries that have a higher per cent of the economy in agriculture generally.

Public services. The demographic structure of rural regions is often not appropriate to support provision of local public services. Because these regions have difficulty establishing the necessary critical mass of facilities, producer services and infrastructure to support established business or entrepreneurs, the economy does not generate employment opportunities and there are strong incentives for young people to move away. This kind of

Figure 1.5. **Population with tertiary education in OECD rural regions**



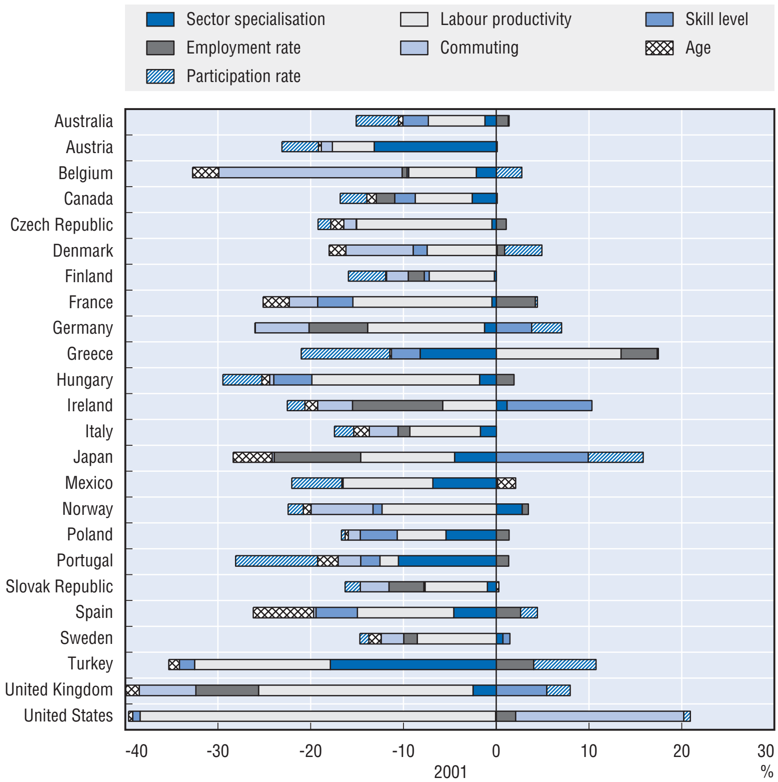
Source: Based on OECD (2005g), *Regions at a Glance.*

vicious circle, in which unemployment and lack of services lead to rural exodus, has been a common pattern in rural regions ever since the agricultural sector began to shed employment (Figure 1.7). This also explains why the issue of provision of public goods is so crucial in rural areas.

... but "rural" is not synonymous with decline

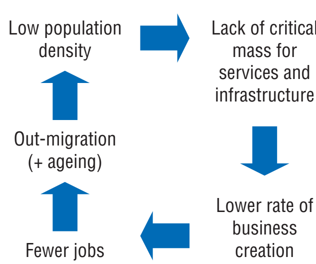
While socio-economic indicators demonstrate that rural areas face some common challenges, there is also a striking heterogeneity in the development trajectories of rural regions that goes far beyond the traditional, generalised image of rural disadvantage. Globalisation, increased accessibility and new migration patterns are offering new opportunities for rural areas to develop. According to the most recent data available,[3] in many OECD countries (10 out of 27) the region with the highest rate of growth in employment was a rural region.

Figure 1.6. **Factors driving lower GDP per capita in rural regions**



Source: Based on OECD (2005g) *Regions at a Glance.*

Figure 1.7. **Circle of declining rural regions**

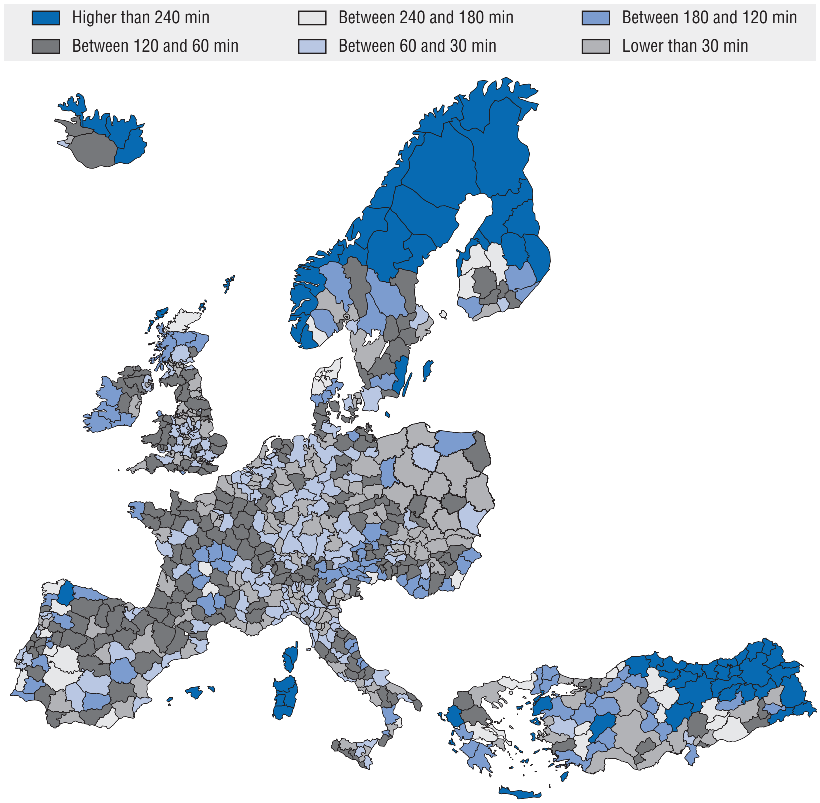


A large number of successful rural regions have been able to valorise public or quasi-public goods such as a clean environment, attractive landscapes and cultural heritage (including food). Their increasing value is related to improved transport links that make recreation in rural regions increasingly feasible as well as residential location increasingly feasible. But most of all, it has to do with both a growing demand on the part of urban dwellers for rural areas and a local capacity to co-ordinate several economic actors to supply and promote local collective goods. Growth tends thus to be concentrated on the more accessible rural regions. One important evolution in all OECD countries is that as commuting becomes easier across longer distances (see Figure 1.8, Figure 1.9, and 1.10), the sphere of influence of major urban areas expands making it possible for people to live in a wider geographical range of rural regions while working in cities.

*There are several examples of regions that have become successful by "cultivating" their rural amenities (*discussed in more depth in the next chapter). Relying not exclusively but in large measure on rural amenities, the area of Siena has been able to improve its position relative to other Italian provinces in terms of per capita income. Employment creation has also been impressive with the province demonstrating high rates of labour force participation for men and women. But Siena is far from being an isolated case. Tiroler Oberland (Austria), Mugla (Turkey) and Tasman (New Zealand) are typical rural regions that thrive on the tourism industry. Other regions, such as Engadina Bassa (Switzerland), Alpes de Haute Provence (France) or Dare County (United States) also attract workers, enterprises or retirees (see Box 1.2 on in-migration to French rural areas). In some cases (Peloponissos in Greece, Yamanashi-Fujihokuroku in Japan), the accessibility of the regions has been the facilitator of development, in other places remoteness has been turned into an attraction (Notio Aigaio in Greece, Comhairle Nan Eilan in the United Kingdom, Western Isles or Mie-Iga in Japan).

Reduction in travelling times and transport costs are also making rural locations more attractive for enterprises.[4] Rural regions experienced positive employment growth rates in industry and services in the 1990s and, as common to all region types, a loss of agriculture employment. In fact, the level of industrial employment in predominantly rural regions increased by 0.5% per year over the 1990s, in contrast to other types of region where industrial employment decreased (Table 1.1). In Canada, for example, manufacturing is moving to the rural regions that are close to metropolitan areas (Baldwin *et al.*, 2001). Even though the value of agricultural exports continues to decline, manufacturing remains an exportable sector for predominantly rural regions (Freshwater, 2003). Among other consequences, this has increased interest in the concept of clustering as a means by which to consolidate manufacturing activities in rural regions.

Figure 1.8. **Accessibility by road distance in minutes 2001: Europe**



Source: OECD (2005g), *Regions at a Glance.*

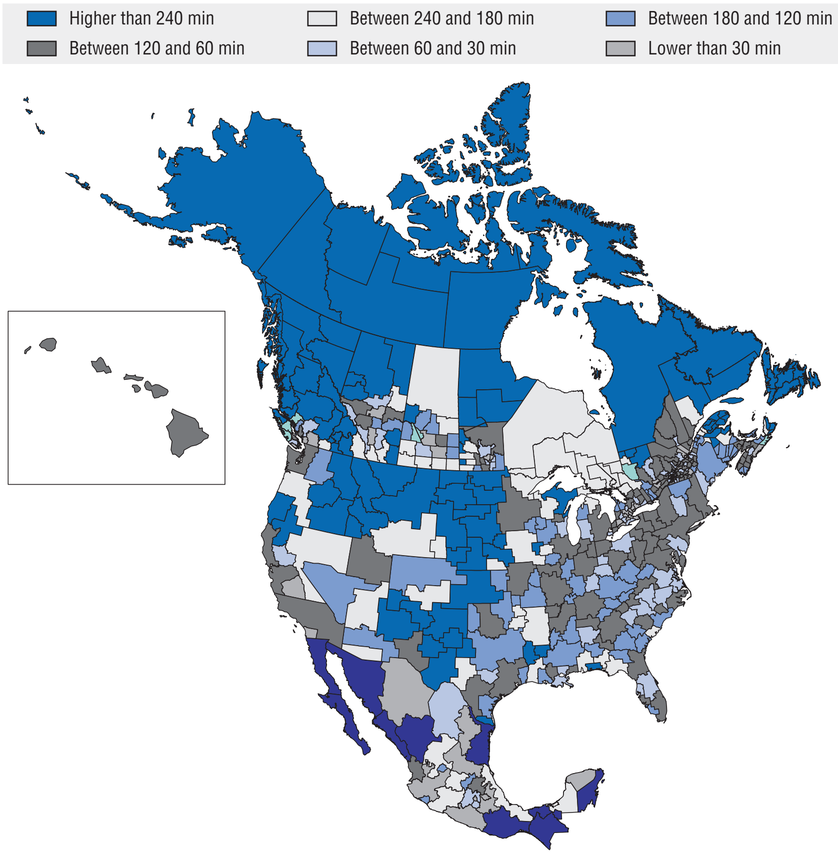
Table 1.1. **Employment growth rates by sector in the 1990s, selected OECD countries**

Annualised rate of employment growth (%)

	Agriculture	Industry	Services	All sectors
Predominantly urban regions	–3.0	–0.8	1.7	0.9
Intermediate regions	–2.9	–0.1	1.8	1.0
Predominantly rural regions	–2.3	0.5	1.9	1.0
All regions	–2.6	–0.2	1.8	1.0

Source: Based on OECD (2005g), *Regions at a Glance* (20 countries with data available).

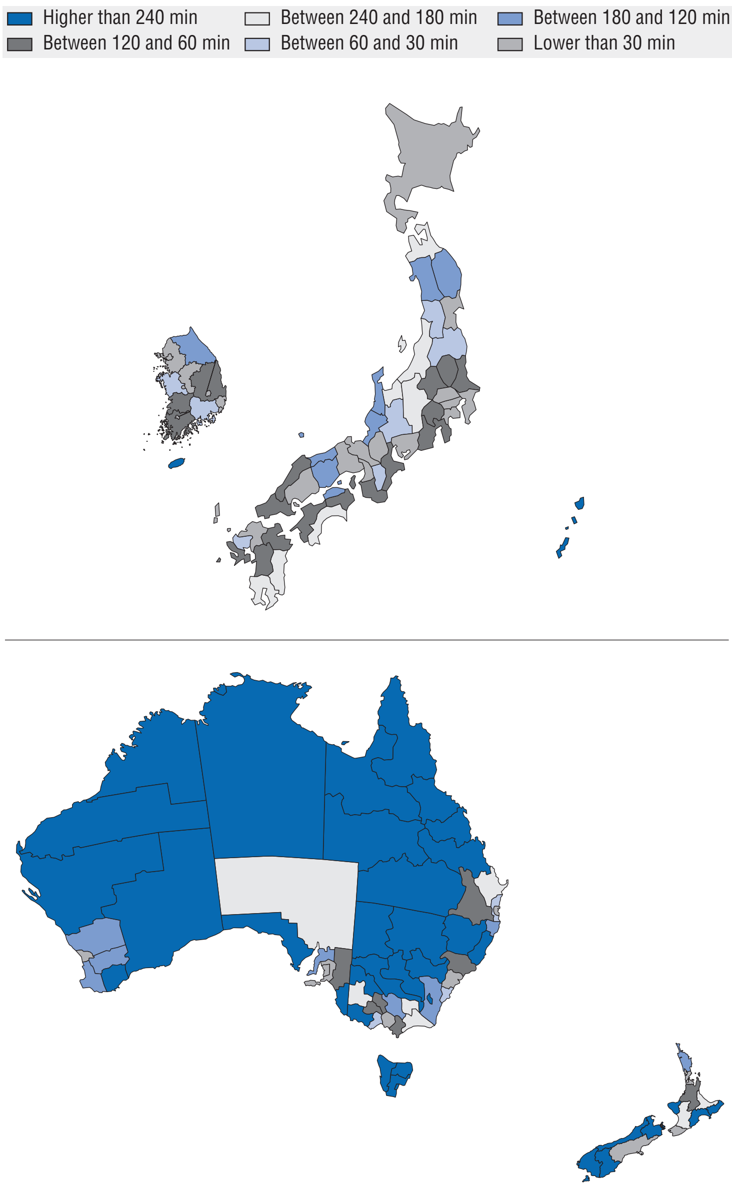
Figure 1.9. **Accessibility by road distance in minutes 2001: North America**



Source: OECD (2005g), *Regions at a Glance*.

A significant number of regions have also been able to remain competitive in industries such as clothing, toys or light engineering. Some have an industrial tradition (*e.g.*, the Jura [France], Viège [Switzerland], Bardajov [Slovak Republic] and Macon-Rabun [United States]) while others have succeeded more recently (*e.g.*, the southeast region [Ireland], Oberpfalz [Germany], Hiroshima-Kamo [Japan], and Ascoli Piceno [Italy]). Indeed, many industrialised countries base a part – some a considerable part – of their economy on regions with moderate population densities where small firms constitute the main economic basis. With improved communication and increased personal mobility, small towns are extending their catchment areas in a way that bolsters their service industries and makes them more attractive as a place to live.

Figure 1.10. **Accessibility by road distance in minutes 2001: Asia and Oceania**



Source: OECD (2005g), *Regions at a Glance.*

Box 1.2. **In-migration to rural areas in France**

The example of France is particularly illustrative with respect to new flows of population, not only from rural to urban or from urban to peri-urban, but also migration towards certain rural regions (and involving all age groups). The long-standing fatalism about the future of France's rural regions has, to some extent, been replaced by cautious optimism. For the first time in a century, more than half of France's rural municipalities experienced a net growth in population over the period 1990-1999 and this trend appears to have been consolidated since then. Over 75% of these new arrivals took up residence in communes formerly classified as rural (around 5 000 communes) on the periphery of metropolitan areas, which confirms the continuing suburbanisation process.* However, growth was also recorded in rural areas away from the influence of an adjacent city. Despite a worsening natural balance in these regions (–163 000 more deaths than births), this deficit was more than offset by strong inward migration (+410 000 new residents). Even the regions classified by the French statistical agency (INSEE) as "isolated" had for the first time a net demographic increase. Moreover, despite continuing decline in agricultural employment, rural regions had net employment growth over the same period, with strong growth in service employment and stable industrial employment. It is evident that regions where traditional agriculture or traditional manufacturing industries predominate and where the population density has declined significantly face the most pressing problems. At the same time, other region types, including those with strong manufacturing sectors (agro-food, but also other sectors), tourism industries or significant new populations, are faring well (DATAR, 2003, INSEE, 2000).

* As the DATAR report notes, the borders between rural and urban areas are somewhat blurred and the results are strongly influenced by the criteria used. France uses the concept of urban areas and areas of employment in rural areas which gives priority to the relationship between work and home. The concept of living "basins" relates more to the supply of services and yields higher figures for rural areas by including small and medium-sized towns. Similarly, some peri-urban areas surrounding major urban areas have population densities and levels of service supply comparable to those in certain rural areas.

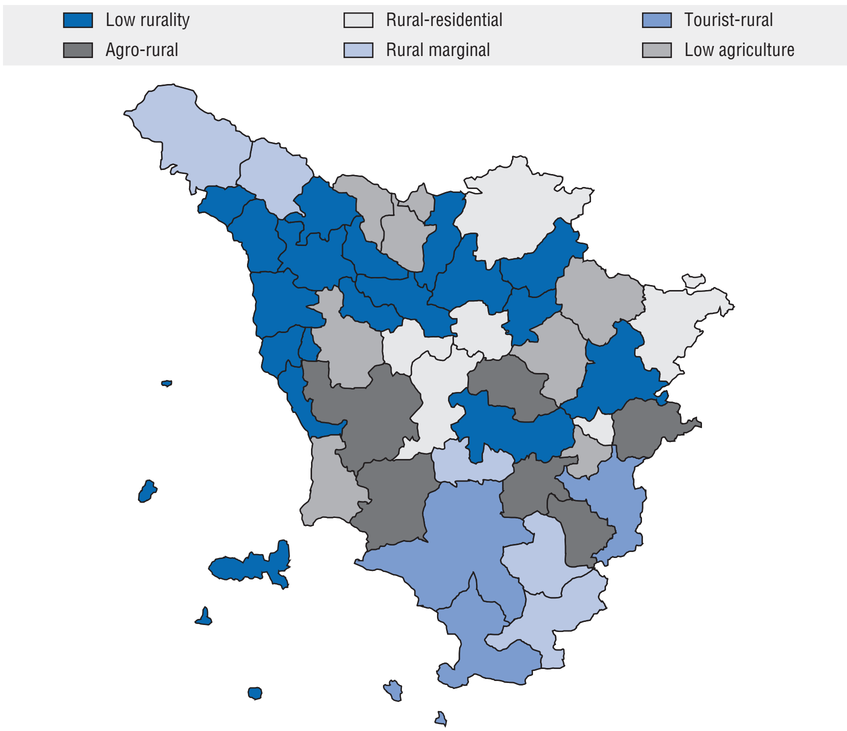
Source: OECD (2006), *Territorial Review of France*.

The heterogeneity of rural areas

The representation of rural areas given in the previous sections makes clear that "if you have seen one rural place, you have seen one rural place". Not only does the term "rural" have different meanings in different countries, but many different types of rural areas appear also within regions. One example is given by Tuscany (Italy) whose reality is far more complex than its well-known image of successful rural regions focused on tourism. Looking at the different economic systems composing the region it is possible to identify rural areas with distinct characteristics: leading or lagging, relying on agriculture or on tourism, peri-urban or remote (Figure 1.11).

Figure 1.11. **The different rural "Tuscanies"**

Local Economic Systems



Source: OECD (2005f), *Place-based Policies for Rural Development: Tuscany, Italy (Case Study)*.

Recognition of the highly different development patterns of rural regions can be seen in the emergence of typologies that attempt to capture this diversity. One example is the extension of the OECD rural typology (described in Box 1.1) to four sub-groups:

- *Dynamic remote rural regions:* these regions, although sometimes distant from major centres, possess sufficient natural resources, transport links or environmental attributes to attract tourists, new residents and enterprises.
- *Lagging remote rural regions:* these rural regions exemplify the more traditional image of rural in decline and face the most dramatic difficulties.

- *Dynamic intermediate regions:* these regions, being those that are most involved in the process of reverse urbanisation and having the strongest links with metropolitan centres, tend to see strong growth in services and often have specialised enterprise bases (SME clusters, for example).
- *Lagging intermediate regions:* these are former industrial or State enterprise dependent regions in the process of restructuring their economic base.

Another typology that exemplifies the complexity and heterogeneity of rural areas is represented by mountain areas. Evidence from across OECD countries shows that mountain areas offer often extreme examples of both the challenges and potential of remote rural areas. On the one hand, mountain areas are rich repositories of natural and cultural public goods which are threatened by market failures and thus require policy intervention. On the other hand, mountain and remote areas are traditionally providers of human, recreational, energy and food resources for the society and thus possess an important economic potential in various sectors of the economy.[5]

The diverse challenges and economic potential of rural regions across the OECD and the emergence of new factors shaping their development patterns highlight the need for a different approach to rural policy. Broadly speaking, the positive signs coming from many rural regions suggest that policy in the future can be less "defensive" – *i.e.*, focused on limiting decline – and concentrate more on seizing new opportunities. Moreover, they also suggest that policy needs to differentiate among rural regions with respect to their problems *and* economic potential, rather than assuming decline and limited potential in most rural areas. An influential report on rural policy in France, for example, emphasises that rural policy should be capable of responding to these two needs – by continuing support for the most vulnerable regions and using new approaches to leverage the endogenous/emerging potential of the other regions (DATAR, 2003).

1.2. The weight of agriculture and agricultural policy in rural economies

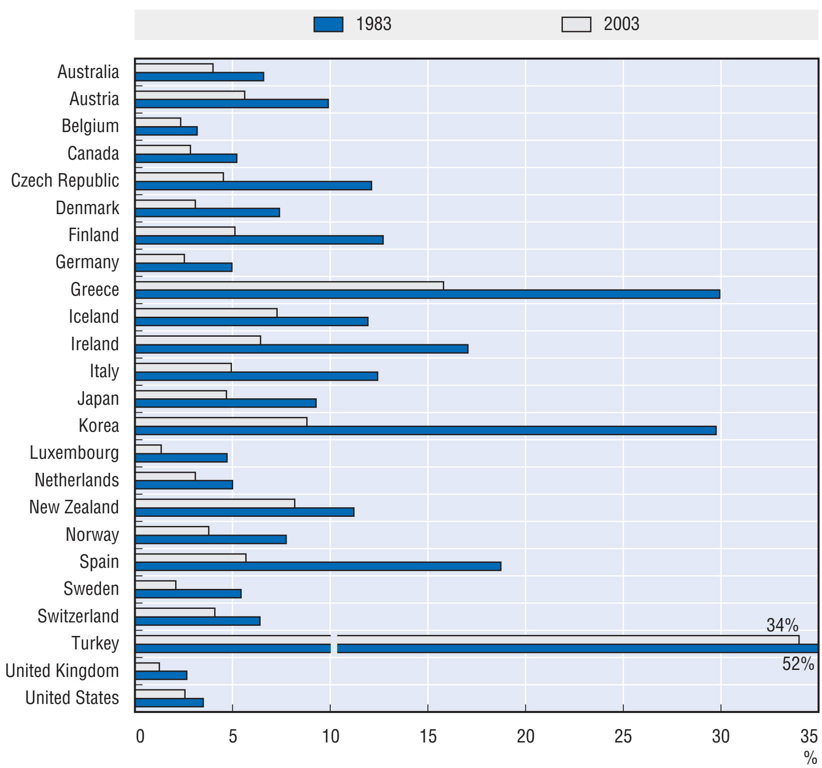
Agriculture is no longer the backbone of the rural economy

In the past, the agricultural sector was often the engine for growth in rural economies and represented the predominant source of rural income, employment and output. Consequently, rural and agricultural issues were considered to be virtually synonymous and it was often assumed that agricultural and rural objectives could be pursued through a single set of policies designed to aid the transition of the agricultural sector. That situation has changed, principally because agriculture is no longer the main sector in rural regions, either in terms of output or employment.

Over the 20-year period (1983-2003) covered by OECD data, agricultural employment dropped dramatically in all countries. The drop has been most marked in those countries where the primary sector initially represented a very significant share of overall employment (*e.g.*, Turkey, from 52% of total employment to 34%, Korea, from 30% to less than 10%, Greece, from 30% to 15%, Spain, from 20% to 5%, and the Czech Republic from around 12% to less than 5%). Even countries such as the United Kingdom and the United States, with relatively low levels of employment in agriculture at the beginning of the period, saw employment shrink further over the two decades (Figure 1.12).

Overall, within predominantly rural regions across the OECD, less than 10% of the workforce is employed in agriculture in 2000. Moreover, the agricultural workforce declined approximately 25% between 1990 and 2000 and, consequently, declined as a share of the total workforce (Table 1.2). For the EU-25, while currently 96% of rural land use is agricultural (including forestry),

Figure 1.12. **Agriculture as a share of total employment in OECD countries (1983 and 2003)**



Source: Based on OECD (2005g), *Regions at a Glance.*

only around 13% of employment is in agriculture, producing only 6% of gross value added in rural regions (OECD, 2005j). In OECD countries, the GVA of agriculture as a percentage of the total GDP has been steadily declining and reached 2% in 2001.[6] In France, the first recipient of EU's Common Agricultural Policy (CAP), where CAP contributions amounted to more than 9 billion EUR each year over the last ten years, both employment and the percentage of GDP generated by agriculture has declined by 50% over the last two decades.[7]

As full-time farm employment has decreased, part-time farming and off-farm work have become more prevalent among farm households. In many countries there are significantly more part-time than full-time farmers. In the EU-25, 54% of farmers work only part time (in 2003), while in Japan the figure is around 68% (in 2002) (OECD, 2005j). In Japan, a proportion of older part-time farmers only became farmers recently after retiring from jobs in other sectors during the period of economic stagnation. Many of these and other older farmers work small plots without permanent full-time employees.[8] There are significant international differences in the level of off-farm work.

As a consequence of the decline in full-time agricultural employment, farming households rely increasingly and significantly on non-farm income even using strict definitions of what is a farm household. Figure 1.13 gives a snapshot of the situation in OECD countries for which data are available, though the data are not comparable across countries because of the significant variation in the definition of farm households used by member countries. Nonetheless, the data give an impression of the relatively limited importance of income from farming in farm households in many OECD countries. It should also be noted that farm household incomes remain close to the national average in most OECD countries, with farm incomes in some countries even exceeding national averages (Figure 1.14). This suggests that the transformation to mixed revenue structures has not left farm households significantly poorer than non-farm households.

The adjustment by farm families to a mixed revenue structure is part of a much larger transformation of the sector that has seen significant consolidation of farm enterprises. Farmers with larger or more capital intensive holdings will tend to be full-time farmers, while those with smaller farms will tend to seek alternative forms of income. There is some polarisation in the sector, and this has clear regional implications. Farm structure is partly a function of the productive characteristics of the land itself; in other words, some areas are more conducive than others to the consolidation of farmland. Thus farm structure will vary from one region to another, and, in consequence, the agricultural component of individual and regional revenues will also vary.

Table 1.2. **Change in agricultural employment in predominantly rural regions**

	% working in agriculture	
	1990	2000
Australia	16	14
Austria	13	n.a.
Belgium	14	5
Canada	12	9
Czech Republic	n.a.	12
Denmark	9	7
Finland	12	n.a.
France	11	8
Germany	4	3
Greece	37	30
Hungary	24	10
Ireland	21	12
Italy	12	9
Japan	14	10
Mexico	43	32
New Zealand	21	17
Norway	9	6
Portugal	33	23
Spain	22	16
Sweden	5	4
Switzerland	8	9
United Kingdom	8	n.a.
United States	6	3
OECD (20)	13	9

Source: Based on OECD (2005g), *Regions at a Glance*.

Nonetheless, agriculture continues to have an important influence on the economy of most rural regions. The interaction between the sector and other activities is in some ways strongly complementary and in others potentially competitive. On the one hand, agriculture, and particularly productive agriculture, is a major purchaser of local inputs, not only farm related but also business services. It can also provide outputs for local processing or manufacturing (agro-food businesses, for example). It also often provides some public or semi-public goods such as culture and landscapes that are utilised as inputs in other local economic activities such as tourism and recreation. Stewardship of land by farmers is also an important aspect of environmental protection and in some cases also of natural disaster prevention. And, of course, farms and farm households are important local consumers. In perspective, farm businesses that will be able to reach a level of productivity and/or quality of production that will make them competitive in

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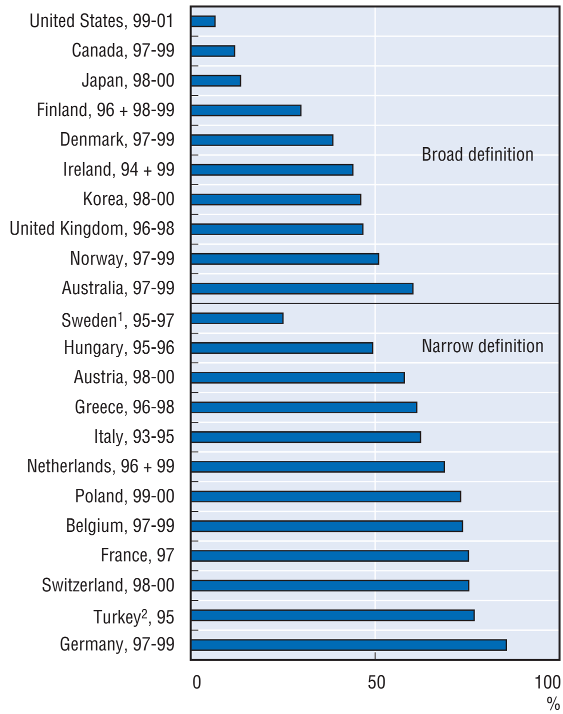
Figure 1.13. **Percentage share of farm income in total income of farm households**

Average of three most recent years available



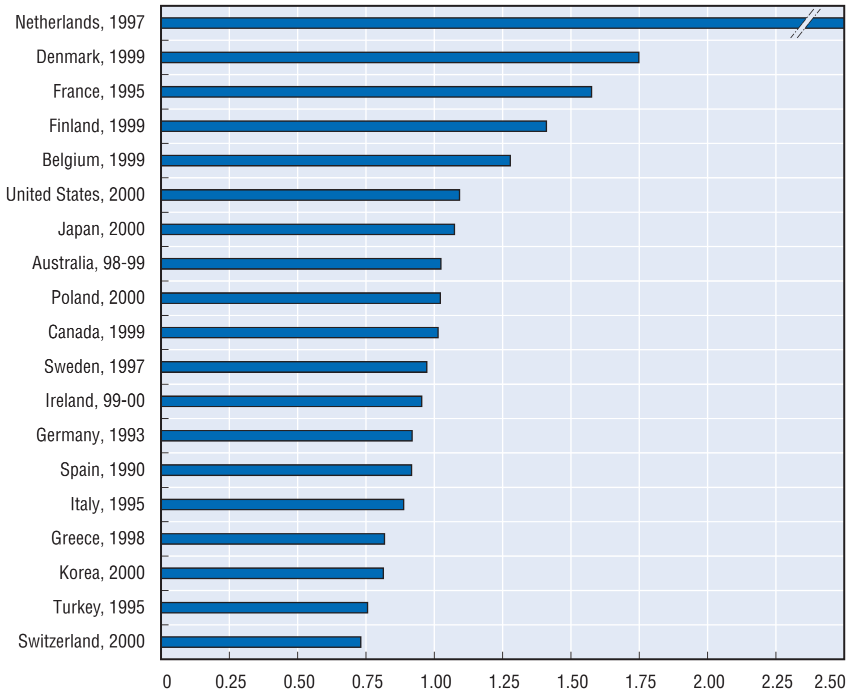
1. Income from independent activities.
2. Agricultural households in rural areas.

Source: OECD (2003b), *Farm Household Income: Issues and Policy Responses.*

a subsidy-free scenario could play a particularly important role in rural economies. On the other hand, agriculture continues to be the main land use in rural regions, which puts it in a situation of potential competition with other land uses (Kilkenny, 2005). It could also potentially compete for skilled and unskilled labour and for capital investment with other rural activities. Moreover, a strongly subsidised agriculture can exacerbate the difficulties of rural regions to adapt and diversify into different activities. As Alan Greenspan stated at the 2004 OECD Warrenton conference: "It is very important to remember that once subsidies have been implemented and continue to exist on an ongoing basis the value of the land begins to capitalize on them … This suggests that the introduction of subsidies should be carefully considered as the long-term implications are exceptionally negative" (OECD, 2005c).

Figure 1.14. **Total income of farm households as a proportion of the average of all households**

Most recent year



Source: OECD (2003b), *Farm Household Income: Issues and Policy Responses.*

The limits of agricultural policy

Against this background, there is concern about the effectiveness of agricultural policy as the predominant component of public policy for rural regions. Governments have long intervened in domestic and international markets for agricultural products. Most OECD countries utilise a wide array of domestic and trade measures to support their agriculture. These include price supports, quantitative restrictions on outputs or inputs, budgetary payments, trade barriers and subsidies on inputs, reflecting multiple policy objectives and changes in priorities over time. In 2004, total support associated with agricultural policies was 378 billion USD, which is equivalent to 1.3% of total GDP across the OECD area (OECD, 2005j).

Domestic budgetary pressures and the implementation of multilateral, regional and bilateral trade agreements have impacted the agricultural policy of OECD member countries. In several OECD countries the number and complexity of policy measures are increasing with a gradual shift of policy focus from traditional market price support and output-related measures towards sector-wide and non-commodity specific policies.

However, despite this policy shift *market price support* (MPS) still constitutes the largest and most common policy intervention in the agricultural sector of OECD countries. Almost two-thirds of total support in the OECD area as a whole in 2002-04 was provided in the form of higher market prices. This type of support, by definition commodity specific, maintains domestic prices above world market prices for both producers and consumers, thereby generating an economic transfer to farmers from consumers and from taxpayers in the case of exporting countries. These higher prices are regulated or administered by governments, and maintained via border protection. By raising domestic prices, it effectively acts as a regressive tax on consumers. MPS is the only type of support that simultaneously affects production and consumption of a commodity and as such has the greatest potential impacts on production, consumption and trade, and can have a negative effect on rural economy and the environment.

Concern about the effectiveness of agricultural policy stem mainly from the emphasis on farmers (including other agricultural enterprises), rather than on places. It is likely that in a situation such as in most OECD countries where agriculture represents a small per cent of gross value added (GVA) in rural regions, the ability of agriculture-based policies to influence well-being across the non-farm population must be relatively limited, albeit not insignificant. Moreover, it also seems that agricultural policies are not designed such that they can achieve this broader aim. The research base to address this issue is not extensive, but evidence from the United States and the EU draw out a couple of key issues:

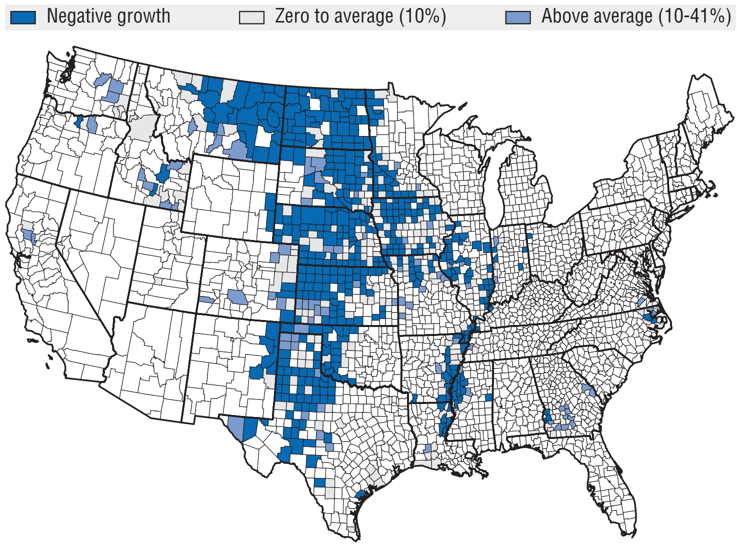
- In the United States, agricultural support does not appear to be effective in stopping processes of decline, even where the level of support is highest.
- In the EU, agricultural support tends to be concentrated in wealthier regions where farms are large and productive.

The implication from research in the United States is that payments are not sufficient to offset other disadvantages. Data show that despite high levels of payments, the counties that were most dependent on Farm Bill support continued to lose population and lag in terms of GDP and enterprise growth. Although they reached near-record levels in the late 1990s, US farm programme payments were not associated with reduced population loss in high-payment counties compared with other rural counties. Instead, population change in high-payment counties has been consistently 12-15 percentage points lower than in other rural counties. And, high-payment counties sustained high rates of population loss (9-10%) over both the 1981-1988 and 1998-2003 periods. This was true even though the high rate of farm foreclosures of the 1980s was not repeated in the late 1990s. Research by the Center for the Study of Rural America at the Kansas City Federal Reserve Bank as well as the Economic Research Service of the United States Department of Agriculture (USDA) have both examined the presumption that raising farm incomes will promote rural economic growth. Both have found that farm payments do not promote rural economic growth in the United States (McGranahan and Sullivan, 2005, Drabenstott, 2005). Figures 1.15 and 1.16 illustrate population and employment change for the 25% of counties with the highest dependency on farm payments. They clearly show that the level of payments has not significantly stemmed out-migration nor significantly boosted employment-creating economic activity.

Analysis of the gap in population change between high-farm-payment and other rural counties suggests that rural amenities such as climate, landscape, and access to services, are major explanations for why high-payment counties without significant amenities of this type have tended to lose population decade after decade, even as other rural areas have grown (McGranahan and Sullivan, 2005). These findings confirm earlier work by USDA that showed that over the 25-year period from 1970 to 1995, the most dynamic rural regions were those that had high concentrations of rural amenities (Figure 1.17, McGranahan, 1999).

Evidence from the EU suggests that payment structures might even exacerbate differences by channelling support to regions that are already more prosperous. A recent series of studies by the European Spatial Planning Observation Network (ESPON) found that support through Pillar I of the CAP (market support) and, to a lesser extent, Pillar II (rural development) is not focused on the most disadvantaged regions of the EU (at the NUTS 3 level). Table 1.3 shows the level and dispersion of funding.[9] Only 45% of Pillar I support goes to predominantly rural regions and only 27% to "lagging" predominantly rural regions (those with a growth rate below the national average). Moreover, the table and maps below show the unequal territorial distribution of support in Europe. The research also found that Pillar I support both per hectare and per agricultural work unit (AWU) tends to be higher in more accessible regions, and lower in more peripheral regions. These phenomena are visible in Figure 1.18, which shows that Pillar I support tends to be focused on northern and western Europe. The disparity across the EU appears particularly marked when the distribution per hectare rather than per farm is evaluated (Figure 1.19).

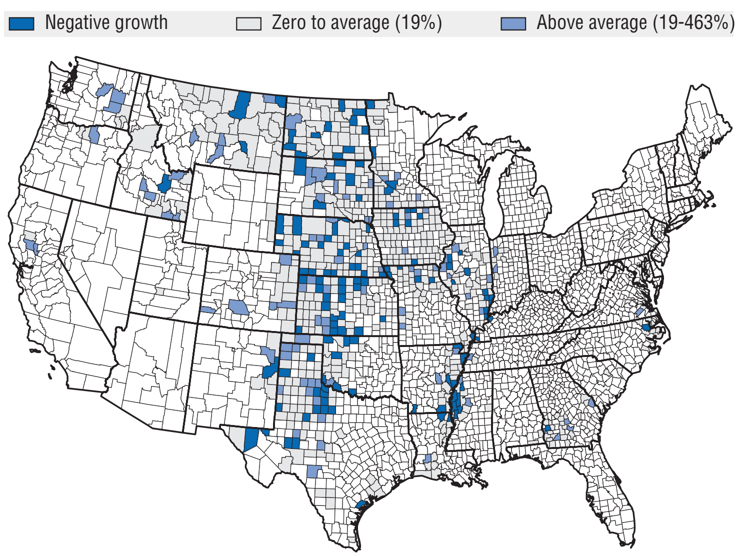
Figure 1.15. **Population change 1992-2002 for the 25% of US counties with the highest dependency on farm payments**



Note: Based on data from the USDA Bureau of Economic Analysis, REIS.

Source: Drabenstott (2005).

Figure 1.16. **Employment growth 1992-2002 for the 25% of US counties with the highest dependency on farm payments**

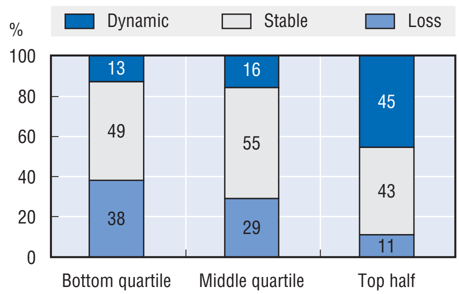


Note: Based on data from the USDA Bureau of Economic Analysis, REIS.

Source: Drabenstott (2005).

Figure 1.17. **Natural amenities and employment change in US rural regions 1970-1995**

%



Source: Economic Research Service, United States Department of Agriculture (McGranahan).

Table 1.3. **Distribution of CAP[1] support by OECD region type**

OECD region type	Pillar I	Pillar II (FADN[3])	Pillar II (Rural Development)	Per hectare	Per AWU[2]
Rural – leading	18	22	20	20	15
Rural – lagging	27	29	26	31	22
Intermediate – leading	14	13	13	12	12
Intermediate – lagging	18	18	21	20	23
Urban – leading	12	7	7	8	12
Urban – lagging	10	7	5	5	8
Missing	*1*	*4*	*9*	*3*	*8*
TOTAL	100	100	100	100	100

1. CAP = Common Agricultural Policy.
2. AWU = agricultural work unit.
3. FADN = Farm Accountancy Data Network.

Source: ESPON (2004), based in part on data supplied by the OECD.

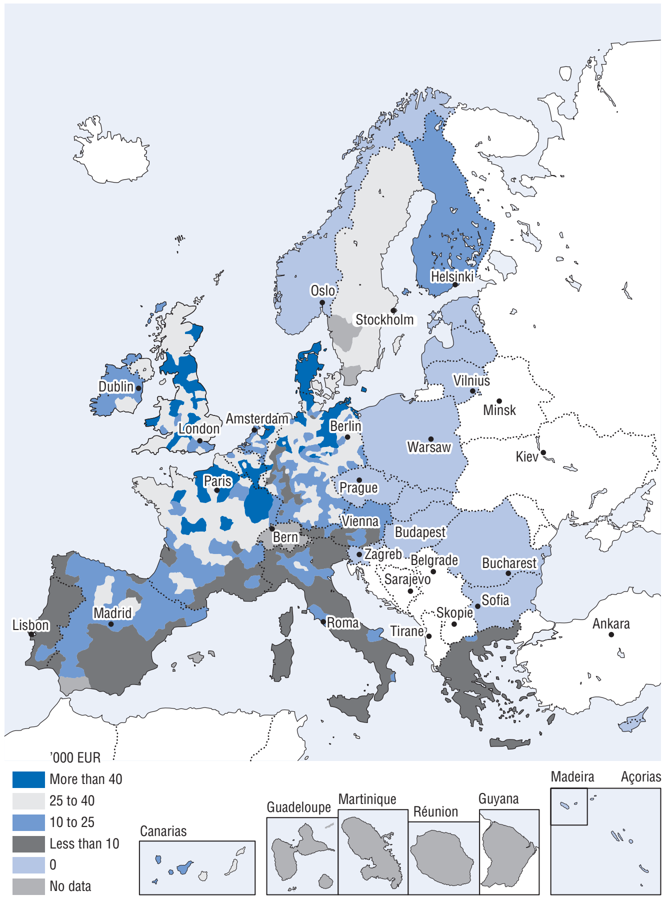
Table 1.4. **Correlation between level of total Pillar I support accruing to NUTS 3 regions and socio-economic indicators**

	GDP per head	Unemployment rate	Population change 1989-1999
Support per hectare (UAA[1])	0.088(**)**	–0.305(**)	0.216(**)
N	1 051	945	892
Support per AWU[2]	–0.143(**)	–0.095	0.117(**)
N	1 053	947	892

** Correlation statistically significant at the 0.01 level (2-tailed); N = Number of observations
1. UAA = Utilisable Agricultural Area.
2. AWU = agricultural work unit.

Source: ESPON (2004).

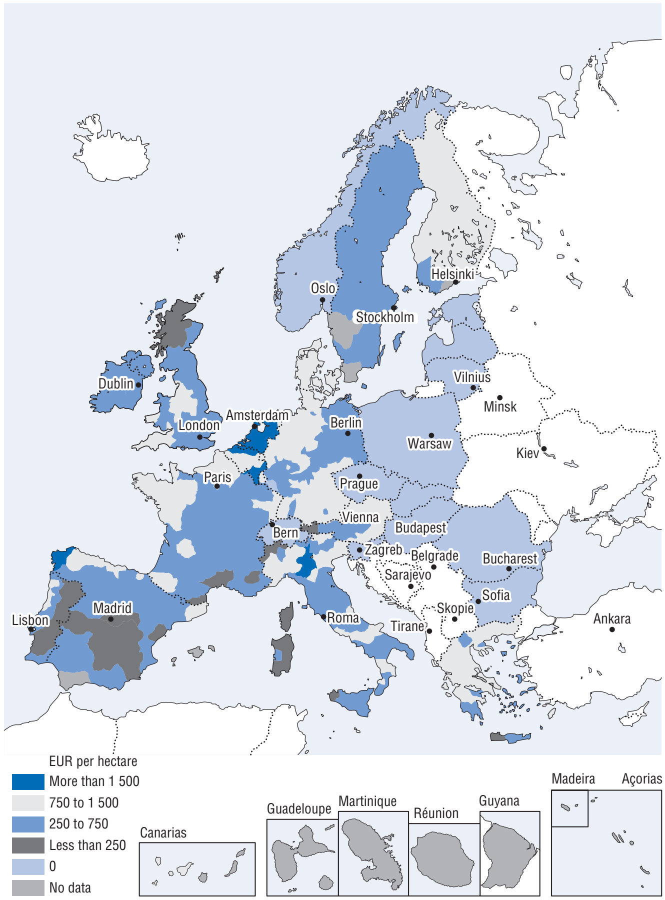
Figure 1.18. **Total Pillar I support per Agricultural Work Unit (AWU)**



Note: AWU = Agricultural Work Unit.
Source: ESPON (2004).

Perhaps more surprisingly than the findings relating to aspatial Pillar I disbursements, there was little correlation found between the socio-economic situation of a region and its per capita receipt of Pillar II Less Favoured Area (LFA) compensatory payments (see Table 1.5). The LFA scheme was designed originally to target regions with natural handicaps that reduced the productivity of agriculture and the incomes of farmers. However, over time, the scheme has been broadened to include a focus on High Nature Value (HNV) farming systems and this environmental conservation dimension has reduced the programme's income support dimension. As with Pillar I support, the influence of farm structure seems to be important, along with the relatively wide definition of LFA territories.

Figure 1.19. **Total Pillar I support per hectare**



Source: ESPON (2004).

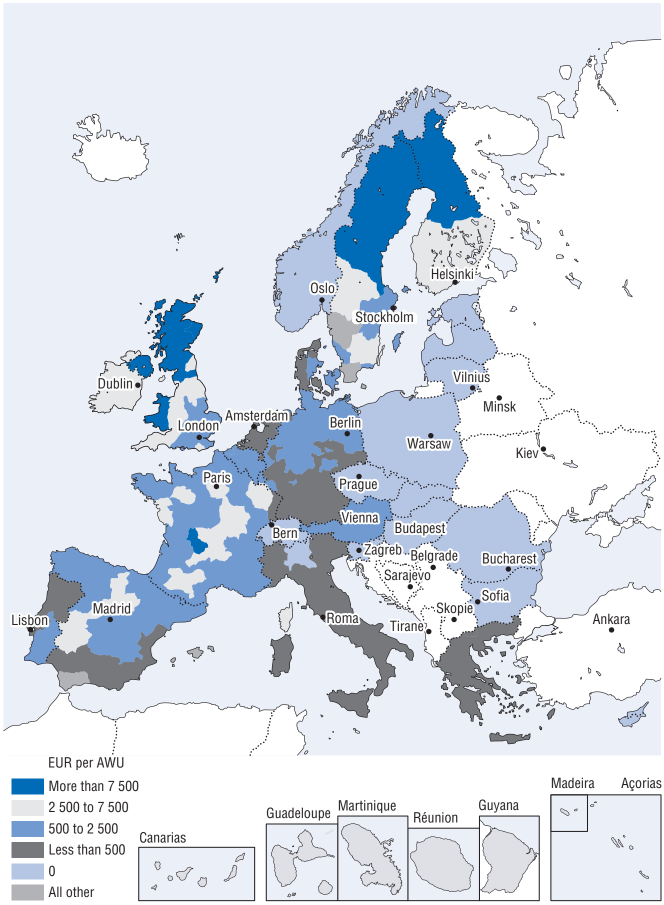
Table 1.5. **Correlation[1] between level of Less Favoured Area payments and socio-economic indicators**

	GDP per head	Unemployment rate	Population change 1989-1999
Support per hectare UAA[2]	–0.011	0.043	–0.045
Support per AWU[3]	–0.055	0.057	–0.037

1. Correlation is significant at the 0.01 level (2-tailed) if followed by (**).
2. UAA = Utilisable Agricultural Area.
3. AWU = agricultural work unit.

Source: ESPON (2004).

Figure 1.20. **Direct income payments for livestock per AWU**



Note: AWU = Agricultural Work Unit.
Source: ESPON (2004).

While market price support seems to result in a distribution of support that favours the most productive agricultural regions, successive reforms of the CAP have had some influence on the spatial distribution of resources. The recent increase in direct income payments in particular appears to be more closely related to regions with lower productivity and incomes. The geographic distribution of payments is wider than for other Pillar I measures (as seen, for example, in Figure 1.20 for direct payments for livestock). However, although this form of support is considered to be less market distorting, it remains a relatively small (albeit increasing) part of the total disbursement.

Overall, aggregate farm size and main activity in a region determine the level of financial support through agricultural policies, and these factors far outweigh any bias towards target areas or groups. The conclusion of ESPON is that although Pillar I measures are spatially neutral, they have very discernible spatial impacts. ESPON further concluded that the overall picture remains broadly the same despite the impact of recent reforms of the CAP (in 2003) which have altered allocations and may have improved targeting somewhat. The point is that the CAP is not directly intended to support regional development as such. With respect to rural development objectives and cohesion objectives, it is evident that the EU's agricultural policy, especially direct subsidies, are not designed to or able to promote convergence or trigger development in rural regions.

Conclusion

This chapter highlighted the paradox that while rural challenges and potential are extremely diverse, public expenditure is still largely concentrated into one sector. While the handicap of distance from markets and low population density remain to be overcome, there are signs that the assets of rural regions, in many cases, outweigh the traditional drawbacks of rural life. The reasons for this are varied. Mobility has increased and is now a much more two-way process than before and, at least in some countries, involves all age groups (rather than being simply younger people moving from rural to urban regions). ICT infrastructure has also reduced the barrier of distance to some degree. Employment opportunities are more limited, but the record of employment creation in the majority of OECD rural regions is relatively good, albeit extremely uneven.

Despite bringing large resources into rural regions, agricultural subsidies are not intended to trigger rural development directly and, in most cases, they do not do so. The main reason for this is that this type of policy is focused on a small segment of the rural population (farmers and others involved in agricultural enterprises) rather than on places. Evidence from the United States and EU suggests that current policies are not effective in addressing some of the most pressing socio-economic challenges facing rural communities and have uneven impacts across the rural territory.

The heterogeneity in the challenges facing rural regions and the resources that they have at hand to confront these challenges suggests the need for a different approach to rural policy. The positive signs coming from many rural regions indicate that policy can be less "defensive" – *i.e.*, focused on limiting decline – in the future and concentrate more on seizing new opportunities. The issue for rural policy is how to adapt strategies to take into account the different development opportunities, many of which are based on exploiting local, endogenous resources. While some of these opportunities are linked to agriculture, either directly where the sector is still strong or indirectly by means of amenities, most will be in non-agricultural activities. The development contexts of the French Auvergne, Tuscany in Italy, the Spanish region of Andalucia and Portuguese Alentejo, for example, are fundamentally different. All are rural areas – with low population density and significant agricultural land use – but their development patterns are significantly different. As a result, governments are increasingly recognising the need for a more locally tailored or territorial approach. The next two chapters will look at the most defining characteristics of place-based policy and of the new governance arrangements that it requires.

Notes

1. Of course, some rural places still owe their growth to the new ways in which agriculture produces commodities. In some regions, farmers still assure income and even employment development by signing contracts with a major food company to deliver precisely grown products on a pre-set schedule. However, such a successful move to a supply chain organisation changes not only how agriculture does business but also who does business and where.
2. Data are from the OECD Territorial Database.
3. Latest data available 1996-2001. See OECD (2005g), *Regions at a Glance*.
4. See for example, Bollman and Prud'homme (forthcoming) and Glaeser and Kohlase (2004).
5. See proceedings of the 2005 Avienmore Conference organised by Euromontana. For background information see also Bryden, Van Depoele, Espinosa (2005).
6. National accounts gross value added (GVA) for agriculture, forestry and hunting as a percentage of Total Gross Domestic Product. Fisheries are included for Iceland. GVA at market prices is obtained by subtracting intermediate consumption from the value of output. Data taken from OECD, National Accounts database. See also OECD (2005k).
7. Data from the Institut National de la Statistique et des Études Économiques of France.
8. A recent survey by the Japanese Ministry of Agriculture showed that around 70% of farms run by a farmer over 60 had secured a succession but that the large majority of successors would work only part time and would have other off-farm income.
9. All tables and figures presented in this report from ESPON are based on 1999 data.

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The New Rural Paradigm: Policies and Governance

Chapter 2

Rural Policy: New Approaches

Key points

- Three factors are influencing rural policy making across OECD countries: 1) increased focus on natural and cultural amenities; 2) recognition of the limits of agriculture policy and international pressures to reform it; and 3) decentralisation and new trends in regional policy.
- As a result of these major shifts in policy making, several OECD and non-OECD countries are increasingly seeking to develop a multi-sectoral, place-based approach that aims to identify and exploit the varied development potential of rural areas. Two principles characterise the "new rural paradigm": 1) a focus on *places* instead of *sectors*; and 2) a focus on *investments* instead of *subsidies*.
- Since new programmes and rural policy approaches are in their early stages, their effectiveness will need to be assessed for their medium and long-term impacts. One common factor in these new policy strategies is that, even if they do not all yet involve significant funding, they contribute to important culture changes with respect to rural policy. First, these policies and programmes acknowledge that there are multiple objectives in rural policy and that they require different approaches according to different places and over time. Second, these initiatives are developing a culture of cross-sectoral co-operation at all levels of government. Finally, the place-based approach has helped foster public-private partnerships and mobilise new resources at the local level.

Introduction

As discussed in Chapter 1, the tools and policies focused on agriculture address only a subset of the wide array of issues relevant to the development of rural regions and the well-being of their inhabitants. A cross-sectoral approach to rural policy encompasses a wider range of objectives and a different set of tools. These objectives include equity, competitiveness and the stewardship of rural resources. In this context, the justification for public intervention in rural areas tends to be similar across OECD countries: overcoming market failures and ensuring provision of certain public goods; either those that are considered as "rights" (*e.g.*, basic public services) or those that can trigger development (*e.g.*, amenities, collective services for businesses, etc.). This chapter first discusses factors driving reforms in rural policy making and presents some of the key areas for rural development. It

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then explores how several OECD countries have sought to develop rural policies and programmes to meet the needs and opportunities of their rural regions.

2.1. Trends in rural policy

Factors influencing rural policy making

Rural policy has become a policy arena in its own right, with countries seeking to address the specific needs and opportunities of rural places and rural people. The most defining characteristics of the emerging "new rural paradigm" are a focus on *places* rather than *sectors* and an emphasis on *investments* rather than *subsidies*. These key orientations are the result of at least three factors that are influencing rural policy making across OECD countries.

1) *Increased focus on amenities*. An important influence on the way rural development policy is conceived across OECD countries is the value that society (both rural and urban) is giving to natural and cultural amenities. Because over 75% of land in OECD countries is in rural areas, policies for rural places play an important role in land management and must integrate a range of environmental and economic development issues. Rural stewardship of a nation's natural resources is of concern to all given the potential for widespread harm that can occur (negative externalities) through the failure to appropriately deal with natural systems related to land, water, air and other associated resources. Many rural places are also custodians of some of the most important antiquities, historical sites and other recreational amenities (such as ski and water resorts) important for rural economic development. Certain amenities serve not just local consumers, but may have value for society as a whole. Moving beyond a narrow focus on the multifunctionality of agriculture, policy makers increasingly emphasise the need to identify and valorise the wide range of resources of rural areas and to account for positive and negative externalities associated with different activities in rural areas. There is recognition that losing important historical sites to neglect and decay is quite easy and often the result of the absence of policy rather than an explicit societal decision. Frequently, it is only the people in the place where a special site is who are aware of both the threat to its survival and its true historical meaning. The stewardship of the multiple features of rural places has thus become a key pillar of place-based policies for rural development.

2) *Pressures to reform agriculture policy*. Besides considerations linked to the limits of agricultural policy and its potential negative spatial effects (see Chapter 1), pressure towards the reform of the current agriculture-based approach to rural development come in at least two different forms. The first has to do with the obstacles that certain agricultural policies pose to

international trade. The World Trade Organization strongly questions the distorting nature of payments associated with farm policy. Recent world trade negotiations have shown that little progress can be made without reforms of farm subsidies in developed countries. This international pressure is coupled with internal budgetary pressures. In many OECD countries, farm subsidies are increasingly questioned because of their impact on public finances thus nourishing debates on alternative uses of public resources targeting rural areas. In the case of the European Union, budgetary pressures are particularly strong also due to the process of enlargement. This process raises the issue of how to sustain financially a system whose cost increases with the entrance of new member countries, some of which contain a large farming sector and aspire to equal treatment as compared to "old" members.

3) *Decentralisation and trends in regional policy*. The theory and practice of regional policy has recognised that to address the characteristics of different regions and help them develop, financial redistribution is not enough. This has led in many countries to policies and programmes that have an explicit goal to develop rural places and make them more competitive by mobilising local assets. In the past, acknowledgement that convergence is not always assured through market mechanisms has provided a justification for regional policies (Figure 2.1 shows that growth and territorial cohesion appear to be weakly correlated). However, such policies have been mainly based on redistributive subsidies and other financial incentives. Since these types of policies were first introduced, evidence suggests that they have had a limited impact on regional competitiveness. Between 1980 and 2000, less than 25% of lagging (mainly rural) regions in OECD countries, the lowest quintile in terms of GDP per capita, improved their position relative to the national average. Over three-quarters of all lagging regions have remained in a position of low competitiveness.

Since the 1980s, regional redistribution policy is becoming less prominent on the political agenda, while policies aimed at identifying and targeting local economic opportunities are growing in importance. Large allocations for regional programmes became unsustainable in a period of successive economic recessions, generalised higher levels of unemployment and increasing pressure on public expenditure. Given that disadvantaged regions had not gone away and that inter-regional disparities had persisted or often widened, there was a need to find new ways to address regional problems. Regional policy has thus begun a paradigm shift from a top-down, subsidy-based strategy to reduce regional disparities into a much broader family of policies designed to improve regional competitiveness. These new approaches are characterised by several factors. First, there is a strategic development strategy that covers a wide range of direct and indirect factors that affect the performance of local firms. Second, there is a greater focus on endogenous

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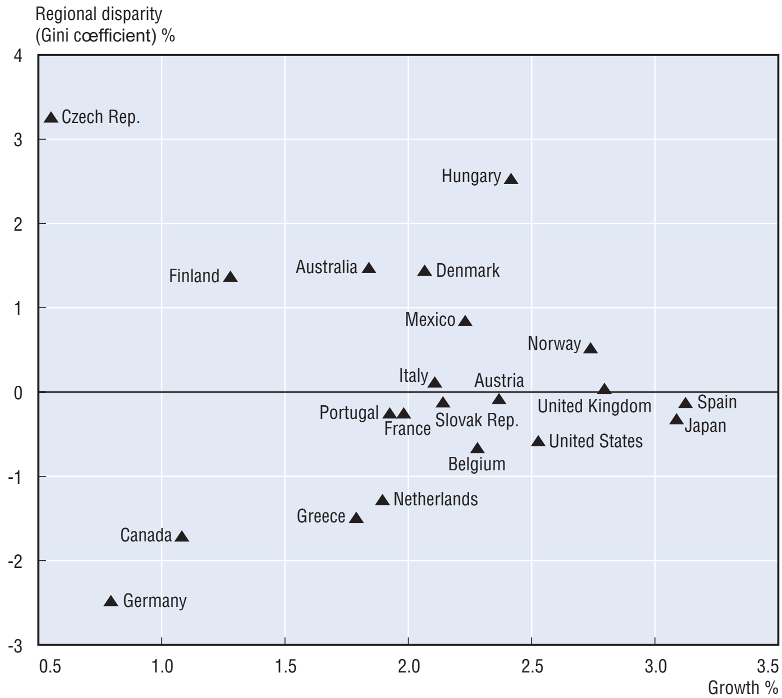
Figure 2.1. **Regional disparities and growth in GDP per capita (1980-2000)**



Source: Based on OECD (2005g), *Regions at a Glance.*

(local) assets and knowledge and less of a focus on exogenous investments and transfers. Finally, there is a collective/negotiated governance approach to such matters, involving national, regional and local government plus other stakeholders, with the central government taking a less dominant role. Evidence of this shift can be seen in recent reforms of regional policy in a number of OECD countries.[1]

As a result of these major shifts in policy making, several member countries are increasingly seeking to develop a multi-sectoral, place-based approach that aims to identify and exploit the varied development potential of rural areas (see Table 2.1).

Table 2.1. **The new rural paradigm**

	Old approach	New approach
Objectives	Equalisation, farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Agriculture	Various sectors of rural economies (ex. rural tourism, manufacturing, ICT industry, etc.)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, NGOs)

Priorities for rural development

The shift away from one sector (agriculture) policy towards an integrated approach to rural development translates into increased attention towards at least four critical policy areas: 1) transport and ICT infrastructure development; 2) public service provision; 3) valorisation of rural amenities (natural and cultural); and 4) rural enterprise promotion (including SME development and SME financing). A cross-sectoral approach to rural development emphasises that policies in these areas should act to address market imperfections and optimise the provision of public goods, two recurring themes in rural development policy. This section discusses these four policy areas and underlines their relevance for rural development. Section 2.2 below will then present different ways in which a number of countries have managed to integrate actions in these policy fields through the introduction of cross-sectoral strategies for rural development.

Transport and ICT infrastructure development in rural areas

As countries seek to address a wide range of opportunities and threats of rural areas, transport and Information and Communications Technology (ICT) infrastructure development become key. The prioritisation of transportation and ICT infrastructure investment involves several different complex questions and often leads to solutions that do not meet the needs of rural areas. In some cases transport investments are based on traditional cost-benefit analysis that tend to concentrate on the direct user benefit of transport and to overlook externalities (positive and negative) and the wider regional impact of infrastructure. In other cases, given the need to support remote rural communities, there is a tendency for investment to be spread thinly and broadly, which is likely to reduce overall returns and development impact. In these cases funds for maintenance tend to eat up investment budgets, thereby crowding out renewal of infrastructure. In addition, the low returns to infrastructure investment in non-metropolitan areas can serve as a disincentive to investment.

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The physical accessibility of rural areas is a key policy objective for both equity and efficiency reasons. On the one side, the combination of remoteness and lack of infrastructure impacts the capacity to supply public services such as education and health services and for firms to develop. On the other hand, linking rural residents with rural jobs and markets is a cornerstone of rural economic development regardless of the area's sectoral composition. The increasing awareness of the need to understand rural-urban linkages and to cope with negative externalities of urban congestion are pushing for a reconsideration of current infrastructure development strategies. These include more sophisticated assessments as to the positive and negative impact that investments in rural infrastructure can have on rural-urban linkages and thus provide new reasons to invest in areas that would not appeal from a more superficial cost-benefit analysis.

In recent years, the diffusion of ICT has brought in a new important element in the discussion about the accessibility of rural areas and their linkages with national and global economies. ICT infrastructure can provide rural residents with cheaper and faster access to both jobs and public services. In many cases, public involvement is needed to ensure the development of ICT in sparsely populated rural areas. In France, for example, a number of local authorities have begun to invest in ICT upgrades that allow alternative operators to spread coverage of their own services.[2] French local governments have used several strategies in their investments through grouped order service contracts, deployment of broadband collection infrastructure, agreements with operators to increase use or the development of access network based on alternative technologies. Whereas grouped public procurement often reinforces the competitive position of the historic operators, public-private partnerships (PPPs) are able to attract new providers, to share investments and risks and to increase coverage in local services. For ICT operators, the existence of a public infrastructure represents a major savings in investment, bearing in mind that the cost of the physical networks is by far the biggest item in the budget (civil engineering, laying cables, etc.). It can thus turn out to be a positive sum game, because for the public authorities in the territories there are different arguments that favour intervention (Ullman, 2005):

- *broadband is a comparative advantage* (or an essential precondition) capable of attracting and retaining businesses, training and educating individuals, or even maximising the efficiency of the public services;
- *relatively low development cost* of broadband as compared with the costs involved in building a roundabout, a stretch of road, or renovating a school, and it thus becomes a question of choice of local policy priorities; and

- *broadband is not confined to one sector*, but affects all areas of public service such as education, training, health, the economy, social, employment, public administration, etc.

While broadband access is key to economic development in rural areas, the European Commission has also recognised it as an essential local service. In November 2004, it approved the public financing of broadband projects in the Pyrénées-Atlantiques region, Scotland and the Midlands (Great Britain). In the case of the Pyrénées-Atlantiques project (see Box 2.1) the Commission decided that, in some circumstances, the public co-financing of an open broadband infrastructure was the fulfilment of an obligation of general economic interest. In the case of the two United Kingdom projects, the Commission stated that the two lots of aid concerning the supply of broadband services were compatible, considering that the subsidies were necessary for the deployment of these services in rural and isolated areas that had been deprived of them.

Box 2.1. **Betting on broadband and infrastructure in rural regions**

In **France**, the *Département* Council (*Conseil Général*) of the Pyrénées-Atlantiques has undertaken a large project for the coverage of the *Département* with a broadband infrastructure. The Conurbation Community of Pau led the way from 2001. A tender was put out for this and a broadband network rolled out in the framework of a public-private partnership. The Pau initiative attracted a good deal of interest and spread to the larger *Département* noted for its vast rural and mountainous areas. It was very quickly realised that the operators alone could not roll out the new services across the *Département* except for the major conurbations and the coastal area. Studies showed that it was in the public interest to put an open infrastructure in place that could be used by all the operators in the market as well as local users, on financial terms that were favourable to the development of services. A group was chosen in the framework of a "*Délégation de Service Public* (DSP)" in accordance with the new provisions of French law that allow a degree of intervention by the local territorial authorities in the telecommunications sector. The set-up provides for investment of 62 million EUR between 2004 and 2006, 68% of which come from public actors (the *Département*, the Region, and Europe). The *Département* has sought to establish close ties with the European Commission in putting forward its project. It therefore integrated the guidelines laid down by the European Commission into its analysis complied with the basic criteria, which are: 1) a regional strategic framework; 2) a geographic target; 3) technological neutrality; 4) open access; and 5) public ownership. In this way, the Pyrénées-Atlantiques project was able to obtain the approval of the

Box 2.1. **Betting on broadband and infrastructure in rural regions** *(cont.)*

European Commission. It is cited as an example and has an image that allows it to gain increased legitimacy with all the actors, public and private. This seal of approval is an indication of the public-private partnership mode the Commission promotes within the framework of the Economic Services of General Interest, to which it expressly refers.

In **Spain**, the *Extremadura region* has bet on information technologies to tackle some of the challenges due to its large surface and particularly low population density. Through the 1998 INFODEX Project, co-funded by the European Union within the Regional Information Society Initiative (RISI), the regional government was able to implement its Regional Strategic Plan for the Information Society and bring broad-band internet access to all public institutions (administrative centres, schools, training centres, hospitals, public libraries). More then 1 400 connections points were created across Extremadura's 383 municipalities. Based on this ICT infrastructure the government then started a number of programmes with different objectives: the Technological Network for Education *(Red Technologica Educativa)* and the Technological Literacy Plan (*Plan de Alfabetización Tecnologica*) which focus on access to technology of both young and old populations; *Vivernet* and *eExtremadura* which provide support to start ups in both traditional and high-tech sectors; the Jara Project which introduced eHealth tools; and finally *GnuLinEx* one of the first free-software distribution initiatives launched by a public actor. The GnuLinEx strategy has allowed Extremadura Region to complete the ratio of 1 PC per 2 students in all Secondary Schools for a total of 70.000 PCs running with free/open source software. Extremadura regional expenditure on this strategy has amounted to about 70 million EUR, with reported savings of 30 million EUR on proprietary software licenses. Regional authorities estimate that the overall investment equals to not more than what would have financed construction of 35 km of highway.*

* *See Extramadura en el Siglo XXI*, Junta de Extramadura, 2005.

Source: OECD (2006), *Territorial Review of France;* OECD (2004c), *Place-Based Policies for Rural Development: Extremadura, Spain (Case Study)*.

Public service delivery in rural areas

The issue of public services delivery (such as health and education services) is particularly relevant in rural areas that often have a low tax base from which to finance services and face higher costs for their provision. In many cases, OECD governments still face the challenge of ensuring "minimum rights" in rural areas in terms of access to basic services which are lacking or below what the country sets as acceptable minimum standards. In Canada, the Quebec government, for example, recognises that while it intends to "provide rural populations with quality public services and to seek, in conjunction with them, appropriate solutions to ensure the satisfactory provision of services", it is clear that "such services cannot be available everywhere, at any price and under any conditions" (Government of Quebec Province, 2001). To address these problems, countries use place-based approaches, service delivery innovation and resource pooling to meet that obligation and find acceptable solutions to equity-efficiency trade-offs.

Innovative initiatives for service provision in rural areas have come from national, regional and local governments across the OECD. Service points for public and private services and goods are one common strategy. These fixed service points typically offer people and businesses in rural areas access to key basic government, financial and other goods and services with the hope of meeting equity obligations while also enhancing the quality of life in rural areas. Service points come in various forms, such as rural transactions centres, one stop shops, multi-service centres or mobile service points (see Box 2.2).

Box 2.2. **Meeting public service delivery needs in rural areas**

Throughout the **United Kingdom**, service provision in rural areas is a critical rural policy issue, especially since the mid-1990s. In 1995 the government published a White Paper on Rural Scotland, which was followed by the establishment of the Scottish National Rural Partnership. In October 1996 it published its Rural Services Charter Checklist. This report stressed that "rural communities expect to receive the same high quality services as their urban counterparts". However, the Checklist did not cover all services. Then in November 2000, the Labour government also recognised the importance of rural service provision in its Rural White Paper for England "Our Countryside the Future: A Fair Deal for Rural England". Within this the government stated its commitment to "fair access to rural services". The White Paper also committed the Government to review the rural services standard on an annual basis. This sets out the levels of access to rural services which rural communities can expect to achieve. The new Scottish Executive from 1999 onwards has also placed service provision as a key policy issue in its rural development strategy, as discussed in Services in Rural Scotland (2000) and Implementing Services in Rural Scotland (2002). Finally, in December 2004, the Executive announced its commitment to improving rural service accessibility and quality in the most disadvantaged and remote rural areas by 2008.

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Box 2.2. **Meeting public service delivery needs in rural areas** *(cont.)*

Australia instituted the Rural Transaction Centres (RTC) Programme to help small communities establish locally run and self-funding centres that either introduce new services or bring back services that were no longer available in rural towns. Recently, the Rural Transaction Centre (RTC) programme has been integrated into the Australian Government's new streamlined Regional Partnerships programme. Since its introduction in 1999, over 200 RTCs have been approved for assistance under the programme. An RTC programme field consultant assists in an initial community consultation and feasibility study. The RTC is therefore tailored to meet community needs but not compete with other planned services, and usually includes: financial services, postal and telecommunications access, federal state and local government services, insurance and taxation, printing and secretarial capacity. These centres employ from one part-time employee to four full-time staff. Funding from the central government covers the capital costs of establishing a RTC and subsidises its operating costs during its early years of operation, if necessary.

In **Scotland (United Kingdom)**, the idea of a one stop shop has been applied in a wide range of fields of service provision, including education, social work, public services, information, business support and community services. A recent study on ten one-stop shops in different rural contexts of Scotland found that: they are usually viewed positively by providers, staff and clients; they usually provide new or better services and make them more accessible; and sometimes they tackle very difficult cross-cutting areas – such as those of social deprivation, youth, and provision of services in remote and scattered communities – which would otherwise not be dealt with by the existing service providers. They are therefore helping to join-up government and other providers on the ground. The study also found that a number of important issues need to be considered in the design, layout, location, financing and staffing of one stop shops, and that community involvement and ownership is vital from the start.

In **Canada**, the Quebec Ministry for Health and Social Services will take into account the specific nature of the needs of rural areas in its orientations, policies and programmes and the planning and organisation of its services in the territory. For example, it seeks to ensure access to basic services on all local territories through family medicine groups, front-line services and locally available services. It also strives for a resource allocation process that is fair in relation to the needs of rural populations. The Ministry seeks to foster home-

Box 2.2. **Meeting public service delivery needs in rural areas** *(cont.)*

care support for the elderly, thus contributing to local economic growth. Young people experiencing difficulties are entitled to receive locally the appropriate psychosocial services. Because some services are simply not feasible for all rural areas, the Ministry seeks to guarantee rural populations better access to specialised and supra-specialised services through a better allocation of medical staff and better travel arrangements for people who need services in urban centres. To support residents from outlying areas, an increase in the number of admissions into medical schools includes a reservation of places for students from outlying regions. Finally, to ensure that pre-hospital emergency services are properly provided in rural areas, agreements are reached with municipal associations to make first-responder services available.

In **Finland**, Enontekiö (population 2 000) is located in the Fell Lapland sub-region but lacks sufficient resources for language training. The municipality is home to the Sami people, with teaching Sami language in school involving only a small number of children and few skilled teachers readily available. Other pupils and students also learn the Sami language in Helsinki. Bringing these groups together by video and Internet-based co-operation has made the delivery of this service more viable, while offering adequate availability of quality teaching resources. This co-operation has been mediated by the University of Helsinki, which operates a biological research station in Enontekiö, well equipped with ICT facilities. This programme, in place since 1994, has since been used by at least one other municipality.

Source: Government of Quebec Province (2004); Bryden, Rennie, *et al.* (2005); Aho, *et al.* (2004) in OECD (2005i), *Territorial Review of Finland.*

In some cases, these services are funded by a self-sustainable unit. When a permanent service point is not possible, mobile service facilities have been used in sparsely populated rural areas (such as mobile shops, libraries, banks and itinerant health care workers). Mobile facilities can be expensive to run and require regular but limited contact with the client but are effective in reaching remote areas (Pickering, 2003). In addition to these combined service points, other innovations include creative resource sharing. For example in Finland, the ICT infrastructure of a biological research station owned by the University of Helsinki in remote Lapland is used to facilitate language instruction to this region lacking sufficient teachers and resources.

Another way to effectively tackle the issue of how to get public services to rural people is also to help rural people get to where the services are. In the

United States, the government introduced in 1998 the Job Access and Reverse Commute (JARC) programme.[3] JARC's aim is to transport recipients of Temporary Assiatance for Needy Families (TANF) and other low-income rural residents to jobs, training programmes and other social services. JARC also supports development of transit services in new areas by complementing the transportation assistance from service agencies, such as those providing education, health care to rural residents. There are countless other innovations across OECD countries.

In general, countries seek to cost-effective provision of public services by enabling greater co-operation within a particular area, among both public and private providers. Resource pooling among municipalities is one of the key strategies used across OECD countries, which requires a governance framework that allows such inter-municipal collaboration. These governance issues are discussed in greater detail in Chapter 3.

Public-private partnerships (PPPs) can be another tool to mobilise new resources for both infrastructure and services in rural areas. PPPs are defined as arrangements between public sector and private sector entities which provide public infrastructure, facilities and related services, all of which have substantial public good dimensions. The most successful partnerships draw on the strengths of both the public and private sector to establish complementary relationships. Typical partnerships seek to identify and appropriately allocate risk, share the responsibilities and associated rewards, and access resources (capital, infrastructure and skills) which would otherwise not have been available to each sector on its own. The contracts regulating partnerships are not prescriptive but provide the opportunity for the private sector partners to introduce innovations which may not have been possible for the public sector institution. Typically, the ability to convert capital funding requirements into a constant expense stream is one of the major driving factors. The transference of risk[4] appears to be the fundamental requirement of undertaking PPPs, because the private sector is able to manage some types of risk better than government, and doing so provides the incentive for the private sector to manage and mitigate that risk for a profit, justifying the partnership. Table 2.2 outlines the benefits and risks of PPPs in delivering services and infrastructure.

Informed public policy can provide the appropriate framework for the development of PPPs to support the service and infrastructure needs of rural communities. There are a number of limiting factors that prevent such communities from effectively developing PPPs. For example, capacity within the community to analyse, develop and execute a PPP (developing a request for proposals, business plans, proposal evaluation) may be limited. Communities may also not be able to build the necessary coalitions when

Table 2.2. **Benefits and risks of public-private partnerships**

Benefits	Risks
Service PPPs	
• Better definition of inputs and outputs	• Provider not aware of local culture and values
• More consistent and predictable service levels	• Politicisation of PPP formation process
• Adds private sector skills, technology and innovation	• Accommodation of unions and collective labour agreements
• Clear risk allocation and consequences for non-performance	• Economies of scale not always possible
• Provides discipline by making expectations explicit	• Cost of process to acquire specialised resources may exceed benefits
• Cost savings and better cost controls	• Tax implications, legal constraints or governmental statutes may prohibit effective arrangements
• Results-based needs identified and tracked	• Insufficient competition for private providers
• Expansion of services via operational efficiencies	
• Flexibility through guaranteed revenue streams	
Infrastructure PPPs	
• Better planning including life-cycle cost savings	• Inappropriate level of risk transfer due to insufficient scale economies to ensure adequate returns for risks assumed
• Better use of equipment and assets	• Multi-jurisdictional challenges across different levels of government
• Quicker project delivery at a lower cost	• Accommodation of unions and collective labour agreements or a lack of skilled labour
• Appropriate risk allocation	• Cost of specialised resources exceeds benefits
• Access to skills, technology and innovation	• Tax implications, legal constraints or governmental statutes may impose difficulties in acquiring infrastructure by the PPP
• Access to capital and reduced operating costs	• Government funding policies with respect to time limits on funding terms and limits on purposes may impose duration or purpose impediments that can defeat the establishment of viable PPP arrangements. Most PPPs for infrastructure are longer than 10 years and involve payment of operating costs
• Flexibility in design	• Insufficient competition for private providers to ensure best value. Sole source arrangements can work for service provision, but seem not to work for major capital projects
• Constant expense stream vs. capital funding	
• Guaranteed revenue streams through shared tenancy and development of additional profit centres	
• Community needs identified, tracked, and managed to meet expectations	

Source: P3 Advisors (2004).

multiple jurisdictions are involved. Central governments, or in same cases regional governments, can play a key role in encouraging the use of PPPs arrangements.The range of policies to support PPPs includes:

- training and local government capacity building with specific reference to the required skills for successful formation of PPP projects;
- funding (either loan or grant) for up-front costs of PPP feasibility studies;
- a clearinghouse function with respect to communities finding other communities as potential partners in order to boost scale economies and make the project more attractive to private participation thus increasing the pool of potential private partners;
- financial support from higher levels of government that could provide the financial commitments that the private sector market may require in order to create a bankable loan;
- legislation to overcome obstacles to PPPs such as legal impediments, tax considerations and constraints on funding policies;
- a clearinghouse information on comparable PPP arrangements and some levels of technical assistance on PPP formation procedures including guidance on planning tools, procurement processes, templates for sectoral analysis and business cases, financial analyses, legal frameworks, contractual language, and procurement documentation.

Valuing rural amenities

Economic development for rural regions is often driven by more effective use of natural and cultural amenities. Amenities like landscapes, mountains or historical sites contribute to the attractiveness of a region as well as provide the "raw material" for different kinds of economic activities ranging from tourism and entertainment industries to speciality products and foods. Economic development may be in synergy with amenity preservation or the two may be interdependent. Therefore policies to link amenities with commercial activities, both farm and non-farm related, can support enterprise creation and growth in rural regions. There are, however, cases when amenity preservation is in conflict with economic development. For example, the use of forests for environmental and recreational purposes may be in conflict with the development of forest industries.

Amenities have special conditions relating to both production and consumption that are not always effectively present in conventional markets. Market failures typically occur where there are few direct incentives for private actors, or even public actors, to provide, maintain or invest in the supply of amenities (because it is difficult to convert this investment into revenue accruing solely or in large part to the investors). Therefore, providers of amenities need financial incentives to maintain and/or provide access to these amenities at a reasonable cost to the consumer.

Policy must therefore recognise the economics of the provision of amenities that lead to market failure, notably their public good characteristics and spillovers (externalities).[5] Each amenity must be analysed to see if it has the characteristics of a public good a private good, or both, as well as if it involves an externality. Public goods have two key characteristics, they are non-excludable and non-rivalrous. If a good is non-excludable, it means that it is impractical to exclude people from it, such as access to a general landscape. If a good is non-rivalrous, it means that one person's consumption does not diminish the value of another person's consumption; again this is also true of a landscape, albeit at some point congestion can diminish that value. The level of the public good (global, national, local) is another consideration in policy approaches to value an amenity. It should be noted that an amenity's classification as a public good as well as its classification on an international scale are both socially determined factors (Kaul, 2003). This definition of the "consumer" of public goods does, however, play an important role in both policy approaches and financing. For example, some amenities may only be of interest locally, such as a small lake, while others are of interest on an international scale (*e.g.*, a notable ski resort or a UNESCO World Heritage site). The ultimate valorisation of an amenity therefore depends on the possibility to transform a public good to a private good, or an externality to a non-externality or joint production.

There is a trend in OECD countries to quantify the multifunctional dimension of agriculture (spillovers and public good characteristics) by valuing amenity provision separately from commodity production functions.[6] Valuation methods are also used to estimate the value of biodiversity and other ecological assets. For example, valuation approaches have been used to quantify the environmental damage caused by oil spills for the purpose of determining costs to be borne by the polluter. Recreational (use) value of rural amenities can be estimated using revealed (observed, actual) preference models that are relatively robust. However, the non-use values of rural amenities expressed as, for example, willingness-to-pay to preserve biodiversity or agricultural landscapes have to be based on stated preference techniques, and are thus more problematic. As such, the ability of policy makers to estimate the cost effectiveness of programmes that support amenities with significant non-use values is limited, which partly explains why policies to develop markets or substitute markets for amenity goods are preferred.[7]

There are a variety of instruments to ensure optimal provision of amenities that take into account these special amenity characteristics. In particular, there are two principal types of policies to promote amenity markets:

- policies to stimulate co-ordination between supply and demand; and
- instruments that provide regulatory or financial incentives or disincentives to act in a particular way.

Policies to stimulate demand may be broken down into policies that: 1) serve to enhance the commercial value of amenities; and 2) promote collective action. The aim of the first set of policies is to encourage commercial transactions between providers and beneficiaries of amenities with regard to either the amenities themselves or to related products. Targeted amenities are those which are potentially private goods so that the establishment of an amenity market is possible with certain assistance, such as the introduction of an institutional framework for amenity markets, supports for the valorisation by rural enterprises, official certification on amenity value added products, etc. For policies to support collective action, the aim is to promote and support actions initiated and pursued by groups of agents with a view to adjusting amenity supply and demand. Targeted amenities are those which need collective action for the maintenance and/or valorisation by providers and beneficiaries.

Other policies may change the economic incentives or regulations that make it worthwhile to adopt practices favourable to amenity provision. In these cases the authorities try to "control" amenity supply themselves. Targeted amenities are mainly those which are public goods and/or externalities so that direct government intervention is necessary to maintain amenity supply and to reveal demand for them. The first set of policies concerns regulations. The aim is to determine and/or reassign rights relating to the ownership and use of amenities, since these rights are often not clearly defined or need to be reassigned to promote the valorisation of amenities or to avoid further degradation. Although the clear definition or reassignment of property rights may facilitate the establishment of markets in the case of a private good amenity, regulations are often imposed to restrict the individual ownership over an amenity: society is considered to hold the property right. Thus, the general function of regulations is to internalise public goods and/or externalities at the expense of providers. The second set of policies concerns financial incentives. The aim is to pay for the supply of amenities and to tax actions which have a negative impact on amenities in order to internalise such actions. When an amenity is a public good and/or an externality, governments are required to create substitute markets: to send demand signals to providers on behalf of potential beneficiaries.

Table 2.3. **Best practice principles to valorise rural amenities**

Policy area	Best practice principle
Approach to rural amenities	• Primary aim is to realise amenity value for economic development which in turn optimises its supply to meet demand • Support the market to fulfil efficiently its role in realising amenity value • Treat some public good amenities as private goods when possible • Direct government intervention for amenities which are public goods and/or externalities • A policy package is more likely to be successful than single instruments
Bearing the costs	• Property rights should be carefully assigned • Beneficiaries of amenities should be identified and required to pay costs when possible • The State should represent the public interest if the beneficiaries cannot be identified
Policy principles	• Ensure a territorial dimension • Carefully design preservation (most rural amenities can not be reproduced and future demand is unknown) • Monitoring and evaluation to gain credibility and ensure effectiveness

Source: OECD (1999a), *Cultivating Rural Amenities: An Economic Development Perspective.*

Given all of these considerations, the OECD has identified a number of best practice principles in valuing rural amenities (Table 2.3). These policies address the general approach to rural amenities, including the institutional arrangements and market mechanisms that help realise their value. Another important question for such policies to acknowledge is who bears the costs of providing amenities. Finally, there are a set of additional policy considerations given the territorial dimension of amenities and the fact that they may not always be reproducible if they are destroyed.

How do these policies work in practice? There are numerous examples. With regards to water usage, the City of New York agreed in 1997 on a certain number of measures to manage the watershed with 40 rural communities west of the Hudson River, communities initially distrustful of the City. The objective was to preserve the quality of drinking water at an acceptable cost for the urban taxpayer, rather than having to invest in costly water filtration schemes. In France, Perrier-Vittel SA, the world's largest bottler of natural mineral water, struck in the late 1980s an agreement with farmers in the Rhine-Meuse area to preserve water purity. This contract then became a partnership in which the French National Agronomic Institute (INRA) and the water management agencies are involved. Other examples of ways to ensure that rural stewardship and economic development support each other by valuing amenities are related to the tourism sector and the promotion of local typical products. Examples are described in the Box 2.3.

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Box 2.3. **Rural amenities for economic development: examples**

Linking up Farming and Tourism in Crete by a Private Initiative, Greece. In Crete, it is only where individual hotel enterprises offer special diets or are concerned with their own positive environmental friendly image that sustainable farming can be enhanced by tourism. Grecotel has launched a pilot project (Agreco) to ensure supply of fresh high quality food for its hotels. In Rethymnon where Grecotel has 3 500 beds, this initiative includes 40 varieties of fruit and vegetables. Such effective linkages in the local economy can help spread the benefits of tourism revenue to parts of Crete that are at distance from the most visited areas and thereby ensure that the public goods associated with Cretan farming landscapes benefit to all.

The "Cheese" Route Bregenzerwald, Vorlarberg, Austria. This was a strategic lead project for the LEADER II programme in this westernmost province. The aim was to build on a well-established local product – cheese – in ways that assured the livelihood of the rural population, reduced commuting and helped to create new jobs in tourism and trade. It was a holistic concept, with multiple and multi-sectoral beneficiaries, strong public-private partnership, and co-operation between different sectors including agriculture, dairies, accommodation providers, alpine pasture managers, trade and commerce. It has led to further innovative products (such as "Käsezwickel", "Käseträger" and "Käse&Design") and the establishment of a new high quality regional branding. It has helped to maintain traditional alpine farming, and hence the quality of the cultural landscapes.

Contrat Territorial d'Exploitation (CTE), France. This was a prominent innovation in the French Rural Development Plan (part of the Common Agricultural Policy Agri-Environmental measures, now in the "Second Pillar") between 1992 and 2003. It was considered to be a success because it was highly accepted by the farming community, especially in the poorer farming areas, and because it had favourable environmental and agronomic impacts. The CTE's were individual contracts between farmers and the State that address the multifunctional role of farming by offering a package of measures designed to address the economic, environmental, territorial and social role of farming. Moreover, the governance is decentralised, and model CTE measures must be approved by regional commissions including local political leaders, farmers and the local agro-food sector, territorial development agencies and local environmental organisations.

The Rural Museums Network of Siena, Italy. A good example of valorisation of cultural heritage is the museum network of the Italian Province of Siena (Sistema dei Musei Senesi) *http://musei.provincia.siena.it/*. Items that were previously kept in a myriad of municipal and parish museums

Box 2.3. **Rural amenities for economic development: examples** *(cont.)*

are to be exhibited in a series of 25 museums scattered over the territory. The museum system policy provides a good example of efforts to increase the experiential value of the province to tourists while also relieving the carrying capacity problem ("the Venice effect") of the most popular destinations. It does this by providing a mechanism for redirecting the 200 000 visitors of the main museums in the city to less popular areas. Each museum provides links to other museums in the network, assembling a sort of organised serendipity so that during the course of discovery in one museum one is directed to the other sites. For example, a tourist's interest in terracotta, mining, or the Tuscan countryside introduced in one of the main museums can be investigated in depth at these topical museums off the beaten track. Additional didactic activities are also developed to attract specialised tourism. This initiative also illustrates the key role that museums can have in understanding and interpreting the history and identity of a given rural territory.

Source: OECD (2005e), *Place-based Policies for Rural Development: Region of Crete, Greece* (Case Study); Shucksmith, *et al.* (2005); OECD (2002c), *Territorial Review of Siena Italy*.

Rural business development

Rural business development needs to address the lack of benefits from agglomeration as well as the gaps in information and financing. Effective solutions acknowledge that rural firms in general face greater barriers to development as compared with firms in other region types. Rural firms suffer from greater distance to markets and the associated costs. While improved infrastructure can help reduce the cost of that distance, it can not compensate for these other gaps that limit economic growth.

Firms in rural regions typically lack the benefits of agglomeration.[8] In other words, the lack of a critical mass of firms in a given geographic area generally, and firms of a similar industry group in particular, limit the ability of rural firms to become more productive or expand. For example, rural firms often have less access to specialised services and suppliers, or if they do have access the cost is prohibitive. They also lack the same access to specialised labour. Finally, it is difficult for firms in rural areas to benefit as much from the knowledge "spillovers" that occur when firms are located in proximity. This knowledge is integral to the innovation process which in turn drives economic growth.

Tools to compensate for these disadvantages include brokering and networking programmes as well as basic and specialised support services. Some of these tools are generally applicable to small firms but have been adapted to rural areas (see Box 2.4). For example, in the United States the University of Wisconsin extension programme CNRED sends agents into rural communities to offer resources and serve as a broker with important stakeholders. In France, the CASIMIR Technology Centre helps to upgrade rural small businesses through technology advice and brokering with service providers and laboratories. The *Fusion* programme in rural Scotland provides business services and builds a network of entrepreneurs and innovators to facilitate knowledge sharing and promote innovation.

Firms in rural areas also suffer from information gaps. Given that information has a fixed cost, in rural areas that have a lower density of people and firms, the average cost of information is higher (Weiler, 2004). The information is relevant for a wide range of actors but private providers are less likely to offer this service and firms are less able to pay for it, leaving an opportunity for public programmes. Often firm support services are in the form of market intelligence, which specifically addresses this information gap. "Economic gardening" tools used in the United States provide a nurturing environment for small local companies, and sophisticated tools are used to provide a range of information to these companies largely free of charge (see Box 2.4).

Finally rural firms suffer from a significant financing gap. For much of enterprise creation and expansion, finance typically comes from the founder's own-resources, family members, and friends – the 3Fs. In economically poor regions, potential entrepreneurs may have limited incomes and savings. Therefore, finding resources outside the 3Fs becomes very important. The problem is that finding these other financing sources is even more difficult in a rural area.

The credit market for small firms in rural areas does not always function effectively, whether this is due to market failure or simply high pricing due to the small investment size. Failures in this market are a focus on borrower instead of business risks and discrimination for certain populations. In addition, there is increasing evidence that some economically viable projects are not funded due to the mode of financing. Banks tend to focus on collateral values and borrower attributes for small business lending instead of a business analysis. One problem is that the transaction costs for a proper analysis of small loans in general are simply too high. Access to banking resources also requires face time contact with banks, as loans are made locally (Kilkenny, 2005). Furthermore, access to equity capital, particularly in small amounts, is more likely a limiting factor for start-up businesses, including those is rural areas, than is debt capital. For equity capital, these transaction costs for

Box 2.4. **Services to rural businesses**

Wisconsin, United States. The University of Wisconsin Community, Natural Resources and Economic Development (CNRED) programme has community development agents in over 65 communities in the state. Beginning in the early 1960s, rural community leaders in northern Wisconsin, where they had already lost most of their agriculture, complained to the University that they no longer needed agricultural extension agents. They needed professionals who could help their communities develop other economic engines besides agriculture that would provide employment. The role of the extension CNRED agent is to encourage, facilitate and affirm local talent and home-grown ideas, as well as to serve as a resource, convener, and broker within the community and between the community and the University of Wisconsin, thereby helping the community to develop itself. Many of the CNRED agents will organise and often staff local partnerships, task-forces of local government, and business councils to facilitate development.

In France, the CASIMIR Technology Centre was established in 1985 in the region of Auvergne. CASIMIR's basic task is to provide small (largely rural) businesses in the Auvergne with information and advice, putting them into contact with service providers and laboratories and providing support for specific projects. These services are provided free of charge, unlike the technical services provided by CASIMIR's subsidiary TECHINAUV. One of the centre's strengths is represented by its technological development consultants, who combine technical skills with solid direct experience in small businesses. Every five years, each consultant spends six months working in a business. CASIMIR's areas of work include industrial design and processes, engineering, food production and processing, packaging, information and communications technologies. CASIMIR also manages CORTECHS, a scheme under which businesses can receive advice and, if they take on a technical worker under 26 years old, are eligible for a grant to cover half the salary for the first year. Partially funded by the European Rural Development Fund the CASIMIR partnership comprises government authorities, two universities, four research bodies, three employers' federations and 13 private companies.

Scotland. *Fusion* is a public-private partnership – a membership company with support from the Regional Development Agency, Highlands and Islands Enterprise. Its main role is to build a "sustainable network of entrepreneurs and innovators in the Highlands and Islands". It facilitates creative interaction between new and experienced entrepreneurs in the region, allowing then "to spark off each other and generate fresh new approaches and solutions". *Fusion* provides a range of services to business, such as looking out for suitable business opportunities, providing an annual strategic review service to members, bringing members together with other business people to explore needs and develop ideas in a supportive way, helping to identify funding for R&D, developing links with location- and interest-specific sub-groups, and offering opportunities for training, network and development. *Fusion* runs Innovation Award schemes sponsored by Microsoft.

Box 2.4. **Services to rural businesses** *(cont.)*

Colorado, United States. "Economic gardening" began in Littleton, Colorado to support local entrepreneurs in rural areas. As much as three-quarters of staff time available for business support is used to provide tactical and strategic information. They have developed sophisticated search capabilities using tools often only available to large corporations. They subscribe to ten different database services and CD-ROMS which provide them with access to over 100 000 publications worldwide, and they use these tools to develop marketing lists, competitive intelligence, industry trends, new product tracking, legislative research and to answer a number of other custom business questions. They also monitor all new construction through Dodge Construction Reports so that local contractors can bid on projects. In addition, they track real estate activity and have access to the market reports of national consulting firms. Their Geographic Information Systems (GIS) software can plot customer addresses as well as provide demographic, lifestyle and consumer expenditure information. They also monitor local businesses and vacant buildings and projects. Finally the information component also includes training and seminars in advanced management techniques such as systems thinking, temperament, complexity theory and customer service strategies.

Source: www.uwex.edu/ces/cnred; www.casimir.org; www.fusionlinking.co.uk/TOP.html; www.littletongov.org/bia/economicgardening/default.asp.

identification and execution are an even greater problem than for debt, with resulting limits on minimum sizes for equity investments.

Collateral represent a particular problem for the financing of businesses located in rural areas. This is because most business loans are based on collateral, and the value of assets as collateral (essentially their salvage value in the case of a foreclosure) is substantially influenced by the thin markets characteristic of rural areas. As new rural businesses are increasingly service oriented and moving away from traditional manufacturing approaches, the collateral issue is again a problem. A business built around information technology may have few, if any, assets that a bank will consider collateral.

There are a number of policy initiatives at the national and local level that can support the financing needs of business start-ups or expansions in rural areas (see Table 2.4). With respect to debt financing, credit guarantee programmes aim to facilitate access of firms with viable business projects to bank lending from which they would otherwise be excluded. Schemes are designed to bridge some of the collateral/risk gaps by guaranteeing repayment of a portion of the loans losses incurred by banks in making the higher risk loans. Microcredit, although made famous in the developing world, is another lending mechanism available in many OECD countries to fund either start-ups, working capital or capital investment. Pricing may be higher than traditional banks to cover the often higher cost per loan and, unlike traditional banks, they are often made on an unsecured basis. The techniques used to reduce the high transaction costs are achieving a high volume of repeat loans and additional tools to discourage payment default such as group guarantees across a pool of individual borrowers. There may be a complement of business development services from the same or a partner provider.

To address equity capital gaps, there exist groups known as Business Angel Networks (BANs) to overcome the problems associated with the invisibility of such investors and the high search costs for small businesses seeking investors. This is done through information sharing while retaining investor anonymity until the negotiation stage. There are private for-profit BANs with national and regional scope, as well as public and private not-for-profit BANs at local and regional levels throughout the OECD countries, though the evidence is that a majority of business angel investments in this form are through public and not-for-profit BANs (Mason and Harrison, 1997).

Table 2.4. **Financing entrepreneurship for local economic development**

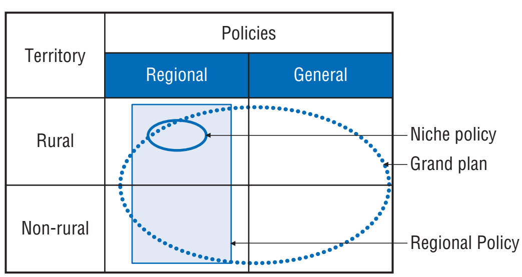
National level policies	Local level policies
• Consider introducing regional flexibility in the terms of national loan guarantee schemes	• Work with local banks and other financial intermediaries to facilitate access to finance for entrepreneurs
• Consider the creation of incentives for bank support to micro-finance initiatives	• Consider the promotion of mutual credit guarantee associations
• Pay careful attention to the design and operational characteristics of micro-finance initiatives	• Encourage equity investments through education and information, and support networks of business angels
• Ensure effective enforcement of anti-discrimination laws in bank lending	
• Address the broad issue of a lack of banking facilities in deprived localities	

Source: OECD (2003a), *Entrepreneurship and Local Economic Development*.

2.2. Country strategies to integrate rural policies and programmes

This report has discussed so far both the existence of market failures that justify public policies in rural areas and of policy failures that suggest a new approach to policy making. On these premises, several OECD countries are seeking to introduce more innovative, cross-sectoral rural development strategies. In this respect, policy makers face the difficult question of what scope these strategies should have and what place they should occupy within public policy. An overview of different national approaches shows that countries tend to adopt two opposite and rather extreme solutions to this question. On the one hand, there are attempts to apply what has been defined as a "grand plan" (see TDPC Chairman's Statement, Figure 2.2). In this case, it is argued, the goal should be to have all policies somehow integrated and thus policies directed to rural areas would be working coherently and according to a comprehensive strategy. Rural policy would then co-ordinate all public policy affecting rural areas. However, for a number of reasons, such a wide approach to regional and rural development that tries to address all areas of the broad policy framework – both the nature of a policy (regional *versus* general) and the nature of the territory (rural *versus* non-rural) – entails numerous risks for failure and often produces inaction. Several important obstacles include the fact that the information to achieve this is incomplete and asymmetrical as well as the sheer number of actors to co-ordinate. In contrast to the attempt to reach the overall "grand plan" integrating all policies, many countries have approached rural policy in terms of a "niche policy", whereby they have polices only for some rural regions. These policies are often disconnected from other regional policies (such us those for urban development) and from sectoral policies. Moreover, being niche policies these initiatives are often poorly funded and thus have modest economic and social impact. The case of the European LEADER[9] Programme is a good example of this.

Figure 2.2. **Matrix for rural policy analysis**



A compromise between these two extremes could be a comprehensive regional policy approach Adopting this solution, as it is argued across many OECD countries, would imply that the left half of the matrix would be covered by a well funded regional policy which would provide an umbrella for co-ordinated urban and rural development policy. For policies to be "well funded", policy makers would need to shift resources currently devoted to ineffective sectoral policies to regional policies as well as mobilise new resources through public-private partnerships (see Chapter 3). General, sectoral policies in the right hand side of the matrix would be a separate matter but they would be assessed ("proofed") for their impact on rural and non-rural regions. For instance, several European countries have attempted to use EU Cohesion funds to support such an approach. The OECD Territorial Development Policy Committee has shown that, while all policy approaches may succeed or fail, this approach could offer some advantages in addressing both market and policy failures affecting rural areas.

While the question as to what place rural policy should occupy within public policy remains open, it is worth considering in more detail the variety of approaches that can be taken when dealing with rural policy according to the political, administrative and economic characteristics of a country. These approaches range from rather comprehensive policies and "rural proofing" mechanisms to programmes that are more specific and limited in scope. The quantity and quality of innovation in both OECD and non-OECD countries is enormous. The examples below reveal different approaches to developing an integrated rural policy.

Canada's Rural Lens to assess policy impacts on rural areas

Place-based policy principles are explicitly embedded in Canadian rural policy as it has developed over the last decade. In 1996, Canada embarked in a process that resulted in the "Thinking Rural" report detailing new and explicit guidelines for rural policy. In accordance with this report, the Federal Government created a Rural Secretariat within the Ministry of Agriculture and Agri-Food to administer Canada's rural policy making. The second responsibility mandated that the Minister co-ordinate activities of most federal agencies impacting rural areas through an interdepartmental working group on rural issues. Subsequently, the Canadian Parliament established a Secretary of State for Rural Affairs, also at the Cabinet level. The Secretariat's responsibilities are to provide leadership within the Canadian Rural Partnership, which embodies the collective contributions to rural development of federal departments and agencies.

As Canada developed its institutions to serve a rural policy, several more components were put in place in 1998. "A Rural Lens" with a checklist of considerations was initiated to determine if a policy or programme addresses priorities for rural Canada. The checklist of considerations is as follows (Government of Canada, 2005a):

- How is this initiative relevant to rural and remote Canada?
- Is the impact specific to a selected rural or remote environment or region?
- Have the most likely positive and negative effects on rural Canadians been identified and, where relevant, addressed?

- Is the initiative designed to respond to the priorities identified by rural Canadians?
- Have rural Canadians been consulted during the development or modification of the initiative?
- How is the benefit to rural Canadians maximised (*e.g.*, co-operation with other partners, development of local solutions for local challenges, flexibility for decision making)?

In addition to asking these questions, the Rural Lens unit disseminates information based on a series of ongoing consultations called the Rural Dialogue in which Canadians offer their views on rural issues and priorities.

Another important tool to promote rural development in Canada is the Community Futures Program, which has been sufficiently flexible to evolve over time. It began in 1986 as a component of the Canadian Jobs Strategy with an initial objective to address areas of chronic and acute unemployment which, given economic development trends, gave the programme a rural orientation. In 1994, the programme was aligned with business development programmes, thereby creating Community Futures Development Corporations (CFDC). The three main functions of CFDCs are: 1) strategic planning for multi-community rural areas; 2) business services, including counselling; and 3) access to capital and investment funds. In 1995, yet another change was the transfer of responsibility from the national level Human Resources Canada to regional industrial and economic development agencies. The purpose of this transfer was to allow the programme to become more regionalised, enable multiple programming and promote local autonomy in support of rural economic development. The programme has now reached 268 CFDCs for extensive coverage of Canadian's rural areas (Government of Canada, 2005b).

The programme has sought to address many of the themes in local endogenous development. For example, the CFDCs have local Boards with a range of public and private stakeholders, serving to build trust with the local community. The Board's decisions, if in compliance with programme guidelines, are unlikely to be delayed, cancelled or rejected by a higher level authority. The Board also has discretion over fund disbursements and investments. The three- to five-year contribution agreement helps establish the vertical co-ordination mechanisms and the overall strategy. The national level focus is therefore on standards, accountability and risk to ensure effective use of public funds, leaving flexibility at the local level for variations in implementation. The CFDC can help bridge some of the national initiatives with local actions and has the flexibility to establish horizontal partnerships at the local level that serve an important integration function. Finally, the process of community development serves to contribute to local capacity building.

Finland's Rural Policy Committee: "broad" and "narrow" rural policies

Finland's first multi-year Rural Policy Programme began in 1990. Somewhat like the Canadian Rural Lens, the goal is to draw attention to the specific needs of rural areas and integrate these into central government decision making in different sectors. The vehicle to do this is a large committee with an extensive cross-sectoral focus. The Ministry of Agriculture and Forestry hosts a 21-member committee representing nine ministries and several other organisations. The Deputy Secretary General is the Minister for Regional Development and Municipal Affairs. Between 10 and 15 theme and work groups at a given time address the wide range of issues such as tourism, communications, welfare services and urban-rural links. Over 50 staff members from various organisations serve as part-time secretaries. This arrangement is also consistent with the Nordic tradition of a consensus-building approach to decision making. Their tasks are outlined in Table 2.5.

Table 2.5. **Tasks of the Finnish Rural Policy Committee**

• Promote co-operation in rural policy	• Reinforce operative basic structure of the countryside as well as rural research and know-how
• Design and implement the Rural Policy Programme and assist the Government in drawing up the Special Rural Policy Programme	• Prepare statements on rural policy across administrative sectors and for rural policy issues
• Prepare means to promote rural policy programmes and objectives	• Develop joint services for rural areas for forms of reorganising services
• Prepare actions to improve rural entrepreneurship and employment	• Launch programme and project activities that increase the interaction between urban and rural areas and control migration in co-operation with urban policy actors
• Promote the creation of network projects which cross thematic and regional boundaries in key sectors that take advantage of EU funds and objectives	

Source: Ministry of Agriculture and Forestry and Ministry of the Interior, Finland.

This rural policy focus is in the context of a regional development focus within the central government. Rural policy is therefore approached using both a "broad" and a "narrow" perspective. The broad policy concerns all actions across different administrations that could have an impact on development in rural areas. The narrow policy relates to initiatives that specifically focus on rural areas. In general, Finland makes a clear distinction in its regional polices between those that seek to address competitiveness

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policies, which fall under the narrow category and those that serve needs for equity and equal access to public services, the broad category. Finland reports that the work on the narrow rural policy is more advanced than that of the broad policy. The Rural Policy Programme also includes an evaluation component and funding of research professorships and doctoral theses.

In addition to this focus at the central level, there exists a strong infrastructure at the local level for place-based policies (OECD, 2005i). Finland has therefore worked its way up the learning curve with respect to such multi-stakeholder arrangements and the investment has had positive results. For example, Finland was very successful in the context of the EU LEADER programme in developing Local Action Groups with value-added projects, therefore the country was able to access and spend funds earlier than many other countries less prepared for such a programme. Given high national standards for service delivery and a degree of flexibility in the organisation of their implementation within or between municipalities, Finland has also developed innovative solutions to public service delivery at the local level in rural regions. For example, Finland has used ICT to bring Sami language instruction to remote regions in conjunction with the University of Helsinki.

The Netherland's "agenda for a vital countryside"

The Dutch countryside is somewhat atypical for OECD standards: given that the country is densely populated, most rural areas are under urban influence. There also exist a number of areas that contain concentrations of intensive farming or greenhouse businesses. These spatial conditions make more prominent the natural and economic inter-linkages between urban and rural areas.

The Dutch approach to rural development seeks to highlight that the countryside fulfils several essential functions for all citizens. Those functions include employment opportunities, living space, and landscapes for recreation as well as being a storehouse of nature, wildlife biodiversity and water. In order to deal with the challenge of combining these sometimes conflicting interests, the Dutch government has identified some innovative solutions in combining functions like recreation with agriculture or nature development with water management.

When publishing the "Agenda for a Vital Countryside" in 2004, the government chose to devolve as much as possible responsibilities for rural development policy. This strategy was designed to encourage growth and vitality in the rural economy by allowing the parties concerned greater flexibility. While this Agenda describes the main national policy targets and budgets for the countryside, it allows regional and local authorities to translate these policies into action and integrate them into local and regional measures. Starting from January 2007, national funding of these measures (by means of a broad Investment Budget for the countryside) will be based on seven-year target agreements with the regional authorities, which leaves more scope for integrated and sustainable plans based on a combination of national and regional priorities. The national priorities, as outlined in Table 2.6, focus on nature, agriculture, water, recreation, socio-economic vitality, and landscape with specific additional goals for different regions.

Table 2.6. **Netherlands: rural policy aims**

Nature	• Biodiversity: ensure biodiversity by maintaining, restoring, developing and using nature in a sustainable manner
Attractive recreational facilities	• Healthy and attractive living and working surroundings • Strengthen and maintain spatial diversity between urban and rural areas • Ensure no shortages of recreational possibilities • Develop and strengthen the accessibility of rural areas • Room for recreational entrepreneurship
Landscape	• Strengthen identity and ecological diversity as well as historical and cultural values • Maintain and strengthen internationally and nationally unique cultural and historical landscapes • Strengthen spatial quality of buildings, villages, cities and landscapes
Agriculture	• A future orientated, competitive agricultural sector • Sustainable use of soil, water, air and other natural resources
Soil	• Maintain and restore the usage value of the soil
Water	• A sustainable water system at acceptable costs
Reconstruction sand areas	• Stimulate positive developments in the south and east of the Netherlands and solve several regional problems
Socio-economic vitality	• Healthy economic and social basis as well as a good service level for the inhabitants of rural areas (priorities: strengthen socio-cultural infrastructure, economic developments and innovation, strengthen rural resident participation in policy making and delivery)

Source: Ministry of Agriculture, Nature and Food Quality, Netherlands.

Thus, the roles of the various actors are changing as local and regional authorities will have more responsibilities and scope for implementation. The national government will be less involved in implementation and concentrate on facilitating policies by setting clear targets and providing knowledge and funding to regional and local authorities. It will also focus on the translating of

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global and European regulations into national policy. The changes in European Common Agricultural Policy are also expected to have an important impact on the countryside, as many Dutch farmers will be faced with critical choices to expand, cease operation, or broaden their scope combining agriculture with other activities such as land management, recreation, or energy production.

The United Kingdom's "localising" initiatives: Rural Pathfinders and Local Strategic Partnerships

Place-based approaches to policy, services and governance are commonly applied by the UK's Department for Environment, Food, and Rural Affairs, DEFRA. DEFRA was created in June 2001 to both broaden the focus of rural policy and to eliminate policy "silos" by gathering under one roof several rural functions which were spread across various departments. DEFRA's Rural Strategy, published in 2004, reinforced the changes to a more broadly based and locally, focused rural policy. Some of the rural policy functions have been decentralised to regional bodies, and a recent initiative, Rural Pathfinders, is further exploring some of these changes.

The Rural Pathfinder scheme, led by local authorities, was formally announced by DEFRA in October 2004. The approach explores practical ways of improving local service delivery to rural areas by testing more co-ordinated and flexible approaches that devolve resources to local areas and grant more control to local stakeholders. It aims to be a vehicle to identify opportunities, blockages, gaps, and possible synergies in local service delivery and to identify ways to tackle or maximise them. Each pathfinder has a grant of 100 000 GBP to look at the existing rural funding streams within the area and desired outcomes, to decide what the local priorities are and whether they match, and to test or revise delivery mechanisms.

An earlier initiative, "rural proofing", had already introduced a horizontal rural "check" across central government departments. The Government's Rural White Paper (2000) obliged departments to put a mechanism in place through which policy design and implementation were systematically checked for their impact on rural areas, and to take action to mitigate adverse impacts where appropriate. The process has served as mechanism for inter-departmental co-ordination in a similar way to the "rural lens" approach in Canada. Knowledge and interest in rural proofing has spread from the central government and it is becoming a tool for analysing and improving rural services among local authorities, by making more public sector bodies aware of rural issues.

As changes in the rural economy are driving policy towards a multi-sectoral approach to rural areas, national trends in modernising governance are supporting a change towards place-based policies and structures across the country. Three key objectives for supporting this trend are: joining up public services in a more locally responsive way, drawing a broader range of people into governance structures, and strengthening community leadership.

One such "localising" initiative, Local Strategic Partnerships (LSPs), was designed by the Office of the Deputy Prime Minister (ODPM) in 2000, and reflects a change in national thinking about local governance that is more than just a specifically rural (or urban) policy. Local Strategic Partnerships are a vehicle for promoting place-based governance in rural as well as urban, areas of England. They are intended to be a method of co-ordinating *all* the public services in a locality with the needs and aspirations of people in the area by linking the different government agencies to each other and by involving a wider number of relevant parties.

The Local Government Act 2000, the *National Strategy for Neighbourhood Renewal Action Plan* (January 2001) and the more detailed *LSP Guidance* (March 2001) set out the Government's initial model of what LSPs should be and what they should do. LSPs are non-statutory, multi-agency bodies, which match local authority boundaries, and aim to bring together at a local level the different parts of the public, private, community and voluntary sectors. LSPs act as overarching partnerships in a local area, tying services, policy initiatives and existing partnerships into a strategic framework. Local partners working through a LSP are involved in many of the major decisions about priorities and funding for their local area and tackle deep-seated, multi-faceted problems, requiring a range of responses from different bodies. To achieve these improvements, the Government, local authorities and other service providers must work co-operatively, adopt new working methods, reallocate resources and modify mainstream programmes and resources to tackle issues important to local people (as described in the statutory Community Strategy for each target area). The LSP guidelines reflect a cross-government and a cross-agency commitment to LSPs as a vehicle to achieve greater co-ordination. Representatives from the voluntary and community sector, and the business sector, are involved in many LSPs.

Some of the major tasks and responsibilities of the LSPs include:

- *Developing the Community Strategy*. Each local authority is required to produce a Community Stategy which is drawn from the community's needs and guides the activities of the local authority and its partners. The LSPs play a key role in the process and help develop an integrated approach to service delivery at the local level.
- *Contributing to Local Public Service Agreements (LPSAs)*. Local authorities are expected to deliver public service activities at the level of a national

standard. A LPSA is an *additional* incentive to stretch the performance of a local authority which is then financially rewarded for its efforts. It is a voluntary agreement negotiated between a local authority and the Government, the aim of which is to improve the delivery of local public services by focusing on targeted outcomes. The LSPs help define the LPSAs and reinforce the working partnership.

- *Co-ordinating and rationalising partnerships.* Rationalising partnerships and bringing some order to the proliferation and duplication of local partnerships is another key purpose of the LSPs. LSPs work to achieve greater consistency of targets between departments and agencies, simplify the numbers of targets set for different bodies at local level, enable better alignment of objectives and synchronise planning cycles between agencies in a local area.

In 2005, a further policy development reinforced the importance of "place" in local governance. Local Area Agreements, where all public service players within a county/borough boundary agree on a common action plan, are being piloted extensively (60 participating authorities). They are likely to have the effect of strengthening the LSPs, and they will also incorporate the LPSAs. In addition, LSPs are currently the subject of a thorough evaluation by the Office of the Deputy Prime Minister. One aspect being considered is whether to place a duty of co-operation on other public bodies within an LSP area; at present their involvement and commitment is highly varied (Government of the UK, 2005).

Mexico: an integrated approach through micro-regions

The circumstances of rural Mexico are like the rest of OECD countries, though more extreme in many cases. During the 1990s the average urban income was almost three times that of rural incomes. Well over a quarter of Mexico's population lives in nearly 200 000 localities, each with less than 2 500 inhabitants (OECD, 2003c). Even though agriculture represents a fundamental resource in a context of poverty, most rural households in Mexico now derive a large portion of their income from non-farm employment. While the opportunities for economic development are thus increasingly linked with these non-farm activities, the sharp difference in the average earnings of workers across sectors exemplifies the difficulties facing a rural population unable to gain access to economic activities other than agriculture.

In this context, the guiding principle in government programmes for rural development and poverty alleviation is progressively shifting from assistance towards actions that allow for the accumulation of human capital and provide opportunities for local development. However, consolidating a shift in rural governance and developing place-based rural development policies in the country faces some specific difficulties. The key problems of dispersion and marginalisation in Mexico need to be tackled in a context where traditional subsidies and lack of efficient governance have long prevailed. On the one hand, subsidies have created a culture of dependence. On the other hand, centralism, lack of strategic focus and low transparency have led to little vertical and horizontal co-ordination in rural development policies.

The fragmented initiatives that have traditionally characterised Mexican rural development policy, including farm subsidies, scattered infrastructure investments, income safety nets and a multiplicity of pilot programmes, do not meet the needs nor are they able to exploit the potential of rural Mexico. In order to overcome the structural disadvantages of Mexico's rural regions, at least two key policy objectives are being pursued: 1) the adoption of an integrated territorial perspective; and 2) the design of an appropriate governance framework capable, in the context of decentralisation, of vertically and horizontally integrating the knowledge available at different government levels in the design, implementation and monitoring of a new rural development strategy. The Micro-regions Strategy launched in 2001 represents an attempt to follow this logic.

The strategy, named *National Strategy for the Micro-regions*[10] is a set of horizontal and vertical contracts. It was introduced as an effort to break the pervading tendency of "sectorialisation" between ministries or between the state and federal levels and to avoid the duplicity of public investments for lagging rural regions.[11] The strategy partially draws from previous experience and from tools developed during previous administrations. Its rationale is to foster a place-based policy by identifying functional regions, and facilitating mechanisms to induce endogenous development through the creation of "micro-poles of development", labelled as *Strategic Community Centres* (*CEC* by its Spanish acronym). The CECs, identified with spatial, social and economic criteria, select a particular community that is relatively well endowed in terms of connectivity and relations with surrounding localities. The objective is to create at the local level a pole to receive local demands from the community leaders, to deliver services, and to co-ordinate public investments assuming that in the long-run the gradual development of these poles will serve to contain rural dispersion and promote economic activity.

The strategy's main normative instrument is the *Principles for Inter-ministerial Co-operation and Co-ordination* signed by 12 Ministries which identifies as its target 250 rural micro-regions of very high and high marginalisation. Thirteen more were added to the initial 250 micro-regions in order to include all the municipalities where at least 40% of the population spoke an indigenous language. The target areas for the strategy are thus 263 micro-regions spread across 1 334 municipalities in 31 different states.

These micro-regions contain more than 99 000 localities and host a population close to 20 million.

The Micro-region Strategy relies on a multi-tier co-ordination mechanism. It is designed to accommodate the current process of decentralisation of responsibilities and resources and the increasing availability of information and communication technologies for intergovernmental horizontal and vertical communication processes. *At the federal level*, political co-ordination among different ministries is enforced through the Inter-sectoral Committee for Micro-regions, which meets twice a year with the participation of the Ministers and is chaired by the President. At this level, the guidelines of the strategy are discussed and agreed upon. The overall operative co-ordination of the process and of the strategy is responsibility of a General Co-ordinator within SEDESOL (Mexican Ministry for Social Development).

At the state level, an intermediate or "approval" level is represented by the *Sub–Committee for the Attention of Regions of High Priority* (SARP), mainly known in the different states as the COPLADE.[12] The COPLADE is a wide-ranging state development council chaired by the state's Governor. At this level, the Unique Programme of Regional Sustainable Development (UPRSD) is drafted and negotiated to constitute the general investment framework for each micro-region. Within the COPLADE structure is set a "mesa" (discussion group) for the micro-regions. The co-ordinator of each *Mesa para las Microrregiones* is the State Delegate of SEDESOL. Bottom-up demands from the *Councils for Regional Sustainable Development* (CRDS) are received here either through the SEDESOL representative or through the elected representatives of the CRDS.

At the local level, co-ordination takes place in each Strategic Community Centre (CEC) through the periodical reunion of the Council of Regional Sustainable Development (CRSD), known in the states as COPLADEMUN or as the Committee for Municipal Development. In the cases where the Micro-region boundaries exceed the municipal administrative ones – which is usually case – a "Micro-regional Committee" is formed bringing together the COPLADEMUN of each municipality. The aim of this local tier is to articulate a partnership where communal organisations are represented. In different communities it is assumed that interests are not the same, therefore partnerships are sought where agreement exists: *e.g.*, commodity producers. Through these communitarian assemblies local demands are discussed and given a priority. With the help of SEDESOL representatives, these demands are given the forms of projects and transmitted to the state's COPLADE.

If the projects fall within the established criteria, and the budget is available in the ministries represented, the demand is approved and included in the Programme for Regional Investments. The state level is increasingly participating through bi-lateral negotiations that determine the actual amount of the respective financial participation of different levels of government in the projects. If the concerned ministry is not willing to cover the complete cost and the community does not have the resources to provide the remaining cost, the compensatory mechanism of the *Micro-region Programme* enters into effect.

The evaluation of the strategy's impact is based on flag indicators for each of the CECs. The stated objective is to achieve the ten white flags or *banderas blancas* (three additional flags are possible for recommended objectives). A white flag certifies that a target area has been endowed with a certain level of infrastructure or service. Example indicators include an operative telephone service, a minimum number of internet accessible computers in the locality, or a minimum percentage of rural land registered. Reportedly,[13] the Strategy has established between 2002 and 2004 more than 6 000 white flags in 31 states and in about 2 200 communities, which account for 62% of the original targets set for the six-year government term.

LEADER Programme: cultivating bottom-up approaches across EU countries

The LEADER Community Initiative is one of the better known European rural development programmes and was conceived as an integrated and endogenous approach to rural development. The programme has been widely recognised as a success due to its innovative character and because of the results obtained in many rural areas despite the relatively limited budget.

The LEADER Initiative began in 1991 with LEADER I, continued from 1994-1999 with LEADER II and is currently (2000-2006) known as LEADER +. The initiative has been implemented across the EU in both lagging and leading rural regions and has had fast territorial expansion; while LEADER I covered 220 areas, LEADER II reached more than 1 000 in the entire EU-15.

One important outcome of LEADER was the introduction of a LEADER *method*. This method implies co-operation across and within public administrations and the private sector and its application has had a notable impact on the governance of predominantly rural regions across Europe.[14] There are three main elements characterising the implementation of the LEADER method: 1) a territory or LEADER area; 2) an integrated strategy relying on an endogenous approach and innovative actions; and 3) a local action group (LAG) characterised by decentralised financing, co-operation and partnerships between public and private stakeholders. These elements operate within two alternative approaches (Soto, 2004). The first approach is redistributive and perceives the programmes as a partial compensation to different rural territories for their structural disadvantages. The second approach is more proactive and insists on the most innovative aspects of the LEADER method, aiming to facilitate the mobilisation of certain actors that elaborate and apply a development strategy in each territory. Some examples of LAG projects are described in Box 2.5.

The governance of the LEADER programme consists of a complex multi-tier administrative scheme (see Figure 2.3). The European Commission defines the strategy, elaborates the regulatory framework and provides most of the public financial resources. National and regional administrations establish subsidiary application norms and contribute with a smaller share of the financial resources. Defining the measures for the rural areas, as well as the application and selection of the subsidised projects, are primarily the responsibilities of the Local Action Groups (LAGs). The final individual beneficiaries are the ones that define the specific projects and that significantly contribute to their financing and execution. This administrative scheme also includes an evaluation function executed by the European and regional administrations, according to criteria defined by the European Commission. It should be noted that the content of these *ex ante* and *ex post* evaluations mainly focuses on the administrative control of expenses rather than evaluating the territorial impact of the development measures.

The LEADER method shows its organisational originality at the local level in the role and functioning of the Local Action Groups which play a key role as the "crossroads" of the complex system of vertical and horizontal relationships. The functions of the LAG, which are outlined in the collective agreement undertaken by the central and regional administrations, can be summarised as follows: managing the programme and its funds; developing local development plans; handling the final beneficiaries' requests and carrying out the payments to them; and analysing, selecting, and following up the projects. The LAGs are held accountable for the efficiency of the results achieved in each specific zone and have often produced a positive influence on local governance dynamics.

The LEADER method has had success and generated a lot of enthusiasm in many rural areas across the EU. Some factors for success and challenges with regards to LEADER are described in Table 2.7. The extension of this model at the national level in Germany (REGIONEN AKTIV) and Spain (PRODER) is indicative of this. This success brought up two issues. *First*, analysis of the LEADER programme's implementation demonstrates that, even though often difficult to quantify, the benefits that a bottom-up, integrated approach to rural development can bring with relatively little resources are significant. *Second*, LEADER's success stands in contradiction to and highlights the limits of the sectoral approach to rural areas which is still dominant in terms of financing throughout the EU and in several OECD countries.

Box 2.5. **LEADER +: examples of innovation in rural places**

A community radio project in the Minden-Lbbecke district of Germany; a project tailoring work for the disabled in Ripollés, Spain; refurbishing Keltimagh's market square in Ireland in an effort to turn back the tide of out-migration; establishing a leisure centre in Gandra, Portugal in order to re-establish community in the heart of the village – these are rural development projects aiming to increase the quality of rural life.

Projects adding value to local products include the development of a network of local food producers with a detailed marketing plan and brand identification in Sjuhärad, Sweden, and the exploitation of about 80 000 hectares of under-utilised Chestnut trees in small stands in Chambaran, France that includes new approaches to timber use in furniture and staves for vineyards, and even to development of hiking trails.

The use of know-how and new technologies on behalf of rural places range from the use of Geographic Information Systems (GIS) identifying various landscapes to protect meadow birds, fauna and botanical development, and other landscape elements in Texel, Netherlands, to a Finland/Ireland collaboration on the thermal treatment of Sitka spruce initiated by the Suupohja Development Association in Finland. A regional development knowledge management system on behalf of 67 communities in the Styrian region of Austria brings database management to local rural development.

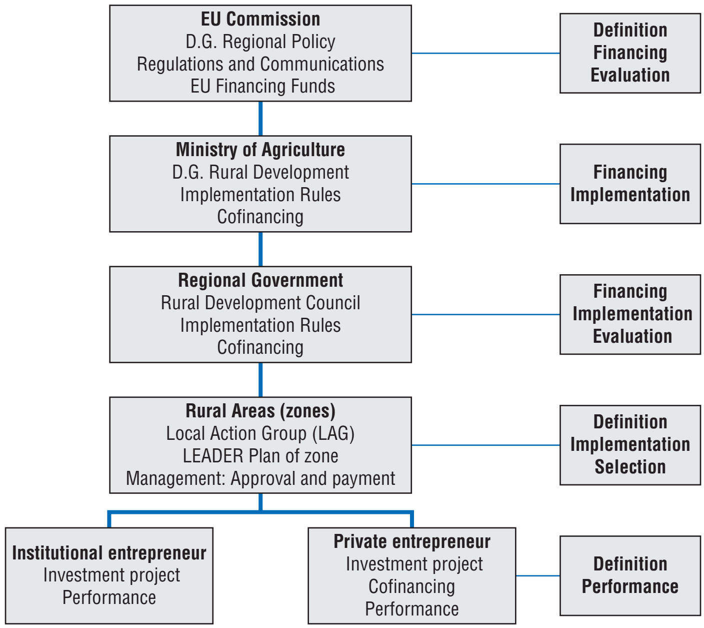
Making the best use of natural and cultural resources can be important development activities. In the very rural Pays de Langres in France, an ambitious project is structured around four complementary areas: the development of digital industries, the attraction of research and development activity to the area, training and higher education, and finally, local identity. The project starts with an effort to digitise the heritage of a famous local figure, Denis Diderot, and build the rest around the Pôle Diderot.

Nemea, in the Peloponnese, Greece, is one of the four places where the ancient Pan-Hellenic Games took place. When excavations revealed the ancient stadium of Nemea, local residents organised an association for the revival of the ancient Nemea Games and rituals and in 2004 the third revival (every four years) was held. The historical initiatives and events in the community have led to other projects and initiatives including the establishment of a major winery selling wine locally, in the larger Greek market, and in export markets.

Multinational co-operation and partnerships are illustrated by a joint Danish-Swedish project between two rural hardwood producing and manufacturing regions to strengthen the development of uses, manufacturing technology, and marketing of hardwood products. The regions of Kalmar, Kronoberg and Jönköping in Sweden and the region of Viborg in Denmark are the rural places where this project has been established.

Source: ÖIR (2003).

Figure 2.3. **Administrative structure of the LEADER programme**



Source: OECD (2004c), *Place-Based Policies for Rural Development, Extremadura, Spain (Case Study)*.

Germany's new approach to rural development: REGIONEN AKTIV

Germany developed the REGIONEN AKTIV programme to address insufficiencies in existing agricultural and rural policy approaches Government of Germany, 2005). The programme is in response to several issues. First are the perspective of a decline in agricultural subsidies from the EU CAP and the declining share of agriculture in the GDP of Germany's rural regions. Second, consumers have expressed strong views on agricultural practice, and of the need to realign consumer and agricultural policies. Finally, additional projects that could make a major contribution to securing rural incomes and employment often failed because they did not suit the sector-specific programme requirements. Therefore the Federal Ministry of Consumer Protection, Food and Agriculture (BMVEL) initiated this rural development competitive grants demonstration programme influenced by the German experience with the LEADER programmes.

The REGIONEN AKTIV programme's four objectives are: 1) strengthening rural areas and creating additional sources of income; 2) nature-friendly and environmentally compatible land management; 3) consumer-oriented food production; and 4) strengthening rural-urban connections. The 2002-2005

Table 2.7. **Lessons from LEADER II**

Factors for success	Challenges
Efficiency	
• Adaptability to every rural socio-economic and governance context	• A too short implementation time
• Capacity to bring local actors, administrations, and support structures closer together	• A disempowering administrative environment
• Ability to mobilise additional efforts of committed local actors	• The prior existence of similar initiatives at the local level
• Responsiveness to small-scale activities and projects	
Effectiveness	
• The closing of the gap between a top-down programme and local needs / aspirations	• A too short implementation time
• A mentality change from passive to active attitude	• A disregard of the bottom-up approach
• The responsibility conveyed to local partnerships	• A weak and unrepresentative local partnership
• Direct and indirect effects on strategic issues (ex., job creation and new investments in key sectors)	
Sustainability	
• New avenues for creating added value or synergies between existing value added chains	• The disruption of the local partnership and of technical assistance by cutting funds abruptly at the end of the period
• Capacity building at the local level around partnership	• High fluctuation rate of key actors
• Increased public-private co-operation	• The continued dominance of a single sector or of public actors in the local partnership
• Integration of environmental concerns	• The relatively small size and impact of the intervention compared to other influence factors
• A European, yet global perspective	

Source: ÖIR (2003).

programme budget of 50 million EUR came from national sources. Almost half of that funding is allocated to projects related to "gentle" tourism or regional marketing. There are plans to extend the programme for a second phase through 2007, with a possible regional co-financing requirement, to focus on new types of projects that support strengthening the partnerships built during the programme. In general, the programme design addresses five important factors for rural place-based development:

- *Competition:* to promote innovative and promising projects.
- *Bottom-up approach:* within the context of the overall objectives, sub-national authorities have decision-making responsibility for content, concrete measures and budgets.
- *Integrated strategy:* the plan should integrate economic, ecological and social concerns across the region with a place-based focus and attention to rural-urban links in the area.

- *Partnership:* The local process should include key interest groups. The development plans designed by the local partnerships are binding for the use of funding. Sub-national authorities also work in partnership with the national government in a negotiation process.
- *Capacity building and information sharing:* the programme supports and promotes accompanying training and further education for all actors. The lessons learned from the model areas will be available to all.

To achieve these objectives, small areas ("Regionen") were selected on a competitive basis with the view that they would serve as models for all rural areas. In the first phase of the competition, key regional interest groups from several sectors, in particular consumers, agriculture and forestry, environment, businesses and other local stakeholders were asked to develop a joint vision for the future development of their region. Out of 206 applicants 33 regions were selected and received additional funding to develop an integrated rural development plan. Ultimately, 18 regions were selected, six "Regionen" from the eastern German Länder and 12 from the western German Länder. They mirror the diversity in Germany's rural areas – from particularly weak-structured, isolated rural regions to rural areas with favourable conditions for development. Within three years, those 18 territories began or completed 550 individual projects.

The programme has served to facilitate a paradigm shift in approaches to agricultural and rural policy. It is reported that 31 of the 45 regional partnerships formed during the competition in regions that were not selected have continued to operate. There is also a greater openness from other sources to finance areas such as integrated rural development and regional management. Finally, there is a stronger culture for evaluation and self-assessment among the regions selected as a result of the programme. The long-lasting impacts of this programme will need to be evaluated in the future.

Integrated rural policy: examples from non-OECD countries

The need for a *new rural paradigm* is discussed not only within OECD countries, where the consolidation of agriculture is suggesting a shift towards a wider approach to the rural economy. In several non-OECD countries, integrated rural policy making is being introduced as a way to make the most out of rural areas. In many cases, rural strategies in developing countries are focused on poverty alleviation and on increasing new on-farm or off-farm activities that can help rural areas cope with the decrease in employment creation that follows the introduction of more capital intensive agricultural production.

In Latin America, many rural development strategies remain poverty focused conditional cash transfers that aim at improving basic conditions of rural people. Evidence show that these programmes have been very effective especially in the fields of education and health. These programmes have been able to provide immediate assistance to poor rural families but also to support long-term human capital investments in children. In Brazil, Colombia Honduras, Nicaragua and Mexico programmes based on conditional cash transfers benefited more than 10 million families, mostly rural residents, with a total fiscal cost of about 3.2 billion USD (about 0.2% of their GDP) in 2002 (World Bank, 2005a). But there are also many examples of more cross-sectoral and bottom-up strategies for rural development. As a matter of fact, since the mid-1990s there has been increasing discussion across Latin America about the need for an integrated approach to rural development. Through the EXPIDER project (Pilot Experiences of Rural Development in Latin America) the IADB, with the support of the government of Spain, has been active in trying to translate this debate into practice through pilot projects in Bolivia, Ecuador and Honduras.

In Central America, several countries are implementing innovative strategies for the valorisation of natural and cultural amenities in rural areas (such as the *Mundo Maya* and the *Ruta del Café* rural tourism networks), create non-agricultural employment opportunities and generate economic gains for the rural communities themselves. *Costa Rica* is a leading example. The Government of Costa Rica has recognised the new challenges and opportunities of rural development and responded with an innovative Rural Development Strategy and Rural Development Programme (*Programa de Desarrollo Rural, PDR*) in the spring of 2003. The Strategy and Programme were designed by the Ministry of Agriculture and Livestock (*Ministerio de Agricultura y Ganadería, MAG*) as a way to move from a sectoral to a territorial rural development approach, bringing together the different economic, social and environmental aspects of the rural landscape. By strengthening the links between agriculture and other areas such as tourism, the environment, artisanal production, rural agro-industry and services, the strategy seeks out new products and markets to drive rural development. Considering that rural development opportunities exist in both agricultural and non-agricultural sectors, the MAG's Rural Development Programme assumes a cross-sectoral co-ordinating role and works to involve actors from the national, regional and local levels to promote sustainable development in rural areas.

Throughout Costa Rica's eight regions, the PDR facilitates rural development projects that address one or several of the programme's four central axes: 1) economic and environmental development; 2) social and human capital development; 3) infrastructure and social services; and 4) co-ordination and policy. Examples include the Central-Oriental Region's programme to improve the competitiveness and training of young rural workers or the South-Central Region's capacity, organisational and entrepreneurial building programme to develop an agro/eco-tourism association and other new rural employment opportunities. One initiative the MAG set up through the PDR was a Rural Development Observatory, in co-operation with the Inter-American Institute for Cooperation on Agriculture, the University of Costa Rica and National University in Costa Rica. As part of the Observatory there is an information-sharing website where each institutional rural development project is listed, both by region and by topic, including an outline of the project's structure and objectives, the government and local agencies involved, as well as budgetary and contact information. Box 2.6. illustrates an innovative regional initiative for integrated rural development.

In many *other Central American countries* some of the most marginalised rural zones are found along national borders, which can create difficult co-ordination issues between countries as they try to manage the resources and opportunities found in these regions. In this framework, and following some successful but sporadic initiatives of cross-border co-operation, the Central American Bank for Economic Integration (CABEI) launched a particular innovative initiative in 2004: the *Central American Development Programme for Frontier Areas* financed by the European Union. This programme, which is allocated a global amount of 54 million USD (46 of which are allocated to project funds), is developed in nine micro-regions, five of which are characterised for being cross-border municipalities and four of which are characterised by shared river basins. The nine regions are highly populated, highly vulnerable, and further characterised by poor water quality, poor resource management and high concentrations of rural poverty. The beneficiary population is around 1 300 000 inhabitants from Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The programme aims to introduce a participatory, bottom-up approach to rural development in border regions with increased public participation and has a dual objective: on the one hand, to generate joint activities in frontier regions and alternatives to the economic activities linked with customs, and on the other hand, to encourage the co-ordinated management of natural resources and river basins.

In South America the challenges associated with rural poverty and development have led countries such as *Argentina* to alter their rural policy approaches and take on more territorial-based initiatives. At the national level, the Secretariat for Agriculture, Livestock, Fisheries and Food (SAGPyA) created the Rural Development Commission (RDC) in 1999 as part of its greater commitment to rural development and to help implement new programmes to bolster the traditional set of rural development policies in the fight against rural poverty. The RDC is responsible for designing and implementing rural development policies assisting with the co-ordination of SAGPyAs programmes in the provinces and co-ordinating with other government agencies on rural development issues. At the provincial level,

Box 2.6. **The Nicoya Peninsula Development Agency (Costa Rica)**

New rural development strategies were created not only at the national level in Costa Rica, but also at the regional and local level. The many different parties involved in rural development in the five cantons on the Nicoya Peninsula recognised some of the shortcomings of the existing Agricultural Development Project of the Nicoya Peninsula (*Proyecto de Desarrollo Agrícola de la Península de Nicoya, PRODAPEN*) and older mega-projects carried out by the Ministry of Agriculture and Livestock (MAG). In particular, they were worried by the absence of integrated regional or sub-regional development projects which they felt were necessary to allow the peninsula to benefit from previous investments and achieve more cohesive development between different productive sectors.

Therefore, over 60 organisations of producers, together with individuals from the five cantons, the PRODAPEN Consulting Committee, and with support from the MAG's Rural Development Programme, spent ten months studying and analysing the current rural development situation and formulating a new Rural Development Strategy for the Peninsula. The Strategy set out to:

1. Establish a shared vision on agricultural and rural development between all of the involved actors and organisations, public and private.
2. Permit effective and efficient co-ordination between all of the participating actors, to search out complementarities and new alliances and resource sharing.
3. Allow for the evaluation of initiatives, projects and programmes that should be based on the shared vision and the established strategic actions, and do so in an objective manner that corresponds to the needs of the Peninsula.
4. Manage the financial, material and human resources necessary for the Peninsula's rural development, including those provided by the national and international entities.
5. Have the Rural Development Strategy be sustained by a well conceived and structured organisation that is governed by principles of participation, transparency and legality and that can elevate the public's awareness.

The group of actors that created the Rural Development Strategy thereby created the Nicoya Peninsula Development Agency (*Agencia para el Desarrollo de la Península de Nicoya, ADP*). The ADP is seen as the body of a new institutional system of integrated rural development that is capable of linking the public and private sector, short-term and long-term development objectives, and local and regional goals with the overall rural development aspirations of the country.

Source: ADP (2004).

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there are Ministries of Agriculture that conduct provincial rural development policies. Rural development in Argentina is based significantly on enhancing local empowerment, facilitating market access and developing relevant markets for the rural poor (IFAD, 2004). Two similar but equally important rural development programmes that reflect Argentina's move towards local empowerment and territorial development strategies are the Rural Development Project for the Northeastern Provinces (PRODERNEA) and the North Western Rural Development Project (PRODERNOA).[15] The programmes, both of which are primarily funded and receive technical support from the International Fund for Agricultural Development (IFAD), are decentralised and have a participatory management structure involving the national and provincial public sectors and the private sector. These investment programmes target the rural poor and indigenous populations of the country's poorest regions with technical and financial assistance aiming to diversify the regions' existing rural economies and improve the indigenous communities' living conditions. A key aspect is the information sharing that takes place between the different actors involved in developing and implementing the specific projects, and an important information system is being formed to spread the procedures and experiences to other beneficiaries of PRODERNEA and PRODERNOA, as well as to provinces and government ministries not directly involved (Márquez, 2004).

In addition to Argentina, other South America countries are beginning to experiment with a more holistic, bottom-up rural development approaches. Building upon the experiences of the 1996 National Programme for Strengthening Family Agriculture (PRONAF) and the associated Municipal Rural Development Councils, in 2002 *Brazil* reformed some of the administrative, organisational and municipal project selection methods of PRONAF by introducing the National Plan for Sustainable Rural Development. Declaring that rural development requires a territorial rather than sectoral focus, the Plan called for the implementation of Territorial Development Contracts that would guide the transition from sectoral to cross-sectoral policies and programmes. The Plan and the Contracts focus on creating non-agricultural employment, improving market access for small rural producers, diversifying rural economies though the exploitation of local competitive advantages to stimulate economic growth while elevating the overall social and human capital and improving local governance.

Ecuador, with loan assistance from the World Bank and the European Commission, implemented in 2001 the Poverty Reduction and Local Rural Development Project (PROLOCAL). The target area is six micro-regions (a total of 150 local governments) where 80% of the population is rural, and within that population poverty incidence exceeds 80%. While the project is co-ordinated by the Under Secretariat of Rural Human Development within the Ministry for Social Well-Being, the primary responsibilities are carried out by the local governments and the six micro-regions' Regional Technical Units. The objectives of the project are: 1) for each local government, together with social organisations, grass-roots organisations and producer associations, to develop a local development plan; 2) to improve local service delivery through the technical, administrative and organisational capacity building of the local governments and other organisations; 3) to co-finance productive initiatives designed and executed by the local civil society to increase productivity, add value to agricultural and non-agricultural products and establish rural-urban linkages; and 4) to strengthen rural financial services.[16] PROLOCAL establishes horizontal links between the different township or parish governments within the micro-regions, as well as links between the six micro-regions, but it also incorporates vertical linkages and the transfer of rural development responsibilities from the central to the local level.

Another geographical area in which policy debates are increasingly focusing on rural development is the North African region. Many countries of the region, also in the framework of the continuous policy dialogue with countries on the Northern side of the Mediterranean sea, are introducing integrated rural policies.[17] The Government of *Morocco* for instance has launched the 2020 Rural Development Strategy to introduce a new, holistic approach to rural policy. In Morocco almost half of the 30 million inhabitants are located in rural areas, and about 70% live in poverty. The strategy, which received in 2003 a 25 million USD loan from the World Bank, aims to eradicate rural poverty by boosting both farm and non-farm economic activities through local development plans elaborated through participatory approaches involving all sectors of the rural communities. The strategy marks a breakthrough with the traditional top-down and sectoral approach to rural development and is being developed in the framework of a wide reform of regional and planning policy in the country.

Other interesting examples of governments adopting cross-sectoral strategies for rural development come from *Asia*. *In India*, there have been various policy initiatives towards integrating rural development policy at the local level. An example is given by the state of Andra Pradesh (AP) where a large scale rural development programme has demonstrated how a place-based approach to rural development can enhance empowerment, governance, service provision, and private sector growth. The AP District Poverty Initiatives Programme was implemented by over 450 000 self-managed grassroots savings and credit mobilisation groups and over 800 federations of such groups representing more than 4.5 million people. These groups cumulatively saved more than 20 million USD and mobilise more than 150 million USD of bank credit annually. As a result, capital and technical services are more broadly available to improve the livelihoods of poor households. These groups and federations represent social capital not only for economic self-help but also to act on behalf of their members *vis-à-vis* local governments and public service providers. The strong network of local institutions developed through the programme has also allowed communities affected by the 2004 Tsunami to cope more rapidly and effectively with the aftermath of the natural disaster. Federations of self-help groups collaborated with state agencies and local governments to quickly and accurately organise community needs assessments, channel assistance from public agencies and donors to those most affected, and to devise local public-private partnerships not only to rebuild what was lost but to make use of aid to develop a stronger, more diversified local economy. The Andra Pradesh experience suggests that links among community, local government and specialised service providers can contribute to more equitable, dynamic and sustainable rural development (World Bank, 2005b).

In Indonesia, the Kecamatan Development Programme (KDP) has demonstrated the potential of a national integrated development programme employing a community support approach to rural development. In response the national economic, governance and development crises of the late 1990s, KDP channelled a relevant portion of Indonesia's rural investment resources to village-led sub-district institutions for local integrated planning and management. By focusing on empowerment of community members *vis-à-vis* local civil servants, KDP has contributed to improving local governance and rural development projects by broadening participation and accountability in decision making and resource management. Community investments have increased the quality and coverage of social services as well enabled local economic development through infrastructure improvements and providing village producer groups with access to seed capital. KDP's example has influenced governance reforms and served as the basis for a new multi-sectoral strategy at community and local government levels. As Indonesia's governance and public sector reform have advanced, Kecamatan councils and community resource management have been institutionalised. The emerging framework for local governance in Indonesia is demonstrating the potential for an integrated approach to rural development which links community, local government and sectoral interventions through locally appropriate institutional arrangements (World Bank, 2005b).

In Thailand, there have been several recent attempts to introduce policies capable of better exploiting local assets and promote the diversification of rural economies. Two initiatives stand out for their innovative focus on local resources and on local actors. The "One-Million-a-Village-Fund" introduced in 2001 represented a breakthrough compared with traditional top-down approaches to rural development. This programme created funds for about

7 000 rural villages giving large discretionary power to local actors as to the development of a village strategy and thus the collective use of the financial resources. Similarly, but with a focus on local typical products, the "One Village One Product" (or One Tambon One Product – OTOP) programme was started based on a successful Japanese experience. The goal of such programme implemented throughout rural Thailand is to help local actors valorise local resources and traditions by producing high-quality goods that are then marketed internationally.

Conclusion

The country strategies discussed in this chapter, which are just a few examples, illustrate that a paradigm shift in rural policy has begun to be implemented across both OECD and non-OECD countries. Since new programmes and policy approaches are in their early stages, the effectiveness of these strategies will need to be assessed for their medium and long-term impacts. One common factor in these new policy strategies is that, even if they do not all yet involve significant funding, they contribute to important culture changes with respect to rural policy. *First,* these policies and programmes acknowledge that there are multiple objectives in rural policy and that they require different approaches. *Second,* the place-based approach has helped foster public-private mobilisation at the local level: new stakeholders are being integrated into the development process. *Finally,* these initiatives are developing a culture of cross-sectoral co-operation at all levels of government and diffusing awareness on the diversity of rural needs and opportunities and thus the need for a place-based approach to rural policy.

As discussed throughout this chapter, although the level of funding devoted to integrated rural policy is still low, there has been a noticeable change in the "mind set" of policy makers towards rural development. There is recognition that policies for rural areas require a multi-sectoral approach as no one sector is sufficient to bring about rural development. With an increasing focus on competitiveness in policies for rural development, as well as increasing recognition of the role of amenities (public goods) in that process, knowledge at the local level has come to the forefront. These new approaches require important changes in how policies are conceived, financed and implemented. The traditional top-down approaches are less helpful in many aspects of rural development given the great variation in rural places. Therefore, governance has to account for a greater role of sub-national governments while the central governments need to ensure better overall coherence and co-ordination as well as technical support for policy making. Involving private stakeholders requires yet other adjustments to governance mechanisms. The level of co-ordination across sectors, across units of government at a given level and across levels of government necessitates appropriate governance frameworks to be effective. Given the more diffused nature of rural policy, monitoring and evaluation becomes even more critical to the process. Chapter 3 will explore these governance needs.

Notes

1. An example is given by Italy, which since the end of the 1990s has introduced the new *Negotiated Planning* as a paradigm shift with respect to traditional approaches to regional policy. See (OECD, 2001b).
2. This paragraph is based on the OECD 2006 publication *National Review of France.*
3. For more information on the impact of the JARC programme see *www.ers.usda.gov*.
4. Whether or not a financing transaction is truly a transfer of risk is less a function of the instrument used, or of a single quantitative benchmark (such as the disposition of a capital asset at the end of a lease), than a broad economic question of how the risk and benefits of the arrangements have been moved from the public to the private sector partner on the risk continuum. The less a financing arrangement depends on direct or implied commitments by the public partner with respect to future annual appropriations, the more likely a true transfer of risk has taken place. The more scope that exists for a PPP private sector partner to generate third-party income, or benefits from future windfall gains, the more likely this arrangement is to represent a true transfer of risk and reward. Furthermore, the more risks that are retained by government or the more the government participates in potential future gains, the less likely it will be that the government has achieved the goal of transferring a significant amount of risk.
5. This section is largely based on prior work on rural amenities as documented in (OECD, 1999a), *Cultivating Rural Amenities: An Economic Development Perspective*.
6. Economic valuation is widely used in OECD countries as a way of assessing values (usually monetary) to goods that have no markets. Valuation methods are used to support or argue against projects and policy choices. The political relevance of the debate stems from the technical and ethical difficulties of assessing the value of non-market goods. This means that the validity of much of the information presented to or by governments, in defence of key arguments in domestic and international policy debates, is often contested. Economists have developed a variety of techniques to value non-market environmental and cultural amenities consistent with the valuation of marketed goods; *i.e.*, based on individual preferences.
7. Even when the methodology may be sound, the fact that many estimates (particularly of non-use values) are based on hypothetical "contingent valuation" surveys, means that the results cannot be taken too literally. There may be large differences between what people say they are willing to pay and what people actually disburse. To test this disparity, a willingness-to-pay mail survey that was followed by an invoice requesting the sum that the respondent had claimed to be willing to pay. While many people paid, the discrepancy was nonetheless large.
8. Economist Alfred Marshall noted that agglomeration economies offer firms several benefits due to their proximity: particularly labour market pooling, access to specialised suppliers and knowledge spillovers.
9. The name is an acronym of the French expression "Liaison Entre Activités du Développement de l'Économie Rurale" (LEADER).

10. *Estrategia Nacional de Atención a Microrregiones*.

11. 14 February 2001, available at *www.presidencia.gob.mx*.

12. Spanish Acronym for *Comité par la Planeación del Estado*.

13. See *http://www.microrregiones.gob.mx/* for the government's reports evaluating the impact of the strategy.

14. See OECD (2004c), *Place-based Policies for Rural Development: Extremadura, Spain (Case Study)*.

15. PRODERNEA, which covers the provinces of Formosa, Corrientes, Chaco and Misiones, was established in 1996, while PRODERNOA was established in 1999 to cover Catamarca, Jujuy, Salta and Tucuman (but did not come into force until 2003 and currently only has projects in Catamarca and Tucuman).

16. For more information see the Web site *www.prolocal.gov.ec/index.html*.

17. For more information see the Web site of the International Centre for Advanced Mediterranean Agronomic Studies *www.ciheam.org*.

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Chapter 3

Governance Strategies to Support Rural Policy

Key points

- The "new rural paradigm" requires important changes in how policies are conceived and implemented to include a cross-cutting and multi-level governance approach. Traditional hierarchical administrative structures are likely to be inadequate to administer these policies effectively and adjustments are thus needed along three key governance dimensions: horizontally at both the central and the local levels and vertically across levels of government.
- Central governments often struggle with overcoming their own sectoral approach in favour of an integrated policy approach to rural development. More and better co-ordination implies the political commitment to overcome sectoral tendencies and an overall clarification of roles and responsibilities of different ministries or agencies in the field of rural development. Various horizontal co-ordination governance options include special high-level special units, integrated ministries, "policy proofing" and inter-ministerial co-ordination via working groups and formal contracts.
- Co-ordination is also needed at the local level to integrate sectoral approaches, to involve private partners and to achieve the appropriate geographic scale. Integrated rural policy is often carried out through *ad hoc* local partnership that present some common features and underlying principles: First, a target area is defined based on administrative and/or functional criteria. Second, local public and private actors join a partnership and pool knowledge and resources. Third, a rural development strategy is developed around a shared "vision" of the territory and a set of common objectives.
- Monitoring and evaluation are key to the effectiveness of integrated rural policy. The traditional challenges for identifying indicators for monitoring and evaluation are exacerbated by the multi-sectoral nature of rural development policies. The combined use of soft and hard indicators can improve the effectiveness of both ex ante and ex post evaluations and help develop over time a "culture of evaluation". This refers to a context where evaluation is not seen as a top-down exercise linked to the distribution of financial resources. Rather, in this perspective, evaluation becomes an opportunity for actors at different levels to jointly assess how well they are doing and how the effectiveness of their actions can be improved.

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- A new research agenda in rural development should aim for two key objectives. First, the development of a comprehensive analytical framework for rural development policy that should include appropriate qualitative and quantitative sets of indicators to allow the evaluation and comparison of different policies across countries and across regions within countries. Second, a systematic review of country strategies for rural development should be carried out and its results made available to policy makers across the OECD.

Introduction

This chapter seeks to highlight the ways in which OECD countries may promote governance structures that support rural policy goals. The challenges for the development and implementation of rural policy are made more complex by the multiple layers of government with differing coverage areas as well as the traditionally sectoral nature of administrations. The design and implementation of an integrated rural policy therefore requires changes in the intra-governmental relations and between the public and the private sectors and the civil society.

From an analytical perspective, relations between actors form along two different dimensions: vertical and horizontal. A vertical dimension encompasses relations across levels of government from the supra-national level to the national and the local one. Within this dimension the role of different institutional actors can vary substantially. In some countries the governance system is centred upon the central government, whereby upper co-ordination can be more important, while in other systems with stronger sub-national authorities, co-ordination at lower levels increases in importance and the central government focuses more on overall policy strategy and coherence. The focus in this case is on co-operation mechanisms which need to be examined at both the central level of government (among ministries) and at the local level (among municipalities and other stakeholders).

The chapter is divided into four parts. The first part addresses the importance of a *central level* government's role in two capacities: first, in its role of metagovernance (managing the governance process) to provide a hospitable environment for intergovernmental co-ordination and second, with respect to horizontal co-ordination across central-level entities. The second part discusses the special needs for *local level* co-ordination to address efficiency and spillover issues that do not correspond to existing local administrative boundaries. This co-ordination covers inter-municipal agreements and structures, public-private partnerships for infrastructure and services, formal multi-stakeholder partnerships and other co-ordination mechanisms that frequently involve private sector actors. The third part explores the challenges related with *vertical inter-governmental* relations and the tools to manage such relationships including formal agreements, financial incentives, monitoring and evaluation systems. Finally, the conclusion summarises the key issues discussed in the chapter and outlines the major knowledge gaps and the methodological challenges that need to be addressed by future research.

3.1. Central level governance

Central governments moving away from a sectoral approach to rural areas face the issue of how to organise their policy action to embrace an integrated approach. Governance at the central level targets both co-ordination among its own units and the development of an appropriate environment for promoting rural policy co-ordination at other levels of government. ("metagovernance"). Some of the key questions concerning the central government's role include:

- Which ministry or agency should do what?
- What mechanisms are needed to co-ordinate different ministries and agencies at the central level?
- What are the major obstacles to developing a regulatory framework for effective cross-sectoral co-ordination at different levels of government?

Managing the process of rural development policy

In most countries, central governments play a key role in influencing the complex system of actors that concurr to place-based rural development. This kind of role has been referred to as "metagovernance" which entails the "governance of government and governance" (see Box 3.1) (Jessop, 2000). Central governments are often the most suited to provide the ground rules for governance at other levels, and the regulatory order in and through which governance partners can pursue their aims. The concept does not imply either a super-ordinate level of government controlling all co-ordination arrangements, or the imposition of a single, all-purpose mode of governance. Rather, this process management requires ground rules that manage the complexity, plurality, and tangled hierarchies characteristic of most modes of co-ordination. This work encourages coherence among objectives, time frames and spatial horizons. Most importantly, this process management shapes the context in which these arrangements can be developed rather than developing the specific strategies and initiatives to achieve them. Such a process requires the definition of new roles and identifies lead organisations appropriate to co-ordinating other partners. It involves the development of mechanisms for collective feedback and learning about interdependencies.

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Box 3.1. **Roles for metagovernance**

The concept of metagovernance implies management of government and the governance process using a range of mechanisms. To successfully manage this complex set of policies and institutions, it has been recommended that the entity responsible for metagovernance:

- ensure the compatibility or coherence of different governance mechanisms and regimes;
- act as the primary organiser of the dialogue among policy communities;
- deploy a relative monopoly of organisational intelligence and information with which to shape expectations;
- serve as a "court of appeal" for disputes arising within and over governance;
- seek to re-balance power differentials by strengthening weaker forces or systems in the interests of system integration and/or social cohesion;
- try to modify the self-understanding of identities, strategic capacities, and interests of individual and collective actors in different strategic contexts and hence alter their implications for preferred strategies and tactics; and
- assume political responsibility in the event of governance failure.

Source: Jessop (2000).

This process management role applies to both horizontal relationships at the top and co-ordination of vertical relationships across levels of government. With market co-ordination the possibility exists for market failure; with administrative command co-ordination there are an abundance of examples of government and administrative failures; similarly, the possibility exists for governance failure. The guard against that depends on the capacity to change modes of co-ordination that are not working and to develop alternative arrangements that will more likely produce desired outcomes. This is particularly difficult when top level authority is not based on hierarchy, command over resources or even coercion, but rather on moral suasion and mediation. Thus, there is no real "best practice" for governance at the central level except to promote place-based development and adapt and adjust the co-ordination mechanism as learning and experience is acquired along the way. In this context the role of monitoring and evaluation and the information derived from it, to be discussed later, become important tools in establishing governance authority and in the development of collective feedback mechanisms.

Horizontal co-ordination

Central governments struggle with overcoming sectoral approaches in favour of an integrated policy approach to rural development. In order to do so, co-ordination is needed to encourage the various institutional and managerial systems which formulate and implement rural policy to work together. Consistency is also requested to ensure that individual policies are not contradictory, and that they converge in a coherent strategy. This implies a strong political will to overcome sectoral tendencies and an overall clarification of roles and responsibilities of different ministry(s) or agency(s) in the field of rural development.

Various horizontal co-ordination governance options are available:

- a special unit reporting directly to a head of government or parliament;
- an integrated ministry to address several issues of importance to rural regions;
- "policy proofing"; and
- inter-ministerial co-ordination via working groups and formal contracts.

High level "special units" have been created in several countries to address place-based policy development. The position of such units or co-ordinators close to a Chief Executive serves as an important incentive for co-operation across agencies or ministries. There are multiple examples of such units dedicated to place-based initiatives. In France, the DATAR (now DIACT) is an inter-ministerial body linked to the office of the Prime Minister with both co-ordination and implementation responsibilities.

Another option is the creation or reform of a ministry or agency with an expanded scope and explicit "jurisdiction" over rural development issues. National and central authorities in the United Kingdom and Germany represent examples of institutional innovation in this field. In the United Kingdom, the same central authority, DEFRA, embodies wider responsibilities over a broader set of areas including the environment, food and rural affairs. In Germany the Ministry of Agriculture is also responsible for food and consumer health. In other countries, responsibilities over agriculture, environment, food and consumer health are distributed among several national administrative bodies, resulting in a fragmentation of these functions and frequent conflicts in decision-making processes and resource distribution. For more general territorial planning, Japan merged four separate ministries into one Ministry of Land, Infrastructure and Transport. There are some positive implications in the concentration of different responsibilities within the same authority: a more open coherent view for rural areas, the concentration of technical and administrative skills and the possibility for a more integrated programming approach.

"Policy proofing", typically spearheaded by a small unit, is another method to facilitate policy coherence with respect to rural areas. The Canadian Rural Lens is intended to guide policy developers across government in taking the rural perspective into account as they develop their policies. Ideally, staff representing the Rural Lens get involved early in the policy process, but if that doesn't occur, an opportunity to provide input occurs when governmental agencies invite all other departments, including the Rural Lens staff, to an inter-departmental review of all new policy proposals prior to their being considered by Cabinet. At present there are 32 departments and agencies whose programming contributes to rural development (see Box 3.2).

Another approach to upper-horizontal partnerships can be built around inter-departmental and inter-ministerial working groups or committees. In Mexico for example, the implementation of the Micro-regions strategy involves the co-ordination of more than 60 different sectoral programmes belonging to 16 different ministries addressing rural areas (see Box 3.2). Also, through the Inter-ministerial Commission for Sustainable Rural development and the PEC (Programa Especial Concurrente) that includes all federal spending in rural areas, Mexico has opted for a co-ordination agreement among ministries to introduce a place-based approach to rural development.

A similar inter-ministerial co-ordination approach through formal processes has been used when several administrations are involved in financing or objective setting. In Italy, for example, the frequent and increasing scarcity of water resources in southern rural regions calls for a stronger co-ordination of public interventions from several national and regional administrations. To this aim, a special inter-ministerial committee has been set up in order to improve horizontal co-ordination among several ministries including Agricultural Policies, Environment, Infrastructure, Economy and Treasury, Health and Social Security. Other interesting institutional solutions come from Italy's "negotiated planning". This definition refers to several forms of public interventions implemented in recent years involving national, regional and local actors, like the "Institutional Agreements" that not only incorporate horizontal co-operation mechanisms (between different national administrations), but also innovative forms of vertical co-ordination (see Box 3.2).

3.2. Local level governance

Local level governance has increasing importance for place-based rural policy. First, trends towards decentralisation are granting new responsibilities to sub-national levels. At the same time, the greater attention to place-based polices puts the accent on the role of local entities in the implementation of such policies. New bottom-up approaches to rural development are

Box 3.2. **Central level horizontal co-ordination: Canada, Mexico and Italy**

Policy proofing: the Canadian Rural Lens

Within Canada's Rural Secretariat, a group of five employees administer the Canadian Rural Lens with colleagues in other departments in applying the Rural Lens to new policy initiatives. Of course, they only get involved when policies have a rural angle. When the system works well, the Rural Lens unit is involved early, but involvement may not come until a few weeks prior to Cabinet meetings. The power of this mechanism is that the Rural Lens staff can advise the Minister to support (or not support) the new policy proposal. Although the Minister has only one voice at the Cabinet table, opportunities to involve the several Regional Development Agencies (and their ministers) are sought. This mechanism provides departments with an incentive to take the Rural Lens comments into account. If the Rural Lens staff thinks that the rural perspective has not been properly presented, then they try to influence the policy proposal accordingly. The objective is not to advocate for putting rural considerations first, but to ensure that decisions are fully informed (*i.e.*, of the implications for rural communities).

The Rural Lens staff strives to be involved early in the process, but that is not always the case. Another limitation on the influence of the Rural Lens is that issues are framed from the perspective of the lead department. That usually means it is framed by a particular sector's interests, *e.g.*, agricultural policy is usually framed in relation to the agriculture industry. This in itself can make it difficult to bring the rural community issues to the forefront. To address these issues, work has been undertaken to provide a more effective systematic way of introducing the rural perspective to the policy development process. One of the internal mechanisms created to do this is an interdepartmental policy and research network that brings federal policy developers and researchers together to discuss new policies and research. The staff of the Rural Secretariat hopes that this internal mechanism will help them get involved in the policy process earlier on.

Active inter-ministerial co-ordination for rural development in Mexico

Mexico has introduced a set of co-ordination agreements among ministries to introduce a place-based approach to rural development. The President, using his "*poder de convocatoria*", influences the co-ordination and co-operation at the federal level in the implementation of the Micro-regions Strategy for rural development. Political co-ordination among 16 ministries is enforced through the Inter-sectoral Committee for Micro-regions, which meets twice a year with the participation of the Ministers and is chaired by the President. At this level, the guidelines of the strategy are discussed and

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Box 3.2. **Central level horizontal co-ordination: Canada, Mexico and Italy** *(cont.)*

agreed upon. Co-ordination at the federal level is complemented by the role of the relevant Vice-Ministers that meet at least four times a year in a Normative Working Group to agree upon the projects to be approved. The agenda of the meeting is rotated every six months among the Vice-Ministers. A Technical Committee and an Operative Working Group, where the Director Generals in charge of the strategy meet every month, complements the Normative Working Group. The overall operative co-ordination of the process and of the strategy is the responsibility of a General Co-ordinator within SEDESOL's Vice-Ministry of Social and Human Development.

Co-financing and responsibility sharing: institutional agreements in Italy

Institutional Agreements (*Accordi Istituzionali*) are set up by national administrations (several ministries), regions and autonomous provinces to implement multi-annual plans for common and interrelated interventions. Such Agreements are formally approved and signed by all administrations involved in the planning process. They establish main priorities, the necessary steps and procedures, the funding sources, and the modalities of monitoring and evaluation. Institutional Agreements are implemented under the form of several Programming Agreements, in which a series of operational issues are specified: projects and activities, division of responsibilities among several subjects, inter-departmental meetings and agreements necessary for the implementation of projects, procedures to solve possible conflicts among participants, financial plans and funding sources, responsibilities and procedures of monitoring and evaluation. Institutional Agreements and Programming Agreements are co-funded by all administrative bodies involved (ministries and regions).

Source: Government of Canada (2005a and 2005b), OECD (2004d), *Place-based Policies for Rural Development: The Micro-regions Strategy, Mexico (Case Study)*, OECD (2001b), *Territorial Review of Italy.*

encouraged by several countries and involve voluntary associations of local governments, groups of citizens and community participation that not only interact but that become increasingly interdependent and thus require stronger co-ordination. These actors are redrawing the boundaries of their territory, based on factors such as natural endowments, common identity, or shared economic characteristics. These changes lead to a number of important questions related to how local governments can effectively support rural development policy:

- What is the appropriate definition, size and scale of a local area if existing administrative jurisdictions do not meet policy needs?

- What are the obstacles to co-operation and co-ordination at the local level?
- What are the most effective mechanisms for different local actors to work together?

The increasing importance of sub-national actors

Over the past decades, OECD countries have been increasingly devolving and decentralising public responsibilities and resources to sub-national government levels. There is an assumption that such transfers produce more efficiency in terms of public management and create better conditions for economic development. At the same time, these transfers respond to new expectations of citizens and civil society to participate more closely in the democratic decision-making processes. The typical rationales for such trends can be summarised as follows (Bryden, 2005):

- *transparency:* the desire for greater democratic involvement at the local level;
- *subsidiarity:* the notion that public activities should be carried out at the lowest level of government possible;
- *competitiveness:* increased and more effective access and use of local knowledge and assets to drive economic development;
- *heterogeneity:* adaptation of policies to local circumstances since "one size does not fit all"; and
- *cost savings:* the economies of scale from larger units.

Of these motivations, competitiveness bears special mention given the importance of knowledge in the economic development process. By involving local governments in a bottom-up approach, the central government can exploit the area's knowledge base when devising policies, thus encouraging transparency in the revelation of preferences and costs in the face of asymmetric information of local actors in multi-level governance. At the same time, both partners must be attentive to the risks entailed by insufficient knowledge-sharing, or, at the local government level, by the lack of sufficient capacity to properly exploit the sometimes complex information released by central government. The way that development occurs within the territorial competitiveness framework, the generation of new public goods that increase private access to resources and to the sharing (pooling) of local knowledge in the exploitation of the comparative advantage of those resources. Thus, it is necessary that public agents not dominate the local governance arrangements and that there be strong representation of the private business sector to capitalise on new opportunities and resources generated by public or collective action.

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These overall trends have reinforced the role of existing regions, and, in certain cases, led to the creation of new regional or multi-municipal entities. These bodies often bear an increased share of financial and fiscal power, not only to carry out their new tasks in the field of public services but also to foster an adequate environment for economic development. These changes have had a marked impact in remote and rural areas, encompassed in new regional strategies aiming to encourage growth across territories, within the broader framework of national policies.

Defining target areas for rural policy

The conventional justification for redefining local areas is the need to achieve economies of scale and to account for territorial spillovers. Rural areas across OECD countries often suffer from problems that derive from their low-density character, which makes it difficult to provide public goods, but also to exploit economic potential. Unexploited economies of scale closely relate to the notion of critical mass, meaning the minimal combination of human capital, social capital, infrastructure, and natural or human-created amenities to trigger a development process. A problem frequently encountered in OECD sparsely populated rural areas is that administrative boundaries, existing fiscal schemes for transfers to local governments, and legal instruments, often do not correspond to the functional boundaries that may contain the necessary elements to attain a critical level of resources.

In this context, small municipal authorities often seek collaboration to attain a more efficient size for the provision of public services. This, for example, is the main reason given for municipal mergers in Denmark, Canada, Korea and Japan (see Box 3.3). Moreover, as administrative boundaries do not necessarily coincide with areas that are relevant economically, municipalities can co-operate with the aim of playing a more effective role in local economic development through exchanging information, sharing responsibility for certain investments and programmes (such as territorial labelling and marketing schemes to differentiate themselves from other areas) and dealing with territorial externalities. When applied to rural areas, the logic that emphasises the potential linked with increased local co-operation runs opposite to the traditional approach focusing on mechanisms that compensate for comparative disadvantages of lagging rural regions.

The size of natural areas of development or functional areas can be quite variable from one small rural area to another, depending on its geographic environment, natural resources and amenities, skills and infrastructure. For LEADER II programmes, the average size of territories is 37 000 inhabitants and in all cases inferior to 100 000. The "*Pays*" in France vary in population range by a factor of one to five, but most of these comprise less than

Box 3.3. **Defining optimal municipal size: Japan, Italy**

Japan has experienced several big waves of merging municipalities. When the first municipalities were created in 1890, the number was around 16 000. After World War II, the central government promoted the merger of municipalities with the objective of making their administrative works more efficient, and the number of municipalities was reduced from more than 10 000 in 1945 to 3 472 in 1961, which did not change much until recent years. The present cost-efficiency argument for amalgamation is further supported by the weak fiscal situation of many small towns and villages. Many local governments in rural areas are considered to be below the critical size to provide public goods efficiently. Moreover, empirical studies have tried to demonstrate that the per capita cost of providing a given type and quantity of public services follows a U-shaped curve. The cost of service provision declines with the size of the population up to an "optimal" level before increasing beyond that point. Applying this approach to Japan, Hayashi determined that the optimal municipality size to obtain the lowest unit costs of public services is approximately 120 000 (based on 1990 figures). Using this figure as the benchmark, 80% of Japan's municipalities are under-populated (Hayashi, 2002).

Recognising the difficulties that could result from the current reforms, the central government has changed the system of preferential subsidies to encourage local authorities to consider merging. To minimise the potential disadvantages and improve the financial attractiveness of municipal mergers, the government agreed to make adjustments in the calculation of the Local Allocation Tax (LAT) for merged municipalities, and consider issuing local government bonds to finance the costs of post-merger city planning (often linked to investment in joint infrastructures). The government's "Municipalities Merger Support Plan" provides preferential financial treatment for administrative issues before and after the merger, and priority for public works and subsidised projects. In addition, special provisions exist to allow the amalgamated municipality to organise its electoral districts in a manner that will not put the incumbent local assembly members in an unfavourable position (*e.g.*, by allowing a larger number of seats in the new municipal council than the maximum number established by law). As of 1 April 2004, 1 891 municipalities have established 534 merger associations based on the legal system. Adding the 72 voluntary associations (composed of 197 municipalities) and the 121 other forms of association (composed of 247 municipalities), 75.3% of the total 3 100 Japanese municipalities are now engaged in some form of association.

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Box 3.3. **Defining optimal municipal size: Japan, Italy** *(cont.)*

In **Tuscany, Italy**, the optimal service areas established by Regional Law 41/2001 are an interesting and successful case of regional and local planning. This arose from the statistical finding that small and remote communities face higher costs of public service supply that often turn into fragmentation and sub-optimal allocation of resources. With this law the Region identified inter-municipal areas in which local administrations share the costs and, by so doing, can provide the population with a wider range of public services. The areas are identified according to a certain degree of homogeneity, such as participation in the same mountain community or local economic system (LES), population size (usually larger than 10 000 people), and degree of service complementarity between the municipalities involved. The services more frequently shared are those referring to statistics and cartography, public information, land registries, tourism promotion, citizen protection, etc.

Source: OECD (2005h), *Territorial Review of Japan*, OECD (2002c), *Territorial Review of Siena, Italy*.

30 000 inhabitants, albeit these groupings are unique to the French context. The size of the territory and number of co-operating municipalities are also variable and necessarily linked to population density. In Canada, the Community Futures Corporations set up to foster innovative development programmes with the support of the federal and provincial governments cover territories much greater in size than their European counterparts.

In practice, the spatial characteristics of these groupings vary widely across OECD countries. The territory of Matawinie, in Quebec (45 000 inhabitants), covers an area of 10 600 km^2 with only 15 municipalities, whereas the size of the Micro-region of Moravska Trebova-Jevicko in the Czech Republic is only of 400 km^2, for a population of close to 28 000 people, distributed over 33 municipalities ranging from 36 inhabitants to 11 662 in 2001. In Mexico, total population in a micro-region can vary from 16 000 in the micro-region "Sierra Gorda" in the State of Queretaro, to 122 000 inhabitants in the micro-region "Sierra Norte" in the central state of Puebla. In some cases, the critical mass necessary to articulate a specific bottom-up initiative can be even higher. In the United States, a central Iowa project (pharmaceutical/nutraceutical plant production) involves 23 counties, with a population close to 480 000. However, currently only 72 farm families, playing the role of local leaders, are engaged in this up-scaling initiative (Mortensen, 2002).

When addressing spillovers, area associations pursue common development goals but not necessarily based on a standard size. While in some cases the concept of small area hubs is at the core of their design, in other groupings, such as for a tourist site, these spatial configurations may take different forms. Pooling resources and achieving economies of scale require an adequate spatial organisation that gives reality to the small functional region, usually organised around one, maybe two, small to medium sized towns. The main town acts as a public and private service centre for the whole area (social services, sometimes a hospital, banks) while representing a sizeable portion of employment. In optimal situations, this hub is adequately linked to the domestic transportation network. The Irish Spatial Strategy retains these rural hubs as major elements in efforts to foster the development of rural areas and links these, in terms of infrastructure development to "Gateway" cities at the regional level, to which the former need to be properly connected. In France, the delimitation of a "*Pays*" follows a certain number of guidelines to ensure that the small territory responds to a degree of economic logic linked in particular to employment ("*bassins d'emploi*"). In Mexico, rural Micro-regions are defined through a top-down approach which based on socio-economic indicators combined with other spatial indicators through the use of GIS (geographic information systems, see Box 3.4).

Because existing local units of government are not likely the optimum configuration for the range of services or economic development initiatives, OECD countries struggle with what to define as "local". Notwithstanding all of the complex issues associated with this question, the conclusion as to what is "local" is necessarily a pragmatic one. In the absence of any universal rationale, the preferred method is thus to encourage local units of government in rural areas to organise themselves voluntarily into associations following general framework guidelines with funding incentives to that end. In this context, it is incumbent on policy designers and makers to provide for programmes and mechanisms that help achieve coherence and generate social capital across target regions.

Cross-jurisdictional co-operation and partnerships

Inter-municipal agreements

Local jurisdictions co-ordinate with each other using a range of legal and economic forms, often with a distinction for the special needs of rural regions. Legally, co-operation types span from "areas of co-operation", associations of municipalities, or even inter-municipal co-operative authorities. In terms of economic forms, some groupings are functional whereby municipalities provide a specific public service jointly or from which another jurisdiction purchase services. They may also be more strategic and wide in scope to cover a range of economic development issues, in which case they are more likely to involve the private sector. Many OECD countries allow some forms of

Box 3.4. **The use of GIS for functional area definition and diagnosis**

The Geographic Information Systems (GIS) are useful tools to define and analyse functional areas. The ability of GIS to integrate maps and databases, using the geography as the common feature among them, has been useful in the context of planning for development. Functional areas are commonly defined on commuting time and distance, but also a wide array of variables relevant for public service delivery can be incorporated (education, health, infrastructure, natural resources). Since the optimal size is different for different public functions, a set or pattern of over-lapping maps is made available with the use of GIS and can be used to better define the characteristics and boundaries of a functional region.

A GIS is an organised set of computer software, hardware, geographical, and statistical data designed to capture, store, handle, analyse and display forms of geographically referenced information. Its main ability refers to its integrative characteristics: the capacity to link spatial and non spatial data sets within the framework of an application. Some of the spatial data typically associated with GIS range from the general natural resources (topography, geology, geomorphology and climate); administrative boundaries (division between state, municipalities, villages, protected areas); data on infrastructure (road networks, power lines, water lines, sewage lines); and productive models that can be closely linked to a geographical area (soil productivity, soil erosion, timber growth). Non spatial data include the descriptive attributes associated with spatial features: socio-economic characteristics, demography, land use type.*

* For more information, see Batty, *et al.* (1995).

Source: OECD (2004d), *Place-based Policies for Rural Development: The Micro-region Strategy, Mexico (Case Study)*.

municipal co-operation, from minimal guidelines to highly proscribed forms (see Box 3.5). In the United States, many municipalities together create special-purpose governments to achieve the typical goals of inter-municipal co-operation, with purposes ranging from education and transportation to fire and funerary services. There are almost as many of those units as there are municipalities (approximately 35 000 versus 36 000).

Despite the theoretical cost savings for inter-municipal co-operation, this is not always the case and merits further research. First, governments provide a multitude of public services, each with their own production possibility curve. For example, the service area for a hospital can be very different than that of a primary school or for water resource management. Secondly, the

Box 3.5. **Inter-municipal co-operation: the Czech Republic, Hungary, and Greece**

Organising local initiative without stifling it is a challenge facing many countries seeking to encourage place-based approaches within areas that do not necessarily correspond with traditional administrative boundaries. The following examples illustrate but a few of the many cases of inter-municipal co-operation across the OECD. In some instances these structures bring in stakeholders from the private sector as well.

Voluntary micro-regions in the Czech Republic

There are around 6 200 municipalities in the Czech Republic and although those with less than 200 inhabitants comprise only 2% of the population, they represent 27% of the total number. Many are too small to undertake routine service delivery, much less strategic planning for place-based development. In this context, more than 200 voluntary groupings of municipalities founded on a bottom-up approach have emerged since the mid-1990s. The legislative framework, enacted in 1992, authorising such initiatives is very open, with the degree of co-operation between the municipalities left pretty much to their initiative. Municipal associations have emerged as micro-regions whereby individual towns of different sizes decide to co-operate for the common good of their citizens and become full-fledged local development partners for other levels of government. Encouraged by national authorities seeking to remedy the inconveniences of municipal fragmentation and to address changes in regional policy with EU accession, these micro-regional associations appear increasingly as the natural partners for the new regions decided in 2000.

The creation of micro-regions first started under the aegis of the 1992 municipal law which did not specifically mention or take into account this category of groupings. Micro-regions, diverse in size and goals pursued, appeared on the basis of very broad guidelines for inter-municipal co-operation, not specifically mentioning such entities. The new Act on Municipalities, effective since November 2000, introduced specific rules and regulations for the creation of associations of municipalities concerning their management and spheres of co-operation. Objectives are determined in very general terms: membership is authorised for municipalities "for the purpose of protecting and promoting their common interests". The creation of micro-regions by municipalities in a given area responds to the need for common approaches and solutions to issues that cannot be devised without co-operation. This is the case not only for basic infrastructure and spatial planning but also for new areas like economic development. In transition countries, this process is even more remarkable in that it follows closely the return to a pluralistic society with the expression of local aspirations in a market-led economy.

Box 3.5. **Inter-municipal co-operation: the Czech Republic, Hungary, and Greece** *(cont.)*

Multifunctional micro-regions in Hungary

Micro-regions in Hungary have been a territory of reference for local development since the beginning of transition. Alongside "statistical micro-regions" at the sub-county level designed to facilitate public funding and measure outcomes, a 1990 law authorised the creation of voluntary micro-region associations to foster co-operation between municipalities, either to implement and manage basic infrastructure or to support economic development. A municipality can belong to several associations and the definition of their perimeters obeys to no particular rule concerning the size of the territory and population thresholds. Although they may lack critical mass, these "place-based" associations are definitely the expression of local initiative and co-operation. Recent measures have sought to better organise this approach by introducing new features in micro-regional development: extension to public services such as health and primary education and a financial incentive towards creation of associations with sufficient critical mass, up to the size of statistical micro-regions.

This new policy approach for multifunctional micro-regions; initiated in 2004, is supervised by the Ministry of the Interior with the co-operation of the National Office for Regional Development (NORD). There are certain conditions and an incentive structure rewarding groupings that coincide with the boundaries of a statistical micro-region as well as the number of different public services jointly developed for at least three years in the context of a "partnership agreement". At the beginning of 2005, eight such multifunctional micro-regions had been instituted in Hungary, one of which (Marcali) is partially within the area of the Lake Balaton Priority Resort District. Many other associations of this type are under development. The Hungarian concept of multifunctional micro-regions is an original and ambitious one as it integrates concerns for public service delivery as well as development goals. This rather unique approach recognises the synergies between adequate service delivery and economic development in terms of a territory's attractiveness for both inhabitants and businesses.

Local unions of municipalities and communities in Greece

In Greece, municipalities are organised within "Local Unions of Municipalities and Communities" (TEDK in Greek) at the level of the self-governing prefectures. There are 500 such Unions in Greece. The process is quite formal as these Unions comprise a certain number of bodies, a General Assembly in which all the Mayors are represented, an Administrative Council, an elected President and

Box 3.5. **Inter-municipal co-operation: the Czech Republic, Hungary, and Greece** *(cont.)*

an Executive Committee. The latter is the strategic organ of each TEDK, as it meets at least once a month. These meetings allow not only for exchange of information at the level of Prefectures between all senior elected officials but also serve to draw up a "programme of action" and establish the corresponding budget. Such a framework allows municipalities to get together to foster in common various infrastructure and economic development projects that are recognised as necessary in the interest of all municipalities.

One example of inter-municipal co-operation for the conception and implementation of concrete projects is offered by ULAC, the Union of Local Authorities of Crete that exists since 1980. Bringing together the local authorities of the four prefectures of Heraklion, Lassithi, Chania and Rethymnon, each represented by their Local Union of Municipalities and Communities, ULAC constituted a "*de facto*" region, until the regional level was instituted in the late 1980s. It is a fact that ULAC has developed and continues to develop a certain number of studies and projects of a regional scope and participates in a certain number of European regional forums. ULAC is a partner to the Science and Technology Park of Crete and research co-financed by ULAC is focused on environmental and renewable energy issues.

Source: OECD (2002b), *Territorial Review of Moravska Trebova-Jevick, Czech Republic*, OECD (2005d), *Place-based Policies for Rural Development in Lake Balaton, Hungary (Case Study)*, OECD (2005e), *Place-based Policies for Rural Development. Region of Crete, Greece (Case Study)*.

provision of services may take alternate forms with different implications for size. Thirdly, size, often defined in terms of number of inhabitants, is ill-adapted to rural areas with low population density. When municipalities either merge or co-operate, the economies of scale thought to lead to cost savings may not always be visible. A handful of studies have noted that inter-municipal agreements, special purpose governments and even municipal mergers often do not illustrate notable cost savings (OECD, 2005a). For example, labour cost savings for civil servants may be constrained by various regulations.

What studies have demonstrated is that these public providers that work together may offer different or higher quality services as a result of co-operation. The municipalities could even engender cost increases as a result of greater investment or quality. The methodological problems for evaluating this are therefore multiple. First, an evaluation time horizon that is too short may measure results during a transition phase before any cost

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savings are realised. Second, if the result is actually a change in services, then the measures need to be more targeted on service quality than cost, and such indicators are underdeveloped.

Partnerships and informal co-ordination: involving new actors in rural policy

Local areas have forged partnerships with a range of public and private sector actors to bring new actors to the table for endogenous rural development. In a 1990 review of partnerships for rural development, OECD defined them as "systems of formalised co-operation, grounded in legally binding arrangements or in formal undertakings, cooperative working relationships and mutually adopted plans among a number of institutions" (OECD, 1990). Others have described partnerships as a process involving an inter-organisational arrangement that mobilises a coalition of interests around shared objectives and a common agenda as a means to respond to a shared issue or to realise specific outcomes (James, 2002). In general, such partnerships seek to address complex problems, build consensus, share resources, improve co-ordination, achieve synergies, stimulate greater community involvement, strengthen local identity or encourage innovative problem solving. This logic is at the base of different local partnerships that have been developed in recent years as part of a new governance of rural development policy. These have evolved differently depending on the institutional and administrative characteristics of every country (see Box 3.6).

The partnership experiences described above present some common features and underlying principles:

First, a target area is defined based on administrative and/or functional criteria. As discussed above, the search for an optimal size can be elusive. The size of the target area differs according to the type of programme and, sometimes, to the amount of public and private investments available. The definition of the target area may follow two different approaches: 1) a bottom-up approach where the area is defined on the basis of the project strategy and the autonomous decision of the partners promoting the project; or 2) a top-down approach where eligible areas are chosen *ex ante* by national or regional authorities. In the latter case, the choice depends on territorial priorities established by these authorities.

Second, local public and private actors join a partnership and pool knowledge and resources. The leadership in these partnerships is not the exclusive competence of elected authorities but can be effectively carried out by private actors or other elements of the civil society. The role of the private component is often vital to ensuring the necessary financial

Box 3.6. **Fostering local co-ordination: Spain, the United Kingdom and Germany**

Spain, in the case of the Basque Country, alongside local development agencies, officially recognised that "Rural Development Associations" or ADRs (*Asociaciones de Desarollo Rural*) play an active role in the elaboration and implementation of "Rural Development Programmes" or PDRs (*Programas de Desarollo Rural*). PDRs are defined by a 1998 law specifically directed towards the development of rural areas in the Basque Country. ADRs are private law entities representing the different socio-economic sectors in an area where a PDR is instituted. Membership is also open to local public actors. The elaboration of a PDR requires joint initiative by the departments of agriculture of the Basque Government and of the provincial authorities. These administrations are responsible for collecting other sector information that could apply to the proposed areas. They are also responsible for the management of the process and the formulation of the proposal for the PDR resulting from discussions and negotiations with the local ADR. The process is public so that individuals and parties concerned can formulate their views. Official recognition of the associations ensures that they are fully representative of local interests.

Execution of a PDR is a shared responsibility between the Basque Government, provincial authorities and the municipalities within each *comarca* (historical functional areas created voluntarily by municipalities, having received official recognition). Eighteen of these *comarcas* were chosen on the basis of several criteria that indicate barriers to economic development but also the presence of elements of natural, cultural or scenic value. Actions contemplated in the *comarcas* within the framework of a PDR are organised around four policy areas. The first concerns development of economic and entrepreneurial activities and diversification, strengthening in priority agricultural activity with particular attention to endogenous development initiatives. The second area relates to sustainable management of the environment, protection and restoration of nature. The third set of measures applies to development and upgrading of infrastructure. The fourth field concerns public services, with the goal of attaining the same delivery level as in other parts of the Basque Country.

In the United Kingdom, the National Strategy for Neighbourhood Renewal Action Plan (January 2001) and the more detailed Local Strategic Partnership (LSP) Guidance (March 2001) set out the Government's initial model of what LSPs should be and what they should do. This guidance reflected a cross-government commitment to LSPs by all departments and

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Box 3.6. **Fostering local co-ordination: Spain, the United Kingdom and Germany** *(cont.)*

agencies. The guidance made it clear that a LSP is a non-statutory, multi-agency body, which matches local authority boundaries, and aims to bring together at a local level the different parts of the public, private, community and voluntary sectors. LSPs are intended to operate at a level which enables strategic decisions to be taken while still being local bodies. Local partners working through a LSP take many of the major decisions about priorities and funding for their local areas (see also Chapter 2).

In Germany, the LOCALE scheme was set up to implement the Structural Funds in Saxony-Anhalt for the period 2000-2006. This consists of two strategic elements: 1) support for integrated, territorial development approaches below the federal State level; and 2) increased participation of local stakeholders in the implementation of the Operational Programme. LOCALE was strongly influenced by positive experiences with LEADER, the Territorial Employment Pacts and village renewal schemes. To qualify for LOCALE, applicants must devise a Territorial Development Plan for a "functional, traditional and /or agriculturally cohesive rural area below the district level". The Plan must include a SWOT (strengths, weaknesses, opportunities and threats) analysis, budget and time schedules, the development objectives for the area, monitoring methods and details of local stakeholders' participation. The Plan is then assessed by a regional decision-making body, including representatives of the federal State, and may be submitted to the organisations administering the funds (Ministry of Agriculture, Ministry of Environment and Ministry of Industry and Commerce).

Source: OECD (2004b), *Place-Based Policies for Rural Development, Basque Country, Spain (Case Study)*; Government of the United Kingdom, Countryside Agency (2005); Government of Germany, BMVEL (2005).

support to the project. The public component of the partnership contributes with political support to local initiatives and provides necessary administrative competencies and skills. The interaction among public and private actors generates legitimisation for the project within the target area.

Third, a rural development strategy is developed around a shared vision of the territory and a set of common objectives. This is frequently the result of a complex process, where different and often conflicting views on the most appropriate strategies for the whole territory converge. The role of the mediator of such conflicting views is ideally assumed by a local leader who is capable of leading the strategy and project design.

The impact of partnerships on rural development reported by the researchers has been considerable, notably a genuine value added in the process of local endogenous development. While research is still not conclusive on the impact of partnerships in terms of jobs created, businesses supported or services provided, the significant measured impacts relate to capacity building in the community, community involvement, innovation and the better integration of development initiatives. In short, the research reports that partnerships have helped to prepare the ground for long-term sustainable development (Moseley, 2003). There are several factors that have a significant positive influence on the effectiveness of partnerships impacting rural development (see Table 3.1).

Table 3.1. **Factors for effective partnerships**

Level of effectiveness	Factor
Very high level of influence	• Competence and commitment of partnership staff • Successful mobilisation of local knowledge about the needs/resources of the area • Decision making being exerted at the local level
High level of influence	• Sectoral heterogeneity of the partners • Involvement of one of more key actors with leadership skills • Manner that the partnership was originally initiated • Networking activities of the partnership
Influential	• Community participation achieved by the partnership • Independence/neutral status of the partnership • Diverse background/skills of the people representing the partnership organisations • Joint planning undertaken by the partnership
Limited	• Limited legitimacy or democratic accountability • Over-representation in the partnership of the local elite or establishment • Excessive focus on project delivery and on spending the money rather than on the strategic pursuit of a coherent programme of integrated development • Excessive focus on the short term • Failure sufficiently to address social exclusion and to seek fuller involvement of a wide cross-section of local society • Insufficient transparency in the partnership's operation • Diversion of energy into the pursuit of continuation funding

Source: Moseley (2003).

There are also a number of potential obstacles to effective partnerships, such as the complexity, rigidity and fragmentation of national and supranational policies that impact rural development. Top-down policies and programmes often lack flexibility or have too narrow or pre-defined objectives which do not correspond to local circumstances and needs, particularly since regions are heterogeneous and *ex ante* standards don't always fit. The complexity of national, supra-national and regional agency responsibilities, powers, and restrictions are confusing for local agents seeking to build a partnership. That complexity makes it difficult for local authorities to choose the right mix of public representation. Fragmented decision making and management at central levels creates serious problems at the local level as in the case of the LEADER II programme in some European countries. In these cases different central ministries had responsibility for different EU Structural Funds (and matching national funds) being used in the LEADER programmes, each having different reporting, recording, monitoring and evaluation systems. Where the national or regional agencies involved in the local partnership have different territorial boundaries for servicing local levels, they create additional problems for local co-ordination of decision making as noted in recent research on differential economic performance.

Other problems identified include the level of partnership and the sectoral relationships. For example, planning partnerships do not always have an accompanying partnership for implementation. This segregation of tasks may ensure policy or programme coherence at the onset, but it does not ensure that the project is effectively realised. In addition, the sectoral bias at either the national or local level translates into performance evaluation that is judged not against results but against indicators that usually measure either inputs or intermediate outputs. Where the desired rural development results involve issues cutting across sectors such as "sustainable rural development", "healthy communities", or "social inclusion", for example, measuring by sectorally-related inputs or intermediate outputs usually causes the real targets to be missed (Bryden, 2005).

"Partnership fatigue" and bureaucratic overload are also common problems. A recent study of community involvement in partnerships in the United Kingdom found that the small pool of leaders available in rural areas could often lead to over-commitment, overwork and burnout (Osborne *et al.*, 2002). A 2005 OECD case study on rural policy in the Tuscan Provinces of Grosseto and Arezzo (Italy) has highlighted the complex mix of actors and measures that can result from a proliferation of planning instruments available in the same territory. The Tuscan examples shows the importance of skills and social capital needed to co-ordinate numerous actors that play different roles in the various partnerships in which they participate (see Table 3.2). These problems can be exacerbated by an increasing regulatory and bureaucratic load. Where amalgamation of local authorities has occurred, larger local government means that more public procurement contracts reach the minimum threshold for public tenders, reducing the number of firms that can compete (higher liability insurance and issues of capacity), effectively creating oligopolies, and reducing the local community impacts of public expenditure.

Table 3.2. **Proliferation of planning instruments: the case of Grosseto and Arezzo (Italy)**

Programmes, strategic actors (**X**) and actors involved (x) in the two provinces

	Arezzo					Grosseto				
	EU	Central Gov.	Region	Province	Local actors	EU	Central Gov.	Region	Province	Local actors
Docup 2000-2006	**X**		x			**X**		x		
RDP 2000-2006	**X**		x	x		**X**		x	x	
LEADER Plus	**X**		x	x	x	**X**				
Provincial Local Development Plan 2001-04			**X**	x						
Territorial Pact	x	**X**	x	x	x		**X**	x	x	
Territorial Pact for Agriculture		**X**	x	x	x		**X**	x	x	
Programming Contract							**X**			x
Agenda21							**X**			x
Development Plan for the mountain	x	x	**X**	x	x	x	x	**X**	x	x
PRUSST							**X**			x
Industrial Districts			**X**	x						
Rural District								**X**	x	
PASL			**X**	x				**X**	x	
PISL	**X**		x	x		**X**		x	x	

Source: OECD (2005f), *Place-Based Policies for Rural Development. Tuscany, Italy (Case Study)*.

The lack of autonomy of local government and agencies creates yet other problems. Autonomy here refers both to fiscal autonomy and to autonomy of powers such that local authorities and agencies can choose how best to achieve the results desired by any devolved policy (and thus better fit it to other policies at local levels). Granting greater fiscal autonomy to local government has been one of the key objectives of recent local government reforms in Italy (OECD, 2001b). Equally, fiscal and other forms of autonomy were one of the factors found to influence the economic performance of rural regions in the DORA project (Bryden and Hart, 2004). Thus, while policies may be nominally decentralised, unless issues of central control and local autonomy are addressed, the objectives and benefits of decentralisation will not be realised in practice.

Informal co-ordination mechanisms can also facilitate co-ordination at the local level for place-based rural development. In some circumstances the initiative comes from local officials/government, within schools, local clubs or other organisations, and even sometimes a key individual, without outside assistance. The role of the private sector is often very prominent in such arrangements. The evidence is quite clear that there are differences between communities in their relative success in sustaining themselves as viable communities able to set reasonable goals for themselves and achieve them. In the United States, researchers examined the attributes of what they described as "entrepreneurial rural communities". These communities had attributes such as: a broad definition of community, an acceptance of controversy, a willingness to impose taxes to invest in rural infrastructure, flexible and disbursed leadership, networking possibilities among residents, sufficient personal financial resources for collective risk taking, and a willingness to invest that surplus in local private initiatives (Flora and Flora, 1992).

The DORA research of matched communities in Scotland, Germany, Sweden and Greece found that success depends on local initiative rather than top-down directives. "… in most cases the well-performing areas are so mainly because of their own efforts and motivation and skills (in both public and private sphere), partly because they have been effective in tapping available regional, national and EU support and in making good use of this in support of their own home-grown ideas. We cannot point to any case where centrally-inspired initiatives or heavy external investment have led to the enduring success of local economies, even if these may have once seemed to come to the rescue of a depressed area" (Bryden and Hart, 2004).

3.3. Vertical governance relationships

Governments of OECD countries are considering backing away from command and control mechanisms, and encouraging local actors to participate in the design and implementation of place-based policies for rural development. This shift requires that central governments redefine their role and devise new multi-level co-operation frameworks. The multi-level governance perspective emphasises power sharing between different levels of government and does not portray the levels of government in a hierarchical order, but instead acknowledges that policy making requires a growing inter-dependence between a wide range of actors, each bringing specific sets of skills and resources into a partnership.

The demand for partnerships and its devolutionary implications cause substantial difficulties with its implementation, since this implies the formal involvement of sub-national actors and social partners in decision-making processes where their role has formerly been a consultative one. Experiences in the implementation of place-based policies for rural development have pointed out some obstacles to achieving effective multi-level co-ordination. But empirical findings also show successful cases where the interaction between vertically integrated actors produces knowledge sharing and a climate of co-operation conducive to policies that better meet the needs and potential of the countryside.

Co-ordination and governance between the top and the bottom is a particularly challenging task for governments and has great structural barriers to overcome. The main questions are whether and how actors manage to cope with the need for vertical co-ordination, and which role actors from different levels may play in the design and implementation of rural development policies. Among the key issues to be addressed by multi-level co-ordination in support of place-based rural development are the following:

- What multi-level co-ordination mechanisms and rules need be established and who is involved in establishing them?
- Does administrative capacity limit co-ordination between the top and the bottom?
- How do financing mechanisms influence vertical governance mechanisms?
- What are the appropriate incentives for and use of monitoring and evaluation?

Coordination between the top and the bottom

The design of place-based policies for rural development involves several different national and sub-national actors. The four main levels to be considered are: 1) national; 2) regional; 3) intermediate or sub-regional; and 4) local. The presence of a supra-national level should also be considered in this schema. For example, the main EU institutions (European Council, Parliament, and European Commission) play a key role in providing a conceptual and legislative framework for the development of rural development policies in member countries.

The role of different actors in the design and delivery of rural policy, and their relations, can vary greatly depending on the country's institutional framework (see Table 3.3). In centralised systems where the central government has an active role in the selection of local partnerships and plans, the problem of a standard model that does not fit all rural regions is more likely to appear. In either the decentralised or the' concerted' system, it is difficult for different levels of government to clarify their respective roles and responsibilities. Regardless of a country's position in this typology, the ease of vertical co-ordination will also depend on the degree of horizontal co-ordination at the top and bottom levels.

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Table 3.3. **Vertical co-ordination by institutional model of governance**

<table>
<tr><th colspan="2">Functions in designing and implementing rural development policies</th><th>Centralised systems</th><th>Decentralised systems</th><th>“Concerted” systems</th></tr>
<tr><td rowspan="3">Planning</td><td>Strategic programming</td><td rowspan="5">National level</td><td rowspan="2">National level</td><td rowspan="2">State with regions</td></tr>
<tr><td>Fund allocation</td></tr>
<tr><td>Operational programming</td><td rowspan="3">Regional level</td><td rowspan="2">State with regions, sub-regional authorities, social and economic partnerships</td></tr>
<tr><td rowspan="4">Delivery system</td><td>Rules of implementation</td></tr>
<tr><td>Choices of beneficiary areas</td><td>Regions with sub-regional authorities</td></tr>
<tr><td>Selection of local partnerships/ local plans</td><td rowspan="2">National and partly regional level</td><td>Regional or sub-regional authorities</td><td rowspan="2">Regions or sub-regional authorities or agencies</td></tr>
<tr><td>Approval and funding of individual projects</td><td>Sub-regional authorities or local agencies (sometimes partnerships)</td></tr>
<tr><td></td><td>Control, monitoring and evaluation</td><td>National level (also agencies)</td><td>Any level</td><td>State with regions and sub-regional authorities / local agencies</td></tr>
</table>

Source: Mantino (2005).

Developing a true partnership with sub-national governments through vertical governance arrangements is a desired outcome. The overall objective is to make the sub-national level responsible by virtue of its participation in decision making and also in the implementation of the rural development policies that it helps to design. These arrangements require a high level of participation, effective knowledge sharing and competence on the part of national, intermediate and local representatives. To limit “moral hazard risks” that this type of principal-agent relation involves, national or supra-national authorities draw up contracts and establish mechanisms to monitor and evaluate the effectiveness of multi-tier co-ordination and co-operation and the efficacy of the resulting policies. Traditional evaluation mechanisms include reporting, programme review, and cost-benefit analysis. The evaluation has to be a function of the objectives set in the original contracts. Targets and performance indicators (both quantitative and qualitative) should thus be established in a way that allows the effectiveness of local government actions to be judged with fairness and homogenous standards.

Within vertical relations between the supra-national and local levels an increasingly important role is played by the "intermediate level". In the more decentralised countries (such as Germany, Italy, and some autonomous communities in Spain), regional authorities have been assuming a lead role in several areas. They include: programme design and implementation; the allocation resources among local communities; the monitoring, evaluating and control of local projects; and the negotiation of competences and resources with supra-regional institutions (EU and central government).

As a result of a reinforced intermediate institutional level, the role of central government bodies is shifting its focus in several countries towards the enabling political and regulatory environment for rural policy. In this context, central governments establish the overall strategies, priorities and legal framework for rural policies while evaluating the policy coherence of programmes at the national and regional level. Best practices for central governments, that often provide funding for programmes, through intermediate levels, are oriented towards a system of financial incentives as well as reward mechanisms based on reinforced monitoring and evaluation to stimulate "virtuous competition" at the sub-national level. To allow for flexibility in this competition, central governments emphasise strategic rather than constrained programming. Examples of such vertical arrangements include the *Contrat de Plan État-Régions* in France, European Structural Funds, the Pluri-annual Plan in Germany (see Box 3.7) and Institutional Agreements in Italy (see Box 3.2).

Incentives and contracts in vertical relationships

Inter-governmental grants serve as an important vehicle for managing the vertical relationships involved in the financing and execution of policies and programmes in rural regions. The use of grants depends on several context parameters within OECD countries, such as the nature of fiscal institutions and the degree of sub-national autonomy. Within the context of regional development, OECD countries tend to use grants for specific projects, grants based on voluntary agreements or grants with some form of financial matching. Project grants usually specify a range of issues such as performance indicators, monitoring systems and even rewards for good performance. Other grants may be based on specific formulas or require match spending by the recipient sub-national government. Some grants also require co-operation with other governments.

The use of grants must take into account the potential for incentive problems that limit their effectiveness. Grants that are poorly designed can result in perverse effects to manipulate the formula or to divert the use of funds for other purpose, among other incentive problems. However, a number of tools can be used in the grant mechanism to reward or sanction behaviour

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Box 3.7. **Vertical contractual arrangements: the EU, France and Germany**

The European Structural Funds (European Regional Development Fund, European Social Fund and European Agricultural Guidance and Guarantee Fund) have been recently reformed by Council Regulation (EC) 1260/1999 which establishes the general provisions on the Structural Funds and introduces goals and elements to multi-level policy making. The regulation stipulates that Community actions shall be drawn up in close consultation (referred to as the "partnership") between the Commission and the Member State, together with the regional and local authorities, economic and social partners, and other relevant bodies. "Partnership" shall cover the stages of preparation, financing, monitoring and evaluation. A particularly interesting mechanism operating within the European Structural Funds system (for the 2000-2006 programming period) is "the performance reserve" introduced by Agenda 2000. The reserve issues penalties and rewards set by the European Community Support Framework (ECSF) for Operational Regional Programmes in Objective 1 regions. The "accountability" of this mechanism is crucial to its effectiveness and its acceptance by all the actors involved. All partners (European Commission, national and regional administrations) participate in the definition of the evaluation criteria which are formally included within the ECSF. Italy has decided to extend the use of performance reserves; in its Objective 1 regions the role of the reserve has been strengthened both financially and operationally.

In France, the Contrats de Plan État-Régions, since their inception in July 1982, have served in successive waves to underpin the multi level co-ordination of regional development policy. Under these pluri-annual contracts, each partner enters into a commitment as to the nature and financing of various projects. The central government is represented by the *préfet* who has a broad mandate to negotiate with the regions, the latter being designated as the "pilot" level of government for policies relating to territorial economic development. Evaluations are needed to assess, among other issues, whether these arrangements are more an instrument of State devolution than a true partnership. In 2005, this system began a series of reforms.

In Germany, the programming system of rural development comes from a joint decision process where the central level (Bund, Federal State) and regions (Lander) agree on a common framework for the Regional Plans of Rural Development. A joint committee (the Federal-Regional Planning Committee, PLANAK), including representatives from the Bund and regions, defines the Pluri-annual Plan (GAK) according to the general framework. The

Box 3.7. Vertical contractual arrangements: the EU, France and Germany *(cont.)*

Pluri-annual Plan defines not only general strategies but also specific interventions that are considered as priorities at the national level. Each Lander, in designing the Regional Plan of Rural Development, includes priorities established by the GAK as well as measures chosen independently from it. All measures are co-financed by the European Commission, the Federal State and regions. Rules of co-financing are established within the Pluri-annual Plan. The entire programming process assures that decentralising rural policy is consistent with establishing more general strategies and priorities.

Source: OECD (2004a), *Designing and Implementing Rural Development Policies.*

that deviates from the intent of the grant if effective monitoring and performance indicators are used (see Table 3.4). The challenges for this monitoring are described in the next section.

Table 3.4. **Using grants in vertical relationships**

Incentive problems	Solutions
• Proper use of funds	• Transparency
• Proper choice of projects	• Performance indicators
• Accountability	• Monitoring and evaluation
• Long-term planning	• Rewards for well-performing projects
• Link between spending benefits and financing costs	• Punishment (withdrawal of funds)
• Unsuccessful co-operation between governments	• Matching or other co-financing requirements
• Formula manipulation	

Source: Goodspeed (2005).

One successful tool for soliciting strong performance by the recipient government are, appropriately titled, performance funds. The EU Performance Reserve, for example, sets aside 4% of resources (8.25 billion EUR) to award projects that achieved pre-defined goals. To gain access to these additional reward funds, receiving governments are required to monitor and evaluate projects as well as achieve their pre-defined goals. The EU Performance Reserve Fund has made important contributions to capacity building and has led to the adoption of good management practices. For example, as a result of the Fund certain regions incorporated monitoring and evaluation methods into their projects for the first time. However, a number of problems have also been associated with

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the Fund. For instance, since targets are set by the grant-receiving government, it has an incentive to set easily achievable targets, and in fact a very large percentage of projects were awarded additional funds. The EU is proposing new targets that are well-defined, based on increases in GDP and employment, but member states have complained that such objectives are too restrictive. Moreover, it is difficult to control for factors other than the project that might be having an impact on employment and GDP. Nevertheless, the EU example shows that reward incentives do work (OECD, 2005b).

Although they contain many similar parameters as grants, contracts are yet another tool besides grants to manage vertical relationships. They are often more flexible than grants given the opportunity for negotiation on a much wider range of terms. Depending on the institutional context, the contract may be a tool that allows for greater empowerment and motivation on behalf of the parties to the contract. The challenges with contracts that have been observed across OECD countries include high transaction costs, a power bias towards upper level governments or insufficient evaluation procedures to ensure compliance by all parties. In some countries there tends to be a proliferation in the use of contracts, which may complicate governance (Table 3.5).

Table 3.5. **Multi-level government contractual arrangements: advantages and challenges**

Advantages	Challenges
• Link regional and national policies	• High transaction costs for negotiation and execution
• Contribute to local capacity building	• Proliferation of contracts in user countries
• Perform a legitimisation function	• Central level governments hesitant to give up their prerogatives
• Address institutional fragmentation	• Potential for rigidity when change may be needed
• Stabilise intergovernmental relationships over a longer time frame	• Bias towards capital grants
• Share burden of large and complex projects and programmes not possible for a single government	• Evaluation procedures not well-thought out in advance
• Share political risk	• Often a power bias towards upper level governments

Source: OECD (2005a), *Building Competitive Regions: Strategies and Governance.*

Evaluation and monitoring

Monitoring and evaluation serve to ensure the effectiveness of policies overall as well as to provide an important "field" for discussion among different actors. Different methods are used both *ex ante* and *ex post* for refining policy design and implementation as well as to ensure the accountability of public funds.

Monitoring and evaluation of rural development policy and strategies is highly complex. There is the challenge of evaluating across regions with considerable heterogeneity on a number of factors. Furthermore, much of the necessary knowledge for successful policy implementation must come from within the place, which again complicates monitoring and evaluation. The incentives and use of monitoring and evaluation depends on the actor's role in the process. As institutional economists note, "Where you stand depends on where you sit." At the local level with respect to a competitive grants programme, local actors seek to have their project selected. Such *ex ante* evaluation is also the way through which local knowledge can emerge through public-private participation processes and better use of the knowledge of local universities or research centres.

Higher levels of governance (and funding sources) want more formal evaluations for their own accountability purposes, as well as to refine both programme design and implementation procedures. Those who want it most may need to pay most for it. Making monitoring and evaluation an explicit addition to the grant requirements with an add-on adequate budget or allowance is quite different from requiring that evaluation/monitoring expenses be taken from operating budgets. Various experiences show that it is advisable to separate resources budgeted for evaluation which should not be fungible with operating funds and should be returned if not spent.

In some projects administered using competitive grants in rural areas, such as EU's LEADER, project selection is based on context indicators. This constitutes an implicit *ex ante* evaluation and measurement of starting conditions, sometimes even in quantitative terms. Requirements imposed by higher levels to monitor starting conditions set forth in the proposal make sense and identification of measures to monitor should be made a part of the proposal preparation requirements, particularly if they can be applied concretely with sanctions and rewards. However, the possibility remains that context indicators, even quantitative ones or those chosen by local actors to justify their requests for funding, may be inappropriate to be used as hard measures of programme achievements.

For programme and policy administrators, evaluation is a fundamental part of the whole picture. Evaluation is the process permitting the identification of possible opportunities on which to build a development strategy. Evaluation should be a process accompanying, step-by-step, the policy decision-making process and the programme's implementation life. Obviously, policy makers (through partnership and citizen-based decision processes) should be responsible for the final decision on the places and opportunities in which to invest, but evaluation can frame their decision.

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*The different policy focus, equity versus development, and the timing (*ex ante *versus* ex post*) will also change the nature of evaluation and its uses.* For policy with an explicit equity focus, the evaluation *ex post* of progress towards clear targets is more straightforward. For economic development, the unit of analysis is an "opportunity area" where evaluation is particularly complex and is of greater concern at the local level as well as at the upper level. The *ex ante* evaluation is a process through which policy makers try to understand in which rural territory and, within it, in which asset it is more appropriate to invest (*e.g.*, a specific regional product that can be clearly differentiated or an archaeological site). *Ex ante* evaluation should also allow ways for grantors of development projects to prioritise and decline projects in the context of budget constraints. This is the fundamental function of competitive grants and if there is insufficient evaluation material provided it is difficult to make the required choice. At the same time, evaluation must not be rigid. It must allow policy makers to set some "fuzzy objectives" to be adapted later to changeable contexts. As for self evaluation and *ex post* evaluation, they are a way to test adopted development strategies and to be ready to re-address them, whenever this seems to be necessary.

Overcoming measurement challenges

As noted above, the traditional challenges for identifying indicators for monitoring and evaluation are exacerbated by the multi-sectoral nature of rural development policies. For example, indicators are often measured to establish a causality between actions taken and the observed change or lack of change. The uniqueness of each rural place means that applying statistical measures is especially difficult in trying to ascribe change to particular causes in particular places. Often case studies are used to evaluate rural development policy, either to analyse the same place before and after a "treatment" (longitudinal) or to analyse two different places at the same point in time, one that received "treatment" and one that did not (cross-sectional). Given the multitude of variables in rural development, such attempts at establishing causality are tenuous. The lack of sufficient theoretical models to understand exactly how and why regional development occurs further complicates such analyses.

The choice and use of appropriate indicators in place-based rural development have been discussed in the context of two main problems (Barca *et al.*, 2004). First, there is an "incomplete information framework" problem where the knowledge needed to develop quantitative and verifiable measures of the policy objectives is partly held by those implementing the policy and partly produced by implementing the policy itself. The second problem is the causality case where establishing the link between actions and objectives is very hard, even where some of the policy objectives can be expressed by measurable variables. In either case, using flawed indicators to hold policy implementers accountable is unproductive.

Good indicators must therefore meet several requirements. They should be unambiguous measures of strengths or weaknesses of an area that are available across all units or regions being observed in a timely fashion and in a time series. The indicators must be complete with regard to the issues being evaluated. The quality of the data must be uncontroversial and reliable. A specific challenge for rural development policy, with the split of knowledge and incentives among levels, is the trust by all actors in the data source and the method of data collection. This trust is particularly important when results are being used for a form of sanction or reward.

In Italy, with respect to the EU Community Support Framework (CSF) 2002-2006, indicators of territorial policy progress were implemented in two different ways which are described as "soft" and "hard" respectively. In soft applications, indicators are used *ex ante* or *ex post* to measure final objectives and are usually broad context indicators to assess effectiveness across multiple territories. These indicators should serve to identify the relative strengths and weaknesses across units being measured, reduce the degree of fuzziness of regional policy analysis, and increase the accountability broadly, of all the stakeholders involved in decision making. However, because of their limitations, soft indicators are difficult to use for a robust evaluation of the performance of policies or those who implement the policies. Hard applications of indicators are used to measure intermediate objectives of policies where a particular intermediate achievement, such as establishing a new institutional arrangement, is a necessary step for achieving the policy objective. Incentives or sanctions are more easily implemented for these hard indicators where the implementer has control over the output.

The combined use of soft and hard indicators can improve the effectiveness of both *ex ante* and *ex post* evaluations and help develop over time a "culture of evaluation". This refers to a context where evaluation is not seen as a top-down exercise linked to the distribution of financial resources. Rather, in this perspective, evaluation becomes an opportunity for actors at different levels to jointly assess how well they are doing and how the effectiveness of their actions can be improved.

Conclusion and priorities for research

The design and implementation of place-based policy for rural development requires a paradigm shift in governance arrangements. As discussed in this chapter, rural policy is strongly knowledge based and involves multiple actors. Therefore, co-ordination and communication mechanisms are key. These mechanisms need to be developed horizontally, both at the central

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level of government and among local actors, as well as vertically across different tiers of government. An integrated rural policy implies that actors involved are called to perform new tasks, which requires changes in mind set and new skills. Evaluation and monitoring are also key in order to make sure that place-based policies are effective and improved over time. Table 3.6 illustrates some of the key co-ordination challenges and solutions for effective governance that supports rural policy.

Table 3.6. **Summary of key co-ordination challenges and solutions**

Governance challenge	Solution
Persistent sectoral approach	Address central as well as local co-ordination
Lack of implementation mechanisms	Look at good practice, *e.g.*, LEADER
Partners must take partnership seriously	Legislation and incentives
Weakening of local government	Restore powers to local levels
Local government too small	Incentives to co-operate
Ex ante control and approval	Control by results
Difficulties in evaluating policy impacts	Develop and combine "soft" and "hard" indicators
Ineffective local planning	Establish performance reserves and reward mechanisms

Source: Based on Bryden (2005).

While there is growing interest among policy makers in place-based rural development policies, there is a paucity of research documenting their results and the determinants of successes and failures. This is due on the one hand to the objective difficulties in evaluating (especially in quantitative terms) cross-sectoral policies. As discussed in the previous section, a key challenge for policy makers is to identify indicators that are capable of capturing in a fair manner the impacts of policies in a context where cause and effect are not always identifiable and where results may appear only in the medium to long term.

On the other hand, the research and intelligence gap around rural policy is partly due to an "intellectual crisis" caused by the difficulty of bringing together the variety of analytical approaches that need to be involved when considering integrated rural development policy. The "brain trust" for rural development includes regional economists, neoclassical economists, geographers, economic geographers, rural sociologists, urban geographers, urban economists, business economists, statisticians, political scientists, and researchers from other disciplines. Given the diverse nature of this brain trust, there is an important need for institutions like the OECD to assemble and further the collective knowledge.

In particular, a new research agenda for both national and international institutions should aim for two key objectives: *first*, the development of a comprehensive analytical framework for rural development policy. This should include appropriate qualitative and quantitative sets of indicators to allow the evaluation and comparison of different policies across countries and across regions within countries. *Second*, a systematic review of country strategies for rural development should be carried out and its results made available to policy makers across the OECD.

TDPC Chairman's Statement

by Fabrizio Barca[1]

The following text was written as a conclusion to the conference on "Designing and Implementing Rural Development Policies", *Oaxaca, April* 2005.

These conclusions are focused on four main concepts:

- A hidden tension.
- The revealed paradox.
- Some messages for governance.
- Evaluation.

A hidden tension

During the two-day debate on rural development policy, there was a hidden tension (almost as something not to be talked about) between two different objectives: *equity* and *efficiency*. The first one being related to the social objective of allowing all citizens at least "minimum equal chances" (however defined); the second one capturing the goal of competitiveness. Even if it is difficult to admit, these two dimensions (equity and efficiency) do not always go together.

The *equity* dimension has to do with **citizens' rights**; with the need for each democratic country to establish a minimum standard level of rights (*piso basico*) for his citizens, these rights being defined not in terms of income, but as the satisfaction of those conditions which are necessary for each individual to fully express his human being.[2] Very often during the Conference, citizens' rights were mentioned, such as nutrition, literacy skills, housing, basic availability of water and electricity, basic accessibility – for example enough roads for teachers to be able to reach schools – basic connectivity and legal rights.

The *efficiency* dimension has to do with **citizens' opportunities to increase their well-being**. These opportunities concern both individuals and firms. In the case of rural territories, opportunities are the results of two elements:

- capability of exploiting territories' own endowments (environmental amenities, cultural heritage, typical food products, etc.);
- the existence of markets for the product of those endowments to be sold profitably.

For an opportunity to become true, there must be a product and a market for this product. Otherwise policy intervention can generate big frustrations, as it was the case reported by a local development agency officer from the Mexican state of Oaxaca, when agricultural productions developed via public interventions could not be commercialised. Opportunities require *collective services* such as: higher education and training, regularity in the provision of public utilities, high quality accessibility and connectivity, logistics and marketing services and well functioning capital markets.

Obviously, the borderline between *rights* and *opportunities* is far from clear-cut; there is a grey area between the two. Also, considerations on the acceptable level of minimum rights change with time (as a country develops) and are linked to individual awareness and social pressure.

Even if the boundary between *rights* and *opportunities* is unclear, and the difference is not clear-cut, it is extremely important to make the distinction, as the two objectives differ completely in policy terms. Three main concepts can help us in the task of differentiation: *identification*, *standardisation* and *measurability*.

In each nation *rights* are *identified ex ante* in a rather clear (though modifiable) way and can be turned into *standards* independently of the nation's territory. Indeed, rights define a nation! Therefore, they must hold for all citizens and regions. Surely enough, the achievement of many rights requires different costs and services according to territories (*e.g.*, in a deeply remote rural area it is much more difficult and costly to ensure accessibility than in a peri-urban area); but the democratic nature of society compels the state to deliver them anyway. Although their costs differ, their description in terms of the function is the same everywhere (a minimum amount of unpolluted water a day, daily presence of school teachers, etc.).

On the contrary, *opportunities* depend on territories and cannot be standardised. A particular rural area could have different endowments: a typical food product, an archaeological site, or a protected park. For these endowments to become opportunities, it is necessary to find a market and to turn the endowment into a source of relevant income. Not all territories producing a given **agricultural product** can make it marketable; not all territories with an archaeological site (especially in a nation with many others, or located in a particularly isolated position) can turn it into a source of relevant income. So, a marketing service that in one territory **is a way to enhance opportunities**, in another territory could actually be a **waste**: this means that choice is necessary.

If *rights* are quite easily *measurable* (*e.g.*, share of total young people going to school, share of undernourished people), *opportunities* are not easily measurable. First, they have to be identified, and then they have to be *evaluated*. Coming back to the previous example, pinpointing a typical food product as a development asset is not sufficient. It is then necessary: to show that this is one of the area's best endowments; to pinpoint potential market outlets (local markets, local restaurants, supermarkets, possible nearby urban areas, export markets); to ensure that the local people are willing to work in this activity; to procure the amount of necessary investments; and to dedicate the necessary amount of land to this activity. The translation of endowments into opportunities will be the result of a *selection* process based on an evaluation process.

When *rights* are the objectives, no **tension** emerges between equity and efficiency. *Rights* are not tradable objectives. They are a precondition of development and they can be targeted in a relatively easy way. This is not the case for *opportunities*; they have to be identified, evaluated and selected. In the first case we can talk about social policy; in the second case we should talk about development policy.

The Mexican Micro-regions policy is a very good example of social policy. With the flag system, this programme is providing basic rights to many lagging rural areas. But this is not enough for development. Development requires creating opportunities, opportunities for increasing well-being, wages and profits.

When *opportunities* become the objectives, a **tension** can arise. Since the availability of public resources is finite, *i.e.*, public resources have an opportunity cost, development policies have to make choices between strategies, areas, programmes, projects, etc. This means that, even if there is social pressure, a number of territories; programmes and projects must be told "No".

Two other elements make this tension stronger: measuring and targeting are difficult. Once the evaluation has helped to accomplish the selection process, its sustainability in the long term requires the political process to believe and to support these two difficult tasks.

The policy conclusion is that even if a country's institutional setting establishes the two policies (social policy and development policy) to be run by the same body, they should be kept separate. While the former policy does not require selection and "choice", the latter policy requires selection and capability to turn down projects. If the development policy is carried on with the same philosophy as the social policy, this can cause major troubles by signalling that all places can grow. And this can create expectations that can not be fulfilled, becoming the source of repeated frustration.

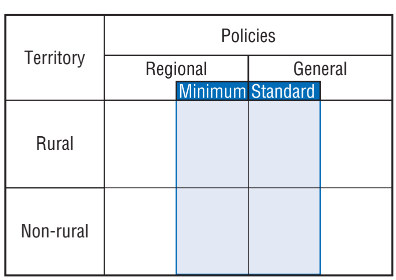
The revealed paradox

The second policy conclusion has to do with a paradox Mr. Caballero pointed out in the debate. Such paradox is made on the one side by the Conference participant's unanimous view on which policy is most suitable for rural development (a policy which is place-based, multi-sectoral, made up of integrated projects and run by multilevel governance) and, on the other side, the rather limited results in the field. It is indeed a very serious paradox; if not addressed appropriately, it could lead to a backlash, resulting in a new policy trend against place-based, non-sectoral, multilevel-governance rural policies. And this is a quite serious threat for a relatively new policy which is still limited in financial terms, compared to the sectoral and traditional agricultural policy.

Caballero gave us two possible explanations for the paradox: the agricultural lobby is very strong in all countries, compared to a rather weak and disorganised rural and place-based lobby; and unanimity is less than what it looks like because it is more concerned about policy wording than the real applicable policy content. I would like to add a further possible explanation: rural development policy swings between a holistic approach (the new utopia of a Grand Territorial Plan) and a minimalist approach, and both versions make the policy ineffective.

In order to make myself clear, let us put the policies discussed in the Conference into a matrix, distinguishing between rural *versus* non-rural policies, and regional *versus* general policies (see Figure S.1). The policy area

Figure S.1. **A matrix to analyse rural policy**



aimed at achieving a minimum standard (as previously defined) both in rural and non-rural areas, and through both regional and national policies, is also pointed out. Both the holistic and the minimalist approach can be represented though this chart.

Figure S.2 presents the "Grand Plan" of the holistic approach. This is the ideal world, in which all policies are re-read through a territorial lens; they are integrated and they help to develop a Grand Plan including rural and non-rural policies, as well as regional and general policies, with perfect co-ordination between bottom-up and top-down approaches. In this world, agricultural policy, rural development policy, urban planning, regional policy, social policy and transportation policy work in a perfectly integrated way at the territorial level, assuring the best suited development strategy for both rural and urban areas, and achieving the utopia of a Grand Plan.

Unfortunately the Grand Plan is unachievable. The same incompleteness and asymmetries of information which do not allow private agents to coordinate to achieve it, do not allow the State to complete markets in such a perfect way. Trying to achieve the Grand Plan produces mistakes, bureaucracies, easier capture of public resources by private agents, unfulfilled expectations, ineffectiveness of policy and, ultimately, backlash against the policy itself.

Figure S.2. **The Grand Plan**

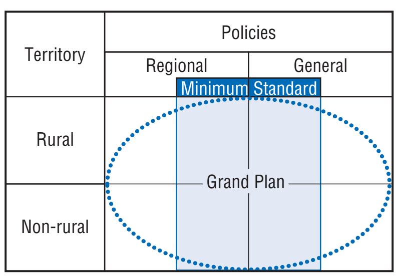
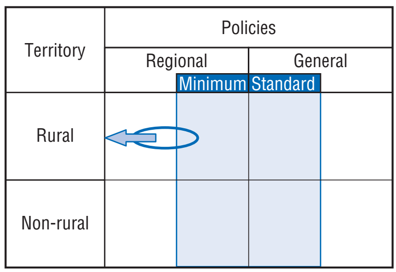


Figure S.3 presents the minimalist approach. This is the case in which rural policy – the same could hold true for urban policy – is run as a niche policy, as the European Union runs LEADER – or Urban – programmes. Here the need for regional policy to be based on local information and knowledge is fully taken into account, as well as the difficulties associated with extracting and making use of that information. But in the minimalist approach this happens at the expense of forgoing the attempt of coherence with general policies as well with policies aimed at non-rural territories. Furthermore, financial resources involved are limited and it is hard to measure the impact on economic and social conditions since they are affected by the overall combination of other policies. Taking the example of the LEADER programme, it certainly achieved interesting results at the local level due to several of its features – the bottom-up approach, new forms of co-ordination and net-working among different actors (private among themselves but also private-public), tendency to stimulate associations in areas in which prior associations and team-working were almost entirely absent[3] – but impacts were very limited.

Figure S.3. **The niche approach**

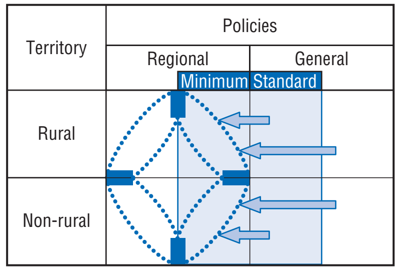


A mix, both in the world at large and in single countries, of Grand Plan and niche approaches has produced, I claim, Caballero's paradox. An alternative is therefore needed.

The alternative I refer to is somehow captured in Figure S.4. In this approach co-ordinated and well-funded regional policies operate across the four quadrants of rural and non-rural dimensions, including both development and minimum standards objectives. General policy is independent, but an assessment is demanded of its impact on rural and non-rural areas and on the relation between the two kinds of policies (first overlapping shaded area). This means that if one country's general social policy is having impacts on rural areas, this should at least be assessed. The same thing could be said about relationship between regional rural policies and regional urban policies (second overlapping shaded area).

Attempts made in Europe by several countries through the use of EU cohesion policies, go in the direction of the alternative I have drawn. It would be useful to carry out an extensive evaluation of the results achieved by these initiatives.

Figure S.4. **The alternative approach**



Some messages for Governance

The two previous sections provide the framework for the Conference recommendations in terms of governance incentives for the development of rural areas. The following clear-cut messages came out quite clearly from the debate:

- Rural areas are "***territories***" among other territories: for rural policy to be more effective, small fragmented programmes should be replaced by a single "financial pot" that rural and non-rural areas can access by implementing a strong ***horizontal co-ordination*** effort at different levels (at the central level between different administrations, at the regional level between different councillors and at the local level between public and private actors). This is what is happening in many European countries.
- ***Decentralisation*** of powers to states and\or regions.[4] Decentralisation should be supported through block grants, to be distributed according to a system of conditionality.
- Policies having either rights or opportunities as their objectives need a ***conditionality system***.
- ***Vertical Integration*** should take place through contracts. If this has to be rigid in the case of rights (as in the case of the flag system in the Mexican Micro-region programme), it has to be flexible in the case of opportunities (integration based on negotiation and mutual learning).
- ***Local Public-Private Partnership*** should be aimed, in the case of *rights*, at enforcing them; for *opportunities*, at exploring them and at creating market opportunities (as in the case presented by Alberto Athié concerning the opportunity to commercialise differentiated Mexican coffee or high quality maize).

Evaluation

Evaluation is a fundamental part of the whole picture! As already seen in the first paragraph, evaluation is the process permitting the identification of possible opportunities upon which to build a development strategy. Evaluation should be a process that accompanies step by step the policy decision-making process and the programme's implementation life. Obviously, *policy makers* (through partnership and citizen-based decision processes) should be responsible for the final decision on which "territories" and "opportunities" to invest in; but evaluation should frame their decision.

In the "opportunity area", evaluation is complex. It is not just about measuring whether *ex ante* clear-cut targets were achieved or not. Rather, the *ex ante* evaluation is a process through which policy makers try to understand: in which rural territory and, within it, on which asset it is more convenient to invest (*e.g.*, a specific regionally linked product; an archaeological site and\or the building up of agro-tourism facilities). Furthermore, evaluation is necessary to understand if and when an archaeological site can become a marketable tourist site; if and when a typical food can become a differentiated product capable of adding value to commodities; to create income opportunities for rural residents and to target specific markets. The Conference's key issue has actually been the need to pick – and learn how to pick! – ***marketable rural development opportunities***.

Ex ante evaluation is also the way through which local knowledge can emerge. This can happen, for example, by setting up public-private participation processes and also by "utilising" the knowledge of local universities or research centres. In the European Union's field of rural development policy, we are in the stage in which the big challenge is finding policy solutions that allow territories self-planning opportunities which would benefit as much as possible from local knowledge.

Ex ante evaluation should also allow ways for states/regions to be able to say "No". Because of budget constraints, development policies must choose: strategies, target areas, programmes, projects, etc. This means that, even if there is social pressure, a number of territories, programmes and projects have to be told "No".

But, at the same time, evaluation must not be rigid. It must allow policy makers to set some "***fuzzy objectives***", to be adapted later to modifiable contexts. As for self-evaluation and *ex post* evaluation, they are a way to test adopted development strategies and to be ready to re-address them, whenever this seems to be necessary.

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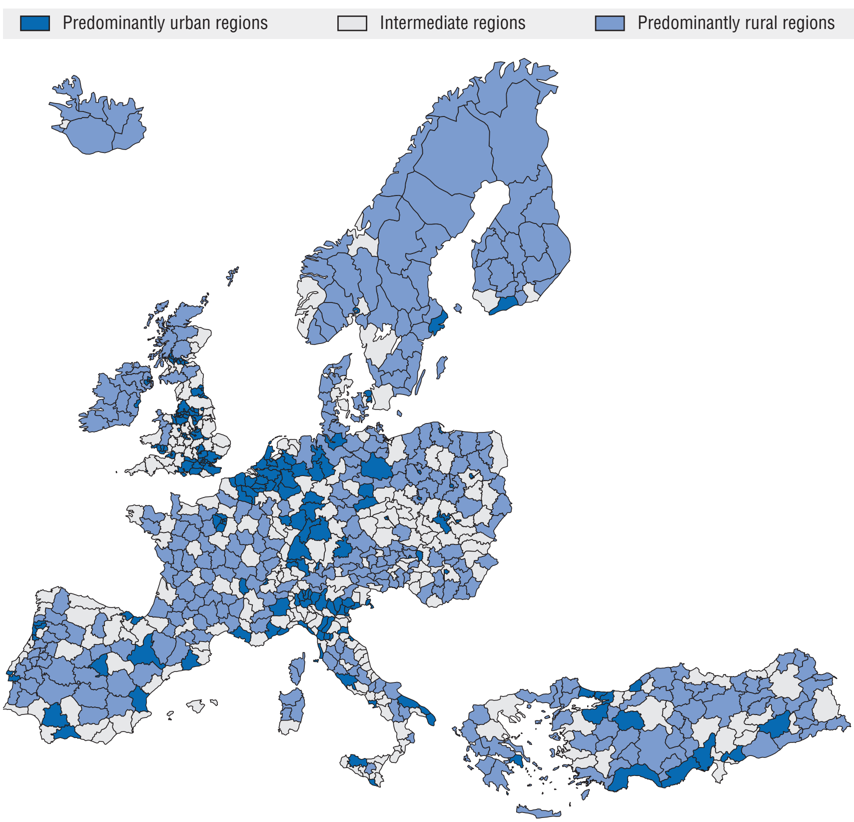
Notes

1. I wish to thank all the rural experts of the OECD Rural Working Party, the OECD Secretariat and my Development Department in Italy which have opened up to me the secrets and many insights of this policy field. In particular, I wish to thank Sabrina Lucatelli whose determination and contribution were crucial for discussing some early ideas on the subject and allowing to turn my conclusions into a written paper.
2. See, for example, Sen (1999).
3. In some Italian rural areas, the LEADER programme with the Local Action Groups was the first occasion to ask the local actors of a territory to work together for self-planning. But in Italy LEADER represents a small part of total allocation for rural development: of the average annual total allocation for the period 2000-2006, just about 3% has been allocated through LEADER (versus 32% of Operational Regional Programmes and 65% of Regional Rural Development Programmes– PSR-).
4. Depending on the constitutional structure of each country and on the level of decentralization already achieved.

APPENDIX I

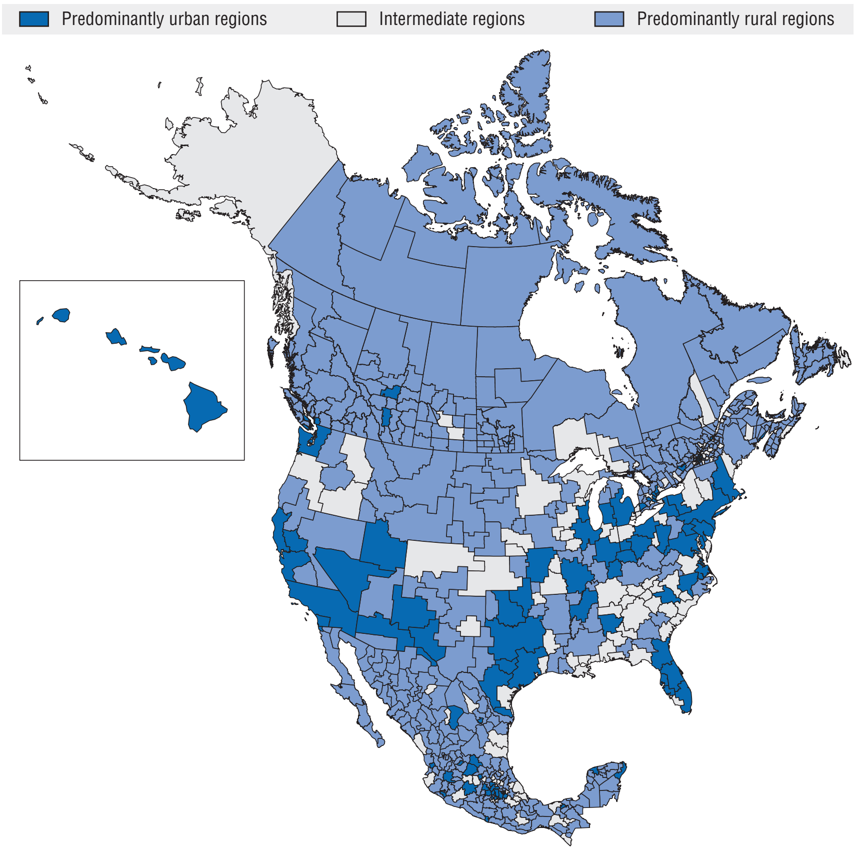
Regional Typology Maps

Figure A.1. **OECD regional typology: Europe**



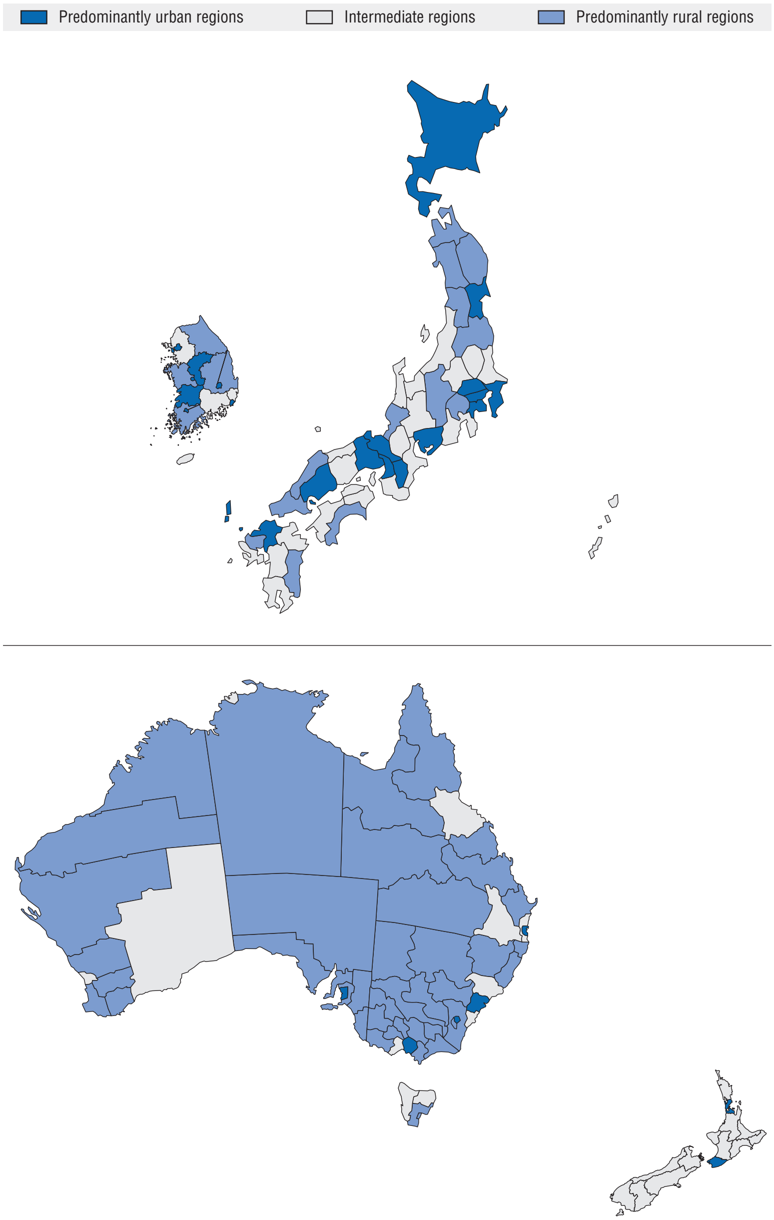
Source: OECD (2005g), *Regions at a Glance.*

Figure A.2. **OECD regional typology: North America**



Source: OECD (2005g), *Regions at a Glance*.

Figure A.3. **OECD regional typology: Asia and Oceania**



Source: OECD (2005g), *Regions at a Glance.*

APPENDIX II

Factors of Regional Competitiveness

Breakdown of GDP per capita

GDP per capita (in logarithms) in region *i* can be written as:

1. $$\frac{GDP_i}{P_i} = \frac{GDP_i}{EW_i} + \frac{EW_i}{LFW_i} + \frac{LFW_i}{LFR_i} + \frac{LFR_i}{P_i}$$

where *P*, *EW*, *LFW* and *LFR* stand, respectively, for population, employment at the workplace, labour force at the workplace and labour force at the place of residence.

Labour force at the workplace is defined as:

2. $$LFW_i = LFR_i + NC_i$$

where NC_i indicates net commuting to region *i*.

In theory, net commuting is equal to the difference between employment at the workplace and employment at the place of residence. In practice, however, data drawn from two different sources (regional accounts for employment at the workplace and labour force survey for employment at the place of residence) will be affected by their different sampling. This sampling error is revealed by the large difference between national employment at the workplace and national employment at the place of residence: in fact, assuming that international commuting is negligible, national employment at the workplace should equal national employment at the place of residence. At the level of each region, therefore, the difference between employment at the workplace and employment at the place of residence will measure net commuting plus the sampling error due to the use of different sources.

In order to correct for the sampling error, net commuting has been computed in the following way. Let *E(S)*, *E(A)* and *E* be defined as employment measured by labour force survey, employment measured by regional account and the true value of employment. Denoting *EW* as employment at the workplace and *ER* as employment a the place of residence, we obtain:

3. $$\frac{EW(A)_i}{EW(A)} = \frac{EW_i}{E} \text{ and}$$

4. $$\frac{ER(S)_i}{ER(S)} = \frac{ER_i}{E}$$

where the absence of a subscript indicates total national employment. Subtracting equation 4 from equation 3, we obtain:

5. $$\frac{EW(A)_i}{EW(A)} - \frac{ER(S)_i}{ER(S)} = \frac{EW_i}{E} - \frac{ER_i}{E} = \frac{NC_i}{E}$$

Equation 5 therefore provides a correction for the sampling error. It follows that:

6. $$\frac{LFW(A)_i}{EW(A)} = \frac{LFW_i}{E} = \frac{LFR(S)_i}{ER(S)} + \frac{EW(A)_i}{EW(A)} - \frac{ER(S)_i}{ER(S)} = \frac{LFR_i}{E} - \frac{NC_i}{E}$$

so that equation 1 can be computed as:

7. $$\frac{GDP_i}{P_i} = \frac{GDP_i}{EW_i} + \frac{EW_i / E}{LFW_i / E} + \frac{LFW_i / E}{LFR_i / E} + \frac{LFR_i}{P_i}$$

or, equivalently,

GDP per capita = Productivity + Employment rate + Commuting rate + Activity rate

Therefore, the difference in GDP per capita (in logarithms) between a given region and the country average is equal to:

Difference in GDP per capita = Difference in productivity + Difference in employment rates + Commuting rate + Difference in activity rates

Breakdown of differences in productivity

Average labour productivity in region *i* is equal to a weighted average of sectoral productivity:

8. $$\frac{GDP_i}{EW_i} = \sum_j \frac{EW_{ij}}{EW_i} * \frac{GDP_{ij}}{EW_{ij}}$$

where *j* indicates the sector.

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The difference from the average productivity can be broken down as:

$$9.\quad \left(\frac{GDP_i}{EW_i}-\frac{GDP}{EW}\right)=\sum_j\left(\frac{EW_{ij}}{EW_i}-\frac{EW_j}{EW}\right)*\frac{GDP_j}{EW_j}+\sum_j\frac{EW_{ij}}{EW_i}*\left(\frac{GDP_{ij}}{EW_{ij}}-\frac{GDP_j}{EW_j}\right)$$

The first term on the right-hand side of the equation measures the proportion of the difference in productivity due to regional specialisation.

Breakdown of differences in employment rates

The employment rate in region *i* is equal to a weighted average of employment rates by educational attainment:

$$10.\quad \frac{EW_i}{LFW_i}=\sum_j\frac{LFW_{ij}}{LFW_i}*\frac{EW_{ij}}{LFW_{ij}}$$

where *j* indicates educational attainment.

The difference from the average in employment rate can be broken down as:

$$11.\quad \left(\frac{EW_i}{LFW_i}-\frac{EW}{LFW}\right)=\sum_j\left(\frac{LFW_{ij}}{LFW_i}-\frac{LFW_j}{LFW}\right)*\frac{EW_j}{LFW_j}+\sum_j\frac{LFW_{ij}}{LFW_i}*\left(\frac{EW_{ij}}{LFW_{ij}}-\frac{EW_j}{LFW_j}\right)$$

The first term on the right-hand side of the equation measures the proportion of the difference in employment rates due to the skills profile of the regional labour force.

Breakdown of differences in activity rates

The activity rate in region *i* is equal to a weighted average of activity rates by age groups:

$$12.\quad \frac{LFR_i}{P_i}=\sum_j\frac{P_{ij}}{P_i}*\frac{LFR_{ij}}{P_{ij}}$$

where *j* indicates the age group.

The difference from the average activity rate can be broken down as:

$$13.\quad \left(\frac{LFR_i}{P_i}-\frac{LFR}{P}\right)=\sum_j\left(\frac{P_{ij}}{P_i}-\frac{P_j}{P}\right)*\frac{LFR_j}{P_j}+\sum_j\frac{P_{ij}}{P_i}*\left(\frac{LFR_{ij}}{P_{ij}}-\frac{LFR_j}{P_j}\right)$$

The first term on the right-hand side of the equation measures the proportion of the difference in activity rates due to the age profile of the regional population.

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The New Rural Paradigm

POLICIES AND GOVERNANCE

With a dramatic reduction in farm employment, rural regions across the OECD now depend on a wide range of economic engines for growth. Increasing globalisation, improved communications and reduced transportation costs are additional drivers of economic change in rural areas. Traditional policies to subsidise farming have not been able to harness the potential of rural regions. Promoting integrated rural development poses numerous policy and governance challenges: it requires co-ordination across sectors, across levels of government, and betweeen public and private actors. This report seeks to explain the paradigm shift in rural development policy to account for these important changes.

What is the new rural paradigm? Its main characteristics are a focus on *places* rather than sectors and an emphasis on *investments* rather than subsidies. The report highlights the diverse challenges facing rural areas, their unused potential, and the inability of sectoral policy to address this. It also provides an overview of the main socio-economic trends affecting rural areas across the OECD. Further, it addresses the governance requirements of the new cross-sectoral approach to rural policy.

This report will be of interest to policy makers, researchers, NGOs and others active in rural development.

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