Investment Priorities for Rural Development

Edinburgh, Scotland

October 19-20, 2006

SCOTTISH EXECUTIVE

OECD

Key Messages

Rural areas are changing, investment priorities in rural areas should change too

OECD rural regions are going through a significant structural change. Globalisation, changes in the public financing of the agriculture sector and the emergence of important non-farm niche markets put rural regions in direct competition confronting them with new threats and opportunities. While agriculture is no longer the backbone of most rural economies, emerging sectors include tourism, manufacturing and energy production among others. Despite these trends, OECD countries still spend about 225 billion € in farm subsidies, 60% of which is price support.

> *"Rural areas face several new opportunities and challenges which call for appropriate rural development policies and a more effective use of scarce financial resources."* (**Richard Hecklinger, OECD**)

The evidence that rural is no longer synonymous with agriculture has generated a common understanding that rural policy falls short if being conceived as agricultural policy. On the contrary, rural areas are increasingly looked upon as an heterogeneous array of regions where one size fits all policies are no longer suitable to capture the diversity of rural needs and opportunities. This has significant implications in terms of defining and implementing new investment priorities for rural development. Conference participants agreed that there are **3 key priority fields for public rural investments**.

First, public service needs of rural areas should be addressed

Conference participants agreed that rural communities cannot exist and thrive without appropriate public services. Providing services to rural regions is both a matter of enabling them to participate to national development and a question of guaranteeing "citizens" rights'. Many OECD countries have an explicit legal commitment towards maintaining equitable living standards across their territory. "Minimum standards" are important since difficulties in accessing public services may themselves generate or perpetuate unequal capacities and life-chances (*eg.* through unequal early education or health care).

However, governments of both OECD and non-OECD countries face severe challenges in terms of providing services to their rural citizens. The combination of geographic remoteness with an ageing and shrinking rural population and low tax bases questions the financial sustainability of rural services even in the most developed OECD countries. Major gaps are to be addressed in the field of mobility, especially for public transport availability, of new information and communication technologies, sufficient and high-quality resources for education and training, health provision and care for elderly persons. There is thus a need for innovative approaches to service delivery in rural areas. Conference participants agreed on the following key points:

- Uniformity is not an option. Apart from problems of financial sustainability, the appealing idea of equal services often leads to a "convergence to the bottom". Governments should thus define minimum standards and then differentiate service delivery across the territory and accept the concentration of the most specialised services. The definition of minimum standards should be subject to ex ante diagnosis, monitoring and continuous revision. Minimum standards will change over time as the country develops.

- While access to basic services should be seen as an entitlement, citizens and businesses located in remote areas should accept to bear some of the cost (*eg.* transport to distant services) or that services may be inferior in terms of access (*eg.* emergency services) or quality.
- Defining the types and quality of public services is a political process, going well beyond the consumer-producer relationship and in which communities should be involved. Active involvement can be a focal point for community development and hence for social inclusion in a collective sense.
- Innovative, place-based tools for service delivery to rural regions may provide some solutions to the trade-offs between equity and efficiency that make decisions on public investments complex and politically delicate. Modern strategies for service delivery would include in particular (1) coordination and cooperation across municipalities and sectors; (2) public-private partnerships; (3) support and assistance for voluntary community work and non-profit organisations; (4) mobile service units and (5) the use of ICT for service delivery.
- Broadband stands out as a new, necessary public good which can bring significant opportunities to rural areas, because it effectively levels the playing field by allowing rural communities, historically unprecedented access to information as well as the ability to provide services that until now were largely thought to be urban.

> *"The first priority in rural China is roads, the second is roads, the third is roads"*
> *(***Xiaohe Ma, China***)*

Second, governments should invest to promote rural innovation

Evidence from across the OECD shows that the capacity of regions, whether urban or rural, to support processes of learning and innovation is a key source of competitive advantage. Innovation in rural areas can be about "doing traditional activities in a new way", about starting up new businesses or about changing the way government interacts with citizens. In all these cases innovation is strongly linked with social processes such as the creation of networks, the strengthening of local identities, and the creation and dissemination of knowledge.

Conference participants agreed that the question of how to define "innovation" is not just theoretical, it has strong policy implications and influences the destination of public investments. Traditionally, theories around innovation focus on innovation within firms and innovation is often viewed as a scientific and/or technical sequential process driven by experts. Innovation is thus often, wrongly associated with "high-tech products" and with R&D activities mostly carried out in urban areas. In order to take informed, strategic decisions on investments in rural innovation the following distinctions must be made:

- First, innovation is not just about *new products, it also about processes*. Innovation in a rural context can thus be crucial in terms of opportunities linked with traditional activities such as farming or tourism that thanks to technologies can be carried out in a more productive way.
- Second, innovation is also about the way governments act and interact with other sectors players. Institutional innovation is thus a key issue in rural development. Innovative governance tools can be key drivers worth investing in for the development of rural areas.

- Third, a key distinction having impact in terms of investments should also be made between the "production" and the "assimilation" of innovation. Evidence was provided that while R&D investment has become a paradigm of innovation for some regions, investment in education and training is more important in many rural areas. Often times rural development can be triggered more effectively by investing in the local capacity ability to assimilate knowledge spillovers generated elsewhere than to actually produce that knowledge.
- Finally, even when talking about the production of technology one should make a clear distinction between emerging and mature technologies. Analysis of patent applications show that while urban areas have a competitive advantage in producing emerging technologies because of thicker markets and knowledge spillovers, rural regions can be competitive in the development of mature technologies. There are several examples of world-class innovative rural SMEs in mature technology sectors as it is the case in Finland or Canada. A critical part of the process is the combination of internal and external competences and knowledge.

> *"If you invest in human capital first, your chances of being able to generate research and development, create innovation through R&D, as well as assimilate greater innovation are much greater than if you decide to do it the other way around".*
> **Andres Rodriguez Pose (Spain)**

The knowledge based economy, brings a new reality which is only starting, comprised of telecommuters, home based businesses, web based businesses, satellite offices and relocations. Based on recent research the discussion focused on the importance that new rural residents and in particular that the "creative class" can play in rural development. In fact, the impetus for innovative projects in rural areas often comes from actors external to the locality. A common comparative advantage shared by some rural areas is the ability to support a high quality of life. Research presented at the conference showed that a number of professionals pertaining to the creative class (such as architects, artists, engineers, software developer, designers etc.) are more and more keen to move to places that are offering a better quality of life. This argument is particularly relevant in countries where most rural areas are relatively well linked to urban centres and thus these type of individuals can move more easily.

An important implication of these findings is that valorising amenities is not just conducive to the attraction of more tourists and retirees but also to the attraction of younger, talented individuals. Their presence in turn can generate relevant positive effects on the rural economy in terms of new firm formation and employment growth. In the context of rural areas, the combined presence of three factors has substantial more impact on economic growth than either in isolation: entrepreneurship, the creative class, and amenities, such as landscape and recreation.

Third, investments should be geared to exploiting rural-urban linkages

Policy makers across the OECD increasingly recognise that strategies for rural and urban areas cannot be discussed as separate items. The development dynamics of these region types are strongly linked and the understanding of such linkages can open up new opportunities for both rural and urban development. The linkages between urban and rural areas are evidenced by millions of people crossing these boundaries every day and the tenure of common assets. In most OECD countries the people tend not to be very different in terms of educational attainment and aspirations. Indeed there is considerable mixing of rural and urban communities. The growth of the knowledge economy and continued improvements in terms of information communication technology are likely to further iron out the differences between rural and urban.

In policy terms there is a danger that rural-urban linkages are often thought of as being one-way, that is, the contribution of urban areas to increased employment, earnings and productivity of the rural areas which surround them. In particular, the "city regions" policy debates have mostly been interpreted as how best to enable cities to drive regional and national economic growth. Rural policy prescriptions are frequently taken by urban advocates, resulting in often misplaced, policy targeting. The danger of this is that the full potential of rural areas is not realised and that rural areas which are beyond city regions are neglected in economic development policy.

> *"While the discussion began with rural areas, we came to discover that rural and urban regions alike face the same challenge – to build sustained, competitive advantage in global markets that are moving faster and faster".* **Mark Drabenstott (USA)**

The most dynamic development patterns often come out of the intersection between urban and rural. Different speakers illustrated the value of developing regional policies that are not dominated by urban priorities but where urban and rural work together: (1) developing a shared value for common assets, that was the case of the Rural Indiana Strategy for Excellence; (2) increasing the geographical extent and strength of urban-rural linkages, as in the case presented by Norway; and (3) focusing policy interventions on peripheral regions that do not benefit from the existing economic dynamism of "city regions" as in the case of England.

Conference participants agreed that the success of both rural and urban areas is influenced by the interaction of many factors and that more research, discussion and knowledge-exchange can contribute to a greater understanding of the complex rural-urban dynamics and effective policy responses. In particular, much consideration should be given to the potential of information and communication technologies towards allowing rural areas within and outside city regions to capture some benefits of agglomeration, lowering costs and increasing productivity. Also, there is a need to further study demographic differences in rural and urban areas, changing preferences at different stages of life, migration trends and the challenges and opportunities that these represent for rural regions. Of particular focus should also be issues such as comparative advantage, land use, transport and communication infrastructure and co-operation between local governments to identify and exploit rural-urban synergies.

Finally several speakers insisted on the need for policy makers to realise the great benefits that rural areas can offer to urban areas in terms of providing the solution to some of the most pressing policy challenges of today's cities: congestion, rise of housing prices, lower quality of life, air, water and soil pollution, energy production, waste disposal, services to the elderly and the shortage of space for leisure. All these demands generate investment opportunities for both public and private actors.

Investment priorities should be determined within the region…

What works for one region does not necessarily work for another. The key challenge is how to prioritize public investments that will most advantage a region's economic future. The question of what investment priorities to pursue should not be separated from the critical questions of **how** these decisions should be taken and **who** should be involved in them. The process of identifying priorities within investment alternatives is in essence that of weighing up costs and impacts. Whereas there are many rural regions where it would be a mistake not to focus on agriculture there are others where maintaining agriculture that is not competitive would be a waste of resources. Some regions will need agricultural research; others will need industrial infrastructure, while others will need to bet on natural and cultural resources. In any case, the policy map for identifying the right public investments in the right region lies in the regions themselves, not in the national capitals.

Certain emerging sectors offer great investment opportunities. Renewable energy, which is for the most part, rural energy, could mean higher prices for producers, land rents for wind and solar facilities, jobs in construction, operations and maintenance, and in-migration and a future for young people in rural areas. Tourism represents another significant alternative for some regions. Investments in the valorisation of rural amenities has created in several regions tourism attractions that generate new income opportunities for the local population. In all these cases, local involvement and entrepreneurship are important so that the area does not produce value added for other areas rather than for itself. ***Case studies*** discussed during the conference provided concrete examples of successful rural investment programs in different OECD countries and in different sectors. They highlighted that shifting from a traditional subsidies approach to a strategic investment approach can pay off in terms of jobs creation, business development, and better living conditions for both rural and urban dwellers:

- The case of ***Miyama, Japan*** illustrated the great return on investments in "bottom up" local initiatives oriented to conserve rural amenities (*e.g.* thatched-roof houses) and create new employment and income opportunities.
- The case of ***Umbria, Italy*** highlighted the importance of providing services such as health and child care to remote areas within an holistic approach to rural policy that recognises the importance of issues such as migration, quality of life and female participation and their linkages with economic development.
- Investments in technology pay off as was shown in the case of ***Extremadura, Spain***, where significant resources were channeled to connect the 383 municipalities of Extremadura to the broadband and open source software. The benefits ranged from savings and increased quality in education and health applications, to gains in government's efficiency and effectiveness.
- The case of ***Guerrero, Mexico*** evidenced the importance of adapting investment decisions to changing demographic challenges. By focusing on empowering young people, new projects were developed in the areas of forestry and tourism that were able to foster young people access to land and slow down out-migration to urban areas and abroad.
- Government explicit commitment to invest in rural development gives important signals to rural dwellers. In **Quebec, Canada** a new investment fund and set of incentives from the government generated the mobilization of nearly 30,000 people, including 7,000 volunteers in the design and implementation of a long-term development vision for rural communities.

All these cases showed that the nature and functions of the "public goods" underpinning new economic activity and quality of life in rural areas are often very different from those in urban areas. They range from nature and biodiversity to embedded assets such as culture, archaeology, history, and services such as broadband, education and health, universities and local learning centres. These goods are not *all* produced by farmers and land users and do not *all* depend on proximity or clustering for their economic efficacy. The increased supply of these public goods does not necessarily produce rural development (employment, incomes or better quality of life) if not accompanied by an effective regional/local "transformative process". Therefore investment is needed in supporting transformative processes themselves that allow private initiative and partnerships to emerge.

...and thus the role of national actors is to facilitate informed, strategic investment decisions within coherent regional development strategies

In this context, the role of central governments in accompanying effective investments in rural areas should shift *from one of "ruling" to one of "steering"*. That is, central governments should assume increasingly the key role of providing the legal and regulatory environment as well as the governance mechanisms that facilitate knowledge sharing and the identification of the right investment opportunities.

> *"We want rural areas to offer viable, attractive locations of choice for businesses and for people"* **Richard Wakeford, Scotland (UK)**

Several speakers pointed out that most regions, and certainly most rural regions, are poorly equipped to answer the question of what their investment priority is. A region's development strategy should provide the roadmap for the region's private and public investors. It is therefore a critical issue to foster the capacity of regions to identify investment priorities that stand the best chance of unleashing their economic potential. A comprehensive regional development policy should allow communities to understand which sequence they should follow in the provision of the different categories of public goods that they need to succeed in a changing world.

In the absence of a comprehensible regional strategy, decisions about public investment and provisions of public goods, are taken anyway, but they tend to favour those areas where there is already a concentration of economic financial interest and bureaucracy. The territorial allocation of public goods should thus be run by central governments strategically, in close co-operation with local actors and then evaluated for its results. A combination between an "evaluation culture" and participatory processes is needed to develop a self diagnosing system by which national and sub-national actors continuously evaluate their investment choices and by doing so learn in which direction to move.

In this framework, there was strong agreement among conference participants that rural policy should be considered as a component of a comprehensive regional strategy and not as a "niche policy". A modern rural policy should not be built on top of the previous rural (agricultural) policy, because the result would be mixing a legacy of agricultural policy with new approaches but not a strategic vision for the region in question. The new policy framework should be built around the objective of *regional competitiveness*, since rural and urban regions alike face the same challenge: to build sustained, competitive advantage in global markets that are moving faster and faster.

> *"In the permanent process of creative destruction no community can afford to sit down on its past glories. For rural areas, the challenge is particularly high, because they are not areas where innovators concentrate and where the wind of cultural trends and financial challenges flows particularly strongly"* **Fabrizio Barca (Italy)**

Summing up

In past OECD conferences the focus was on assembling evidence that there *had* to be a better way than farm subsidies for rural development. Over time, the evidence became so compelling – and the impacts of globalization so pronounced – that what started as a rather controversial idea rather quickly became accepted wisdom. Now all of that framework is taken for granted. The discussion is now about how governments and private actors should spend their resources in the new rural policy. Conference participants agreed that rural regions contain considerable potential, often not yet fully exploited. Investments should aim at releasing this vast potential. The future prosperity of rural regions will be determined by drivers such as human capital, entrepreneurship, innovation, renewable energy, technology, creative industries and competitive farming.

Public and private investments are needed to make the most out of rural resources. First, they should provide rural regions with appropriate services, second they should support rural citizens in their capacity to innovate and third they should exploit the growing linkages between urban and rural economies. A comprehensive regional policy should be the umbrella for informed, strategic decisions on investments that are able to boost the competitiveness of rural regions and enable them to contribute to national development and growth.

The 2006 OECD Rural Policy Conference took place in Edinburgh, Scotland on the 19 20 October. This event was co-organised by the OECD and the Scottish Executive and was the fourth of a series of international conferences that started in Siena, Italy (2002), followed by Warrenton, Virginia, US (2004) and Oaxaca, Mexico (2005). While the previous conferences served to realise the need for new approaches to rural policy in response to the rapid changes that rural areas are facing across OECD countries, **Edinburgh's conference made an important step forward taking the discussion to the definition of priorities of investment in rural areas.**

More than 120 senior policy officials and experts from 21 member countries along with delegations from China and Latin America participated in the conference. The conference consisted of six plenary sessions:

- *Investing in rural areas, what are the priorities?*
- *Fostering innovation in rural areas*
- *Delivering services to sparsely populated regions*
- *Exploiting rural-urban linkages*
- *Successful rural investment in services and business innovation*
- *Investing in rural areas: the way forward*

All presentations and this report can be downloaded from the OECD website:
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