



“Modernisation and Innovation in Rural Areas: Meeting the Challenge”

Remarks by Yves Leterme,
Deputy Secretary-General
OECD

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Minister Govorun, Governor Kuznetsov, ladies and gentlemen, I am very pleased to be here on behalf of the OECD to join you for the opening session of our 8th OECD Rural Development Policy Conference. Let me begin by thanking the Ministry for Regional Development of the Russian Federation and the Government of Krasnoyarsk Krai for their organisational and financial support, as well as their wonderful hospitality.

This is the first OECD Rural Development Conference in a non-member country. Of course, I am sure you are all aware that Russia is currently in the process of joining the Organisation, but this week's conference is yet another reminder that, even as a *non-member*, Russia is – and has long been – an important and active partner for the OECD.

As you know, we meet against the backdrop of a continuing crisis in the euro area, sluggish growth or even renewed recession across most of the developed world, a persistent jobs crisis and rising levels of inequality. Public finances across most of the OECD area are under strain. To restore and sustain growth over the longer run, we will need not only measures to address immediate financial pressures but also deeper, economy-wide structural reforms and better governance systems. Governments must rebuild confidence in the effectiveness of political action and the capacity of economic policy to foster growth.

In such a difficult environment, one might ask: why talk about rural? Isn't rural policy a secondary issue? The answer to this question is, I think, a resounding 'NO'. To be sure, it would be foolish to think that rural policy can offer solutions to the immediate crisis that we face. Neither can we ignore the fact that most of our citizens live – and most economic activity is generated – in urban areas. Yet the common tendency of the media – and, all too often, of policy-makers as well – is to focus exclusively on large cities as engines of growth. This overlooks the economic significance of rural areas and the degree to which both the economic viability of cities and their quality of life depend on the rural sector.

Rural economies provide essential goods and services that cannot be generated in an urban context, including important public or quasi-public goods, like clean environments, attractive landscapes and cultural heritage. Rural areas also have a critical role to play in addressing broader challenges, such as the shift to a more environmentally sustainable growth model. Most renewable energy technologies are primarily rural activities, particularly those reliant on agricultural feedstocks. Moreover, one clear area of strength in OECD economies in recent years has been primary commodities, which come from rural regions. Countries with strong agricultural, energy and minerals exports have generally fared better than most others over the last few years.

Our empirical work on the determinants of regional growth in recent years has also highlighted the growth potential of rural regions. The widespread perception that “rural” is somehow synonymous with “decline” is simply wrong. Indeed, rural regions tend to be heavily over-represented among the fastest-growing regions in the OECD. Unfortunately, they are also over-represented among the worst-performing regions. This dispersion in performance suggests that rural economies do face particular challenges, linked to such factors as structural change, accessibility, lack of critical mass and population ageing. When successful, rural economies can grow very robustly; otherwise, they can indeed fall into a cycle of decline. The central task of rural policy is thus to identify ways to help rural communities meet those challenges.

If we are to realise this potential, though, we need a proper appreciation of what rural policy can be. For decades, rural policy in most OECD countries was focused primarily on agriculture and was often seen chiefly as a mechanism for compensating those adversely affected by imbalances in economic development. It was, in essence, a spatially targeted social policy. Today, OECD governments are committed to a broader and more positive approach to rural development, focused on growth and competitiveness, not merely

“equalisation of outcomes” or support for specific sectors. They rely on multi-sectoral, strategies adapted to the needs and potential of specific places and on targeted investments rather than subsidies.

Innovative approaches to rural policy are particularly important in the current context of fiscal consolidation. Since rural public service delivery is often costlier and more difficult, there is a risk that tightening public budgets will have a disproportionate affect on remote rural communities. To avoid such an outcome, national governments and rural communities themselves must work together to “do better with less”, finding more creative and innovative ways to deliver public goods and services.

Moreover, the importance of a place-based approach is, if anything, greater in rural places than elsewhere. Recent quantitative analyses we have conducted suggest that the less densely populated a region is, the more the key determinants of its growth performance tend to be specific to that region. In part, this is because rural economies are more likely to be defined by their natural geography than are cities. It is thus easier to identify common growth drivers across urban regions. Rural economies are simply more idiosyncratic. Nevertheless, our work highlights some broad lessons for all rural regions to consider.

The first is the potential of strategies based on investing in and promoting the natural, cultural and recreational amenities in rural areas for a number of rural regions. Developing this potential requires more than a “rural tourism strategy”. It needs a complex approach, encompassing things like infrastructure, private-sector development and environmental policies. It also means confronting sometimes difficult trade-offs: regions focused on amenity-based development may have to forgo opportunities in some primary sectors, for example, while those investing in renewable energy may suffer some loss in terms of amenities. Finally, it means increasing productivity in rural areas by improving workforce skills, strengthening capital investment in firms and fostering entrepreneurship. As the rural

workforce ages and shrinks, sustained productivity growth will become all the more important to rural prosperity.

The second lesson is that innovation is as vital for rural economies as for urban. It is crucial both for raising productivity and for meeting the challenges of improved public service delivery. Fortunately, we at the OECD find that many rural economies are *already* very innovative. This is often overlooked, though, because innovation in rural places *looks* different. Rural regions are less likely to host large-scale research facilities or big concentrations of high-tech firms. Since assessments of innovation often focus on “big science” and its outputs, we are really not very good at measuring rural innovation, let alone promoting it. That is why the themes of this 8th Rural Conference are so vital.

Thirdly, we see increasingly that strategies focused on identifying and mobilising local assets – rather than relying on external subsidies and other supports – can help improve rural performance. The case studies in our recent report *Promoting Growth in All Regions* suggest that a self-conscious shift towards a growth-oriented policy framework – and away from a subsidy orientation – is often a key part of the recipe for success. A subsidy orientation fosters dependency and prompts agents to focus on the appropriation of funds from external sources – on rent-seeking rather than entrepreneurship.

This is not to suggest that external support for rural development is never appropriate. It may be critical, particularly for places confronting painful structural change, such as single-industry towns whose core activity is no longer viable. When external support *is* available, whether from national governments, supra-national bodies or international donors, its impact is likely to be greatest when deployed as part of a growth-oriented strategy based on endogenous assets. It is also critical that such assistance be used to *facilitate* change rather than to forestall it. And our studies of regions that have successfully adapted to structural change suggest that when the people who live in a place play a leading role in identifying a

new future, there is a greater chance of realising it than when central governments try to define their future prosperity for them.

Finally, even those challenges common to rural and urban places often take on a particular character – and may require a differentiated response – in a rural context. Uniform economy-wide policies – designed for the most part in urban environments and for predominantly urban populations – too often fail to take proper account of the specific needs of rural places. For example, our recent study of renewable energy and rural development shows how top-down, spatially blind policies that target rural areas can have unexpected and undesirable consequences. A place-based approach, involving bottom-up input as well as top-down direction, can help to reduce transaction costs and improve outcomes.

This points to the need for innovation in the governance of rural policy. New governance tools can be critical to achieving a healthy balance of top-down and bottom-up input into the policy process.

Ladies and gentlemen, my colleagues and I look forward to our deliberations over the coming days on how to design and implement effective rural policies for our challenging times. Together, we can learn from one another and help set the agenda for change. Thank you!