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OECD

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Reinventing Rural Policy

Introduction

In OECD countries, rural areas account for three-quarters of the land and are home to a quarter of the population. Rapid changes in the international economy clearly have a different effect on these regions than on cities and towns, offering different challenges but also different opportunities.

Improved communications and the Internet make it possible for many people to work just as effectively from a cottage in a village as in a city office, for example, while cheaper transport and increased leisure time make it easier for farms to expand into non-farming activities. As a result, governments have moved away from a defensive attitude to rural policy, essentially focussed on trying to halt a decline, to concentrate more on seizing new opportunities. Some of these opportunities are linked to agriculture, but most will be in non-agricultural activities.

The question is how to adapt current rural strategies, which are often sector-based, to take into account the different development needs of rural regions, many of which are based on exploiting specific local resources – policies to encourage water-based activities such as fishing and sailing are clearly not suitable to all areas, for example.

However, these new approaches to rural development have not yet been accompanied by a substantial reallocation of resources to integrated rural policy. Designing such policies for different communities or territories requires seeking more coherence among sectoral policies and 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. This *Policy Brief* looks at the experience and insights coming from numerous initiatives that are being implemented across OECD countries and offer possible solutions to these policy challenges. ■

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How are rural regions coping with economic change?

On the face of it, rural regions in OECD countries are not performing as well as urban areas. Using the most common indicator of economic performance, gross domestic product (GDP) per capita, predominantly rural regions were only at 83% of the national average across OECD countries in 2000. Furthermore, in 13 of the OECD countries for which figures are available, GDP per capita in rural regions declined as a percentage 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 people moving away to urban areas and ageing, lower educational attainment, lower average labour productivity, and overall low levels of public service.

But these figures tell only part of the story. In fact, there are wide differences in performance between rural areas – indeed, in more than a third of OECD countries the region with the highest rate of employment creation is a rural area.

The assets of rural regions, such as quality of life and environment, as well as improved transport links and infrastructure can serve to retain or attract people and businesses. Infrastructure is particularly important as it helps reduce costs for businesses. In fact, the level of industrial employment in predominantly rural regions increased by 0.5% per year during the 1990s, while it was declining in other areas. Easier commuting across longer distances has also enabled people to live in rural regions while working in cities. Rural assets including 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 in countries including France, England and the Netherlands. ■

How important is agriculture to rural economies?

While agriculture plays an important role in shaping the rural landscape in many OECD countries, its weight in rural economies is often low and declining. Productivity increases in recent decades have driven a dramatic decline in agricultural employment across OECD countries. Currently, less than 10% of the rural workforce is employed in agriculture. And even taking into account the considerable increase in productivity, agriculture's share of gross value added for the economy remains low. In the 25 EU countries, 96% of rural land use is agricultural (including forestry), but only 13% of rural employment is in agriculture, producing only 6% of gross value added in rural regions. In OECD countries, the picture is even more striking – the gross value added of agriculture as a percentage of total GDP has been steadily declining and reached 2% in 2001.

Nonetheless, agriculture continues to have an important influence on the rural economy. 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

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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. Agricultural subsidies bring large resources into rural regions, but they are not intended to trigger rural development directly and, in most cases, they do not do so. The main reason for this is that agricultural subsidies focus on a small segment of the rural population – farmers and others involved in agricultural enterprises – rather than on rural places or areas. 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 at international as well as domestic level are changing the rules for rural regions, necessitating new approaches. Three factors in particular are influencing rural policy making across OECD countries: increased focus on amenities; pressures to reform agricultural policy and decentralisation.

- *Increased focus on amenities:* The value that society, both rural and urban, places on natural and cultural amenities has an important influence on the way rural development policy is conceived across OECD countries. Because rural areas account for more than 75% of land in OECD countries, policies for rural places play an important role in land management and must therefore take into account 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. Some of the most important antiquities, historical sites and other recreational amenities important for rural economic development, such as ski and water resorts, are also in rural areas. Moving beyond a narrow focus on the role of agriculture in rural economies and its contribution to rural amenities such as landscape and wildlife preservation, policy makers increasingly emphasise the need to identify and valorise the wide range of resources of rural areas and their use. The stewardship of the multiple features of rural sites has thus become a key pillar of place-based policies for rural development.
- *Pressures to reform agriculture policy.* Besides considerations linked to the limits of agricultural policy, pressure to reform the current agriculture-based approach to rural development comes 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 for 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 with the "old" members.

- *Decentralisation and trends in regional policy.* Experience has shown that simply channelling money to rural areas is not enough to address their problems and help them develop. This has led in many countries to policies and programmes aimed at developing rural areas and making them more competitive by mobilising local assets. Since the 1980s, regional redistribution policy has become 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 development strategy covering a number of factors such as infrastructure and the availability of a suitable workforce, that affect the performance of local firms. Second, there is a greater focus on local assets and knowledge and less of a focus on investments and transfers from outside the rural area concerned. Finally, there is a collective/negotiated governance approach to such matters, involving national, regional and local government plus other stakeholders, with the central government playing a less dominant role. ■

How is the approach to rural policy evolving?

As a result of the above-mentioned factors, several OECD countries are developing a multi-sectoral, place-based approach that aims to identify and exploit the varied development potential of rural areas. Two principles characterise this "new rural paradigm": a focus on *places* instead of sectors; and 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.

Table 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)

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- Canada's decision to apply a "rural lens" to its policies, programmes and services aims to ensure that rural priorities are taken into consideration in developing government policy and that there is policy coherence between ministries about rural objectives. The Community Futures Program promotes bottom-up economic development in rural areas.
- Finland's multi-year Rural Policy Programme, which has been operating since 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 broaden the focus of rural policy and to ensure more coherent policy 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 community.
- 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. Designing rural development policy for different communities or territories involves pooling the 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 both at the central and local government level, and between the different levels of government.

Central governments often struggle to overcome their own sectoral approach to rural development in favour of an integrated policy approach. 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 co-ordination 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. Administrative boundaries at regional or local level 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.

Co-ordination is also needed between the ***central government*** and ***sub-national authorities***. Developing a true partnership with sub-national governments implies participation in decision making and also in implementing 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 among policy makers for place-based rural development policies, there is very little research documenting their results and what determines success or failure. This is partly due to the objective difficulties of evaluating cross-sectoral policies, especially in quantitative terms. 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 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 cultural 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.

A new research agenda in rural development should aim for two key objectives. First, a comprehensive analytical framework for rural development policy should be developed and 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. The OECD is actively focused on these two analytical challenges. ■

For further information

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For further reading

Please see *www.oecd.org/gov/ruraldevelopment*.

- OECD (2006), **OECD Rural Policy Reviews: The New Rural Paradigm: Policies and Governance**, ISBN 92-64-02390-9, € 30, 130 p.
- OECD (2005), **Building Competitive Regions: Strategies and Governance**, ISBN: 92-64-00946-9, € 30, 142 p.

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