

Investment Priorities for Rural Development
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Speech by

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It is an honour for me to join such distinguished speakers in the opening session of this fourth annual conference on rural development. Our focus this year is on investment priorities for rural development. In my remarks this morning, I will first highlight some key factors affecting investment decisions and then turn to the investment priorities.

Key trends in rural areas affecting investment decisions

Key dimensions of rural areas are changing in OECD countries. *First*, there are two different phenomena regarding demography: on the one hand younger people are leaving rural areas, which coupled with the ageing population often raises serious economic and social challenges. This is the case for example in Japan and Germany – in the latter the percentage of young adults leaving rural areas increased five fold in ten years. On the other hand, people are moving from urban to rural areas. This is particularly true for rural areas with good accessibility, favourable climate or other amenities as is the case in some parts of France, England and the Netherlands.

Secondly, the economic structure of rural areas has changed dramatically. While agriculture continues to shape rural landscapes in many OECD countries, its economic importance has declined – agriculture now employs less than 10% of rural workforce and accounts for about 2% of GDP. Thus diversifying rural economies is a key objective for investment strategies. Rural regions in many countries have succeeded in strengthening their industrial base – examples of such regions include the southeast region of Ireland, Oberpfalz in Germany, Hiroshima-Kamo in

Japan, and the region of Ascoli Piceno in Italy. Many rural areas have also boosted their service sectors by “cultivating” rural amenities – classic examples of this include Siena in Italy and Tiroler Oberland in Austria. But there are also other recent success stories of thriving tourism industry, such as Mugla in Turkey and Tasman in New Zealand.

Third, there have been significant *institutional changes* in rural areas. Decentralisation in OECD countries and the increased use of regional and local planning have resulted in the involvement of a much wider array of actors in rural development – these actors now include national, regional and local government as well as various stakeholders such as NGOs and universities, with the central government taking a less dominant role.

Investment priorities

New approaches are emerging in OECD countries seeking to address these changes and to cope with the specific needs of and opportunities for rural areas and people. We recently published a book called “*The New Rural Paradigm: Policies and Governance*” which discusses these experiences. One of the most defining characteristics of the emerging “new rural paradigm” is precisely an emphasis on *investments rather than subsidies*.

But what kind of rural investments? In which sectors? In which regions? If job creation is the primary objective, we need to assess whether the most effective way to support rural economies is through agricultural subsidies, which amounted to € 225 billion (close to \$300 billion US dollars) in the OECD area in 2005. Nearly 60% of these subsidies was in the form of price support for agricultural products, which cause market distortions, focus on one specific sector and benefit only a small fraction of people living in rural areas. The *New Rural Paradigm* implies moving away from a sectoral approach to investments to a more strategic approach based on competitiveness. Using this approach, we can identify at least three investment priority areas.

First, fostering the ability of rural areas to innovate in both products and processes. Evidence from across OECD countries shows that the capacity of regions, whether urban or rural, to support learning and innovation is a key factor for competitiveness. Needless to say, urban areas offer more favourable ‘framework conditions’ for many types of innovation. However, innovation in rural areas can take many forms: it can be about ‘doing traditional

activities in a new way’, about starting up new businesses and new sectors or about changing the way government interacts with citizens. In all these cases innovation is strongly related to human capital, knowledge (both codified and tacit) and networks.

The key question to address is whether the type of innovation in rural areas is the same as in urban areas. Many rural regions try to develop complex R&D facilities in order to compete in high-tech industries. This often generates costly investments with very little job creation. In many cases it would be more effective to invest in the capacity of rural areas to assimilate innovation developed elsewhere rather than to try to produce that innovation. Investment in access to ICT and broadband technologies has proved to be effective to some regions such as the Pyrénées Atlantiques in France and Extremadura in Spain.

Second, investing in the provision of public services. Many OECD countries have a constitutional commitment to maintain equitable living standards across their territory. However, the combination of geographic remoteness with an ageing and shrinking rural population and low tax base often questions the financial sustainability of rural services. Policymakers need to strike a balance between difficult equity and efficiency. Investing in the modernisation of rural services delivery can provide an answer to these challenges. There are several examples of this in the fields of education and training – this is the case here in Scotland but also in Finland and Sweden with the use of ICT for tele-education.

Third, connectivity and rural-urban linkages can bring significant opportunities to both rural and urban citizens. Policy makers across the OECD increasingly recognise that strategies and investments for rural and urban areas cannot be discussed separately. The two types of regions are strongly interlinked, and understanding these linkages can open new investment opportunities in both regions. High cost of housing in cities and improved transport infrastructure contribute to increased daily commuting leading to large “functional urban regions”. Thanks to improved infrastructure, lower transport costs and ICTs, remote regions can now be connected to urban economies. In France, for example, high speed trains have allowed an increasing number of people to live in remote regions. Rural areas could benefit significantly from these developments, but they also require significant investments in areas such as transport, ICT infrastructure, housing, and business services to name a few.

Governance and knowledge issues

The question of investment priorities should not be separated from the critical questions of *how* these decisions should be taken and *who* should be involved in taking them. The process of identifying investment priorities requires weighing costs and impacts. This process, which is well developed in the private sector, is also essential for the public sector. The main principle is the same: allocation of scarce resources to the priority that provides the highest returns. However, in public policy there are also other factors at stake besides cost-efficiency, as the investments should provide the highest social benefits and be administratively and politically feasible.

Moreover, *knowledge* about investment opportunities in rural areas is detained by several different actors and most of it is often at the local level. In this context, the role of central governments should shift *from one of 'ruling' to one of 'steering' and 'facilitating'*. In other words, central governments should increasingly assume the role of providing the legal and regulatory environment as well as the governance mechanisms that facilitate knowledge sharing and initiative.

Conclusion

When the OECD Secretary General addressed last year's Rural Conference in Oaxaca, he stressed the need to move from sectoral to place-based policies. He also spoke about the need to assess the costs and impacts of alternative policies.

I am glad that we are addressing these issues here today. I look forward to a fruitful exchange of views over these two days and assure you that the OECD will continue to develop its role as a provider of sound policy advice.

Thank you for your attention.