

Investment Priorities for Rural Development

by

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There is often confusion over what can be accurately described as urban or rural. The cross-over of economic activity in urban and rural areas makes comparison difficult and can lead to economic development programmes which ignore cross-sectoral linkages. Perhaps the most accurate description of urban is that there are no farming businesses whilst the most convincing description of rural would be any area that is not urban.

The presence of agricultural businesses in rural areas leads to the question of who delivers rural development. A linked but equally important question arises: Is rural development different from urban development? Given the changes in agricultural policy, do current agriculture and rural development policies fit?

“Rural” is not synonymous with agriculture. Neither is “agriculture” synonymous with “rural”. Although there are many areas of Scotland where agriculture provides a highly significant share of employment and income, it is widely accepted that agriculture’s share of employment and income is declining and even in some rural areas is small. However, agriculture is more than the production of food and fuel. Not only does it provide countryside amenities but it has both positive and negative environmental effects through its use of land and water resources.

Although agriculture’s direct economic contribution to job creation and income in rural areas is declining, its importance is considerably enlarged when its indirect effects are taken into account e.g. on tourism, down-stream processing and land management. This was profoundly illustrated during the foot and mouth (FMD) epidemic in Scotland when the largest economic effect was felt not by agriculture itself but by sectors using the countryside such as tourism where activity was restricted by FMD regulations.

Rural development is more than the creation of jobs. This conclusion is equally applicable to overall economic development which now takes account of the attractiveness of a location for people including level of amenities, public services and quality of life. In Scotland it appears that agricultural policy and agricultural departments are still the main channels through which rural development is pursued. Yet this is increasingly being challenged. Rural development cannot be delivered through agricultural policy.

Rural areas are categorised by a number of distinguishing features. Most definitions use sparsity of population as a unique feature. Rural areas have more difficulty accessing retail markets typified by large concentrations of population. This leads to the challenge of achieving adequate critical mass be that in people, the provision of public services or clusters of businesses. Once critical mass is reached, attracting people and businesses becomes easier and economic linkages such as “spillovers” start to have beneficial effects.

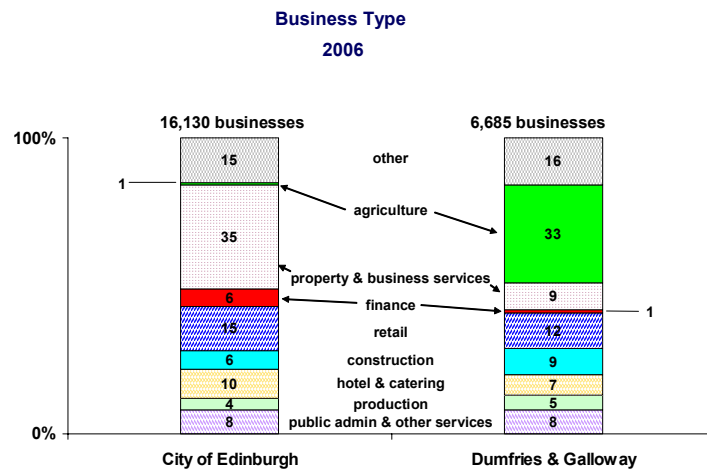
Many cite low accessibility to development sites as a feature of rural areas. This may be through a combination of physical location away from centres of population or the effect of planning regimes.

The issue of countryside housing supply is well known. The fact that in some areas the low level of housing supply is caused by the high demand for second or third homes in tourism does illustrate the linkage between rural and urban areas.

All this leads to a lack of concentration of entrepreneurs in rural areas. Entrepreneurs are important for generating new business starts which are an important driver of overall economic growth.

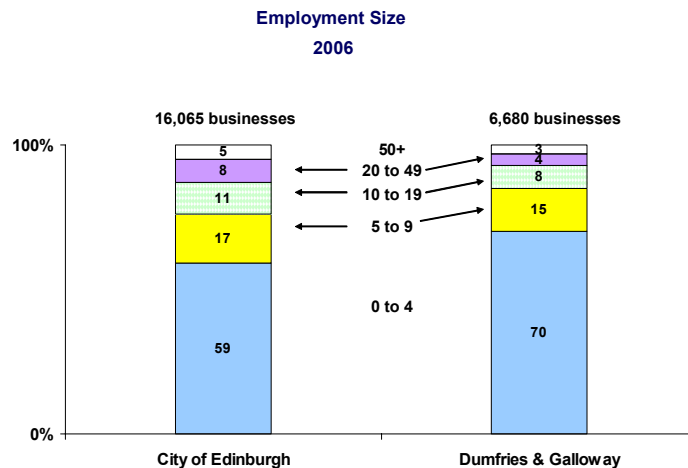
A thorough examination of these characteristics of rural areas reveals they are not exclusive to rural areas but are often highly typical of urban areas. How many times have these factors been described as representative of the entire country of Scotland or the Scottish economy? The differences between urban and rural areas are more in the minds of the describers than in reality.

The chart below contrasts the types of businesses found in what would traditionally be described as typically urban and rural areas – the city of Edinburgh and the region of Dumfries & Galloway. Each bar shows the percentage breakdown into different types of businesses for each area. The major difference is the presence of agricultural businesses in Dumfries & Galloway counter-balanced with the presence of property and business services in the city of Edinburgh. There is a higher representation of finance type businesses in the city of Edinburgh but otherwise the similarity is striking in what would be considered the extremes of urban and rural in Scotland. The presence of agriculture seems to be the defining characteristic of a rural area.



Source: IDBR (2006).

The next chart shows for the two same areas employment size of businesses.

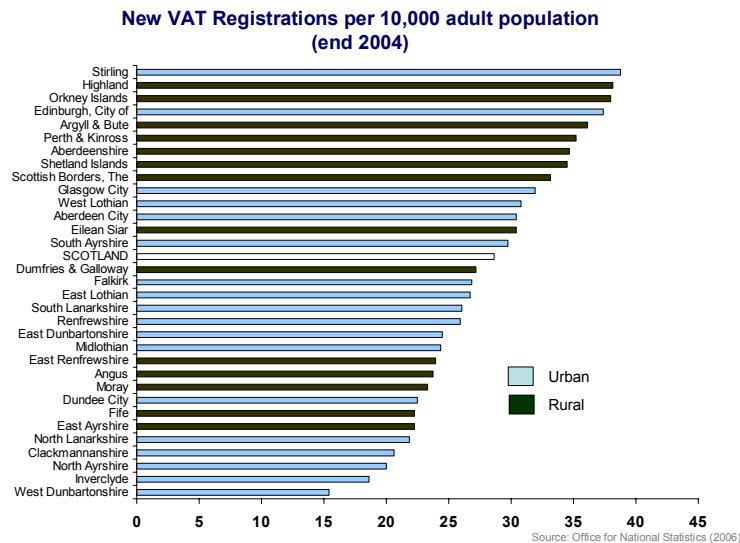


Source: IDBR (2006).

Again, the similarities are substantially greater than the differences. The major difference, due to the existence of agricultural businesses employing small numbers of people, is that Dumfries & Galloway has 70% of its businesses employing between zero and four people

while the city of Edinburgh has 59%. In both areas small businesses dominate and it is likely that the similarities would increase if the effect of agriculture was removed from Dumfries & Galloway.

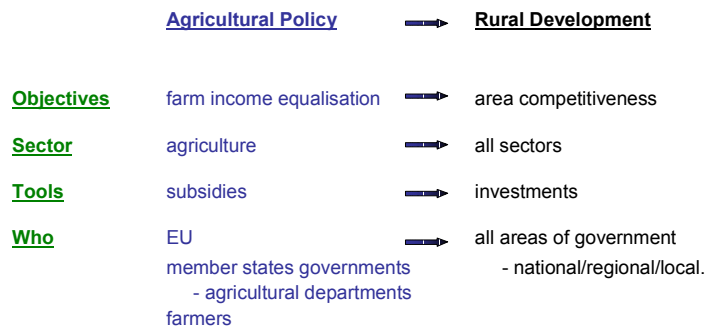
The business start-up rate in any economy is recognised as an important driver and contributor to economic growth. The chart shows new Value Added Tax (VAT) registrations per 10,000 adult population for Scotland's thirty-two local authorities.



On a somewhat arbitrary basis, but linked to the presence/absence of large centres of population, fourteen of these local authorities have been designated as rural, leaving the rest as urban. The distribution shows, if anything, that the rate of entrepreneurship as determined by new VAT registrations per 10,000 adult population appears to be higher in rural areas than in urban areas. This is perhaps an expression of the lack of large-scale employers in rural areas but nevertheless does not show any huge difference between urban and rural areas in Scotland.

The change from agricultural policy to rural development is shown in the next chart.

From Agricultural Policy to Rural Development



A key objective of agricultural policy was to equalise farm incomes with non-farm incomes or urban incomes. Now the emphasis is on making a geographical area competitive in terms of location, accessibility and resources such as labour force and critical mass of companies. Therefore, the focus moves from purely agriculture under agricultural policy to a focus on all business sectors under rural development.

The tools correspondingly change from subsidies under agricultural policy to investments under rural development. Under agriculture policy, member state governments, (typified by agricultural departments and farmers) were the main participants in agricultural policy. However, under rural development there is a pressing need for wider involvement of other areas of government outwith purely agricultural departments at national, regional and local level.

At this stage, clarity is required on what constitutes economic development. The chart below shows six major activities.

Economic Development

- Attract business
- Start new businesses
- Provide access to finance
- Provide physical infrastructure
- Attract, develop and retain key people
- Network globally.

The first is to attract businesses to a defined area be that a country, a region or a rural locality. Secondly, new business starts are encouraged by providing access to finance often in the form of debt or equity. Next is assistance with physical infrastructure ranging from air links to roads to bridges and to business parks offering accommodation. The key to any economic development is the ability to attract, develop and retain key people particularly those at the peak of their working life.

Despite the increase in net immigration to Scotland over the past two years, Scotland's total population is forecast to decline as a percentage of the UK total. This is a major explanatory factor behind the poor GDP growth rate in Scotland with a long run trend rate of just under 2.0% over the last few decades. However, Scotland's GDP per head has been maintained relative to the UK and to many other OECD countries because the slowly growing "pie" of GDP is being shared by a static or even declining number of people. The same applies within the Scottish economy.

Networking globally means trading within Scotland to trading inside the UK, to the Eurozone and to the world. One of the strengths of the US economy is its ability to source intellectual property, innovation and the fruits of R&D from across the world. One study reported that most innovation in the US was externally sourced.

So what are the key priorities for investments for rural development? This paper has argued that the presence of agriculture is the only real difference between urban and rural areas. Agriculture has made and continues to make a significant contribution to rural economies but rural development cannot be delivered in the future through agriculture policy.

Key priorities are investment in infrastructure to allow communication, be that physical or electronic. Providers of public services must provide these throughout rural areas and not develop policies which seem to concentrate on urban areas. Valuing rural assets such as the countryside and use for amenity means recognising the importance of a rural "expansion" space around key metropolitan areas. Much of the output of Scotland's farms leaves the country with little added – surely a case for investing in downstream processing augmented by the coming impact of biofuels. The development and financing of SMEs is a priority in rural areas as it is in urban areas. This is not purely the supply of debt but often of risk capital through public/private programmes.

Key Priorities

- Transport and ICT
- Public services
- Valuing rural assets
- Agriculture - value add
- Developing and financing SMEs
- Planning reform
- One delivery channel – new?

The reform of Scotland's planning system is long overdue. This is not necessarily simply a relaxation of planning laws in the countryside although many would welcome such a change. Valuing rural assets is simply not enough – planning must allow them to be used for effective rural development.

Finally and perhaps the most difficult of all is the recognition that just as agricultural policy cannot deliver rural development, agricultural departments of government cannot deliver rural development policy. This means a key priority is for rural development to cease to be the preserve of agricultural departments but to be shared with local enterprise companies and even private sector organisations. Scotland's countryside is one of our most valuable assets – let's use it!

Bibliography

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