



## **SEMINAR PROCEEDINGS: DELIVERING PRODUCTIVITY AND COMPETITIVENESS FOR RURAL AREAS**

### **Background and purpose**

The Organisation for Economic Co-operation and Development (OECD) hosted a high-level seminar on “Delivering Productivity and Competitiveness for Rural Areas” in Paris on Monday 7<sup>th</sup> November, 2016. The purpose of this event was to provide an opportunity for political and administrative leaders from across the OECD to highlight lessons and good policy practices related to the development of rural areas.

The seminar built upon the insights and lessons from the Territorial Reviews of the Northern Sparsely Populated Areas and the Mexican State of Morelos, which were discussed and approved at the 19<sup>th</sup> meeting of the OECD Working Party for Rural Policy (WPRUP) held on November 7<sup>th</sup> and 8<sup>th</sup>, 2016.

The seminar was also informed by the challenges and opportunities identified for rural regions in the 2016 Regional Outlook<sup>1</sup>. This work shows that rural areas are not synonymous with decline, and they make important contributions to national economies. However, rural places also face diverse challenges associated with population ageing, declining productivity, and inequalities.

Rural development policies can help maximise the growth potential of these places. The Rural Policy 3.0 identifies how to deliver an integrated approach to investing in the enabling factors for growth, and the seminar focussed on them:

- i. innovation and entrepreneurship;
- ii. infrastructure and accessibility;
- iii. service delivery and demographic change; and,
- iv. labour markets and skills.

Each session had an expert moderator and a panel of representatives from different regions and countries. Panel members and moderators included: high-level representatives from regions that have participated in OECD studies and member countries (NSPA and Morelos); country delegates to the Working Party for Rural Policy

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<sup>1</sup> OECD (2016) OECD Regional Outlook 2016 – Productive Regions for Inclusive Societies, <http://www.oecd.org/regional/oecd-regional-outlook-2016-9789264260245-en.htm>

(WPRUP) (Finland/Sweden/Norway, and Australia, Canada, Chile, and the USA); and, representatives of the permanent delegations from these countries.

The audience included representatives from these reviews, members of the rural working party, members of permanent delegations, and the OECD Secretariat. Participants were able follow the conversation and contribute it via [#OECDgov](https://twitter.com/OECDgov) [#OECDrural](https://twitter.com/OECDgov).

## Welcome and introductions

**Mr Richard Cormier, Vice-Chair of the WPRUP** welcomed participants on behalf of the Working Party. Mr. Cormier noted the importance of the seminar in supporting the role of the WPRUP in bringing together policy makers to identify ways to implement more effective approaches to regional and rural policy.



*“This seminar helps contribute to the role of the OECD’s Working Party on Rural Policy which is to bring together policy makers to identify ways to implement more effective approaches to regional and rural policy”* Mr. Richard Cormier, Vice-Chair of the OECD Working Party for Rural Policy

**Ms. Mari Kiviniemi, Deputy Secretary General of the OECD** noted how the event built upon the outcomes of the 10<sup>th</sup> OECD Rural Conference<sup>2</sup> in Memphis, USA, in May 2015 and highlighted the following points.

- **Stronger rural economies mean stronger urban and national economies.** While effective rural policies must certainly address the specific needs and challenges of rural areas, **they can ultimately enhance the well-being of urban and rural dwellers alike.**
- The importance of **well-being**, rather than just economic performance or income, as the focus of policy. **Good rural policy can never lose sight of competitiveness and growth, but neither can it afford to treat issues like equity, environmental sustainability or well-being as second-order objectives.**
- In order to attain well-being we cannot ignore the imperative to enhance **rural productivity**. There are lots of strategies to do this. **We need to understand the special challenges for businesses in rural areas, and provide the conditions that help them flourish and innovate.**

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<sup>2</sup> <http://www.oecd.org/rural/rural-development-conference/>

- The **OECD's Rural Policy 3.0** provides a framework for countries to implement rural policies which build prosperity and wellbeing.



*“The rural topic is not just about rural. The performance of our rural areas is also critical to national prosperity. While effective rural policies must certainly address the specific needs and challenges of rural areas, they can ultimately enhance the well-being of urban and rural dwellers alike.”* Mari Kiviniemi, Deputy Secretary General of the OECD

**Mr. Joaquim Oliveira Martins, Head Regional Development Policy** at the OECD then provided an overview of the Secretariat’s work on rural economies and policies. The 2016 Outlook included a special focus on **low-density economies**, and highlighted how countries need to rethink rural development to better tap the productivity growth potential of all rural regions. This includes supporting rural regions to identify their areas of **absolute and comparative advantage** and implementing policies that support in adding value to them.

### **Session 1: Innovation and entrepreneurship**



*“Innovation is a fundamental force for economic growth and productivity in rural areas. Policies should be developed in partnership with rural communities and support them in identifying assets and addressing barriers to growth.”* Mr. Mihail Dumitru, Deputy Director, DG Agri, European Commission

Moderator: Mr. Mihail Dumitru, Deputy Director, DG Agri, European Commission

Panel members:

- Mr. Tomas Norvoll - President of the Nordland County Government
- Ms. Tiina Rajala - Development Director, Northern Ostrobothnia
- Mr. Richard Kerste – Brainport Development
- Ms. Cathryn Geiger - Australian country delegate to the RDPC and WPRUP

### Key issues covered:

- Innovation is an important factor for economic growth and increasing productivity, and in rural regions innovation comes from a **variety of sources**. **Formal science based innovation systems** can occur within rural regions, typically in larger cities with universities and large enough firms to have a formal R&D function. For example, forest based bio-energy research. However, innovation is generally different in rural regions than cities and it can take a number of different forms.
- **Imported innovations** are important for rural areas and allow firms to remain competitive in external markets. **Absorbing and adopting** these innovations requires connections to the places where the idea is developed and the resources to acquire and introduce the new technology (e.g. many of the improvements in pulp mill technology are developed by and for multi-national firms).
- **Local innovation** is significant but less obvious since it largely takes place within SMEs and may not be patented or even made known within the region since they can be specific to a single firm. These **user driven innovations** take place largely because the entrepreneur cannot find a viable solution to purchase and has to develop an internal way to resolve the problem. In some cases **local innovations can be highly disruptive and alter global markets** (e.g. the commercial salmon aquaculture industry in coastal Norway).
- Policies to support innovation in rural areas need **strong engagement from multiple partners**. All levels of government have a role to play in assisting rural entrepreneurs and SME's to translate ideas into a business opportunity, address barriers such as access to finance, and facilitate relationships and capacities which help businesses to internationalise and access and absorb new technologies. Roles should be clearly defined and policies developed in **partnership with regions** to support them in identifying assets and addressing barriers to growth.

### **Session 2: Infrastructure and accessibility**



***“Investment in digital and transport infrastructure is vital for the prosperity of rural areas and works best when integrated with investments in skills and innovation.”***  
**Mr. Richard Cormier, Vice-Chair of the OECD Working Party for Rural Policy**

Moderator: Mr. Richard Cormier, Vice-Chair of the WPRUP and Canadian delegate to the WPRUP

### Panel members:

- Ms. Cecilie Myrseth - Chair of Troms County Government
- Mr. Pentti Mäkinen - Regional Mayor, South Savo
- Mr. Erik Bergkvist - Chair of Region Västerbotten
- Mr. Anders Wittrup - Senior Advisor, Norwegian Ministry of Local Government and Modernisation
- Ms. Christell Åström - Rural Policy Council, Finland

### Key issues covered:

- Investments in digital and transport infrastructure are critical for rural regions because they improve **connectivity with markets**. This connectivity can be understood in two ways:
  - i. The first is simple **physical distance to major markets**, which increases travel times and shipping costs. However, straight-line distance is not all that matters. For example, maritime transport is far cheaper and more flexible than overland transport, and it requires less dedicated infrastructure. Access to the sea is often a crucial variable for regions accessing international markets.
  - ii. The second dimension is the **degree of economic connectedness**. Lack of economic integration not only reduces current trade opportunities, it reduces the ability of agents in a place to identify new opportunities. For example, the residents of many small towns along the US Appalachian mountain chain—which are among America’s poorest places—are physically very close to some of the world’s biggest factor and consumer markets, but they are poorly linked to those markets.
- The NSPA regions are characterised by long distances to key markets, scattered populations, and an extreme climate. This makes accessibility and connectivity more challenging for business than other parts of Finland, Sweden and Norway, and many regions in Europe. A **collaborative approach to infrastructure planning and prioritisation** is important in overcoming these challenges, including across national borders.
- Rural policies have long supported rural development through infrastructure connections (e.g. transport and ICT infrastructure) and while this remains important, other elements of connectivity also deserve attention such as helping firms connect to export markets, and capital in order to grow their business. OECD research shows that **infrastructure investment works best when it is combined with investments in skills, and innovation**.
- OECD governments have recently endorsed the importance of these **policy complementarities** through the 2014 *Recommendation of the Council on Effective*

*Public Investment across Levels of Government*<sup>3</sup>. The recommendations comment at length about the importance of coordinated strategies for public investment (both physical infrastructure like roads and soft infrastructure like human capital development) in order to make the most of funding.

### **Session 3: Service delivery and demographic change**



***“In the current context of tight fiscal budgets, how to deliver better services in more cost effective ways for rural communities has come to the forefront of the policy discussion in many OECD countries.”*** Ms. Lisa Mensah, Under Secretary of Rural Development, USDA

Moderator: Lisa Mensah, Under Secretary of Rural Development, USDA

Panel members:

- Mr. Risto Poutiainen - Regional Mayor, North Karelia
- Ms. Maria Stenberg - Chair County Council Norrbotten
- Mr. Anders Josefsson - Member Executive Board City of Luleå
- Ms. Lillian Salerno - Deputy Under Secretary, USDA
- Ms. Marie-Chantal-Girard - Canadian delegate to the RDPC

Key issues covered:

- For people and communities in rural areas access to **high quality public services** is an important factor in improving the quality of life and in making regions more attractive. The service or tertiary sector in OECD economies now accounts for the largest share of income and employment, which also makes service availability a central feature in rural development policy and strategy.
- However, rural regions face a particular challenge in the form of relatively **high costs of service delivery** due to a number of factors (e.g. distance, lower populations, and less diversity of service providers). In the current context of tight fiscal budgets, discussions around how to deliver services in **more cost effective ways in rural areas** has come to the forefront of the discussion in many OECD countries.

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<sup>3</sup> <http://www.oecd.org/gov/regional-policy/recommendation-effective-public-investment-across-levels-of-government.htm>

- If rural communities are to play their full role in strengthening national economies, it is important that the correct set of services be in place. The challenges associated with delivering public services vary across different regions and countries. There are a **number of innovative practices rural regions** across the OECD are putting in place to deliver better services at lower cost, which include:
  - **Consolidation, co-location and the merger of similar services.** For example, co-location can lead to greater efficiencies because basic overhead costs – energy, security and administrative expenses can be pooled
  - **Alternative delivery mechanisms.** Where the demand for services is widely dispersed, it may be more efficient to bring the service to the user. The Internet offers the possibility to provide services in rural areas and for providers in rural areas to offer services outside their immediate territory (e.g. telemedicine allows x-rays and other diagnostic services conducted in rural areas to be processed and analysed elsewhere).
  - **Community-based solutions for different types of providers.** Such as not-for-profit village shops that are community owned and provide equivalent access to services, but which operate as social enterprises.
- **Creativity and a pragmatic approach** are critical to implementing these innovations. Sub-national governments can play a lead role in partnership with national governments, the private and third sectors. These partners need a common understanding, and an environment which encourages people to do things in a different way. **Trust** among the various institutions involved is **absolutely the key**.

#### Session 4: Labour markets and skills



*“Territorial inequality is a key issue that needs to be addressed. The 2016 Ministerial Council Meeting of the OECD agreed on the need to address territorial disparities, and the need to invest in human capital and skills.”* Ambassador Ms. Claudia Serrano, Permanent representative of Chile to the OECD

Moderator: Claudia Serrano, Permanent representative of Chile to the OECD

Panel members:

- Graco Ramirez Garrido - Governor of Morelos
- Yvonne Van Hest - Brainport Development

- Jukka Ylikarjula - Regional Mayor Central Ostrobothnia
- Patrik Johansson – Swedish delegate to the WPRUP

Key issues covered:

- **Human capital and skills** are critical drivers of regional performance across OECD regions. This is particularly relevant for rural regions which must face the challenge of “brain drain” as a significant proportion of young people generally leave these areas after completing their education. This is becoming more of a challenge in the context of an **ageing population**.
- Analysis in the 2016 Regional Outlook shows that **rural regions tend to have a higher share of low skilled workers**. In the United States and in Australia, for example, the share of labour force with tertiary education in the most urbanized regions is 25 percentage points higher than in the least urbanized regions.
- The labour market for high-skilled workers tends to be global and dominated by cities and large metropolitan areas. In contrast, the market for low and technical skills is much more locally driven. This suggests that the **productivity of rural areas depends on the successful upgrading of low skill workers and an increase of workers with technical skills**.
- Previous OECD research documents the benefits of reducing the share of low skilled worker in the regional labour force for economic growth<sup>4</sup>. This result is particularly relevant for rural regions, where **policy should focus on retaining youth in schools and prioritising technical skills**. It is also important to strengthen **local private sector firms** so they can absorb more workers, and establish **local job matching services** that help connect those seeking work with available openings.
- These outcomes can be achieved through **investments** in school and technical education in rural areas coupled with initiatives that **build stronger partnerships between educational and training institutions, businesses and other actors** at regional and local levels. Education and training initiatives should also be **integrated with wider regional and rural development efforts**. Skills and workforce development is a key part of the growth strategy for the **Mexican State of Morelos** which is implementing a **Human Capital Council** which is designed to implement this integrated approach.

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<sup>4</sup> OECD (2009) *How Regions Grow – Trends and Analysis*, <http://www.oecd.org/gov/regional-policy/howregionsgrowtrendsandanalysis.htm>