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Working Party on Territorial Policy in Rural Areas

Public Service Delivery in Rural Areas: Issues Paper

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This document is submitted to Delegates of the Working Party on Territorial Policy in Rural Areas for DISCUSSION and DECISION ON NEXT STEPS at the 10th Session.

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RURAL SERVICE DELIVERY: ISSUES FOR DISCUSSION AND FUTURE WORK

Public services are crucial not only for equity reasons, but also for the competitiveness of rural regions. They serve as the cornerstone for the well-being and productivity of inhabitants and firms and as a means of unlocking the potential of territories and nations.

This document puts forward a number of issues linked with rural service delivery that have emerged from recent Rural Policy Reviews as well as from the last OECD Rural Development Forum held in Cologne in March 2008. The aim of this note is not to analyse these issues in depth but rather **to provide a basis for discussion and highlight key questions that could be further explored** during the biennium 2009-2010.

Issue # 1: Defining rural public services

1. Public services, as used in the context of the Cologne conference and of OECD Rural Policy Reviews, include not only the services delivered by a government agency, but also some types of services that are provided by firms or by individual citizens on a voluntary basis, and which are enjoyed collectively. The essential difference between public and private services is the fact that for public services, society collectively, in the form of government, plays the central role in establishing their provision, rather than individuals. In the case of a private service, each individual chooses how much of the service he/she wishes to consume without questions from society on the quantity consumed (by any individual), the aggregate quantity provided, or the distribution among individuals. In opposite, society is very interested in public services and the different issues noted. Society in this context may be a national government or some lower level of government, such as a province, region, city or other local government with an interest in social welfare and economic development.

2. Public services are commodities which should not depend on an individual's income or wealth or on consumer sovereignty, because they generate positive externalities. In this sense, public services are inherently "merit goods". While each individual enjoys the benefit of access to the service, that individual's consumption generates positive spillovers to society. For example, the public provision of education to all children is a merit good. While each child is the main beneficiary of the outlay on education, society benefits collectively from a population with a higher level of education because this can increase workforce productivity and civic engagement and may reduce crime.

3. Key questions: How are public services defined across OECD and non-OECD countries? Is the definition used at the Cologne conference and in Rural Policy Reviews sufficiently comprehensive? Is it too wide?

Issue # 2: Delivering services to remote areas

4. Distance, lack of critical mass and insufficient density make public services more expensive to deliver. Rural areas are typically far from major urban centres, and this makes all forms of connectivity more expensive. Roads are longer and cost more to provide. Transport times are significant. Power lines have to be strung long distances and suffer line losses. Moreover, even within a rural area distance imposes a burden because large distances limit internal connectivity. While technologies such as information and communication technologies (ICTs) have reduced the distance penalty facing rural regions, most of the ways in which rural people exchange goods, services and ideas still suffer from distance costs.

5. Nonetheless, technological advances have reduced the effects of remoteness in some respects. For example, wireless service networks have rendered unnecessary the deployment of infrastructure such as cabling for accessing information and communication services (phone, Internet). However, technological changes have not altered the fact that physical proximity is necessary for services such as electricity, water provision, waste disposal, fire brigades, postal services, public transport, roads, etc. In these cases, geographically close settlements have often co-operated to provide them. Yet, it is not always easy to access services in neighbouring communities. Sometimes, geographic features, such as mountains, rivers, lakes, or even changing climate conditions, make the movement of people, goods and services more difficult, even when linear distances are not great.

6. Furthermore, as globalisation increases the importance of interconnectedness, the distance penalty could worsen. This is clearly the case for many rural areas in countries recently examined or currently the object of a Rural Policy Review such as Mexico, Finland or Canada. Finally, national governments are under greater pressure to budget more efficiently, which inevitably makes it even more difficult to invest in remoter areas.

7. Key questions: How should the special challenges facing those living in the smallest and most remote areas without the critical mass to sustain basic services be addressed? How should effective linkages be built with larger centres? Which analytical tools can contribute to cope with the equity-efficiency trade off?

Issue # 3: Dealing with complex migration and mobility dynamics.

8. Trends in population growth rates in rural areas differ in OECD countries. As Figure 1 shows, Germany, Hungary, Japan, Korea, the Slovak Republic and Turkey have experienced either a sharp reduction in the rate of growth of their rural population or even depopulation (a negative rate in the latest period). However, this is not the case in all OECD countries. While some countries have seen a slowdown in their rural population growth ratio (Austria, Belgium, Denmark, Greece, Mexico, Norway, the United States), others have seen their rural population rise (Australia, Canada, Finland, France, Iceland, Ireland, Italy, Spain, Sweden, Switzerland, the United Kingdom). However, in these cases it is often only a small portion of the country's rural areas that benefit from positive population trends. In Finland, for example, rural areas close to urban centres have become migration recipients since 1996 (even surpassing inflows to urban areas since 2001), while out-migration from the rural heartland and sparsely populated areas continue. But the picture is more complex; there are examples of remote areas (for instance the Highland and Islands in Scotland, (see Box 1) that have been able to reverse out-migrations trends.

9. In rural areas that are experiencing depopulation, local demand for public services are decreasing and endangering long-term sustainability, while in those areas experiencing in-migration from urban areas, it is necessary to meet increasing expectations in terms of access to services (see Box 2). Thus, in regions

where population is declining the unit cost of delivering services increases as scale economies are lost, while in areas where the rural population is increasing the fiscal capacity to increase service provision may be insufficient. However, aside from migration trends, a key set of factors to consider in planning services are related to mobility trends. In particular, recent Rural Policy Reviews have highlighted that improvements in transport infrastructure and changes in individual and firm behaviours and preferences are increasing the amount of commuters between rural and urban areas thereby providing new opportunities but also policy challenges especially in rural areas that are well connected to urban centres.

10. Key questions: What options are there to increase the governments' capacity to account for complex migration and mobility trends? What analytical tools are needed to inform policymaking? How can rural outmigration trends be reversed? Should this be a policy objective at all? What are the most defining characteristics of urban citizens moving to rural areas? What is and what can be the role of the migrating 'creative class' in this context? What kinds of services are needed in rural regions that are becoming net receivers of population?

Issue # 4: Coping with rural demographic trends (ageing)

11. A key issue in the discussion on rural service delivery is the overall trend towards ageing of rural populations. OECD countries face different challenges for managing this demographic phenomenon. The combination of lower birth rates, out-migration of youth in search of educational opportunities, jobs and certain amenities, and the return of retirees to rural areas creates an increasingly ageing demographic structure. The capacity of regions to generate sufficient resources to provide for the needs of the elderly (*e.g.* health care, assistance, home care, transport) varies greatly among regions. In 2006, the elderly dependency rate across all OECD regions was mildly higher in rural areas and intermediate regions (21.4% and 22.1%, respectively) than in urban regions (18.4%). The results are more dramatic in Japan, Portugal, France, Spain, Greece, Sweden and Finland (see Figure 3). As the Rural Policy Review on Germany showed, the percentage of elderly (over 75) population in rural East Germany will increase by 75% in the next 25 years (see Figure 4).

12. Demographic conditions in rural regions affect how public services are provided. While rural areas have a long tradition of providing public services through voluntary action and co-operative effort, the capacity to provide services in this manner is increasingly constrained. An ageing population reduces the number of individuals capable of providing these services as it increases the demand for them. Moreover, there are increasing government restrictions on how services are to be provided in terms of the qualifications of providers and delivery mechanisms. These regulations often preclude voluntary provision of services. The availability of services plays a role in population shifts. Places with poor services tend to lose population. Thus in a community with an ageing demographic structure the failure to provide additional services to the elderly will encourage them to leave, but shifting funding away from services for the young can lead to an exodus of families with children. There are however also examples of rural regions that have managed to turn the presence of elderly population into an opportunity to develop and specialise into targeted services, as it was the case in Finland and Japan (see Box 3).

13. Key questions: Considering the increasing ageing of population in many rural areas, how can services be sustained locally? Should urban communities subsidize rural ones? Is the high cost of rural regions sufficiently accounted for in public sector resource allocations? Can the presence of elderly population be turned into an advantage in terms of opportunity to develop a silver economy? What experiences are there to learn from?

Issue # 5: Setting minimum standards

14. When considering public services it is important to consider their nature and extent. Some services are looked upon as "basic rights" which all citizens should receive. Other services may only seem appropriate in certain places and for certain people. Guaranteed basic services are the starting point. Every country has some core set of services which all individuals are entitled to receive, irrespective of their economic and social status and location, and they help build social cohesion. For basic services the question of whether the service will be provided does not arise, although the level of service may differ with economic or social status or location. The dividing line between basic services and other public services is rarely clear, and the basic set differs from country to country depending on the nature of the social contract between citizens and their governments. Beyond basic services, the additional services provided generally relate to the specific assets and comparative advantages of each region and the nature of its population.

15. The set of services may change over time as conditions and expectations change, and it generally appears to be expanding. Although there is some convergence among countries in terms of the services contained in these "social contracts" (particularly among EU countries), there are also significant differences. For example, in the United States public health is the responsibility of the government, but most of the health-care sector is privately owned and operated. In contrast, health care in other OECD countries is mainly, if not exclusively, in the government sector.

16. Key questions: How can the need for different services across rural regions be fairly determined? What should be the guiding principles? How are OECD countries defining minimum standards? Should basic services be provided in all locations despite population size? Should policies provide for all residents or focus on the disadvantaged? Is defining minimum standards a collaborative process?

Issue # 6: Identifying service providers

17. Services can be provided by government, firms and private citizens acting collectively. But in all cases the government plays at least a role in guiding delivery because public services are merit goods. In rural areas the government plays a greater role because of limited interest from for-profit firms, and because the voluntary sector often lacks sufficient capacity to provide more than a few services. When government provides a service, it is essential for the right level of government to be responsible for service delivery. This is an important issue. In some countries the assignment of responsibility is clear. In federal systems explicit responsibilities are assigned to national and state/provincial governments, and in principle this determines which level of government is responsible for a service. In practice the division may be less clear. One level of government can bargain with another to influence the delivery of services that are outside its jurisdiction.

18. In rural areas with fewer choices of service providers, governments need to seek partners for the delivery of public services. Investor-owned firms are less likely to engage in rural service provision, so that the role of provider is likely to fall largely to the government or the voluntary sector. The voluntary sector typically plays a role when the service is not deemed essential, when there is little reason to insist upon some minimum quantity or quality of provision, and when there is little reason to demand uniformity across the territory. This does not mean that the voluntary sector is restricted to providing non-essential services. Small places may have to rely upon local volunteers to provide services which are provided by government in larger places. This is most often the case for services funded from local government revenue because local fiscal capacity is too weak to support anything beyond essential services. Volunteers can be efficient providers of small-scale services because they have few overhead costs and because they often derive personal satisfaction from providing the service to the community. Even when volunteers provide

the service, government can play an important role in encouraging voluntary action, recognising the efforts of volunteers and helping to support their work.

19. When governments take on delivery partners they must monitor performance carefully. Problems may also arise if the entity responsible for the service contracts is not the person providing the service. The resulting principal-agent relationship requires careful monitoring in order to reduce incentives to shirk on delivery. For example, contracting road maintenance to a private construction company requires careful monitoring to ensure that the company meets minimum quality standards, since it will have a clear incentive to perform its task in the least costly way. *There are also potential costs to heterogeneous service delivery.* The principle of subsidiarity implies that responsibility should be allocated to the lowest tier of government, and only when that responsibility cannot be met should it be incumbent on higher levels of government. Nevertheless, when different jurisdictions have different capacities for meeting their responsibilities, decentralisation will be heterogeneous (Spain, the United Kingdom). Given the complexity of multi-level and multi-sector governance, even when there is homogeneity in the provision of services, the inconsistency of rules and responsibilities may open room for misunderstandings, increase the costs of monitoring implementation and quality, and potentially create space for corruption.

20. Key questions: What should be the role of civil society and the private sector in the delivery of rural services? What are the pros and cons? What is the actual and potential role of financial institutions in providing services to rural businesses? How can government encourage non-governmental involvement in service delivery? How shall this be regulated and monitored?

Issue # 7: Financing service delivery

21. In most OECD countries local governments play a central role in delivering public services. Some of these services are mandated by higher levels of government which provide, in principle, either tax space or direct funding to cover them. Other services are established by the local government and their costs have to be covered by the local government from taxes or user charges. Local governments in most rural areas face considerable difficulty in finding enough revenue to deliver the level of services expected by local citizens and senior governments.

22. The changing demographic structure of rural areas has raised further challenges for the provision of public services by local governments. As discussed above, low population densities, out-migration and ageing have reduced the already small tax base which governments rely on to respond to the increased expectations of the population and to face the changing demands of an ageing society. Local governments must meet the higher costs of these changing demands with the fewer resources collected locally. Fiscal constraints commonly lead to under-provision of public services in rural areas. These pressures have increased rural localities' dependency on government grants and regional equalisation policies.

23. A variety of options (modes of provision, funding, providers, etc.) can be used to match funding and delivery. Funding of public services is a complex process. Some services rely on user charges for their funding; others make no attempt to charge users, while still others rely on a mix of user fees and subsidies. The decision on how to fund a service reflects a number of factors: the "merit value" of the service, the ease of establishing a fee, whether the service has "public good" attributes, and the nature of the entity providing the service. Public services with high merit value are less likely to be fully funded from user charges. If a service has high merit value there is a strong social interest in having each individual consume the desired quantity of the service. Introducing user charges will cause some consumers to use less of the service than is socially desirable either because of limited funds or because they have other expenditure priorities. Some services have a greater possibility of collecting user fees than others. In some cases the cost of collecting a user charge exceeds the value of the service. For example police protection is not based on user charges. Instead police services are provided out of a general revenue stream. To charge each user

for police protection would greatly complicate the delivery of service and could cause some people not to report crimes.

Key questions: How are rural services financed across OECD countries rural areas? What innovations are there? What is the role of financial institutions?

Issue # 8: Introducing innovative delivery mechanisms

24. Differences in rural areas and in their populations' needs and preferences call for differences in the conditions under which public services are made available and thus for a mix of public service arrangements adapted to regional needs and more innovative policies. As documented by recent Rural Policy Reviews, the quantity and quality of innovation across OECD and non-OECD countries is significant. Potential approaches to service delivery include:

- *Modifying local administrative or service delivery boundaries*. Because the boundaries of functional regions typically do not coincide with administrative or political boundaries, services linked to a particular jurisdiction may suffer from diseconomies of scale. The reorganisation of multi-level governance arrangements has been explored as a way to provide more efficient, accountable and flexible public services. Most OECD countries are rich in terms of experience of sub-national governments' co-operation for service delivery. In some cases, mergers or amalgamations' have also been implemented, with mixed results. (See Box 4).
- *Moving users to services or bringing services to users*. In regions where the lack of critical mass makes local provision of services difficult, services tend to be grouped in regional centres for reasons of scale and cost. In this situation, transport to regional centres (see the example of Norway) is crucial to ensure access and to achieve the expected cost savings. *Some OECD countries have implemented strategies that aim at bringing services to citizens by making service delivery 'mobile'*. In the sparsely populated areas of eastern Finland some public and private services are provided through mobile service units. The most frequent are mobile shops, mobile libraries, but also innovative services such as 'mobile gyms' in the Pyhäselkä municipality) or a voting bus. (See Boxes 5-6).
- *Introducing community-based delivery schemes*. Many rural areas have a strong tradition of local residents banding together to deliver services. Their actions preceded many formal service delivery efforts by governments. While governments now provide the majority of public services, either directly or indirectly, there is still a potential for using local capabilities. Decentralisation, government downsizing and increasing budgetary pressures have raised the need to replace formal provision of services by informal, community-based solutions. However, community-based providers face many of the same problems as local government or private providers in rural areas. Community-based solutions take three main approaches: volunteering, self-help groups and non-governmental organisations. The effectiveness of community-based mechanisms varies greatly depending on the community's capacity to co-ordinate, local leadership and local assets.
- *Considering public service delivery as an economic driver*. Policymakers are confronted with dual policy pressures, improving quality of care while controlling expenditures. Since public goods and services are necessary to ensure wellbeing and stimulate economic development in rural areas. Some OECD countries are focusing more on investing in services with wider social impacts to increase opportunities for direct and indirect employment. Others are taking a broader approach by focusing on service delivery models that can create employment and contribute to rural and regional wealth. In addition, to increase the availability of private funding in rural areas, two policy options have been discussed in OECD countries. The first is the role of support to establish business networks, that can help build economies of scale and reduce costs, develop information flows and trust mechanisms. The second considers more funding for business development

programmes, that focus on building the entrepreneurs' skills-set and boosting the number of viable rural start-ups. In both instances, there is room for public bodies and financial institutions to play a role. (See Boxes 7-10).

- *Adopting market-based service delivery*. (see Box 11 and Table 1). In many OECD countries, market mechanisms are increasingly used to provide public services. Market mechanisms can be grouped along three dimensions: private ownership and contracting; user choice and competition; and price signals and funding. The trend in OECD countries towards increased reliance on market mechanisms for the provision of public services has important implications for rural areas. While competitive markets can provide socially desirable outcomes, the necessary conditions are often absent in rural areas. As a result, the efficiency gains that are possible in urban areas will be difficult to realise in most rural regions. In addition, market mechanisms may jeopardise equitable access to public services. To promote access, most governments have set minimum service standards but also apply means testing, differentiation of user fees, voucher systems or specific grants to providers.
- *Using ICTs for service delivery*. ICT provides new ways to deal with the disadvantages of remote and peripheral areas. First it helps reduce the costs associated with physical distances. Second, it facilitates access to information and services. Third, it allows scale economies without proximity. However, to profit from the opportunities afforded by technological change, the local capacities of rural areas should be overhauled. In spite of their advantages, new technologies may also disadvantage rural areas. The technologies may be too costly for small firms, external competition may increase, and there may be a shortage of local capacities to exploit the benefits of technological change and insufficient skills for using and maintaining ICTs which limit their potential to serve all rural population and weaken rural competitiveness (see Box 12).
- *Improving the targeting of resources and performance-based contracts*. (see Box 13). Information asymmetries often hamper an effective and efficient allocation of resources for service delivery. Thus, OECD countries increasingly implement mechanisms which aim at finding adequate incentives to enforce contractual arrangements between the "principal" (central government) and the "agent" (sub-national governments, or the private or voluntary sector). OECD and non-OECD countries commonly use targeting of resources to rural regions (ex ante allocation) to level the playing field between urban and rural regions. In these cases, information asymmetries make it difficult to know which rural areas need support, which project is needed, and how much support is required. Performance indicators are often used to improve public service delivery, compare regional performance and enhance the effectiveness of multi-level governance arrangements. They can help reduce information asymmetries among levels of government, while minimising incentives for public service providers to modify their behaviour in ways that do not favour the desired outcomes. They make it possible to monitor actors' behaviour throughout the process and identify (and possibly encourage) continuous progress in the achievement of policy objectives.

25. Key questions: What worked and what did not in recent experiences of municipal cooperation for service delivery? How about amalgamations? What role for contracts, incentives and partnerships? What kind of indicators should be used to measure quality in rural services? What is the role of national targets and are they sensitive to the local context? What technologies are there and what applications to deliver services such as healthcare and education? What role for subsidised supply, direct public provision or enhanced private competition in the ICT sector? What have been the outcomes of these applications in terms of quality and effectiveness? How should greater flexibility in traditionally professional roles and responsibilities (*i.e.* Nurses or community pharmacists managing common conditions, and greater reliance on community health workers or paraprofessionals) be promoted? What role can one centralised location ("Rural Transactions Centers" and/or "One-Stop-Shops") play in providing better access to diverse services?

Issue # 9: Introducing and strengthening rural proofing of sectoral policies

26. The discussion on rural service delivery contributes to underline the key role that sectoral ministries play in rural development. One of the challenges faced by OECD countries is how ensure that the decisions taken within important sectors such as education, health or transport fit well with national and sub-national rural development strategies. In particular, some OECD Rural Policy Reviews highlight the need to strengthen the government's capacity, at all levels, to 'rural proof' its policy, that is to understand and keep into account the different impact that sectoral policies can have across rural and urban areas and within different rural areas.

27. In England, the Government's Rural White Paper (2000) mandates departments and public bodies to set up a "rural-proofing" mechanism where policy design and implementation shall be systematically checked for their impact on rural areas, and to take action to mitigate adverse impacts where appropriate. The process has served as a mechanism for interdepartmental coordination in a similar way to the "rural lens" approach in Canada. Knowledge and interest in rural proofing has spread from the central Government and it is becoming a tool for analysing and improving rural services among local authorities, by making more public sector bodies aware of rural issues. (See Box 14).

28. Key questions: How can rural proofing be introduced into the policy making process? What are the obstacles? What political economy aspects are involved with this kind of innovation? What was learned in countries that have already adopted these mechanisms? What are the pros and cons of introducing rural proofing as a mandatory obligation? Are there incentives that can be introduced to improve the use of rural proofing?

Issue # 10: Encouraging citizens' participation and the 'rural voice' in decision-making.

29. As discussed in several OECD Rural Policy Reviews, this is a crucial question that links public service provision to the larger issues of local development and governance. Because public services are largely consumed by individual citizens and firms there is a clear role for them in establishing the mix of services to be provided. In particular where public services are seen as a foundation for local development ensuring that decisions on public service provision are closely linked to local development strategies is vital.

30. Rural citizens and rural communities are often a minority of the population in all OECD countries. In most cases public policies inevitably tends to reflect the interests of the urban majority. However many of these policies are applied to rural areas as well and do not particularly suit the rural condition. Because rural interests often lack a voice in the decision process of agencies that lack a specific rural mandate there is a tendency for national policies to have an "urban bias". Some countries have recognised the importance of considering the rural ramifications of all policy decisions as a way to reduce adverse effects on their rural territory. Commonly, this "collective rural voice" is organised and expressed through sectoral interest groups. OECD countries have institutionalised mechanisms for expressing this collective voice (Box 15). All these initiatives include consultation and co-ordination with rural citizens and local actors in order to influence the policy-making process at the different levels of government, especially the central level which has traditionally addressed rural issues only through targeted programmes.

31. Understanding rural citizens' preferences is essential for effective provision of public services in rural areas. For example, the Scottish Government Environment and Rural Affairs Department, in line with the objectives of more evidence-based policy making, commissioned an evaluation of co-localising services by evaluating the preferences of rural populations. Making rural dwellers participants in the policy debate and decisions not only respects democratic values, it allows citizens to understand the trade-offs

which are at stake in the decision-making process. Although new technologies have made it possible to broaden citizens' participation in defining and implementing policies, gathering information on citizens' preferences remains costly. Cost-benefit analysis of alternative modes of public service provision should take into consideration the costs of gathering the required information about citizen's demands.

32. **Key questions**: How can citizen participation be encouraged in planning rural services? How can different interest groups be fairly represented? What experiences are there in terms of organising a 'rural voice' nationally? How can this contribute to a better understanding of rural-urban respective needs and complementarities? How can this contribute to fair and rationale investments in services across both rural and urban regions?

Conclusion

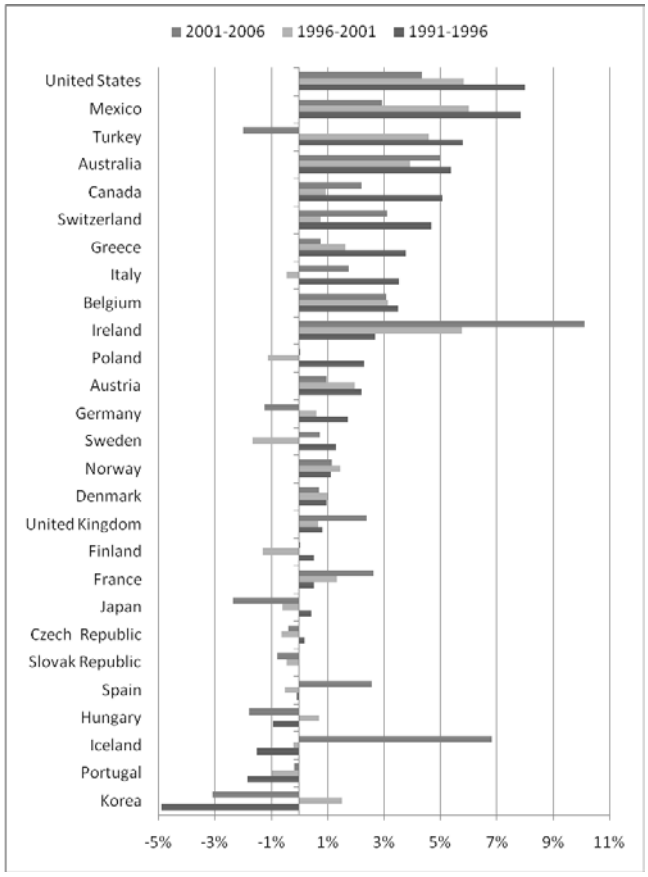
33. The emerging interest in fostering locally based economic development that is supported by sound investments in firms, people and institutions, as described in the OECD's *New Rural Paradigm* (OECD, 2006), emphasises the growing importance of addressing the role of public services as a platform for economic development. The types of service provided, the provider, the mode of delivery; the funding source may vary by region. Many countries are trying to reduce the cost of public service delivery and increase quality and accessibility by experimenting with new design, delivery and evaluation mechanisms. Prioritisation of which services are to be provided locally and which services could be strategically consolidated requires a territorial approach. In particular, rural service delivery requires finding an appropriate balance among equity and efficiency objectives which implies involving citizens in shaping strategies that account for the diverse challenges of places and for the interdependence of rural and urban areas.

34. The quantity and quality of innovation in rural service delivery is significant. While the specific solution in one rural territory may not be directly applicable in another even in the same country a lot can be learned from further analysis and knowledge sharing. The aim of this paper has therefore been to suggest key issues for discussion and to contribute to focus future comparative work in this field.

ANNEX

Figure 1. Rural population growth in the last decade

OECD Regional classification, TL3



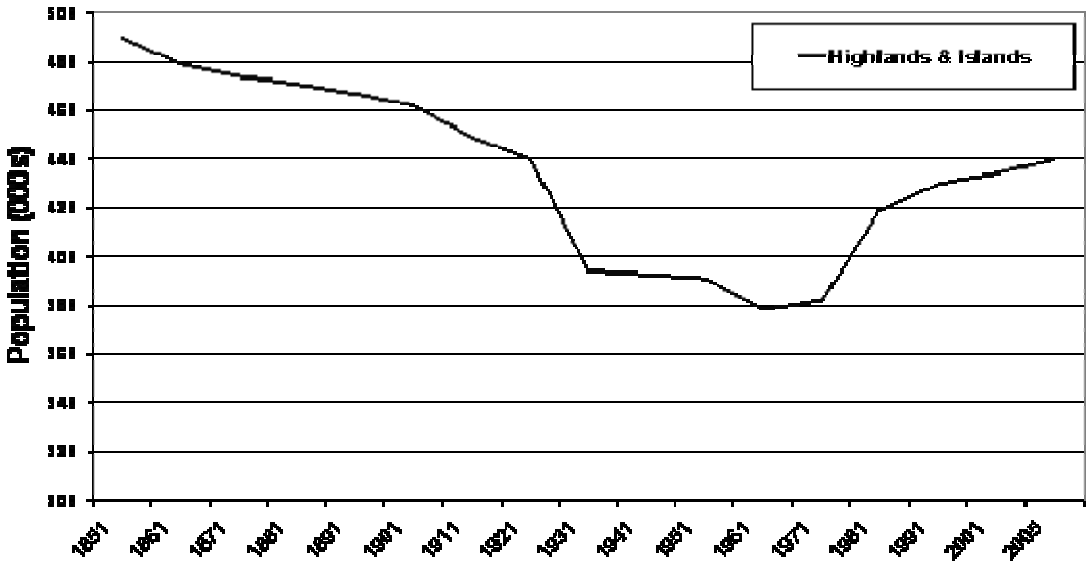
1. Base year UK (1993); Czech Republic (1992); Poland (1990); Slovak Republic (1995)
2. Austria, Belgium, Spain, France, UK, Greece, Hungary, Ireland, Italy, Mexico, US (2005)
3. Information for Poland has a break in series in 2000.

Issues #3: Dealing with complex migration and mobility dynamics

Box 1. The population revival of the Highlands and Islands

The highlands and Islands region is an example of a successful reversal of out-migration in Scotland. The region is considered rural (and mostly remote rural) by both the OECD and Scotland's Rural Urban typology. It has a population of 440 000 and a population density of approximately nine people per km^2, making it one of the most sparsely populated parts of the EU. The city of Inverness is the only large conurbation within the region. It has a population of around 50 000, and more than130 000 people live within the reaches of its labour market. Outside this area, only Elgin on the Moray coast has a population of over 10 000. Following more than a century of decline, at the 1971 census, the region saw its population rise for the first time in over 100 years with a 15% increase in population during a 40-year period from 1961-2001. Nonetheless, out-migration remains a problem for some remote and fragile areas. The main reasons to move to the area are the intrinsic characteristics – quality of life and scenery – of the region, according to a study conducted by the Highlands and Islands Enterprise (HIE) network in 2003. Recent figures from the JobCentre Plus show that some 1 156 applications for National Insurance numbers were made in the Highlands and Islands by people arriving from the European Union in the period February to July 2006. A significant policy factor related to the population revival of H&I was the establishment of the Highlands and Islands Development Board in the mid-1960s (which took advantage of the oil discovery during the late 1960s to jumpstart the H&I's economic turnaround), predecessor of the HIE established in 1991.

Longitudinal pattern of demographic change



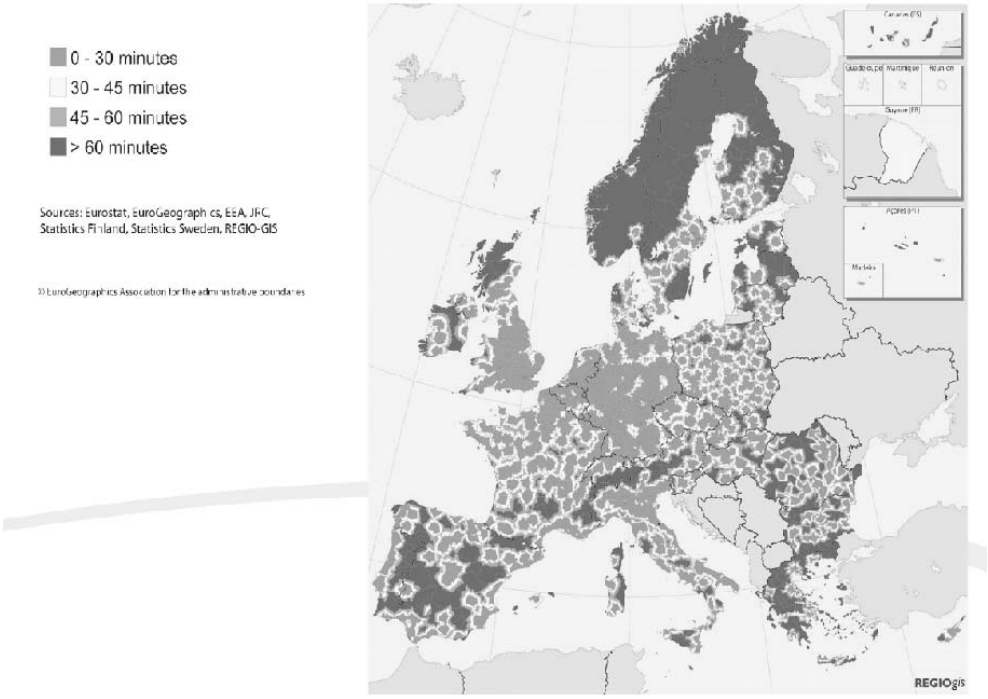
Source: General Register Office for Scotland, Census Data.

Source: Highlands and Islands Enterprise.

Box 2. Access to services

Dijkstra and Poelman (2008) constructed a measure of remoteness, using a 50 000 inhabitants threshold to define cities, and 45 minute driving time threshold to consider a locality remote. They combined this measure of remoteness to the OECD regional classification into predominantly urban, intermediate and predominantly rural. The authors concluded that the distinction between rural regions close to a city and remote rural regions appear to be highly significant in most measures of welfare and growth. Remote rural regions are the only group showing negative population growth, the lower share of national GDP, lower GDP per capita, and lower sectoral productivity.

Figure 2. Accessibility in European countries by road to cities with at least 50 000 inhabitants

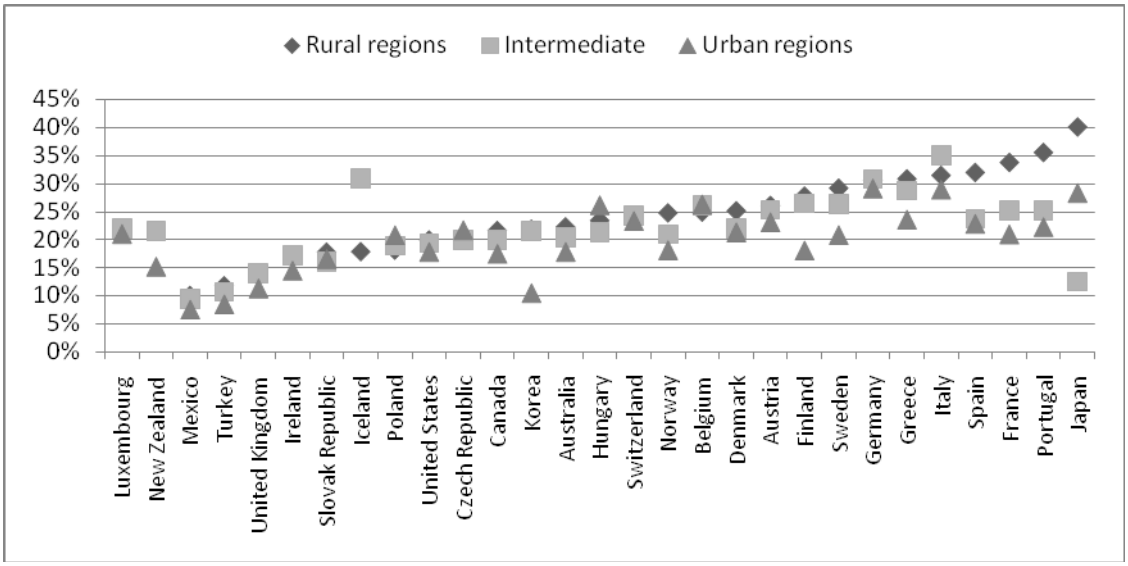


Source : Dijkstra, Lewis and Hugo Poelman, (2008), Remote Rural Regions: How the proximity to a city influences the performance of rural regions. Directorate General for Regional Policy, European Commission, Regional Focus No.1/2008

Issue #4 Coping with rural demographic trends (ageing)

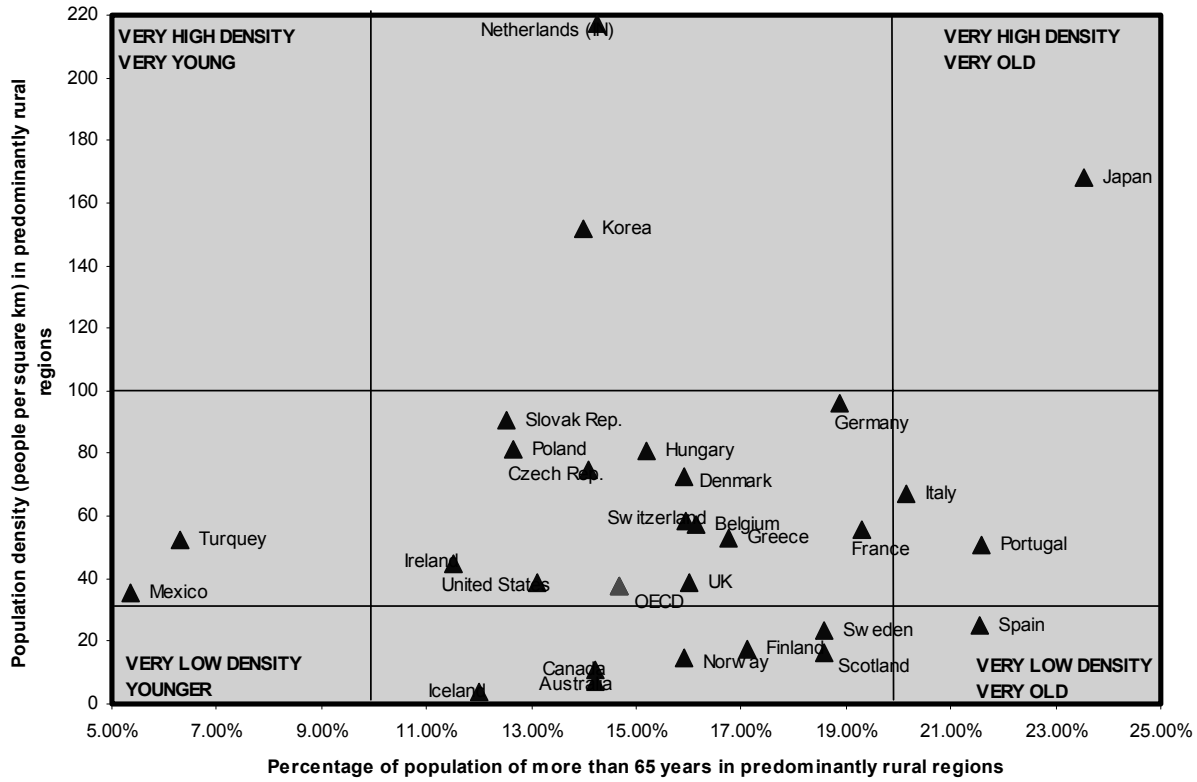
Figure 3. Elderly dependency rate by type of region

OECD regional classification (TL3)



1. All Information is for 2006, except Austria and Scotland for 2001; Mexico 2005

Figure 4. Dispersion and ageing of the rural population



Box 3. Coping with rural demographic trends in Finland and Japan

The remote region of Kainuu in northern Finland opted to view the growing share of Senior citizens "as a possibility, not a burden". **Seniorpolis** is a network that collects, promotes co-operation, combines and integrates activities and operations involving senior citizens. As a small enterprise it combines four areas to develop a uniform and extensive service selection to satisfy the needs and requirements of senior citizens, such as: life-long learning through interactive and distance learning systems for senior citizens; development of care service practices tailored to meet the needs of senior citizens; and relaxation services. In addition, they aim at developing new models to promote business targeting senior citizens. For example, a quality certificate and trade marks for different senior products and services, concepts and solutions based on Seniorpolis operations. Seniorpolis also exports know-how and solutions to surrounding senior citizens and develops products that address the needs of seniors.

The **Tokushima leaf collecting** business in Japan not only revitalised the local industry based on local resources but it organised the elderly population and reintroduced them to the work force. Kamikatsu is a town with a population of approximately 2000 half of which are over the age of 65. The producers are mostly elderly farmers and they work in partnership with other companies to process orders, receive market information and other equipment. For example, one key partner provided personal computers with customized programs with producer and market demand information. The leaves and flowers are shipped to Japanese inns and Ryotei, where they are used by master chefs to decorate food plates at restaurants. The business yielded a turnover in 2006 of 2.5 million dollars.

Source : OECD Rural Conference 2008: *Innovative Service Delivery: Meeting the Challenges of Rural Areas*, Cologne, Germany; Japan: OECD Rural Policy Conference *"Innovative Service Delivery: Meeting* the *Challenges of Rural Regions".* Cologne, Germany, 2008; and Irodori Company Inc., http://www.irodori.co.jp/english/english.html; last accessed October, 2008

Issue #8 Innovative delivery mechanisms

Modifying local administrative or service delivery boundaries

Box 4. Service delivery boundaries in the case of Education

In England, during the 1980s and 1990s there were significant rural school closures, the policy has changed and currently there is a presumption against closing schools. Nonetheless the public education system in rural areas is under pressure, despite the fact that rural England schools produce higher levels of performance (except in the sparsely populated areas). This is due to changes in rural demographics and the strong drive from the Government to reform public services. In particular, the continuing drop in the number of primary school students undermines the viability of the rural education system. It is expected that if this trend continues by 2028, some 35% of the rural population will be older than 50 years. Three policy schemes are helping to reinforce the education system in rural England:

1. One approach is the formation of *Federations, Collaborations and/or Co-operations*. One example is the Callington Federation, in Cornwall, where a group of 3 schools reached a formal agreement that allowed the education authorities to maintain their independence, legal identity, funding and budgets but at the same time collaborate in a "soft" arrangement. In particular, the schools agreed to a shared strategic vision. In other instances a group of 12 primary schools collaborated to share resources and link ICT, catering and specialised teaching. The collaborations also featured, centrally managed support services, joint staff development, extensive community education programmes and heightened educational standards which yielded stronger management and savings.

2. Another policy approach *Amalgamation* which involves replacing the school with another. This was the case of Whitesheet Primary School, Wiltshire where 2 village schools with only 64 students in total was replaced with one school and two sites. The school in its amalgamated form attracted additional students growing to 99 in total, improved the prospects of recruiting and retaining qualified teachers, attained greater flexibility and efficiency in staff and resource management, resulted in less isolation and increased shared knowledge among the staff. More importantly, it became better equipped to withstand the fluctuations in student numbers.

3. Finally there is *Extended Services* a path adopted by the *East Yorkshire* region of England in which more activities beyond just education are introduced. For example, additional services for the students as well as for their families and the community such as childcare and educational support.

The Russian rural education system is similarly under pressure. However, in contrast to England, the decision on the appropriate scheme is challenged not just by demographic and migration trends but by the vastness of the rural territory which is marked by limited connectivity, high wealth gaps with the poor concentrated in small rural communities; and, weak self governance mechanisms. Also in a unique twist, of the approximately 67 000 schools in Russia, 70 per cent are in rural areas. Nonetheless, rural schools are typically undersized (i.e. have fewer than 10 children in a classroom or fewer than 100 children in total) and struggle to supply high quality education. For this reason, the future of rural schools is a very important public policy issue. The ongoing debate surrounds:

1. the Quality of education;
2. the use of new technologies and educational mobility as a means of bridging the quality gap between rural and urban education;
3. Education as a social lift for rural youth;
4. accessibility of higher education to graduates of rural schools;
5. Secondary schools, vocational training institutions in rural areas and changing labour market needs;
6. Social functions of educational institutions in rural areas;
7. the role of rural schools in preserving/building local communities.

To this end, the government is considering the following approaches: (1) improving the technological infrastructure for education; (2) Amalgamating but remains wary of the social and infrastructure costs of

transportation between schools; (3) Collaborating, Cooperation and/or Extended Services e.g. turning the small schools into affiliates, offering different functions such as libraries and vocational training.

Source : OECD, Rural Development Conference: Innovative Service Delivery, Meeting the Challenges of Rural Regions, Graham Russell, Director, Commission for Rural Communities, England, UK; (Cologne, Germany 3-4, April 2008);OECD, Rural Development Conference: Innovative Service Delivery, Meeting the Challenges of Rural Regions, Andrei Kortunov, President New Eurasia, Foundation, Russia (Cologne, Germany 3-4, April 2008)

Moving users to services or bringing services to users.

Box 5. Multi-service Centres

In many countries, the gap in rural public service provision is being filled by One-stop-shops (OSS). An innovative service delivery model, OSS operates like information hubs and provides access to a diverse number of programmes from one centralised point. The result decreased provider costs and increased access by rural dwellers to necessary services. OSS can take numerous forms: 1) it can be a single window transaction centre – facilitating application to a multitude of services from one access point or 2) it can be a physical location going beyond mere application to full service on the spot delivery. In the latter form, the type of service offered by OSS is much more comprehensive and includes anything from education, childcare, government information, referrals and advice, health/elder care, social support services (rehabilitation, housing support), to cultural and recreational activities. Driven largely by community need and involvement these "all purpose" service centres are expected to continue to grow in rural areas because they allow governments to provide rural services on the basis of cost-efficiency. Nonetheless, there are certain problems associated with OSS in rural areas. First, different administrative cultures in one space can lead to operation and management conflict. Second, there are constraints on the development of services and the different activities that can be offered due to the structure chosen (i.e., school building with limited access) or the different needs of service providers. Third, rural communities typically have difficulty procuring funding which raises questions about the long-term viability of OSS in the face of financial limitations. A summary of the advantages and disadvantages of OSS for users and providers as observed in Scotland is provided by the table below.

One Stop Shops Advantages and Disadvantages in Scotland

Advantages	Disadvantages
USERS:	USERS:
• Services with greater flexibility and more user-friendly with better facilities	• Centralised location with sometimes restricted access
• Improves proximity with access for all including lower income users	• Inconvenient location *i.e.* schools structure but non school activities
• Saves on time, cost, and travel	• Common facilities diminish privacy
• Improves community confidence	
PROVIDERS:	PROVIDERS:
• Enables local service delivery,	• "Subpar" technology
• Creates a collaborative working environment	• Difficult to maintain staff
• Allows for higher quality of services	• No dedicated space
• Cost effective	• Less direct client contact

Variants of OSS are visible across OECD Member countries, for instance the **Rural Transaction Centres (RTC)** Programme in Australia helps small rural communities establish locally run and self-funding centres that either introduce new services or bring back services that were no longer available. Since its introduction in 1999, over 200 RTCs have been approved for assistance under the programme. Because a RTC programme field consultant assists in the initial community consultation and feasibility study, the programme considers well inadvance community needs and adapts accordingly. Thus RTCs do not compete with other planned services, and usually include: financial services, postal and telecommunications access, federal state and local government services, insurance and taxation, printing and secretarial capacity. These centres employ from one part-time employee to four full-time staff. Funding from the central government covers the capital costs of establishing a RTC and subsidises the operating

costs during the early operation stage, if necessary. The RTCs have been integrated into the Australian Government's new streamlined Regional Partnerships programme.

The Finnish equivalent of the OSS is **the Citizen Service Offices** which allows for the provision of services (whether public, private, non-for profit or mixed) from a single outlet. The objective is to offer citizens a single outlet for services that are suitable for joint management, i.e. municipal district court, tax and work administration, National Pension Institute and other regional and local authorities' services. The services provided include reception and handing out public documents and information, advice concerning the institution of proceedings and processing of matters, and support in the use of electronic services. The aim is to ensure, by means of joint, customer-oriented services and efficient utilisation of information technology, a sufficient and high-quality service network, increase the productivity of the local service network and reduce the cost of provision.

Source: Bryan, A., Bryden, J., Kirsty, H., Rennie, F., and Young-Smith, L.,, (2007) Critical Factors in the Success of One Stop Shops as a Model of Service Delivery within Rural Locations, Scottish Executive. *Source* : Australia: Department of Transport and Regional Services, Australian Government. Finland: OECD (2008), Rural Policy Review of Finland. OECD publications, Paris.

Box 6. Bringing services to Users

The AGnES Community Medicine Nurses Programme in **Germany** provides support to GPs in rural regions. The programme aims at reducing the time GPs spend commuting for home visits for routine procedures. Through an electronic devise (tablet-PC) Community Medicine Nurses (CM-nurses) can send the patients' health information in real time to the GP and, when necessary, have a video conference. Other appliances are being explored for tele-monitoring the condition of patients, such as distance blood pressure meter and digital scales operated by Bluetooth® technology. CM-Nurses operate always under the supervision of a GP. The training modules for the programme range from learning operational procedures of GP practice, treatment of chronic diseases, and use of e-health equipment. Thus far 5,239 home visits were conducted with 1050 patients, and 40 general practitioners and 30 nurses have participated in the project. More importantly, the initiative is appreciated by the physicians and the patients (approximately 90% of the patients accepted the nurse care) and it has fostered dialog among German health care institutions.

In **Canada**, the Western Economic Diversification (WD) supports skills in a manner that combines strengthening and growing the economy with industry involvement and provides training that fills specific gaps in the rural economy and encourages the involvement of underrepresented rural residents. To overcome the proximity issue WD worked with provincial partners to secured 2 trailers which act as mobile labs and deliver on-the-spot training as needed (e.g. auto service technical, carpentry, electrical, machining, pipefitting, plumbing, welding). An estimated 100 students are reached per year. It also supports an Entrepreneurship Learning Centre in Alberta, a video conferencing network that provides business information and interactive training opportunities. Since this aspect was introduced in 2004, over 14 000 small business owners and entrepreneurs have been served.

In **Portugal**, the "Net on Wheels" project uses vans equipped with notebook computers to provide access to the internet and profession training to marginal groups. Net on Wheels is an innovative community project that serves 5 municipalities of the region of Entre Douro e Vouga in Portugal. Its main goal is to broaden the use of technology and internet in the region. It involves several partners, such as businesses, social and cultural institutions, education institutions at different levels, and the regional and national governments. It is financed by the *Programa Operacional Sociedade do Conhecimento* (POS_Conhecimento), whose funds come from the State budget and the European Union. Through 2 energetically autonomous adapted vans, they provide users with 15 PC notebooks connected to the net trough mobile or satellite connections. Net on Wheels reaches out to internet services and exposes non-traditional users and areas to ICTs and the net. In particular, they have improved accessibility of electronic public services to remote and sparsely populated areas. They have also provided training in Basic ICT skills to less traditional users, improving population employability. To date, they have reached over 26.954 users, provided over 860 basic ICT skills diplomas, attended 1.176 events, visited 312 institutions and had over 225 participants in their digital workshops and taught over 267 courses.

Source: OECD Rural Policy Conference 2008 Innovative service delivery: Meeting the challenges of rural regions. Cologne, Germany. US: American Academy of Physician Assistants (1997), Physician Assistants and Innovative Solutions for Rural Areas. (www.aapa.org/gandp/rhos.html; last accessed October 2008)

Considering public service deliver as an economic driver

Box 7. Enterprise development in rural Ireland

The Western Region is one of the poorest areas in Ireland and suffered steep population loss for a number of years (population fell from 2 million or 30% of the national population in 1841, to 700,000 or 18% by 2002). A predominantly rural area, it has a population density of 23.8 inhabitants per km^2 80% of which live outside population centres of 10,000 and the largest population centre is Galway City with 72,000 inhabitants. Recently, the region benefitting from the economic turnaround in Ireland has experienced substantial in-migration, both from overseas and from other parts of the island. Despite the influx, economically the area still under performs and lags behind in terms of productivity. For example, in 2004, the region had a Gross Value Added of less than 74% of the national average.

For a long time, rural entrepreneurs in the Western Region had difficulty accessing investment capital. The Western Development Commission (WDC) a public regional development agency charged with fostering and promoting the social and economic development for the region established the Western Investment Fund (WIF) to fill this equity gap by providing seed and venture capital. During this period (1990s) this was the first of its kind and approval was needed from the European Union State aid to operate the fund. The approval process was difficult but the experience served as the basis for the State Aid and Risk Capital Guidelines (SARC) which was drafted by the Commission and published in 2001.

As a rule, WDC provides the money for working capital only so funding is not attached to any particular spend or asset, but it is instead directed to help the initiative develop in accordance with the business plan. The agency works with the business to market products and often joins the company as a Non Executive Director. Since 2001 the fund has invested over €27 million in 75 SMEs and social enterprises. Of the group, 72% are enterprises based outside major urban centres and the projects have created or sustained over 1,500 jobs, many of them at the graduate level. Notably, several of the companies have managed to secure strategic alliances with key global companies such as Boston Scientific, Johnson & Johnson, Bombardier and Hewlett Packard.

As a high risk fund, WDC mitigates the risk by operating in line with international best practice. They engage an investment staff from the private sector and have a Fund Advisory Panel which boasts mostly entrepreneurs and business practitioners. The fund applies the investment and valuation guidelines of the European Venture Capital Association. The investments cover a range of sectors, from aquaculture to tourism. However, there is a particular focus on the knowledge economy and 80% of the funds invested target this sector with ICT (information and communication technologies) and life sciences being the most prominent.

The agency also seeks to attract more private sector involvement in the regions and increase the number of enterprises that impact quality of life. Thus far, the WDC through the fund has achieved a leverage effect of 1:3, for every €1 invested by the WDC another €3 is leveraged into the region from angel investors, private venture capitalists, banks and other public sector bodies. This has translated into an additional €100 million into the area. WDC also pays particular attention to supporting social enterprise's which typically struggle to access funding beyond public sector grants. For different reasons ranging from lack of security, commercial track record, or the "voluntary" nature of the organisations commercial banks have been slow to extend financial support to this sector. However, the WDC adopted a very different outlook they focused on the viability of the project and considered the voluntary nature of the organisations as a strength not a weakness as the volunteers bring expertise and experience. In turn, the agency works closely with the organisations to devise a deal structure that suits the needs of the project while ensuring repayment. Thus far not only have the number of social enterprises increased but due to the involvement of the WDC, social enterprises have managed to increase their ability to procure private loans.

Source : OECD, Rural Development Conference: Innovative Service Delivery, Meeting the Challenges of Rural Regions, Gillian Buckley**,** Chief Executive, Western Development Commission, Ireland (Cologne, Germany 3-4, April 2008)

Box 8. Promoting co-investment and businesses with social impacts

Canada´s Community Futures Programme

Community Futures (CF) is a program that supports community economic development and builds the capacity of communities to realise their potential in a sustainable manner. The program provides financial support to Community Futures Development Corporations (CFDCs) and CF Organisations that, in collaboration with other partners and stakeholders, can assess their situation and develop strategies to meet their needs, to provide support to small and medium enterprises (SMEs) and Social Enterprises and to undertake appropriate community economic development initiatives. CFDCs offer a wide variety of programs and services supporting community economic development and small business growth, including: 1) Strategic community planning and socio-economic development; 2) Support for community-based projects; 3) Business information and planning services; and 4) Access to capital for small and medium-sized businesses and social enterprises.

Western Economic Diversification Canada (WD)	Industry Canada	Canada Economic Development for Quebec Regions	Atlantic Canada Opportunities Agency
There are 90 CFDCs across Western Canada. They are non-profit corporations run by volunteer boards of directors, supported by salaried staff.	FedNor's Community Futures (CF) Program, supports 61 Community Futures Development Corporations (CFDCs) – 24 located in the North, and the remaining 37 serving rural Eastern and Southern Ontario.	• 57 Community Futures Development Corporations, located in designated rural regions; • the 10 Community Business Development Corporations, located in the suburban areas; • the CFDC Network and the Quebec CFDC Common Fund.	In rural Atlantic Canada there are 41 Corporations dedicated to the development of small business and job creation.

US Department of Agriculture (USDA)

USDA, Rural Development places high emphasis on State autonomy. Most rural services are delivered by State and local governments. State Directors have a high degree of independence to identify regional opportunities and appropriate strategies. By having cost-sharing, local initiatives and self-help in the forefront of the strategy, the USDA has been able to multiply their investments to 18.5 billion dollars, while having a virtually unchanged underlying budget of 2.3 billion dollars. “Community Programs has invested $1.2 billion in rural communities. Of the $1.2 billion in the loan portfolio, 33% is invested in rural health care, 12% in public services, 27% in public safety, 9% in cultural and educational facilities, and 4% in transportation services.” The USDA provides financial programmes for essential public facilities and services; promotes economic development by supporting loans through banks and community-managed lending pools; and offer technical assistance and information for community empowerment, and business start-ups and effectiveness. It does so through the provision of direct loans, providing loan guarantees to support the operation of traditional credit institutions to operate in under-served areas, and through grants. Since 2001, the USDA has managed to increase productivity of their administration, reducing staff by more than 13%. 44% of their total offices have been consolidated around the country, while centralising back office functions and intensifying training and IT applications. With the objective of improving accountability and targeting of resources, the USDA has developed a tool, the Socio-Economic Benefits Assessment System (SEBAS), to directly measure the results and impact of investments.

Source: OECD Rural Policy Conference 2008 *Innovative Service Delivery: Meeting the Challenges of Rural Regions*. Cologne, Germany; and official programme web pages.

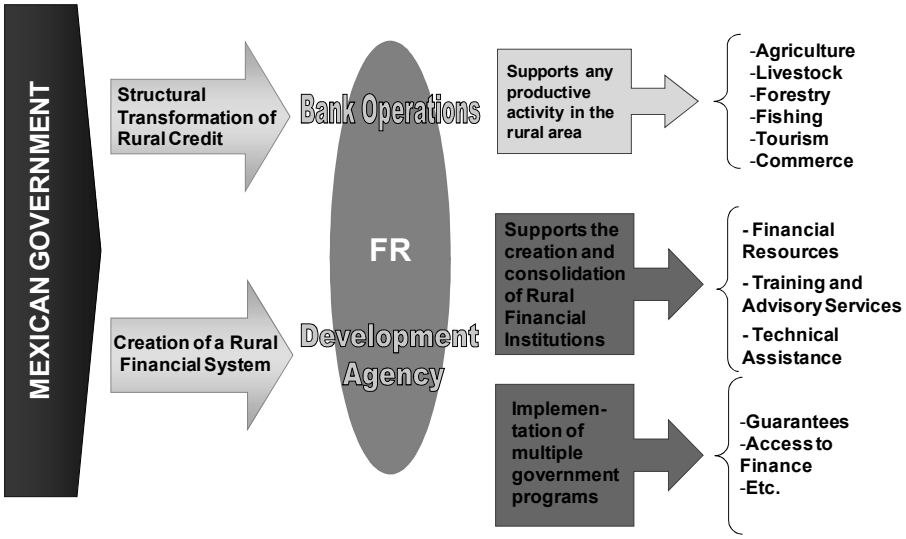
Box 9. The role of financial institutions

Spain has a wide network of saving banks (Cajas de Ahorro) with close to 23,000 branches, 26% of which are in municipalities with less than 10,000 inhabitants. This proportion is even larger than the proportion of population living in these municipalities 22%,. As a consequence, penetration of financial services in localities of low income per capita and population in Spain is much higher than that of comparable European countries such as France or Italy. Their specialisation is in micro-credit which is granted mainly to promote self-employment and creation of micro-enterprises. The typical Cajas de Ahorro users are women (often migrants) aged 35 years or older who seek credit of approximately EUR 9 000 to start a business, mainly in the service sector. In addition to micro-credit services, Cajas de Ahorro provides the following support:

- **SPECIAL FINANCING:** Social housing, land ownership, SMEs, employment and entrepreneurship.
- **SUPPORT TO LOCAL DEVELOPMENT**: Association for mutual guarantee, Association for industrial development, Enterprise cooperation, futures market, programmes of local initiatives and venture capital
- **SPECIFIC COLABORATIONS:** Special Agreements, CAP subsidies administration, insurance and travel, services to migrants, LEADER Programmes.

Through the programme CRECE / EOI they have advised 24,770 participants in training and managed 20,000 projects of business creation or consolidation of enterprises. They have also participated in close to 140,017 "social projects" with an investment of 1,338.5 Million Euros, from 1999 to 2006.

In **Mexico,** agriculture, forestry, fishing and agribusiness sectors contribute approximately 3.5% to Mexico's GDP while 24 percent of the population lives in rural areas. Faced with decreasing access to finance from commercial banks (due to high default rates, difficulties in recovering credit, and the small size of available loans in rural areas), Mexico created *Financiera Rural,* a development bank specifically for rural businesses. Established in 2003, FR replaced *Banrural* an agricultural-activities-only development bank. Since it began operations, FR has granted nearly 350 000 credits accounting for 15% of the total rural financing in Mexico. It has also disbursed close to 1,247 million dollars in loans, 42 per cent of which originated through other financial institutions. FR thus has a dual role; it is both development agency and bank: the former is focused on creating a rural finance system while the latter seeks to support any activity in rural areas.



Source: Moraleda (2007); OECD, Rural Development Conference: Innovative Rural Regions: The role of human capital and technology, Enrique De la Madrid Cordero General Director, Cáceres, Extremadura (Spain) 21-23, March, 2007.

Box 10. Different services for rural businesses

Wisconsin, United States. The University of Wisconsin Community, Natural Resources and Economic Development (CNRED) programme has community development agents in over 65 communities in the state. Beginning in the early 1960s, rural community leaders in northern Wisconsin requested help developing other economic engines besides agriculture that would provide employment. After pinpointing their actual conditions, the role of the extension CNRED agent was redefined to encourage, facilitate and affirm local talent and home-grown ideas, as well as to serve as a resource, convener, and broker within the community and between the community and the University of Wisconsin, thereby helping the community to develop itself. Many of the CNRED agents organise and often staff local partnerships, task-forces of local government, and business councils to facilitate development.

In France, the CASIMIR Technology Centre was established in 1985 in the region of Auvergne. CASIMIR's basic task is to provide small (largely rural) businesses in the Auvergne with information and advice, putting them into contact with service providers and laboratories and providing support for specific projects. These services are provided free of charge, unlike the technical services provided by CASIMIR's subsidiary TECHINAUV. One of the centre's strengths is represented by its technological development consultants, who combine technical skills with solid direct experience in small businesses. Every five years, each consultant spends six months working in a business. CASIMIR's areas of work include industrial design and processes, engineering, food production and processing, packaging, information and communications technologies. CASIMIR also manages CORTECHS, a scheme under which businesses can receive advice and, if they take on a technical worker under 26 years old, are eligible for a grant to cover half the salary for the first year. Partially funded by the European Rural Development Fund the CASIMIR partnership comprises government authorities, two universities, four research bodies, three employers' federations and 13 private companies.

United Kingdom (Scotland). *Fusion* is a public-private partnership – a membership company with support from the Regional Development Agency, Highlands and Islands Enterprise. Its main role is to build a "sustainable network of entrepreneurs and innovators in the Highlands and Islands." It facilitates creative interaction between new and experienced entrepreneurs in the region, allowing then "to spark off each other and generate fresh new approaches and solutions." *Fusion* provides a range of services to business, such as looking out for suitable business opportunities, providing an annual strategic review service to members, bringing members together with other business people to explore needs and develop ideas in a supportive way, helping to identify funding for R&D, developing links with location- and interest-specific sub-groups, and offering opportunities for training, network and development. *Fusion* runs Innovation Award schemes sponsored by Microsoft.

Colorado, United States. "Economic gardening" began in Littleton, Colorado to support local entrepreneurs in rural areas. As much as three-quarters of staff time available for business support is used to provide tactical and strategic information. They have developed sophisticated search capabilities using tools often only available to large corporations. They subscribe to ten different database services and CD-ROMS which provide them with access to over 100 000 publications worldwide, and they use these tools to develop marketing lists, competitive intelligence, industry trends, new product tracking, legislative research and to answer a number of other custom business questions. They also monitor all new construction through Dodge Construction Reports so that local contractors can bid on projects. In addition, they track real estate activity and have access to the market reports of national consulting firms. Their Geographic Information Systems (GIS) software can plot customer addresses as well as provide demographic, lifestyle and consumer expenditure information. They also monitor local businesses and vacant buildings and projects. Finally the information component also includes training and seminars in advanced management techniques such as systems thinking, temperament, complexity theory and customer service strategies.

Source: www.uwex.edu/ces/cnred; www.casimir.org; *http://www.fusionlinking.co.uk/TOP.html*; *http://www.littletongov.org/bia* /economicgardening/default.asp.

Market-based service delivery

Box 11. Implementation of market mechanisms for the provision of services

Many sub-central public services are potentially open to competition among providers. Implementing market mechanisms means separating provision from funding. This allows many sub-central governments to retain the essential properties of a public service while reaping the benefits of emulating a market.

Market mechanisms may be grouped in three dimensions:

- Private ownership and contracting. This dimension deals with public-private ownership and different forms of contracting. Examples: tendering, out-sourcing, public-private partnerships.

- User choice and competition. This dimension deals with the regulatory environment for public service providers, the extent to which consumers are allowed to choose among providers and to what extent providers have access to the market. Examples: user choice, market access and competition among providers.

- Price signals and funding. This dimension deals with the principles of funding public service provision; the extent to which public funding reflects actual service utilisation and/or service performance. Examples, user charges and fees; vouchers and other related funding.

A number of privately managed but publicly funded schools are emerging in Sweden. After the education 1994 reforms, private or volunteer operators are allowed to open new schools funded by the State. The local municipality must pay the school the same amount as if the child was educated by the municipality and the institution is entitled to make a profit. There are no fees to students and they are admitted on a first-come first-served basis with no requirements (i.e. religion or entrance exams).

The Kunskapsskolan ("Knowledge Schools) was founded in 1999 and currently operates 22 secondary schools for pupils between the ages of 12 and 16, and ten upper secondary schools for 16 to 19 year olds, totalling 10,000 students. They have now 750 employees and teachers and a net profit-turnover ratio of 10.6%. In July 2008 this model was expanded to the UK. The model relies on students doing most of the work through their Kunskapsporten ("Knowledge Portal"), which provides the standardised curriculum, while having personalised assistance from tutors. This portal allows each student to work at his/her own pace and to balancing his/her own time depending on his/her own strengths and weaknesses. They spend 15 minutes each week with a tutor, reviewing the past week's progress and agree on new goals and a timetable for the next one. Each subject has 35 steps. In order to pass, students have to complete at least 25 steps. Each additional step implies a higher grade on the subject.

School facilities are simple and standardised. It rents fields nearby for sport activities, and sends pupils away to one of two special built facilities for a week each term for home economics, woodwork and art, rather than providing costly, little-used facilities in the school. This allows cost savings. Close monitoring of teachers is crucial for the model to work. It tracks performance of individual teachers to see which ones do best as personal tutors or as subject teachers. It offers incentives (bonuses) to excellent performance, and considers extra pay for good performing teachers who are willing to move to underperforming schools.

Source : Hansjörg Blöchliger, Market Mechanisms in Sub-Central Public Service Provision. Economics Department Working Papers No. 626. ECO/WKP(2008)34; The Swedish model, *The Economist*, June 12th 2008, and http://www.kunskapsgymnasiet.se/foretaget/inenglish.4.1d32e45f86b8ae04c7fff213.html; and OECD (2008a).

Table 1. Factors to consider in the implementation of market mechanisms

Equity considerations
• Setting minimum standards (social and/or geographical)
• Must be complemented by robust evaluation and monitoring schemes
Measures targeting lagging social groups
• Targeted lower user fees
• Means-tested income support
• Vouchers and use-related funding
Measures targeting lagging regions
• Increasing the size of the market (merging municipalities, sub-central governments' co-operation agreements)
• Central government grants to sub-central governments
• Equalisation policies
• Regional and/or regional type differentiated standards
Contracts and regulation considerations
• Searching for flexible contracts
• Involving compliers in selecting the standards through participatory approaches
• Recurrent revision of proxy measures used
• Agreement of adequacy of non-compliance sanctions
• Some countries have implemented incentive-based schemes for monitoring compliance

Using ICTs for service delivery

Box 12. ICTs for Service delivery

OECD countries have introduced different strategies to ensure increased use of technology for learning and delivering care. For example, the **United States** and the **United Kingdom** use remote pharmacy dispensers to deliver prescription drugs, which due to high costs would have otherwise been relocated. (See Canada and Portugal in Box 6 for more).

There is also a focus on wider connectivity in rural areas. In **Spain**, the strategic project on the Information Society of Extremadura which is based on the fundamental principles of connectivity and technological literacy have lead to the development of a powerful communications network capable of interconnecting and to provide broadband access to the 383 municipalities of Extremadura. **Finland's**, Kainuu Broadband Strategy is a regional approach taken by the Ministry of Transport and Communications in 2003-04. The strategy aims for full wireless coverage in the region by the end of 2008 through the Wimax (Worldwide Interoperability for Microwave Access) technology, which can transfer wireless data over long distances. Feasibility studies undertaken before 2005 indicated that Wimax was the most cost-effective alternative for the region. A Call for tender was made in 2005 and the private provider was selected. Once in place, other operators may rent the infrastructure to provide the services. The prices for customers are about the same as for city customers. In 2004 already 80% of households in the region were at range of the Wimax Base Stations. By the end of 2007, 81 stations should be functioning and after 2008, the Kainuu Telephone co-operative is committed to provide broadband access to every household and company in Kainuu area. The strategy is part of a broader Information Society Strategy for the Kainuu Region which involves besides providing the technological infrastructure, training and support programmes, a multi-channel communication network and decentralised content production.

In **Germany**, around 10% of German households, mostly in rural areas, have limited (if any) access to broadband. The government launched a pilot program "Practical Solutions to Close Broadband Supply Gaps" in six "problem municipalities" to address the problem. First a working group was established on nation-wide broadband supply under the direction of the Federal Ministry of Economics. The group examined all possible concepts and drew up recommendations for action. Participants in this scheme include representatives from central and local governments as well as private actors. The objective is to achieve the widest broadband coverage possible (i.e.,

coverage of more than 99% of households). A broadband atlas was developed by the Federal Ministry of Economics helps to identify market opportunities for enterprises and areas where government action is needed and subsidies will only be granted in cases where market solutions are not possible. Based on the findings, market solutions are possible almost everywhere, even in sparsely populated areas. In fact, it was determined that 20 to 30 local customers are often enough to realise economically viable (wireless) solutions. However, since some markets evolve slowly and major suppliers are still not focused on rural areas, there are opportunities for SMEs.

Source: Knauth, Peter (2008), "Nation-wide Broadband Services. Policies by the German Government/the Ministry of Economics and Technology", presentation at the OECD Rural Development Conference *Innovative Service Delivery for Rural Regions*, 3-4 April 2008, Cologne, Germany. Karjalainen, S. (2007), "Bridging the broadband gap in rural areas" presentation in the OECD mission, Ministry of Agricutlure and Forestry. Including also slides from Karppinen, V. "Access to broadband in remote rural areas: Developing Information Society in Kainuu Region", Kainuun Nuotta Association, Kainuu, 4 May 2007.

Improving the targeting of resources and performance-based contracts

Box 13. Monitoring performance and the provision of incentives

Monitoring Regional Policy in the Southern Region of Italy: setting a reward system. The Regional Policy Strategy for the Southern Region includes a performance based scheme that sets explicit targets on the provision and quality of essential services, linking it to financial rewards to the attainment of specific targets. This initiative emerged as a recognition that regional disparities where not shrinking with traditional State interventions through subsidies to production. The persistent gap in the provision of essential services showed a lack in the local administrations' accountability and a general adjustment of preferences to lower expectations of citizens. These two reasons called for an incentive mechanism that could provide visibility, reshape the agenda for public action, encourage local actions, and strengthen cooperation in the context of a multi-level governance framework.

The performance-based scheme contains 11 indicators of provision and quality of education, child and elderly care, water services and waste management. The indicators were selected by the Department of Development Policies, together with the 8 selected regional administrations in the south. Italy considered the participation of beneficiary regions in the process of selecting the indicators crucial. The process of setting targets and selecting their corresponding indicators went through a long process, which involved many administrations at all levels of government: local, regional and central. The incentive mechanism sets a financial reward to the attainment of the specific agreed targets. The negotiation with sub-national authorities, and considering the many variables and actors affecting the result was critical for the legitimacy of the measurement and thus, for assigning binding targets. 3 billion Euros will be assigned to eight Southern regions if quantified targets are met in 2013. A share of the fund will be assigned in 2009 on the basis of improvements on the initial situation of each region. The objectives are quite ambitious, but they can be achieved.

Public Service Agreements in the UK. The UK has incrementally moved towards more decentralisation on the provision of public services, but also towards a more participatory and place-based approach. In 1998, the UK began with centrally defined targets through National Public Service Agreements (PSA). Targets were set by central government's sectoral departments, which sometimes discouraged joint-up approaches. Two years later, in 2000, Local Public Service Agreements (LPSA) were introduced. LPSA are voluntary agreements established between the central government and local authorities in which local government agreed on 12 outcome-based stretch targets with a reward mechanism attached. Stretch targets represented performance above and beyond what would have occurred in the absence of the incentives provided. These agreements showed positive results in part because of the incentive mechanism, and in part because Local Authorities could participate more actively in setting the targets. On the negative side, it implied a very costly and time-consuming negotiating process, and led to Local Authorities negotiating those which were more easily achievable to increase reward payment. In 2004, Local Area Agreements (LAA) were established, with the aim of improving better outcomes, but also overhauling the relationship among levels of government. They are obligatory three year agreements that set out the priorities for the specific local area. They are agreed between the Central Government and the Regional Office. Instead of setting targets for specific sectors (services), targets are set for places (as "packages" of 60-70 targets) about issues which are most important

locally.

- In the PSAs scheme, performance was tied to the level of resources of the locality, thus the results were affected by local contextual factors harming lagging regions.

- With LPSA there was a reward grant equal to 2.5% of local authority budget (1 billion UK pounds) offered as an incentive to achieve the targets. To address start-up disparities for achieving targets, pump-priming grants were also offered up-front to enable the local authorities to invest in innovation for their projects. After three years, the local authority received the proportion of the fund corresponding to the proportion of the percentage of targets met. Local authorities were free to spend the money as they wished.

- With LAAs, the incentive provided to Local Authorities to engage into this type of agreement is more flexibility with respect to the use of public money that currently arrives via many funding streams to the local level. Under this scheme, local agencies can choose to pool the money and use it for different purposes.

Source : ***Italy:*** OECD (2007c) and Ministero dello Sviluppo Economico (2007); ***UK***: OECD (2007d)

Issue #9: Introducing and strengthening rural proofing of sectoral policies

Box 14. Rural Proofing

Canada's Rural Lens: The Rural Lens raises awareness of rural and remote issues across federal government organisations by asking them to assess the effect of new policies, programs and services on Canadians living in rural and remote areas. It also highlights rural and remote implications for consideration by the Federal Cabinet when assessing the impacts of new federal initiatives. The Minister Coordinating Rural Affairs will present an annual report to Parliament to tell what federal departments and agencies are doing to meet the federal government's commitment to rural Canadians. There are two main tools available to federal officials to assess the effects of initiatives on rural Canada: the Checklist of Rural Lens Considerations and the Federal Framework for Action in Rural Canada. These tools were developed in Rural Dialogue Sessions, a series of discussions between the federal government and rural and remote Canadians. They help analyse the effects new federal government services, policies and/or programs will have on rural Canada. Among other things, these tools ensure that federal programs and services are accessible in rural and remote areas, and that there is flexibility for decision-making at the local level.

Rural Proofing in the UK: The UK government requires that considerations expressing rural circumstances and needs are systematically accounted as part of the domestic policy-making process. As policies are developed, policy makers should: a) Consider whether their policy is likely to have a different impact in rural areas, because of particular rural circumstances or needs; b) Make a proper assessment of those impacts, if they are likely to be significant; c) Adjust the policy, where appropriate, with solutions to meet rural needs and circumstances. Rural proofing applies to policies, programmes and initiatives both in their design and delivery stages. The Commission of Rural Communities (CRC) publishes an annual assessment of the rural proofing of central Departments and Government Offices for the Regions. The role of CRC is to provide expert, independent advice to government and help to ensure that policies reflect the real needs of people living and working in rural England, with a particular focus on tackling disadvantage. They provide a checklist as a screening tool to help policy makers when assessing the impact of their policies in rural areas. Each consideration also offers some potential solutions to help policy-makers consider appropriate adjustments. Most of the considerations outlaid in this checklist relate to the provision of public services in rural areas. This checklist is not a substitute for consultation with rural communities, businesses or organisations.

Source : Canada: Canadian Rural Partnership webpage (http://www.rural.gc.ca); UK: Commission for Rural Communities webpage (http://www.ruralcommunities.gov.uk/) (accessed August, 2008)

Issue #10 Encouraging citizens' participation and the "rural voice" in decision-making

Box 15. The Rural Voice

On issues related to service delivery, efforts to engage local actors in the pre-policy development stage of rural development are growing. In **Turkey** the Village Infrastructure Support Programme (VISP) incorporated a participatory framework and citizen satisfaction in public services in its basic tenets. The planning mechanism at local regional bloc level of the **Japan** spatial plan also calls for the cooperation of national and local stakeholders in policy formulation and mandates round table discussions between local stakeholders and central government. There are also networks in place to enable local actors and stakeholders to contribute to rural policy:

1. In Italy, the **National Rural Network (NRN)** was recently created to improve rural governance, operation and planning. It was established to overcome the "sectoral isolation" of the rural development policy by ensuring integration with other policies and encouraging a participatory approach. As a centralised coordinating and supporting body, the NRN is well positioned to consolidate institutional partnerships and introduce overarching management. In fact, some central objectives include connecting different actors, promoting rural development polices in Italy, strengthening the performance of measures, identifying and analysing good transferable practices, preparing training programmes for Local Action Groups and providing technical assistance.

2. In Ireland, **the Irish Rural Link** is a national organisation established to represent the policy needs of its member groups. Its main aim is to: Influence national and EU development policies and programmes in favour of those who are marginalized as a result of poverty and social exclusion in rural areas. It represents at local, regional and national level the interests of rural development groups and facilitates dialogue between rural groups and policy makers. It also encourages and promotes targeted research on rural development issues works to improve the capacity of community groups to become more active in local and community development through practical assistance and advice.

3. **The Rural Policy Programme in Finland:** The Rural Policy Committee institutionalises rural policy in Finland. It represents a procedure applied in Finland through which the impacts of the decisions taken by the central government on the rural areas can be brought into public discussion. The Committee is integrated by 29 members representing nine ministries and other 18 organisations. It assists the Government in drawing up and implementing the Rural Policy Programme which has specific decisions for different Government entities to undertake under the umbrella of the "Broad Rural Policy". It also serves as a network of the different actors involved in the implementation of specific programmes oriented for rural development under the umbrella of the "Narrow Rural Policy". With its broad and narrow rural dimensions, Finland aims both at promoting equity and competitiveness in rural areas. It is also a good balance between two extremes often found in OECD countries between the "grand plan" solution (aiming at integrating all policies into a comprehensive strategy, which has proved difficult to implement) and the "niche policy" solutions (which are very limited in scope and budget). The Rural Policy Programme issues periodical reports establishing the priorities for rural areas, which consist of the strategy and proposals for achieving the stated priorities. The strategy and proposals are selected in consultation and active participation of the regions.

Source : National Rural Network 2007-20013 – *il FUTURO nella RETE;* OECD, Rural Development Conference: Innovative Service Delivery, Meeting the Challenges of Rural Regions, (Cologne, Germany 3-4, April 2008); Finland: OECD (2008) and Rural Policy Committee web page (http://www.ruralpolicy.fi/)