

OECD RURAL POLICY REVIEWS

Scotland, UK
Assessment and Recommendations

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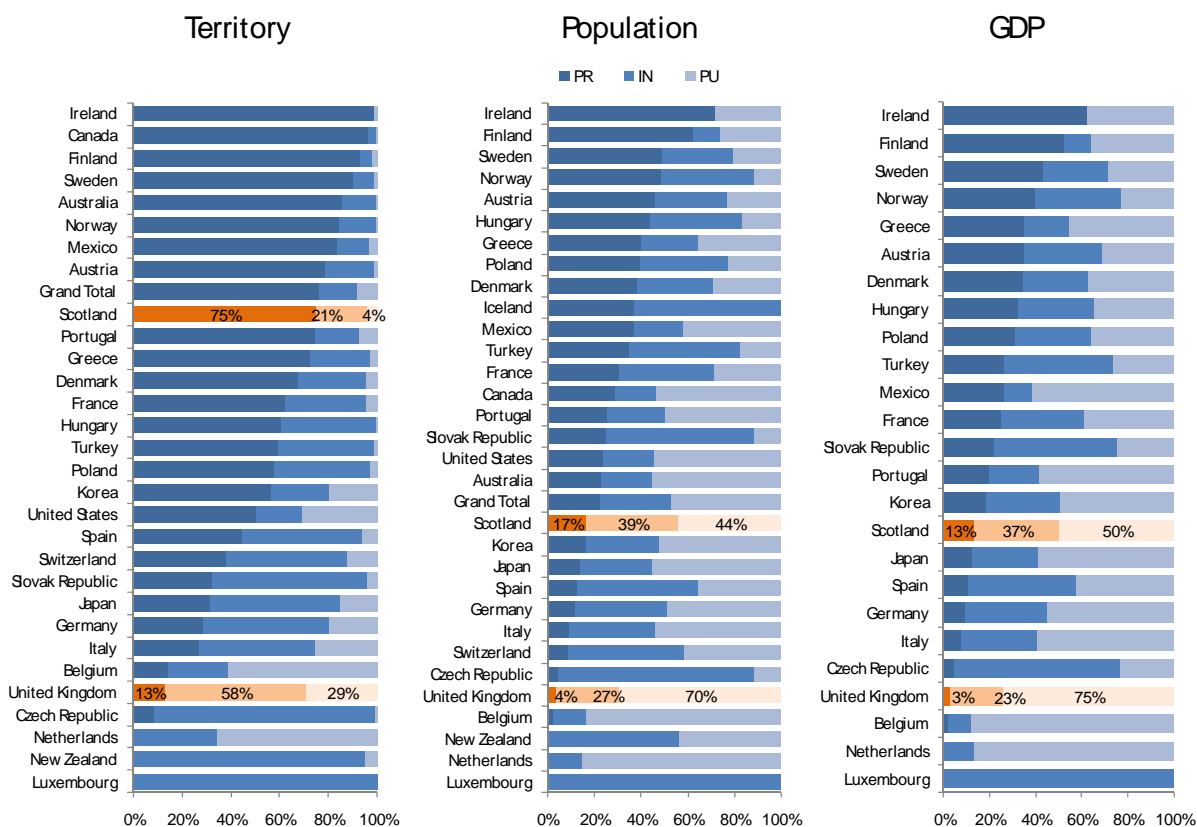
Assessment and Recommendations



Rural Policy Reviews: Scotland, UK - Assessment and Recommendations

Rural Scotland¹ as a whole evidences good socio-economic indicators as compared to urban and intermediate areas...

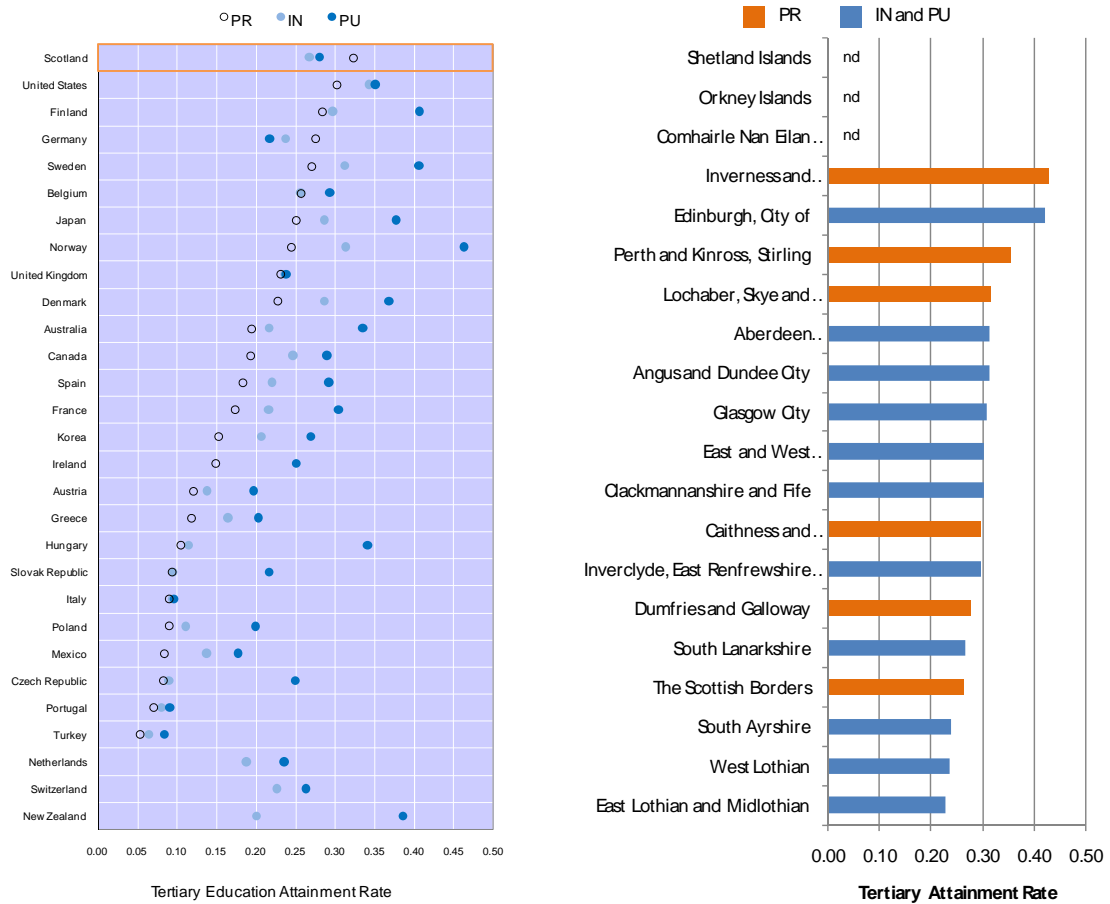
Figure 1. Weight of Scotland's rural areas



Source : OECD Regional Database

On average, rural areas in Scotland show better socioeconomic and wellbeing indicators than urban areas (see Figure 1). The population in accessible rural areas has the highest levels of income: average households income in 2005 was £22,010 (114%) in accessible rural areas, £19,878 (103%) in remote rural areas and £18,867 (98%) in the rest of Scotland. Rural areas show comparable or better health standards and practices than urban areas (for instance life expectancy is 3 years higher, cancer and emergency admissions are lower and so is the prevalence of smoking and drug use). Educational attainment figures show that although predominantly rural regions, have a higher proportion of people without qualifications (24% compared with 17% and 15% in intermediate and urban regions) they also have higher levels of tertiary education attainment (32%) than intermediate and urban regions (27% and 28%, respectively). Indeed, Scotland's rural regions have the highest levels of tertiary education attainment for predominantly rural regions in the OECD (see Figure 2).

Figure 2. Tertiary educational attainment in OECD regions and Scotland regions



Source : OECD Regional Database

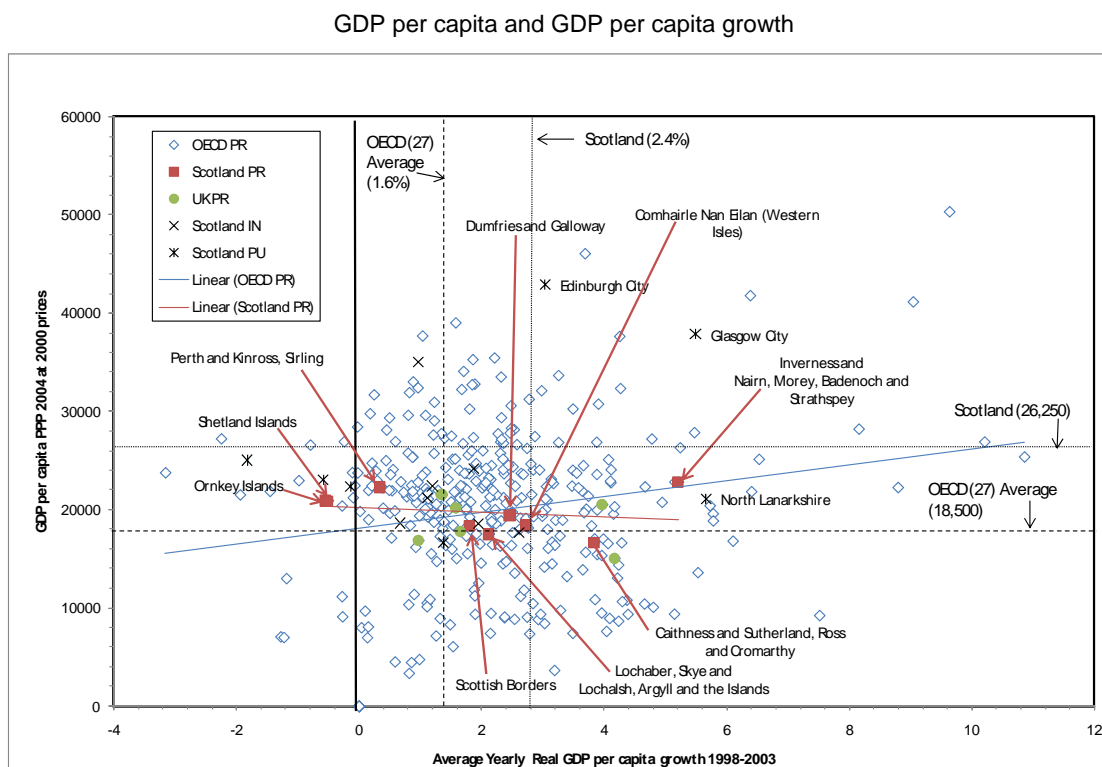
Rural areas also report higher employment rates (79%) and lower unemployment rates (3%) than urban areas. Finally, the levels of liveability and safety of neighbourhood are higher (the perception of insecurity and the rating of neighbourhood as a poor place to live are less than half those of urban areas) and the levels of home ownership are higher (a third of households in rural areas own their homes compared with a fourth in urban areas).

...with some regions displaying the highest GDP per capita growth in Scotland...

The majority of predominantly rural regions had rates of growth above OECD average, and some performed among the top growing regions in Scotland (1998-2003). Scottish rural regions have lower GDP per capita levels (75% of national average) than intermediate and urban areas (83% and 103% respectively, 2003 figures) and lower than many OECD regions (all of them are in the first and second quartile among 364 rural regions in 26 countries). However, in terms of growth, with the exception of two regions (Orkney and Shetland Islands), all predominantly rural regions in Scotland had positive GDP per capita growth from 1998 to 2003, and with the exception of two (Perth and Kinross and Stirling), all had higher growth than the OECD average (1.6%). Moreover, the two regions with highest growth (Inverness & Nairn, West Moray, Badenoch and Strathspey (5.2%) and Caithness and Sutherland, Ross and Cromarty (3.8%) had comparable rates of growth with the two highest growing

(urban) regions in Scotland, namely North Lanarkshire (5.6%) and Glasgow City (5.5%), and higher than Edinburgh City (3%), ranking in the third quartile of OECD rural regions in terms of growth (see Figure 3).

Figure 3. Performance of Scottish PR Regions among OECD PR Rural Regions



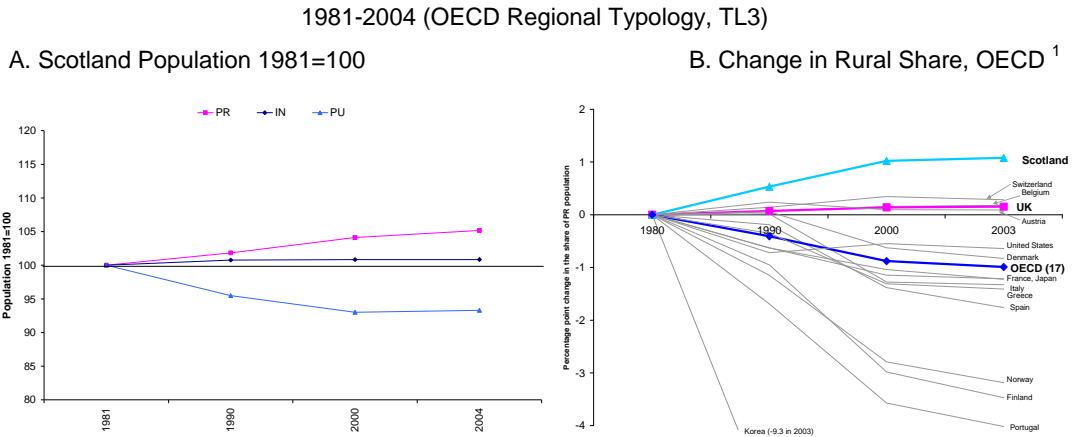
Source : OECD Regional Database

The disparities among rural regions are mostly related to productivity (which is lower than the national average in all rural regions but with marked differences similar to the differences in GDP per capita growth) and to specialization in low productivity sectors (particularly some regions which are still strongly dependent on agriculture).

...and experiences a positive migration balance.

In contrast with the trend seen in rural regions across many OECD countries, rural areas in Scotland have been the net receivers of population since the late 1980s (see Figure 4). The rural population has increased from 19% in 2001 to 21% in 2004. The profile of immigrants in accessible rural areas is often that of young families (72% younger than 39 years old, 70% couples, 56% of them with one or more children) and professionals (16% work in higher managerial and 30% hold lower managerial and professional positions) that come from Scottish urban areas (53%) or from other parts of the UK (20%), with strong linkages and interaction with urban areas reflected in high commuting levels (52% of the population of accessible rural areas commutes to urban areas). These immigrants represent an opportunity for rural areas but raise issues related to commuting congestion, car dependency and increasing demand for land, housing and services.

Figure 4. Trends in population by type of Regions in Scotland and rural share in the OECD



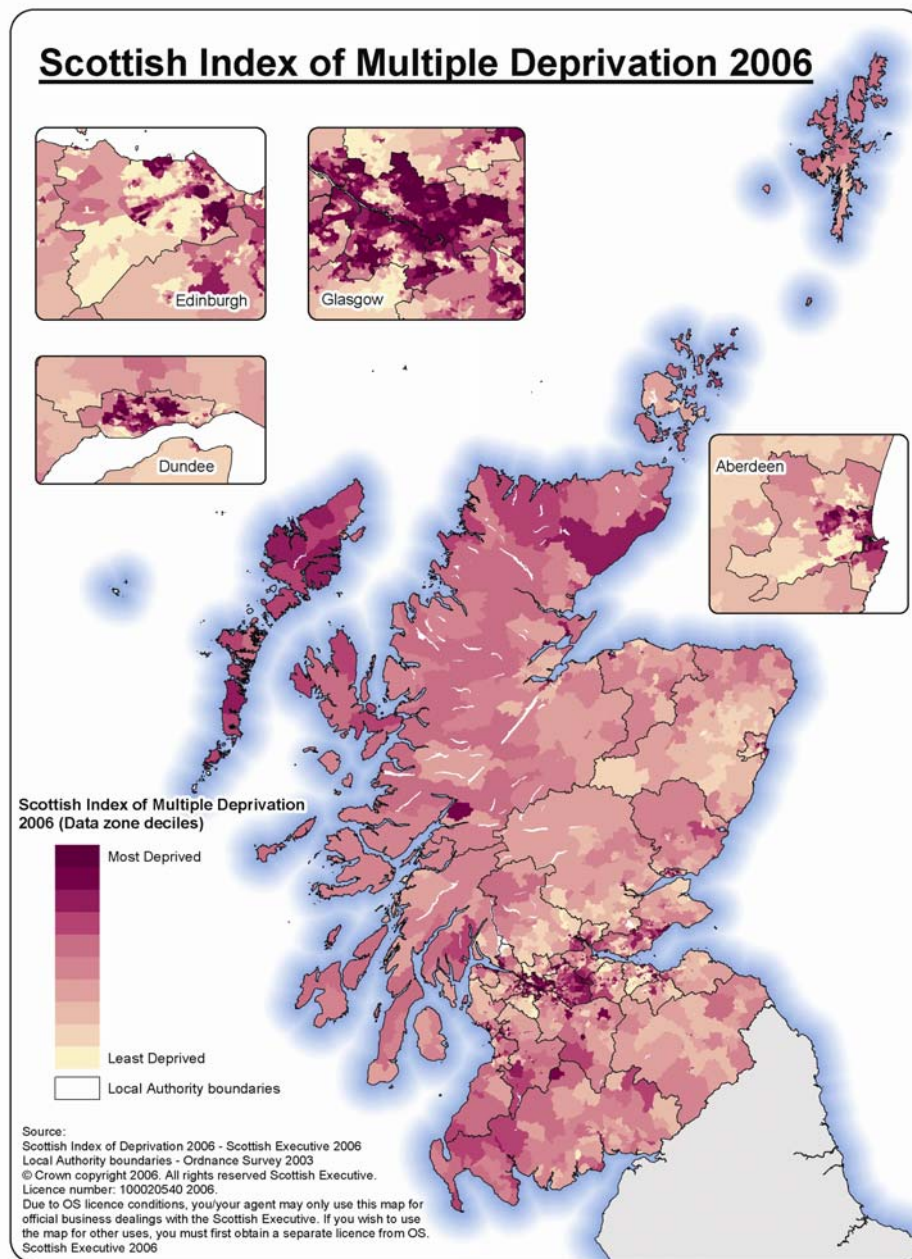
¹ The graph in panel B shows change (in %age points) of the share of population in predominantly rural areas for the countries for which information is available for the 1980-2003 period, using the same typology for their regions through the whole period.

Source : OECD Regional Database

However, there is still a significant divide between remote and accessible rural areas with regions facing serious challenges in terms of ageing, outmigration, poor economic performance and access to modern services.

However, the situation is quite different in many remoter rural regions, which lag behind on some indicators and are qualitatively different because of their sparse population. Analysis of the Index of Multiple Deprivation (see Figure 5) reveals that within rural areas, there are very fragile areas, particularly in the periphery and islands which are deprived in several ways (including income, employment, skills and health) and suffering from inadequate infrastructure, higher costs of key inputs and lower access to services (30% of the areas with low provision of services are in remote rural regions). An example is the Western Isles which has a GDP per capita of 60% of the EU average, low enterprise formation, poor health indicators, net outmigration and negative population change. Immigrants to remote rural Scotland are mainly in older age groups with a significant share from other parts of the UK (30%) which points to the potential of these areas. These trends raise the issue of how to deal with ‘pockets of ageing’ and concerns in terms of service delivery modes and sustainability.

Figure 5. Scottish Index of Multiple Deprivation Map



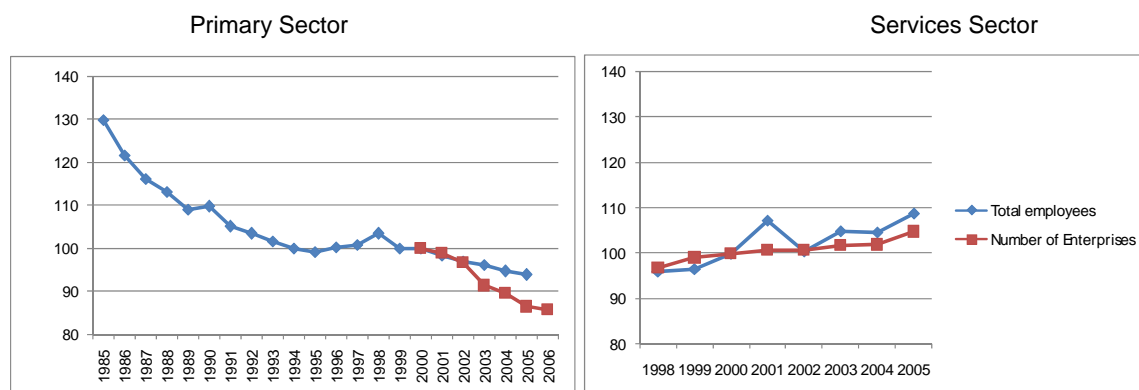
Source : Scottish Executive

The economic profile of rural Scotland is evolving, with services largely outpacing the primary sector...

The rural economy is today dominated by the services sector which accounted for 43% of employment in 2004. The weight of the agriculture sector has been steadily contracting in the last two decades (see Figure 6). Agriculture represented only 1.3% of Scotland GVA and 11% of rural

employment in 2004 with a steady increase in the share of part-time involvement with 1 out of 2 employees and 2 out of 3 among occupiers and spouses in 2004 working part time. The industry has been hit hard in recent years by BSE and the foot and mouth disease crisis (although an even greater impact has been suffered by other sectors such as tourism which did not receive compensation) and is still highly dependent on subsidies.

Figure 6. Comparative evolution of Primary and Service sectors in predominantly rural areas

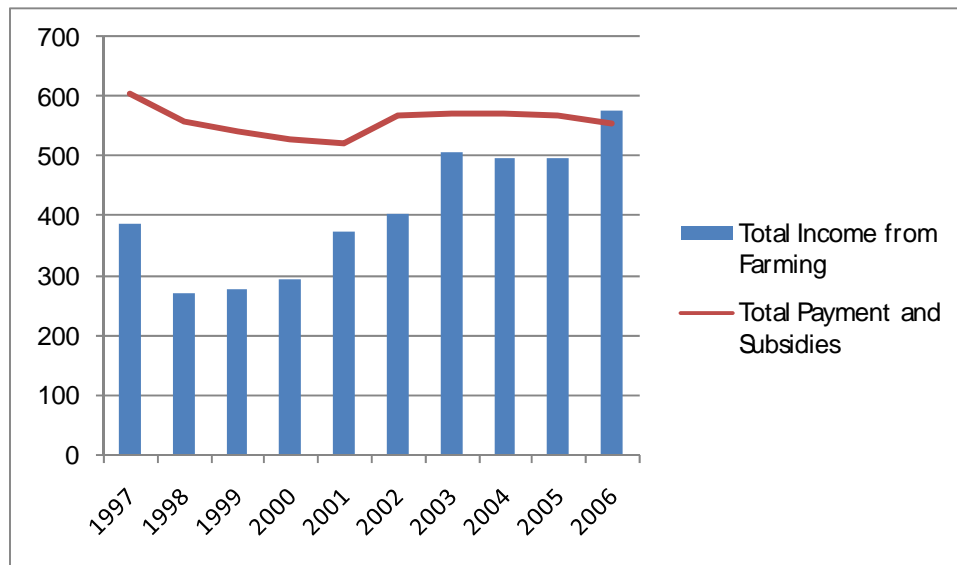


Source : OECD based on data from the Office for National Statistics, Annual Business Inquiry

From 1997 to 2005 the Total Income from Farming (TIFF) has been below the level of subsidies in real terms, which had been above £500 million (at 2006 prices) only reaching a similar level in 2006 at around £550 million (see Figure 7). Scotland's rural economy is experiencing a "second wave" of diversification differing from the "first wave" in that it is no longer linked only to farm households but to a significant housing boom and stronger entrepreneurial activity. This is evidenced by the creation of firms in construction (+ 610 firms) and real estate services (+1525 firms) in predominantly rural areas from 2000 to 2006. Nevertheless, businesses tend to be small and operate in niche markets and the better-paying jobs remain concentrated in the largest urban centres.

Figure 7. Total Income from Farming Production and Payments

(real terms, 1997-2006)



...and tourism, forestry and energy production benefiting from the country's large natural and cultural resources and increasing domestic and international demand.

Rural areas account for 98% of the land mass in Scotland and are home to high value natural amenities: characteristic landscapes (there are 40 designated National Scenic Areas), forests (covering 17% of Scotland), mountains, islands, beaches, biodiversity. Cultural and historical assets are also remarkable. Despite the often difficult climate conditions, these assets are generating new income streams for the rural economy through recreation and tourism (which has already 7,600 firms in predominantly rural region and provides about 14% and 9% of the jobs in remote and accessible rural areas respectively) and through sustainable production activities such as forest products (softwood production tripled over the period 1980-2000) and renewable energy (which accounted in 2004 already for 11.5% of the electricity generation in Scotland -compared to 3.8% in the UK- and of which the share coming from sources such as wind, wave, solar power, thermal and bioenergy increased from 0.6% to 2.6% in 2004). However, the environmental impact of development of rural areas (i.e. urbanization, pollution due to greater commuting), and possible conflict between uses of natural assets (i.e. for tourism and energy production) are issues of concern.

In sum, the analysis of rural Scotland reveals a high degree of spatial heterogeneity, calling for a flexible policy, tailored to the opportunities and needs of different places.

The analysis highlights the need for the government to respond flexibly and in a way that is adapted to the different characteristics of its rural regions.

(1) *Strengths:* many strengths of Scotland are rural in nature. These include: abundant land area as well as rich natural and cultural resources; higher standards of living and a distinct social capital and cultural traditions; a stable and relatively diversified economy, with good employment and entrepreneurship indicators.

(2) *Opportunities* include higher population growth and positive net migration of ‘neo-rurals’, growing sectors such as tourism and renewable energy and potentially greater urban-rural and international interaction and exchanges.

(3) *Weaknesses*, specific to some remoter rural areas, include relatively lower and stagnant levels of GDP per capita, higher costs of living, transport and housing; car dependency and lower access and quality of services; low labour productivity, a predominance of low skilled jobs and dependency on subsidies for agriculture.

(4) *Threats* are mainly represented by depopulation and ageing, especially in certain fringe areas, cost and closure of key services as well as the expected reduction and reform of CAP and EU structural funds.

Scotland’s approach to rural policy is innovative and rapidly evolving but it is still suffering from a sector-by-sector focus...

The approach to rural policy in Scotland has evolved continuously since the Sixties. This process has been led by various reforms at EU and UK levels. As a result of devolution in 1999, Scotland now has its own chapter in the UK Rural Development Strategy and its own Scotland Rural Development Programme. The Scottish Government (former “Scottish Executive”) published its first rural policy document, *Rural Scotland - A New Approach* in 2000. The document placed emphasis on the need for policies that are more outcome oriented with a focus on collaboration and setting as priorities diversification, growing rural business, increasing wages and delivering better services. This strategic focus is emphasised in the Government’s most recent rural policy document, *Rural Scotland: Better Still, Naturally*.

Scottish rural policy, as it is implemented today, relies on a fairly centralised approach balanced by consultation with stakeholders at national level and a sector-by-sector rather than a territorial focus. This approach has brought substantial advantages, in particular the wider attention paid by policymakers to all aspects of rural life, beyond agriculture. However, this approach, despite important innovations occurring in the last few years, is increasingly showing its limitations and need for reform.

Key critical issues are: 1) weak integration of rural, regional and sectoral policy design; 2) complex delivery mechanisms at both national and local levels and a plurality of operational classifications of rural areas for policy purposes; 3) high level of public expenditure for agriculture and a predominantly environmental focus chosen for this sector in the future; 4) modest local participation and adaptation of RDP to place-specific situations.

...weak integration of rural, regional and sectoral policy design...

As discussed above, Scotland has an official document outlining a strategy for rural development. However, in policy practice, since each sector has its own objectives and priorities, and looks at rural issues from its own perspective, there are issues of coherence between them, weak integration and poor visibility. Rural policy seems more like a subsidiary policy within each sector. The presence of conflicting policy designs between sectors is often quite evident in the different approaches of the Enterprise Networks (which joins up Scottish Enterprise and Highlands and Enterprise interventions) and the Scottish Government. The issue of coherence and integration of policies impacting on rural areas is not just one of national policy. Rural development policy within the EU is embedded in a multi-governance framework, including several layers of institutional actors, at different levels, which participate in the formulation and implementation of policies. These components are administratively linked but they do not respond to a unified vision or approach. The national framework is not fully

integrated with the EU framework, which has different sets of regulations, compliance requirements and procedures.

...and a complex, segmented delivery system at both national and local levels.

There are more than 100 agencies working on rural development issues but there is no single body focussing on rural areas or a comprehensive and distinctive policy for rural areas. At the national level, the Ministerial Committee on Rural Development has contributed to the co-ordination of policies for rural areas, since 2000. At the local level, 32 Community Planning Partnerships were introduced in 2003 to provide a local mechanism and prioritisation, promoting complementary approaches and delivery amongst service providers. Furthermore over 60 Rural Partnerships have been established to help deliver community action plans around Scotland. The result of this proliferation is an overlap of different approaches and agencies with their delivery modes, each claiming relevance and new functions, with the backing of some constituency.

It is widely recognised that there are too many subdivisions, that it is costly and ineffective, and that a “proper joiner” needs to be found. To compound this already complex delivery system, the sector-by-sector approach chosen adds a multiplicity of “sector cultures” with their own modes of delivery and performance indicators set by their parent Department of funders. The critical issue is thus the extreme complexity of both the design and the delivery system linked with rural policy. This is a very segmented approach at both national and sub-national level which does not seem well equipped to “regionalise” the interventions within an area and create effective horizontal linkages between agencies and actions.

The SRDP is overall a sound strategy, setting clear objectives, but there are concerns with the high level of expenditure for agriculture, its sustainability and the predominantly environmental focus chosen...

The strategic plan for realizing sustainable rural development policy as outlined in *Rural Scotland: Better Still, Naturally* is in the Scotland Rural Development Programme (SRDP) 2007-2013. The SRDP is a comprehensive strategy that does take into consideration the wide concerns of rural areas, but this vision is not reflected in budget allocations. Even though in the medium-long term there could be changes, farming in Scotland is still heavily subsidised. As for Pillar 2 of the Common Agricultural Policy (CAP), official data indicate that approximately £1.6 billion will be available to fund the SRDP 2007-13, of which £1.1 billion will come from the Scottish Government. £1,124m will be spent on Axis 2 (Improving the environment and countryside through land management). This means that the focus of rural policy (within the EU framework) will concentrate substantially on the environmental dimension and that the other options offered by the regulation have been largely discarded. This makes interventions within the EU framework heavily agricultural in character. The territorial interventions for the diversification of the rural economy, addressed in the third axis and aimed at the whole rural population, will account for 16% of the total rural budget and are also partially aimed at farmers.

Even though measures not financed under the RDP can be accommodated under national spending programmes, the decisions taken over axis 2 resources indicate a clear strategic choice in favour of the production of environmental public goods in rural areas by farmers and land managers. This allocation does not appear well balanced, particularly in relation to previous policies and ongoing socio-economic trends in rural Scotland. Regional and place-based approaches to rural development have a more articulated and multisectoral view of the environment. This implies that there should be a “balance” between environmental, economic and social objectives also in rural areas, since environmental payments are not likely to have major impacts on growth and job creation. Whether the

more comprehensive vision presented in “Rural Scotland, Better Still, Naturally” will be able in practice to rebalance and integrate the sector approach of the SRDP with the regional and national components of rural policy remains to be seen.

...and the sub-optimal use of the two key rural development schemes.

Axis 2 of the SRDP absorbs approximately 70% of the Programme’s total funding, the bulk of which will go to the Less Favoured Area Support Scheme (LFASS) and Rural Development Contracts (RDCs - formerly Land Management Contracts). Both are “horizontal”, “stand alone” delivery mechanisms. Whilst RDCs are available to a wide range of beneficiaries, not just farmers and foresters, **LFASS** is open only to farmers and crofters who meet specified eligibility criteria. The LFASS’s logic is based on compensating with a premium farmers who operate in areas with some kind of agricultural handicap. However, since LFASS covers 85% of the agricultural land in Scotland and is associated with extensive grazing of cattle and sheep, this wide coverage makes it in practice a horizontal measure. The interim LFASS Scheme for the period 2007-2009 will consider a redistribution of funding from "standard" to "very fragile areas". The critical aspect of this measure is its purely compensative nature and its lack of any linkage to other actions, which may be complementary (tourism, typical products) or go beyond this fatalistic vision of agricultural disadvantage.

The full introduction of *Rural Development Contracts (RDCs - formerly Land Management Contracts)* should contribute to a sustainable land-based sector which plays a key role in rural development and helps to achieve a high standard of land stewardship. RDCs have their roots in the reform of the CAP in 2003 (through LMCs) and now occupy a central role in the SRDP by making payments for the delivery of environmental, economic and social benefits. The critical issue with RDCs is that they are open to a wide range of beneficiaries, not just the historic farming and forestry sectors. No collective initiatives for joining up RDCs by type of beneficiary have been established so far with the exception of possible linkages with the Rural Partnerships. The linkage with Leader Groups, which would have allowed for a stronger link between farmers, land managers and the wider rural economy, was considered in the consultation for the SRDP but not implemented.

Centralisation and the lack of adequate bottom-up participation to rural policy hamper the design of measures adapted to the different parts of rural Scotland.

While prior to devolution, regions and local rural areas were able to articulate their own strategies and the mix of policies best adapted to their strengths and weaknesses, as well as negotiate the necessary funding within the Structural Funds, in the post-devolution situation and in the framework created by Agenda 2000, the governance of rural policy changed significantly. After devolution, the consultation of individual stakeholders was extended considerably. In this sense, the transparency of the planning process increased with devolution. A high level Stakeholder Group was set up (the Scottish Rural Development Programme Stakeholder Group) to engage the community in the preparation of the SRDP. A number of innovative community-based programmes (like the “On the Ground” programme) were introduced and a Ministerial Committee on Rural Development was created.

However, decisions about policy design are taken at national level. The current, largely EU driven, system of design of rural policy does not truly engage local leaders and foster creativity and innovation but rather fosters a ‘subsidy mentality’ whereas local actors adapt to top-down strategies to get resources even if that is not exactly what is needed in their territory. There are numerous examples of poor adaptation of sectoral policy to local conditions. Housing and transportation are two such cases.

Scotland needs a distinct, integrated rural development policy, with a decentralised, area-based delivery system...

The original motivation for adopting a sector-by-sector approach at national level might have been justified when all rural policy was considered as coinciding essentially with agricultural related needs. But this may be less true today given the evolution of both Scottish rural areas and the EU framework. It is recommended that Scotland aim for a distinct vision of policy for all rural areas, one that is comprehensive and integrated, capable of mixing sectoral and territorial approaches and developing linkages, exchanges, between the agricultural sector (farmers and land managers) and the other sectors of the rural economy. The convergence of sectoral policies in a coherent policy for rural areas can be realised gradually over time.

From the delivery perspective, a comprehensive and distinct vision of rural policy may be built with a “regionalisation” or “decentralization” of delivery mechanisms accompanied by a geographic differentiation of rural areas, either by “macro” regions or more “micro” regions. One-stop-shops have been a quite successful experiment in Scotland, but are limited to facilitating administrative access to existing interventions and operate at a small territorial scale (micro level). These could be developed gradually to develop linkages with other local agencies, develop joint monitoring and follow up of multisectoral projects, providing feed back to the central level about integrated needs. The simplification of the complex delivery mechanisms should follow closely the logic of the “rural vision” that has been selected: if an area-based, decentralised approach is chosen then sectorial agencies at local level need to form a partnership and coordinate their work at that level. This should improve the effectiveness of the present coordination mainly at Ministerial central level.

...a stronger coordination of sector and territorial policies...

Linking the ‘silos’ of central government should be an explicit policy priority. Horizontal integration should be reinforced at the centre to ensure a balance between needs and sectors, accompanying the Ministerial Committee. This is both an administrative and a political process and requires going beyond the rhetoric of joined-up government. No actor or sector should be dominant, but rather each can act as a check and balance to the other. A ‘regionalisation’ of policy formulation can spur different sectors at local level to integrate spontaneously. These area strategies may be “joined up” at national level in a second step, coordinating and understanding the different regional strategic needs, in order that each “sector” policy includes them in their sector programming. The regionalisation of the current policy approach should complement the classification of rural areas presently adopted: remote areas in fact do not all evolve in the same way, and accessible areas also change in relation to the changes in the urban centres that act as reference. An internal differentiation of Scottish rural areas on the basis of “regional” policy areas will provide a better information on the factors that influence disadvantage in rural areas. The visibility of a comprehensive and distinct rural policy design would also be enhanced by developing a software classification system of public expenditure that would give a quantification of the “rural spend” for all sectors. This would help with internal monitoring and assessment of rural policy. It would also help make transparent, particularly externally, the various components of rural policy.

...and reinforced partnership, place-tailored approaches.

A place-tailored approach to rural policy and programs characterised by a stronger local participation and wider stakeholder involvement is key. The consultation procedure is complementary but does not substitute for the participation, deliberation, negotiation and agreement of stakeholders. Despite recent changes in the approach, the current system still largely empowers farmers and land managers rather than involving a multiplicity of rural actors on an equal footing. A critical issue is the

creation of effective mechanisms at various institutional levels to accompany consultation practices. Stronger local participation and wider stakeholder involvement are to be seen as key factors not only to improve knowledge sharing and the effectiveness of policy but also as a means to foster social cohesion. Work is underway to establish a *National Rural Network* in Scotland through the SRDP to support and assist in the delivery of the 2007-13 programme. The NRN will group the organisations and administrations involved in rural development. The successful establishment of the Network will be important in determining the capacity of the Scottish Government to share a dialogue with different interest groups on rural and rural-urban development issues.

A widely shared and participative approach to rural policy would benefit from stronger innovative community development frameworks such as **LEADER** which has proved to be effective in promoting consensus, coherence and integration of rural policies. Lessons learned from its success could be used to strengthen other partnership-based initiatives (like the CPPs). Additionally, discussion on the future of **LFAs payments** should consider the importance of reforming this instrument to make it more responsive to wider rural needs that are characteristic of today's rural areas. Their compensatory nature for rural disadvantage could gradually include consideration of farming handicaps of a physical nature, but also of the valorisation of products and activities which can provide additional incomes for farmers by linking them more closely with the rural economy. Similarly, on **RDC issues**, three directions could be considered: a) promote area exchanges and networking between land managers, so that they improve their environmental knowledge-base collectively; b) promote exchanges between RDCs and local action groups/ local partnerships so that an integration between farmers and wider rural activities takes place; c) agencies delivering RDCs should be increasingly active or cooperate in the delivery of other rural measures.

Scottish rural development strategy should find a better balance among interventions...

Scottish strategy for rural development should find a better balance among interventions to respond to the wider needs of rural development. Decisions over the use of CAP Pillar resources limit environmental concerns to a narrow perspective. In the current vision, the environmental dimension has been considered mostly in terms of public goods that farmers and land managers could deliver to society. Environmental sustainability is a wider concept that should encompass the whole mix of activities present in a specified area. Given the sectoral approach adopted by Scottish rural policy within its EU-agricultural component, the other components of rural policy should promote other objectives such as the competitiveness of agriculture, forestry and the food industry, as well as the quality of life and the diversification of the rural economy. This way would complement the environmental interventions and “rebalance” the different axes of rural development policy with other sources of funding. If this is not done, a concentration of rural policy almost exclusively on environmental interventions seems a risky choice, both because of the financial sustainability in the medium-long term, and because such a vision continues to assume that rural areas are populated only by farmers and land managers. By contrast, the context analysis and ongoing trends show that the growing prosperity of the rural population in Scotland is due to the economic development of specific economic sectors which often have fewer linkages or complementarities with environmental payments than presently conceived.

If not managed in a balanced way, environmental payments, by privileging a non productive vision of rural space, could discourage the diversification of the rural economy, either by inhibiting opportunities for local enterprises to find industrial sites and workers, or by keeping the demand for services below a minimal critical mass, by rewarding a ‘*rentier*’ mentality. On the other hand, if managed in a balanced way, environmental “goods” could produce mutually reinforcing diversification effects with the wider rural economy and quality of life.

...account for the distinct character of the Highlands and Islands and aim at raising the profile of the South of Scotland.

Rural policy in Scotland has largely focused on the **Highlands and Islands** which is both the most remote part of the country and the majority of the rural territory. However in terms of population, more rural Scots live outside the Highlands and islands area than in it and their development issues should also be an integral part of rural policy. The Highlands have been subject to special measures of intervention, notably the creation of the H&I development Board (now H&I Enterprise, HIE). The special attention provided to the H&I has paid off. Following more than a century of decline, the fortunes of the region began to turn around and the 1971 census saw the population rise for the first time in over 100 years. In fact the H&I experienced a 15% increase in population during 40 year period from 1961-2001 with a further 1.7% increase in 2001-2005. Also, unemployment is now lower (2.4%) than in Scotland (2.8%). Initiatives such as the *University of the H&I* should be pursued with more vigour to build on this success and move the economy upwards to get the most out of both its natural and cultural resources and the expanding knowledge-based economy.

Similar efforts could be made to address the challenges of the **South of Scotland**, which according to many observers suffers from a public spending bias in favour of the Highlands and Islands and the central belt. Social exclusion in the South of Scotland is a particularly serious problem that needs to be further analysed and treated in its distinct character as opposed to other parts of Scotland and the urban areas. Local community capacity needs to be developed in the region and efforts should be invested in strengthening local economic networks in order to build a stronger and more positive identity associated with quality of life and natural amenities. The provision of services, including transport and business services will be critical to this end. The re-establishment of a body (such as the South of Scotland Forum) with a similar structure to H&I Enterprise should also be considered.

...and would benefit by more networking and closer linkages with counterparts in the UK and abroad.

Scotland's rural policy would benefit by more circulation of local good practices. The quantity and quality of innovation in Scotland's rural areas is remarkable and should be better exploited. On the practitioner side only Leader groups have been involved in networking and transfer of knowledge about rural development, mostly with other European groups. It is important to favour wider knowledge and information sharing across Scotland's rural areas and exchanges with other local actors both within Scottish areas and abroad. There is a rich experience in providing rural expertise from Scotland to national, EU and international level organisations, about rural development policies. This intellectual capital built over the years by Scottish Universities, research networks and consultancies is an asset that should be used more extensively both with local policy practitioners as well as local policymakers. Scotland's rural policy would also benefit from closer, more explicit linkages with counterparts in the UK and abroad. The present multi-governance (EU+UK+National) framework could be considered an opportunity for an improved and more coherent presentation of Scottish rural policy, with its distinctive features, in outside policy and institutional circles. This would not only give better external visibility to Scottish policy, reinforcing its internal recognition by stakeholders, but could contribute also to the discussion and transfer of local policy innovations at global level.

Key priorities for Scotland's rural policy include: (1) Address the shortage of rural housing and the increasing demand for space for multiple uses by directly tackling the rigidity of land use regulations.

Land reform, housing and crofting appear as distinct features of Scottish rural areas. They are relevant aspects for rural development policy because they are related to a key problem: the scarcity of available land and a rigid regulation of land use. This regulation acts as a constraint on an otherwise very abundant physical resource and limits the opportunities for the diversification of activities and for living in rural areas. Scotland's land tenure system has remained throughout modernization highly concentrated and land use regulation has remained very rigid. As a result, land management and land reconversion decisions are often outside the influence of the local population. This situation is quite different from that found in other countries of Europe.

In Scotland, landowners, especially large ones, have found an important source of rent from protectionist policies and later in the CAP, and this support in turn is capitalized in higher values for their land. For this and other reasons, landowners have often little interest in selling or diversifying their activities. The National Planning Framework does stress that economic diversification is vital to the future of rural Scotland and policies have used indirect instruments to facilitate rural housing (like subsidizing social housing for low-income families or other priority groups or the cost of ferries that haul building materials). This bottleneck would be better addressed directly instead of indirectly through other instruments.

The Land Reform Act passed after devolution has had the explicit objective of removing land-based barriers to sustainable development. Differently from traditional land reforms, it is not individuals who get the land, but Communities as a whole. Of the 170 community purchases across Scotland between 2003 and 2006, only in 18 cases was there full land management with economic outputs. It is essential to establish clear targets in terms of land and housing supply, to monitor the effects of changes in legislation and proceed to further action if necessary to ensure that targets are met.

Crofting plays an important role especially in the H&I as a system to retain the population in rural areas through public support, by controlling rents and providing security, and indirectly as a system that gives access to rural housing. In the rigid land use context of today's Scotland, the protection of crofting would not be understandable from a sector perspective but it becomes more so when the need for housing in rural areas is considered. To the external observer the role of crofting today, and the attention from policies that this form of tenure attracts, is justified not so much by its farming functions, which are declining, but by providing the possibility to live and work in other sectors in rural areas.

(2) Service delivery policy and related investment strategies to tackle the challenges linked with quality education, the healthcare needs of an ageing population and the improvements of rural transport infrastructure.

Service delivery is a key factor for both social cohesion and competitiveness in rural Scotland. The Scottish Government has made a strong commitment to provide a level of service in rural areas that is not greatly different from those available in urban areas. For instance, Scotland's National Transport Strategy (NTS) recognises the need for rural communities to ensure better access. Maintaining such commitment in Scotland remains a significant challenge. Scotland has a rapidly ageing rural structure that is accompanied by a birth rate that is below replacement levels. In addition the majority of the rural territory in Scotland is sparsely settled with people living in small dispersed

communities. A modern, multi-sectoral policy for the development of Scottish rural areas should include a careful, spatially differentiated, investment strategy in the following key public service areas.

(a) Education is a major challenge for rural areas. To Scotland's credit, current statistics show better performance in rural areas than in urban. This suggests that much of the challenge of delivering high quality education in small and remote communities has so far been met. But as rural populations fall in some remoter areas and the minimum efficient scale for providing a high quality education expands, it is proving difficult to keep education at a high level. Scotland has recently embarked on a program to keep community schools open in rural areas. A major innovation in higher education is the new University of the Highlands and Islands (UHI) currently in formation, whose decentralised and collegiate structure with presence in the main islands and small towns in the region, as well as rural learning centres in many remoter spots, provides an example of an innovative approach to the education needs of rural regions.

(b) Health care is a growing problem in rural areas. The ageing population implies a need for expensive new investments in facilities that are geared to meeting the specific health needs of an older population. However, without major changes in demographic structure, the peak demand for these facilities will be over in less than two decades leaving excess capacity. Moreover any increase in facilities will require an expanded labour force to operate them, yet in many rural areas in Scotland there is close to full employment. Where new health care workers will come from is uncertain in this environment, especially given the high rate of out migration of 18 to 30 year olds. Scotland has historically recognized the challenges of delivering health care in remote rural areas and has created innovations to address these problems. Despite efforts to improve rural health care, recruitment and retention of doctors and other health care professionals remains a significant problem. There are two main innovations to be considered which relate to each other. The first is increasing use of remote health care techniques for diagnosis, consulting, and training. The second is the use of para-medics to support general practitioners. These kinds of techniques can reduce costs, and ease recruitment problems, as well as help to keep clinics and smaller hospitals open in rural areas, and avoiding the problems of closure.

(c) Public transportation is both a challenge by itself, and a factor that complicates the resolution of the other public service issues. Also, transportation is key for rural areas both in terms of moving products and visitors and in terms of expanding the effective size of local labor markets. Efficient transportation is vital to each of its strategic sectors (see sections below on agriculture, tourism, forestry and energy). Scotland has made a commitment to public transit that involves efforts to encourage people not to rely upon automobiles; a measure consistent with UK tax policy on automobile fuel. In urban areas this is offset by major investments in buses and other forms of public transit that offer a reasonable alternative to private automobiles. In rural areas the potential for public transit is a problem; in Scotland's rural areas road improvement is a major issue; while in the Islands the ferry service plays a similar role.

High transportation costs and disruptions in access are important impediments to businesses and to tourists as well as to Scottish citizens. The Government made major commitments to improving road and ferry access and to enhancing regional air service that can provide crucial rapid access to isolated communities. The Government owns and subsidises several airports at Inverness and throughout the H&I and operates programmes such as the "Air Discount Scheme" which provides for 40 per cent off the core air fare for residents in several remote rural regions. Current and planned Public Service Obligation (PSO) lifeline air routes also represent important steps in the direction of providing access and enhance social inclusion in remote regions. However, the high costs of transport infrastructure means that many areas still lack adequate access. Without resolution of the transport problem, the use of larger regions to deliver services forces increased costs onto the rural population,

even though it may reduce direct government outlays. Innovative rural service delivery schemes have been developed and should be reinforced. The Community Planning Partnerships can play a key role in introducing a more client oriented, place-based service provision and in delivering a much needed 'variation' to central policy. Other initiatives whose scope could be widened include the *Closing the Opportunity Gap* and the on-going efforts on 22 Rural Service Priority Areas (RSPA) identified according to the Scottish Index of Multiple Deprivation.

(3) Opportunities for economic development and diversification require looking beyond agriculture for the future of Scottish rural regions...

There are specific areas in Scotland where farming remains a profitable activity and in these areas there is evidence of higher levels of investment, greater productivity and farm consolidation. For agriculture to remain viable in this part of the country support should be provided to facilitate a transition to a more market oriented structure. This will entail some farm consolidation and greater intensification of production but with more efficient management. Better management will entail both a greater focus on improving rates of return on farm investments but also farming in a way that does not adversely affect the countryside. Analysis shows great opportunities for economic development and diversification in rural Scotland, that go well beyond agriculture and that are, occasionally, linked to agriculture. This has been reflected in planning advice on the opportunities for rural diversification. For the vast majority of Scottish farms the combination of small scale, adverse climate and soil conditions and distance from markets make successful commercial agriculture improbable.

In principle the majority of Scottish farmers should benefit from a reallocation of CAP funds away from direct support for output towards a broader context for agricultural support (multifunctionality) that increases funding for marginal areas. Traditional direct payments are clearly biased towards larger farms in highly productive areas. Thus how LFA regulations evolve will be of vital importance to the evolution of Scottish agriculture and to the role it plays in rural development. An important consideration is whether LFA support will shift its focus from simple maintenance of farms in areas that have production disadvantages to a greater focus on how farms in LFAs contribute to a larger rural economy. It may well be the case that in parts of Scotland the primary value of agriculture is its contribution to the landscape. Green payments or payments for extensive production schemes may help keep much of the current grazing system intact and allow it to continue to serve as a source of tourism income. While farming may no longer provide the direct source of income in rural communities the presence of farming may make it possible to develop a strong tourism industry that includes agro-tourism, hiking, bird and wildlife watching and other recreational activities that are based upon the specific landscape.

... develop niche tourism...

Globally the tourism industry is seen as expanding at a high rate of growth and rural Scotland with its distinct identity and resources is well positioned to build upon the growing demand and realising this potential will require specific investments. Also sustainability entails that in expanding tourism opportunities there has to be a balancing of development and preservation. For this approach to be successful: tourism has to become embedded in a large part of the rural territory and in each region a range of activities both passive and active have to be available. Many of these do not have to be large scale and indeed the hallmark of this approach is small scale because no particular place or destination is a global destination by itself. Instead it is the complete set that makes rural Scotland a destination.

Scotland has opportunities in piecing together a diverse set of smaller scale attractions that collectively offer a wide variety of tourism opportunities. A similar tourism based development

strategy can only be successful if the human resources to support the environment are in place. The quality and price of the offer is a main concern. In many rural areas there are few people with either formal training or a background in the tourism industry. In some rural areas there is considerable local controversy over the effects on the community of moving to a larger tourism sector. The lack of housing for seasonal workers, the impact of visitors on local housing prices and a fear of congestion are associated with an expanded tourism sector. Also, tourism development will entail dealing with two emerging strains on social cohesion. The first is linked with the capacity of rural communities to accept and welcome tourists. The second has to do with the capacity to assimilate newcomers (often foreigners) that come as new workforce into small rural communities.

... make the most out of forestry,...

Forestry is an important sector for Scotland offering multiple options for development including both production of tradable commodities and public goods. The link between forests and tourism is very clear. This includes activities such as wildlife viewing, walking and a growing mountain biking sector. As multiple use becomes more important the management of forests becomes more complex. Balancing tree harvest objectives with wildlife preservation and human recreation requires better management practices. And support schemes should be designed to encourage forest managers to capture all the benefits that can come from forests (as it is the case for mountain biking tracks or other recreational activities).

Since the early 20th century Scotland has seen a major increase in the area covered in forests. Scotland plans to continue to expand its forested area in the future to roughly 25 percent of the land area, up from the current 17 percent. This next round of forest expansion offers opportunities to achieve new rural development goals. In particular additional forests may be suitable in some peri-urban areas in the Central Belt region where forests can help revitalize an otherwise depressed area by improving its visual attractiveness and help providing a new 'sense of place'. In all cases, it will be important to develop a 'governance of forests' that is able to balance the different needs deriving from national conservation objectives and local development needs. More research is required to clarify the preferences of citizens (as well as tourists) as to the kind of forestry that is valued in scenic terms. This needs to be clarified in order to provide more solid and transparent basis for decisions on support schemes.

... energy resources...

High energy prices and the concern with global climate change have increased attention on finding novel ways to produce energy. This opens up interesting opportunities for rural Scotland.

Scotland has the highest renewable energy production, use and projected growth in the UK. In 2004, total electricity generation from renewable resources was 3.8% in the UK and about 12% in Scotland. As part of the Climate Change Programme, the targets set by government for 2010 (18%) and for 2040 (40%) are ambitious and signal a strong commitment that could benefit Scotland in terms of power generation but also in terms of environment and domestic and international image.

In Scotland there is a strong focus on wind and ocean based approaches. Expanding transmission capacity can be difficult. First, it imposes high local costs on landowners whose property the transmission lines cross and the least cost routes often parallel existing transportation corridors and second, where power lines run along a scenic road, adverse visual effects and possible impacts on tourism are created. Nevertheless, it should be possible to expand the use of wind energy in Scotland through careful siting of both wind farms and transmission lines as well as appropriate use of under-

sea and under-ground lines. Doing so will likely lead to higher costs, but the benefits to other rural activities will offset the higher expense.

The other main alternative energy option in Scotland is wave and tide power. This technology is still in a fairly rudimentary state, but by investing in its development, Scotland has the potential to not only obtain a new source of energy but also become a leader in the design and manufacturing of power systems. However, just as with wind power, the two obstacles to transmission capacity and negative visual effects are issues respectively for off-shore locations and for facilities built across the mouth of bays. In addition, many remoter communities can become self-sufficient in renewable electric energy, as has been shown by Gigha and some of the Orkney Islands. Communities should be encouraged to develop renewable energy both for their own supply and for 'export' where feasible, as this will provide them with long-term sources of revenue for investment in other activities.

...and create an environment that is supportive to Scottish rural SMEs via policies targeting human resources development and access to technology ...

At present rural Scotland has relatively low rates of unemployment and relatively high rates of new business start-ups, although this varies from place to place. These are positive indicators that suggest the combination of public policy and Scottish entrepreneurial behaviour can be effective in providing income and employment opportunities. The high rate of entrepreneurial start-ups in some rural areas suggests that there is a strong foundation for SMEs. However the relatively modest number of firms that advance to higher levels of employment point to problems in growth. The most likely causes for slow growth are difficulties in expanding demand, which requires access to foreign markets and local labor force shortfalls. Expanded efforts by Enterprise Scotland to help identify and penetrate foreign markets could be a useful way to stimulate growth. Moreover, there are significant 'lagging' areas such as the Western Isles, Caithness and Sutherland, and Western Dumfries and Galloway, where a number of factors conspire to limit the level of enterprise creation.

The recent report on the Scottish innovation system identified key weaknesses in rural innovation in both the North and the South. Some initiatives (like 'Fusion' in Inverness) are showing good results in terms of fostering innovation and knowledge sharing that are crucial to Scottish rural businesses. Reinforcing and expanding them should be considered. Workforce development is important, because the rural population of Scotland is ageing and shrinking, which reduces the number of workers, and because Scotland is not competitive in the production of tradable goods and services that employ a significant amount of low skill, low wage labour. An important dimension of human capital development is related to the opportunity to obtain specific skills related to employment. This is more difficult in rural Scotland given the small and dispersed population that makes many formal training programs cost ineffective. Alternate strategies such as distance learning and grants to allow individuals to obtain training in urban centres can offset some of these disadvantages but not all.

...improved business services ...

Business services are especially problematic in rural areas where it may be difficult to find basic accounting, marketing and management advice locally. Internet and other remote sources can partially address this gap, but they do not provide the same sort of face-to-face experience that direct consultation does. The two arms of Enterprise Scotland, Highlands and Islands Enterprise and Scottish Enterprise have considerable in-house expertise that is made available to SMEs and this provides a vital service. Where the gaps are most evident is in services for businesses that are interested in expanding.

For stronger entrepreneurial activity to take hold a broader financial services industry is needed. At present, resources are often supplemented by funds from the major banks in Scotland for those firms that are credit-worthy but, small loans to Scottish rural SMEs are typically less profitable than large international participation. As a result, while there is often adequate funding for firms to start business from owner equity and government support there tends to be problems in terms of access to working capital and to funds for expansion. In this context, too much reliance seems to be currently placed upon Scottish Enterprise and Highlands and Islands. A broader set of financial intermediaries than currently exists is required, particularly those that are able to provide equity finance and associated management resources to firms. The potential role of financial institutions as partners of government and members of the community should not be underestimated. Several experiences across OECD countries show that active involvement by financial institutions in public-private partnerships and in local governance can bring significant benefits not only in terms of increased financial resources but also in terms of the strategic intelligence, networking and technical skills that these players can add to rural development plans.

...and targeted firm support to avoid market distortions and dependence on subsidies.

Within rural Scotland there appears to be growing recognition that change is necessary in the overall approach to firm support. Two common concerns are the sensitivity of the current economy to CAP reform and to the loss of EU regional development funds in all but the Highlands and Islands area (and a significant reduction even there). There is a growing interest in diversification as support for traditional activities is withdrawn.

If economic change is driven largely by the availability of government support rather than by market opportunities there is little chance that diversification will result in long run competitiveness. Scotland could benefit from an even more investment oriented approach to support that looks for leverage with private funds. For example, it is possible to develop groups of private investors who are prepared to invest in businesses that are successful but have to expand in order to capture the next round of opportunity. These “angel networks” provide a way to match specific firms with investors interested in that specific enterprise. AceNet in eastern Ohio is an example of a successful matching activity that has provided mid-size firms with the financial resources to expand. Elements of this approach already exist in specific places and sectors, but it could be more broadly adopted.

(4) A new approach to rural development would require a deep understanding and policy recognition of urban-rural linkages.

In Scotland, as in most OECD countries, the highest rates of population growth are found in the urban fringe and in adjacent rural areas. This is blurring the edge between rural and urban. Rural places in the shadow of an urban centre have specific opportunities and problems but their development is often driven by urban interests, whether it is through urban expansion or through urban imposed limits on growth. Because Scotland is small; it must find ways to coordinate its development strategies so that all the pieces are mutually reinforcing. For example, to expand tourism requires that the urban features of Glasgow and Edinburgh be jointly marketed with the rural features of the Highlands and Islands or the Borders area.

In Scotland there are two distinct regions with urban linkages. The Central Belt, strongly connected to Edinburgh and Glasgow and the South of Scotland comprising the Borders Region and Dumfries and Galloway. In the Central Belt the key issue is how to implement a city-region policy that recognizes the role of rural areas and is not excessively urban in its orientation. Rural revitalization in the central belt is at least as important as urban regeneration if the attractiveness of the region as a whole is to be enhanced. Strategies to improve connections between Edinburgh and Glasgow (rail or

road) to create a larger region, as well as the possible creation of a single International Airport, will have major implications for the rural area in between the two cities. Choosing wisely where opportunities occur can increase the returns for the entire region.

In the Scottish Borders and Dumfries and Galloway, because the region is in close proximity to five large urban centres, opportunities for higher order urban functions are limited. This means that integrating urban and rural development strategies in a partnership of equals approach is likely to be a sound strategy. In both regions the two key policies that will determine how urban and rural areas interact are housing and transportation. A housing policy that continues to hamper the construction of new homes in rural areas will limit development opportunities. Similarly, transport policies that fail to connect rural and urban communities will impede development. Transport policy has to be seen as having distinct but linked urban and rural dimensions.

Summing up

Rural Scotland represents an important resource for national development and growth, but large unexploited potential remains. Devolution has granted the Scottish Government a high degree of autonomy in designing its rural policy. This has taken the form, so far, of a fairly centralised approach with a strong sectoral bias towards agriculture and environmental concerns. Analysis shows the high degree of heterogeneity of Scottish rural areas. In order to adapt to the opportunities and threats of its different rural regions, the Scottish approach to rural policy should evolve towards a more integrated one, capable of achieving coherence among sectoral policies, while involving a wider set of stakeholders in policy design and implementation. Policy delivery should also be streamlined and spatially differentiated to meet the different needs and opportunities of Scottish rural regions.

An agenda for reform should address the following priorities 1) addressing land property and housing related issues; 2) economic diversification in key emerging sectors such as tourism and energy production; 3) service delivery improvements both to rural citizens and to businesses as well as 4) actions to identify and exploit rural-urban linkages. These reforms are becoming urgent in light of the forthcoming reforms of EU CAP and structural fund policies that may affect rural Scotland in major ways.

¹ Two definitions of rural territories are used in this review: 1) **The OECD Regional Typology**, based on population density, which defines predominantly rural regions (PR), intermediate regions (IN) and predominantly urban regions (PU) according to the share of population that lives in areas of less than 150 inhabitants (more than 50%, 50% to 15%, and less than 15%, respectively). 2) **The Scottish Executive Urban Rural Classification**, based in population settlements and remoteness which classifies as rural those settlements with a population of less than 3,000 inhabitants and classifies as accessible those that are within less than 30 minutes from an urban centre (of at least 10,000 inhabitants) and as remote otherwise. Other categories of this classification (under its 6-fold version, the one used in this report) are Accessible and Remote Small Towns (3,000-10,000 inhabitants and same remoteness criteria as rural), Urban Areas (10,000-125,000) and Large Urban Areas (125,000+). The OECD definition is used mostly for cross-country comparison, the Scottish Executive's definition for finer analysis of Scottish trends.

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