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TERRITORIAL DEVELOPMENT POLICY COMMITTEE**

Working Party on Territorial Policy in Rural Areas

**CONFERENCE OF OAXACA, MEXICO
“DESIGNING AND IMPLEMENTING RURAL DEVELOPMENT POLICIES”**

ISSUES PAPER

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This document is submitted to the Working Party on Territorial Policy in Rural Areas for DISCUSSION and APPROVAL. The purpose of this document is to encourage inputs to the conceptual framework of the Conference on ‘Designing and Implementing Rural Development Policies’ that will be organised by the OECD and hosted by the Mexican Government in Oaxaca (7-8 April 2005).

This event follows the conference organised by the OECD in Siena (2002), on The Future of Rural Policy and the one held in Warrenton, Virginia (2004) on New Approaches to Rural Policy: Lessons from Around the World, co-organised by the OECD, the UK Countryside Agency, the Federal Reserve Bank of Kansas City and the RUPRI.

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Introduction

1. *Globalisation, trends towards decentralisation, the revision of sector-based subsidies and tariff barriers, these are some of the major dynamic processes driving rural restructuring across OECD countries.* Running in parallel with such changes in the rural sphere are broad changes in rural governance and policymaking. Governments look for ways to design and deliver policies that are capable to respond to the variety of challenges faced by rural areas and to exploit their resources and unused potentials. Attention is thus given to a more integrated approach as opposed to a sectoral and agricultural based focus. This trend is visible in Europe where, during the 1990s, the reform process of the Common Agricultural Policy (CAP) has contributed, even though only marginally, to transfer financial resources and responsibilities to new rural development instruments. In recent months, the EU debate on the reform of cohesion and rural development policy is putting particular emphasis on the role and financial weight that rural policy should have in the continent.

2. *The way rural policies are currently conceived differs widely across OECD countries* according to the specificity of their institutional and political frameworks as well as the type of ‘rurality’ characterising their territory. In many countries the logic of modernising the agricultural sector is still dominant, there are others that consider rural policy as an instrument mainly directed at remote underdeveloped areas, and yet other cases in which rural policy has a strong environmental connotation. Bringing these different elements together into a multi-sectoral policy capable of promoting rural diversification and competitiveness, while increasing the quality of life of rural inhabitants, represents, to varying degrees, a challenge for all OECD countries.

3. *The design and implementation of an integrated rural policy requires changes in the inter- and intra-governmental relations and between the public and the private sectors and the civil society.* From an analytical perspective, relations between actors form along two different dimensions. First, a vertical dimension encompasses relations across levels of government from the supra-national level to the national and the local one. Within this dimension the role of different institutional actors can vary substantially: in some countries the governance system is centred upon the national government, while in other countries a crucial role is given to regions or to a federal system. In the former case, a strong function of upper co-ordination has to be developed; in the latter case this should be efficiently complemented by co-ordination at the lower level (regional or federal). In regional or federal systems upper co-ordination does not lose its crucial role, it simply changes its function: it is more geared towards the definition of an overall policy strategy rather than towards the implementation of rural policies. The second key governance dimension is horizontal. The focus in this case is on co-operation mechanisms which need to be examined at both the

central level of government (for example, between ministries) and at the local level (for example between municipalities and other stakeholders).

4. This report addresses the main issues related with the design and implementation of place-based policies for rural development focusing on three key points:

- 1) The role of the central and regional government and vertical co-ordination mechanisms;
- 2) Horizontal co-ordination at the central level;
- 3) The role of local actors and lower horizontal relationships.

Part I – Role of the Central Government and Vertical Co-ordination Mechanisms

5. *Governments of OECD countries are considering backing away from command and control mechanisms, and encouraging local actors to participate in the design and implementation of place-based policies for rural development.* This shift requires that central governments re-define their role and devise new multi-level and cross-sectoral co-operation frameworks. The multi-level governance perspective emphasises power sharing between different levels of government, with no centre of accumulated authority. It does not portray the levels of government in a hierarchical order, but instead acknowledges that policymaking requires a growing interdependence between a wide range of actors, each bringing specific sets of skills and resources into a partnership.

6. The demand for ‘partnerships’ and its devolutionary implications cause substantial difficulties with its implementation, since this implies the formal involvement of sub-national actors and social partners in decision-making processes where their role has formerly been a consultative one. Experiences in the implementation of place-based policies for rural development have pointed out some obstacles to achieving effective multi-level co-ordination. But empirical findings also show successful cases where the interaction between vertically integrated actors produces knowledge sharing and a climate of co-operation conducive to policies that are better tuned to the needs and potentials of the countryside.

7. Issues arising from a multi-level governance perspective may involve not only national, but also supra-national actors. The presence of supra-national actors is particularly significant in the European context where the main EU institutions (European Council, Parliament, and European Commission) play a crucial role in providing a conceptual and legislative framework for the development of rural development policies.

8. *The main questions in the context of this session of the conference are whether and how actors manage to cope with the need for vertical co-ordination in different countries, and which role actors from different levels may play in the design and implementation of rural development policies.* The focus will be on the processes, mechanisms and contractual arrangements governing relations across supra- and sub-national levels, which are aimed at rural development and are therefore multi-sectoral by definition.

9. *Different models of multi-level co-ordination frameworks for the implementation of rural development policies can be identified.* From this point of view, underlying principles in the EU Regional policy and Rural Development Plans but also embodied in programmes in several OECD countries constitute useful illustrations of governance frameworks for the phases of design, implementation, monitoring, assessment and re-design of place-based policies for rural development (see Box 1).

Box 1. Examples of vertical contractual arrangements in support of rural development

The European Structural Funds (European Regional Development Fund, European Social Fund and European Agricultural Guidance and Guarantee Fund) have been recently reformed by Council Regulation (EC) 1260/1999 which establishes the general provisions on the Structural Funds and introduces goals and elements to multi-level policy-making. The regulation stipulates that Community actions shall be drawn up in close consultation (referred to as the 'partnership') between the Commission and the Member State, together with the regional and local authorities, economic and social partners; and other relevant bodies. 'Partnership' shall cover the stages of preparation, financing, monitoring and evaluation. A particularly interesting mechanism operating within the European Structural Funds' system (for the 2000-2006 programming period) is "the performance reserve" introduced by Agenda 2000. The reserve issues penalties and rewards set by the European Community Support Framework (ECSF) for Operational Regional Programmes in Objective 1 Regions. The "accountability" of this mechanism is crucial to its effectiveness and its acceptance by all the actors involved. All partners (European Commission, national and regional administrations) participate in the definition of the evaluation criteria which are formally included within the ECSF. Italy has decided to extend the use of performance reserves: in its Objective 1 Regions the role of the reserve has been strengthened both financially and operationally.

In France, the Contrats de Plan Etat Région, since their inception in July 1982, have served in successive waves to underpin the multi-level co-ordination of regional development policy. Under these contracts, each partner enters into a commitment as to the nature and financing of various projects. The central government is represented by the préfet who has a broad mandate to negotiate with the regions, the latter being designated as the "pilot" level of government for policies relating to territorial economic development. That said, some critics see such arrangements as being more an instrument of State devolution than as imparting any real impetus in partnership terms.

In Germany, the programming system of rural development comes from a joint decision process where the central level (Bund, Federal State) and regions (Länder) agree on a common framework for the Regional Plans of Rural Development. A joint committee (the Federal-Regional Planning Committee, PLANAK), including representatives from the Bund and regions, defines the Pluriannual Plan (GAK) according to the general framework. The Pluriannual Plan defines not only general strategies but also specific interventions that are considered as priorities at the national level. Each Länder, in designing the Regional Plan of Rural Development, includes priorities established by the GAK as well as measures chosen independently from it. All measures are co-financed by the European Commission, the Federal State and regions. Rules of cofinancing are established within the Pluriannual Plan. The entire programming process assures that decentralising rural policy is consistent with establishing more general strategies and priorities.

10. *The originality of such arrangements, that introduce into the traditional hierarchical relations some innovative form of organisation based on negotiation and learning processes, lies in the "sub" level not being looked upon as the mere recipient of a mandate.* On the contrary, it is made responsible by virtue of its participation in decision-making and also in the implementation of the policies that it decides. These arrangements require a high level of participation, effective knowledge sharing and competence on the part of local representatives. To limit "moral hazard risks" that this type of principal-agent relation involves, national or supra-national authorities draw up contracts and establish mechanisms to monitor and evaluate the effectiveness of multi-tier co-ordination and co-operation and the efficacy of the resulting policies. Traditional evaluation mechanisms include reporting, programme review, and cost-benefit analysis. The evaluation has to be a function of the objectives set in the original contracts. Targets and performance indicators (both quantitative and qualitative) should thus be established in a way that allows the effectiveness of local governments' actions to be judged with fairness and homogenous standards.

11. Within vertical relations between the supra-national and local levels an increasingly important role is played by the 'intermediate level'. In the more decentralised countries (such as Germany, Italy, and some autonomous communities in Spain), regional authorities have been assuming a lead role in:

- programme design and implementation;
- negotiating competences and resources with supra-regional institutions (EU and State);
- allocating resources among local communities;
- monitoring, evaluating and control of local projects.

12. As a result of a reinforced intermediate institutional level, the role of state and central government bodies shifts its focus towards:

- establishing a general framework of rules for rural policies;
- defining national strategies and priorities;
- allocating resources among regions and other intermediate bodies;
- evaluating consistency between regional and national programmes;
- establishing a system of monitoring and evaluation of regional programmes;
- establishing a system of penalties and rewards in order to stimulate “virtuous competition” among regions and other intermediate bodies.

Key issues for discussion:

- Establishing Multi-level Co-operation Mechanisms and Rules. To what extent should local actors be involved in the design and implementation of rural development policies? What are the advantages of allocating responsibilities at sub-national levels? What models may allow for an efficient and effective division of responsibilities among the various tiers of government (national, regional and local)? Should they be adapted according to the different local contexts? What mechanisms are in place, or should be envisaged, to secure consistency between subnational rural policies and overall national policy objectives? To what extent negotiation may imply that the central government ‘sacrifices’ some of the theoretical coherence of its strategy to make it acceptable to a wide set of actors? And which advantages should be recognised in designing and setting up institutional arrangements that reinforce the role of sub-regional actors? Place-based policies are strongly ‘knowledge-based’ and such knowledge is held by several different public and private actors. How can the central government promote knowledge sharing and encourage truthful revelation of needs and costs in a context of asymmetric information? How can the ‘political credit’ of joint investments be shared by different levels of government, especially when belonging to different political parties?
- Financing place-based policies for rural development. Rural municipalities often face difficulties devoting sufficient resources to projects linking several municipalities. National funding (often associated with supra-national and/or regional financing) covers the major share of projects implemented in rural areas and is a key element to consolidate local partnerships. In what form should financial resources be provided to rural development programmes? What kind of flexibility in allocating funds should be given to sub-national bodies if a national strategy has to be pursued in rural development? Is there evidence that earmarked grants have led to poor cost-efficiency and had adverse distributional consequences in rural areas? Has there been a trend to reform the design of earmarked grants (*e.g.* by giving sub-national governments more flexibility as to how to reach the strategic objectives) by merging earmarked grants which are too narrowly defined and/or by shifting towards a more outcome-oriented approach? What kind of equity-efficiency trade-offs should be considered when defining transfers to rural areas?
- Monitoring and evaluation. What role and importance are currently attributed to these crucial functions in rural policy implementation? Which entity should be entrusted with the responsibility of accomplishing these tasks? To what extent should these functions be internalised within authorities responsible for the programmes? What should be the role

of local government in this process? Multi-level arrangements should pursue two objectives: the effectiveness of the tasks to be accomplished, and effective co-operation in terms of the networks set up. Considering this, what indicators should be used to monitor a project's progress and performance? Which kind of consequences should be drawn from the results, particularly if there has been failure? When a project has been successful, how should non-local funding be phased out? How are contractual practices measured in relation to national coherence?

- Reward and sanction mechanisms. What kind of incentives can be used in multi-level contractual agreements? What are the most appropriate methods to guarantee that the contracts will be respected? What are the most effective ways of penalising non-compliance? How are sanctions and bonuses built into transfers from the central government to local partners? What are the most effective incentives to achieve public policy objectives?
- Administrative capacity and technical assistance. What mechanisms foster local administrative capacity? What kind of technical assistance should be provided at the different levels of government? In which phase of the programming and implementation process should technical assistance be considered as a critical policy support? How can networks of evaluation and technical assistance units be established? To what extent may ICTs provide innovative solutions to supply training and technical assistance, particularly in remote rural areas?

Part II – Issues related with Upper Horizontal Co-ordination

13. *Central governments moving away from a sectoral approach to rural areas face the issue of how to organise their policy action to embrace an integrated approach.* Co-ordination is needed to encourage the various institutional and managerial systems which formulate and implement rural policy to work together. Consistency is also requested to ensure that individual policies are not contradictory, and that they converge in a coherent strategy. This implies a strong political will to overcome sectoral tendencies and an overall clarification of roles and responsibilities of different Ministry(s) or Agency(s) in the field of rural development.

14. *Various options are available ranging from a clear-cut separation of responsibilities to more flexible forms of inter-ministerial co-ordination.* The first solution may imply the creation or reform of a Ministry or Agency with enlarged capacities and explicit 'jurisdiction' over rural development issues. National and central authorities in the UK and Germany represent examples of institutional innovation in this field. In the UK, the same central authority, DEFRA, embodies wider responsibilities over a broader set of areas including the environment, food and rural affairs. In Germany the Ministry of Agriculture includes competences upon food and consumers' health. In other countries, responsibilities over agriculture, environment, food and consumers' health are distributed among several national administrative bodies, resulting in a fragmentation of these functions and frequent conflicts in decision-making processes and resources distribution. There are some positive implications in the concentration of different responsibilities within the same authority: a more open coherent view for rural areas, the concentration of technical and administrative skills and the possibility for a more integrated programming approach.

15. When such functions cannot be identified in one institutional authority, a more flexible approach can involve upper-horizontal partnerships built around inter-departmental and inter-ministerial working groups or committees. In Mexico for example, the implementation of the Microregions strategy involves

the co-ordination of more than 60 different sectoral programmes belonging to 16 different ministries addressing rural areas. Through the *Principles for Inter-ministerial Co-operation and Co-ordination* Mexico has opted for a co-coordinative agreement among ministries to introduce a place-based approach to rural development (see Box 2).

Box 2. Inter-ministerial co-ordination for rural development: the case of Mexico

Mexico has introduced a set of co-coordinative agreements among ministries to introduce a place-based approach to rural development. The chief of the executive, using his "poder de convocatoria", influences the co-ordination and co-operation at the Federal level in the implementation of the Microregions Strategy for rural development. Political co-ordination among 16 ministries is enforced through the Inter-sectoral Committee for Micro-regions, which meets twice a year with the participation of the Ministers and is chaired by the Chief of the Executive. At this level, the guidelines of the strategy are discussed and agreed upon. Co-ordination at the federal level is complemented by the role of the pertinent Vice-Ministers that meet at least four times a year in a Normative Working Group to agree upon the projects to be approved. The agenda of the meeting is rotated every six months among the Vice-Ministers. A Technical Committee and an Operative Working Group, where the Director Generals in charge of the strategy meet every month, complements the Normative Working Group. The overall operative co-ordination of the process and of the strategy is the responsibility of a General Co-ordinator within SEDESOL's Vice-Ministry of Social and Human Development.

16. *A similar approach can be found in other countries for types of public interventions requiring the financial contributions of several administrations or setting objectives that cannot be pursued without the effort of different public actors.* In Italy, for example, the frequent and increasing scarcity of water resources in southern rural regions calls for a stronger co-ordination of public interventions from several national and regional administrations. To this aim, a special inter-ministerial committee has been set up in order to improve horizontal co-ordination among several Ministries including Agricultural Policies, Environment, Infrastructures, Economy and Treasury, Health and Social Security. Other interesting institutional solutions come from Italy's "negotiating planning". This definition refers to several forms of public interventions implemented in recent years involving national, regional and local actors, like the "Institutional Agreements" that not only incorporate horizontal co-operation mechanisms (between different national administrations), but also innovative forms of vertical co-ordination (see Box 3).

17. These types of governance innovations present some difficulties, especially in their starting phase. Co-ordination requires that new co-operative games are started among different actors and that complex technical and political agreements are established, fixing resources and setting clear objectives before policy implementation starts.

Box 3. Inter-ministerial co-ordination for rural development: the case of Institutional Agreements in Italy

Institutional Agreements (Accordi Istituzionali) are set up by national administrations (several Ministries), Regions and Autonomous Provinces to implement multi-annual plans for common and interrelated interventions. Such Agreements are formally approved and signed by all administrations involved in the planning process. They establish main priorities, the necessary steps and procedures, the funding sources, the modalities of monitoring and evaluation. Institutional Agreements are implemented under the form of several Programming Agreements, in which a series of operational issues are specified: projects and activities, division of responsibilities among several subjects, inter-departmental meetings and agreements necessary for the implementation of projects, procedures to solve possible conflicts among participants, financial plans and funding sources, responsibilities and procedures of monitoring and evaluation. Institutional Agreements and Programming Agreements are co-funded by all administrative bodies involved (Ministries and Regions).

Key Issues for discussion

- Who should do what? Who should participate in the design of place-based policies for rural development for rural development? What Ministry(s) or Agency(s)? What kind of functions and competencies need to be pooled together? Who should stimulate and co-ordinate formal agreements among several sectors of public administration?
- What mechanisms are needed to co-ordinate different Ministries/Agencies? What are the *pros* and *cons* of a *clear-cut separation of responsibilities* as opposed to a more *flexible approach*? *What kind of horizontal partnerships* can be used to foster inter-departmental and inter-ministerial working groups or committees?
- What kind of incentives and reward mechanisms can be set up to stimulate horizontal partnerships among several Ministries or Agencies? Are integrated funds (as in the experience of EU Regional Policy) an effective mechanism that can be proposed in non-EU countries?
- What are the most frequent obstacles to co-ordination and co-operation between different administrative bodies? What are the most challenging phases in the processes of inter-ministerial and inter-departmental co-ordination? Could technical assistance aimed at supporting public administration be helpful in such phases?

Part III – The role of local actors and lower horizontal relationships

18. *Countries are increasingly relying on bottom up approaches that involve associations of local actors.* The conventional justification for development of local co-operation mechanisms in rural areas is the need to achieve economies of scale and to account for territorial spillovers. Thus, small municipal authorities may seek to get closer in order to attain a more efficient size for the provision of public services. This, for example, is the main reason given for municipal mergers in Denmark, Canada, Finland, Korea and Japan¹. Moreover, as administrative boundaries do not necessarily coincide with areas that are relevant economically, municipalities can co-operate with the aim of playing a more effective role in local economic development through exchanging information, sharing responsibility for certain investments and programmes (such as territorial labelling and marketing schemes to differentiate themselves from other areas) and dealing with territorial externalities. When applied to rural areas, the logic that emphasises the potential linked with increased local co-operation runs opposite to the traditional approach focusing on mechanisms that compensate for comparative disadvantages of lagging rural regions.

19. *This logic is at the base of different local partnerships that have been developed in recent years as part of a new governance of rural development policy.* These have evolved differently depending on the institutional and administrative characteristics of every country. One way to conceptualise the new vision of bottom-up rural development is what is called in many countries a micro-region, that is to say an association of local authorities aiming to achieve common development goals. Another example is that of the UK's Local Strategic Partnerships (LSPs). These represent new and evolving forms of local governance pulling together the local authorities, the business sector and the local voluntary and community sector. The aim, particularly in more rural LSP areas where there is little separate regeneration funding available, is to get all the partners to support a shared 'Community Strategy' for the area and to incorporate their existing budgets towards meeting the objectives within the agreed strategy. In the case of

¹ Economic theory suggests that the per capita cost of providing a level of public services follows a U-shaped curve, such that the cost of service provision declines with the size of population up to an « optimal » level before increasing beyond that point. Applying this theory to Japan, Hayashi determined that the optimal municipality size to obtain the lowest unit costs of public services is approximately 120 000 (based on 1990 figures). Using this figure as the benchmark, 80 per cent of Japan's municipalities are under-populated and are not efficiently providing public services (Hayashi, 2002).

the EU LEADER initiative, local co-operation for rural development has taken the form of Local Action Groups (LAGs). This type of local partnership is characterised by the participation of different actors, including municipalities, sub-regional government institutions and development agencies. The participation of private actors (private firms, co-operatives, associations, non-profit organisations, farm organisations, other categories' organisations, etc.) is also key (see Box 4). Other forms of innovative local partnerships have been set up in the US and in various European countries within the EU programmes funding the "employment territorial pacts".

20. These experiences present some common features and underlying principles. *First*, a target area is defined based on administrative and/or functional criteria. The size of the target area differs according to the type of programme and, sometimes, to the amount of public and private investments available. The definition of the target area may follow two different approaches: a) a bottom-up approach where the area is defined on the basis of the project strategy and the autonomous decision of the partners promoting the project; or b) a top-down approach where eligible areas are chosen *ex ante* by national or regional authorities. In the latter case, the choice depends on territorial priorities established by these authorities. *Second*, local public and private actors join a partnership and pool knowledge and resources. The leadership in these partnerships is not the exclusive competence of elected authorities but can be effectively carried out by private actors or other elements of the civil society. The role of the private component is often key to guarantee the necessary financial support to the project. The public component of the partnership contributes with political support to local initiatives and provides necessary administrative competencies and skills. The interaction among public and private actors generates the legitimisation to the project within the target area. *Third*, a rural development strategy is developed around a shared 'vision' of the territory and a set of common objectives. This is frequently the result of a complex process, where different and often conflicting views on the most appropriate strategies for the whole territory converge. The role of the *mediator* of such conflicting views is ideally assumed by a local "leader" who is capable of leading the strategy and project design.

Box 4. Fostering co-ordination at the local level: some examples

In France, reforms in the 1990s, seeking to regroup small towns and areas ("Communautés de Communes", "Communautés de Villes") with new mechanisms based on the principle of transferring competencies to a supra-municipal body disposing of own fiscal powers, have led to the creation of more than 2000 such entities known as EPCIs ("Etablissements Publics de Coopération Intercommunale"). With an average membership of 12 municipalities, these bodies carry out spatial planning, economic development and infrastructure investment. In 1995, an innovative approach to municipal co-operation was taken by opening up this possibility to voluntary groupings of municipalities not necessarily belonging to the same "département" or "canton", thus transcending the traditional administrative boundaries around which co-operation was hitherto organised. The law of 4 February 1995 legally recognised the notion of "Pays", a small area characterised by "geographical, economic, cultural or social cohesion". One hundred such groupings were created over five years, with most of these receiving national funding on a competitive basis considering the coherence and merits of their local development strategy and projects. The financing of the operational expenses of the "Pays" is ensured by the member municipalities, with investment for projects receiving multi-annual support within the framework of the CPER ("Contrat de Plan Etat-Région"). Around 300 "Pays" exist today or are in the course of creation.

In Italy, various multi-level contractual instruments were introduced from 1998 within "negotiated planning". Recently, the need to adapt the "legal" geographical boundaries of districts (i.e. as identified by administrations) to the economic scale of development of the territories has prompted other important institutional innovations. Today, the "multi-sectoral districts" of Emilia-Romagna or the "meta-districts" of Lombardy can be the contractual partners of the regions. A logic very close to the 'old' Territorial Pacts (*Patti Territoriali*) is that followed by "Integrated Territorial Projects" (ITPs) as a modality of implementation of Structural Funds. ITPs were introduced for Objective 1 Programmes and were then extended to the other types of regions. ITPs are a combination of different measures deriving from the Structural Funds on the basis of local strategies designed by local partnerships. The selection of projects is usually made by regions on the basis of criteria agreed upon with local partnerships.

In Europe, the LEADER (Liasons entre actions de development rural) initiative, introduced in 1988, is based on local partnerships (private and public) designing a development project for a target area whose size is generally limited by administrative boundaries (not more than 100 000 inhabitants). LEADER has been implemented three times (LEADER I 1989-93; LEADER II 1994-99; LEADER+ 2000-2006). The number of projects approved in Europe was very limited in LEADER I (experimental phase) but increased to almost 1000 across 15 EU countries in LEADER II. In the last phase the number was lowered so that a higher concentration of better quality initiatives could be achieved. The main features of the LEADER approach are the following ones: a) a bottom-up approach; b) integrated actions; c) a multi-sectoral vision; d) co-operation (local and transnational); and e) networking. A similar approach has been introduced in Spain by the PRODER scheme (Operational Programme for the Development and Diversification of Rural Areas). PRODER was introduced as part of the 1994-99 programming of Structural Funds for Objective 1 to complement the LEADER approach and extend it to areas that were excluded by it.

In the UK, the National Strategy for Neighbourhood Renewal Action Plan (January 2001) and the more detailed LSP Guidance (March 2001) set out the Government's initial model of what LSPs should be and what they should do. This guidance reflected a cross-government commitment to LSPs by all departments and agencies. The guidance made it clear that a LSP is a non-statutory, multi-agency body, which matches local authority boundaries, and aims to bring together at a local level the different parts of the public, private, community and voluntary sectors. LSPs are intended to operate at a level which enables strategic decisions to be taken while still being local bodies. Local partners working through a LSP take many of the major decisions about priorities and funding for their local areas.

In Germany, the LOCALE scheme was set up to implement the Structural Funds in Saxony-Anhalt for the period 2000-2006. This consists of two strategic elements: a) support for integrated, territorial development approaches below the federal State level; b) increased participation of local stakeholders in the implementation of the Operational Programme. LOCALE was strongly influenced by positive experiences with LEADER, the Territorial Employment Pacts and village renewal schemes. To qualify for LOCALE, applicants must devise a Territorial Development Plan for a "functional, traditional and /or agriculturally cohesive rural area below the district level". The Plan must include SWOT analysis, budget and time schedules, the development objectives for the area, monitoring methods and details of local stakeholders' participation. The Plan is then assessed by a regional decision-making body, including representatives of the federal State, and may be submitted to the organisations administering the funds (Ministry of Agriculture, Ministry of Environment and Ministry of Industry and Commerce).

In the US, several examples of innovative local governance in rural areas have emerged in recent years. In the state of Minnesota, the creation of the Northeast Minnesota Higher Education District (NHED) in 1999 was the catalyst that spurred innovations in other key institutions in the region. After seeing the benefits of one "super-regional" umbrella for community colleges, governments and private actors across the region have begun to cooperate more often and more extensively. Today the regional 'thinking' has acquired a new identity and *True North* has been established as a framework for local partnerships. Other examples innovations in rural governance have seen as catalysts the Office of Rural and Community Affairs in Texas, the Manufacturing Alliance in northeast Oklahoma and the Discovery Park at Purdue University.

Key issues for discussion

- Defining the target areas. What are the criteria to define target areas of place-based policies for rural development? How credible is the notion of determining the optimal size of a municipality? If this is the case, what are the major determinants to be taken into account (economies of scale, population size, etc.)? What methods should be used to analyse the target territory (forecasts, system dynamics models, geo-referenced maps)? What roles should the scientific community and the market play in producing feasibility studies? How does one handle the tension between striving for economic efficiency by optimising size and the imperatives of local identity (the survival of Parishes in England or Portugal, for example, or Microregions in Mexico)? Do the mechanisms for forming voluntary groups for economic purposes, such as "*pays*" in France or "micro-regions" in the Czech Republic, help to deal with this problem?
- Local co-operation frameworks. How to foster local co-operation? What are the available frameworks to build and manage local partnerships? What kind of incentives can start a 'co-operative game'? Is there a critical actor whose involvement in the partnership can contribute to the success of local development projects? To what extent is inter-municipal co-operation more

efficient than maintaining competition between neighbouring authorities? How can transparency be insured and opportunistic behaviours avoided? To what extent may public-private partnerships provide a mechanism to help the central government monitor and foster the efficiency of rural development policy? What are the “pros” and “cons” of appointing a local person to act as “pilot” spokesman in contractual relations? How can networks be promoted to disseminate good practices? What role should be played by the private actors (small and large businesses), the financial sector and the civil society?

- Designing a rural development strategy. What processes can lead to the design of an effective local strategy for rural development? What kind of administrative and planning mechanisms are needed at the local level? What kinds of relationships enhance skills development (inter-municipal relations, relations with private sector partners for access to knowledge, contacts with higher levels of government)? How does networking enable the formation of partnerships among areas located in different regions or countries? How can international co-operation projects and exchanges of people and best practices be promoted?

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