Chapter 1

The Service Delivery Challenge in Rural Areas

This chapter provides an overview of the challenges in rural areas and outlines some broad policy approaches that are contributing to improving rural service delivery. It is arranged as follows: First, a context is set that includes all services, not just public services, and not just services that are provided by governments; and the point is made that while rural and urban citizens have common aspirations, the differences in their geography lead to different service delivery issues. Second, there is a discussion of the problems associated with delivering these services in rural regions. Third, a close look is taken at the evolving role of services in OECD countries and the opportunities for improved service provision. Finally, the chapter concludes by illustrating some new, and not so new, approaches visible in OECD countries that have the potential to improve service delivery in rural regions.

Introduction

Historically urban and rural territories and populations were seen as distinct, both by governments and by the people who lived in the two settings. Rural people largely accepted the fact that they had a different set of occupational choices, different life styles and different possibilities for obtaining goods and services. In general there was limited interaction between the urban and rural populace because people did not travel much and because the available media in rural areas tended to describe mainly local issues. In this environment it was possible to think of a rural service delivery challenge that was largely unrelated to what was going on in urban areas. Moreover rural areas were relatively homogeneous and self-contained which further reduced the problem of delivering services.

But now mass media link rural and urban societies and have fostered a common definition of a desirable life, which includes access to a broad range of services. Thus the separation between urban and rural has largely disappeared. A side-effect of the integration process is an awareness of the full set of services available in urban settings. This is in contrast to the rural situation of the past, where the range of services was more limited, both in terms of the mix of services and the number of providers of any given service. Moreover in many rural regions the comparison between urban and rural service levels is further complicated by the fact that the quantity and quality of locally available rural services is declining.

In the last fifty years the service sector has moved to a dominant role in developed economies. The service sector, in aggregate, now dominates total employment and value-added in OECD countries, accounting for more than 70% of these two measures (OECD, 2005). As shown in Table 1.1 the role of services continues to increase in importance. While services play a slightly smaller role in rural regions than in urban, they are still the dominant component of the economy. This makes it clear that a vibrant service sector is both vital for a prosperous local economy and a crucial mechanism for ensuring that the needs of individual citizens are met.

This has led to a growing interest in ensuring that the service sector contributes fully to economic growth within the regions of the OECD countries, both in terms of its direct effect and as a foundation, or input, for the production of the primary and secondary sectors. The concern applies to rural areas where there are particular challenges in service delivery.

Table 1.1. **Economy > sectoral contributions to gross value added**

	Agriculture % of Value Added		Industry % of Value Added		Services % of Value Added	
	2007	1997	2007	1997	2007	1997
Australia	2.6	3.4	29.1	27.7	68.3	68.9
Austria	1.8	2.3	30.6	30.9	67.7	66.8
Belgium	0.8	1.6	23.9	28.4	75.3	70.1
Canada	2.2	2.5	31.7	30.9	66.1	66.6
Czech Republic	2.4	4.2	38.9	40.6	58.7	55.2
Denmark	1.2	3.2	26.5	25.6	72.4	71.2
Finland	3.3	4.1	32.6	32.3	64.2	63.7
France	2.2	3.2	20.4	23.5	77.4	73.3
Germany	0.9	1.3	30.4	31.0	68.7	67.7
Greece	3.8	7.7	20.4	20.0	75.9	72.2
Hungary	4.0	7.4	29.7	31.8	66.3	61.1
Iceland	5.8	9.8	23.7	28.9	70.5	61.3
Ireland	1.7	5.2	33.6	38.6	64.8	56.2
Italy	2.1	3.2	27.5	29.5	70.4	67.3
Japan	1.4	1.7	28.5	32.8	70.1	65.5
Korea	2.9	5.2	37.1	37.9	60.0	56.2
Luxembourg	0.4	0.8	15.6	20.9	84.0	78.2
Mexico	3.3	5.5	35.8	35.2	60.9	59.2
Netherlands	2.0	3.5	24.4	25.8	73.6	70.7
New Zealand	6.2	6.8	24.6	25.5	69.2	67.6
Norway	1.4	2.4	42.7	37.1	55.9	60.4
Poland	4.3	6.6	31.8	33.4	63.8	60.0
Portugal	2.5	4.6	24.5	29.1	73.0	66.3
Slovak Republic	3.6	5.3	39.3	35.2	57.2	59.5
Spain	2.9	5.0	29.8	29.3	67.4	65.7
Sweden	1.4	2.5	28.3	29.1	70.3	68.4
Switzerland	1.2	1.8	28.0	28.5	70.8	69.8
Turkey	8.7	10.8	27.8	37.2	63.5	52.2
United Kingdom	0.7	1.4	23.0	29.9	76.3	68.7
United States	1.3	1.7	21.8	25.5	76.9	72.8

Source: OECD in Figures 2009.

OECD governments largely recognise similarities in rural and urban economic structure, but have been less comfortable in recognising the common aspirations of citizens. While OECD member countries continue to view their rural and urban territories as distinct and separable for most public policy purposes, the reality is that citizens in both types of territory are being drawn closer together in terms of common aspirations and life style. Governments implicitly recognise this when they say there is no real difference between urban and rural anymore. But if there is no real difference, should there be a difference in access to services?

It is possible to identify systematic differences in services, availability and quality, between urban and rural territories. When statistics are collected and compared using different types of territory, it is usually possible to see if there are differences in the level of service available across places. In general we find fewer and weaker services in rural than in urban regions. But these differences are only evidence of a problem if equality of service provision and access is the criterion of analysis. If another criterion, such as satisfaction with the mix of services is used, then differences could even be desirable. However, for most people and most governments equality is still the standard.

In this chapter a broader discussion of the underlying challenges of service delivery in rural areas is provided along with some strategies in OECD countries that are having a positive impact on rural service delivery. While the main focus is on public services – that is, those services where government plays a role in provision, the discussion also includes those services typically provided by private firms on a user pay basis and services provided collectively within a community by volunteers.

1.1. Types of services

There is general agreement that the economies of the OECD countries are becoming more oriented to the provision of services. However there is great variability in the various types of services that are found in different regions, especially in rural areas. Services can be categorised in a number of ways including, the type of entity providing them, the type of user, the nature of the services provided, etc. From a policy perspective a useful starting point is the broad nature of the service. Three types of service can be identified. They are private services, public services and collective or joint services.

Private services

Many services are provided by private firms on a fee for service basis. These services are provided where the combination of price, volume of business and cost of provision allows a sufficient profit for the firm to survive. Characteristics of these services are similar to those for private goods in that the services have to be excludable and rival in use. For example, farm appraisal services satisfy these conditions. An appraiser provides a statement showing the estimated value of a piece of property to an individual farm owner, but that statement has minimal value to other farm owners. Similarly, a private snow plough operator clears the private drive of his or her client but provides no benefit to those not prepared to pay for the service. While OECD countries mainly rely on market forces to deliver goods and services, there are important roles that government can play to support markets (Box 1.1).

Box 1.1. **Implementation of market mechanisms for the provision of services**

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

- Private ownership and contracting. This dimension deals with public-private ownership and different forms of contracting. Examples: tendering, out-sourcing, public-private partnerships.
- User choice and competition. This dimension deals with the regulatory environment for public service providers, the extent to which consumers are allowed to choose among providers and to what extent providers have access to the market. Examples: user choice, market access and competition among providers.
- Price signals and funding. This dimension deals with the principles of funding public service provision; the extent to which public funding reflects actual service utilisation and/or service performance. Examples, user charges and fees; vouchers and other related funding.

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

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

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

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

Private services are made available when the service provider can operate at a profit. This means that there has to be enough demand by consumers to cover the cost of providing the service. In rural areas the private sector is less able to provide services that are readily available in urban settings. This reflects less demand as there are few people spread out over a large territory. This results in high transportation costs that have to be born either by the customers, which reduces their demand, or by the firm, which reduces its profits.

Government is increasingly recognising that it can play a role in facilitating the provision of services. While most OECD governments have longstanding programs that support the primary sector and manufacturing in rural areas, there is a growing recognition that the for-profit service sector can benefit from various types of assistance. In many cases this assistance takes the form of encouragement to commence operations (Box 1.2), especially where there are weak entrepreneurial foundations or market imperfections such as limits on finance or local workforce skills.

In addition, to the extent that household incomes are lower on average in rural than in urban areas, there is less demand for many services that might be considered luxuries and not necessities. In this situation the local demand for the service may be too small to allow it to be provided profitably. Where services are either being segmented into more specialised providers, such as, automobile repair shops that specialise in only one type of car, or services that are subject to scale or scope economies, the low level of rural demand may preclude profitable provision.

An alternative to the for-profit firm that is found in rural areas of some countries is either a co-operative or a social enterprise. Because the owners of a co-operative firm are its customers there is no motive to generate a profit. This allows the firm to operate in an environment where profits are too low to attract an investor-owned firm. Co-operatives are commonly used to produce or market goods, but can also provide services, such as, health care, assisted living facilities, provision of artistic and cultural experiences, or credit unions, Social enterprises may be organised as co-operatives or as another form of business. In either case some other motive than profit maximisation guides their actions and, as a result, they too may be prepared to provide goods or services in places that for-profit firms reject.

Box 1.2. **Enterprise development in rural Ireland and rural Spain**

Western Development Commission, Ireland

The Western Region is one of the poorest areas in Ireland and suffered steep population loss for a number of years. Since rural entrepreneurs in the Western Region had difficulty accessing investment capital. the Western Development Commission (WDC)—a regional governance body—established the Western Investment Fund (WIF) to fill this equity gap by providing seed and venture capital. To this end, WDC provides the money for working capital, funding is targeted to help the initiative develop in accordance with the business plan. The agency works with the business to market products and often joins the company as a Non Executive Director. Since 2001 the fund has invested over EUR 27 million in 75 SMEs and social enterprises. Of the group, 72% are enterprises based outside major urban centres and the projects have created or sustained over 1 500 jobs, many of them at the graduate level. Notably, several of the companies have managed to secure strategic alliances with key global companies such as Boston Scientific, Johnson & Johnson, Bombardier and Hewlett Packard. The agency also seeks to attract more private sector involvement in the regions and increase the number of enterprises that impact quality of life. WDC also supports social enterprise's which typically struggle to access funding beyond public sector grants. As a result, the number of social enterprises has increased and due to the involvement of the WDC, social enterprises have managed to increase their ability to procure private loans.

***Cajas de Ahorro* Saving Banks, Spain**

Penetration of financial services in localities of low income per capita and population in Spain is much higher than that of comparable European countries such as France or Italy. This is because 26% of a wide network of saving banks (*Cajas de Ahorro*) are in municipalities with less than 10 000 inhabitants. A portion that out numbers the proportion of population living in these municipalities 22%, Spanish saving banks special in micro-credit to promote self-employment and creation of micro-enterprises. The clients are typically women entrepreneurs, (often migrants) 35 years or older. As of 2006, they have participated in approximately 140 017 "social projects" with an investment of EUR 1 338.5 Million. In addition to financial support, the banks provide: special financing for social housing, land ownership; support local development through mutual guarantees, enterprise co-operation and programmes for local initiatives and grant venture capital. They also enter into specific collaborations such as special agreements, CAP subsidies administration insurance and travel services to migrants. Through creative partnerships with programme like EOI's (*Escuela de Organización Industrial*) CRECE initiative which provides training and advice to young would-be entrepreneurs and support to existing small businesses, they have advised 24 770 participants in training and managed 20 000 projects of business creation or consolidation of enterprises.

Sources: Buckley, Gillian (2008), Session V, OECD Rural Development Conference, *Innovative Service Delivery: Meeting the Challenges of Rural Regions*, Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*; Moraleda, F. (2007), Session III, OECD Rural Development Conference, *Innovative Rural Regions: The Role of Human Capital and Technology*, Cáceres, Spain, 21-23 March 2007, *www.oecd.org/gov/regionaldevelopment/caceres*.

Public services

Other services are provided directly by the government or indirectly – where the government is not the direct provider but still plays a role in their provision through regulation or a financial contribution. The common attribute of all public services, irrespective of what entity provides them, is the presence of spillover or externality effects of some kind that lead to markets undersupplying the socially optimal quantity of the service.

Public services include all services where the government has a significant influence, not just those provided by government. The most obvious public services are those directly provided by some level of government, such as police protection or building inspection. Governments engage in public service delivery for a number of reasons, all of which reflect an under provision by market forces or voluntary organisations. However, public services can be provided by private firms, for example solid waste collection and disposal, or by voluntary organisations, for example a community volunteer fire brigade. In these cases while the government does not provide the service it is involved in the process, perhaps by providing funds, establishing regulations or some other means.

The first rationale for public sector involvement is that the service has public good attributes. For public goods the usual attributes of rivalry in consumption and the ability to exclude others do not apply. In this situation there are clear spillover benefits in the form of zero or low marginal cost from additional users of the service that are combined with difficulty in excluding other users. For example, it would be difficult to restrict police protection to the subset of a community who have paid for the service.

A second reason for government involvement is that the service is a merit good. With merit goods an individual is the direct beneficiary of the service and there is no possibility for an additional person to consume the same service event, but there are indirect benefits to society beyond those going to the individual. Consider immunisation against infectious diseases. An individual may choose to be immunised primarily out of a concern about their own risk of infection, but in doing so they reduce the chances that others will be exposed to infection, so there is an incentive for society to encourage immunisation on a general basis.

The third reason for government involvement in public services is the case of network industries. In a network industry expansion of the availability of the good or service provides incremental benefits to all users, not just those being added to the network. For example, expanding the road network provides alternative routes and the opportunity to connect additional places that can benefit others than the people newly connected. Similarly, broader diffusion of Internet access provides all users with additional contact points.

Collective or joint services

Finally, there are services that groups of individuals agree to provide to themselves, or to others, on a purely voluntary basis. Voluntary or faith based organisations provide important services in some regions. In almost all regions there are voluntary sports organisations that provide training and competitions. In neighbourhoods and small communities groups emerge to plant flowers in road medians or weed cemeteries. In some countries there is modest assistance for these groups in the form of small grants or tax benefits for those who volunteer or contribute, but these benefits are too small to motivate the behaviour of the volunteers.

Services provided collectively by volunteers are an important category of services, especially in rural areas. The motivation for collective action is not profit, but to ensure that the service is available. In this sense voluntary organisation resembles not-for-profit firms, but the distinguishing feature is a different organisational structure. The organisation may be spontaneous in the sense that there is no formal structure and it may exist intermittently. A group of neighbours who meet one weekend to maintain a nearby park meets this condition.

Voluntary services exist in both urban and rural regions, but they play a larger role in rural places. Both private sector services and public services are more costly to provide in rural areas and consequently there is less provision, due to lower profits or too high cost, in many small and remote areas. This leaves these places with the choice of collective action to provide the service or going without. Inevitably on a small number of services can be provided in these places because of the scarcity of time available to volunteers and the small number of volunteers. Moreover there is no reason to believe that the services that are provided are the ones that are most needed. Instead they are the ones that the volunteers are most capable of providing.

How to classify services and service providers

Classifying services

Table 1.2 sets out a framework for thinking about different types of services in terms of the interaction between how they are supplied and the factors influencing demand. It is the full set of services, including those that go beyond those where there is a public interest, that influence the development potential of a region or community. In practice, private and voluntary may account for the majority of available services, but they are not easily influenced by government policy. Because the main audience for the OECD is government policy makers, the primary focus of the balance of the paper is on public services.

Table 1.2. **Classification of rural services in supply and demand considerations**

	Demand	Supply			Gaps between supply and demand emerge…
		Public sector	Private sector	Not-for-profit	
Distance	Depends on the type of service, frequency of use, and availability of transport (public and private). In some cases, proximity is indispensable for meeting demand; in others a certain distance to be travelled becomes an acceptable condition.	Decentralised in the past. The service now tends to follow a profitability and concentration approach.	Spatial concentration of services aimed at the achievement of sufficient critical mass for an economic balance.	For certain services, voluntary resources and associations make it possible to maintain services at the local level.	When the service sought by the consumer is to be found at a distance beyond the acceptable limit for the consumer due to the cost, time travelling, or lack of access to adequate means of transport. In general, the geographical distribution of services does not respond to consumer expectations.
Adaptability	This category is linked to the trends of modern life. Demand should be interpreted with a view to identifying the relevant level of adaptability. *E.g.* Regularity of demand, demand in terms of timetables.	Rigidity of structures. Special nature of the service reproducing the urban model. Nevertheless, there is search for adaptability when the decision-making capacity is closer to the area.	Mobility of certain services (especially mobile traders and weekly markets; and occasionally mobile banks).	Greater adaptability, personalisation and consideration of particular demands.	If service provision is not capable of meeting the needs of the users in terms of the diversity of proposed services, modalities made available, timetables, rigidity in the design and use of the structure or a specialised approach (the only response to a scarcely populated area is the discontinuation of the service)
Quality	Established according to recognised standards and accepted by the community on the basis of comparisons with the outside world; it is also related to the human qualities of a service, such as the relationship between those concerned.	Search for a standard quality. New mechanisms for taking consumers' demands into account. Quality can remain low in monopolistic situations where there are no mechanisms through which consumers can exert pressure.	Adaptation to quality standards, but even more to diversification as a result of competition. Lack of involvement of users. The growing precariousness of job security with negative repercussions on the quality of services.	Extremely variable quality depending on the level of recognition, available resources, etc. More than the structure, quality depends on the level of personal involvement of those providing the service. Effort to involve suppliers and consumers.	When there is no adaptation to the content of the service, when the opinion of consumers is not taken into consideration and when a scattered demand makes it impossible to provide a service of acceptable quality.

Source: Adapted from Leader European Observatory.

Matching services to types of service provider

It is appealing to think that specific types of services should be provided by specific types of service providers. While certain types of services may be typically associated with one form of provision, there is often no compelling reason that only that particular type of provider can provide the service. We may implicitly assume that private firms should provide retail services, that the voluntary sector should manage local youth sport and recreation leagues, and that some level of government should be charged with providing security function. However, while it is certainly possible to show that specific services are typically provided by one type of agent, it is often possible to find countries or regions where another type of agent is used. For the three types of service identified in Table 1.3 it is relatively easy to find places where alternative types of providers are used.

Table 1.3. **Typology of services by degree of externality and type of provider**

	High Social Externality or Core Public Services	Moderate social Externality Services	Mostly Private or Low Externality Services
Government Sector	Emergency health care, primary education	Community Hall or Recreation Centre, Post Office	Bicycle licenses, Dog licenses
Private Sector	Electricity	Last remaining village shop or café, Newspaper	Dry Cleaner or Florist
Voluntary Organisation	Fire Department	Youth sport or recreation organisation	Book club or Bird watching club

Even if we categorise services into core services – those deemed essential for the viability of a community *i.e.* services associated with a very high level of social externality; services with still significant but lesser social externalities – those services that organisations or the private sector might under provide; and routine services – those that mainly benefit only the user; there is still the possibility that any of the three types of provider could be used, as is shown in Table 1.3. This opens the possibility that one approach to resolving certain types of problem in service delivery might be to use a different type of provider.

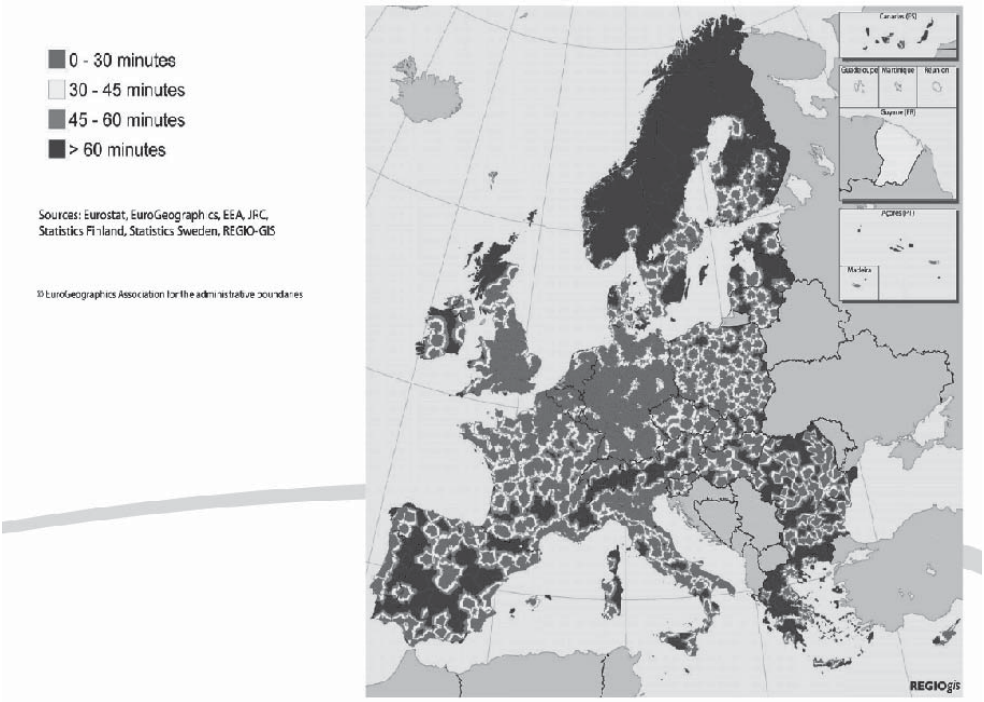
1.2. The rural service delivery problem

Although some urban residents do not have access to specific services, particularly if they are provided through the market on a user pay basis, most services are generally available to urban residents in all income classes. On the other hand, in many rural areas, especially the more remote, certain services are not available, or are available at considerably higher cost and/or lower quality than in urban locations. Although very few national governments explicitly guarantee that public services should be uniformly available across their territory, there remains a growing perception by portions of the public that spatial equality of access should be part of the statutory rights of citizens.

Access

Services are a part of the urban and rural dichotomy. Dijkstra and Poelman (2008) constructed a measure of remoteness, using a 50 000 inhabitants threshold to define cities, and 45 minute driving time threshold to consider a locality remote (Figure 1.1). They combined this measure of remoteness to the OECD regional classification into predominantly urban, intermediate and predominantly rural. The authors concluded that the distinction between rural regions close to a city and remote rural regions appear to be highly significant in most measures of welfare and growth. Remote rural regions are the only group showing negative population growth, the lower share of national GDP, lower GDP per capita, and lower sectoral productivity.

Figure 1.1. **Accessibility in European countries by road to cities with at least 50 000 inhabitants**



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

In rural areas access to public voluntary and private services is more difficult than is the case in urban locations. Much of the difference reflects inherent conditions in rural areas (Box 1.3). Asthana *et al.* (2003) identified the following characteristics of rural areas that impact the costs of service delivery in rural areas:

- *Economies of scale:* unit costs in small communities tend to be significantly higher than in large ones. Because of the need to maintain a critical mass, provision rates of services tend to show lower levels than would be tolerated in an urban setting.
- *Additional travel costs*: Greater distances imply increased travel for clients and workers and, for services taken to clients, there are additional transport costs, and thus pressures on budgets.

- *High level of unproductive time*: More time spent travelling results in higher levels of unproductive staff time, which may have also an impact on considerable differences in compliance of national standards. (*e.g.* Unproductive time and the resulting lower efficiency factor for rural service provision are most acutely felt with the emergency ambulance services).
- *Additional communication costs* and difficulties in networking
- *Poorer access to training, consultancy and other support services*. Training requirements in the more remote areas are inevitably more costly to fulfil, either because staff must travel to training centres or because training needs to be imported.

Box 1.3. **The limitations of transport infrastructure policies in increasing access to rural regions**

Transport infrastructure policies have been commonly used by governments as the main means to improve accessibility to remote peripheral areas and to promote economic development. Over the last few years, the European Union has devoted around 50 % of all the resources for the development of rural areas to transport infrastructure. Based on the evidence good infrastructural endowment is essential to achieve economic growth but the returns of additional investment will differ depending on the characteristics of the region. For example, regions that are well connected to national and international networks with a skilled population in place will benefit from additional investment in infrastructure and experience greater economic growth. On the contrary, in peripheral regions, greater new investments in infrastructure or greater investment in neighbouring regions often increase vulnerability to competition due to lagging human capital development. In addition, the premature exposure to competition increased rather than decreased the likelihood of experiencing negative effects such as skilled labour migration. For these reasons, a holistic investment strategy for rural regions should consider several factors like:

1. the real return on such investments;
2. the appropriate time to invest; and
3. how the investment fits within the wider framework of strategies and link with other investments.

Source: Rodriguez-Pose, Andrés (2008),), *Session* IV, OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions*, Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne.*

Distance, critical mass and density

While large places always have more capacity to provide both a broader set of services and a larger number of providers of the same service, there are other important factors that affect rural service delivery. The spatial distribution of the population is a geographic feature of rural areas that makes service delivery difficult. In addition, services are more challenging to produce in rural areas where local demand is limited because they cannot be stored and are difficult to export.

Compared to the production of goods, the service sector has additional complications. Most goods are storable, so the producer has the opportunity to maintain an inventory that can be used to meet customers' needs when demand is high. Conversely, when demand is low production can continue to take place in order to rebuild the inventory. This allows the enterprise to operate on a stable basis even if demand fluctuates. Services by contrast are not readily storable, which means that it is common to have either excess capacity or inadequate capacity if demand fluctuates significantly. Either situation leads to higher costs of production because of surges and drops in resource use. In addition, services tend to require some sort of direct contact between provider and supplier. This, in conjunction with the difficulty in storing, tends to limit any specific service provider to a particular geographic territory or market area. While some customers might be willing to travel long distances to deal with a particular service provider this is not the typical situation. As a result the enterprise may not be able to expand to a more efficient size because it has no way to increase its customer base.

Going beyond the obvious potential of larger places to support both a wider variety of services and a greater number of entities that provide any particular service, there are additional factors that contribute to the challenge of providing services in rural areas. While the majority of these challenges have always been present they have become more significant as pressure for a more equivalent level of services between rural and urban communities increased. One of the most important factors is a typically higher cost of providing services in rural regions that reflect the underlying geography. These spatial challenges have three central dimensions: distance, critical mass, and density (OECD, 1993). The challenges both make services more expensive to deliver, and more vital, if the full potential of rural areas is to be achieved.

1. *Distance is a defining concept of rurality.* Rural areas are far from major urban centres and this makes all forms of connectivity more expensive. Roads are longer and cost more to provide. Transport times are significant. Power lines have to be strung long distances

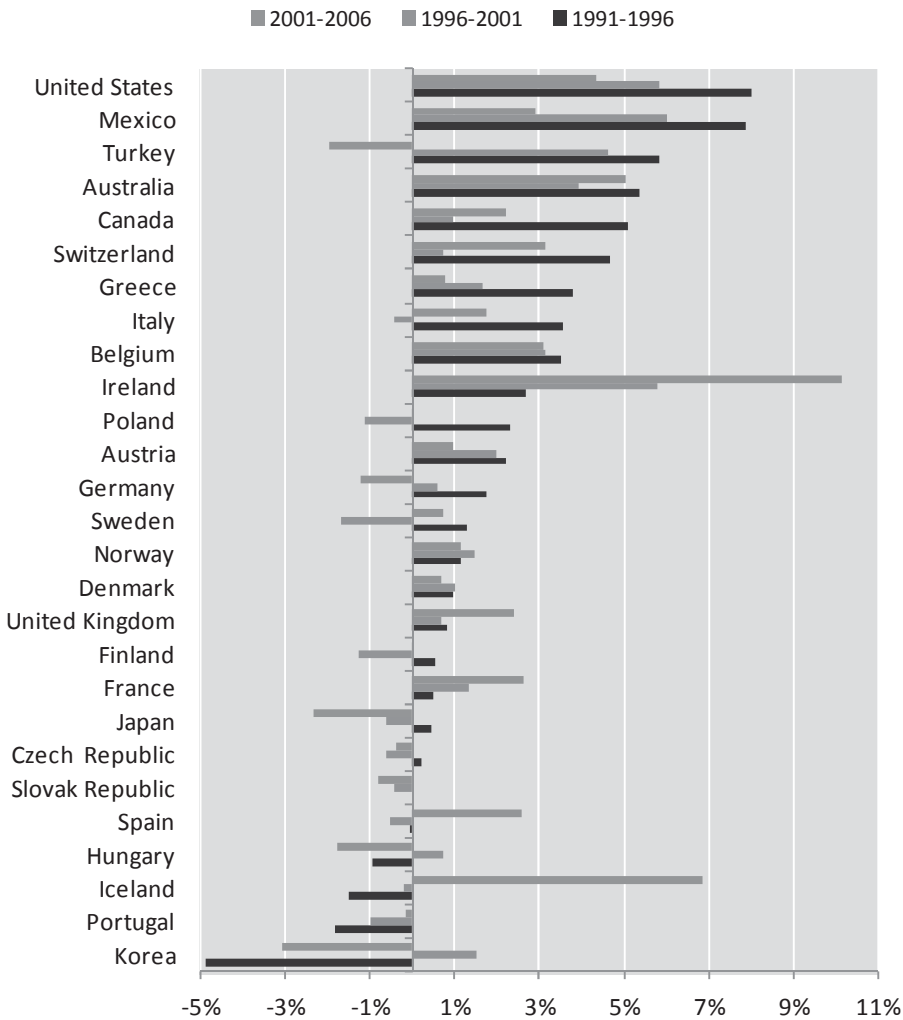
and suffer line losses. Moreover within a rural area distance imposes similar burden because of the extensive geography. While some technologies (ICT) have reduced the distance penalty facing rural regions, the majority of the ways rural people exchange goods services and ideas are still subject to distance penalties.

2. *Low levels of population in rural regions make it hard to achieve a critical mass.* In many countries the rural population is falling, while in parts of other countries it is expanding (Figure 1.2). Even in those countries where the rural population is expanding we find that only certain regions are experiencing population growth. For many rural regions population is low enough that it is difficult to achieve scale economies of production of many goods and services, including public services. Even ignoring the burden of increased transport costs there are often too few people in a rural region to allow services to be provided in the same way that is done in urban areas.

3. *Distance and low population levels result in low density***.** The low density of population is a crucial factor in many rural regions. In urban areas a concentration of population in geographic space facilitates connectivity. In rural regions people tend to be dispersed across much of the territory, which makes connectivity harder to achieve. In those rural region where the population is clustered in a small number of communities it is may be possible to reach some degree of critical mass, but in rural regions with a large but dispersed population the costs of connecting people through markets or government action are high.

Figure 1.2. **Rural population growth in the last decade**

OECD regional classification



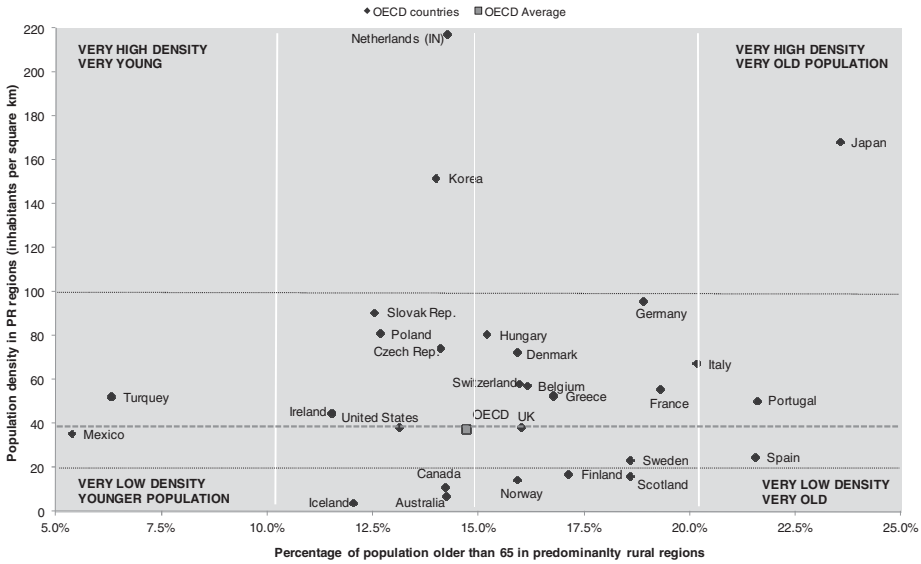
1. Base year UK (1993); Czech Republic (1992); Poland (1990); Slovak Republic (1995)

2. Austria, Belgium, Spain, France, UK, Greece, Hungary, Ireland, Italy, Mexico, US (2005)

Ageing population

An aging population structure, and in some cases a shrinking rural population, place additional strain on rural service delivery (Figure 1.3). As the population ages the mix of services demanded tends to shift and this may require new investments or outlays to increase the supply of the services demanded by seniors. While it may be possible to find some cost savings by reducing outlays on services consumed by younger people, it is unlikely that the cost savings will cover the cost of meeting seniors' demands. Further, many of the services seniors consume are considered to be core entitlements by OECD countries, so it is difficult to restrict availability. Moreover, as seniors age and become more infirm the annual cost of looking after each individual tends to rise significantly. Contributing to this problem is the influx of older individuals into some rural regions. Finally, there may be difficulties in attracting sufficient workers into careers that serve seniors, because there are so many to be served and a relative scarcity of those of working age. To attract more workers higher wages are required, which once again adds to costs.

Figure 1.3. **Dispersion and ageing of the rural population**



Source: OECD Regional Database.

Decreasing willingness to provide high levels of subsidy for rural services

An important factor in explaining the increased difficulty in providing rural services is the reduced willingness of many national governments to subsidise rural service provision. As the scope of government activity has expanded over time there are increasing demands on available public revenues. Further, when governments find themselves in a long-run deficit situation they inevitably look for places to reduce costs. To the extent that rural residents are not a major interest group it may be easier to reduce support for rural services, especially if government can argue they are simply spending the same amount per person, wherever that person lives. The New Rural Paradigm (NRP) argues strongly against subsidies, especially subsidies that are entitlements (Box 1.4). And while the NRP does endorse investments few OECD governments, to date, have made a persuasive case for investment based support for rural service delivery.

Box 1.4. **New Rural Paradigm**

Ideally, rural policy should enable each area to embrace a more mixed range of tactics for successful and sustainable development, drawing from its particular assets and resources and generating new approaches to economic, social and environmental challenges. The OECD New Rural Paradigm (2006) calls for changes in the conception and implementation of rural policy from a traditional, sector-based approach to one that is place-based (see table below). Key ingredients in this change are:

- a development strategy that covers a wide range of direct and indirect factors that affect the performance of local firms;
- a greater focus on endogenous (local) assets and knowledge and less of a focus on exogenous investments and transfers;
- a collective/negotiated governance approach, involving national, regional and local government working with other stakeholders.

	Old approach	New approach
Objectives	Equalisation, farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Agriculture	Various sectors of rural economies (ex., rural tourism, manufacturing, ICT industry, etc.)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, NGOs)

Source: OECD (2006), The New Rural Paradigm: Policies and Governance, OECD Publishing, Paris.

Increasingly diverse rural population

Rural populations are becoming more diverse. Different groups seek different bundles of services, and many in rural areas increasingly go elsewhere to find them. Rural areas are typically seen as being made up of homogeneous communities with a relatively consistent set of values and needs. This may have been true in the past when rural places were relatively unconnected to the rest of the world, but now, especially in peri-urban regions, there is a large amount of variability in the nature of the people who

live in villages. The majority of the residents in a village may still be able to trace their roots back multiple generations, but a significant minority may be newly retired people, second home residents or newcomers who commute to a city for work. The result is a fragmenting of demand and a population where significant shares of people choose to obtain goods and services away from the place where they live. This means that effective demand in a community may be far less than the local population would suggest.

Less than optimum technological capacity.

The service sector has seen rapid technological changes. Computerisation has been common and many professional services now use advanced technologies. Technological change in services has often led to an increase in minimum efficient scale in service provision which conflicts with shrinking rural demand. A characteristic of these technologies is a high fixed cost and a relatively low variable cost. This results in economies of scale over a significant range of production. In urban areas where there are large numbers of users the new technologies tend to reduce the unit cost of providing services. But in rural areas, because of the underlying geography that limits the number of users, these cost savings do not occur, and indeed unit costs may go up with the adoption of new technology. If governments mandate that specific technologies be used, then rural areas have to adopt them even though an older technology may deliver a roughly equivalent service at lower unit cost.

The rise of complex national and international supply chains

The creation of complex national and international supply chains has led to lower levels of rural services. Growing vertical integration in the organisation and management of how services are supplied has resulted in ongoing searches for cost savings. This is more a function of improved management practices than changes in technology, although technology enables the management change. Hallmarks of the process are: standardisation of procedures, a search for scale and scope economies, and pressures to control costs. To the extent that rural areas are inherently higher cost to serve, due to the factors identified above, there is a tendency for management of the service to search for ways to reduce costs, even if it means reducing quality or shedding service responsibility. This is certainly clear for profit oriented service providers, but is also an issue for public service providers where government sets cost control targets or limits budgets.

Limited choice

Even where rural places have access to services they typically have fewer choices among service providers, than do urban residents. Choice is valuable. It allows consumers to find the best match for their needs and it fosters competition. This means that having more providers of a given service is better than having fewer since choice allows the consumer to find the specific provider which best fulfils his or her needs. But in rural areas there is typically insufficient local demand to have many providers. This means only one or two providers of any given service because the total demand for that service is too small to justify additional providers. This not only limits choice, but it creates a situation where providers can "share the market" and face little pressure to compete or to deliver their services in a cost-effective manner. Moreover efforts by existing service providers to control costs by consolidating services in a smaller number of locations reduces choice even more. However, the internet offers some interesting possibilities for providing alternative ways to deliver services that can increase choice.

Weaker communication networks

Weaker communication networks in rural areas make it harder to deliver services efficiently. A contributing factor to the problem of rural service provision is generally weaker communication network in rural areas. Communication networks include roads, air links, bus lines, rail links, telephone and broadband. These services are all valuable of themselves, but they are also valuable because they enable other types of goods and services to be produced and distributed. Weak networks tend to raise the cost of providing services which contributes to the rural service delivery problem. Networks with multiple linkages allow redundancy and provide greater connectivity, but in rural areas sparseness and distance lead to relatively simple networks with few connections. This may lead to higher connection costs and to connection problems if one of the links is broken. For example if people have to rely on one bus a day to leave and return to a community and they miss the bus for some reason there is no alternative connection.

While communications links in rural areas are generally poorer than in urban areas they are greatly improved over what they were even a few decades ago. With better roads connections, a higher rate of automobile ownership and access to e-commerce rural residents have far more choice that in the past. Better connectivity allows people to by-pass local providers as discussed above. While the individuals who engage in by-pass are unquestionably better off, this does raise the unit costs of providing services to those still dependent on local services.

1.3. The role of services in OECD economies

Services are a major economic driver in all OECD countries and offer more scope for income and employment than the primary sector or manufacturing. In all OECD countries the service sector is growing faster than manufacturing and primary industries. A clear trend in OECD countries is for both households and manufacturing firms to purchase services externally that they once produced internally. For example, manufacturers purchase accounting and engineering services rather than employ their own accountants and engineers. Similarly, many households purchase home cleaning services as the number of stay-at-home spouse decrease. In addition, the number of "new" services is increasing. Web page design, internet service providers and personal trainers are a few examples. The proliferation of services reflects Adam Smith's observation that specialisation increases productivity. Specialisation allows the provider to become more efficient in the production of the service and the recipient to allocate time and resources to a higher value activity.

Services, especially higher value business services, are seen as a major opportunity for future economic growth in OECD countries, particularly as manufacturing moves to developing countries and raw materials play a smaller role in the global economy. As world trade becomes more open and capital more mobile, it is crucial that countries focus their investments in sectors where they are competitive. Service growth is emphasised because a significant share of services are not tradable, and because OECD countries have a comparative advantage in providing the high levels of worker skills and well-developed business environment that can provide sophisticated support and co-ordination functions required by many providers of advanced service. Services are key inputs to other sectors of local economies. Thus, the service sector can be seen as providing a foundation for the community. Services allow labour to be more productive and they are an input to manufacturing and primary production. In addition services are increasingly direct contributors to the exports from regions. For example, tourism, higher education, wholesale and distribution functions all bring income to host regions from outside purchasers, in the same way as exports of agricultural commodities or manufactured goods.

The availability of certain services has also become a pre-condition for the viability of a particular place. These include: basic infrastructure - electricity, good roads, water; basic human services - access to emergency health services, proximate primary education; and some retail establishments - shops, restaurants, gasoline stations, banking facilities. Basic central place theory suggests that the number of services increases with size of place and that as a place grows not only does it get more

services, but also more providers of particular services, which provides both variety and competition. This means that larger places have an inherent advantage as far as services are concerned, ignoring any cost differences that may further penalise rural service providers.

In rural regions services play a similar role as in the urban and national economy. The national trend to a larger role for services holds in rural regions as well. Few rural regions still depend on the primary sector for the major share of income and employment. Manufacturing in rural areas remains an important option, but it faces considerable competition from developing countries for low-skill routine products and from urban regions of the OECD for more flexible high-skill products (Freshwater, 2002). Even in those rural regions where manufacturing remains healthy, a strong service sector is now required to support the actual manufacturing enterprises. Major opportunities for growth in employment in rural services have been identified in: health care, especially as the rural population ages; tourism, as society explores new recreation opportunities; and the provision of various environmental services, as concerns with climate change and the quality of the environment grow (Box 1.5). In addition as governments take on new roles and provide additional services to citizens the share of government employment in the service sector also grows.

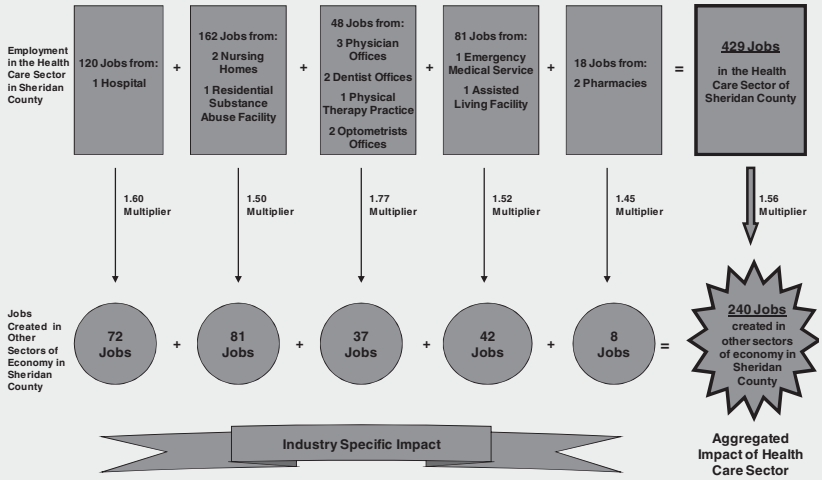
The current recession has reduced the demand for some types of services – particularly those that might be considered luxuries, and has increased demand for other services – like assistance for the unemployed and homeless. Consequently, there has been a reduction in demand for many market provided services, and an associated reduction in the labour force providing these services, which has increased unemployment. The recession has also stimulated demand for government and voluntary sector provided services, but at a time when their capacity to meet previous demand has been reduced by revenue shortfalls.

Box 1.5. **Health care sector as employer and purchaser**

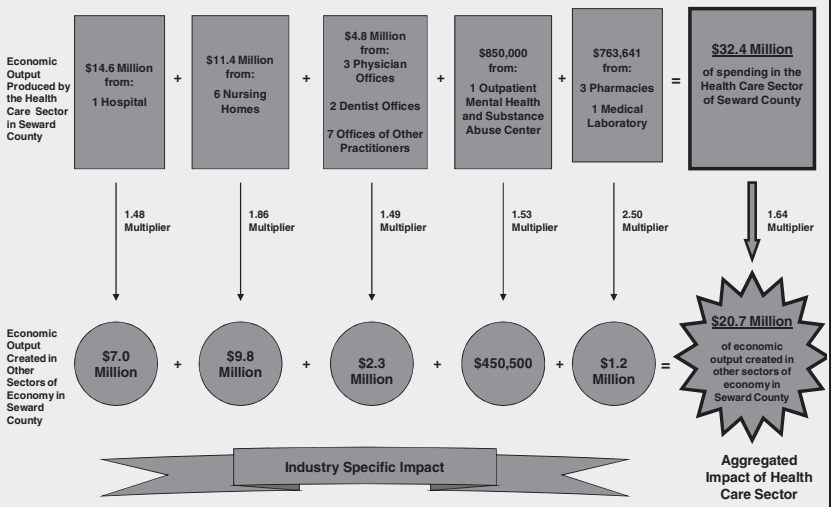
The well being of a rural community is a function of the well being of its residents. In Cologne one presenter explained that policies to build and sustain rural areas must include services that are "available and co-ordinated" while still including services for the long-time resident and meet the needs of the service delivery sector. Public services are the engines that propel local development. When the interaction between service delivery and strategies for developing sustainable rural communities and regions is considered as a whole, services can contribute to the social capital and economic development of the region. In certain parts of the United States, the healthcare system illustrates this concept, see below.

Box 1.5. **Health care sector as employer and purchaser** *(cont.)*

The economic impact of the health care sector on employment in Sheridan County, Nebraska



The impact of the health care sector on economic output in Seward County, Nebraska



Source: Mueller, Keith J (2008), *Session* III, OECD Rural Development Conferece, *Innovative Service Delivery: Meeting the Challenges of Rural Regions,* Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*.

1.4. Broad policy strategies to overcome the rural problem

In this section, the focus is on broad policy strategies that can be used to overcome the particular problems described in the preceding section of the paper. These categories of approaches do not provide a particular solution, but, they do provide ideas that are not specific to a particular circumstance and place.

Aggregating demand

Too little demand at any service location leads to a search for ways to increase the customer base. Too small a demand for locally provided services is one of the most common reasons for problems in rural service delivery. Demand weaknesses arise for several reasons. Either population is falling, leading to a reduction in demand, for example, too few children to keep the local school open. Or, demand may be falling due to by-pass, if some community residents obtain their services elsewhere. Alternatively, demand may be inadequate, if technology has changed to increase the minimum efficient size of service provider.

Consolidation, co-location or merging similar services

Consolidation involves closing some service locations to increase the number of people using those remaining open. It increases effective demand by increasing the size of the service territory for each remaining location. While consolidation can work it may lead to an increase in unit service costs because either the users or the service provider have to incur higher travel costs to get to the remaining service points. If the service users pay for travel costs it may appear to the service provider that consolidation is an effective approach. But even in this situation the increase in demand is likely to be less than was anticipated because those individuals facing the highest travel costs will typically reduce or terminate their use of the service. In situations where the service provider has to absorb all or some of the travel costs, consolidation is generally a less attractive option. For example, school consolidation typically has less cost savings than first projected once the cost of higher transportation expenses to bus children to schools that are further away is considered.

Putting multiple services in the same physical location or co-locating is another approach that seeks to build demand (Box 1.6). The main advantages of co-location are that it can result in a cost saving if basic overhead costs are pooled (economies of scope). These might include: energy, security and administrative expenses, which can often be reduced significantly through co-location. The other main advantage is that users, who incur travel costs, can combine trips and save money and time. If post office services are consolidated with a shop, people can obtain their mail and purchase food in one trip.

Box 1.6. **Multiservice centres**

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

One stop shops advantages and disadvantages in Scotland

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

Box 1.6. **Multiservice centres** *(cont.)*

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

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

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

Service merger takes services that are in a sense substitutes and combines them into a single entity. In sparse areas of some countries churches from different Protestant denominations have combined their congregations to create a single group that has enough members to be viable. Another example is the merging of several weak local newspapers that have an overlapping market to create a single regional paper that has more viability. Of course it is possible to adopt more than one of these approaches to attempt to achieve even greater increases in demand. Box 1.7 identifies a number of strategies employed by OECD countries that fall within this framework.

Box 1.7. **Service delivery boundaries: the case of education**

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

1. One approach is the formation of **Federations, Collaborations and/or Co-operations.** One example is the Callington Federation, in Cornwall, where a group of three schools reached a formal agreement that allowed the education authorities to maintain their independence, legal identity, funding and budgets but at the same time collaborate in a "soft" arrangement. In particular, the schools agreed to a shared strategic vision. In other instances a group of 12 primary schools collaborated to share resources and link ICT, catering and specialised teaching. The collaborations also featured, centrally managed support services, joint staff development, extensive community education programmes and heightened educational standards which yielded stronger management and savings.
2. Another policy approach is **Amalgamation** which involves replacing the school with another. This was the case of Whitesheet Primary School, Wiltshire where two village schools with only 64 students in total was replaced with one school and two sites. The school in its amalgamated form attracted additional students growing to 99 in total, improved the prospects of recruiting and retaining qualified teachers, attained greater flexibility and efficiency in staff and resource management, resulted in less isolation and increased shared knowledge among the staff. More importantly, it became better equipped to withstand the fluctuations in student numbers.
3. Finally there is **Extended Services** a path adopted by the East Yorkshire region of England in which more activities beyond just education are introduced. For example, additional services for the students as well as for their families and the community such as childcare and educational support.

The Russian rural education system is similarly under pressure. However, in contrast to England, the decision on the appropriate scheme is challenged not just by demographic and migration trends but by the vastness of the rural territory which is marked by limited connectivity, high wealth gaps with the poor concentrated in small rural communities; and, weak self governance mechanisms.

Box 1.7. **Service delivery boundaries: the case of education** *(cont.)*

Also in a unique twist, of the approximately 67 000 schools in Russia, 70% are in rural areas. Nonetheless, rural schools are typically undersized (*i.e.* have fewer than ten children in a classroom or fewer than 100 children in total) and struggle to supply high quality education. For this reason, the future of rural schools is a very important public policy issue. The ongoing debate surrounds:

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

To this end, the government is considering the following approaches: *i*) improving the technological infrastructure for education; *ii*) Amalgamating but remains wary of the social and infrastructure costs of transportation between schools; *iii*) Collaborating, Co-operation and/or Extended Services *e.g.* turning the small schools into affiliates, offering different functions such as libraries and vocational training.

Sources: Russell, Graham (2008) and Kortunov, Andrei (2008), Session II, OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions,* Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*.

Alternative delivery mechanisms

The easiest way to alter delivery is by changing the times of availability. In a village where a large proportion of the population commute to employment elsewhere, a shop may have very little business during normal business hours. But by opening later in the day and staying open into the evening it may be able to attract commuters on their way home from work and considerably increase sales. Bringing services to user and the internet are two ways to deliver a service in a way that can either reduce costs or attract more users.

Bringing services to users

Other approaches are more radical, such as; adopting mobile service delivery approaches (Box 1.8). Bookmobiles bring library services to communities that are too small to have a physical library. Most farriers now travel with a portable forge to provide horse shoeing services rather than have the horse come to them as was the case in earlier times. In addition, there are mobile dental clinics that can provide services in places that do not have a resident dentist. Where the demand for services is widely dispersed it may be more efficient to reorganise how the service is provided and bring the service to the user.

Box 1.8. **Bringing services to users**

The AGnES Community Medicine Nurses Programme in Germany provides support to GPs in rural regions. The programme aims at reducing the time GPs spend commuting for home visits for routine procedures. Through an electronic devise (tablet-PC) Community Medicine Nurses (CM-nurses) can send the patients' health information in real time to the GP and, when necessary, have a video conference. Other appliances are being explored for tele-monitoring the condition of patients, such as distance blood pressure meter and digital scales operated by Bluetooth technology. CM-Nurses operate always under the supervision of a GP. The training modules for the programme range from learning operational procedures of GP practice, treatment of chronic diseases, and use of e-health equipment. Thus far 5 239 home visits were conducted with 1 050 patients, and 40 general practitioners and 30 nurses have participated in the project. More importantly, the initiative is appreciated by the physicians and the patients (approximately 90% of the patients accepted the nurse care) and it has fostered dialog among German health care institutions.

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

In Portugal, the "Net on Wheels" project uses vans equipped with notebook computers to provide access to the internet and profession training to marginal groups. Net on Wheels is an innovative community project that serves five

Box 1.8. **Bringing services to users** *(cont.)*

municipalities of the region of *Entre Douro e Vouga* in Portugal. Its main goal is to broaden the use of technology and internet in the region. It involves several partners, such as businesses, social and cultural institutions, education institutions at different levels, and the regional and national governments. It is financed by the *Programa Operacional Sociedade do Conhecimento* (POS-Conhecimento), whose funds come from the State budget and the European Union. Through two energetically autonomous adapted vans, they provide users with 15 PC notebooks connected to the net trough mobile or satellite connections. Net on Wheels reaches out to internet services and exposes non-traditional users and areas to ICTs and the net. In particular, they have improved accessibility of electronic public services to remote and sparsely populated areas. They have also provided training in Basic ICT skills to less traditional users, improving population employability. To date, they have reached over 26 954 users, provided over 860 basic ICT skills diplomas, attended 1 176 events, visited 312 institutions and had over 225 participants in their digital workshops and taught over 267 courses.

Sources: van den Berg, Neeltje (2008), Session III; Kapitany, Marilyn (2008), Session II; Isabelle, Bastos (2008), Session IV, OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions,* Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne.*

The internet

The Internet offers the possibility to both provide services in rural areas and for providers in rural areas to offer services outside their immediate territory (Box 1.9). Telemedicine allows x-rays and other diagnostic services to physically take place in a rural area, perhaps in a mobile facility; but the actual analysis of the procedure is performed by specialists at large tertiary care hospitals in cities. On the other hand, a number of providers of high end business services now choose to live in rural areas and are able to manage their routine work with urban clients from a home office using web services and video-conferences.

Clearly access to high speed broadband capacity is crucial for rural areas to take advantage of these opportunities. OECD countries are investing in improving broadband capacity, but there is little agreement on how fast connectivity has to be in order to be an effective tool for service delivery. Part of the question has to do with the intended uses. Higher capacity connectivity allows more sophisticated uses, but many rural areas may not need really high speed transfer rates. Moreover it is important that countries and communities realise that in addition to connectivity there have to be parallel investments in technology and human skills in the rural communities for broadband investments to pay off.

Box 1.9. **ICTs for service delivery**

OECD countries have introduced different strategies to ensure increased use of technology for learning and delivering care. For example, the United States and the United Kingdom use remote pharmacy dispensers to deliver prescription drugs, which due to high costs would have otherwise been relocated.

There is also a focus on wider connectivity in rural areas. In Spain, the strategic project on the Information Society of Extremadura which is based on the fundamental principles of connectivity and technological literacy lead to the development of a powerful communications network capable of interconnecting and to the provision of broadband access to the 383 municipalities in Extremadura. Finland's, Kainuu Broadband Strategy is a regional approach taken by the Ministry of Transport and Communications. The strategy aims for full wireless coverage in the region through the Wimax (Worldwide Interoperability for Microwave Access) technology, the most cost-effective alternative for the region. The pricing for service in rural areas is comparable to that of urban customers. The strategy is part of a broader Information Society Strategy for the Kainuu Region which involves not just improving the technological infrastructure but training and support programmes, a multi-channel communication network and decentralised content production.

In Germany, around 10% of German households, mostly in rural areas, have limited (if any) access to broadband. The government launched a pilot program "Practical Solutions to Close Broadband Supply Gaps" in six "problem municipalities" to address the problem. They formed a working group on nation-wide broadband supply under the direction of the Federal Ministry of Economics. Participants to the workshop included representatives from central and local governments as well as private actors. The objective was to achieve the widest broadband coverage possible (*i.e.*, coverage of more than 99% of households) through market solution; thus limiting the use of subsidies. A broadband atlas developed by the Federal Ministry of Economics helped to identify the market opportunities for enterprises and the areas in need of government action. Preliminary findings revealed that:

- Market solutions are feasible in many areas even in sparsely populated areas.
- 20 to 30 local customers is enough to realise economically viable (wireless) solutions.
- There are opportunities for SMEs to step in due to the dearth of major suppliers in rural areas.

Sources: Knaut, Peter (200), Session IV, OECD Rural Development Conference, *Innovative Service Delivery, Meeting the Challenges of Rural Regions*, Cologne, Germany 3-4, April 2008, *www.oecd.org/gov/regionaldevelopment/cologne*; Karjalainen, S. (2007), *Bridging the broadband gap in rural areas,* presentation in the OECD mission, Ministry of Agriculture and Forestry, Including also slides from Karppinen, V (2007), *Access to broadband in remote rural areas: Developing Information Society in Kainuu Region*, Kainuun Nuotta Association, Kainuu, 4 May 2007.

Different types of providers

As noted earlier, a particular type of service is not limited to a particular type of provider. Indeed in different size places there may be quite different ways of providing specific services. In large cities in the United States one can find public universities, both for-profit and non-profit private universities, and universities that are sponsored by voluntary organisations. Some rural communities have volunteer fire departments; others have fire departments that are operated by local governments. In some communities there are for-profit village shops, in some villages there are community owned shops that provide equivalent access to services, but which operate as social enterprises. Even a service as ubiquitous as electricity can be delivered by different types of service providers. In rural areas in some parts of the United States communities in close proximity will have either, a for-profit investor owned Power Company supplying them with electricity, or a co-operatively owned power supplier, or a power company owned and operated by the local government.

Finding a new provider may be a way to stimulate demand or reduce costs. Where the current provider is having difficulty in maintaining the service an option may be to find a different type of service provider. In practice this often means either a for-profit company or a government entity turning service provision over to either a not-for-profit firm or to a voluntary organisation. This is typically seen as a "down-grading" of the service, which is still better than no service. However, it may be possible to extract an "exit fee" from the entity giving up the service that can be used to enhance the odds of success of the new provider and to keep service quality at a higher level. It is not, however, inconceivable that a for-profit firm may be able to take over a service from the public sector and find more cost-effective ways to provide it. For example, private bus firms are often able to operate in rural regions where public transit is not cost competitive.

Create a new service to achieve better outcomes

It may be possible to create a completely new service. The idea here is to provide a new service that displaces the old service in the sense that it brings about the same outcome in a more efficient way. An example may be the creation of a mobile handyman enterprise. In small places there is often insufficient business to support a full range of home repair services provided through free-standing independent firms, each having its own business location and specific activity, such as, roofer, plumber, or painter. But it may be possible to put in place a travelling handyman service that operates out of a fully equipped vehicle and is scheduled by telephone or Internet. The service could be operated in a number of ways: by a for-profit firm,

under the auspices of local government, or under the supervision of a voluntary organisation. The crucial point is that a new delivery option is created that can become a viable service provider.

Improve quality and marketing

Too often rural service providers seek to exploit a local monopoly situation and pay little attention to actively marketing their business or improving the quality of service they provide. When their customers were "captive" - limited in choice - the decline in service quality did not impact use. However, with increased mobility many users are better able to identify alternative service providers outside their community who offer better value. This results in a declining volume of use and to lower viability for the local service.

With greater choice available to many rural service users it is necessary to provide a high quality service to remain viable. One option to build demand is to invest in improving the quality of the service, and to spend money on marketing to ensure that people know the service is of high quality. With an improvement in quality "by-pass" may be reduced and demand could increase. Rural service providers still have an underlying advantage in that the local population incurs significant costs to go elsewhere, even though this travel cost advantage is no longer as strong. In addition, there is growing interest in supporting local business, including all forms of local service providers if they offer competitive products.

Conclusion

As the role of the service sector in national economies expands, residents in both urban and rural environments have growing expectations of better access to both private and public services. If rural firms and households are to play their full role in strengthening the national economy it is important that the correct set of services be in place. In OECD countries there are numerous examples of delivery mechanisms that are providing high quality services to rural dwellers and firms (some of which were referred to in this chapter). An important factor in many of these examples is "innovation" and the willingness to consider a new methodology or approach, instead of simply rescaling the way the service is provided in an urban setting. Tailoring the service delivery to better fit the circumstances of the rural area is key. This may involve: finding a different type of service provider, a different technology for delivering the service, or even developing a new service that results in a similar outcome.

Government has a central role in this process, either as a direct provider or by influencing the service delivery decisions of private firms and the voluntary sector. While it is challenging for governments to provide additional services in urban settings, due to competing claims for scarce funds, there are even greater challenges in providing services in rural regions. In rural areas the pervasive problems of low density, distance and lack of critical mass are exacerbated by additional problems, including a generally weaker incentive for private providers to play a role and problems in adapting modern technologies to rural situations. Thus, Chapter 2 explores in some detail, the role of government in this framework.

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From:

Strategies to Improve Rural Service Delivery

Access the complete publication at:
https://doi.org/10.1787/9789264083967-en

Please cite this chapter as:

OECD (2010), "The Service Delivery Challenge in Rural Areas", in *Strategies to Improve Rural Service Delivery*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264083967-2-en

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