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# Rural Policy Lessons From OECD Countries

By Mario Pezzini

The challenges facing rural America are not unique—they are the same challenges found in rural areas throughout the world. Although agriculture and other natural resource industries are still important economic sectors, they are producing fewer and fewer rural jobs. Rural areas suffer from the outmigration of both young and highly skilled workers, leaving an aging population and strained public services. And most rural areas have difficulty mustering the critical mass of capital and infrastructure to encourage and sustain new rural entrepreneurs.

Recognizing these challenges, many countries are searching for local rural features that can spur new growth, such as scenic amenities, environmental virtues, or unique products that reflect the cultural heritage of a particular region. While countries are responding in many different ways to these challenges, successful policies appear to have three common traits.

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First, rural policy shifts from a focus on individual sectors (such as farm policy) to one based on regions or territories. Territorial policy is becoming much more common in many OECD countries, as are steps to improve coordination of what sectoral policies remain.

Second, the administration and design of such policies devolves from national governments to the "new regions," which often cut across traditional political and administrative boundaries. That is, governments are recognizing that economic regions are more meaningful than traditional policy boundaries, and attempts are being made to align the two. Many countries are providing support for "bottom-up" development initiatives, for example through the Canadian Community Futures Program and the EU LEADER program.

Third, there are new attempts to better coordinate policies affecting rural areas. At the federal level, this often involves creating new inter-ministerial working groups (Canada has recently instituted such a group). At the local level, it often means forming new partnerships among various public departments and agencies as well as including the private and non-profit sectors. These policy innovations could be especially instructive to a new generation of rural policy in the United States, where farm policy has been the major focus in the past.

The aim of this paper is to review briefly the main trends affecting rural areas across the OECD and identify some of the key policy (re)orientations that are emerging as a result.

The shift in the nature, content, and administration of rural policies in many OECD countries during the 1980s and 1990s has been noted in numerous reports and studies, including those of the OECD. The changes observed concern both 1) shifts in the policy focus and 2) adjustments to the governance structure, in particular:

- A shift from an approach based on subsidizing declining sectors to one based on strategic investments to develop new activities.
- More attention to quasi-public goods and “framework conditions” which support enterprise indirectly.
- A focus on local specificities as a means of generating new competitive advantages, such as amenities of an environmental or cultural nature or traditional or labeled local products.
- A shift from a sectoral to a territorial policy approach, including attempts to improve coordination and to integrate the various sectoral policies at regional and local levels.
- Decentralization of policy administration and, within limits, policy design to those levels.
- Increased use of partnerships between public, private, and voluntary sectors in the development and implementation of local and regional policies.

Even though in many countries, sectoral policies, centralized sectoral administration of them, and subsidies to maintain existing activities remain very important, there seems to be a

consensus that rural policy is evolving. In this paper, we will look at the main assumptions underlying this evolution and then the specifics of the policies themselves in different OECD countries.

### *The shared challenges facing rural regions*

Rural areas, in general, still face particular challenges in comparison to metropolitan and even intermediate areas. Three specific concerns are often identified.

First, even if farming is still important in shaping rural land use, employment opportunities in primary industries (largely agriculture) are declining. Moreover, in many rural areas, public sector employment has been the main component of employment growth, but in a climate of fiscal restraint this source of jobs is likely to contract.

Second, outmigration of young people caused by both lack of employment opportunities and inadequate access to educational and leisure facilities, along with immigration of retirees in some places, has led to significant aging of the population. The resulting demographic structure is often not sufficient to support provision of adequate public services.

Finally, most rural areas have difficulty establishing the necessary critical mass of facilities, producer services, and investments to support economic development so that entrepreneurs have difficulty starting up enterprises in the area.

Yet, despite important economic and demographic challenges, sustained development has been observed in certain rural areas. As a result, policymakers are increasingly coming to recognize that economic prosperity is not restricted to metropolitan areas and that many rural areas can “fend for themselves” in the global marketplace in a wide variety of different

ways—in other words, rural areas are no longer synonymous with decline. The reasons are the following:

- Manufacturing and service industries started to relocate to suburban and rural greenfield sites where land was more plentiful and cheaper. The availability of more diverse employment opportunities in some nonurban areas also served to increase population movements from urban to rural areas.
- Sustained endogenous development has also been observed. This has involved both intermediate and remote regions, with sources of economic success including dynamic SME clusters and industrial districts, development of diversified agro-industries, and rural tourism. In these areas, growth in local industries has reversed patterns of economic decline and outmigration.
- Residential location decisions place increasing emphasis on quality of life factors, including proximity to open countryside and natural amenities. This has resulted in people moving from cities to rural areas attracted by a pollution-free, easily accessible, natural environment.
- Demand on the part of urban dwellers for amenities in rural areas has increased because improved transport links make recreation in rural areas feasible.

On the contrary, the role of commodity agriculture in rural development has weakened. Of course, some rural places still owe their growth to new ways in which agriculture produces commodities. In some regions, farmers still derive income and even employment development by signing contracts with a major food company to deliver precisely grown products on a preset schedule. However, such a successful move to a “supply chain” organization changes not only

how agriculture does business but also who does business and where. In most of cases, supply chains include relatively few farm producers (so to minimize the costs of managing highly integrated business alliances) and lead to a geography based on concentration in relatively few rural places. With few farmers and fewer suppliers where they are located, the economic impact will be different than with commodity agriculture of the past.

Pushing things a little further, one is tempted to state that today *rural is not synonymous with agriculture*, and even that agriculture is no more the backbone of rural areas. In any case, data collected from member countries make clear how dysfunctional a single sectoral definition of rural areas is. Even among the most rural regions of OECD member countries, only one out of five jobs is in the agricultural sector (including forestry and fisheries), and employment shares of the industrial sector (including mining and construction) are higher than those of agriculture. Moreover, almost everywhere, agricultural employment is declining not only in relative but also in absolute terms.<sup>1</sup>

Yet, agriculture plays an important role in shaping the rural landscape, and it remains a wellspring of national support for development. However, this seems to make sense if agriculture is conceived more as a part of a restructuring process toward multisectoral approaches (which encompass agriculture as one component of a comprehensive rural development policy) than as a traditional sector producing commodities.

A crucial implication is that while for a long period of time agricultural policies have been considered as rural policies, an approach extended far beyond agriculture is today required to cure rural ills. The interests of the majority of rural citizens, and even most farm families, are no longer (if they ever were) best served by sectoral policies, since they increasingly depend

on employment and income generated by a complex mix of interacting economic activities. This is why a shift from an approach based on subsidizing sectors to one based on strategic investments to develop new activities is more and more expected.

### *The rationale for a “rural policy”*

The rationale for a territorial approach to rural policy is the result of the fact that the shift in the economic base of rural areas away from agriculture should be accompanied by policy intervention. Many but not all rural areas still suffer from relatively low incomes, high unemployment and underemployment, poor quality of employment, outward migration of young people, and low-quality services. This may raise concerns of equity and cohesion (for example, within the EU rural policies are essential for the achievement of cohesion objectives in Objective 1 countries like Greece and Portugal). Although subnational differences are not a new phenomenon, they may become a growing political concern for at least two reasons.

First of all, sound macroeconomic policies (ensuring national growth together with stable prices and healthy government finances), as well as structural policies (improving the efficiency of markets) will not be sufficient to deal with new and more intense rural problems. Indeed, globalization is putting beyond the reach of national governments more and more of the economic, social, institutional, and legal parameters that were once under their control. National barriers to competition and all sorts of regulation are being progressively dismantled and removed. Exchange and interest rates are less and less susceptible to manipulation by administrations. Thus, by loosening national ties and enforcing international competition, globalization confronts rural areas both with development opportunities and with threats not previously encountered. On balance, globalization is expected to bring gains to economies in their totality, but it

will nonetheless pose severe problems of adjustment to a good number of rural regions.

Secondly, traditional territorial policies, concerned with the equitable geographical distribution of resources, are not going to be an appropriate answer to the new conditions engendered by globalization. Assistance is not only difficult for cost reasons, there are also doubts about its efficacy. As a result, mobilizing local resources and local collective goods to support comparative advantages for local firms, local entrepreneurship, and innovation, as well as to assure social cohesion (by, for example, facilitating “welfare to work” policies to integrate the unemployed and excluded) could be more promising development strategies. In short, there is a widely held view that a change in emphasis from fiscal policies to endogenous development strategies can add impetus to the restructuring of national economies by reinforcing the capacity for self-generated change.

Together with divergent growth patterns and endogenous development, a key change in thinking about rural policy has resulted from the emergence of a more general policy concern with sustainable development. This marks a shift in thinking from the idea of development as a process mainly or entirely linked with economic growth to one based on increases in quality of life. In fact, some rural areas contribute to the quality of life of society as a whole because they contain important public or quasi-public goods such as a clean environment, attractive landscapes, and cultural heritage. This wide range of amenities can be a source of economic development, (in many cases the only potential factor of comparative advantage relative to other locations), either through the direct exploitation of resources or through creating conditions likely to favor economic activities. Potential economic opportunities range from developing green tourism packages (farm holidays, nature holidays, theme routes, and discovering of natural heritage), promoting local products (traditional

farm foods, goods requiring high-quality water, or other locally produced materials; and craft work using specific raw materials, skills, or heritage), attract residents and enterprises to the area.

Last but not least, a series of recent events has put rural policies on the international agenda, including that of the OECD.

### *Rural policies in the international arena*

The international policy context lies, firstly, in the increased demand for certain noncommodity outputs of agriculture, and in some cases, a diminishing supply of these amenities, resulting from demographic changes, lack of economic growth in many rural areas, changing farming practices, and the declining importance of agriculture in the economy. Governments have become more concerned about ensuring that the noncommodity outputs of agriculture correspond in quantity, composition, and quality to those demanded by society. In some cases they are looking for appropriate policies to help regions valorize their natural and cultural endowment so to attract more tourists, make them pay for the reproduction of beautiful landscapes, and support farmers to do so. More complicated is the case of pure public goods for which a market is difficult to create or where a market may compromise the interests of future generations.

Growing interest in the multifunctional character of agriculture coincides with the opening of WTO Millennium Round negotiations to make further reductions in trade distorting tariffs and subsidies. Some member countries are concerned that reductions in production-linked support and trade liberalization may, by reducing production of certain crops in certain areas, reduce some of the positive noncommodity outputs of agriculture below the levels desired by society. The response of these countries is to provide additional support to ensure that the amenities are maintained. Conversely, there are fears on the part of trading partners that those coun-

tries want to protect commodity outputs from international competition by introducing additional supports for the noncommodity outputs of their farmers.

Against this background, rural development policies—the approaches and instruments used to promote economic development and employment growth in rural areas—can become entwined with broader issues.

An initial contribution to this debate from the rural development side is the following: If rural is not in itself synonymous with decline nor with agriculture, if productivity gains in agriculture tend to reduce the sector's capacity to create jobs, then viable rural communities may better be assured by comprehensive area-targeted programs than by traditional agricultural production-linked payments. Such a suggestion does not erase any need for measures related with agricultural production. On the contrary, in regions where, for example, aging populations and geographic conditions will restrict the speed of conversion to nonagricultural jobs, block grants for area-targeted programs will result in monetary support to farmers if there are no clear alternatives. However, such programs in remote, declining rural regions are minimally trade distorting because these regions participate only marginally in the global economy. The same cannot be said for agricultural policies linked to production which raise output in more productive rural regions and which tend to support the most efficient farmers. Adopting a territorial approach allows this important distinction to be made, thereby increasing the chance of reaching compromise in international negotiation in this field.

The extent to which input from the rural development debate will appear in the agenda of international trade negotiations is difficult to say. An increasing number of practitioners and policymakers see in them a useful tool for possible agreements.

### *New issues in rural policymaking*

Together with a new impetus for a territorial approach to rural policy, specific new issues are increasingly shaping policy design and implementation.

The first issue has to do with the fact that past public policies have tended to focus on rural areas as a block—treating them as homogenous with uniform problems and opportunities and usually contrasted with those of urban areas. Such an approach no longer reflects the present development opportunities for rural areas. The unit of analysis and intervention has changed. In many cases, the definitions of separate urban-rural forms, functions and societies have become obsolete. Daily commuters from sparsely populated municipalities in suburban areas of London or Paris have values and behaviors that are much closer to those of city residents than the values and behaviors of (traditional) rural dwellers. In this context, the crucial unit of analysis and intervention is not the small municipality but rather the functional region, defined in terms of its local labor market or commuting area. Rural and urban cannot anymore be easy substitutes for sectoral *weltanschauung* and interests.

Furthermore, the traditional approach does not take into account the actual diversity among rural areas. The business environments of the French Auvergne, Tuscany in Italy, the Spanish region of Andalucia and Portuguese Alentejo, for example, are fundamentally different. All of them are rural areas—with low population density and significant agricultural land use—but their development patterns are significantly different.

Why do regions have such a distinct performance profile? What are the structural differences between regions and which contribute to explaining the different performances? Which typology of regions should be taken into account in policymaking? Regions have certain basic resources and characteristics that shape to a

large extent their development trajectory and potential—geographical location, proximity to markets, topography and climate, natural resource endowments, industrial heritage, endowment of human, social, and physical capital. The point of departure for policymakers should be the identification of possible development strategies per type of region. General measures applied uniformly across *all* regions are often ineffective and even inappropriate at a time when territorial diversity is increasing. Areas with abundant service networks, a skilled workforce and physical and intangible infrastructure can take advantage of their externalities to strengthen their comparative advantages and expand their market power. But other territories in which agglomeration effects are smaller have difficulty in achieving the necessary critical mass that would allow for competitive and coherent production, even in specific market niches, and may be threatened by depopulation and decline. Moreover, although a large stock of technologies is available, access costs and the ability to make optimum use of these technologies vary considerably across territories, depending on their sectoral mix, business cultures, technological infrastructure, and skill levels. Even the new information technologies that obviously make the factor of distance less important do not necessarily lead to more uniform spatial patterns. For these technologies, like others, specific territorial strategies are necessary, given the local differences in absorption, the differing SME fabrics and the significant technological gaps that continue to exist across regions.

The need to develop tailor-made regional policies has been implicitly recognized by central governments. At the same time, experts are aware that it would be unrealistic for central governments to tailor policies to *each* region given the complexity of implementing procedures and the prohibitive coordination costs. A middle course may take into account region types that should be targeted by specific policies. Many governments have identified maps

of eligible areas using appropriate criteria. These criteria vary considerably. They may be geographical in nature (for example, the fact that the areas are located in remote mountain regions as in Switzerland,<sup>2</sup> or outlying regions as in Sweden<sup>3</sup> and Finland) or socioeconomic criteria (in terms of poverty in Mexico<sup>4</sup> or labor market characteristics in Germany). These maps are generally revised periodically to take account of economic trends and the fact that some territories are catching up while others are falling behind. In the EU, the structural funds granted by the Commission supplement the member countries' initiatives and add a European map to national maps. Since the 1989 reform, this map negotiated with member countries has been based on a more detailed assessment of regional problems, and four types of regions—today reduced to two—have been identified.<sup>5</sup> For each of these types, the Community has defined policy objectives to be implemented under the structural funds.<sup>6</sup> In the EU again, the development of border areas is strongly suggested, influenced by the need to establish and/or consolidate ties and joint initiatives with the area located on the other side of the border. Policymakers should take into account the specific influence of these interregional networks to base targeted policy.

The change in the unit of analysis and intervention is, of course, closely related with efforts to replace large-scale subsidy programs with a more selective approach using packages of coordinated measures focused on the development of the economic fabric of lagging rural regions. These forms of aid tend to supply collective services either to improve the quality of the business environment or build social and human resource capital, thereby indirectly helping local enterprise. In many countries, it is assumed that endogenous development capacities and entrepreneurship are latent in rural areas and that specific measures to encourage them are needed in order to bring out local dynamics of business creation and development. Thus, the new course of action has led to more attention to quasi-

public goods and “framework” conditions, which support enterprise indirectly.

The second issue that is increasingly shaping rural policy design and implementation is common to a large range of policies and has to do with the fact that local and regional governments have been brought more strongly into the picture. The diversity among rural places makes it very difficult to design a national rural development policy which can take into account locally specific needs at the same time as geographically balanced objectives of national economic development. Traditional concerns related to fiscal federalism, the effort to secure effective citizen participation in decision making, as well as the necessary consensus to design and implement policy implies an active role for different levels of governments (local, regional, national, and international). Many countries have thus embarked upon reviews and reforms moving in the direction of decentralization and devolution of economic and social decision making and program management.

Depending on the chosen degree of decentralization, governmental entities at the lowest levels are increasingly being invested with new mandates and are having to cope with a multiplicity of issues spanning a variety of geographical areas (for example, environmental problems involve ecosystems and unemployment affects employment areas). Increasingly, these different areas cut across separate administrative entities. To adapt to such a scenario of shared authority, territorial dynamics, and new economic realities, central administrations have begun to prompt the formation of new structures for territorial governance by encouraging and setting forms of vertical and/or horizontal coordination between the institutional parties involved.

The development of rural areas is based more and more on interactions with adjacent areas. The interregional aspect is not always taken

into account at the international level because these cross-border zones do not coincide with traditional administrative divisions. Differing regional fiscal and regulatory regimes and diverging levels and rates of development are equally obstacles of intensification of spatial relationship between neighboring areas. Cooperation between communities and the putting in place of horizontal partnerships between public and private actors over areas sufficiently large to define coherent, common strategies have been seen as the most effective means by which to take into account these new forms of territorial development. These flexible forms of governance permit governments to exploit better local complementarities and, notably, to ensure continuity in infrastructural development through the sharing of public investments.

In practice, a wide variety of institutional arrangements for the delivery of rural policy has been noted in OECD countries, but some common features are:

- Decentralization toward regions and localities, sometimes involving efforts at community “empowerment,” in order to better meet diverse needs and conditions found in rural areas and tap local knowledge and other resources.
- Support for “bottom-up” development initiatives, for example, through the Canadian Community Futures Programme and the EU LEADER program.
- Attempts at better coordination of policies affecting rural areas at central levels through interdepartmental and interministerial working groups or committees, sometimes paralleled by rural affairs committees in national parliaments, and possibly involving various forms of “policy proofing” to ensure that all policies consider the rural dimension (policy proofing is the process by which a designated body “proof-

reads” legislation to verify that rural issues have been adequately considered).

- Greater coordination and cooperation at regional and local levels usually through partnerships involving the different public departments and agencies as well as private and voluntary sector interests.

An important trend has been the apparently growing power of the supranational level on the one hand, and the regional level on the other, as compared with the national level. This is not just a matter of changes in the distribution of administrative functions between levels, but also political and institutional changes, such as the extension of EU powers, the creation of a Committee of Regions at EU level, Scottish devolution, and the creation of regional governance structures where none existed before in several OECD countries. Moreover, there are new institutional structures of local development emerging in some countries which cut across traditional administrative, geographical, and sectoral boundaries, examples being the Regional Nature Parks in France, LEADER local action groups, and Local Agenda 21 activities.

It is widely argued that development policy and practice must allow for diversity in the goals and objectives of development; must acknowledge that it should include social, cultural, environmental as well as economic dimensions; and should allow for democratic processes at all levels. The idea of local and regional partnerships is often a step forward, and the idea of including social and environmental groups (NGOs) in such partnerships within the EU is another sign of progress, but more needs to be said in the future about democratic processes and participation of rural people. In some cases, partnerships have lacked open and transparent procedures and accountability to local populations. In other cases, partnerships have proliferated along sectoral lines, leading to multiple partnerships in any one locality or region which

frustrate or hamper the goals of “integration,” and often lead to “partnership fatigue.” Some relevant questions for policy development are:

- How can partnerships be made more open, accountable, and democratic?
- How can the participation of citizens in public decision making be improved, especially in very sparsely populated areas with scattered settlement patterns?
- Should partnerships be reorganized on a territorial basis to serve the needs of planning for integrated rural development at local and regional levels and avoid proliferation of sectoral partnerships?
- Should partnerships be mainly a means of joint strategic planning, monitoring, and assessment; or should they be decision-making or implementing bodies as well?

It may be that there should be a stronger role for democratically elected local authorities in local and regional partnerships, and that a single local or regional partnership should deal with all social, economic, and environmental aspects of territorial strategic planning for development. It may also be that in some sparsely populated areas, levels of local government are too remote to permit easy access to services and decision-making processes by rural citizens. Central government financial support, negotiated on the basis of the territorial plan, could take the form of a global grant and rather than being subject to complex *ex ante* administrative rules and conditions, financial control could be in terms of *ex post* outputs and outcomes or results.

At the level of central government, there often remains room for improvement in coordination of the various ministries and departments responsible for policies affecting rural development. Judging by recent developments some key elements seem to be:

- Policy “proofing” by a senior interdepartmental or interministerial group. This group sees policies affecting rural areas during their formative stages, is able to point out possible problems for rural areas, and can propose amendments. For example, the group may look at policies for housing, transport, telecommunications, water and waste disposal, postal services, education and training, health, regional development, agriculture and environment, national parks, local government, and so on.
- This process is likely to be stimulated by the presence of a rural affairs committee in the parliament, with a territorial rather than a sectoral remit, since this will ensure senior civil servant participation in any interdepartmental or interministerial group.
- Allocation of rural coordination responsibilities to one senior ministry or department which must chair the interdepartmental or interministerial group.

This partly refers to the continuing role for central government in terms of macroeconomic management, which will have rural implications, but it goes beyond that.

Another role for the state is in ensuring that there is a good flow of information about rural development activities and their results. In many cases this is undertaken through national or supranational networks of local partnerships (as, for example, in the European LEADER Observatory) which exchange information, run training seminars, and provide documentation on “good practice,” etc. Such activities need to be supported by active research, which can codify and validate results, and raise issues to be addressed.

## Conclusions

Rural policy has seen significant developments in the past two decades. Several member countries have completely overhauled their rural policies in recent years, while most have undertaken significant reforms. The key elements of these shifts have been:

### *Relating to the governance framework of policy...*

- Efforts to improve central coordination of a wide range of policies affecting rural citizens through institutional arrangements for interdepartmental and interministerial coordination, including “policy proofing” to ensure that all such policies contribute to the overarching goals, and that actual or potential conflicts are minimized.
- Attempts to create more flexible arrangements for central support of rural development such that the diverse and varying needs and circumstances of rural areas can be better met, for example, through policy “menus,” devolved powers to prioritize measures and spending, and “global” program grants.
- Efforts to create new institutional arrangements at local and regional levels to define policy objectives priorities and strategies, and implement policies and programs at these levels, as well as to involve both government and nongovernment actors in ways which not only integrate and coordinate activities but also draw on local and regional knowledge and other resources and increase the participation of local people.
- Efforts to build local capacities to act through leadership and community development programs and empowerment of local actors—i.e., a better matching of responsibilities and powers.

Relating to the objectives and instruments of policy...

- A new focus on trying to improve the “competitiveness” of rural areas, and hence to understand the key elements which differentiate rural areas which appear to be “performing” well from those which are not.
- Attempts to divert resources from programs which focused on subsidies to existing rural activities in an effort to maintain these, to programs which focus on support for investment in human and social capital, diversification of economic activity, and the related creation of new enterprises, key infrastructure, the environment, and innovation.
- Efforts to reinforce rural economies, principally through diversification of economic activities, mainly using indirect aid for transport, communications, and business infrastructure; promoting networks of knowledge and expertise; supporting education and training; and increasing the attractiveness of areas for new enterprises.
- Enhancing business assistance, especially efforts to diffuse new technologies through R&D and the development of specialized regional institutes or centers, enhancing business services, establishing interregional and international business networks, and encouraging endogenous innovative initiatives.
- Developing human resources through vocational training, including an important emphasis on entrepreneurial skills, and school-to-work initiatives; plus capacity building for policy actors at local levels.
- Developing and commercializing natural

and cultural “amenities” through direct exploitation of the relevant resources for recreation, tourism etc., and indirectly through promotion of conditions likely to favor, for example, enterprise locations for quality of life reasons.

- Creation of local products based on local identity and aiming at a market niche, usually linked to local natural and cultural “capital,” and including development of quality labels and guarantees linking products to places, particular production techniques, etc.
- New ways of providing public services in rural areas, sometimes combined in service centers and, as in the case of telemedicine and distance learning, sometimes using

information and communications technologies.

- The increasing use of program evaluation procedures both as a control and a learning mechanism.

In many cases, these refinements and innovations are recent and limited in scope to certain OECD countries. As such, they have not been comprehensively evaluated. Additional work will be needed to ascertain the durability and transferability of these initiatives on a wider international scale. Nevertheless, this brief survey lends support to the argument that rural policy has now gone beyond agricultural policy in many countries, both providing a complement to sectoral policy approaches and offering new trajectories of development for rural areas.

## ENDNOTES

<sup>1</sup> Economic forces and changing government policies are speeding up the process of agricultural restructuring in most OECD countries. In effect, most regions have become less dependent on agriculture and resource industries and specialization in these sectors is risky given the vagaries of international commodity markets and trading regimes. Estimates of the amount of formerly agricultural land that will be converted to other uses range between 30 percent and 80 percent (ESDP, p.20). The issue for policymakers is how to ensure that market-led restructuring does not result in overcultivation with negative environmental effects in some areas and abandonment of the land in others. Adjustment and transition to new economic sectors and activities is therefore a priority, and the majority of member countries opt for policies of internal and, especially, external diversification.

<sup>2</sup> Fifty-four micro-regions have been defined as qualifying for the LIM (Law on investment in mountain regions).

<sup>3</sup> The northern areas are defined using a criterion of population density. They are eligible for settlement grants and subsidies for transport and job creation.

<sup>4</sup> A marginalization index, calculated based on nine indicators taking into account the proportion of the population that does not have access to basic goods and services, is used to identify 91 priority regions for federal government aid.

<sup>5</sup> For the 1994-99 period.

<sup>6</sup> Although these typologies are largely based on objective criteria, they may be applied with some flexibility, in particular for territories that are borderline cases. Some areas may be included in a type of region as a result of complex negotiations in which countries, regions, and even a supranational entity (the EU) are involved. Consequently, these areas are defined to some extent partly through a political compromise. In the case of type 5b areas, since the European negotiators were unable to reach a clear definition of criteria of eligibility, the map was particularly complex and geographical priorities were not easy to identify. In general, switching a region from one classification to another raises practical problems, which can result in exemptions being granted and transitional periods being established.