



OECD Rural Policy Reviews

CHILE



OECD Rural Policy Reviews: Chile 2014

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Foreword

With gains in agricultural productivity leading to a dramatic reduction in farm employment, rural regions across the OECD now depend on a wide range of economic engines for growth. Increasing globalisation, improved communications and reduced transportation costs are additional drivers of economic change in rural areas. Traditional policies to subsidise farming have not been able to harness the potential of these economic engines. In 2006, the OECD published a thematic report *The New Rural Paradigm: Policies and Governance*, which seeks to explain the shift in rural development policies to account for these important economic changes and the need for a new approach to governance.

Policies to develop rural places are beginning to take into account the diversity of economic engines as well as the diverse types of rural regions. On the aggregate level, rural regions face problems of decline with out-migration, ageing, a lower skill base and lower average labour productivity which then reduce the critical mass needed for effective public services, infrastructure, and business development, thereby creating a vicious circle. However, there are many rural regions which have seized opportunities and built on their existing assets, such as location, natural and cultural amenities and social capital. The success of such dynamic rural regions is evident in regional statistics.

Promoting rural development poses numerous policy and governance challenges because it requires co-ordination across sectors, across levels of government and between public and private actors. OECD countries have therefore been undergoing a paradigm shift in their approaches to accommodate such important challenges. The most defining characteristics of this shift are a focus on places rather than sectors and an emphasis on investments rather than subsidies.

The multi-disciplinary nature of rural development has contributed to the lack of comprehensive analytical frameworks to analyse and evaluate multi-sectoral, place-based approaches. To fill this knowledge gap, the OECD co-operates with stakeholders worldwide. Its work on rural development was intensified with the creation in 1999 of the Territorial Development Policy Committee (TDPC) and its Working Party on Territorial Policy in Rural Areas. These bodies provide governments with a forum for discussing regional and rural development. In early 2006, under TDPC's guidance the Directorate of Public Governance and Territorial Development (GOV) launched a series of national rural policy reviews, such as this one on Chile, to deepen international knowledge in this field.

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Executive summary

Main findings

The current definition of “rural” no longer reflects Chile’s economic realities...

In recent decades, Chile has experienced significant economic growth and social progress. A large share of national income and exports is associated with the primary sector, especially minerals, but also agriculture, forestry and fisheries. Yet there has been little focus on providing a stronger *milieu* for these industries at the regional level. Chile’s peculiar geography concentrates economic activities and settlement patterns in a few geographic areas, contributing to very high levels of regional inequality. More than half of Chilean regions with high degrees of rurality record GDP per capita below 75% of the national average. To resolve this problem there is a need to shift the rural policy vision from the current approach, where lagging regions depend on social programmes and agricultural and other sectoral policies, to a more comprehensive and integrated rural development programme. Chile’s current official definition of rural areas is not suited to a modern rural economy, where recognising the significance of urban and rural interactions, differentiating among different types of rural areas, and finally recognising and defining multiple types of rural areas are important considerations.

Chile now has a rural programme but lacks a rural policy ...

At present Chile lacks a formal rural policy, as is commonly present in other OECD countries; that is, there is no integrated territorial approach to the development of the country’s rural regions. In contrast, it has a number of sectoral policies for those activities most common in rural areas, primarily natural resource-based activities and agriculture, as well as specific measures for the delivery of public services in rural areas. There is no co-ordinated action on rural areas that pays attention to the needs of rural communities from the perspective of sustainable development – ensuring the ability of rural areas to continue to offer wealth, while working towards their overall sustainability. Furthermore, given the emphasis of the current approach, which associates rural with disadvantaged areas, rural policies now put a strong emphasis on providing subsidies to the disadvantaged, not because there is any great expectation that they will be able to use the support to improve their condition but largely out of a sense of social cohesion.

Sub-national governments have limited autonomy...

Chile is a highly centralised polity, where policy design and policy implementation are largely defined from the centre. In this context, rural development policies are designed in a top-down manner, at times without due consideration for territorial idiosyncrasies, priorities and realities. The considerable number of national public actors involved in rural development creates a high degree of institutional fragmentation, resulting in overlapping programmes and co-ordination failures in rural policies. While Chile has created a number of inter-ministerial committees to deal with challenges and cross-cutting issues in rural areas, there is a need to better integrate rural development

policies to ensure the potential complementarity gains are realised and avoid counterproductive outcomes. Limited fiscal capacity undermines the ability of municipal governments to carry out any devolved responsibilities, making it important to transfer revenue sources as well as programme authority.

Key recommendations

Revising the current rural definition

- To design and implement an effective policy to strengthen rural areas, Chile must formulate a more appropriate definition of its rural territory.
- The revised definition should not classify the entire territory as simply urban or rural; it should differentiate amongst different types of rural areas and recognise mixed areas where there are strong urban and rural interactions.
- The review proposes two alternative definitions. The first is more precise, but it is more difficult to compute and requires the availability of very detailed data, making it more difficult to implement in the short term. The second is less precise but easier to compute. Data for the second alternative are already available.
- Use of a revised definition reveals rural patterns commonly seen in other OECD member countries.

Adopting a modern rural development policy

- There is a need to integrate the various sectoral policies into a comprehensive and co-ordinated national rural policy addressing five key dimensions: social, economic, environment, migration and governance.
- The new national policy should contain a broad approach that allows line ministries to play a distinct role in rural development reflecting their unique competences, but within an overarching strategy for better integrating the actions of the wide range of rural programmes.
- The national rural policy should also contain a narrow (regionally sensitive) approach to rural policy, given Chile's diverse geography and the presence of remote rural regions. This would give a single agency a comprehensive set of policy tools that can be applied in a tightly co-ordinated way to better address the needs of remote rural areas.

Making government a stronger force for rural progress

- An institution with a clear leadership role on rural issues is needed to better integrate national rural policies and upgrade the concept of rural development at all levels.
- Increasing rural municipal own-source revenues, e.g. by reducing or phasing out property tax exemptions, and enforcing the payment of municipal business licenses, can help local governments to carry out their devolved responsibilities.

Incorporating additional variables that consider the cost of providing public services in thinly populated areas in the National Fund for Regional Development (FNDR) ex-ante social profitability assessment can help reduce the disadvantages of rural localities when competing for FNDR resources.

Assessment and recommendations

In recent decades Chile has experienced significant economic growth as a result of democratic reforms and opening the economy to global markets. Much of this economic growth has come from the ability to capture foreign markets by the natural resource firms of Chile and by first stage processors of these resources. These essentially rural industries support urban development and efforts by government to improve social conditions for Chileans. However, the ability of government to assure additional growth in primary industries and to provide a better quality of life in all parts of the national territory is impeded by the lack of a comprehensive national rural development policy.

A significant problem is the current approach to defining rural which seriously understates the share of population and share of economic activity occurring in rural areas. The problem is compounded by a belief that rural policy should be restricted to helping the disadvantaged within this limited rural territory, rather than supporting all rural residents and firms efforts to be more productive.

In a modern industrial democracy rural regions should play an important complementary role to urban regions. This means that the development path of most rural regions is not to become an urban metropolis, but instead to be the providers of goods and service that are best produced in a rural setting to national and international markets. However, the role of rural regions changes as the national economy moves through various stages of development. For this reason it is important to understand the different types of rural territory.

Instituting a more modern approach to rural policy, based on principles adopted by OECD members, can allow Chile to take better advantage of its historic strengths. This approach requires both a new definition of rural, an alternative perspective on the role of rural policy that focuses on investments and tapping underutilized potential and a restructuring of the way government policies are framed and delivered. On this latter point Chile should consider adapting the current regional policy framework in ways that devolve responsibility and resources to the local level and improve integration of rural and urban policies to facilitate better coordination.

Assessment

Assessing key challenges in Chile

Chile's economy has performed well, but it can do better...

Within the OECD, at the national level Chile is clearly a high performing country. But, its strong macroeconomic performance has made it possible to not sufficiently focus on significant differences in economic performance and living standards that occur across

the regions of Chile, especially those in rural Chile. Importantly, a large share of national income, and an even larger share of exports, are associated with the primary sector, especially minerals, but also agriculture, forestry and fisheries, yet there has been little focus on providing a stronger milieu for these industries at the regional level. Focusing on a better rural development policy could strengthen these sectors and address important social disadvantages in terms of basic indicators, like: educational attainment, health status, poverty levels, housing quality and life expectancy, which have led to significant inequality and social exclusion in the more rural parts of Chile.

In recent decades Chile has experienced an important process of modernisation, bringing greater economic prosperity and lower poverty. Per capita income more than doubled over 20 years to be the highest in Latin America. Chile enjoys a prudent fiscal policy and strong inflation-targeting framework, features that have been well-recognised by sovereign rating agencies. The financial sector is healthy, and the government has sought to broaden the productive base of the economy and to boost entrepreneurship and innovation through investments in education and the reduction of product-market entry barriers.

The opening of the economy was mainly driven by resource-based sectors. Chile's small resource-based economy underwent a profound policy shift from import substitution to exports. A series of trade reforms, along with favourable international conditions, such as high copper prices, raised the ratio of exports to imports in GDP from 45.7% in 1976-84 to 60.3% in 1995-2002. The opening of trade-related productive activity gave rise to new industries, many based on the processing of primary goods, such as the agro-food sector. An important share of overall exports is driven by primary and first-stage processing activities. Chile's economy relies heavily on natural resources. It produces almost a third of the world's copper representing more than half of Chile's exports. It is also the world's second largest producer of salmon and the fourth largest wine exporter.

Despite these positive developments, the process of modernisation is far from finished. Chile's economy needs to further spur dynamism in order to maintain a positive outlook in the medium and long term. In addition to advancing in a number of key areas, such as, strengthening green growth, labour market inclusiveness, entrepreneurship and innovation (OECD, 2013a), regions need to continue advancing to unlock growth opportunities in their territories. National growth will be strengthened as the country advances: its national urban policy framework (OECD, 2013b), its place based approach adapting policies to the specific and varied characteristics of different Chilean regions (OECD, 2009), and, finally, in improving the prospects of rural areas. There is a need to shift the rural policy vision from the current approach where lagging regions depend on social programmes and agricultural and other sectoral policies to a more comprehensive and integrated rural development programme.

Despite the good aggregate conditions, important weaknesses remain in the regions...

In Chile, aggregate declines in poverty still mask a high level of inequality that is not only driven by strong growth in natural resource regions and Santiago, but also by the low performance of a number of low densely populated regions. Contrary to the belief that Chile's high level of regional inequality is mainly driven by Santiago and regions specialised in the mining activities (Antofagasta and Tarapaca), the underperformance of a wide range of regions is also a key driver of the high levels of inequality. Currently in

more than half of Chilean regions – Aracania, Los Lagos, Maule, Bio-Bio, Aysen, Coquimbo and Valparaiso -- GDP per capita is less than 75% of the national average. A simulated Gini coefficient for Chile, excluding the outlier mining regions of Antofagasta and Tarapaca, reveals that inequality would still be higher significantly higher (0.22) than the average in OECD countries.

Inequality among people is highly associated with inequality across space. Although the process of overall development creates regional imbalances, given that some territories have higher growth potential than others, when imbalances are excessive this suggests that some regions and the inhabitants living in them may lack adequate access to goods and services as well as to economic opportunity. Regional policies under the current policy approach address these spatial imbalances through compensating mechanisms that redistribute resources. As will be discussed in Chapter 2, many OECD member countries have abandoned the use of regional policies as compensating mechanisms for a different framework that regards regional policies as a strategic tool that adapt policies and investment to the needs of each region, with the goal of facilitating the development of each place.

Concentration in settlement patterns and economic activity is high in Chile...

Chile's particular geography brings both challenges and benefits. Chile is over 4 300 kilometres long, but no more than 240 kilometres wide. This creates a challenge for developing and managing connections among individuals, firms and regions throughout the country, and for delivering goods and services throughout the territory, especially in remote areas. Moreover, accessibility and connectivity to international markets also represents a challenge for many regions. Relative to other parts of Latin America, Chile's remoteness and its particular geography have been less of an impediment. In Chile, macroeconomic stability and resilience have attracted foreign capital and business activity from neighbouring countries that also experience similar poor international connectivity resulting in pockets of strong economic activity.

The geography of Chile has led to a concentration of economic activities and settlement patterns in a few areas. Chile's geography, reflecting the presence of desert land in the north, mountainous terrain throughout the country and ice in the south, concentrates economic activities and settlements patterns in a few geographic areas. According to the geographic concentration index, demographic concentration in Chile (61) is almost twice the OECD average (32) and is only surpassed by Iceland (62). Indeed, almost half of the Chilean population live in Santiago and almost 60% in Santiago and Bio-Bio. Similarly, economic activity is very concentrated in Chile, recording the highest level of geographic concentration of GDP (52) among OECD countries.

Assessing the official rural definition and current rural reality

The current definition in Chile must adapt to rapid changes in urban and rural regions...

As a result of geographic constraints, rural areas in Chile have varying characteristics and economic challenges. Furthermore, the entire country is facing a process of structural transformation and modernisation that is changing the realities of urban and rural areas at

a very fast pace and the relationships among them. The official definition classifying urban and rural areas must adapt to these changes in order to ensure that policy implementation is effective and address the correct problems. In this front, the OECD has advanced in recent years in its methodology to classify urban and rural areas.

There is room to improve Chile’s official definition delimiting urban and rural areas. The definition is constructed by the National Statistical Institute (INE) and classifies localities as either urban or rural. Urban localities are considered to be places with over 2 000 persons, or between 1 001 and 2 000 persons when 50% or more of the economically active population is engaged in secondary or tertiary activities.¹ As a special case, tourism and recreation centres, which have at least 250 clustered dwellings, but which fail to meet the required population standard may also be classified as urban. According to the official definition, 87% of the Chilean population lives in urban areas. There are several notable characteristics emerging from this definition:

- The entire territory is classified dichotomously as either urban or rural.
- The definition focuses primarily on urban characteristics defining rural as the residual after urban is defined.
- The definition does not differentiate among different types of rural areas in Chile.
- The definition cannot account for mixed areas where there are strong urban and rural interactions.

The main shortcomings of this definition are in its inability to capture basic elements of a modern rural economy, including: recognising the significance of urban and rural interactions, differentiating among different types of rural areas, recognising and defining multiple types of rural towns and settlements, and, finally, the ability of rural areas attracting inhabitants with strong human capital and skills, i.e. those rural areas which are emerging close to cities through improvements in accessibility and ICT connections that attract high skilled dwellers wanting access to green spaces close to urban centres.

The current official definition underestimates the relative role of rural in Chile...

The OECD has constructed a taxonomy of rural and urban regions that has been widely adopted. It defines TL3 regions as predominantly urban (urban from now on), intermediate and predominantly rural (rural from now on). This taxonomy, established in 1991, is designed for analysing internationally comparable spatial data. It is important to recognize that the OECD taxonomy is based on regions that contain a mix of urban and rural areas. According to the OECD taxonomy, 40 of Chile's TL3 regions are defined as rural, followed by 7 as urban, and 7 as intermediate. According to this taxonomy 34.6% of the Chilean population live in rural regions, 50% in urban and the remaining 15% in intermediate in 2012.

Following this definition, Chile has both a relatively high proportion of its population living in urban regions and in rural regions, significantly higher than the OECD average. In contrast it has one of the lowest shares of population living in intermediate regions, only surpassing Ireland, which does not have any intermediate TL3 regions. The simultaneously high share of urban and rural reflects both the high degree of spatial concentration and vast geographic surface area of Chile.

Recently, the OECD, in collaboration with the European Commission, has developed a new approach for classifying functional urban areas. These metropolitan regions are also made up of both urban and rural territory. The methodology differentiates among metropolitan regions of different sizes, providing new tools for better understanding urban and rural dynamics for different size regions. This new approach provides another way to identify the relative role of urban and rural regions in Chile, but one that puts a larger weight on urban.

The FUA definition and the original OECD regional taxonomy are based on two different methodologies and measure different realities: the former captures the integration of urban and rural territories into a single local labour market based on commuting patterns. It includes both an urban core and a peri-urban hinterland containing strong urban and rural interactions. By contrast, the regional taxonomy is based on administrative boundaries and captures the wider context in which urban and rural development takes place. Predominantly rural regions can contain urban cores if the share of the population living outside the urban cores exceeds 50%. Each definition conveys different information.

Despite the different dimensions that both definitions measure, the share of the national population living in rural areas differs, differs significantly from the results provided by Chile's official definition.

Share of the national population in Chile living in rural areas, 2012

		Share of national population in 2012
Official definition	Rural areas	13.1%
OECD typology TL3	Predominantly rural	34.6%
FUA (OECD)	Rural areas outside the FUA	26.8%

Assessing current rural policies in Chile

Chile now has a rural program but lacks a rural policy ...

At present Chile lacks a formal rural policy, in the sense used by the OECD – that is, an integrated territorial approach to the development of the rural regions in a country. Chile has a complement of sectoral policies for those sectors most common in rural areas – natural resource based activities, and it has specific policies for the delivery of public services in rural areas. This suggests that Chile has many of the components needed for a rural policy already in place. However, the integration of various sectoral policies into a comprehensive and integrated rural policy is complicated by the distinction now drawn in Chile between firms that are of a commercial size and that are fully integrated into national and international markets, and small, possibly semi-subsistence, firms that are only weakly integrated into markets. Only the latter are now seen as targets for rural policy.

Currently, only the smallest settlements in sparsely populated regions are considered rural. Not surprisingly, poverty levels in rural areas, according to this official definition, are significantly higher than under a revised definition that considers a broader aspect of rurality. Rural policy in this context is partly includes transfer payments to compensate for low market incomes and partly support to help these people and firms

become more competitive. While there are strong sectoral policies to support larger commercial firms that are located in rural territory, this is not seen currently as being part of rural policy. This makes it very difficult to articulate or develop coherence around common goals, and to the actions and strategies of the different ministries and public agencies that intervene in rural areas.

The current rural approach is largely based on compensating lagging areas...

Because Chile has adopted a conceptual definition of rural as being only those places, firms and households requiring specific interventions to better connect them to markets and the urban territory there is an association of rural with disadvantage. Consequently, rural policy is focused on providing resources for the targeted firms and households to improve their capabilities and become better integrated. In the case of firms this involves making investments to increase output to achieve minimum commercial size and in the case of households improving skills to either, improve their local employment opportunities, or to make relocation to another region where jobs are more plentiful more attractive.

Given the dominant role in the national economy of large export-oriented firms located in rural territory this approach has real costs for the economy and Chilean society. It is in many ways a particularly strong example of the old paradigm of rural development that is based on providing subsidies to the disadvantaged, not because there is any great expectation that they will be able to use the support to improve their condition, but largely out of a sense of social cohesion.

High levels of inequality and social exclusion are significant problems in Chile and act as a drag on development. Three distinct categories of people are affected by a lack of income opportunity - urban poor, rural poor and indigenous people. The underlying causes of their disadvantage differ significantly and policies to improve conditions will necessarily differ due to these differences in circumstance. The problems of the urban poor are largely outside the scope of this report, except for the reality that a major cause of rural to urban migration is an inadequate standard of living. Thus one of the best ways to reduce the incidence of urban poverty is to reduce the incidence of rural poverty. Similarly, while there are large numbers of indigenous people in urban areas the focus here is on efforts to provide better opportunities in native communities that are located in rural Chile. A comprehensive rural policy can address this important concern with inequality.

Rural policy, like all policy in Chile, starts with the national government...

Historically Chile has been a highly centralised country. Policy design and policy implementation is largely defined from the centre. National ministries concentrate strategic functions, proposing and monitoring policies and norms. At the same time, policy execution is mostly carried out by sub-national public agencies (*servicios públicos*) linked and administratively dependent upon national ministries, but headed by an appointed director having a high degree of autonomy over the use of resources and implementation of policies in their jurisdiction. In this context, rural development policies are normally designed in a top-down process, without enough consideration to territorial idiosyncrasies, priorities and realities (OECD, 2009a; Subdere, 2013a).

A considerable number of national public actors have roles in rural development policies. As in many countries, policy for rural areas in Chile is not the sole responsibility of a specific Ministry or public agency. The Ministry of Agriculture and the 12 public agencies operating under its domain deal with matters related to agriculture, livestock and forestry. Given the important role that agriculture has played in Chile’s economy, this Ministry, and some public agencies like the National Institute for Agricultural Development (INDAP) continue to have an important role and a widespread presence in rural areas. However, this Ministry does not oversee, or coordinate, rural development in broad sense, and does not intervene in, or exercise much authority over, other ministries that are directly related to rural development, like: fisheries, rural tourism, renewable energy, economic development, or in the fight against poverty in rural areas, in which a diverse array of national ministries and public agencies intervene.

Sub-national governments have limited autonomy and mandate...

In particular, public institutional action in rural areas is mostly segmented and fragmented. The traditional dominance of agriculture and mining as the fundamental “rural” economic activities in the Chilean countryside explain the predominance of the respective Ministries of Agriculture and Mining. These Ministries adopt a sectoral agenda where rural areas become relevant in terms of raw materials and food for domestic consumption and export. However, there is no co-ordinated action on rural areas that could pay attention to the needs of rural communities from the perspective of sustainable development, to ensure the ability of rural areas to continue to offer wealth, while working towards their overall sustainability.

Institutional fragmentation and coordination failures often results in overlapping public programs in rural areas. The current approach in Chile of focusing on specific sectors raises the problem of coordination. Clearly sectors are interrelated. A current pressing example is competition in the northern regions between mining and agriculture for water. This also involves the agriculture, environment and public works ministry. While Chile has adopted inter-ministerial committees to deal with cross-cutting issues like this, these important problems are harder to resolve in the absence of an integrated rural development policy that creates a framework for managing conflicts.

Similarly, the mining, agriculture forestry and fishing sectors are concentrated in a small number of regions. These regions presently depend on the comparative advantages of these sectors, but should invest in creating dynamic advantage by producing more complex and higher value added products in their sectors of specialisation. In addition, diversifying their production base will help them cope with global shocks and fluctuations in prices and in demand. International evidence points to a positive link between product diversity in export goods and growth as new products and services often exploit untapped resources and potentialities of countries and regions. More developed countries have in fact proven successful in transforming production of simple goods to production of more complex and higher value-added goods in the production chain.

Recommendations

Recommendation 1: A New Rural Definition

A revised definition better identifies growth potential and importance of rural areas ...

For Chile to have a strong and effective policy that can strengthen rural areas it is paramount that it first creates a more appropriate definition of its rural territory. Revising the current rural definition is a necessary first step in forming a coherent vision for the development of rural areas and taking advantage of their growth potential. The current definition restricts rural areas to only very low populated areas with low socio-economic indicators (e.g. human capital), or, simply stated, it associates rural with economic and social decline. This definition goes counter to the significant wealth now being produced in these areas in Chile, which drives export growth.

There are three distinct types of rural regions in Chile, as in many OECD member countries, each with different characteristics; challenges and policy needs. In all three types of region the rural territory provides a complementary role to urban areas. The main difference among them is where the main source of economic dynamism is located. In metropolitan regions it is clearly in the cities, whereas in small and remote regions it is in the rural area. The vast majority of rural territory falls in an intermediate situation, where the urban and rural components of a region are more balanced in capacity and three are very large potential gains from coordination.

- **Rural regions within a metropolitan region (functional urban area - FUA)** – these types of rural regions are part of the catchment area of the urban core and their development is fully integrated into the metropolitan strategy. The main challenges of these types of rural regions is accessibility of services within the FUA, matching of skills to the wide range of supply and managing land use policy brought by increasing pressures of the urban core.
- **Rural regions adjacent to metropolitan regions** – the main challenges in these types of regions are: improving two-way connectivity and accessibility between the metropolitan and rural territory, building short supply chains that link urban and rural firms, balancing population growth with the preservation of quality of life and green space, and enhancing the provision of secondary goods and services.
- **Remote rural regions** – in these types of regions, rural areas depend to a great extent on the primary activities of the area. Growth comes from: building upon areas of absolute and comparative advantage, improving connectivity to export markets, matching skills to areas of comparative advantage and improving the provision of essential services (e.g. tourism).

Chile's economy has evolved rapidly from the time when the definition of rural was last considered, and the economy is now at a new stage of economic development. The functions of urban and rural regions change through the various stages of economic development. The economic development process has often been characterized in terms of stages of growth where a national economy evolves from a narrow economic base that has weak connectivity to a complex structure that has strong

internal markets and is well integrated into the global economy (Rostow, 1960; Rodrik, 2003). As national development takes place it is through an economic and demographic transformation of rural and urban territory. An important feature of this growth process is the evolving function of urban and rural regions within the country.

To take these changes into account two alternative definitions are suggested that can better capture Chile's rural reality, build on synergies with urban activities and policies targeting urban areas, provide international comparability while capture country and local specificities, define mixed spaces and differentiate among rural regions. Both options can be used to classify administrative *comunas* by degree of rurality using information within the *comunas*:

- The first option requires the availability of population data at a very fine grid (1 km²) across the country. This option makes use of more and better information, although it is more difficult to compute and more importantly, data at this level is not currently available for Chile as a whole.
- The second option requires less information with building blocks based on existing population data at the census district level within *comunas*. Data are currently available for this option.

Under a revised definition, rural Chile changes significantly ...

A more refined picture of the rural economy can currently be obtained by imputing employment by economic activity in urban and rural areas from the national labour force survey using a simplified rural definition from the first option in which *comunas* inside FUAs are urban and *comunas* outside are rural. By comparing the imputed results to rural employment based on the official definition, the analysis permits to capture how rural characteristics may change with a revised definition. Indeed there are striking differences:

- The share of the rural economy in national employment almost doubles from 12.7 to 22.1%.
- Only around one fourth of total rural households in Chile are employed in agricultural, forestry and fishing activities, and the larger majority, representing almost 60%, is employed in services-related activities.
- Almost three-fourths of rural households in Chile are employed in non-agricultural activities, primarily in manufacturing and the services sector, which offer an alternative or complementary source of income.

Examining population dynamics under the revised definition reveal a similar picture for Chilean rural municipalities as in OECD regions. The most densely populated group of municipalities (above 100 population density) are the most dynamic in terms of population growth with an annual average rate of 2.05%, almost doubling the national growth (1.05%) and the growth of urban municipalities (1.14%).

Poverty rates under the revised definitions change significantly with the lower poverty rates in rural areas:

- Estimating poverty rates under the revised definition in the first option yield a lower poverty rate in rural areas, from the original 15% to 5.7%.

- Estimating poverty rates under the revised definition in the second option also decrease the poverty rate in rural areas and increase poverty rates in mixed (urban-rural) areas. Under this definition poverty declines from 15% to 9.2% in rural areas, and in mixed regions it stands at 16%.

Recommendation 2: Adopt a modern rural development policy

Rural policy in Chile needs to be up to par to its advanced level of development...

Chile's remarkable growth performance over the past decades has brought its economy to a high stage of development allowing more policy flexibility. Kuznets' "inverted U" description of the path of inequality can be relevant for Chile. Kuznets hypothesised that at a low stage of development income inequality is low because the majority of the population is poor. As development takes place wealth and income become concentrated in a number of leading sectors and in the hands of those in the leading sectors. The result is a high level of income inequality at moderate stages of development. But as the economy becomes more advanced the vast majority of the population benefits from modernization, and ultimately as incomes rise, inequality declines once again. If Kuznets is correct Chile can now afford to make investments in rural and urban regions that allow all citizens to better participate in the modernization process.

With modernization the national economy shifts from rural led growth to urban led growth. Urban economies grow in size and they begin to decouple from the rural economy and develop internal markets that complement rural activities. Population begins to concentrate in cities where manufacturing and the service sectors provide increasing amounts of income and employment that is less dependent on rural production, which results in diversification and increased stability. The share of rural production in GDP and employment begins to fall rapidly, even though the volume and value of rural, resource based activity continues to expand and its share in exports remains strong.

Rural economies diversify in response to high urban costs. With greater concentration of production and people in urban areas, production and living costs increase accordingly. This induces some firms to seek lower cost locations in rural regions. The outflow of firms from urban areas provides diversification benefits in rural regions and reduces congestion costs in urban regions by retaining people in rural regions, thereby reducing urban housing costs. In addition, firms that may have become uncompetitive in a high cost urban environment can continue to earn positive profits in a rural location.

Even at the most advanced stages of development a considerable share of the urban economy depends upon a direct connection to rural activities. In advanced stages, the bulk of the population and economic activity occur in the most urbanized regions. However, urbanized regions are tightly coupled to rural regions by transport and communication networks and host of market and non-market exchanges. Urban regions become more specialised in advanced services and less in tradable activities. Importantly, while urban regions have large internal, or home, markets, a considerable share of the economic activity that takes place in an urban setting has as its ultimate consumer a rural household or firm. For example, an export trading firm in Santiago acts on behalf of a fruit processor in a rural region. Similarly, the corporate headquarters for major mining

and forestry companies are in urban centres, but the actual minerals and timber are in rural areas.

The rural economy has an important role in those OECD member countries with higher levels of GDP per capita. The changing role of rural policy as development evolves reflects the changing role of rural in the national economy. Members of the OECD have largely completed the transition from semi-subsistence to market economies in the vast majority of the regions in their countries and are now improving the integration of predominantly rural regions with a largely urban economy. Rural policy acts to facilitate this integration. There is a positive relationship between the shares of national population living in predominantly rural regions in OECD member with levels of development, indicating the increasing role of the rural economy in countries with higher levels of GDP per capita. Simply put, prosperous rural regions help raise average per capita GDP, while poor rural regions lower it.

Going forward, people will continue to leave rural areas for urban centres when it is beneficial for them to do so, but for many people their best opportunities for economic success lie in a rural environment if that environment provides employment commercially viable firms. Chile already relies largely on firms that are tied to rural territory for the bulk of its exports. And this is without an effective rural policy. With a more effective rural policy there should be even stronger performance from these firms and a better quality of life in rural regions.

This highly diverse geography in Chile demands a flexible policy approach...

Given that the set of policy problems is large and complex and the nature of rural is highly variable from problem to problem a flexible approach is required. The diversity of situations across the rural areas of Chile exceeds what is common in most other OECD countries. There are at least three dimensions to the diversity.

- The first is geographic. Chile is both long and narrow which means that every region has considerable climatic variability.
- The second dimension is density. Some regions in Chile are dominated by large urban centres, others have medium size urban centres and some have only small urban centres.
- The last dimension is degree of integration into a market economy. Once again in some regions markets are strong and comprehensive, while in other regions a significant part the population is still in a semi-subsistence state.

Constructing a coherent rural development policy can help to address some of the regional and territorial challenges in Chile. While it would be an exaggeration to say that every region needs a unique rural policy it is clear that each region requires the flexibility to align national rural priorities with its regional needs.

The New Rural Paradigm (NRP) offers a framework for designing a new rural policy that fits Chile's unique needs. It emphasizes the importance of looking for rural opportunities that can best be identified by local actors. National governments, in partnership with a broad set of stakeholders, provide investment support that helps the economies of rural regions grow. Successful implementation of the New Rural paradigm requires a high level of policy and implementation coordination among all these actors.

In Chile, the principles of the NRP have to be better integrated into the local environment. The NRP promotes a flexible governance model by combining top-down and a bottom-up investment oriented approaches to rural policy. Among the OECD nations, and also among Latin American countries, Chile has adopted a relatively market oriented approach to economy development. At the same time it has a highly centralized form of government with great authority concentrated in the Office of the President (see Chapter 3). In designing public policy, including rural policy, these two attributes have to be taken into account.

Adopting a nuanced approach to rural policy will strengthen rural areas...

Given that rural policy in Chile will inevitably involve a large number of ministries, the policy framework should, on the one hand, bring coherence to a complex policy setting, and, on the other hand, provide the flexibility to address the specific needs of individual rural areas. Due to the large number of ministries and agencies with responsibility for some aspect of rural policy there is a danger of rural policy being watered-down within the internal multiple priorities of these sectoral or line ministries. In order for rural policy to exist in a way that is "fit for purpose" an institutional framework has to be put in place that provides a proper context. Most OECD member countries have followed one of two approaches by adopting either a broad or narrow rural policy.

For Chile a mixed approach combining broad and narrow approaches to rural policy might be advantageous. The lack of a national rural policy framework suggests a broad approach that allows line ministries to play a distinct role in rural development reflecting their unique competences, but within an overarching strategy could better integrate the actions of the wide range of ministries and programs now targeting rural areas. At the same time, given the diverse geography and the presence of rural remote regions, some of which are not fully integrated into a market economy, a narrow approach to rural policy that gives single agency, perhaps INDAP, a comprehensive set of policy tools that can be applied in a tightly co-ordinated way might better address the needs of these lagging areas.

Previous OECD analysis of Chile suggests some policy directions...

The Territorial Review of Chile (OECD 2009) recommended: moving towards a solid regional governance structure, strengthening multi-level governance arrangements and establishing a governance system for metropolitan areas in order to ensure co-ordination in the delivery of key public services across the communes of the functional metropolitan areas. *Maintaining Momentum: OECD Perspectives on Policy Challenges in Chile* (OECD 2011) highlights some important challenges to territorial development, such as: the need for more context-specific territorial policies, a vulnerability to regional imbalances and a need to shift from "sectoral agriculture policies to comprehensive rural development programmes". At the same time the report notes that the country was "gradually evolving towards a model which gives more 'voice' to regions". While the *National Urban Policy Review of Chile* (OECD 2013) called for a more "coherent policy design and implementation in urbanism". The study noted that "the highly siloed nature of ministerial activity, a strong centrist approach to sub-national governance and municipal resource gaps have resulted in policy incoherence at the urban level". This report on the potential for rural development policies builds on previous reviews and adds

new strategies as it seeks to provide direction on how to better tap the potential of rural areas in Chile and better align rural, urban and regional policies.

Recommendation 3: Making government a stronger force for rural progress

A key aspect of the NRP is the importance of adopting a broad and integrated rural policy

Rural policy in Chile should address five key dimensions or policy themes: social, economic, environment, migration and governance.

- Social concerns include addressing differences in access to public services, particularly health and education in rural area, the particular role of indigenous peoples in Chile, and the preservation of traditional cultural and social values embedded in the rural population.
- Economic concerns include, making the various parts of rural Chile and rural dwellers fully productive so that they can make a stronger contribution to the national economy, addressing concerns about high rates of income inequality, improving the skills of the rural workforce, and modernizing the rural economy by introducing new economic functions.
- Environmental concerns include addressing the negative environmental effects of resource extraction, enhancing the supply of water, protecting high value environmental resource, but allowing them to play an important role in domestic and foreign tourism, and ensuring species survival.
- Migration concerns focus on the fairly rapid and persistent flow of people from rural areas to cities. This flow occurs because of perceived lack of opportunity and an inferior quality of life in rural places, but many of these rural migrants are unprepared to participate in the urban labour force because of a skill mismatch. Consequently rural depopulation can have adverse effects on rural development by reducing the supply of labour and adverse effects in urban areas by increasing the number of residents who are dependent on transfer payments.
- Governance is the last key issue and it involves questions about how to achieve vertical coordination between national and local policy, the relative roles of different ministries in forming and delivering rural policy, the role of the government in relation to the private sector, and an appropriate definition of regions both in terms of geography and responsibilities.

The OECD modern approach to rural policy has three key elements: (1) recognizing the growth potential of rural areas; which in turn, necessitates (2) a place-based nuanced approach to investments and strategies, as well as a flexible multi-level governance approach. Each of these form the pillars of the OECD New Rural Paradigm; and, (3) facilitating strong relations between the different types of urban and rural areas and building upon their complementarities. This so-called modern approach is a framework that can be adapted to the different characteristics of the three rural regions in Chile and secondly it should be sufficiently flexible to adapt to the different specificities and needs of the country and regions.

A refreshed policy framework can better capture Chile's rural potential...

Helping rural regions grow is an important way to achieve national development objectives. Like all members of the OECD, Chile relies mainly on markets to allocate resources and provide goods and services. But, as is the case for all members of the OECD, there are important roles for government policy in supporting market forces to achieve greater economic progress and meet equity and sustainability objectives. For policy to be effective, it has to meet the needs of individual firms and households that in turn vary across different regions. This means it is vital for policy makers to understand how growth can occur before constructing policy.

Many firms in a variety of sectors in Chile currently have the potential to, increase employment, spread geographically over more territory and innovate to improve their competitive position. Even sectors such as agriculture and fishing where employment is expected to decline will be able to become more productive and more competitive by substituting capital for labour. Other sectors such as, aquaculture, food processing, tourism and manufacturing have the ability to expand in all three dimensions. But this expansion is not assured. A recent OECD publication (OECD, 2012) concludes that effective policy and institutional support is required to realise the growth potential of rural regions. While rural Chile has a strong potential for growth it currently lacks much of these two key areas -- policy framework and implementation mechanism -- targeted to rural areas.

A refreshed policy framework recognising that rural regions are in fact the largest part of the national territory and contain a large number of vital firms in a wide range of industries can better capture the potential gains in Chilean rural regions. While sectoral policy can provide important kinds of support to firms in that industry, this approach ignores spill over effects and may suffer from unintended and adverse consequences. A more coherent rural policy could better identify potential spillovers so they can be at least considered before a sectoral ministry acts.

Achieving better policy integration within the national government is an important step ...

The NPR requires important changes to include a cross-cutting and multi-level governance approach that is both, capable of generating coordination and synergies between policies, and sensible to place-based realities and idiosyncrasies. As discussed in Chapters 1 and 2, this new rural paradigm is particularly relevant for Chile, given the vast diversity in the characteristics, assets, and challenges of its rural areas, and the increasing size of non-farm rural activities. Rural comprehensive and place-based programs are better adapted to the diverse socio-economic characteristics and productive processes that affect the development of Chile's rural territories (OECD, 2009a; 2011a). Yet, the adaptation to this new approach confronts, in governance terms, two main challenges:

- the top-down approach of rural development policies within the centralist administrative setting of Chile and
- the lack of institutional frameworks and mechanisms for generating coordination and synergies between rural development policies.

Existing efforts to improve inter-institutional coordination can be extended...

The government of Chile launched strategic regional plans (*Planes Presidenciales*) containing the areas in which the central government will focus its action in each of the 15 Chilean regions for the period 2010-2014. Each Regional plan includes a general diagnosis of the strengths, challenges and opportunities of the region, the main socio-economic and productive axis in which the government will focus and concrete actions to be carried out. These plans are a good initiative for a better co-ordination of the different central government ministries and institutions related to regional development.

Setting a national policy can contribute to policy coherence. However, there are certain elements, related to the formulation, management, implementation and evaluation of this policy that have to be considered if this policy is to be something else than a declaration of intentions. The analysis of experiences in the area of development in other OECD countries has identified several dimensions related with policy effectiveness in promoting policy coherence and synergies across government institutions (OECD, 2008a):

The main focus of rural policy should be on rural areas that are not well connected to a large urban centre. These places face significant challenges in terms of low populations density, distance from internal and external markets and the lack of a critical mass that provides a nearby demand for the region's products. Current policy does mainly focus on this type of territory but it does so through the lens of the income level of people in certain occupations and not on territorial basis. Because the focus is only on low income individuals and firms and does not include the geographic territory in which they are located some important policy opportunities are missed. In particular the current sector based approach tends to see the potential for improved standards of living as either coming from improved competitiveness in the current sector or from outmigration and under-emphasises the possibility for finding alternative employment in the region.

In addition, rural territory near to large urban centres also has to be considered. Here rural-urban linkages are important. The high interactions between rural and urban areas should be considered when dealing with rural policy. Rural areas provide a flow of environmental and recreational services and amenities to nearby urban residents that also require the food, energy or water mostly located in rural areas. At the same time, the commuting relations between urban and rural areas as seen in Chapter 1 in the Functional Urban Area (FUA) are also quite notable for the case of Chile displaying many urban workers who commute to work from a rural residence on a daily basis. In order to take into account these interactions, the conclusions of the OECD International Conference on Rural Development (2005) held in Oaxaca (Mexico), pointed in the direction of framing rural policy within a comprehensive regional policy which would provide an umbrella for co-ordinated urban and rural development policies, within a territorial based approach. The current process of elaboration on parallel of these three policies in Chile –Regional development policy, urban development policy, and rural development policy- gives a good opportunity to create the right interactions among them.

It is necessary to have effective leadership on rural issues...

Having an institution with a clear leadership role on rural issues is required to better integrate national rural policies, promote synergies and upgrade the concept of rural

development in Chile. The appropriate place that rural policy should occupy within the “Government” is an open and long-standing debate in OECD countries.² The pros and cons of the different options in Chile should thus be carefully analysed, as there is no optimal solution. The agency chosen will need to search for synergies and interactions between the different institutions, and advocate for a higher presence of rural development in the action of the different ministries.

The institution leading rural development should act as an intersectoral rural champion. The institution chosen should work to upgrade the concept of rural development in all relevant ministries and agencies, and down to the territories. Line ministries will always be responsible for the bulk of delivering policies that affect rural firms and households. Major ministries like Mining, Public Works, Health and Education are unlikely to be greatly influenced by another Department or a monitoring committee. The best that can be expected is that they pay more attention to the broader impact of their policies on rural territory. Evidence across the OECD countries (OECD, 2006, 2008a, 2010a) provides some valuable lessons to be considered in any new institutional setting.

Strengthening rural development strategies and capacity of rural localities is key in Chile

Efforts to keep on improving regional development strategies should continue. But it is important to identify how regional strategies connect to rural strategies. One way in which the vision from the regions could have higher salience and relevance, could be through strengthened regional strategies linked to the investment cycles. However, as noted earlier, regional government’s strategies are not statutory: policies and sectoral investments are not required and normally don’t follow their guidelines. This is an important obstacle for adapting investments and policies to regional priorities. It is also a disincentive to regional planning.

Financial limitations undermine the ability of municipal governments to carry out their devolved responsibilities efficiently. Local governments in Chile depend largely on central government transfers and have limited sources of own-revenue, leaving few resources available for economic development investment. On average only 39% of municipal incomes come from own-source revenues and 22% for smaller municipalities with less than 15 000 inhabitants. Municipalities have additional limitations on their access to resources. They cannot request private credits or introduce additional taxes. This creates a high degree of municipal dependence on external transfers. In this context, poorer and smaller rural municipalities normally don’t have the resources to invest in economic development initiatives. Only the wealthier localities – mainly located in the metropolitan area of Santiago - can normally afford to use their own-source revenue to invest in local economic development (OECD, 2009a, 2013a). In this context the following two recommendations can confront these challenges:

- **First, increasing rural municipal own source revenues**, by reducing or phasing out property tax exemptions, and enforcing the payment of municipal business licenses in the municipality where the main activity is carried-out.
- **Second, reducing the disadvantages of rural localities when competing for FNDR resources** by incorporating additional variables that consider the cost of providing public services in scarcely populated areas in the FNDR’s ex-ante social profitability assessment.

Improving public services in rural localities can contribute to social and economic development. The access and availability to public services (e.g. secondary and tertiary education, specialised health attention) and private business services (e.g. banking, training, insurance), is crucial for the social and economic development of the rural community. They contribute to social and economic development in at least four ways: they provide a platform for economic development, enhance human capital, bolster social cohesion and strengthen network economies.

The strong centralism in Chile remains an important bottleneck. Beyond higher interaction and synergies between policies, the other main governance challenge is the excessive top-down orientation of rural development policies and programs in Chile. The centralism of the Chilean administrative system, and the limited mandate, capacity and resources of regional and local actors, challenge the adaptation of policies and programs to the diversity, idiosyncrasies, demands and potentialities of rural territories in Chile.

Notes

1. In the 2012 census, INE has eliminated the economic activity criteria and uses only the criteria of 2 000 persons.
2. The section will not be normative about which model should Chile adopt, but provide some examples of what OECD member countries have done, taking into account the pros and cons of the different models.

Chapter 1

Profile of rural Chile

This first chapter of the OECD Rural Policy Review of Chile provides a general diagnosis of Chilean rural regions. The chapter starts by recommending a revision to the current definition defining “rural” areas in Chile. It then follows with four main sections. The first section discusses the main framework conditions for rural development in Chile, covering macroeconomic aspects, the geographic characteristics of the country and high levels of concentration and inequality. The second section describes the main rural characteristics in Chile using the OECD taxonomy defining predominantly rural regions, the OECD functional urban area definition and the revised definition. The third section examines the performances of rural regions; however, for the case of Chile, given that GDP data are not available for TL3 regions; this section benchmarks the performance of the larger TL2 regions using population density and the degree of rurality as a proxy for capturing rural characteristics. The final section focuses on the social and environmental characteristics of rural areas in Chile.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Redefining rural in Chile

Chile's official definition

The official definition delimiting urban and rural areas in Chile is constructed by the National Statistical Institute (INE). It classifies localities as either urban or rural. Urban localities are considered to be those inhabited by over 2 000 persons, or by between 1 001 and 2 000 persons when 50% or more of the economically active population is engaged in secondary or tertiary activities.¹ As a special case, tourism and recreation centres which have at least 250 clustered dwellings but fail to meet the required population standard may also be classified as urban. According to the official definition, 87% of the Chilean population lives in urban areas.

There are a number of noticeable characteristics that emerge from this definition:

- The entire territory is classified dichotomously as either urban or rural.
- The definition focuses primarily on urban characteristics defining rural as the residual after urban is defined.
- The definition does not differentiate among different types of rural areas in Chile.
- It does not recognise mixed areas where there are strong urban and rural interactions.

The main shortcomings of this definition lie in its inability to capture basic elements of a modern rural economy, including: recognising areas of urban and rural interactions; differentiating among different types of rural areas; recognising and defining multiple types of rural towns and settlements; and finally, capturing rural areas attracting inhabitants with adequate human capital and skills – those rural areas which are emerging close to cities through improvements in accessibility and information and telecommunications technology (ICT) connections that attract high-skilled dwellers wanting access to green spaces close to urban centres.

The OECD regional typology

The OECD taxonomy defines TL3 regions as predominantly urban (hereafter referred to as urban), intermediate and predominantly rural (hereafter referred to as rural). This taxonomy, established in 1991, is designed for facilitating international comparability of rural data. With this aim, it applies the same criterion and selects comparable units among OECD member countries. The OECD scheme distinguishes between two levels of geography within countries: a local community level and a regional level. Local communities are defined as basic administrative units or small statistical areas (*comunas* in Chile). They are classified as either rural or urban using a population density threshold. In a second step, TL3 regions, which correspond to larger administrative units or functional areas, and reflect the wider context in which rural development takes place, are defined as predominantly urban, intermediate or rural with a criterion measuring the share of population living in rural communities (Box 1.1).

According to the OECD taxonomy, 40 of Chilean TL3 regions are defined as rural, followed by 7 as urban and 7 as intermediate (Table 1.1). According to this taxonomy, 34.6% of the Chilean population lived in rural regions, 50% in urban regions and the remaining 15% in intermediate regions in 2012.

Box 1.1. OECD regional typology

The OECD regional typology is part of a territorial scheme for collecting internationally comparable “rural” data. The OECD typology classifies TL3 regions as predominantly urban, predominantly rural and intermediate. This typology, based on the percentage of regional population living in rural or urban communities, allows for meaningful comparisons among regions of the same type and level. The OECD regional typology is based on three criteria. The first identifies rural communities (*comunas* in Chile) according to population density. A community is defined as rural if its population density is below 150 inhabitants per km² (500 inhabitants for Japan to account for the fact that its national population exceeds 300 inhabitants per km²). The second criterion classifies regions according to the percentage of population living in rural communities. Thus, a TL3 region is classified as:

- predominantly rural (rural), if more than 50% of its population lives in rural communities
- predominantly urban (urban), if less than 15% of the population lives in rural communities
- intermediate, if the share of population living in rural communities is between 15% and 50%.

The third criterion is based on the size of the urban centres. Accordingly:

- A region that would be classified as rural on the basis of the general rule is classified as intermediate if it has an urban centre of more than 200 000 inhabitants (500 000 for Japan) representing no less than 25% of the regional population.
- A region that would be classified as intermediate on the basis of the general rule is classified as predominantly urban if it has an urban centre of more than 500 000 inhabitants (1 million for Japan) representing no less than 25% of the regional population.

Table 1.1. Chilean provinces classified by the OECD typology

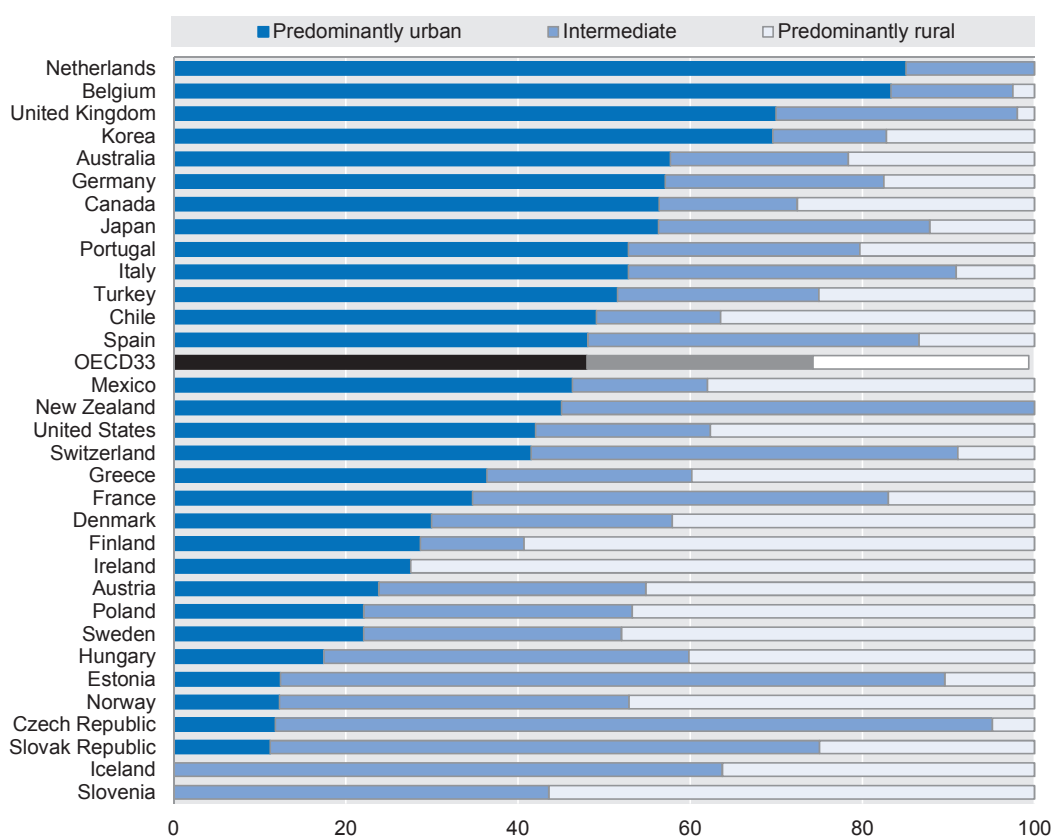
Province	OECD type	Province	OECD type	Province	OECD type
Iquique	PR	Curicó	PR	Melipilla	PR
Tamarugal	PR	Linares	PR	Ranco	PR
Antofagasta	PR	Arauco	PR	Arica	PR
El Loa	PR	Bío-Bío	PR	Parinacota	PR
Tocopilla	PR	Ñuble	PR	Quillota	IN
Copiapó	PR	Malleco	PR	San Antonio	IN
Chañaral	PR	Llanquihue	PR	Cachapoal	IN
Huasco	PR	Chiloé	PR	Talca	IN
Elqui	PR	Palena	PR	Cautín	IN
Choapa	PR	Coihaique	PR	Osorno	IN
Limarí	PR	Aysen	PR	Valdivia	IN
Easter Island	PR	Capitán Prat	PR	Valparaiso	PU
Los Andes	PR	General Carrera	PR	Marga Marga	PU
Petorca	PR	Magallanes	PR	Concepción	PU
San Felipe de Aconcagua	PR	Antártica Chilena	PR	Santiago	PU
Cardenal Caro	PR	Tierra Del Fuego	PR	Cordillera	PU
Colchagua	PR	Última Esperanza	PR	Maipo	PU
Cauquenes	PR	Chacabuco	PR	Talagante	PU

Notes: PR: predominantly rural; PU: predominantly urban; IN: intermediate. The classification of Antofagasta and Iquique as predominantly rural can be driven by the fact that the true urban core is much smaller than the administrative boundaries of the *comunas* in these regions resulting in population density below 150 km².

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Following this definition, Chile has both a relatively high proportion of its population living in urban regions and in rural regions, significantly higher than the OECD average. In contrast, it has one of the lowest shares of population living in intermediate regions, only surpassing Ireland, which does not have any TL3 regions defined as intermediate. The simultaneously high share of urban and rural regions reflects the high degree of concentration and vast geographic surface area of Chile. It is important to keep in mind that the OECD taxonomy classifies TL3 regions reflecting a larger geographic context in which rural development takes place. Contained in these wider areas is a mix of smaller urban and rural areas.

Figure 1.1. Share of population living by type of region classified by the OECD typology



Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2013-en.

The OECD taxonomy defining three types of regions was adopted by the European Commission (EC) in its early stages and by many OECD member countries, mainly as a useful tool for analysis and international comparability due to its simplicity. While many OECD member countries use the definition as a guiding principle, most continue to have, in parallel, their own definitions, defining urban and rural areas in a manner adapted to their own local contexts and specificities. These latter definitions are applied for policy and regulatory purposes.

The OECD taxonomy was refined in recent years to an OECD extended typology defining five types of TL3 regions: predominantly urban, intermediate close to a city, intermediate remote, rural close to a city and rural remote. The extended typology adds a

distance criterion to urban centres and distinguishes between different types of intermediate and rural regions: those close to urban centres and remote ones. The main aim of the extended typology is to improve analytical results and international comparability.

Box 1.2. Extended OECD regional typology

To account for differences among rural and urban regions, the OECD established a regional typology, classifying TL3 regions as predominantly urban (PU), intermediate (IN) or predominantly rural (PR). This typology proved to be a meaningful approach to explaining regional differences in economic and labour market performance. However, it did not take into account the presence of “agglomeration forces” or additional impacts of neighbouring regions. In addition, remote rural regions typically face a different set of problems than rural regions close to a city, where a wider range of services and opportunities are commonly available.

The extended regional typology tries to discriminate between these forces and is based on a methodology proposed by the Directorate General for Regional Policy of the European Commission which refines the current typology by including a criterion on the accessibility to urban centres. This allows distinguishing between remote rural regions and rural regions close to a city in terms of declining and ageing population, level of productivity and unemployment; and similarly it also distinguishes between intermediate regions close to cities and remote intermediate cities.

Figure 1.A2.1 summarises the methodology applied to derive the extended typology in the following steps.

Regions are classified as predominantly urban (PU), intermediate (IN) or predominantly rural (PR) based on the share of population living in local rural areas within each region and size of the urban centres contained in the TL3 regions. A region previously classified as PR (IN), becomes IN (PU) if it contains an urban centre with at least 200 000 (500 000 for Japan) inhabitants representing 25% of the regional population. These three categories are known as the OECD regional typology.

In a second step, the OECD regional typology is extended by considering the driving time of at least 50% of the regional population to the closest centre of more than 50 000 inhabitants. This only applies to the IN and PR categories, since by definition, the PU regions include highly populated localities. The result is a typology containing five categories: PU, INC, INR, PRC and PRR.

Note: Annex 1.A2 provides additional information.

Both the OECD taxonomy and the extended taxonomy define TL3 regions as the most useful context to examine how rural and urban development takes place. TL3 regions correspond in many countries to administrative units and in others to statistical areas. The usage of administrative and political boundaries, however, also brings disadvantages, such as an arbitrary definition of a territory that often does not correspond to patterns of life, job markets and business flows. It is no surprise that the administrative boundaries of cities rarely contain the real extension of the built-up area around a city, nor do they capture all the important flows. The mismatch between functional and administrative boundaries can face difficulties in co-ordinating policies from different administrative units and miss out on potential synergies.

The OECD functional urban area definition

As a response to this challenge, the OECD, in collaboration with the EC, has developed a new approach for classifying functional urban areas with the aim of comparing the key functional areas among OECD countries in terms of economic activity. These metropolitan regions are made up of both urban and rural territory. By applying a uniform definition and criteria, international comparability is assured and monitoring and comparing urban development within and across OECD countries is

enhanced (see Box 1.3 and Annex 1.A3). It also differentiates functional urban areas of different sizes, providing new tools for better understanding urban dynamics for different sized metropolitan regions. This work is developing at a time when the urban agenda is at the heart of policy debate in many OECD countries. Thus, redefining what is urban responds to a need of governments for evidence to design better policies for different types of urban areas (OECD, 2012).

According to the functional urban area (FUA) definition, there are 26 FUAs in Chile, home to 12.1 million inhabitants in 2010 corresponding to 73.2% of the national population. This leaves 26.8% of the population outside a major urban area. When comparing this figure to that of other OECD member countries, Chile has a higher metropolitan share than the OECD average, only surpassed by Korea, Luxemburg, Turkey, Japan, the United Kingdom and the Netherlands.

Box 1.3. Methodology for defining functional urban areas

The OECD-EU identifies functional urban areas (FUAs) beyond city boundaries, to reflect the economic geography of where people live and work. Functional urban areas are relatively self-contained economic units, characterised by high levels of labour linkages and other economic interactions. Cities are widely accepted as important generators of wealth, employment and productivity gains. Moreover, large agglomerations are key players of transnational flows and work as essential spatial nodes of the global economy. Thus, often metropolitan areas are essential interconnected units in the global economy.

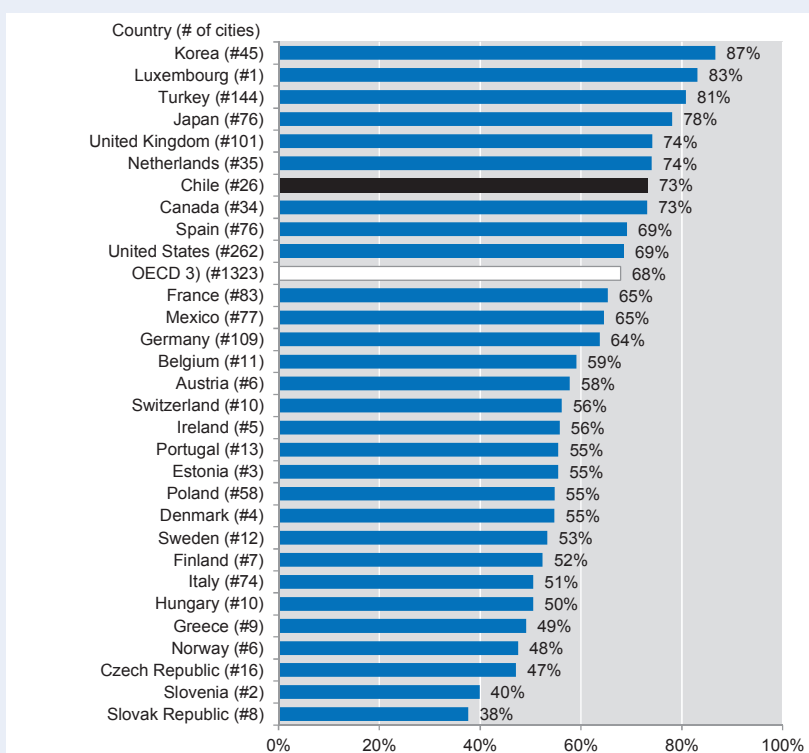
Defining urban areas as functional economic units can better guide the way national and city governments plan infrastructure, transport, housing and schools, space for culture and recreation. Improved planning will make these urban areas more competitive to support job creation, and more attractive for its residents.

The methodology identifies urban areas as functional economic units, characterised by densely inhabited “urban cores” and “hinterlands” whose labour market is highly integrated with the “cores”. This methodology is a clear example of how geographic/morphologic information from geographic sources and census data can be used together to get a better understanding of how urbanisation develops. Information on the distribution of the population at a fine level of spatial disaggregation – 1 km² – are used to identify more precisely the centres or “cores” of the urban space, defined as contiguous aggregations (“urban clusters”) of highly densely inhabited areas (grid cells). The hinterlands of these internationally comparable urban cores are defined using information on commuting flows from the surrounding regions.

Such a definition is applied to 30 OECD countries and identifies 1 179 functional urban areas with at least 50 000 inhabitants. Functional urban areas have been identified beyond their administrative boundaries in 30 OECD countries. They are characterised by densely populated urban cores and hinterlands with high levels of commuting towards the urban cores. The share of national population in FUAs ranges from 87% in Korea to less than 40% in Slovenia and the Slovak Republic.

Box 1.3. Methodology for defining functional urban areas (cont.)

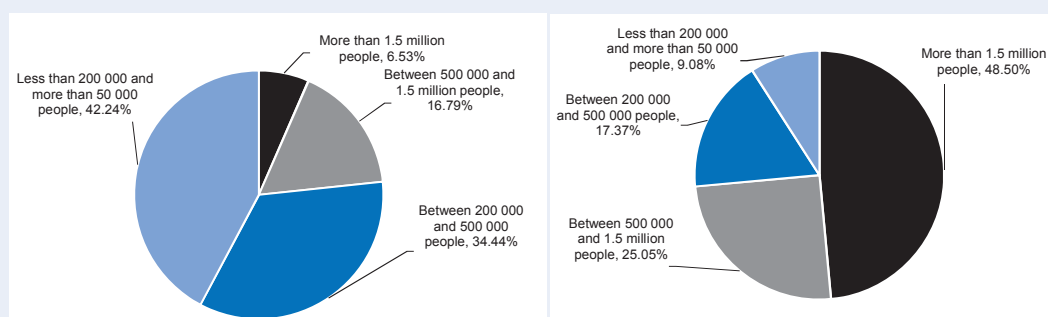
Percent of national population living in functional urban areas, 2012



Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2013-en.

Among the 1 179 OECD functional urban areas, 77 have more than 1.5 million people, 198 between 500 000 and 1.5 million people, both groups concentrate almost 75% of the total urban population. Additionally, 406 were identified between 200 000 and 500 000 people, and 498 are small functional urban areas with a population below 200 000 and above 50 000 people (see figure below).

Number of functional urban areas (FUA) and population share by FUA size, 2012



Source: OECD (2013), "Metropolitan regions", *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/data-00531-en> (accessed on 15 December 2013).

Figure 1.2. Location of functional urban areas in Chile

Name of functional urban area	ID on the map	Total population (2008)
Santiago	CL011	6 566 184
Concepción	CL020	938 239
Valparaíso	CL010	880 063
Temuco	CL022	358 851
Coquimbo-La Serena	CL006	333 472
Rancagua	CL014	298 184
Antofagasta	CL004	296 905
Taka	CL017	218 634
Chillán	CL019	193 778
Arica	CL001	185 268
Puerto Montt	CL025	175 938
Los Angeles	CL021	166 556
Iquique	CL002	166 204
Osorno	CL024	145 475
Valdivia	CL023	140 559
Calama	CL003	138 402
Copiapó	CL005	129 091
Curicó	CL016	128 151
Punta Arenas	CL026	119 496
San Antonio	CL012	111 498
Ovalle	CL007	98 089
Melipilla	CL013	94 540
Quillota	CL009	88 767
Linares	CL018	83 249
San Fernando	CL015	63 732
Calera	CL008	49 503
Total functional urban areas		12 168 828
Share of national population in functional urban areas		72 696
Number of functional urban areas		26



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Source: OECD (2013), *OECD Urban Policy Reviews: Chile 2013*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264191808-en>.

The FUA definition and the OECD regional taxonomy are based on two different methodologies and measure different realities: the former captures the integration of urban and rural territories into a single local labour market based on commuting patterns. It includes both an urban core and a peri-urban hinterland containing strong urban and rural interactions. By contrast, the regional taxonomy is based on administrative boundaries and captures the wider context in which urban and rural development takes place. Predominantly rural regions can contain urban cores if the share of the population living outside the urban cores exceeds 50%. Each definition conveys different information.

Despite the different dimensions that both OECD definitions measure, the share of the national population living in rural areas differs significantly to the figure provided in Chile's official definition (see Table 1.3).

For the case of Chile, the current official definition delimiting urban and rural areas could benefit from some of these recent advancements and better capture the urban and rural realities, recognise and define areas with strong urban and rural interactions, and differentiate among different types of rural areas for the case of Chile. These are discussed in the next section.

Table 1.2. Functional urban areas in OECD member countries

	Total urban population	Share of national population	Number of functional urban areas
Korea	43 316 990	87%	45
Luxembourg	436 308	83%	1
Japan	99 535 286	78%	76
United Kingdom	46 876 023	74%	101
Netherlands	12 388 123	74%	35
Chile	12 745 119	73%	26
Canada	25 501 595	73%	34
Spain	31 925 818	69%	76
United States	215 171 557	69%	262
OECD (29) total	762 591 707	67%	1 179
France	41 421 986	65%	83
Mexico	72 560 224	65%	77
Germany	52 151 696	64%	109
OECD (29) average	26 296 266	60%	41
Belgium	6 554 869	59%	11
Austria	4 877 899	58%	6
Switzerland	4 469 076	56%	10
Ireland	2 554 821	56%	5
Portugal	5 848 843	55%	13
Estonia	742 860	55%	3
Poland	21 103 513	55%	58
Denmark	3 054 845	55%	4
Sweden	5 057 691	53%	12
Finland	2 830 124	52%	7
Italy	30 721 201	51%	74
Hungary	5 026 453	50%	10
Greece	5 543 737	49%	9
Norway	2 368 967	48%	6
Czech Republic	4 951 914	47%	16
Slovenia	820 060	40%	2
Slovak Republic	2 034 109	38%	8

Source: Based on OECD (2013), *Redefining “Urban”: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264174108-en>.

Table 1.3. Share of the national population in Chile living in rural areas, 2012

	Share of national population, 2012	
Official definition	Rural areas	13.1%
OECD typology TL3	Predominantly rural	34.6%
FUA (OECD)	Rural areas outside the FUA	26.8%

Note: The FUA figure does not include the share of rural population in FUAs, therefore it underestimates the total rural population.

A proposal for revising Chile's rural definition

There are several important points to take into account when considering alternative definitions delimiting rural areas for Chile.

- Local specificities or international comparisons: There are trade-offs to be considered in definitions between those equipped to capture country and local specificities as opposed to facilitating international comparisons.
- Economic spaces or political accountability: Definitions based on functional criteria with changing borders can better capture the economic realities of complex flows and interactions, as opposed to those based on administrative criteria. Notwithstanding this fact, definitions based on administrative units present some advantages, both in terms of gathering statistics, as well as for holding elected officials accountable to the electorate in a clearly defined territory.
- Defining and differentiating rural areas: Definitions that only consider the characteristics of urban areas and by default define the remaining territory as rural areas as a residual are ill equipped to capture the realities of modern rural economies that are now based on strong interrelations with urban areas, changing commuting patterns and accessibility to external markets. Definitions that differentiate amongst different rural areas also permit better differentiation of different rural realities.
- Recognition of mixed spaces: Definitions recognising areas with strong urban and rural interactions have the potential to better build on synergies and complementarities between urban and rural areas.

Taking into account some of these considerations, this section proposes two alternative definitions that could better capture Chile's rural reality, build on synergies with urban activities and policies targeting urban areas, provide international comparability while capturing country and local specificities, define mixed spaces and differentiate among rural regions. Amongst both alternatives, the first requires the availability of population data at a very fine grid (1 km²) across the country. The second alternative requires less information with building blocks based on population data at the census district level within *comunas*. The former makes use of more and better information although it is more difficult to compute and currently data at this level are not available for Chile as a whole. Both definitions classify administrative *comunas* using information contained within the *comunas*.

First alternative: Build upon the FUA methodology and define remaining municipalities

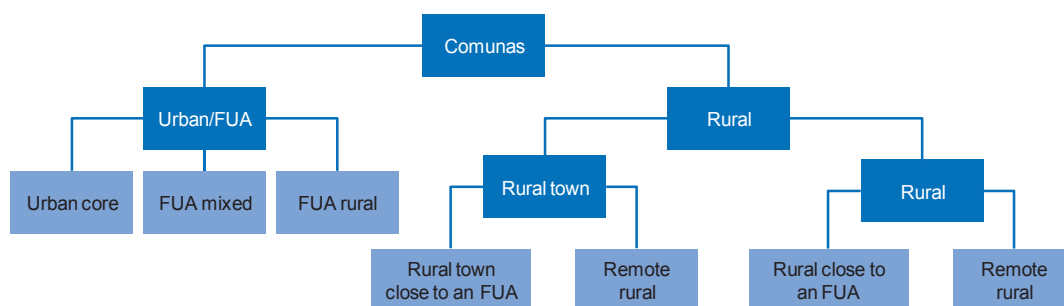
The first alternative requires the availability of very detailed data, at the level of grid cells per km² for population and surface area. The methodology is based on the FUA definition and defines rural areas within FUAs and outside their borders. It also introduces a distance travel criteria for differentiating between rural regions close to cities and remote ones. Overall, the alternative defines seven types of regions, amongst which one is urban and the rest (six) rural. Given that data at such a refined level are difficult to obtain, this alternative could be a good medium- to long-term solution for Chile once data at this level are available. The definition is based on the following four steps:

- Step 1:
 - In order to build synergies with urban activities and policies through the newly created national urban policy framework targeting FUAs, the definition would be consistent with the FUA methodology as follows:
 - ❖ Clusters are defined as in the FUA methodology comprised of groups of contiguous population grid cells made up of individual cells (of 1 km²) containing more than 1 500 inhabitants per km² and in combination, the contiguous cells host more than 50 000 inhabitants.
- Step 2:
 - Define core and hinterland municipalities (*comunas*) from the FUA as follows:
 - ❖ FUA urban core *comunas* are defined when more than 50% of population in the *comuna* live in clusters (defined in step 1).
 - ❖ FUA intermediate *comunas* are defined when more than 25% but less than 50% of the total population lives in clusters.
 - ❖ FUA rural *comunas* are defined when less than 25% of the population lives in clusters.
 - The FUA defines all of its *comunas* into one of three types. The remaining *comunas* outside the FUA catchment areas are defined as follows:
 - Step 3:
 - Intermediate clusters are identified by contiguous grid cells (of 1 km²) each with at least 1 000 inhabitants per km² and in combination, are home to more than 10 000 inhabitants.
 - ❖ Rural town *comunas* are defined when more than 50% of the population of *comunas* live in intermediate clusters.
 - ❖ The remaining *comunas* are defined as rural.
 - Step 4:
 - Rural town *comunas* can be sub-classified as rural towns close to FUAs and remote rural towns based on a 60-minute driving distance criterion to urban centres.
 - Rural *comunas* are also classified as rural areas close to FUAs and rural remote areas based on a 60-minute driving distance criterion to urban centres.

Table 1.4 summarises the range of categories defining *comunas* by the proposed definition dividing *comunas* into seven possible categories.

Table 1.4. **Classifying *comunas* through three stages in the revised definition**

Comunas		
Urban/FUA	1. Urban core	1. FUA urban core
	2. FUA intermediate	2. FUA intermediate
	3. FUA rural	3. FUA rural
Rural	4. Rural town	4. Rural town close to an FUA
		5. Remote rural town
	5. Rural	6. Rural close to an FUA
		7. Remote rural

Figure 1.3. Classifying *comunas* in the first revised definition

Second alternative: OECD extended methodology at sub-comunas combined with FUA information

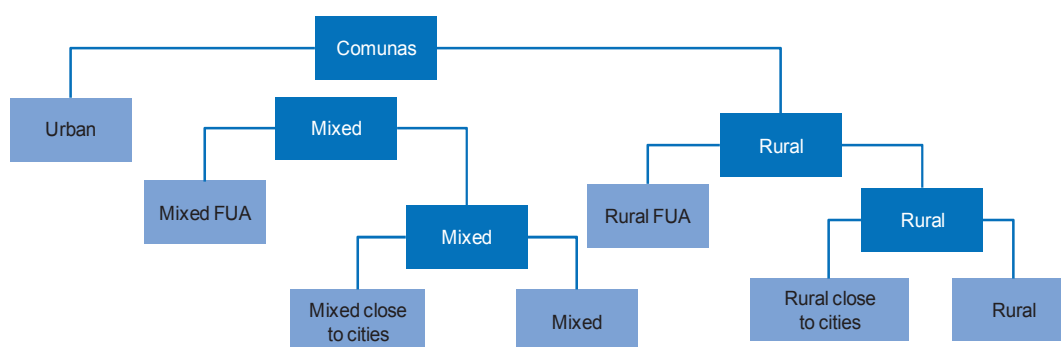
The second alternative also builds upon the FUA methodology. Nevertheless, it is easier to compute and requires the availability of less detailed data than the first alternative. A travel distance criterion is also applied and the second alternative also defines seven types of regions, amongst which one is urban and the rest have some elements of rurality. A simplified version of this alternative can define three types of *comunas*: urban, mixed and rural. The methodology is based on the following four steps.

- Step 1: Defining rural communities
 - As a first step, census districts within *comunas* are defined as rural communities or non-rural communities. The threshold criteria used in the OECD extended methodology corresponds to 150 inhabitants per km². For the case of Chile, this criterion value could serve as a starting point, but some robustness checks would help determine the sensitivity of the definition to this particular value. After defining census districts as either rural or non-rural communities, the definition measures the share of population within the *comuna* that live in rural communities is Step 2.
- Step 2: Defining three types of *comunas*
 - *Comunas* are then classified as either rural, mixed or urban as follows:
 - ❖ *Comunas* are rural if more than 50% of the population from the *comuna* lives in rural communities.
 - ❖ They are mixed if more than 50% of the population but less than 25% lives in rural communities.
 - ❖ Finally, they are urban if less than 25% of the *comuna* lives in rural communities.
- Step 3: Upgrade categories from step 2
 - The third step upgrades a rural *comuna* and a mixed *comuna* respectively if it contains an urban centre above a certain threshold value. The value of the threshold would have to correspond to the Chilean reality and would require some simulations.

- Step 4: FUA criteria
 - The FUA definition identifies Chilean *comunas* belonging to the FUA. If rural and mixed *comunas* are contained within the FUA, they are respectively classified as rural FUA and mixed FUA *comunas*.
- Step 4: Distance criteria
 - The last step considers the driving time of at least 50% of the population from rural and mixed *comunas* to the closest FUA. This only applies to the rural and mixed *comunas* outside the FUA and the driving time threshold is 60 minutes driving time. Thus, if the driving time of rural and mixed *comunas* is less than 60 minutes, they are classified as rural close to city and mixed close to city *comunas*.

The second alternative results in a typology containing seven types of *comunas* as depicted in Figure 1.4.

Figure 1.4. Classifying *comunas* in the second revised definition



Both alternatives have advantages and disadvantages. The first alternative is more precise than the second; however, it is more difficult to compute and requires the availability of very detailed data for the entire territory of Chile, making it more difficult to implement in the short term. The second alternative is less precise but easier to compute. Data for the second alternative are already available. In any case, both alternatives would represent a significant improvement from the current official definition.

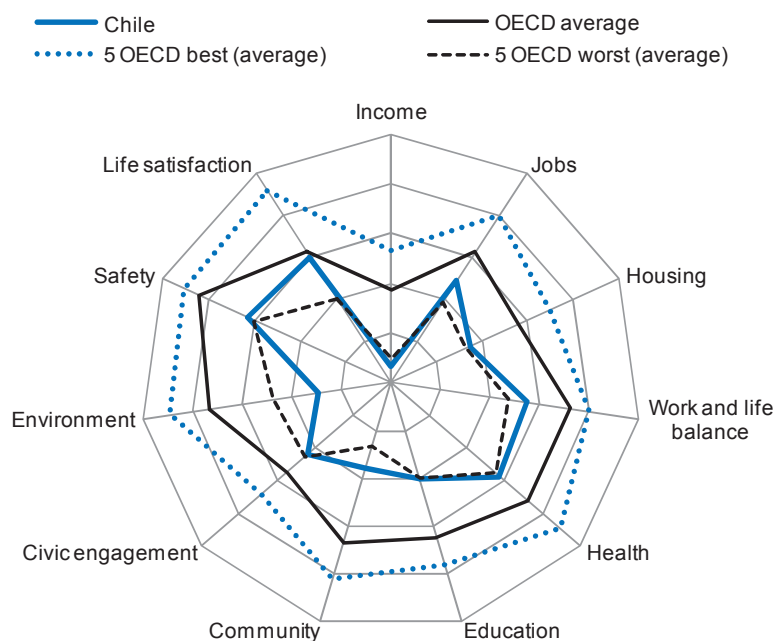
Framework conditions for rural development in Chile

Chile's sound macroeconomic conditions have been a key factor of its resilience to the global financial crisis

Chile has experienced an important process of modernisation, bringing greater economic prosperity and lower poverty. Per capita income more than doubled over 20 years, to be the highest in Latin America. Chile enjoys a prudent fiscal policy and strong inflation-targeting framework, features that have been well-recognised by sovereign rating agencies. The financial sector is healthy, and the government has sought to broaden the productive base of the economy and to boost entrepreneurship and innovation through investments in education and the reduction of product-market entry barriers.

Macroeconomic stability has been a key factor of growth. Macroeconomic stability was reinforced by the adoption in 2001 of a structural fiscal rule which forces the government to maintain a surplus equivalent to 1% of GDP. Balanced fiscal accounts have been complemented by low inflation, an open trade regime and favourable legislation for foreign direct investment (FDI). This stability and openness reduced uncertainty, increased business confidence and helped attract investments.

Figure 1.5. The OECD Better Life Index shows a mixed picture



Note: Each well-being dimension is measured using one to three indicators from the OECD Better Life indicator set. Normalized indicators are averaged with equal weights. Indicators are normalised by re-scaling (linearly) to be from 0 (worst) to 10 (best).

How to read this figure: Compared to the OECD average, Chile scores relatively poorly on income and the environment, but highly on life satisfaction.

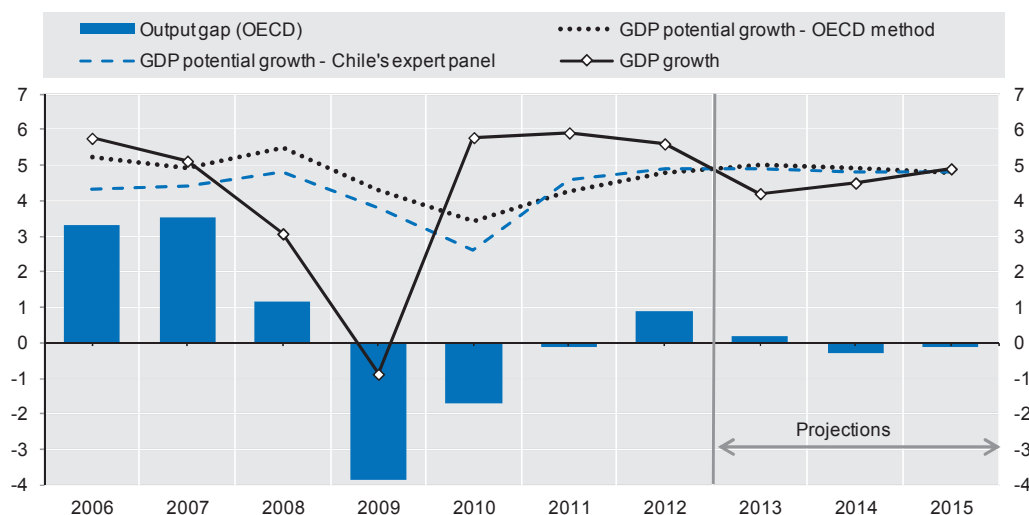
Source: OECD Better Life Index, www.betterlifeindex.org.

Chile was well prepared to respond to the global economic recession of 2008-09 and to the natural disasters of February 2010 (earthquake and tsunami) thanks to its sound macroeconomic policy framework and strong institutions; consequently, economic growth rebounded quickly. GDP growth averaged 5.8% annually from 2010 to 2012. The post-earthquake reconstruction expenditure and a commodity price boom benefitting Chile's main export products – notably copper, agriculture, forestry and fisheries – partly explains this good outcome, in addition to sound macroeconomic, financial and structural policies, and domestic and external confidence in the country's prospects.

The process of modernisation entails a transition from agricultural-based economic activities to the services-oriented sector. Chile, as many OECD member countries, is currently undergoing a structural change, reducing the size of agricultural activities toward a service-oriented economy. Over the past 20 years, the employment share in the agricultural sector and value added to total GDP has halved in size. Currently, the

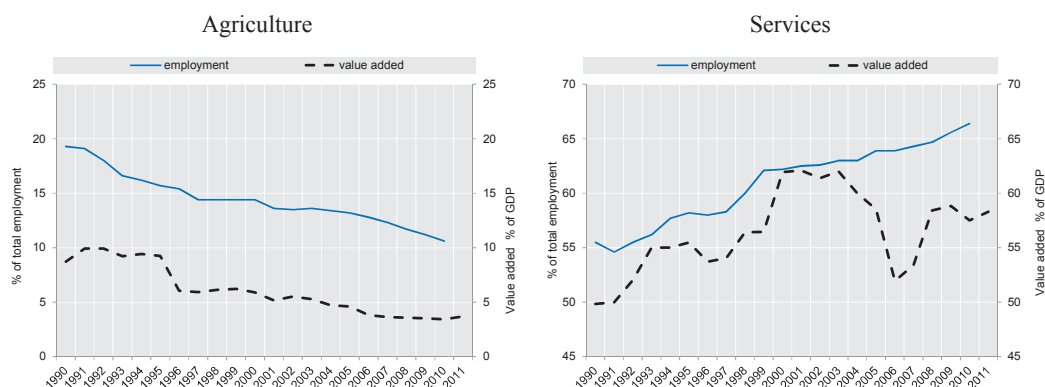
agricultural sector represents 10.6% of total employment and adds to 3.4% to total GDP. In contrast, the service sector currently represents two-thirds of total employment and adds to 57% of total GDP.

Figure 1.6. Potential and the output gap



Source: OECD (2013a), *OECD Economic Surveys: Chile 2013*, OECD Publishing, http://doi.dx.org/10.1787/eco_surveys-chl-2013-en; *OECD Economic Outlook* (database), <http://doi.dox.org/10.1787/eo-data-en>, (accessed on 10 December 2013), updated with recent information; Budget Directorate – Government of Chile.

Figure 1.7. Employment and value added in agriculture



Note: Agriculture corresponds to ISIC divisions 1-5 and includes forestry, hunting and fishing, as well as cultivation of crops and livestock production. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs.

Source: World Bank, *World Development Indicators*.

As is the case in other OECD countries, Chile has a bi-modal agriculture, with a relatively small share of large-scale, internationally competitive farms accounting for the majority of agricultural production and a large share of small sub-commercial size farms contributing a relatively small share of agricultural output. Many commercial scale farms in Chile have become major contributors to exports, particularly for horticultural crops, and create significant amounts of rural employment, especially if first-stage processing activities are

considered. Unlike most OECD countries, agricultural support policy in Chile does not distort production decisions on these larger farms. Agricultural support in Chile focuses on the smallest, most economically disadvantaged farms that are weakly connected to markets with the twin goals of improving their competitiveness and enhancing family incomes.

The opening of the economy has centred primarily on resource-based sectors. Chile's small resource-based economy underwent a profound policy shift from import substitution to exports. A series of trade reforms, along with favourable international conditions, such as high copper prices, raised the ratio of exports to imports to GDP from 45.7% in 1976-84 to 60.3% in 1995-2002. The opening of trade-related productive activity gave rise to new industries based on primary goods, such as the agro-food sector. An important share of overall exports is driven by primary and first-stage processing activities. Chile's economy relies heavily on natural resources. It produces almost a third of the world's copper, representing more than half of Chile's exports. It is also the world's second largest producer of salmon and the fourth largest wine exporter.

Despite these positive developments, the process of modernisation is far from finished. Chile's economy needs to further spur dynamism in order to maintain the positive outlook in the medium and long term. In addition to advancing in a number of key areas such as strengthening green growth, labour market inclusiveness, entrepreneurship and innovation (OECD, 2013a), regions need to continue advancing in unlocking the growth opportunities in their territories. National growth will be strengthened as the country advances in its national urban policy framework (OECD, 2013b), its place-based approach adapting policies to the specific and varied characteristics of different Chilean regions (OECD, 2009), and finally in the prospects of rural areas. There is a need to shift the vision from currently lagging regions depending on social programmes and sectoral agricultural policies towards a comprehensive rural development programme. This report will focus on this latter policy framework.

Territorial units – Chile's administrative system

Chile is a centralised unitary state with two tiers of governance at the sub-national level. The first tier consists of 15 regions and the second tier of 345 municipalities (*comunas*). Between the regions and the municipalities, there are 52 provinces with very limited administrative responsibilities (see Annex 1.A1). Municipalities are the only local authorities in Chile with competences in a number of key areas. A summary of the composition, organisation and functions of the different regional, provincial and local governments is provided in Annex 1.A1. Chile's 15 regions correspond to Territorial Level 2 (TL2) regions in the OECD classification, and the 52 provinces to TL3 regions in the OECD typology (see Annex 1.A2).

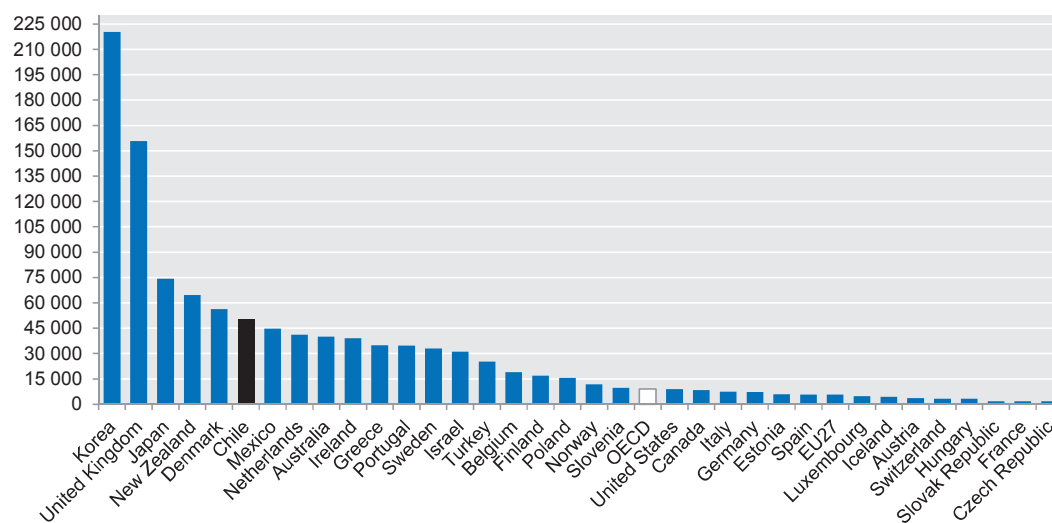
Municipalities in Chile are relatively big in terms of size and number of inhabitants. In comparison to the OECD, Chile's 345 municipalities are quite big, both in terms of surface area and of inhabitants living in them. On average, Chilean municipalities host around five times more inhabitants than across the OECD, only surpassed by Korea, the United Kingdom, Japan, New Zealand and Denmark. In terms of surface area, only Australia, New Zealand and Canada displayed municipalities with a larger average surface size.

Geographic and demographic characteristics

Chile's particular geography brings both challenges and benefits. Chile is over 4 300 km long, but no more than 240 km wide. This creates a challenge for developing and managing connections among individuals, firms and regions throughout the country and delivering goods and services throughout the territory, especially in remote areas. Moreover, accessibility and connectivity to international markets also represent a challenge for many

regions. Relative to other parts of Latin America, Chile's remoteness and its particular geography have been less of an impediment. In Chile, macroeconomic stability and resilience have attracted foreign capital and business activity from neighbouring countries that also experience similar poor international connectivity, resulting in pockets of strong economic activity.

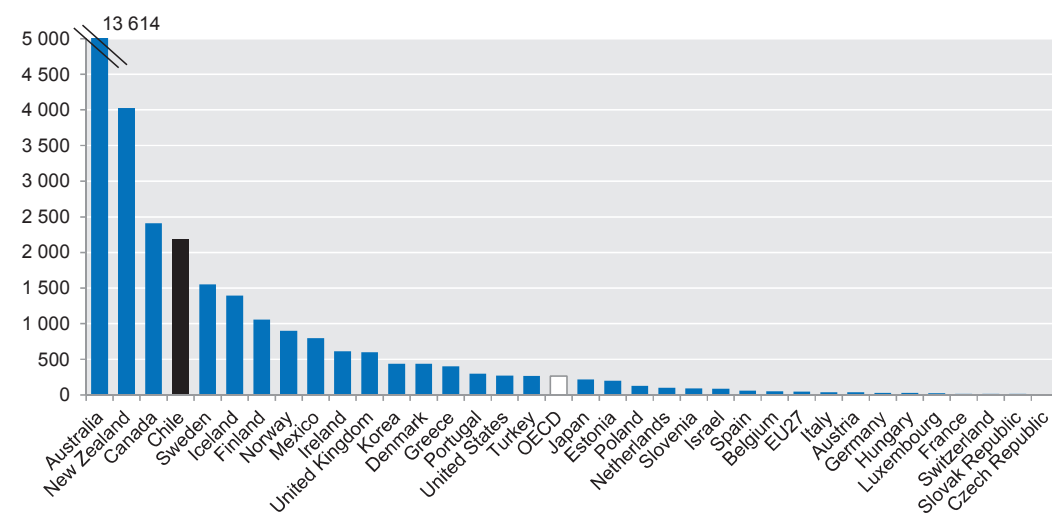
Figure 1.8. Average number of inhabitants per municipality in the OECD, 2012



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Figure 1.9. Average municipal area in the OECD, 2012

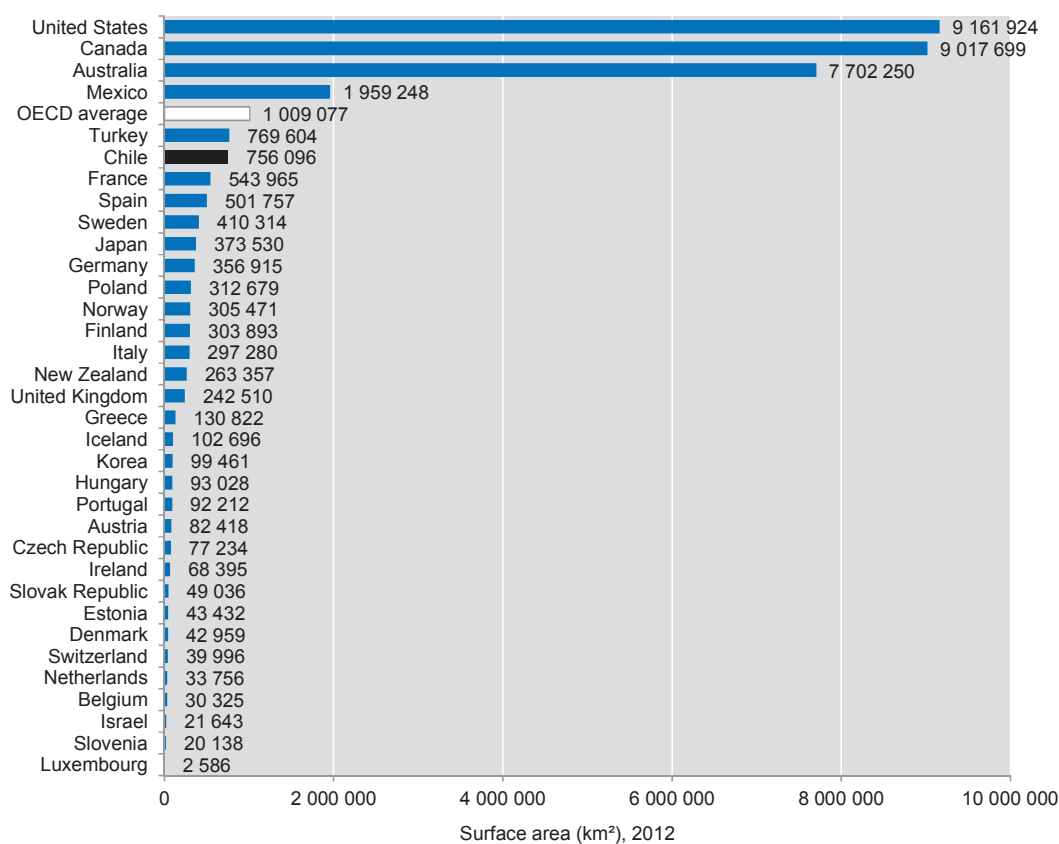
km²



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Chile's surface area, although below the OECD average, is above that of the majority of OECD countries. With a surface area of 756 096 km², Chile is the seventh largest country among OECD member countries (Figure 1.10), only surpassed by the United States, Australia, Canada, Mexico and Turkey. The main geographical characteristic of the country is a vast territory, mostly uninhabited, with deserted areas, lakes, mountainous territories and with difficult climatic conditions.

Figure 1.10. Surface area of OECD member countries, 2010



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Of Chile's 75.6 million ha, just 20% (15 million ha) are devoted to agriculture (OECD, 2008) – a similar figure to New Zealand, which is just one third of Chile's total area (Table 1.5). As within New Zealand, most of this land is allocated to pasture, with just 2.3 million ha devoted to crops. For those areas where agricultural production is feasible, however, the climate is ideal, and especially suitable for wine growing and temperate horticulture (OECD, 2004). Forests comprise 10% of total surface land with plantations representing 2.3 million ha and natural forests 5.6 million ha.

Table 1.5. Land-use patterns, 2003

Millions ha

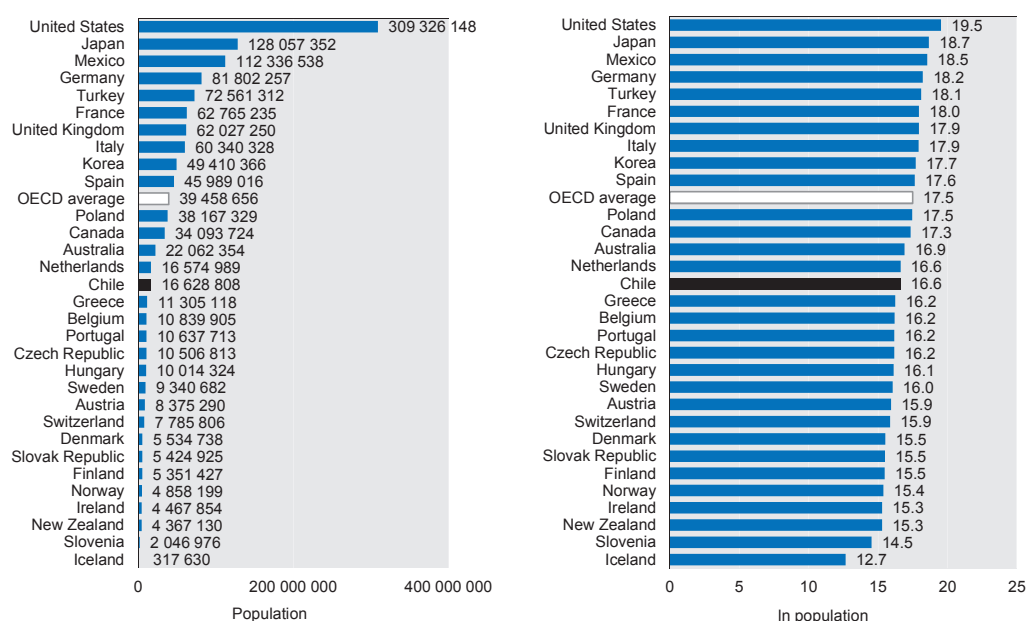
Country	Total area	Agricultural area	Permanent pasture	Arable and permanent	Arable land	Permanent crops
Argentina	278	128.7	99.8	28.9	27.9	1
Bolivia	109.9	37.1	33.8	3.3	3.1	0.2
Brazil	851.5	263.6	197	66.6	59	7.6
Chile	75.7	15.2	12.9	2.3	2	0.3
Colombia	113.9	45.9	42.1	3.9	2.3	1.6
Ecuador	28.4	8.1	5.1	3	1.6	1.4
Paraguay	40.7	24.8	21.7	3.1	3	0.1
Peru	128.5	21.2	16.9	4.3	3.7	0.6
Uruguay	17.6	15	13.5	1.4	1.4	0
Venezuela	91.2	21.6	18.2	3.4	2.6	0.8
China, People's Republic	959.8	554.9	400	154.9	142.6	12.2
India	328.7	180.8	11.1	169.7	160.5	9.2
South Africa	121.9	99.6	83.9	15.7	14.8	1
Australia	774.1	439.5	391.6	47.9	47.6	0.3
New Zealand	27.1	17.2	13.9	3.4	1.5	1.9*
United States	962.9	409.3	233.8	175.5	173.5	2.1

Note: * New Zealand: the “permanent crops” category includes planted production forests on farms.

Source: FAO (2007), *FAOSTAT* (database); World Bank (2007), *World Development Indicators*.

Despite its large surface, Chile is not very populated by OECD standards. Home to 16.5 million inhabitants in 2010, Chile's total population (16.5 million) was around half of the average population living in OECD countries (39.4 million) and significantly below the population living in OECD countries with similar surface land to Chile, including Turkey (72 million), France (62 million) and Spain (46 million).

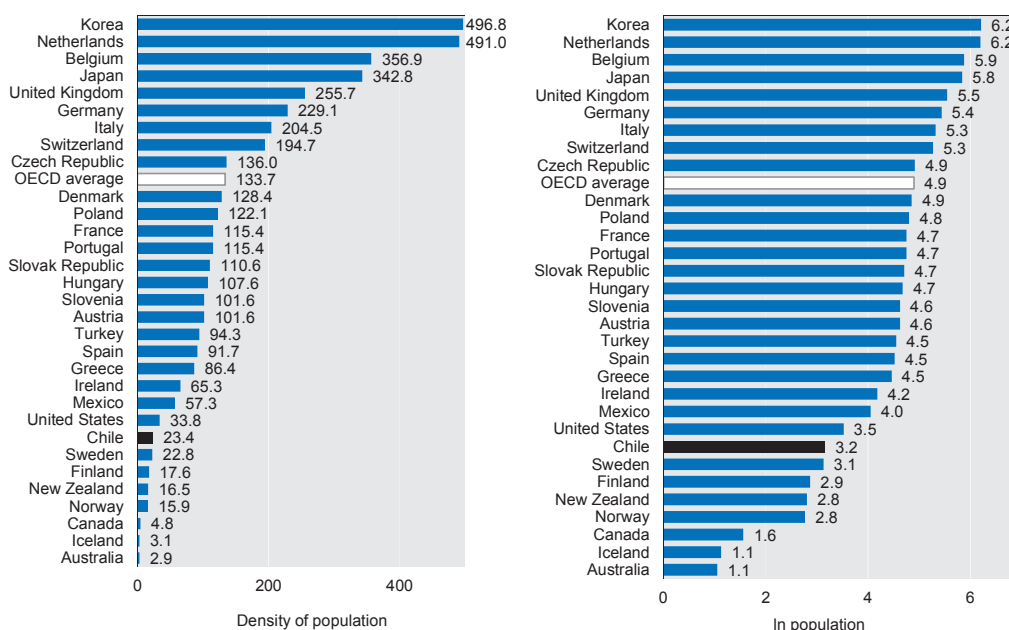
Figure 1.11. Population in OECD member countries, 2010



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

As a result of its vast surface land, low population and large surface area, population density in Chile remains relatively low by OECD standards. With a population density of 23.4 inhabitants per km², Chile's population density is the eighth lowest among OECD countries, only higher than Australia, Iceland, Canada, New Zealand and the low-population density Scandinavian countries of Finland, Norway and Sweden.

Figure 1.12. **Population density in OECD countries, 2010**



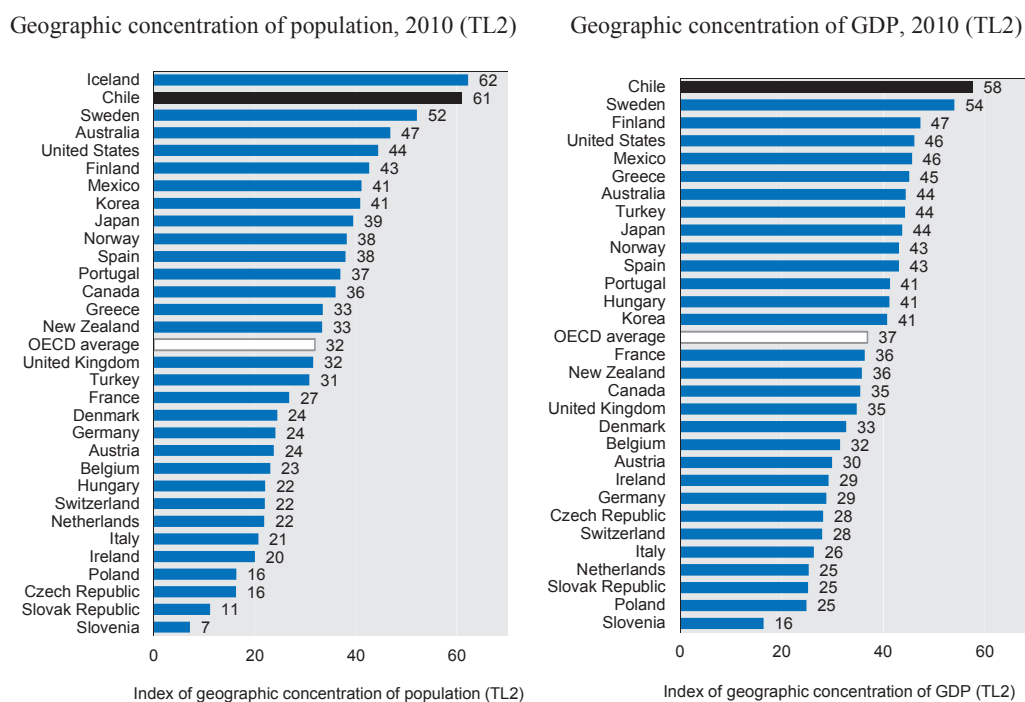
Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Concentration in settlement patterns and economic activity in Chile is high

The geographic characteristics of Chile condition a concentration of economic activities and settlement patterns in few areas. Chile's geography, based on the presence of desert land in the north, mountainous terrain throughout the country and ice in the south, concentrates economic activities and settlement patterns in few geographic areas. Furthermore the country is experiencing a desertification of land affecting around 47.3 million hectares. Indeed, almost half of the Chilean population lives in Santiago and almost 60% in Santiago and Bío-Bío. According to the geographic concentration index, demographic concentration in Chile (61) is almost twice the OECD average (32) and is only surpassed by Iceland (62). Economic activity is also very concentrated. In fact, Chile records the highest level of concentration in GDP (52) among OECD countries.

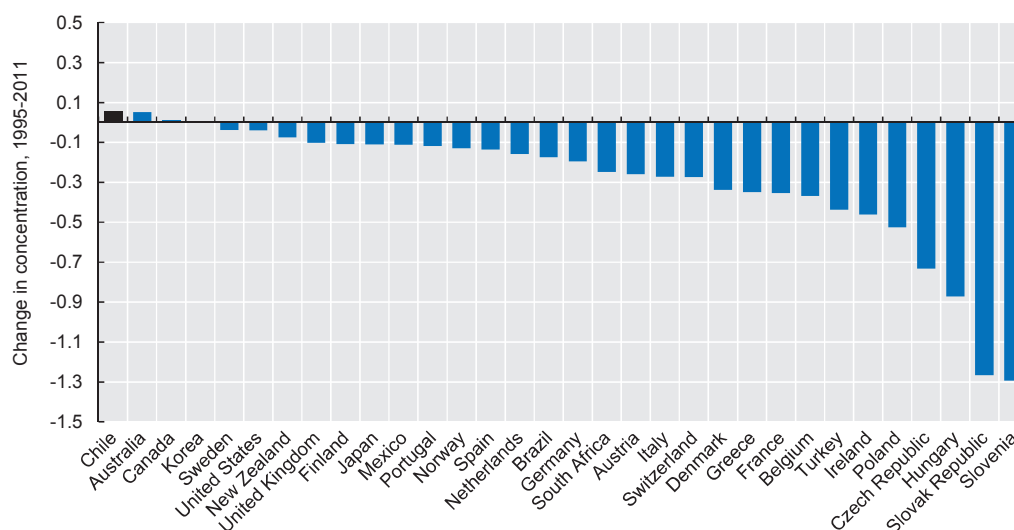
Chile is one of three OECD countries with a higher concentration in settlement patterns than in economic activity. Typically for the OECD, economic activity tends to be more concentrated than settlement patterns due to benefits associated with economies of agglomeration and capital-intensive economic activities. Indeed, amongst 28 of the 32 OECD member countries considered, this is the case, with the exception of Australia, Canada and Chile. For the case of Chile, this largely reflects the importance of mining-intensive activities, which concentrate high-value economic activities in few regions.

Figure 1.13. Concentration in demographic and economic activity in OECD TL2 regions, 2010



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Figure 1.14. Ratio concentration index of GDP to population, 2010

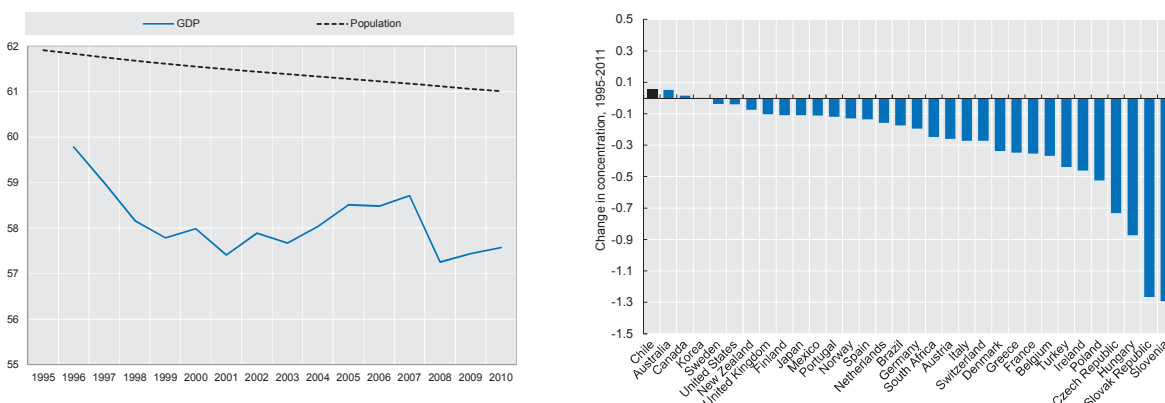


Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Although population and economic activity in Chile remains amongst the most concentrated in OECD countries, there has been a trend toward de-concentration during the past 15 years. Settlement patterns and economic activities declined by almost one and 2.2 percentage points respectively over 1995-2011. When compared to trends in OECD

member countries, in the majority, economic activity has become more concentrated over the same time period, with the exception of Australia, Austria, Canada, Chile, the Netherlands, New Zealand and the United States. Despite the gradual reduction in concentration for Chile, it still remains remarkably high.

Figure 1.15. **Change in concentration in GDP and settlement patterns in Chile and OECD countries, 1995-2011**



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Inequality in Chile is amongst the highest in the OECD

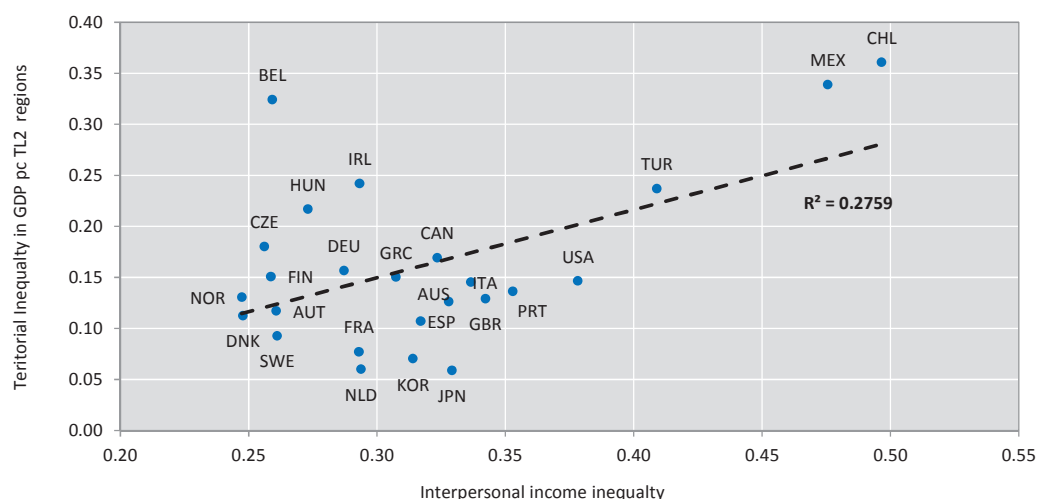
Inequality among people is highly associated with inequality across space. Although the process of overall development creates regional imbalances, given that some territories have higher growth potential than others, when unbalances are excessive it might reflect that some regions and the inhabitants living in them may lack adequate access to goods and services as well as to economic opportunity. Regional policies from the old paradigm addressed these spatial imbalances through compensating mechanisms that redistributed resources. As will be discussed in Chapter 2, many OECD member countries have abandoned the use of regional policies as compensating mechanisms for a current framework that regards regional policies as a strategic tool that adapts policies and investment to the needs of each region, with the goal of facilitating the development of each place.

Among OECD member countries, territorial inequality is highly correlated with interpersonal inequality. Indeed, countries with higher levels of regional inequality also tend to have high levels of income inequality (Figure 1.16), and likewise member countries with a low level of regional inequality tend to have low levels of income inequality.

Chile records the highest level of regional inequality among OECD countries and one of the highest amongst the enhanced engagement OECD countries. When compared to OECD countries, Chile records the highest level of inequality amongst TL2 regions, excluding countries with less than four TL2 regions (Belgium, Greece, Ireland, the Netherlands, New Zealand, the Slovak Republic and Slovenia). When compared to enhanced engagement countries, only the Russian Federation and Indonesia have higher levels of regional inequality than Chile. In fact, Chile's inequality is higher than in Columbia, Brazil, India, China and South Africa (Figure 1.17). This suggests that parts of the country, on the one hand, might suffer from unequal access to goods, services and

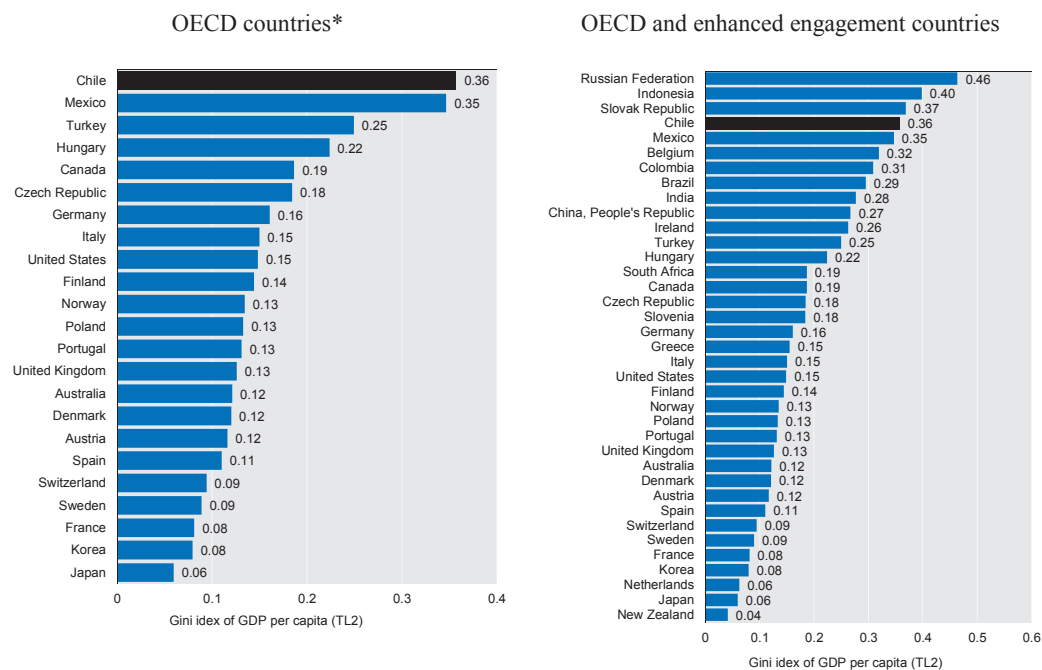
opportunities; and on the other hand, parts of the country could be better mobilised in the overall development process. As Chapter 2 will discuss, the respective roles of urban and rural tend to change in different stages of development, with rural regions becoming more relevant as countries move into higher stages of development.

Figure 1.16. **Interpersonal & geographic inequality among TL2 regions in OECD countries, 2009**



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, and *OECD Income distribution and poverty* (database), www.oecd.org/els/social/inequality, (accessed on 15 December 2013).

Figure 1.17. **Gini Index of inequality of GDP per capita across OECD and enhanced engagement countries, 2011**

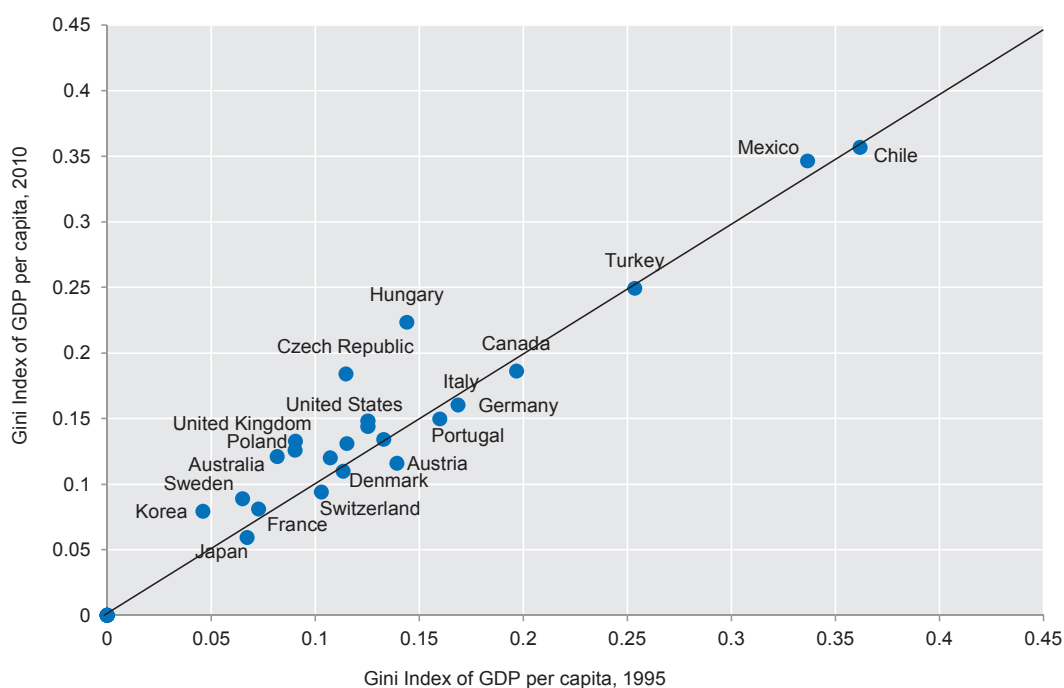


Note: * Countries with less than four TL2 regions are excluded. These include Belgium, Greece, Ireland, the Netherlands, New Zealand, the Slovak Republic and Slovenia.

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Chile's high levels of regional inequality have not declined over the past 15 years, contrary to the trend observed in some OECD member countries, notably the former Eastern European countries of the Czech Republic, Hungary and Poland, as well as in Australia, Korea and Sweden. This suggests that regional policy in Chile, which has been mainly based on the old regional paradigm, has not delivered. As will be discussed in Chapter 2, the adoption of a national rural policy framework based on modern rural policies targeting the growth potential of rural regions, could help in reducing inequality, if it can help these regions become more integrated with urban regions and with overall national development.

Figure 1.18. Change in Gini Index of inequality of GDP per capita across OECD countries, 1995-2010

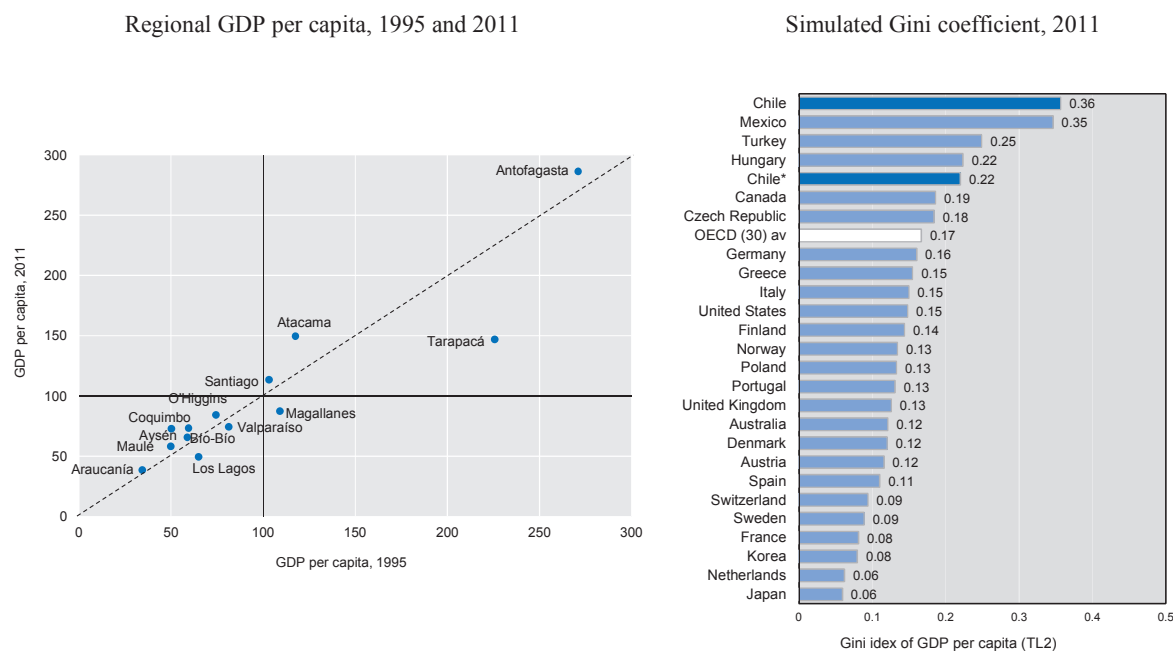


Note: Countries with less than four TL2 regions are excluded. These include Belgium, Greece, Ireland, the Netherlands, New Zealand, the Slovak Republic and Slovenia.

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Chile's high level of inequality is not only driven by strong growth in natural resource regions and Santiago, but also by the low performance of a number of other regions. Contrary to the belief that Chile's high level of regional inequality is mainly driven by Santiago and regions specialised in mining activities (Antofagasta and Tarapaca), the under-performance of a wide range of regions is also a key driver of the high levels of inequality. Currently in more than half of Chilean regions – Araucanía, Aysen, Bío-Bío, Coquimbo, Los Lagos, Maule and Valparaíso – GDP per capita is less than 75% of the national average. A simulated Gini coefficient for Chile excluding the outlier mining regions of Antofagasta and Tarapaca reveals that inequality would still be significantly higher (0.22) than the average in OECD countries.

Figure 1.19. GDP per capita in Chile's TL2 regions and simulated inequality in GDP per capita, 1995 and 2011



Note: *refers to a simulation for Chile excluding the regions of Antofagasta and Tarapacá. Countries with less than four TL2 regions are excluded. These include Belgium, Greece, Ireland, the Netherlands, New Zealand, the Slovak Republic and Slovenia.

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Chile's geographic characteristics and difficult terrain pre-condition settlement patterns and economic activity. As a result of these geographic constraints, rural areas in Chile have very different characteristics and economic challenges. Furthermore, the country is facing a process of structural transformation and modernisation which is changing the realities of urban and rural areas at a very fast pace and the relationship amongst them. The official definition classifying urban and rural areas must adapt to these changes in order to ensure that policy implementation is effective and addresses the correct problems. On this front, the OECD has advanced in recent years in its methodology to classify urban and rural areas. The section that follows assesses the current definition classifying rural in Chile and presents some suggestions to revise it.

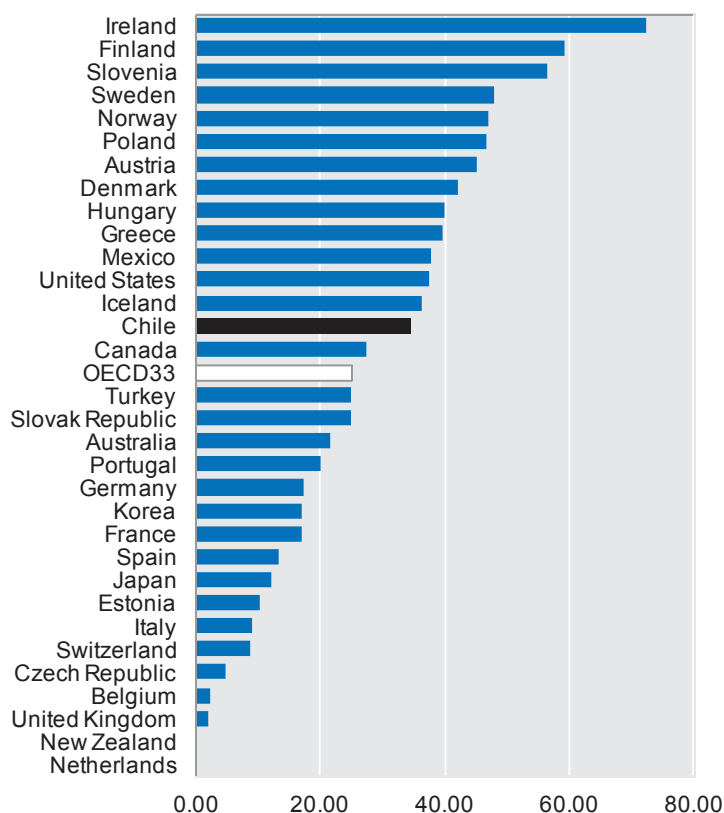
Within the OECD, at the national level, Chile is clearly a high-performing country. But its strong macroeconomic performance has made it possible to not focus on significant differences in economic performance and living standards that occur across the regions of Chile, especially in rural Chile. A large share of national income and an even larger share of exports are associated with the primary sector, especially minerals, but also agriculture, forestry and fisheries, yet there has been little focus on providing a stronger milieu for these industries at the regional level. Focusing on a better rural development policy could strengthen these sectors and address important social disadvantages in terms of basic indicators, like educational attainment, health status, poverty levels, housing quality and life expectancy that lead to significant inequality and social exclusion in the more rural parts of Chile.

What is “rural” Chile?

As stated in the previous section, the current definition defining rural areas in Chile would benefit from a revision. This section aims to assess the main characteristic of rural areas in Chile using alternative measures, including the OECD taxonomy, from the proposed revision and analysing data from *comunas*.

According to the OECD definition of rural areas (e.g. defining municipalities with less than 150 inhabitants per km², Figure 1.20), 92% of the territory in Chile is rural and it hosted 6.21 million inhabitants in 2012, representing 36% of the national population. In comparison to OECD countries, Chile has a higher share of population living in rural regions than the OECD average (25%), and a similar share as Greece, Iceland, Mexico and the United States. The share of Chilean population living in predominantly rural regions has remained fairly stable since 1990 (35%).

Figure 1.20. Share of national population living in predominantly rural regions, 2012



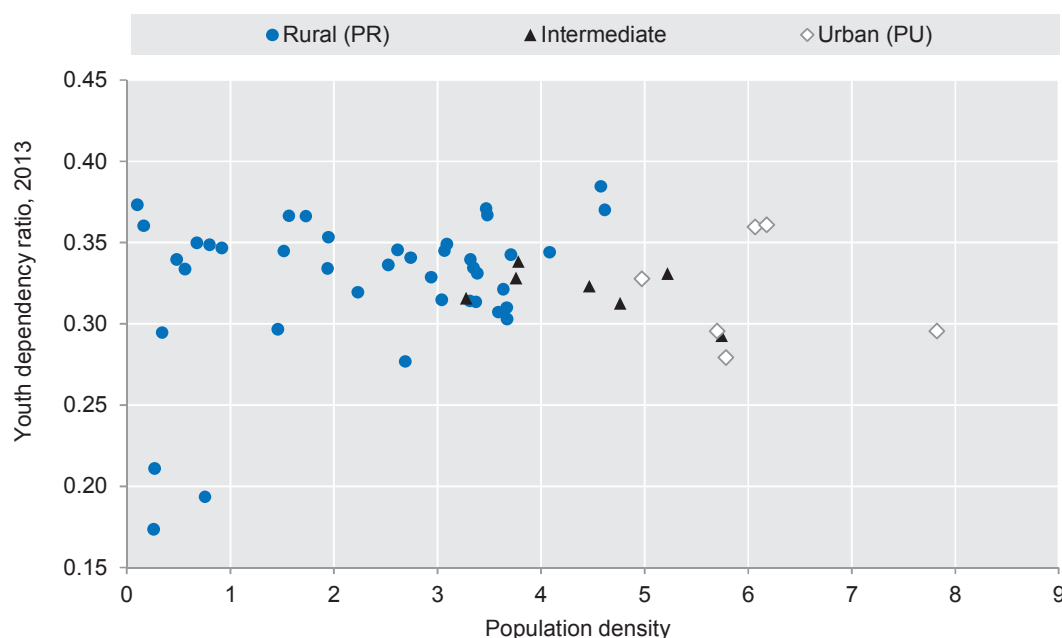
Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2013-en.

Population growth in rural regions

The presence of youth population is a potential asset for Chilean rural regions. Youth dependency ratios do not appear positively related to higher population density, except in three rural periphery regions with low population density: Parinacota and Tamarugal on the northern periphery and Tierra del Fuego in southern Chile. The low youth dependency ratios in these three regions are likely due to the extreme geographic locations and

out-migration of a significant share of the youth. Notwithstanding this fact, in the rest of Chilean rural regions, the presence of relatively high youth dependency ratios, between 30-40%, can be an asset to rural regions if the youth are mobilised into the labour market contributing to productive activities. This also requires the need to provide adequate educational facilities in rural areas to ensure this potential is realised.

Figure 1.21. **Population density and youth dependency ratios among Chilean TL3 regions, 2012**



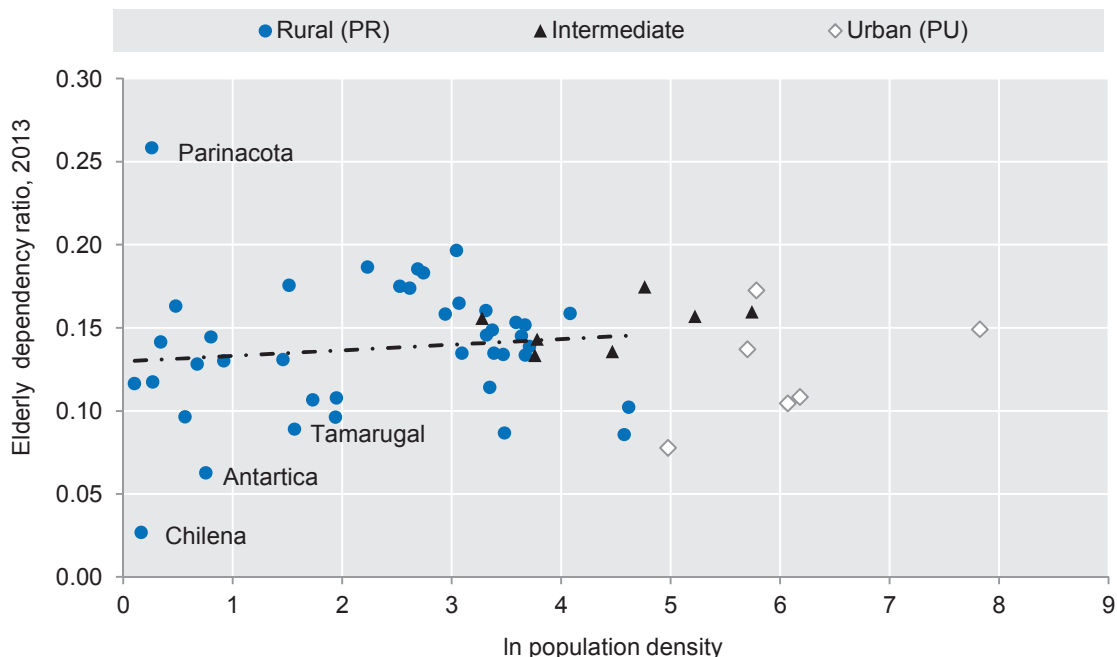
Note: Youth dependency ratios are defined as the share of youth population below 15 years of age to population between 15 and 65.

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Rural regions must account for providing health and social services to the elderly population given that elderly dependency ratios are around the national average in the majority of rural regions. Elderly dependency ratios do not appear strongly correlated with population density. Among rural regions this trend is also present with the exception of three regions with very low elderly dependency ratios – Antarctica, Chilena and Tamarugal – and Parinacota with a very high elderly dependency ratio. In the rest of rural regions, elderly dependency ratios fluctuate around the average value. This suggests that the provision of elderly services is a challenge among Chilean rural regions, especially in remote rural regions with long distances.

Higher density levels are positively related to higher population growth in Chilean rural regions, in contrast to intermediate and urban regions, which appear to experience higher population growth in less densely populated regions. This suggests that the role of second-tier cities or rural towns present in predominantly rural TL3 regions is an important driver of population growth. In contrast, the higher growth rates present in low densely populated urban and intermediate regions areas might reflect signs of congestion in the most densely populated regions or dynamism in the less populated intermediate and urban regions.

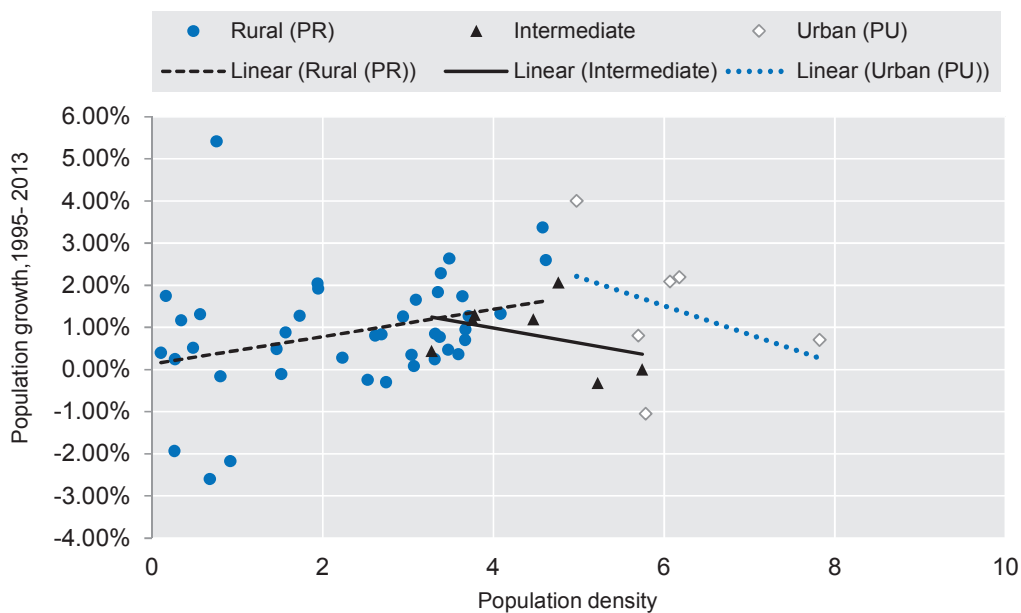
Figure 1.22. Population density and elderly dependency ratios among Chilean TL3 regions, 2012



Note: Elderly dependency ratios are defined as the share of population above 65 years of age to population between 15 and 65.

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

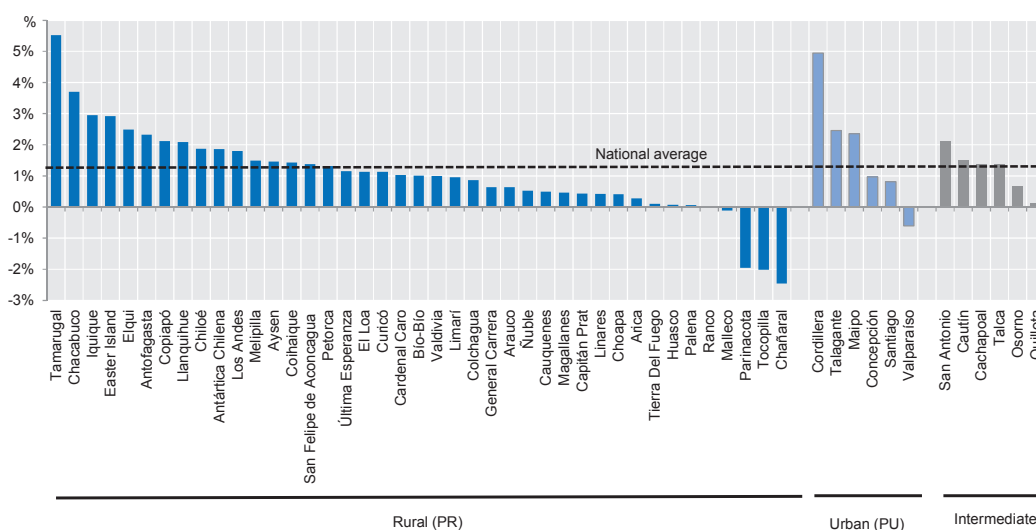
Figure 1.23. Population density and population growth among Chilean types of TL3 regions, 1995-2012



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Indeed, according to the OECD typology in the majority of TL3 Chilean rural regions, population growth surpasses the national average. Comparing population growth among types of regions in Chile reveals that almost 60% of Chilean rural regions experienced higher population growth than the average among types of regions. Although there are three rural regions – Chañaral, Parinacota and Tocopilla – the majority of rural regions are not suffering from population declines and are experiencing sustainable population growth rates.

Figure 1.24. Population growth among Chilean types of TL3 regions, 1995-2012



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

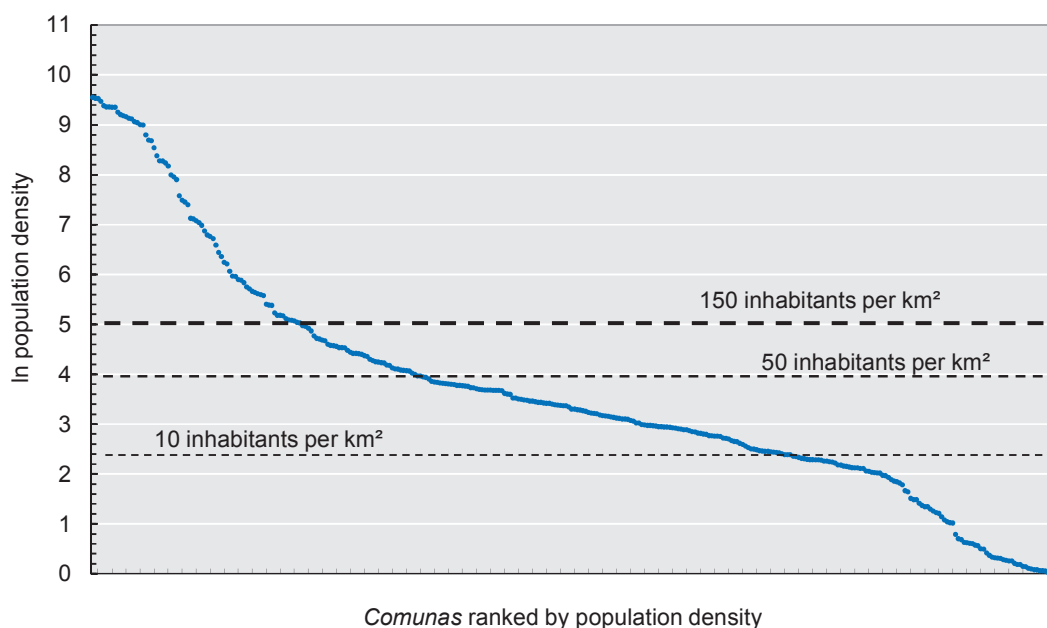
The majority of local municipalities in Chile (*comunas*) have a density below 50 inhabitants per km². Amongst the 345 *comunas* in Chile, 78% of them (or 270) have a population density below 150 inhabitants per km² – the criteria used in the OECD definition to define rural communities – 65% have a population density below 50 inhabitants per km² and 28% of them have a population density below 10 inhabitants per km² (Figure 1.25).

Non-urban regions, which include rural and intermediate municipalities within FUAs, were the most dynamic municipalities in terms of population growth over 2002-12. Examining the population growth trends among urban and rural municipalities broadly, as defined in the revised definition based on the FUAs (see first section) reveals higher growth rates in non-urban municipalities within the FUAs than in urban municipalities. Non-urban municipalities include both intermediate and rural regions. Nevertheless, it points to potential dynamisms among rural regions within urban FUAs. Rural regions outside FUAs recorded the lowest annual average growth rate over the period 2002-12.

The largest rural municipalities above 50 000 inhabitants are the most dynamic group of municipalities in population growth, surpassing the rate of growth of urban municipalities. Examining the growth patterns amongst Chilean rural municipalities outside the FUA reveals the presence of dynamic rural municipalities (50 000-100 000 inhabitants) growing above the national average in terms of population. This group of municipalities will likely be located close to FUAs or classified as rural

towns in the proposed definition given they are the largest rural municipalities. It is interesting to note that the smaller municipalities are in the lower average population growth rate category. Rural municipalities below 5 000 inhabitants have experienced a declining population.

Figure 1.25. **Distribution of municipalities in Chile ranked by population density, 2012**



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Table 1.6. **Population growth among Chilean municipalities in the revised definition, 2002-12**

	Observations	Total population		Total population (%)		Population growth	
		1992	2012	1992	2012	Weighted	Unweighted
FUA (U)	66	8 437 347	10 580 136	62.8%	78.7%	1.14%	1.07%
FUA (R&I)	28	897 471	1 146 388	6.7%	6.9%	1.23%	2.14%
Rural	251	4 110 616	4 845 836	30.6%	29.2%	0.83%	0.42%
National	345	13 445 434	16 572 360	100%	100%	1.12%	0.69%

Note: Data for 2012 are based on preliminary estimates from the census; the classification defining rural municipalities is based on the proposed revision described in the beginning of this chapter.

Source: Calculations based on data from the Chilean National Statistical Institute (INE).

Similarly, the most densely populated rural municipalities are the most dynamic group of municipalities. A similar pattern is present among rural municipalities outside FUAs in terms of population density. The most densely populated group of municipalities (above 100 population density) are the most dynamic in terms of population growth with an annual average rate of 2.05%, almost doubling the national growth (1.05%) and the growth of urban municipalities (1.14%). Municipalities ranging between 50 and 100 inhabitants per km² are also growing quite dynamically in population. The rest of the

municipalities record positive population growth on average except municipalities with a population density below 1 inhabitant per km².

Table 1.7. **Population growth among Chilean rural municipalities by population size, 2002-12**

Population (in thousands)	Observations	Total population		Total population (%)		Population growth	
		1992	2012	1992	2012	Weighted	Unweighted
50-200	15	1 039 663	1 484 668	7.7%	9.0%	1.80%	2.27%
25-50	38	1 134 817	1 282 966	8.4%	7.7%	0.62%	0.68%
10-25	98	1 423 091	1 561 505	10.6%	9.4%	0.47%	0.56%
5-10	55	387 766	405 205	2.9%	2.4%	0.22%	0.34%
1-5	32	116 844	105 435	0.9%	0.6%	-0.51%	-0.23%
< 5	13	8 435	6 057	0.1%	0.0%	-1.64%	-1.55%
National	345	13 445 434	16 572 360	100%	100%	1.12%	0.69%

Note: Data for 2012 are based on preliminary estimates from the census; the classification defining rural municipalities is based on the proposed revision described in the beginning of this chapter.

Source: Calculations based on data from the Chilean National Statistical Institute (INE).

Table 1.8. **Population growth among Chilean rural municipalities by population density, 2002-12**

Density	Observations	Total population		Total population (%)		Population growth	
		1992	2012	1992	2012	Weighted	Unweighted
> 100	16	589 116	884 811	4.4%	5.3%	2.05%	2.48%
50-100	28	734 746	951 271	5.5%	5.7%	1.30%	1.08%
20-50	63	1 121 309	1 247 014	8.3%	7.5%	0.53%	0.53%
10-20	50	704 740	729 288	5.2%	4.4%	0.17%	0.20%
1-10	59	806 522	889 474	6.0%	5.4%	0.49%	0.32%
< 1	35	154 183	143 978	1.1%	0.9%	-0.34%	-0.75%
National	345	13 445 434	16 572 360	100%	100%	1.12%	0.69%

Note: Data for 2012 are based on preliminary estimates from the census; the classification defining rural municipalities is based on the proposed revision described in the beginning of this chapter.

Source: Calculations based on data from the Chilean National Statistical Institute (INE).

In sum, these patterns using the revised urban and rural definition (see the beginning of the chapter) reveal a similar pattern among Chilean rural municipalities as in OECD rural regions in general. Indeed, across the OECD, rural regions close to cities are the second most dynamic type of regions in terms of population growth. These types of OECD regions also have highest population density values among rural regions.

Table 1.9. Population growth and population density among OECD types of TL3 regions, 1995-2009

	Growth 1995-2009			
	Predominantly urban	Intermediate	PRC	PRR
GDP	2.02%	1.89%	2.03%	1.77%
Population	0.61%	0.33%	0.43%	-0.16%
GDP per capita	0.02	0.02	0.03	0.02
Level in 2009				
GDP	42 175	16 788	9 043	6 542
Population	1 503 218	718 719	488 297	156 298
Population density	1 175.0	146.3	52.5	21.7

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Economy and socio-economic indicators in Chilean rural regions

Given that gross value added (GVA) data by sector are only available among TL2 regions, Figure 1.26 displays the specialisation of Chilean TL2 regions in four agricultural key rural sectors in 2011 and the change in specialisation over 2008-11. These include agriculture and forestry, fishing, mining and manufacturing. The figures reveal a higher degree of specialisation in fishing activities followed by mining, agricultural and forestry and finally manufacturing appears to be less specialised across the Chilean regions. Amongst the regions it appears that:

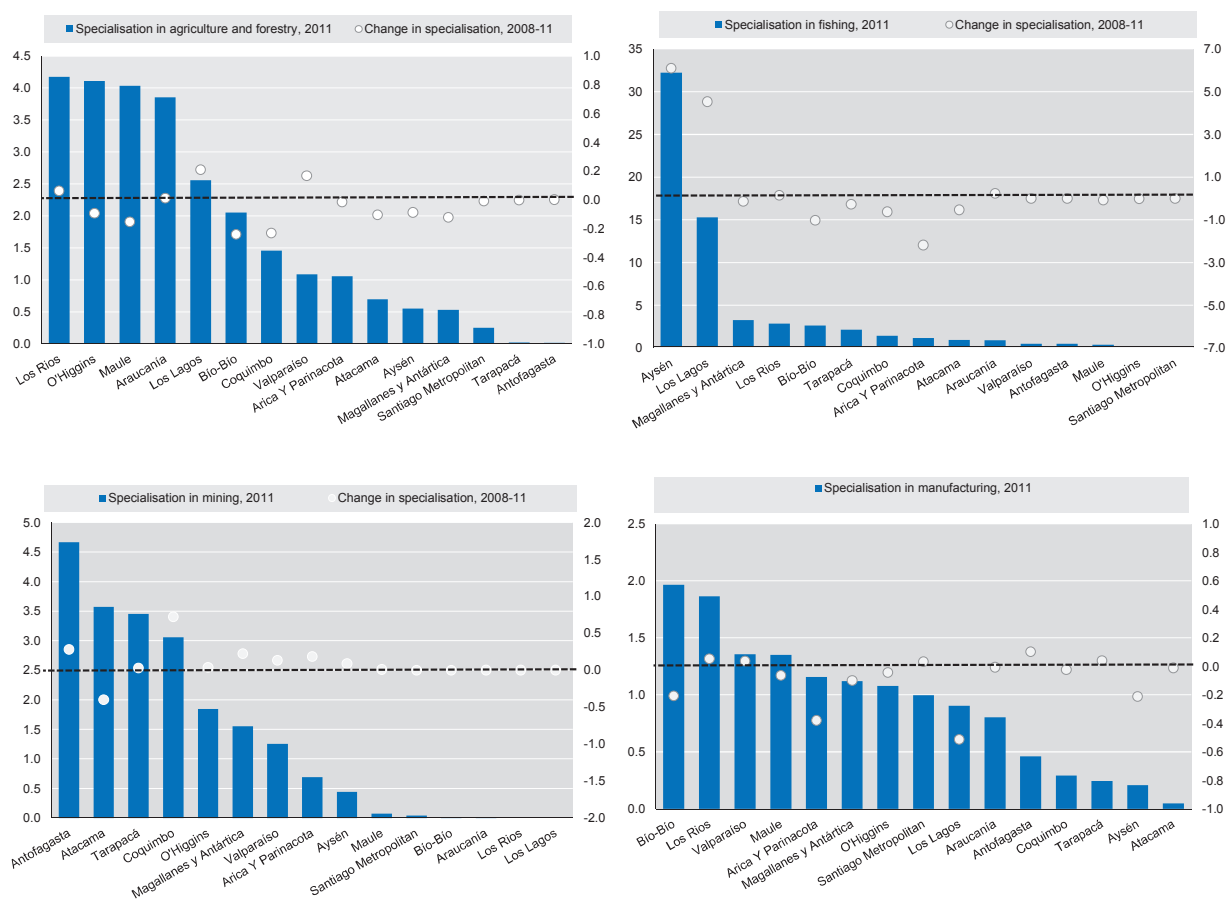
- In agriculture and forestry: Los Rios, O'Higgins, Maule, Araucanía, Los Lagos, Bío-Bío and Coquimbo are the most specialised regions. Amongst these, Los Lagos and Los Rios have become more specialised over the past five years.
- In fishing: Aysen and Los Lagos are the most specialised regions with both of them increasing their specialisation in recent years.
- In mining: Antofagasta is the most specialised region, followed by Atacama, Tarapaca, Coquimbo and to a lesser extent O'Higgins, Magallanes, Antartica and Valparaíso. Amongst these, Coquimbo and Antofagasta have become more specialised in recent years.
- In manufacturing: Bío-Bío and Los Rios are most specialised, followed by Valparaíso, Maule, Arica and Parinacota, Magallanes and Anartica and O'Higgins. In recent years Los Rios and Valparaíso have been becoming more specialised in addition to Antofagasta.

The sectors of mining, agriculture and forestry, and fishing are concentrated in very few regions (Figure 1.26). These regions indeed depend on the comparative advantages of these sectors but will need to transform these into dynamic advantages by producing more complex and higher value-added goods in their sectors of specialisation. In addition, diversifying their production base will help them cope with global shocks and fluctuations in prices and in demand. International evidence points to a positive link between product diversity in export goods and growth, as new products and services often exploit untapped resources and potentialities of countries and regions. More developed countries have, in fact, proven successful in transforming the production of simple goods into the production of more complex and higher value-added goods in the production chain.

A finer picture of the rural economy can be obtained by imputing employment figures by economic activity in urban and rural areas from the national Labour Force Survey using the revised definition (alternative 1 defining urban as *comunas* inside of an FUA and rural as *comunas* outside of an FUA) proposed at the outset of this chapter. This also permits more accurately capturing the rural realities in Chile and assessing how these change *vis-à-vis* the rural picture according to the official definition. Indeed, there are striking differences according to the revised definition (Table 1.10):

- The total weight of the rural economy almost doubles, from 12.7% to 22.1%.
- Activities in service-related sectors in rural areas more than double in the revised definition in the sectors of public administration (from 7.3% to 26%), social and health services (from 5% to 15%), hotels and restaurants (from 6.8% to 19.1%), education (from 7.1% to 20.2%), other community social and personal activities (from 5.1% to 14.3%), wholesale and retail trade (from 6.3% to 15.6%) and transport and communication (from 8% to 16.7%).
- Manufacturing activities also double in the revised definition, from 10% to 20%.
- The same figures are obtained in agricultural hunting and forestry; financial intermediation; and electricity, gas and water.

Figure 1.26. Specialisation and changes in specialisation in four sectors amongst Chilean TL2 regions, 2008-11



Source: Calculations based on data provided by the Central Bank of Chile.

Non-agricultural activities, basically in manufacturing and the services sector, indeed offer an alternative or complementary source of rural income. Diversification of activity reduces rural inhabitants' vulnerability to declines in agricultural prices and the impact of climatic shocks. According to the revised definition, only around one fourth of total rural households in Chile are employed in agricultural, forestry and fishing activities (Table 1.11), around 15% are employed in manufacturing and mining-related activities and the larger majority, representing almost 60%, is employed in services-related activities (Table 1.11).

In sum, almost three-fourths of rural households in Chile are employed in non-agricultural activities, primarily in manufacturing and the services sector, which offer an alternative or complementary source of income. Yet, national policies remain focused on agricultural promotion and there is as yet no national rural development strategy in Chile.

Table 1.10. Share of workers by economic activity in the revised and official definition of urban and rural areas, 2013

	% of all				% of sector				Change
	Revised definition		INE		OECD		INE		
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	
Fishing	0.3%	0.4%	0.5%	0.3%	42.9%	57.1%	64.0%	36.0%	21.2%
Mining and quarrying	2.3%	1.0%	2.9%	0.4%	70.0%	30.0%	88.9%	11.1%	18.9%
Public administration	3.9%	1.4%	4.8%	0.4%	74.0%	26.0%	92.7%	7.3%	18.8%
Education	6.6%	1.7%	7.7%	0.6%	79.8%	20.2%	92.9%	7.1%	13.0%
Hotels and restaurant	2.9%	0.7%	3.4%	0.2%	80.9%	19.1%	93.2%	6.8%	12.4%
Manufacturing	9.0%	2.3%	10.2%	1.1%	80.0%	20.0%	90.0%	10.0%	10.0%
Social and health services	3.9%	0.7%	4.3%	0.2%	85.0%	15.0%	95.0%	5.0%	9.9%
Construction	7.0%	1.7%	7.8%	0.9%	80.4%	19.6%	89.8%	10.2%	9.5%
Wholesale and retail	17.4%	3.2%	19.3%	1.3%	84.4%	15.6%	93.7%	6.3%	9.3%
Other community, social and personal activities	2.6%	0.4%	2.9%	0.2%	85.7%	14.3%	94.9%	5.1%	9.2%
Electricity, gas and water	0.5%	0.3%	0.6%	0.2%	66.6%	33.4%	75.4%	24.6%	8.9%
Transport, storage and communication	6.1%	1.2%	6.8%	0.6%	83.3%	16.7%	92.0%	8.0%	8.7%
Buildings and condominiums	5.0%	1.1%	5.4%	0.7%	81.8%	18.2%	89.1%	10.9%	7.2%
Real estate activities	5.6%	0.5%	5.7%	0.4%	91.0%	9.0%	94.0%	6.0%	3.0%
Agriculture, hunting and forestry	2.6%	5.4%	2.8%	5.2%	32.8%	67.2%	35.3%	64.7%	2.4%
Financial intermediation	2.1%	0.1%	2.2%	0.1%	95.5%	4.5%	96.1%	3.9%	0.5%
Extra-territorial organisations and bodies	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	100.0%	0.0%	0.0%
Total	77.9%	22.1%	87.3%	12.7%	77.9%	22.1%	87.3%	12.7%	9.4%

Note: "Urban" in the revised definition corresponds to *comunas* inside FUAs and "rural" corresponds to non-FUAs.

Source: National Survey of Employment, JJA 2013, computations estimated by the Chilean Ministry of Economy.

The development of such a strategy, which was under elaboration at the time of this report, with a comprehensive territorial focus is highly recommended and a very positive step. OECD member country governments are increasingly recognising the need to shift from traditional rural sectoral policies towards comprehensive place-based approaches to rural development, also known as modern rural development policies (see Chapter 2) that consider agricultural and non-agricultural policies as well as the links between rural and urban areas. These types of policies, as will be further discussed in Chapters 2 and 3, would be better adapted to the diverse socio-economic characteristics and productive processes that affect the development of Chile's rural territories.

A number of off-farm activities, including renewable energy, forest, aquaculture, fishing or tourist-based activities, offer rural areas significant opportunities and potential in Chile.

- Renewable energy could mean higher prices for producers; land rents for wind and solar facilities; jobs in construction, operations and maintenance, among others.
- Forestry and aquaculture and fishing activities can represent an important source of employment in rural areas.
- Sustainable tourism represents another attractive alternative given Chile's rich and diverse environmental attractiveness with a wide range of natural reserves and protected areas and rural heritage, tourism offers many unexploited opportunities.
- Innovation activities around natural amenities such as those related to the natural laboratory in Chile² offers a privilege environment for the development of science in astronomy, biodiversity, seismology, renewable energy and many other areas.

Table 1.11. Share of workers by economic activity as a percent of total employment in urban and rural areas, 2013

	% of urban and rural regions			
	Revised definition		INE	
	Urban	Rural	Urban	Rural
Agriculture, hunting and forestry	3.4%	24.6%	3.3%	41.3%
Fishing	0.4%	1.9%	0.5%	2.0%
Total agricultural related	3.8%	26.4%	3.8%	43.3%
Mining and quarrying	2.9%	4.5%	3.3%	2.9%
Manufacturing	11.6%	10.2%	11.6%	8.9%
Total mining and manufacturing	14.5%	14.7%	15.0%	11.8%
Electricity, gas and water	0.6%	1.2%	0.7%	1.5%
Construction	9.0%	7.8%	9.0%	7.0%
Wholesale and retail	22.4%	14.6%	22.1%	10.3%
Hotels and restaurants	3.7%	3.1%	3.8%	1.9%
Transport, storage and communication	7.9%	5.6%	7.7%	4.6%
Financial intermediation	2.8%	0.5%	2.5%	0.7%
Real estate activities	7.1%	2.5%	6.6%	2.9%
Public administration	5.0%	6.2%	5.6%	3.0%
Education	8.4%	7.5%	8.8%	4.7%
Social and health services	5.0%	3.1%	4.9%	1.8%
Other community, social and personal activities	3.4%	2.0%	3.4%	1.2%
Buildings and condominiums	6.4%	5.0%	6.2%	5.3%
Extra-territorial organisations and bodies	0.0%	0.0%	0.0%	0.0%
Total services, electricity, gas and water	81.7%	58.9%	81.3%	44.9%
Total	100%	100%	100%	100%

Source: National Survey of Employment, JJA 2013, computations estimated by the Chilean Ministry of Economy.

The modern rural policy approach is based on improving the framework conditions that can ensure rural regions realise their potential. These framework conditions are largely determined by key drivers for growth, including human capital, entrepreneurship,

innovation, infrastructure, connectivity, and the availability and provision of goods and services. Improving the level of human capital in rural areas is perhaps the most important driver for growth for rural regions. The benefits, however, are enhanced when human capital improvements are complemented with improvements in other areas. It is important to adapt and tailor policy priorities to the needs of the various Chilean rural regions, which will surely differ among different types of rural regions. It is therefore imperative to revise the current rural definition in order to be able to differentiate among different types of rural regions.

Assessing the performance of Chilean regions

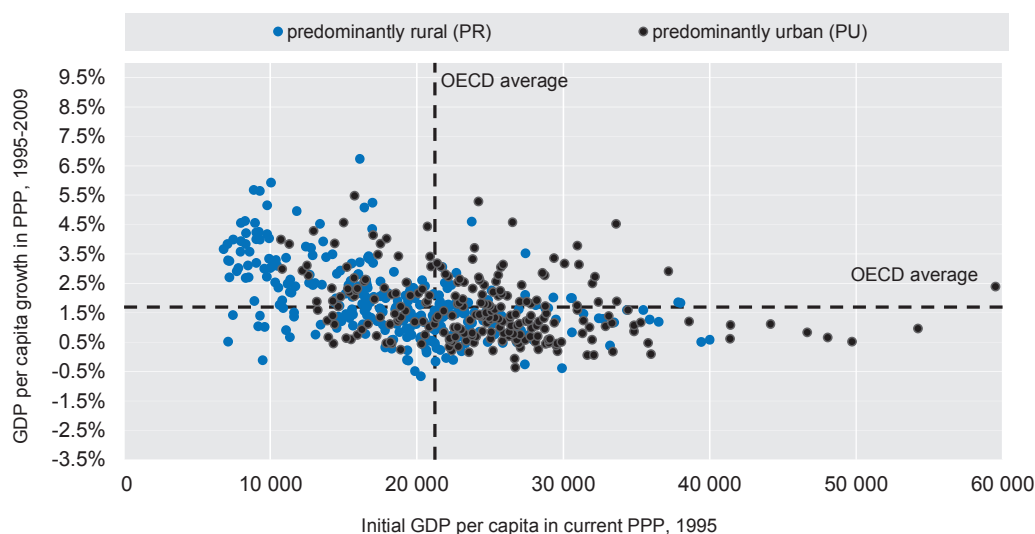
This section first provides a general overview of growth trends among predominantly rural OECD TL3 regions excluding Chilean regions due to data availability. It then examines the performance of Chilean regions over the period 1995-2011, paying particular attention to the period before and after the global financial crisis in 2008. The performance of Chilean regions focuses on TL2 regions due to availability of data benchmarking their performance to OECD TL2 regions. The analysis proxy's rural regions with two indicators: density of population and degree of rurality. Both indicators have advantages and drawbacks.

General trends in OECD rural regions

This section displays the main growth trends in OECD rural regions using the OECD taxonomy defining three types of TL3 regions (urban, intermediate and rural) and the expanded OECD typologies differentiating rural regions close to cities and rural remote regions (see beginning of section). In sum, there are three main trends:

- First, there is no single pattern of growth among OECD TL3 regions. Predominantly rural regions appear disproportionately represented among the fastest and slowest growing regions. Overall, per capita growth has been stronger, on average, in both remote rural regions and in rural regions close to major cities, than it has been in intermediate regions, which in turn, have outperformed urban regions (Figure 1.27). This suggests that the recipe for high sustainable growth rates is not unique and that strong growth can indeed be achieved in many different types of regions. The greater heterogeneity in rural regions' performance might well point to a greater variation in the challenges facing such regions, but the data provide little support for the widely held belief that rural regions are necessarily in decline.
- Second, rural regions collectively are the most dynamic type of region in the OECD, particularly rural regions close to cities. As a whole, rural regions performed better in terms of GDP per capita growth than intermediate and urban regions over 1995-2009. Amongst rural regions, those close to cities were more dynamic than remote rural regions and both types of rural regions grew faster than intermediate and urban regions. In terms of productivity growth, although rural regions as a whole also surpassed the productivity growth of urban and intermediate regions over 1995-2009, amongst rural regions there were large differences: on the one hand, rural regions close to cities displayed a high rate of productivity growth over 1995-2009; on the other hand, rural remote regions displayed the lowest rates of productivity growth.

Figure 1.27. **Initial GDP per capita and annual average growth rates in GDP per capita among predominantly urban and rural regions, 1995-2009**



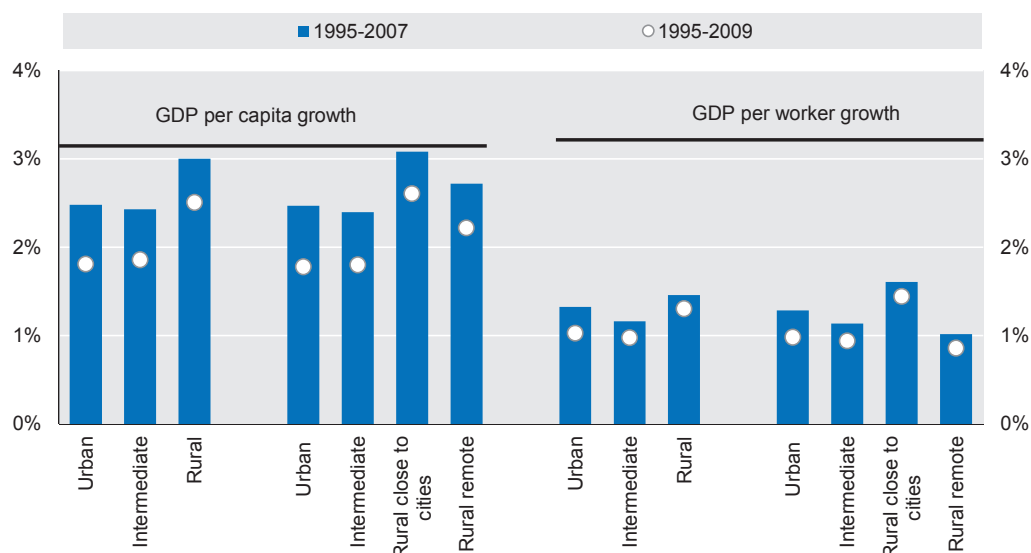
Note: The vertical and horizontal lines correspond, respectively, to the OECD urban and rural average growth rates and the average income level. Regions from Australia, Canada, Chile, Iceland, Mexico, New Zealand, Switzerland and the United States are missing due to a lack of GDP data for TL3 regions.

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

- Third, rural regions also appear to be experiencing both a process of convergence and increased variability (Figure 1.29). Over 1995-2009, rural regions recorded faster growth in regions with lower levels of GDP per capita. The highest growth rates (above 3.5%) of all regional types are chiefly to be found in regions with below average initial GDP per capita. Rural regions with above average levels of GDP per capita appear to be growing more slowly. Figure 1.29 also shows greater dispersion of regional growth rates for lagging regions. This implies that some regions far away from the production frontier are catching up quite rapidly, while others may be losing sizeable growth opportunities.

These three patterns reveal the strong growth potential that exists in rural regions, particularly in rural regions close to cities in terms of productivity growth and GDP per capita growth.

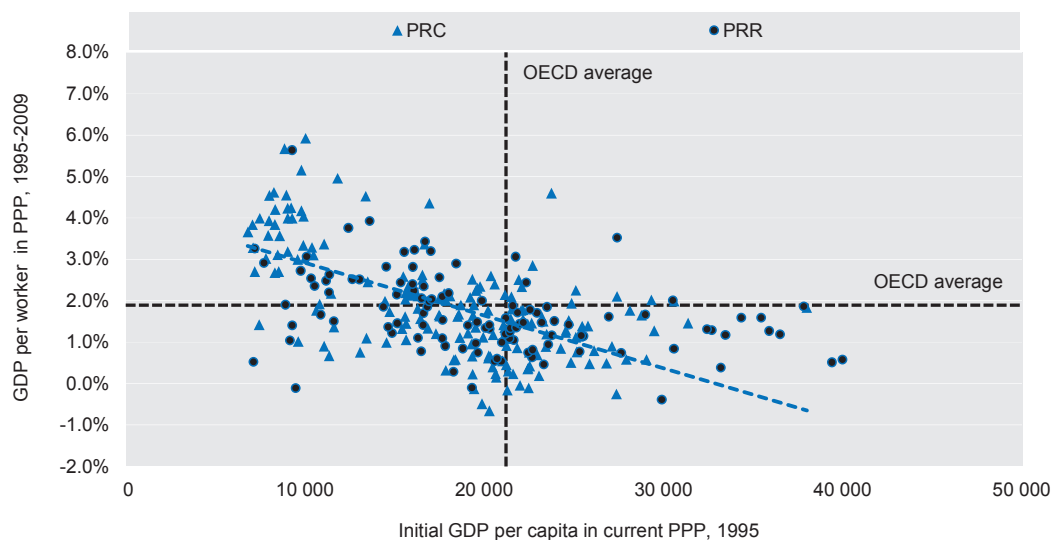
Figure 1.28. GDP per capita growth and labour productivity growth amongst OECD types of regions, 1995-2009



Note: “Urban” refers to predominantly urban regions; “rural” refers to predominantly rural ones. Regions from Australia, Canada, Chile, Iceland, Mexico, New Zealand, Switzerland, Turkey and the United States are missing due to a lack of GDP data for TL3 regions.

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Figure 1.29. Growth trends in predominantly rural regions, 1995-2009



Note: “Urban” refers to predominantly urban regions; “rural” refers to predominantly rural ones. Regions from Australia, Canada, Chile, Iceland, Mexico, New Zealand, Switzerland, Turkey and the United States are missing due to a lack of GDP data for TL3 regions.

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

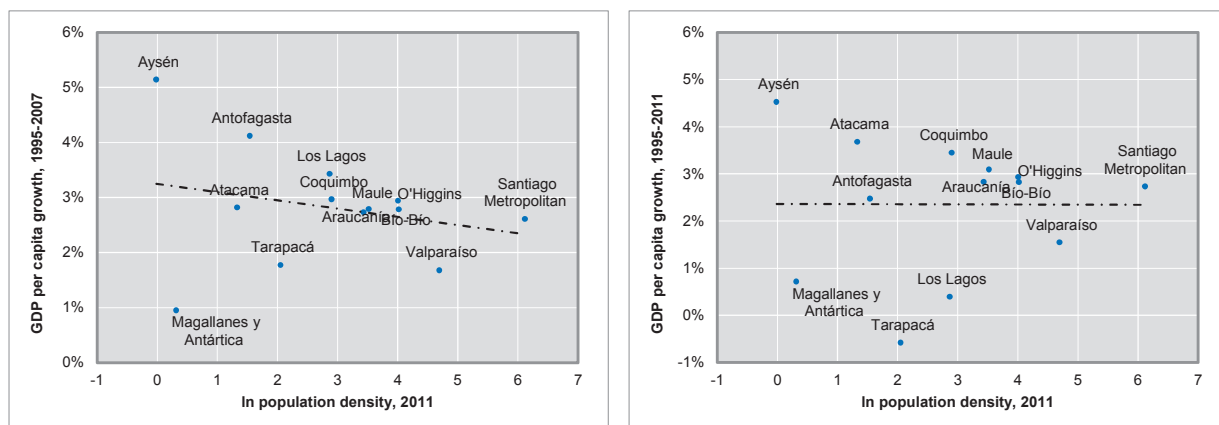
Performance among Chilean regions

In Chile, there are 53 TL3 regions (*provincias*), according to the OECD typology, 42 of which are defined as predominantly rural (see the first section of this chapter). Because GDP data are not available for Chilean TL3 regions, this section starts by examining the performance of the larger 15 TL2 regions where GDP data are available using density and the degree of rurality as a proxy to capture the performance of rural areas in Chile. It then examines the impact of regional performance in Chile on national growth.

In Chile, before the crisis, regions with a lower population density had faster GDP per capita growth on average than regions with a higher density. GDP per capita growth and population density over the period 1995-2007 before the global, financial crisis (1995-2007) appear to be negatively correlated, suggesting that regions with lower population density, all things equal, display on average a higher rate of growth in per capita GDP (Figure 1.30). When the years of the crisis are included in the analysis, the relationship breaks down due to a wider variability in the performance of Chilean TL2 regions.

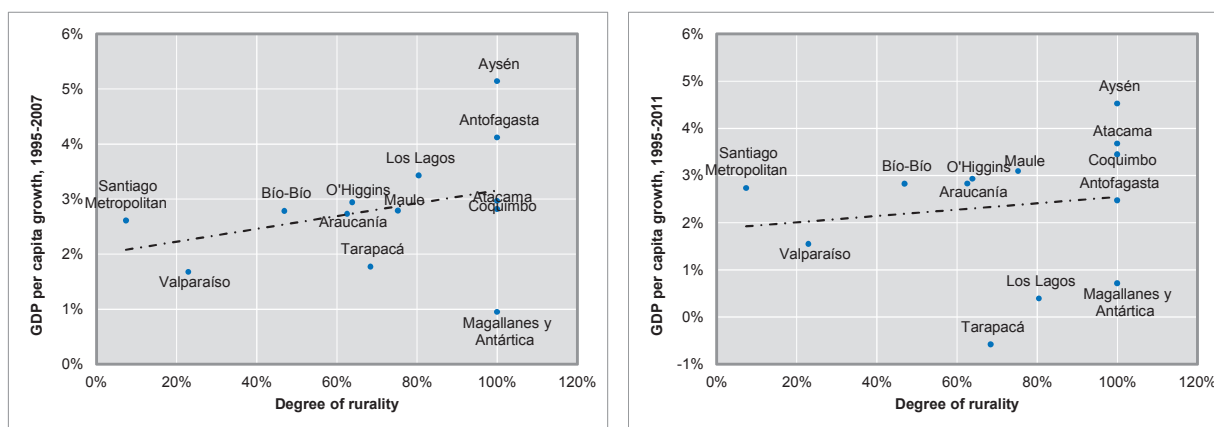
Chilean TL2 regions with a higher degree of rurality record higher growth rates in GDP per capita over 1995-2011. The degree of rurality captures the percentage of the population living in rural communities (*comunas* in Chile). Rural communities are defined as municipalities (*comunas*) with less than 150 inhabitants per km². This proxy can suffer from a measurement bias, in particular when urban centres are embedded in a larger municipality. In Chile, the degree of rurality ranges from 7% in Santiago to 100% in six regions (Antofagasta, Atacama, Aysen, Coquimbo, Magallanes and Chilean Antarctica, and Arica and Parinacota). On average, the higher the degree of rurality, the higher the annual average growth rate over the period before the crisis (1995-2007), and the relationship holds when including the years of the crisis (1995-2011). The trends also reveal a positive trend between the degree of rurality and the variability in the performance of rural regions similarly to the general trends among OECD rural regions (Box 1.4).

Figure 1.30. GDP per capita growth and population density among Chilean TL2 regions, 1995-2011



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Figure 1.31. GDP per capita growth and degree of rurality among Chilean TL2 regions, 1995-2011

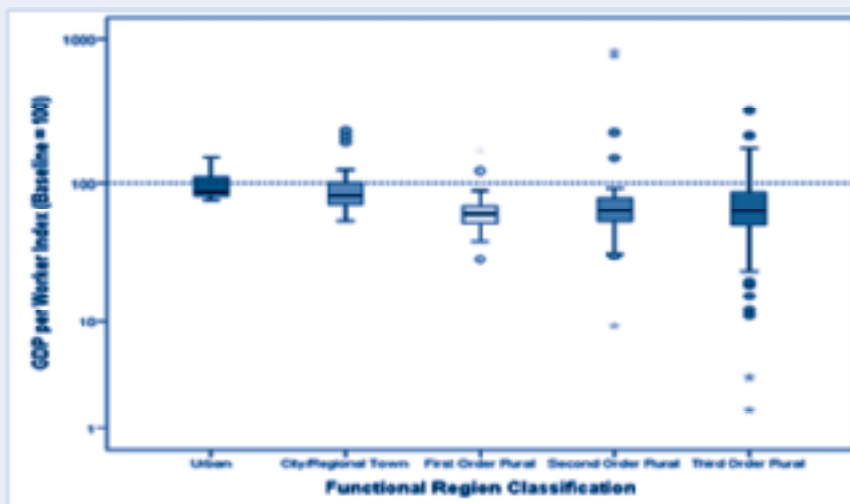


Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Grouping Chilean TL2 regions into three groups according to their degree of rurality – the first with less than 33%, the second between 33% and 66% and the third with more than 66% – permits to analyse the growth trends in these three groups over several time periods. The pattern reveals a similar picture as present among different types of OECD TL3 regions revealing a higher rate of growth in rural regions. Indeed, the analysis shows higher growth among Chilean rural regions with a higher degree of rurality over the three periods considered.

Box 1.4. Local labour markets in Atlantic Canada

Recent research on functional regions in the four Atlantic provinces of Canada shows that average productivity, defined as GDP per worker, does not vary greatly across size of region, but that the variability of productivity among regions within each size class increases as the size of region declines (see figure below). Five size classes of region are defined, with the largest consisting of the bigger urban places in Atlantic Canada and the smallest being very small autonomous communities that have no commuting flows. The largest urban region is the Halifax functional economic region with a population of about 400 000 people, while the smallest regions have populations of under 600. The table below shows the distribution across the five categories.



The main conclusion from this work is that regions of any size, even very small regions, can have high levels of productivity. Because productivity is ultimately a characteristic of firms and not places, it is possible for firms in any size of region to be highly productive. Indeed, we might think that in small regions that lack any agglomeration benefits, the survival of a firm hinges on being highly productive so it can be competitive in distant export markets.

The five categories of functional region in Atlantic Canada

	Number of regions	Average population	Range in size
Urban centres	11	132 541	412 000-101 620
Small cities and regional towns	29	22 237	39 805-9 225
First order rural	31	4 568	7 950-2 140
Second order rural	39	1 055	2 139-1 810
Third order rural	149	236	600-95

While firms in large regions take advantage of agglomeration effects that enhance productivity and the presence of a large home market, firms in small rural regions can benefit from the presence of site-specific resources. Both types of regions make useful contributions to national economies, but in the case of small regions, there are clearly locations that have serious economic problems. The crucial task for rural policy is to identify ways to improve productivity in these lagging regions.

Source: Freshwater, David and Alvin Simms (2013), “Factors affecting productivity in local labour markets in Atlantic Canada”, paper presented at the North American Regional Science Association Annual Meeting, Atlanta, Georgia, 13-16 November 2013.

Table 1.12. **Growth performance of Chilean TL2 regions in GDP per capita according to degree of rurality**

Chilean TL2 regions with a degree of rurality of:	Number of regions	Growth in GDP per capita		
		1995-2007	2007-11	1995-2011
0-33%	2	1.96%	2.46%	2.08%
33-66%	3	2.14%	2.13%	2.14%
66-100%	8	2.94%	2.90%	2.93%

Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Contribution of TL2 Chilean regions to national growth

National growth depends on the contribution of all regions. Contributions of regions to aggregate growth depends on the size and performance of regions; meaning how large is the regional economy and how has it been growing over a given time period. Contributions to aggregate growth among OECD TL2 and TL3 regions follow a general pattern that replicates in different scales: approximately one third of aggregate growth is driven by very few (big-hub) regions, which provide a disproportionately large contribution, and the remaining two-thirds by the rest, which do not contribute much individually (Box 1.5). Understanding regional contributions in Chile is particularly relevant, given its particular geography and differentiation in economic activities across the regions.

The disproportionate contribution Santiago made to national growth (52%) over 1995-2011 was partly due to the effects of the global financial crisis. As in many OECD countries, the contribution of regions to national growth in Chile appears to be dominated by a single region (Santiago). More than half of national growth over 1995-2011 was driven by Santiago alone. This high contribution was partly due to the effect of the crisis: during 2007-11, Santiago contributed to 72% of national growth while three regions contracted. During the period leading to the crisis, however, Santiago contributed to 45%

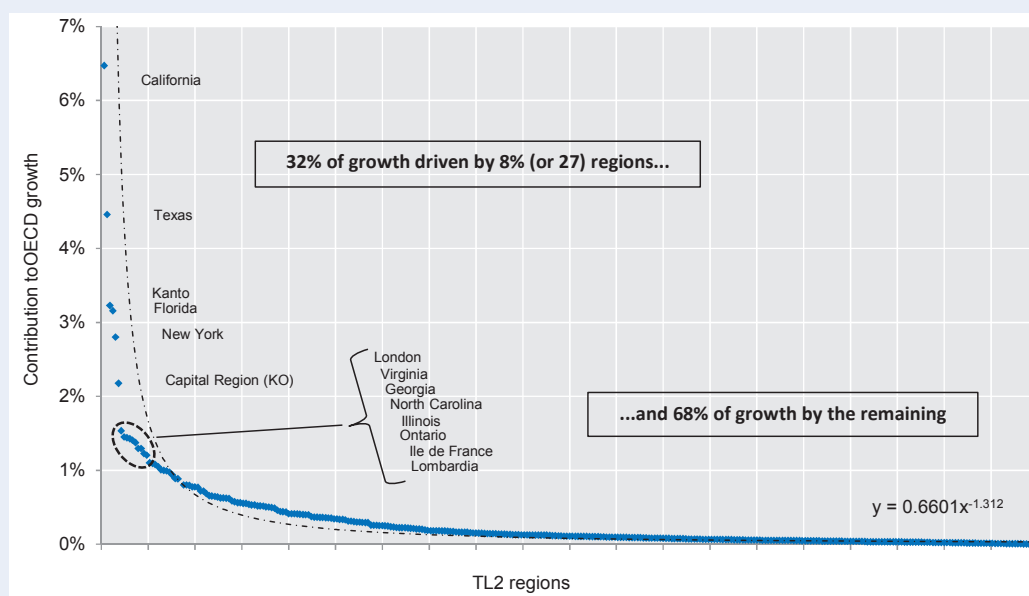
Box 1.5. Contributions of regions to aggregate growth in the OECD

Recent OECD studies examining contributions to aggregate growth find a general pattern among regions. Around one third of aggregate growth is driven by very few regions. The remaining two-thirds, while not dominated by any single region, stems from the combined contribution.

Among OECD TL2 and TL3 regions, while the distribution in GDP and GDP per capita growth rates follows an approximately normal distribution, the regional contributions to aggregate growth follow a power law, with a coefficient around 1.2 (in absolute terms). This implies that Few-Large (FL) regions contribute disproportionately to aggregate growth whereas Many-Small (MS) individual regions contribute only marginally. Nevertheless, because the number of these smaller regions is very large and the decay of their contribution to growth is slow (generating a fat tail distribution), their cumulated contribution is around two-thirds of aggregate growth. For the period 1995-2007, only 2.4% of OECD TL3 regions contributed to 27% of OECD GDP growth, but the remaining 97.6% corresponds to 73%. The distribution of growth rates by size follows a non-monotonic pattern, with the largest concentration of above average regional growth rates being concentrated for middle-sized regions. Overall, the great heterogeneity suggests that the possibilities for growth seem to exist in all types of regions.

Box 1.5. Contributions of regions to aggregate growth in the OECD (cont.)

Contributions of TL2 regions to OECD growth, 1995-2007



Source: OECD (2011), *OECD Regional Outlook 2011: Building Resilient Regions for Stronger Economies*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264120983-en>.

FUAs also tend to follow this pattern. The 268 largest FUAs contributed on average to over half of the total OECD growth over the period 2000-08. The distribution of growth contribution also follows the shape close to a power-law distribution. The FL FUAs include Seoul Incheon (Korea), which appears in the first position, followed by New York (United States), London (United Kingdom), Los Angeles (United States), Tokyo (Japan) and Paris (France). Just the top 20 OECD FUAs contribute to 25% of the aggregate OECD growth during the period 2000-08. The remaining 92% of the OECD FUAs contribute to almost 75% of the aggregate growth, even if its individual contributions are below 0.5% of OECD GDP growth (Figure 1.32).

Sources: OECD (2011), *OECD Regional Outlook 2011: Building Resilient Regions for Stronger Economies*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264120983-en>; OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2013-en.

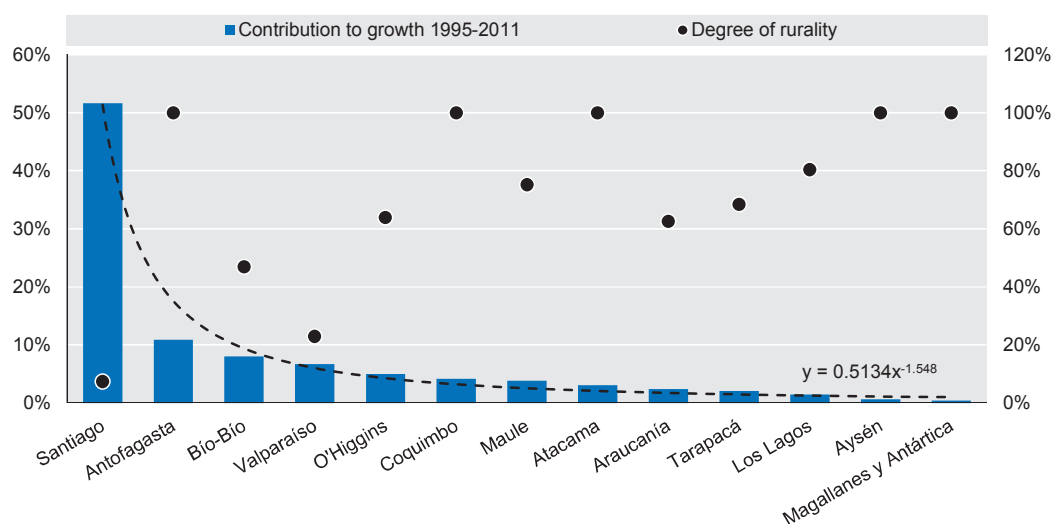
of national growth, 14% was driven by Bío-Bío and Valparaíso and the remaining 41% by regions with a degree of rurality no less than 63%. This suggests that Santiago is, indeed, a key engine of national growth. Nevertheless, 40% of national growth is driven by regions with a significant share of their population living in rural communities.

Inclusive and sustainable development in rural areas

Poverty rates, according to the first revised definition, are lower in rural areas than in urban ones. Poverty in Chile³, based on figures employing the official definition of urban and rural areas, has been reported to be higher in rural areas (15%) than in urban ones (10.8%). These figures, however, are driven by the definition itself, which associates rural areas to lagging and declining areas by construction (see discussion at the beginning of this chapter). Nevertheless, re-estimating rural poverty rates based on the revised

definition (alternative 1) of urban and rural areas provides a very different picture. Poverty rates in urban areas (14%) are higher than the national average (13.3%), and that of rural areas (9.3%). These estimates apply different poverty threshold values for urban (USD 72 098) and rural (USD 48 613) regions. Given that under the revised definition there are more areas defined as rural, total poverty is lower due to the lower threshold value.

Figure 1.32. Contribution to national growth by TL2 regions in Chile, 1995-2011



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Poverty appears to be a concern in mixed regions (urban and rural) displaying the highest poverty rates according to the second revised definition. Estimating poverty rates according to the second alternative definition, which distinguishes between urban, mixed and rural regions (i.e. a simplified version of it), reveals a much higher poverty rate in mixed regions (16%) than in rural (9.2%) and urban regions (13.9%). This estimate applies the urban poverty threshold (USD 72 098) to urban areas and the rural poverty baseline (USD 48 613) to rural and mixed areas.

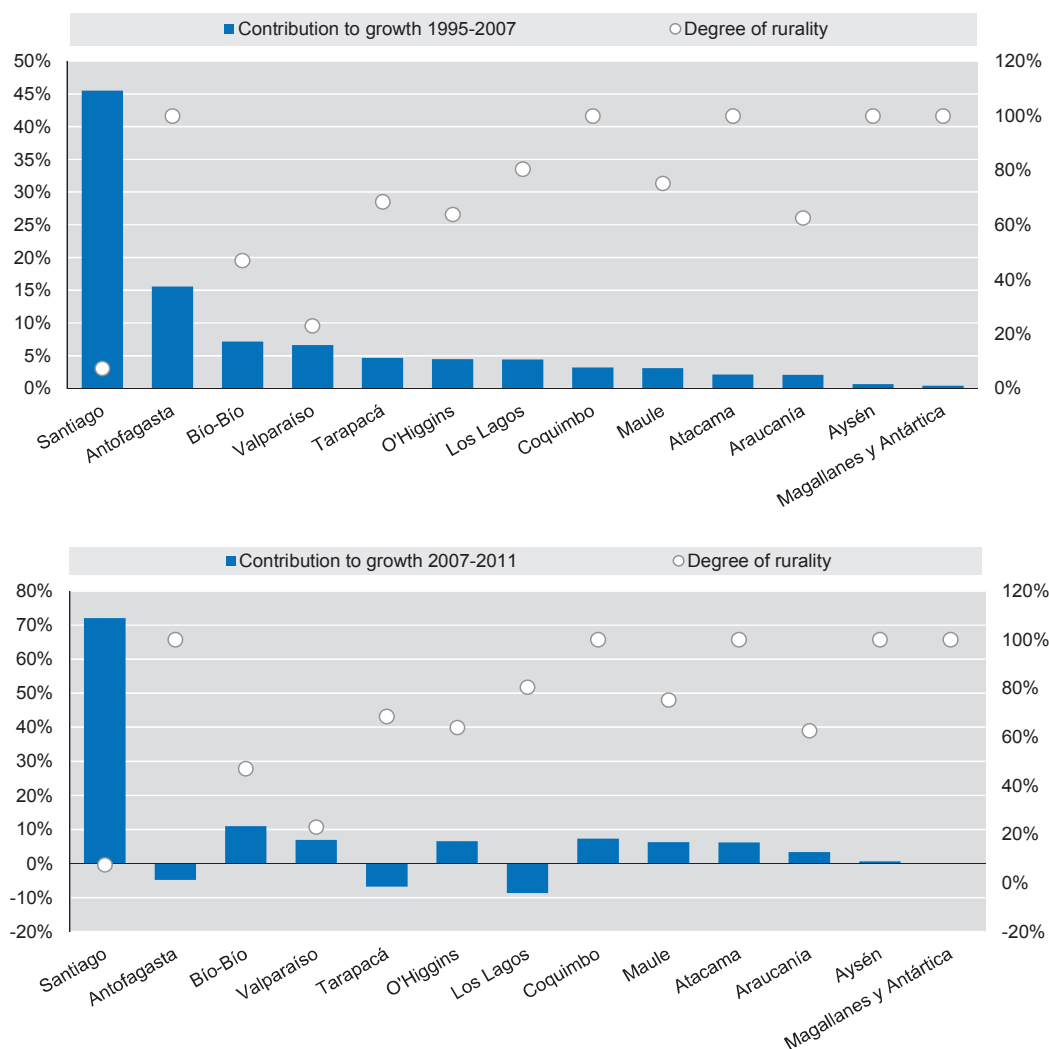
Table 1.13. Poverty rates among rural and urban municipalities based on revised definition 1, 2013

	Rural	Urban	National
Official definition (INE)	15%	10.80%	14.40%
Revised definition (alternative 1)	9.30%	14.40%	13.30%
Change	-5.70%	3.60%	-1.10%

Note: The poverty baseline for rural areas (USD 48 613) is applied to rural households and the poverty baseline for urban areas (USD 72 098) is applied to urban households.

Source: Familia de la CASEN 2011 computations estimated by the Chilean Ministry of Economy.

Figure 1.33. Contribution to national growth by TL2 regions in Chile before and during the crisis, 1995-2011



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en> (accessed on 15 December 2013).

Table 1.14. Poverty rates among rural and urban municipalities based on revised definition 2, 2013

	Rural	Mixed	Urban	National
Official definition (INE)	15%	..	10.80%	14.40%
Revised definition (alternative 2)	9.20%	16%	13.90%	13.62%

Note: The poverty baseline for rural areas (USD 48 613) is applied to rural households and households living in mixed areas. The poverty baseline for urban areas (USD 72 098) is applied to urban households. .. refers to not available.

Source: Familia de la CASEN 2011 computations estimated by the Chilean Ministry of Economy.

Labour market indicators among urban and rural municipalities based on the revised definition yield a higher rate of unemployment for females in rural areas than in urban ones and a lower rate of male unemployment in rural municipalities. Male participation rates according to the new definition are similar across urban and rural municipalities; however, when comparing female participation rates, rural municipalities still have important gaps when compared to males.

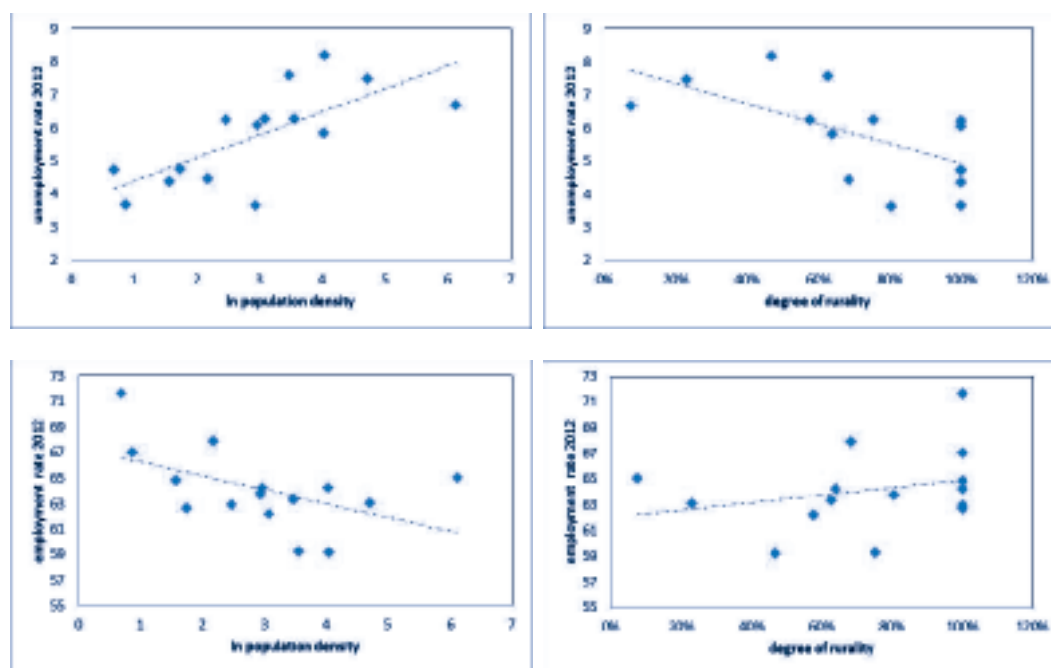
Table 1.15. **Labour market indicators among rural and urban municipalities based on the revised definition, 2013**

	Revised definition		INE	
	Rural	Urban	Rural	Urban
Unemployment rate male	5.1%	5.4%	4.8%	5.5%
Unemployment rate female	6.5%	6.2%	6.1%	6.3%
Gap (female-male)	1.4%	0.8%	1.4%	0.8%
Unemployment rates total	5.9%	5.7%	5.2%	5.8%
Participation rate male	71.5%	71.7%	73.2%	71.2%
Participation rate female	42.3%	48.7%	37.4%	48.5%
Gap (female-male)	-29.1%	-23.0%	-35.7%	-22.7%
Participation rate total	57.2%	59.9%	56.5%	59.5%

Source: National Survey of Employment, JJA 2013, computations estimated by the Chilean Ministry of Economy.

Examining the labour market trends among TL2 Chilean regions provides a more positive outlook for low densely populated regions and for regions with a higher degree of rurality in 2012. Indeed, TL2 regions with lower population density have lower rates of unemployment and higher rates of employment. Similarly, regions with a higher degree of rurality also record better labour market outcomes.

Figure 1.34. Unemployment and employment rates among Chilean TL2 regions, 2012



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

Land use, biodiversity and national parks

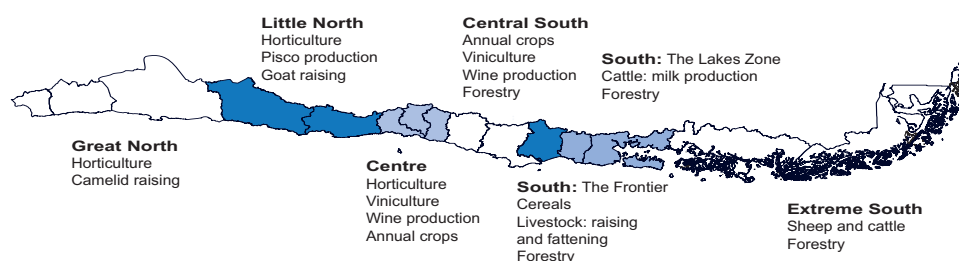
According to the OECD taxonomy, 92% of Chilean land area is classified as predominantly rural, 6% as intermediate and 2% as predominately urban; hosting 36%, 14% and 49% of the Chilean population respectively. The importance of rural to Chile's economic and social well-being is disproportionate to its population, as rural areas provide natural resources that much of the rest of Chile depends on for food, energy, water, forests, recreation, national character, and quality of life.

Indeed, forests, grasslands, wetlands, and other natural assets located primarily in rural areas can provide a range of benefits to Chilean society. In addition to contributing to private market activities these assets can have recreation values, offer flood protection, purify drinking water supplies, safeguard wildlife and bird habitat and regulate the climate.

These natural assets are particularly important for rural activities in Chile given the rich bio-diversity climatic conditions and peculiar geographic terrain. The climatic conditions range from the world's driest desert in the north of the country, to a Mediterranean climate in the centre, a humid subtropical in Easter Island, to an oceanic climate in the east and south, and the peculiar geographic terrain in Chile stretches over 4 300 km along the south-western coast of South America and no more than 240 km in width.

The rich climatic conditions and diverse geography produce a wide variety of primary goods ranging from horticulture in the Great North, pisco production, horticulture and goat raising in the Little North, viniculture and wine production in the centre and centre south, forestry in the south and centre south, cattle and milk production in the south, and sheep and forestry in the extreme south.

Figure 1.35. Production of primary activities among Chilean regions

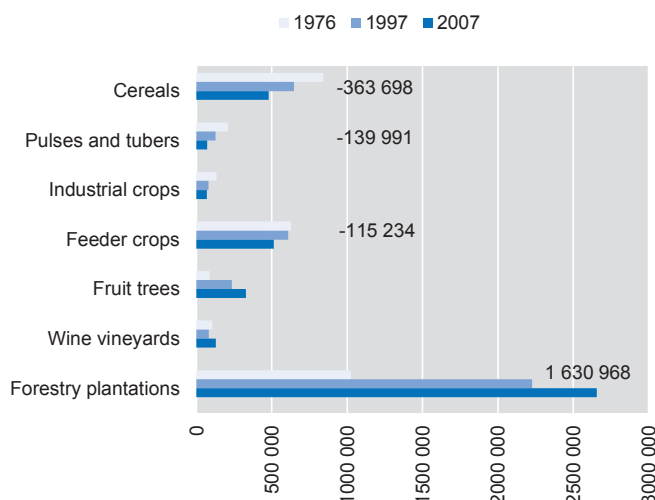


Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

The change of land use, mainly driven by the conversion of forest land, the expansion of agricultural land livestock activities puts pressure on competing uses of land. The great degree of concentration in economic activities, and especially settlement patterns, in Chile add to these pressures and poses challenges on biodiversity.

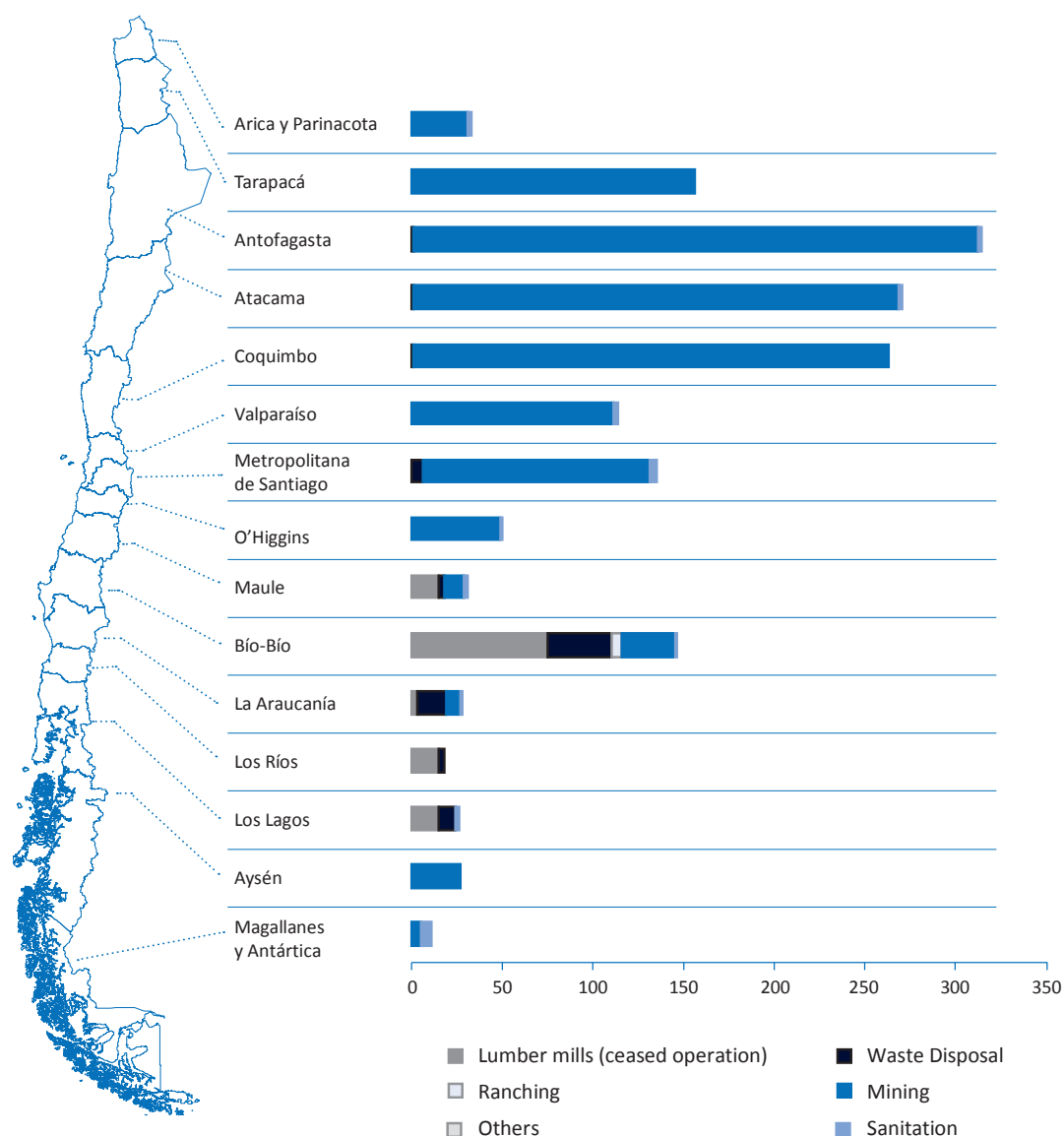
The intense mining activities in the north also bring important environmental challenges, especially the contamination of land. Indeed, the mining-intensive northern regions of Antofagasta, Atacama and Coquimbo record the highest levels of contamination amongst Chilean regions.

Figure 1.36. Changes in the use of land in Chile, 1976-2007



Source: Developed by the Chilean Ministry for Agriculture (ODEPA) using the agricultural census from 1976, 1997 and 2007.

Figure 1.37. Geographic distribution and sectoral activity of contaminated areas in Chile, 2011

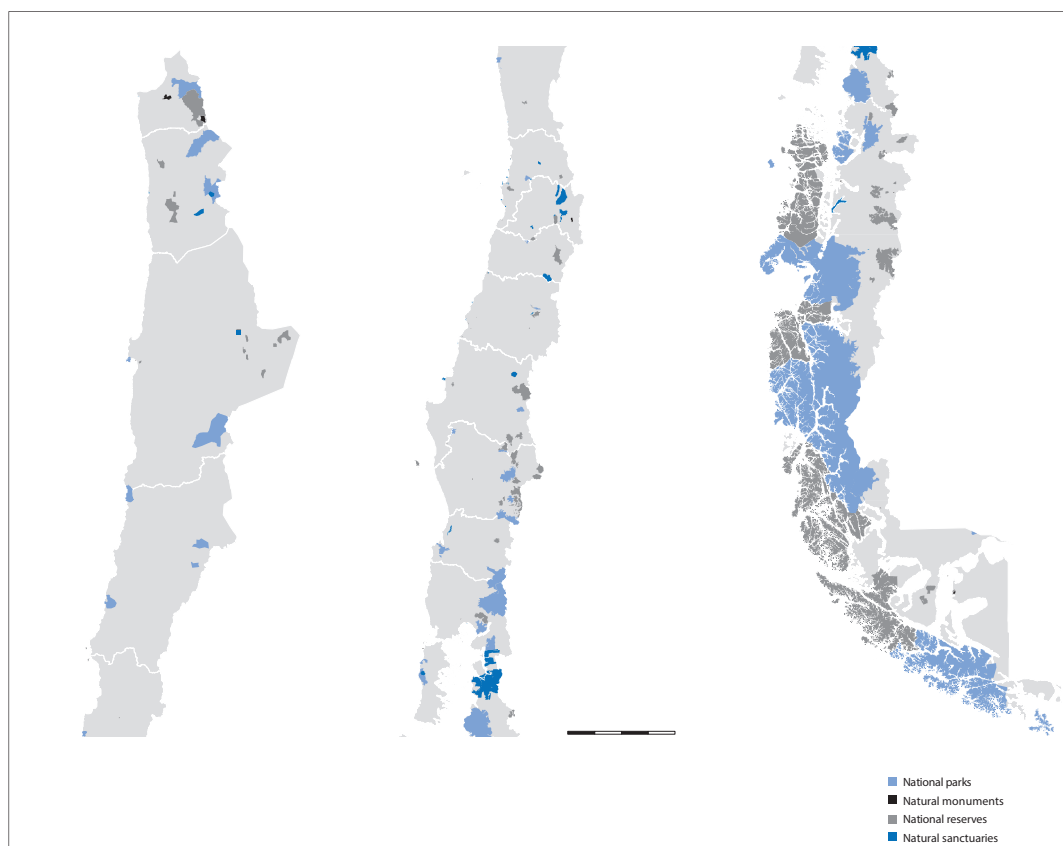


Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map. The maps depicting the borders of Chile are for illustration purposes and do not engage the state of Chile according to Article 2, letter g of DFL 83 in 1979 from the Foreign Ministry.

Source: Chilean Ministry of the Environment.

In Chile, there have been designated protected areas since the early 20th century as defined in the National System of Protected Wild Areas of the State (SNASPE). The SNASPE is composed of national parks, natural monuments and national reserves. It currently has 100 units spread over 35 national parks, 49 national reserves and 16 natural monuments. The total surface area of protected areas comprises 14.5 million hectares, around 20% of the national surface land. The territorial distribution of protected areas is geographically very defined, with 84% of the protected areas located in the regions of Aysen and Magallanes, while in the regions of Coquimbo, Maule and Metropolitan, they comprise only 1%.

Figure 1.38. Protected areas in Chile



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map. The maps depicting the borders of Chile are for illustration purposes and do not engage the state of Chile according to Article 2, letter g of DFL 83 in 1979 from the Foreign Ministry.

Source: Chilean Ministry of the Environment based on Luebert and Pliscoff vegetation classification, updates in cartographic in 2011.

Conclusions

Rural Chile is very heterogeneous. The diagnosis of the present situation and the main trends occurring in rural areas demonstrates the diversity that is currently present in rural Chile. The demographic, social, economic and environmental challenges and opportunities vary from of deserted terrain in the north to ice in the south, from mountainous areas throughout the country to coastal rural region and from remote rural areas to peri-urban or rural areas close to the cities.

Under the current official definition delimiting rural areas in Chile, only the smallest settlements in sparsely populated regions are considered rural given that the definition does not differentiate among different types of rural areas since it defines rural as the residual of urban, nor does not account for mixed areas where there are strong urban and rural interactions. Therefore under this definition the basic elements of a modern rural economy are not captured for Chile, including: recognising the significance of urban and rural interactions, differentiating among different types of rural areas, recognising and defining multiple types of rural towns and settlements, and, finally, the ability of rural areas attracting inhabitants with strong human capital and skills.

Examining rural Chile with a revised definition, reveals similar patterns as in other OECD members where rural is no longer confined to lagging and sparsely populated areas. Adopting a revised definition is necessary to design and implement a modern rural policy framework for Chile (Chapters 2 and 3) that can better address the realities and challenges of Chile’s rural regions.

Improving the competitiveness and performance of Chile’s rural regions would not only be beneficial to the opportunities and well-being of rural citizens but also to national goals and to inclusive growth.

Notes

1. In the 2012 census, the INE eliminated the economic activity criteria and used only the criteria of 2 000 persons.
2. www.conicyt.cl/explora/2013/05/15/explora-presenta-chile-laboratorio-natural.
3. Poverty figures for Chile are computed using the poverty threshold value in rural areas of USD 48 613. While the selection of this particular threshold value is being questioned given that it is not based on a rigorous measure, for the purpose of this report we employ this value in order to compare how the poverty rates change with respect to previous figure when using a different rural definition.

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Annex 1.A1.

Chile's governance and functions at sub-national level

Table 1.A1.1. Summary territorial units, governance and main functions at sub-national level

Regions (15)	<p>1. The government of the region – national government line</p> <ul style="list-style-type: none"> – Intendant (<i>intendente</i>): The direct representative of the President of the Republic in each of the regions. The intendant is named by the President of the Republic and is maintained in the office at the discretion of the president. The intendant directs the government of the region according to the guidelines given directly by the President. <p>2. The regional government (GORE) – territorially decentralised line</p> <ul style="list-style-type: none"> – Intendant (<i>intendente</i>): Acts as the executive head of the regional government and presides the Regional Council. – Regional Council (CORE): Supervises the intendant's duties. Through a recent reform, regional councillors are not democratically elected. <p>Main functions of the regional government:</p> <ul style="list-style-type: none"> – design programmes and policies for regional development and productivity – approve the regional development plan – define and take investment decisions regarding the use of resources from regionally defined public investments, especially from the National Fund for Regional Development (FNDR) – advise municipalities – build and administer the paving of sidewalks and roads in rural areas – carry out various tasks related to land management, human settlements and infrastructure equipment. <p>3. Other organs of the public administration in the region</p> <ul style="list-style-type: none"> – Ministerial regional secretaries (SEREMIS): National ministries' regional representatives who co-ordinate the public services under their responsibility. The Regional Planning Secretariat (SERPLAC) is a key institution in the investment process.
Provinces (52)	<ul style="list-style-type: none"> – Governor (<i>gobernador</i>): Appointed by the President. The governor is the territorial deconcentrated authority of the intendant in the territory of the province. – Provincial economic council: Headed by the governor, acts as an advisory institution to the provincial governor. <p>Main functions: Supervise:</p>
Municipalities (345) Public corporations, with both legal personality and private assets, whose end is to satisfy the needs of the local community	<ul style="list-style-type: none"> – Mayor (<i>alcalde</i>): Highest authority in a municipality; chair of the municipal council. – Municipal council: Advises, regulates and supervises the mayor's performance. It is in charge of ensuring the effective participation of the local community. – Economic and social council: It is an entity of the municipality composed of representatives of civil organisations of the <i>comuna</i>, aimed at ensuring their participation. Both the mayor and the council are chosen through popular elections every four years. <p>Main functions:</p> <ul style="list-style-type: none"> – Develop, approve and modify the communal zoning plan (<i>Plan Regulador Comunal</i>); promote local development; enforce all measures related to transport; implement provisions regarding construction and the planning and urban regulation of the commune. <p>Shared faculties (implemented either directly or in conjunction with other levels of government):</p> <ul style="list-style-type: none"> – Public health, primary and secondary education, culture, work training and economic development, tourism, traffic regulations, social housing development and sanitary infrastructure, citizen safety. <p>Special attributions to carry out its functions:</p> <ul style="list-style-type: none"> – Collect fees for municipal services, concessions or licences; enforce taxes on activities or goods with a clear local identity to be used for communal development; award grants to public or private non-profit organisations.

Annex 1.A2.

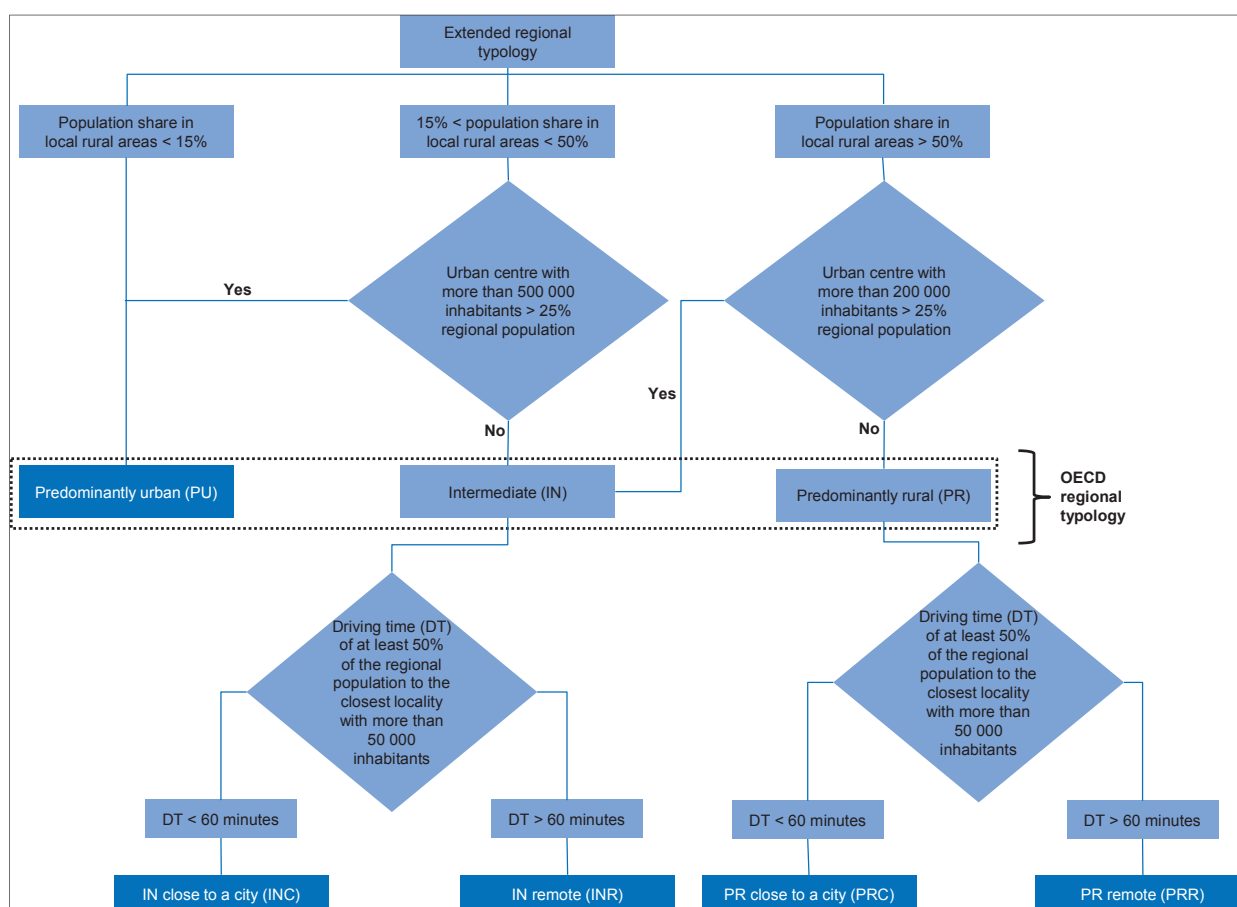
Regional grids and the OECD extended typology

Regional grids

The OECD has classified regions within each member country. The classifications are based on two Territorial Levels (TL). The higher level (Territorial Level 2) consists of 335 macro-regions while the lower level (Territorial Level 3) is composed of 1 679 micro-regions. This classification – which, for European countries, is largely consistent with the Eurostat classification – facilitates greater comparability of regions at the same territorial level. Indeed, these two levels, which are officially established and relatively stable in all member countries, are used by many as a framework for implementing regional policies.

OECD extended typology

Figure 1.A2.1. Methodology employed in the extended typology



Source: Brezzi, M., L. Dijkstra and V. Ruiz (2011), "Extended regional typology: The economic performance of remote rural regions", *OECD Regional Development Working Papers*, No. 2011/06, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5kg6z83tw7f4-en>.

Annex 1.A3.

Defining OECD functional urban areas

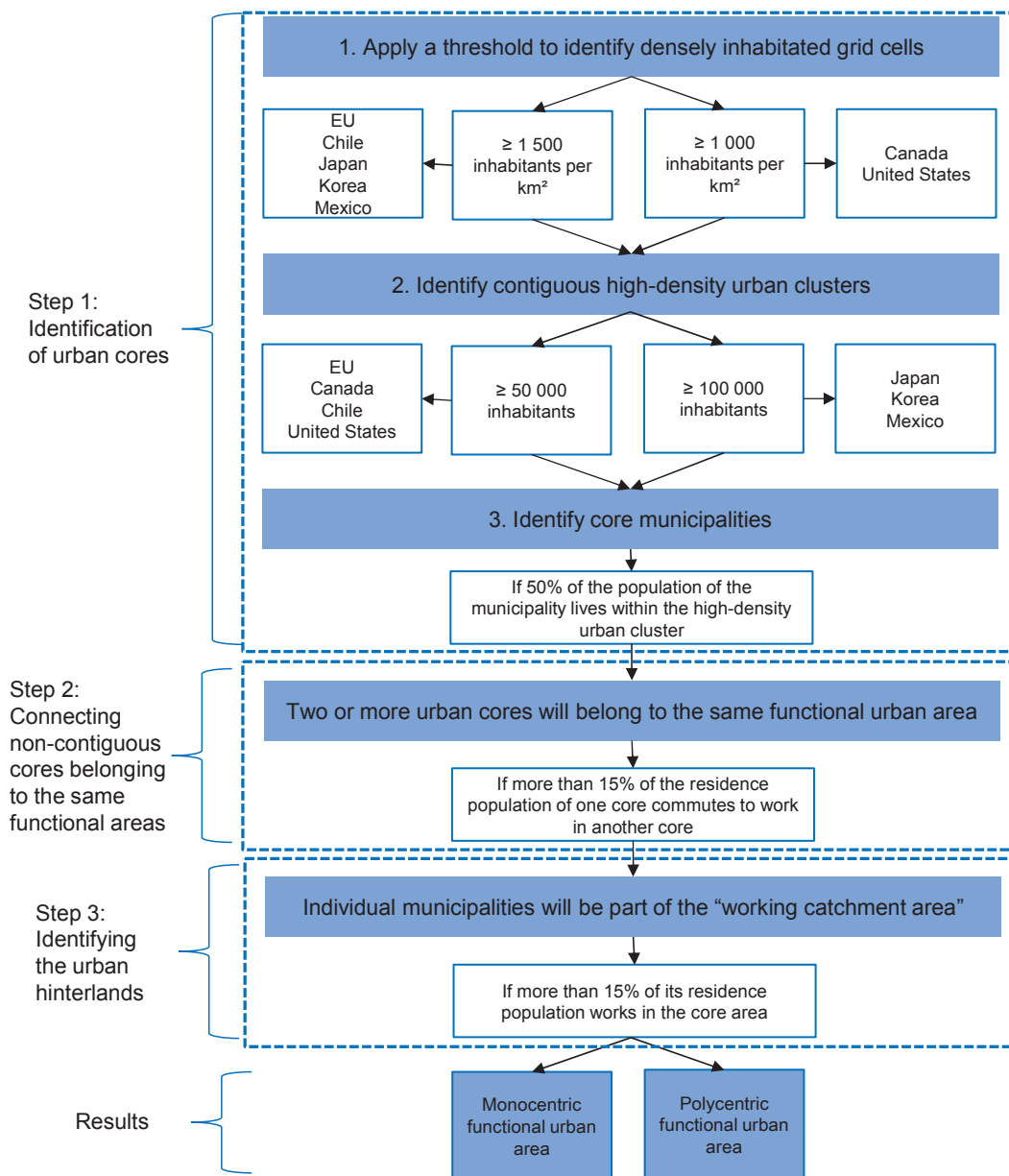
The methodology consists of three main steps:¹

- Step 1. Identification of core municipalities through gridded population data:
 1. The geographic building blocks to define functional urban areas are the municipalities (LAU2 in Eurostat terminology and the smaller administrative units for which national commuting data are available in non-European countries).
 2. An urban core consists of a high-density cluster of contiguous grid cells of 1 km² with a density of at least 1 500 inhabitants per km² and the filled gaps.² A lower threshold of 1 000 people per km² is applied to Canada and the United States, where several metropolitan areas are developed in a less compact manner.
 3. Small clusters (with fewer than 50 000 people in Europe, Canada, Chile and the United States, and fewer than 100 000 people in Japan, Korea and Mexico) are dropped.
 4. A municipality is defined as being part of an urban core if at least 50% of the population of the municipality lives within the urban cluster.
- Step 2. Connecting non-contiguous cores belonging to the same functional urban area:
 1. If more than 15% of employed persons living in one urban core work in another urban core, these two cores are combined into a single destination (to take into account polycentricity).
- Step 3. Identification of the urban hinterlands:
 1. All municipalities with at least 15% of their employed residents working in a certain urban core are assigned to that functional urban area.
 2. Municipalities surrounded by a single functional area are included and non-contiguous municipalities are dropped.
 3. Contiguity for high-density clusters does not include the diagonal (i.e. cells with only the corners touching).
 4. Gaps in the high-density cluster are filled using the majority rule iteratively. The majority rule means that if at least five out of the eight cells surrounding a cell belong to the same high-density cluster, it will be added. This is repeated until no more cells are added.

1. For more detailed information see OECD (2012), *Redefining “Urban”: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264174108-en>.

2. “Gaps in the high-density cluster are filled using the majority rule iteratively. The majority rule means that if at least five out of the eight cells surrounding a cell belong to the same high-density cluster, it will be added. This is repeated until no more cells are added.” OECD (2013), *OECD Urban Policy Reviews, Chile 2013*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264191808-en>.

Figure 1.A3.1. Procedure to define functional urban areas in OECD countries



Source: Based on OECD (2013), *Redefining "Urban": A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264174108-en>.

Chapter 2

Towards a modern rural policy for Chile

This second chapter presents the key pillars of “Modern Rural Development Policies” in OECD countries based on 10 dimensions and examines how Chile’s economy could benefit by implementing this framework to its rural areas. The chapter consists of four main sections. The first starts by describing three general types of rural areas, also present in Chile, and how the role of the rural economy changes through the process of economic development. It then follows with a section describing modern approaches to rural policy in OECD countries highlighting the importance of integrating rural with urban policies in addition to promoting rural development based on the New Rural Paradigm and targeting the enabling condition for growth in rural areas. The third section describes the main rural sectors in Chile and identifies possible areas for growth potential. The final section describes the benefits that are associated with adopting a modern rural policy in Chile.

Introduction

The design and the implementation of rural policies in OECD member countries is changing. Increasingly, policies for rural regions across OECD countries embrace a holistic approach that considers the growth potential of the area based on a more diversified economic base and not just the agricultural sector, then tailoring policies to suit. This “modern” approach to rural development is welcome and is even more significant as countries increase overall levels of development, as in the case of Chile. Typically, this occurs in stages. In the first stage, the modernisation of agricultural activities dominates the rural economy. Policies targeted to rural areas in this stage are mainly social and agricultural. As countries move into higher levels of development, the second stage, rural regions become more diversified and interlinked with urban activities. In this stage, policies in rural areas go beyond social and agricultural policies and target the broader growth potential of rural regions.

- What is rural policy?
- How are OECD countries managing it?
- What is rural policy in Chile?
- Its potential – where could rural policy go?

Chile has been rapidly moving into higher levels of development during the past decades. Conceptualizing the role of rural policy becomes more important as a country achieves a higher level of development because the role of rural regions and people becomes more complex and they make an increasingly diverse set of contributions to national economic growth. For this reason, the approach to rural development in Chile must adapt to these changes and evolve beyond the current narrow focus. Specifically, rural policies should adopt a broader vision and, where relevant, contribute to synergies with urban areas to ensure that rural regions reach their growth potential. Moving in this direction would better mobilise the assets and resources in rural regions and ultimately lead to higher levels of productivity, improving living standards and quality of life.

Constructing a coherent rural development policy can help to address some of the regional and territorial challenges in Chile. The *OECD Territorial Review of Chile* (OECD, 2009a) recommended: moving towards a solid regional governance structure, strengthening multi-level governance arrangements and establishing a governance system for metropolitan areas in order to ensure co-ordination in the delivery of key public services across the communes of the functional metropolitan areas. *Maintaining Momentum: OECD Perspectives on Policy Challenges in Chile* (OECD, 2011a) highlights some important challenges to territorial development, such as: the need for more context-specific territorial policies, a vulnerability to regional imbalances and a need to shift from “sectoral agriculture policies to comprehensive rural development programmes”. At the same time, the report notes that the country was “gradually evolving towards a model which gives more ‘voice’ to regions”. The *OECD Urban Policy Review of Chile* (OECD, 2013a) called for a more “coherent policy design and implementation in urbanism”. The study noted that “the highly siloed nature of ministerial activity, a strong centrist approach to sub-national governance and municipal resource gaps have resulted in policy incoherence at the urban level”. This report on the potential for rural development policies builds on previous reviews and adds new strategies as it seeks to provide direction on how to better tap the potential of rural areas in Chile and better align rural, urban and regional policies.

Box 2.1. Key findings from recent OECD studies on urban and regional policies in Chile

- The agricultural sector plays a key role in Chile’s economy, but to improve the prospects of rural areas, a shift towards a multi-sectoral place-based approach of rural development is needed. Chile could benefit from greater economic and geographical diversification while continuing to add value to established sectors to make them more competitive. Chile’s lack of economic diversification and over-dependency on commodity goods makes the economy vulnerable to sudden changes in international commodity prices and secular shifts in demand, and may constrain its long-term growth potential. Regional performance varies widely, revealing under-utilised regional potential in Chile (OECD, 2009a).
- Place-based policies should be promoted as the potential for regional growth depends largely on how public policies adapt to the specific and varied characteristics and opportunities of the different Chilean regions. Improving access to infrastructure, basic services and telecommunications in rural areas and peripheral regions represents a potential source of growth that would increase the country’s overall growth performance. To improve the prospects of rural areas, there is a need to shift from sectoral agricultural policies towards comprehensive rural development programmes. Chilean regions would benefit particularly from policies aimed at boosting productivity, such as those targeted at innovation and entrepreneurship, and at improving education and training. It will be important to give extended competences to regional governments to allow them to be active in the discussion, planning and co-ordination of regional development policies (OECD, 2011a).
- Develop a single and clear definition of urban versus metropolitan areas to more effectively guide policy and decision makers. Ensure that growth-oriented initiatives and policies (e.g. infrastructure investment, active competitiveness policies, education policy, and jobs and skills policy), are targeted as much to medium-sized and small cities as to metropolitan areas. Identify whether policy-based responses are needed to slow poverty growth, for example through further research into the underlying causes of poverty and by determining possible links with domestic migration (OECD, 2013a).
- Chile has been remarkably successful in turning its natural resource endowments into a generator of growth and modernisation via strong exports and fiscal discipline, the latter being particularly important in mitigating the impact of external shocks and containing “Dutch disease” pressures. However, specific challenges remain for its mining regions, which often bear the environmental and other costs associated with resource extraction, while reaping only a portion of the benefits. Like many natural resource-intensive regions in the OECD, they face the challenge of successfully developing a critically important primary sector in a manner that can contribute to regional development, including not only economic growth but broader measures of well-being (OECD, 2013b).

Source: OECD (2009), *OECD Territorial Reviews: Chile 2009*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264060791-en>; OECD (2011), *Maintaining Momentum: OECD Perspectives on Policy Challenges in Chile*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264095199-en>; OECD (2013), *OECD Urban Policy Reviews: Chile 2013*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264191808-en>; OECD (2013), *OECD Territorial Reviews: Antofagasta, Chile 2013*, OECD Publishing, Paris, <http://dx.doi.org/9789264203914-en>.

Economic growth is relatively common in the rural regions of OECD countries. This suggests that enhancing the growth prospects of rural regions can make a useful contribution to achieving national growth objectives. Accordingly, this chapter looks at

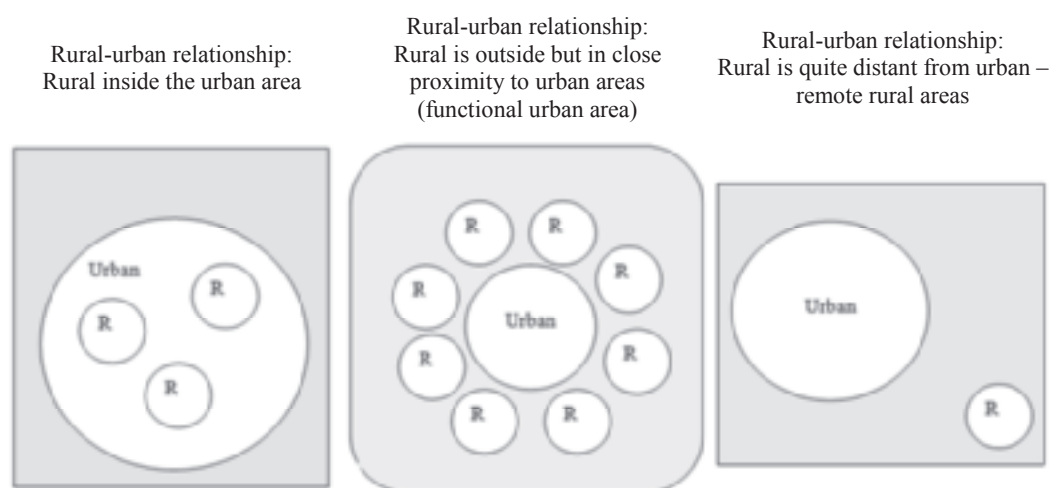
the role of rural policy in Chile through the prism of the “modern” approach to rural policy that is visible in OECD countries. The first section sets out a conceptual framework for organising a national rural economic development strategy by looking at the rural economy and economic development, and the changing role of rural areas in Chile as the country evolves into a modern industrialised democracy. Important elements of this analysis include: the different types of rural territory in Chile; the different forms of capital; and the link between the rural economy and the national economic development process. The second section sets out the OECD approach to rural development and suggests how it can play a role in guiding the development of a new rural policy in Chile. The final section analyses some of the key policies in Chile that influence rural development to demonstrate the importance of undertaking a new vision for rural policies.

The rural economy and economic development

The three types of rural regions in Chile

There are three distinct types of rural regions in Chile, as in many OECD member countries, each with different characteristics, challenges and policy needs (Figure 2.1). In a modern industrial democracy, rural regions should play an important complementary role to urban regions. This means that the development path of most rural regions is not to become an urban metropolis, but instead to provide goods and service that are best produced in a rural setting to the national and international markets. However, the role of rural regions changes as the national economy moves through various stages of development. For this reason, it is important to understand the different types of rural territory. In all three types of region, the rural territory provides a complementary role to urban activities. The main difference is where the main source of economic dynamism is located. In metropolitan regions it is clearly in the city, whereas in small remote regions it is in the rural area. The vast majority of rural territory falls in an intermediate situation where the urban and rural components of a region are more balanced in capacity and three are very large potential gains from co-ordination.

1. Rural regions within a functional urban area (FUA) – these types of rural regions are part of the catchment area of the urban core and their development is fully integrated into the metropolitan strategy. The main challenges of these types of rural regions are accessibility of services within the FUA, matching of skills to the wide range of supply and managing land-use policy brought by increasing pressures of the urban core.
2. Rural regions close to cities – the main challenges in these types of regions are: improving two-way connectivity and accessibility between the cities and rural territory, building short supply chains that link urban and rural firms, balancing population growth while preserving quality of life and green spaces, and enhancing the provision of secondary goods and services.
3. Remote rural regions – in these types of regions, rural areas depend to a great extent on the primary activities of the area. Growth comes from building upon areas of absolute and comparative advantage, improving connectivity to export markets, matching skills to areas of comparative advantage and improving the provision of essential services (e.g. tourism).

Figure 2.1. **Three types of rural regions in Chile**

In order to attain potential synergies, there is a need to better define urban and rural areas in Chile. While it is clear that urban policy applies in urban areas and rural policy to rural areas, it is the intersecting fringes of urban and rural areas and mixed territories that lead to problems. In Chile this is particularly important given the high degree, and increasing trend, of population concentration in cities and the growing importance of rural areas close to cities. Recognising and defining these mixed spaces with high interactions can facilitate better co-ordination of urban and rural policies. Furthermore, the marked differences in the proportions of rural and urban within Chilean regions are one reason why a single regional policy is unlikely to be successful. There is a need to adapt this balance to each region and to differentiate among the different types of rural regions. This reinforces the importance for the Chilean government to be precise in identifying what is rural and what is urban, as suggested in Chapter 1.

The OECD has recently examined how rural and urban territories interact in a variety of circumstances and the topic was the focus of the 9th OECD Rural Conference in Bologna, Italy (OECD, 2013c). As is shown in Box 2.2, there is a high degree of interaction between rural and urban populations in all types of regions. The role of rural varies with the size of the region and, in particular, the size of the dominant urban centre. In each situation, a well-functioning co-operation between urban and rural improves the two-way flow of people, goods and services between urban and rural, making both better off. Conversely, in regions where co-operation does not happen, it is easy to identify lost opportunities.

In Chile, the wide diversity of natural assets and resources in rural areas and big differences in the size of urban population centres lead to a huge differences among regions in the types and strengths of urban and rural interactions. These differences require a highly flexible rural policy approach to facilitate stronger regional growth. In a modern industrialised democracy with a complex national economy, it is important to move beyond seeing rural and urban as a simple dichotomy. The Rural Urban Project/RURBAN (OECD, 2013b) of the OECD starts from the recognition that urban and rural are different, but recognises that irrespective of the size of the region, there are important connections between rural and urban in the form of: labour market flows, business interactions, managing the delivery of public services, organising transport and utility connections, and co-ordinating government decisions. Where these are well

managed, both urban and rural territories within a region have better growth and a higher quality of life. As Chapter 1 points out, clearly an important part of this process is having appropriate definitions of rural and urban.

Box 2.2. Urban and rural linkages vary among types of regions

The OECD has recently completed a study of the types of relations that exist between rural and urban areas where they come together at the peri-urban fringe. The review looks at a variety of interactions including: labour flows, housing choices, public service linkages, environmental service linkages and government co-operation. Because the nature of these linkages varies a lot by the size and type of urban agglomeration, three broad situations were examined. The first is where there is a large primate city that dominates a surrounding hinterland. The second is a less-populated intermediate region where there is typically a system of cities that collectively form a polycentric urban core. The third is an even smaller population region where there are no cities of significant size and most urban places are tightly connected to a surrounding rural economy.

In highly urbanised regions there are typically large internal commuting flows, often from lower cost housing rural suburbs outside the urban core into the core for work, but in some cases in both directions. In some cities, like London, higher income individuals may live in peri-urban areas and commute to the core while lower income individuals live in relatively cheap urban housing and work in lower paying sectors that locate within the region but outside the core. Rural residents clearly benefit from access to business and public services in the urban core and from the greater variety of retail establishments. On the other hand, urban residents value the green space and other environmental amenities available in nearby rural areas. These ecological corridors contribute positively to the quality of life of urban residents. Crucially, both urban and rural parts of the region perform better if there is relatively strong collaboration between local governments.

In intermediate regions, the balance of contribution to the local economy from urban and rural territories is more equal. Because there is no single dominant urban centre there is often a degree of specialisation among urban places and nearby rural areas. For example, some places will be manufacturing centres, others provide higher education or healthcare, and other may host major retail centres. The result can be an agglomeration that provides a high quality life for all. However, this is the ideal outcome. In other intermediate regions there is little co-operation and places seek to be self-sufficient. In these situations, duplication and inefficiencies can make both rural and urban regions worse off.

In the most rural regions there are only small urban centres that provide a limited variety of goods and services. A major role of these urban places is to act as market towns for a surrounding rural economy. If the industries for the rural territory are successful, the urban area is also successful, but without a strong rural economy there is little economic activity in the urban areas. These regions are typically specialised in natural resource extraction and first-stage processing. The towns can provide housing both for workers who leave for a rural location to work on a farm or in a mine and they can be the site for processing activities such as a fruit and vegetable packing plant or an ore-refining facility.

In OECD countries, the majority of the rural population lives in relatively close proximity to urban centres, but the Rurban study demonstrates that while they live near a city and are influenced by it, their lifestyle and economic role differs from those of city residents. Rural and urban areas have complementary functions, but the nature of these functions varies with the size of the urban region.

A revised definition can also better capture the growth potential and importance of rural areas. Revising the current rural definition is highly connected to forming a coherent vision for the development of rural areas and taking advantage of their growth potential. The current definition defines rural areas as very low populated areas with low socio-economic indicators (e.g. human capital), or simply stated, it associates rural with economic and social decline. This definition goes counter to the significant wealth produced in these areas in Chile, which drive export growth.

Defining characteristics of rural regions

Rural regions have common characteristics of low density, long distances and lack of critical mass. Given the marked differences in capital endowments, available resources and areas of competitive advantages, it is important that national development strategies are sensitive to, and take into account, these regional differences. In particular, rural regions have different characteristics – low density, long distances and lack of critical mass – than urban regions and will therefore face different challenges in their stages of development:

1. Rural regions have widely dispersed populations that limit the easy interactions that take place in cities that lead to important agglomeration effects.
2. Long distances increase the role of transport costs in all rural interactions, both within the region and outside the region.
3. Finally, small populations lead to small specialised economies that find it difficult to achieve the minimum size of operation to be efficient producers. This lack of scale is also true for the local or home market of a rural region, which is also too small to absorb much local production.

As a result of these characteristics, the economic base of rural regions tends to be small, specialised and export oriented. But low density, long distances and lack of critical mass do not necessarily represent bottlenecks for development in rural regions. Indeed, many OECD rural regions are highly competitive (see Chapter 1). Rather, they differentiate economic activities in distinct ways when compared to urban regions. Due to a smaller labour force and the small size of local markets, only a few firms can be large enough to achieve minimum efficient scale in production, and these firms have to be export focused. Furthermore, given the steeper transport costs faced by firms in rural regions to reach export markets, they have to be highly efficient and productive to be competitive. These conditions preclude certain industrial specialisations in rural areas, in particular advanced services that rely on easy interactions among firms and large home markets. So, too, are many forms of manufacturing that require large labour forces or nearby suppliers. Despite these challenges, it is relatively easy to find highly competitive firms in rural regions and highly productive rural regions.

The provision of goods and services in rural areas is more costly than in urban areas, since settlements in rural regions are inherently small with low populations compared to more urbanised regions. The lower critical mass in rural areas leads to fewer scale economies, thereby increasing the unit cost of the provision of public goods and services, whether delivered by government or by private firms. Finally, in terms of the urban hierarchy, the small cities in rural regions offer only lower level goods and services compared to the greater variety available in large centres.

Past views regarded rural regions and policies as impediments to development. Because of these challenges, some governments have assumed that efforts to develop rural regions are difficult to justify and offer low returns on any investment. As a result, rural policy can become framed as subsidy or welfare policy that is offered for equalization and not investment purposes, and is designed to ensure that rural citizens receive some minimal standard of well-being. From this perspective, rural regions and rural policy are impediments to development.

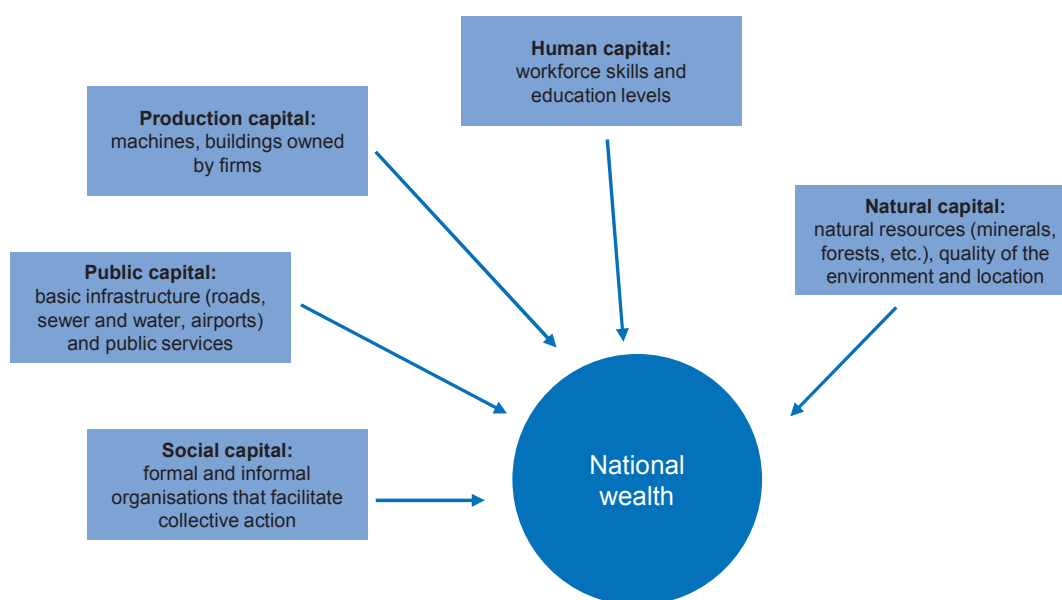
In reality, there is a catching-up potential in rural regions with important implications for aggregate growth. Although there are many rural regions from OECD member countries with lower levels and rates of economic growth than urban regions, there is a significant number of rural regions that perform at higher levels than most of the more urban regions. This demonstrates that rural regions can make positive contributions to national growth, which individually might not matter significantly, but the combined contribution is quite important for aggregate performance (see Box 1.5). The challenge is to identify policies that enable this to happen.

Economic development and different forms of capital

Various forms of capital constitute the overall wealth in regions and in countries. The goal of economic development is increasing the wealth of a country or a region, leading to higher living standards of the respective inhabitants. Higher levels of wealth can be attained by a process of investment in various forms of capital leading to higher levels of aggregate capital stock. Figure 2.2 describes the various types of capital that constitute the wealth of a country as follows:

- Natural capital includes the various resource endowments of the country – the quality of land, the mineral stock and water supply, etc.
- Production capital includes the investments by firms in buildings and machinery.
- Human capital involves the size and composition of the workforce, including formal and informal skills.
- Social capital incorporates the networks and institutions that link a society together.
- Public capital includes the physical infrastructure, roads, bridges power grid, etc. and the various facilities of government.

Figure 2.2. The forms of capital



Rural regions have higher endowments of natural capital. The various forms of capital are not uniformly distributed across the territory of a country, with some regions having larger amounts of one form of capital than others. In particular, rural regions have higher endowments of natural capital than urban regions and in turn lower endowments of production and public capital. Further, investments in one form of capital may lead to dis-investments or reductions in other forms of capital. Mines are depleted to provide the inputs for processing industries and the resulting profits are used to increase the quantity of production capital, such as processing machinery, and public capital, such as port facilities for mineral exports. In this sense, rural regions, abundant in land and natural resources, play an important role in providing important benefits from this form of capital nationwide.

The bulk of the investment choices in the various forms of capital are carried out at sub-national level. From this perspective, the development strategy of a country can be thought of as the choice of where and how to make various investments in the five types of capital. The OECD New Rural Paradigm (NRP) (see page 104) and modern regional policies extend this approach by recognising that there is a territorial aspect to investment choices. Indeed, around two-thirds of OECD countries' overall public investments target sub-national regions (Box 1.5). How these investment strategies are designed and implemented has important implications for the well-being and productivity of people within regions, with implications for aggregate well-being and productivity. A number of OECD principles for public investment can better guide member countries to better design public investments at the sub-national level (see Box 3.10).

The evolving role of the rural economy in the process of economic development

The functions of urban and rural regions change through the various stages of economic development. The economic development process has often been characterised in terms of stages of growth, where a national economy evolves from a narrow economic base that has weak connectivity to a complex structure that has strong internal markets and is well integrated into the global economy (Rostow, 1960; Rodrik, 2003). As national

development takes place, it is through an economic and demographic transformation of rural and urban territory. An important feature of this growth process is the evolving function of urban and rural regions within the country (Box 2.3).

At the earliest stages of development, rural activities in agriculture and natural resources are dominant. The vast majority of population and economic activity is rural, with urban places serving as market and supply points and with a few coastal centres serving as export and import terminals. Over time, the national economy evolves to include more urbanisation that is based initially on first-stage processing of rural products and the local production of inputs for resource-based industries. The increase in domestic value added allows further expansion, diversification and urbanisation of the economy. Urban and rural economies become tightly coupled and effectively form a single supply chain.

As urban economies continue to grow in size they begin to decouple from the rural economy and develop an internal market complementing rural activities. As the national economy shifts from rural-led growth to urban-led growth, population begins to concentrate in cities, especially larger cities where manufacturing and the service sectors provide increasing amounts of income and employment. The share of rural production in gross domestic product (GDP) and employment begins to fall rapidly, even though the volume and value of resource-based activity continues to expand and its share in exports remains strong. As development advances, the process of urbanisation introduces activities less dependent on rural production, which results in diversification and increased stability. Urban and rural economies become more complementary activities.

Box 2.3. An extension of Rostow's Stages of Growth model

Rostow's Stages of Growth model of the stages of national development can be recast to identify four basic strategies for rural policy depending on the level of national development. The various stages of growth or national development are associated with differing rural conditions. In a sense, there is an evolution of the rural economy that parallels the evolution of the national economy.

- First, increase role of markets: foster connectivity, support price discovery mechanisms, provide basic infrastructure (low-income developing countries mainly in Africa).
- Second, build local capacity: increase productivity through investments in firms and people, encourage urban migration (medium income developing countries – Eastern Europe).
- Third, broaden local economic base by adding manufacturing, tourism and other new sectors: complete transition from subsistence to market economy (some OECD member countries including Chile, Mexico and Turkey, as well as non-members such as Columbia).
- Fourth, improve integration with urban economy in peri-urban territory and improve service delivery in more remote territory (most OECD member countries).

At a subsequent stage of development, rural regions become more diversified. Through greater concentration of production and people in urban areas, production costs increase accordingly. This induces some firms to seek lower cost locations in rural regions. The outflow of firms from urban areas provides diversification benefits in rural regions and reduces congestion costs in urban regions by retaining people in rural regions and thereby reducing urban housing costs. In addition, firms that may have become

uncompetitive in a higher cost urban environment can continue to earn positive profits in a rural location.

Even at the most advanced stages of development, a considerable share of the urban economy depends upon a direct connection to rural activities. In advanced stages, the bulk of the population and economic activity occur in the most urbanised regions. However, these regions are tightly coupled to rural regions by transport and communication networks. Urban regions become more specialised in advanced services and less so in tradable activities. Importantly, while urban regions have large internal or home markets, a considerable share of the economic activity that takes place in an urban setting has as its ultimate consumer a rural household or firm. For example, an export trading firm in Santiago acts on behalf of a fruit processor in a rural region. Similarly, the corporate headquarters for major mining and forestry companies are in urban centres, but the actual minerals and timber are in rural areas.

Due to Chile's remarkable growth performance over the past decades, its economy maps into the latter stages of development. The stages of development framework is also consistent with the development advice offered by the World Bank in the 2009 World Development Report (*Reshaping Economic Geography*) focusing on the first two stages. In turn, OECD reports (2006, 2009a, 2009b) focus on the latter two stages. Similarly, Kuznets' "inverted U" description of the path of inequality may also be relevant for Chile. Kuznets hypothesised that at a low stage of development, income inequality is low because the majority of the population is poor. As development takes place, wealth and income become concentrated in a number of leading sectors and in the hands of those in the leading sectors. The result is a high level of income inequality at moderate stages of development. But as the economy becomes more advanced, the vast majority of the population benefits from modernisation and as incomes rise, inequality declines once again. If Kuznets is correct, Chile can now afford to make investments in rural and urban areas that allow all citizens to participate in the modernisation process.

Natural resource management and rural development

Rural regions have a strong advantage in the production of natural resources and in their first-stage processing. While this function is the main contribution of rural regions to national growth in the early stage of development, as the national economy evolves, natural resources play a smaller role. For rural regions specialising in natural resource production, how this process of shifting from a resource-based national economy to one that is more diversified is managed has important implications for the regions' long-term economic development.

There is a danger for rural regions to be left behind in the development process if national governments see rural regions only as a source of wealth that can be extracted and used for national development policies. For example, Chile has used its considerable mineral wealth to make investments in modernising the urban economy faster than it could have without these natural resources. The important question for regions that host exhaustible resources, like minerals and fossil fuels, is what happens as depletion occurs? Even for renewable resources, such as fishing and forestry, which are in principle permanently available, there is the possibility that overuse can result in loss of the resources, as is common with fish stocks.

While natural resources are one form of capital that can support rural economic development, the fact that it is a form of capital that can be rapidly consumed makes it crucial that policy for rural regions use some of the proceeds from natural capital to make

investments in rural people, infrastructure and institutions to provide new economic opportunities for these regions. This means that as the national economy expands and diversifies, some of the natural resource royalties that were initially used for national development objectives should be returned to the regions where the resources are extracted.

The arguments for this are simple. The national economy should no longer have to rely on these royalties since it has diversified and has a broader tax base. Second, over time, the rural region experiences higher costs from its resource function as the quality of the resource declines, waste materials and environmental damages increase, and the local economy becomes increasingly vulnerable due to specialisation. Returning a portion of the taxes applied to firms that produce natural resources allows the region to make investments that can improve economic and social conditions.

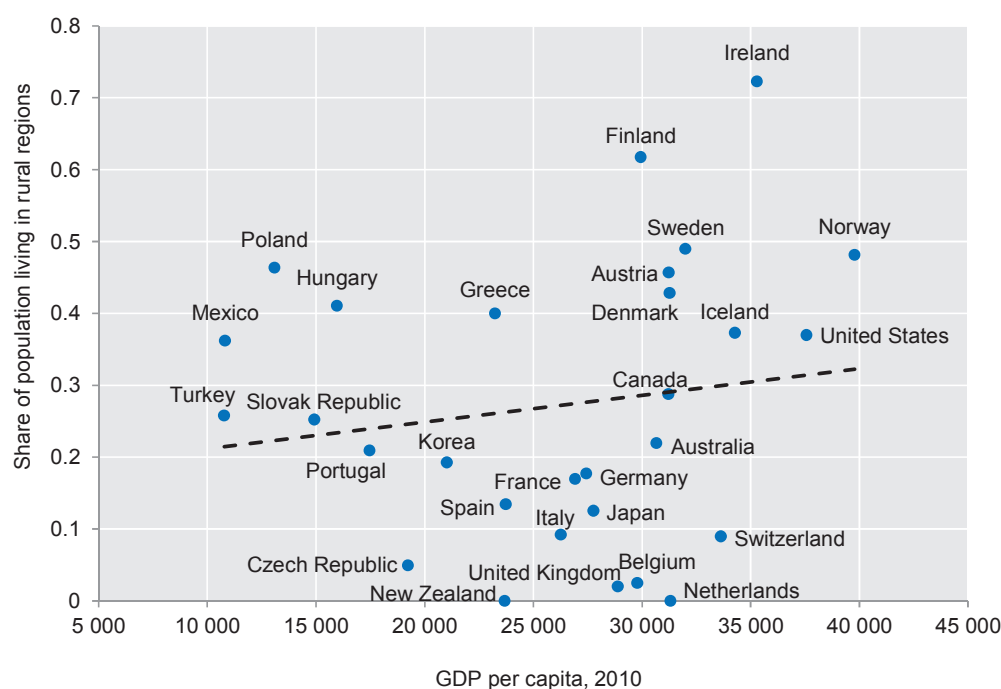
A modern approach to rural policy in OECD countries

The OECD modern approach to rural policy recognises three key elements: *i)* the growth potential of rural areas; *ii)* which necessitates a place-based more nuanced approach to investments as well as economic development strategies, and a flexible multi-level governance approach. Each of these form the pillars of the OECD New Rural Paradigm; and *iii)* facilitating strong relations between the different types of urban and rural areas and building upon their complementarities. This so-called modern approach is a framework that can be adapted to the different characteristics of the three rural regions in Chile and secondly, it should be sufficiently flexible to adapt to the different specificities and needs of the country and regions.

The growth potential in rural areas

The rural economy has an important role in those OECD member countries with higher levels of GDP per capita. The changing role of rural policy as development evolves reflects the changing role of rural in the national economy. Member countries of the OECD have largely completed the transition from semi-subsistence to market economies in the vast majority of the regions in their countries and are now improving the integration of predominantly rural regions with a largely urban economy. Rural policy acts to facilitate this integration. Figure 2.3 shows a positive relationship between the shares of national population living in predominantly rural regions in OECD member countries with levels of development, indicating the increasing role of the rural economy in countries with higher levels of GDP per capita. Simply put, prosperous rural regions help raise average per capita GDP, while poor rural regions lower it.

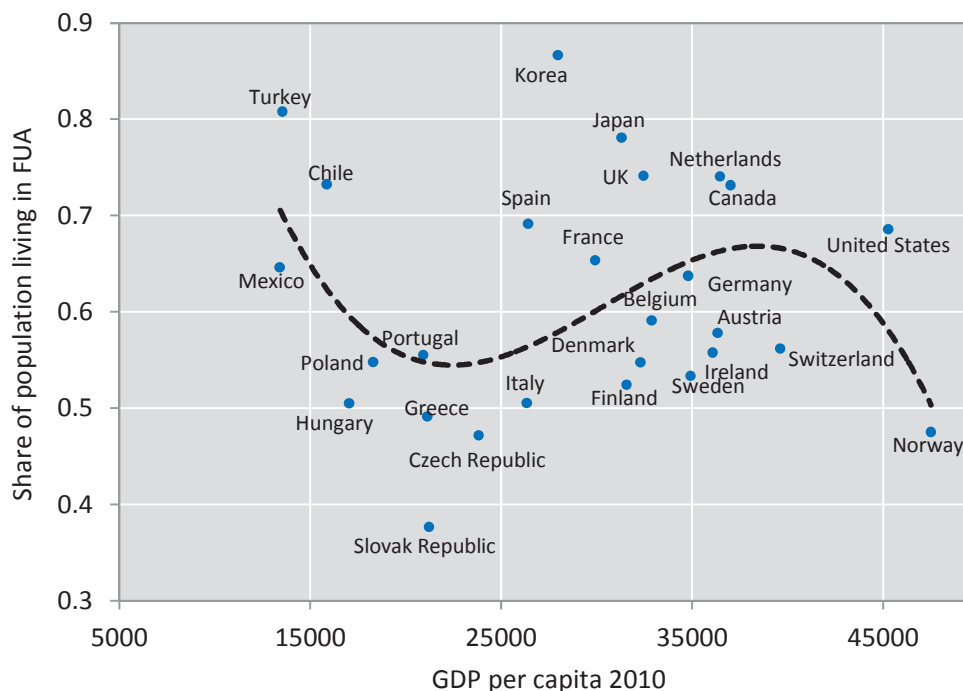
Figure 2.3. Share of national rural population and GDP per capita in OECD countries



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

OECD member countries with higher levels of development do not necessarily have higher population shares in functional urban areas (FUAs). The share of national population living in FUAs is not positively related to higher income levels in terms of GDP per capita. In fact a non-linear relationship emerges amongst OECD member countries. A first group of OECD countries with a GDP per capita below USD 25 000, display a negative relationship between their level of development and share of inhabitants living in FUAs. This relationship is reversed in a second group of countries, with a GDP per capita between USD 25 000 and USD 35 000. In these countries higher levels of development go hand in hand with a higher share of population living in FUAs. This relationship is again reversed in the third groups of countries with a GDP per capita above USD 35 000 countries with higher levels of income tend to have a lower share of their national population living in FUAs.

Figure 2.4. Share of national population in functional urban areas and GDP per capita in OECD countries



Source: OECD (2013), *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>, (accessed on 15 December 2013).

National economic growth objectives can be best achieved if all regions reach their potential. There are several reasons for the continuing interest in rural development policy by OECD member countries. The most important is the belief that national economic growth objectives can be best achieved if all regions of the country reach their potential. Lagging rural regions may be seen as justifying incentives to encourage outflows of labour and capital that can benefit faster growing urban regions, but it is not clear that this is always the best solution. In principle, if impediments to growth in rural regions were reduced and local labour and capital retained, then the contribution to national growth could, in principle, be higher than in the case of out-migration. This is the general economic argument for rural economic development policy.

The key elements for promoting growth in lagging regions are endogenous at the regional level, which can reduce dependence on transfers and subsidies. A recent study combining quantitative and qualitative analysis based on 23 case study regions in the OECD identifies 5 critical elements responsible for growth (Table 2.1). Furthermore, when these elements are inadequate or missing in the regions, they are important bottlenecks for development. In addition to the importance of human capital, innovation and infrastructure, the role of policies and institutional factors is critical.

Immobile factors of production and resources, only available in rural regions, can also provide an important rationale for rural policies. In addition, one can make more location-specific economic arguments for rural policy that reflect the importance of specific rural resources that are not available elsewhere. Minerals, forests, national parks and dam sites are only in certain regions. More effective development of these assets

benefits both the host region and the country. In a parallel sense, too rapid an outflow of rural workers who have artisanal skills that are valuable in a rural setting, but which have little use in an urban area, leads to a loss of human capital and increased congestion costs and unemployment in urban areas. From this perspective, providing rural development support can be seen as part of improving urban conditions.

Table 2.1. **Growth factors and bottlenecks ranked by occurrence in the case studies**

	Thematic areas	Growth factors ranked	Bottlenecks ranked	Sum
1	Policies	13	13	26
2	Human capital	12	11	23
3	Innovation	7	13	20
4	Infrastructure connectivity	11	8	19
5	Institutions	8	9	17

Source: OECD (2012), *Promoting Growth in All Regions*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264174634-en>.

Box 2.4. Endogenous drivers of regional growth

OECD analysis examining the determinants of growth at the regional level identifies a number of critical drivers, including infrastructure, human capital, innovation and agglomeration (OECD, 2009b). Perhaps the most important findings are, first, that the key factors are largely endogenous, i.e. they are things policy can address (as opposed to natural endowments or physical geography); and, second that these endogenous factors complement each other, suggesting the need for an integrated approach.

- Improvements in infrastructure at the regional level do not automatically lead to higher growth. Such investments need to be combined with improvements in education and innovation. This suggests that it could be useful to co-ordinate policies for building human capital, enhancing innovation and providing physical infrastructure. The effects of infrastructure investment appear to last around three to five years.
- Human capital – both the presence of high-skilled workers in the regional workforce and the absence of low-skilled workers – appears to be the most robust support of growth in all types of regions. The effects of improvements in human capital also appear to last around five years.
- The third critical element is innovation, insofar as it can be measured by focusing mainly on the science and technology components of innovation for which data are available. Innovation appears to produce positive effects over a longer time span, approximately ten years.
- Economies of agglomeration also have a positive impact on growth, although they are neither necessary nor sufficient to ensure sustained growth rates. Both the fact that only 45% of metro regions grew faster than the national average during 1995-2005 and the trend towards divergence among urban regions imply that agglomerations as complex systems work more efficiently in some cases and less efficiently in others.

What is clear in these studies is the importance of endogenous elements for growth at regional level, instead of depending on transfers and subsidies. A follow-up study (OECD, 2012a) combining quantitative analysis and qualitative case studies (23) reinforces the earlier results and, in addition, it finds evidence highlighting the importance that policy and institutional factors. The evidence gathered in this publication confirms the benefits of the new regional paradigm to OECD countries:

Box 2.4. Endogenous drivers of regional growth (cont.)

- Investing in less-developed regions makes good economic sense, given their growth potential. Policies targeted at less-developed regions should not merely be advocated on social grounds; these regions have a great deal to contribute to national growth as long as their own assets are nurtured.
- A pro-growth, rather than a subsidy-based, policy stance is the most beneficial and sustainable approach. In the long run, it also helps build a fairer society. It can avoid dependency, rent-seeking behaviour and high remedial costs in the future.

The combined analysis points to a number of policy leavers to enhance the effectiveness of regional policy:

- Policies that increase the skills of low-skilled workers may be as important for growth as policies aimed at expanding higher education. The “drag” effect on growth of a large low-skilled population appears as one of the most critical factors in less-developed regions.
- Infrastructure does not appear to be the binding constraint for the great majority of regions. Thus policies targeting infrastructure in isolation are not usually the most effective tools for strengthening growth in underdeveloped regions. Yet given that the gains from improvements in infrastructure are higher (at the margin) in less-developed regions they are important instruments if they co-ordinate with other policies and realise the benefits of complementarities.
- Innovation is not a bottleneck for growth but appears to be a critical pillar for advanced regions.
- How policy makers frame the challenges they face does matter. The case studies suggest that a self-conscious shift towards a growth-oriented policy framework is very often a part of the recipe for success. As long as policy makers focus on exogenous sources of support for a region (“levelling up” policies), growth is unlikely to take off and actors are likely to focus on the appropriation of rents from external sources.
- Institutional factors are also critical. Formal and informal institutions that facilitate negotiation and dialogue among key actors in order to mobilise and integrate them into the development process are vital, as are those that enhance policy continuity. At times, the challenge is to create institutions that strengthen the region’s “voice” in dealing with other regions and countries and those that foster linkages among the private, public and education sectors.

In sum, this study calls for including geography and place-based factors into the structural policy agenda to increase the growth potential of countries. In addition to efficiency, place-based policies also have the capacity to create a more inclusive and fairer society through their ability to mobilise local actors and ensure they are involved and engaged in the development process.

Source: OECD (2009), *How Regions Grow: Trends and Analysis*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264039469-en>; OECD (2012), *Promoting Growth in All Regions*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264174634-en>.

A successful rural policy that increases rural employment opportunities can be a valuable approach to reducing inequality. The high rates of income inequality in Chile have an urban and rural dimension. Although in absolute terms there are more low-income citizens in urban regions, the share of low-income individuals in rural regions tends to be higher. Migration of low-income households from rural to urban regions may lower the rural rate of poverty but it will increase the urban rate and may leave these people worse off since their skills are less likely to be relevant in an urban setting. Consequently, a successful rural policy that increases rural employment opportunities can be a valuable approach to reducing inequality.

Finally, there are important social cohesion benefits from improving public service delivery in rural regions. Countries either explicitly or implicitly establish minimum sets of public services that should be available to all citizens as part of their rights as citizens. While it is typically more expensive to deliver these services in rural regions because of the problems inherent in low density, long distances and lack of critical mass, there is still a responsibility to provide some minimal set of services, although perhaps in a different manner. This problem is particularly acute in the most remote and lowest populated regions where development is the least advanced.

Promoting growth for all people

High levels of inequality and social exclusion are significant problems in Chile and act as a drag on development (see Chapter 1). Three distinct categories of people are affected by a lack of income opportunity: urban poor, rural poor and indigenous people. The underlying causes of their disadvantage differ significantly and policies to improve conditions will necessarily differ due to these differences in circumstance. The problems of the urban poor are largely outside the scope of this report, except for the reality that a major cause of rural to urban migration is an inadequate standard of living. Thus one of the best ways to reduce the incidence of urban poverty is to reduce the incidence of rural poverty. Similarly, while there are large numbers of indigenous people in urban areas, the focus here is on efforts to provide better opportunities in native communities that are located in rural Chile.

Addressing rural poverty through education

Using the revised definition of rural areas (see Chapter 1), poverty stands at about 9.3% of the rural population below the national poverty rate, and this number has been declining over time. By comparison, the urban poverty rate is about 14.4%. To a great extent, rural poverty reflects either a low level of income from being engaged in a marginal farming or fishing enterprise or being unable to find work that pays a high enough wage to escape poverty. Thus ultimately the main solution to rural poverty is rural economic development. While transfer payments can provide short-term relief, they do nothing to address the fundamental causes of poverty.

But improving education levels is crucial to achieving economic development in rural areas. In many parts of rural Chile, the current school system fails to adequately prepare students for jobs. This is not a matter of not providing technical skills, it is more a matter of not providing basic levels of literacy and numeracy that are prerequisites to technical training. In 2003, a joint FAO and UNESCO study on the connection between rural development and education found that low enrolment rates, weak parental and community commitment to education, poorly trained teachers and inadequate facilities lead to substandard educational outcomes. In turn, low levels of educational achievement

prevent increases in productivity in traditional rural industries, limit the introduction of new industries in rural areas, and result in less capacity for local self-government.

Education is inherently more costly in rural areas, where students are dispersed across a large territory, the road network is sparse, funds for building schools and paying staff are scarce, and parents have limited budgets to afford the household expenses associated with sending children to school. Yet the economic trends in rural areas place an increasing premium on an educated workforce. The natural resource industries are characterised by an ongoing substitution of capital for labour in order to increase productivity. While the number of workers falls, the skill requirements for remaining workers grow. Since it is difficult to recruit skilled urban workers to rural regions, there is a crucial need to improve rural education.

The OECD has found that improving workers' skills, especially the skills of lower income workers, is a crucial factor in enhancing economic growth in regions. This is a particularly crucial finding of rural areas because they have a higher incidence of lower skilled workers than urban areas because of the urban concentration of high-skilled professionals.

In Chile, responsibility for education has largely been devolved to local government and there have been efforts to stimulate innovation in education by introducing vouchers and charter schools. The benefits from these changes have not been evident in rural areas. Block grants for education based on student numbers fail to recognise the much higher costs for operating numerous small rural schools or the costs of travel for moving children to schools. The idea of school choice may be an effective stimulus to improvement in an urban setting where there are multiple schools but it fails in a rural setting where there is no possibility of competition. This suggests that a different approach for rural education is needed that focuses on improving achievement, but which provides appropriate resources for a rural school system.

Supporting the development of indigenous people

Indigenous people represent about 7% of the population of Chile, but are concentrated in rural areas, particularly the Mapuche in the south, although there are significant numbers of Aimara (Art. 1º, law N° 19.253 from 1993, Indigenous Law) and other groups in the northern regions and also Rapa Nui in Easter Island. Chile has only recently moved to recognize the special status of Indigenous people first through the 1993 Indigenous Peoples Act and then in 2007 when Chile adopted the United Nations Declaration on Indigenous Rights and in 2008 when Chile ratified Convention 169 of the International Labour Organization which guarantees rights to consultation, property and self-determination for indigenous people. Chile created CONADI, the National Indigenous Development Corporation as the main government body to form indigenous policy and consult with indigenous people.

Conditions of the indigenous people of Chile roughly parallel the conditions of indigenous people in Australia, Canada, Mexico, New Zealand and the United States – the other OECD countries with large indigenous populations and formal policies to deal with them. Poverty rates are considerably higher than for the balance of the population, educational levels are lower, income is lower, housing is inferior and opportunities for advancement are worse. Almost by definition, social exclusion is much higher, largely because indigenous people have a different status than other citizens. Social exclusion is also reinforced by government policy, which in most of these OECD countries has

isolated the indigenous population on reservations and provides a separate set of social services to them.

While the groups of indigenous people in Chile lead a distinct social and cultural existence, they are not as economically autonomous. In particular, there are still unsettled claims over property rights and property titles, conflicts over water rights and over traditional access to fishing and forestry activities. Moreover, development in territory adjacent to reservations often has significant spillover effects on the reservation. Chile has carved out special status for indigenous people in agriculture, forestry and fishing, which are all traditional activities and these are considered to be a part of formal rural policy.

Box 2.5. Supporting the development of indigenous people in New Zealand

Unlike indigenous communities in some other OECD countries, Māori in New Zealand largely live dispersed amongst the wider non-indigenous community and share social and educational services. Only in more remote rural areas where they have retained ownership of land do Māori live in communities where Māori form the majority of the population.

The New Zealand electoral system provides Māori with significant representation in Parliament and Government: 7 seats in the 120 seat Parliament reserved for Māori voters. In addition, Māori can vote in general seats. Most political parties have Māori members of Parliament. This allows the impact of government policy on Māori to be carefully considered.

New Zealand has a long standing formal Treaty with Māori tribes that was signed in 1840. Subsequent to the signing of the Treaty, Māori were subject to the loss of most tribally owned land and forests and to rights to utilise fisheries. Government policies tended to result in lower levels of educational attainment and a focus on Māori into lower skilled and manual employment. With the economic downturn on the 1970s and 80s, the combination of these factors resulted in high and continuing levels of unemployment and social deprivation.

In these circumstances many Māori individuals and communities turned to developing their own businesses, often with a focus on local natural resources and the environment and Māori culture, as a key component of that business. Māori now exhibit a relatively high level of entrepreneurial activity compared to the wider community.

In parallel with a rise in entrepreneurial behaviour in the Māori community, there has been an ongoing programme by the Government to settle historic grievances relating to breaches of the Treaty. The progressive settlement of claims has seen payment of compensation and commitments by national and local government to provide greater input by Māori into planning and management processes relating to natural resources of importance to Māori.

In combination these approaches have assisted to create an environment where Māori have the incentives, confidence and growing capability to create greater opportunities to effectively participate in the economy, while maintaining cultural values and identity.

The systemic nature of unemployment amongst Māori in rural areas means that improvement in employment levels and earned income amongst Māori require development of opportunities that enable Māori to participate in central and local government decisions that affect resource management. It also requires opportunities for Māori to develop business capability, skills, economic scale and interactions with the wider economy while continuing to maintain their cultural identity.

Examples of the application of this new paradigm include:

Box 2.5. Supporting the development of indigenous people in New Zealand (cont.)

1. Tourism development in the Kaikōura District of the South Island.

Kaikōura is a small coastal community with a local population of around 3 500 residents thriving largely because of the entrepreneurship, dedication and leadership of its Māori people who have put to good use the rich natural resources at their doorstep. Māori have been living in Kaikōura for around 1 000 years and a significant Māori population was present when European settlers arrived. Europeans initially focused on whaling but reducing whale numbers and declining profits from exporting them resulted in a shift to fishing, farming and later to the railways. In the 1980s with the privatisation of the railways Kaikōura experienced a deep economic downturn and a significant rise in unemployment in the region particularly for Māori with up to 95% of the local population unemployed. Four local families mortgaged their homes to establish a business aimed at creating both an economic base for Ngāti Kuri and employment for local Māori and this is how Whale Watch Kaikoura Ltd came to be, this 100% Māori owned enterprise through all its early challenges has thrived becoming the single largest contributor to the development of Kaikōura from a simple rest stop to one of New Zealand's leading eco-tourism destinations.

Today this multiple national and international award winning business can carry up to 100 000 visitors per annum off the Kaikōura coast on a world class experience offering them the chance to encounter the Giant Sperm Whale, other migrating Whales, Dolphins, Seals and a wide variety of pelagic seabird species all year round. (weather permitting) While Maori are a small minority in Kaikoura, the business has provided a keystone for rejuvenation and refocusing the economy away from declining industries to a vibrant tourism destination with tourism both directly and indirectly accounting for up to 50% of the local economy and worth around NZD 100 million per annum. It is estimated that up to one million visitors both domestic and international can annually take in the sights, sounds and taste bud sensations of this coastal community. Whale watch tourism has transformed Kaikoura, and today this town is a hustle and bustle of activity; accommodation, restaurants, cafés and souvenir shops line the main street. The Whale Watch business has also provided a sound example for wider tribal investment in a range of Iwi (Tribal) linked tourism ventures across New Zealand.

The key role of Ngāti Kuri has had further benefits in elevating the recognition of Māori as leaders in the wider community. This has contributed to Ngāti Kuri being considered as essential community leaders in interactions with central and local government on resource management and economic development initiatives that affect Kaikoura and its surrounding district.

2. Miraka – successive collaboration of multi-owned resources by Māori

Miraka is a majority Māori owned dairy company based in Taupo in the North Island. Miraka is backed by a collaborative group of Māori trusts and incorporations that are the majority shareholders. These incorporations and trusts are involved in a wide range of successful business ventures focussed on the resources on the lands they own, including geothermal energy generation, horticulture, forestry and pastoral farming. Miraka had its genesis in a decision by shareholders to maximise the economic return from their dairy holdings by moving beyond the farm gate and manufacturing and marketing a higher value product to global markets. The main product that is exported is whole milk powder. This has recently been expanded to include the manufacture and distribution of UHT milk.

Box 2.5. Supporting the development of indigenous people in New Zealand (cont.)

Miraka processes milk from local dairy farms operated by Māori and non-Māori farmers and is seen by the wider community as a dynamic and well managed and trusted business to be involved with. The company has been profitable almost from its opening day and has steadily expanded production, a unique situation for new entrants to the New Zealand dairy industry.

Miraka is an example of how dispersed resources held by a group of Māori whanau (families) have been successfully collectivised through effective leadership and governance. While Miraka has a commercial focus to ensure maximum return to its shareholders they do not compromise their commitment to their key value as kaitiaki (guardians) of their land which will never be sold.

3. Ahuwhenua Trophy Māori Excellence in Farming Awards

The Ahuwhenua Trophy competition has a prestigious history dating back to 1932. The Ahuwhenua Competition was introduced by visionary leaders Sir Apirana Ngata and Lord Bledisloe to encourage Māori excellence in farming. In the 1980s interest started to wane in the Competition and the last of the original competitions was held in 1990.

In 2003 the competition, was re-launched because of the increasing contribution and importance of Māori incorporations and trusts in the agribusiness sector. There are two trophies, one for sheep and beef and one for dairy and the annual competition alternates between sheep and beef and dairy farming.

The performance of the entrants is evaluated by a panel of judges on a wide range of economic, environmental and social criteria including the upskilling of their farm employees and their contribution to the local community. The Ahuwhenua Competition receives a wide spectrum of support from Maori landowners, central government agencies, industry good bodies and commercial firms.

The finalists field days and annual Award dinner receive high attendances providing excellent forums to both celebrate excellence in Māori farming and to provide inspiration to other farmers to lift their performance. The value and intent of both Sir Apirana Ngata and Lord Bledislow remains as relevant today as it was 81 years ago.

In 2012 a new award was introduced for the Young Māori Farmer of the year which is competed for annually for dairying and sheep and beef. This award acknowledges the efforts of young Māori working on farms and looks to inspire their efforts to one day win the prestigious Ahuwhenua Trophy.

Chile's approach to dealing with its indigenous population parallels that of Canada and the United States, which have long relied on a separate agency to manage relations. In a sense, this approach largely follows the old approach to rural development, with its reliance on subsidies and a decision-making process that is very top-down and centralised in a small bureaucracy. By contrast, both Australia and New Zealand have followed a broader approach that formally recognises the leading role that indigenous people played prior to the arrival of European settlers.

Current approaches to improving conditions of indigenous people in other OECD countries are moving more toward a process where responsibility is more fully devolved to individual bands or settlements along with resources to begin a bottom-up development process. Most importantly, there is an increasing recognition by governments and by indigenous people that economic improvement requires stronger economic integration. The challenge is finding a way to provide for continued cultural identity and values in an integrated market economy. While this has not yet happened in many cases, there are sufficient success stories to suggest it is a better approach (See Box 2.15)

The New Rural Paradigm (NRP)

The New Rural Paradigm (NRP) is a framework adopted by OECD member countries to promote development in rural regions. Globalisation, the dramatic reduction in farm employment and the emergence of important non-farm niche markets have generated a common understanding that rural policy falls short if being conceived only as agricultural policy. On the contrary, across OECD countries, rural areas are increasingly looked upon as a heterogeneous array of regions where one-size-fits-all policies are no longer suitable to capture the diversity of rural needs and opportunities (OECD, 2006a). In this context, innovative governance structures have been created in many OECD countries to strengthen co-ordination across sectors and across levels of government and between public and private actors; and innovative policy instruments aimed to identify and exploit the varied development potential of rural areas. The OECD has labelled this policy shift as the “New Rural Paradigm” whose two main characteristics are: *i*) a focus on places instead of sectors; and *ii*) a focus on investments instead of subsidies (Table 2.2). The key features of the NRP are:

1. an investment-oriented approach
2. a holistic focus on the entire rural economy and not just a few sectors
3. a bottom-up development strategy that reflects local priorities and an inclusive style that encourages the participation of all potential stakeholders, not just a small elite.

Table 2.2. **The New Rural Paradigm**

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

Source: OECD (2006), *The New Rural Paradigm: Policies and Governance*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264023918-en>.

The aim of the NRP is to better align policies aimed at incentivising rural regions to mobilise their assets and resources. This approach to rural development creates the potential for rural regions to move from lagging status to making a stronger contribution to national development. The strategy does not envision that in this process rural regions will inevitably grow to become large urbanised regions. In the regional hierarchy, there are specific roles for both large urban and smaller rural regions and these roles are complementary. Instead, what is contemplated is a process where rural regions develop in the sense of accumulating the types of capital that are appropriate for their particular role in the national and global economies.

The NRP is a framework for thinking about rural policy. It is up to each member country to determine how to implement the approach. A necessary first step is the identification of a national rural development strategy, followed by the introduction of

policies and programmes, and finally the implementation and evaluation of these interventions on a regional basis. The idea is to integrate and better co-ordinate all national programmes that concern the rural domain and at the same time add flexibility to national policy to ensure it adapts to the different needs of various rural regions.

The NRP promotes a place-based approach involving top-down and bottom-up development processes. Because the NRP is an investment approach, it implicitly adopts the economic development as wealth or a capital expansion approach. In rural regions, the current and optimal mix of capital are likely to differ, and will also differ from those of urban regions. This suggests that there can be important benefits from introducing both urban and rural development approaches. Further, because rural regions are more reliant on natural capital, and natural capital endowments vary considerably across rural regions, it is important to follow a bottom-up approach where each region identifies its particular assets and opportunities, and identifies a specific strategy to make investments that augment its unique capital stock.

The NRP recognises the large variability in the needs and assets of rural regions requiring adaptability and flexibility. The large variability makes it impossible for a central authority to manage the development process. While national governments have the important role of setting out broad goals and acceptable behaviour, it is important to provide a flexible approach at the regional level in finding ways to achieve these goals. National financial support can help or limit this process, depending on how it is provided. Where it is provided with some flexibility in how the funds can be used, then it can greatly facilitate the development process. However, when funds are tightly restricted to specific uses, the result is typically activity in rural areas that leads to limited development. The region takes the money that is offered and implements the project, but the project provides few long-term benefits, so in effect the money is wasted.

The final part of the NRP is a recognition that an integrated rural policy requires significant co-ordination among various national government ministries, regional and local governments, and private firms. This point is further expanded in Chapter 3. Effective development requires contributions from all actors, but these contributions need a degree of co-ordination. The aim of multi-level governance is to provide at least a forum where each party knows what the other parties intend to do. In some cases, this may lead to a co-ordinating agency, but this is neither always necessary nor desirable.

Rural-urban linkages, peri-urban, intermediate and remote rural

The NRP, by combining bottom-up and top-down approaches, can better adapt policy to the needs of different types of rural regions. This flexibility is important given the differences in the types of rural regions, each with their particular urban and the rural interactions. Chapter 1 of the report displays the importance of the choice of a rural definition in determining how much of a country is characterised for policy purposes as urban or rural. In all three general types of rural regions, whenever administrative boundaries are drawn, unless they are tightly drawn around population centres, there will be some incorporation of rural territory into what are defined as urban areas.

The RURBAN project shows that there are significant complementarities between urban and rural regions. Each produces goods and services that are difficult to produce in the other. Because of this there are strong benefits in better coordination between urban and rural to ensure that the best mix of goods and services is provided. One of the important roles of the rural population is the management of the natural environment both to produce important goods including food, energy, minerals and water, but also to

maintain a high quality environment that protects wildlife, minimizes pollution and provides opportunities for urban people to experience nature. In an advanced economy environment sustainability is a major social concern and populations are often willing to accept more expensive commodities if it provides greater environmental protection.

The needs and characteristics of remote rural regions, rural regions close to cities, and rural regions integrated into functional city regions are very different, despite the existence of strong urban and rural interactions in the three cases.

- There is rural territory that is strongly integrated into an urban context as part of a metropolitan region. In this territory, the development process of the rural territory cannot be decoupled from the larger urban development process. Furthermore many green, natural and ecological areas provide important social, environmental and economic benefits to urban citizens and therefore the need to integrate these assets to the metropolitan region.
- There is rural territory that is adjacent to a metropolitan centre but not strongly attached to it. This territory may be incorporated into an administrative region that is considered to be urban, but the territory and its population are, in reality, still rural. In these regions, while there are some important connections between urban and rural territory, mainly through the flow of goods and services, the two types of territory follow different development paths.
- The third type of rural territory has very weak urban links and is distant from any major urban concentrations. While there are urban places in these remote rural regions, they are small and exert only limited influence on the rural population and landscape.

Functional urban areas, or metropolitan regions, contain a strong degree of symbiosis between the urban and rural parts. This is especially true when urban regions are defined as metropolitan areas that include an urban core and a related hinterland (OECD, 2013e and Box 2.6). These functional regions are based on commuting patterns that attach a rural zone that extends beyond the formal boundary of a city to create a hybrid rural and urban territory. Within this territory, the urban function is dominant but there is a strong degree of symbiosis between the urban and rural parts (OECD, 2013f). These urban and rural territories are linked through flows of people, economic exchanges, shared infrastructure, environmental services and government interaction.

Box 2.6. Proximity to cities and economic growth

Large metropolitan areas are important drivers of economic activity within countries and typically have the highest per capita GDP of all regions within a country. However, the economic effects of large metropolitan areas are not confined to their borders. They also play important roles for economic activity in surrounding regions. Their size and economic strength implies that they are key markets for many firms in rural areas. Even firms that do not directly sell to metropolitan areas rely on them due to their function as hubs for long-distance travel or because providers of highly specialised business-to-business services can predominantly be found within them. Therefore, large metropolitan areas form the geographical focal point of economic activity, even for regions that are a considerable distance away.

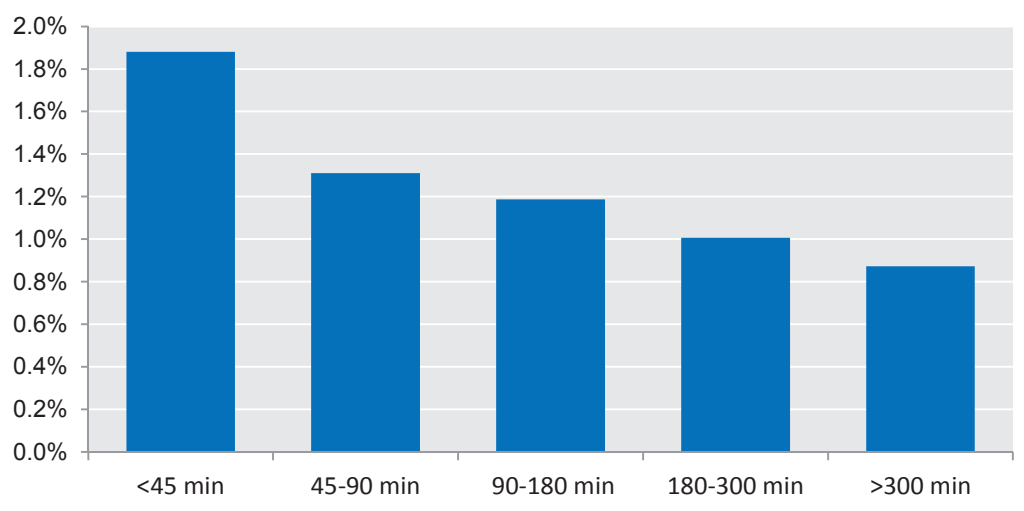
Ahrend and Schumann (2014) estimate the relation between distance to metropolitan areas and economic growth. It turns out that the actual travel time required to reach a metropolitan area is a better predictor of economic growth than aerial distance. Travel time indicates the time required to travel by car from the centre of a region to the centre of the closest large metropolitan area and is obtained from Google Maps. In contrast to aerial distance, travel time also accounts for factors such as the state of transport infrastructure and geographical characteristics that affect car traffic.

Box 2.6. Proximity to cities and economic growth (cont.)

Between 1995 and 2010, longer travel time to metropolitan areas has been associated with a significantly lower growth of per capita GDP at the regional level. The effect is most pronounced when it comes to distance to very large metropolitan areas with more than 2 million inhabitants. However, it is also visible for distance to smaller metropolitan areas.

The marginal effect of an additional minute in travel time is greatest at short distances to metropolitan areas. It becomes continuously weaker for larger travel times. Beyond 300 minutes, the correlation between travel time and per capita GDP growth disappears. However, this is well beyond the travel times encountered in the Netherlands. There, the average travel time to the centre of a metropolitan area above 2 million inhabitants varies from just 18 minutes to 106 minutes. This is below the average of European OECD regions and implies that most regions are at a distance to metropolitan areas at which the correlation between travel time and economic growth is strongest.

The figure below shows the results of a regression of yearly growth rates on a set of dummy variables for the respective travel time brackets (including initial per capita GDP levels and a set of country fixed-effects as control variables). The data covers TL3 regions from 18 OECD countries over the 1995-2010 period. The figure shows average yearly growth rates for each group of regions conditional on the control variables. It illustrates that regions within 45 minutes of a metropolitan area with more than 2 million inhabitants grew on average by 1.8% per year. The growth rate is almost half a percentage point higher than the growth rate of regions within 45 to 90 minutes of metropolitan areas of the same size. See Ahrend and Schumann (2014) for further details.



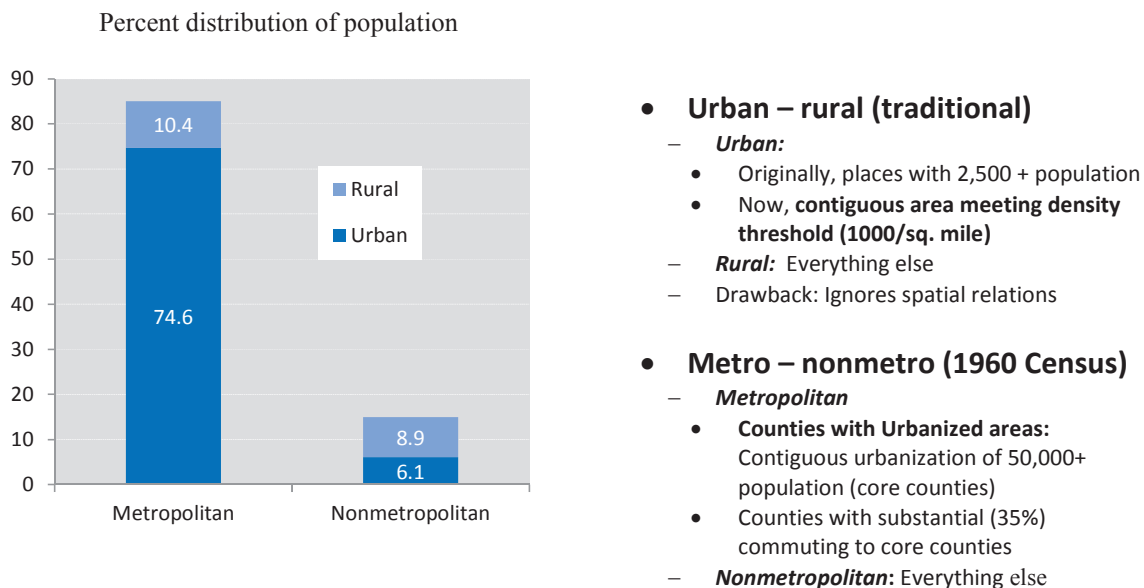
Source: Ahrend, R. and A. Schumann, “Does Regional Economic Growth Depend on Proximity to Urban Centres?”, *OECD Regional Development Working Papers*, No. 2014/07, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jz0t7fxh7wc-en>.

In the case of the Nuremburg Metropolitan Region, there was a conscious effort to extend public transport out into the rural territory to create easy opportunities for rural residents to take advantage of retail opportunities and more advanced services in the core, but also to encourage urban residents to take short trips to the countryside to experience nature. Conversely, because the city of Prague and the adjacent rural territory had uncooperative relations, there were constraints on Prague’s growth and uncoordinated housing and transport development.

An important share of rural areas (and population) is contained in FUAs. Particularly when larger administrative regions are used in defining functional areas, as in the case of

the United States, the share of rural territory that is embedded within the functional areas is quite large. Indeed, the share of rural population found in metropolitan statistical areas (MSAs) in the United States is larger than the share of rural in non MSAs.

Figure 2.5. The official definitions of “rural” concept in the United States



Source: USDA Economic Research Service, based on Bureau of the Census, 2010 Census of Population data files and 2013 metropolitan area definitions table.

In intermediate regions, there is typically more balance between urban and rural populations. This balance carries over into the economy where there are often very strong synergies between urban and rural specialisations. In the Lexington, Kentucky MSA, the main city, Lexington, hosts the major financial, retail, health and education functions, but manufacturing tends to be found in adjacent counties, as does a large share of moderate income housing. Similarly, the Geelong region of Australia consists of a city and a large rural area that is divided into several autonomous local governments. The traditional economic manufacturing base of the city is declining, but the high amenity and agricultural production value in the surrounding rural territory is being used to help restructure the regional economy around advanced services. With a high quality of life, largely based on high-quality rural amenities, it is easier to attract the high-skilled professionals that Geelong needs to transform its economy.

Remote rural regions also display strong urban and rural interactions. In many OECD countries, the majority of the rural territory, but not the majority of the rural population, is found in territory that is only weakly connected to a large urban place. Nevertheless, within these predominantly rural territories, there are urban places and some of them can be large towns. Importantly, though, the urban places in these regions almost always derive their economic function from the surrounding rural territory. In these more remote rural regions, urban places follow a more traditional urban role of being market points for the export of rural production and the import of inputs needed for rural production.

In small remote regions such as Central Finland, there are considerable problems in providing high-quality public services at a reasonable cost. Individual communities are too small to provide them individually and often they can be too far apart to have a single

central site for a region. In this case, not only are shared services required among small communities, but attention has to be paid to finding innovative ways to deliver them. Central Poland represents another highly rural region with only small urban settlements. Here, too, the challenge is to organise dispersed local governments to deliver better public services. In the case of Poland, there is not a strong tradition of local co-operation and historically local governments were very weak and made few independent decisions. This has complicated efforts to form effective partnerships among urban and rural areas despite the highly interconnected local economy.

A flexible approach works best for modern rural policies, balancing broad and narrow rural policy

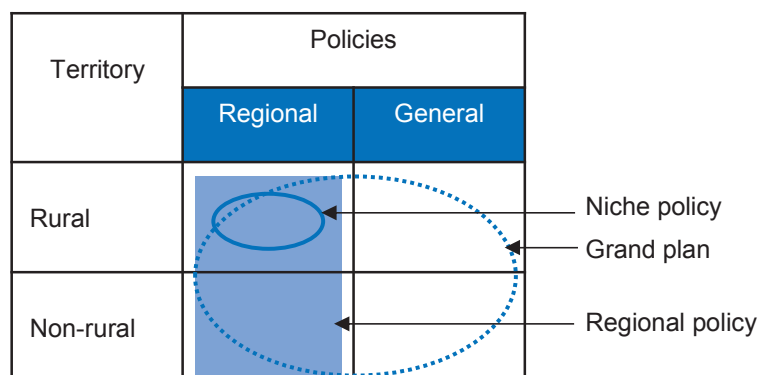
Given that rural policy involves a wide number of ministries, the policy framework should, on the one hand, bring coherence to a complex policy setting and, on the other hand, adaptability and flexibility to address the specific needs of rural areas. Due to the large number of ministries and agencies with responsibility for some aspect of rural policy, there is a danger for rural policy to be watered-down within the internal multiple priorities of these sectoral ministries. In order for rural policy to exist in a way that is “fit for purpose”, an institutional framework has to be put in place that provides a proper context. OECD member countries have followed one of two approaches by adopting either a broad or narrow rural policy.

1. Broad rural policy refers to the efforts to influence all actions with impacts on rural areas within and by the different administrative sectors as part of the development of the rural society.
2. Narrow rural policy includes the measures and instruments targeted specifically at rural development.

Broad and narrow rural policy can address the needs of rural policy in different ways. Broad rural development policies are those that adopt a grand overarching design – a cross-sectoral policy in practice, one that attempts to integrate all policies. Included in this frame are those policies and programmes that were designed with other objectives in mind (perhaps without a rural focus or considerations) but which have intended or unintended impacts on rural dwellers and places. In contrast, the more “niche” or “narrow policy” approach is policy designed specifically to address the needs of rural communities (Figure 2.6). Often with the grander scheme, the effort to “address all areas of a rather broad policy framework”, such as agricultural policy, transport policy and energy policy, outdistances capacity. As such, the push to co-ordinate all actions and bridge all gaps tends to yield more inertia and inaction than concrete results (OECD, 2006a). The too-narrow rural policy delivers results, but also policies that risk being too disconnected from other regional, sectoral or national policies.

A broad rural policy tends to see rural regions as being quite similar to urban regions in terms of their opportunities and constraints, and more importantly in terms of the types of policy instruments that are provided to them. It largely assumes that there is little need for a territorially specific policy because a single national policy operated by each ministry can adequately meet the needs of people wherever they are located. By contrast, narrow rural policy is inherently territorial in nature. It supposes that there are such fundamental differences between urban and rural regions that a single policy will be ineffective in at least one type of territory. Instead of a single, uniform policy, ministries may need specifically targeted policies that are designed to be effective under rural conditions.

Figure 2.6. OECD matrix for rural policy analysis



Source: OECD (2006), *The New Rural Paradigm: Policies and Governance*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264023918-en>.

Different OECD member countries apply different combinations of broad and narrow rural policy addressing their own needs:

- The government of Spain adopted the Law on Sustainable Development of Rural Areas. This law extends the responsibility of rural policy from a sole actor, the Ministry of Agriculture, to the government at large (OECD, 2009c). By creating the “*politica rural de estado*” or a “rural policy of state”, it has enabled a way to better co-ordinate the efforts of the regional administration and better link them with the national government. The national body tasked with overseeing this effort is comprised of representatives of different ministries and one representative from each region, the *consejero* in charge of rural development in each region. Mainstreaming rural policy at the national level was key because Spain has a highly decentralised governance structure with extremely autonomous regions. Each region has extensive experience with rural development policy garnered through the LEADER programmes and local action groups (LAGs). But the approach to a rural governance policy framework was often disconnected at the regional and the national level and yielded sub-optimal results (OECD, 2009c). The law essentially formalised much of what already existed in Spain, as well as creating a state rural policy with oversight at the national level.
- England has tried to achieve flexibility by adopting a broad rural policy that relies on the general programmes of line ministries to deliver essentially the same forms of support to urban and rural places. But because the EU overlays a narrow approach to rural policy through its Rural Development Funds, there is ultimately a mixed approach to rural development that combines broad (mainstreaming) and narrow (the RDPE) policies. Undoubtedly, mainstreaming equates rural with urban and moves rural beyond the negative of rural “special pleading” to focus on the positive contributions of rural areas to the overall health of the regional and national economy. Since “basing policies just on rural needs” could shadow this view and cause “policy makers to see delivery to rural communities as a marginal activity” and possibly “raise unrealistic expectations”, the preference in England is to limit rural-specific interventions to the RDPE (Atterton, 2008). Ironically, mainstreaming rural in the context of England is almost too broad and too narrow, placing it in a space that needs further clarification and support. Thus in England,

where the vast majority of the rural population is found within urban metropolitan regions so they have ready access to urban services, the inability to provide any targeted support to rural areas causes problems. For example, while school choice is relatively easy to accommodate in an urban context where there are several schools relatively near any house, it is a difficult situation in a rural location where there is only one school that is accessible.

- Finland has also adopted a mixed approach. The National Rural Policy Programme (*Maaseutupoliittinen kokonaisuohjelma*) is drawn up by the Rural Policy Committee and is one of the four special programmes derived from the Regional Development Act (602/2002). It is the main instrument of broad rural policy and as such, aims to provide coherence to the different sectoral policies oriented towards rural areas. Revised every four years, the programme contains both a strategic perspective and concrete proposals carried forward by the Rural Policy Committee. The Rural Policy Programme includes a special Rural Policy Programme. The narrow rural policy refers not only to EU programmes but also to other activities of the national rural policy and the main instrument of the narrow rural policy is the Rural Development Programme for the Mainland Finland 2007-2013. Thus, Finland has successfully integrated EU programmes at the core of its “narrow rural policy” and is considered a “model” in many respects for other EU countries, especially its LEADER method and its approach to mainstreaming national funds and other EU funds in order to cover the entire countryside.

Whether a broad or narrow perspective is appropriate will largely depend upon the mix of rural territory, as described in the preceding section. It will also largely depend on the types of rural regions in a given country:

1. Where a significant share of the rural population lives far from an urban centre and has a quite different quality of life and level of well-being, a narrow rural policy is needed. Differences in conditions and geographic separation make it unlikely that rural residents can rely on urban-oriented policies.
2. Conversely, if the majority of the rural population lives in close proximity to urban territory so they can easily take advantage of urban providers of goods and services and are well integrated into the urban economy, then a broad rural policy may be appropriate.

For the case of Chile, a flexible approach combining broad and narrow perspectives might be needed. The lack of an existing national rural policy framework suggests a broad approach would indeed better integrate the actions of the wide range of ministries and programmes now targeting rural areas. At the same time, given the diverse geography and the presence of rural remote regions, some of which are not fully integrated into a market economy, a narrow approach could better address the needs of these areas.

Given that the set of policy problems is large and complex and the nature of rural is highly variable from problem to problem, a flexible approach is required. The diversity of situations across the rural areas of Chile exceeds what is common in most other OECD countries. There are at least three dimensions to the diversity.

1. The first is geographic. Chile is both long and narrow, which means that every region has considerable climatic variability.

2. The second dimension is density. Some regions in Chile are dominated by large urban centres, others have medium-size urban centres and some have only small urban centres.
3. The last dimension is degree of integration into a market economy. Once again, in some regions markets are strong and comprehensive, while in other regions a significant part the population is still in a semi-subsistence state.

While it would be an exaggeration to say that every region needs a unique rural policy, it is clear that each region requires the flexibility to align national rural priorities with regional needs.

Because the rural situation varies considerably on the basis of the degree of proximity to urban centres, rural policy has to incorporate these situations if it is to be effective. In some parts of Chile there is still a need for support to bring people into the market economy, but this is a smaller problem. In many parts of Chile there are real inequities in terms of access to basic health and education services that impose costs not only on the people affected but on the entire country. In many parts of Chile outside the major cities, there are strong economic ties between primary production in rural areas and first-stage processing in nearby urban areas that are currently not recognised in territorial development policy. In large urban areas, there are ongoing inflows of rural migrants who, in many cases, have difficulty finding adequate employment and housing in the city.

Having a narrow rural policy that lacks flexibility is also problematic. If the definition of rural is overly restrictive, the policy is only applied in certain areas. However, even in areas that might satisfy a definition of rural, the types of policies that are of value may vary considerably among regions. For example, in Mexico, rural policy to provide irrigation water that is effective in the humid south where water is plentiful may not make a lot of sense in the arid north. But if there is only one national policy, it will be targeted on the largest client group and result in considerable inefficiency.

Current rural policy in Chile and its potential

Much of the Chilean countryside has been, for at least 20 years, under a process of depopulation, especially in smaller (in terms of population) and less densely populated rural municipalities (see Chapter 1) and socio-economic desertification. Rural population leaves for regional centres, since the structure of rural population is scattered and weak, and it is difficult to retain emigration pulses in small market towns insufficiently equipped with necessary services and amenities. A relevant percentage of rural exodus goes to Santiago, while international migration is not relevant.

Despite these emigration pulses, the Chilean countryside is far from being irrelevant from the territorial point of view. On the one hand, the diversity of rural areas contains and retains significant competitive advantages that need to be properly assessed and included in the regional strategy and policy; on the other hand, what can be considered “rural” in Chile accounts for the vast majority of the country in terms of territory, and is the place where a critical part of the economic activity of the country happens.

Much of the economic activity that develops and depends on the Chilean countryside ignores the reality of rural communities. The peculiar geographical configuration of the country does not help much, because constraints imposed by geomorphology become major impediments to suitable access to services of general interest (SGI), in particular those that depend on market rules. In any case, multiple sources interviewed during the

mission agree that there is a strong, but insufficient, institutional action by the central government in favour of rural services, as essential to securing population and economic activity in the rural mechanism.

Without coming back to the question of the definition of “rural”, it is important to note that there is not a clear definition, and that rural, in most cases and for most actors and institutions, is “what is not urban”. Each ministry holds its own definition of “rural”. The National Statistical Institute (INE) has the most used definition, focused on total population in each municipality. Although this definition responds to a traditional concept of rurality, it does not appear at all adjusted to the current dynamism and functional links of the territory (see Chapter 1).

Public institutional action in rural areas is mostly segmented and fragmented. The traditional dominance of agriculture and mining as the fundamental “rural” economic activities in the Chilean countryside explains the predominance of the respective Ministries of Agriculture and Mining. These ministries exert a sectoral and biased action where rural areas become relevant in terms of raw materials and food for domestic consumption and exporting. However, there is no co-ordinated action on rural areas that could pay attention to the needs of rural communities in the perspective of sustainable development, to ensure the ability of rural areas to continue to offer wealth while working towards the overall sustainability of rural.

The traditional concept of “rural” as residual, second-rate, unimportant in terms of population, etc. explains the widespread opinion that it is “not worth it” to establish an inter-ministerial committee that develops co-ordinated policy and action in rural areas in order to meet the needs and goals of rural Chile. There is also a fundamental issue of governance here, which begins at the level of ministries and requires transfer of a share of power or ostentatious competition for the benefit of a horizontally and vertically integrated action.

At present, Chile lacks a formal rural policy in the sense used by the OECD – that is, an integrated territorial approach to the development of the rural regions in a country. Chile has a complement of sectoral policies for those sectors most common in rural areas – natural resource-based activities – and it has specific policies for the delivery of public services in rural areas. This suggests that Chile has most of the components for a rural policy already in place. However, the integration of sectoral policy into rural policy is complicated by the distinction drawn in Chile between firms that are of a commercial size and that are fully integrated into national and international markets and small, possibly semi-subsistence firms that are only weakly integrated into markets.

Chile currently identifies its rural policy as dealing with these smaller firms and with households in small and remote settlements. Because Chile adopts an extensive definition of rural that is based upon a settlement size with a cut-off of 2 000 inhabitants and then includes a buffer area of adjacent rural land as part of the settlement, the role of rural in the economy and society is marginalized. Consequently, only the smallest settlements in sparsely populated regions are considered rural. Not surprisingly, poverty in rural areas according to this official definition is significantly higher than under a revised definition that considers a broader aspect of rurality (see Chapter 1).

This results in Chile adopting a conceptual definition of rural as being only those places, firms and households requiring specific interventions to better connect them to markets and the urban territory. Rural policy is currently focused on providing the resources for the targeted firms and households to improve their capabilities and become

better integrated. In the case of firms, this involves making investments to increase output to achieve minimum commercial size and in the case of households, improving skills to either improve their local employment opportunities or to make relocation to another region where jobs are more plentiful more attractive.

Given the fact that there is still a significant share of the national population not fully integrated into the national economy and society, this focus is appropriate. But it is a policy approach that implicitly implies that the need for rural policy will disappear once the integration is complete. However, the experience of other OECD countries is that full integration of the population into the national economy does not eliminate the need for a distinct rural policy. The issue of rural development remains, but it has a different focus.

The current approach in Chile of focusing on specific sectors raises the problem of coordination. Clearly sectors are interrelated. A current pressing example is competition in the northern regions between mining and agriculture and in the southern between energy and agriculture, for water. This also involves both the General Directorate of Water of Public Works Ministry and the environment ministry. While Chile has adopted inter-ministerial committees to deal with cross-cutting issues like this, these important problems are harder to resolve in the absence of an integrated rural development policy that creates a framework for managing conflicts.

In addition to becoming better integration in rural polices, implementing a modern rural development policy approach in the Chilean context can help its rural regions realise their growth potential (see subsequent section), alleviate inequalities, better integrate rural and urban regions, and help achieve national goals. A modern rural development policy approach, based on the three frameworks described in the previous section, contains ten key pillars (Table 2.3). The next section describes the main rural sectors in Chile and identifies possible areas for growth potential. A modern rural development policy approach can be an effective tool to realise the growth potential of Chilean regions.

Table 2.3. Pillars of modern rural development polices

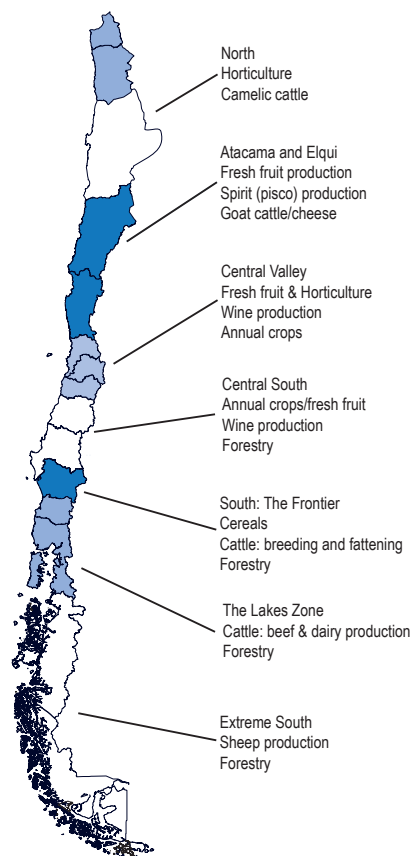
Frameworks	Main pillars
Promoting growth: Regions have the potential for growth	1. Innovation 2. Human capital 3. Infrastructure/connectivity 4. Business creation and expansion
New Rural Paradigm	5. Competitiveness and valorisation of rural assets 6. Economic diversity, involving sectors of the rural economy beyond agriculture 7. Investment focus over a subsidy approach 8. Integrated approach
Urban-rural linkages	9. Rural regions that are close to urban regions, think about an integrated development 10. Managing natural resources in a sustainable way is important to both rural and urban populations, both for commodity production and environmental services.

Agriculture

Agriculture remains a key rural sector for Chile and perhaps best demonstrates the binary nature of the current policy environment for rural regions. Parts of Chilean agriculture are globally competitive as evidenced by a 13.4% share of total exports in 2011, which is far higher than in most OECD countries (OECD, 2013c). Chile is indeed the lead world exporter of table grapes, blueberries, plums, dried apples; the second largest exporter of avocados, frozen raspberries, prunes, apple juice; and the third

largest exporter of kiwis. Agricultural production in Chile has a strong geographic component. Due a rich variety of geographic and climatic conditions, production is geographically very differentiated (Figure 2.7).

Figure 2.7. **Agricultural production in Chilean regions**



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Source: Chilean Ministry for Agriculture (ODEPA).

A relatively small number of large farms have adopted world-class technology and compete in world markets with very limited public support. These farms provide considerable direct employment because they are concentrated in the horticultural and vegetable sectors and also a large employment opportunity for lower skill workers in the processing of these crops. On the other hand, there are still many farm households which live in extreme poverty with only a limited attachment to the market economy. These are the target of Chile's main agricultural policy initiatives. There is room to better integrate this dual economy by focusing on improving the competitiveness of small farmers, through technical assistance programmes, targeting their skills and bringing them closer to technology and the business know-how needed to compete in international markets.

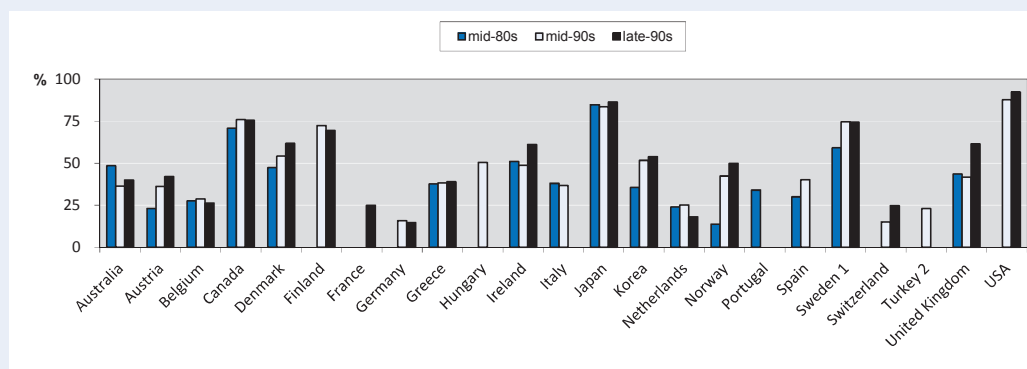
The main agency supporting farmers, INDAP, is restricted to serving only small-scale producers with the twin objectives of improving current income levels – through technical assistance, investment and input subsidies – and also providing longer term technical and investment support to bring some of these producers to the point where their farms are viable commercial units. Notwithstanding this fact, a significant number

of the farms served by INDAP will not reach this goal, which makes the diversification of the rural economy to provide more non-farm employment opportunities crucial. Off-farm employment can allow small farms the opportunity to remain engaged in agriculture while earning the majority of their income off farm.

Box 2.7. Part-time farming

While the typical idea of farming remains a situation where a couple works full-time on their farm with the help of children, the vast majority of farm households in OECD countries are part-time farmers. In most countries, the average farm household earns more money from its off-farm activities than from its farm activity (see figure below). Unless there are specific national policies, such as in France and Germany, that discourage part-time farming, even larger commercial size farms are likely to have some off-farm income. For small farms that cannot produce a large enough volume of agricultural commodities to generate sufficient income to provide a good standard of living, the possibility of off-farm income represents an alternative to either poverty or leaving farming.

Share of farm income in total income of farm households from the mid-1980s to the late 1990s



Source: Calculations based on national statistics and EUROSTAT database (Eurostat, 1999 and 2002).

Off-farm income plays multiple roles for the farm household. It provides a source of income that can be used to fund investments in the farm that cannot be funded solely from farm profits. It provides supplemental income for the household where the farm is not able to meet household needs. It provides important risk management functions, since off-farm income is not correlated with farm income, which exhibits a high variability. Finally, off-farm income can provide important social connections for farm families that might otherwise be relatively isolated.

But the possibility for earning off-farm income hinges on broader rural development actions. Diversification of the rural economy beyond farming provides a wider set of employment opportunities that can be a source of income for farmers as well as other local residents. In particular, where farms are small and have low productivity, the best way to raise farm household income is often to provide an alternative source of part-time employment via rural development, rather than through farm subsidies.

From a rural community or region perspective, diversification into such activities as manufacturing, tourism and energy production provides important income and employment stabilization benefits as well as new jobs and income. In particular, connecting farmers with off-farm opportunities can be mutually beneficial when both parties are interested in seasonal or part-time employment. By combining multiple part-time activities, a farm household can have both a higher and more stable income than is available from only the farm.

INDAP also maintains a distinct programme to support the expansion of farming by the indigenous population in regions where they have a significant presence. INDAP provides technical support to those indigenous families that work in agriculture and those that benefitted from land purchases as well as access to the full set of support programmes available for other small-scale farmers. The National Corporation for Indigenous Development (Conadi) provides support for the purchase of farm land by indigenous people.

INDAP is one of the key organisations of the Ministry of Agriculture in terms of rural policy. Its mission focuses on building capacity and supporting actions to promote sustainable development of smallholder agriculture similarly to an agricultural extension service. However, the service is restricted by law to smaller farms and therefore the entire agro-business complex remains outside of the action of INDAP. The main strength of INDAP is its territorial presence, with 122 offices around Chile. The presence of INDAP is an essential reference not only for small farmers, but also for numerous economic and social groups that operate in rural areas and constitute a large part of its territorial capital. When proposing a more co-ordinated institutional action in rural areas, INDAP has a key role to play given the extended network and has the potential to improve vertical forms of multi-level governance and better integrate local participation in other sectoral domains.

There is potential for linking agriculture to other sectors. The Ministry of Agriculture promotes farming, without exploring the possibilities and potentials associated to the impulse of relationships between economic activities and actors (at least in a formal manner). Some newer programmes focus on the creation of added value in agricultural business (i.e. farm-based tourism, etc.), but the ministry's action are confined to the agricultural sector, so far with limited integration with other dimensions of rurality.

Currently, there is limited direct support for large farms. Indeed, Chile is seen by the OECD as one of the few countries that does not distort the agricultural sector with a variety of subsidies. Effective support for large farms is provided mainly in indirect forms through:

- The construction of dams and primary distribution channels that provide irrigation water necessary in a semi-arid climate.
- Chile, like other OECD countries, provides extensive support for agricultural research which benefits all farmers, but particularly commercial size farms that have better capacity to adopt new technologies.
- The last major benefit for large-size farms is a comprehensive export promotion programme that is not specific to agriculture but which provides clear benefits to those farms with the capability to compete in export markets.

The National Society of Agriculture (SNA), operating since 1838, is a co-operative composed of farmers, agricultural associations and business enterprises. Its main actions are, on the one hand, administering 17 vocational colleges, and on the other, public resources dedicated to the promotion of innovation and productive development (CODESER) in the domain of agriculture, through its 27 regional offices. It primarily manages resources by CORFO. Key objectives by the SNA are promoting collaboration and relations between partners to generate economies of scale and critical mass, enhancing innovation aimed at closing the technological gap in rural areas by modernising subsistence farming, improving access to credit and accessibility, promoting cultural change, improving the institutional integration of small and medium farmers, and the standard of living in rural areas. The main challenges identified by the SNA in rural

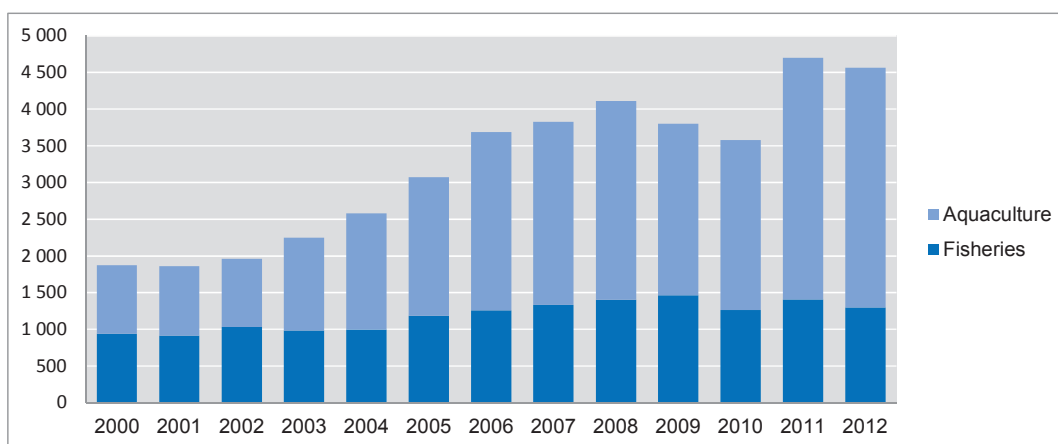
policies is a need to better tailor public resources devoted to rural areas to the local needs in the areas of education, innovation, accessibility and service provision. This will entail a stronger local involvement and engagement through bottom-up approaches.

In sum, this section highlights a bimodal agricultural model: one composed of small farmers and the other of large agricultural exporters. In the former, policies are subsistence and in the latter they are very sectoral and only focus on the agricultural sector with limited integration in other domains, thus operating in silos. The Ministry of Agriculture has two distinct programmes in these respective areas, both with little connection amongst themselves.

Fisheries and aquaculture

Chile has a strong aquaculture and fisheries sector. Over the past decade, the export value of aquaculture and fisheries has increased gradually (Figure 2.8). Currently, Chile is the world's lead exporter of trout, and the second largest producer of salmon.

Figure 2.8. **Aquaculture and fisheries exports, 2000-12 (USD millions)**



Source: Government of Chile, Under-Secretariat of Fisheries and Aquaculture.

In Chile, there are distinct fisheries policies: *i)* small-scale artisanal fishery considered to be a part of the rural development package of policies; *ii)* industrial fishery; and *iii)* aquaculture, primarily Atlantic salmon production in the most southern regions. Both the commercial and aquaculture components are rural industries, but they are regulated with little apparent sense for their rural nature. By contrast, the artisanal fishery is provided with a protected fishing area and is restricted to small-scale enterprises. This reflects a belief that the artisanal fishery has social and cultural, in addition to its economic, value whereas the commercial fishery only has economic value.

Artisanal fishing is of great importance to the Chilean economy and in particular to rural and coastal areas. It is a heterogeneous sector, composed of three main groups, in which different controls are applied: the group that operates without boats, boats up to 12 meters and boats 12-18 meters. Government support is only provided to registered individuals in the artisanal fishery. The artisanal fishery is also an important element in policy to support indigenous people. Specific areas are assigned for their exclusive use. To participate in the artisanal fishery, boats of up to 18 meters in length must be employed. The artisanal fishery has exclusive rights to the first five nautical miles of

coast. In addition, in the first nautical mile, only boats of up to 12 meters in length can be used. Commercial fishing takes place beyond the five-mile limit and it operates under a different set of regulations.

A small number of commercial fishing firms use fleets of relatively modern boats with small crews, while the inshore or artisanal fishery relies on a large number of fishers who are mainly individual entrepreneurs, many without boats. Commercial and artisanal fisheries each account for half the wild caught stock. This reflects a declining share of catch by the commercial fleets and an increasing catch by the artisanal fishers. Government policies and changes in the regulation on the participation of different sectors in the fishery are partly responsible for the increasing catch by artisanal fishers. Both artisanal and industrial sectors have different needs and challenges, although they are managed by the same set of rules, the surveillance and control rules have different levels of requirement. In both cases the value and volume of catch is falling due to stock depletion, suggesting there is room for improving the current management approach.

As in many other countries, the artisanal fisheries remains a difficult problem and current policies have not as yet successfully dealt with overexploitation of coastal fisheries resources or provided stable livelihoods to coastal populations. According to the data registry of artisanal fishermen, there are 13 000 boats and 86 000 artisanal fishers registered. Artisanal fishermen organise themselves in a different level of organisation, at local, regional and national level. The participation of the organised artisanal fishermen in the management of the fishing resources is made through the National Fisheries Council, the zonal fisheries councils and the different management committees. The sector has a long tradition of trade associations, co-operative and union associations involved in horizontal and vertical integration. The existence of these organisations is largely due to the government's policy to dialogue and implement policies among associations rather than on an individual basis.

Chile, like many other countries, has not found an effective way to manage its fish stocks. Although co-ordination instruments (inter-ministerial committees, councils of ministers, etc.) exist, the large number of associations and actors brings a high degree of fragmentation in the policy implementation at the national level, with an important gap of knowledge and integration of a wide range of actions. National ministries largely operate among national priority guidelines, but there are difficulties in implementing these at lower levels of government at the regional and local level. Given the high degree of variability in conditions both across fisheries and in terms of annual variability, a centralised management structure will always have great challenges. Devolving authority to the local levels can address some of these issues; however, it will face a number of challenges brought by a lack of capacity in many local tiers, the potential for regulatory capture and lack of policy integration.

Aquaculture is a rapidly growing sector in Chile. Currently, the country is a global leader in aquaculture with three distinct production zones in the southernmost regions. The main product is Atlantic salmon but other species are also produced. Aquaculture now creates as many jobs as artisanal fishery and provides better pay and full-time employment in raising and processing fish. In the two regions where salmon production is concentrated, aquaculture is the largest source of regional income.

The history of salmon farming in Chile points to the potential benefits of the importance of an integrated territorial approach to rural development. The far south of Chile is an environmentally sensitive area and a major international tourism destination.

While there is no reason that commercial aquaculture cannot be integrated into environmental management plans along with tourism, it does require policies to be co-ordinated. In the case of Chile, salmon production has been highly concentrated, with farms in close proximity. Not only did this help precipitate a crisis for salmon production due to rapid spread of disease in 2007-08, but it also places a high level of stress on the nearby environment, which could lead to other problems with native species. Aquaculture is internally well integrated, but not very well linked to the larger world outside aquaculture. A holistic approach has the potential to better link aquaculture to other sectors. This will require improvements in innovation, business skills and urban-rural linkages. In the latter, given that the knowledge and know-how are typically present in cities, better linking urban with rural can transfer this to the aquaculture sector.

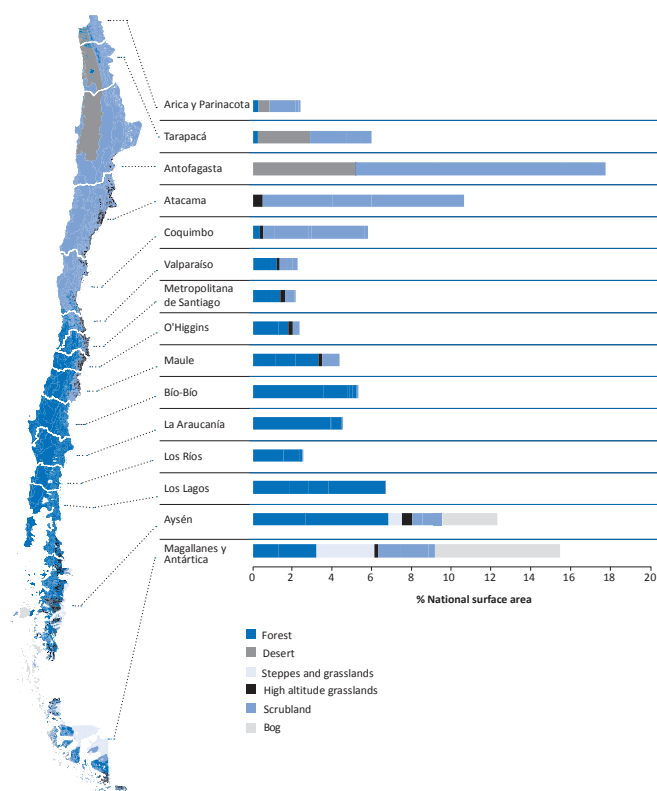
In sum, aquaculture and fisheries is an important sector for Chile with important international presence. It is also an important sector for many Chilean rural regions in terms of employment effects. The high concentration in salmon activities in some communities and dangers of displacement activities brought by diseases represents a vulnerability to some rural areas. This requires a flexible policy approach that needs to integrate several sectoral programmes. Given the risks of disease spread, salmon farms must follow a well-planned geographic roadmap. This has required displacing existing farms to new locations, which brings challenges of providing infrastructure and labour to the new areas in short time spans. There are also challenges brought by addressing the vulnerability of displaced areas. The artisanal sector, with a large number of associations and organisations, presents difficulties in co-ordination. National guidelines tend to face difficulties in implementation at lower levels. Finally a critical dimension long term development is promoting a sustainable development of the fisheries and aquaculture sector.

Forestry

Chile is a significant exporter of wood products, mainly from the south and central regions of the country. While the majority of the forest cover in Chile is native species, the main commercial species are pine and eucalyptus, which are increasingly managed in intensive plantations (Figure 2.9). The main export products have minimal processing and are lumber, pulp and wood chips. However, there have been steady increases in more highly processed wood products which offer better jobs and higher incomes. These firms are mainly located in smaller towns and cities near the major saw mills. Forest products are now the second largest source of export revenue after mining. Forestry is also a major employer, particularly in the south of the country. Forest cover has been increasing over time, mainly through the conversion of marginal farmland that has no access to irrigation water to forest plantations.

As with other resource-based sectors, the forest industry is segmented into small, subsidized semi-commercial operations and large-scale, globally competitive wood product firms that can meet international competition. Subsidies were first provided to establish plantations in 1974; in 1998, these subsidies were extended to small-scale wood producers. The commercial sector in Chile benefits from: fast growth of trees, low labour costs, aggressive global marketing, a strong transport system with easy access to ports, and the adoption of modern technology.

Figure 2.9. Distribution of forests among Chilean TL2 regions



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Source: Chilean Ministry for the Environment.

There is a need to co-ordinate a wide number of public institutions involved in forestry promotion, and to improve the inter-connection between forestry and other related sectors and economic activities. At least five public institutions have a direct relation with forestry promotion and development: the National Forest Service (CONAF), the Foundation for Agrarian Innovation (FIA); the Forestry Research Institute (INFOR); the Ministry of Environment; and – for economic promotion and development programmes – the Economic Development Agency (CORFO). Additionally, forestry development impacts and interacts with other economic sectors of rural areas, as agriculture, livestock or tourism. All these make especially relevant inter-institutional co-ordination (see Chapter 3) and to integrate the promotion of this sector within a comprehensive rural development policy.

Promoting a sustainable development of the forestry sector is central for long-term economic development. As mentioned, forestry is an important economic sector, and a main source of employment in some rural localities in the south of Chile. However, carrying out the promotion of this sector within a sustainable development approach is crucial for reaching overall economic and social development in the country. Chile's rapid economic development over the past two decades was accompanied by pressures on natural resources. The booms in mining, forestry and aquaculture have contributed to air, water and soil pollution (OECD, 2011a). At the same time, deforestation and the

conversion of native forests to plantations in the past raised concerns about the long-term sustainability of rural local economies in the central and especially southern regions of the country: native forest offers a range of ecosystem services and goods, better water retention and is the source of economic activities that are fundamental to ensure the economic sustainability and diversity of Chilean regions (Box 2.8). The conversion of native forest to plantation is subject to the scrutiny of the correspondent government agency (CONAF).

Box 2.8. Native forests and economic sustainability in Chile

Research by the Austral University of Valdivia reveals the importance of native forest conservation for economic sustainability in the south of Chile. The native forest supports fundamental ecological functions, which provide a range of ecosystem services and goods such as conservation of biological diversity, better water retention, maintenance of soil fertility, supply of water for human consumption, and provision of nature-based tourism opportunities, among others. Native forests play a key role in storing and gradually releasing water, which is the basis for important economic activities in the south of the country, including agriculture, salmon farming, sports fishing and tourism. The presence of native forests in watersheds is particularly crucial for maintaining summer streamflows and the associated dissolved oxygen in fjords and estuaries above the critical values required for salmon production. Mismanagement of the sector in the past degraded native forests, decreasing water availability in forest regions. This had a negative impact on rural communities and put added stress on the problems of poverty and emigration in these areas.

Source: Lara, A. et al. (2003), “Componentes científicos clave para una política nacional sobre usos, servicios y conservación de los bosques nativos Chilenos”, Universidad Austral de Chile, Valdivia.

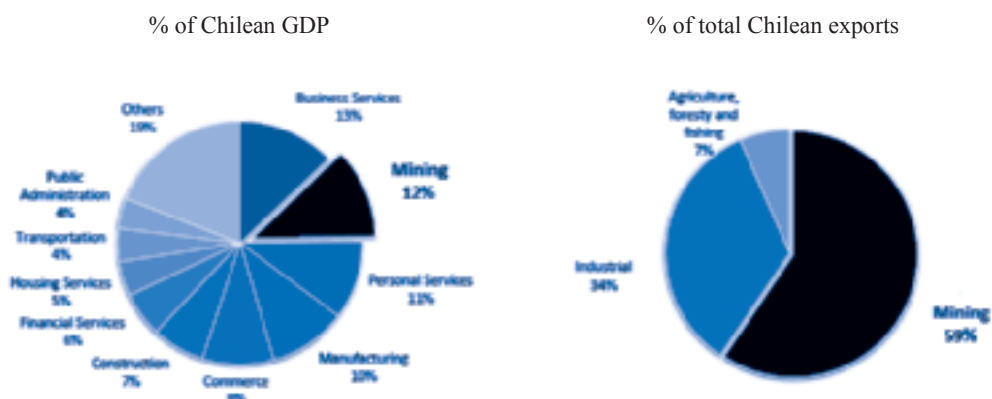
The approval in 2008 of the national Law for Native Forest Protection and stronger environmental regulations are steps forward towards reaching a fair equilibrium between the development of forestry and the conservation of the country’s rich biological diversity. The examples of OECD countries like Finland or Sweden shows that a strong forestry sector is, and should be, compatible with the protection of the environment and biodiversity of the country.

In sum, the forest sector is a strong employer for a number of southern rural regions. Forestry also has a potential to enhance innovation activities and move up higher in the value-added chain by processed wood products and exploring potential links with other sectors such as renewable energy. There are a number of national institutions managing policies related to forestry. There is a need to balance and reconcile economic with environmental concerns.

Mining

The mining sector is a key driver for the Chilean economy, representing 12% of the national GDP, 59% of total exports (Figure 2.10) and 21.7% of fiscal funding in 2012. The sector is dominated by copper, but there are significant deposits of gold, silver molybdenum and coal. The mining sector has three main elements: state-owned mines, primarily Codelco, which is the single largest mining company in Chile; multinational mining companies; and a group of small- and medium-scale locally owned mines that account for about 8% of production. Mining dominates the three most northern regions of Chile, but it provides relatively few jobs because of its capital-intensive production technology. However, these are well-paid jobs that now in many cases require formal qualifications.

Figure 2.10. The mining sector in Chile, 2012



Source: Central Bank of Chile, 2013.

Mining activities in Chile are geographically located close to the main copper reserves. Indeed, around 25% of world copper reserves are present in the central Chilean region of Atacama, while the processing mostly occurs in northern regions of Antofagasta and Tarapacá. There are also significant mining activities in Coquimbo, Valparaíso, O'Higgins metropolitan region. Given foreseen depletion of the northern reserves, within the next 50 years mining activities are expected to gradually move towards the south. Nevertheless, given the large investments taking place in the current areas of mining (USD 100 000 million) over the next 10-15 years, the expected southern move will likely not take place anytime within the next 20 years.

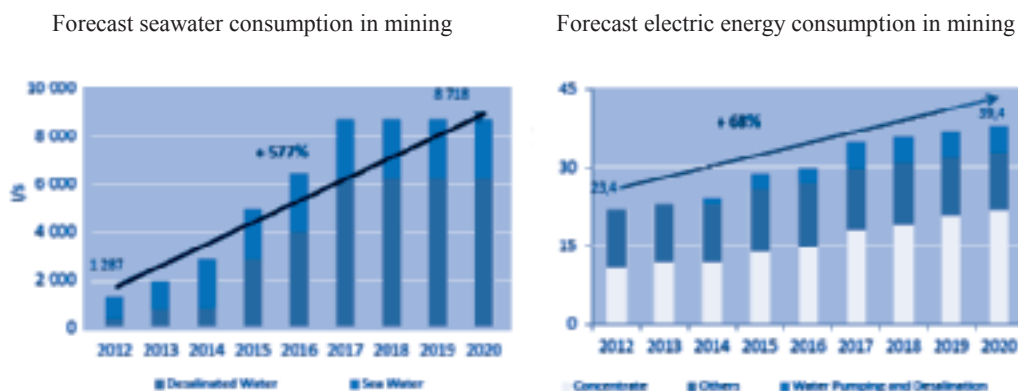
Mining impacts the rural economy in the following ways:

- Employment potential. Mining activity has strong employment secondary effects. It is estimated that for every direct job in the mining sector, three indirect jobs are created. This implies that one-eighth of Chile's workforce depends directly and indirectly on mining, with important employment effects for rural regions.
- Wage potential is the activity that pays better wages with an average salary of USD 1 100. Chilean wages in the mining sector are more than double, leading to higher average wages in mining-intensive rural regions.
- Entrepreneurship opportunities in local communities by enabling groups of local entrepreneurs to become providers of goods and services to mining companies.
- Public service delivery in rural areas. Mining activities contribute in the social field (education, health) and improve infrastructure in rural areas.

Rural areas should further benefit from mining activities. While the national government manages the taxation of the mining industry to capture royalties from the consumption of a depletable resource, there seems to be little focus on using these revenues to provide alternative economic activities in mining areas in preparation for the time that deposits are exhausted. Indeed, there is little awareness of the need to compensate for the negative social and environmental externalities brought by mining activities in mining-intensive rural localities, or preparation for possible risks brought by resource depletion and the need to reorient the economic base of a town, area or region.

Greater co-ordination could increase the potential to resolve conflicts. Mining is also a major user of water and energy and has the ability to pay more for these inputs than other users. While this may be seen as market forces at work, there is clearly a conflict with current efforts to promote small-scale agriculture. Access to water is vital for mining activities in the north and for agricultural production in the central and southern regions. Both activities, in turn, are important for economic development. Furthermore, there is scope to support energy and the water-saving innovations, which in turn could reduce conflict.

Figure 2.11. **Water and energy consumption of the mining industry in Chile, 2012-20**



Source: Chilean Ministry of Mining, 2012.

There is also the potential for linking mining with renewable energy. Mining now accounts for about 90% of energy use in the northern regions. Energy shortages are also leading the mining sector to explore renewable energy sources, particularly solar, as a way to increase the local availability of electricity without major new transmission line investments. Solar energy can also be used for process heat in the refining operations. Storage problems are being addressed through investigations into the possibility of molten salts or pumped storage hydro near the coast.

In sum, mining is not considered a rural economy, but has a strong impact on rural activities. Therefore, there is a need for a cultural change to ensure mining activities are better integrated with rural activities. The mining sector faces electricity and water shortages. This requires co-ordinating the needs of this sector with other policy areas. Mining activities bring negative externalities to a number of rural communities. There is a need for a framework to better internalise and account for these negative externalities. Modern rural policies can help with promoting bottom-up dialogue with local communities, particularly those that face displacements or suffer from negative externalities.

Tourism

Tourism is a rapidly growing industry in Chile. It is estimated that tourism accounts for about 3.2% of GDP and around 3.7% of the total employment (Government of Chile, 2012). This is slightly below the OECD average (4.2% of GDP and 5.4% of employment). However, the tourism sector in Chile has experienced strong growth during the past years. International arrivals increased, on average, by 5.2% annually between 2006 and 2010, to reach 2.8 million visitors in 2010. International tourism receipts,

expressed in US dollars, also increased by an average of 7.4% per year between 2004 and 2010 (OECD, 2012b). The objective of Chile is to continue strengthening this sector, increasing its weight in the economy to 6% of the GDP by 2020.

Tourism in Chile is mostly based on nature and landscape. Even though Santiago is the primary entry point to Chile, few tourists come to Chile primarily to see Santiago. Of the top ten tourist attractions in Chile, only one of them, Valparaíso, is located in an urban area. The rest are located in rural areas. The diversity and richness of Chile's landscapes and nature makes the country an attractive destination for nature-based tourism, eco-tourism and adventure tourism. As an example, Chile has more than 139 active volcanoes, more than 24 000 glaciers, long extensions of native forest (including bio-diversity hotspots as Chilean Winter Rainfall-Valdivian Forests), and the driest dessert in the world (the Atacama Desert).

Tourism represents important development opportunities for rural areas. Tourism in Chile is either based on active (e.g. adventure travel, skiing or climbing sports) or passive activities (e.g. bird watching or visiting highly scenic places). In both cases, there are considerable revenue opportunities for rural places. More and more national and international tourists look for opportunities to stay in rural localities and to have closer contact with the place, the culture and its inhabitants.

Rural tourism has rapidly expanded in many OECD countries including Austria, Italy and Spain. In the case of Chile, given that tourist attractions are mainly located in rural areas, the opportunities are more than evident. Rural tourism therefore offers a great opportunity to diversify the economic activities of rural areas and help support rural economies. Tourism business development in indigenous communities also offers an opportunity for both diversifying income sources and extending the knowledge of culture among national and foreign visitors.

Nevertheless, there are some challenges for rural inhabitants in order to fully take advantage of tourist expansion. Tourist entrepreneurs in rural areas tend to be family based, sometimes lacking entrepreneurial skills or the capacity to advert or promote their businesses. The government of Chile has marked two priorities within its National Tourism Strategy 2012-2020: *i*) the improvement of the capacities of small rural tourism providers (some small farmers, trying to diversify its activities and incomes); and *ii*) the quality of rural tourism services (Box 2.9).

For this, training will be offered in such areas as customer service, tourist guide courses, sustainability or cultural heritage. The strategy will promote small entrepreneur associations, aimed at improving the capacities of small-scale providers. This is an excellent initiative that will count on the collaboration of different public institutions, including INDAP and the National Tourism Service (Sernatur). It is supported by other initiatives, including the programme of rural tourism of INDAP, which offers support to small farmers willing to diversify their activities in the tourism sector. This initiative, if broadly backed with institutional support and resources, could have an impact in promoting the diversification of rural incomes and making rural inhabitants part of the growth and success of tourism development in Chile.

There is not enough multi-stakeholder engagement. Although there is a National Tourism Strategy elaborated by the central government, the inputs and views from local stakeholders were not fully taken into consideration in the elaboration of the national strategy. Furthermore, the implementation of the policy is not equivalent in all Chilean regions, given that it depends on the capacity and initiatives of the regional *intendentes*. For example, in the region of Araucanía, the *intendente* successfully implemented

five master plans on tourism in a number of *mapuche* communities. The region of O’Higgins also has its own strategy for tourism.

Box 2.9. The governance of tourism in Chile and the National Tourism Strategy, 2012-2020

Tourism comes under the Ministry of Economy, Development and Tourism. Within the ministry, an Undersecretary of Tourism is in charge of the national tourism strategies and policies. At the same time, the National Tourism Service (Sernatur) has been established as the public agency in charge of the implementation of these policies. The National Office of Sernatur is located in Santiago, but it has a regional director in all the regions of the country who is in charge of developing the tourism industry regionally, as well as local representatives in some touristic localities or territories such as San Pedro de Atacama, Easter Island, Chiloé or Puerto Natales.

A Ministerial Committee has also been created to ensure the correct level of co-ordination and to improve the efficiency within government. This committee is composed of seven ministries: Economy, Development and Tourism; Culture; Infrastructure; Agriculture; National Assets; Housing and Urban Development; and Environment. In addition, every year, seven industry associations are elected to become part of the Public-Private Tourism Promotion Committee, which also involves seven governmental organisations. This committee is in charge of developing promotional strategies.

As part of the government’s effort to promote tourism development in Chile, a long-term strategy was released in January 2012, the National Strategy of Tourism 2012-2020. This strategy was produced by the Undersecretary of Tourism with inputs from both the private and public sectors. There are five “pillars” in the National Tourism Strategy: promotion, investment and competitive development, sustainability, quality and human capital, and market research. Each of them has a working group with the private sector to develop policies and strategies. The main objectives of this strategy are:

- increase the importance of tourism in the national economy, with tourism’s contribution rising from 3.2% of GDP to 6% by 2020
- create 40 000 new direct jobs and 160 000 new indirect jobs by 2020, promoting the creation of small and medium-sized enterprises, especially in regions
- reach 4 million foreign tourists by 2014 and 5.4 million by 2020, raising the average expenditure per tourist by 50% between 2012 and 2020.

Sources: Government of Chile (2012), *Estrategia Nacional de Turismo 2012-2020*, Santiago; OECD (2012), *OECD Tourism Trends and Policies 2012*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/tour-2012-en>.

In order to concentrate the impact of public action wherever it deems necessary, a recent national decree regulates the possibility to determine areas of tourist interest (ZOIT) in the territory of one or several municipalities. Any ZOIT can develop a plan of tourism action, creating a management company formed by entrepreneurs in the area, along with local government. Each of these plans must be approved by the Ministry of Economy, Development and Tourism. These entities follow the philosophy known as “destination management organisations” and tune well with the local development approach, pointing to an action commanded from the territories, and starring by communities as the lead actors.

There is a potential to further link tourism to other sectors. Chile is investing in sustainable tourism that combines the tourism industry with the protection of the environment. Tourism to national parks and nature protected areas and eco-tourism are

rapidly expanding. This provides another attraction that can parallel existing private sector investments in skiing and adventure tourism. In the period 2000-12, the number of visitors to natural protected areas doubled, from about 1 million in 2000, to more than 2 million in 2012 (CONAF, 2013). The resources to protect these areas – for example, park guards – have increased in the last years. However, recurrent forest fires, including the recent disaster in the National Park of Torres del Paine, raise concerns to further invest resources on the protection of the natural sites and parks. Therefore there is a need to approach tourism in a more sustainable way. Although protected areas are an important source for attracting tourism, the latter needs to respect that the principle goal of designating protected areas is for preserving bio-diversity. A modern rural development policy can help in this domain through its investment driven approach and engagement with multiple stakeholder, particularly involving local actors and its environmental pillar.

The rich biological diversity and the unique natural and cultural environments of Chile form the basis for expanding tourism and recreational services but also raise the challenge of sustainability. Tourists, and particularly international tourists, come to the country looking for its rich, relatively unspoiled and unique environment and nature. This is what makes Chile an attractive destination and what differentiates it from other tourist destinations.

Therefore, it is key for the long-term sustainability of the sector to preserve its nature, forests and landscape from degradation, over-exploitation/urbanisation. As the tourist sector develops, the challenges for preserving its biological diversity and landscapes will also increase. Providing high-quality tourist services appropriate to the carrying capacity of the environment becomes a key. At the same time, modern rural policy can enhance the dialogue and better co-ordinate tourism activities with environmental policies, water, agriculture, forestry and mining.

Finally, there are untapped opportunities for further involving the local population in the development of innovative tourist products, based on local culture and traditions, or local food products (e.g. native forest honey, dietary or health products from seaweed), which can constitute a good complement to the promotion of tourism, and offer a supply of differentiated tourist products. Tourism activities can increase the attractiveness and visibility of remote localities and can be an important industry for employment and raising revenue.

Energy, including renewable energy

Chile's energy sector has distinctive characteristics (OECD/IEA, 2009) bringing challenges for energy production and distribution:

- First, unlike many of its neighbouring countries, Chile has limited fossil energy resources. Yet, fossil fuels account for almost 80% of the country's total primary energy supply (TPES). As a result, Chile imports close to 75% of its TPES in the form of oil, gas and coal.
- Second, Chile's unique geography – 4 300 km long and an average width of 175 km – possesses a variety of climates and geography (ranging from the world's driest desert in the north, to fjords and glaciers in the south) and the high concentration of the population in the metropolitan region poses major challenges for energy production and distribution (see Chapter 1).
- Third, Chile's economy is highly specialised in commodities, in particular copper, that are very energy intensive (e.g. large industrial customers, mainly mining companies, account for around 90% of the electricity consumption of the northern

electricity system [SING] that comprises about one third of total installed capacity of the country).

While Chile has considerable undeveloped potential for expanding large-scale hydroelectric projects, their development can have side effects. In particular, the large developments planned for the south of the country could have important environmental impacts, making the kind of comprehensive economic and environmental assessment used by the government of Chile crucial. These effects include new transmission capacity that would connect generation in the south to the north and central parts of the country where most of the energy is currently demanded in large cities and in mining-intensive activities. In northern Chile, the energy needs are expanding through the mining sector, creating a demand for more generation capacity. These large-scale developments may come into conflict with preservation of protected areas and eco-systems, as well as the development of alternative economic activities such as eco-tourism. In addition, because Chile is a long thin country, transmission costs play a large role in delivered electricity costs. This reflects the great distance and difficult terrain when developing transmission lines. This situation points out the merits of considering how policies for one sector affect other sectors in rural areas.

The potential for renewable energy in Chile is diverse and substantial, thanks to the country's unique geographical and natural conditions:

- Large- and small-scale hydro is, and will remain, a significant component of its energy mix.
- Strong winds throughout the country make wind another attractive energy source.
- Chile has 10% of the world's active volcanoes, highlighting an abundant potential for geothermal energy.
- The north of the country is rich in solar and geothermal energy.
- Finally, Chile has more than 4 000 km of coastline, and possibly the greatest potential for ocean and wave energy of any country in the world (OECD/IEA, 2009).

Chile has a long history of developing renewable energy resources, specifically hydropower. In recent years, Chile has made efforts to develop “non-conventional renewable energy” resources, which refers to renewable energies but excludes large hydropower. The current state of development in this domain is limited. The government of Chile has identified renewable sources of energy as a key element of energy security and electricity diversification. The 2005 amendments to the 1982 law, the enactment in 2008 of a specific law to promote the development of non-conventional renewables, and various incentives offered by CORFO encouraged greater investment in renewable energy projects (OECD/IEA, 2009). On 14 October 2013, an additional law to promote non-conventional renewable energies was enacted. This law establishes that by the year 2025, 20% of the energy commercialised should come from non-conventional renewable sources. This doubles the target originally established in the 2008 law.

Between 2009 and 2013, there have been efforts to promote the use of non-conventional energy sources. Since renewable energy is located in rural areas, the deployment and implementation of renewable energy policies are critical for rural development. A recent report based on 16 case studies identifies a number of key areas to improve the benefits of renewable energy on rural development (Box 2.10).

Box 2.10. Linking renewable energy to rural development

Renewable energy (RE) is increasingly being championed as a potentially significant new source of job creation in OECD countries, as well as addressing concerns with energy security and climate change. In many member countries, governments have invested large amounts of public money to support RE development and are requiring significant quantities of it to be sold by energy providers. But what are the economic impacts of these policies on the rural regions where deployment takes place? How can RE bring the greatest benefit to host regions? These are some of the questions explored by a recent OECD study. Drawing on case studies in 16 regions within 10 countries, the research finds that while RE indeed represents an opportunity for stimulating economic growth in rural communities, its development benefits are not automatic. Realising them requires a complex and flexible policy framework and a long-term strategy, as well as a realistic appreciation of the potential gains from RE deployment.

The report contains seven key policy recommendations for putting renewable energy to work in rural areas:

1. Spatially blind policies may reduce the opportunities to link RE to rural development. Too often RE is deployed without sufficient attention to the milieu in which projects will operate. Generic national criteria without particular attention to the suitability of local conditions reduce the possibility of integrating RE into the existing productive fabric (spillovers).
 - Public subsidies should be able to adjust to the quality of the RE resources available at the local level. Supporting RE deployment in low-capacity energy sources, which can arise when spatially blind incentives encourage such development, results in both high-cost energy and a limited quantity.
 - Subsidies to RE should take into account the current cost of energy at the regional level. In general, RE is more expensive in the market than conventional energy, but there are regions where the cost disadvantage of certain renewables is relatively small, or non-existent. In these regions, where conventional energy is relatively expensive, it is much easier for RE to be competitive.
 - Subsidies should be limited in scope and duration, and should be used as a means to induce RE projects that are close to being viable in the market. If subsidies are too high, they tend to encourage RE projects that are designed to capture the maximum amount of subsidy. This sort of rent-seeking behaviour can lead to high-cost energy that is only viable as long as high levels of subsidy are sustained.
 - Subsidies to RE often affect relative prices at regional level in unintended and sometimes undesirable ways, and can intensify competition for natural resources and other inputs. Large subsidies RE can have a negative impact on land use and displace agricultural activities, particularly if they are spatially blind. Moreover, the structural changes that occur may prove unsustainable as the subsidy is phased out, and yet may also be expensive to reverse. In the same vein, RE installations can impinge upon landscape amenities, negatively affecting tourism and overall regional attractiveness. Subsidies can also cause RE to involve inputs that have high opportunity costs in current use.
2. Job multipliers associated with RE deployment are higher the more embedded RE is in the local economy. The narrative presenting RE a panacea for job creation is not reflected in reality: RE is, in most instances, a capital-intensive activity, and energy as a whole represents a small share of employment in regional economies. Since labour, like capital, is a cost of production, efforts to increase either direct or indirect employment via subsidies or other policy interventions will increase the cost of the resulting energy. Better results in terms of job creation are obtained when RE is not a stand-alone activity but is integrated within larger supply chains within rural economies, such as agriculture, forestry, traditional manufacturing and green tourism.

Box 2.10. Linking renewable energy to rural development (*cont.*)

3. There is no first-mover advantage in adopting technologies that are rapidly evolving. Newer technologies are almost certain to be more efficient and have lower costs per unit of output. When a technology becomes more mature, its unit costs are likely to be both lower and more stable over time, making investments less risky. Efforts to build local manufacturing capacity for future exports may drive up the cost of the installed local energy and still fail to generate future sales of components, because local firms have high production costs and may quickly be overtaken by competitors who enter the market later.
4. RE should be integrated within an energy framework that facilitates dispatch and integration into the grid. Policy should take into account backstop technologies for intermittent power sources. RE should be linked to large hydropower or conventional sources to lower operating costs.
5. Heat energy is an untapped opportunity for RE. Renewable heat is systematically ignored by RE policy, despite it being the most competitive with conventional sources. The direct conversion of a renewable power source to heat involves a relatively cheap transformation, and in many cases it offsets a relatively high-cost fossil-fuel source.
6. RE should be deployed taking into account the transmission infrastructure. In several regions, the capacity to deploy RE is constrained by grid limitations; however, there are no incentives to improve transmission infrastructure. In regions where new capacity has to be created – such as electricity transmission lines, pipelines, rail lines – these add to the associated capital costs of a project. In more remote regions, the cost of transport infrastructure may be several times larger than the cost of the RE project.
7. Local social acceptance is crucial and should be supported by RE policy. Local opposition can slow construction and may increase the difficulty of subsequent efforts to introduce RE projects both in that region and in other places. Every RE project has adverse impacts on the community in which it is located. If the community sees net local benefits from the project, and is engaged in the process, it still may be willing to support development. This is one of the main drawbacks of spatially blind incentives: they are often perceived as benefitting outside developers while communities bear the local adverse impact.

Source: OECD (2012), *Linking Renewable Energy to Rural Development*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264180444-en>

Water

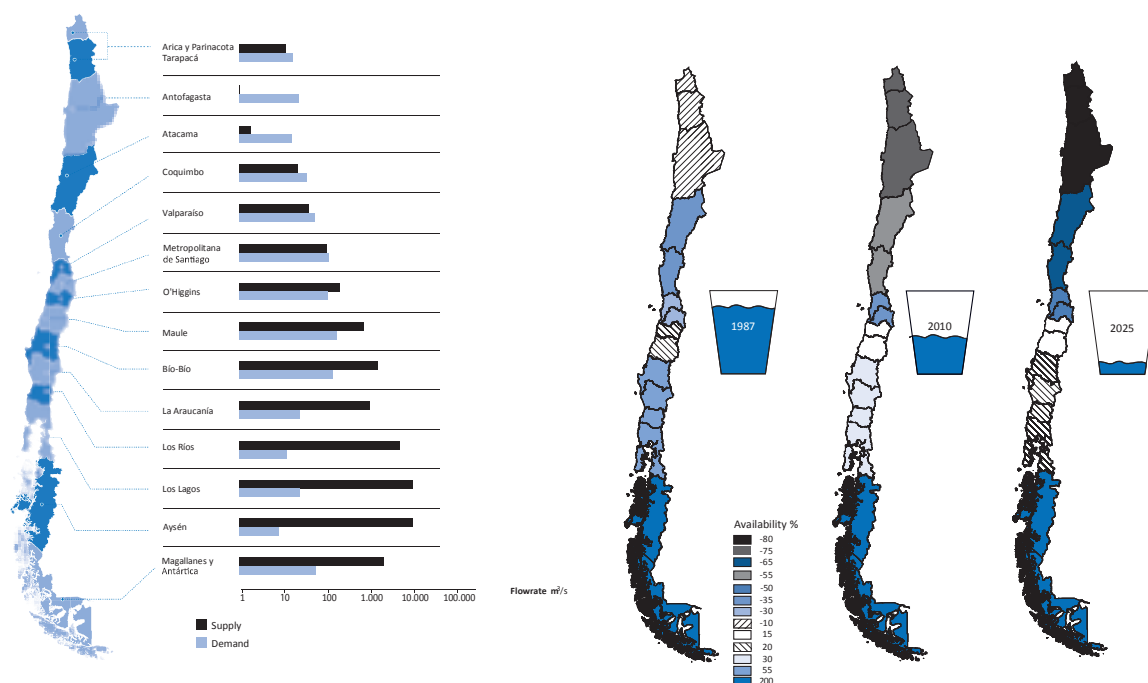
During the last decades, water demand has increased in Chile, linked to the period of dynamic economic growth and the high specialisation of the economy in water-intensive sectors including mining, agriculture and forestry, and fish farming. The increasing demand is expected to increase further in the future: the mining sector alone is estimated to increase its demand by 45% in 2020 (World Bank/Chilean Government, 2013). The increased demand is geographically concentrated in mining-intensive regions and urban centres, in contrast to the supply and availability of water mainly located in southern regions (Figure 2.12). This increased demand brings two challenges: matching supply with demand geographically and maintaining water sustainability in the future. Chile's National Water Resources Strategy issued in March 2013 (updating the National Water Policy of 1999) foresees a set of measures to mitigate water scarcity in the face of climate change.

Water in Chile is allocated through a system of property rights. This generates social and environmental challenges, particularly in rural areas. The market for water rights

(Box 2.11) has been quite effective in allocating water resources under market principles to major categories of water users and consequently has supported the expansion of some key economic sectors, such as the mining sector, export-oriented agricultural activities and forestry. However, there is some market imperfections related to information asymmetries and lack of market transparency, the system has concentrated water rights in few stakeholders resulting in problems of water accessibility by vulnerable groups as small farmers and indigenous peoples (World Bank/Chilean Government, 2013). There are several and distinct tensions in this area including water allocation between mining and agriculture in the North of Chile, the ownership and use of the so called “no consumptive rights” by hydroelectric projects and very limited water right transaction in the south of the Biobío river. The tension generated by water allocation trade-offs between mining and agricultural activities undermine sustainable economic development. Current legislation does not set the priority use of drinking water over other uses, or mechanisms to consider the country's strategic use. Furthermore there are insufficient mechanisms and resources to regulate the unsustainable exploitation of water resources once they have been granted, which has led to critical situations for supplying basins such as the Copiapó River, where there has been overexploitation of water resources. In sum, the current model of the water market poses some limitations for an integrated water resources management.

Notwithstanding this fact, there are benefits not necessarily captured in market transactions through the water rights allocation system. This is the case with the environmental uses or ecosystem services of the water (e.g. biodiversity conservation, water as source of nature-based tourism or recreational fishing) as well as hydropower. Place-based or regions-specific policies can help alleviate these tensions, given that the nature of the issues is quite specific to regions and sectors. As a result of this, there is a need to further develop more studies about watershed hydric balance.

Figure 2.12. Water resources available among Chilean regions



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map. The maps depicting the borders of Chile are for illustration purposes and do not engage the state of Chile according to Article 2, letter g of DFL 83 in 1979 from the Foreign Ministry.

Source: Chilean Ministry of the Environment.

The 2005 reform helped the transition to a new water rights regime, stating that a sufficient amount of water has to be retained when new water rights are allocated. It also pointed out the need for proper calculation of the minimum ecological water saving amount. But challenges remain regarding the monopolistic concentration of water rights and speculative hoarding, insufficiency of penalties for unused water rights that do not stimulate trading, and limited incentives to retain water to safeguard the health of ecosystems in case of over-allocation (OECD, 2013d). Mechanisms such as buying-back or forfeiture of unused water rights should be considered to optimise water use in areas where water rights have been over-allocated, as the Australian experience shows.

Intensive water usage may also represent a challenge for sustainability and the environment in the long term for activities such as mining, agriculture and forestry. Examples of this include water pollution brought by agricultural run-off and intensive use of pesticides (OECD, 2008), deforestation of native forest resources with adverse effects in the medium and long run on water retention and water availability, particularly in the south of the country (see section above on forestry).

Box 2.11. Water management in Chile

Water management in Chile is regulated by a 1981 national decree. Water rights are allocated by the national government to private users at their request. The rights of water access were delivered free of cost, and for life. In case there is more than one request over the same water source and not enough resources to satisfy them all, the right is allocated following a call for tender process. Finally, this right is tradable, looking to assign the right of water access to those initiatives with greater market value. One of the main objectives was the creation of a water market, which could efficiently set a price that reflects the real opportunity cost of the resource. The system of rights must also have the flexibility to adapt to the availability of the resource in the short and long term, without undermining the property right. The most important reforms to the Water Code were introduced in 2005 with the establishment of a water flow restriction according to an ecological minimum; hence the state could reject granting rights to preserve environmental minimum values. In addition, the reform included the possibility of creating water reserves under exceptional circumstances, the need of a justification in the water rights application, a fee in the case of non-use of water rights, and the obligation to report transactions on water rights. More recently there have been some reforms to improve the environmental management of the resources and to improve the efficiency of the system. There have also been some regulations and reforms to improve the social access to water (e.g. to small farmers). However, these reforms do not change the basics of the model of allocation and trade of water rights defined in the 1981 code.

Source: World Bank/Chilean Government (2013).

In Chile there are a significant number of central agencies involved in water policy design, implementation and monitoring (Box 2.12). Water policies in the agricultural sector are designed by two separate ministries with different interests: the Ministry of Public Works, through its Directorate of Hydraulic Works (dams, irrigation, etc.) and General Directorate Water and the Ministry of Agriculture's National Irrigation Commission, whose main constituencies are farmers and local irrigation organisations' members, both strong lobbyists. The wide number of agencies and lack of a clear delimitation of roles presents important coordination challenges (OECD, Water Governance in LAC, 2012). At the same time the highly centralised policy for water management makes it particularly difficult to tailor policy to the particular needs of the different regions, integrate economic, social and environmental key aspects involved in water management and benefit from complementarities.

Through the creation of an inter-ministerial committee in 2009, Chile has taken steps to better co-ordinate water policies. The committee aims to co-ordinate actions between departments and agencies involved in the National Water Strategy. It also advises on strategic planning of water policy in the long term; makes proposals for institutional mechanisms, incentives and guarantees towards the implementation of water policies in rural and urban areas; and adopts the necessary agreements for the implementation of the national integrated water strategy. The committee is led and co-ordinated by the Ministry of Public Works and has representatives from the General Secretary of the Presidency, the Ministry of Economy, the Ministry of Agriculture, the Ministry of Mining and the National Energy Commission, as well as the National Environment Commission (OECD, 2011b). Adopting a more holistic approach is a positive development that should be further enhanced by introducing flexibility to the policy in order to better respond to the different needs and challenges of regions, better allocate the demand and supply across the territory, and better balance economic with social and environmental goals. A national rural policy framework can help with the latter.

Box 2.12. Involvement of Chilean public institutions in water policy

- The Ministry of Health is responsible for overseeing water quality standards and environmental regulations in the industrial sector.
- The General Directorate of Waters (DGA) is responsible for water resources administration and management for sustainability, public interest, efficient allocation and information dissemination. According to Section 299 of the Water Code, the DGA also has the functions and powers for planning resource development in natural sources in order to make recommendations for their use, investigate and measure the resource; implement policies and surveillance of water in natural channels, and supervise the operation of water user organizations.
- The Directorate of Hydraulic Works of Public Works Ministry (*Dirección de Obras Hidráulicas*, DOH) provides irrigation infrastructure services. Office provides water infrastructure to efficiently exploit water resources and protect populations against floods and other extreme events. In addition to, aims at supplying drinking water to rural areas through the Rural Potable Water Programme. The Superintendent's Office for Sanitation Services decides on tariffs for drinking water and sanitation services. For concessions, the Superintendent's Office works with the private sector service provider to assure service quality and monitor industrial sites producing liquid wastes.
- The National Commission for the Environment works closely with other ministries and agencies in developing environmental laws and criteria, particularly on natural resources (including water) management, use and exploitation.
- The Environmental Ministry works closely with other ministries and agencies in developing environmental laws and criteria, particularly on natural resources (including water) management, use and sustainable use. It also develops policies, programs and actions that establish the basic criteria and measures including preventive measures to promote the recovery and conservation of water, genetic resources, flora, fauna, habitats, landscapes, ecosystems and natural areas.
- The Chilean Commission on Copper develops, implements and supervises natural resources' exploitation policies, including for water management in the mining sector.

Source: OECD (2012), *Water Governance in Latin America and the Caribbean: A Multi-Level Approach*, OECD Studies on Water, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264174542-en>.

Through the creation of an inter-ministerial committee in 2009, Chile has tried to advance in better coordinating water policies. The committee aims to co-ordinate actions between departments and agencies to face drought. The committee is led and co-ordinated by the Undersecretary of Interior Ministry, and has representatives from Public Works Ministry, the General Secretary of the Presidency, the Ministry of Economy, the Ministry of Agriculture, the Ministry of Mining and the National Energy Commission, as well as the Environmental Ministry (OECD Water Governance in OECD Countries, 2011).

Environment

Safeguarding environmental sustainability is crucial for the development of the country, and in particular environment protection which is a key asset for growing economic sectors like tourism, and for the economic subsistence of rural communities. As a result, ensuring environmental sustainability is one of the key characteristics of a modern rural economy. As outlined by a recent OECD publication (OECD, 2011a), over

recent decades, environmental challenges in Chile have been closely associated to rapid export-led economic growth. While economic development has been supported by sound macro-economic policies, it has put considerable pressures on natural resources and biodiversity, particularly in booming sectors such as mining, forestry and aquaculture (OECD, 2012a). Environmental degradation in the past contributed to undermine the traditional economic sources of rural communities and to propel rural to urban migration.

It is necessary to have a stronger focus on the interactions between environmental protection and rural development. In the past, environmental policies were strongly influenced by concerns over human health in the main cities of the country (e.g. with regard to poor air quality in the metropolitan region and around copper smelters in northern Chile) and international trade regulation (Chile exports principally to OECD countries), but probably overlooked the interactions between environmental sustainability and rural development. All sectors of the rural economy have an impact on sustainability and some sectors, especially tourism, rely on a high quality environment for their viability

Since the 1990s, Chile has advanced in the implementation of environmental policies. However, further efforts are necessary to integrate the environmental dimension in sectors such as energy, mining, agriculture, forestry, transport and tourism (OECD, 2011a). Challenges include the important reduction of the native forest, which implies an important loss in biodiversity and affects the economic sustainability of rural areas (see above), advancing towards a sustainable management of water in the context of a growing demand for agriculture and for urban areas, overexploitation of the ocean ecosystem and the challenges it generates over artisanal fishing, the erosion and desertification of national soils, further reducing the environmental impact of the mining sector, and the high environmental costs in energy production (Sotomayor, 2007; OECD, 2008, 2011a).

Rural policy can have an important role in further integrating the environmental dimension in rural development. While the primary goal of environmental policy is to protect the environment, it is often possible to achieve this goal and at the same time allow environmentally appropriate economic development functions to take place. For this to happen there clearly has to be more than co-ordination among actors, there has to be a clear understanding of which actions are acceptable and which are not. As mentioned above, rural policy could provide a forum for co-ordinating the actors and for considering the importance of sustainability and environmental protection for rural development. The Council of Ministers for Sustainability could also play a role. This institution is a high-level organisation chaired by the Ministry of Environment and is made up of 11 ministries, most of which have a strong rural presence.

High-level policy has to be translated down to an operational level because actions that are acceptable in one place and its environment may not be acceptable in another. This means that outright prohibitions or permissions for certain activities may not be the correct policy. In this situation, while national policy can set general standards for outcomes, it may be necessary to take into account the opinion of the local or regional level, where there is a better understanding of the actual consequences of a decision. Chile may want to draw on the EU experience in this area (Directive 2000/60/EC) and also the recent OECD report on water governance that analyses how to identify and address governance gaps in the water sector (OECD, 2011b).

Manufacturing

The role of manufacturing in rural Chile is difficult to determine at present because of the current definition of rural, which classifies virtually all settlements and any directly connected adjacent territory as urban. Further, the treatment of manufacturing in the national accounts can further complicate the task. Consequently, it appears from statistics that manufacturing in Chile is almost exclusively an urban industry. Nevertheless, as depicted in Chapter 1, the size and weight of manufacturing more than doubles in the revised definition; from 10% of total manufacturing according to the official definition to 20% according to the revised definition.

Box 2.13. Council of Ministers for Sustainability

The Chilean Council of Ministers for sustainability is chaired by the Minister of Environment and composed of the Ministers of Agriculture; Finance; Health; Economy, Development and Tourism; Energy; Public Works; Housing and Urban Development; Transport and Telecommunications; and Mining and Social Development. It is a political body that reviews and recommends to the President of the Republic any matters concerning environmental policy or any sectoral policies with environmental implications. The council advises the President on the following areas:

- policies for the sustainable use of natural resources for renewable energy
- the criterion that should be incorporated in the design of policies of any ministry and their corresponding agencies concerned with sustainability
- the creation of protected areas including parks, marine reserves, natural sanctuaries and coastal marine protected areas
- identification of sectoral policies should be subject to a strategic environmental assessment
- the criteria and mechanisms by which public consultations should be carried out that concern environmental impacts as stated in the law (Article 26, Law No. 19 300)
- recommendations on legislation and bills that concern the environment as stated in Article 70 (law #. 19,300).

Yet in reality, virtually all of the first-stage transformations of primary products take place in close proximity to where the natural resources are found. This means that most of the first-stage processing would be a rural industry under a more expansive definition of rural. Beyond first-stage processing, there are many small-scale manufacturing firms in Chile that produce mainly for local markets and if these are located in small settlements, they too would become part of the rural economy under a more typical definition of rural.

Realising the potential for rural regions

The sectors described in the previous section have strong links with each other including competing for labour, land and other inputs, and buying and selling to each other. The first key challenge is therefore to identify the possible complementarities between different policies and to design specific instruments to promote the synergies between them (Box 2.14). For Chile, complementarity gains are possible both at the national scale as well as in different levels of government. The latter will be further explored in Chapter 3.

Adopting aspects of both the “broad and narrow” approaches to rural development provides a way to break the current “silo approach”, where individual ministries focus only

on their narrow responsibility and ignore possible spillover effects onto other sectors. Table 2.4 provides a snapshot of the development potential of a number of key sectors in rural Chile. The table shows that most of these sectors have the potential to increase employment, spread geographically over more territory and innovate to improve their competitive position. Even sectors such as agriculture and fishing, where employment is expected to decline, will be able to become more productive and more competitive by substituting capital for labour. Other sectors such as aquaculture, food processing, tourism and manufacturing have the ability to expand in all three dimensions.

Box 2.14. Policy complementarity

Policy measures often generate externalities, which can increase their effectiveness if they are properly used. The concept of policy complementarities refers to the mutually reinforcing impact of different actions on a given policy outcome. Policies can be complementary because they support the achievement of a given target from different angles (as in the case of production development policy, innovation policy and trade policy, all of which support the competitiveness of national industry). Alternatively, a policy in one domain can reinforce the impact of another policy.

The “time dimension” or “sequencing” is also important in policy complementarity. Some policies are best put in place and strategically planned simultaneously. For example, innovation, industrial and trade policies must be synchronised to address the issue of industrial competitiveness from all angles. Other policies realise their synergies in a sequential way. For example, investments creating broadband infrastructure need to be followed up with specific policies targeting access and diffusion of those services to the population.

Complementarities between policies can be “latent”, and can be fostered by specific governance arrangements, for example, if mechanisms to co-ordinate state, municipal and federal action in education are in place. Alternatively, they can be induced, by combining different policies through conditionality schemes, or when the complementarities are the result of strategic planning. Employment generation opportunities, for example, can be attached to direct cash transfers to support the inclusion of poor people in production, so that they can avoid dependency on income transfers.

Policy complementarities can also be spontaneous when they appear as externalities of independent actions of ministries or bodies that design their interventions or are attached to existing initiatives.

Table 2.4. Development opportunities in major economic sectors in rural Chile

	Increased employment	Potential for wider geographic expansion	Innovation potential
Agriculture	–		++
Agricultural processing	++	+	+
Fishing	–		+
Aquaculture	++	+	++
Forestry	+	+	+
Mining	+	++	+
Renewable energy	+	+	
Manufacturing	+++	++	++
Tourism	+++	++	

Table 2.5 expands upon these areas of opportunity, focusing on the ten dimensions of modern rural development and how they can help Chile advance in realising its rural growth potential in a number of key sectors. The rows of the table correspond to the ten central elements of a modern rural development polices and the columns are the sectors. Each cell identifies a specific type of action that could be undertaken to improve the productivity and level of output in its corresponding sector. As identified in the table, Chile’s rural regions have growth potential in a wide number of domains. These suggestions should be seen as broad frames for creating specific policy that are appropriate for the Chilean context.

Table 2.5. Realising the growth potential in Chilean regions

Modern rural economy attributes	Agriculture and agricultural processing	Tourism	Manufacturing	Fishing	Mining	Aquaculture	Renewable energy	Forestry
1. Innovation	Strengthen national agricultural research system and improve extension		Identify opportunities to serve product needs of other rural sectors	Support innovations that help sustain fish stocks instead of depleting them	Support energy- and water-saving innovations	Research to identify new species and new uses	Potential for innovation	Explore production of higher value added goods, pulp and renewable energy potential
2. Human capital	Provide technical training	Introduce training and education programmes for tourism workers			Worker training, especially for intermediate skill occupations			
3. Infrastructure accessibility	Better roads and telecommunications and improved local markets		Better roads and telecommunications			Provide infrastructure to improve market access	Ensure transmission grid is capable of absorbing production	
4. Business creation and expansion	Better integrate dual economy through skills and capacity of small farmers	Support for new site development and improvements at existing sites	Support for small-scale manufacturing				Ensure equitable access to grid	
5. Competitiveness	Identify commodities with strong export potential	Allow competing operators when possible	Focus on improving productivity	Improve productivity			Avoid excessive subsidies	
6. Economic diversity	Link agriculture to other sectors (farm-based tourism, eco-tourism)	Consider agro-tourism especially where cultural offer is also strong			Minimise adverse environmental impacts	Link with other sectors and minimise adverse environmental impacts	Minimise negative impact on landscape	Explore links with renewable energy sector
7. Investment focus	Help with sustainability of tourism		Require strong business plans as a prerequisite for support	Avoid subsidies that encourage over-fishing				

Table 2.5. Realising the growth potential in Chilean regions (cont.)

Modern rural economy attributes	Agriculture and agricultural processing	Tourism	Manufacturing	Fishing	Mining	Aquaculture	Renewable energy	Forestry
8. Co-ordinate multi-stakeholders bottom-up and top-down	INDAP's network can improve vertical co-ordination and local participation	Help with sustainable goals by engaging multiple stakeholders			Greater co-ordination could reduce conflict with scarce resources (water, energy)		Local acceptance is crucial and should be supported by RE energy	Co-ordinate a number of institutions in forestry that are disconnected
9. Urban rural linkages	Better promote rural tourism in cities. Explore urban-rural tourism packages.	Explore integrated rural and urban tourism				Better links can transmit knowledge and business know-how		
10 Sustainable and environmental focus	Expand conservation tillage and water saving irrigation technology	Promote eco-tourism and ensure adventure tourism has low impact			Reduce environmental impact of extraction and processing	Ensure production practices minimize adverse wildlife impacts	Reduce impacts of large scale hydro and major transmission lines	Protect native species and manage timber harvesting to maintain environment

But this expansion is not assured. A recent OECD publication (OECD, 2012a) concludes that effective policy and institutional support is required to realise the growth potential of rural regions. While rural Chile has a strong potential for growth, it currently lacks much of these two key areas – policy framework and implementation mechanisms – targeted to rural areas. The next section and Chapter 3 will provide suggestions on advancing in these two critical areas for Chile.

Land-use policies

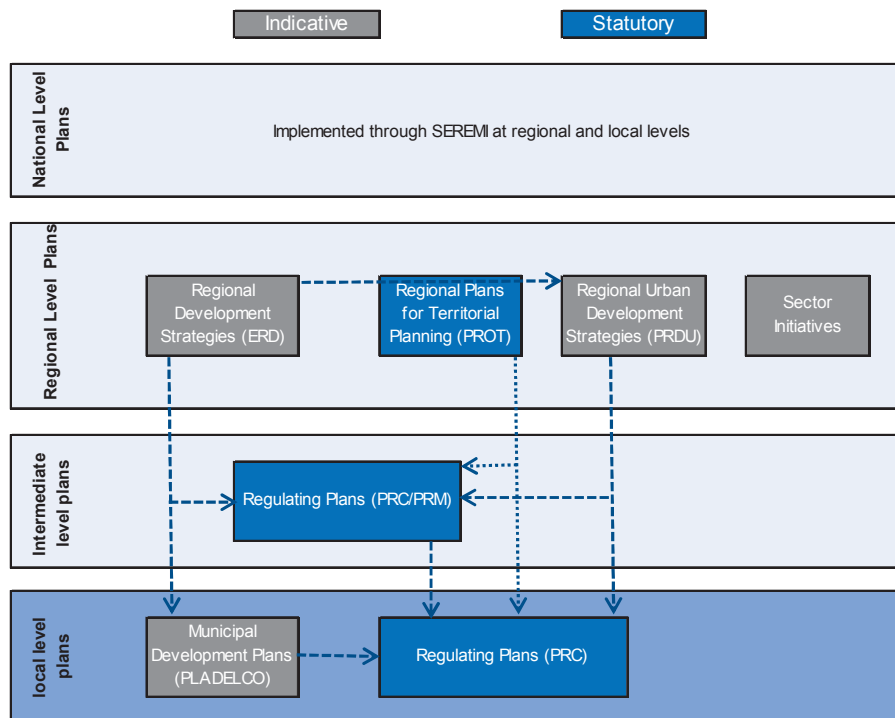
The current land use policy in Chile creates a distinct barrier between rural and urban planning based on establishing an imaginary boundary – the urban limit – that does not correspond to functional realities (see Box below). This creates a major impediment to co-ordinated planning especially where rural and urban territories intersect. In this context, there are several problems related to overload of roads regional and congestion in transition areas¹ (rural-urban). While this barrier may be manageable under the current definition of rural which minimizes rural territory it would be far more significant under a definition of rural that expands rural territory. What is missing is a regional overview that can provide a framework both for more specific land use plans in urban and rural areas, as well as a structure for integrated transport planning and coordination of economic development plans where they impact land use, and for environmental management plans.

The current PRI (Inter-commune Plan) has advanced in this domain with the establishment of 18 PRI in force (8 are being updated and 20 are being formulated). Nevertheless a deeper integration is needed that explores synergies and better integrates the portfolio of policies shaped by the PNDU (National Urban Development Policy), the National Regional Development (PNDR), the (Biodiversity Preservation National Policy (PNCB) the National Climate Change Action Plan² and the forthcoming PNDR (National Rural Development Policy) at the local level.

The recent launch of Regional Plans for Land-Use Planning (*Planes Regionales de Ordenamiento Territorial*, PROT³) aims at this goal and offers another possibility for improving coherence between economic and spatial planning at the regional level. Its main goal is to give a spatial dimension to implementing Regional Development Strategies (*Estrategia Regional de Desarrollo*, ERD) objectives. The PROT also intends to tackle issues related to urban development, and management of watersheds and coastal areas, whose implementation requires cross-sectoral co-operation and municipal input. These are developed by the regional governments in consultation with the region's municipalities and ought to cascade down from the ERD.

Despite these efforts, there is a potential for greater coherence at the regional and local levels, since the links between land-use tools (e.g. PROT and Regulating Plans) and management or development instruments (e.g. ERD and PLADECO) are still weak (see Figure 2.13). One challenge moving forward will be to ensure that sector initiatives and statutory plans (e.g. Regulating Plans), and management/development plans (e.g. PLADECO or ERD) are linked to a broader urban and rural strategies. The revised definition proposed in Chapter 1 defining areas of urban and rural linkages can help in this task.

Figure 2.13. Current urban programming hierarchy in Chile



Note: PROT are designed to support the realisation of ERD and cascade down from them. Because PROT and PRDU are both being used at present, this is not yet the case in all regions, though PRDU are being phased out and gradually replaced by PROT. Regulating plans (PR) are intended to devolve from the PLADECO, but their relationship has not yet been fully elaborated, given that many regulating plans were in place before the introduction of the PLADECO. This issue will be resolved as new PRs are elaborated. The ERD should help to guide municipalities in the formulation of their PLADECO, and PROT inform the design of the PRs.

Source: OECD (2013), *OECD Urban Policy Reviews: Chile 2013*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264191808-en>.

Under the present structure the established zones tend to be static and become obsolete more quickly than PRs are renewed or updated. Currently the approval process for a PRC averages seven years, often rendering the plans obsolete upon approval. Another shortcoming comes from the fact that urban boundaries allow for development outside the established urban perimeter without adequately ensuring services to those developments. Policy instruments that could address these challenges, such as flexible or mixed-use zoning and infill development, are already provided for in Chilean national regulations, but they could be more effective, more widely available (OECD, 2013) and better adapt to the realities of mixed (urban-rural areas).

Land use policies can also better address the vulnerability of rural areas to natural hazard risks. Currently national planning norms do not prohibit construction in natural hazard risk zones, but allow each municipality to decide the allowable land uses and conditions for development in those zones. This results in a fragmented approach to natural hazard risk planning. The designation of natural hazard risk zones should be determined at the national level with an adequate implementation mechanism from the local level, so that municipalities can apply norms set by the government,⁴ particularly in light of the February 2010 earthquake and tsunami.

Box 2.15. Land-use regulation

The Regional Plan for Urban Development (*Plan Regional de Desarrollo Urbano/PRDU*) is a non-binding, (i.e. not a statutory), tool that offers a framework for urban co-ordination across individual regions. Within their regions, PRDU aim to co-ordinate urban development, setting out the roles of urban centres, their spatial and functional relationships, connectivity and growth targets. PRDU should include an explanatory memorandum including the conceptual and technical aspects that justify the plan, its objectives, rationale and methodology; a regional diagnostic taking into consideration regional trends, strengths and weaknesses, degrees of occupancy of the territory, interactions between the region's different areas and population centres; and the main planned investment projects of the public and private sector. It should also include guidelines for the allocation of national roads, highways, railways, airports, seaports and international borders; definition of settlements that may require priority treatment; the equipping and requirements of health infrastructure, energy and telecommunications.

The MINVU SEREMI's are responsible for developing the PRDU, which is then approved by the Regional Council and promulgated by the *Intendente*. In principle, the contents of the PRDU should be integrated into the various municipal Regulating Plans (see below); although in practice there are problems in co-ordinating their integration, with delays in their implementation and in their update. Nonetheless the Regulation Plans should always be aligned with the PRDU.

- The Inter-municipal and Metropolitan Regulating Plans (PRI/PRM). Inter-municipal Regulating Plans (*Plan Regulator Intercomunal/PRI*) govern the spatial development of those urban and rural areas that are integrated into an urban unit (i.e. when more than one municipal entity comprises the urban unit). When this unit surpasses a population threshold of 500 000 inhabitants, it is considered a metropolitan area for planning purposes and its spatial development is subsequently regulated by a Metropolitan Regulating Plan (*Plan Regulator Metropolitano/PRM*), a version of a PRI. These spatial plans define the territorial boundaries subject to the planning instrument. Within an urban area, PRI/PRM define the urban boundaries in order to differentiate the urban area from the rest of the area (which is denominated rural); define the classification and characteristics of urban roads; designate land for expressways (*vías expresas*), trunk roads (*vías troncales*), and inter-municipal parks; set rules or standards governing those buildings and structures associated with infrastructure that has inter-municipal impact; set rules or standards that should be maintained by (productive) activities with inter-municipal impact; fix the average and/or maximum densities able to be established by the municipality.
- Regulating Plans (*Planes Reguladores Comunales/PRC*); define land use for - green spaces within municipalities, define areas of risk or zones where building is prohibited at an inter-municipal level (supported by the appropriate studies, PRC can specify or diminish the areas designated as risk or no-construction zones); propose and recognise areas that are protected for their natural resources or heritage value. PRI/PRM are prepared by the MINVU's SEREMI in each of the country's 15 regions. The plan must be consulted to the municipalities affected, which also requires approval by the region's Regional Council (*Consejo Regional*) and MINVU. In addition, PRI/PRM must pass an environmental strategic obligatory evaluation.

Source: OECD (2013), *OECD Urban Policy Reviews: Chile 2013*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264191808-en>.

Services and connectivity supporting rural areas in Chile

Infrastructure

The Ministry of Public Works (*Ministerio de Obras Públicas/MOP*) plays an important role in rural development with competences in providing infrastructure needs for transportation (roads, big dams, ports, airports) and for water provision. Private concessions are also possible and the ministry is also responsible for implementing

infrastructure contracts through third parties. Currently, MOP has an integrated planning model with territorial approach that includes three levels:

- At the national level, the Master Plan for Infrastructure is a strategic sectoral plan based on attaining national goals over a 20-year time horizon.
- At the regional level, regional plans for infrastructure and water resource management must conform to guidelines of the regional master plan, master plan and the long term master plan for infrastructure which in turn is framed within the national long-term vision. It is an instrument of medium-term planning, with a horizon estimated approximately for 8 to 10 years.
- Finally, special plans respond to defined lines of action and are designed to help the achievement of some specific goals or special territorial developments and infrastructures.

Public Works Ministry invests more than half of its budget in rural area, through 32 programmes, among these programs can be mentioned:

- The Rural Water Supply Programme (*Agua Potable Rural*, APR) dates back 48 years since its implementation, and has provided drinking water to 100% of the rural population living in rural concentrated areas. The programme first prioritised rural concentrated areas and once 100% of coverage for these areas was reached, investments and subsidies shifted their focus to rural semi-concentrated areas and on maintaining, improving and conserving existing systems. The programme targets only rural areas with low incomes and excludes those areas dominated by second homes, condominiums, resorts and touristic sites. The programme promotes local participation and self-management in the operation and maintenance of rural drinking water systems, which has been a key element to fulfilling the social objectives of the programme.
- The Infrastructure Plan for Connectivity of Indigenous Communities in Rural Areas: The purpose of this plan is to contribute to raise socio-economic and living standards and facilitate the integration of indigenous peoples living in rural areas, thereby recognising the multicultural character of Chile. In light of the importance of indigenous issues, it is appropriate to extend the coverage of this plan beyond the single road connectivity, incorporating other services and a larger budget.
- The Programme for Basic Roads aims to improve rural roads to enhance market access in agriculturally based communities. It also targets the reduction of dust from non-paved roads. It is important to emphasise the participatory aspect of the programme, since individual communities prioritise the roads for improvement.
- The Chiloé Plan is designed to substantially improve accessibility in the Chiloé archipelago by road, sea and air. This programme complements the Rural Drinking Water Programme and aims to improve economic development, quality of life and help preserve the cultural heritage of the island.

As in many OECD countries, the provision of infrastructure in rural regions faces common challenges of high cost per user due to remoteness, low density, sparsely populated areas and inadequate return under national cost-benefit criteria. These challenges are particularly present in Chile given its peculiar geography and isolated regions with difficult terrain, adverse climatic conditions, inadequate connectivity and difficult access. The main consequences for rural inhabitants living in these territories are

both economic, due to higher transport costs for firms and consumers, and social, reflecting more difficult access to public goods and services. The cost-benefit methodologies applied by the Ministry of Social Development to assess public infrastructure projects, limit the ability of state agencies to invest in peripheral, remote and isolated areas in the country. It would be desirable to advance the applying other criteria that would yield towards greater territorial equity. "

Improving accessibility of remote and isolated areas is therefore very costly, especially on a per capita basis. These costs must be gauged against their benefits, both in terms of service provision and aggregate economic impact. This task is currently made even more difficult in Chile by the current definition of rural, which only defines one type of rural area and does not recognise differences in access between remote rural regions and those rural regions close to cities. The revised definitions proposed in Chapter 1 that suggests three types of rural regions allow the establishment of strategies for rural development that better align infrastructure needs to the territorial characteristics in different types of rural areas.

A key challenge in Chile, as in other OECD countries, lies in the low participation of the private sector in funding infrastructure projects in rural areas (Figure XX). The Concessions Program has financed specially infrastructure in the central and/or consolidated regions. Infrastructures, like rural roads, small fisheries ports and small airports have been excluded. Even the Austral route (7) has not received funds from Concessions. Therefore, private investments in rural infrastructure are needed but difficult to obtain by the arguments indicated. The National Rural Development Policy should therefore encourage the development of new funding mechanism that can increase the private participation in funding infrastructure projects.

Table 2.6. **Private sector participation in infrastructure, as a % of GDP**

	2005	2006	2007	2008	2009	2005-09
Argentina	0.5%	1.5%	0.9%	0.8%	0.5%	0.84%
Brazil	1.2%	1.1%	1.4%	1.9%	2.5%	1.62%
Chile	0.8%	0.3%	0.6%	0.4%	1.0%	0.62%
Colombia	0.6%	1.9%	1.0%	1.2%	0.5%	1.04%
Mexico	0.6%	0.7%	1.0%	0.5%	0.5%	0.66%
Peru	1.0%	1.6%	1.9%	1.2%	1.4%	1.42%
Rest of Latin America and the Caribbean	0.7%	0.9%	0.9%	0.6%	0.4%	0.7%

Note: Infrastructure in energy, transport, telecommunications and sanitation.

Source: Shwartz, J. (2012), "Tendencias recientes en el financiamiento de APPs en América Latina y el Caribe", *PPI Database*, The World Bank, Washington, DC.

Social and education policies

Unlike policies for natural resources which have remained highly centralised in Chile, some social services policies have been largely devolved to the municipal level. Basic healthcare is administered locally and partially funded by local revenues. The result has been a large variability in the quality of healthcare that is highly correlated with the level of municipal income. While the national government provides per capita grants for these services, the cost of delivering equivalent services is always higher in more rural localities than in more urban ones because of differences in density, distance and critical

mass. Since rural *comunas* typically have lower incomes, they are less able to top up the national grant and, consequently, the quality of healthcare and education declines.

This has major consequences for economic development in these regions. Improving the level of human capital has been identified in recent OECD studies (OECD, 2009; 2012a) as the key driver for growth at the regional level, particularly improvements on the lower skilled human capital. Regions become less attractive places for businesses when the health and skills of workers are below standards. Furthermore, without firms to create jobs, poverty and unemployment increase, further depressing prospects. In response, people begin to leave, often for urban areas, where they hope to find work. However, they face the same difficulty in finding work in urban areas and can become dependent on public support.

Enhancing education in rural regions will not only promote the participation of workers in the formal economy, but it will also facilitate the diversification of the rural productivity base and add more value to existing goods and services. The future prosperity of rural regions will be thus determined by key drivers such as human capital, entrepreneurship, innovation and competitive farming. In addition, it reduces the risk of capital leaking out of rural regions, when infrastructure projects lessen the burden of remoteness and accessibility of rural regions.

Higher education facilities are mainly located in urban and densely populated areas. Migration to these facilities is indeed encouraged for any rural inhabitants that want to increase opportunities and prospects in life. Primary education facilities, technical and vocational training are more connected to local conditions and are more important for the development prospects of rural areas, particularly for the case of Chile, where rural areas have a high share of youth dependency ratios.

One of the main competences devolved to municipalities in Chile is public primary and secondary education. Municipalities face several inter-related limitations affecting their management of the devolved responsibility for education, including school financing (OECD, 2009). The government transfers a per-student subsidy directly to the municipality in which the public school is located. Vouchers are not sufficient to finance primary and secondary education. Municipalities therefore normally supplement the national voucher with local resources. Larger and wealthier municipalities have the resources to have a well-qualified staff, while smaller and poorer municipalities, with fewer pupils and vouchers, find it more difficult to finance public education and manage and meet the technical needs of the school system.

This brings challenges to a number of rural communities given the presence of fewer students and less own-resources. Mechanisms to avoid exclusion would also need to include mechanisms for reaching acceptable minimum standards throughout the country, including in rural areas. Since 2006, however, there are additional subsidies for schools in rural areas, including a percentage increase in the per-student grant and a minimum threshold for schools below 17 students for rural areas in peripheral rural areas close to borders. Despite these special provisions, rural regions face difficulties in this key area:

- the share of students who drop out before secondary school is significantly higher in rural areas
- the gap in the quality of education between rural and urban regions remains significant and has not reduced in recent years.

Given the importance of human capital for the prospects of rural communities and the country as whole, a revision of this decentralised policy could attain improvements in this area. Some possibilities include:

- Better integrating human capital policies targeting rural regions with other policy areas. This might entail more co-ordination with regional and national policies rather than a stand-alone policy intervention with few complementarities.
- Expanding distance learning using the advantages of information technologies.
- Enhancing regional learning centres to cover education needs in targeted areas of the country.
- Providing a second chance for those who lack basic education and skills through literacy training, primary and secondary education, work-based programmes and arrangements to recognise informal learning.
- Programmes for re-qualification that take account of the characteristics of regional labour markets and of demand for different occupations and qualifications, to bridge the gap between education and the labour market.
- Instruments such as adult training and vocational education should also be considered in order to improve human capital, job prospects and the competitiveness of the different regions.

Conclusions

Chile towards a modern rural policy

The government of Chile's approach to rural policy remains embedded in a traditional approach to rural policy focusing on agriculture. This observation largely reflects the current definition of rural that assigns virtually all significant economic activity to urban areas, leaving rural as a collection of marginal enterprises that are only weakly connected to the market economy. The rural policy that is now in place is defined to only support the disadvantaged, albeit with the admirable goal of trying to bring as many of them as possible into a situation where their income and productivity increases.

The current approach is similar to rural policy frameworks of countries in early stages of development, as described in the first section of this chapter, and in many ways is an example of the old paradigm of rural development, based on providing subsidies to the disadvantaged. Subsidies are provided not because there is any great expectation that rural regions will be able to use the support to improve their condition, but largely out of a sense of social cohesion. Given that Chile has been moving into higher levels of development, this approach can miss out on potential growth opportunities in rural areas, complementarity gains with urban territories, and better delivery of goods and services to rural people.

Furthermore, defining rural as marginal effectively limits the opportunities for the large share of the national population that actually lives in rural territory, even though the government does not currently recognise them as rural, but as urban. However, urban policy has little impact on these people given their stronger relation with primary activities. As a result, they may lack the basic support that Chile promises to all its citizens, and moreover Chile can be wasting the potential for them to make a strong contribution to the national economy.

A refreshed framework recognising that rural regions are, in fact, the largest part of the national territory and contain a large number of vital firms in a wide range of industries can better capture these potential gains in Chilean rural regions. While sectoral policy can provide important kinds of support to firms in that industry, this approach ignores spillover effects and may suffer from unintended and adverse consequences (see Box 2.16). A more coherent rural policy identifies these spillovers so they can be at least considered before a sectoral ministry acts.

Box 2.16. Unintended consequences for sectoral policies

Infrastructure investments alone, unless they are accompanied by investments in human capital and innovative activities, will probably not generate growth and development. In fact, if undertaken in isolation, they can produce potential unintended consequences, such as “leaking by linking” effects (OECD, 2009a). These “leaking” effects can occur when infrastructure investments are undertaken in underdeveloped regions without investing in other critical areas, and can induce firms and business to move out of the region and supply the goods and services to the region from elsewhere at lower transport costs.

Source: OECD (2012), *Promoting Growth in All Regions*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264174634-en>.

Adopting a more nuanced approach to rural policy will strengthen rural areas, and improve regional and national development. People will continue to leave rural areas for urban centres when it is beneficial for them to do so, but for many people, their best opportunities for economic success lie in a rural environment if that environment provides employment commercially viable firms. Chile already relies largely on firms that are tied to rural territory for the bulk of its exports. And this is without an effective rural policy. With a more effective rural policy, there should be even stronger performance from these firms and a better quality of life in rural regions.

In Chile, the principles of the New Rural Paradigm (NRP) have to be better integrated into the local environment. The NRP promotes a flexible governance model by combining top-down and bottom-up investment-oriented approaches to rural policy. Among OECD countries, and particularly Latin American ones, Chile has adopted a relatively market-oriented approach to economic development. At the same time, it has a highly centralised form of government with great authority concentrated in the Office of the President (see Chapter 3). In designing public policy, including rural policy, these two attributes have to be taken into account.

A key strength of the modern approach to rural development is the recognition of the market orientation in rural areas and an emphasis on valuing the assets of rural areas. The investments it recommends are private sector, as well as public sector, in nature. Indeed, the main rural policy of public sector investments in rural policy is to support private sector investments. For Chile, this is an important factor. Chile’s national economy remains strongly reliant on the export of unprocessed and semi-processed primary products, making the management of these essentially rural industries a crucial part of national economic strategy. Strengthening these firms so that they invest in ways that benefit rural regions and the nation is a key task for a new rural policy. The NRP puts a strong emphasis on valuing the assets of rural areas, and in Chile rural regions have a unique and distinct number of assets.

Countries are in different stages in modernising their rural policies: the changing role of rural policy as development evolves reflects the changing role of rural in the national economy. Members of the OECD have largely completed the transition from semi-subsistence to market economies in the vast majority of the regions in their countries and are now improving the integration of predominantly rural regions in a largely urban economy. Rural policy acts to facilitate this integration. Figure 1.20 shows the share of population in predominantly rural regions in OECD member countries. The OECD average share of population is 25%, showing that rural regions continue to contain a considerable share of national populations.

Several reasons can be advanced for the continuing interest in rural development policy by OECD member countries. The most important is the belief that national economic growth objectives can be best achieved if all regions of the country reach their potential.

In addition, one can make more location-specific economic arguments for rural policy that reflect the importance of specific rural resources that are not available elsewhere. Minerals, forests, national parks and dam sites are only in certain regions. More effective development of these assets benefits both the host region and the country. In a parasail sense, too rapid an outflow of rural workers who have artisanal skills that are valuable in a rural setting, but which have little use in an urban area, leads to a loss of human capital and increased congestion costs and unemployment in urban areas. Providing rural development support from this perspective can be seen as part of improving urban conditions.

Existing high rates of income inequality in Chile have clear urban and rural dimensions. While there are more low-income citizens in urban regions, the share of low-income individuals is higher in rural regions. Migration of low-income households from rural to urban regions may lower the rural rate of poverty but it will increase the urban rate and may leave these people worse off since their skills are less likely to be relevant in an urban setting. Consequently, a successful rural policy that increases rural employment opportunities can be a valuable approach to reducing inequality.

Finally, there are important social cohesion benefits from improving public service delivery in rural regions. Countries either explicitly or implicitly establish minimum sets of public services that should be available to all citizens as part of their rights as citizens. While it is typically more expensive to deliver these services in rural regions because of the problems inherent in low density, long distances and lack of critical mass, there is still a responsibility to provide some minimal set of services, although perhaps in a different manner. This problem is particularly acute in the most remote and least populated regions where development is the least advanced.

In Chile, as in some other countries of the OECD, notably, Australia, Canada, Mexico, New Zealand and the United States, a distinct rural policy issue is the management of relations with indigenous people, a significant share of them living in rural regions. In many cases, the specific rural regions inhabited by indigenous populations are distinct administrative units, often with considerable authorities reflecting the distinct and sovereign status of indigenous people. All of these countries continue to struggle with identifying effective policy structures for dealing with indigenous people and most continue to face significant conflicts between domestic governments and indigenous populations.

Recognising an expanded scope for rural

It appears that at present Chile sees little real need for a rural policy. This largely reflects a definition of rural that assigns virtually all significant economic activity to urban areas, leaving rural as a collection of marginal enterprises that are only weakly connected to the market economy. The rural policy that is now in place is defined to only support the disadvantaged, albeit with the admirable goal of trying to bring as many of them as possible into a situation where their income and productivity increases. Were this to be accomplished, the presumption must be that the role of rural policy has been accomplished.

This approach, as noted at beginning of the chapter, has real costs for the economy and Chilean society. It is in many ways a particularly strong example of the old paradigm of rural development that is based on providing subsidies to the disadvantaged, not because there is any great expectation that they will be able to use the support to improve their condition, but largely out of a sense of social cohesion.

A better strategy is to recognise that rural regions are, in fact, the largest part of the national territory and contain a large number of vital firms in a wide range of industries. While sectoral policy can provide important kinds of support to firms in that industry, the problem with this approach is that it ignores the spillover effects. As was shown in the second part of the chapter, current policies for specific sectors have major unintended and adverse consequences for other sectors that in Chile today are not well recognised. A more coherent rural policy identifies these spillovers so they can be at least considered before a sectoral ministry acts.

Most importantly, defining rural as marginal effectively limits the opportunities for the large share of the national population that actually lives in rural territory, even though the government does not recognise them as rural. Urban policy has little impact on these people because they are, in fact, not urban, but rural. As a result, they may lack the basic support that Chile promises to all its citizens because they fall between the policy cracks. While this is unfortunate for them, it also means that Chile is wasting their potential to make a strong contribution to the national economy.

There is very little sub-national influence on rural policy in Chile at present. While regions have some authority in delivering aspects of policy, the majority of policy influencing rural areas is framed in the national capital. Because of its market orientation, sectoral policies in Chile that influence commercial sized rural firms have an export-oriented competitive nature. However, heist is less the case for the policies that are clearly identified as specifically “rural” since these are mainly geared to people and firms largely outside the market economy. Chile has some high-level co-ordination mechanisms that operate at the ministerial level on specific topics, but there does not seem to be a clear commitment to vertical co-operation to complement the existing national level horizontal collaborations.

The distinction between sectoral level policy for commercial scale rural firms and the current rural policy focus on semi-subsistence firms and households carries into the investment orientation. A large part of the support provided to commercial firms is of an investment nature, mainly to increase competitiveness. Conversely, improving productivity and increasing the market orientation of rural firms and households is only partially seen as an investment and partially seen as support for the disadvantaged. Like in almost all OECD countries reviewed, there is not a strong commitment to policy evaluation in Chile. As in other countries, if rural policy is largely seen as a subsidy opt

transfer to the disadvantaged, the value of evaluation is limited. Evaluation only becomes crucial in an investment-oriented policy framework, and, in the case of Chile, investment support for commercial scale rural firms can be easily assessed through the growth in their exports. Finally, given the highly centralised nature of the government in Chile, there is little evidence of broad participation in the formation and delivery of rural policy.

One of the key dimensions in the NRP is the need for Chile to adopt a rural policy that is broader and integrated. Rural policy in Chile should therefore address five key dimensions or policy themes: social, economic, environmental, migration and governance.

- Social concerns include addressing differences in access to public services, particularly health and education in rural areas, the particular role of indigenous peoples in Chile, and the preservation of traditional cultural and social values embedded in the rural population.
- Economic concerns include making the various parts of rural Chile and rural dwellers fully productive so that they can make a stronger contribution to the national economy, addressing concerns about high rates of income inequality, improving the skills of the rural workforce, and modernising the rural economy by introducing new economic functions.
- Environmental concerns include addressing the negative environmental effects of resource extraction, enhancing the supply of water, protecting high-value environmental resources, but allowing them to play an important role in domestic and foreign tourism, and ensuring species survival.
- Migration concerns focus on the fairly rapid and persistent flow of people from rural areas to cities. This flow occurs because of perceived lack of opportunity and an inferior quality of life in rural places, but many of these rural migrants are unprepared to participate in the urban labour force because of a skill mismatch. Consequently, rural depopulation can have adverse effects on rural development by reducing the supply of labour and adverse effects in urban areas by increasing the number of residents who are dependent on transfer payments.
- Governance is the last key issue and it involves questions about how to achieve vertical co-ordination between national and local policy, the relative roles of different ministries in forming and delivering rural policy, the role of the government in relation to the private sector, and an appropriate definition of regions, both in terms of geography and responsibilities.

The importance of having a distinct rural policy is a function of the relative size of rural in the country. If rural is small, then the associated benefits from having a more effective rural policy may also be small and the losses from subsidizing a lagging rural population may also be small enough to be non-controversial politically. But if the rural component of the nation is large, then failure to make it fully productive will impose a significant cost on macroeconomic efficiency and the political controversy over providing subsidies to rural people and territory may be significant.

At present, Chile's current definition is based on the belief that the rural population is small and rapidly declining. Unfortunately, this seems to be a result of the current rural definition. Thus, Chile may have assumed it could afford to pay little attention to rural policy, because doing so was seen as having few consequences. But, as Chapter 1 shows,

using more common definitions of rural results in a much larger share of rural in the country, making the costs of an ineffective rural policy far greater.

The current system of planning is quite fragmented and operates largely under a wide range of sectoral priorities which are largely unconnected and operate with little co-ordination amongst them. Indeed, the existing planning process itself is flawed in that the three planning structures are not well co-ordinated and plans are often not well connected to actual conditions in regions. Without major improvements in planning systems, there will be little gain from adding a rural dimension to an already cumbersome process.

Alternatively, it may be more effective to use the national policy objectives already articulated in the existing planning process as guidance for setting broad rural strategies and then introduce a narrow rural policy that translates these broad goals into specific rural actions. In an environment where there are many other large claims on public budgets, rural policies are unlikely to receive large amounts of new funds. This means that reprogramming existing funds so they can be applied more effectively is a more realistic approach.

By definition, rural policy implementation takes place outside the national capital, Santiago, and the other major urban centres that are the focus of urban policy. The specific mechanics of rural policy and programme delivery require an understanding of the context in which they operate and the incentives that influence the behaviour of individuals and firms in these regions. The existing regional administrative structure, especially with the potential for newly directly elected regional councils to introduce “local knowledge” can provide an effective way to connect national goals, transmitted through the *intendente* with local conditions, as revealed by the elected councils.

At present, Chile has two forms of rural policy. There is an explicit, or narrow, rural policy that can be thought of as providing support for individuals and firms that are located in rural territory but that are weakly connected to the market economy and operate in a semi-subsistence way. But there is also an implicit, or broad, rural policy that is defined at the sectoral level and provides support to firms and individuals that are involved in industries such as agriculture, mining, forestry and fishing that are all inherently rural in their location. Many of the firms in these sectors are highly competitive in global markets and generate a large share of the export earnings of the country.

The key problem with this situation is that the two policy regimes are tightly connected even though they are seen by the government as distinct. In reality, the firms involved and the people who work in both the semi-subsistence and commercial parts of the various sectors compete for inputs and in product markets. Both small-scale and large-scale farmers compete for land and water. Similarly, while artisanal and commercial fishing enterprises have distinct fishing grounds, the fish move across the boundary and when caught by either group are sold in competing markets, despite the fact that small-scale fisherman are focused in subsistence and local markets, while industrial fishing is more export oriented. Because of this connection, current rural policy is inherently influenced by sector policy and vice versa. But since the policy formation process in each case does not take this interaction into account, the result is inefficient policy in both cases and a lower level of economic development for Chile than could be the case were policies better co-ordinated.

Notes

1. An example is the overload on intercity roads in the transition zone, which is stressed by the expansion of cities. In this case, mitigation measures applied to building projects are insufficient to mitigate the impact on the roads. The evaluation methodologies of these projects correspond to urban areas and are undertaken on a project by project basis without considering the overall housing development projects. Furthermore expropriations are often not made on time resulting in increased costs to the state.
2. The National Climate Change Action Plan include the following nine sectoral plans at the time of drafting this report: agroforestry (approved), biodiversity (in final phases of approval), Fisheries and Aquaculture (under elaboration). The remaining that are envisioned include Energy, Transport, Cities, Infrastructure and Urban Coastal Areas, Health, Hydro-Resources
3. In November 2010, SUBDERE, MOP and MINVU signed a co-operation agreement to transfer the responsibility of designing regional land-use plans to regional governments. The intention behind this shift in competence was to enhance the role of regional governments in designing their spatial planning strategy, and to generate a closer connection between spatial planning and overall regional development planning instruments. The PROTs at the time of drafting this report are yet not promulgated.
4. Note that the National Office of Emergency of the Interior Ministry (ONEMI) is co-ordinated at the regional scale, with the *indentente* as the direct representative of the president.

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Chapter 3

Institutional challenges for a comprehensive rural policy in Chile

Chapter 3 identifies a number of concrete steps that can be implemented in the current institutional context for Chile to advance towards a modern rural development policy framework over the short and medium term. The chapter is divided into three main sections. The first briefly describes the institutional setting of rural development in Chile and the main governance challenges that Chile faces to advance towards comprehensive place-based approaches to rural development. The second section focuses on one of these main challenges: how to generate synergies and co-ordination between the many policies, programmes and actors that intervene in rural development. Finally, the third section will be devoted to providing recommendations on how to strengthen place-based approaches with stronger participation from local actors as a way for promoting rural policies adapted to the idiosyncrasy, challenges and potentialities of rural territories in Chile.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Chapter 1 provided a general diagnosis of Chilean rural regions and recommended adopting a revised definition of rural areas in Chile with two concert suggestions. Chapter 2, in turn, highlighted the need to create a national rural policy framework in Chile, which is currently lacking, to ensure it recognises and captures the growth potential of its rural regions. Such a framework should contain elements from modern rural development policies that are based on three pillars:

- The promoting growth in all regions pillar recognises that there is a catching up potential and rural regions are important contributors to national wealth. This work also displays the importance of endogenous factors for the competitiveness of rural areas in addition to institutional factors and the role of policies.
- The New Rural Paradigm (NRP) pillar refers to how to promote this critical growth from the policy design and multi-level governance aspect focusing on the competitiveness of rural economies beyond the agricultural sector, involving a wide range of actors in the development process and focusing on investments rather than subsidies.
- Finally, the rural and urban (“Rurban”) linkages pillar highlights the strong interactions that exist among urban and rural areas and the potential gains that can exist when urban and rural policies are better integrated and complement each other.

This chapter identifies a number of concrete steps that can be implemented in the current institutional context for Chile to advance towards a modern rural development policy framework over the short and medium term. This chapter is divided into three main sections. The first section will briefly describe the institutional setting of rural development in Chile and the main governance challenges that Chile faces to advance towards comprehensive place-based approaches to rural development. The second section will focus on one of these main challenges: how to generate synergies and co-ordination between the many policies, programmes and actors that intervene in rural development. Finally, the third section will be devoted to providing recommendations on how to strengthen place-based approaches with stronger participation from local actors as a way for promoting rural policies adapted to the idiosyncrasy, challenges and potentialities of rural territories in Chile.

The challenge of articulating rural policy in Chile

The adaptation to a new rural paradigm confronts governance challenges

Over the past decades, rural policy has been subject to debate, review and adaptation in most OECD countries. Historically, central governments’ sector-specific policies for natural resources, mainly agriculture, fishing, forestry and the minerals and energy sectors, were the primary mechanism through which OECD countries influenced rural areas. However, the dramatic reduction in farm employment and the emergence of important non-farm niche markets, generated a common understanding across OECD countries that rural policy falls short if being conceived only as agricultural policy. At the same time, the increasing diversity and heterogeneity of rural regions means that one-size-fits-all central government policies were no longer suitable to capture the

diversity of rural needs and challenges. The OECD has labelled this policy shift as the “New Rural Paradigm” (see Chapter 2).

This “New Rural Paradigm” requires important changes to include a cross-cutting and multi-level governance approach that is both capable of generating co-ordination and synergies between policies and sensible to place-based realities and idiosyncrasies. As discussed in Chapters 1 and 2, this New Rural Paradigm is particularly relevant for Chile, given the vast diversity in the characteristics, assets and challenges of its rural areas, and the increasing size of non-farm rural activities. Rural comprehensive and place-based programmes are better adapted to the diverse socio-economic characteristics and productive processes that affect the development of Chile’s rural territories (OECD, 2009a; 2011a). Yet, the adaptation to this new approach confronts, in governance terms, two main challenges: *i*) the top-down approach of rural development policies within the centralist administrative setting of Chile; and *ii*) the lack of institutional frameworks and mechanisms for generating co-ordination and synergies between rural development policies.

Sub-national governments have limited autonomy and mandate

Chile has historically been a highly centralised country. Policy design and policy implementation is largely defined from the centre. National ministries concentrate strategic functions, proposing and monitoring policies and norms. At the same time, policy execution is mostly carried out by public agencies – *servicios públicos* – linked and administratively dependent from national ministries, but headed by a national director with a high degree of autonomy over the use of the resources and implementation of policies in their field domain. In this context, rural development policies are normally designed in a top-down process, without enough consideration to territorial idiosyncrasies, priorities and realities (OECD, 2009a; SUBDERE, 2013a). The third section of this chapter will provide more details on the characteristics and challenges of the Chilean centralised administrative system.

The autonomy of the regional government and its capacity to intervene in rural development matters is fairly limited. Chile is divided into 15 regions, 54 provinces and 345 municipalities.¹ Regional governments are headed by an *intendente* directly appointed by the President of the Republic. The *intendente* acts as both the head of the regional government and the delegate and main representative of the central government in the region. This confluence of roles in the same person may limit the autonomy of the *intendente* in his/her role as head of the regional government.² S/he presides over a regional council that, since November 2013, is directly elected.³ Two of the main functions of regional governments – through which they could have an involvement in rural development – are: *i*) designing regional development strategies; and *ii*) defining the portfolio of projects subject to be financed by the National Fund for Regional Development (FNDR).⁴ The regional development strategies, however, are not statutory: policies and sectoral investments are not required to follow their guidelines. At the same time, the investment process lacks autonomy and flexibility, making it difficult to achieve territorial synergies. Projects submitted to the FNDR come largely from municipalities seeking to finance basic local infrastructure and services that they cannot finance with their tight budgets. The FNDR portfolio thus becomes largely the sum of local demands rather than the integration of different regional initiatives attached to the regional development strategy. In addition, because requests for funding of the FNDR go through *ex ante* analysis on a project-by-project basis at the national level,⁵ it is very difficult to achieve synergies between investment projects (OECD, 2009a; 2013a).

Provinces are headed by a governor, also appointed by the President. Their main role is to serve as a deconcentrated representative of the *intendente* in the provincial territory. They have an administrative role, limited and dependent on the particular *intendente* in office.

Municipalities are legally autonomous and have important exclusive and shared faculties devolved, yet they have a fairly limited financial autonomy and a reduced capacity to be involved in overall rural development. Among the main functions exclusive to local governments are promoting local development and developing the local development plan (Pladeco). They are also in charge of other functions shared with other level of governments, including: the provision of primary and secondary education, public basic health, urban and rural road management (see Annex 3.A1). However, municipal budgets, especially those of the less-populated localities, are very tight and largely dependent on transfers.⁶ National transfers are mostly earmarked – for health and education – or provided for individual projects rather than for comprehensive plans (OECD, 2009a; 2013a). The local planning instrument, the Pladeco, is not linked to local budgetary resources and often has a minor impact on guiding local economic development (Fuentes et al., 2007; Más Voces, 2005; Valenzuela and Rojas, 2006). Finally, rural municipalities have, in general, reduced and/or low qualified technical staff for promoting local economic development. As a consequence of these reasons, smaller and poorer municipalities have very few resources available to direct to local economic development, and a reduced capacity to take the lead or influence in rural development.⁷

The central government has a strong and extensive relationship with the private sector through concession arrangements for infrastructure development, operation and maintenance as well as for public service delivery. Chile's private sector plays a critical role in the provision of some services, including transport infrastructure, telecommunications, electricity, gas or water. Private operators, under concessions or programme contracts with the central government, provide an important part of the infrastructure supporting public service production. Regulation of private providers is in the hands of the central government, with minor local-level involvement. The concession areas, terms and conditions are dictated by national entities under national legislation and managed by the private entities, leaving regional and local governments as observers in the process – a significant handicap in their capacity to manage the development of their territories. The concession system has contributed to the significant improvement in Chile's transport infrastructure and in the access to services like electricity or telecommunications in rural and remote areas. Yet, the centralised management of these affairs also leads to homogeneous regulations that often do not adapt well to the heterogeneity of Chile's territories (OECD, 2009a; 2012a).

Given the centralised structure of Chile and the limited mandate of regional and local actors, not only rural development, but regional development policies, are highly centralised, directed or highly influenced by line ministries and central or deconcentrated national public agencies, in a top-down fashion, with minor or secondary participation of sub-national actors (OECD, 2009a; 2013a).

This centralised structure and the top-down orientation of rural development policies may challenge its efficiency, as it affects the capacity to provide targeted investments adapted to the particular challenges and to the particular potentialities of the different rural territories. This is of special relevance in a country like Chile, given the diverse characteristics, climate and assets of its rural territories (see Chapter 1).

In recent years, the government of Chile has made efforts to further advance a decentralisation agenda, with devolution of competences to the local and regional governments. However, these attempts are still challenged by a very centralised and sectoral investment system, by the lack of financial and administrative resources to implement the devolved competences, and by a weak governance system at sub-national level (OECD, 2009a; 2013a).

Many central government actors intervene in rural development

A broad number of national public actors intervene in rural development policies. As in many countries, policy towards rural areas in Chile is not the sole responsibility of a specific ministry or public agency. Chile's Ministry of Agriculture (MINAGRI) is the main responsible body for the design, implementation, administration and regulation of national policies related to agriculture, livestock, forestry, food and rural development. This ministry, however implements its policies through the following 12 public agencies.

- The National Institute for Agricultural Development (*Instituto Nacional de Desarrollo Agropecuario*, INDAP). The INDAP is the main agency providing support to small-scale agriculture. Its aim is to improve the competitiveness and market orientation of small scale/family agriculture. In order to carry out this mandate, the institute contributes to financing the investments and operational capital of small-scale producers. It also co finances technical assistance and management programmes for smallholders, and implements general assistance programmes for poor farmers. It has a network of 122 offices around Chile.
- The Agriculture and Livestock Service (*Servicio Agrícola Ganadero*, SAG). The SAG is responsible for protecting, maintaining and improving the sanitary conditions of livestock and agricultural production; protecting, preserving and improving the natural renewable resources used in agriculture; and controlling the inputs and outputs for agricultural production, according to legal regulations and standards.
- The National Forest Service (*Corporación Nacional Forestal*, CONAF). CONAF's mission is to preserve and increase the country's forestry resources. CONAF controls the enforcement of regulations concerning the use of forests. It also has a forest-fire control programme and manages the national system of forestry protected areas.
- National Irrigation Commission (*Comisión Nacional de Riego*, CNR). The CNR co-ordinates all the institutions with irrigation activities and implements its own irrigation and drainage policies, programmes and projects. It also manages the funds available for promoting the construction of private irrigation and drainage projects; and promotes public actions oriented to agricultural development and training in the areas that benefit from irrigation projects.
- Office of Agricultural Policies and Studies (*Oficina de Estudios y Políticas Agrarias*, ODEPA). ODEPA advises the Ministry of Agriculture on policies related to production and international trade. It also provides services such as legal advice, evaluation and monitoring of the budget of the ministry's agencies, and co-ordination of international technical assistance and co-operation programmes.

- National Institute for Agricultural Research (*Instituto Nacional de Investigaciones Agropecuarias*, INIA). INIA's mandate is to create, adapt and transfer innovation and technological knowledge to improve the competitiveness of agriculture.
- Foundation for Agrarian Innovation (*Fundación de Innovación Agraria*, FIA). The FIA promotes innovation in Chilean agriculture by financing the development of programmes and projects that are oriented to the industrial transformation and commercialisation of agricultural and forestry products. It also provides extension services.
- Forestry Research Institute of Chile (*Instituto de Investigación Forestal de Chile*, INFOR). INFOR's mission is to carry out research projects, prepare statistics, and transfer scientific and technological knowledge related to the sustainable use of forest ecosystems, the management of its resources and the commercialisation of its products. It supports the development of small and medium-sized forest owners, and technological innovation among small and medium-sized wood-product companies.
- Foundation for Agricultural Communication, Training and Culture (*Fundación de Comunicación, Capacitación y Cultura del Agro*, FUCOA). FUCOA is in charge of the communications of the Ministry of Agriculture and its agencies.
- Natural Resources Information Centre (*Centro de Información de Recursos Naturales*, CIREN). CIREN's function is to compile, update, maintain and integrate statistics and cartographic information related to the country's natural resources; and to provide timely and useful information for the analysis of different sub-sectors.
- The Agricultural Insurance Programme (*Comité de Seguro Agrícola*, COMSA). COMSA is financed by the Ministry of Agriculture and administered by CORFO. Under this programme, a subsidy is given to farmers who take out crop insurance and pay a corresponding premium. Risks covered are those caused by climate hazards.
- Chilean Agency for Quality and Food Safety (*Agencia Chilena para la Calidad e Inocuidad Alimentaria*, ACHIPIA). It advises the President of the Republic in all matters related to the identification, formulation and execution of policies and programmes associated to food quality and safety.

Due to the importance of agricultural activities in Chile's economy, MINAGRI and some of the public agencies particularly INDAP play an important role in rural activities with a widespread presence in rural areas. However, this ministry does not oversee or coordinate rural development in broad terms,⁸ and does not intervene or exercise much authority in other policies directly related to rural development such as fisheries, rural tourism, renewable energy, economic development or fight against poverty in rural areas. The following ministries and public agencies also play a significant role in rural activities in Chile:

- The Undersecretary of Fisheries is integrated in the Ministry of Economy. It regulates and administrates fish-related activities, including for industrial fishing, artisanal fishing, aquaculture and leisure fishing.
- The Undersecretary of Tourism also depends on the Ministry of Economy. It supports tourism development and promotes tourism training to small and medium entrepreneurs.
- The National Tourism Service (*Servicio Nacional de Turismo*, SERNATUR) is a public agency linked to the Ministry of Economy, responsible for promoting and disseminating the development of tourism in Chile. Under the direction of the Undersecretary of Tourism, it manages the National Tourism Policy and is in charge of safeguarding the sustainability of tourism activities. The National Office is in Santiago and has representation in all the regions and in some touristic localities or territories such as San Pedro de Atacama, Easter Island, Chiloé or Puerto Natales.
- The Economic Development Agency's (*Corporación de Fomento de la Producción*, CORFO) mission is to promote the development of productive activities across all sectors of the economy. It promotes management improvements, innovation, the generation of capital and the creation of new businesses. CORFO provides long-term credit at preferential rates for agriculture and rural development initiatives. It has sponsored some successful producer associations, and programmes to support the salmon and wine clusters.
- The Technical Co-operation Service (*Servicio de Cooperación Técnica*, Sercotec) is a corporation under the Ministry of Economy whose mission is to promote and support initiatives for improving the competitiveness of micro and small enterprises and develop the management capacity of small-scale entrepreneurs. This service has an important role in rural areas, offering training, support and seed-founding programmes and initiatives.
- The Ministry of Public Works (*Ministerio de Obras Públicas*, MOP) is in charge of planning, designing, building, expanding, repairing, maintaining and operating the national public infrastructure system, including roads, bridges, tunnels and large and medium irrigation works. The MOP is responsible for improving the connectivity and infrastructure of isolated and sparsely populated areas. The Water Directorate under the Ministry of Public Works is responsible for the management and administration of water resources and the granting of property rights for water use. It has a programme for improving access to drinkable water in rural areas (*Programa de Agua Potable Rural*). In turn, the MOP's Hydraulic Works Directorate (*Dirección de Obras Hidráulicas*, DOH) provides water and irrigation infrastructure services.
- The Ministry of Environment (MMA) was created in 2010 to replace the former National Environment Commission (CONAMA). It designs and implements environmental policies, programmes and plans, including those for protecting and

preserving the biodiversity and the natural and hydrological resources. It also co-ordinates the national plans for climate change mitigation and climate change adaptation in the sectors of agriculture, forestry and fisheries. It is responsible of the administration of the System of Environmental Impact Evaluation (SEIA) and approving environmental impact studies and declarations. The SEIA evaluates and certifies public and private initiatives, including those related to: tourism, energy, mining, agro-industry, forestry projects and transport infrastructure.

- The Sub-Secretariat for Regional Development (SUBDERE), belonging to the Ministry of Interior, co-ordinates territorial affairs and regional development across Chile, including rural development. It defines the regional distribution of the FNRD resources. It implements several rural targeted programmes including the Programme of Rural Sanitation (*Programa de saneamiento rural*) and the Programme of Rural Infrastructure for Regional Development (*Programa de infraestructura rural para el desarrollo territorial*, PIRDT).
- The National Corporation for Indigenous Development (*Corporación Nacional de Desarrollo Indígena*, Conadi), under the Ministry of Social Development, co-ordinates and executes state initiatives for the development of indigenous people.
- The Social and Solidarity Investment Fund (*Fondo de Solidaridad e Inversión Social*, FOSIS) is a public agency public agency under the Ministry of Social Development that finances activities that contribute to poverty reduction. It implements targeted programmes for improving the incomes of small producers in rural areas.
- PROCHILE: Institution belonging to the Ministry of Foreign Affairs responsible for promoting international trade and exports of Chilean products abroad, and contributing to the dissemination of foreign investment and tourism promotion.
- The Ministry of Energy (*Ministerio de Energía*) designs and co-ordinates the plans, policies and norms related to the energy sector, including those relative to renewable energy sources. The ministry has a programme targeted at reducing the energy gap of rural areas and vulnerable sectors, prioritising the use of renewable energy sources (*Programa de Energización Rural y Social*, PERYS).
- The Ministry of Mining supports the development, growth and sustainability of mining activity in Chile.
- The National Service for Training and Employment (*Servicio Nacional de Capacitación y Empleo*, SENCE) is a public agency under the Ministry of Employment that promotes the competitiveness of enterprises and individuals through training programmes.

The complex number of ministries and agencies involved in rural policy at the national level is also replicated at the regional level with regional representatives of the

main national ministries and public agencies. Most national ministries and those public agencies with sub-national operations have regional delegations (ministerial regional secretaries – SEREMI – in the case of ministries, regional directors in the case of public agencies). These deconcentrated institutions are responsible for carrying out national level policies and programmes within their region. SEREMI and regional directors are nominated and depend from their national ministry or public agency, but in the region they report to the *intendente* (in the case of SEREMI) and to both the SEREMI and *intendente* (in the case of regional directors of national public agencies).

Broad-based rural development demands co-ordination arrangements. The presence of numerous institutions playing a role in rural development is normal in OECD countries. Given the broad nature of rural areas, rural policies cannot be the sole responsibility of a specific ministry or agency. Yet, the confluence of numerous actors intervening in the rural development process makes it particularly crucial to develop institutional and planning frameworks that promote a coherent approach between them.

There are few institutionalised mechanisms for promoting rural policy articulation

Chile currently lacks a unified and comprehensive rural development strategy. As was discussed in Chapter 2, rural policy is now currently seen as applying to households and firms in rural areas which are only weakly integrated into the national market economy. Rural policy in this context is part transfer payments to compensate for low-market incomes and part support to help these people and firms become more competitive. While there are strong sectoral policies to support larger commercial firms that are located in rural territory, this is not seen currently as being part of rural policy. This makes it very difficult to articulate or develop coherence around common goals, and to the actions and strategies of the different ministries and public agencies that intervene in rural areas.

The lack of a unified and comprehensive definition about rurality further challenges rural policy coherence. Each ministry or public service dealing with rural development has its own approach to rural development. In principle, all ministries and institutions accept the INE definition about rurality. As argued in Chapters 1 and 2, this definition is very restrictive and far from capturing the demographic and socio-economic characteristics of rural areas. Moreover, ministries often implement their rural development programmes applying a different criterion about rurality. This lack of a shared definition challenges the generation of synergies between different policies implemented in rural areas. For example:

- The programme of rural drinkable water of the Ministry of Public Works defines rural localities subject to receive investments from this programme as those with a population between 80 and 3 000 inhabitants and a minimum of 8 households per km².
- The Ministry of Health classifies rural health centres as those attending localities that normally have between 2 000 and 5 000 inhabitants (with a limit of 20 000).
- The Ministry of Education considers a school rural if it is located beyond five kilometres of the urban limit.

There is a lack of fluent and institutionalised interactions between the many actors that intervene in rural development. Each institution has its own vision, and often operates in silos without interacting and co-ordinating its actions, policies and

programmes with other institutions intervening in rural areas (SUBDERE, 2013a). This lack of co-ordination occurs among ministries with high involvement in rural areas (e.g. the Ministry of Agriculture, the Ministry of Environment and the Undersecretary of Fisheries). It also occurs between public agencies belonging to different ministries. There is no rural development inter-institutional co-ordination unit or body in Chile. Finally, the lack of horizontal co-ordination may even exist between public agencies belonging to the same ministry: in the case of the Ministry of Agriculture, for example, the activities, programmes and policies of its 12 public agencies are not necessarily planned and implemented in a co-ordinated fashion, which on occasion undermines the interaction among interrelated areas such as agricultural research, forestry research, irrigation and small-scale farmers development.⁹ There is often a lack of horizontal co-ordination among deconcentrated institutions at the regional level. SEREMI and regional representatives of national public agencies are in an awkward administrative position: SEREMI answer directly to their ministry, as they are regional representatives of sectoral policies; yet they also serve the *intendente* and work to implement sector initiatives at the regional level in line with the *intendente's* priorities. While in theory the priorities of all parties should align, in practice SEREMI will tend to align priorities with their ministry in Santiago (OECD, 2013a). Something similar occurs with the regional representatives of national public agencies: regional offices depend on and are nominated by their national director in Santiago, though in their region they should report to their line SEREMI.¹⁰ Here as well, regional directors would tend to align priorities with their national offices in Santiago, where their planning units are located. This situation challenges horizontal co-ordination at the regional level, while putting further controls from Santiago to the policies implemented in the regions.

The presence of too many agencies and instruments makes inter-institutional co-ordination and the generation of synergies more complex. As an example, in the region of Bío-Bío there are currently 68 regional branches of national public agencies. Of course, not all of these institutions are directly involved in rural development issues. But this figure, and the absence of formalised rural development inter-institutional co-ordination instruments gives an example of the complexity of generating synergies between the broad variety of programmes and institutions with implications for rural development.

Institutional fragmentation and co-ordination failures often result in duplicity or overlapping of public programmes and resources in rural areas. There are different examples that could illustrate this: INDAP works in parallel to FOSIS for supporting subsistence farmer's food self-sufficiency;¹¹ many institutions intervene in providing irrigation and drinkable water in rural areas, including the MOP, INDAP, the National Irrigation Commission and the Ministry of Health,¹² often with overlapping or uncoordinated actions; two institutions intervene in parallel for the provision of tourist signs in rural areas with the indigenous population: CONADI and the National Tourism Service (Sernatur).

There are efforts to improve inter-institutional co-ordination

The government of Chile launched strategic regional plans –*Planes Presidenciales*– containing the areas and productive axis in which the central government will focus its action in each of the 15 Chilean regions for the period 2010-2014. These plans are a good initiative for a better co-ordination of the different central government ministries and institutions related to regional development. However, even if some plans integrate

actions and plans for rural development, the plans tend to have a sectoral focus missing an integrated view of rural development. At the same time, Sub-national actors took a secondary role in the elaboration of these regional plans, and the strategies lack a solid connection with the regional government's development strategy.

There are several examples of voluntary inter-institutional co-ordination through joint plans and projects. These agreements occur both between different ministries and institutions, as well as between public agencies belonging to the same ministries, that voluntarily agree to co-ordinate efforts and resources towards a common rural development goal (Box 3.1). Moreover, given the broad distribution of INDAP's offices in rural areas¹³ and their long-standing experience working in the field, sometimes in isolated areas and communities, sometimes they serve as a base or local headquarters for other public agencies. Yet these agreements and joint actions are very dependent on the personal relationship between the heads of the public agencies and institutions.

These efforts, however, tend to be the exception rather than the norm. Inter-institutional co-ordination in rural development is not the result of institutionalised planning frameworks, but rather a combination of *ad hoc* initiatives and the capacity and relationships established between the heads of different public institutions (OECD, 2009a). The fact that the heads of public institutions frequently rotate, and that some policy programmes do not transcend policy periods, leave this *ad hoc* inter-institutional co-ordination in a fragile position. In this regard, there is an extended feeling among public and private actors about a lack of inter-institutional dialogue, resulting in overlapping of initiatives (SUBDERE, 2013a).

Box 3.1. Some examples of inter-institutional rural development programmes and agreements

The Programme of Rural Infrastructure for Territorial Development (PIRDT) is managed by SUBDERE, jointly financed with resources from the regional governments' FNDR, and operated by several public agencies of the MOP. The main objective of this programme is to improve access to basic infrastructure (water, sanitation, electricity), transport infrastructure and telecommunications of rural areas.

Recently CIREN carried out research to evaluate the soil erosion in the different regions and territories of the country. This research was financed by INNOVA-CORFO and counted with the participation of CONAF, the SAG and Odepa.

In recent years, SENCE and INDAP have reached an agreement to provide training to farmers in different regions of Chile. During the 1990s they jointly carried out a programme to train and improve the entrepreneurial skills of youth indigenous inhabitants of rural areas (Durston, 2001).

These inter-institutional agreements and programmes are often carried out between public agencies belonging to the same ministry, like INDAP and INIA (INDAP, 2013a), or CONAF and INDAP (Infoandina, 2013).

Finally, often these agreements are reached at a regional level, where representatives of different institutions decide to join forces and resources to work towards a common goal. For example, in O'Higgins there was an agreement between INDAP and the Ministry of Housing and Urbanism (MINVU) to jointly provide information to rural dwellers about the characteristics and requisites of housing programmes in rural areas.

Sources: Durston, John (2001), "Capacitación microempresarial de jóvenes rurales indígenas en Chile: Lecciones del CTI del Programa 'Chile Joven' (SENCE/INDAP) en dos comunidades mapuches", Economic Commission for Latin America and the Caribbean (ECLAC), United Nations, Santiago, www.eclac.org/publicaciones/xml/6/7416/SeriePoliticasySociales49.pdf; INDAP (2013), "INDAP e INIA tamen aike generan trabajo conjunto para fortalecer atención de pequeños productores agropecuarios", INDAP, Santiago, 13 June, www.indap.gob.cl/noticia/indap-e-inia-tamen-aike-generan-trabajo-conjunto-para-fortalecer-atencion-de-pequenos; INDAP (2013), "Pequeños productores agrícolas podrán capacitarse tras firma de convenio con sence", INDAP, Santiago, 13 May, www.indap.gob.cl/noticia/pequenos-productores-agricolas-podran-capacitarse-tras-firma-de-convenio-con-sence; Infoandina (2013), "CONAF e INDAP firman alianza por el medio ambiente en Chile", Infoandina, Lima, Peru, 11 June, www.infoandina.org/noticias/conaf-e-indap-firman-alianza-por-el-medio-ambiente-en-chile.

In recent years, some institutional initiatives, programmes and governance reforms also suggest a move towards greater emphasis on the regional dimension. This was the case, for example, with initiatives like the regional agencies for productive development or the programme "Chile Emprende". In this regard, aware of the importance of including a place-based approach in national policies, national ministries and institutions have launched different programmes and strategies that search to strengthen vertical co-ordination between national and sub-national planning priorities and which give a higher salience to the participation not only of sub-national governments, but of the communities subject to benefit from these initiatives, as it can be the case with INDAP's Local Development Programme (Prodesal).

But, as in the case of horizontal inter-institutional co-ordination, vertical interaction between central and sub-national government institutions and actors tend to occur in an *ad hoc* manner. Often it depends on the strength, independence and regional attachment of the given *intendente* or head of the public service, or in the relationships or the capacity of the given municipality or mayor to influence the decision of national institutions.

Given the strong centralism of Chile, the role of sub-national actors tends to be still subsidiary, more focused on approving plans and models previously decided by the national actors than on actively participating in the definition of these plans. Encouraging more active participation of sub-national actors in these initiatives would be crucial to reflect the specific territorial needs and realities, and to gain the buy-in and support of local actors to these central government initiatives (OECD, 2009a; 2013a).

The following section focuses on examining the different elements to promote efficient institutional frameworks for generating co-ordination and synergies between the different actors and policies that currently intervene in rural development in Chile. The section after that, in turn, will focus on how to increase the involvement of sub-national actors in rural development, as a way to strengthen bottom-up initiatives closer to the needs and realities of the diversity of the rural territories of Chile.

Advancing towards comprehensive rural development policies

The new national policy on rural development could contribute to developing a shared long-term vision of rural development...

As observed in the previous section, the lack of a shared definition about rural areas, and of a shared rural development policy or strategy, undermine policy coherence and can contribute to generating duplicity or overlapping of public programmes and resources in rural areas. To confront this challenge, a revision of the current definition in Chile defining urban and rural areas would help advance in this domain (see Chapter 1). At the same time, the Chilean government has initiated a process for building a national rural development policy framework. This is clearly a step forward and could contribute to promoting inter-institutional coherence.

...but certain elements need to be considered

Setting a national policy can contribute to policy coherence in rural development. However, there are certain elements, related to the formulation, management, implementation and evaluation of this policy, that have to be considered if this policy is to be something other than a declaration of intentions. The analysis of experiences in the area of development in other OECD countries has identified several dimensions related to policy effectiveness in promoting policy coherence and synergies across government institutions (OECD, 2008a):

- The involvement of a broad set of actors: The planning of a coherent rural policy or strategy requires good information about the different rural and territorial dynamics. Without a clear understanding of the challenges and potentialities of rural areas, rural policy faces the risk of targeting efforts and resources in an inefficient or incomplete way. The involvement of a broad set of public, private and civil society actors, both national and sub-national, will help in developing an informed and comprehensive rural development policy.
- Ownership of the programme by the different government and non-government actors involved. This ownership of the programme normally results from a long process of negotiation and from active participation of the different public and non-public actors in the design of the policy. This turns the preparation process into a broad multi-arena negotiation oriented to align the actions of all key stakeholders.

- Policy framework: The resultant policy has to have a clearly articulated policy message that: *i)* identifies key policy goals; *ii)* promotes a common understanding of rural policy; *iii)* sets the parameters for actions and evaluation; and *iv)* is supported by political commitment.
- Roles, decisions and information: Roles and responsibilities among actors have to be clearly allocated. Decision-making assignments should be clear and transparent.
- Co-ordination: Mechanisms should be established to enable information flows and horizontal (inter-sectoral) and vertical (among levels of government) co-operation and co-ordination.
- Finances: There is a need to consider financial flows that match policy priorities and provide sufficient levels of funding to achieve objectives and promote credible commitments.
- Evaluation: Mechanisms to provide monitoring and evaluation should be considered in order to assess and, if necessary, adjust the policy.

Among these factors, the experience of OECD countries like Finland (Box 3.2) shows that key areas for the success of a rural policy in promoting policy coherence are: *i)* the involvement of civil society and academia as providers of local and technical knowledge; *ii)* the ownership of the programme by the different government and non-government actors involved resulting from a long process of negotiation; *iii)* the clarity in the allocation roles and responsibilities; *iv)* monitoring and evaluation processes on how the proposals/decisions have been put forward; *v)* the leadership of the process by a broadly supported and efficient institution. These elements should be taken into account in the current process in Chile.

The main focus of rural policy should be on rural areas that are not well connected to a large urban centre. These places face significant challenges in terms of low population density, distance from internal and external markets, and the lack of a critical mass that provides a nearby demand for the region's products. Current policy does mainly focus on this type of territory, but it does so through the lens of the income level of people in certain occupations and not on a territorial basis. Because the focus is only on low-income individuals and firms, and does not include the geographic territory in which they are located, some important policy opportunities are missed. In particular, the current sector-based approach tends to see the potential for improved standards of living as either coming from improved competitiveness in the current sector or from out-migration and under-emphasises the possibility for finding alternative employment in the region.

In addition, rural territory that is near to large urban centres also has to be considered. Here, rural-urban linkages are important. The high interactions between rural and urban areas should be considered when dealing with rural policy. Rural areas provide a flow of environmental and recreational services and amenities to nearby urban residents that also require the food, energy or water mostly located in rural areas. At the same time, the commuting relations between urban and rural areas as seen in Chapter 1 in the functional urban area (FUA) are also quite notable for the case of Chile, displaying many urban workers who commute to work from a rural residence on a daily basis. In order to take into account these interactions, the conclusions of the OECD International Conference on Rural Development (2005) held in Oaxaca (Mexico), pointed in the direction of framing rural policy within a comprehensive regional policy which would provide an umbrella for co-ordinated urban and rural development policies, within a territorial-based approach.

Box 3.2. The National Rural Policy Programme and the Rural Policy Committee in Finland

The National Rural Policy Programme is the main instrument to provide coherence to the different sectoral policies oriented towards rural areas in Finland. It is drawn up by the Rural Policy Committee, an institution that brings together nine ministries, other public organisations and federations, as well as research centres and private stakeholders. The National Rural Policy Programme includes strategic guidelines and specific practical measures for different sectors and for different entities of the government. Under the leadership of the Rural Policy Committee, which also promotes the implementation of the measures, the programme has been shaped by many different stakeholder organisations.

The National Rural Policy Programme is divided into two parts: the Plan of Action of the Rural Policy Committee and the Special Programme or the Report of the Government. The Plan of Action of the Rural Policy Committee contains proposals to be undertaken by a wide number of actors. The separate Special Rural Policy Programme is drawn up on the basis of the Plan of Action, and only contains decisions and proposals within the competence of the government. For example, the Fourth Rural Policy Programme (2005-08) entitled “Viable Countryside – Our Joint Responsibility” included 133 proposals. Based on it, a Special Rural Policy Programme was prepared for its political support for 2005-06 consisting of 52 government decisions. This system has contributed to the allocation of responsibilities, information sharing and linking the planning and implementation stages.

The programme is revised about every four years, and contains both a strategic perspective and concrete proposals with explicit references to those responsible for implementing them. The Rural Policy Committee carries forward the proposals of the programme through negotiations, projects, theme group work and by influencing various processes.

These documents have been central in providing rural policy with a policy framework. Ministries need to report twice a year the actions undertaken in line with the proposals/decisions contained in the Rural Policy Programme/Special Programme. Additionally, the continuation of these programmes over a time frame of more than two decades (there have been five National Rural Policy Programmes, 1991-96, 1996-2000, 2001-04, 2005-08 and 2009-13) has contributed to providing a long-term vision to rural policy. Finally, the distinction of two programmes, one within the government domain (the Special Rural Policy Programme) and one broader where a number of other organisations are involved, contributes to the allocation of responsibilities, decision making, information sharing and linking the planning and implementation stages.

Key strengths of the process are: *i)* the involvement of civil society and academia in the preparation as providers of local and technical knowledge, reducing a critical knowledge gap that many central governments have in targeting the priorities of rural policy; *ii)* the ownership of the programme by the different government and non-government actors involved, resulting from a long process of multi-arena negotiation and aligning the actions of all key stakeholders; *iii)* clarity in the allocation roles and responsibilities within the government; and *iv)* the annual or biannual monitoring and evaluation process on how the proposals/decisions have been put forward.

The Rural Policy Committee

The Rural Policy Committee convenes six to seven times a year. Its Secretariat consists of about 60 officials and representatives specialised in rural affairs from several ministries and expert organisations. The members of the Secretariat function as liaison officers in their own organisations and are responsible for preparing matters concerning their own specific sectors. In its origins, the Rural Policy Committee was hosted by the Ministry of the Interior, responsible for regional policy. However, after joining the EU in 1995, the committee was transferred to the Ministry of Agriculture and Forestry. As it is the case in other countries, by framing rural development within the Ministry of Agriculture and Forestry, a tension of competing priorities and constituencies exists between agricultural and rural policy.

Sources: OECD (2008), *OECD Rural Policy Reviews: Finland 2008*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264041950-en>; Ministry of Agriculture and Forestry (n.d.), “The National Rural Policy Programme and the government rural policy outlines”, Ministry of Agriculture and Forestry, Santiago, www.mmm.fi/en/index/frontpage/rural_development/Rural_development_programmes/programme_policy_outlines.html.

The current process of elaboration in parallel of these three policies in Chile – regional development policy, urban development policy and rural development policy – provides a good opportunity to create the right interactions among them.

It will be necessary to have efficient leadership over rural issues

It will be necessary to have an institution with a clear leadership role on rural issues in order to better integrate national rural policies, promote synergies and upgrade the concept of rural development in Chile. The appropriate place that rural policy should occupy within the “government” is an open and long-standing debate in OECD countries.¹⁴ The pros and cons of the different options in Chile should thus be carefully analysed, as there is no optimal solution. The agency chosen will need to search for synergies and interactions between the different institutions, and advocate for a higher presence of rural development in the action of the different ministries. Based on the experiences in other OECD countries, Chile seems to have four institutional possibilities to take the lead on rural development:

- **The Ministry of Agriculture:** The Ministry of Agriculture has the advantage of having a long-standing presence and leadership in rural areas. INDAP is the public institution with broader physical presence in rural areas thanks to a network of more than 122 offices. At the same time, the key historical role of agriculture in the Chilean economy, and the fact that for many years rural development was widely identified with agriculture, has given this ministry a kind of leadership over the rural territories. However, the latter also has a drawback, as it can be complex to upgrade the concept and orientation of rural policy from the sectoral/agriculture approach, to a broader and multi-sectoral focus if the leading institution is the Ministry of Agriculture. To confront this challenge, some OECD countries have created a division in charge of rural development in a broad perspective within the Ministry of Agriculture. However, even if rural development were to be recognised as a new field, the ministry could have strong incentives to behave in the traditional sectoral-oriented way.
- **Creating a new rural development ministry.** This option has the advantage that the new institution could be especially designed to cover the area of rural development in a comprehensive and integrated way, beyond the sectoral lens. It could assume the competence of different departments or ministries, as was the case with DEFRA in the United Kingdom (Box 3.3). There are, however, some challenges with this option. First, even if the new institution assumes new responsibilities, it will still be not possible to gather all the rural development relevant areas in a single institution. Second, creating a new institution could make more complex inter-institutional arrangements and co-ordination in the public arena in which there are already many institutions. Finally, the role, relevance and leadership of this ministry could be secondary given the strong dominance of traditional sectoral ministries like MINAGRI.
- **SUBDERE:** The Sub-secretariat of Regional and Administrative Development has the advantage of being an established institution, with long experience acting as “arbiter” to facilitate and foster integrated place-based approaches. It could facilitate the necessary interaction between different ministries and institutions, and help to integrate the territorial dimension and bottom-up perspective from the regions and rural territories. Finally, it would help to consider urban-rural linkages, as SUBDERE deals with both rural and urban development. The main

shortcoming of this option is similar to the previous one, the relatively weak institutional position of SUBDERE compared to traditional sectoral ministries. In addition, the multi-task role of SUBDERE, dealing with regional, urban and rural development, even if it could strongly contribute to integrating these highly interconnected areas, could weaken the relevance of rural development, as compared with other options in which a single institution works with the already complex task of rural development.

- An inter-ministerial committee of rural development: It would have the advantage of being able to gather a broad set of actors, including the relevant ministries, public agencies, representatives from the territories and from the regions. It could also have a flexible and adaptable organisation, working in different commissions, with different actors associated with different areas of work. However, the experience in Chile shows that it is very difficult to give political relevance, functionality and stability to inter-ministerial committees. In the mid-1990s there was already an attempt to develop an inter-ministerial committee on rural development, but it did not last too long and was dominated by the Ministry of Agriculture. The role and functionality of more recent inter-ministerial experiences, like the inter-ministerial Committee on Infrastructure, City and Territory, have been very limited (OECD, 2013a). Yet, as mentioned above, some international experiences like the Rural Policy Committee of Finland have been more successful, thanks among others to clear political support to the institution.

The institution leading rural development should act as an inter-sectoral rural champion. The institution chosen would need to upgrade the concept of rural development in each of the ministries and agencies and down to the territories. Evidence across OECD countries (OECD, 2006; 2008a; 2010a) provides some valuable lessons to be considered in the new institutional setting for a successful implementation:

- Win strong institutional support through authority delivered by the President to deal, manage and co-ordinate rural policy; report directly to the President and/or to a relevant parliamentary committee, as a sign of the strong relevance and support of rural development. In other OECD countries like Canada or the United States, rural policy is only important if either the Prime Minister or the President think it should be important. Otherwise it languishes.
- Ability to co-ordinate the various sectoral ministries.
- Extend the use of shared and upgraded rural typologies (see Chapter 1) across ministries and in the dissemination of statistical information.
- Have its own financial capacity.
- Broaden the scope of support for rural concerns and for rural communities to a “whole-of-government” perspective.
- Be in a position to ensure the integration of urban and rural policies and to address urban-rural linkages.
- Ensure that territorial characteristics and sub-national visions are taken into account, and that there is fluent vertical co-ordination in designing and implementing rural development policies.

- Make a clear distinction of rural from agriculture (strengthening the fact that rural challenges extend beyond those of the agricultural sector), and help to re-engage the two in a positive, mutually supportive relationship.

Box 3.3. The place of rural policy within the government in OECD countries

The place that rural policy should occupy within the “government” is an open debate. In many OECD countries, the fact that the Ministry of Agriculture has been the one which traditionally interacted with rural areas has derived in the creation of a department in charge of rural development within this ministry. This is the case of Canada, for example, which created a Rural Secretariat within the Ministry of Agriculture and Agri-Food and of the United States, which has an Undersecretary for Rural Development within the US Department of Agriculture. Some countries even restructure and change the name of the ministry in order to highlight the new rural development component. This is the case, for example, of Mexico, which named its relevant ministry the Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA in its Spanish acronym). The previously mentioned solutions, where the Ministry of Agriculture adopts the rural development issue, are often second best because the inter-sectoral aspect of rural development is significantly limited being within one sectoral ministry, and although rural development is recognised as a new field, the ministry has strong incentives to behave in the traditional way given that agricultural interests are generally better organised than rural development interests.

External factors play a determining role, particularly in the case of EU member countries, which have to cope with external funding streams and rules that influence the decision of where to locate rural development policies. The two main streams of EU funds are the Common Agricultural Policy (CAP) and the (Regional) Structural Funds. Since rural development funds have emerged from the CAP (the so-called “second pillar”) and not from regional funds (although many countries, including Finland, have utilised structural funds for rural development), the straightforward place for rural development policies within European countries’ government structures has tended to be the Ministry of Agriculture, in charge of administering CAP funds.

Alternatively, several countries have sought to break the inertia by creating a new body with expanded scope and explicit jurisdiction over rural development policies or by assigning this jurisdiction to another ministry. An example of the first case is the United Kingdom, where the same central authority, DEFRA, embodies wider responsibilities over a broader set of areas, including the environment, food and rural affairs. An example of the second case is Australia, where the Department of Transport and Regional Services (DOTARS) has primary responsibility over regional policy (which in Australia is synonymous with rural policy). Finally, some countries have created a broad-based inter-ministerial committee to deal with rural development. This is the case of the Rural Policy Committee in Finland that brings together nine ministries, other public organisations and federations, as well as research centres and private stakeholders. Although it still has a relatively weak institutional role within the government, it plays a very important role in the governance of rural policy, both as an instrument for bringing together diverse actors and as an advocate for rural communities.

Sources: OECD (2008), *OECD Rural Policy Reviews: Finland 2008*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264041950-en>; OECD (2010), *OECD Rural Policy Reviews: Quebec, Canada 2010*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264082151-en>.

This institution should thus act as a “rural champion”, working to guarantee that rural remains on the agenda and is not ignored or diluted by the multiple priorities of sectoral institutions. Nevertheless, it is also important to recognise that line ministries will always be responsible for the bulk of delivering policies that affect rural firms and households. Major ministries like Mining, Public Works, Health and Education, are unlikely to be greatly influenced by another department or a monitoring committee. The best that can be

expected is that they pay more attention to the broader impact of their policies on rural territory.

Governance arrangements will be necessary to support the role of the leading institution

Governance arrangements can help to overcome sectoral approaches and give higher salience to rural development. Overcoming sectoral approaches in favour of an integrated policy approach to rural development is not an easy task. Nominating a rural champion is necessary, but not enough. Parallel co-ordination and governance arrangements will be necessary to enable the promotion of a comprehensive rural development policy and to encourage the various institutions that operate in the field of rural development to work together, ensuring that their sectoral priorities towards rural areas and their individual policies are not contradictory (OECD, 2006a). Various governance options could help to support this process in Chile, including:

- an inter-ministerial working group on rural development
- a potential institutional re-organisation
- rural proofing arrangements
- joint, inter-ministerial/inter-agencies programmes/funds
- better inter-institutional articulation of central government agencies at the regional level.

An inter-ministerial working group on rural development can support the role of the rural champion

A working group on rural development at ministerial level could help to give higher salience to rural development on the agendas of the different ministries. Currently there are several of these committees led by the Presidential General Secretariat of Chile on different inter-sectoral areas like environment and sustainability or the Inter-Ministerial Committee on Infrastructure, City and Territory (Box 3.4). An inter-ministerial working group on rural development could help to promote the role of the “rural champion” in broadening the scope of support for rural concerns and for rural communities to a “whole-of-government” approach.

A re-organisation of public institutions could help

A more coherent organisation of rural development institutions and roles could help to reduce overlaps and improve rural development co-ordination. As mentioned above, there are numerous public actors intervening in rural development policies, often without co-ordination and interaction among them. There are issues directly related with rural development like fisheries, agriculture, water management or environment, allocated in different ministries. There is also institutional duplicity or overlapping with many institutions working in parallel in the same field (e.g. water management and irrigation). Finally, often there is a lack of synergies between public agencies working with highly inter-related subjects (e.g. public agencies of the Ministry of Agriculture).

Box 3.4. The Inter-Ministerial Committee on Infrastructure, City and Territory (CICYT)

The Inter-Ministerial Committee on Infrastructure, City and Territory (*Comité Interministerial de Infraestructura, Ciudad y Territorio*, CICYT) is led by the Presidential General Secretariat (*Secretaría General de la Presidencia*, SEGPRES) and gathers several ministries involved in urban matters, including the Ministry of Housing and Urbanism (MINVU), the Ministry for Public Works (MOP) and the Ministry of Transport and Telecommunications (MTT). The CICYT was created to ensure a co-ordinated approach to the government's reconstruction plan following the February 2010 earthquake. While it remains active, its role and functionality beyond reconstruction activities has been limited. This committee has its roots in the Inter-ministerial Committee for Urban Development and Land Management created in 1996, and in the Inter-Ministerial Committee City and Territory (COMICYT) launched in 2000 by the President of the Republic to promote inter-sectoral co-ordination at the ministerial level on issues of urban and territorial development.

Source: OECD (2013), *OECD Urban Policy Reviews: Chile 2013*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264191808-en>.

An in-depth analysis should be made in Chile to document the overlapping areas and to suggest a more coherent re-organisation of subjects. Other OECD countries facing similar governance challenges opted for different options. Some countries have unified several rural development tasks in a single ministry. This is the case with DEFRA (Department for Environment, Food, and Rural Affairs) in the United Kingdom, created in June 2001 to substitute the Ministry of Agriculture, Fisheries and Food. DEFRA broadened the focus of rural policy to inter-related areas like, environment, biodiversity, plants and animals, sustainable development and the green economy, food, farming and fisheries, animal health and welfare, environmental protection and pollution control, and rural communities. Other countries, like Sweden, have merged public agencies and institutions in an attempt to reduce fragmentation and public spending (Box 3.5). Developing a more coherent institutional organisation of tasks in Chile could help to develop a clearer government structure, reducing overlaps across agencies and institutions, and promoting greater synergies across policies.

Box 3.5. Re-organisation of regional development public agencies in Sweden

A reorganisation of national agencies involved in regional development took place in 2009 in Sweden. Three agencies – the Swedish Agency for Economic and Regional Growth (NUTEK), the Swedish National Rural Development Agency and the Swedish Institute for Growth Policy Studies – were merged into two, the Swedish Agency for Economic and Regional Growth (*Tillväxtverket*) and the Swedish Agency for Growth Policy Analysis (*Tillväxtanalys*). The objectives behind this merger were: *i*) develop a clearer government structure and reduce overlaps across agencies; *ii*) ensure greater cross-sectoral collaboration across policies, in particular between the regional and rural development policies; *iii*) enhance the focus on growth in the various territorial policies; and *iv*) clarify the mandate of the different agencies with a greater focus on evaluation from the Swedish Agency for Growth Policy Analysis (*Tillväxtanalys*).

Sources: OECD (2010), *OECD Territorial Reviews: Sweden 2010*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264081888-en>.

Yet, whatever institutional reorganisation is implemented, it will not be feasible or natural to try to integrate all the areas that impact rural development under one

ministry/department. A broad number of institutions and public agencies will always intervene in rural areas, requiring interaction and co-ordination arrangements among them.

Rural proofing will help to give higher salience to rural development

Chile could benefit from implementing rural proofing arrangements. A well-organised and institutionally supported “rural champion” will help to promote coherence. However, sectoral agencies and ministries always tend to be reluctant to adapt to requests from one of their peers, and tend to have a sectoral focus. To deal with this challenge, some OECD countries have adopted rural proofing mechanisms. The overall goal of rural proofing is to ensure and monitor that all domestic policies and the different institutions and sectors take into account rural circumstances and particularities. Rural proofing arrangements are normally based on *ex ante* ministerial assessment and review of rural development coherence done by each government body (“policy mainstreaming”) or on *ex post* regional assessment evaluation of different ministries’ policy decisions on rural areas (Box 3.6).

Ideally, rural proofing mechanisms should be backed up with legislation requiring the different ministries and institutions to collaborate in implementing these measures. The implementation of these arrangements in Chile could clearly help to give higher salience to rural development among the different ministries and public agencies, and promote coherence between the different policies implemented in rural areas. Rural proofing arrangements will probably need to be carried out not only among central institutions in Santiago, but in the regions among deconcentrated public agencies.

Box 3.6. Rural proofing in the United Kingdom and Canada

Rural proofing searches to ensure that the needs and interests of rural people, communities and businesses are properly considered and integrated in the development and implementation of all policies and programmes. Rural proofing arrangements are normally based on *ex ante* ministerial assessment and review of rural development coherence done by each government body during the policy design stage (“policy mainstreaming”) or on *ex post* regional and rural assessment and review (evaluation) of different ministries’ policy decisions on rural areas done by a specific internal or external agency.

Rural proofing in the United Kingdom

In the United Kingdom, rural proofing is integral to the policy-making cycle. In England, 9.8 million people (19% of the population) live in rural areas. Virtually all policies impact upon rural communities. Rural proofing helps achieve good economic, environmental and social solutions that contribute to growth. Rural proofing is a commitment by the government to ensure that domestic policies take account of rural circumstances and needs. It is a mandatory part of the policy process, which means as policies are developed, policy makers should:

- consider whether their policy is likely to have a different impact in rural areas, because of particular circumstances or needs
- make a proper assessment of those impacts, if they are likely to be significant
- adjust the policy where appropriate, with solutions to meet rural needs and circumstances.

Box 3.6. Rural proofing in the United Kingdom and Canada (*cont.*)

The point of encouraging early assessments of expected, or likely, impacts in rural areas is a critical factor for rural mainstreaming. This type of prior assessment of policy goes well beyond a mere audit. It is about making the right evidence on rural dynamics available to the key decision makers in a timely fashion so as to enable the introduction of corrective measures. Rural proofing applies to all policies, programmes and initiatives and it applies to both the design and delivery stage. DEFRA's Rural Communities Policy Unit (RCPU) has been established as the centre of rural expertise within government, and is able to advise policy makers on the likelihood and possible scale of rural impacts, and to suggest actions that might be taken to mitigate these. The RCPU can provide up-to-date information on rural areas and key rural stakeholders. At the same time, DEFRA has developed a suite of local level rural proofing materials, to guide and help local decision makers to "rural proof" local policies and practices.

The rural lens system (Canada)

Established at the end of the 1990s, the rural lens includes a checklist for determining if policy initiatives or programmes address rural priorities. The checklist of considerations is as follows: How is this initiative relevant to rural and remote Canada? Is the impact specific to a selected rural or remote environment or region? Have the most likely positive and negative effects on rural Canadians been identified and, where relevant, addressed? Have rural Canadians been consulted during the development or modification of the initiative? How is the benefit to rural Canadians maximised? (E.g. co-operation with other partners, development of local solutions for local challenges, flexibility for decision making).

Within Canada's Rural Secretariat, a group of public servants administer the Canadian Rural Lens with colleagues in other departments in applying the rural lens to new policy initiatives. The officials responsible for the rural lens can advise their minister in the Agriculture and Agri-Food Department (AAFC) on whether or not to support a new initiative in the Cabinet. Of course, they only get involved with policies that have a rural angle. The rural lens has been somewhat successful as it has led to changes in several federal departments that have improved their services to rural regions. If the Rural Lens staff thinks that the rural perspective has not been properly presented, then they try to influence the policy proposal accordingly. The objective is not to advocate for putting rural considerations first, but to ensure that decisions are fully informed (i.e. of the implications for rural communities). Experience with the rural lens shows that it is crucial to carry out a cross-ministerial examination early in the policy process.

Sources: Department for Environment, Food and Rural Affairs (2013), "Introduction: What is rural proofing?", Crown Copyright, London, www.gov.uk/rural-proofing-guidance; www.defra.gov.uk/crc/documents; OECD (2010), *OECD Rural Policy Reviews: Quebec, Canada 2010*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264082151-en>; OECD (2011), *OECD Rural Policy Reviews: England, United Kingdom 2011*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264094444-en>.

Despite the benefits associated with the concept of rural proofing, there are difficulties in implementing the concept. England and Canada have faced difficulties in implementing rural proofing due to the difficulties in the ability for any single department to influence the behaviour of another department. In Canada, the concept has been dropped in recent years.

It would be highly recommendable to extend the use of joint inter-institutional programmes and funds

Joint programmes and funds for rural development are a way to promote co-ordination and synergies between sectoral initiatives and programmes. The inter-institutional interactions in the design of these programmes drive to complement the vision, knowledge and approach

of two or more institutions. At the same time, these arrangements can result in efficiency improvements, as individual resources will be summed, and especially because the resulting programme can generate synergies. The benefits and outcomes of an integral programme would be thus much higher than the sum of the parts of individual programmes or funds, and would contribute to provide a more comprehensive public support to rural areas.

As mentioned previously, inter-institutional programmes in Chile are still the exception more than the norm. The highly sectoralised national investment system (OECD, 2009a) and the lack of institutional frameworks for promoting inter-institutional interactions result in these experiences occurring in an *ad hoc* manner, normally as a result of the personal relationship among heads of public institutions.

However, Chile has had some successful inter-institutional initiatives that could be replicated. This is particularly the case with the “Chile Emprende” programme. This programme was already highlighted in the 2009 *OECD Territorial Review of Chile* as a positive example not only of inter-institutional co-ordination, but of a territorial approach adapted to the requirements and potentialities of the different territories in which it operated, and in which local actors had a strong voice in the management of the programme. This programme, however, matured in only two regions, particularly in the region of Araucanía in the area of tourism. There are also some other interesting initiatives in other, non-rural development, areas, as the case of the inter-sectoral programme of social protection “Chile Crece Contigo”. This programme deals with child development, understanding that this is a multi-dimensional task involving health, biological, physical and social factors, not only of children, but also of mothers and parents. The programme counts on the involvement and co-ordinated participation of different public institutions including the Ministry of Health, the Ministry of Education, the Ministry of Work and the National Women Service. A crucial factor for the success of this inter-sectoral programme is that it was developed by a national law, providing it with institutional backing, stability and continuity.¹⁵ This programme could be taken as an example to be replicated in the area of rural development.

Programming agreements could be used to finance rural development

Chile should consider a more active use of the existing programming agreements (*convenios de programación*) in the area of rural development. Programming agreements are a main tool that allows formalising inter-sectoral and/or multi-level priorities through a sort of binding legal contract (Box 3.7). A main advantage is that these investment initiatives allow multi-year budgeting. At the same time, they allow the participation of regional and local governments, thus promoting multi-level governance interactions and co-responsibility in the design and finance of the initiative. However, this mechanism still has very limited use. It is normally used by the Ministry of Public Works or by the Ministry of Health for financing big infrastructure initiatives already in their sectoral plans with the financial support of FNDR regional government resources (OECD, 2009a; 2013a). This mechanism is rarely used to formalise inter-institutional programmes in the area of rural development. Therefore, it could be much further promoted as a way to formalise and give legal support to comprehensive rural development initiatives.

Box 3.7. Programming agreements

Programming agreements are formal agreements between one or more regional governments and one or more national ministries or public agencies, detailing measures and procedures to be undertaken in projects of common interest over a specified period of time. These agreements can also include other public or private national, regional or local institutions. For the resources to be made available, the agreements have to respect the following stages: *i)* formulation of the idea: to identify projects that address regional problems effectively in the context of the regional development strategy; *ii)* the signing of a protocol of purpose which initiates negotiations between the parties; *iii)* deciding on projects and programmes: project decision making, pre-investment studies if they do not exist, technical units for the investigation's monitoring and results; *iv)* drafting the programming agreement: defining rights and responsibilities of the parties involved; and *v)* presentation of the agreement to the regional council (the main regional government institution) for approval and signature. Projects are carried out using the resources of both line ministries and regional governments (grants from the National Fund for Regional Development). These agreements offer a useful legal framework for co-ordinating regional and national priorities and responsibilities. Until now they have been mostly used for shared planning and financing of large infrastructure projects.

Source: OECD (2009), *OECD Territorial Reviews: Chile 2009*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264060791-en>.

One way to further promote their use is to associate a system of incentives, e.g. leveraging a financial incentive when two or more institutions agree to work together, co-ordinating their interventions and resources through programming agreements. Different OECD countries apply systems of incentives to promote inter-institutional co-operation, especially in the case of inter-municipal agreements (see below). In Chile, this incentive system could give a premium for the participation of sub-national actors such as municipalities, which normally do not take part in these initiatives.

Improving co-ordination of deconcentrated government agencies

Chile should also consider readapting the deconcentrated government agencies in the regions. The large presence of representatives of different public agencies in the region, and the fact that these representatives have a higher dependence from their line ministries or agencies in Santiago than from the *intendente* in the region brings challenges to the generation of inter-sectorial synergies and weakens the possibility of adapting national priorities to territorial realities. Some recommendations should be considered in order to improve the situation.

- First, the role of the *intendente* as co-ordinator of national public agencies and SEREMIS in the region should be strengthened, as a way to provide a coherent approach to national policies in the region.
- Second, in the current process for strengthening the regional councils – from November 2013 - democratically elected regional bodies-, national agencies should also have closer and institutionalise interactions with the regional government.
- Third, it would be important to set stable rural development co-ordination groups at the regional level, counting on the different main actors that deal with and have interventions in rural development, as a way to strengthen and to institutionalise inter-institutional interactions.

- Fourth, it should be considered to make an in-depth analysis of the possibilities and potential pros and cons of merging public agencies in the region, creating a reduced number of representatives of several national public agencies dealing with regional and rural development aspects. This will probably not be an interesting option for the bigger public agencies with important regional interactions (e.g. INDAP, CORFO), but it could be a valid option for smaller agencies, reducing the current fragmentation of public agencies in the territories and providing a more comprehensive public sector offer to the citizens (see the section on multi-service centres below). This would be in line with the reform that Finland recently carried out to rationalise the presence of national public agencies in its regions (Box 3.8). The case of Finland also highlights the importance of adapting national priorities to regional and territorial realities, ensuring that the regions are heard in the ministries.

Box 3.8. Consolidating central government agencies in the regions: Finland’s ALKU

Finland’s recent reform, ALKU (Reform Project for Regional Administration), was completed in 2010. It aimed at rationalising the system of regional state administration by clarifying and re-organising the roles, duties, steering and regional division of all regional administrative authorities. First, the powers of 18 regional councils, in charge of regional development policy in Finland, were increased to some extent. They were given more responsibility to co-ordinate regional development activities as well as strategic tasks. Second, existing – and numerous – regional state authorities were consolidated and merged. All state provincial offices, employment and economic centres, regional environmental centres, environmental permit agencies, road districts and occupational health and safety districts were phased out and their functions and tasks reorganised and streamlined into two new regional state administrative bodies: the centres for economic development, transport and the environment (ELY) and the regional state administrative agencies (AVI).

The 15 ELY regional centres manage the implementation and development tasks of the state administration. Their tasks are to promote regional competitiveness, well-being and sustainable development, and to curb climate change. They also focus on development of business and industry, the labour force, competence and cultural activities, transport and infrastructure as well as the environment and natural resources. The task of the six AVI centres is to foster regional parity by carrying out all legislative implementation, steering and supervisory functions in the regions. These agencies strengthen the implementation of basic rights and legal protection, access to basic public services, environmental protection and sustainability, public safety, and a safe and healthy living and working environment in the regions. The agencies work in close collaboration with local authorities.

The ELY and AVI centres exercise their influence at the national level with the national ministries as they negotiate and agree on the programme of work for the whole government period. The resulting strategy documents lay the foundation for the work of regional centres and national ministries. Regional councils influence the preparation of these documents and, in this way, bring the “voice of the region” into the centres’ strategic choices and ensure that the regions are heard in the ministries.

According to the interim evaluation of the ALKU project, the reform has been a good starting point for consolidating the administration and preventing fragmentation. The administration’s ideas on services have been clarified, but no clear commitment to improve the level of services has been made. With several ministries jointly steering the merged regional administration, there are more negotiations, but also some challenges related to co-ordination. However, it is expected that the focus in regional development policies will increasingly move to a policy that is based on interactive negotiation and agreement between the national and regional levels.

Source: Finnish Ministry of Employment and the Economy.

Strengthening place-based approaches

Regional competitiveness requires context-sensitive responses. Place-based policies can exploit local opportunities in a way that is consistent with the characteristics and potentialities of regions and territories. In spite of notable differences in their governance structures, increasingly OECD countries have recognised both the need for comprehensive place-based regional approaches in order to generate growth and competitiveness in their regions, and the crucial interdependencies between regional development and national growth (OECD, 2009a; 2009b, 2012a).

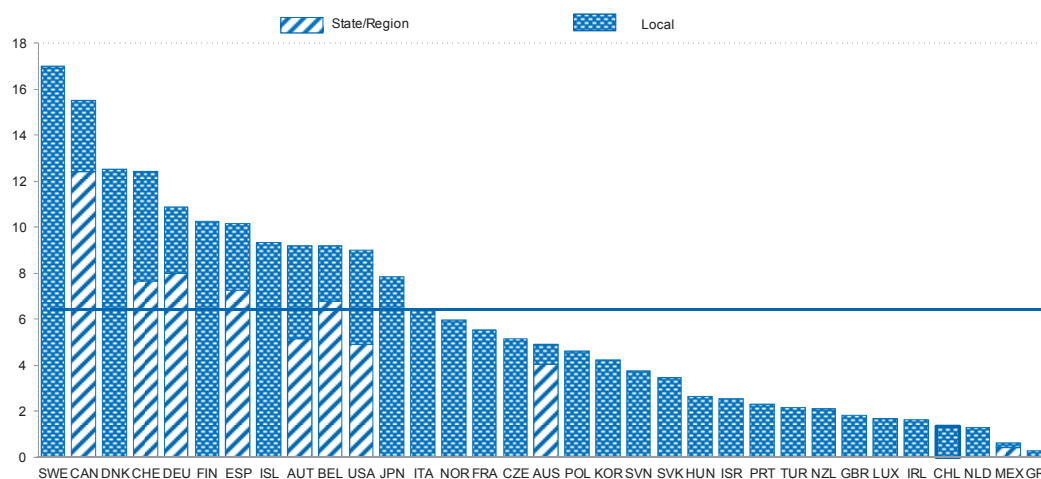
Context-sensitive responses, in turn, require a certain degree of decentralisation and autonomy to adjust public policies and investment to the particular characteristics of the territories. This, as mentioned at the beginning of this chapter, is particularly true in the case of rural areas: the diversity and heterogeneity of rural territories, makes that one-size-fits-all central government's policies are unable to capture the diverse challenges and potentialities of rural territories.

The strong centralism of the Chilean administrative system undermines the implementation of place-based responses to rural development challenges

Beyond higher interaction and synergies between policies, the other main challenge outlined at the beginning of this chapter, is the excessive centralism and the top-down orientation of rural development policies and programmes in Chile. Chile remains one of the most centralised countries in the OECD. Only the Netherlands, Mexico and Greece have less sub-national fiscal autonomy than Chile (Figure 3.1).

Figure 3.1. Sub-central government tax revenues

As % of GDP (2009)



Notes: Data for Australia, Greece, Mexico, Poland and Portugal correspond to 2008 rather than 2009. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD/Korea Institute of Public Finance (2012), *Institutional and Financial Relations Across Levels of Government*, OECD Fiscal Federalism Studies, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264167001-en>.

The limited mandate, capacity and resources of sub-national governments and the strict administrative framework of the central state, conveys limitations on Chile's sub-national governments which may undermine their ability to carry out some of their responsibilities efficiently and thus fail to take advantage of specific regional and local opportunities. Municipalities, especially the smaller and rural ones, have very limited own-source revenues (see below). Most of them have neither the resources nor the incentive to invest in local economic development initiatives (OECD, 2009a).

Regional governments, in turn, do not have an independent budget for conducting regional investment, and depend on regionally defined grants from the central government. Beyond financial issues, the economic agenda remains largely designed at the national level and there is a lack of an institutional framework at sub-national level that facilitates co-ordinating the different policies, instruments and actors involved in rural and economic development. In this context, centralism, and the lack of adaptation of national policies to regional realities, was identified as one of the main constraints of rural territories in a recent series of workshops with local actors developed by SUBDERE in all Chilean regions in the first half of 2013 (SUBDERE, 2013a).

A main challenge for the involvement of sub-national governments in rural development is their lack of financial autonomy and flexibility. Investments carried out in Chilean regions follow two main channels:

1. sectoral investments carried by the line ministries
2. “regionally defined investments” mostly made by the National Fund for Regional Development (FNDR).

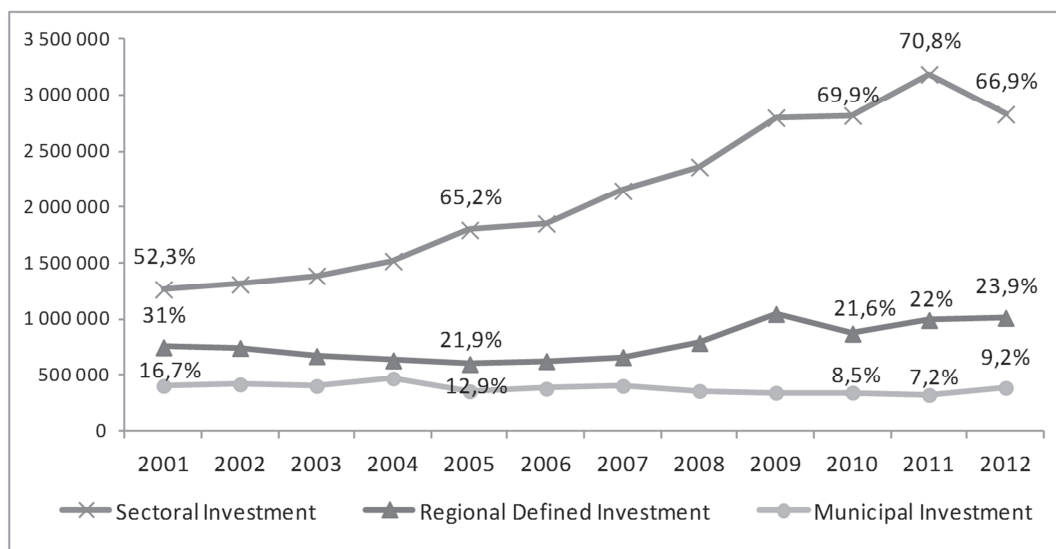
The share of regionally defined public investment (RDI) has decreased in recent years, showing a recentralisation trend. RDI, mostly the FNDR,¹⁶ are national grants managed by regional governments with certain restrictions. Given the lack of own-source revenues, RDI represent the only way in which regional governments can invest in regional development.

During the last ten years, these resources have increased. Indeed, the total grants received by Chilean regions in 2012 were 35% higher than in 2001. However, the rate of increase of RDI has been much lower than that of sectoral investments. In 2001, RDI represented 31% of the total effective public investment. This share declined to 23.9% in 2012, and has only started to slightly increase in the last two years (Figure 3.2).¹⁷ These figures are highly influenced by a rapid increase in the investments of the national Ministries of Public Works and Housing¹⁸ doubling their investments over 1991-2012, as a result of an important national effort of improving transport infrastructure and the provision of housing in the country.

RDI have not been able to follow the same speed as national investment, with a favourable economic scenario – with the exception of the years 2008-09 – in which the political target was for the RDI to reach 50% of the total public investment by the end of 2013 (SUBDERE, 2013b).¹⁹ The situation of municipal investment is even more critical: both municipal investment and the share it represents over total investment have decreased in the last ten years. Municipal investment dropped by 4% in the period 2001-12, representing only 9.2% of total territorial investment in 2012, instead of 16.7% in 2001.

Figure 3.2. Evolution of sectoral and sub-national public investment in Chile

In billions (thousands of millions) of Chilean pesos of 2012



Notes: 1. Percentages within the figure represent the share of total investment in the given year. 2. Figures should be taken with caution: sectoral investment shows information from 25 ministries and public agencies. However, investment data of some important public agencies like CORFO, or INDAP, is not integrated. About 88% of the sectoral investment corresponds to the Ministry of Public Works and the Ministry of Housing. 3. In 2012, the Ministry of Social Development started to implement a new statistical methodology that resulted in changes – in some cases relevant – with respect to figures delivered in previous years.

Source: Serie de Inversión Pública Regionalizada 2001-2012, Ministerio de Desarrollo Social.

Overall sub-national public investment in Chile (considering both RDI and municipal investment) represents 33.1% of total public investment, an extremely low figure when compared with the average country share of direct public investment by sub-national governments in the OECD, 62%, and only similar to that of one of the most centralist OECD countries, Greece (OECD, 2013b).²⁰

A recent elaboration of principles for public investment can help OECD member countries enhance the effects of investments at sub-national level. Given the high share of sub-national public investments in OECD member countries (62%), the design and implementation of the public investments is a key determinant for success. For this purpose, the OECD has identified 12 principles for public investment (Box 3.9).

Administrative restrictions in the FNDR process undermine the achievement of territorial synergies. As mentioned, the FNDR is the main, and almost only, source for regional investment. Regional governments select a portfolio of projects to be financed by the FNDR. Different requesting institutions – mostly municipalities, but also provinces, the regional government itself and deconcentrated national public agencies – submit proposals to the intendant who selects a portfolio of projects that, after approval by the regional council, are submitted to the National Investment System. However, these requests for funding have to pass an *ex ante* analysis on a project-by-project basis managed by the regional secretary of the national Ministry of Social Development (SERPLAC), in which national actors can approve, comment or reject each of the single projects selected on the FNDR portfolio based on their individual social profitability (OECD, 2009a, 2013a).

Box 3.9. Principles for public investment

OECD principles developed by the Territorial Development Policy Committee offer a whole-of-government approach that addresses the shared responsibility across levels of government to achieve better public investment outcomes. They emphasise the crucial contributions that all levels of government can make to sustainable development and long-term inclusive growth. The sub-national dimension of public investments is critical:

- OECD countries spent over USD 1.2 trillion in public investment in 2012. The scale of public investment, overall around 2.7% of OECD GDP and 15% of total investment, masks different levels across and within countries, where that investment may be up to 15% or more of regional GDP. On average, approximately 62% of public investment occurs sub-nationally among OECD countries (72% when weighted by country), i.e. 2% of OECD GDP.
- Sub-national public investment accounted for 11.2% of sub-national expenditure in the OECD area in 2012. Public investment shapes choices about where people live and work, and thus their quality of life. Public investment represents one of the most potentially growth-enhancing forms of public expenditure, and may serve as a catalyst to help leverage private investment. More effective public investment has a critical role to play to address inequalities, rebuild trust, restore growth and enhance well-being.
- Since 2010, consolidation strategies have reduced the resources for public investment, even as private investment in many countries continued to contract. On average in the OECD, sub-national public investment has declined by 13% since 2009. There is notable, but uneven, return to growth among OECD economies, but for many, fiscal constraints remain tight. All levels of government will have to contribute to doing better with less.

Therefore the impact of public investment depends on how governments manage it:

- Designing investment strategies that tap into regional and local competitive advantages can unlock the growth potential of regions, thus contributing to better national performance.
- Effective public investment requires substantial co-ordination among national and sub-national levels of government.
- A combination of investments in hard and soft infrastructure in integrated strategies is needed to maximise long-term sustainable growth.
- Strengthening regional and local governance capacities, from the selection of projects to their execution, is particularly crucial to enhance investment outcomes.
- All regions can bolster capacity, not only lagging ones: what differs is the type of challenges to be addressed. Countries and regions should identify binding constraints in terms of governance capacities and prioritise reforms.

OECD member countries should take steps to ensure that national and sub-national levels of government effectively utilise resources dedicated to public investment for territorial development in accordance with the principles set out below.

Pillar I: Co-ordinate public investment across levels of government and policies.

1. Invest using an integrated strategy tailored to different places.
2. Adopt effective co-ordination instruments across national and sub-national governments.
3. Co-ordinate among sub-national governments to invest at the relevant scale.

Box 3.9. Principles for public investment (*cont.*)

Pillar II: Strengthen capacities for public investment and promote policy learning across levels of government.

4. Assess upfront long-term impacts and risks of public investment.
5. Encourage stakeholder involvement throughout the investment cycle.
6. Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities.
7. Reinforce the expertise of public officials and institutions throughout the investment cycle.
8. Focus on results and promote learning.

Pillar III: Ensure sound framework conditions for public investment at all levels of government.

9. Develop a fiscal framework adapted to the investment objectives pursued.
10. Require sound, transparent financial management.
11. Promote transparency and strategic use of public procurement at all levels of government.
12. Strive for quality and consistency in regulatory systems across levels of government.

Full version available at: www.oecd.org/gov/regional-policy/oecd-principles-on-effective-public-investment.htm.

This system searches to assure the quality of the different projects to be financed in terms of their contribution to social development. However, it does not take into account the contribution of the given project to carry out a more complete, comprehensive initiative. It does not take into account the territorial dimension either: the pertinence of the project in the regional or local context. Different interconnected investment initiatives for the development of the region, or of one/several of its municipalities will be evaluated individually. This makes the financing of integral rural development initiatives by the regional government using the FNDR resources really complex.

The rest of this chapter will identify ways in which sub-national governments can increase their role and intervention in rural development. It will particularly focus on the need to: *i)* further strengthen regional development strategies and the allocation process of the FNDR investment resources; *ii)* raise the resources of rural localities to implement their devolved competences efficiently and to invest in rural development; and *iii)* improve the access of rural areas to services and policies.

Regional development strategies should be strengthened...

Efforts to keep on improving regional development strategies should continue. One way in which the vision from the regions could have higher salience and relevance could be through strengthened regional strategies linked to the investment cycles. However, as noted earlier, regional governments' strategies are not statutory: policies and sectoral investments are not required and normally do not follow their guidelines. This is an important obstacle for adapting investments and policies to regional priorities. It is also a disincentive to regional planning.

Recent progress has been made to better integrate the territorial vision in programmes and policies. An example of this includes the Regional Plans for Land-Use Planning (*Planes Regionales de Ordenamiento Territorial/PROT*²¹):

- First, there are signs that the quality of regional development strategies in reflecting regional priorities in a comprehensive way has improved in parallel with the increasing empowerment of the regional governments' planning division.²² In the past, the potential weaknesses of regional governments in regional planning were often used as an argument for not considering regional governments' opinions on sectoral programmes and investments.
- Second, the requirement to make a preliminary draft on regional investment offers an option for a better horizontal and vertical co-ordination of the different investments in the region, and for taking regional priorities into account in national investments (Box 3.10). The effort to strengthen regional planning, and to give a higher salience to regional priorities on national investments, should continue in parallel.

The better the quality of regional strategies and policies and the clearer and more concrete objectives are stated, the easier it will be to raise awareness of key regional issues and advocate them to be considered and adequately reflected in national programmes and policies. Reinforced regional development strategies, linked to the national investment process, would give the regional government the opportunity to play a greater role in influencing overall regional and rural development.

...in parallel to the strengthening of the regional development and planning divisions

The effort and investment of previous years to improve the capacities of the regional development and planning divisions should continue. Regional development divisions are crucial both to strengthening the quality of the regional development strategies and to linking them to the regional portfolio of projects to be financed by the FNDR. A few years ago, most of the initiatives that integrated the regional investment portfolio of the FNDR had a municipal basis: submitted by municipalities mainly to finance basic infrastructure needs. There were very few multi-municipal or comprehensive regional development types of initiatives submitted to the FNDR (OECD, 2009a). This was related on the one hand, to the lack of regional planning capacities of the regional governments, and on the other, to the lack of sufficient municipal resources to finance the execution of their main devolved competences. There are indications though that regional FNDR portfolios increasingly integrate projects that involve two or more municipalities in the region (OECD, 2013a).

Regional planning and development divisions could have a more formal link with regional councils. Currently, regional planning and development divisions depend directly on the *intendente*. This probably contributed to strengthening this division, as the *intendente* currently remains the strongest political figure in the region. This also helps to promote vertical co-ordination between national and regional development priorities. However, this, at least officially, links the main institution in charge of regional planning and development with a centrally elected figure, the *intendente*. In this regard, in parallel with the strengthening of regional councils as directly elected bodies from the elections of November 2013, it could make sense for the regional planning and development division to have a more direct link and/or dependence from regional councils.

Box 3.10. The preliminary draft on regional investment (ARI)

Since November 2005, the preliminary draft on regional investment (ARI) is recognised by law as the necessary first step in the budgetary process at the regional level. The preliminary draft is designed with the participation of the main public actors in the regions in order to estimate the different regional investment proposals and identify the projects and the analyses to be carried out and their expected costs. Since 2010, each public agency has to upload its pre-investment information by region to the web platform “Chile Indica”. The ARI has to be considered as a basis for the formulation of the budgets of regional governments and of the different line ministries. Potential divergences in the ARI’s content have to be resolved in discussions among these actors. Through this process, a mechanism for co-ordinating public investments in the region is promoted. Once the annual budgetary law is approved, the ARI becomes the public programme for regional investment (Propir). Within a period of 60 days, line ministries have to inform the regional governments about the precise investment programmes to be carried out in their region.

Past evaluations (Valenzuela, 2006) found mixed results on the implementation of the ARI: the quality of co-ordination has varied among regions; the power of the *intendente* to negotiate is limited and linked to his personality and political influence; the National Budgetary Office (Dipres) has the final word, and its decisions regarding investments in the regions follow national/sectoral guidelines. Nevertheless, the elaboration of the ARI offers a valuable exercise in co-ordination, discussion and sharing of the different investment intentions in the region.

This exercise seems to be progressively allowing some regions to improve the links between regional investments and the regional development strategy. This is the case, for example, with the Region of O’Higgins that has been very active in trying to link all the FNDR investments and the investments made by sectoral ministries with the areas and concrete objectives of its regional development strategy. It also has a geo-reference tool of the different investment projects and initiatives, what allows it to have a more holistic approach to rural areas. These tools, if used correctly, could result in better complementarity and synergies, sharing knowledge of what other agencies are doing in a given territory.

Source: Adapted from OECD (2009), *OECD Territorial Reviews: Chile 2009*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264060791-en>.

An excessive multiplication of regional planning instruments should be avoided

In recent years, there has been a rapid multiplication of regional planning instruments. Besides the regional development strategy, some regions elaborate different strategies or regional policies, in areas such as innovation, tourism or rural development. This can be a good exercise in order to analyse the regional strengths and prioritise concrete objectives in areas of special interest for a given region. A concrete regional policy could develop into more detail as part of the general development strategy. However, there is a need to be very careful in generating good interaction between the different planning instruments, to avoid overlapping. At the same time, an excessive proliferation of planning instruments could generate confusion and make it more difficult for the different national agencies to identify what the regional development priorities are.

Regional strategies should give higher relevance to rural development. Rural development is an important component of many Chilean regions (see Chapter 1). This importance should be reflected in the main road map for regional development, the regional development strategy. A few regions have developed their own rural development strategies. This exercise could be a way to focus efforts on rural development in regions that count with a predominantly urban area like the Metropolitan Region, Valparaíso or Bío-Bío. Yet, in regions formed by smaller settlement towns and

rural areas, a single regional development strategy, with a special focus on rural development would probably capture better both the specificities and diversity of rural areas, and the dynamics of urban-rural interactions.

Further public-private collaboration and the involvement of civil institutions (e.g. universities) in regional planning would be recommendable. Given the market orientation of the country, and the important role that private actors take in the provision of some services like infrastructure, economic development planning seems to be largely conceived as something to be brought about only by government policy rather than through collaboration with the private sector. Inviting the private sector (e.g. representatives of the main regional professional associations, of small and medium-sized enterprises, or of regional universities) to participate in the planning process can help to have a broader knowledge of the different potentialities and challenges of the rural areas in the region. It could also help to download the general guidelines of the strategies in concrete actions and initiatives with the participation of the private sector.

Centralisation/concentration is replicated at the regional level

Rural areas within regions are very diverse. As in most OECD countries, in Chile the diversity of rural areas does not respect regional administrative boundaries. Social, cultural and landscape differences along the country and across its regions have shaped rural areas with very different socio-economic idiosyncrasies: coastal communities, Andean communities, rural areas with a high presence of medium-sized and dynamic farmers, subsistence farmers, or indigenous communities, isolated communities, rural communities on the outskirts of the city in high interaction with urban dynamics, just to mention a few. Rural policies require being sensitive to these particularities.

The Chilean centralism is in some way replicated at the regional level, challenging the adaptation to the particularities of rural areas. In Chilean regions, most of the population, political power and public services remain concentrated in the regions' capitals. Within this context, there is an extended feeling in rural areas that the vision from the regional capitals does not completely understand or take into consideration the particular challenges and potentialities of rural areas (SUBDERE, 2013a) and that even if regional governments acquired more competences, resources and/or autonomy in the future, this will not necessarily be translated in further attention to rural areas, or in policies more sensitive to rural realities. Rural localities thus require having a word to say in rural development.

Rural localities are in a disadvantaged position to get finance and investment

Local governments in Chile depend largely on central government transfers and have limited sources of own-revenue, leaving few resources available for economic development investment. On average, only 39% of municipal incomes come from own-source revenues. This percentage is even lower for the smaller municipalities: localities of less than 15 000 inhabitants receive on average only 22% of their incomes from own-source revenues.²³ Municipalities have additional limitations on their access to resources. They cannot request private credit or introduce additional taxes. This creates a high degree of municipal dependence on external transfers. Financial limitations undermine the ability of municipal governments to carry out their devolved responsibilities efficiently. In this context, poorer and smaller municipalities normally do not have the resources to invest in rural development initiatives. Only the wealthier

localities – mainly located in the metropolitan area of Santiago – can normally afford to use their own-source revenue to invest in local economic development (OECD, 2009a; 2013a).

Beyond the revenues they generate and the earmarked grants for education and health, municipalities have two external primary funding sources: the Common Municipal Fund (*Fondo Común Municipal*, FCM) and the FNDR. The FCM is a horizontal equalisation fund, searching to compensate for the wide income and revenue disparities across municipalities in Chile. Yet, even after the FCM transfers, the per capita income of wealthier municipalities in the Santiago Metropolitan Region is, for example, six times that of the poorer ones, meaning that transfers are still insufficient to compensate for municipal imbalances (Valenzuela and Rojas, 2012). In this context, demands for local economic development at municipal level are mostly restricted to the preparation of specific projects to be submitted for FNDR financing.

There are several significant shortcomings associated with the FNDR as a source for financing rural development initiatives. Because of fiscal shortfalls, municipalities often apply for and receive FNDR funds to cover needs unrelated to local development projects (e.g. funds to attend to the most basic maintenance projects). In addition, the project-by-project structure of the FNDR makes financing comprehensive rural development initiatives complex. Finally, municipal governments apply to FNDR funds through a competitive process. In this process, smaller rural municipalities are in a disadvantaged position: given the small size of its population, it becomes difficult to justify a rural or local development initiative under the *ex ante* social profitability evaluation of the project, as it could appear as a “non-essential” initiative, relatively expensive given the small number of people it will benefit. Rural municipalities also tend to have smaller and less qualified municipal technical teams in charge of preparing the projects subject to be financed. All these leave rural municipalities in a disadvantaged position in the open competition for resources. In this context, bigger municipalities or those with better technical capacities to formulate projects are in a better position to capture more investment resources. This system adversely affects rural municipalities, and might contribute to increasing rural-urban disparities (SUBDERE, 2013a).

The territorial dimension should be integrated in the ex ante evaluation of FNDR projects

To avoid these limitations of the FNDR, territorial development aspects should be integrated as part of the elements to evaluate the social profitability of projects:

- First, the national investment system should allow the evaluation of multi-project integral initiatives as a whole, and consider their overall contribution to social and territorial development.
- Second, additional variables could be included to offset the potential negative evaluation that requests for investments in scarcely populated rural areas can receive in the FNDR’s *ex ante* social profitability assessment given their high per capita cost. Potential variables to consider are the cost of providing services in the given locality or the degree of isolation of the place. These adjustments will help to take full advantage of a fund that was created both to promote regional development and to compensate for regional inequalities.

Finally, there is a need to increase the own-source revenues of local governments so the most basic needs of municipalities could be covered using other income sources,

while requests to get FNDR financing are focused more on productive or economic local development initiatives.

There is a need to reduce the high tax/patents exemption structure to increase municipal own-source revenues

There is an extensive exemption structure to the main sources of municipal own-source revenue that particularly affects rural municipalities. Chilean municipalities have two main sources of own-source revenue: a territorial tax and the issuing of municipal business licenses (*patentes municipales*).²⁴ The territorial tax is a property tax that charges the calculated land or property value. The tax rate is fixed by the central government. The extensive territorial tax exemption structure particularly affects the poorer and the rural municipalities. On the one hand, properties below a certain taxable price level – highly concentrated in low-income municipalities – are completely exempted from paying the territorial tax, while properties of less than 140 m² (DFL2 properties) pay only half of this property tax for a number of years. On the other hand, based on a law from 1974, forestry companies are exempted from paying the territorial tax until two years after the first tree-cut. Thus, they could be exempted from paying the territorial tax for the first 20-25 years. There are indications though, that sometimes this exemption continues even after this initial period, given the fact that it is complex to calculate the different land sections with mature trees subject to pay taxes. The combined effect of this high exemption system over small municipalities is reflected in Table 3.1: more than 70% of the Chilean municipalities of less than 15 000 inhabitants have at least 75% of the properties settled in their municipality exempted from paying the territorial tax; only 5% have more than 50% of their properties contributing to this tax (Table 3.1).

Table 3.1. Share of properties exempted from the territorial tax in municipalities below 15 000 inhabitants, 2012*

Properties exempted	Share of municipalities of less than 15 000 inhabitants
Less than 50% of properties	4.8%
50-75% of properties	24.8%
More than 75% of properties	70.3%

Note: * Calculated over the 145 Chilean municipalities that have less than 15 000 inhabitants.

Source: www.sinim.gov.cl.

The government should consider reducing or phasing-out property tax exemptions as they generate a heavy burden for low-income and rural municipalities that lack the resources to invest in local economic development. Past OECD reviews already outlined the need to reduce the exemption structure to the territorial tax (OECD, 2009a; 2012a; 2013a). With respect to the exemption to low-income houses, changes could be implemented in order to apply the tax exemption only to low-income properties belonging to households under the poverty level (currently exempted properties can be secondary residences). With this modification, the situation would improve, but rural municipalities with a high presence of low-income families would still have a high presence of properties exempted. To offset this problem, parallel measures would need to be implemented to further compensate those municipalities for the fiscal shortfall due to that exemption,²⁵ as the current compensation through the FCM is insufficient (OECD, 2009a; 2013a). With respect to properties less than 140 m², the tax exemptions would

probably need to be phased out, as already recommended by both the 2012 *OECD Economic Survey of Chile* (OECD, 2012a) and the *OECD Urban Policy Review of Chile* (OECD, 2013a).

The government should also consider negotiating a revision of the exemption to the forestry companies. This exemption was part of a group of incentives for the settlement of forestry companies in the 1970s. This argument seems no longer reasonable, as forestry companies are broadly spread around Chile. The other reason for the exemption can be the fact that the revenues of forestry companies are obtained only after the first tree-cut. However, the cost of opportunity in fiscal terms for the municipalities is very high, as this land could be allocated to other activities or uses subject to pay the property tax. It would be recommendable to start a round of negotiations with all the parties involved (e.g. Forestry Industry Association; Chilean Association of Municipalities; SUBDERE; DIPRES), in order to try to find a convenient and fair solution for the different parties, that considers the side effects that the current exemption framework is having over municipal incomes.

There is a need to enforce the payment of municipal business licenses (*patentes municipales*) in the municipality where the main activity is carried out. Municipal business licenses tax the exercise of any profession, job, industry, trade, art or any other secondary or tertiary lucrative activity. All of them are subject to a municipal contribution that is paid through the respective municipal license. The cost of this license is calculated on the basis of the declared firm/business/industry capital (assets less liabilities) informed by the company to the tax authorities. The rate to be applied ranges between 0.25% and 0.5% annually depending on the municipality and the kind of activity. The maximum amount to be paid is of 8 000 UTM²⁶ – equivalent to approximately EUR 480 000 – overall per company. The current law allows for companies with several branches to have fiscal benefits if they declare investing part of their benefits in its other branches located in municipalities with a lower tax rate, or in those in which its capital is lower.²⁷ This has generated complaints that often big companies or industries settled in rural areas pay extremely low amounts of the municipal business license in the municipality where the main activity is carried out.²⁸ Chilean authorities should consider revising the municipal income law, in order to avoid potential legal subterfuges, and to potentiate that the municipal patent permit is paid in the municipality where the main activity is carried out.

Raising the municipal tax contribution of business and industrial activities would have different benefits. In other OECD countries, rural municipalities, even the smallest ones, get attractive fiscal benefits when a company or industry decides to settle in their administrative territory. This allows rural municipalities to have an interesting tax benefit, for economic or industrial activities carried out in their territory, as, for example, the production of energy (Box 3.11). These revenues can be used to improve the provision of public services or to invest in local economic development initiatives. At the same time, raising the contribution of industrial or business activities to municipal incomes could contribute to internalising the negative externalities and to counterbalancing the negative perception that sometimes the deployment of some industrial activities (e.g. energy plants) generate in rural areas in Chile: often they are perceived to generate most of the benefits (production of energy) in urban areas, while the negative externalities (e.g. environmental) are mostly felt in the rural areas where they are settled.

Box 3.11. Renewable energy as a source of financial resources for small municipalities in Spain

Renewable energy (RE) development is largely seen in Spanish municipalities as an important source of employment and as an opportunity to diversify farmers' income sources. Beyond employment-related opportunities, renewable plants resulted in an injection of fiscal revenues for local governments. Investors have to pay the hosting municipality different land-use and permit-related taxes. These advantages are clearly very attractive for small municipalities in rural areas, which may even use the new revenues for promoting other development initiatives.

RE investors have to pay the hosting municipality: *i*) a lump-sum equal to between 2% and 5% of the initial investment to reclassify the use of land from agricultural to industrial (each municipality decides its own rate); *ii*) 2% of the initial investment for the construction permit; *iii*) an annual trade income tax if total turnaround is above EUR 600 000 a year; and *iv*) property tax. Local municipalities can provide investors with fiscal advantages, such as exemption from the property tax for some years.

The case of the Extresol solar thermal power plant is a good example of the impact of locating a large-scale RE plant in a small municipality. Extresol comprises three 50 MW plants; two are already operating and the third is under construction. It is located in the municipality of Torre de Miguel Sesmero (1 280 inhabitants) The construction of the first Extresol plant employed 350 workers and the second employed 500 workers. Operating and maintaining both plants currently employs 100 people, with an additional 50 jobs expected from the third plant. The surrounding municipalities also benefited from additional jobs and service provision during construction, as Torre de Miguel was too small to offer the required services. Fiscal revenues earned from the reclassification of land use and working permits for the two first plants were equivalent to more than 12 times the former annual municipal revenues. In addition, the company will pay trade income and property taxes. The municipality has three main priorities for using the additional resources: *i*) to invest in infrastructure; *ii*) to support rural tourism as an income-diversifying local development activity; and *iii*) to fund social projects (e.g. a residence for the elderly).

Source: OECD (2012), *Linking Renewable Energy to Rural Development*, OECD Green Growth Studies, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264180444-en>.

It will be important to match extended financial resources with enlarged capacities

Local governments and rural localities lack the resources, but sometimes they also lack the capacities and the qualified staff to execute their devolved competences efficiently, a situation that is especially problematic for less-developed localities (OECD, 2009a). In this regard, some localities may find it more difficult than others, in human and institutional terms, to cope with devolved responsibilities. This is an important challenge in countries with marked territorial inequalities such as Chile. Actions to provide less-developed localities not only with enough resources but also with the appropriate means and capacities to execute an enlarged mandate efficiently will be thus crucial. The government of Chile, and particularly SUBDERE, has been working to improve the capacities of sub-national governments for several years. Efforts are welcomed and should continue.

As outlined by the *OECD Territorial Review of Chile* (2009), the success of these measures is likely to be related to several parallel factors: *i*) the existence of efficient multi-level governance arrangements for co-operation and co-ordination; *ii*) the release of regulatory constraints that impede the adaptation of municipalities' organisational structure to local requirements; *iii*) the gradual implementation of a learning-by-doing

framework by offering technical assistance and capacity building along with the progressive transfer of responsibilities; *iv*) the use of performance management processes and indicators to monitor the processes; and *v*) the participation of sub-national governments and institutions in the assessment of the most important skills and training programmes required.

There is a need to find innovative ways to improve the access of rural areas to services and policies

The access and availability to public services (e.g. secondary and tertiary education, specialised health attention) and private business services (e.g. banking, training, insurance), is crucial for the social and economic development of the rural community. They contribute to social and economic development in at least four ways: they provide a platform for economic development, enhance human capital, bolster social cohesion and strengthen network economies.

Rural areas, not only in Chile but in most OECD countries, have more difficulties in accessing many public services and private/business services. The provision of services in rural areas in Chile has improved during the last decades; however, the gap between rural and urban areas both in coverage and in quality in key public services like education remains high (Chapter 1; OECD, 2009a; Valdes, 2013). High-quality public services and private services in general tend to be concentrated in the capitals of the region and in the main population centres. The delivery of such services is invariably more expensive and complex in more sparse rural areas, as a result of different conditioning factors such as the high cost per unit for providing the service – given low economies of scale and the small client base – the sparseness of the population or the isolation of the place (OECD, 2010c). The concentration of high-quality services in urban areas make them more attractive places to live, other things being equal. They therefore stand a better chance of gaining residents from rural areas, and this, in turn, facilitates the growth of a diverse range of high-quality services in a self-reinforcing trend.

All these points emphasise the growing importance of addressing public services as a platform for economic development in rural areas (OECD, 2009c). OECD countries have confronted the challenge of delivering public services in remote locations in different innovative ways. The cases of Finland and Sweden are especially interesting for the small size and remote location of most of their municipalities (Box 3.12). 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 (OECD, 2010c).

The peripheral situation of many rural areas also means being distant from where the main public agencies with resources to implement policies and programmes are located. As mentioned earlier, higher municipal incomes could contribute to improving the capacity of municipalities to provide their devolved competences and to invest in economic development. However, most of the rural development resources remain in the hands of national public agencies. Getting access to these agencies, to their programmes and policies is thus crucial. With the exception of INDAP (with a well-spread network of offices), most public agencies with programmes and operations in rural areas are concentrated in the capital of the regions. This means that the inhabitants of peripheral or isolated rural municipalities are in a disadvantaged position to access such services or programmes. The complex net of different agencies and programmes also make it

difficult for rural dwellers to know which public agency is the right one to turn to (SUBDERE, 2013a). Finally, the physical separation between the public provider and rural communities also contributes to generate a knowledge gap, making more difficult to provide programmes and policies sensitive and adapted to the different rural realities. Of course, the solution cannot be multiplying the presence of public agencies in each municipality, due to the costs and administrative challenges that this would pose.

Box 3.12. Innovative ways of public service delivery in rural areas

- Combining multiple functions – one-stop shops: Finland has been highly recognised for its innovative solutions for the provision of services in sparsely populated rural areas. These innovative approaches can be classified as follows. The Citizen Service Offices, allow the provision of services (whether public, private, non-profit or mixed) to be provided from a single outlet. It also allows holistic customer service, which is easier at a single point than if the customer had to contact several authorities. This system may have a positive impact for access to certain services in rural areas, where commonly citizens are required to commute to the sites of provision for accessing the different services. The objective of the Citizen Service Offices system is to offer citizens a single outlet for services that are suited to be managed jointly, i.e. municipal district court (such as a city administrative court, licences and permits managed by the police, recovery proceedings), tax and work administration, National Pension Institute and other regional and local authorities. The services provided through Citizen Service Offices includes reception and handing out documents, 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 service and efficient utilisation of information technology, a sufficient and high-quality service network, increase the productivity of the local service network and reduce costs. The holistic approach of Citizen Service Offices make possible to address two big challenges of sparsely populated areas: *i*) improving access and quality to the public administration's services, as customers may cover several transactions in the same visit; and *ii*) responding to the productivity programmes for the public sector that would otherwise deteriorate access for remote areas.
- Mobile services: As populations get thinner in sparsely populated rural areas, the provision of public and private services becomes more difficult. This has resulted in the closing of an important number of services, public and private, in sparsely populated rural areas. As the network of services becomes thinner, there is the need of either bringing people to the services or bringing services to the people. In the sparsely populated areas of Eastern Finland, some of the public and private services have been provided through mobile service units, the most frequent cases being mobile shops, mobile libraries, but also some innovative services such as a voting bus or nurses visiting patients at their home in several municipalities. However, due to the declining population and cuts in public budgets, these services have also been rationalised. Several structural factors like dispersion of population or geographical conditions often imply that the cost of taking public services to people or people to the services becomes very high. An alternative is trying to influence the demand side, by strengthening the services in a number of well-communicated rural communities.

Box 3.12. Innovative ways of public service delivery in rural areas (*cont.*)

- Information technologies: ICTs can improve the efficiency of public service delivery in sparsely populated and remote areas (e.g. through e-health and distance learning). ICTs can bring significant opportunities to rural areas, providing not only access to information, but also the ability to provide services that until now were largely thought to be urban (OECD, 2006b). Some identified advantages of ICT for service delivery in rural areas are that they: *i*) contribute to reducing the costs associated with physical distances; *ii*) improve access to information; *iii*) allow scale economies without proximity; and *iv*) improve quality services through tele-work, e-education, health services delivered on the web, etc. (OECD, 2007). The availability of extensive and efficient ICT connections, accompanied by well-developed ICT utilisation skills among the general and business population, can also offer new business opportunities and help rural firms in small and remote places to penetrate distant markets.
- E-health: Norrbotten County in Sweden offers a practical example of how e-health can provide more efficient and less costly health services. Access to health services in remote, large and sparsely populated regions like Norrbotten creates challenges for patients and for the public administration: long distances to get medical attention and high costs per patient. Norrbotten County has been a pioneer in implementing and getting results from e-health services. Videoconferencing is used in several services: neonatal care, psychiatry, pathology, haematology, physiotherapy and transmission of real-time ultrasonograph examinations. This allows, *inter alia*, daily videoconferences between hospital and local psychiatric units, planning of care activities and exchange of information on patients needing specialist inpatient treatment. Nurses taking care of the elderly can perform basic exams, send the results via the Internet and discuss them with a doctor who is far away. In this way, the care provided by nurses is much more efficient and the patient is moved to a hospital only when there is a true need. In addition, a remote-controlled “robot” has been developed for examining patients suffering from a heart condition. This robot makes it possible to examine at a distance, through the use of video, ultrasound images or a remote-controlled stethoscope. Doctors 200 kilometres away can partly monitor patients. All have reported several benefits for the county: better access to health services; fewer visits to the doctor and fewer stays in hospital (providing more at-home attention) with a consequent saving of time, private and public resources; access to specialists beyond county borders and throughout the county; and reduction of pollution due to less travelling.

Sources: OECD (2006), OECD International Rural Development Conference “Investment Priorities for Rural Development”, Key Messages, Edinburgh, Scotland, 19-20 October; OECD (2007), OECD International Rural Development Conference “Innovative Rural Regions: The Role of Human Capital and Technology”, Key Messages, Cáceres, Spain, 21-23 March; OECD (2008), *OECD Rural Policy Reviews: Finland 2008*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264041950-en>; OECD (2010), *OECD Territorial Reviews: Sweden 2010*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264081888-en>.

Multi-service centres in a number of well-communicated rural municipalities are of special relevance for Chile

Multi-service centres or one-stop-shops offering an access to different rural development programmes and public/private services in a number of well-communicated rural municipalities (attending to several surrounding localities) could be a way of closing the physical distances between rural inhabitants and agencies, and of offering a comprehensive offer of the different programmes and services offered by the numerous public actors in Chile.

The Micro-Regions Strategy in Mexico is an interesting example of the potential benefits of strengthening service provision in a number of well-communicated rural communities (Box 3.13). In the case of Chile, in some cases INDAP's deconcentrated offices (122 across Chile), if reinforced and adapted, could be used as a base for offering a more comprehensive multi-service centre, in which rural dwellers could access a rural development assessment and the most important public services offered by the main public institutions (e.g. different public agencies of the Ministry of Agriculture; the Ministry of Social Development, CORFO, Sercotec or the Undersecretary of Fisheries).

However, an in-depth evaluation should be made, taking into consideration demographic, economic, cultural and infrastructure aspects to decide whether the current location of these offices is the best one, or if it needs to be adapted. This measure could contribute to avoid overlapping, to improve the interaction between the different public agencies, and potentially to provide policies more adapted to the different idiosyncrasy of rural areas.

Box 3.13. The Micro-Regions Strategy in Mexico

The Micro-Regions Strategy, launched in 2001, identified the 263 most marginalised rural regions in the country and selected among these regions a number of “micro-poles of development”, the so-called strategic community centres (CECs) based on their potential to assume local leadership, economic development and the ability to influence surrounding areas from a commercial or cultural perspective. The strategy contemplated an “all government approach” oriented to co-ordinate the efforts of 12 ministries in the delivery of public services and infrastructure investment in these CECs a minimum standard of services in 14 specific fields. The objective of the strategy is to induce endogenous development through the creation of “micro-poles of development”, in the CECs. The CECs have the function to concentrate the necessary basic infrastructure and services for the local population and the surrounding settlements. Authorities expect that these “centres” will be able to help overcome the difficulties linked with the provision of basic services and even foster a concentration of population around them to create larger rural hubs and contain migration towards urban areas.

The specificity of the scope of the Micro-Regions Strategy (263 regions, 14 indicators) allows monitoring the advances and deficits in each of the areas of support through an objective and socially shared validation mechanism: for each of the CECs, the stated objective is to reach 14 “*banderas blancas*” (white flags). Each white flag certifies that a CEC has been endowed with a certain level of infrastructure or service. In practice, fulfilling the deficit of white flags in 100% of the CECs has become a quantifiable medium-term goal that orients the direction of the strategy. By the end of 2006, close to 60% of the close to 33 000 required white flags had been established.

Source: OECD (2007), *OECD Rural Policy Reviews: Mexico 2007*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264011687-en>.

Inter-municipal co-operation could play a key role

The increasing challenges of rural municipalities call for reinforced municipal co-operation. Beyond the mentioned financial challenges, rural localities in Chile confront important challenges for recruiting and retaining highly skilled or specialised staff. This, in turn, affects the capacity of the municipality for providing efficient public services, and, as mentioned, for designing competitive local development projects subject to be financed by the FNDR or by other external sources. Inter-municipal co-operation can contribute to overcoming some of these challenges. The experiences of other OECD countries that have historically promoted inter-municipal co-operation, like Sweden

(OECD, 2010b; 2012c), refers to different advantages that could be especially relevant for Chile:

- Inter-municipal co-operation can facilitate the realisation of economies of scale and scope in the provision of services and improve the cost-effectiveness and quality of certain public services. Pooling resources and capacities may positively affect the capacity of local governments to deliver services more effectively and at lower cost.
- It can be important for recruiting or sharing the services of highly skilled or specialised staff (managers, engineers, biologists) for a group of municipalities. This could be of great interest in the case of rural municipalities in Chile, which could share the few available technical staff in rural areas, sharing as well the costs.
- It could help to conduct shared local economic development plans or to carry out shared strategies to promote the local economy or the local tourism.
- It could also help to promote shared challenges and interest in relation to national agencies and institutions: a group of municipalities presenting a common position could always be stronger defending or promoting shared needs, challenges and interests than single small municipalities alone.
- Building inter-municipal associations with shared development initiatives can help to overcome administrative fragmentation at the local level, since the borders of administrative units rarely coincide with functional areas (in economic or labour market terms).

The legal framework for municipal co-operation has improved

Until recently, associations of municipalities had a lack of legal status. A project covering several municipalities can be presented but it has to be administered by a single municipality (for the group) (OECD, 2009a). Even with these limitations, several municipal associations already exist in Chile, and have developed projects and initiatives in common. Yet, legal restrictions strongly constrained the possibilities and incentives for municipal co-operation:

- In 2011, legal reform finally gave legal personality to associations of municipalities. These associations can have a variety of purposes, including: providing common services; executing public works linked to local development; strengthening management/administrative instruments; implementing programmes for environmental protection, tourism, health or other as appropriate to the municipalities; training of municipal staff; co-ordinating with national or international institutions to improve municipal administration (OECD, 2013a).

But more legal incentives might be necessary

There have been efforts to promote the potential advantages of inter-municipal associations and the benefits of the recent legal reform. Since 2007, SUBDERE has been promoting and giving technical support to municipal associations through the programme for strengthening municipal associations. Since 2012, there is also a special unit on municipal associations within SUBDERE. Recently SUBDERE also carried out a series of seminars in Chilean regions to explain the new guarantees and benefits that the new Law on Municipal Associations offer.

Efforts to promote municipal associations should continue. As of June 2013, there were only 13 municipal associations that had acquired legal personality. The legal reform is still very recent. But the important benefits that municipal associations could bring to rural localities call to continue promoting these kind of horizontal co-ordination arrangements. Again, other OECD countries with a long inter-municipal co-ordination experience talk about two main obstacles that the formation of these associations should normally confront (OECD, 2012c):

- Often it becomes difficult to reach a consensus on which activities to carry out jointly and how to do so. There can be difficulties in reaching a consensus between two or more independent administrative units, in deciding where to allocate resources, which kind of common organisation to establish, or how to tackle the common challenges, or in choosing the location of jobs or the common committees.
- Incentives for co-operation. Formal co-operation involves time, trust, political consensus and administrative arrangements. However, the incentives may be weak as the benefits of regional co-operation may be difficult to capture in political terms, and it can be difficult to show measurable impacts of territorial co-operation in the short term.

To overcome such obstacles, local authorities often require incentives. Some OECD countries have adopted a top-down incentive policy to encourage municipalities to co-operate. Experience shows that legal instruments to promote co-operation work better when accompanied by fiscal incentives. In France, laws for the creation of agglomeration communities promote voluntary co-operation by offering participating municipalities an incentive grant. One of the conditions is that the municipalities accept to transfer certain responsibilities (mandatory and optional) to the new supra-municipal body. In Spain, the draft Law in Rationalisation and Sustainability of the Local Administration (*proyecto de Ley de Racionalización y Sostenibilidad de la Administración Local*) approved by the Council of Ministers in July 2013 proposes several incentives to those municipalities that decide to merge, including more funding per capita and preference in the assignment of local co-operation plans or grants. Municipal co-operation in the provision of services is also promoted: when a provincial council proves that a joint provision of services by several municipalities results in cost reductions, these municipalities will receive higher funding from central government grants (OECD, 2014). Chile could promote different kinds of incentives, for example, facilitating the provision of financing to those municipalities presenting a common plan or a shared agreement for a joint provision of a service. Regional government could also help to analyse and promote areas for inter-municipal co-operation, promote meetings and networks of municipal staff and/or facilitate the access to FNDR resources to these groups of municipalities presenting shared regional development initiatives.

Inclusive participation should be further promoted

Inclusive participation would contribute to a better and more targeted use of resources. Extended research has shown that effective public service delivery depends to a high degree on the involvement of a variety of local groups and stakeholders in political decision making (Blair, 2000; de Oliveira, 2002; Ribot, 2002; Singleton, 1998). OECD country experience also shows that greater openness and participation in policy making and service delivery can have several economic and political advantages and contribute to better use of public funds by planning and implementing policy options on the basis of

more comprehensive knowledge. Open and participative policy making can also increase policy legitimacy and help local stakeholders understand policy measures and reforms (OECD, 2008b).

As already mentioned in the 2009 *OECD Territorial Review of Chile*, inclusive participation in decision making in Chile would require additional measures to reach traditionally excluded social groups. The planning and implementation of bottom-up territorial development policies is not only about taking into account the opinions of regional and local governments, but also about inclusive participation of the different local stakeholders that will benefit from or be affected by the policy or programme. This is particularly relevant in the case of rural areas in Chile, where there are some important stakeholders, particularly indigenous peoples and small farmers, with very particular challenges that traditionally have not participated or had access to policy design and implementation.

Experience in OECD countries demonstrates that inclusive participation requires concrete efforts to ensure socio-economic and cultural inclusion (OECD, 2008b). The use of trusted intermediaries or local organisations that have strong support among the non-engaged can help involve target groups that may distrust external actors. This would be especially useful for working with indigenous peoples. In such cases, the use of multilingual information and staff (for example, in INDAP offices in areas where there is an important presence of indigenous groups) would also be helpful. Extending the implementation of bottom-up programmes with the participation of small farmers and indigenous peoples in its design and implementation would be also very positive, as it would allow adapting the programmes to their particular challenges and make them participant and part of its implementation.

Conclusions

Chapter 3 analysed the main institutional and governance challenges of rural policies in Chile. In governance terms, rural policies in Chile confront two main challenges: *i*) an excessive top-down approach that makes it difficult to adapt policies and programmes to the diverse realities, idiosyncrasies, needs and potentialities of rural territories; and *ii*) a lack of institutional frameworks and mechanisms for generating co-ordination and synergies between the diverse array of programmes and institutions that promote rural development in Chile.

The current development of a national policy on rural development could help confront the second challenge. However, other OECD countries experiences show that there are certain elements that need to be considered if this policy is to be efficient in promoting inter-institutional co-ordination and synergies, including:

- the involvement of civil society and academia as providers of local and technical knowledge
- the ownership of the strategy by the main government and non-government actors
- clarity in the allocation roles and responsibilities
- monitoring and evaluation processes
- leadership of the process by a broadly supported and efficient institution that acts as a “rural champion”. This rural leader would have to work to guarantee that

rural remains on the agenda and is not ignored or diluted by the multiple priorities of sectoral institutions.

Defining a broadly accepted rural policy and nominating a rural champion are necessary, but not enough. Parallel co-ordination and governance arrangements will still be necessary. In this regard, this chapter recommends various governance arrangements that could contribute to supporting the role of a national rural development policy and of a rural champion, including: an inter-ministerial working group on rural development, a potential institutional re-organisation, rural proofing arrangements, joint inter-ministerial/inter-agency programmes/funds, and a better inter-institutional articulation of central government agencies at the regional level.

Beyond higher interaction and synergies between policies, the other main governance challenge outlined in this chapter is the excessive top-down orientation of rural development policies and programmes in Chile. The centralism of the Chilean administrative system and the limited mandate, capacity and resources of regional and local actors, challenge the adaptation of policies and programmes to the diversity, idiosyncrasies, demands and potentialities of rural territories in Chile.

One way in which the vision from the regions could be considered further could be through strengthened regional strategies with a closer link to investment portfolios. This will give the regional government and the new planning division the opportunity to play a stronger role in regional planning, integrating the territorial vision in programmes and public policies. In this regard, the effort and investment made in previous years to strengthen the regional development strategy and the regional planning division should continue.

Matching devolved responsibilities with sufficient resources, with technical and administrative support and with institutional legitimacy for the sub-national actors will be crucial. During the last years, the government of Chile set high priority on decentralisation with the aim of providing sub-national governments with expanded tools, resources and competences. Progress remains irregular. The assignment of responsibilities should be accompanied by a concomitant allocation of the resources and competences necessary to carry them out efficiently. In the case of Chile, this will require greater trust and support on the part of national institutions to sub-national actors and institutions. Multi-level governance and co-ordination arrangements, mechanisms to promote capacity building, performance management and accountability could help (OECD, 2009a).

In particular, there is a need to strengthen the resources of rural localities to implement their devolved competences and to invest in rural development. Rural localities have very limited own-source revenues. They are also in a disadvantaged position when competing for external resources (mainly from the FNDR) as it becomes more difficult for them to justify rural or local development investment requests under the *ex ante* cost-benefit evaluation of projects. The lack of good services and insufficient investments lower the economic development prospects of these places and contribute to generating rural to urban migration. This chapter includes two main recommendations to confront these challenges. First, increasing rural municipal own-source revenues by reducing or phasing out property tax exemptions, and enforcing the payment of municipal business licenses in the municipality where the main activity is carried out. Second, reducing the disadvantages of rural localities when competing for FNDR resources by incorporating additional variables that consider the cost of providing public services in scarcely populated areas in the FNDR's *ex ante* social profitability assessment.

Beyond financial challenges, rural localities in Chile confront other important challenges, including recruiting and retaining highly skilled or specialised staff. Inter-municipal co-operation can, among others, contribute to overcoming some of these challenges, improving the cost-effectiveness and quality of certain public services, facilitating the recruitment or sharing of highly skilled or specialised staff (managers, engineers, biologists) for a group of municipalities, and giving stronger salience to the requests and interest of rural localities in relation to national agencies and institutions. Municipal co-operation does, however, not occur automatically, and public intervention and support through a clear programme of incentives would probably be required if municipal associations are to be further promoted.

This report also proposes to develop rural multi-service centres or one-stop shops as a way to provide a more coherent and accessible offer of national rural development programmes and public-private services. These multi-services centres could be established in a number of well-communicated rural municipalities (attending to several surrounding localities). This measure could contribute to close the physical distances between some rural localities, and public agencies and programmes. It could also help to avoid institutional overlapping, while improving the interaction between the different public agencies. Finally, it could potentially help to provide national policies more adapted to the realities of rural areas.

The chapter makes mention of the need to strengthen the measures to reach traditionally excluded social groups of rural areas, like indigenous peoples and small farmers, involving them in the design and implementation of rural policies. These measures can have several economic and political advantages, contributing to a more informed use of public funds, increasing policy legitimacy and helping local stakeholders understand and feel part of policy measures and reforms.

Notes

1. The composition and main functions of sub-national territorial units are further described in Annex 3.A1.
2. The *intendente*, as the executive head of the region and president of the regional council, should act in the best interest for the region's development. However, as a representative of the central government in the region, the *intendente* is also called upon to represent and implement national level policies and guidelines, which may not always align with regional priorities (OECD, 2009, 2013).
3. Up to now, regional councillors were indirectly elected by municipal councillors.
4. Regional governments do not have an independent budget for carrying out regional investment. However, they guide the allocation of resources from the FNDR. Different requesting entities (mostly municipalities, but also provinces, the regional government itself and deconcentrated national public agencies) submit proposals to the *intendente*, who selects a portfolio of projects for submission to the National

Investment System. DIPRES (the National Budgetary Secretary) can validate or comment on the initiatives selected by the regional government.

5. National actors can approve, comment or reject each of the single projects selected on the FNDR regional investment portfolio.
6. National transfers, including earmarked transfers for health and education, as well as access to specific – generally sectoral – funds, and transfers from the municipal equalisation fund (*Fondo Común Municipal*, FCM).
7. Of course, there are cases in which very active mayors take the lead, look for and get resources from national institutions to direct them to rural development promotion. These cases, however, do not hide the mentioned local government financial challenges or the difficulty to promote rural development comprehensive plans under the current administrative and financial structure.
8. Beyond farm-related issues under its domain.
9. Information obtained during interviews with senior officers during the OECD fact-finding missions in 2013.
10. As mentioned, public agencies are integrated in ministries, but they operate with a high degree of autonomy in the implementation of the policies they are in charge of.
11. INDAP through PRODESAL, FOSIS through its programme of support for self-consumption (*Programa de Apoyo al Auto-consumo*).
12. In the case of the Ministry of Health with health surveillance of the systems of potable water supply in rural areas.
13. It is one of the public agencies with the most presence in the field: more than 122 offices serving rural territories in Chile.
14. The section will not be normative about which model Chile should adopt, but provides some examples of what OECD member countries have done, taking into account the pros and cons of the different models.
15. The details of this programme can be accessed at: www.crececontigo.gob.cl.
16. The FNDR represented 77.2% of the total regionally defined investment in 2012. Resources from programming agreements represent 19.5% and the Regional Investment Programme (IRAL) 3.3%.
17. Figures should be taken with caution: sectoral investment shows information from 25 ministries and public agencies. However, investment data of some important public agencies, like CORFO or Indap, is not integrated. About 88% of the sectoral investment corresponds to the Ministry of Public Works and the Ministry of Housing. In addition, in 2012, the Ministry of Social Development started to implement a new statistical methodology that resulted in changes – in some cases relevant – with respect to figures delivered in previous years.
18. Both ministries made 88% of the total effective sectoral investment reported by the Ministry of Social Development in 2012 (SUBDERE, 2013b).
19. President Piñera announced that the share of IDR in total public investment will reach 50% at the end of its presidential mandate (SUBDERE, 2013b).

20. Figures for the average share of direct public investment by sub-national levels of government in 2012. The figure of 62% is an unweighted average of country shares and thus should be taken with caution (see OECD, 2013b: 19).
21. In November 2010, SUBDERE, MOP and MINVU signed a co-operation agreement to transfer the responsibility of designing regional land-use plans to regional governments. The intention behind this shift in competence was to enhance the role of regional governments in designing their spatial planning strategy, and to generate a closer connection between spatial planning and overall regional development planning instruments. The PROTs at the time of drafting this report are yet not promulgated.
22. Regional governments have only been elaborating their own regional development strategies since 2007. From this year, a special regional planning division was set within regional governments and most regional governments started to become increasingly involved in regional planning.
23. Information from SUBDERE's *Informe de Ingresos Percibidos y Gastos Devengados Municipal 2009-2012*, for the year 2012, available at: www.sinim.gov.cl.
24. The territorial tax represented, on average, 25% of the municipal own-source revenues, while the issuing of business licenses (*patentes*) were responsible for 27% of municipal own-source revenues for 2012 (www.sinim.gov.cl). Other own-source incomes include vehicular circulation permits, waste management fees and other municipal fees.
25. The source of the exemption is a national law aimed at social compensation, yet the poorest municipalities bear most of the burden of this measure.
26. *Unidades Tributarias Mensuales* (UTM) is a legally established indicator equivalent to a specific sum of currency (pesos), and which is permanently updated based on the consumer price index, and is used as a tax measure index (www.sii.cl/pagina/valores/utm/utm2013.htm).
27. The reason was avoiding double taxation, the result is that companies often use this to pay less tax, looking for the *comunas* with the lower taxation, or for those in which their capital subject to taxation (assets less liabilities) will be lower.
28. Information obtained during interviews with local actors and senior officers during OECD fact-finding missions in 2013.

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Annex 3.A.1.

Table 3.A1.1. **Government bodies and main attributions of Chile’s sub-national administrative units**

Sub-national administrative unit	Government body and main attributions
Regions (15)	<p>a) Government of the region – central government line</p> <p><i>Intendente</i>: the direct representative of the President of the Republic in each of the 15 regions. The <i>intendente</i> is appointed by the President and holds office at the President’s discretion. The <i>intendente</i> directs the regional government according to guidelines provided directly by the President.</p> <p>Ministerial regional secretaries (SEREMI): Regional representatives of national level line ministries, responsible for co-ordinating their sectoral public services.</p> <p>b) The regional government (GORE) – deconcentrated government line</p> <p><i>Intendente</i>: acts as the executive head of the regional government and presides over the regional council.</p> <p>Regional council (<i>Consejo Regional – CORE</i>): Supervises the <i>intendente</i>’s duties, approves the regional development strategy and the regional budget project, and decides over the portfolio of projects selected by the <i>intendente</i> to be presented to the FNDR financing.</p> <p>Primary functions of the regional government</p> <ul style="list-style-type: none"> – Design programmes and policies for regional development and productivity. – Approve the regional development plan. – Define and make investment decisions regarding the use of resources from regionally designated public investment funds, especially from the National Fund for Regional Development (FNDR). – Advise municipalities. – Build and administer the paving of sidewalks and roads in rural areas. – Execute various tasks related to land management, human settlements and infrastructure equipment.
Provinces (52)	<p>a) Provincial government and responsibilities</p> <p>Governor: Appointed by the President and serves as deconcentrated representative of the <i>intendente</i> in the provincial territory.</p> <p>Provincial economic council: Serves as an advisory institution to the provincial governor, who heads the council.</p> <p>Primary functions of the provincial government</p> <ul style="list-style-type: none"> – Supervise public services provided in the provincial territory. – Maintain public order and safety.
Municipalities (345)	<p>Municipal government structure</p> <p>Mayor (<i>alcalde</i>): Highest municipal authority and chair of the municipal council; popularly elected every four years.</p> <p>Municipal council: Advises, regulates and supervises the mayor’s performance. The council is responsible for ensuring the effective participation of the local community. Council members are popularly elected every four years.</p> <p>Economic and social council: A municipal entity composed of civil society representatives, aimed at ensuring their participation.</p> <p>Primary functions of municipal governments</p> <ul style="list-style-type: none"> – Exclusive functions: To develop, approve and modify the local development plan (<i>pladeco</i>) and the communal zoning plan (<i>Plan Regulador Comunal</i>); to promote local development; to enforce all measures concerning transport; to implement provisions regarding construction and the planning and urban regulation. – Functions shared with other levels of government: Public health; primary and secondary education; culture; work/skills-training; economic development; tourism; urban and rural road management; traffic regulations; social housing development; sanitary infrastructure; citizen safety.

Source: Adapted from OECD (2009), *OECD Territorial Reviews: Chile 2009*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264060791-en>.

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