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WHAT WORKS IN RURAL DEVELOPMENT AND HOW? EXOGENOUS AND ENDOGENOUS GROWTH FACTORS IN RURAL DEVELOPMENT

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WHAT WORKS IN RURAL DEVELOPMENT AND HOW? EXOGENOUS AND ENDOGENOUS GROWTH FACTORS IN RURAL DEVELOPMENT

Nick Maddock¹

Introduction

This paper reviews the role of exogenous and endogenous factors in rural development, as well as evidence on their contribution to rural development.

In simple terms, *endogenous* factors refer to matters which the rural population can influence. *Exogenous* factors are those that happen outside rural areas and cannot be directly influenced by the rural population.

The evolution of thinking on rural development

Rural development has a long history with changing objectives². Aims include ‘balanced development’, reducing rural poverty, and slowing migration from the countryside to the towns and cities. Most recently, rural development has been a way of helping ‘the places left behind’³ – though this includes both rural and urban places.

Balanced development also has a long history with several meanings. The simplest is that all parts of a country develop at the same rate. More recently it has been taken to mean using the development potential of all areas so that the benefits of growth are shared.

Until the early 1990s, agricultural and rural development were largely the same thing. Agriculture was to grow through the introduction of new technologies backed by public funding for research and extension. Agricultural growth was viewed as the main component of rural growth and would benefit the rural population *in situ*. Concern for food security was prominent, linked to fears that agricultural growth was vulnerable to rural-urban migration and to cyclical price movements. This led to public funding for agriculture, often in the form of guaranteed prices and input subsidies, backed by tariff walls.

The shift to a broader idea of rural development came through recognition of the importance of the non-farm economy since rural income is rarely mainly from agriculture⁴. Whereas rural areas were previously seen as the domain of farmers, the non-farm rural economy was now also recognised as an important source of income. This conception of rural development put more emphasis on environmental protection and a diverse rural economy. Boosting labour productivity growth and incomes was to be through a skilled, knowledge-based economy.

This went together with a more positive economic definition of rural areas, with advantages as well as disadvantages⁵. Subsidiarity grew in importance with policies and actions to be designed at the lowest level. Local

1. Report prepared by Nick Maddock (consultant). Skype: nickmaddock, e mail: nick.maddock@yahoo.com; whatsapp +44 748 321 6212.

2. UNDP/IRDG (2019). Policy brief: Raison d’être of Rural Development Policy

3. <https://www.odi.org/our-work/leave-no-one-behind>

4. http://issuu.com/steve_goss/docs/why_are_some_countries_richer_i

5. <http://documents.worldbank.org/curated/en/730971468139804495/pdf/437380REVISED01BLIC1097808213760720.pdf>

vision and leadership were conditions for rural development, including local capacity to govern. Local knowledge and local preferences were needed to guide decisions⁶. The primacy of endogenous rural development became synonymous with *locally-based* including the ability of local entrepreneurs to form businesses. This called for local knowledge, local resources, and the engagement of local people to be central to development processes. The concept of a bottom-up processes became central to rural development.

The emphasis on agriculture nonetheless remained and, in the EU, support under the least favoured area measure⁷ aimed to ensure the continuation of farming, a minimum population level, and preservation of the countryside. Measures sought to avoid rural depopulation, ensure rural viability, and continued habitation. The logic of intervention was to maintain a farming industry to prevent the process of rural depopulation and to avoid the abandonment of agricultural land or its conversion to other uses.

These ideas of building on local advantage were supported by the emerging new economic geography, which looked at the different ways in which areas developed. Uneven development was viewed as inevitable based on enterprise concentration and agglomeration⁸, with the economic benefits of both established⁹. But this also means that a large part of a country's wealth would arise from a small part of its land area. And if balanced development means trying to spread-out growth and if this weakens enterprise concentration, there is an obvious danger that the country will be poorer as a result. A further conclusion is that if enterprise tends to concentrate in urban areas, then agglomeration economies are a fundamental explanation for the existence of cities¹⁰.

The importance of agglomeration strengthens the idea of cities as the centres of growth and employment and in turn the notion of enterprise cities. This basis of enterprise cities says that rather than trying to stop people from moving from the countryside to the towns, cities should be pro-business with legal and regulatory policies and infrastructure to attract enterprise.

They were also seen as falling within city regions¹¹ (a metropolitan area and a linked hinterland) with this opposing the view that urban and rural development were separate¹². Based on an urban core linked by economic ties to a peri-urban area and a rural hinterland, the growth of the town and the surrounding areas went together. As the town prospered, it demanded labour, food, rural products, from the surrounding areas (although of course with food also coming from elsewhere). This led to rural growth and so to increased demand for products from the towns. Rural people had incentives to train to get better-paid urban jobs¹³. This view was *people centred* in that it saw mobility as a virtue in that people would gain financially and in terms of human development by moving to get jobs rather than staying where they were.

With the urban effects reaching about one hour's travel time into the surrounding areas, roads and railways increased the size of this *functional area* (the area occupied by a city and its surrounding areas for which it is the main labour market and the source of specialised services). Accompanied by evidence on the benefits of agglomeration and concentration¹⁴, this shifted attention away from balanced development towards city regions. Evidence also showed that the growth effects of *polycentric* development (i.e. involving several towns) are strong¹⁵.

6. <https://onlinelibrary.wiley.com/doi/10.1111/soru.12089>

7. https://ieep.eu/archive_uploads/305/LFA_evaluation_report_full_text_en.pdf

8. <https://openknowledge.worldbank.org/handle/10986/5991>

9. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/706671/agglomeration-elasticities-existing-evidence-and-future-priorities.pdf; <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3405911/>

10. <https://link.springer.com/article/10.1007/s00168-019-00957-4>

11. UNDP/IDRG Input paper: rural growth poles. Potential drivers of rural development in Georgia.

12. http://www3.weforum.org/docs/ACR/2013/ACR_Chapter2.3_2013.pdf

13. <https://www.imf.org/en/Publications/WP/Issues/2019/05/02/The-Great-Divide-Regional-Inequality-and-Fiscal-Policy-46745>

14. <http://documents.worldbank.org/curated/en/730971468139804495/pdf/437380REVISED01BLIC1097808213760720.pdf>

15. Maddock, Nick and Gloria Li (2017). What can Nepal learn from Chinese urbanization? Planned urbanization was at the core of almost everything in China. *Republica*, 15th November 2017. <http://www.myrepublica.com/news/30728/?categoryid=81>

There was also rural-urban integration in labour markets. Functional areas (the city and the ‘commuting zone’) are an integrated economic space. People travel to work daily from outside the core (commuting) or move from other parts of the country to take jobs in the urban core (migration). Commuters and migrants expect to be better off than if they stayed where they were. The one hours’ reach of cities also affects commuters who will usually travel for up to one hour each way: beyond that travel times and the cost of travel are too high¹⁶. The reach of city regions in terms of labour markets accordingly depends on roads and public transport.

But how big did a town or city in a city region need to be for it to have beneficial effects? Research from the UK suggests that even small and medium cities (with populations from 75,000 to 300,000) influence agglomeration and concentration¹⁷. City regions suited countries which had several small- and medium-sized cities of populations of this size. This polycentric development was a way of levelling up countries and avoiding an undue concentration of wealth creation in the capital and the largest cities. Smaller towns have lesser effects but still offer thicker consumer and labour markets than rural areas. In other words, polycentric urbanisation offered a form of balanced development.

But these ideas collided with fears about rural-urban migration. Preventing migration from the countryside to the towns and cities has long had appeal as a goal of rural development. There are fears that the towns and cities will be overwhelmed and there will not be enough people to work the land. There is also often adherence to the idea of a *rural nation* as a foundation of society. And keeping people in rural border areas is seen as having a special function to increase national security, particularly when there are disputes with neighbouring countries¹⁸.

Preventing rural-urban migration remains controversial despite its unstopability. Urban areas offer chances for people to get richer, have better services, and a more diverse lifestyle for themselves and their children. People largely do not return from the towns to the countryside. And labour productivity in the parts of the economy which are not agriculture is higher than in agriculture, so people and the country get richer.

Rural development received a boost from political changes in recent years. This shifted emphasis from exploiting rural advantage to countering disadvantage, with attention to inequality and the *places left behind*. This also has an economic basis since nationwide income inequality is associated with differences in average income across regions¹⁹.

The new focus blurs rural development and urban development– with many examples of both in the category of *places left behind*. In any context, a shrinking tax base is a poverty trap since it means deteriorating local services, including the public education that might provide young people with the skills to succeed elsewhere. Politically, the decay of places is no longer seen as an acceptable part of the rough-and-tumble of a dynamic economy²⁰.

Attempts to jump-start local economies are an obvious response and the focus is now once again on place-based policies. This marks a shift from people-based policies which have underpinned much of recent thinking. These said: invest in people through education and health services, encourage their mobility, and good things will come. They saw virtue in mobility and that helping people move in search of jobs or a better environment for their business would bring individual financial gains and growth.

16. <https://www.sciencedirect.com/science/article/abs/pii/S0966692316305993>;

<https://www.telegraph.co.uk/news/2018/11/19/45-minutes-ideal-commute-according-scientists/>

17. https://www.ippr.org/files/publications/pdf/city-systems_June2016.pdf

18. http://issuu.com/steve_goss/docs/why_are_some_countries_richer_i

19. <https://www.imf.org/en/Publications/WP/Issues/2019/05/02/The-Great-Divide-Regional-Inequality-and-Fiscal-Policy-46745>

20. <https://www.economist.com/finance-and-economics/2016/12/15/place-based-economic-policies-as-a-response-to-populism>

But spatial inequality and the political backlash has led to a reorientation to place-based policies which aim to bolster the economic conditions of declining places^{21,22}. This new thinking has several elements, some which reflect earlier thinking about rural development:

- people have a right to work where they live and there should be no obligation to move in search of rewarding work;
- slowing rural-urban migration to limit urban marginalisation is desirable, even if there is a cost in terms of growth;
- keeping people in the countryside is good for non-economic reasons, as is keeping a balanced age structure in rural areas and preventing progressive ageing of the rural population; and
- rural life (it is said) is more pleasant and some people would prefer to leave the cities and return to countryside if they could get jobs that paid a decent wage²³.

COVID-19 has added a new element in that it is held that the loss of urban jobs will see people returning to the countryside in search of a safety net and for better living conditions in lockdown. Having more living space is seen as better than being locked down in a cramped urban apartment. This has led to an increase in searches for rural property though this is not yet leading to a sharp increase in rural sales²⁴.

The new thinking on place-based approaches foresees a set of activities, some of which are in the early stages of development²⁵.

Better education and training. Local training will target people who live locally, within a framework of business and community development. So-called education *promise programmes* are to increase the likelihood of recipients staying in the community because of, rather than despite, better education. Training was also a feature of people-based policies but, in this case, it aims to allow them to stay where they are rather than to move.

Business prosperity. Incentives will target industries which create the most jobs and can be filled by hiring locally. Consistent with the idea that making it easy to *do business* is the best policy for enterprise, local business environments will make locating easy, with procedures quick, transparent, and cheap.

Workforce Development. *Neighbourhood Employment Hubs*²⁶ will offer training and employment services and be will be part of community institutions. *Employer Resource Networks* will ‘pull together small- to medium-size businesses to provide job retention services, work support, and training opportunities for entry level employees, many of whom are receiving public assistance’²⁷.

Building Vital Communities. Focusing on governance and civic leadership, this brings together business leaders, residents, and other stakeholders to ‘bring trust through regular interaction’.

There is also consensus on the need for digital skills in preparing the workforce to take part in the digital economy as a route to increasing labour productivity. Universal fast broadband is seen as essential.

21. <https://www.citylab.com/life/2019/03/place-based-policies-economic-development-kalamazoo/585694/>

22. https://www.oecd-ilibrary.org/urban-rural-and-regional-development/competitive-cities-in-the-global-economy/can-distressed-urban-areas-become-growth-poles_9789264027091-15-en

23. <https://unu.edu/publications/articles/return-to-rural-communities-resilience-over-efficiency.html>

24. <https://www.rsnonline.org.uk/are-more-people-looking-to-escape-to-the-countryside>

25. <https://research.upjohn.org/cgi/viewcontent.cgi?article=1238&context=reports>

26. *Employment Hubs offer support in getting jobs including help with searching and applying for work, support with completing application forms and CVs, tips on preparing for interviews, and access to IT facilities. See <https://www.powertochange.org.uk/wp-content/uploads/2020/02/Community-Hubs-Handbook-Final.pdf>; <https://www.michiganworkssouthwest.org/other-services/employment-hubs/>*

27. <https://www.ern-usa.com/blob/site-files.ashx?ID=1>

Endogenous vs exogenous factors in rural development

What does the emerging thinking about rural development say about the importance of endogenous and exogeneous factors? If rural development is in large part about rural businesses, one way to answer this is look at what makes doing business different in rural areas and then to ask which factors are endogenous and which exogenous? The following table summarises these factors – though is not a definitive list and others could be added. In summary, rural disadvantage arises from location and population density.

Asset Opportunity	
Rural environments are diverse	Rural areas differ. Peripheral rural areas are far from markets, depopulated, lack infrastructure, and depend on activities on the land (agriculture, forestry, tourism). Accessible or more central rural areas have higher potential since they have higher population densities, are closer to markets, and depend less on agriculture.
Small local markets	Local markets are small due to low population densities and lower incomes. Scaling up a business model in rural areas is more difficult, with growth-oriented enterprises forced to penetrate non-local markets at an earlier stage of their development than comparable urban enterprises. But the falling cost of transport and improved communications technology contributes to expansion of market areas for rural businesses and makes rural disadvantage less of a problem than in the past.
Rural labour markets	Rural labour markets are small and have limited skills. They have lower levels of educational attainment and formal skills than those in urban areas. Rural firms have access to a smaller pool of workers.
Business premises	Urban areas offer business property of different sizes, but this is not the case in rural areas. Large premises can be hard to find.
Access to business services	Rural firms are further from services (banks, accountants, and consultants). But COVID has lessened the impact of distance since virtual meetings have become more acceptable and the perceived necessity of face-to-face contacts is lower.
Institutional environment	Governance is weaker in rural areas. On the other hand, business owners often know local officials personally and so can lobby informally, thereby emphasising the importance and influence of social capital.
Social capital	Close ties characterise rural communities, with heavier reliance on relationships. This can strengthen business relationships and those with the local administration. But business networks are more limited.
Business size and formality	Businesses in rural areas tend to be smaller and more informal, with a higher proportion of micro and one-person businesses.
Sectoral mix	Despite structural change, agriculture remains a key rural sector and a major employer though not the main source of rural income. The urban economy is more diverse with almost no reliance on agriculture.
Innovation	The characteristics of the rural environment, particularly low population and business densities may increase the incentive to reach wider markets.

Exogenous factors	
Transport and communications infrastructure	Remoteness challenges rural businesses, with long distances to market. But ICT offers a means for rural enterprises to overcome some of the effects of distance.
Access to finance	Finance is a problem for rural businesses because banks are unwilling to accept rural collateral. Farmland is often not accepted as collateral and other collateral is heavily discounted.
Firm and wages growth	Rural areas have weaker internet connections. Roads and utilities are also better in urban areas.
Urban areas offer better housing, services, and amenities	Firms in the urban area grow faster due to higher productivity growth. This leads to higher wages and to further competition for labour.
Urban areas offer better housing, services, and amenities	Urban areas offer better lifestyles which attracts firms and staff. But rural lifestyles offer greater space and better air quality

Source: adapted from *Discovery of rural business models*, 2020

These findings are disparate, contestable and say little about what policies are most likely to lead to rural development. What evidence is there of the effects of rural development policies and which of these factors is most important and hence where should rural development focus?

Studies of the sources of growth in agricultural value-added and rural household incomes in low- and middle-income countries²⁸ conclude that the main factors are macroeconomic and political stability; secure property rights; access to competitive input markets and remunerative output markets; adoption of productivity-enhancing technology, and real income growth in the non-agricultural economy. The evidence indicates that the last of these has a large role. In other words, exogenous factors dominate agricultural growth and household incomes, noting nonetheless that the non-agricultural economy can be both rural and urban.

Other studies have also found that exogenous factors were important, particularly transport systems. Foreign direct investment was also important – this can be both exogeneous and endogenous in that it is provided from outside rural areas but influenced by rural advantage. In the case of fully endogenous factors, the number of small- and medium-sized enterprises per capita was of cardinal importance²⁹. Studies on local economic development from Romania also stress exogenous factors, such as location close to urban areas and connection to the European Road Networks³⁰.

Studies confirm that, as proponents of enterprise cities and city regions suggest, urbanization increases rural wages and non-farm incomes. Total income and consumption by rural households increase with urbanization. Urbanization also decreases rural poverty, albeit by small amounts³¹, while rural households in areas close to cities shift their primary employment from agriculture to non-agriculture. But, rather unexpectedly, while cities create market demand for food, proximity to cities does influence agricultural intensification in terms of input use³².

Studies of place-based policies offer weak endorsement. Though some programmes have boosted employment or the number of firms, others have not had any significant effect or bring local benefits only at the expense of other areas. Research suggests that the Tennessee Valley Authority led to a manufacturing cluster but to the detriment of other regions. In other words, it can be hard to help one place without harming another. Further research on place-based approaches is in progress³³.

28. <https://ageconsearch.umn.edu/record/28559>

29. <https://www.tandfonline.com/doi/abs/10.1080/09654313.2017.1361585?scroll=top&needAccess=true&journalCode=ceps20>

30. https://econpapers.repec.org/article/gamjsusta/v_3a11_3ay_3a2019_3ai_3a1_3ap_3a282_3ad_3a195678.htm

31. <https://halshs.archives-ouvertes.fr/halshs-01068266/document>

32. <https://www.sciencedirect.com/science/article/pii/S0305750X19301159>

33. https://www.hutton.ac.uk/sites/default/files/files/RD342%2005_1%20report%20-%20final%20-%20150219.pdf

Findings in the UK are similar. The Regional Development Agencies, which had responsibility for regional growth and for ‘rebalancing’ the economy using place-based actions, were abolished in 2010³⁴. Located in the target regions, they focused on endogenous factors although could lobby government on exogenous actions. They were closed because they failed in their objectives: rates of job creation had slowed in comparison to those before the agencies, the regions grew faster before the agencies, and disparities between the regions where the agencies were based and London and the richer southeast increased³⁵.

But despite substantial literature on the methodology of evaluating regional development impacts, impact evaluations of regional development are scant. There is accordingly little evidence of how regional development affects firm formation, job creation and regional growth.

Evaluations of individual endogenous actions show disappointing results. Business incentives and subsidies aimed at attracting firms have been ineffective³⁶, and lead to diversion of employment rather than new jobs³⁷. Young businesses drive job creation, but business incentives disproportionately go toward large, incumbent firms³⁸. Fiscal transfers have a mixed record in placing distressed regions on a path towards economic growth³⁹.

Trying to slow rural-urban migration has not worked and nor, apparently, is it desirable. Evidence from diverse contexts shows that rural-urban migration brings income and broader human development gains⁴⁰. Countries that are more urban are richer, with the relationship between rurality and GNI strong⁴¹.

Conclusions

What does this mean for the design of actions on rural development? The focus for many years has been on actions in rural areas on things that the rural population could control or influence. Emphasis on subsidiarity meant devolving decision-making so that a major share of responsibility for rural development was with rural people. This was consistent with the idea that rural development would come largely from enterprise development. Local people would establish enterprises knowing the local market and the skills they could find and, with contacts in the local administration, lobbying to remove barriers was easier. Social capital was an important factor.

The commitment to endogenous rural development remains intact as does the notion that rural people will drive the rural economy based on good local knowledge. Subsidiarity has not been challenged⁴². Despite the apparent disadvantages of rural areas (see table above), this approach to rural development retains a positive vision of the future of rural areas (‘vibrant rural places with access to homes, jobs and services’)⁴³.

Local knowledge and subsidiarity are also part of the mix for addressing the left behind places, both urban and rural. Local people will use training to stay where they are and to prosper there. They will create attractive conditions for firms. Social capital will be a force in driving vital communities, with governance (implicitly by local people) a strong element. This local focus will help build on advantages but also help overcome disadvantage.

34. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34749/12-986-closing-rdas-lessons-from-transition-and-closure-programme.pdf

35. https://d3n8a8pro7vhmx.cloudfront.net/taxpayersalliance/pages/224/attachments/original/1427898375/structure_of_government_3_the_case_for_abolishing_rdas_e.pdf?1427898375

36. https://www.brookings.edu/wp-content/uploads/2018/11/2018.11_Report_Countering-geography-of-discontent_Hendrickson-Muro-Galston.pdf

37. <https://www.brookings.edu/research/examining-the-local-value-of-economic-development-incentives/>

38. http://research.upjohn.org/cgi/viewcontent.cgi?article=1037&context=up_technicalreport

39. <https://www.wsj.com/articles/the-eu-spent-a-bundle-to-unify-the-continent-its-not-working-1533743729>

40. See for example <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6445429/>; https://www.researchgate.net/publication/330303906_Economics_of_Rural-Urban_Migration; <https://www.tandfonline.com/doi/full/10.1080/21681376.2020.1746194>

41. http://issuu.com/steve_goss/docs/why_are_some_countries_richer_i

42. <https://journals.sagepub.com/doi/full/10.1177/1781685819838449>

43. <https://gov.wales/sites/default/files/publications/2020-01/ndf-explanatory-paper-rural-areas.pdf>

There is thus continued commitment to the idea that there is a latent rural economy which is waiting to be unleashed through the right combination of policies and measures and by the actions of local people. But, internationally, political changes over the last 5 years reflect disappointment in the decline of the rural and urban left behind places. As an example, the British government talks of ‘levelling up’ the poorer north with the richer south⁴⁴, despite regional development agencies failing to do this. Actions are backed by public financial transfers.

A shift in emphasis to exogenous factors (urbanisation, infrastructure, broadband) has entered the vision of rural development (and of the urban places left behind). This is additional to the *localness* of rural development, rather than replacing it. In other words, if connectivity, communications, finance, housing are provided then there will be an even more fertile base for rural development. Exogenous and endogenous factors go together. This is despite successful urban growth coming from agglomeration and concentration rather than local knowledge (although local knowledge might have been initial roots of the industries concerned).

Could exogenous factors replace endogenous actions in rural development and in the places left behind? Proponents of enterprise cities and city regions appear to argue this. The strength of urban effects linked to infrastructure drive the economy of the rural hinterland and the dynamics of the labour market. Those arguing for more attention to the left behind places implicitly argue this when arguing for better infrastructure.

Enterprise development is nonetheless still centre stage in rural development. But as the table above shows, this means overcoming disadvantages which make doing business in rural areas harder than in the towns and cities. Rural areas have advantages of land and landscape which favour agriculture, tourism and firms that need lots of cheap space or are polluting. But firms which are not built on these foundations have a much harder time in rural areas. Some rural areas have almost nothing to offer and will continue to depend on low intensity agriculture, tourism, and forestry. They probably will not grow and the opportunity costs of trying to induce growth through public finance will be considerable.

This begs the question of whether rural development is feasible or whether in fact urban concentration of growth and enterprise development is inevitable. But this is probably a redundant question. What if, as evidence suggests, urban and rural areas grow together because of urban-rural interlinkages? If true, this suggests that measures to strengthen links between rural and urban areas will bring benefits for both. Improved infrastructure widens functional areas. It can make commuting easier, particularly if linked to better public transport. Broadband penetration would make working from home for some days per week feasible (as may become common after COVID).

In this case, the question turns to how can rural areas reap the benefits of urbanisation? For some areas, this will happen automatically because they fall in the functional areas of the towns. Public policy could address skills development so that people can take jobs in the nearby towns as commuters. But rural areas outside the functional areas will have a harder time. They can of course lobby for infrastructure which brings them into functional areas but will be competing with other claims for infrastructure and economic feasibility may be hard to establish.

Alternatively, is it possible that inter-municipal cooperation and coordination could build a larger population and economic mass? In other words, could several small places add up to one bigger place and offer urban advantages? This is the way that many cities have grown, absorbing villages at the periphery. But that happens because of a strong urban core. What happens if there is no strong urban core – could municipalities act together to create this core?

Working together, several municipalities could be more effective in lobbying for public support, including infrastructure. They could jointly offer an attractive business environment and could argue for local vocational training capability if designed to support the growth of a group of municipalities. There may be economies of scale in broadband provision. It nonetheless remains an idea that is untried.