

HIGHLIGHTS

RURAL 3.0

PEOPLE-CENTRED RURAL POLICY



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The Centre helps local, regional and national governments unleash the potential of entrepreneurs and small and medium-sized enterprises, promote inclusive and sustainable regions and cities, boost local job creation and implement sound tourism policies.

About this Policy Highlights

This booklet reproduces highlights from the Rural 3.0 report, which provides a roadmap for delivering well-being in rural regions. Find out more about the OECD work on regional and rural policy: www.oecd.org/cfe/

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1 Introduction

Rural areas make a vital contribution to the well-being and prosperity of OECD countries. They produce our food and raw materials, amenities and ecosystem services, and are sources of productivity growth and technological innovation.

However, rural areas have also borne much of the cost of structural transformations in recent decades. The re-orientation of OECD economies toward services has largely benefited cities. Rural industries have been exposed to increased competition from lower wage countries, declines in trade, and disruptive technologies.

Population ageing has affected the quality and accessibility of public services. These trends have torn the social fabric of many rural communities. Policy approaches based on subsidies and protection cannot turn back the clock and enable rural areas to address these challenges and opportunities.

The New Rural Paradigm of 2006 indicated a shift by OECD countries away from sectoral subsidies to a focus on the competitiveness of rural regions.

To unlock the growth potential of rural areas, and improve the well-being of rural dwellers, OECD countries should implement a people-centred approach to rural policy that:

- Considers economic, social and environmental objectives.
- Recognises the diversity of challenges and opportunities across different types of rural areas.
- Prepares rural areas to embrace digital technologies.
- Lifts productivity and adds value to economic activities.
- Supports adaptation to demographic change and high-quality public services.
- Facilitates the transition to a climate neutral economy.

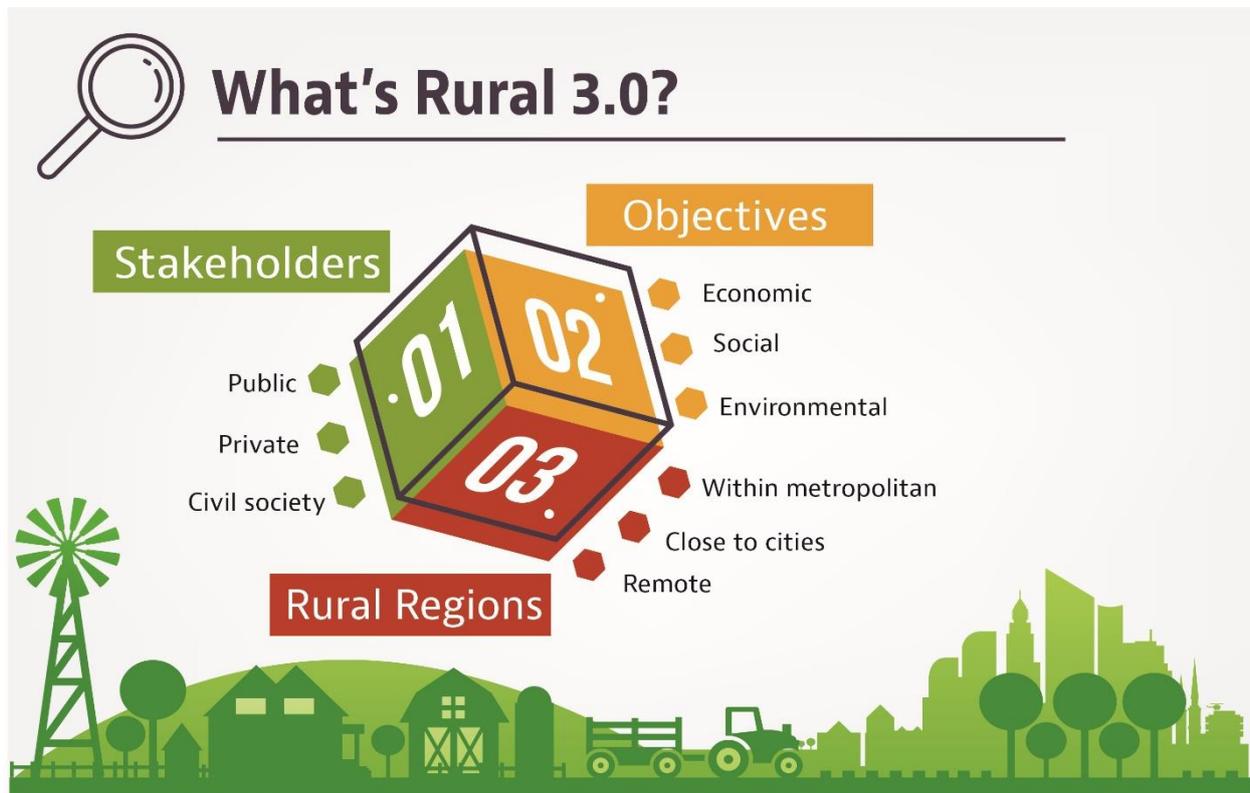
This new vision for rural development is captured by the **OECD Rural Policy 3.0 Framework**.

Rural 3.0: a people-centred approach

The **Rural Policy 3.0** builds on this approach reflects three important changes in rural policies:

- **3 objectives:** from only economic objectives to encompassing social and environmental issues.
- **3 types of rural:** from simple rural dichotomy to a continuous view of territories where rural is everywhere.
- **3 types of stakeholders:** from government alone to working with the private sector and civil society.

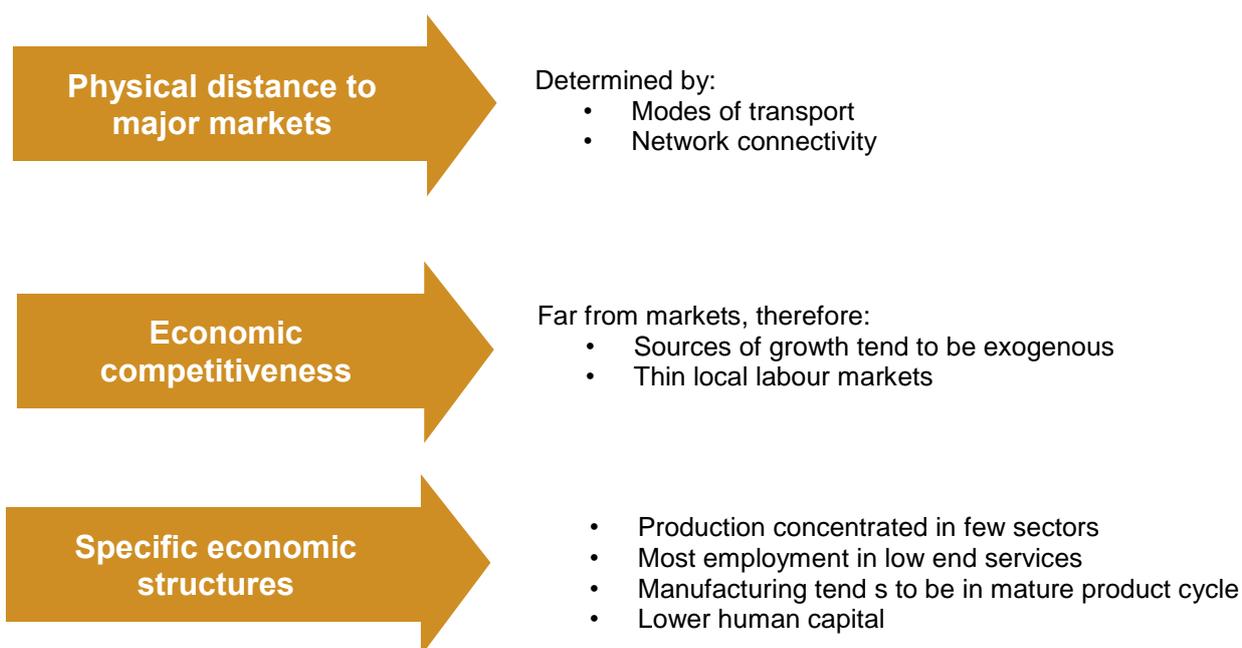
Importantly, the Rural 3.0 approach emphasises the importance of partnerships between government, the private and civil society, and of building linkages between rural areas and cities. This people-centred approach will help ensure rural areas can embrace change and build positive futures.



2 Rural areas are diverse and have distinct needs

The first step in analysing rural areas is to have the appropriate territorial scale and definition. Rural or lower density economies are different from urban economies, across three main dimensions (Figure 1). The first dimension is physical distance from markets and the costs it imposes in terms of transport and connectivity. The second dimension is the importance of competitiveness in regions where the home market is small, the economy is highly specialised in the production of commodities, and transport costs particularly within countries, are absorbed by local firms. The third dimension is the “first-nature geography”, or how natural endowments and geographical conditions shape local economic opportunities.

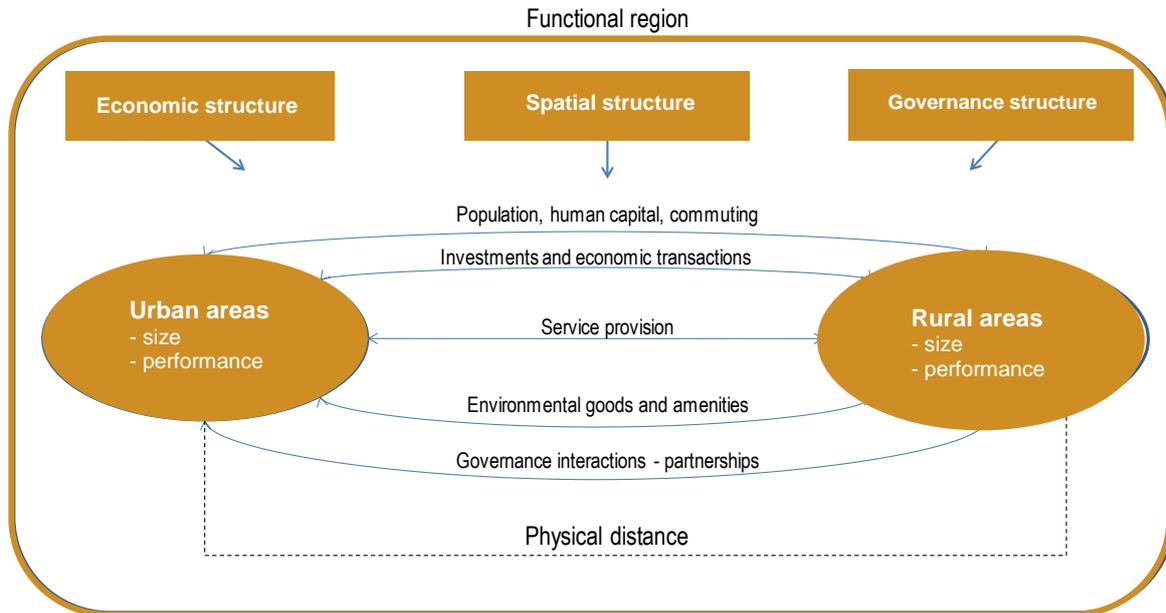
Figure 1. Features of lower density economies



Source: OECD (2016) Regional Outlook <https://doi.org/10.1787/9789264260245-en>

Proximity and linkages to cities exert a strong influence on rural areas. Urban and rural areas are interconnected through demographic, labour market, public service and environmental linkages that often cross traditional administrative boundaries. They are not limited to city-centred local labour market flows and include bi-directional relationships (Figure 2). Each type of interaction encompasses a different geography, forming a “functional region”.

Figure 2. Rural urban functional linkages involve many types of interconnections



Source: OECD (2013), *Rural-Urban Partnerships: An Integrated Approach to Economic Development*, <http://dx.doi.org/10.1787/9789264204812-en>.

In general terms, the OECD identifies three ways to define rural areas, with different characteristics, challenges and policy needs:

1. **Rural areas within a Functional Urban Area (FUA)** – these rural areas are an integral part of the FUA, which consists on an urban centre surrounded by a commuting zone. As part of commuting zones, the development of these rural areas is integrated to that of the FUA.
2. **Rural areas with access to a FUA** – these areas have strong linkages to a nearby FUA, but may not be part of its labour market. There are flows of goods, ecosystem services and other economic transactions between them. While the urban and regional economies are not integrated, much of the development of rural areas is linked to the FUA. Close to 80% of the rural population in OECD countries lives in this type of rural region.
3. **Remote rural areas** – these areas are distant from a FUA. Connections to FUAs largely come through market exchange of goods and services. Personal interactions outside the rural area are limited and infrequent, but there are good connections within the region. The local economy depends to a great extent on exporting the output of primary activities. 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.

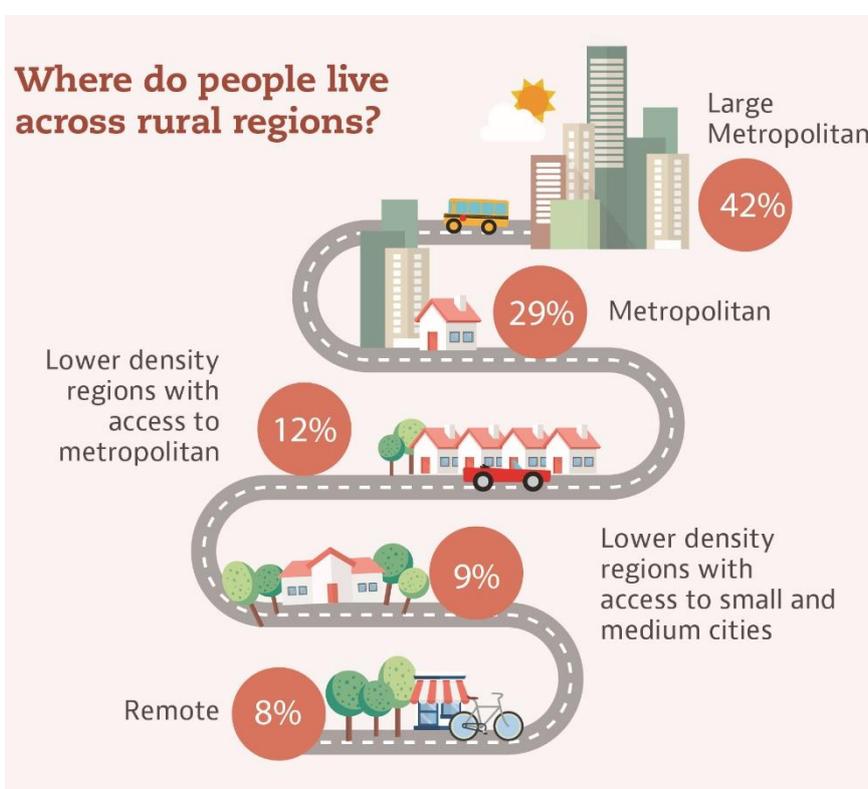
Each of these places tends to have different policy challenges and opportunities (Table 1).

Table 1. Challenges by type of rural area

Type	Challenges	Opportunities
Rural inside metropolitan areas	<ul style="list-style-type: none"> urban encroachment and competition over land use activities concentrate in the urban core loss of rural identity 	<ul style="list-style-type: none"> access to a large and complex market potential to capture benefits of urban areas while avoiding the negatives
Rural outside, but in close proximity to metropolitan	<ul style="list-style-type: none"> conflicts between new residents and locals may be too far away for some firms, but too close for others 	<ul style="list-style-type: none"> potential to attract high-income households seeking a high quality of life relatively easy access to advanced services and urban culture good access to transport
Rural remote	<ul style="list-style-type: none"> highly specialised economies subject to booms and busts limited connectivity and large distances between settlements high per capita costs of services 	<ul style="list-style-type: none"> absolute advantage in production of natural resource-based outputs attractive for firms that need access to an urban area, but not on a daily basis can offer unique environments that can be attractive to firms and individuals

Source: OECD (2016), OECD Regional Outlook 2016: Productive Regions for Inclusive Societies, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264260245-en>.

The OECD has developed a typology for regions that combines functional and administrative boundaries, and enables a nuanced view of regional growth dynamics. The OECD recently developed a refined typology for small (Territorial Level 3, TL3) regions introducing some spatial continuity between metropolitan and non-metropolitan areas (Box 1).



This definition recognises the essential difference between Functional Urban Areas (FUAs) and other areas. FUAs have a large internal market; they are driven by higher value services that are connected globally. Areas outside FUAs have different degrees of rurality and dependence on primary sectors.

The typology defines five types of small regions based on the share of population living in metropolitan areas and the level of access to cities. These are: large metropolitan, metropolitan, and three types of non-metropolitan regions. The first is with access to metropolitan (lower density

regions with access to a metropolitan city from now on). The second is with access to a small/medium city (lower density regions with access to small/medium city from now on) and the third remote.

Box 1 - A regional typology based on access to cities

The first tier uses as threshold 50% of the population of the TL3 region living in a FUA of at least 250 thousand people; the second tier uses as threshold 60 minutes driving time, a measure of the access to a FUA.

The new methodology classifies TL3 regions into metropolitan and non-metropolitan according to the following criteria:

- **Metropolitan TL3 region (MR)**, if more than 50% of its population live in a FUA of at least 250 thousand inhabitants (note that in older OECD studies, metropolitan areas were defined as FUAs with at least half a million inhabitants). MRs are further classified into:
 - **Large metro TL3 region (MR-L)**, if more than 50% of its population lives in a FUA of at least 1.5 million inhabitants.
 - **Metro TL3 region (MR-M)**, if the TL3 region is not a large metro region and 50% of its population lives in a FUA of at least 250 thousand inhabitants.
- **Non-metropolitan TL3 region (NMR)**, if less than 50% of its population live in a FUA. NMRs are further classified according to their level of access to FUAs of different sizes into:
 - **With access to a metro TL3 region (NMR-M)**, if more than 50% of its population lives within a 60 minute drive from a metro (a FUA with more than 250 thousand people); or if the TL3 region contains more than 80% of the area of a FUA of at least 250 thousand inhabitants.
 - **With access to a small/medium city TL3 region (NMR-S)**, if the TL3 region does not have access to a metro and 50% of its population has access to a small or medium city (a FUA of more than 50 thousand and less than 250 thousand inhabitants) within a 60 minute drive; or if the TL3 region contains more than 80% of the area of a small or medium city.
 - **Remote TL3 region (NMR-R)**, if the TL3 region is not classified as NMR-M or NMR-S, i.e. if 50% of its population does not have access to any FUA within a 60-minute drive.

Source: Fadic, Garcilazo, Moreno-Monroy, & Veneri (2019). Classifying small (TL3) regions based on metropolitan population, low density and remoteness. OECD Regional Development Working Papers, 2019/06, OECD, Paris.

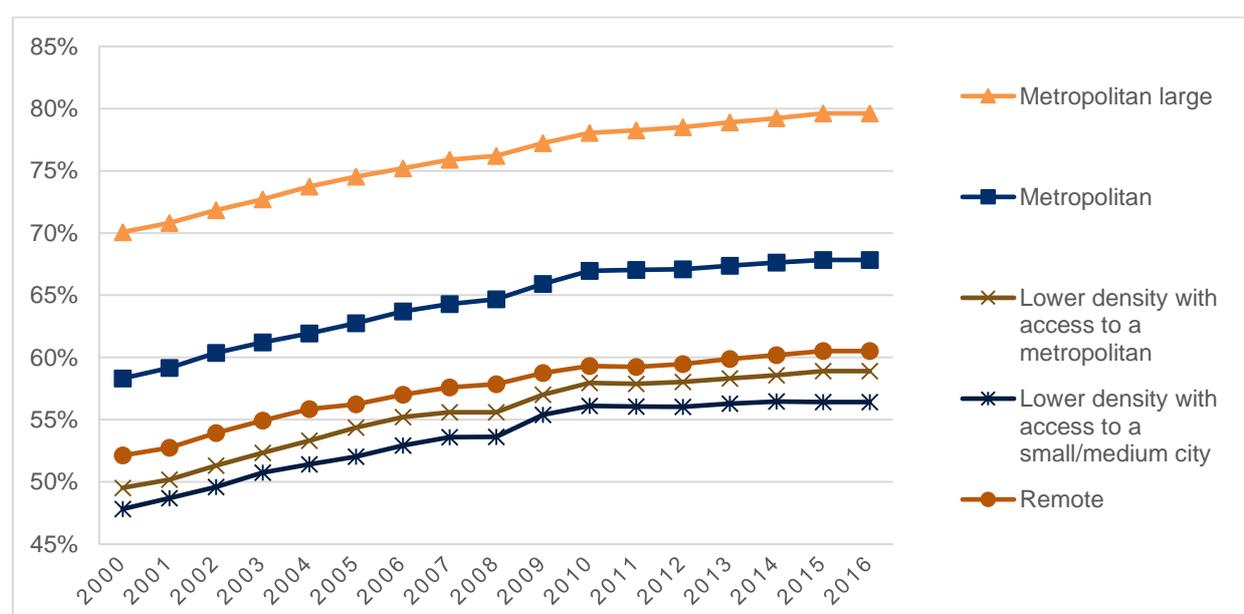
This OECD definition enables international comparability and represents an important tool for policymaking. Spatial scales are critical tools for the design of territorial policies. Areas with more access to cities require a much stronger integration of policies with cities in areas such as transportation, land use labour market or housing amongst others. In contrast, more remote areas may require much differentiated policy responses that address their particularities. The alternative regional typology differentiates regions with access to larger cities vis-à-vis small/medium ones, allowing to better understanding and capture differences in the linkages.

3 Growing divides affect rural areas

In recent decades, OECD countries have faced two key structural transformations affecting rural regions: the rise of global value chains and an orientation towards services. Global value chains (GVCs) have emerged as many production tasks have shifted to emerging economies where labour costs are cheaper. About 70% of international trade today involves GVCs, as services, raw materials and manufactured goods move across borders. Supply chains that were once localised are now organised in a complex network of interconnected production chains between countries. This delocalisation of production has also resulted in services contributing to a larger share of value-added and employment across OECD countries. Today, services represent around 80% of value added across OECD countries increasing by 15 percentage points relative to the share of services 15 years ago.

The impacts of these two interconnected transformations have not been neutral across territories. Although the growth of employment in services has offset declines in agriculture and manufacturing, a changing economic geography has disadvantaged some rural areas. The reason is that the productivity of services tends to increase in large cities with access to a pool of specialised labour and knowledge networks. Furthermore, many service-orientated businesses are less vulnerable to off shoring and therefore protected from international competition. To no surprise, cities are more specialised in services that lower density areas (Figure 3) and they enjoy from higher levels of GDP per capital and labour productivity (Table 2).

Figure 3. Share of employment in services by type of TL3 region, OECD 2000-2016



Note: Based on regions with available data.

Source: (OECD, 2019) OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en>.

Table 2. GDP per capital levels and labour productivity in TL3 regions, 2016

	GDP per capita (USD)	Share GDP pc to OECD av.	GVA per worker (USD)	Share GVA per workers to OECD av.
Metropolitan large	42 040	115.6%	83 179	117.0%
Metropolitan	36 482	100.3%	69 182	97.3%
Lower density with access to a metropolitan	33 076	90.9%	66 702	93.8%
Lower density with access to a small/medium city	28 373	78.0%	61 045	85.9%
Remote	28 719	79.0%	59 229	83.3%

Note: Based on regions with available data.

Source: (OECD, 2019) OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en>

In recent decades, rural areas in OECD countries have faced more competitive pressures in tradable goods and services. Lower-density regions have thinner and more fragmented internal markets and thus must export to markets elsewhere to raise their productivity. These tradable goods and services have faced increasing global competition from low-wage economies. These forces have consequently led to the creation of new, often higher paid jobs in cities and the destruction of jobs or readjustment of wages in rural areas. Against this backdrop, focusing in high value-added tradable goods and services and moving away from traditional low-value added activities is a way for rural economies to flourish. Rural economies nowadays must go beyond just exporting tradable goods and should also integrate into global value chains and export services.

Well-connected lower density regions have the potential to benefit greatly from dynamic urban markets. Rural areas that are in close proximity to cities have much stronger potential for linkages in transportation networks, commuting flows, spatial planning and the provision of goods and services. Stronger linkages and the associated benefits are also often referred to as “borrowed” agglomeration effects from neighbouring cities.

Beyond these structural transformations, OECD regions have also faced the shock and the aftermath of the global financial during the last decade. The financial crisis suffered a slow-down in trade. Lower density regions, including remote regions and those with access to a small/medium city, have a higher dependence on the tradeable sector and produce a limited range of the goods and services. These features make them more vulnerable to external shocks, whether positive or negative.

After the crisis, productivity picked up in the majority of lower density regions, but these gains were accompanied by labour shedding in many cases. Regions with access to small/medium cities experienced the largest drops in employment (Table 3) and highest increases in unemployment rates since the crisis. Furthermore ongoing trade tensions between countries will continue to disproportionately affect these types of regions. There is an urgent need to restructure their economies toward sectors that can create local employment while adding value.

Table.3. Share of employment in regions by productivity and employment performance by type of TL3 region, 2000-2016 and 2008-2016

Share of employment in regions with:	Lower density with access to metropolitan		Non-Metropolitan with access to a small/medium city		Remote	
	2000-2016	2008-2016	2000-2016	2008-2016	2000-2016	2008-2016
Productivity and employment growth	62%	36%	59%	37%	49%	31%
Productivity growth and employment decline	22%	30%	20%	33%	30%	32%

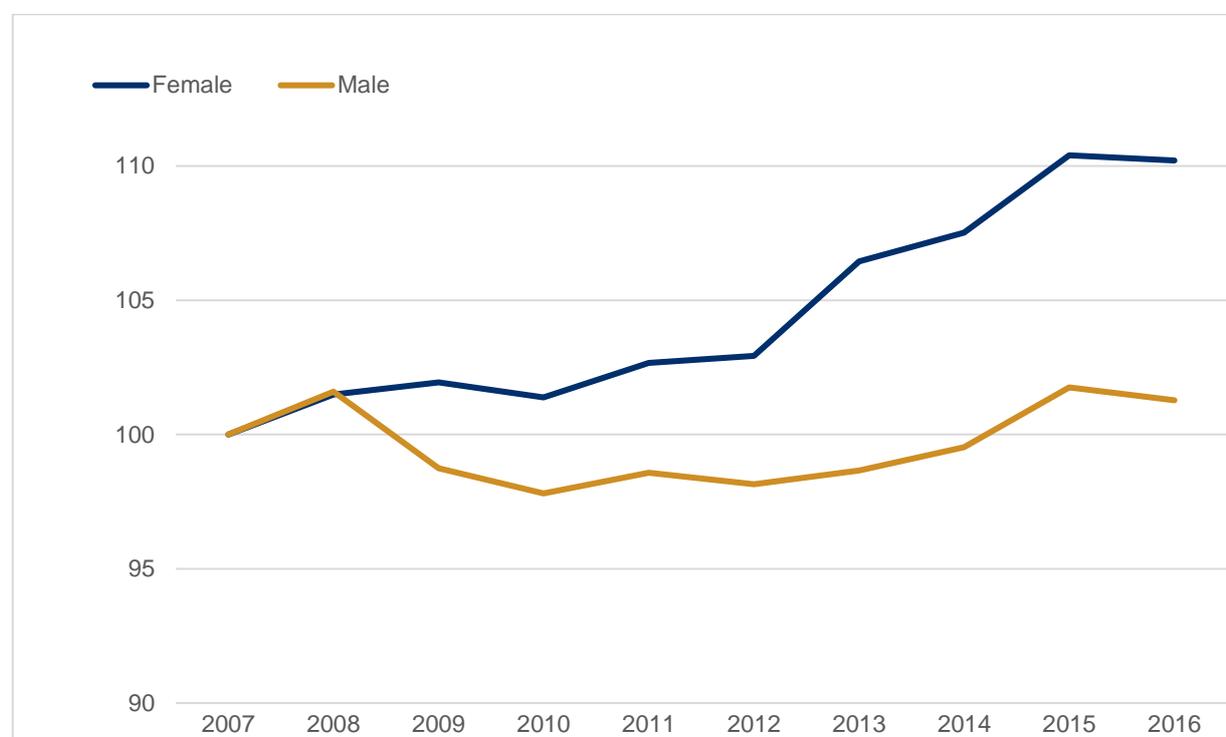
Note: Productivity calculated as GVA over employment. Based on regions with available data.

Source: (OECD, 2019^[4]) OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en>

Broad structural changes also have localised impacts on remote rural labour markets. Rural labour markets tend to be divided by gender, with women more represented in lower wage services sector jobs (e.g. health and social care services), and men more represented in higher wage primary sectors and associated manufacturing (e.g. agriculture, forestry and mining). Ongoing structural change in primary sectors and rural manufacturing have contributed to increasing differences between employment rates for men and women in remote regions (Figure 4). These trends are not apparent in other types of lower density regions. These changes will likely aggravate declining household income trends and may result in longer-term detachment from the labour market.

Figure 4. Employment rate growth by gender in remote regions after the crisis (2007=100)

Rate calculated for working age population (15-64).



Note: Based on regions with available data.

Source: (OECD, 2019) OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en>.

The mixed performance across regions after the crisis has deepened regional inequalities. Regional disparities, measured as the difference between the top 20% and bottom 20% of regions in GDP per capita levels, increased in 21 out of 25 countries after the crisis. The effects of growing and sustained inequalities has come to the forefront of the policy debate. In the past spatial inequalities were regarded as a natural process of development that could be resolved through labour mobility or compensation. However, there is now increased interest in these sustained and growing inequalities between metropolitan and rural areas, which has also been referred to as a “geography of discontent”. Generating hope and opportunity for rural communities, particularly those outside the direct influence of large cities, is important to the future growth and cohesion of OECD countries.

4 Future technologies and megatrends are driving rural change

In the longer term, rural areas will continue to face the challenge of how to succeed in a more complex and dynamic environment. In order to secure the future prosperity and well-being of rural people, a number of inter-connected challenges and opportunities will need to be addressed. These megatrends relate to the impacts of ageing population, urbanisation, the rise of emerging economies, climate change and environmental pressures, increasing globalisation, and technological breakthroughs.

- **Population ageing and migration.** Ageing across OECD economies, which is generally more apparent outside cities, will continue its growing pace. As consequence, there will be increasing competition for talent. The capacity for rural communities to provide an attractive offer and integrate newly arrived migrants will shape their capacity to address the challenge of ageing and shrinking populations. Increasing digital connectivity and the shift to a sharing economy may also open up new innovative ways of addressing social challenges that are led by rural communities.
- **Urbanisation.** The trend of people moving from rural places to cities has stabilised in OECD economies. However, population ageing, particularly in rural remote areas, will tend to shift the political balance within countries toward metropolitan areas. Political discontent may rise among those that felt left behind and not listened to. It will be important that national governments have frameworks and mechanisms to include rural interests in decision-making, and that those rural places can foster linkages with cities.
- **Global shifts in production.** The production of goods and services is increasingly dispersed across countries as multi-national enterprises (MNEs) pursue offshore, re-shore, and outsource activities. Rural areas will need to continue to specialise and focus on core areas of advantage to compete in the global economy. For rural areas in OECD countries this means increasing competitiveness by fostering innovation and investing in skills. Openness to foreign investment and promoting linkages between local start-ups and SMEs and MNEs may strengthen the performance and growth of high value added tradeable activities.
- **Rise of emerging economies.** The centre of economic gravity is likely to continue to shift away from the North Atlantic towards emerging economies. By 2030, emerging economies are expected to contribute to two-thirds of global growth, and be major centres of global trade. A larger global middle class will translate into increased demand for raw materials, food and technologies from rural places in OECD economies. As living standards rise, emerging economies will have increasing interest in technologies to increase agricultural productivity, produce energy, and manage land and water resources in more sustainable ways. Exporting technical services and expertise to emerging markets may become a key growth driver for rural economies. More investment and visitors will come from emerging markets; political, social and cultural links with them will matter for future rural prosperity.
- **Climate change and environmental pressures.** The United Nations Paris Agreement provides a framework for global action to limit temperature increases to 1.5 C above pre-industrial levels. Future population and economic growth is likely to place further pressures on the environment. For

example, it is estimated that 60% of the global population will face water issues by 2050. Greater emphasis will be placed on the efficient use of resources, and the development and diffusion of technologies that enable this outcome. The private sector will also need to work with governments to deploy technologies that reduce carbon emissions and waste. Rural places can take advantage of these shifts through investment and technologies associated with renewable energy and the circular economy. The circular economy refers to the shift in industrial production to reduce waste and minimise impacts on the natural environment with the aim of gradually decoupling growth from the consumption of natural resources.

- Technological breakthroughs.** A number of emerging technologies associated with digitalisation, including automation and artificial intelligence, decentralised energy generation, cloud computing and the Internet of Things, and Nano technologies will open up new production possibilities and transform how we access goods and services. This is likely to result in labour saving technologies and product innovations in agriculture, forestry, mining, and associated value-adding (Table 4). These changes will also create new jobs that have not yet been imagined, for example, 3-D printing may create opportunities for localised small-scale manufacturing, and drones for transporting goods. Advances in communications technologies and digital literacy will open new ways of accessing services that can overcome the tyranny of distance.

Innovations in transport and communications technologies are likely to open up new production possibilities and choices about where people live and work. Digitalisation and new technologies (e.g. 3D printers, delivery drones, autonomous vehicles, and augmented reality) can further reduce the cost of moving people and goods and delivering services. This shift may make less relevant the question of where to locate for firm, families and workers. Rural areas will be able to offer a quality of life and amenities that is attractive to people with skills and capital. Reducing the costs of distance and low-density will provide an opportunity to propel rural economies forward and open up wider possibilities to engage in regional, national and international markets (Figure 5).

Figure 5. 10 key areas of rural change resulting from innovation and technological breakthrough



Table 4. Key technologies driving rural change

Technologies		Availability	Opportunities for rural areas	Policies to harness the benefits for rural areas
	Self-driving cars	Next ten years.	<ul style="list-style-type: none"> Shared self-driving cars can improve public transport Increase attractiveness to live in rural areas Ease access to services and social networks 	<ul style="list-style-type: none"> Ensure quality broadband connection Define regulations for autonomous cars and the low modal share of public transport Promote user-ship rather than ownership. Improve online-mapping and quality of rural roads
	3D printers	Available	<ul style="list-style-type: none"> Access mass-manufactured goods without waiting for delivery Produce goods to sell and adapt to rural industries Boost entrepreneurship Reduce the market dependence of rural areas on mass-manufactured goods (tools) Increase the efficiency and autonomy of public services (healthcare inputs) 	<ul style="list-style-type: none"> Ensure quality broadband connection. Train professionals for maintenance and provision Disseminate the information about the technology.
	Drones	Next ten years	<ul style="list-style-type: none"> Attract firms to test and conduct research projects with drones. Improve access to goods (from mass consumption to medicines). Reduce productions and delivery costs. Boost productivity of rural business. 	<ul style="list-style-type: none"> Ensure quality broadband connection. Define regulation and privacy policies. Incentivise testing and support pilot applications.
	Advanced communications techniques	Next ten years	<ul style="list-style-type: none"> Attract and retain workers by improving the teleworking experience. Enhance social and labour connections. Allow for collaborative innovation systems among firms and research centres. Increase efficiency of rural business and training of workers. 	<ul style="list-style-type: none"> Ensure quality broadband connection. Support firms to invest in data and organisational change to improve teleworking. Enhance knowledge and information about AR and VA.
	e-Education	Available	<ul style="list-style-type: none"> Enhance the traditional learning experiences and make education more accessible and inclusive. Retain young population and attract families to settle Support reskilling of workforce to facilitate the shift of economic activity. Improve training of teachers. 	<ul style="list-style-type: none"> Ensure quality broadband connection Awareness on the benefits of open education at the public and private level. Trainings to teachers and involvement of academic institutions to use the technology Increase student support (either in person or virtually)
	e-Health	Available	<ul style="list-style-type: none"> Increase healthcare coverage and quality in rural areas. Enhance skills of medical staff. Improve information for patients and doctors. Reduce transport cost in conducting a medical procedure. 	<ul style="list-style-type: none"> Ensure quality broadband connection. Train health professionals. Awareness campaigns. Update ICT infrastructure and equipment in hospitals and medical centres.

Without the right incentives and policy interventions, rural areas could miss out the benefits of the ongoing technological revolution further widening inequalities. An important precondition for success in a new digital landscape is the access to high-quality broadband that enables the use of internet-based digital services. Human capital will also be needed to drive innovation and continually adapt to changing labour demands and technology. In order to attract and retain people, rural areas will need well-maintained airports, roads and ports to facilitate accessibility along with high quality public services.

5 Enhancing rural well-being through a place-based approach

Rural Policy 3.0 is a policy framework to help national governments support rural development. Earlier frameworks in OECD countries on rural development focused on sectoral support (primarily agriculture) and subsidies to promote rural development. The New Rural Paradigm, endorsed in 2006 by OECD member countries, proposed a conceptual framework that positioned rural policy as an investment strategy to foster competitiveness in rural territories. This approach represented a radical departure from the typical subsidy programmes of the past aimed at specific sectors. Rural Policy 3.0 is an extension and a refinement of this Paradigm. The Rural 3.0 is a people-centred approach, focusing on how to improve the well-being of rural dwellers.

Structural changes in OECD economies require changes in rural policy frameworks. The OECD rural development framework provides a lens through which to evaluate effective policies in light of these changes. Across OECD countries, rural development is no longer synonymous with agriculture, nor is it indicative of economic decline. The policy approach has shifted from sectoral subsidies toward empowering local communities to implement development strategies that improve the well-being of rural dwellers.

Rural Policy 3.0 reflects several important changes in rural development. These changes shift from a one-dimensional to a three dimensional view of rural policies:

1. **Three objectives** - The shift beyond just economic objectives to encompass social and environmental issues.
2. **Three type of rural** – from a simple rural dichotomy to rural areas inside FUA, close to cities, and remote (and interactions between them and cities).
3. **Three different stakeholders** – from government acting alone to working with the private sector and civil society.

The Rural Policy 3.0 is a people-centred approach that moves beyond focusing on industry sectors. Rural Policy 3.0 focuses on delivering a level of well-being to rural dwellers that is comparable to what is attainable in urban areas, even though different aspects may be emphasised. In general, quality of life has: i) economic dimensions, where household income hinges on employment in firms that are productive and competitive; ii) social dimensions whereby households have access to a broad set of services and local society is cohesive and supportive; and iii) a local environment that provides a pleasant place to live (Table 5). The balance among these elements may vary considerably across rural areas. This broader well-being agenda does not abandon the objective to improve rural competitiveness; rather it recognises that competitiveness is a necessary, but not a sufficient, condition for well-being.

Table 5. Rural Policy 3.0

	Old Paradigm	New Rural Paradigm (2006)	Rural Policy 3.0 – A people centred approach to rural development
Objectives	Equalisation	Competitiveness	Well-being considering three dimensions i) the economy, ii) society and iii) the environment
Rural definition	Non-urban	Rural as a distinct variety of places	Three types of rural i) within functional urban areas ii) close to functional urban areas iii) remote
Key actors & stakeholders	Farm organisations and national governments	All levels of government and all relevant departments plus local stakeholders	Involvement of: i) public sector – multi-level governance, ii) private sector – for-profit firms and social enterprise, and iii) third sector – non-governmental organisations and civil society
Policy focus	Support for a single dominant resource sector	Support for multiple sectors based on their competitiveness	Low-density economies differentiated by type of rural area
Tools	Subsidies for firms	Investments in qualified firms and communities	Integrated rural development approach – spectrum of support to public sector, firms and third sector
Policy approach	Uniformly applied top down policy	Bottom-up policy, local strategies	Integrated approach with multiple policy domains

The policy focus must evolve away from short-term and sectoral support towards helping to build conditions favourable for the long-term growth of low-density economies. The fundamental economic structure of a low-density economy and its growth opportunities follow a considerably different logic than is the case in urbanised regions. Recognition that the rural economy is fundamentally different leads to the need for a new set of policy prescriptions that reflect differences in growth opportunities and constraints. These should focus on investing in human capital, infrastructure, innovation, which are enabling factors for growth, rather than short-term responses that seek to protect existing economic activities.

This new way of understanding rural policy demands implementation through an upgraded set of policy tools. Investments that offer a positive return to society should be the main instrument for rural development. In situations where markets fail, due to incomplete information, negative externalities, insufficient competition or lack of provision of public goods, governments may have to be more directly involved in order to ensure that well-being in rural areas is improved. In particular, support for social enterprise and the voluntary sector is a useful way to enhance rural communities.

Effective rural policies involve the engagement of a broad array of actors and multi-level governance mechanisms. A pooling of resources and capabilities across entities creates the ability to collectively accomplish what no individual actor can achieve independently. This demands the collaboration and engagement of government at multiple levels, and involvement of the private sector and third sector. Building capacity underpins the implementation of rural policy. Long-term capacity building makes rural communities more engaged in processes of development and more resilient to shocks.

Rural policies should focus on integrated investments and delivering services that are adapted to, and meet the needs of, rural areas. There is strong pressure to make better use of investments and more efficiently deliver services in rural areas. Integrated investments have the potential to reap the benefits of complementarities when they are adapted to the needs of different types of rural areas. Different sectoral policies should be co-ordinated and mutually reinforcing, and the mix between them should be

rebalanced to meet differing local needs. Moreover, policy interventions that target administrative boundaries in silos can miss the strong synergies that are present between rural and urban areas. Functional definitions that recognise areas with strong rural and urban linkages can help integrate policies and efforts.

Rural Policy 3.0 framework provides guidance for:

- ✓ **Delivering improved well-being for rural dwellers** (across economic, social and environmental dimensions).
- ✓ **Understanding the growth dynamics of low-density economies** (distance to markets, role of the tradeable sector, and absolute advantages).
- ✓ **Deploying a range of policy instruments** (investments, addressing market failures, and supporting social innovation).
- ✓ **Fostering a multi-sectoral approach** that engages public agencies, the private sector and non-government organisations, and is inclusive of different population groups and places.
- ✓ **Delivering integrated policies** that match the needs and circumstances of different rural economies.
- ✓ **Understanding the spectrum of rural areas** ranging from those in an FUA to remote ones, which have different policy opportunities and challenges.

Beyond this general framework, the analysis of contemporary rural trends suggests three priority areas of action for OECD countries. The first is how to increase productivity and foster competitiveness in the context of global value chains and digitalisation. This includes implementing incentives and mechanisms that support rural areas to identify unique assets, reduce bottlenecks and invest in enabling factors. The second is how to adapt to an ageing population and address demographic pressures. Focus areas include making rural areas more attractive through the provision of high quality services, and leveraging economic opportunities associated with an ageing population. The third is supporting rural economies in the shift to a carbon neutral economy. Priorities will include facilitating shifts to more sustainable forms of land use, investment in renewable energy, and proactive support for regions affected by economic restructuring.

6

Increasing productivity and making the most out of innovation

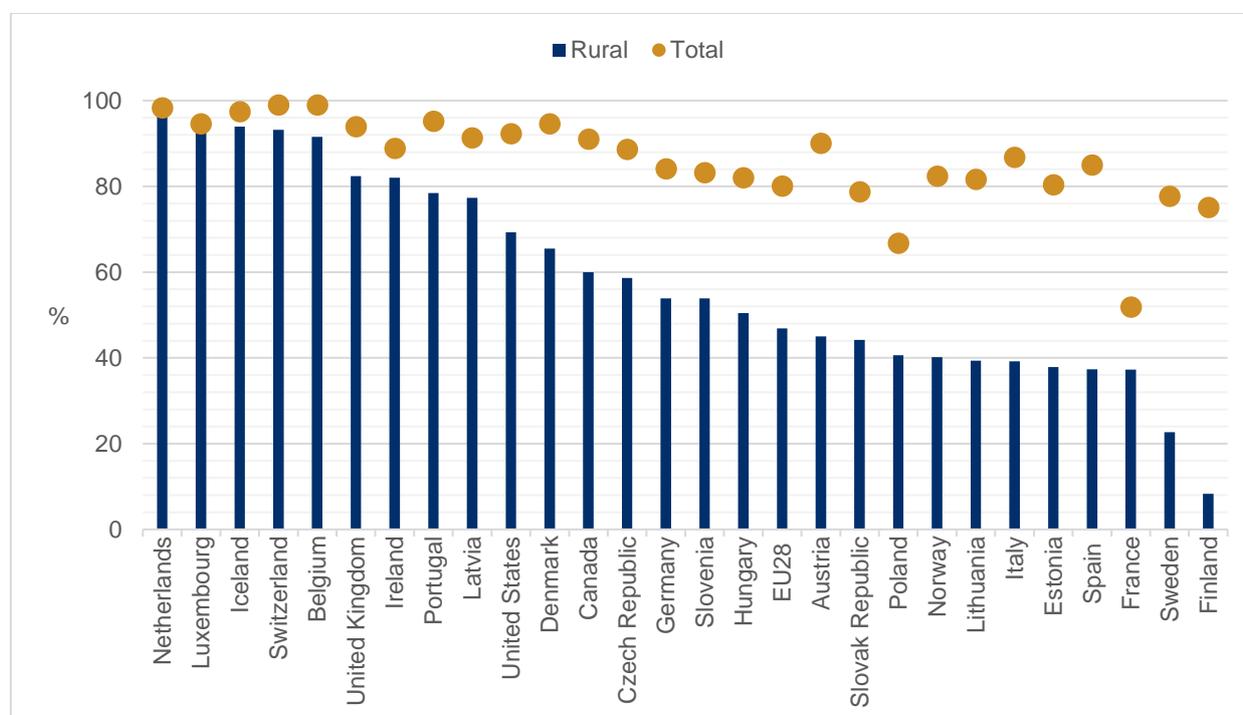
Increasing productivity is a key policy goal to raise rural wellbeing. Economic growth advances living standards through better jobs and higher incomes, and is a necessary precondition for rural well-being. Increasing productivity directly affects the resources available to improve well-being, such as investments in healthcare or adapting to climate change. One of the most important economic trends in OECD countries over past decades has been the decline in productivity. This poor productivity performance is characterised by inequalities between regions.

Some rural areas are performing strongly in productivity but inequalities remain. Among the best performing regions, there is a mix of all region types. Some lower density regions are improving their competitiveness and catching up to these high performers, which suggests that mechanisms for productivity growth are available to rural economies, too. However, many rural economies are lagging behind. These economies are not reaping the benefits of globalisation with structural problems compounded by population ageing and economic decline.

Facilitating new economic opportunities and overcoming these divides will depend upon commitment to improving broadband quality in rural areas. High-speed internet connection is instrumental for rural economies to benefit from emerging technologies and improve competitiveness in global market (Figure 6). While the gap in digital access among urban and rural areas has decreased (it has halved since 2010 in almost all OECD countries), the urban-rural gap on broadband quality remains significant. During 2010 and 2018, OECD countries have increased, on average, the share of high-speed fibre in fixed broadband internet (from a share of 12% in 2010 to 25% in 2018). Yet, most of that improvement has happened in urban areas. Across OECD countries, only 56% of rural households have access to fixed broadband with a speed of 30 megabyte per second (Mbps) or more, far below the 85% of urban households benefiting from such high-speed connections.

Figure 6. Internet Broadband quality in country and in rural areas, 2017

Households in areas where fixed broadband with a contracted speed of 30 Mbps or more is available, as a percentage of households in the total and rural categories



Note: "Rural areas": For EU countries, rural areas are those with a population density less than 100 per square kilometre. For Canada, rural areas are those with a population density less than 400 per square kilometre. For the United States, rural areas are those with a population density less than 1 000 per square mile or 386 people per square kilometre.

Source: OECD (2019), Measuring the Digital Transformation, <https://dx.doi.org/10.1787/9789264311992-en>.

Increases in rural productivity can be achieved through better linkages with cities and tradeable activities:

- **Better links with urban areas lead to higher rates of GDP and population growth.** Rural areas close to metropolitan areas have experienced higher productivity growth than the more remote ones. This advantage is mainly explained by benefits from the proximity to agglomeration economies, including innovation spill-overs and a greater movement of workers and ideas. These rural areas can access to a larger variety of goods and services from urban centres.
- **Tradable activities offers the opportunity for rural areas to overcome small market size.** Rural economies benefit from participation in the international tradable sector because it provides a larger market for their goods and services. While increased exposure to international markets presents a risk for firms in tradable sectors, the wider reach ensures growth and success is not limited to the local market.

Increasing productivity in tradable activities depends upon leveraging unique assets and resources, and adding value to primary sectors. Rural economies must take advantage of context-specific assets that are immobile which can represent areas of absolute advantage. Whether this is a natural park, the presence of natural resources, cultural heritage or fjords, these assets if well managed can produce or offer unique goods or services to external markets and consumers. The key policy question then is how to add value around these unique assets by reducing bottlenecks and supporting enabling

factors. This includes fostering backward and forward linkages to create a network of local suppliers related to primary sectors (agriculture, mining, forestry, and fisheries).

Smart specialisation is one approach to setting a strategic framework for promoting rural innovation and becoming more competitive in GVCs. Smart specialisation aims to identify local assets in order to increase competition in international markets. This is best understood as supporting a process of “entrepreneurial discovery” whereby the private sector facilitates new economic activities, while government play an enabling role by:

- **Developing a flexible strategy** focusing on measurable intermediate goals, identifying bottlenecks and market failures and ensuring feedback from business into policy.
- **Focusing in a pool of sectors:** Specialisation does not mean concentrate all the efforts in one single sector - diversification among related sectors or activities is essential to strengthen resilience in rural economies.
- **Promoting general-purpose technology platforms and networks:** that enable technological diffusion and collaboration between businesses and researchers across different sectors.
- **Diagnostic tools and sound infrastructure.** Maintaining an infrastructure and indicator base to monitor and evaluate performance and policies.
- **Strategic governance for smart specialisation.** Good governance and the development of local capabilities are key to identifying local strengths, aligning policy actions, building critical mass, developing a vision and implementing a sound strategy.

Rural policies should aim to build an innovation eco-system to support knowledge creation and technological diffusion. A key task is building scale by establishing common virtual and physical environments to concentrate firms, entrepreneurs and research institution. An enabling environmental for rural innovation can also be supported by investment in skills and ICT infrastructure, facilitating access to capital for entrepreneurs and SMEs, and supporting local supply chain development linked with industries such as mining and forestry.

7 Adapting to demographic change and delivering high-quality services

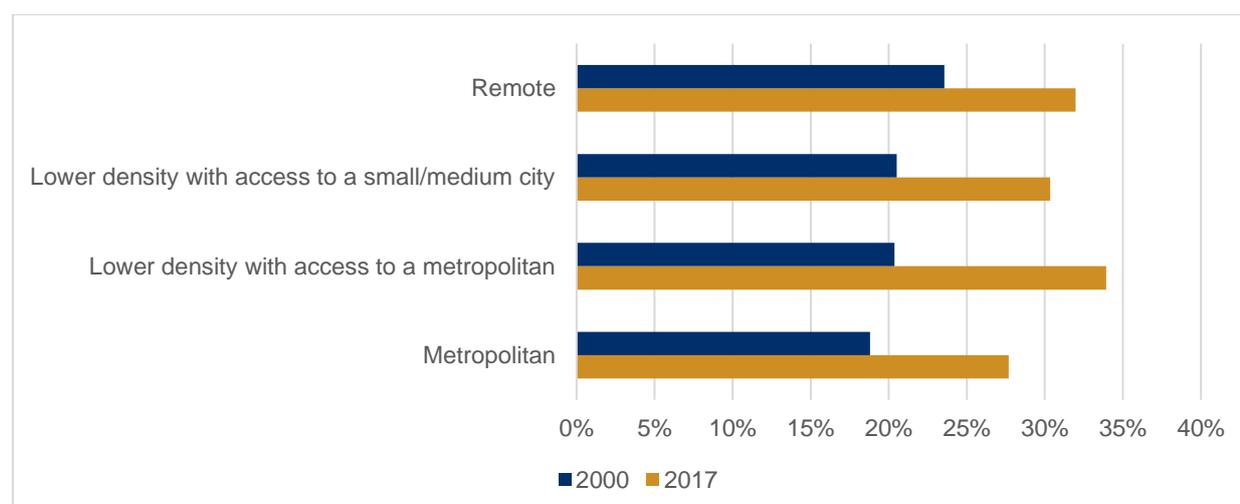
Creating an attractive living environment and adapting to demographic changes are essential to rural well-being. Although large cities offer benefits in terms of employment, wages and social opportunities – they also generate costs such as air and noise pollution, and higher house prices. Rural areas offer lower cost of living, and natural and cultural amenities, which can be a source of competitive advantage, particularly for regions with good access to cities.

Lower density regions face mounting demographic pressures. Many rural areas are also experiencing population ageing. This trend can be a challenge (e.g. a shrinking potential workforce) and an opportunity (growth in demand for new leisure, health and social care services). Half of OECD countries will have to manage population decline in remote regions and one third will need to manage population decline in regions with access to a small/medium city.

Pressures of ageing in rural economies are much stronger. The elderly dependency ratio (share of population over 65) is higher in non-metro regions compared to metro regions and this gap has widened over time across all region types (Figure 7). Lower density regions also have higher youth dependency ratios (population under 15 years of age). This means they have a small potential workforce and fiscal pressures as regions become increasingly dependent on external transfers to finance local infrastructure and services.

Figure 7. Elderly dependency ratio trends across TL3 types of regions, 2000 and 2016

Share of +65 population with respect to working age population, 15-64 years old



Note: Metro includes metro and metro large regions. Based on regions with available data.

Source: (OECD, 2019) OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en>.

Population ageing is also an economic opportunity for rural areas. An ageing population indicates that people are living healthier for longer. Today, elderly people are better educated and wealthier, and will consume and invest in their local communities. As rural areas are at the forefront of the ageing phenomenon, they can become laboratories for testing flexible work arrangements, new housing designs, community infrastructure, and innovations in leisure, health and social care services. Regions with good access to cities and those with high amenities can attract elderly people who are looking for a better lifestyle. This will generate opportunities for new businesses and investment in rural communities.

The attractiveness of rural areas can be improved through the availability of high-quality public services. Investments in public services can require economies of scale that are difficult to achieve in low-density areas, so communities must identify other arrangements to ensure adequate service provision. With growing pressures on public spending due to an aging population, regions are beginning to adopt new approaches to continue providing for rural dwellers. This includes investment in broadband to facilitate digital solutions such as telemedicine and remote education (Table 6). Integrated service delivery is one approach frequently implemented to improve access to services by providing improved cost, quality, and access to rural areas. Different forms of integration include colocation, collaboration, cooperation, and co-production.

Table 6. Strategies to improve rural service delivery

Placing providers at the community level	Better connecting providers with users increases the odds of providing services that are useful to the community and of doing it in a cost-effective way.
Consolidation and co-location	Concentrating customers on a smaller number of service locations reduces basic overhead costs such as energy, security, and administrative expenses. Pooling these costs can help generate economies of scale.
Merging similar services	Merging similar or substitute services and combining them into a single entity can ensure different organisations are not replicating work.
Alternative delivery options	Where the demand for services is widely dispersed, it may be more efficient to bring the service to the user. Some examples include mobile libraries, dental clinics, and doctors.
Community-based solutions	Community-driven provision may work for some services, such as through volunteer fire departments or community-owned shops.
Geolocation	Technology can help facilities locate by matching the supply and demand of services.

Source: <https://www.oecd.org/cfe/regional-policy/service-delivery-in-rural-areas.htm>

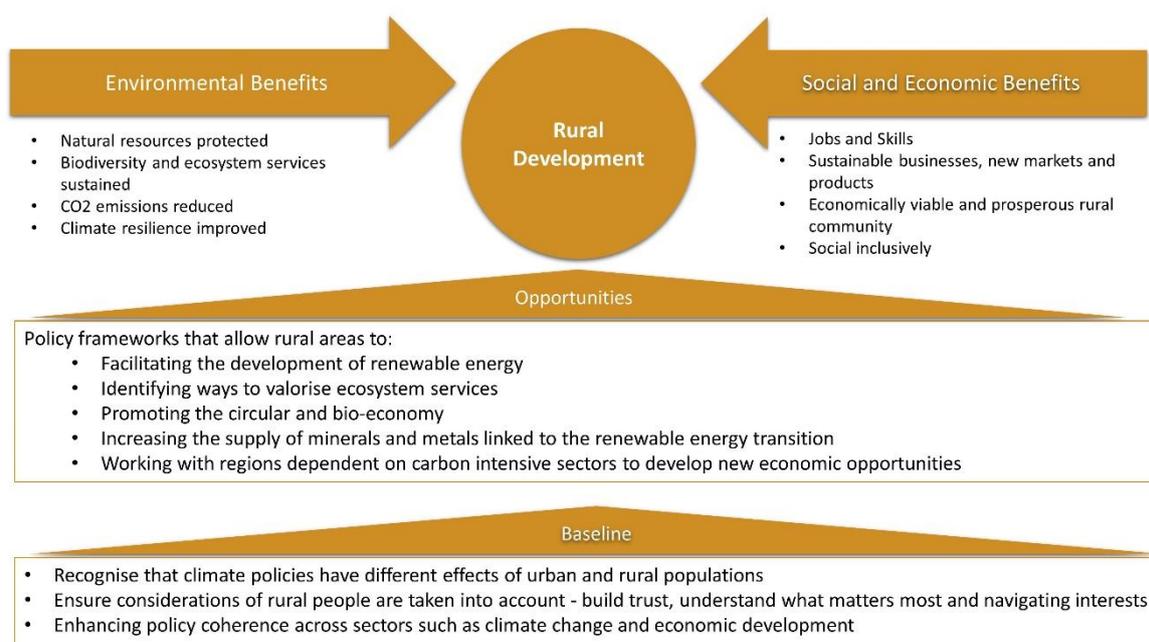
8

Facilitating the transition to a carbon neutral economy

Rural areas are pivotal in the transition to a carbon neutral - economy because of their natural endowments and specialisation in resource-based industries. Climate change is already affecting these economic sectors (agriculture, forestry, fisheries, mining and energy), for example, due to dislocation and costs associated with the increasing frequency and intensity of extreme weather events. To adhere to the goal of the Paris agreement – limiting global average temperatures raising to only 1.5 degrees – the emission of carbon in the atmosphere the reduction of carbon emissions in all sectors, especially energy and transport, need to go hand in hand with safeguarding the world's carbon sinks and creating and investing in new ways for carbon removal.

Land present in rural areas is fundamental to absorbing carbon from the atmosphere. Forest and wetlands function as natural carbon sinks - trees and other vegetation absorb large amounts of carbon dioxide from the atmosphere (equivalent to almost one-third of carbon dioxide emissions from fossil fuels and industry). Shifts to sustainable land use can be facilitated by reforestation, soil carbon sequencing as well as bioenergy with carbon capture and storage. Linking these efforts to rural development strategies can help generate benefits for local communities and thereby create incentives to facilitate this transition.

Figure 4. Opportunities from the carbon-neutral economy for rural development



Rural areas are disproportionately affected by policy efforts to decarbonise the economy. Carbon-intensive rural industries like agriculture, mining and energy often are important employers in regions with low economic diversity. Measures to decarbonise the economy, for instance by phasing out of certain industries, threaten local livelihoods and prosperity. Similarly, putting a price on carbon increases transport costs for rural households and firms reliant on car and truck transportation.

Policy makers will need to consider environmental sustainability along with economic and social policy objectives. The concept of “Just Transition”¹ defines the understanding that developments towards an environmental sustainable economy need to be managed in a socially just way that contributes to job creation, job upgrading, social justice and poverty eradication. The International Labour Organisation (ILO) estimates that a transition to more sustainable economies could generate up to 60 million new jobs worldwide over the next two decades.

Rural areas can employ a number of proactive strategies to support a just transition to a carbon neutral economy. This can include developing new industry opportunities such as ecosystem services, and resource extraction needed for renewable energy technologies. Rural areas can also identify new ways to add-value to natural resources and waste products through circular and bio economy approaches. Some carbon intensive sectors are vulnerable (such as coal-fired power) and require proactive support to develop new economic opportunities. Key strategies for rural areas include:

- **Facilitating renewable energy investment** that can only benefit rural economies if it is integrated within a local development strategy, identifies synergies with others sectors (e.g. agriculture and forestry), and is linked with local supply chains.
- **Identifying ways to valorise ecosystem services** such as fresh water supply, storm and flood protection, pollination. This includes payments for environmental management and carbon offsets.
- **Increasing the supply of minerals and metals linked to the renewable energy transition** that encompasses effective land use policies, mechanisms for local benefit sharing, and working with local communities.
- **Promoting the circular and bio-economy** including grants and loans to support capital investment, brokering and facilitating relationships between producers, and investing in research and development with local universities.
- **Working with regions dependent on carbon intensive sectors to develop new economic opportunities** including support for SMEs, investing in digital infrastructure, and retraining and employment pathways for affected workers.

¹ In 2015, the ILO adopted a set of guidelines based on inputs from governments, businesses and trade unions to ensure “A just transition”. These guidelines highlight the need for policy coherence between actions taken on climate change and economic development, industrial, labour market and enterprise policies. They emphasise the need to pay special attention to regions and workers that could be negatively affected. The guidelines recommend action to anticipate adverse effects of the transition, implement international labour standards and actively promote social dialogue (ILO 2015, Guidelines for a just transition towards environmentally sustainable economies and societies for all, <http://www.ilo.org/publns>). The international community has acknowledged the importance of promoting this 'Just Transition' for instance through the Paris Agreement, the ILO's Guidelines for a Just Transition.



