POLICY NOTE

RURAL 3.0.

A FRAMEWORK FOR RURAL DEVELOPMENT

OECD




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ABOUT

This Policy Note shares the OECD's Rural Policy 3.0—a framework to help national governments support rural economic 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 promote competitiveness in rural territories.

This approach represented a radical departure from the typical subsidy programmes of the past that were aimed at specific sectors. Rural Policy 3.0 is an extension and a refinement of this Paradigm. Where the New Rural Paradigm provided a conceptual framework, the Rural Policy 3.0 focuses on identifying more specific mechanisms for the implementation of effective rural policies and practices.

For more information: http://www.oecd.org/regional/regional-policy/oecdworkonruraldevelopment.htm

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INTRODUCTION

Rural regions will play a central role in meeting the major global opportunities and challenges of the 21st century. This includes developing new energy sources that meet our climate challenge, innovation in food production for a growing population, and the provision of natural resources that will enable the next production revolution. Some rural areas are performing well and are in a position to grasp these opportunities. Other rural regions have not been as successful and have less capacity to adapt. Structural shifts in manufacturing and natural resource based industries combined with population loss and ageing mean some rural communities are being left behind, which fuels discontent. The capacity of governments to effectively address these challenges and opportunities will impact future national cohesion and prosperity.

This policy brief outlines the case for focusing on rural areas as engines of national prosperity and how policies should leverage this opportunity. It is organised as follows. First, the changing context for rural policy is assessed in the context of 6 mega-trends that will bring new challenges and opportunities for rural regions. Second, it shows that rural regions are not synonymous with decline or agricultural specialisation, but places of growth and opportunity. Third, the distinctiveness and diversity of rural regions is discussed including how distance, dependence on external markets, and natural resources influence development. Fourth, the importance of increasing productivity in the context of population ageing is outlined along with analysis about the quality of life that rural regions can offer relative to urban areas. Fifth, it discusses the importance of the tradeable sector and linkages with cities as drivers of growth and how policies can respond to that. The policy brief concludes by presenting the Rural Policy 3.0 which provides guidance to governments about how to leverage opportunities and position rural regions for prosperity and well-being.

MEGA-TRENDS

A number of global shifts are likely to influence how rural areas can succeed in a more complex, dynamic and challenging environment. In the 21st century successful rural areas will be outward-looking and engaged in international markets. In order to secure the future prosperity and well-being of rural places, a number of inter-connected challenges and opportunities will need to be addressed. These mega-trends 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.** The general trend of ageing across OECD economies, which is generally more apparent in rural regions, is forecast to continue. 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 metropolitan areas 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 too. 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 regions 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 the tradeable sector.
- **Rise of emerging economies.** The centre of economic gravity is likely to continue to shift away from the North Atlantic toward Asia, Africa and Latin America. 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

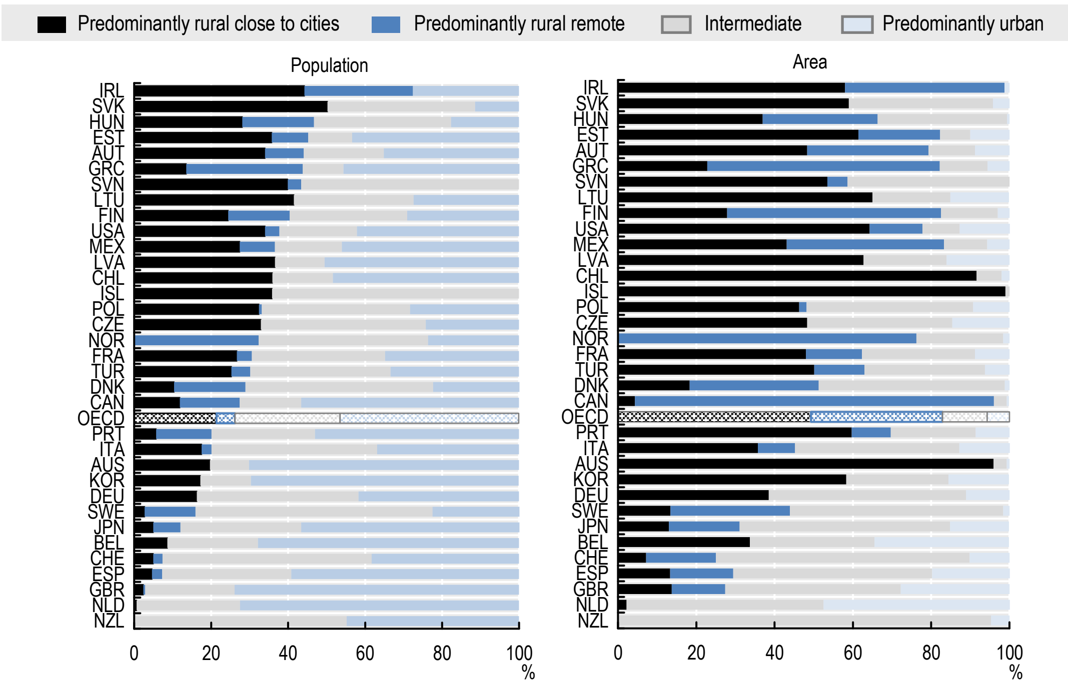
pressures on the environment. For example, it is estimated that 60% of the global population will face water issues by 2050. Greater emphasis will be placed on the efficient use of resources, and the development and diffusion of technologies that enable this outcome. The private sector will also need 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.[1]

- **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. 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.

RURAL REGIONS ARE PLACES OF OPPORTUNITY

Rural regions make a significant contribution to national prosperity and well-being across OECD countries. Rural regions are home to one-quarter of the population and contain the vast majority of the land, water and other natural resources in OECD countries. Rural regions are complementary to cities through connections related to the flow of people, goods and services. The majority of rural people (20% of the total OECD population or 251 million) live in rural regions close to cities, which are defined as territories less than 60 minutes of driving time from urban centres. The remaining 6% of the total OECD population or 75 million people live in remote rural regions. There is however variability between countries. For example, in Lithuania, Ireland, and Slovak Republic, more than 40% of national population live in rural areas close to cities and in Norway, Greece and Ireland, more than 28% of the national population live in rural remote regions (Figure 1).

Figure 1. Distribution of total population by region, OECD countries

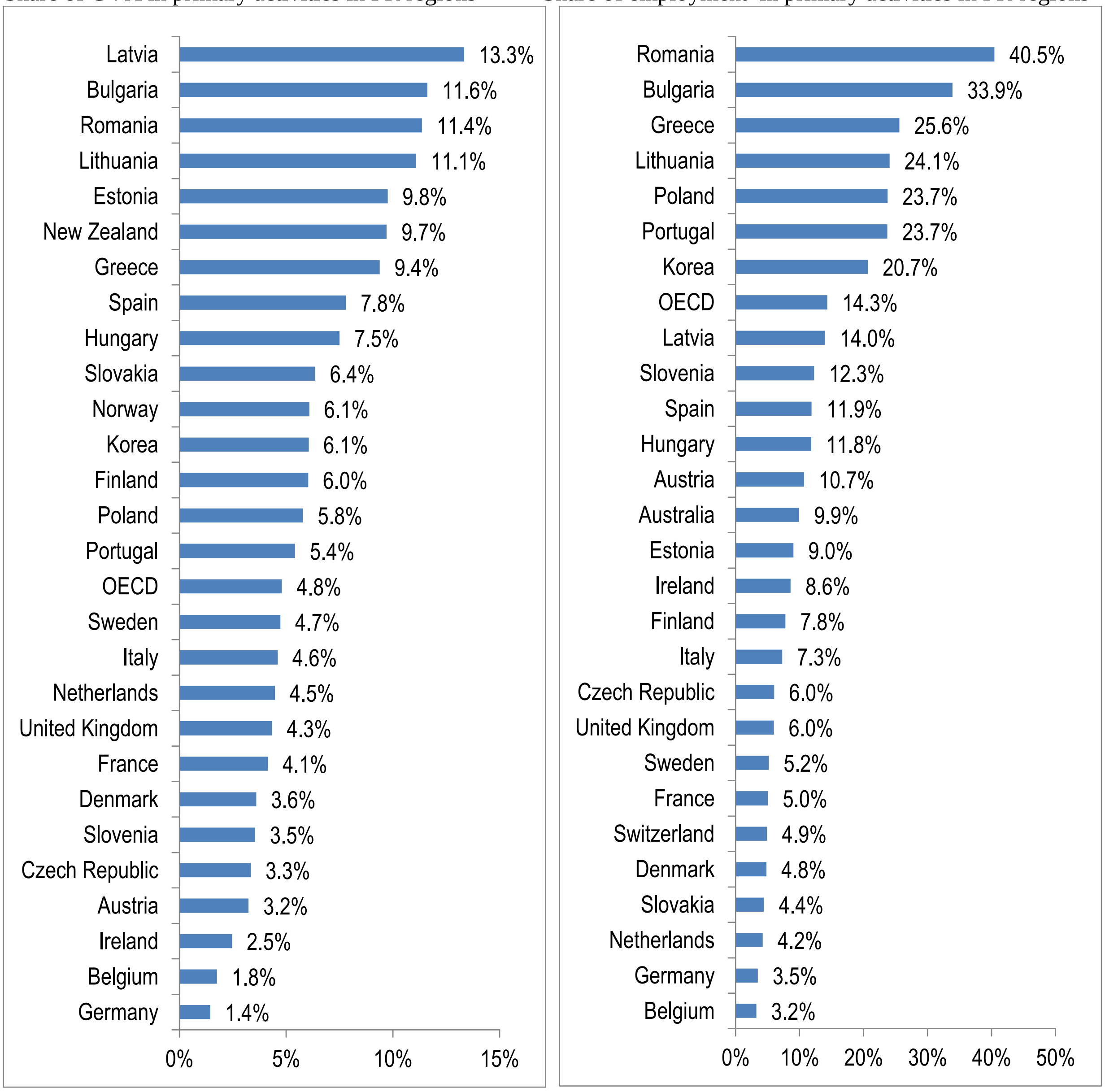


Source: OECD (2016), OECD Regional Outlook 2016: Productive Regions for Inclusive Societies, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264260245-en.

Rural regions have diversified economies, beyond agriculture and other natural resource-based sectors. Rural regions must take advantage of context-specific immobile assets which can bring competitive and absolute advantage. This can include mineral resources, fertile soils and moderate climate, national parks, and high amenity landscapes. Forestry, mining, oil, gas, electricity production, fishing and agriculture are almost exclusively rural industries. Much manufacturing also takes place in rural areas, in particular the first stage of processing natural resources. Rural economies have diversified into areas such as tourism, the production of renewable energy, arts and cultural industries, and services associated with natural resource based sectors. All these activities make a significant contribution to the overall export portfolio and prosperity of countries. Low density economies have diversified beyond primary activities, which only represent 4.8% of GVA and employ 14% of the workforce on average across predominantly rural regions in OECD countries (Figure 2).

Figure 2. Share of Gross Value Added (GVA) and employment in primary activities predominantly rural (PR) regions

Share of GVA in primary activities in PR regions | Share of employment in primary activities in PR regions



Note: * Primary activities include agriculture, forestry and fishing
Source: OECD (2018) "Regional economy", OECD Regional Statistics (database). http://dx.doi.org/10.1787/a8f15243-en.

Rural regions are a source of national productivity growth. The 2016 OECD Regional Outlook identified the importance of catching-up – the process whereby lagging regions narrow the gap with their countries' most productive regions, e.g. through adapting technologies from the "frontier" – to aggregate productivity growth in OECD countries. Rural regions are punching above their weight in terms of catching-up as they constitute 38.5% of all catching up regions in the OECD (compared to their overall share of 34.6%).

Moreover, while rural regions are individually small in terms of their level of regional gross domestic product (GDP), mobilising their growth potential can make a significant cumulative contribution to national GDP. Proximity of less than 1 hour travel time to a large urban region is an important predictor of rural growth. Proximity allows stronger linkages between urban and rural places. A good example is manufacturing which is located close to cities to take advantage of lower land costs along with proximity to thick labour and product markets. By contrast, in remote rural places there are fewer direct connections with cities and local residents and firms must rely almost exclusively on local providers of goods and services. Strong performance in these remote places tends to be associated with specialisation of tradable activities such as mining and extractive industries.

However, some rural regions continue to face structural challenges. Rural communities across the OECD face structural challenges, notably a combination of population loss and population ageing, making it more difficult to maintain public services and quality of life. A

Rural remote regions are more vulnerable to external shocks: the share of remote regions in the top 10% of regions across the OECD in terms of productivity performers declined from 21% before the crisis to 9% afterwards.

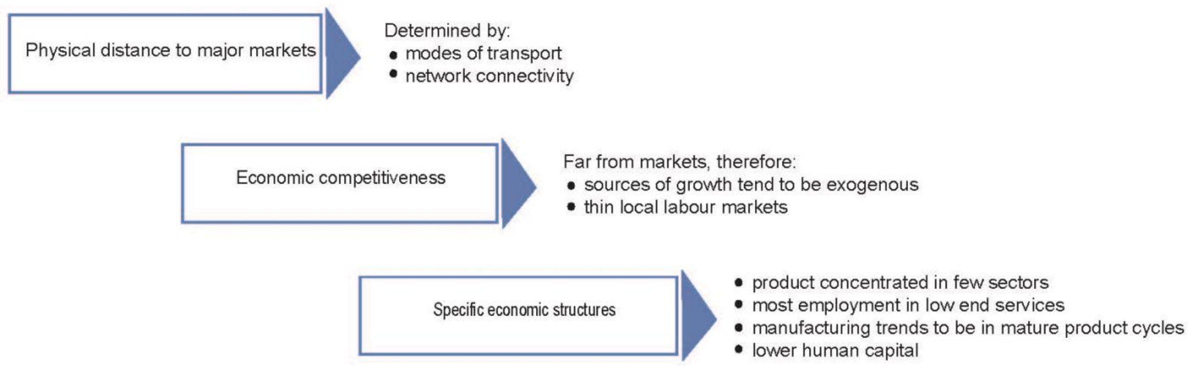
structural shift toward higher value producer services has generated wealth to large metropolitan regions. Disparities between large metropolitan centres and smaller cities and rural areas remain a concern for countries across the OECD. Territorial inequalities can contribute to political discontent which reduces the capacity for countries to build the consensus necessary to address structural policy challenges. Traditional policy solutions based on the assumption that people will move, or that regional policies are a deadweight that redistributes wealth from richer to poorer regions do not provide sustainable solutions. Place-based rural development policies will be critical to delivering on the promise of the Sustainable Development Goals that “no one is left behind”.

Rural regions will be central to harnessing the major global opportunities and meeting the challenges of the 21st century. Rural areas provide valuable eco-system services (e.g. purification of air and water, biodiversity, groundwater recharge, greenhouse gas mitigation) to mitigate and adapt to climate change. New energy sources will need to be developed to meet our climate challenge, too. Productivity and innovation in food production will be needed for a growing global middle class, and raw materials will be needed to enable the next production revolution. Trade in food and agriculture, mining and resources, forestry, and tourism has always driven the prosperity of rural people; with an increasingly interconnected world, these strengths will be the basis for new products and services to generate rural prosperity and well-being.

RURAL AREAS ARE DIVERSE AND HAVE DISTINCT NEEDS

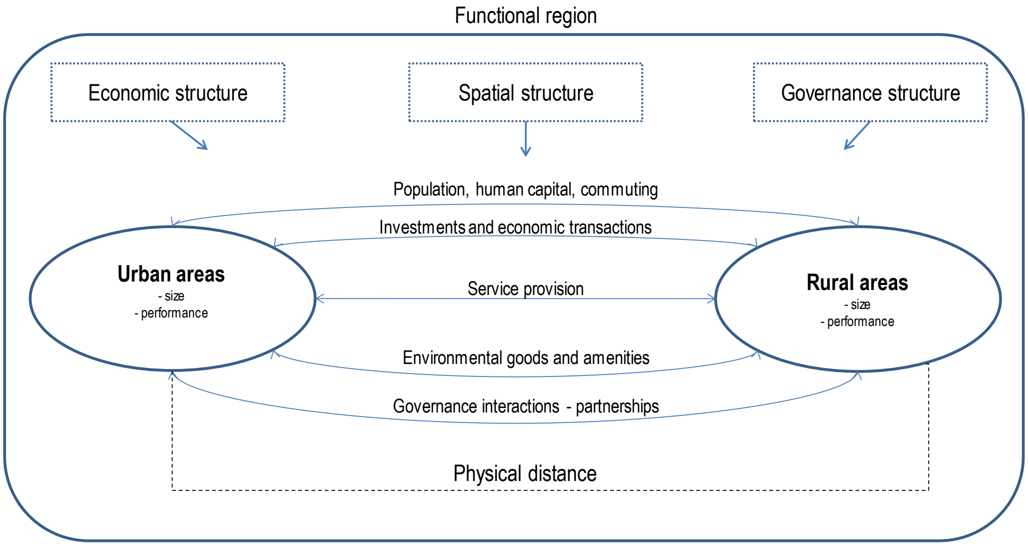
Rural or low-density economies are different from urban economies, across three main dimensions (Figure 3**).** The first captures physical distance from markets and the costs it imposes in terms of transport and connectivity. The second dimension is the importance of competitiveness in regions where 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 addresses how the specific natural endowment shapes local economic opportunities, the “first-nature geography”.

Figure 3. Features of low density economies



Proximity and linkages to cities exert key influence upon 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 4). Each type of interaction encompasses a different geography, forming a “functional region”.

Figure 4. 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.

The OECD has developed a regional typology which recognises the diversity of rural regions. This regional typology enables international comparability, and defines Territorial Level 3 regions[2] as predominantly urban, intermediate, and predominantly rural. Rural regions are then classified into rural regions close to cities and remote rural regions. The recent development of OECD functional urban areas (FUAs) can also delimit rural areas. In general terms, the OECD identifies three ways to define rural regions, with different characteristics, challenges and policy needs:

1. ***Rural areas within a FUA*** – these rural areas are an integral part of the commuting zone of the urban centre and their development is fully integrated within an FUA.
2. ***Rural regions close to a FUA*** – these regions have strong linkages to a nearby FUA, but are not part of its labour market. There are flows of goods, environmental services and other economic transactions between them. While the urban and regional economies are not integrated, much of the growth in the rural region is connected to the growth of the FUA. Close to 80% of the rural population in OECD countries lives in this type of rural region.
3. ***Remote rural regions*** – these regions are distant from a FUA. Connections to FUAs largely come through market exchange of goods and services. Personal interactions outside the rural region 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 (see the discussion on “low-density economies” below). 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 region

Type	Challenges	Opportunities
Rural inside a functional urban area (FUA)	-loss of control over the future -activities concentrate in the urban core -loss of rural identity	-more stable future -potential to capture benefits of urban areas while avoiding the negatives
Rural outside, but in close proximity to a FUA	-conflicts between new residents and locals -may be too far away for some firms, but too close for others	-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	-highly specialised economies subject to booms and busts -limited connectivity and large distances between settlements - high per capita costs of services	-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.

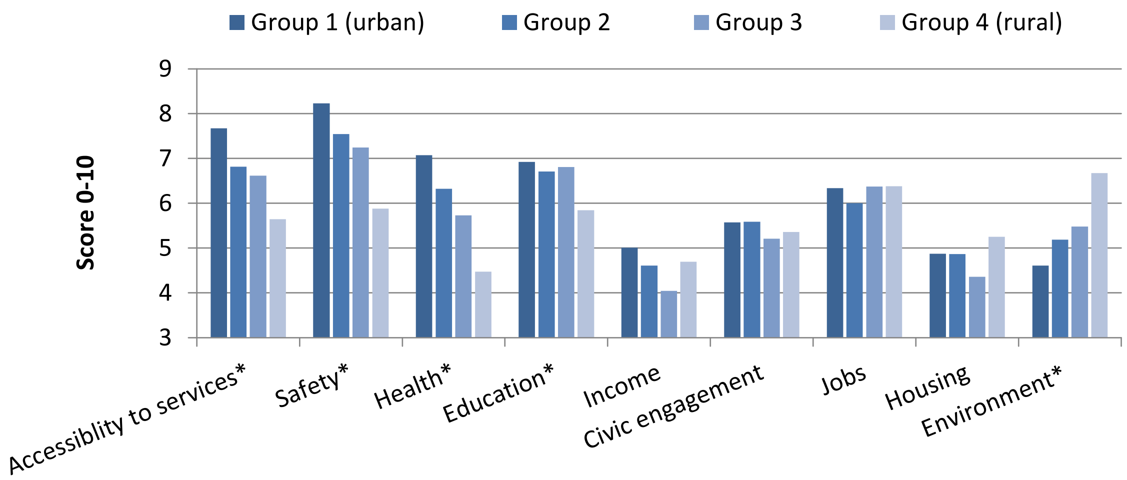
Some OECD countries have adopted more nuanced rural definitions that reflect their specific needs and these definitions have evolved over time. This also includes making use of a wider range of data sources including commuting, labour market or transportation network data. For example, Austria and Spain mainly use the urban-rural typology of the European Union. New Zealand has adopted a definition that distinguishes between rural areas with high, moderate or low urban influence and those deemed rural-remote by drawing on both population density, place of employment and commuting data.

The greatest increases in the dependency ratio can be found in rural remote regions: between 2001 and 2015, the elderly dependency ratio increased in rural remote regions by almost 37%, but by only 8% in the case of predominantly rural regions close to cities.

PRODUCTIVITY GROWTH IS CRITICAL FOR THE FUTURE OF RURAL WELL-BEING

Rural areas perform well on several dimensions of well-being. In several key indicators, rural well-being is comparable to urban well-being. The average values spanning all nine components of the regional well-being indicators are displayed across the four groups ranked from urban (group 1) to rural (group 4) in Figure 5. The results suggest that the urban dimension is not necessarily associated with higher levels of well-being, as rural dwellers can count on better environmental conditions and more affordable housing, whilst performance measures such as access to jobs and income are in line with those of regions where most people live in (large) cities. Rural areas lag in terms of access to services, safety, and life expectancy.

Figure 5. Distribution of well-being components across (urban and rural) quartiles



Note: TL2 regions have been grouped in each quartile based on the share of population living in rural municipalities (as defined by the OECD). Average differences are statistically significant between group 1 and 4 according to t-statistics. Accessibility to services corresponds to broadband.
Source: Author's elaboration based on OECD Regional Well-Being Database www.oecdregionalwellbeing.org.

Rural places with a high quality of life can compensate for lower wages and attract and retain workers and their families. In many rural areas, wages are relatively low, but outmigration is less than might be expected and in some places there is even in-migration – or "counter-urbanisation". Households may choose to accept lower wages or higher commuting costs because of the high quality of life provided by a rural environment. Rural areas close to cities have relatively high rates of population growth because they can leverage the mutual benefits of high amenities, affordability and proximity to cities (Table 2).

Table 2. Average annual population growth, OECD (2000-2007 and 2008-2012)

Type of region	2000-07	2008-12
Predominantly urban	0.76	0.67
Intermediate	0.55	0.45
Predominantly rural (total)	0.31	0.38
Predominantly rural close to cities	0.61	0.55
Predominantly rural remote	-0.03	0.18
All regions	0.47	0.46

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

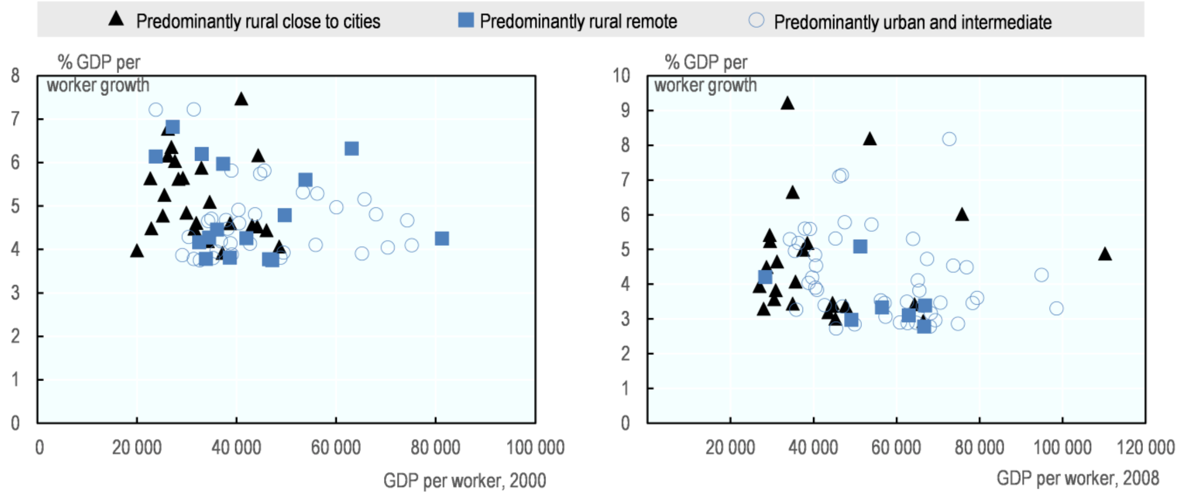
Population ageing is a widespread phenomenon across the OECD and this trend is more apparent in rural regions. In most OECD countries, the average age of residents in predominantly rural regions is higher than that of predominantly urban ones (Figure 1). In both France and Portugal, this difference is the greatest, with predominantly rural regions having an average age slightly over five years higher than predominantly urban ones in 2014. The elderly dependency ratio - the ratio of the working age population to that of seniors (aged 65 plus) - is also higher in rural regions. Across the OECD, the ageing trend is intensifying, with elderly dependency ratios showing a sharper increase since 2011 for the OECD as a whole across all regional types. The greatest increases in the dependency ratio can be found in rural remote regions. Between 2001 and 2015, the elderly dependency ratio increased in rural remote regions by almost 37%, but by only 8% in the case of predominantly rural regions close to cities.

Population ageing is both a challenge and an opportunity for rural places. The widespread phenomenon of longevity and good health across the OECD should be viewed as progress. Gains in life expectancy over time reflect increased health spending, healthier lifestyles and improved socio-economic conditions. An ageing population increases demand for labour in health and social care, and in a range of different personal services. Rural communities with a larger share of senior residents and smaller working age population can face labour market shortages and service provision costs (e.g. higher rates of health care consumption), among other challenges. A withdrawal of public services—schools, health services—can contribute to a community's decline. The challenge is to find ways to maintain accessibility to services in a cost effective manner.

Raising productivity growth of rural regions over the medium term is the only path for sustainable growth. Economic growth advances living standards through better jobs and higher incomes, and is a necessary precondition for rural well-being. Conceptually economic growth can be split into three components: increasing population, labour productivity, and workforce participation. In the context of an ageing population, growth will become increasingly dependent upon productivity improvements, meaning that more can be produced with the same number of workers (and hours), or the same amount of output can be produced with a smaller workforce.

Some rural areas are performing strongly in productivity but inequalities remain. Differences in productivity growth rates have been increasing across all OECD regions. This divide is not between urban and rural regions, but rather between a small number of high performing regions and all other regions (rural and urban included). Among the best performing regions, there is a mix of predominantly urban and predominantly rural regions. Some rural regions are improving their competitiveness and catching up to these high performers, which suggests that mechanisms for productivity growth are available to rural regions, too. However, many rural regions are lagging behind. These areas are not reaping the benefits of globalisation with structural problems compounded by population ageing and economic decline.

Figure 6. Many rural regions are among the 10% top performing OECD TL3 regions



Note: TL3 regions are selected according to their labour productivity growth rate before and since the crisis. Labour productivity is defined as real GDP per worker. GDP is calculated at PPP constant 2010 USD, regional employment is measured at place of work.
Source: Calculations based on OECD (2015a), OECD Regional Statistics (database), http://dx.doi.org/10.1787/region-data-en (accessed 18 June 2016).

Rural regions close to cities perform particularly well. Rural regions close to cities displayed higher productivity growth before the 2008 economic crisis and higher resilience after the crisis began. The economies of rural remote regions show a very different pattern. They were the most badly affected by the crisis, with an annual average drop of GDP per capita of -2.5%, more than 2 percentage points worse than rural regions close to cities (Table 3).

Rural regions account for 40% out of the top 10% of the highest regional productivity growth performers in the OECD.

Table 3. Trends in regional GDP per capita and labour productivity

	Annual average GDP per capita growth, %		Annual average labour productivity growth, %	
	2000-07	2008-12	2000-07	2008-12
Predominantly urban	2.39	-0.70	1.65	0.24
Intermediate	2.20	-0.28	1.57	0.65
Predominantly rural (total)	2.29	-1.11	1.97	0.12
Predominantly rural close to cities*	2.29	-0.28	2.15	0.56
Predominantly rural remote	2.30	-2.45	1.69	-0.61
All regions	2.29	-0.70	1.74	0.34

Note: *defined as within 1 hour travel time of a large urban centre
Source: OECD (2016), OECD Regional Outlook 2016: Productive Regions for Inclusive Societies, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264260245-en.

The strong performance of rural regions close to cities is not solely linked to their proximity to a large metropolitan area. Indeed, the definition of "rural close to cities" refers to any city of more than 50 000 inhabitants. Small and medium-sized cities do play an important role for the economic development of rural regions, but benefits cannot be achieved without access. This highlights the importance of transport links for rural areas, especially given a low population density. At least half of a region's population that is "close to a city" can access services provided by the city in less than 60 minutes driving distance; the population of "remote" rural areas needs to travel even further. But in both cases, "borrowing" the agglomeration benefits of large metropolitan areas, i.e. the largest cities across the OECD, might require bridging longer distances. Therefore, accessibility is a challenge for all rural areas.

PARTICIPATION IN GLOBAL MARKETS IS KEY TO REALISING THE GROWTH POTENTIAL OF RURAL AREAS

What stands out in terms of determining economic success is the tradable sector. Before the crisis, the contribution to total output produced by the manufacturing sector was 24% in successful rural regions close to cities and 20% in remote rural regions. This is a substantial difference to the 16% and 11% contribution of manufacturing in the least successful rural regions. For rural regions, manufacturing is a major part of this result. Still, other tradable sectors also contribute, as evidenced in the difference for rural regions close to cities, where 40% of output in successful regions is produced in the tradable sector, as opposed to 29% in the least successful regions. This confirms the importance of tradable activities – manufacturing, agriculture and tradable services – for productivity growth of rural regions, given their lack of a large internal market and lower productivity of the services sector. It suggests that the common emphasis of rural policy on stimulating manufacturing and other tradeables has considerable merit.

In contrast to the importance of the tradeables sector to economic growth, labour market-related characteristics matter less, but there is some indication of demographic challenges curtailing growth. The difference in employment, unemployment and participation rates between the top 40% and the bottom 40% of regions in both rural regions close to cities and remote rural regions is small, with little discernible pattern (Table 4). The elderly dependency ratio, i.e. the total population above the age of 65 compared to the labour force, is higher in less successful regions, indicating a potential bottleneck for rural growth. Population density (especially in rural remote regions) is another element of distinction of successful regions. The importance of population density for the economic performance of rural regions suggests that a “minimum” level of density is crucial in order to take advantage of economies of scale and scope for the delivery of goods and services. This helps explain why rural regions close to cities tend to outperform remote rural regions. Along with the promotion of the tradable sectors, public policy in rural remote regions should also facilitate connections between isolated communities.

Table 4. The tradeable sector and proximity to cities are key drivers of rural prosperity

		Predominantly rural close to cities		Predominantly rural remote	
		Top 40%	Bottom 40%	Top 40%	Bottom 40%
Labour market	Employment rate, %	55	50	53	55
	Unemployment rate, %	7	7	7	6
	Participation rate, %	63	60	60	65
GVA share	Manufacturing, %	24	16	20	11
	Tradable sectors, %	40	29	36	31
Demography	Population density	74	60	42	27
	Elderly dependency ratio, %	23	30	27	30

Note: The employment rate is the percentage of those employed who are aged 15 and over divided by the working age population (those aged 15 64). The unemployment rate is the percentage unemployed aged 15 and over divided by the labour force (those aged 15 and over). The participation rate is the percentage of the labour force aged 15 and over divided by the population of those aged 15 and over. The gross value added (GVA) share is the measure of goods and services produced in an industry. The tradable sector includes agriculture (A), industry (BCDE), information and communication (J), financial and insurance activities (K), and other services (R to U). Population density is the average number of inhabitants per km2. The elderly dependency rate is defined as the ratio between the elderly population (aged 65 and over) and the working age population (aged 15 64). The sample includes regions from the following countries: Austria, the Czech Republic, Estonia, Finland, France, Hungary, Ireland, Korea, Sweden, Slovenia, Slovak Republic, and the United Kingdom.

Export-oriented economies located far from the major centres of demand face an exceptional competitiveness challenge, particularly in manufacturing sectors. Producers in tradable sectors require an edge in terms of efficiency, simply to offset the cost of distance and compete in international markets. Moreover, the limited scope for pursuing economies of scale in many sectors in rural regions suggests that producers in the non-resource tradable goods sector need other sources of competitive advantage – for example, by focusing on unique qualities of products, where scarcity can add value.

Economic diversification is about identifying one or more new and profitable niches. It is difficult to know beforehand what new activities might be competitive, given the cost structure of the economy. Moreover, entrepreneurs moving into new sectors of the economy must often compete directly with established producers elsewhere, even before they have achieved critical mass or reached the levels of productivity they might be capable of attaining. This challenge is even more daunting in geographically remote, low-density places. In these places, producers must often cover higher transport and capital costs and then compete on distant markets with rivals who source inputs and services in much deeper, more competitive markets.

Policy makers should resist the temptation to specify the production structure towards which they believe the economy should evolve. The emphasis should be not on predetermined "strategic sectors" but on understanding strengths and assets, and on that basis fostering the emergence of new activities, some of which will fail and others of which will take root. Rural regions must take advantage of context-specific immobile assets which can represent areas of absolute advantage. The key policy question then is how to add value around the unique assets by reducing bottlenecks and supporting the enabling factors (human capital, innovation, land use, and infrastructure). For most rural regions, rural development strategies are likely to involve, to some extent, helping industrial producers to move up the value chain, thus diversifying on the basis of existing strengths.

Another key strategy for rural areas is to foster mutually beneficial linkages with cities. Urban and rural areas are connected through a broad range of linkages as outlined in Figure 3. Urban-rural partnerships can help facilitate the production of public goods that are useful for rural development. This can include co-operation to better connect firms to markets, and to foster the territorial image and visibility, which can increase the attractiveness of the region for investment and tourism. Rural-urban partnerships can contribute to achieve greater economies of scale in the provision of public services to the entire region. Rural-urban partnerships also help account for the cross-border effects of decisions taken by single urban and rural local authorities. For example, better coordination of land development within functional regions between urban and peri-urban areas.

THE RURAL POLICY 3.0—A FRAMEWORK FOR ACTION TO ADDRESS CHALLENGES AND OPPORTUNITIES OF THE 21ST CENTURY

Rural Policy 3.0 is a policy framework to help national governments support rural economic 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. Where the New Rural Paradigm provided a conceptual framework, the Rural Policy 3.0 focuses on mechanisms for the implementation of effective rural policies and practices.

Rural Policy 3.0 reflects several important changes in rural development. First and foremost, rural regions have evolved into far more diverse and complex socio-economic systems. Second, in general, government policies are now less isolated and are held to more rigorous accountability standards. Third, with better data and analysis, it is possible to have a greater understanding of rural regions and move away from the presumption that all rural places are alike. Fourth, the Rural Policy 3.0 agenda recognises the strong interdependencies between rural and urban regions and proposes to better integrate rural and urban policies at various government levels.

Objectives for rural policy have become multidimensional, with a broad definition of well-being. 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. The balance among these elements may vary considerably across rural regions. 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.

A key objective of rural policy should be to increase rural competitiveness and productivity in order to enhance the social, economic and environmental well-being of rural areas. This in turn will increase the contribution of rural regions to national performance.

Table 5. Rural Policy 3.0

	Old Paradigm	New Rural Paradigm (2006)	Rural Policy 3.0 –Implementing the New Rural Paradigm
Objectives	Equalisation	Competiveness	Well-being considering multiple dimensions of: i) the economy, ii) society and iii) the environment
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
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 approach	Uniformly applied top down policy	Bottom-up policy, local strategies	Integrated approach with multiple policy domains

Implementing the Rural Policy 3.0 requires new ways of thinking about: rural areas, their opportunities and challenges, and the role of national governments in supporting their development efforts.

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 emphasises the following policy lessons:

1. Delivering ***improved well-being for rural dwellers*** (across economic, social and environmental dimensions).
2. Understanding the ***growth dynamics of low-density economies*** (distance to markets, role of the tradeable sector, and absolute advantages).
3. Deploying ***a range of policy instruments*** (investments, addressing market failures, and supporting social innovation).
4. 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.
5. Integrating delivery to ***enable sectoral policies*** that match the needs and circumstances of different rural regions.
6. Understanding that ***there is a spectrum of rural regions*** ranging from those in an FUA to remote which have different policy opportunities and challenges.

Endnotes

[1] 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.

[2] The OECD has classified two levels of geographic units within each member country: large regions (Territorial level 2 or TL2) composed by 393 regions, and small regions (Territorial Level 3 or TL3) composed by more than 2 245 small regions.

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