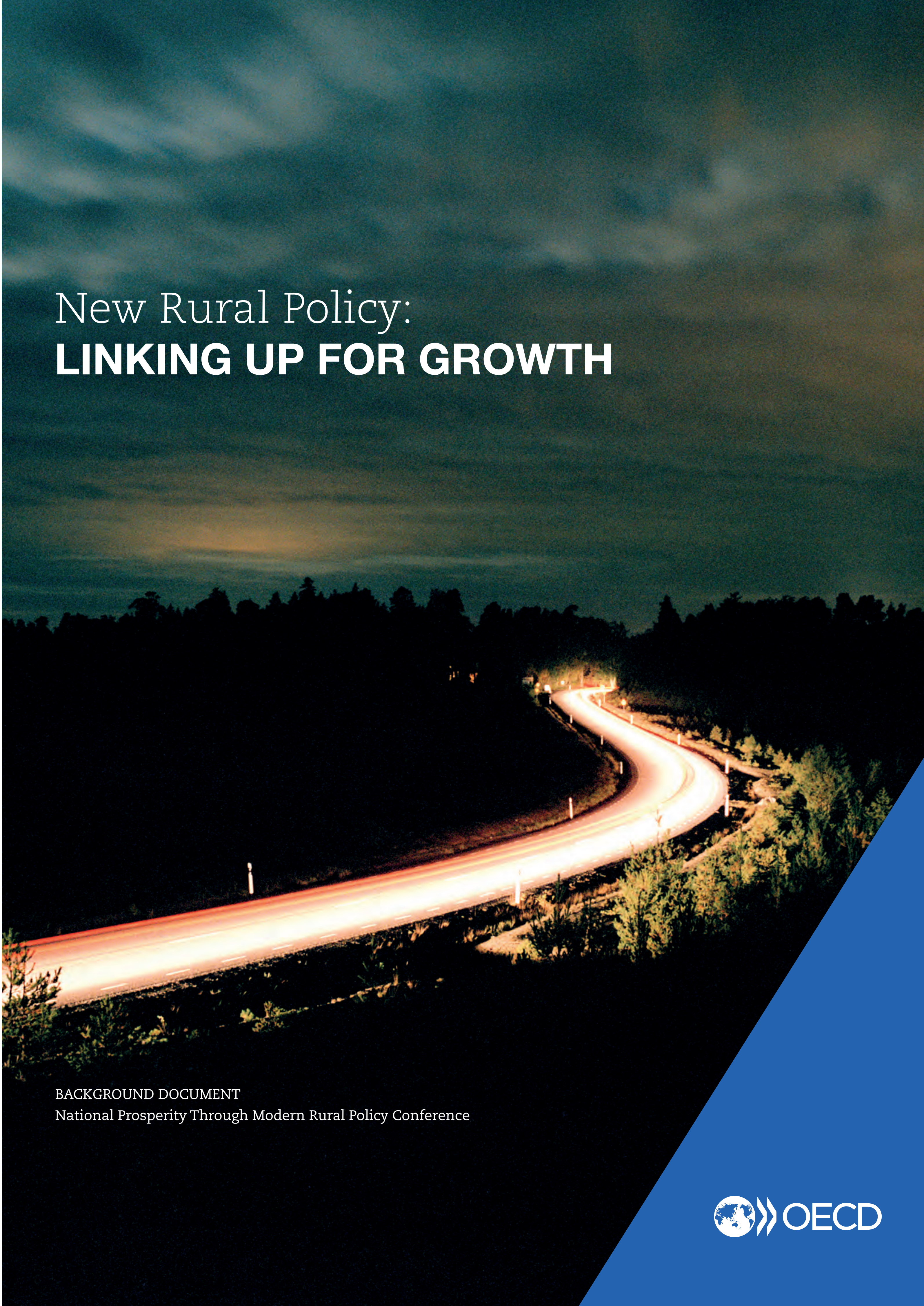


New Rural Policy: LINKING UP FOR GROWTH

BACKGROUND DOCUMENT

National Prosperity Through Modern Rural Policy Conference

OECD

FOREWORD

In 2006, the member countries of the OECD endorsed the New Rural Paradigm (NRP). For the first time, it proposed a conceptual framework positioning rural policy as an investment strategy promoting competitiveness in rural areas. This was a radical change from the typical subsidy programmes aimed at specific sectors. The magnitude of this shift was not fully appreciated at the time. Indeed, the ramifications for national rural development policies and programmes were not well understood. Now, as the OECD celebrates its 10th Rural Conference, we have a decade of experience observing how the New Rural Paradigm has held up over time. Today, we look at the next steps for the OECD Rural Policy Programme and consider the direction our future work should take.

> "The success of large numbers of rural regions highlights the potential that can be tapped when rural communities are able to mobilise their place-based assets." - Angel Gurría, OECD Secretary-General

THE NEW RURAL POLICY

FROM PARADIGM

THE 2005 NEW RURAL PARADIGM	
MAIN TOOLS	INVESTMENTS
OBJECTIVES	COMPETITIVENESS OF RURAL AREAS
KEY TARGET SECTOR	HOLISTIC APPROACH TO INCLUDE VARIOUS SECTORS OF RURAL ECONOMIES
KEY ACTORS	MULTI-LEVEL GOVERNANCE

TO POLICY

- INTEGRATING POLICY DOMAINS TO ADDRESS WELL-BEING DIMENSIONS
- COMPLEMENTARITIES WITH CITIES
- LOW DENSITY ECONOMIES
- BETTER UNDERSTANDING OF THE VARIETY AND DIVERSITY OF RURAL PLACES
- TOOLKITS/POLICY DIALOGUE

INTRODUCTION

In 2006, no one imagined the financial and debt crisis that would grip OECD countries and much of the world. The crisis has had a lasting impact both on the lives of citizens and on how governments conceive public policy. Governments have been actively working to use scarce pubic resources more effectively, to co-ordinate policy actions across levels of governments, and to leverage private investment when possible. Restoring growth and promoting job creation has been a critical objective of countries. This has had an effect on rural development policy. Generating economic growth and job opportunities has become a key priority in low (or lower) density regions.

Advancing rural development policy and analysis

The New Rural Paradigm was a response to changing conditions in rural areas. Statistical evidence shows that agriculture is not the main source of rural jobs and incomes anymore and that several rural regions perform in line with urban regions in terms of economic growth. This, in turn, led to changes in the way governments think about rural policy.

The shift towards growth has a profound effect on rural development strategies. But it requires large amounts of information and the involvement of sub-central entities that pool knowledge regarding untapped resources, emerging needs, and short-term trends in rural communities. These entities can be local governments, business or other intermediate stakeholders. At the same time, the influence of institutions lobbying in favour of a given constituency, such as national farmers' associations, is declining. This is particularly evident in the European Union, where funds allocated to direct payments to farmers have been shrinking in favour or support for rural development.

> **"Rural is not synonymous with agriculture and is not synonymous with economic stagnation."**

Beyond the paradigm

Today, there is a need to move beyond the paradigm. Is the NRP obsolete? Is the basic paradigm still relevant? What modifications are necessary? Although a new policy environment has emerged with the financial crisis and its aftermath, we believe that the New Rural Paradigm remains pertinent. This was an opinion shared by the international rural policy stakeholders present at the 8th Rural Conference in Krasnoyarsk, Russia in 2012. At the same time, there was widespread consensus that the NRP has yet to be fully embraced by member countries.

Thanks, in part, to the strength of the evidence base we have gathered, the role of the OECD has evolved. Today, we are ready to help member countries develop and adopt policies and programmes aligned with NRP principles. We are now beginning to see, through the different projects of the OECD, where rural policy has worked well and where it has not. We can now begin to understand the underlying conditions required for policies to be effective. And a picture has emerged as to where the OECD has helped to successfully shape rural policy change.

This document points to the next stages of work as we extend the conceptual framework of the NRP into an implementation strategy that:

- Reflects the last ten years of work by the Rural Working Party and the Secretariat,
- Recognizes the change in perspective in member countries on what they want to achieve with rural policy,
- Incorporates the evolution of socio-economic conditions in rural regions of the OECD,
- Integrates rural development policy in a broader governance system to deliver better policies and improve well-being in rural areas.

AN ACTION PLAN FOR NEW RURAL POLICY

The New Rural Policy implements and integrates the ideas contained in the New Rural Paradigm. The following chapters present a road map for implementation.

1. BUILD UPON PAST WORK

Previously, rural policy in OECD countries focused on support for specific sectors such as agriculture and forestry. The typical approach was to provide sectoral subsidies to equalise income levels. Firms, communities and individuals were deemed entitled to specific subsidies by virtue of their rurality. By contrast, the New Rural Paradigm shifts the orientation of rural policy from supporting specific sectors to a holistic approach that tries to identify how the various components of a local economy interact. The responsibility for developing policy is equally shared between the top (national governments) and the bottom (local and regional stakeholders).

The New Rural Paradigm can be characterised as an investment approach in which policy makers assess the costs of policies and identify the expected outcomes to ensure that there are positive returns. The structural transformation of rural economies—mostly due to reduced employment in agriculture—became evident in OECD countries between the 1980s and 1990s. The OECD assisted governments is assessing the transformation as well as identifying new economic drivers and new policy approaches. This process generated the New Rural Paradigm (OECD, 2006), advocating a place-based approach to rural development based on evidence that OECD rural regions are diverse economies in which agriculture is often a marginal activity. Rural communities need a flexible policy framework that can adapt to their specific needs and promote investment and complementarities among different policies.

Since 2006, the OECD has used the New Rural Paradigm as a benchmark to assess national rural policies in twelve countries. Rural Policy Reviews show that member countries agree upon a general approach to rural development but have been slow in adopting the NRP recommendations. While the committee process, i.e., the international policy dialogue among OECD countries, provides a mechanism for members to discuss broad policy concepts, the implementation agenda needs further mobilisation in respective countries.

“Member countries agree upon a need for a territorial approach to rural development but the implementation of this shift remains challenging.”

The New Rural Paradigm

	Old Paradigm	New Paradigm
Objectives	Equalization or entitlement approach, focused on farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Sector based	Various sectors of rural economies (e.g. rural tourism, manufacturing, ICT industry, etc.)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, NGOs)

Source: OECD (2006), The New Rural Paradigm, OECD Publishing, Paris

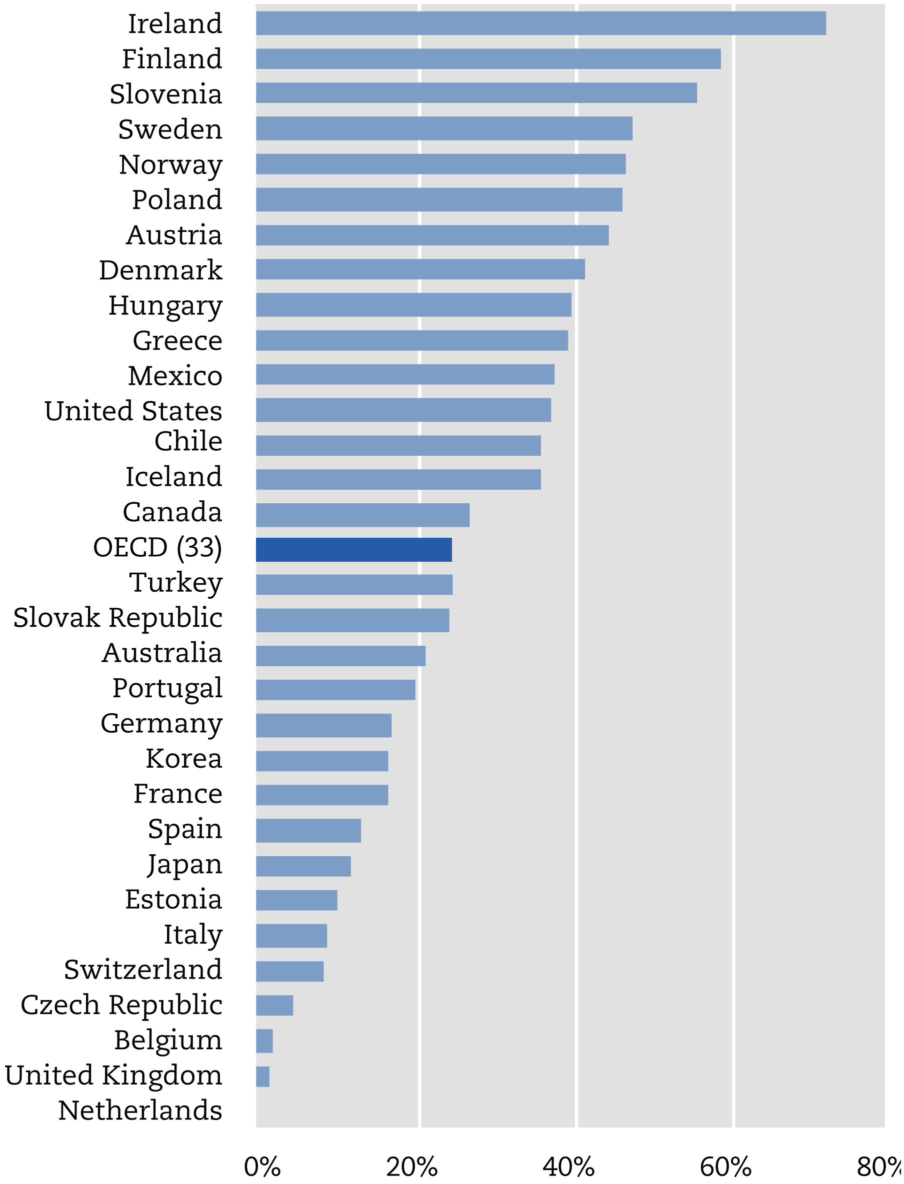
2. IDENTIFY MORE APPROPRIATE CONCEPTS AND DEFINITIONS OF RURAL

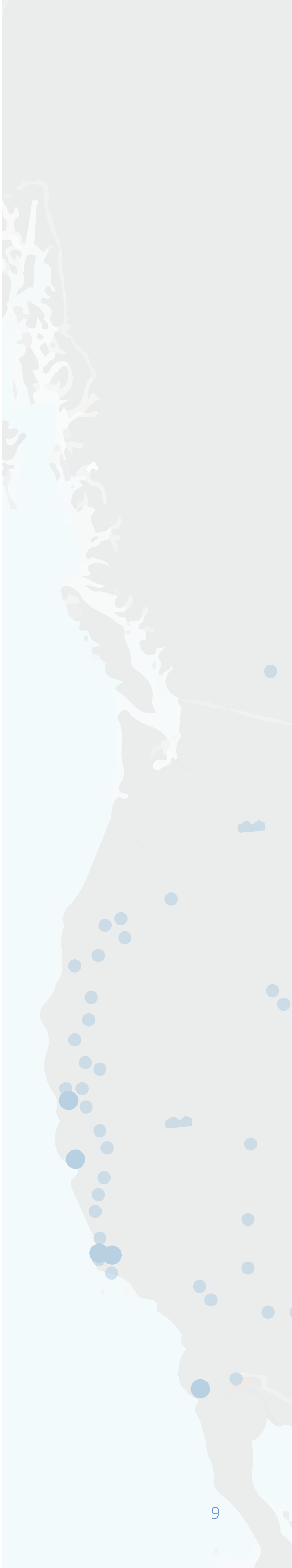
The traditional definition of rural as "not urban" still lingers in some countries. "Urban" typically is defined in terms of a minimum population density and minimum settlement size. As place-based policy becomes more common, existing definitions of urban and rural become problematic. Since the 1990s, the OECD has been working to harmonise international data regarding regional typologies. This work supports countries as they exchange practices and as they tailor their policies to the features of regional communities.

A simple and effective territorial classification is of paramount importance to ensure that policy options match the needs of territorial communities. The OECD regional typology is based on two main territorial levels. o The Territorial Level 2 (TL2) is the first level below the national one. In most countries TL2 regions are also administrative units. TL3 is the territorial level above the local level. In some countries TL3 are also administrative units. TL3 regions are classified as predominantly urban, intermediate and predominantly rural. Within this taxonomy, roughly one-fourth of the OECD population (26%) lives in predominantly rural regions, amounting to 240 million people in 2012. This share ranges from the upper values of 72% in Ireland and 62% in Sweden to lower values in Belgium, the United Kingdom and the Netherlands (Figure 1).

Capitalising on the availability of spatial information (such as GIS) and taking into account the changing human geography in countries, the OECD has been developing an extended territorial classification mostly based on population densities, location of main urban centres and journey-to-work flows. Within this approach, rural regions are classified into "close to cities" or "remote". This places about 80% of rural inhabitants in rural regions close to cities, and 20% in rural areas that are further removed.

Figure 1. Distribution of national population in predominantly rural regions, 2012





“Roughly one-fourth of the OECD population lives in predominantly rural regions.”

This distinction among rural regions highlights important differences both in characteristics and in performance. Rural regions close to cities are catching up to their urban neighbours while remote rural regions have lost ground.

Population in the OECD increased by 111 million inhabitants over the period 1995-2011; this represents an overall growth rate of 11% over the entire period and 0.67% annually on average. Across types of regions, urban regions increased by 57 million, intermediate regions by 29 million and rural regions by 26 million, which correspond to an annual average growth rate of 0.74%, 0.6% and 0.64% respectively. Amongst rural regions, those close to cities increased by 23 million corresponding to an annual population growth rate of 0.77%, surpassing the rate of urban regions. In contrast, rural remote regions only increased by 2 million inhabitants or by 0.24% annually. The takeaway: a better distinction between rural regions can help better understand the challenges and functioning of different types of low-density economies.

Taking into account regional accessibility when classifying rural regions helps in the analysis of rural-urban interactions. For instance, if one considers Functional Urban Areas (FUAs) defined using commuting patterns (cf. OECD, 2012b), it is possible to identify three types of rural areas (Figure 2). Each of these rural communities has specific features, faces different policy challenges and undertakes specific interactions with urban poles.

REFINING THE DEFINITION OF RURAL

The 2014 Rural Policy Review of Chile, applicable to other countries, asked the question of how to best define rural. At the time, Chile was using a rural definition that assigned even the smallest settlements into the urban category. The result was a statistical system that defined Chile as only 12% rural with the remaining 88% urban. These results were inconsistent with the observed territorial distribution of the population and with the vast contribution of rural industries such as mining, agriculture and forestry to GDP and exports.

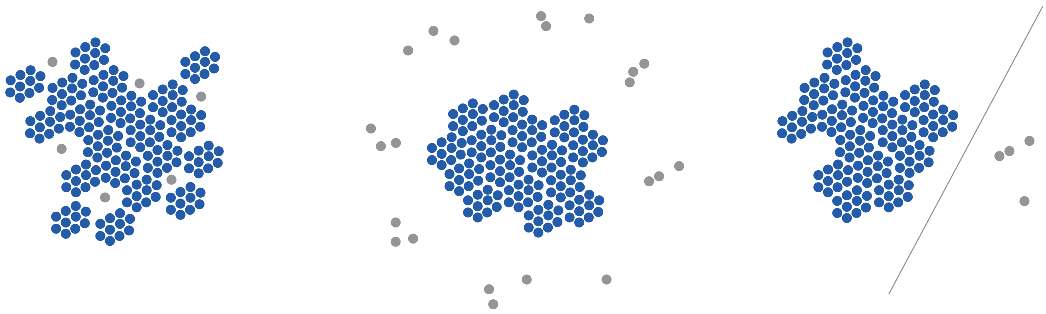
The definition also created the impression that rural development was only a minor issue. As the implication of this definition became clearer during the period of OECD analysis, the Chilean government decided to convene a special workshop to address the question of an appropriate definition of rural and urban as a way to better facilitate national development goals. The workshop highlighted that there are no one-size-fits-all rural definitions for OECD member countries.

The workshop focused on the following key points:

- Economic spaces and political accountability: Definitions based on functional criteria can better capture the economic realities of complex flows and interactions, as opposed to those based on administrative criteria. Yet, definitions based on administrative units have advantages in terms of gathering statistics and holding elected officials accountable to the electorate in a clearly defined territory.
- Defining and differentiating rural areas: Definitions that only consider the characteristics of urban areas and define the remaining rural areas as a residual are ill equipped to capture the realities of modern rural economies.
- Recognition of mixed spaces: Definitions recognizing areas with strong urban and rural interactions are potentially better able to identify and build on synergies and complementarities between urban and rural areas.

Figure 2. Three types of rural regions

Rural inside the functional urban area (FUA)[1]	Rural outside but in close proximity to the FUA[2]	Rural is remote from the FUA[3]



Notes:

1. Rural territories within FUA. These rural areas are part of the catchment area of the urban core and their development is intimately linked to that of the city. The main challenges facing this type of rural region are: a) services delivery, as services concentrate in the core area, b) matching of skills to the requirements of the labour market, and c) managing land-use policy brought by increasing pressures of the urban core.

2. Rural close to cities. This typology is very common across OECD countries. These rural communities often enjoy a good industrial mix, which makes their local economies more resilient. Often, they are able to attract new residents. Economic and social diversity can pose challenges including: competition for land and landscape in the case of economic activities, and different needs and visions between old and new residents.

3. Remote rural regions. Primary activities play a relevant role in the regional economy. 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.

Source: adapted from OECD (2014) OECD National Rural Policy Reviews: Chile, OECD Publishing, Paris

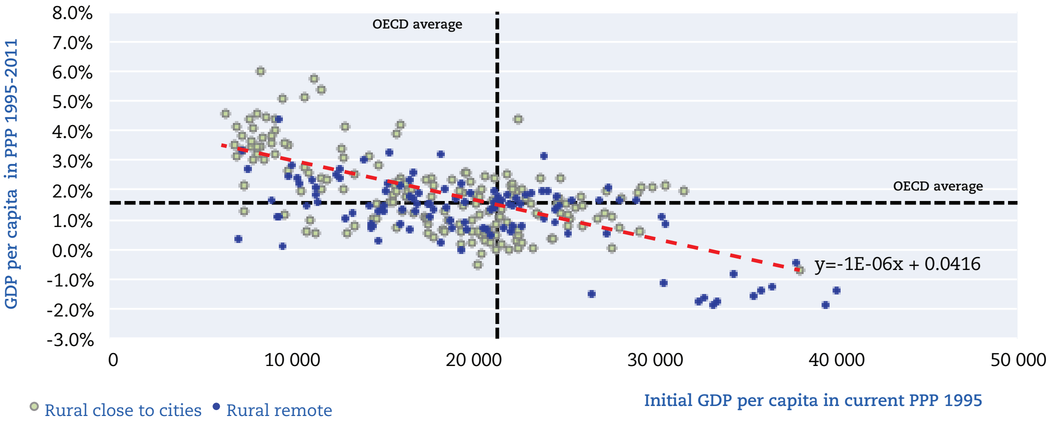
3. EMBRACE A NEW RURAL NARRATIVE

Today, a new narrative is needed to clarify for all citizens that rural regions make important contributions to national objectives, including economic development and prosperity. The contributions are different, yet complementary, to those made by metropolitan areas with positive outcomes for both.

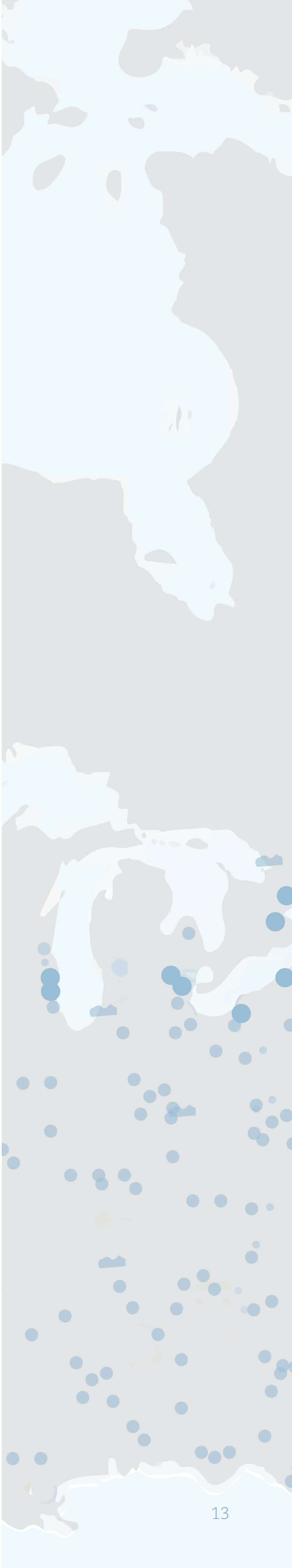
Our empirical work on the determinants of regional growth in recent years has highlighted the growth potential of rural regions. The widespread perception that "rural" is somehow synonymous with "decline" is simply wrong. Indeed, rural regions in the OECD area recorded an average annual rate of growth of GDP per capita of around 1.7% over the period 1995-2011 – higher than the average growth rates of urban and intermediate regions growing at 1.5% and 1.4%, respectively. This is evidence that rural regions are converging.

The trend of convergence has implications for overall economic growth performance due to the highly skewed distribution of regional growth contributions to aggregate growth. This distribution is made up of a few very large regions and a large number of small regions. This suggests that mobilisation of the growth potential through the convergence of a sufficiently high number of rural regions can potentially have effects on aggregate performance because of the large number of these smaller regions and the slow decay of their contribution to growth (generating a fat tail distribution), producing a cumulative effect that could be significant.

Figure 3. Growth trends in predominantly rural regions, 1995-2011



NB: The vertical and horizontal lines correspond, respectively, to the OECD TL3 average growth rates and the average income level. Regions from the United States, Mexico, Switzerland, Canada, Australia, New Zealand and Iceland are missing due to lack of GDP data at TL3 and regions from Japan, Korea and Slovenia are missing since the extended OECD taxonomy has still not been completed in these countries. Source: Own calculations using OECD regional database.



While some rural regions are doing extremely well, others are struggling. This dispersion in performance suggests that rural economies face particular challenges, linked to such factors as limited diversification of economic activity, limited accessibility, lack of critical mass and ageing populations due, in part, to the outmigration of young people.

OECD (2012) shows that a change in perception regarding the importance of rural territories to national economies can trigger large investments. For example, thanks to large and explicit popular support for “green economy” initiatives, OECD countries invested more than USD 1 trillion in renewable energy technologies. Rural areas—where the bulk of sources of renewable energy were concentrated—received a large share of the total investment. Although this investment was, for the time, too rapid and too sector specific, the “green economy” narrative provided an effective way of portraying the potential of rural areas which resulted in public (and private) investment.

“A change in perception regarding the importance of rural territories to national economies can trigger large investments.”

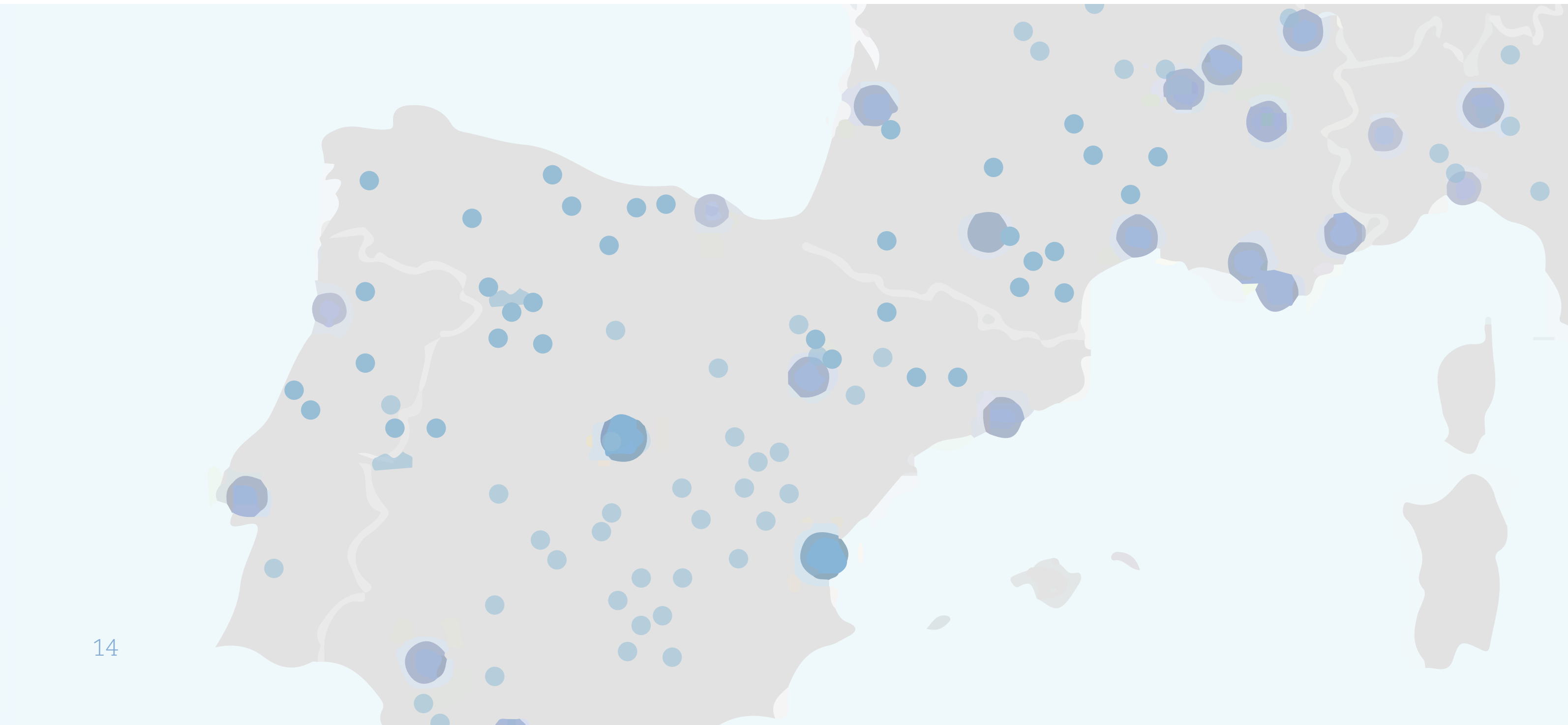
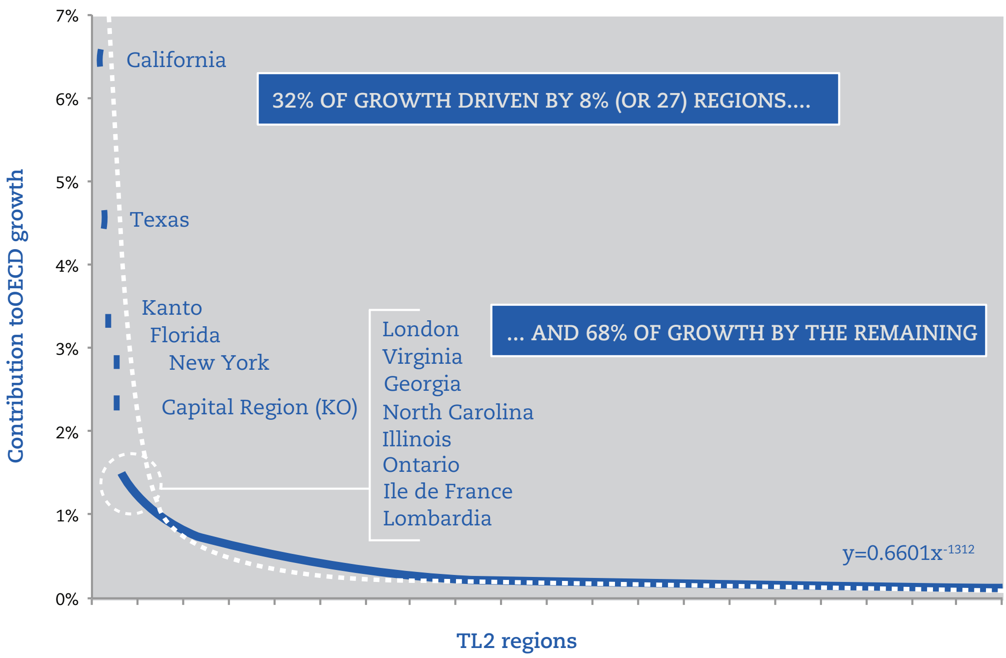
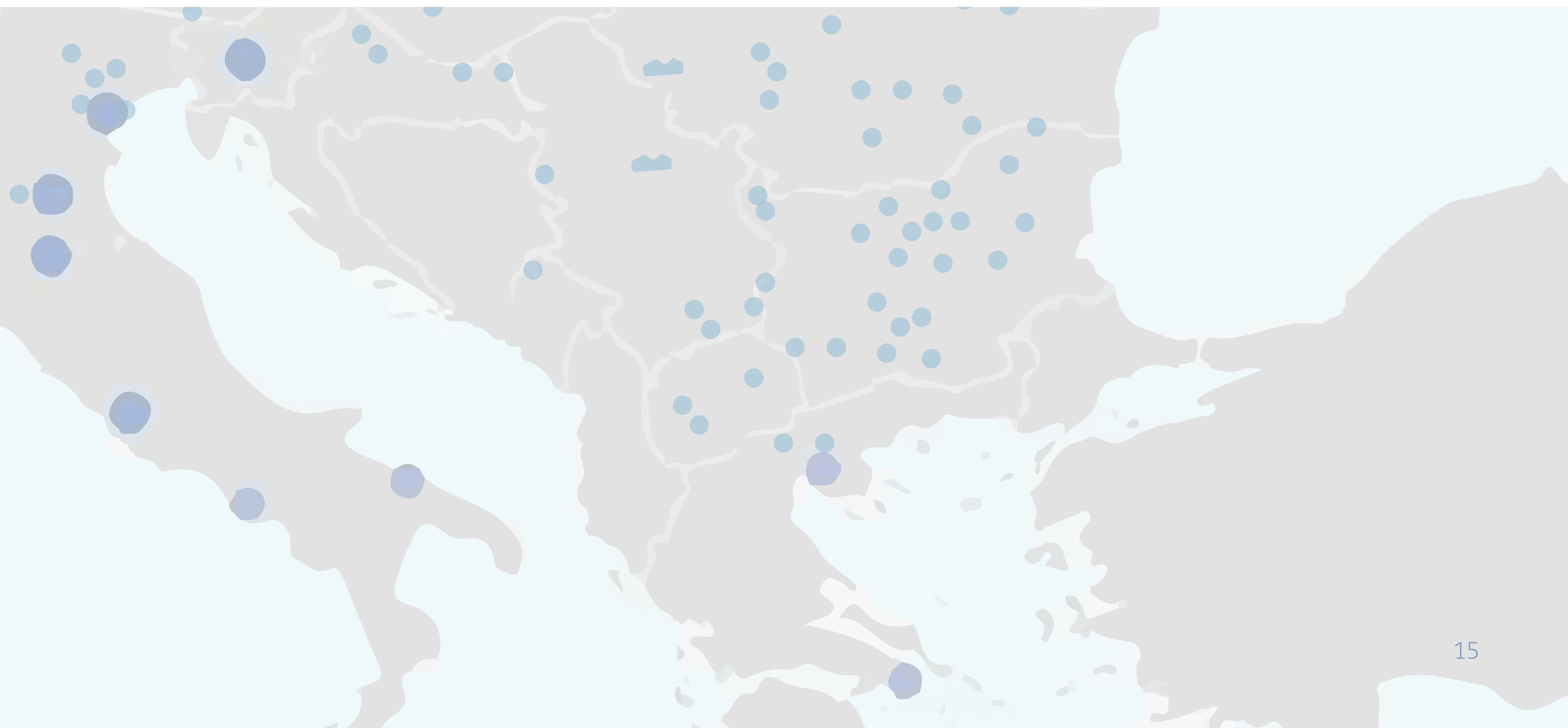


Figure 4. Contribution of rural regions to OECD growth



Source: OECD (2011), OECD Regional Outlook 2011, OECD Publishing, Paris



4. DEVELOP MEASURES OF RURAL WELL-BEING

The well-being of regional and rural inhabitants is a crucial policy issue and the OECD is working on new ways to measure it. Where people live matters. Quality of life is shaped by a multitude of conditions ranging from income and jobs to education and civic participation. Many of the most influential factors for people's well-being are local issues such as employment, access to health services, pollution and security. Improving lives entails making the places where people live better. This new metric encompasses economic, social and environmental dimensions and approximately reflects the concept of "prosperity" a predominant theme of the 10th Rural Conference. In 2014, the metric was enriched by with a regional dimension ("How's life in your region" indicators), which takes into account the region or locality with which citizens associate themselves. This has a dramatic impact on policy design. First, it demonstrates the value of territorial analysis (the OECD is currently working to bring well-being indicators to the lowest possible territorial level). Second, it forces policy makers to go beyond the boundaries of their own policy sector in order to anticipate potential interactions with other policies and, when possible, to capitalise on complementarities.

> **"Policy makers must go beyond the boundaries of their own policy sector in order to anticipate potential interactions with other policies."**

In several key indicators, rural well-being is competitive. The average values spanning all nine components of the regional well-being indicators are displayed across the four quartiles ranked from urban (group 1) to rural (group 4) in Figure 6. 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 with performance measures such as access to jobs and income in line with those of cities.

Figure 5. Distribution of TL2 regions across the rural index

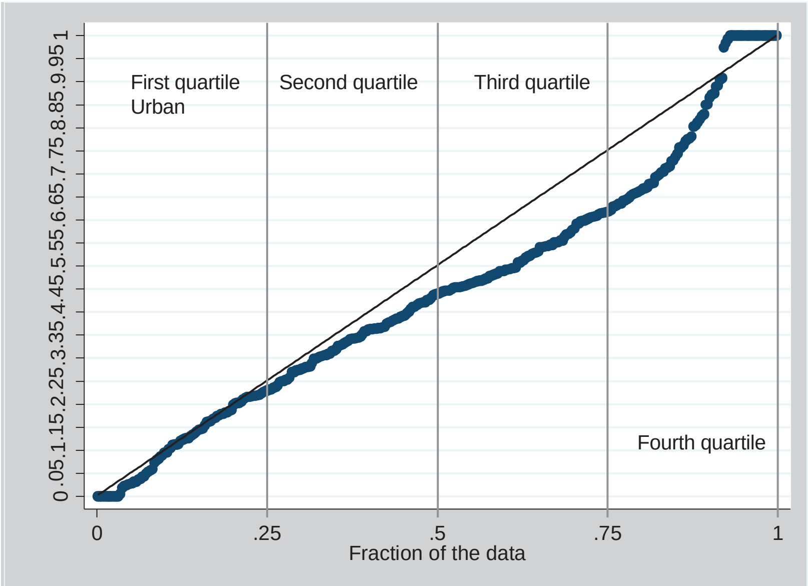
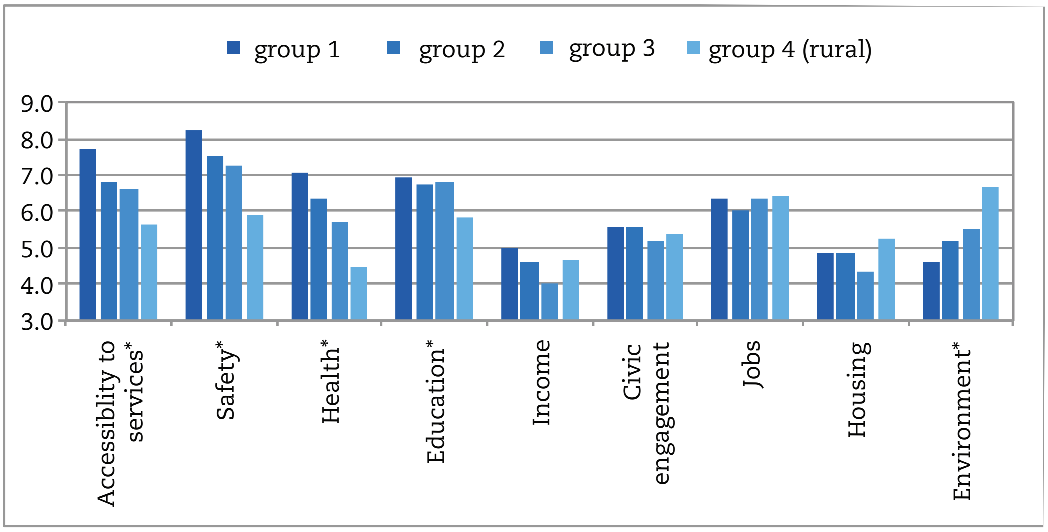


Figure 6. Distribution of well-being components across (urban and rural) quartiles



Note: * average differences statistically significant between group 1 and 4 group according to the t-statistics. Accessibility to services corresponds to broadband. Source: Own elaboration on OECD Regional Dataset

IMPLEMENT A NEW RURAL POLICY APPROACH

Most OECD countries struggle with the implementation of their rural development policies. The old way was easier, simply providing subsidies to specific sectors. But priorities have changed. Today, governments must find new ways to promote broad-based economic development in low-density regions. A larger number of constituiencies must be involved in the policy cycle. Also, policies must take into account the specific characteristics of each rural region, evaluating accessibility, amenities and assets, human and social capital, underlying geography and other salient factors. There are no one-size-fits-all solutions.

> **"Policy responses must take into account the specific characteristics of each rural region… There are no one-size-fits-all solutions."**

For some countries, promoting growth in rural areas has been limited to investment in infrastructure, i.e., transport, broadband internet, etc. Policy is focused on outcomes that involve limited transaction costs and that are relatively easy to produce and measure. While this may circumvent new levels of complexity in rural policy making, there is no clear evidence that infrastructure alone generates sustainable economic growth (OECD 2012a). Likewise, the effort to make service delivery more efficient is often limited to remote rural communities where service issues are easiest to identify. Yet, accessible rural areas account for the majority of the rural population, with growing populations and keen pressure to increase the variety of services provided. Both types of communities must be targeted.

Towards policy coordination

The majority of public policy in OECD countries is delivered by specialised agencies, departments or ministries that provide a narrow range of specific programmes nationally. This approach results in policies and programmes that do not vary by type of territory. Also, individual agencies have limited incentive to coordinate with each other in the policy design phase. Once delivered at the regional level, new policies and programmes can end up being incompatible or worse, conflicting. OECD (2012a) provides evidence supporting the need for coordinated sectoral policies when promoting regional development. Governments should frame interventions in infrastructure, human capital and innovation capacity within common policy packages. These factors would have a number of positive effects, including:

- Enhancing the capacity of a given region to absorb public and private investment,
- Curtailing the level of dependency (appropriation of rents from external sources),
- Encouraging business development and entrepreneurship,
- Building a bridge to engender confidence in the rural region and attract private sector investment.

Promoting functional interactions among policies

OECD (2013) illustrates that regions that are able to implement integrated policy packages have, on average, better economic performance. This also holds true for rural regions. In order to have an impact on rural development, policy makers must adopt a more strategic and inclusive approach. They must interact regularly with their peers in charge of portfolios implemented in, or affecting, rural communities. As it is highly challenging to achieve this level of coordination within the decision chain, the public sector needs to learn how to prioritise policy coordination. There is a need for institutions that serve as coordination facilitators, promoting the exchange of information among different policy makers, in different sectors, and across levels of government.

A bottom-up approach does not come easily to national governments. In most OECD economies, national governments continue to play the dominant role in rural development and often define the menu of options available to intermediate and local levels of government. Moreover, funding for local governments from national sources is generally tied to specific purposes and local governments have only limited abilities to raise additional revenue, particularly since the financial crisis. What's more, rural development policy is still relatively marginal in national policy frameworks and this makes it challenging when it comes to guiding and organising policy complementarities. And yet key national policies such as healthcare, education, innovation and others would benefit significantly from receiving guidance from rural development policy.

Although regions vary in terms of assets and comparative advantages, OECD (2012a) research illustrates the importance of policy and institutional factors in addition to the traditional drivers of growth (human capital, innovation, accessibility and infrastructure).

For instance, formal and informal institutions must facilitate negotiation and dialogue among key actors, mobilising and integrating them into the development process. They must create linkages among private, public and education sectors while strengthening the region's "voice" in dealing with other regions and countries.

“Key national policies such as healthcare, education, innovation and others would benefit significantly from receiving guidance from rural development policy.”

THE CASE OF GERMANY

In 2006, the OECD undertook a review of rural policy in Germany (OECD Rural Policy Reviews Germany, 2007). A major recommendation in the review was that Germany improve coordination between two key institutions (called "Joint Tasks"): the GAK, a bund/lander shared task force and lead unit for rural policy, and the GRW, a bund/lander shared task force for improving regional structure. These two Joint Tasks were the basic units by which the main levels of government (national and state) in the German federal system agreed upon multi-year development investments.

At the time, the GAK and GRW acted independently and developed separate plans. Because different ministries tended to be involved in each Joint Task, no participants attended meetings of both groups. The consequences of this lack of coordination were understood but there was little incentive for the Ministries to find common ground. Suggestions by the OECD for better coordination, in conjunction with increased incentives in the EU budget process for countries to better coordinate their development programs, helped Germany to improve coordination between the two Task Groups.

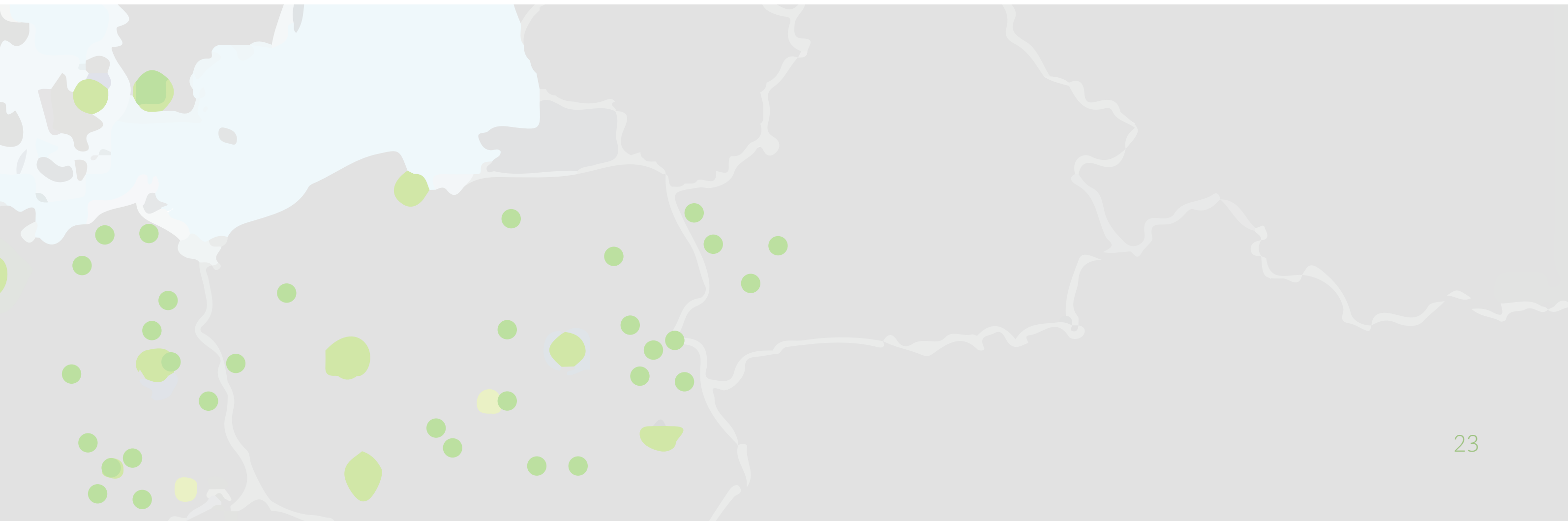
IMPLEMENTING THE NEW RURAL POLICY REQUIRES NAVIGATING FOUR CRITICAL STEPS:

I. Capitalise on opportunities from rural-urban interactions

II. Enhance rural productivity

III. Identify and adopt innovative rural service delivery mechanisms

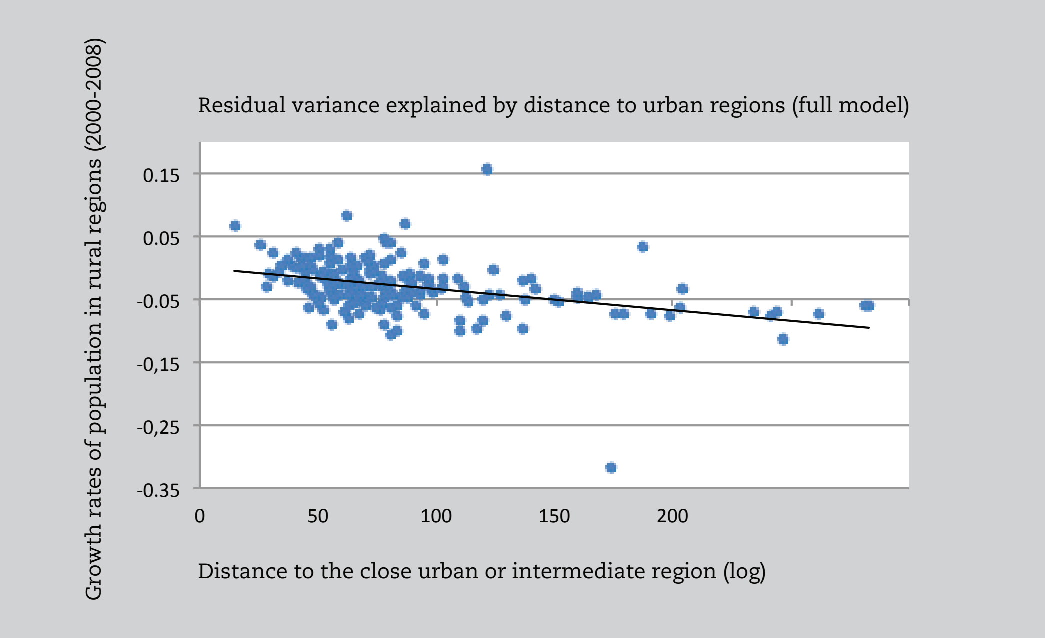
IV. Improve the international policy dialogue



I. CAPITALISE ON OPPORTUNITIES FROM RURAL-URBAN INTERACTIONS

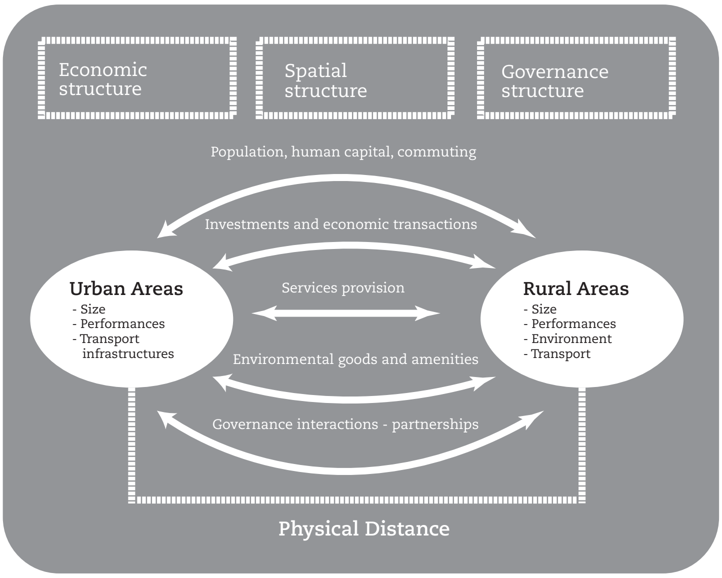
Urban and rural areas enjoy different and often complementary assets. Better integration between urban and rural areas is important for socio-economic performance. On average, denser territories where "urban" and "rural" areas are geographically closer, grow faster (population growth and GDP per capita) due to positive spillovers. Similarly, densely connected rural-to-rural relationships benefit from more rapid growth (Figure 7).

Figure 7. Proximity matters - integration between rural and urban communities promotes regional growth



Notes: this chart is based on an analysis on 206 rural TL3 regions which demonstrates that rural close to urban grow more the smaller the distance to the closest urban place; positive spillovers emerge from growth in close urban regions; finally proximity matters for rural-to-rural relationships meaning that a territory that is denser of connected rural communities grows more rapidly.
Source: OECD (2013)

Urban and rural territories are interconnected through different types of linkages that often cross traditional administrative boundaries and challenge policy frameworks. These interactions can involve demographic, labour market, public service and environmental considerations. They are not limited to city-centred local labour market flows and include bi-directional relationships. Each type of interaction encompasses different geography or "functional regions". Flexibility is required in the space considered for governing these complex relationships. Yet,



national and subnational policy frameworks are often unprepared to organise and orient urban-rural interactions.

OECD (2013) provides empirical evidence on rural-urban dynamics in OECD countries and documents the fact that partnerships have emerged in several territorial communities with the aim of handling complexity, co-ordinating policy delivery and upscaling service provision. It identifies four factors having a positive effect. These are:

- Clearly defined objectives,
- Understanding the interdependence of rural and urban areas,
- Democratic participation,
- Leadership.

Rural-urban partnerships are shaped by external factors, by the institutional environment and the characteristics of the particular partnership. The OECD assessment sheds light on many of the challenges facing regional partnerships. For example, private sector participation, crucial for enhancing connections with the regional economy, proved difficult to achieve in most cases observed. Another issue was the difficulty of monitoring and evaluating the results of the partnership and its impact on regional conditions. Co-operation appears to be more difficult when the differences in size, resources and capacity between urban and rural areas are large. Other factors detrimental to effective rural-urban partnership are regulatory and political barriers, lack of trust, and policy fragmentation.

II. ENHANCE RURAL PRODUCTIVITY

The investment approach underpinning the new rural paradigm requires that firms in rural regions be competitive if public investments in rural development are to have a positive rate of return. So far, this has been an important challenge for national rural policies as they shift away from a focus on subsidies. The challenge has two main causes:

- The first stems from the inherent nature of rural regions,
- The second comes from the inability of most governments to frame rural policies in a way that address the needs and challenges of rural firms.

Unlike the situation in cities, firms in rural regions tend to be more directly connected to specific features of the local geography, whether it be the presence of a natural resource, such as good land, minerals, strong and stable wind, etc.; the specific terrain that provides harbours or opportunities for skiing; and even the presence or absence of a transportation link, such as a major highway or rail line. For virtually all rural firms, the specific features of their natural environment condition their activity.

Rural firms also face the challenge of existing in truncated local economies where only a limited number of economic activities occur. This both limits their opportunity to source inputs from local suppliers and their ability to sell to nearby customers. The former creates problems in developing a supply chain, while the latter can make developing an export market vital if the firm is to achieve minimum efficient scale in production as well as forcing the firm to absorb significant shipping costs.

In sum, rural businesses must adapt to the characteristics of rural economies which include low density, long distances and lack of critical mass.

These challenges create pressure on rural firms to increase productivity in order to be competitive with other firms that may be located closer to markets or have lower cost inputs near to them.

Challenge	Consequence
Greater distance to product markets and few local input suppliers	Higher transport costs
Small home market	More output has to be exported from the region
Small local workforce, few people with required skills	Increased production costs, limited economies of scale = lower competitiveness
Future trend of ageing and shrinking workforce	Increasing pressure on productivity going forward

In a dynamic economic environment where transport and energy costs are volatile the competitive position of rural firms can change rapidly. Similarly, if customer preferences shift, it may be hard for rural firms to detect the adjustment quickly because of their distance from the customer.

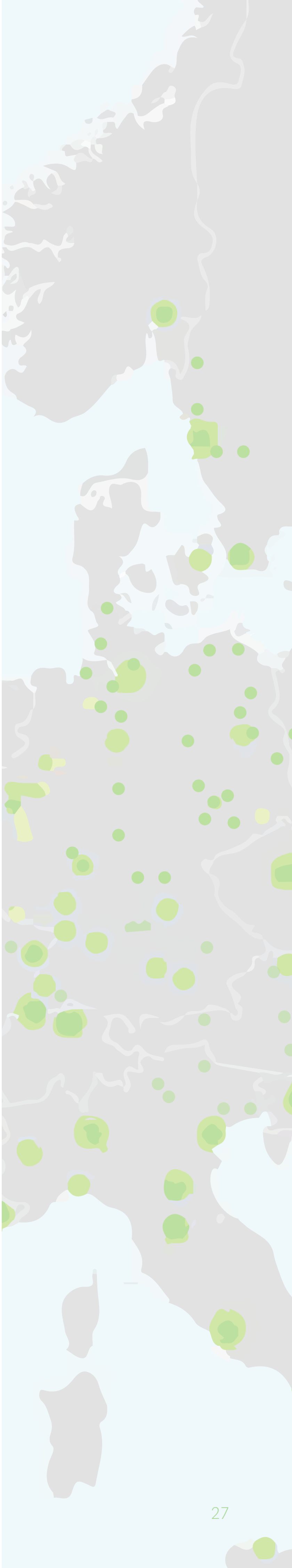
Most importantly, for several decades rural regions have been impacted by three major trends:

- The first is a more open economy that has seen the shift of many lower-skill manufacturing jobs from rural regions of the most industrialized countries to developing and mid-tier nations.
- The second is the steady substitution of capital for labour in the natural resource sectors – agriculture, forestry, mining etc. that has increased productivity but reduced employment.
- The third is a fairly recent but rapid shift from a significant rural labour surplus to an imminent labour shortage as declining birth rates and youth outmigration to cities, especially by young females, is leading to an aging and shrinking workforce in many rural regions.

As a result there have been major adjustments in many rural economies that have led to the loss of major sources of employment and income. Some regions have been unsuccessful in restructuring their economies while others have identified new opportunities for growth.

In particular, rural regions that are near urban regions have seen increased opportunities both in providing services to urban populations, but also in areas such as logistics functions, wholesale and other activities where large amounts of space and good transport connectivity are required. Remote rural regions with good visual and active recreation potential have also prospered as urban residents take advantage of their attributes. Finally, reductions in the excess supply of labour in resource dependent regions have resulted in higher wages for remaining workers that reflect high capital-labour ratios.

What is needed now is national policy that supports ongoing adjustments rather than impeding them. This can initially entail losses in income and employment as unprofitable firms are forced to close. But for rural regions to contribute to national economic growth objectives, policy has to be consistent with market forces. Firms are only viable if they are profitable and to be profitable a firm must produce a marketable product at a price that buyers accept.



III. IDENTIFY AND ADOPT INNOVATIVE RURAL SERVICE DELIVERY MECHANISMS

The service or tertiary sector in OECD economies now accounts for the largest share of income and employment. Access to an appropriate set of public and private services is crucial for the quality of life of citizens and the competitiveness of firms. This makes service availability a central feature in rural development policy and strategy. However, rural regions face a particular challenge in the form of relatively high costs of service delivery due to a number of factors.

Overcoming challenges in rural service delivery

If rural communities are to play their full role in strengthening national economies, it is important that the correct set of services be in place. The challenges associated with delivering public services vary across different regions and countries. However, certain policy strategies used in OECD countries to overcome the challenges illustrated above can be considered as "good-enough" (if not necessarily "best") practices that could provide ideas to governments facing similar problems. These practices often emphasise "innovation" (alternative methods to achieve the result) and "inclusiveness" (co-design and co-delivery). Innovation and inclusiveness fit nicely into the emphasis that OECD's New Rural Paradigm places on a holistic approach. For instance, because end users at the community level are an integral part of the process, there are far better odds of providing services that are useful in the community and of providing them in a cost-effective way. More specifically, these good-enough practices include the following:

- **Consolidation, co-location and the merger of similar services.** Consolidation involves concentrating customers on a smaller number of service locations. It increases effective demand by increasing the size of the service territory for each remaining location. One example would be the merging of several weak local newspapers to create a single regional paper that has more viability. Co-location is another approach that seeks to build demand. Basic overhead costs – energy, security and administrative expenses – can be pooled, generating economies of scope. If post office services are consolidated with a shop, people can obtain their mail and purchase food in one trip. Finally, service merger takes similar or substitute services and combines them into a single entity.

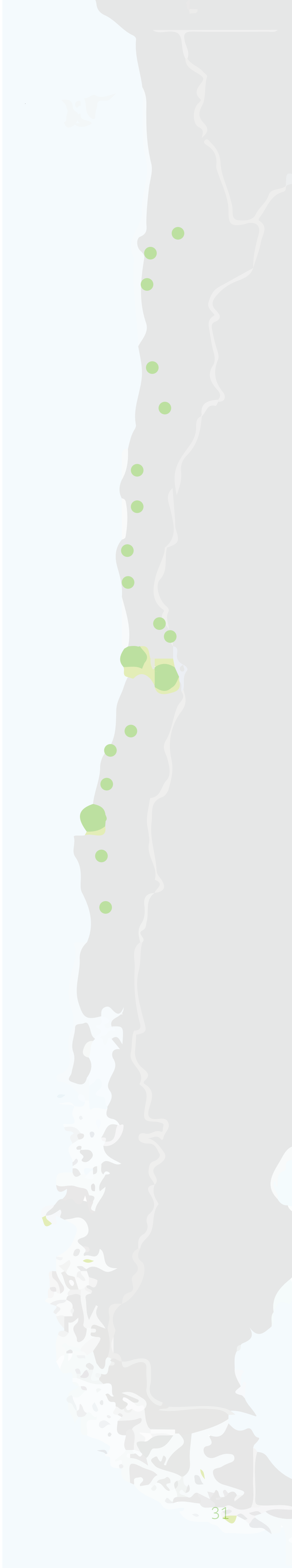
Factors impacting the cost of rural services

Factor	How it impacts service delivery costs
Distance	All forms of connectivity are scarcer and accessibility to rural areas more expensive. Transportation costs and overall costs to provide goods and services are higher in rural areas on a per capita basis.
Low population	It is difficult to achieve scale economies of production of goods and services including public services.
Low density	In rural regions people tend to be dispersed or even scattered across much of the territory, making connectivity harder to achieve.
Ageing population	As the population ages the mix of services demanded changes; this may require new investments or outlays especially concerning healthcare.
Diminishing subsidies	In the aftermath of the global financial crisis, governments are cutting expenditures. This has an obvious impact on government services and costs.
Increasing diversity	Rural populations are becoming more diverse, representing a mix of residents historically rooted in the region, newly retired people, second home residents or newcomers who commute to a city for work. The result is a fragmenting of demand and a population where significant numbers of people choose to obtain goods and services away from the place where they live.
Few service providers	Choice is valuable. Too often rural service providers seek to exploit a local monopoly situation while paying little attention to actively marketing their business or improving the quality of service they provide.

- **Alternative delivery mechanisms.** Where the demand for services is widely dispersed, it may be more efficient to bring the service to the user. For example, adopting mobile service delivery approaches – bookmobiles that bring library services to communities that are too small to have a physical library or mobile dental clinics. The Internet offers the possibility to provide services in rural areas and for providers in rural areas to offer services outside their immediate territory. Telemedicine allows x-rays and other diagnostic services conducted in rural areas to be processed and analysed elsewhere.

- **Community-based solutions for different types of providers.** Some rural communities have volunteer fire departments. Others have fire departments that are operated by local governments. In some communities there are for-profit village shops, in some villages there are community owned shops that provide equivalent access to services, but which operate as social enterprises.
- **Improve quality and marketing.** Technology can help rural residents provide and access information about service quality and about alternative providers. Geolocation facilitates matching between the supply of and demand for services.
- **Alternative energy sources.** Renewable energy can reduce "fuel poverty" that can be a common feature of remote regions, by allowing isolated communities to produce their own energy instead of importing expensive conventional fuels. Increasing the use of affordable and reliable energy in remote rural communities can improve their capacity to deliver goods and services. For instance, the availability of reliable electricity is essential for a local restaurant that needs a refrigerator.
- **Innovate - create a new service to achieve better outcomes.** In rural areas there is often insufficient business to support a full range of services provided through independent firms. A region may not be able to support a full-fledged home repair business, but a travelling handyman that operates out of a fully equipped vehicle and is scheduled by telephone or Internet might flourish.

Service delivery in rural areas is more costly than in urban areas—a key challenge for governments at all levels. Rural policy needs to act as a platform coordinating national and sub-national resources to guarantee access to services and to identify public goods that are conducive to economic development. However, the higher costs must be weighed against the benefits to a small share of the total population along with the overall benefits to society. This will naturally depend on the priorities of countries.



POLICY EXAMPLES FROM SELECTED OECD COUNTRIES

In the 2010 report Strategies to Improve Rural Service Delivery, the OECD gathered several examples of high quality services delivered to rural dwellers and firms. These were divided into services tailored to rural needs, and co-production of healthcare services.

Services tailored to rural needs:

- **Health care in rural Germany.** The AGnES programme in Germany allows general practitioners (GPs) to use specially trained nurses to make home visits and provide routine medical procedures. Nurses use a tablet-PC to forward patients' health information to the GP in real time. When necessary, video-conferences are used. Technologies are being explored for distance monitoring of blood pressure, weight and additional health parameters. As of 2010, the project had involved 40 GPs and 30 nurses who delivered 5,239 home visits, involving 1,050 patients.
- **Skills in rural Canada.** The Western Economic Diversification (WD) programme has been designed to both grow the economy and improve inclusiveness. WD fills specific skills gaps in rural economies and reaches out to underrepresented rural residents. Two mobile labs are used to deliver on-the-spot training as needed (e.g. auto service, technical, carpentry, electrical, machining, etc.).An estimated 100 students are trained each year.

Co-production of health care services:

- **United Kingdom.** The Expert Patients Initiative offers training programmes to patients with chronic diseases so that they can help other patients cope better. They contribute their skills and insights for the further improvement of services and act as patient advocates.
- **Australia.** In Western Australia, Local Area Co-coordinators (LACs) provide support and assistance to between 50 and 65 disabled people in local communities. LACs operate as service co-ordinators, helping the disabled and their families and carer-givers to plan, select and receive needed support and services.

Source : OECD (2012b) Strategies to Improve Rural Service Delivery, OECD Publishing, Paris

IV. IMPROVE THE INTERNATIONAL POLICY DIALOGUE

One of the enablers of the New Rural Policy is mutual learning supported through international dialogue. Up to this point a key challenge has been promoting a more inclusive, bottom-up governance system. The OECD is committed to supporting countries as they implement a modern rural policy. This is done by facilitating the exchange of international policy practices, providing countries with opportunities for knowledge sharing, developing networks and toolkits. But challenges remain. These include higher transaction costs and a greater need for information concerning available investment opportunities at the subnational level.

> **"Make no mistake. Countries that adopt this new approach to rural policy will find themselves in uncharted territory."**

JOINT LEARNING – INTERNATIONAL POLICY NETWORKS COORDINATED BY THE OECD

Three projects—Renewable Energy, Promoting Growth in All Regions, and Rural Urban Partnership—involved multiple case studies covering numerous regions across a broad number of countries. An important part of the projects' design was the effort to engage national officials and local stakeholders in visits to other case-study countries. While the peer review process is a central part of the OECD approach, in this case it involved practitioners as well as government officials. The benefit is three-fold. First, the observer sees problems and solutions similar to those faced at home in a different context. Second, the host region gains the insight of someone from another region who has a similar problem but a different perspective on how to address it. Finally, the OECD benefits from observing and taking into account the conversations between host and observer.

A GROWING BODY OF WORK

OECD National Rural Policy Reviews

Since 2006, the OECD Rural Policy programme has engaged in 12 National Rural Policy Reviews covering a wide spectrum of national conditions and rural regions. Since each review was conducted with the NRP as a metric, they contain valuable information on the adoption of NPR recommendations by member countries.

OECD Thematic Reviews

Thematic Reviews provide perspectives on the changing nature of rural economies, and the opportunities for and constraints to rural development. Thematic Reviews are also tools to facilitate international policy dialogue and mutual learning. Recent reviews have addressed:

- Interactions between urban and rural regions,
- Identification of key factors and bottlenecks for economic growth,
- The examination of service delivery in rural areas,
- The link between renewable energy deployment and rural development.

OECD Regional and Urban Policy work

Recent work of the OECD on regional and urban policy provides yet another perspective for identifying the future path for the Rural Policy Programme.

- Functional Urban Areas (FUA's), at the centre of the Indicators and Urban Programme at the OECD, have important implications for rural policy as FUAs bring about a new framework in dealing with rural-urban interactions, which also considers medium-sized towns and cities.
- Multidimensional indicators measuring wellbeing at the regional and local level are providing a broader perspective for examining differences and similarities in the quality of life across different types of regions.

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