PART II

Chapter 4

Rural Policy 3.0

This chapter describes the Rural Policy 3.0. It argues that 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. Within this approach, policies should focus on enhancing competitive advantages in rural communities and should draw on integrated investments and the delivery of services that are adapted to the needs of different types of rural areas. The Rural Policy 3.0 describes a partnership-driven approach that builds capacity at the local level to encourage participation and bottom-up development. Practices from select OECD countries are drawn on to illustrate this approach.

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

- 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.

- Rural communities will not excel in all areas. They should focus on enhancing economic opportunities based on their competitive advantages, given their location, natural endowments, human capital and connectivity to other places.

- Public policies should focus less on providing subsidies, and more on integrated investments and public services that are geared to local needs. Such policies – territorial and sectoral – are most effective where they are co-ordinated and aligned along similar goals and objectives.

- Rural governments and other actors have much to gain from collaboration with one another. From procurement to service delivery and economic development, the pooling of resources and ideas across communities has a much greater impact than stand-alone actions. Such arrangements may take the form of: i) rural-rural partnerships, ii) rural-urban partnerships, or iii) government with non-profit or business partnerships.

- Strong community capacity is needed to understand local dynamics in rural areas and act on them. Implementing public policies that strengthen the capability of community actors is critical to fostering the success and resilience of rural areas.

- Effective rural policy recognises that development opportunities and constraints in rural regions are different than those in urban ones, and can vary across the types of rural regions. Rural policies are thus distinct from, but complementary to, urban development approaches.

Introduction

Most OECD countries recognise that rural policy has moved beyond farming and they now define a broader set of issues and activities as being central to rural development. The 2007-08 global crisis, and the ensuing fiscal crises in many countries, put pressure on national budgets. Public policies are now focussed on cutting expenditure while promoting economic growth (competitiveness), and rural policy is no exception. In addition, several countries have adopted aspects of multi-level governance in their rural policy. All countries see the benefits from better co-ordination of activity by national government departments or ministries, but struggle to find effective ways to achieve this.

Governance systems challenge the implementation of effective rural development policies and also limit the capacity to capitalise on complementarities. While multiple levels of government are involved in rural policy in all OECD countries, it is clear that the idea of a bottom-up approach is not something that comes 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, especially given the financial crisis. Rural development policy is still relatively marginal in national policy frameworks and it proves difficult to use it to guide and organise policy complementarities. For instance, national health care systems would benefit from receiving guidance from rural development policy. This holds true for other key national policies such as education, innovation, etc.

The OECD has long advocated for a territorial approach to rural development that takes into consideration the competitiveness of rural areas. This chapter focusses on the implementation of this approach through the Rural Policy 3.0, offering potential lessons for countries in adopting or strengthening their approaches to rural development. While this approach bears higher transaction costs due to the large number of stakeholders involved, it also requires more information about available investment opportunities at the subnational level. This has proven potential to foster more resilient rural development that is strongly linked to community strengths and aspirations.

The Rural Policy 3.0

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 aimed at specific sectors. The magnitude of this shift was not fully appreciated at the time and is de facto being implemented among member countries in the current context of low growth and limited resources brought about by ongoing processes of fiscal consolidation.

The Rural Policy 3.0 is an extension and a refinement of this paradigm which has been instrumental in starting a process of rethinking rural development practices across OECD countries (see Box 4.1 for further discussion). 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.

Box 4.1. The evolution towards the Rural Policy 3.0

In 2015, the Rural Policy 3.0 was endorsed by delegates of the 10th OECD Rural Conference, "National Prosperity through Modern Rural Policy", in Memphis, Tennessee (19-21 May 2015). Almost a decade on from the adoption of the New Rural Paradigm, the time was ripe to revisit the framework.

Its elaboration has been informed in part by the OECD Rural Policy programme and 12 National Rural Policy Reviews, to date, which cover a wide spectrum of national conditions and rural regions. Given that each review was conducted with the New Rural Paradigm as a metric, they contain valuable information on the degree of adoption of this paradigm by member countries.

1 For more information see https://www.oecd.org/rural/rural-development-conference/
Box 4.1. The evolution towards the Rural Policy 3.0 (cont.)

In addition, a number of rural thematic reviews have also provided a fresh perspective on the changing nature of rural economies and the opportunities and constraints facing rural development. Thematic reviews are also tools that can facilitate international policy dialogue and mutual learning. The most recent thematic rural reviews focus on:

- interactions between urban and rural regions (Rural-Urban Partnerships: An Integrated Approach to Economic Development, OECD, 2013a)
- identification of key factors and bottlenecks for economic growth (How Regions Grow, OECD, 2009; Promoting Growth in all Regions, OECD, 2012a)
- delivery of services in rural areas (Strategies to Improve Rural Service Delivery, OECD, 2010)

Rural Policy 3.0 is a mechanism to help national governments support rural economic development. It reflects several important changes in rural development. First and foremost is that rural regions have evolved into far more diverse and complex socio-economic systems. Second, in general, all 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. Table 4.1 below summarises this approach.

Objectives for rural policy have become multidimensional and focus on well-being broadly defined. The initial objective for rural policy was to bring the income levels of rural dwellers closer to those of urban ones. Now the objective focuses on delivering well-being to rural dwellers comparable to that which is attainable in urban areas, even though different aspects may be emphasised. In general, quality of life is seen as having: i) economic dimensions, where household income hinges on employment in firms that are productive and competitive; ii) social dimensions where households have access to a broad set of services (that may be delivered in different ways than in urban places) and promoting a local society that 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 the spectrum of rural regions.

| Table 4.1. Rural Policy 3.0 |
|-----------------------------------|-----------------|---------------------------------|
| **Objectives**                  | Equalisation   | Competitiveness                 | 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 |
|                                 | 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 |
| **Rural definition**            | Not urban       | Rural as a variety of distinct types of place | Three types of rural: i) within a functional urban area, ii) close to a functional urban area, and iii) far from a functional urban area |
The policy focus is evolving away from sectoral support towards helping to build conditions favourable for a low-density economy. The initial rural policy approach was to support incomes in a single natural resource sector – mainly farming, or in some regions fishing, forestry or mining. Now rural policy is moving towards operating in the context of a low-density economy, where the fundamental economic structure 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 opportunities for growth and differences in the factors that constrain growth.

This new way of understanding rural policy demands implementation through an upgraded set of policy tools. Subsidies for farmers and other kinds of firms were the mainstay of rural policy in past years. Now, a more comprehensive approach is being introduced. Investments that offer a positive return to society should be the main instrument for rural development. But, in situations where markets fail, due to incomplete information, insufficient competition or due to the 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 or other aspects of the voluntary sector is increasingly recognised as a useful way to enhance rural communities.

The number and kind of participants involved in the rural policy process have increased over time. The main policy actors of rural policy in the past tended to be national government ministries of agriculture that delivered support to farmers and farm organisations that lobbied government in support of farmers. Now the number and range of participants is much larger. Governments are still involved, but now multiple levels of government play a role as do a broad range of ministries through a multi-level governance structure. Individuals and firms, including farmers, are still engaged but it is now all the people and enterprises in the region who are stakeholders in the development process. Finally, the important role of the voluntary sector is recognised, including large issue-oriented NGOs and local service organisations that provide services where firms and government fail to act.

Policy approaches have broadened from a uniformly applied top-down approach, towards an integrated rural development focus. Initially rural policy was designed and implemented by a national ministry with little input from rural recipients. Policy was also structured to provide essentially the same level and type of support to all recipients. Over time rural policy has evolved to include multiple domains, such as, providing: support for people in the form of better services and skill development; support for local governments through fiscal equalisation and grants for infrastructure; and protection of the environment. The intention is that these various policy thrusts should be co-ordinated and mutually reinforcing, and the mix between them should be rebalanced to meet differing local needs, even though this has proved to be difficult in practice.

The definition of what is a rural area now recognises that proximity to urban areas is a key factor in characterising rural regions. While “rural” was initially conceived as being “not urban” in many OECD countries, there is now broad recognition that rural is a complex phenomenon. A useful way to identify types of rural is to look at the degree of physical distance between rural and urban places and the degree of linkages. Using this approach, the OECD has developed a typology that sorts rural territories into those that are embedded in a functional urban area, those that are outside of a functional urban area but close to one, and those that are remote from a functional urban area (see Chapter 3). This latter category can be further sub-divided into uniformly settled and sparsely settled regions.
Objectives: Increasing well-being in rural areas

Employment in agriculture continues to decline across OECD countries. It is not the main source of rural jobs and incomes anymore (OECD, 2009a: 53). Further, as Chapter 3 discussed, several rural regions are found to perform in line with urban ones in terms of economic growth. These trends have in turn led to changes in the way that governments think about the objectives of rural policy. The shift towards competitiveness reflected a desire to valorise the opportunities that are present in rural areas, including the better use of local assets in non-farm activities (e.g. tourism), valorising tradable activities, promoting rural firms, and implementing comprehensive strategies around natural resource activities.

This broader well-being agenda does not abandon the competitiveness agenda, rather it recognises that competitiveness is a necessary, but not a sufficient, condition for well-being. In the current context of low economic growth and loss of jobs in the aftermath of the global financial crisis, improving the competitiveness of rural firms and creating jobs has come to the forefront of the rural agenda in many countries. Notwithstanding this fact, governments are starting to focus on delivering different dimensions of well-being for rural dwellers including the social and the environmental along with economic opportunities. Measurements of the economic conditions of a society are important, but they do not give a full picture of the living conditions that people experience. For instance, a society’s overall wealth may rise, but inequalities can persist, leading to prolonged poverty and deteriorating health outcomes for many (Atkinson, 2000). Further, countries may experience rapid economic growth, but deteriorating environmental quality that negatively affects quality of life, and particularly health.

The concept of well-being has arisen as a way to capture these dynamics. It links quality of life and material conditions to the goal of sustainable well-being over time. It is a multidimensional concept that is grounded in an understanding that economic conditions should be viewed as part of broader social and environmental systems and conditions. Although there are many debates on the measurement and operationalising of the concept of well-being (Adler and Seligman, 2016), the OECD has supported this work by developing a Framework for Measuring Well-Being and Progress (Figure 4.1). It encourages governments to think of natural, economic, human and social capital as interconnected and as such, supports the idea of policy complementarity.

Rural areas perform well on several dimensions of well-being. The OECD’s well-being indicators show that the urban dimension is not necessarily associated with higher levels of well-being. 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 (OECD, 2015a). Two elements of well-being: i) competitiveness and productivity, and ii) the environment, are key priority areas for OECD governments, but they are not without their contradictions.

Competitiveness and productivity

In order for the people in a rural community to remain employed, local firms must be competitive in either local or export markets. That is, they must be able to match the prices and quality of competing firms. Skills and productivity are major sources of strong, inclusive and sustainable growth (OECD 2015a). It is the case that more productive workers tend to earn higher wages than those with lower productivity because they are more valuable to firms in producing more or better output. Workers with higher skills tend to be more productive than are workers with lower skills. This means that there is a strong
connection among the competitiveness of firms, the productivity of workers, incentives to invest in skill development and economic well-being (i.e. income levels). What is not addressed in this relationship are broader measures of quality of life and their implications for workers’ wage demands and firms’ competitiveness.

Governments should work with rural regions on broad-based strategies to lift productivity

Productivity is particularly crucial for rural regions because they tend not to have a large domestic (home) market, and therefore need to export. For places that do not have an outstanding resource endowment, working to improve productivity is essential. Tradable activities are a major component of economic growth and productivity in rural areas (see Chapter 3). Rural regions also tend to compete in different niche markets than urban regions and given the presence of strong rural-urban linkages these activities are highly complementary.

Increases in productivity tend to be associated with increases in material well-being (see Chapter 1). For example, a recent panel study of subjective and objective well-being in Germany and Britain found that employed persons exhibit the highest levels of well-being according to all measures in both countries (Muffels and Headey, 2013). Thus, enhancing productivity is important in order to support the well-being of rural communities and their resilience over time. A recent forecasting exercise by the Economist Intelligence Unit finds that, by promoting rural development, governments have the potential to unlock significant economic growth and fundamentally change the structure of the economy:
under the right conditions, rural development has the potential to unlock USD 2 trillion of annual rural output across the globe (The Economist, 2015). Such growth has the potential to alleviate poverty and eliminate extreme poverty, increase food security and set communities on the path to sustainable development.

Governments can help increase rural competitiveness and productivity through hard and soft infrastructure investments, well-targeted sectoral policies and effective regulation, among other measures (see Chapters 1 and 2). The United Kingdom’s strategy to boost productivity in rural areas is illustrative of such a multi-faceted approach (Box 4.2). Understanding the productivity dynamics of rural firms can help to structure more effective support (Box 4.3 shows an example from the United States).

Box 4.2. The United Kingdom’s strategy to boost rural productivity

In recent years the UK government has placed a renewed focus on boosting productivity in rural areas. This is driven by a number of trends which point to the potential of strong rural productivity gains. For example, unlike many OECD countries, the UK is experiencing net migration from urban to rural areas. There has been a growth in knowledge-intensive businesses and the number of flexible and home-working arrangements has expanded rural employment opportunities (Centre for Rural Economy, 2011; OECD, 2011). Rural areas make a substantial contribution to the UK economy, for example, they currently account for 16% of GVA, 16% of employment and 26% of businesses in England (Government of the United Kingdom, 2016). Moreover, the UK’s rural economies are increasingly diversified – in general, their structures look much like that of urban ones.

Despite these positive trends, productivity challenges remain. On an output per worker basis, UK productivity was 20 percentage points below the average for the rest of the G7 in 2014 and on average productivity in rural areas is lower than that of urban ones in the UK. The UK Treasury has identified productivity as the main driver of economic growth at the national and local levels with skills, investment, enterprise and competition as the main drivers of productivity increase (OECD, 2010a; 79–80). To address this priority the UK government has adopted a number of new measures to boost productivity:

- Ensure that rural areas are fully connected to the wider economy both in terms of ICT and transport connections. The government has committed to delivering superfast broadband of at least 24Mbps to 95% of UK households and businesses by 2017. It is also working with the communications industry to extend permitted development rights for taller mobile masts in order to improve mobile communications coverage. The strategy further entails a major roads and rail investment programme and support for small airports to connect rural communities.

- Support a highly skilled rural workforce. This includes expanded funding for schools, for example, for those that have been identified as underperforming. The government is also increasing apprenticeships in rural areas with a particular focus on such areas as food, farming and tourism.

- Create strong conditions for rural business growth. The UK government has created a number of Enterprise Zones which include capital grants and business discount rates (similar policies have been adopted by the devolved administrations of Scotland and Wales) (Ward, 2016). Zone development in smaller towns, districts and rural areas was a stated aim of this strategy. The government is also reviewing the regulatory burden faced by rural businesses and plans to introduce a fast track planning certificate process for developments.
Box 4.2. The United Kingdom's strategy to boost rural productivity (cont.)

- Making it easier to live and work in rural areas. A 2011 OECD rural policy review of England found that there is a longstanding housing shortage in rural England that is exacerbated by housing policy and land use policy (OECD 2011: 208). To support new housing developments, the government will make it easier for villages to establish neighbourhood plans and allocate land for new homes, and support incremental expansion. In order to support families with young children, the government is looking to support the delivery of 30 hours of free childcare to working parents and the introduction of Tax Free Childcare.

- Greater local control over economic development. The government is committed to empowering local leaders to drive growth through policies anchored in the specific needs of local areas. This entails the adoption of new devolution agreements, the first of which was signed with Cornwall.

The UK Government productivity plan suggests a multifaceted approach – one that builds on traditional investments in communities such as better transport connections, but links this to much broader strategies that include a focus on skills, the regulatory environment and critically, support for workers through such measures as child care. The strategy also particularly points to the importance of involving communities in economic development and devolving power to them to be meaningful actors in the process.

The UK Government estimates that – were the gap between productivity in rural areas and productivity in urban areas (excluding London) to close over the next ten years – annual productivity growth for rural areas would average around 2.5%. Based on these projections, GVA per worker for rural areas could increase from around GBP 40 254 (2012) to GBP 53 777 in real terms by 2025, leading to increased real earnings in rural areas. Such expanded economic opportunities could also influence rural demographics, current rural population projections suggest a potential increase of 6% between 2015 and 2025 (Government of the United Kingdom, 2015: 9). Therefore, such policies matter not just in economic terms, but also for the sustainability of rural communities.

Notes:
1. In 2011/12 there was net population migration to predominantly rural areas of around 46 000 and net migration to predominantly urban areas of 69 000, with net migration from predominantly urban to predominantly rural areas of 40 000 people (Statistical Digest of Rural England, 2016: Based on 2001 Census classification of rural and urban areas).
2. Productivity in rural areas is currently around 83% that of urban areas including London and 94% of urban areas excluding London (Government of the United Kingdom, 2015: 9).
3. This assumes annual average productivity growth of 1.9% for urban areas based on the Office for Budget Responsibility’s latest projections for UK productivity growth overall (Government of the United Kingdom, 2015: 9).

Box 4.3  Rural SMEs and innovation in the United States

As a whole, the rural economy in the United States is more dependent on small and medium-sized enterprises (SMEs) than that of its urban counterparts. This is particularly true with respect to job creation. Worryingly, there is a declining trend in the share of SMEs that are five years or younger as a share of all firms.

In order to keep track of these dynamics and better target support to SMEs, the US Department of Agriculture has created a Rural Establishment Innovation Survey. It is the first nationally representative self-reported innovation survey for Rural America. The survey of 11,000 establishments with 5 or more employees in the tradable sector oversampled rural establishments, but allocated a quarter of the sample to urban establishments for comparison.

It was found that the size distribution is very similar within sectors, but that rural areas are more dependent on SMEs overall. It was further found that long-term job creation is challenged by diminished displacement of main job creating engines. Finally, the urban innovation advantage appears to be compositional – SME substantive innovation rates are similar in innovation intensive industries.


Growth in rural areas tends to be driven by urban demand for resources and amenities and tends to depend on a flow of new technologies from urban areas. This is in contrast to urban economies that benefit from increasing returns to scale, a diverse home market, dense networks and strong competition effects. Rural firms are more likely to have small-scale innovation driven by firms’ needs and local monopoly power – not variety – which allows firms to start up and survive in such environments. For many rural firms, growth is linked to their ability to find export markets, as opposed to home markets. Given these conditions, high productivity is vital for growth because rural exporters have to absorb higher transport costs. Rural firms benefit from some lower costs (e.g. greater availability and lower cost of land), but in other respects, they pay a distance premium. Thus it can be said that in general, it is the attributes of specific firms (management capacity, marketing skills) in combination with the characteristics of the local economy that determine regional growth (see Box 1.1, Chapters 1 and 3).

Given this, public policies have an important role to play in supporting rural firm connectivity – including transport connectivity, the flow of ideas, access to export markets and access to capital. Rural policies have long supported rural development through infrastructure connections (e.g. transport and ICT infrastructure) and while this remains important, other elements of connectivity also deserve attention such as helping firms connect to export markets and capital in order to grow their business. The modern rural economy requires a high level of capital investment; however rural regions often face an absence of equity investors.

Rural firms also tend to struggle to find the right skills for their needs or the right training opportunities to continually upgrade them. As smaller places, rural areas have a smaller labour market and less diversity across the types of skills available. Educational opportunities also tend to be more limited and highly skilled individuals tend to be trained in urban locales or they tend to migrate to them in order to take advantage of a broader range of opportunities and a bigger labour market. Public policy has an important role to
play in working together with employers, employees, jobseekers and training institutions
to ensure access to high quality and responsive training and skills upgrading that support
lifelong learning. It is critical that employers take an active role in supporting such skills
development, rather than passively expecting employees to have the skills they seek. In
other words, mobilising skills requires multi-partner, engaged and ongoing efforts to
support businesses and workers to be successful. For the rural economy to modernise,
there must be a significant increase in the average skill level (Figure 3.8, Chapter 3).

**Quality of life is also important in retaining and attracting skilled workers
and enhancing competitiveness**

In making employment choices, workers look at both wages and the environment in
which they will live, among other factors. When some places are more desirable locations
than others, it is possible that workers will demand a wage premium to accept a job in the
less desirable location, just as they may require a wage premium for a hazardous job. Clearly,
the wage demanded by the worker cannot exceed the value of their labour to the employer if
they are to be employed. But, from the worker's perspective, there can be a trade-off between
compensation levels and the local quality of life. In addition, highly productive workers have
more scope in demanding higher wages to accept jobs in undesirable locations because they
have a greater range of employment alternatives. Conversely, employers of software
engineers in San Francisco, for example, have an easier time attracting talent than do similar
employers in Minnesota, because San Francisco is seen as a more desirable location.

Firms in challenging locations typically pay high wages to compensate workers
with needed skills for a relatively unattractive environment. For example the large iron
ore mine at Kiruna, the northernmost town in Sweden, produces the vast majority of all
the iron ore mined in Europe. Without the mine the viability of the town would be in
question and it would certainly shrink in size. Kiruna has less than 20,000 residents and is
located north of the Arctic Circle with limited connections to other places. In principle, this
should be a place that faces challenges in attracting workers, but because the mine is
extremely efficient, it can pay high wages and the community has worked hard to improve
the local quality of life, making it less difficult to attract workers to the locale.

It is this exceptionally high rate of productivity, combined with a high quality natural
resource, which allows firms to afford these wages and remain competitive. This is the case
for the aforementioned mine in Kiruna. It explains the otherwise difficult-to-understand
observation that in some small remote rural regions there are firms with very high levels
of productivity. Typically such firms specialise in the extraction of highly profitable natural
resources that can only be produced in similar locations in other countries.

On the other hand, rural places with a high quality of life can compensate for lower
wages and attract and retain workers and their families. It is also observed that 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 "counterurbanisation. One explanation for
this might be driven by the fact that rural regions have a lower cost of living and a high
number of natural and cultural amenities, suggesting that households chose to accept
lower wages and a high quality of life provided by their amenity environment (Gosnell
and Abrams, 2011; Ward and Brown, 2009). Take for example Bend, Oregon. It is a small city
in central Oregon that had a population of 52,000 in 2000 but had grown to over 83,000
by 2013, despite a significant decline in the logging industry, which had been the mainstay
of the local economy. Logging was replaced by a wide range of outdoor sport activities:
mountain biking, rock climbing, white water rafting, camping and skiing. These activities result in jobs that pay less than work in the traditional logging industry, and yet, the population has grown, not shrunk.

These two extreme cases suggest that, in rural areas where the natural environment is a major factor in quality of life, employment decisions can reflect both wage levels and local amenity benefits. For firms, this trade-off by workers can be either beneficial or problematic. Firms in high amenity areas may survive, even though they are relatively inefficient because they can pay a lower wage. Conversely, firms in undesirable locations have to be highly productive in order to attract and retain workers by paying them high wages. For these latter firms, high levels of productivity are important to offset both distance from markets and high wage bills.

Rural communities cannot do much to change their natural resource endowments but they can work to make better use of them. This involves thinking about how to repurpose natural assets that have lost their original functions and requires vision, investment and a marketing plan. There are numerous examples of places that have successfully done this. Forests that are no longer logged can be turned into mountain bike trails, as was done in Bend and in central Scotland. Commercial fishing harbours can be used for recreational boating and sight-seeing. Small towns near urban areas that have lost their manufacturing base can work to attract retirees to occupy their stock of relatively low cost, high quality housing. In these instances, the average wage may have declined, but the quality of life improvements can compensate for the drop in income.

Rural regions also need to consider how the combination of environmental, social, economic and cultural attributes combine to create a good quality of life and sense of local identity. This is particularly important for retaining and attracting families and young people who can address workforce needs. There are a number of different dimensions to this. The first is continuing to improve the efficiency and quality of basic social infrastructure such as schools, health services, roads and public transport. The second is about considering how local economic development strategies can be adapted to also strengthen local quality life (and vice versa). For example, tourism is a good case in point as arts and culture, local events, festivals, and tourism infrastructure can both improve local quality of life and help attract visitors. The third is involving communities in regional planning and priority setting to ensure that the interests and perspectives of young people, women, the elderly, indigenous communities and other groups are properly considered.

The environment
Rural areas are front-and-centre in the shift to a low carbon economy

Boosting productivity and competitiveness is important for the sustainability of rural areas, however a well-being lens emphasises that not all forms of economic growth are desirable. Industries that damage human health and the environment should be reduced, and eventually, eliminated. Correspondingly, it should be a goal of public policy to reduce support for unsustainable and polluting industries while encouraging development in environmentally sustainable ones. The fossil fuel industry is a case in point. Governments of OECD countries and key emerging economies are spending an estimated USD 160-200 billion annually to support the consumption and production of fossil fuels (OECD, 2012b). In order to align policies for a low carbon economy, such support needs to be removed with investments shifted to renewable energy. As Nordic experiences demonstrate, the bioeconomy has huge potential (Box 4.4).
Box 4.4 Making the bioeconomy work for rural development: The Nordic experience

The bioeconomy is an economy that relies on renewable natural resources to produce food, energy, products and services. The bioeconomy will reduce our dependence on fossil natural resources, prevent biodiversity loss and create new economic growth and jobs in line with the principles of sustainable development.

Across the European Union the bioeconomy accounts for approximately 9% of employment. In Nordic countries this figure is higher at approximately 18% for Iceland, 16% for Finland. Norway is an exception, the bioeconomy accounts for 6% of employment. In some rural regions this figure is much higher. For example, in the Ornskoldsvik region of Sweden, the bioeconomy provides an estimated 25% of employment.

Nordic countries see considerable scope for bioeconomy development, but, there are challenges to its development. For instance, there can be competing demands for bioresources and the extraction costs of raw materials can be too high. Further, existing regulations can create impediments to some developments or institutional arrangements may get in the way of the use of raw materials ("waste"). Public policies have been highly instrumental in helping to overcome some of these challenges and support innovation in the sector.

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<th>Policy/strategy</th>
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<td>Bright Green Forsa concept as a brand</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bioeconomy and sustainable use of natural resources one of 5 strategic goals in Hame Regions Norway/Strategy 2013-14.</td>
</tr>
<tr>
<td>Norway</td>
<td>Carbon tax</td>
<td>Municipalities active in all 4 cases as customers, as inventors, as local regulators</td>
</tr>
<tr>
<td></td>
<td>National bioenergy targets</td>
<td>(e.g. on building regulations) and in some cases as infrastructure providers (district heating pipe network) as member of SHIPs: as branders: as legitimators of the industry;</td>
</tr>
<tr>
<td></td>
<td>Innovation Norway and EENova support</td>
<td>and as co-ordinators: link agencies with sources of expertise</td>
</tr>
<tr>
<td></td>
<td>for small as well as large investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Policy environment has been unstable in terms of biofuels</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>Focus on Green and Sustainable Development since the 1990s</td>
<td>Lolland Community Testing Facility (CTF) developed 2007</td>
</tr>
<tr>
<td></td>
<td>Vestas (Wind Turbines) a world leader</td>
<td>Development of Innovative Partnerships including Community (Quadruple Helix)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Co-creation with cluster development, Industrial Synergy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Innovation Platforms, meetings and networking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Regional Advisory Group developing ideas for bioeconomy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Membership of National Innovation Networks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Green Centre, Lolland (est. 1989), started Algae Innovation Centre with Aalborg and Roskilde Universities</td>
</tr>
</tbody>
</table>

Nordic countries see considerable future potential as seen in the forest, marine and "waste" bioeconomy. Investments in these areas are important for the countries' transition to a "low carbon economy" and for rural and regional development. Synergies and symbiosis are very important for the success of such projects and locational clustering has been found to be advantageous. Local policies and engagement in local and regional innovation platforms around the bioeconomy are critical to the success of these developments.

The OECD's 2012 study Linking Renewable Energy to Rural Development focused on the implications of the shift to renewable energy for the rural economy. Case studies from across North America and Europe demonstrated the many positive impacts of renewable energy developments. Such developments were found to: increase local revenue through taxes; create new jobs and business opportunities; support innovation in products processes and policies; support local capacity building and empowerment; and generate affordable and reliable energy. Table 4.2 describes some of the innovations observed in the case study areas. The presence of a number of actors in a renewable industry has a snowball effect – the presence of knowledge and skills in the sector supports further development of the renewables industry and related support industries.

In supporting such efforts, it is critical that governments take local interests and issues into account. Local engagement is particularly important for renewable energy projects in rural areas since such developments can be land intensive and/or alter the landscape. Communities need to be meaningfully involved early on in the process for such projects to be a success.

Table 4.2. Innovations in renewable energy products, practices and policies in case study regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Products</th>
<th>Practices and policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tennessee, US</td>
<td>Electric vehicles, cellulose ethanol</td>
<td>Collaboration between universities and national energy research centres</td>
</tr>
<tr>
<td>Maine, US</td>
<td>Deep sea floating wind mills, tidal energy</td>
<td>Ex ante evaluation of the impact off-shore installations will have on maritime communities</td>
</tr>
<tr>
<td>Vermont, US</td>
<td>Manure management on dairy farms; green electricity</td>
<td>Branding of electricity: small-scale farm based biogas for decentralised (‘cow power’) electricity production</td>
</tr>
<tr>
<td>Iowa, US</td>
<td>Ethanol from malting, cellulose ethanol</td>
<td>Focused systemic research strategy</td>
</tr>
<tr>
<td>Oregon, US</td>
<td>Small scale energy integrated into existing activity</td>
<td>Community based co-location approach – “energy has to have a job”</td>
</tr>
<tr>
<td>Québec, Canada</td>
<td>Low temperature turbine blades for wind installations</td>
<td>The Bureau d’audiences publiques sur l’environnement (BAPE) mandate is to protect, among other things, the interest of rural communities vis-à-vis RE deployment</td>
</tr>
<tr>
<td>Prince Edward Island (PEI), Canada</td>
<td>The Wind Energy Institute of Canada in North Cape – PEI</td>
<td>The Wind Energy Institute of Canada in North Cape, PEI advances the development of wind energy across Canada through research, testing, innovation and collaboration. The site features 3 15-MW Wind R&amp;D Park, a 2-MW storage test bed, meteorological towers and a small wind test bed, as well as other facilities</td>
</tr>
<tr>
<td>Tromsø, Norway</td>
<td>Low temperature turbine blades, tidal energy, extraction of heat from water and sewage</td>
<td>Research collaboration between the University of Tromsø and renewable energy companies</td>
</tr>
<tr>
<td>North Karelia, Finland</td>
<td>Wood based biogas, efficient wood burners, related machinery and equipment; CHP and district heating</td>
<td>North Karelia Climate and Energy program (est. 2011) was ambitious targets such as doubling the share of forest chips by 2020</td>
</tr>
<tr>
<td>Mellersta, Sweden</td>
<td>Bioenergy from wood, with CHP and district heating.</td>
<td>Grant for research and development for wind energy</td>
</tr>
<tr>
<td>Region Sjælland, Denmark</td>
<td>Wind; wind installation maintenance and testing facilities; algae production for biofuel; straw based bioenergy</td>
<td>Local consortia to organise land-use and to link demonstration processes to regional economies</td>
</tr>
<tr>
<td>Friesland, Netherlands</td>
<td>Solar powered boats and related systems for battery control, etc.; green gas based partly on cow manure</td>
<td>Development of niche opportunities (PV powered boat industry)</td>
</tr>
<tr>
<td>Extremadura, Spain</td>
<td>Mounts for solar installations</td>
<td>The non-profit Extremadura’s Energy Agency (AGENER) promotes RE (est. 2001)</td>
</tr>
<tr>
<td>Puglia, Italy</td>
<td>Small wind generators; emerging policies to encourage small scale decentralised renewable energy</td>
<td>RE policy has been modified several times to reduce distortions and rent-seeking behaviours</td>
</tr>
<tr>
<td>Abruzzo, Italy</td>
<td>Bio-gas for electricity</td>
<td>Aesthetic principles are explicitly put in the guidelines to site RE installations in rural landscapes and remediation</td>
</tr>
<tr>
<td>Shetland Islands, Scotland</td>
<td>Hydrogen from wind; energy storage systems; tidal generators</td>
<td>The Promoting Unst Renewable Energy (PURE) project is a community driven partnership to promote RE</td>
</tr>
</tbody>
</table>

There is great potential in biomass energy to support environmental and economic sustainability

The renewable energy sector is generally more capital than labour intensive; however, this is less true of biomass energy projects (OECD, 2012b). The use of biomass (e.g. forest and crop residues, animal manure, etc.) as a renewable feedstock for the production of electricity, heating or biofuels is a largely untapped opportunity for rural development that actually creates permanent jobs. Renewable heat tends to be systematically ignored by renewable energy policy in most countries, despite being competitive with conventional sources. The direct conversion of a renewable power source to heat involves a relatively cheap transformation and the industry is likely to have a larger impact on local labour markets than other renewable energy technologies.

In general, biomass energy requires the organisation of a specific productive process and involves a large number of people. In many Nordic regions (North Karelia in Finland and Mellersta Norrland in Sweden, for instance), the collection of forest residues has generated new and sustainable job opportunities and improved forest management. Policy makers, however, rarely tap in the biomass potential due to the high transaction costs and the need to organise collective action. This is a missed opportunity.

The vast majority of renewable energy investments are located in rural areas and so the shift to renewable energy is a rural issue, as well as being a wider global issue. Transition to renewable energy industries requires spatially targeted policies and very strong engagement with local communities. Governments can also support such efforts by changing their procurement practices, as was done in the United States through the BioPreferred Program (2002 Farm Bill). While biomass energy projects may take a while to get off the ground, they are worth the effort and can propel regions on to a path of environmental and economic sustainability.

Beyond renewable energy, the rural environment provides a vast number of benefits, both to those who live there and the whole of society. These include: environmental services such as carbon capture and removing pollutants from the air, water and soil; opportunities for tourism and recreation; and the calming effects of green space and wildlife preservation. Many of these benefits lack market prices and have been undervalued and underproduced in the past, but are now seen as important. In particular, they are important components of quality of life, and as such, are major new advantages for rural regions. Box 4.5 offers some examples of how a well-being framework can be incorporated into policy design, implementation and evaluation by governments.

Box 4.5. Incorporating a well-being framework into policy design, implementation and evaluation

The OECD’s regional well-being indicators (“How’s life in your region”) demonstrate the value of territorial analysis and encourages 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. Understanding well-being and its determinants can help policy makers enhance policy design and better target initiatives. Such indicators can also empower citizens to demand placed-based policy actions that respond to their specific expectations and, in turn, restore people’s trust.
Box 4.5. Incorporating a well-being framework into policy design, implementation and evaluation (cont.)

Monitoring well-being performance at the regional and local levels can reveal an important self-diagnosis of the major issues facing a region. For example, well-being indicators were used in Sardinia, Italy to help more effectively structure the regional planning of the 2014-20 Cohesion Policy. Both objective and subjective well-being are important in measuring quality of life alongside other social and economic dimensions (OECD, 2013b). In the Netherlands, an indicator of “liveability” was introduced in the mid-1990s to better understand and act on community safety issues. Subjective indicators were used to understand how safe people felt in their communities along with actual rates of crime.

Well-being indicators can also be used to guide policy prioritisation across dimensions and territories. In the United States, the “Partnership for Sustainable Communities” involved collaboration between three federal bodies together with the University of Pennsylvania to develop a set of national sustainability indicators that were used to, among other things, co-ordinate and leverage federal policies and investments.

It should be a major goal for government to translate well-being objectives into policy relevant indicators and use them to align policies across and within levels of government. Wales’ recent “Well-being of Future Generations Act” (passed 17 March 2015) encompasses such an approach. It places sustainable development as the central organising principle of the devolved public service in Wales and requires all public bodies to pursue common well-being goals and objectives and measures performance towards achieving these goals (Krawchenko and Foster, 2016).

Note: The OECD well-being indicators can be accessed at www.oecdregionalwellbeing.org

Policy focus: Competitive advantages for low-density economies

A key strategy for low-density economies is to focus on competitive advantages

Rural policy has recently been shifting towards a holistic approach that identifies how the various components of a local economy, including non-farm activities, interact. Previously, rural policy in OECD countries focussed on support for specific sectors, such as agriculture and forestry (and in many still does). But, as a result of an ongoing process of restructuring and modernisation through the substitution of labour for capital and improved connectivity (i.e. road, rail and broadband), other non-farm activities, including the service sector, have emerged in rural areas.

The current emphasis is on identifying the areas of competitive advantage that are present across rural regions. This is done in order to valorise new economic functions in these areas and diversify around them. In order to support this approach, it is important to understand how low-density economies function and how opportunities occur in the absence of economies of agglomeration.

Export-oriented economies located far from the major centres of demand face an exceptional competitiveness challenge, particularly in manufacturing sectors. A major problem is that producers in tradable sectors require an edge in terms of efficiency simply to offset the cost of distance. They need to be that much better than their urban rivals; being just as good may not be enough. 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, in essence, about identifying one or more new and profitable niches in the international division of labour.** While cutting-edge innovations might meet this challenge, for many economies, all that is needed is to discover new potential for producing established products profitably. It is difficult to know ex ante what new activities might be competitive, given the cost structure of the economy, if only because the existing set of market prices in an economy reveals nothing about the potential profitability of alternative (as yet hypothetical) resource allocation (Rodrik, 2004). Moreover, entrepreneurs moving into new (to the economy) sectors 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. As described above, this challenge is even more daunting in geographically remote, low-density places. Producers in such places who are oriented towards external markets 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.

**Diversification efforts are likely to involve a great deal of trial-and-error: outcomes cannot generally be determined and planned ex ante.** This implies that the outcomes of successful diversification policies will be difficult to predict, so policy makers should resist the temptation to try to define the production structure towards which they believe the economy should evolve. The emphasis should be on pre-determined "strategic sectors" but on fostering the emergence of new activities, some of which will fail and others of which will take root. For most mining and hydrocarbon regions, this is likely to involve, to some extent, helping industrial producers to move up the value chain, thus diversifying on the basis of existing strengths. However, the particular directions that this evolution will take are impossible to foresee, and other new activities are also likely to take off, given the right conditions.

The example of Finland is instructive as its comparative advantage in forestry products is long-standing and obvious, but most of its other competitive strengths are not. Indeed, not even the most well informed economist could have foreseen its development of strong comparative advantages in such products as lifts, satellite navigation equipment, off-shore drilling equipment or – to name the most famous of all – cellular telecommunications. In 1990, the last of these products would hardly have merited a mention in any industrial strategy for Finland; ten years later, they were a cornerstone of Finnish growth, and a decade after that the country as a whole felt the fall-out from the rise of the iPhone, the eclipse of Nokia being as unexpected as its rise. Yet new sources of growth rapidly began to emerge based on the human capital and infrastructure associated with the telecoms sector. Finland thus continues to adjust, its success is a product not of anyone’s ability to predict, let alone direct, the productive structure of the economy, but of a set of transversal, sectoral and regional policies that create conditions favourable to innovation and entrepreneurship.

**Realising competitive advantage through “smart specialisation”**

The Rural Policy 3.0 emphasises how business development policies are best designed for low-density economies where distance plays a key role in shaping how businesses operate. The old approach to supporting business growth in rural areas was
characterised by governments providing subsidies to large firms. The contemporary role of government is as a facilitator in the face of complexity and uncertainty, enabling closer co-ordination between individual economic agents as well as greater experimentation in the economy. This new approach to business development and innovation in rural areas draws from a broader shift in industry policies which exhibit some or all of the following characteristics (Warwick, 2013; Warwick and Nolan, 2014):

- greater emphasis on building networks, improving co-ordination, and promoting awareness
- less reliance on direct support in the form of state aid and (market-failure correcting) subsidies
- greater emphasis on strategic (rather than defensive) industrial policy
- a shift away from sector-based strategies and towards certain technologies and activities.

"Smart specialisation" is a term currently used to describe an approach increasingly adopted by many regional (and national) governments to encourage investments in domains that leverage local assets. The focus is on creating future domestic capability and interregional comparative advantage (Foray, David and Hall, 2009). What distinguishes smart specialisation from traditional industrial and innovation policies is mainly the process defined as "entrepreneurial discovery" – an interactive process in which market forces and the private sector are discovering and producing information about new activities with the government acting to assess outcomes and empower those actors that are the most capable of realising the potential (Hausmann and Rodrik, 2003). As a result, smart specialisation strategies are much more "bottom-up" than traditional industrial policies. There is a wealth of literature on this approach – particularly from in the EU context as smart specialisation is part of EU policy as an ex ante condition for Structural Funds (McCann, and Ortega-Argilés, 2014; Foray, 2014).

In designing smart specialisation strategies, policy makers should create a framework that is adaptable to the context and specifics of each rural region. Innovation policies are often designed from an urban perspective for regions characterised by a higher density of economic activity, technological spillovers, and complex relationships between industry, universities and other actors. There is also the risk of seeking to replicate highly successful examples from one place to another. Rural regions often have more specialised industry structures that are embedded within the region and closely related to their natural resource base. Smart specialisation strategies should relate to these areas of comparative and absolute advantage and seek to open up opportunities for local businesses to participate in global value chains (GVCs). There also tends to be lower levels of skills attainment, thin and fragmented labour markets, and a lack of innovation related resources. National policies related to skills, employment, and innovation need to be adaptable. For example, enabling local skills providers to offer tailored programmes that are more closely aligned to the needs of the industry in the region is an important part of smart specialisation strategies.

Like traditional industrial policy, smart specialisation strategies aim to address market, systems and co-ordination failures. But, traditional industrial policies had tended to require significant levels of information to justify subsidy support and they have tended to be implemented in vertically-integrated sectors with stable technological paradigms. In contrast, smart specialisation – as well as new industrial policies – recognise the lack of perfect information, the level of advancement of a given activity, and the relative risks for policy. Smart specialisation focuses on helping entrepreneurs identify their knowledge-based strengths at the regional level and in forwarding a more exploratory approach in which
public decision makers listen to market signals using a range of assessment tools (e.g. SWOT analysis, surveys) and mechanisms such as public-private partnerships, technology foresight and road mapping. Box 4.6 offers an overview of the major policy messages of the smart specialisation approach.

**Box 4.6. Smart specialisation: Policy messages**

A recent OECD report on smart specialisation identified the following key policy messages (OECD, 2015b):

- **Policies for entrepreneurial discovery** The smart specialisation approach calls for an "entrepreneurial selection" of market opportunities (e.g. to minimise failures and to avoid ill-informed policy decisions). While successful companies will constitute the new specialisation of the country/region (self-discovery), the role for policy is to develop a flexible strategy focusing on measurable intermediate goals, identifying bottlenecks and market failures and ensuring feed-back into policy learning processes. The approach includes incentives to strengthen entrepreneurship and encourage agglomeration.

- **Promoting general purpose technology platforms and networks**. Given the range of applications of general purpose technologies, technology platforms involving public and private actors but also standard-setting organisations can help increase productivity in existing sectors and help identify sectors in which to concentrate resources.

- **Diagnostic and indicator based tools and infrastructure**. Smart specialisation requires regions and countries to maintain an infrastructure and indicator base to monitor and evaluate performance and policies.

- **Strategic governance for smart specialisation**. Good governance and the development of local capabilities are key to identifying local strengths, aligning policy actions, building critical mass, developing a vision and implementing a sound strategy.

- **Openness to other regions**: the specialisation strategy of regions should take into account that other regions are also involved in knowledge creating activities and that duplication might lead to lower effectiveness and finally failure. Hence, co-operation with other regions with complementary capabilities and strategies is important.


Ultimately, smart specialisation strategies provide an opportunity for regions to identify their core areas of competitive advantage and diversify around them. It is particularly important that this is done in a collaborative way between the private and public sectors. This enables the identification of often latent assets and resources and directs how to best combine them to generate new business opportunities. This is important for rural areas because they lack economies of agglomeration and often have only a few economic activities that are competitive in international markets.

There are a number of examples of such smart specialisation approaches in practice across rural regions in the OECD. Many rural regions have pursued strategies to maximise the economic development opportunities that come from better aligning local agricultural, food production, and tourism. Another example is creating value from agricultural and industrial waste in the form of new products and energy production. By pursuing these collaborative strategies, some regions have identified unexpected opportunities. For example, the region of Norrbotten, in northern Sweden, has attracted IT investments and
car testing due to its cold climate. It has embedded this economic activity in local universities, and it is now internationally competitive in an activity outside of mining and forestry. Another example is that of Nordland’s smart specialisation strategy (Box 4.7).

**Box 4.7. Rural innovation: The case of Nordland, Norway**

Nordland is a region located in northern Norway and has 240,000 inhabitants, and the largest city, Bodø, has a population of close to 50,000. The land and topography of the region is diverse with fjords, high mountains, narrow peninsulas, and islands. Nature based attractions such as the Lofoten Islands are critical for the region’s tourism industry. Forestry and agriculture have also developed in the valleys and coastal areas. As a result of this physical environment production is dispersed across the region – some in locations which are remote and difficult to access.

Nordland has a rich endowment in terms of water resources, landscapes, productive land, and mineral resources. These resources provide the foundation for mining, agriculture, forestry, fisheries and aquaculture, and tourism.

These industries are performing strongly and are integrated into global markets. They make an important contribution to the economic prosperity of Norway. However, these highly productive and export orientated industries are not generating significant new jobs for the region (with the exception of tourism). How the region overcomes this “growth paradox” to capture greater value-added jobs in the region will be critical to the future of the region.

In terms of skills and innovation, the region has a number of key strengths and challenges. The region has one university, two university colleges and three research institutions. These institutions are increasingly engaged with local businesses and R&D investment is rising. The county has recognised the importance of innovation and was the first region in Norway to have its own R&D strategy, which has provided a platform to forge closer links with local businesses. However, the region has an ageing population and lower educational attainment than the rest of the country. Although R&D activity is increasing, it still lacks scale and there is not a strong culture of innovation amongst smaller businesses in traditional industries. Enhancing the competitiveness of tradable sectors outside of oil and gas is challenging in Norway, which has a high cost base.

The region has adopted smart specialisation as a framework to promote innovation within the region’s tradable sectors. The county’s smart specialisation strategy – Innovative Nordland – has identified the process industry, seafood, and tourism as key opportunities for future growth. The county has three key strategies to shape innovation outcomes:

- supporting co-operative projects between business and R&D institutions
- brokering education projects within clusters
- supporting competence building in universities and R&D institutes that align with cluster development in the region

The development of this strategy involved close collaboration between the public sector, business, research, education and training organisations in the region. Priorities were identified using techniques such as SWOT and foresight planning to reveal the region’s comparative advantages. The design and delivery of this strategy also involves co-operation and peer review with the region of Ostrobotnia, in Finland. Collaboration, consistent and transparent methodologies to identify strengths, and peer-review have all been identified as success factors within Smart Specialisation Strategies in a European context (OECD, 2013c).

The application of these strategies will be different in rural areas close to cities relative to more remote rural areas. Rural areas close to cities generally have the advantage of lower land costs and can be attractive locations for industries such as manufacturing and transport and logistics. These regions should look at leveraging these advantages and building partnerships with businesses and research institutions located within cities. One of the key considerations for more remote areas is how to leverage local networks and value chains to promote innovation across domains such as environmental amenities, food production and tourism. In this context, land use is crucial for rural areas in terms of managing urban growth, combining agricultural and tourism activities, and managing land use conflicts (e.g. extractive industries, energy production and tourism). In rural remote regions, it is particularly important that land use strategies be closely aligned and integrated with economic development.

Tools: Policy complementarities and integrated investments

Mutually reinforcing policies generate higher returns

There has been a notable transition in rural policy approaches across OECD countries in the 1980s and 1990s. Rural policies in many OECD countries have focussed in the past on providing subsidies that aim to bring income in a sector up to the national average, without any real concern for how well the subsidies worked or whether there were any undesirable consequences (Pezzini, 2001). Firms, communities and individuals were deemed entitled to specific subsidies by virtue of their rurality. By contrast, the New Rural Paradigm advocated shifting the orientation of rural policy from subsidising sectors towards investments in rural regions, by recognising that development is inevitably unequal across space and that the focus should be on investing in the opportunities that are present in specific rural areas.

The Rural Policy 3.0 extends this framework by focusing much more 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 public and private investments and more efficiently deliver services in rural areas, which inevitably face higher per unit costs than urban areas, due to their lower economies of scale and higher transportation costs. Integrated investments have the potential to reap the benefits of complementarities when they are adapted to the needs of different types of rural areas.

The concept of policy complementarity refers to the mutually reinforcing impact of different actions on a given policy outcome. Policies can be complementary because they support the achievement of a given target from different angles. For example, increased broadband in rural areas should proceed along with policies that focus on the accessibility and diffusion of these services to the population.

Policies – territorial and sectoral – are more effective when they are co-ordinated and aligned along similar goals and objectives. In effect, governments should frame interventions in infrastructure, human capital and innovation capacity within common policy packages that are complementary to sectoral approaches as well. This requires that policies are integrated horizontally, through management arrangements and development plans amongst different sectors, services and agencies within a given level of government. It also requires that policies are vertically integrated, from the national to the local level of government, and that interventions are territorially integrated and consider the interrelationships and interdependencies between different territories.
**Integrated investments and policy complementarities will differ by type of place**

The specificities of place are a critical consideration within an integrated policy approach. For a rural area close to a city, a critical goal is to limit sprawl while increasing the connectivity between locales. This requires a delicate balance. On the one hand, it is beneficial to increase the connections between rural and urban areas so that urban dwellers can have access to natural and cultural amenities in rural areas, and so that rural dwellers are able to engage in urban labour markets. On the other hand, if the population of the rural areas expands, this imposes costs related to traffic congestion and sprawl, which make it difficult to provide and maintain services and infrastructure. Policies should pursue a balance that facilitates connections between spaces such that rural and urban areas maintain their distinctiveness. Key policy issues in this regard are transportation, land use and resource use.

The columns of Table 4.3 identify five specific policy domains that are important in rural regions and for which complementarities are particularly important. These are typically managed at different levels of government and almost always each is the responsibility of a specific agency that has little responsibility for the other four policy areas. In peri-urban areas (rural areas close to cities), a central issue is land conversion from rural to urban uses and this is generally managed through formal land use plans that regulate conversion. However, pressure for land use changes are influenced by decisions to improve transport connections or extend sewer and water capacity, or by encouraging greater connections between rural and urban residents through integrating labour markets or providing access for rural citizens to urban services. Consequently, land use policy is most successful when these other policy domains reinforce its actions.

**Considerations for rural remote regions are somewhat different than for rural regions close to cities.** Much depends on local conditions. For example, while remoteness may be a problem for many rural industries, it can be a competitive advantage in tourism. Remoteness, combined with attractive landscapes, as in the Scottish Highlands and Islands, can become a major attraction (Mahroum et al., 2007: 30). As an economic strategy for such regions, it becomes important to maintain environmental quality in such areas.

In more remote rural areas, land use conversion to urban uses is not an issue, but the loss of important environmental, natural and cultural capacities is a policy concern (Table 4.3). Here direct land use regulation may play a smaller role than the other four

<table>
<thead>
<tr>
<th>Type of rural region</th>
<th>Land use</th>
<th>Infrastructure / accessibility</th>
<th>Resource Use</th>
<th>Public services</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close to cities</td>
<td>Manage land conversion to limit urban sprawl</td>
<td>Control expansion of sewer and water systems to slow land conversion</td>
<td>Maintain environmental quality and restrict activity that is not sustainable</td>
<td>Provide local high quality services that are integrated into adjacent urban capacity</td>
<td>Integrate rural labour markets into the urban market by supporting niche products and stronger supply chains</td>
</tr>
<tr>
<td>Remote</td>
<td>Restrict land use practices that create environmental externalities (pollution, soil erosion etc.)</td>
<td>Improve connectivity to urban regions (broadband, roads, rail)</td>
<td>Maintain environmental quality and restrict activity that is not sustainable</td>
<td>Develop innovative ways to deliver high quality public services in health, education, business support and workforce training</td>
<td>Expand employment and local opportunities through entrepreneurship, support for business expansion and new market penetration</td>
</tr>
</tbody>
</table>

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<tr>
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<td>Improve connectivity to urban regions (broadband, roads, rail)</td>
<td>Maintain environmental quality and restrict activity that is not sustainable</td>
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</tbody>
</table>
domains that can lead to land use changes by altering private property owners’ incentives to manage land in different ways. Once again, it is crucial that the five policy domains send a consistent and coherent set of signals to property owners to ensure that economic development takes place in a way that maintains other goals, including sustainability and preservation.

**Service delivery is an important area for policy complementarity**

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 driven by several factors (Table 4.4). In the current context of tight fiscal budgets, discussions around how to deliver services in more cost-effective ways in rural areas has come to the forefront of the discussion in many OECD countries.

<table>
<thead>
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<th>Table 4.4. Factors impacting the cost of rural services</th>
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<td>Factor</td>
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<tr>
<td>Distance</td>
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<td>Low population</td>
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<td>Low density</td>
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<td>Ageing population</td>
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<td>Diminishing subsidies</td>
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<td>Increasing diversity</td>
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<td>Few service providers</td>
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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 practices that are “good-enough” (if not necessarily “the best”) and 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) which are important for 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.

- **Alternative delivery mechanisms.** Where the demand for services is widely dispersed, it may be more efficient to bring the service to the user. One example is, adopting mobile service delivery approaches, such as book-mobiles 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 the 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 a reliable electricity supply 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 fully-fledged home repair business, but could make use of the services of a travelling handyman that operates out of a fully-equipped vehicle. Mobile entrepreneurs are important in these types of areas (Bryden and Munro, 2000; Markeson and Deller, 2012).

**Governments are also realising policy complementarities by grouping service delivery providers across policy fields.** This often includes administrative services, health care, shopping and so on, in specific places with transport networks organised so as to make them as accessible as possible to the rural population of the surrounding areas. Often these arrangements are referred to as “one-stop shops”, as illustrated in a programme in France (Box 4.8). They can vary in scale: some are quite basic and limited to essential functions, while others, where population and resources permit, come to act as local centres of innovation, playing a role in supporting efforts to bridge primary, secondary and tertiary activities in rural areas and in promoting renewable energy generation. In some communities, the proximity of these services can help service providers be more integrated with one another, as practitioners have more opportunities to interact and learn about each other’s work – including across levels of government.
Box 4.8. France’s “one-stop-shop” for citizens

After an initial experimental period, the French government decided in July 2013 to develop one-stop shops for citizens, called Maisons de services au public (“Public service houses”), offering access to such public services as post offices, public transport ticketing, energy utilities, unemployment insurance and welfare services (pensions, family allowances, health insurance, etc.). The purpose of the “Maisons” initiative is to guarantee public service delivery in low-density or isolated territories by sharing costs and employees as far as possible. For technical and statutory reasons, the sharing of employees has proved more complex than the sharing of costs or premises.

The “Maisons” are usually financed by local authorities (50%), public operators (25%) and the national government (25%). Beyond subsidising them, the French government plays an important role in promoting this policy, harmonising the services provided and giving them a common label. It has also set up a partnership with the French postal service, La Poste, to transform some post offices with low activity (mainly in rural or mountainous territories) into Maisons de services au public in order to make them more profitable and to avoid financing specific buildings.

In March 2015, the government’s Interministerial Committee for Rural Development set a goal of increasing the number of “Maisons” threefold, up to 1,000, by end 2016, in accordance with the departmental schemes for the accessibility of public services that are enshrined in legislation for a new territorial organisation of the French Republic adopted in the summer of 2015.

This initiative is similar to those observed in other places, for example, the Citizen Service Offices in Finland, to name just one. These and other one-stop shops can cut provider costs and increase access by rural dwellers to necessary services. The range of services offered by OSS in OECD countries can include anything from education, childcare, government information, referrals and advice, health and elderly care, social support services (rehabilitation and housing support), to cultural and recreational activities. Driven largely by community need and involvement these “all purpose” service centres are expected to continue to grow in rural areas because they allow governments to provide rural services on the basis of cost-efficiency (OECD, 2010a).


The proliferation of ICT connectivity in rural regions has created opportunities to deliver a broader array of services to both citizens and businesses through such mechanisms. For instance, the use of telemedicine to deliver health care services, particularly to remote populations, has proliferated. This can include videoconferencing technologies to improve access to health services for patients, families and health care professionals. Minimising the need to travel reduces costs and means that health care professionals can spend more time treating patients as opposed to travelling. Japan has established connectivity as a major policy objective together with more compact spatial development (Box 4.9).
Box 4.9. Japan’s “small stations” Initiative

In Japan, the need for innovative and cost-effective service delivery is driven in large part by demographics. The country has both an ageing population and overall population decline. On current projections, the government anticipates that Japan’s population will fall by about 22-23% between 2010 and 2050, with the elderly (ages 65+) share of the population standing at roughly 40% at the end of the period. To meet these challenges, Japan’s National Spatial Strategy (NSS) has adopted a vision based on “compact” and “networked” cities and villages.

In order to ensure effective service delivery, the settlement of Japan should become more compact. At a national level, the NSS acknowledges that some areas will become effectively depopulated, though it seeks to sustain a broad settlement pattern throughout the national territory. At smaller scales, the policy addresses the restructuring of urban and rural settlements that will be needed to maintain cohesion and the efficiency of service delivery.

A Japan in which cities and towns are shrinking will need to be networked: improved connectivity will be critical to maximising the potential economic benefits of agglomeration. Better connectivity among towns and cities, as well as within them, is meant to offset, to some extent, the loss of agglomeration potential that will occur as a result of a shrinking population (and, even more, as a result of a shrinking workforce). This applies to both transport and communications connectivity. Better networking of people and firms should help encourage innovation and the exchange of ideas, as well as goods and services.

These concepts—“compact” and “networked”—are to be applied differently at different scales and in different circumstances. In smaller towns and rural areas the emphasis is on creating basic service-delivery hubs that will help sustain rural communities around small, multi-functional cores (the so-called “small stations”). Networking will entail improved connections between very small hamlets and nearby service hubs (“small stations”). These “small stations” will concentrate basic service delivery, including administrative services, health care, shopping and so on, in specific places with transport networks organised so as to make them as accessible as possible to the rural population of the surrounding areas. These too are to vary with scale: some will be quite basic and limited to essential functions, while others, where population and resources permit, may come to act as local centres of innovation, playing a role in supporting efforts to bridge primary, secondary and tertiary activities in rural areas and in promoting renewable energy generation. These, and similar initiatives, are intended to promote a degree of de-urbanisation, in an effort to deconcentrate the economy and the settlement pattern and help revive rural areas and non-metropolitan regions. Indeed, promoting migration to rural areas is an explicit aim of the NSS, as well as a central priority for the government’s new Headquarters for Overcoming Population Decline and Revitalising Local Economies.

The creation and maintenance of small stations will largely be left to prefectures and local authorities, although the funds involved will often come from the central government. This is clearly an area where prefectures can play a central role: the ministries in Tokyo lack the local knowledge and information needed to plan the location of small stations, but leaving it to municipalities alone risks triggering a race to invest public funds into too many small stations in an effort to stem local population decline. Even the prefectures may be inclined to over-supply them. For example, Kochi prefecture, on the south coast of the island of Shikoku, plans to create 130 small stations over the next decade. This implies a catchment area for each small station of about 56km², meaning that one would never be more than 4-5km from a small station. On a nationwide basis, this would imply the construction of around 7,000 small stations.

The small stations initiative is similar to approaches to service provision undertaken in some other OECD countries (Box 4.8).

Japan’s small station initiative looks in some ways even more ambitious than one-stop shops found in most other OECD countries, since small stations are to play a role in concentrating the delivery of private as well as public services, in reshaping the settlement pattern over time and, in some cases, acting as centres of innovation.

ICT accessibility can be a barrier to the accessibility of such services. To this end, Portugal has adopted a novel approach: their "Net on Wheels" project uses vans equipped with notebook computers to provide access to the internet and professional training to marginal groups. Since inception, the project has reached over 26,000 users and provided over 250 courses with 860 basic ICT skills diplomas. Technology can help rural residents provide and access information about service quality and about alternative providers. Geolocation facilitates matching-up between the supply of and demand for services.

Policy complementarities are supported by collaborative governance

On a positive note, three-quarters of responding OECD countries report that rural policy is co-ordinated across levels of government. In addition, almost all responding countries reported involving subnational actors in one way or another, be it through co-ordination of actions or through design and delivery of rural programmes by subnational governments. However, challenges to vertical integration remain. OECD governments have reported that some of the greatest challenges in this regard are: a lack of private sector participation in public investments, regulatory and administrative obstacles to vertical integration, and a lack of subnational government understanding of central government priorities and vice versa (OECD 2012c).

OECD governments have recently endorsed the importance of policy complementarities through the 2014 Recommendation of the Council on Effective Public Investment across Levels of Government (OECD, 2014). The Recommendation highlights the importance of co-ordinated strategies for public investment (both physical infrastructure, such as roads, and soft infrastructure, such as human capital development) in order to make the most of funding. Recommendations are that OECD governments should seek complementarities and reduce conflicts among sectoral strategies. At higher levels of government, such complementarities can be facilitated by: i) using strategic frameworks for public investment to align objectives across ministries and levels of government; and ii) minimising administrative barriers through co-ordination mechanisms such as, but not limited to, interministerial committees and programmes, and harmonisation of programme rules. Governments can also establish joint investment funds that pool monies across public agencies and ministries to encourage consideration of a broader set of priorities.

Entrenched institutional interests can present an obstacle to the creation of policy complementarities. It is often remarked that institutions are "sticky", and the same can be said of policies which are of course linked to the institutional logics that carry them along. As a strategy to overcome this, it can be useful to use new measures to generate reforms, establish new institutional relationships and evaluate their outcomes. As findings from Massachusetts demonstrate, new programmes can create an opportunity to establish policy complementarities since public actors will be less entrenched in pre-existing roles (Box 4.10). They can generate different ways of working across sectors or agencies and the joint-evaluation of such programmes can help generate understanding of how policy measures work together (or not). Interestingly, among OECD countries, around three-fourths of responding EU countries use both indicators and evaluations of their rural policies, against just over half of non-EU countries (indicator types and evaluation principles have similarities across EU countries due to their partnership agreement framework). Pilot projects can be useful to carve out a space for collaboration in cases where actors are entrenched in pre-existing roles. If effective, this can help propel support for broader institutional action.
Box 4.10. Sharing best practices for regional service delivery:
Massachusetts, United States

Communities across OECD countries are increasingly turning to collaboration and
shared service delivery as a way of offering better and more cost effective programmes
than they may be able to provide independently. The types of services and arrangements
will differ depending on political-institutional contexts.

In the United States, Massachusetts has created a guide to the regionalisation of services
which is largely directed towards municipalities (Massachusetts Association of Regional
Planning Agencies, 2012). The longstanding "home rule" tradition in the United States can
create a deterrent to the shared accountability and control required for such partnerships.
Drawing on the successful implementation of regionalised services, the Massachusetts
Association of Regional Planning Agencies has established best practice guidelines. In
general, these focus on how to overcome entrenched organisational interests. For example,
they recommend that it may be easiest to establish collaborative projects though existing
regional plans or to start with small projects and build collaboration from there. Further,
new programmes that have emerged through the passage of state and federal laws can
offer an opportunity to establish new regional services and entirely new organisational
structures. In other instances, it is recommended that expiring service contracts of staff
attrition may also create the space to adopt new joint actions. Examples of regionalised
services from Massachusetts include building inspection, clean energy collaboration,
emergency dispatch, public health and waste management.

Source: Massachusetts Association of Regional Planning Agencies (2012), Regionalisation Best Practices,

Key actors and stakeholders: Rural-urban partnerships
and multi-level governance

In rural areas, a pooling of resources and capabilities across entities creates the
ability to collectively accomplish what no individual can achieve independently.
Whether the entities are local governments, individual firms or community organisations,
a defining characteristic of rural areas is that the individual units have limited resources
and limited capabilities to act. This makes collaboration a necessary strategy if economic
and social progress is to occur and if it is to include all the relevant stakeholders. Yet, in
many rural areas, there is a tradition of not co-operating with nearby places and too often
high levels of social and economic exclusion limit decision making to a narrow elite.

The Rural Policy 3.0 promotes broadening the set of actors engaged in economic
development in rural areas to include a much wider spectrum of collaborators. There are
two key aspects of such collaborations. The first is multi-level governance and how to
improve vertical connections among tiers of government in order to better co-ordinate
policies and programmes. The second is the idea of improving horizontal connections
among governments in the context of rural-urban linkages between an urban core and its
rural hinterland. Results from both aspects suggest that collaboration results in better
economic and social development outcomes and benefits for all participants.
Rural governments can work with a much broader range of partners than is common today

New forms of collaboration involving rural governments offer opportunities. They could include rural-to-rural partnerships where communities in more remote rural regions co-operate in an approach that parallels rural-urban partnerships, but which reflects the specific conditions of rural places. Partnerships between local governments and third sector organisations could also be effective instruments for economic and social progress, especially when the voluntary sector is involved. Finally, partnerships between rural governments and private enterprise, the so-called public-private partnerships (PPP) could be useful in rural regions even though they are usually structured in metropolitan contexts. Because the focus is on rural policy – and only governments make and deliver policy – the following discussion is restricted to collaborations where at least one participant is a government. But of course, collaborations can occur among firms, or among any group of stakeholders with a common interest, and need not include governments.

Rural-urban partnerships strengthen synergies between rural and urban places

One promising type of collaboration to achieve better policy outcomes is that of rural-urban partnerships. Rural areas – either inside functional urban areas, or in close proximity to them – account for the vast majority of communities across OECD countries. Urban and rural areas are connected through a broad range of linkages: i) demographic linkages; ii) economic transactions and innovation activity; iii) the delivery of public services; iv) exchange in amenities and environmental goods; and v) multi-level governance interactions (OECD, 2009a: 22). These linkages include migration patterns and commuting. Among these, the latter is particularly important. Commuting is a major driver of territorial integration and can be used to define functional economic regions. The labour market flows between rural and urban areas are an important characteristic for analysis in the structure of public policies in such areas as housing, economic and spatial planning, transport and skills training. New measures of functional urban areas have important implications for rural policy as they consider a new framework with which to address rural-urban interactions (Chapter 9).

How do rural-urban partnerships help achieve better regional conditions? First, such partnerships facilitate the production of public goods that are useful for economic development. Examples include co-operation to better connect firms to large and more integrated markets (e.g. Forlì-Cesena, Italy; Lexington, Kentucky) or to foster territorial image and visibility, which increases the attractiveness of the regions for investment and tourism (e.g. Nuremberg). Second, rural-urban partnership makes it possible to achieve greater economies of scale in the provision of public services. Partnerships aggregate the limited local resources of rural governments with more plentiful urban resources to provide services more efficiently to the entire region. One example is, the use of ICT to provide public services to the most remote areas, avoiding depopulation and increasing well-being (e.g. Finland). Third, rural-urban partnership helps account for the cross-border effects of decisions taken by single urban and rural local authorities. Examples of partnerships were found to better co-ordinate land development within functional regions and to preserve the landscape.
OECD research has identified five key factors as having a positive effect on rural-urban partnerships. They include: i) understanding the interdependence of rural and urban areas; ii) mutual understanding and the need to act in concert; iii) clearly defined objectives; iv) representational membership and democratic participation; and v) leadership (OECD, 2013a). Table 4.5 summarises these factors that promote or hinder rural-urban partnership across 11 case studies in different countries. Among the case studies, clearly defined objectives and representational membership and democratic participation were important across almost all communities studied (10 out of 11 and 9 out of 11 respectively). Meanwhile, the most common hindrances to partnership were identified as a lack of private sector involvement (in 5 out of 11 cases) or incentives to partner (in 4 out of 11 cases).

| Table 4.5. Factors that promote and hinder rural-urban partnerships |
|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Factors that promote rural-urban partnership | France | Ireland | Austria | Germany | Italy | Greece | Portugal | Spain | Sweden | Finland | Norway | USA |
| Understanding the interdependence of rural and urban areas | X | X | X | X | X | X | X | X | X |
| Mutual understanding of the need to act in concert | X | X | X | X | X | X | X | X | X |
| Clearly defined objectives | X | X | X | X | X | X | X | X | X |
| Representational membership and democratic participation | X | X | X | X | X | X | X | X | X |
| Leadership | X | X | X | X | X | X | X | X | X |
| Factors that hinder rural-urban partnership | | | | | | | | | |
| Regulatory and political barriers | | | | | | | | | X |
| Lack of trust/confidence (capital) | | | | | | | | | X |
| Lack of incentives to partner | | | | | | | | | X |
| Policies that widen rather than shrink the gap between urban and rural areas | | | | | | | | | X |
| Low private sector involvement | X | X | X | X | X | X | X | X | X |


National governments have an important role to play in supporting rural-urban partnerships. They can provide the necessary data/tools to understand interconnections and to create the incentives or remove the barriers to such partnership. In order to establish partnerships, communities need to understand their linkages. Across the OECD a range of approaches are used to address these issues, from providing data and analysis, to mandating common spatial framework studies and plans across a functional territory. Governments have an important role to play in supporting analysis across functional rural-urban areas. Such analysis creates the basis for joint action.

Rural-urban partnerships often require some initial incentives to get actors at the table since they face an inherent asymmetry in power relations between big and small places. Many OECD countries encourage rural-urban partnerships by mandating co-submission as a requirement to access programme funding (e.g. for transportation infrastructure). The European Union’s Integrated Territorial Investments mandate that funding is based on such partnership. This creates an important first step towards lasting partnerships beyond the life of programme funding (Box 4.11). In a similar vein, governments should work to reduce disincentives to co-operation—in particular, programmes that pit communities against one another and reward or encourage isolated competition where co-ordination would in fact be a more effective form of public investment.
Box 4.11. The European Union's Integrated Territorial Investments

Europe is confronted by a multitude of economic, environmental and social challenges that are best addressed by integrated, multidimensional and territorial approaches. In recognition of this policy need, the European Union has created Integrated Territorial Investments (ITIs) which are tailored to place-specific features and outcomes and go beyond traditional administrative boundaries in order to co-operate and co-ordinate actions and achieve shared goals. This is in line with the new territorial cohesion objective introduced by the Lisbon Treaty, which acknowledges that economic and social cohesion cannot be achieved at the European level without a stronger focus on the territorial impact of EU policies.

ITIs are a tool to implement integrated territorial strategies. It allows Member States to implement operational programmes in a cross-cutting way and to draw on funding from several priority axes in order to ensure the implementation of an integrated strategy for a specific territory. ITIs will help Member States to successfully implement integrated actions through simplified financing and can only be used if the territory in question has an integrated, cross-sectoral territorial strategy. Any geographical area with particular territorial features can be the subject of an ITI, ranging from specific urban neighbourhoods with multiple deprivations to the urban, metropolitan, urban-rural, sub-regional, or interregional levels. An ITI can also deliver integrated actions in detached geographical units with similar characteristics within a region (e.g. a network of small or medium-sized cities). It is not compulsory for an ITI to cover the whole territory of an administrative unit.

An important element of ITIs is that they encourage the use of cross-cutting funding. They can involve investments from the European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund. The funding can be complemented with support from the European Agricultural Fund for Rural Development (EAFRD) or the European Maritime and Fisheries Funds (EMFF). Combined investments from ERDF and EAFRD are particularly relevant for support to urban-rural partnerships. This instrument is also linked to Community-led Local Development (CLLD) which can be used as one of the building blocks to implement an ITI (see Box 4.16 for more background on CLLDs). There are, however, important differences between an ITI and CLLD. While CLLDs are strictly a bottom-up approach, ITIs can be top down, bottom up, or a combination of the two.

As an instrument that promotes the integrated use of funds, ITIs have the potential to lead to a better aggregate outcome for the same amount of public investment. They also have the potential to empower sub-regional actors (local/urban stakeholders) by ensuring their involvement and ownership of programme preparation and implementation. Because they have different funding streams at their inception, it is anticipated that there will be greater certainty regarding the funding for integrated actions. ITIs put forward a place-based approach to development that can assist in unlocking under-used potential at local and regional levels.

Finally, public policies can foster such partnerships by supporting new kinds of institutional arrangements to govern across functional territories. Rural-urban linkages often cross traditional administrative boundaries and thus challenge established policy frameworks. Each type of interaction encompasses a different geography or "functional region". 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 rural-urban interactions. In many cases this can require changes to statutory legislation (e.g. Poland recently passed the Metropolitan Association Act 2015 which establishes an institutional framework for such partnership). France's reciprocity contracts offer one example of an approach that promotes inter-municipal collaboration, and are complemented by the new State-metropoles pact (Box 4.12).

**Box 4.12. France's reciprocity contracts**

Well-aware of the complementarity potential of its different urban and rural territories, France has developed a new experimental tool to promote inter-municipal collaboration: "contracts of reciprocity for the city-countryside" (*Contrats de réciprocité ville-campus*). These agreements are adaptable to different territorial realities, their jurisdictions are not pre-defined which allows them to cover different areas depending on the issue at hand. The process is primarily led at the inter-municipal level, with the states, regions, and departments being asked to support local initiatives.

France's "contracts of reciprocity" acknowledge the diversity of rural areas and seek to strengthen and valorise urban-rural linkages. This is driven by an understanding that urban-rural interactions should address not just proximity issues (e.g. commuting patterns) but also consider reciprocal exchanges in order to build meaningful partnerships. Potential areas for co-operation include:

- environmental and energy transition (e.g. waste management, food security, the preservation of agricultural land and natural areas, and bio energy development)
- economic development (e.g. the joint promotion of the territory and the development of joint territorial strategies, land use policies, support for businesses, and the development of teleworking to help maintain remote towns centres)
- the quality of services (e.g. promoting tourist sites, access to sports facilities, leisure, heritage, and access to health services)
- administrative organisation (e.g. mobilisation of staff with specific skills to support key projects or needs)

Four territorial partnerships have been selected for the first round of experimentation under the "contracts of reciprocity" starting in March 2015 (see below). It is part of CGET's mission to support local actors in the definition and conception of the "contracts of reciprocity" between each territorial entity. They include the metropolis of Lyon and the Pays d'Auvergne, the metropolis of Brest and the Pays Centre Ouest Bretagne, the metropolitan territory of Toulouse and the Massif des Pyrénées, and the urban community of Le Creusot – Montceau les Mines and Natural Regional Park of Morvan.

In July 2016, the framework for a new State-metropoles pact (pacte Etat-métropoles) was signed. It recognises the excellence in the 15 French metropolitan areas labelled as a metropolis as well as the importance of the polycentric urban network for the development of the territories linked to these metropoles. One axis of this pact focuses on the relations of interdependence with the surrounding peri-urban areas and the small and medium-sized cities nearby. The pact also commits the parties to identify good practices in territorial co-operation.

Remote rural regions can benefit from forming rural-rural partnerships

While the majority of rural people live in close proximity to an urban centre, the majority of rural territory is far from an urban place. Rural communities in remote rural regions tend to be even smaller than those in rural regions close to metropolitan areas. Unlike the rural-urban case where there are clear complementarities among rural and urban places, in the rural-rural context there are more similarities among places than differences. But, while being highly similar can lead to competition, the necessity to pool limited resources can lead to collaboration. Increasingly, local governments in remote rural regions are finding that they can no longer afford to maintain independent schools, independent emergency services, or even independent solid waste facilities.

Only if resources are pooled and responsibilities for particular tasks are fairly distributed among multiple rural governments, can adequate services be provided at an affordable cost. In many countries service standards are being raised by national governments even as they cut subsidies for their provision. This leaves small rural places where service cost delivery is high with few choices other than collaboration. In remote rural regions where communities are in close proximity, the importance of collaboration is reinforced by there being a single labour market, which results in everyone benefiting if employment opportunities expand in any of the communities.

Closer collaboration among proximate local governments can strengthen development efforts and the potential to provide a better quality of life and a better business environment. Sometimes it takes action by senior governments to bring this about. For example, between 1979 and 2002, the province of Québec, Canada, reorganised rural county governments by dissolving traditional administrative boundaries. Subsequently, the province realised that the communities in the new administrative units lacked a tradition of working together. To overcome this, it introduced the Rural Pact (Pacte Rural) in 2002, which provided several rounds of multi-year funding to support a broad variety of joint actions by local governments that was mainly intended to facilitate better collaboration in order to ultimately lead to the creation of a bottom-up regional development strategy. This Rural Pact programme had a regional focus, embraced a multi-sectoral approach, created a long-term framework for collaboration, empowered community actors and was adaptable to local contexts. A new National Rural Policy 2014-24 has been issued, along with a new Rural Pact signed in the spring of 2014 (Box 4.14).

Rural governments can partner with “third sector” organisations to improve well-being

In small rural communities, volunteers commonly provide services that are either provided directly by local government employees or by private firms in metropolitan areas. For example, volunteers may staff the local fire department or provide transport services when there is no bus or taxi. In small places there are demands for services but insufficient volume or prohibitive costs make them unfeasible for government or private enterprise to provide. However, volunteers may be willing to provide these services with support from local government both because they are direct beneficiaries if the service exists and because they have a strong desire to improve the quality of life in their community.

However, relying on volunteers alters how government can behave. In particular, governments may have to cede authority to volunteer organisations in areas where it would normally be in charge. Otherwise, volunteers may abandon their activity, leaving the situation worse off than before. In addition, it is important that volunteers be cultivated since public recognition can be an important form of compensation and a way to motivate additional volunteers.
Public-private partnerships in a rural setting can strengthen both governments and firms

Public-private partnerships (PPPs) try to bring the service delivery role of government into harmony with the profit objective of firms. While the best known examples involve major infrastructure projects that link large city or provincial/state governments with large corporations, PPPs can also be found in small rural regions. A similar approach is found in every case. A government wishes to improve conditions in a territory under its jurisdiction and sees engaging with a private firm to accomplish this as a cost-effective and timely way to meet the objective. The private firm in turn sees the potential for an adequate rate of return on its investment in the PPP. Risk should be shared equally between both parties in the agreement.

These conditions restrict PPPs to areas where a clear revenue stream can be identified either from users or government. Typical examples include local governments in rural areas contract with a private firm to provide services such as garbage collection, snow removal or road maintenance because the cost for a small local government would be far higher than for a private firm that can serve multiple jurisdictions, or use its equipment and labour for multiple purposes. Other relevant examples involve the colocated public and private services in a single building where some costs can be shared and colocated reduces user costs. National strategies such as, “The Pub is the Hub” in the UK allow colocation of: postal functions, meetings for local groups, elderly services and other functions to occur at a village pub. A singular case is in the village of Trangsviken in Sweden where a local group used the assets of a declining community church to leverage the construction of a new community centre that houses: a library, a chapel, pharmacy, restaurant, meeting rooms and a day care centre.

Approaches to resolving local problems can require bringing new players to the table

The problems confronting rural regions are highly diverse and the resources available to apply to these problems are held in a wide variety of hands. Given this, it is important to find ways to bring potential stakeholders together. While in principle, the small size of rural places should make this a relatively easy task, the reality of most rural regions is that there are strong factions, even in small places, that have long traditions of not co-operating. In an environment where local resources are scarce, the lack of co-operation can be devastating. Conversely, if new ways to build collaborative efforts can be found, there is a much stronger chance of an inclusive “bottom-up” development strategy emerging that does not rely only on national resources and leadership for action. The small island municipality of Ama-Chō, Japan is an illustrative example of such new collaborative efforts (Box 4.13).

Box 4.13: Community driven and collaborative local revitalisation in Ama-cho, Japan

The small island municipality of Ama-chan in Shimane Prefecture offers an excellent illustration community driven local revitalisation. Ama-chan (Shimane Prefecture) is a municipality on the island of Nakanoshima, one of the four inhabited islands of the Oki Archipelago in the Sea of Japan. In 2013, it had a population of 2,343 and an estimated population density of 69.6 persons per km². With an economy based primarily on agriculture and fisheries, Ama saw its population fall by more than 70%, from almost 7,000 in 1950 to less than 2,000 a half-century later. It has since begun to grow again, attracting an influx of new residents from elsewhere, and the local economy has picked up considerably. The area is viewed as a model for regional revitalisation. Its turn-around involved a multi-partner community driven approach.
Box 4.13 Community driven and collaborative local revitalisation in Ama-cho, Japan (cont.)

Falling population and the consequent strain on public finances generated considerable pressure on Ama to merge with its larger neighbour during the Heisei merger wave of the early 2000s, but the town's leaders feared the resulting loss of identity and control over their own fate. They were afraid of being neglected as a small part of a larger municipality. Retaining independence, in turn, meant drastic cuts in spending: the mayor and other municipal staff took large pay cuts, some residents surrendered benefits such as public transport subsidies for the elderly, and the community pulled together to provide some services informally.

Ama was perilously close to being unable to sustain its school, which at one point had just 89 pupils and could not maintain enough staff to ensure a full range of subjects, let alone high-quality programmes. In response, Ama began working to attract “exchange students” from cities in Japan – young city-dwellers keen to spend a semester or a year in a rural setting – and to introduce new curricula, such as regional studies and career planning. As a result, student numbers nearly doubled, allowing an expansion in the number – and range of qualifications – of teaching staff. There are plans to begin attracting overseas exchange students as well. The Oki Dozen learning centre was established to help students outside of school to prepare for national exams and future careers.

Ama has in recent years benefited from important product innovations. The best-known is the cell-alive system (CAS) for freezing seafood products in a way that retains more of the quality of fresh produce than other technologies. This allows for the marketing of Ama’s rock oysters (another new product) much further afield and at higher prices than would otherwise be possible. Other new ventures include the raising of Oki premium beef (50% of which has been given the highest possible grade of AS) and seaweed cultivation. Many of the above changes were the fruit of collaboration between private entrepreneurs and the municipality. For example, a public-private partnership was established to create a sea-cucumber processing facility, which now exports to the People's Republic of China. This co-operation has been most evident in efforts to market Ama-cho to Japan and the rest of the world.

Ama-cho’s experience is instructive in a number of ways, and the lessons it holds are relevant to remote rural communities that are struggling for survival elsewhere in Japan and, indeed, around the OECD. First, it is important to note that Ama-cho’s turn-around took time and that there were numerous false starts and failures: the town had been struggling with decline for decades before it hit upon a mix of policies that enabled it to change trajectory. Secondly, there was no “silver bullet”, no single intervention that put the town on course for recovery: on the contrary, the change in Ama-cho’s fortunes has been the product of a multi-faceted strategy. It involved measures to put public finances in order, innovation in public service provision (especially education), innovation and entrepreneurship that combines technologies from elsewhere with local assets, and a mix of public and private initiative, as well as public-private collaboration. Thirdly, Ama-cho’s turnaround was engineered locally, it was not the result of large-scale intervention or funding from without. Finally, Ama-cho has not turned in on itself but has rather reached out to the world, working to export its products and attract visitors and newcomers. One characteristic of many remote rural communities, particularly islands, is a failure to see residents as a fungible commodity: there is little interest in attracting newcomers and selling one’s home to an outsider is frowned upon (Chaves, 2014).

Policy approach: Community capacity building

Community capacity fosters economic and social resilience

Community capacity underpins the implementation of rural policy. Simply channelling money to rural areas is not enough to address their needs. Long term capacity building in communities makes them more engaged in processes of development and more resilient to shocks. But what is community capacity? And where does it come from?

Community capacity involves both tangible assets and intangible assets. Tangible assets include services, infrastructure, natural resources, and cultural amenities. Less tangible assets can include local skills, social cohesion, capacity for action, adaptability and openness to others. Community capacity building encourages local actors – residents, businesses, faith groups, non-profit organisations, industry/business associations and so on – to work together, make collaborative decisions and develop a common vision for their community’s future development.

Community capacity building requires knowledge about the opportunities and challenges facing a place. It requires overcoming conflict and division to work collaboratively both within and among communities and other levels of government. Some communities may have a lot of capacity already, but for others, capacity needs to be fostered and developed. Achieving this rests on engaging local actors who see a stake in community and economic development and who are able to collectively act on opportunities.

Across OECD governments there has been a reduction in redistributive policies since the 1980s, as well as an increasing focus on identifying and targeting local economic opportunities. However, there remains reluctance by many national governments to actually devolve responsibility and build capacity at the local level. Continuing control of decision making at national levels creates little incentive for rural people to engage in community and economic development. Experience with LEADER in the EU, Québec’s rural policy (Box 4.14), and the Micro-Regions programme in Mexico, all point to the possibility for effective local leadership if national governments are prepared to invest in building this capacity.

Box 4.14. Empowering local government and civil society actors in Québec, Canada

Québec has one of the most advanced policy approaches to promote rural development in the OECD area, it is closely in line with the New Rural Paradigm (OECD, 2010b: 18). The province’s rural policy (“la Politique nationale de la ruralité”, FNR), was first launched in 2002. The latest iteration is for 2014-24. Regional county municipalities are the locus of intervention, ownership and decision making under PNR and the policy, directed from the department of Affaires municipales et des régions et occupation du territoire, is very much focused on empowering local government and civil society actors (Solidarité rurale du Québec, 2013, 2016).

A recent OECD territorial review of rural policy in Québec describes this approach as being based on networks of small and medium-sized communities that feed into the “historic social priority of occupying land to protect Québec’s cultural heritage” in such a way “that stimulates ownership both among levels of government and within society” (OECD, 2010b: 17).
Box 4.14  Empowering local government and civil society actors in Québec, Canada (cont.)

Rural Québec is quite different from other rural areas in Canada. Employment in the former has increased on average since the 1980s, there has been population growth, and the economy is increasingly diversified, although these trends are not uniform across geographies (OECD, 2010b). However, for comparability purposes, it is the institutional landscape that is of interest here. The PNR is structured as a formal partnership between the provincial government and local governmental institutions and networks, each with defined roles and formalised obligations. This is a true devolution of power to the local level, because it also involves the accompanying resources. Further, the PNR outlines formal commitments related to rural development of other governmental departments and agencies, presenting a co-ordinated effort. Finally, the plan explicitly values and prioritises cultural and social outcomes alongside economic ones. Related to this, indicators for success entail both quantitative and qualitative components (e.g. quality of life, sense of belonging and community engagement) (Affaires municipales et des Régions, Québec, 2006: 54). The PNR approach has been described as "innovative public policy offering a genuine model of sustainable territorial development" — one which entails both regional development and rural development elements and subsidiarity (Jean, 2012).

Québec invests in community capacity building to a greater extent than other provinces in Canada (OECD 2010b: 200). Granted, the approach taken in Québec is grounded in the province’s own historical and political economy. Nevertheless, the institutionalised partnership process with local governmental actors offers a model of best practice for other jurisdictions.


Community capacity building is supported by place-based and bottom-up policy frameworks.

Community actors are critical to the success and resilience of rural areas. Governments can support community capacity building by working with community based actors towards common goals. Considerations about the types of investments that should be made in rural communities should flow alongside decisions about how priorities are determined and who should be involved in decision making.

Place-based policies can help to improve community capacity. Across the OECD there are many positive examples of how this has been effectively done. There are, for example; programmes in Korea (Saemaul Undong Community Development Program), and Germany (Active Regions), to name but two. Effective policy and project/programme design requires knowledge of underlying local conditions and trends and the ability to react to them in a timely fashion. The deployment of optical networks through collaborative approaches in Sweden are a case in point – from public-private co-ordination to overcoming legal and regulatory issues, timeliness and flexibility has made such projects a success (Box 4.15).
Box 4.15. Deployment of fibre optical networks through collaborative approaches

As an increasing amount of economic and social activity is undertaken over communication networks it becomes more challenging to be restricted to low capacity broadband when living in some rural or remote areas. Given that most countries have regions that are sparsely populated, it raises the question of how to improve broadband access in these areas.

There is a growing “grass roots movement” in Sweden to extend optical network fibre coverage to rural villages. There are around 1,000 small village fibre networks in Sweden, in addition to the 190 municipal networks, which on average connect 150 households. These networks are primarily operated as co-operatives, in combination with public funding and connection fees paid by end-users. People in these communities also participate through volunteering their labour or equipment, as well as rights of way in the case of the owners of land. The incumbent telecommunications operator, as well as other companies, provide various tools and services for the deployment of village fibre networks in order to ensure that these networks meet industry requirements. As the deployment cost per access in rural areas can be as high as four times the cost in urban areas, such development may not attract commercial players and rely on such collaborative approaches.

Aside from any public funding, Sweden’s experience suggests village networks require local initiatives and commitment as well as leadership through the development of local broadband plans and strategies. They require co-ordination with authorities to handle a variety of regulatory and legal issues. They also demand competence on how to build and maintain broadband networks. The most decisive factor is that people in these areas of Sweden are prepared to use their resources and contribute with several thousand hours of work to make a village network a reality.

In the United Kingdom, Community Broadband Scotland is engaging with remote and rural communities in order to support residents to develop their own community-led broadband solutions. Examples of on-going projects include those in Eves Valley (Dumfries and Galloway), Tomintoul and Glenlivet (Moray), which are inland mountain communities located within the Moray area of the Cairngorm National Park. Another example of a larger project can be found in Canada and the small Alberta town of Olds with a population of 8,500, which has built its own fibre network through the town’s non-profit economic development called O-net. The network is being deployed to all households in the town with a number of positive effects reported for the community.


Good community-based information can empower places to respond to change and develop new opportunities

Effective bottom-up community and economic development requires large amounts of information and the involvement of subnational entities. That information should pool knowledge regarding untapped resources, emerging needs, and short- and long-term trends in rural communities. Governments can support community actors by providing them with good information to meet their needs in accessible formats. But, this runs both ways - communities are also a strong source of information about themselves, which is valuable in the structure of public policies and support. Better public engagement and knowledge sharing with communities can help structure more effective responses. This should entail community actors learning from each other and governments at different levels also sharing knowledge and expertise. Governments play an important role as knowledge brokers by making
connections between people and communities and by creating opportunities for shared learning. This is particularly important in the voluntary sector where limited resources mean that groups often have few chances to meet and learn from one another. This may require the development of new methodologies to capture and share community-based knowledge.

Public policy can thus support communities to identify their local assets and amenities to make the most of them. Because rural areas account for more than 75% of land in OECD countries, policies for rural places play an important role in land management and must therefore take into account a range of environmental and economic development issues. Rural stewardship of a nation’s natural resources is of concern to all given the potential for widespread harm that can occur through the failure to appropriately deal with natural systems related to land, water, air and other associated natural resources. Some of the most important antiquities, historical sites and other recreational amenities that can be important for rural economic development, such as ski and water resorts, are in rural areas. Policy makers should work with communities to identify and valorise the wide range of resources of rural areas and their use.

For rural firms, the connection to community assets and community dynamics is also important. Rural firms often produce goods or develop skills that reflect place-based specificities, such as access to input materials. OECD research has pointed to numerous examples of successful rural business development which is based on local assets and the involvement and empowerment of community actors in the development process. While many rural firms are focussed on tradable activities and therefore outward-oriented in the markets they seek, community dynamics remain important to their success. Governments can play an important role by helping to build capacity at the local level and support the development and valorisation of local assets.

Capacity building provides an analytic function in rural economic development. It encourages and strengthens all of the other elements of an economic development strategy. Community capacity building enhances social capital, which is really about increasing the ability of actors to work together. The European Union’s LEADER programme embraces such an approach (Box 4.16).

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**Box 4.16. The European Union LEADER Programme**

The LEADER programme (Liaisons entre actions de développement de l’économie rurale) is the central mechanism for fostering rural development and innovation in the European Union. It arose out of a growing consensus in the 1980s that endogenous models were the best way to deal with regional disparities (Diaz-Puente, Yague, and Afonso, 2008: 480). LEADER was established by the European Commission in 1991 and has since been renewed through several iterations (presently referred to as LEADER+, programming period 2007-13). Though it is an EU-wide policy, it is locally-scaled and framed within a discourse of bottom-up participatory governance. Local Action Groups (LAGs) identify and implement local development strategies and are meant to include a combination of private and public partners, but also a variety of social and occupational groups. This process is meant to engender meaningful local capacity building over a long term. Managing authorities of member states (national, regional or local, private or public bodies) fund LAGs. At the pan-European level, the European LEADER Association for Rural Development (ELARD, founded in 1999) acts as a network for LAG groups, of which there are over 800 across participating member states. Since its establishment, features of the LEADER programme have been adopted into the rural policy of member states (Farrell and Thirion, 2005). Further, it has become the mainstream approach for other EU initiatives (OECD, 2005: 23).
Box 4.16. The European Union LEADER Programme (cont.)

Recent iterations of the LEADER Programme have taken the important step of allowing communities to combine different EU funds and in doing so, take multi-sector needs into account. This multi-fund programme is called "Community-Led Local Development" (CLLD) – it helps communities forward more cross-cutting and integrated projects that better link rural, urban and fisheries areas. The four funds that can be combined under the new CLLD programme are: the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development and the European Maritime Fisheries Fund. CLLD is a specific tool for use at sub-regional level, which is complementary to other development support at local level. It is a programme that can be used to mobilise and involve local communities and organisations to contribute to achieving the Europe 2020 Strategy goals of smart, sustainable and inclusive growth, fostering territorial cohesion and reaching specific policy objectives.

LEADER prioritises capacity-building through the activation of social capital. Herem lays a similarity with Quebec’s PNR. The concept of social capital is normally traced to French sociologist Pierre Bourdieu, who defines it, distinct from economic and cultural capital, as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition” (Bourdieu, 1986: 248, 1980, cited in Portes 1998). The plainest of terms, it treats relationships with others as a resource, i.e. a form of capital, with an exchange value. As an operationalised concept, it can be difficult to empirically evaluate. Hence, numerous studies focus on putting evaluative criteria around social capital – e.g. the work of Nardone, Sisto & Lopoto (2010), which establishes five criteria to evaluate the consequences of social capital within the LEADER programme, and that of Diaz-Puente, Yague and Afonso (2008), which employs “empowerment evaluation”. Accompanying this interest in social capital is a shift towards social production and away from social control – toward “power to” and away from “power over” (Shucksmith, 2010). The key intention of the LEADER programme, fitting with this conceptual framework, is to introduce “long term rural development processes based on the capacity building of local actors rather than simply on the transfer of funds” (Nardone, Sisto and Lopoto, 2010: 64). Capacity building as a concept is intimately linked to the development of social capital – one flows from the other. Thus, the development of social capital is viewed as an instrument through which to achieve the policy goals of LEADER.

The LEADER programme is seen as one of the most successful initiatives reaching out to local areas and people to promote a collaborative and integrated approach to rural development. Said one scholar, “few other EU programmes have been able to make comparable connections, and thus establish similar popular legitimacy” (Vidal, 2009: 579). The programme’s persistence since the 1990s, and the adoption of its principles by national rural development programmes, indicates that there is much of value in this approach. The central importance of social capital formation to local capacity and the broader aims of rural development offer lessons for other jurisdictions.


In rural regions there is often too little attention paid to systematically improving the capacity of local people to work with each other, with nearby communities, and with national governments. In a world where “top-down” policies are out of favour, it has become essential that efforts to increase local capacities are a first step in constructing this “bottom-up” development approach which was first advocated in the New Rural Paradigm and now with the Rural Policy 3.0.
Conclusion

In light of new evidence, rural development policies need to evolve towards Rural Policy 3.0. Many OECD countries are found to be shifting their policies towards these practices – from the European Union’s Community-Led Local Development to community revitalisation in Japan and France’s reciprocity contacts. These are among the many promising programmes and practices which are cross-sectoral and framed in a holistic way so as to focus on improving quality of life for residents, boosting firm productivity in non-farm sectors and enhancing the efficiency of services.

However there is also much scope for further reform. The adoption of the Rural Policy 3.0’s major tenants by OECD countries has been varied. In many places, rural policy remains predominantly focused on agriculture. In implementing the Rural Policy 3.0, countries will need to rethink some of their approaches in order to harness new growth opportunities, invest in enabling factors of productivity growth, strengthen the capacity of local communities and build rural-urban linkages.

Rural areas are indeed places of opportunity, and policy makers need to further adopt this new mindset. They can work differently with communities to enhance their social, economic and environmental well-being. The Rural Policy 3.0 is fundamentally grounded in a place-based approach which, in order to be successful, requires the active engagement of local communities. Some places have a great deal of community capacity while in other places, such capacity needs to be nurtured and fostered. In either case, effective rural development requires new ways of working both between different levels of government and across all the local actors, businesses, community groups and others. This rich landscape is both a valuable source of information about communities’ assets and strengths, and offers the potential of partnership to implement projects and programmes. A bottom-up approach is critical to develop and implement successful rural policies.

Notes


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