



## Feasibility assessment

**Title of report:** RURAL 3.0 - a framework for rural development (policy note)

**Publication date:** 2018

### Short summary of report

Rural Policy 3.0 is a policy briefing from OECD. It is aimed at supporting national governments with rural economic development. It follows a previous OECD report called *The New Rural Paradigm* (2006) which was a conceptual framework that positioned rural policy as an investment strategy to promote competitiveness in rural territories.

The report argues that rural regions are places of opportunity. They can play a central role in meeting the major global opportunities and challenges of the 21st century.

The case is made for rural areas as engines of national prosperity. Not all rural areas, the report argues, are well positioned to grasp the opportunities. The report concludes by presenting the Rural Policy 3.0 which provides guidance to governments about how to leverage opportunities and position rural regions for prosperity and wellbeing.

### Feasibility assessment by the panel of how this will feed into the project work

Rural 3.0 is a high-level strategic policy brief. Some of the trends and consequent conclusions on rural policy reflect the rural Wales context e.g. ageing population, climate change and environmental pressures but some of the details such as affordability of housing are less so. Data is presented on OECD country level. The analysis of relative rurality is based on UK / GBR rather than Wales. The conclusions therefore need to be tested within the rural Wales context.

Nevertheless, the report contains some interesting evidence and reflection on aspects that resonate with underpinning elements of the LEADER approach, especially “facilitating pre-commercial development, business partnerships and short supply”. The report acknowledges the barriers to entrepreneurship in rural regions and advocates for a focus on uniqueness and niche markets, based on locally specific assets. The recognition that policy makers need to allow for innovation and desist from over focus on specific sectors allows for a creativity that can be fostered through a place-based approach. These are characteristics that LEADER has championed in Wales for nearly 30 years.

The differentiation between type of rural area, based on proximity to urban centres is interesting and could, in a Welsh context open up possibilities for a more in-depth discussion about the potential of remote rural areas.

## **What are its key points and how can they be applied to this project?**

Rural 3.0 makes 4 key points that, in many cases, echo the situation in rural Wales but more generally provide a framework within which a vision of a thriving rural economy can be located.

### **1. Rural Regions are places of opportunity and make a significant contribution to national prosperity and well-being across OECD countries**

Rural areas contain the vast majority of the land, water and other natural resources and are home to approximately one-quarter of the population. Most rural people live in rural regions close to cities, which are defined as territories less than 60 minutes of driving time from urban centres. Strong linkages between urban and rural places is an important indicator of growth.

Opportunity is based on a diversified economy beyond agriculture and other natural resource-based sectors. Manufacturing, eco-system services, tourism, the production of renewable energy, arts and cultural industries, and services associated with natural resource-based sectors all make a significant contribution to the overall export portfolio and prosperity of countries.

Rural regions are a source of national productivity growth and are punching above their weight, but some continue to face structural challenges due to population loss and population ageing, making it more difficult to maintain public services and quality of life.

The report is concerned that territorial inequalities can contribute to political discontent which reduces the capacity for countries to build the consensus necessary to address structural policy challenges. Traditional policy solutions based on the assumption that people will move, or that regional policies are a deadweight that redistributes wealth from richer to poorer regions do not provide sustainable solutions. The emphasis within the report on place-based rural development is consistent with policy discourse within Wales.

### **2. Rural areas are diverse and have distinct needs**

The OECD has developed a regional typology of rural areas, linked to its recognition of functional urban areas (FUAs), which can delimit rural. The report identifies distinguishing elements of rural areas based on physical distance from major markets, economic competitiveness and specific economic structures. Costs associated with transport and connectivity are a significant distinguishing factor.

The OECD identifies three ways to define rural regions, each with different characteristics, challenges and policy needs:

- i. Rural areas within a FUA that are an integral part of the commuting zone of the urban centre and their development is fully integrated within an FUA

- ii. Rural regions close to and strong linkages to a nearby FUA, but are not part of its labour market. There are flows of goods, environmental services and other economic transactions between them
- ii. Remote rural regions that are distant from a FUA. Growth comes from building upon areas of absolute and comparative advantage, improving connectivity to export markets, matching skills to areas of comparative advantage and improving the provision of essential services

Some OECD countries have adopted more nuanced rural definitions that reflect their specific needs and these definitions have evolved over time. In rural Wales the dominant discourse of rural development continues to focus on market towns as hubs without the more detailed rural delineation as outlined in this typology.

### **3. Productivity growth is critical for the future of rural well-being.**

Rural 3.0 argues that raising the productivity growth of rural regions over the medium term is the only path for sustainable growth. Economic growth advances living standards through better jobs and higher incomes, and is a necessary precondition for rural well-being.

Inequalities in productivity growth rates remain across OECD regions with many rural regions lagging behind. Some rural regions are improving their competitiveness and catching up with high performers, which suggests that mechanisms for productivity growth are available to rural regions. Rural regions close to cities perform particularly well.

Across OECD countries, rural dwellers can count on better environmental conditions and more affordable housing. Performance measures such as access to jobs and income are in line with urban regions but rural areas lag in terms of access to services, safety, and life expectancy.

The report states that population ageing in rural regions can be both a challenge and an opportunity. An ageing population increases demand for labour in health, social care, and a range of different personal services. However, rural communities with a larger share of senior residents and smaller working age population can face labour market shortages and service provision costs. A withdrawal of public services such as schools and health services can contribute to a community's decline.

In a Wales context more discussion would be expected on these conclusions through the lens of the Well-being of Future Generations Act.

### **4. Participation in global markets is key to realising the growth potential of rural areas.**

The report provides evidence that the success of the tradeable sector determines economic success, especially given the lack of a large internal market and lower productivity of the services sector in rural regions. It suggests that the common emphasis of rural policy on stimulating manufacturing and other tradeable has considerable merit.

Demographic challenge and population density are major curtailing factors. The elderly dependency ratio, i.e. the total population above the age of 65 compared to the labour force, is higher in less successful regions, indicating a potential bottleneck for rural growth. The report argues that a "minimum" level of population density is crucial in order to take advantage of economies of scale and scope for the delivery of goods and services. This helps explain why rural regions close to cities tend to outperform remote rural regions. Along with

the promotion of the tradable sectors, public policy in rural remote regions should also facilitate connections between isolated communities.

Rurally based producers of non-resource tradeable goods need to grow competitive advantage by focussing on product uniqueness and profitable niches.

## **How can these principles and values interact with fostering an entrepreneurial culture?**

The report recognises that entrepreneurs face challenges in rural regions when moving into new sectors of the economy, especially in geographically remote, low-density places. In these places, producers must often cover higher transport and capital costs and then compete on distant markets with rivals who source inputs and services in much deeper, more competitive markets.

Export-oriented economies located far from the major centres of demand face an exceptional competitiveness challenge, particularly in manufacturing sectors.

Nevertheless Rural 3.0 identifies opportunities through:

- i. Promoting linkages between local start-ups and SMEs and MNEs which the report suggests may strengthen the performance and growth of the tradeable sector
- ii. Fostering urban-rural linkages to promote growth
- iii. Greater emphasis on the efficient use of resources and from new technologies that reduce carbon emissions and waste. These opportunities can come with investment and technologies associated with renewable energy and the circular economy
- iv. Technological breakthroughs and emerging technologies, leading to potential in new production possibilities, automation, artificial intelligence, decentralised energy generation, cloud computing and the 'Internet of Things'
- v. Identifying profitable niches and unique products

The report argues that it is difficult to know beforehand what new activities might be competitive and that policy makers should resist the temptation to specify the production structure towards which they believe the economy should evolve. The emphasis should be not on predetermined "strategic sectors" but on understanding strengths and assets, and on that basis fostering the emergence of new activities, some of which will fail and others of which will take root. This conclusion strengthens the argument for a LEADER -type approach that has local distinctiveness, innovation and an enabling approach at its centre.

## **Key findings**

The Rural Policy 3.0 framework is cast as a new paradigm. Its objective is competitiveness rather than equalisation. Its policy focus is support for multiple sectors based on their competitiveness rather than support for a single dominant resource sector. It favours investment in qualified firms rather than subsidies and the involvement of all levels of government and relevant stakeholders in a bottom-up rather than top down approach.

Implementation is focussed around differentiation of rural areas, integrated actions and multiple tier governance.

Rural Policy 3.0 emphasises the following policy lessons:

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

## **Conclusions**

Rural 3.0 opens up a useful discussion about different typologies of rural spaces and the different strategies that could influence a more nuanced understanding of economic growth potential of different parts of rural Wales.

The report creates points of discussion about what sort of relationship different types of rural area have within largely urban based constructions of economic development such as City Regions.

Rural 3.0 emphasises the importance of niche and unique products and services, developed through innovation. It thus reinforces some of the central tenets of the LEADER approach, especially in the most remote rural areas.

## **Appendices**

Please see appendix a for a copy of the OECD Rural 3.0 policy note.

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