

Rural Well-being:

Geography of Opportunities

Policy Highlights



Rural Well-being

Across the OECD, rural regions make up approximately 80 percent of all the territory and are home to approximately 30 percent of the population. These lands, and the people that live on them, are the source of almost all the food, fresh water, energy, lumber, metals, minerals and other resources that make our way of life possible. They are also where we find unspoiled natural beauty, wildlife and Indigenous cultures. Fundamentally, rural places are vital to the prosperity and well-being of all people.

Yet, for many of the people, firms and communities in rural places, prosperity has felt distant. Globalisation, digitalisation, demographic and climate change, and the shocks of the global financial crisis and the current COVID-19 crisis are deeply shaping

the economic landscape of rural communities. Today, more than ever, the distance between winners and losers feels ever widening. In 24 out of 28 OECD countries, regional inequality in GDP per capita has increased since the 2008 financial crisis with rural regions falling behind, particularly those far away from large cities. Tackling challenges and leveraging opportunities requires a change in rural development policy.

First developed over 40 years ago, the OECD's rural development framework has helped guide member countries' efforts to increase prosperity and improve the well-being of rural people, and has continued to evolve, keeping pace with changing times and reflecting the organisation's latest thinking.

Rural Well-being: Geography of Opportunities is the latest iteration of the rural development framework. It extends and refines the OECD's earlier work, taking advantage of new analysis to reflect a greater degree of the diversity of rural places and the need for a more comprehensive policy approach. The Rural Well-being Framework introduces a rural-urban continuum, recognising three types of rural places, with different characteristics and policy needs:

- *Rural inside functional urban areas (FUAs)*: face relatively good accessibility of services. They need to match skills in the broader labour market and manage land-use policy brought by increasing pressures of the urban core.
- *Rural close to cities*: face two-way connectivity and accessibility between the cities and rural territory. They need to build short supply chains to link urban and rural firms and must balance population growth while preserving quality of life and green spaces, and enhance the provision of secondary goods and services.
- *Remote rural*: depend largely on the primary activities of the area and their growth relies on absolute and comparative advantage. They will need to improve connectivity to export markets, match skills to areas of competitive advantage and ensure essential services.

Better understanding each of the three types of rural leads to the possibility for shared action and more effectively targeted policy responses. The new Framework also broadens the scope of analysis from a purely economic one to encompass also the environmental and social dimensions of well-being. The new approach places the well-being of citizens at the centre and recognises the diversity of rural places thanks to a deeper understanding of their diverse and complex socio-economic systems.

The new framework's subtitle, *Geography of Opportunities*, reflects the central finding that while rural places are not without their challenges, they are also unquestionably places of opportunity, particularly with accelerated digitalisation. With well-designed rural policies that leverage local assets that are executed in coordination across levels of government and between the three key actors of government, the private sector and civil society, the Rural Well-being Framework shows how rural development policy can deliver more prosperous, connected and inclusive rural places that offer greater well-being.





Rural Well-being's multi-dimensional approach broadens the scope of analysis in three distinct ways:

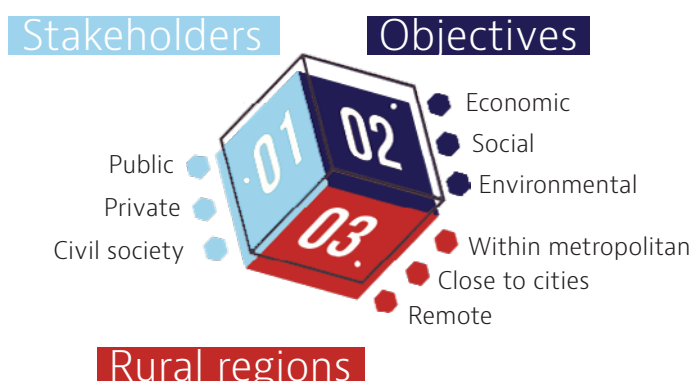
Firstly, **looking beyond the usual economic factors such as productivity and income**, it expands the frame of analysis to include the **environmental and social dimensions of well-being**, delivering a more holistic, people-centred understanding of regional inequalities and rural development.

Secondly, the framework recognises that **effective rural policies involve the engagement of a broad array of actors and multi-level governance mechanisms**. The new framework provides tools for government on how to better engage with relevant stakeholders, promote rural-urban partnerships and embrace multi-level governance. It recognises that rural people and business know their own needs best, suggest the use of new technologies to facilitate participation, and underlines the need for meaningful engagement. Furthermore, it acknowledges urban areas as key partners in increasing rural well-being, and highlights ways for effective partnership and collaboration between policymakers from different levels of government.

Lastly, the framework stresses the **importance of designing rural policies through a place-based approach**. Policy design should be conducted with specific places in mind, considering the assets and leading industries for each, limits to labour mobility, and linkages to cities that make places unique.

In short, the Rural Well-being Framework shifts from a one-dimensional to a multi-dimensional view of rural policies:

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



Rural Well-being Policy Framework provides guidance for:

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





A changing landscape for rural

Over the past decades, OECD countries and regions have faced structural transformations affecting their development trajectories, whose benefits have disproportionately flowed to metropolitan regions. Globalisation, digitalisation, demographic and climate change, and the shocks of the global financial crisis and the current COVID-19 crisis are deeply shaping the new economic landscape of rural communities.

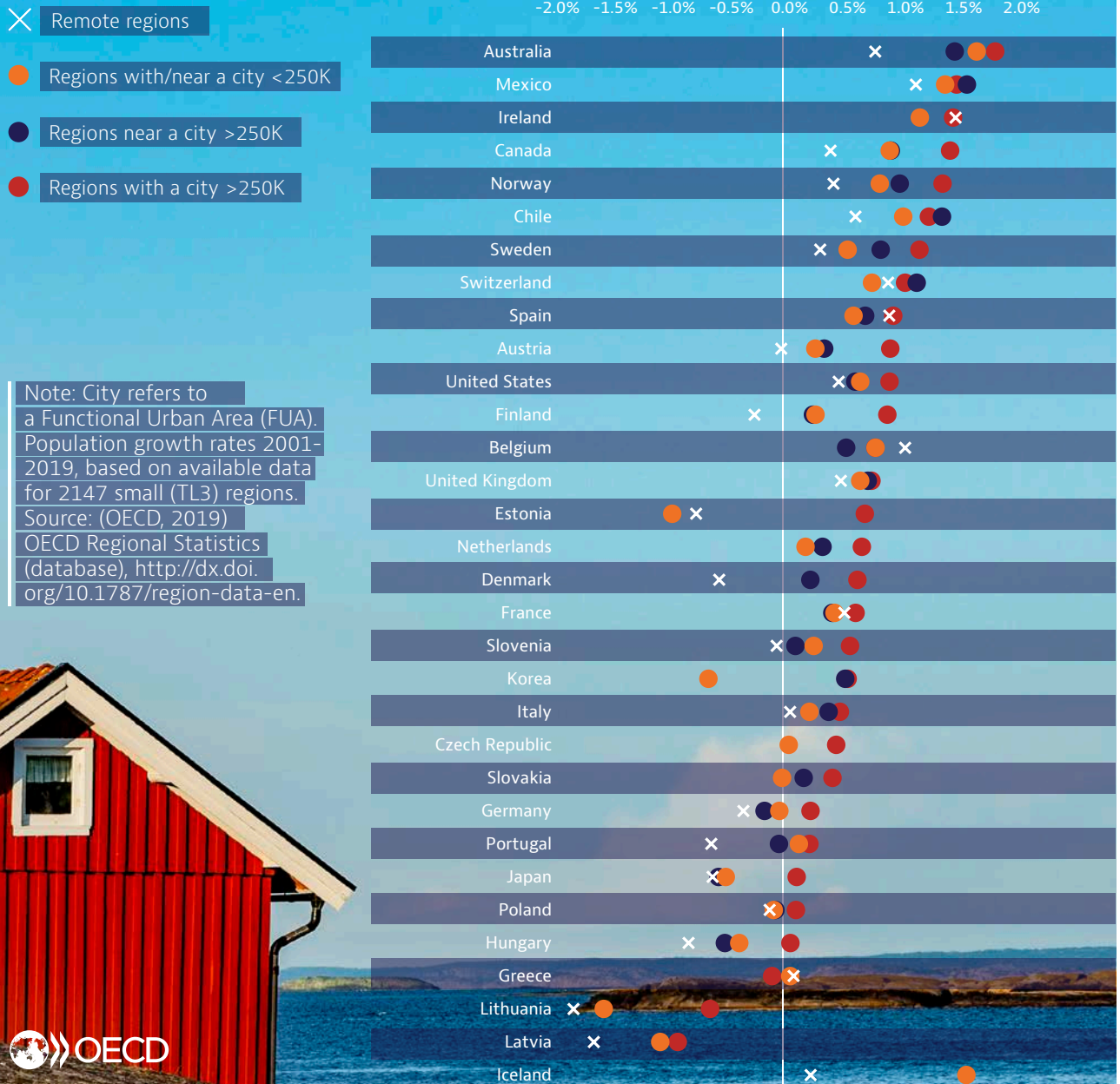
Rural regions are facing stronger demographic pressures

Of the 29% of the OECD population living in rural regions in 2019, three-quarters are living in regions with close connections to cities. This suggests that rural regions have a strong interaction with urban areas. Although

rural remote regions are home to only 8% of the population in the OECD, in seven OECD countries (Greece, Norway, Finland, Sweden, Canada, Estonia and Australia) no less than one-fifth of the national population, live in remote, sparsely-populated regions. Annual population growth in metropolitan regions has more than doubled versus rural regions in the past two decades. Amongst rural regions, remote regions gained more population than regions with or near a small/medium city, where population growth slowed down after the 2008 financial crisis. Nevertheless, demographic pressures are stronger in regions far from cities. For example, in half of OECD countries with remote regions (13 out of 28) and 25% of countries with regions near a small/medium city experienced population decline in those types of regions.

Figure 1. Across OECD countries, population decline happens more often in regions far from cities

Population growth rates 2001-2019 in small OECD regions



Ageing is also a pressing challenge for rural regions. A higher proportion of working-age to elderly population means more pressure on local finances, due to a higher demand for services and lower tax collection. Rural regions face higher elderly dependency ratios, which measure the ratio of elderly (65+) to the working age population (15-64). These were highest in regions close to cities (33%), about two full percentage points (p.p.) higher than in other rural regions and 4 p.p. higher than the average for all regions. Rural regions, and remote regions in particular, have also faced the highest increase in elderly dependency ratios in the past two decades.

In terms of economic performance, the “penalty of distance” in rural economies can be quite substantial. On average, GDP per capita is below that of metropolitan regions. In 2017, the income per capita of regions near a large city was around 18 percentage points below OECD average levels. The gap for regions with or near a small/medium city is even bigger, at 28 percentage points below the OECD average, while the gap of remote regions is 21 percentage points below the OECD average. Similar gaps exist in productivity and employment rates.

Furthermore, the gaps have been widening since the 2008 global financial crisis. For example, regional inequality, measured as the difference between the top 20% and bottom 20% of regions in GDP per capita, increased in 24 of 28 OECD countries with available data in the post-crisis period. In the countries where it increased, the changes were driven by improvements in top regions, except in Greece and Italy.

The crisis has also shown the greater vulnerability of rural regions to economic shocks, especially those far from cities. These

regions felt the effects of the 2008 global financial crisis more strongly, leaving many in a vulnerable position to face the current and future economic effects of COVID-19. Prior to the global financial crisis, rural remote regions were actually growing faster than other regions, which stopped in the post-crisis period. After the 2008 crisis, large cities and their surrounding regions weathered the effects of the crisis better than other regions. Likewise, labour productivity started to converge slowly in regions near cities, but drifted away in remote regions.

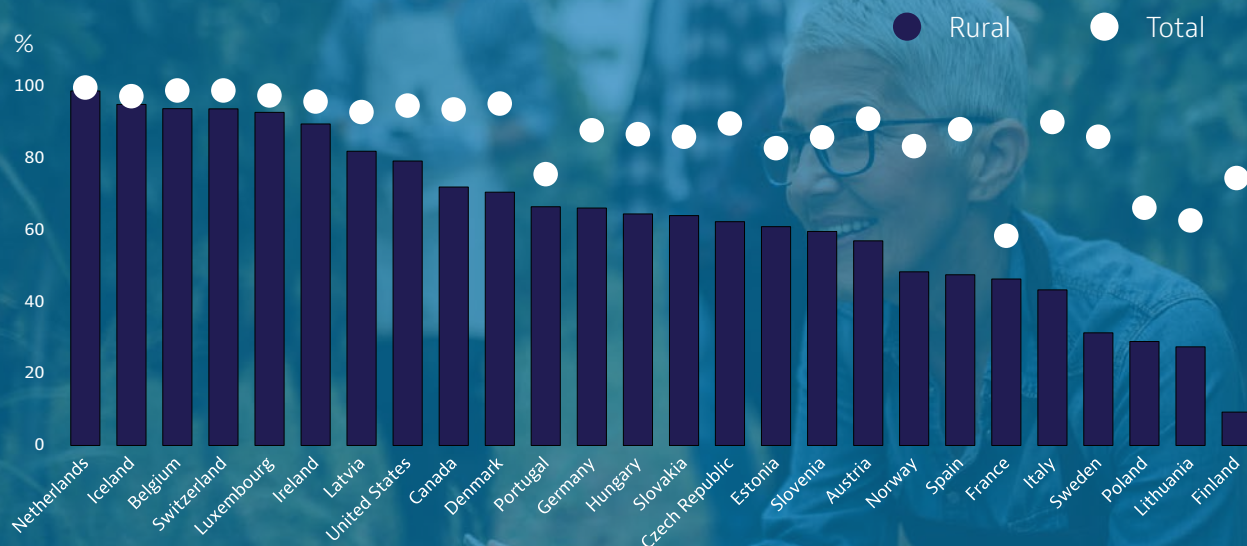
In terms of economic activities, services has been gaining importance in metropolitan and rural regions alike. In 2017, the service sector accounted for 71% of rural jobs, while in metropolitan regions it was 75%. Top GDP performing rural regions are specialised in high-value added services against bottom performers, which have not diversified away from traditional primary sectors and low value-added services.

Rural regions also struggle to create new jobs, especially after the global financial crisis. In the post-crisis period, rural regions contributed less than 10% to employment growth, down from a contribution of over 20% during the pre-crisis period. Employment creation has concentrated largely in metropolitan regions.

Rural regions will need to mobilise their assets and resources to improve both their economic performance and the well-being of rural populations. OECD studies have shown the importance of innovation, skills and digitalisation to raise productivity and make economies future ready. Advances in technology, especially internet infrastructure, are particularly relevant for rural regions. Good internet connectivity can overcome some of the core challenges including isolation, high

Figure 2. Rural households experience worse Internet broadband quality

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



Note: Note: For this indicator, rural areas are defined as areas below a predefined population density threshold. For EU countries, the threshold is less than 100 per square kilometre. For Canada, it is 400 per square kilometre. For the United States, it is 1 000 per square mile or 386 people per square kilometre. Data for 2019 or earliest year available.

Source: OECD (forthcoming) OECD Regions and Cities at a Glance 2020, OECD Publishing, Paris.

transportation costs, high costs to delivery services and distance to markets.

Although the gap of broadband access between rural and urban areas has decreased by half in almost all OECD countries, with the average share of rural households with broadband connection reaching 82%, slightly below the 89% in urban areas, there are still important gaps in broadband quality. Only 56% of rural households have access to fixed broadband with a speed of 30 megabyte per second (Mbps) or more, far below the 85% of urban households benefiting from such high-speed connections.

Patent activity, as an innovation measure, is lower in rural regions compared to metropolitan regions. This lower level is partially due to the measurement biases of this indicator in rural places. However, evidence for Europe also suggests that individuals living in rural regions strongly lag behind their peers in cities with regard to their level of the digital skills that are critical for many value-added activities of the modern workplace. Addressing the rural-urban digital divide in socio-economic welfare, connectivity, education and skills is crucial to boosting innovation in rural regions.



Putting well-being at the forefront

In light of the distinct characteristics of rural regions, the Rural Well-being Framework reviews a **number of structural transformations**, including the three megatrends of digitalisation, demographic and environmental change, to understand how these transformations are affecting different types of rural region in different ways, creating a variety of new opportunities and challenges.

- **Global shifts in production and the rise of the service industry** have increased competition from emerging economies. This is particularly challenging for rural regions, which tend to have a less diversified economic base and are more reliant on manufacturing and tradable goods.
- **Well-being is becoming a priority for policymaking.** As communities increasingly demand higher living standards and reduced inequality, rural policies need to adjust by targeting issues like digitalisation and how to build and attract talent, going beyond traditional rural policy frameworks.
- **Rural-Urban linkages** have gained relevance with increasing globalisation and improved infrastructure. Rural regions close to cities can increasingly participate in the city's labour force and workers in more remote areas can participate online. To maximise the benefit of these changes and develop win-win scenarios for both rural and urban areas requires greater co-ordination and integration of policies between different jurisdictions.

- **Technology and digitalisation** innovations are fast paced and demand dynamic policy responses that accommodate these changes and leverage them for the benefit of people and the environment. Rural areas can easily miss-out the benefits of these innovations if they do not have the right infrastructure (i.e. broadband), capabilities (i.e. digital skills) and resources (i.e. money). Yet, if deployed in the right way, digitalisation can create new jobs, new ways to deliver services and new ways to move people and goods, strengthening rural economies and improving their attractiveness.
- **Demographic changes** call for new policy objectives that provide sustainable solutions to maintain a robust labour force, quality services and the attractiveness of rural regions. This requires forward planning that accounts for ageing, population decline and the need to attract and retain young workers. To adapt to demographic changes, rural regions need to support a vibrant community culture for people of all ages and mechanisms to integrate the elderly in the local economy. Social innovations that address loneliness of elderly people or the integration of migrant communities

can be an important tool to find solutions to societal challenges and enhance well-being simultaneously.

- **Climate change and the transition to a climate neutral economy** demands that rural policies include climate objectives and safeguarding rural assets (e.g., land, biodiversity). Rural communities can unlock growth and well-being opportunities through the development of renewable energy projects and the bio- and circular economy.

The multi-dimensional approach of the Rural Well-being Framework provides guidance for governments seeking to harness the benefits of these structural changes and unlock the growth potential of rural regions while placing the well-being of their citizens at the forefront of their policy objectives.



Megatrends

● Opportunities ● Challenges

Demographic

● ●

Ageing and depopulation

Higher costs of delivering public services

Elderly inclusion to economy

Migrant integration to cope with depopulation

Environmental

● ●

Local economic transition

Valuation of rural assets (i.e. land, biodiversity, etc.)

Advantages for renewable energy and the circular economy

Capitalize on biodiversity

Technological change

● ●

Upskill labour force to face automation

Low quality broadband in rural area

New jobs and new ways for services and transport

Improve rural attractiveness

Globalisation

● ●

Increase competition from emerging markets

Need to move-up in GVCs

Openness to foreign investment

International links among SMEs



The Framework identifies a number of economic, social and environmental policy recommendations across the different types of rural places, with the ultimate goal of improving rural well-being:

1. Economic policy recommendations – enhancing productivity and competitiveness by:

- Deepening smart specialisation strategies and promoting innovation in tradable activities.
- Supporting SME growth by strengthening networks to urban, national and external markets while providing training and mentoring to help them grow and internationalise.
- Facilitating access to traditional and innovative sources of financing for rural firms.
- Retaining more value in rural communities by ensuring competitive regulation for local economies and promoting local benefit sharing policies (monetary and non-monetary).
- Strengthening collaboration between public authorities, local businesses and civil society to tailor education and training programmes to the current and future needs of rural firms.

2. Social policy recommendations – adapting to an ageing and declining population by:

- Enhancing the quality and availability of digital tools and skills, particularly when developing e-services related to maternal health, childcare and immigrant integration.
- Designing resilient services, using technology to drive economies of scope and scale.

- Providing targeted mentoring initiatives, for example on leadership, to young rural populations.
- Developing ‘silver’ services to support the elderly population (e.g. accessible medical care, mobility, etc.) while providing pathways for them to continue to contribute to rural communities.
- Supporting social innovations that target societal challenges (e.g., loneliness among elderly).
- Developing targeted immigration programmes and improved communications to promote rural life to youth, skilled talent and newcomers by highlighting advantages like the lower cost of living and proximity to nature to drive up attraction and retention rates.

3. Environmental policy recommendations – shifting to a low-carbon economy by:

- Facilitating the development of renewable energies that can benefit rural economies while working with carbon-intensive sectors to develop new opportunities and support transition.
- Identifying ways to account for and create value from eco-system services like, water and air purification, pest control, carbon sequestration.
- Promoting sustainable land-use as part of the circular and bio-economy.
- Rethinking transportation for rural dwellers, including a focus on alternative and technological innovations to reduce emissions as well as infrastructure development.





Implementing the Rural Well-being Policy Framework

Achieving the three policy objectives (economic, social and environment) of the Rural Well-being Policy Framework requires implementation mechanisms that effectively engage different levels of governments, people and business. As globalisation deepens and the gap between rural and other regions expand, rural places increasingly demand a greater integration of their needs in national policy-making.



Policy interventions that target administrative boundaries or economic sectors in silos miss opportunities to unlock synergies and meet broad policy objectives for rural regions and countries. Recovering from external shocks, such as the 2008 Global Financial Crisis or the

2020 COVID-19 crisis, will require effective multi-level governance and stakeholder engagement.

To deliver effectively rural well-being, traditional ministries in charge of rural development (e.g. agriculture) together with other ministries responsible for enablers of development (innovation, services) must coordinate horizontally. This involves the mainstreaming of rural issues across all policies (also called rural proofing) to ensure rural needs are taking into account. While rural proofing is a necessary, it is not sufficient for an efficient coordination. Governments also need to ensure complementarity among different policy and sectorial strategies

towards a single goal for rural development (e.g. changes in land use zoning requires co-ordination with transport planning and infrastructure improvements).

Other important aspects for a successful coordination on rural policy implementation, include:

- Identifying the right scale of intervention by adapting policies and governance to functional geographies, considering that most OECD countries have a rural definition for policymaking that recognises the diversity of rural regions.

- Setting a clear leadership role for policy coordination on rural issues to better integrate national rural policies, promote synergies and upgrade nationally the concept of rural development.

- Promoting Rural-Urban government partnerships to benefit from functional links, which include economic, demographic and environmental linkages as well as delivery of public services.

- Improving vertical coordination between higher and lower levels of government including their institutional and financial aspects. In many OECD countries, a first step of coordination is through the development of national development plans. Other tools include national platforms or regional forums at national level where representatives from all levels of government interact.

To ensure sustainability and local ownership of rural policies, governments need to better implement multi-stakeholder engagement and a "bottom-up" approach. New technologies,



fiscal consolidation efforts, socio-political changes, declining levels of trust and the COVID-19 crisis have all increased the demand for government transparency, accountability and a movement beyond a 'provider role' towards a 'partnering relationship' with citizens and the private sector.

Engaging local actors in policy design and implementation requires recognising a different vision of development from rural regions and adapting strategies in a co-ordinated work with local actors. It involves supporting community-led initiatives and strengthening rural leadership to build capacity for an effective involvement of local communities as partners in the multi-level governance process.

Countries and regions have adopted different approaches to engage local actors varying from basic communication, full co-production and co-delivery of policies. Some strategies include:

- Engaging citizens: participative budgeting, co-production of social service delivery, forums or policy summits.
- Engaging the private sector: public-private partnerships and platforms for dialogue.
- Engaging education institutions: co-production of regional and local plans, programmes to support skills of public staff and support the local innovation strategy

What are OECD countries doing to improve horizontal coordination on rural policy?

What are OECD countries doing to improve horizontal coordination on rural policy? The 2018-2019 OECD institutional survey on rural policy outlines how OECD countries are improving coordination and setting leadership on rural policy:

To overcome a sectorial bias and siloed-policy making, 85% of OECD countries surveyed have established inter-ministerial committees to define rural development policies, in the form of advisory councils, platforms, networks or presidential committees.

While OECD countries tend to have more than one ministry in charge of rural development, in most cases (62% of surveyed countries), the lead Ministry on rural policy is related explicitly to agriculture. Yet, in a number of countries (38%) the lead Ministry or body on rural policy does not deal directly with agriculture, covering wider topics including regional development, business or innovation (Figure 3).

A number of OECD countries have strengthened inter-municipal co-operation through institutionalised coordinating bodies across rural places, or voluntary co-operation mechanisms. Other countries have developed inter-municipal development agencies to support municipal governments in improving business environment and well-being locally (Finland).

Figure 3. Ministries and bodies responsible for rural development



Note: Others refer to Ministry of Industry, Business and Financial Affairs (Denmark), Ministry of Local Government and Modernisation (Norway), State Secretariat for Economic Affairs (Switzerland), Ministry of Enterprise and Innovation (Sweden), Ministry of Transport and Local Government (Iceland), Federal Ministry for Sustainability and Tourism (Austria), Presidency of Strategy and Budget (Turkey). Source: 2018-19 OECD institutional survey. Self-reported answers to the question "What are the lead ministry(ies) and other co-ordination bodies in charge of rural development- mention most important first"



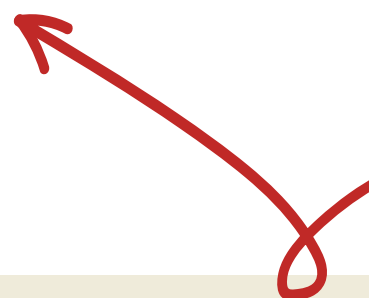
Rural regions of the future

The Rural Well-being Framework stresses the need to be forward looking and embrace technology so rural regions can take advantage of opportunities brought by technology change and contribute to global agendas, including achieving the sustainable development goals (SDGs) and tackling climate change.

Megatrends such as digitalisation, demography shifts and climate change are bringing new challenges and opportunities to rural communities. Digitalisation can reduce the cost of moving people and goods, which in turn reduce the relevance of location for workers and businesses. These changes might lead to rural environments more competitive

internationally and attractive for people and firms. Technological progress can also improve quality and access to services, political participation, enhance local labour markets and help regions transition to a carbon-neutral economy.

Innovation and technological change can help rural regions to overcome their remoteness to markets, higher transportation costs, lack of critical mass as well as to increase resilience and accelerate the transition to a low-carbon economy.



Nevertheless, without a forward-looking policy approach, technological change can negatively affect rural regions and increase the urban-rural income disparity. Rural regions face a relatively high risk of job-automation, a lack of diversification and outmigration of highly-skilled workers. To ensure rural communities and business fully seize the benefits of the digital age, governments need to:

- Ensuring high-quality broadband in all types of rural communities. Improving broadband access and speed in rural regions would benefit from a greater government investments, a sound policy framework that supports a wider diffusion of digital networks, and promotion of bottom-up models in rural regions to finance and deploy high-speed networks.
- Strengthening infrastructure (e.g. telecommunications infrastructure and roads). Even in the digital age, a strong infrastructure backbone is required to provide quality ICT services.
- Upskilling the labour force and preparing skills for the future. It includes investing in digital skills training, shaping career pathways focused on skills rather than jobs, and co-ordinating education providers with employers to provide training options that match workers' needs.
- Developing forward-looking policies and regulations to prepare communities for future changes. It includes foresight planing together with local communities, improving information systems (on skills and demographics of workers) and enabling technological trials.

- Understanding rural innovation. Innovation in rural regions often occurs through adaptive measures that try to overcome market and policy failures, with entrepreneurs in rural regions often creating innovative products and processes through an aggregation of smaller changes, such as incrementally learning-by-doing

Forward-looking rural policies need also to comply with global agendas and SDGs, including climate change, poverty reduction and gender equality. Achieving the SDGs will require participation at the local level, where governments are directly responsible for delivering on SDG targets. Rural regions are crucial to the achievement of these global objectives as they provide the world's biodiversity, natural resources, food and raw materials. Leveraging innovation and working alongside local communities will help rural regions to contribute to global reduction of poverty and the transition to a carbon-neutral economy.



About the OECD

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

About the Centre for Entrepreneurship, SMEs, Regions and Cities

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

About this Policy Highlights

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

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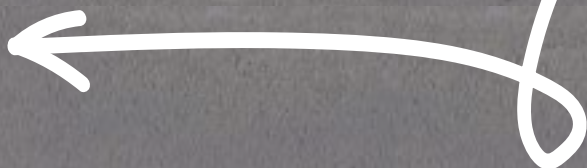


Contact us

José Enrique **Garcilazo**
> joseenrique.garcilazo@oecd.org

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