OECD Regional Outlook 2016
PRODUCTIVE REGIONS FOR INCLUSIVE SOCIETIES

Contents
Reader’s Guide
Executive Summary

Part I. The place-based dimension of productivity and inclusion
Chapter 1. Regional productivity gaps and their consequences
Chapter 2. Regional development: Policies to promote catching up

Part II. Special Focus: Rural areas – Places of opportunity
Chapter 3. Understanding rural economies
Chapter 4. Rural Policy 3.0

Part III. Regions and cities implementing global agendas: A policy forum
Chapter 5. Investing in “voice” to implement global agendas by Rolf Alter, Director, Public Governance and Territorial Development Directorate, OECD
Chapter 6. A New Urban Agenda for the 21st century: The role of urbanisation in sustainable development by Joan Clos, Executive Director, UN-Habitat and Secretary-General of Habitat III
Chapter 7. Financing subnational and local governments: The missing link in development finance by Josep Roig, Secretary-General, United Cities and Local Governments
Chapter 8. Cities and regions – Connected by water in mutual dependency by Peter C.G. Glas, Chairman, OECD Water Governance Initiative and Chairman, Water Board De Dommel (Netherlands)
Chapter 9. United States rural policy: Increasing opportunities and improving the quality of life of rural communities by Thomas J. Vilsack, U.S. Secretary of Agriculture and Chair, White House Rural Council
Chapter 10. Global dimensions of malnutrition: Territorial perspectives on food security and nutrition policies by Vito Cistulli, Stina Heikkilä and Rob Vos, Food and Agriculture Organization of the United Nations (FAO)
Chapter 11. Response to the Paris Climate Accord: Scaling up green projects from a bottom-up perspective by Christophe Nuttall, Executive Director, R20 Regions of Climate Action

Part IV. Country notes (online only)

Policy Highlights

Consult this publication online at http://dx.doi.org/10.1787/9789264260245-en. This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases. Visit www.oecd-ilibrary.org for more information.
Table of contents

Part 1  |  The place-based dimension of productivity and inclusion ..........................3

Part 2  |  Rural areas – Places of opportunity .................................................................13

Part 3  |  Regions and cities implementing global agendas: A policy forum.....15

Part 4  |  Country notes  (online only)

Notes

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

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.

Part 3 includes chapter contributions. Such chapters should not be reported as representing the official views of the OECD or of its member countries. The opinions expressed and arguments employed are those of the author(s).

Photo credits

Cover illustration: © Jeffrey Fisher
Page 3: © Brian A Jackson/shutterstock.com; Page 15: © g-stockstudio/shutterstock.com;
Page 16: © Kagai19927/shutterstock.com; Page 17: © (top) mahey/shutterstock.com,

For more information: www.oecd.org/regional
PART 1 | The place-based dimension of productivity and inclusion

Boosting productivity in lagging regions addresses the twin challenges of stagnant productivity growth and within-country polarisation

This third edition of the OECD Regional Outlook focuses on productivity in regions. Five years after the first edition, productivity growth remains low. Moreover, with an ageing population and a rising dependency ratio in OECD countries, productivity advances will become even more critical to maintaining and improving both material and non-material aspects of well-being.

OECD countries are currently facing two profound challenges – the first of these is stagnant productivity growth. Just before the financial crisis, productivity in all major OECD economies was growing at approximately the same rate of only around 1% per year. Productivity experienced a temporary spike following the crisis but the growth engine appears to be running out of steam in all major OECD economies (Figure 1).

The second challenge is that of disparities across regions. Convergence in per capita GDP across countries coincides with divergence within countries (Figure 2). This same pattern is also observed at the metropolitan scale. In addition, growing inequality across regions is mirrored by growing inter-personal income inequality, which in some countries is at their highest levels for decades.

The existence of interregional disparities is not a new fact. Nor is it feasible to expect that such disparities can be entirely erased. However, recent trends reveal greater differences within than across countries. As economic activities tend to concentrate in certain places, “agglomeration economies” may create advantages leading to higher per capita GDP in urban regions compared to intermediate and rural ones.

Recent OECD research on the “Future of Productivity” finds that productivity continued to grow rapidly among the top firms (global frontier) but not among other firms. It notes that the problem is the diffusion of productivity from the top firms to the rest.

Addressing divergence across regions is another piece to help solve the productivity puzzle

The full explanation for this diffusion challenge is still to be found, but the role of place is one more piece in the puzzle. Others being studied include “winner-takes-all” markets surrounding new technologies or the fact that replication of certain innovations has become more difficult. Firms need to have many different capabilities: technological, marketing, organisational, etc. They also need to manage being part of global value chains (i.e., importing intermediate products, exporting parts or final products). The emergence of global value chains may shift the spillover of productivity benefits from leading regions to foreign countries rather than to other regions of the same country.
Figure 1. Labour productivity growth trending downward even before the crisis

Note: Values represent three-year moving averages (t, t-1, t-2) of labour productivity (GDP per hour worked) 1997-2014. See StatLink for further notes.

Figure 2. Country convergence has been accompanied by divergence of regions within countries

Note: Data refers to GDP PPP constant 2010 USD from the national accounts and the regional accounts; the disparity between countries is measured as the coefficient of variation of national GDP per capita across all countries in the sample; the disparity within countries is measured as the coefficient of variation of regional GDP per capita across regions within each country, and then is averaged across all countries. See StatLink for further notes
The puzzle is not just about a few regions performing poorly, it is about the leading regions leaving most others behind.

The productivity gap between the “frontier” regions and the majority of other regions has widened over the last two decades. From 1995 to 2013, labour productivity (as measured by per worker GDP) across the OECD grew by 1.6% per year among those “frontier” regions with the highest levels of labour productivity. The lagging regions at the bottom of the labour productivity distribution fell further behind the frontier as productivity only grew by less than 1.3% per year. While the difference (0.3% per year) may not seem substantial, over time, these annual productivity growth differentials translate into substantial gaps. Those regions lagging behind have opportunities to “catch up” in terms of social and economic development, but many are not utilising this potential.

The gap between the top and most other regions widened by 60% over the last two decades.

The gap widened by almost 50%, from USD 21 000 to 31 000 per worker between the top and bottom performing regions. However, it is not only the lagging regions that experienced lower growth rates. The gap with the bottom 75% of regions (i.e., the vast majority) grew by nearly 60% (from USD 15 200 to 24 000) (Figure 3). The problem seems to be the lack of catching up rather than a lack of growth in at the top. This is linked to the challenge of innovation and productivity diffusion across firms.

Figure 3. Productivity growth of frontier regions in a country outpaces that of most other regions.

Averages of top 10% (frontier), bottom 75%, and bottom 10% (lagging) regional GDP per worker, TL2 regions

<table>
<thead>
<tr>
<th>Year</th>
<th>Frontier regions</th>
<th>Lagging regions</th>
<th>75% of regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>50 000</td>
<td>60 000</td>
<td>70 000</td>
</tr>
<tr>
<td>2013</td>
<td>100 000</td>
<td>120 000</td>
<td>140 000</td>
</tr>
</tbody>
</table>

Note: Average of top 10% and bottom 10% TL2 regions, selected for each year. Top and bottom regions are the aggregation of regions with the highest and lowest GDP per employee and representing 10% of national employment. See StatLink for further notes.


StatLink  http://dx.doi.org/10.1787/888933411648
High-productivity regions can, but do not always, spur catching up across the economy

Regions with high productivity growth are located in countries with fast-growing frontiers. Productivity growth can be broken out as both the pulling effect of the national frontier and the region’s own catching-up dynamics (Box 1). Most of the 50 fastest growing regions across the OECD have benefited from the potential pulling effect of the frontier region(s) to which they have converged. Many Polish regions, for example, experienced strong productivity growth alongside that of the country’s frontier. Only in Portugal and the United States is the frontier effect relatively small.

In contrast, for the bottom 50 regions, most of their poor productivity performance is the combined result of the poor performance of the national frontier region(s) and the lack of catching up. The notable exceptions are regions in the bottom 50 from Canada, Australia and the Netherlands that performed poorly due mainly to the lack of catching-up effects.

Rather than curtailing the performance of the high productivity (frontier) regions, policies should aim to encourage diffusion. Greater London (1.3%) and Île de France (Paris, 1.15%) are frontiers in their respective countries.

Nevertheless, 12 out of 22 French regions are among the 50 fastest diverging OECD regions as opposed to only 2 out of 12 UK regions. Both cases show how important it is to consider the system of regions when analysing and designing policies for regional convergence.

Regions falling further behind, where one in four people of the OECD live, would need to quadruple their growth rates to catch up by 2050

If productivity growth rates do not change, catching-up regions will close the gap to their frontier, on average, by 2050. But without a change, this also means that during the same period diverging regions will have fallen to about 50% of the productivity in the frontier. To close the gap in the next 34 years, diverging regions would need to increase average labour productivity growth to 2.8% per year, quadruple the current rate.

Box 1. How to define “catching-up” dynamics

A simple and often used way to measure the performance of a given region is to assess whether it grows faster than the country average. However, this measure can be quite misleading. A country’s full productivity potential is often better captured by considering its top-performing “frontier”, with other regions potentially benefiting from innovations produced there.

A concise measure for the “catching up” of a region is the ratio between its own productivity growth and the productivity growth in the country’s frontier. The ratio measures by how much the “gap” between the frontier and the region has narrowed (or widened). Assuming that both regions produce with constant returns to scale, i.e. a doubling of inputs leads to a doubling of output, the “gap” has two interpretations. It conveys how much more the frontier region would produce with the same input as the other region, and the inverse captures how much less factor inputs the frontier would have required to produce the same amount of output as the other region.

These calculations are then used to derive the categories of regions based on their productivity performance. To avoid threshold effects around the value of 1 for the catching-up indicator, “catching-up regions” are defined as outgrowing the frontier by 5 percentage points and “diverging regions” as growing more slowly than the frontier by at least 5 percentage points between 2000 and 2013. Regions that are “keeping pace” are within a +/- 5 percentage points band of the frontier.
Figure 4. Regions in both fast- and slow-growing countries can catch up (or fall behind) their frontier

Labour productivity growth in TL2 regions, 2000-13

There is no unique pattern that links regional catching up or divergence with labour productivity growth in a country or its frontier. But a growing divide between productivity in the frontier and other regions raises the concern of a “two-tier” economy, with strong performance at the top and the rest of the country falling behind. In Figure 4, regional productivity growth patterns are compared with national average productivity growth.

Low productivity growth countries (towards the left of the Figure) are countries with an overall low productivity growth performance. Nevertheless, in some countries the regional catching up was a key factor in driving national productivity growth. For example, Germany and Austria combined relatively low country-level productivity growth with a frontier that grew slowly but the catching up of other regions sustained overall productivity growth. Among the high productivity growth countries, on the right side of the graph, there are countries like Poland and the Czech Republic that combined high aggregate productivity growth with strong catching-up dynamics in some regions. In contrast, in countries like the Slovak Republic, Hungary and Korea, it is the frontier region that dominates the productivity growth performance of the country.

In the middle of the graph, are countries with moderate productivity growth, such as France, the United Kingdom and Australia that grew at moderate levels but with relatively large gaps between the frontier and the other regions in the country. The difference in growth rates may seem small but over time they are quite substantial. For example, productivity growth in Île-de-France (Paris) was, on average, only 0.4 percentage points higher than in Nord-Pas-de-Calais – a large, traditionally industry-focused region in the north of France and containing the French entrance to the Eurotunnel which connects France with United Kingdom – but over a period of 20 years, this small annual growth difference adds up to almost 10 percentage points.
Catching-up dynamics may differ between urban and rural regions

The productivity frontier is composed mainly of urban regions. Three-quarters of the most productive regions in the 24 OECD countries with available data are mostly urban regions. Among mostly urban frontier regions, 70% contain a large metropolitan area with more than 1.5 million inhabitants, which is also often the capital city (Figure 5). However, catching up and divergence dynamics arise in all types of regions. While the frontier is mostly urban, many regions with large rural populations tend to do well and have been catching up to the national frontier.

Productivity growth in urban areas benefits from agglomeration economies. Rural areas typically need to leverage other competitive advantages, but even in rural areas some agglomeration economies can be achieved by focusing on sectoral specialisation.

There are some underlying drivers behind these catching-up trends to consider. First, the differential returns to capital investment can create convergence but can fall short without adequate human capital development. Second, agglomeration economies support the diffusion of innovation through knowledge spillovers, however in less-densely populated areas additional efforts might be required. Third, a change in the industrial structure of a region’s economy towards higher productivity sectors can raise overall productivity levels. Fourth, proximity to large cities can support growth and catching up, but divergence in productivity is not necessarily driven by distance from those cities.

Building on local competitive advantages is essential in all types of economies, as regions fall at different points in between the polarised extremes of the stylised economies of metropolitan areas and the most remote rural regions. The economy in metropolitan areas tends to be led by the service sector but with a diversified economic structure, a highly skilled workforce (albeit also with growing gaps between the skilled and unskilled), intense competition, and growth driven by internal factors. In contrast, production in rural areas generally tends to be in low-end consumer services, more “mature” manufacturing, with more limited economic diversification, subject to weaker transport and communications connectivity, thin local markets, fewer skilled workers (aggravated by the outmigration of youth), lower levels of productivity and growth driven by external factors. Most regions find themselves somewhere in between these two extremes of stylised urban and rural economies.

Figure 5. Frontier regions tend to be urban, but catching-up regions tend to be rural or intermediate

Note: Numbers in parentheses indicate the number of regions in the group. For mostly urban regions the patterned part indicates regions with a large metropolitan area with 1.5 million or more inhabitants. See Statlink for further notes.
StatLink  http://dx.doi.org/10.1787/888933411698
A common driver of catching up in both urban and rural regions is having parts of their economy exposed to global competition.

A common characteristic among regions that are catching up is that a significant share of their economy is in tradable sectors. These are sectors that are exposed to global competition, i.e., in manufactured goods, mining or services that can be traded internationally.

The tradable share in gross value added (GVA) is (statistically significantly) higher in catching-up regions (Figure 6). This result holds true at different regional scales, including the OECD large region (TL2) and small region (TL3) classifications.

The tradable sector allows greater opportunities to catch up through “unconditional convergence”, meaning convergence to the global frontier is less dependent on a country’s particularities or institutional weaknesses. This means that regions that may be lagging behind in general and within their country context still have opportunities to advance.

The types of jobs that drive productivity growth differ depending on the type of tradable sector. In manufacturing and resource extraction, workers are relatively more productive than the average in the region’s economy. This is not the case for tradable services (in diverging regions) and in agriculture more generally.

**Trade helps lagging regions to catch up, but some transitions in terms of job skills are required**

In manufacturing and resource extraction, workers with low levels of formal education can achieve high levels of productivity. This is in contrast to the service sector and agriculture, where aggregate labour productivity is comparatively low. But the category of tradable services combines a wide range of jobs, and high value-added jobs are mainly in knowledge-intensive services that require highly-skilled workers. Therefore, transitioning economies from manufacturing or resource extraction sectors to knowledge-intensive services is not straightforward and requires substantial adjustments in the skills of the existing and incoming workforce.

---

**Figure 6. The tradable sector plays a critical role in regional productivity trends**

Note: Catching-up/diverging regions grew by at least 5 percentage points more/less than their national frontier over the 2000-13 period. The frontier is defined as the aggregation of regions with the highest GDP per worker and representing 10% of national employment. See Statlink for further notes.

Source: Calculations based on the OECD Regional Database.

StatLink [http://dx.doi.org/10.1787/88893411700](http://dx.doi.org/10.1787/88893411700)
Productivity levels improve material living standards, an important element of overall well-being

A person’s well-being depends on personal characteristics and the place where they live. The OECD Regional Well-being Framework highlights this intimate link between people and places. Some of the dimensions of well-being are material, i.e. directly measured in terms of money. As productivity levels help determine wages, they strongly influence material conditions. Higher productivity growth in terms of catching up is associated with higher levels of household income, both in terms of levels and growth rates.

More striking is the impact of catching up on employment. Average unemployment in catching-up regions declined between 2000 and 2014, while diverging regions and the frontier experienced increases in unemployment. Catching up benefited the young as well, as the average rate of 18–24-year-olds who are not employed, in education or in training (NEETs) declined on average in such regions. Most productivity growth is accompanied by employment growth. However, in some regions the crisis led to significant job losses and recovery is not yet complete.

Fortunately catching-up of OECD regions in terms of labour productivity does not come at the cost of other well-being dimensions. Comparing those regions catching up and those falling behind, there are no notable average trade-offs observed, such as an increase in air pollution.

Not all dimensions of well-being are material. However, valuation of certain dimensions allows the creation of combined measures that can shed further light on the persisting disparities across regions. One such measure, combining income, health and employment indicators, reveals even wider regional disparities than for income (Figure 7).

These multi-dimensional living standards illustrate why we need to look beyond income in measuring progress. Complementary policies are important to ensure that productivity growth benefits different social groups and places. This includes well-being across regions but also within cities themselves, as cities bring together high- and low-skilled jobs (“bankers and baristas”), contributing to higher income inequalities among people in the same place.

Figure 7. Regional disparities in multi-dimensional living standards are higher than for income alone

<table>
<thead>
<tr>
<th>Coefficient of variation (higher values mean larger disparities), 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-dimensional living standards</td>
</tr>
<tr>
<td>DNK</td>
</tr>
<tr>
<td>Multi-dimensional living standards</td>
</tr>
<tr>
<td>Income</td>
</tr>
</tbody>
</table>

Note: Income=disposable household income.
A range of tools can promote a double dividend of productivity and inclusion, but there is a need to overcome sectoral policy silos

1. Complement structural policies with regional policies

The traditional view of structural policies is that the degree of structural reform will determine, in large part, the level and growth of productivity. This policy package generally concerns product markets, financial markets and labour markets, as well as selected other policies, such as for health systems and pensions. The expected impacts of these structural reforms assume that all factors are mobile. However, evidence shows that some factors are particularly “sticky” to places, most notably workers. This is why, for example, active labour market policies, including those that facilitate moving to jobs, are needed to complement a labour market reform.

Structural reforms can have different repercussions depending on the region. Product market regulations will have a greater impact on those regions with a greater specialisation in the economic sector being regulated. Tighter labour market restrictions, measured by indicators of employment protection, penalise rural regions with smaller labour markets more than cities. Improved transport options increase the effective size of a local labour market and can complement a particular labour market reform to increase its impact.

2. Ensure well-designed and well-implemented public investments across levels of government

Public investment can make important contributions to growth. There are notable projected financing gaps to meet investment needs across the OECD and the globe. There has been a decline in public investment relative to pre-crisis levels, with possible underinvestment. As a share of government spending, public investment has declined over the past two decades from 9.5% to 7.7%. The impact of public investment on growth depends also on how it is managed. Subnational governments accounted for 40% of public expenditure, 50% of public procurement, 59% of public investment and 63% of public staff expenditure in 2014. Several of the areas that are most affected by subnational funding cuts are areas that directly influence drivers of productivity. Improving the financial and organisational capacity of subnational governments, notably in selecting and supporting relevant investments, should be a high priority.

3. Consider how multi-level governance and territorial reforms can be better adapted

For place-based policies, the governance arrangements to implement them (the “how”) are critical. Reforms of subnational government are undertaken in many countries to bring policy to the relevant scale or to achieve economies of scale for investments and service provision.

While subnational governance is not typically part of the productivity discussion, it should be. Given that urban areas often encompass many localities, not only the core city, the metropolitan scale is critical for policy. The more complex the metropolitan area is in terms of the number of jurisdictions, the harder it may be to reap the agglomeration benefits associated with size that translate into higher levels of productivity. There is indeed a productivity penalty associated with administrative fragmentation, as measured by the number of jurisdictions. Adapted governance arrangements can halve that penalty. This is one of the reasons why many countries have already, or soon will, implement metropolitan governance arrangement reforms. Administrative fragmentation is also associated with greater levels of segregation by income, which in turn influences access to opportunities depending on where on lives.

Countries continue to experiment with better ways to manage regional development policy and public investments at all levels of government. There is an ongoing need to join up public action across policy fields so as to leverage complementarities and address trade-offs.
Regional, urban and rural policies are used to target public investment in ways adapted to the needs of specific places

Many structural and sectoral policies have a profound and differential impact depending on the characteristics of the region. An appreciation for the differential impacts, and how to adapt those where relevant to different regional circumstances, can improve the benefits of a given policy action. Regional, urban and rural development policies seek to target public investment in ways that are tailored to the economic and well-being needs of different types of regions and cities.

OECD countries have been implementing over the last fifteen years a regional development policy approach focusing on building up a region’s own advantages. This is why regional development policies are in large part seeking to focus on productivity drivers and growth in all regions through strategic investments, not mere subsidies (Figure 8).

Investments that facilitate the diffusion of innovation and good practices are an opportunity to increase productivity, but a broader mix of innovation support instruments might be required in some countries. While in many countries policies seek to reduce gaps across regions, they should avoid stifling growth in the highest-productivity regions, which could spur catching-up dynamics in the others. Countries could do more to improve subnational government capacity as well.

Urban development policies should consider how cities are linked together in a “system of cities” within a country. Several countries report recent or upcoming changes to national urban policies. While these policies typically focus on reducing the social and environmental costs in cities, they can also consider the economic role of cities, their local and interregional links in a national system, and their capacity to generate innovation that should benefit the wider economy.

Rural development policy approaches in most OECD countries remain largely focused on agriculture. Policies should better address the diversity of types of rural regions, non-farm economic activity, local community needs and the ties between rural areas and cities.

The governance arrangements to manage regional, urban and rural development can be as important as the policy itself. Many national governments are testing different methods for organising their policies across ministries including regional development agencies. Reforms of regional and local governments can also lay the groundwork to improve conditions for productivity and social inclusion.

**Figure 8. Regional development policy: Countries rating objectives as high priority**

Note: Figures based on 33 countries reporting on the importance of each priority in their regional development policy efforts on a scale of 1 (not important) to 5 (extremely important). Responses with a value of 4 or 5 are included.


StatLink: http://dx.doi.org/10.1787/888933411967
Rural areas – Places of opportunity

Understanding rural economies requires a more in-depth analysis of the performance of different types of rural places

Rural regions are diverse and highly influenced by their specific natural environments. Their development path is substantially different from the standard urban model. Certain rural regions in OECD countries have been highly successful in terms of economic performance and quality of life. Other rural regions have been less successful. The success or weakness of rural regions is considerably more affected by changes in external economic conditions than in urban areas.

Rural regions employ different development models to reflect specific features of a low density of population and economic activity. This variability calls for a typology of different definitions of rural, such as: i) rural areas within the commuting zone of (functional) urban areas; ii) rural areas adjacent to functional urban areas; and iii) rural areas that are faraway from functional urban areas, i.e., “remote” (Figure 9). The OECD statistical definition of rural areas differentiates between “Rural regions close to cities” and “Rural remote regions”, based on travel time to reach the closest urban centre.

There are different development patterns observed depending on the type of rural region. Rural regions close to cities are more dynamic than rural remote regions and also more resilient, displaying an economic performance similar to urban regions (Figure 10). Rural regions close to cities registered an average annual productivity growth of 2.15% in the period 2000-07 – higher than any other type of region.

Productivity growth in rural regions in the pre-crisis period was mostly accompanied by employment growth. Among those rural regions that experienced positive productivity growth between 2000 and 2007, two-thirds also recorded positive employment growth. Since the crisis, this pattern has been difficult to maintain.

Remote rural regions are particularly vulnerable to global shocks. Following the financial crisis, their average productivity declined by 0.61% per annum over the period 2008-12. This average masks the fact that some remote rural regions continued to perform well during and after the financial crisis.

### Table 1. Definitions of rural based on distance to cities

<table>
<thead>
<tr>
<th>Region type (TL3 level)</th>
<th>Annual average labour productivity growth, %, 2000-12</th>
<th>Standard deviation, %</th>
<th>Coefficient of variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predominantly urban</td>
<td>1.01</td>
<td>1.02</td>
<td>1.019</td>
</tr>
<tr>
<td>Intermediate</td>
<td>1.07</td>
<td>1.09</td>
<td>1.024</td>
</tr>
<tr>
<td>Predominantly rural close to cities</td>
<td>1.36</td>
<td>1.32</td>
<td>0.972</td>
</tr>
<tr>
<td>Predominantly rural remote</td>
<td>0.70</td>
<td>1.15</td>
<td>1.641</td>
</tr>
</tbody>
</table>

Figure 9. Definitions of rural based on distance to cities

Figure 10. Rural areas close to cities experienced stronger growth; rural remote had greater variability in performance
Countries need to upgrade rural development approaches to a Rural Policy 3.0

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.

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 Figure 11). Where the New Rural Paradigm provided a conceptual framework, Rural Policy 3.0 focuses on identifying more specific mechanisms for the implementation of effective rural policies and practices.

Rural Policy 3.0 is therefore 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.

This approach highlights that 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.

Figure 11. Towards a Rural Policy 3.0

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>Equalisation</td>
<td>Competitiveness</td>
</tr>
<tr>
<td>Policy focus</td>
<td>Support for a single</td>
<td>Support for multiple sectors based on their</td>
</tr>
<tr>
<td></td>
<td>dominant resource sector</td>
<td>competitiveness</td>
</tr>
<tr>
<td>Tools</td>
<td>Subsidies for firms</td>
<td>Investments in qualified firms and communities</td>
</tr>
<tr>
<td>Key actors &amp;</td>
<td>Farm organisations and</td>
<td>All levels of government and all relevant</td>
</tr>
<tr>
<td>stakeholders</td>
<td>national governments</td>
<td>departments plus local stakeholders</td>
</tr>
<tr>
<td>Policy approach</td>
<td>Uniformly applied top</td>
<td>Bottom-up policy, local strategies</td>
</tr>
<tr>
<td></td>
<td>down policy</td>
<td></td>
</tr>
<tr>
<td>Rural definition</td>
<td>Not urban</td>
<td>Rural as a variety of distinct types of place</td>
</tr>
<tr>
<td></td>
<td></td>
<td>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</td>
</tr>
</tbody>
</table>
PART 3  |  Regions and cities implementing global agendas: A policy forum

Sustainable Development Goals, COP 21 targets and the New Urban Agenda all require a local dimension to succeed

The Policy Forum of the OECD Regional Outlook provides an opportunity for contributions by leading policy makers and policy shapers to share their thoughts on a common theme. This edition’s focus is the recently adopted global agendas that have drawn unprecedented attention to our collective goals for the future.

**Figure 12. Key 2015-16 Global Declarations**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2015</td>
<td>Sendai Framework for Disaster Risk Reduction 2015-2030</td>
</tr>
<tr>
<td>July 2015</td>
<td>Addis Ababa Action Agenda of the Third International Conference on Financing for Development</td>
</tr>
<tr>
<td>September 2015</td>
<td>Transforming Our World: the 2030 Agenda for Sustainable Development</td>
</tr>
<tr>
<td>December 2015</td>
<td>Paris Agreement within the United Nations Framework Convention on Climate Change (COP 21)</td>
</tr>
<tr>
<td>October 2016</td>
<td>New Urban Agenda (Habitat III)</td>
</tr>
</tbody>
</table>

These agendas are increasingly recognising the importance of a regional and local lens. National policies and targets need to consider the variations across different places. To leave no person behind means leaving no place behind. National governments create the framework conditions within which regions and cities operate. Regional and local leaders also play a critical role in the public investments, public services and land use decisions that underpin many of these goals. The different contributors tackle these questions in a range of different policy fields.

Investing in “voice” to implement global agendas

*by*

Rolf Alter, Director, Public Governance and Territorial Development Directorate, OECD

This chapter raises questions about how and when localising these agendas makes sense to ensure that policy meets people’s expectations and needs by giving them a greater “voice” in the process and implementation. The chapter considers three questions: i) Are regions and cities indeed the places where policies and people meet? ii) Do regions and cities have the right tools and capacities to localise SDGs and other targets? and iii) How can national and subnational governments work better together, using a more structured engagement with people in the process?
Quality urbanisation and adapted finance systems provide the building blocks for achieving ambitious global goals

A New Urban Agenda for the 21st century: The role of urbanisation in sustainable development

by Joan Clos,
Executive Director, UN-Habitat and Secretary-General of Habitat III

This chapter discusses why urbanisation is a necessary tool for achieving the Sustainable Development Goals (SDGs). It proposes a strategic and pragmatic framework for how governments at all levels, across all regions, can activate a positive pattern of urbanisation to improve the lives and livelihoods of all human settlements. UN-Habitat is advocating for a transformative model of urbanisation in the New Urban Agenda (NUA), adopted at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in Quito, Ecuador in October 2016.

This chapter first offers an overview of trends and challenges for sustainable urbanisation which provide the basis for understanding why a New Urban Agenda is needed. The second section explains how quality urbanisation and the role of cities are critical to achieving the aims of all post-2015 global agendas. The chapter concludes with a discussion on the strategic actions needed to implement the New Urban Agenda.

Financing subnational and local governments: The missing link in development finance

by Josep Roig,
Secretary-General, United Cities and Local Governments

Unlocking the potential of territories at the local level is key to financing the amount of investment urgently needed to reach the Sustainable Development Goals (SDGs) and to meet people’s needs. The series of international debates on development are paying increasing attention to city-level development financing, however local authorities are still not recognised as central to the debate. Focus should be brought first on improving the mobilisation of local endogenous resources through expanding local taxation and relying on land-based finance and taxation of economic activities to improve local fiscal autonomy. Furthermore, guarantee mechanisms should facilitate the process of leveraging external resources, encompassing private finance, climate finance, and borrowing to finance long-term infrastructures.
Cities and regions – Connected by water in mutual dependency

by Peter C.G. Glas,
Chairman, OECD Water Governance Initiative,
Chairman, Water Board De Dommel (Netherlands)

This chapter argues that cities and regions have a crucial role to play in facing existing and future challenges of managing water – whether too much, too little or too polluted. While no blueprint exists on how water challenges are to be met, inaction is certainly not an option. On the contrary, there is momentum to move from vision to action towards the implementation of the global agenda to 2030, which aims, amongst other things, to “ensure availability and sustainable management of water and sanitation to all”.

The chapter argues that there is room for better efficiency and inclusiveness when connecting between territorial scales and water boundaries as well as across water-related policies. The OECD Principles on Water Governance provide a framework to set and implement water policies across levels of government that contribute to better lives.

Response to the Paris Climate Accord: Scaling up green projects from a bottom-up perspective

by Christophe Nuttall,
Executive Director, R20
Regions of Climate Action

The Paris Accord and the 2030 Sustainable Development Goals (SDGs) call for a massive scaling up of green projects. However, such infrastructure investments are not achievable without private financing.

Over the last few years, R20 Regions of Climate Action has been working to address this gap by collaborating with the regional and local decision makers, technology companies and investors to develop bankable projects in different areas of the green economy from energy generation to waste management.

This chapter highlights several programmes and financial instruments, including novel pre-investment facilities being used to implement projects worldwide in support of these new global targets.
United States rural policy: Increasing opportunities and improving the quality of life of rural communities
by Thomas J. Vilsack, U.S. Secretary of Agriculture and Chair, White House Rural Council

United States rural policy seeks to mobilise the assets of rural areas for national prosperity and offer opportunities for greater quality of life across all rural communities. This chapter considers the diversity of rural places and how rural policy and other place-based approaches and bodies, such as the White House Rural Council, can contribute to their vitality.

Several programmes and plans are being implemented to fulfil these goals in the United States. They include programmes such as: Promise Zones; StrikeForce Initiative; Partnership for Sustainable Communities; Local Food, Local Places; Community Economic Development approaches; Strategic Economic and Community Development; Investing Manufacturing Communities Partnerships; and rural elements of the Climate Action Plan.

Global dimensions of malnutrition: Territorial perspectives on food security and nutrition policies
by Vito Cistulli, Stina Heikkilä and Rob Vos, Food and Agriculture Organization of the United Nations

Despite impressive progress in reducing hunger and poverty, about 800 million people worldwide continue to suffer from undernourishment. Food insecurity and malnutrition are problems affecting rural areas in particular, as part of a pattern of deep-rooted spatial inequalities.

Conventional sectoral agriculture and food policies often overlook such territorial disparities. Consequently, they are unlikely to be sufficient to meet the sustainable development goal of ending hunger and achieving food security for all by 2030.

This chapter argues that food security and nutrition policies would greatly benefit from a territorial approach. Such an approach to food security and nutrition goes beyond a simple rural-urban dichotomy. The development of strong and mutually reinforcing rural-urban linkages is important for the development of agriculture and food systems at large, but will only be effective if it considers competing uses for land, water and other natural resources and also plans infrastructure and basic services within and between different territorial contexts.
Online only


The full publication is available at: [http://dx.doi.org/10.1787/9789264260245-en](http://dx.doi.org/10.1787/9789264260245-en).