

Innovation in OECD Rural Areas
ENHANCING
INNOVATION IN RURAL AREAS:
THE EXPERIENCE FROM SCOTLAND

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Motivation

1. Innovation

1. Why is it important for rural areas and the economy in general?

2. Policy lessons and the way forward



Characteristics of Rural Regions

	average		
	PU	IN	PR
GDP	44,579	17,388	8,757
GDP density	61.2	4.3	1.5
population density	1224.2	144.7	37.5
employment	750,809	374,777	237,546
unemployment rate	8.1	8.1	8.5
employment rate	66.6	66.5	67.6
participation rate	73.4	73.0	74.4
GDP per capita	30,390	23,740	21,196
GDP per worker	72,136	59,319	54,391

Agglomeration effects in UR

- GDP density 41 x lower
- Population density 32 x lower

Scale effects:

- output 5x lower
- employees 3x lower

1. Lower density and lack of critical mass

- no economies of agglomeration
- no internal market for competitive service economy

2. Long distances

- need to be competitive to overcome higher transport costs

Tradables are key

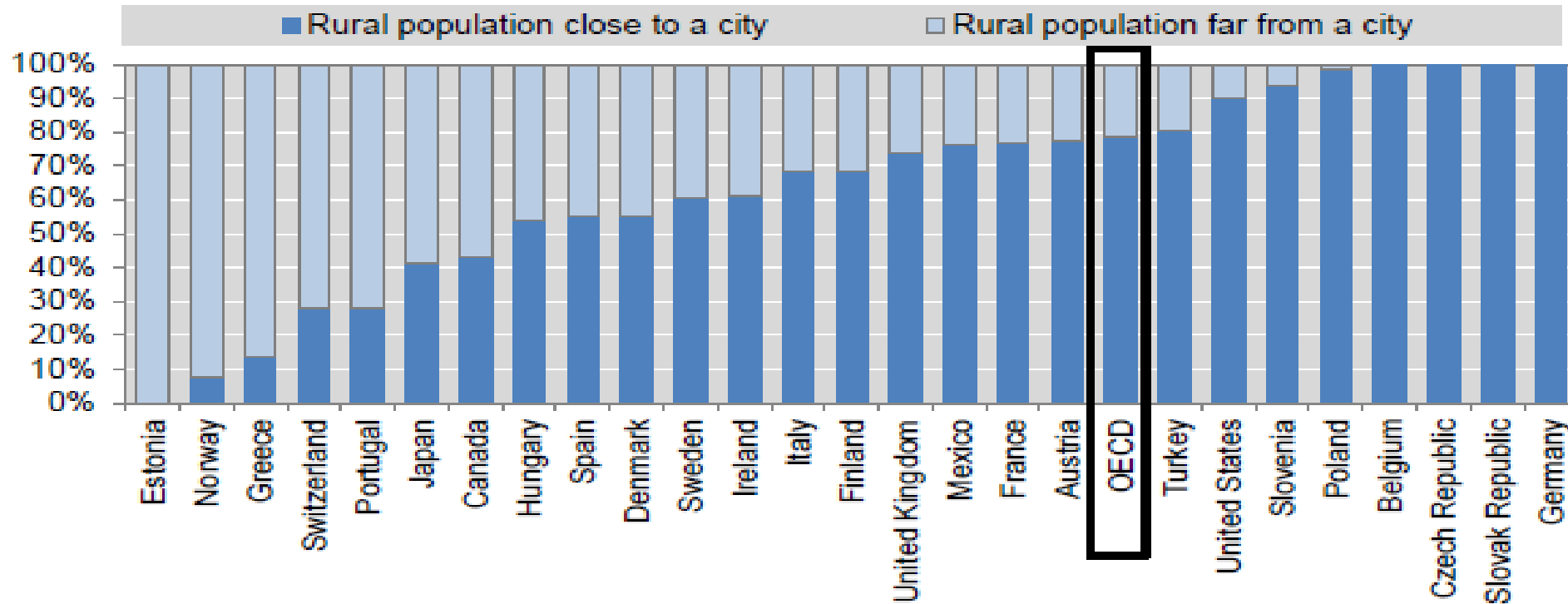


Low density economy



Rural and urban areas are deeply interconnected...

Share of rural residents by region type

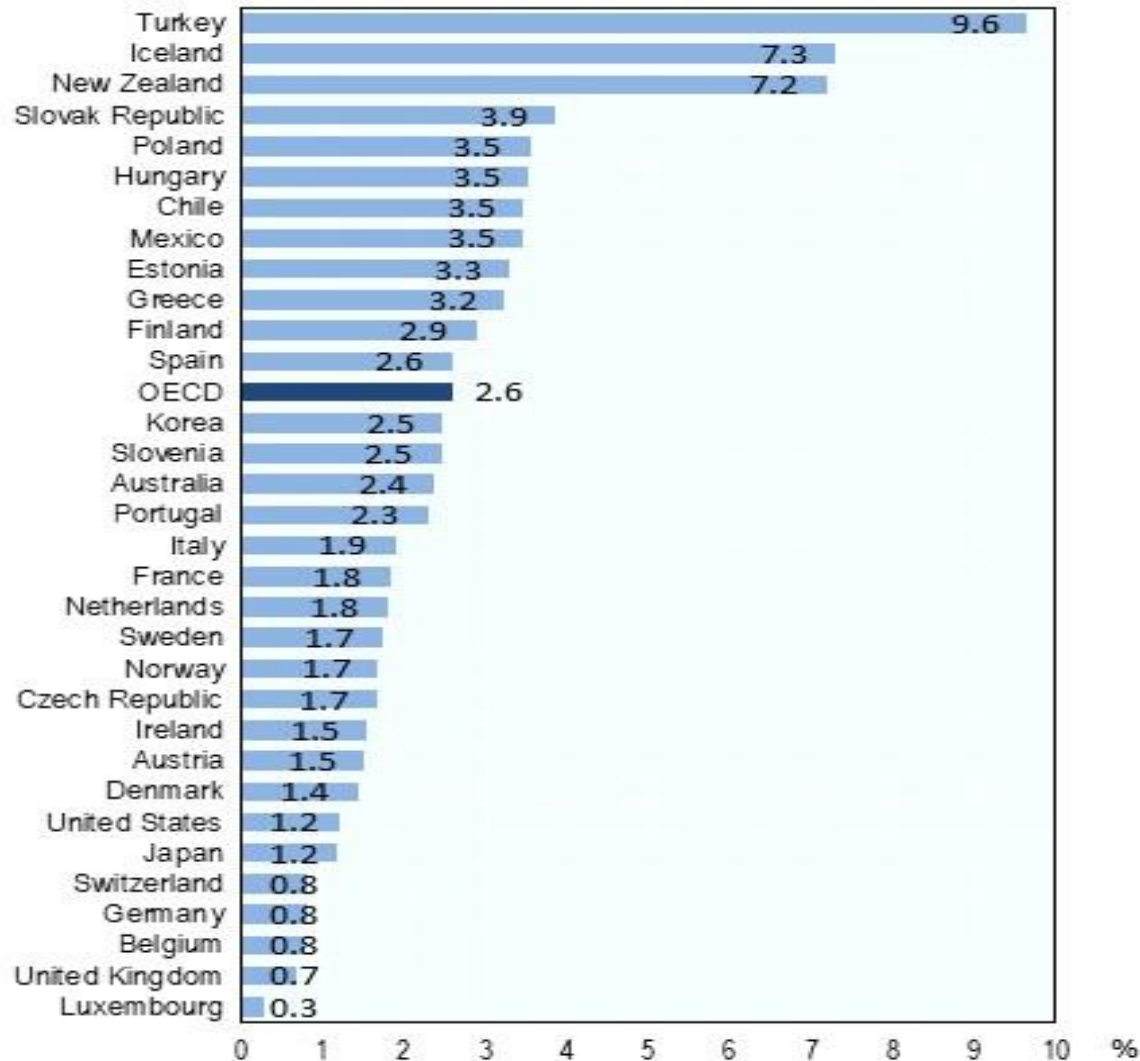


- ❖ *In OECD countries, 26% of population live in PR regions (297 million)*
- ❖ *Around 80% of rural population (235 million) lives close to a city*
- ❖ *6% of the rural population (62 million) in remote rural regions*

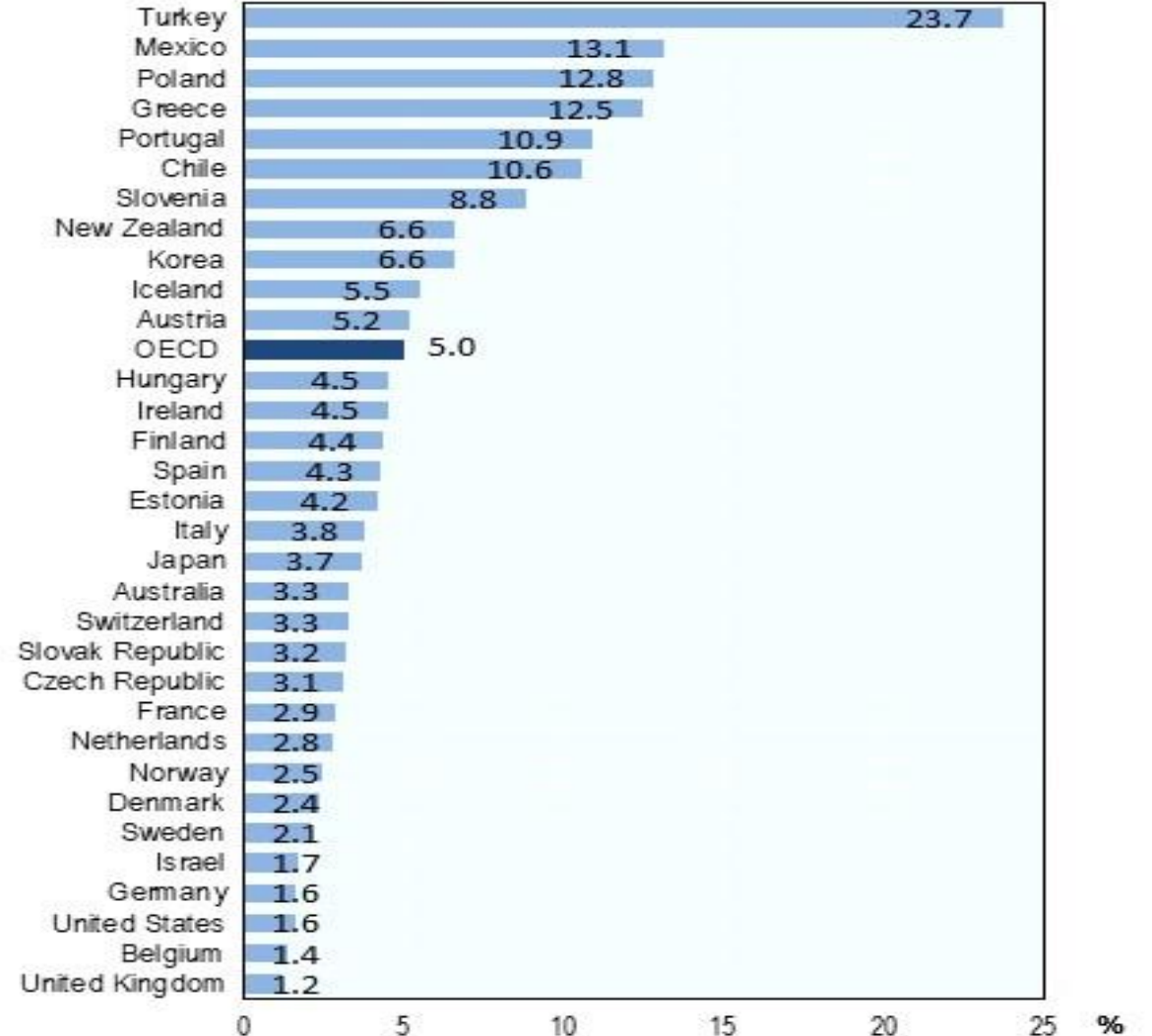


Rural economies are much broader than agriculture...

Share in GDP



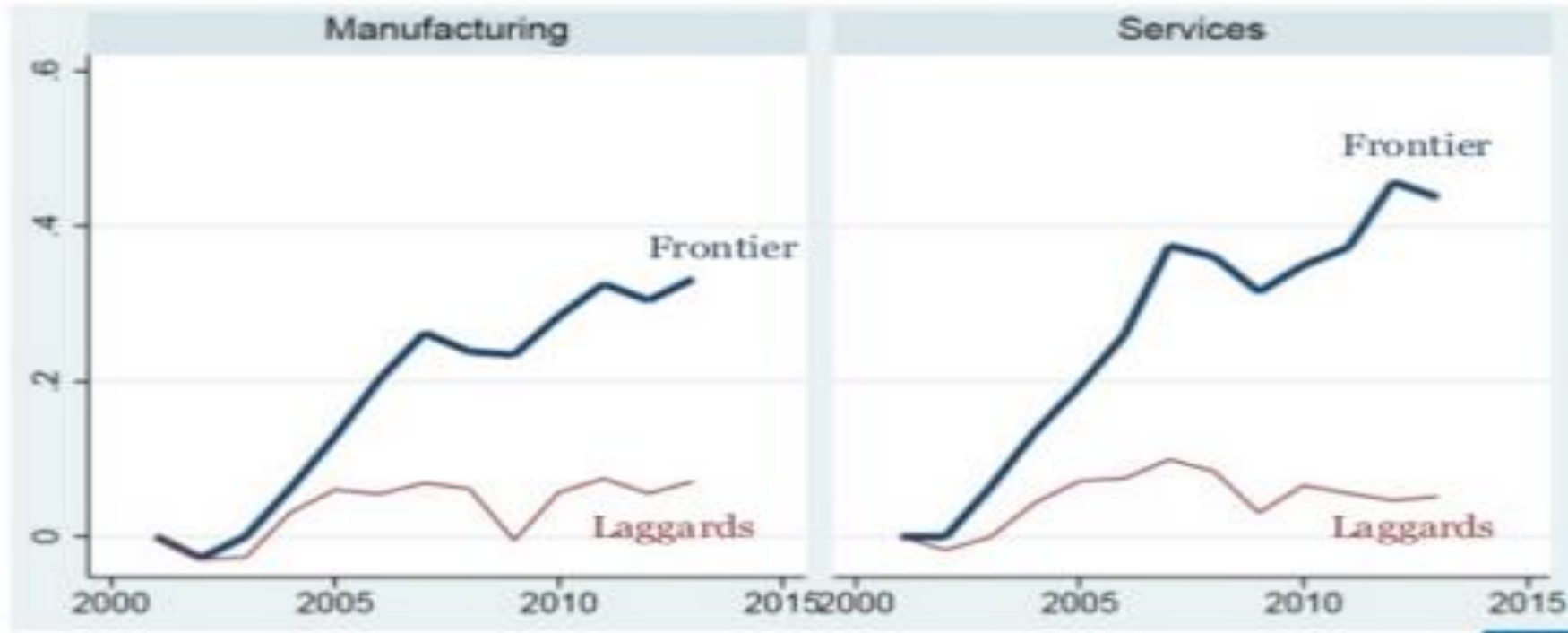
Share in employment





Inequality: Rising labour productivity gap between global frontier and laggards

Average of labour productivity across each 2-digit sector (log, 2001=0)



Frontier firms forge ahead on productivity



- Disseminate innovation
- Adoption and absorption
- Networks



Urban-rural linkages are key in this process



Rural regions can be productive and sustainable...

Summary Statistics

	GDPpc		GDPpw		Population	
	2000	2012	2000	2012	2000	2012
PU	120.6%	121.1%	112.0%	111.9%	231.5%	229.3%
IN	98.6%	99.7%	99.2%	99.3%	102.6%	101.4%
PR	85.5%	83.9%	91.6%	91.4%	50.0%	49.9%
PRC	85.8%	86.3%	91.3%	93.3%	72.9%	74.3%
PRR	84.9%	79.9%	91.9%	88.5%	24.0%	22.6%
All	100%	100%	100%	100%	100%	100%

	Growth GDPpc		Growth GDPpw		Population growth	
	2000-08	2008-12	2000-08	2008-12	2000-08	2008-12
PU	2.07%	-0.70%	1.39%	0.24%	0.78%	0.67%
IN	1.98%	-0.28%	1.29%	0.65%	0.58%	0.45%
PR	1.95%	-1.11%	1.62%	0.12%	0.35%	0.38%
PRC	1.95%	-0.28%	1.77%	0.56%	0.63%	0.55%
PRR	1.95%	-2.45%	1.38%	-0.61%	0.02%	0.18%
All	1.99%	-0.70%	1.44%	0.34%	0.50%	0.46%

Note: Data refer to GDP and GVA evaluated at PPP constant 2010 US dollars, using the SNA2008 classification.

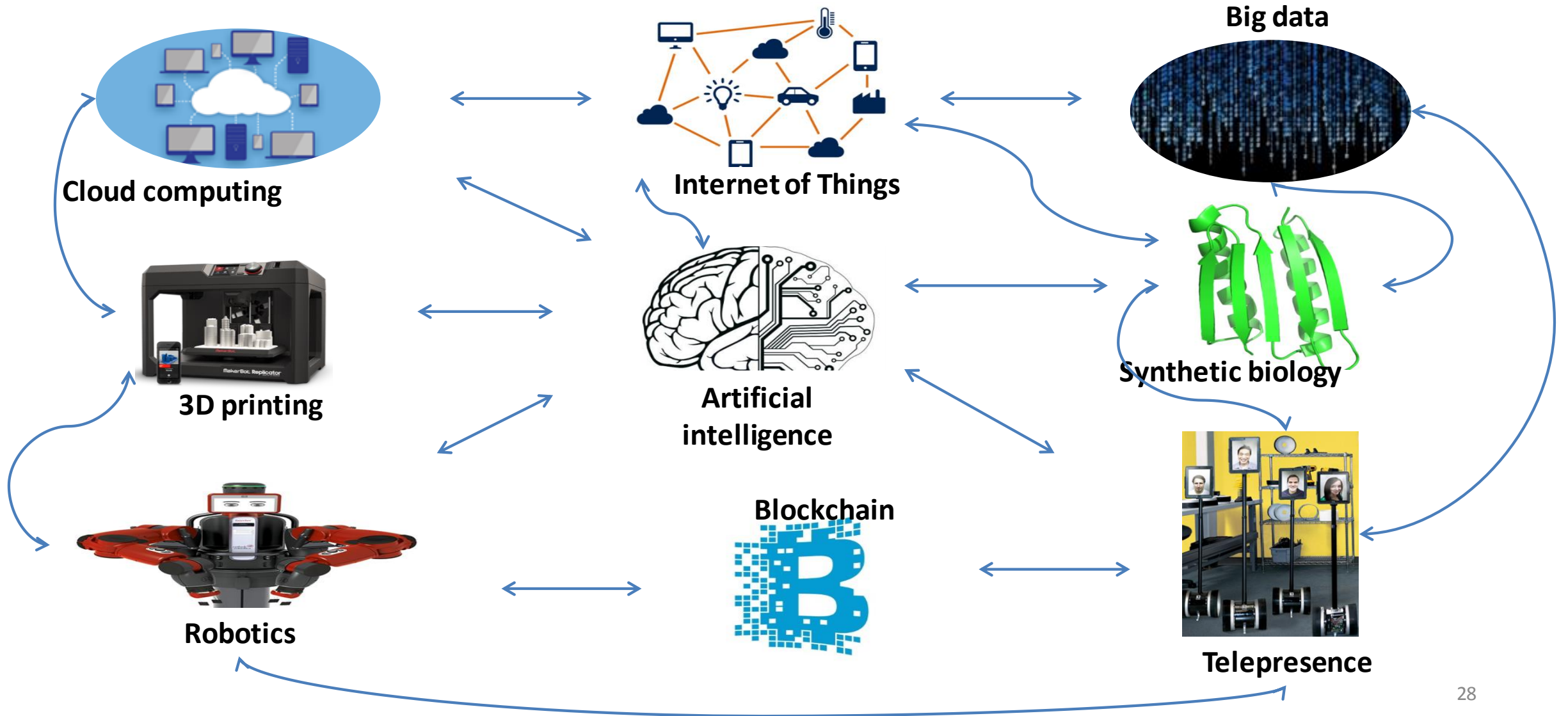


Innovation in rural regions

- Innovation systems?
 - More likely in **urban areas** due to presence of highly skilled **researchers** and specialised research **facilities**
 - **Cluster-based innovation** is unlikely present in rural regions
- Innovation more **important** for rural regions than for large cities:
 - They are much more **specialised** in the production of tradables
 - Exposed to **international competition** / most rural regions reliant on a small number of export oriented industries and must overcome higher transport costs
- Types of innovation:
 - Tailored to **SMEs enterprises** due to lack of formal internal R&D activities
 - **Entrepreneurship, collaboration among firms** and **forging rural-urban linkages** are central to rural development.
 - **Local and GVC** – how to add more value and how to retain it locally
 - Finding **niche market** and **internationalisation**
 - Innovation in **services delivery**
 - Embracing **new technologies**



Digital value chains...



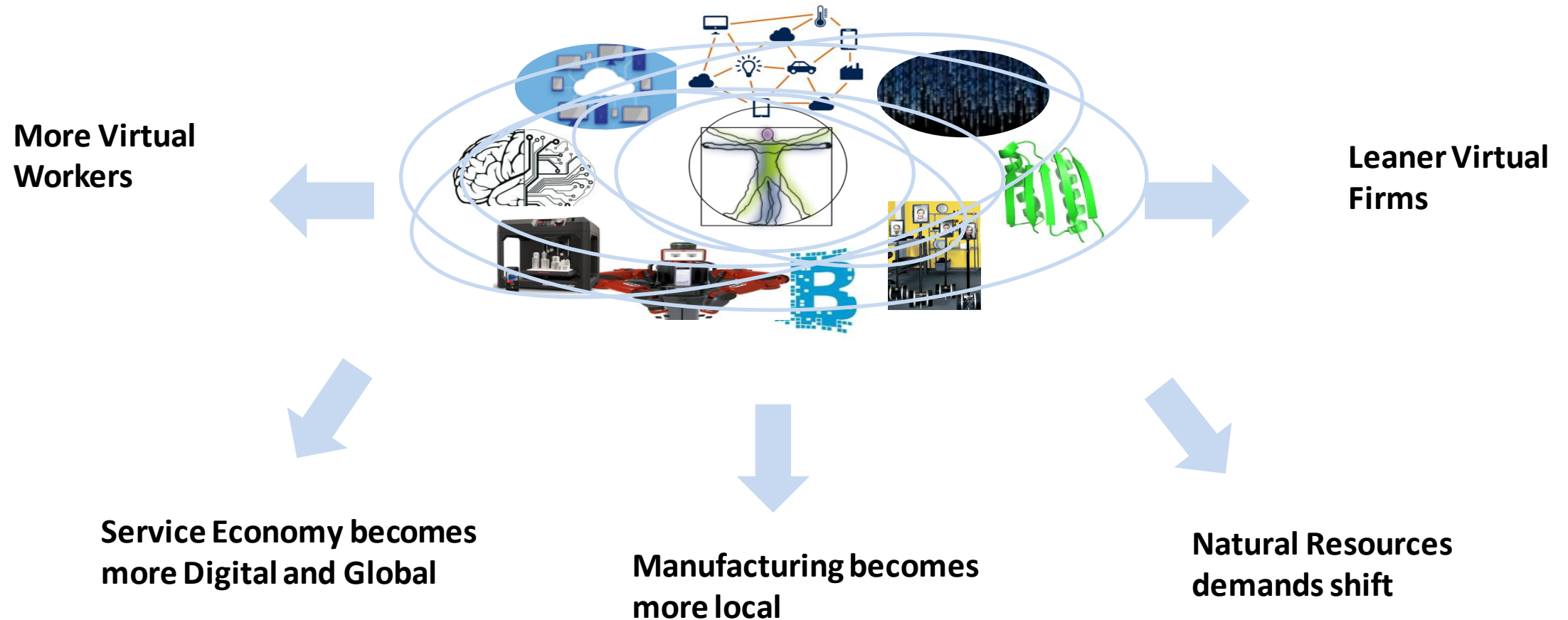


Will almost certainly represent change in the following areas...

- Universal connectivity
- Decentralised energy
- Digital business models
 - Airbnb, Amazon, banking
- Physical production becoming local and automated
 - 3D printing, synthetic biology, circular economy
- Automation of work
 - Robots a compliment or a substitue?
- Virtual work will predominate
 - Change role of geography and distance, telework, robots, augmented reality, virtual workspaces
- Most internet users will be in Asia and Africa

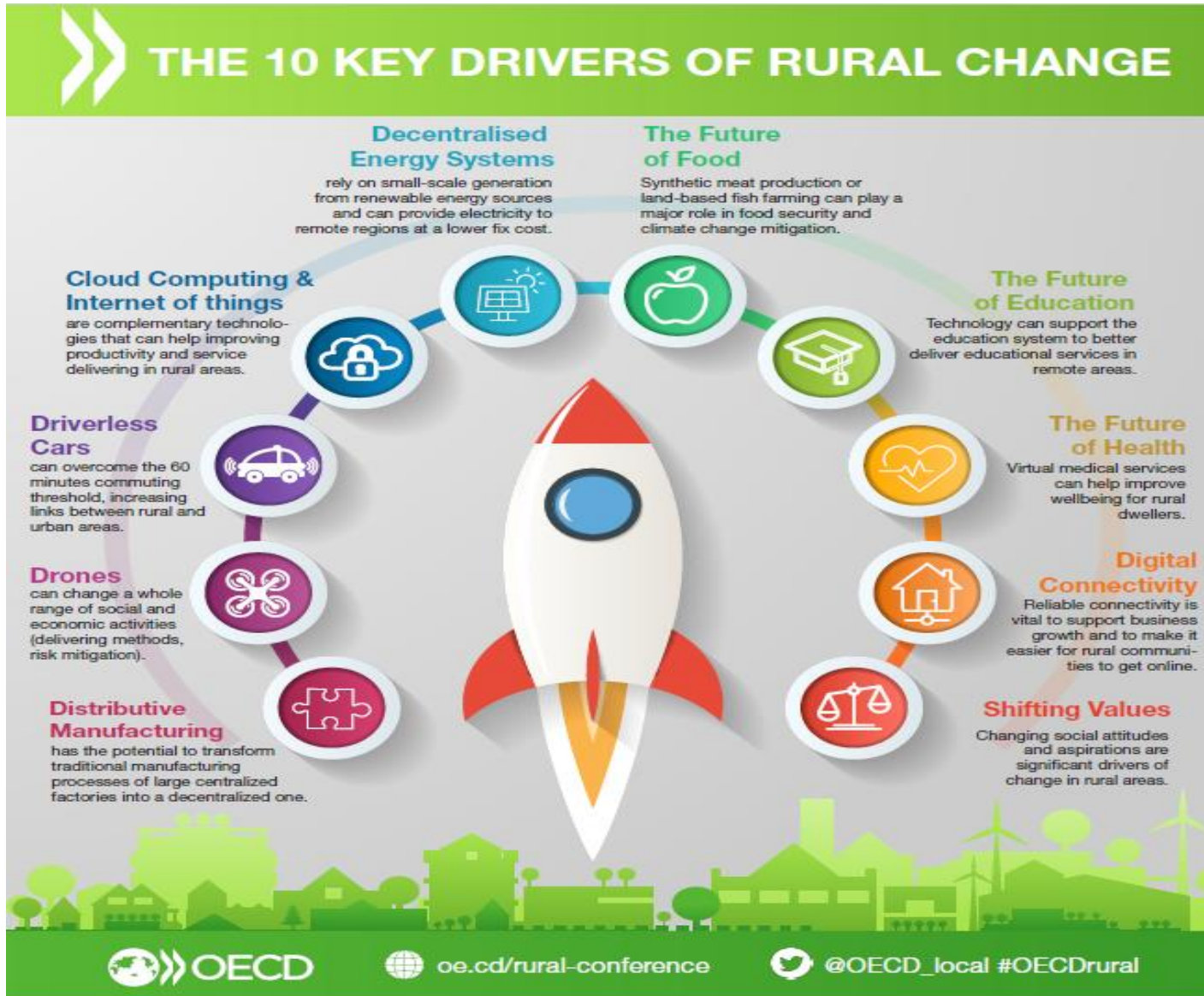


... could transform rural economies





Policy responses must be forward looking





OECD Regional and Rural Development Policy Paradigm

- ❖ **Compensating lagging regions does not work**
 - Creates dependency, not development
 - Richer regions might become reluctant to support lagging regions

- ❖ **Reframing discussion:**
 - From **shortcomings** of rural areas to **potential** and areas of opportunity

- ❖ **OECD promotes 'place based policies' focusing on:**
 - Use of **specific assets** (or create absolute advantages to stimulate competition & experimentation across regions)
 - Create **complementarities among sectorial policies** at the regional (or local) level
 - Use of **multi-level governance mechanisms** for aligning objectives & implementation



An Evolving OECD Rural Paradigm

Rural Policy 3.0

	Old Paradigm	New Rural Paradigm (2006)	Rural Policy 3.0 –Implementing the New Rural Paradigm
Objectives	Equalisation	Competitiveness	Well-being considering multiple dimensions of: i) the economy, ii) society and iii) the environment
Policy focus	Support for a single dominant resource sector	Support for multiple sectors based on their competitiveness	Low-density economies differentiated by type of rural area
Tools	Subsidies for firms	Investments in qualified firms and communities	Integrated rural development approach – spectrum of support to public sector, firms and third sector
Key actors & stakeholders	Farm organisations and national governments	All levels of government and all relevant departments plus local stakeholders	Involvement of: i) public sector – multi-level governance, ii) private sector – for-profit firms and social enterprise, and iii) third sector – non-governmental organisations and civil society
Policy approach	Uniformly applied top down policy	Bottom-up policy, local strategies	Integrated approach with multiple policy domains
Rural definition	Not urban	Rural as a variety of distinct types of place	Three types of rural: i) within a functional urban area, ii) close to a functional urban area, and iii) far from a functional urban area



Moving forward

Edinburgh Policy Statement on Enhancing Rural Innovation <http://www.oecd.org/rural/rural-development-conference/>

- Discontent with the **uneven impacts of globalisation**
- Sustainable Development Goals that “**no one is left behind**”
- **Place-based policies** relying on multi-sector co-ordination and multi-level governance necessary to **unleash growth potential** grounded in **rural specific assets**.
- **Innovation** will be critical for the future competitiveness and sustainability of rural economies: digital connectivity and new technologies
- **Rural policy 3.0** a robust rural policy:
 - **Well-being** at the forefront of rural policy objectives
 - **Place-based view of rural development**, integrated approach and long term perspective
 - Maximize complementarities, replace top-down approached to results oriented policies with room for experimentation
 - Design policies with long-term perspective
 - Develop **urban-rural linkages**
 - Promote societal approach based on **social innovation** with pro-active role for rural communities.
 - **Empower communities** to better understand conditions and challenges in order to support community-led efforts.
 - Effects of **demographic trends** to design public services
- Calls for policy makers to be **forward looking**
- Recognises the value of further strengthening OECD **comparable data** on rural areas
- Conference welcomes OECD to establish **Principles for a robust rural policy**

thank you

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