

Rural Innovation: a Summary

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Background

- Evidence that rural is not declining and is not synonymous with primary activities
 - For ex. this message is reflected in current Krasnoyarsk development policy that aims at promoting manufacturing and services
- Modern Rural Development Policies (rather than the new Paradigm) offer a platform to discuss consistently of rural development across countries
- And can also support international policy dialogue for key issues such as development of the Arctic region

OECD Key principles for place-based policies

- I. Use of regional specific assets and smart specialisation (or to create absolute advantages to stimulate competition & experimentation across regions)
- II. Create complementarities among sectoral policies at the regional (or local) level
- III. Use of multi-level governance mechanisms for aligning objectives & implementation

Four questions

- Why is rural innovation so important?
- Why is rural innovation different?
- What can policies do to promote rural innovation?
- Why is still so difficult to convince national policy-makers about these policies?

Why is rural innovation so important?

- Rural areas depend more heavily on tradables, thus innovation is critical for development
- Compensatory policies often create dependency not development and rich regions do not want to pay for lagging ones
- Agricultural angle: TFP productivity is declining, thus implicit need for innovation (usual link, but this is only a necessary condition)
- We are talking about an enlarged model embodying social (inclusive growth) and environmental sustainability (green growth) that can be better constructed at the right scale

Why is rural innovation different? (1/2)

- Innovation has often a urban bias (needs a new metric & broader non-tech scope) and do not address the needs of the poor
- Innovation depends on market structure (fragmented vs. segmented markets; niche markets)
- Is rural a creative class by necessity or by opportunity?
- There is a question whether rationale for policy depends on market failures or behavior that is not captured in economic models
- Planning rarely understands micro-incentives, but economists also need to go beyond simple optimization models
- Innovation is also about entrepreneurship (Swedish paradox). Social groups in rural areas can be entrepreneurial; Social capital is a specific asset of communities

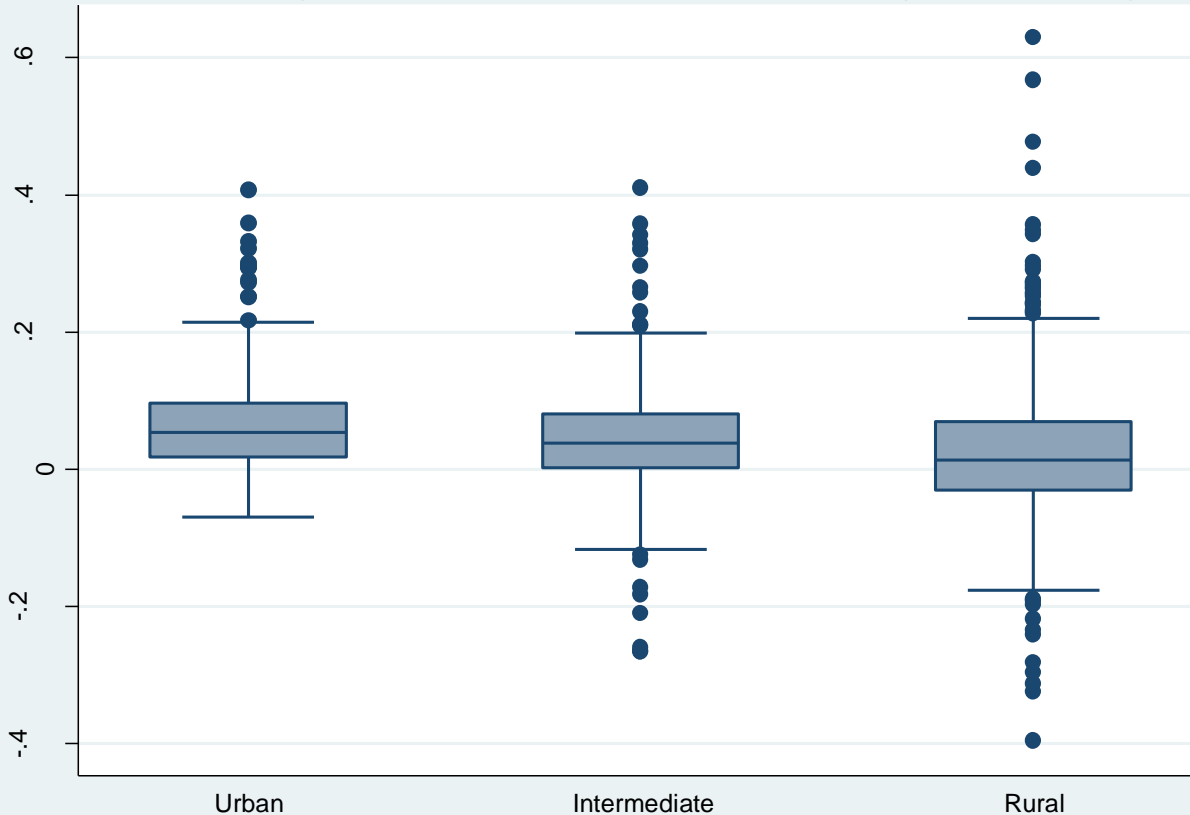
Why is rural innovation different? (2/2)

- Innovation diffusion may be blocked in rural areas because of specific bottlenecks (lower skills, higher age)
- Question of administrative boundaries vs. functional areas; innovation in cities may originate in rural areas (OECD new database & Urban-Rural project)
- Rural innovation cannot be only addressed by top-down or sectoral policies (e.g. renewable energy)
- Caveats: people surveyed thinks the distinction rural-urban is not relevant ('innovation in rural areas' rather than 'rural innovation')
- Innovation in rural areas as in other regions/countries is a multidimensional issue that involves R&D, policy and governance

Higher dispersion of growth (OECD TL3 rural regions)

In terms of population growth, rural regions show the highest variability

Population growth rates (2000-2009) in OECD TL3 regions, by typology



✓ Opportunities for growth, both in terms of population and GDP, are observed in all type of regions

✓ the variability of growth rates is much higher in rural areas than for the other types of region

✓ part of this variability can be explained by looking at the role of the relationships with Urban or Intermediate regions (urban-rural linkages)

U.S., Canada, Chile, Mexico, Israel and Island are excluded from the analysis for reasons of data availability

What can policies do to stimulate rural innovation? (1/2)

- Change the narrative (governance)!
- Use of social capital depends on whether the members of the group are authorized to innovate
- Bridge the urban-rural divide
- Use of community initiatives and innovation are often blocked by regulatory issues. How to address this tension without the risk of fragmenting of the regulatory framework?
- We need a model developing innovation both in governance (creating the environment) and in government (integrated package of public services)
- Focus on entrepreneurship, support to trial and error activities and provide business service to rural enterprises (interactions, self-confidence)

What can policies do to stimulate rural innovation? (2/2)

- SWOT analysis: entrepreneurs deal with strengths-opportunities; governments/collective deal with weaknesses & threats
- Rural policy should be both differentiated & integrated
- Promote networks and ownership: Rural communities started being proactive and governance mechanism should capitalize on this by empowering them
- Good news: a lot of policy experimentation (e.g. Canada, Finland, Nora region, Russia, UK, US)
- More focus on financing issues (grants, investment or financial markets)

Why is still so difficult to convince national policy-makers about these policies?

- Yes, rural regions can innovate, but we are still making the case... There is still a lot of self-justification
- Need to prove that these policies make the difference for aggregate outcomes
- Understand incentives connected to policy economy-wide and place-based policies
- Evidence that growth can happen in all kind of regions, and rural areas can contribute to aggregate growth (OECD *Promoting Growth in All regions*)
- Evidence that Well-Being agenda can only be addressed in a place-based manner (OECD Project on the *Regional Dimensions of Measuring Well-Being*)

Main message & OECD contribution

- There are no shortcuts to rural development
 - Development depends on a constellations of factors (not preconditions as there are several different institutional settings) and integrated approaches
- Information about the good policy solutions is dispersed among government levels and communities
- OECD agenda is to help guiding national and regional policies through this complexity (knowledge management of policy processes taking place in countries and regions)
 - Thematic focus through network of regions
 - Continued accumulation of case studies (Territorial, Urban, Rural, Innovation, Governance)
 - Regional Outlook / Regions @ Glance
 - Help implementation (e.g. OECD-wide *Better Policies* brochure)

Thank you!