

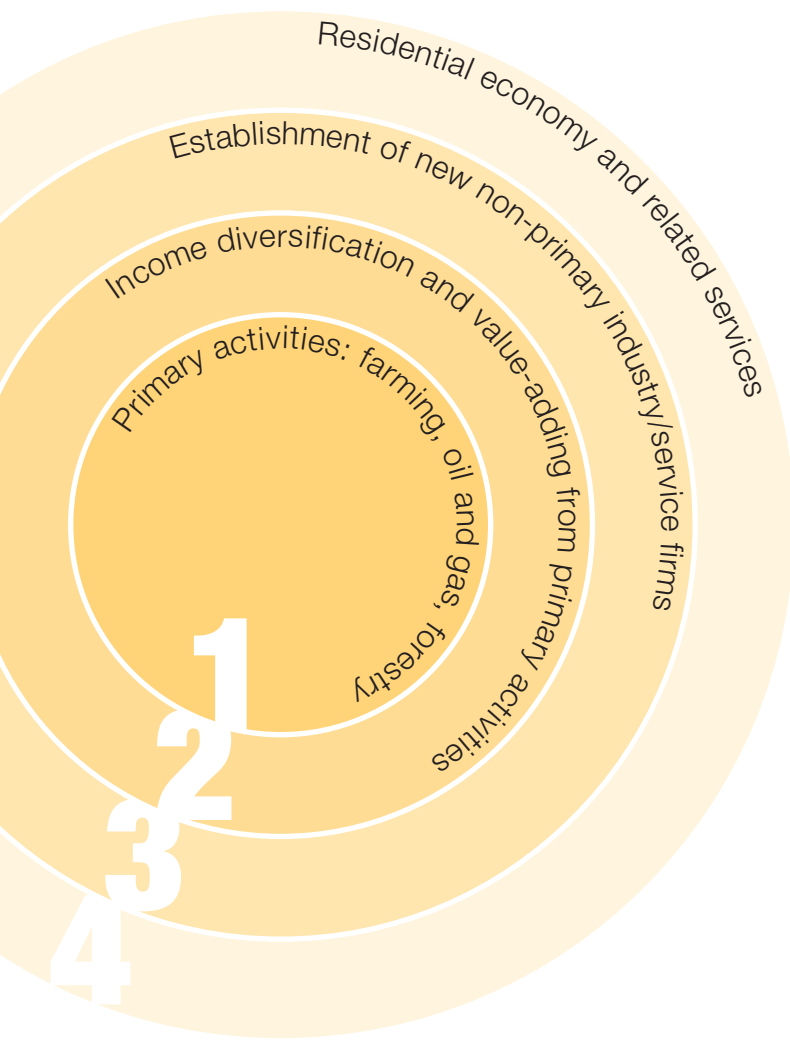
Rural Diversification 101

Community Futures Alberta

What is Rural Diversification?

A rural community or region that has long-term sustainability, resiliency in the face of change, and a broad economic base with a variety of types of businesses and jobs is a region with a diversified local economy. Rural diversification helps to broaden the economic activity of rural areas, providing new opportunities, and creating a more balanced and stable economy.

Rural diversification can be described as a series of transformational waves. These waves occur as the rural economy moves from primary activities, like farming and oil and gas extraction, to value-added activities in these traditional sectors, to establishing new industries, and finally to a residential economy. This happens according to each region's strengths and opportunities: its location, and its natural, cultural, and energy assets.



Adapted from: Ardavin, Jose Antonio (2008). *Economic Diversification: Innovation, Clusters, and the New Rural Economy – experiences from OECD Countries.*

The four waves of rural diversification are:

1. Primary activities. In western Canada, these are farming, oil and gas extraction, mining, and forestry
2. Income diversification and value-added products from primary activities. These include value-added agricultural activities, oil and gas processing, and lumber and wood product manufacturing
3. The growth of non-primary industries and services, such as tourism, information technology, alternative energy production, R&D companies, and metal manufacturing
4. The growth of services around the residential economy

Rural diversification is assisted by:

- Innovation
- Human capital
- Cluster development

Innovation

Innovation takes place within individual businesses. It refers to both product and service innovation (new products, improvements in existing products and/or services) and process innovation (efficiency or productivity enhancements, such as adopting new technology, computerization, robotics, using new materials, lean manufacturing, etc.).

Rural innovation is strongly linked to the creation of networks and to increasing the capacity of firms to understand and make use of new knowledge and technology.

Economic development organizations can help businesses become more innovative by:

- Ensuring that they have access to capital
- Organizing technology demonstration sites and tours of other innovative firms
- Exposing them to ideas from other countries
- Encouraging the mobility of skilled labour to help pass ideas from one firm to another
- Linking them to universities and Research and Development (R&D) companies and organizations
- Providing training in areas like the process of innovation, lean manufacturing, and business management
- Linking them to other companies that are already exporting
- Encouraging entrepreneurship

Human Capital

Human capital is comprised of the knowledge, skills, talents and abilities that enable people to earn a living. Human capital expands through

education and training. Strong human capital is linked directly to economic growth, better health, and strong community involvement.

Economic development organizations can contribute to the development of human capital in rural areas in many ways:

- Providing training and building entrepreneurial skills
- Promoting education, professional development, and leadership skills in rural communities in order to encourage creative ideas for community economic development
- Ensuring that knowledge-based businesses have access to capital

Cluster Development

Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, research organizations, support initiatives, and associated institutions in a particular field that are present in a nation or region. Clusters are based on unique strengths and unique products and services. In the past, the term “rural” was synonymous with agricultural clusters. Now, emerging rural clusters include tourism, information and communication technology, and manufacturing.

Effective clusters need:

- Good input conditions (such as skills and knowledge, raw resources, products, soil, climate, and natural resources)
- Supporting industries (like venture capitalists, market research companies, and R&D companies)
- Demand (sophisticated customers who can distinguish different qualities and brands and demand high standards)
- Rivalry and the desire to work together. Effective clusters involve a combination of pressure (competition) and support.



Economic development organizations can play a role in cluster development by:

- Developing business incubators targeted at a sector
- Assisting with building demand for a cluster product
- Providing support services
- Helping to build management expertise in a cluster
- Supporting innovation in a cluster

Summary

Rural diversification helps to broaden the economic activity of rural areas, providing new opportunities and creating a more balanced and stable economy. It can be seen as a series of waves, as the rural economy moves from primary activities like farming and oil and gas extraction, to value-adding from these traditional sectors, to establishing new industries and finally to a residential economy. Rural diversification happens according to each region's strengths and opportunities: its location, its natural, energy, and human capital, and its cultural assets. Rural diversification is enhanced through innovation, human capital, and cluster development.