



Cantabria's High Impact Action:

Social Inclusion in the Primary Industries

In-depth assessment

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In Brief

Industrial transition challenges in Cantabria

Cantabria is a region located on Spain's northern coast. Its economy has been historically based on agriculture, fishing, and small-scale industry. Cantabria's agri-food sector represents about 20% of the region's total industrial GDP and employment. It consists of 390 companies, most of which are SMEs with 10 to 249 employees, or micro-enterprises with fewer than ten employees. The region's agri-food industry has been traditionally based on artisanal production methods, and has faced several challenges in recent years, including the need to adapt to digitalisation and address the climate crisis.

Cantabria faces a number of challenges that affect its industrial transition capacity. These include its lack of an innovation culture, the lack of business awareness of benefits from the green and digital transitions, a green and digital skills shortage, a small and potentially shrinking workforce and the weak capacity of smaller companies to engage with potential innovation funding sources due to limited knowledge and resources.

Cantabria's High Impact Action

Cantabria's HIA was designed to address large societal challenges, such as climate change and digitalisation, by promoting societal innovation. It focused specifically on building demand for and supporting the use of renewable energy, digitalisation technologies and promoting social inclusion in the agri-food sector. The HIA supported three different, but complementary projects (Teican, Kibus and Solabria). These projects reached about 20 local companies, all in rural areas. They were struggling to retain workers, had manpower-intensive production processes, and staff that required upskilling.

The HIA helped these small, traditional agri-food companies address cost-related obstacles associated with the green and digital transitions. It also helped build awareness of the benefits associated with such transitions and the relative level of skills necessary. By supporting small businesses in isolated, rural areas, the HIA not only contributed to generating social inclusion in these areas, but also helped firms mitigate the risk of being left behind in the industrial transition.

Governance and management of the HIA

Day-to-day implementation of the HIA was the responsibility of the Innovation Directorate. The financial support associated with the HIA allowed Cantabria to hire a dedicated project coordinator who was able to mobilise the stakeholders, coordinate the project, identify opportunities, and bring various parties together to maintain dialogue among various stakeholders.

In order to select the Teican, Solabria and Kibus projects and develop the repository of Cantabrian agri-food companies, the Innovation Directorate hired a Cantabrian agri-food sector expert through a public call. The expert and the Innovation Directorate approached 100 companies with a questionnaire and interviewed 47 of them in person. Three final companies were selected – Teican, Solabria and Kibus – and each received up to a maximum of EUR 40 000 to carry out their pilot projects.

The Innovation Directorate mobilised and consulted many regional and local stakeholders around innovation, sustainability, rural development and digitalisation. The Innovation Directorate

communicated about the HIA initiative and consulted as many stakeholders as possible through seminars, workshops, media interviews and social networks.

Results of the HIA and impact on industrial transition

The HIA addressed some of Cantabria's industrial transition challenges through concrete actions. First, it supported small businesses in isolated, rural areas, which are at higher risk of being left behind in the industrial transition. For example, the energy efficiency improvements introduced by Teican and Solabria for small agri-food businesses helped to reduce costs and increase competitiveness. Second, the HIA helped to strengthen Cantabria's innovation ecosystem by fostering stakeholder collaboration. In particular, the interviews conducted to assemble the repository of agri-food companies enabled the team to identify potential synergies or complementarities among companies or activities, and the Innovation Directorate then highlighted these to companies.

Third, the HIA addressed the lack of awareness among small, traditional agri-food companies of the potential benefits of the renewable energy and digital transitions, as well as related skill needs. For example, the Teican and Solabria projects trained small agri-food company employees in energy efficiency and renewable use and increased their awareness of the environmental impact of their businesses. Fourth and finally, the HIA helped small companies with administrative processes, which are usually a bottleneck to obtaining funds to innovate. In particular, Teican, Solabria and the Cantabria Rural Development Network helped to explain the HIA to Sidra Somarroza and to the other supported companies; helped with the writing of project proposals; and with the paperwork.

The HIA's challenges, experimental approach and scalability

In addition to COVID-19, a key implementation challenge facing Cantabria's HIA was the initial reluctance of rural businesses to participate in the initiative. The HIA's experimental approach helped to overcome this issue. To gain the trust and support of small, rural companies, the Innovation Directorate tested a new model of stakeholder engagement by conducting interviews to assemble the repository of agri-food companies. The face-to-face interaction and interest in the work and challenges of these businesses expressed by the Innovation Directorate during interviews was key in generating interest and support for the HIA among the companies.

With regards to continuity and scalability, the Innovation Directorate would like to further advance industrial transition support in Cantabria as a result of the policy lessons generated by the HIA. Four concrete lines of follow-up work are envisaged. They include identifying new ideas on how to address industrial transition challenges, supporting other pilot projects like those of the HIA in all five sectoral priorities of Cantabria's 2021-2027 S3, developing a formal monitoring and evaluation system to track pilot actions' progress and impact, as well as strengthening the innovation ecosystem in rural areas.

Lessons learned from the HIA

The HIA's implementation also generated valuable policy lessons, including the following:

- Appointing a dedicated staff member with expertise in the targeted transition sector is a contributing factor to success.
- Using a variety of mechanisms to foster an innovation culture may be required.

- Additional policy levers could increase company awareness of innovation, renewable energies and digitalisation's benefits (e.g., information and outreach campaigns, additional financial incentives and support, and corresponding capacity building and training programmes).
- An institutional coordinator is necessary to establish and maintain the necessary cross-sector collaboration.
- Limiting administrative burden and simplifying administrative procedures can attract more participants to industrial transition initiatives.

Introduction

This case study provides an in-depth assessment of the High Impact Action (HIA) carried out by the region of Cantabria, Spain. The HIA chosen by Cantabria focused on societal innovation as a pathway to advance industrial transition, specifically by reinforcing the region's green transition, digitalisation and social inclusion. It zeroed in on one of the region's specialisations, the agri-food sector, and supported three different, but complementary projects. These projects reached about 20 local companies, all in rural areas. These companies struggled to retain workers, had labour-intensive production processes, and staff that required upskilling. The HIA helped these small, traditional agri-food companies build awareness of the benefits associated with such transitions and the relative level of skills necessary. By supporting small businesses in isolated and rural areas, the HIA not only contributed to generating social inclusion in such areas, it also helped firms mitigate the risk of being left behind in the industrial transition.

Moreover, the HIA tested a new model for stakeholder engagement, which 1) identified synergies and promoted collaboration among traditional agri-food companies that had not collaborated in the past; and 2) promoted industrial transition by establishing new links among regional and local stakeholders who had previously not interacted (e.g. between different Directorates of the Regional Government, universities, and research and technology centres).

The purpose of this case study is to explore how new approaches to governance and policy can support industrial transition, through a process of experimentation within the HIA. Experimental governance is an iterative process of goal setting, exploring alternative approaches, and learning and monitoring (Morgan, 2018^[1]; Wolfe, 2018^[2]). The case study shows that adopting such an approach is not without preconditions and challenges but can help advance industrial transition if done well. Thus, it may serve as inspiration for practitioners and policy makers from other regions in industrial transition, for example those that did not participate in the industrial transition pilot.

This case study consists of five sections. The first section describes the industrial transition challenges and policy frameworks in Cantabria. The second section analyses the HIA, including its objectives, activities, governance mechanisms and contribution to industrial transition. The third section elaborates on the HIA's experimental nature. The fourth section sheds light on the policy lessons emerging from the case study for advancing industrial transition and the continuity beyond the pilot. The final section concludes the case study.

Cantabria's industrial transition challenges and policy frameworks

Cantabria is a region (Autonomous Community) located on Spain's northern coast. Its economy is historically based on agriculture, fishing, and small-scale industry. Cantabria's agri-food sector represents about 20% of the region's total industrial GDP and employment. It consists of 390 companies, most of which are small and medium-sized enterprises (SMEs) with 10 to 249 employees, or micro-enterprises with less than ten employees (Regional Government of Cantabria, 2022^[3]). Cantabria's agri-food industry has traditionally been based on artisanal production methods, and in recent years it has faced several challenges, including the need to adapt to digitalisation and address the climate crisis.

Cantabria's industrial transition challenges

Cantabria is faced with a number of challenges that affect its industrial transition capacity. If it could overcome them or mitigate their impact on the region, Cantabria will be better able to advance in its development aims. The most significant challenges are:

- The lack of an innovation culture.
- A lack of awareness – particularly among smaller businesses – of the potential benefits in engaging with the ‘green’ and digital transitions, particularly with respect to renewable energy.
- A skills shortage to engage in the green and digital transitions.
- A small and potentially shrinking workforce given the isolation of rural areas in Cantabria and the outward migration of youth.
- Limited capacity of smaller companies to engage with potential funding sources for innovation due to limited knowledge and resources.

There is a lack of an innovation culture

Cantabria’s agri-food sector accounts for only 0.7% of the region’s total industry research and development (R&D) expenditure (Regional Government of Cantabria, 2022^[3]). The sector is accustomed to receiving European Union funds as well as grants and subsidies from the regional government, so there is little incentive to innovate in order to boost competitiveness, for example by considering new production processes. Instead, small agri-food companies tend to focus on their own operations and may miss opportunities to collaborate and share knowledge that could contribute to production, product or market innovation, for example (OECD, 2022^[4]). In addition, many small companies are family businesses and are often reluctant to incorporate external people who, in addition to new workforce, may contribute to additional or new knowledge or ideas into the business, preferring strong personal ties as an employment characteristic. Given the outward migration of youth, however, this may be a missed opportunity. One way around this, for example, could be for small family businesses to organise themselves as co-operatives in order to have a larger pool of employees and entrepreneurial ideas. A family who owns land could co-operate with other families who have available workers, or even employ interested young people from urban areas.

Small agri-food businesses lack awareness of the potential benefits of the renewable energy and digital transitions

The renewable energy and digital transitions can reduce production costs, improve competitiveness, and can thus contribute to traditional agri-food companies’ industrial transition. However, small companies tend to be unaware of the benefits of the renewable energy and digital transitions, and face cost obstacles.

Until 2022 when energy prices spiked, energy consumption and its cost was not a concern for many of Cantabria’s smaller businesses (OECD, 2022^[4]). Typically, companies kept the same provider they had been working with for years not knowing whether other providers offered better deals. They were also unaware of the pricing system for energy. This resulted in many operating energy-intensive production lines during peak hours when electricity is more expensive. Changing energy consumption patterns is a form of business innovation and can improve competitiveness – points that Cantabria’s traditional agri-food businesses did not always consider or internalise.

Another obstacle Cantabria’s agri-food companies faced was the high upfront cost of adjusting energy consumption patterns (OECD, 2022^[4]). While changing production times can save money and increase efficiency, so can changing the type of energy used. Some companies have started investing in renewable energies – particularly solar energy – but this has been slow to get off the ground given the high initial costs for small firms.

Similarly, SMEs, and particularly those in Cantabria’s agri-food sector, are not very digitised, and upfront investment costs for the digital transition, such as new machines or production line automation, are high. Moreover, companies can be reluctant to increase their digital capacity because they are unsure about the usefulness of such an investment. Increasing the prices of agri-food products to cover digitalisation investment is not an option as there are national price caps.

There is a skills shortage to engage in the 'green' and digital transitions

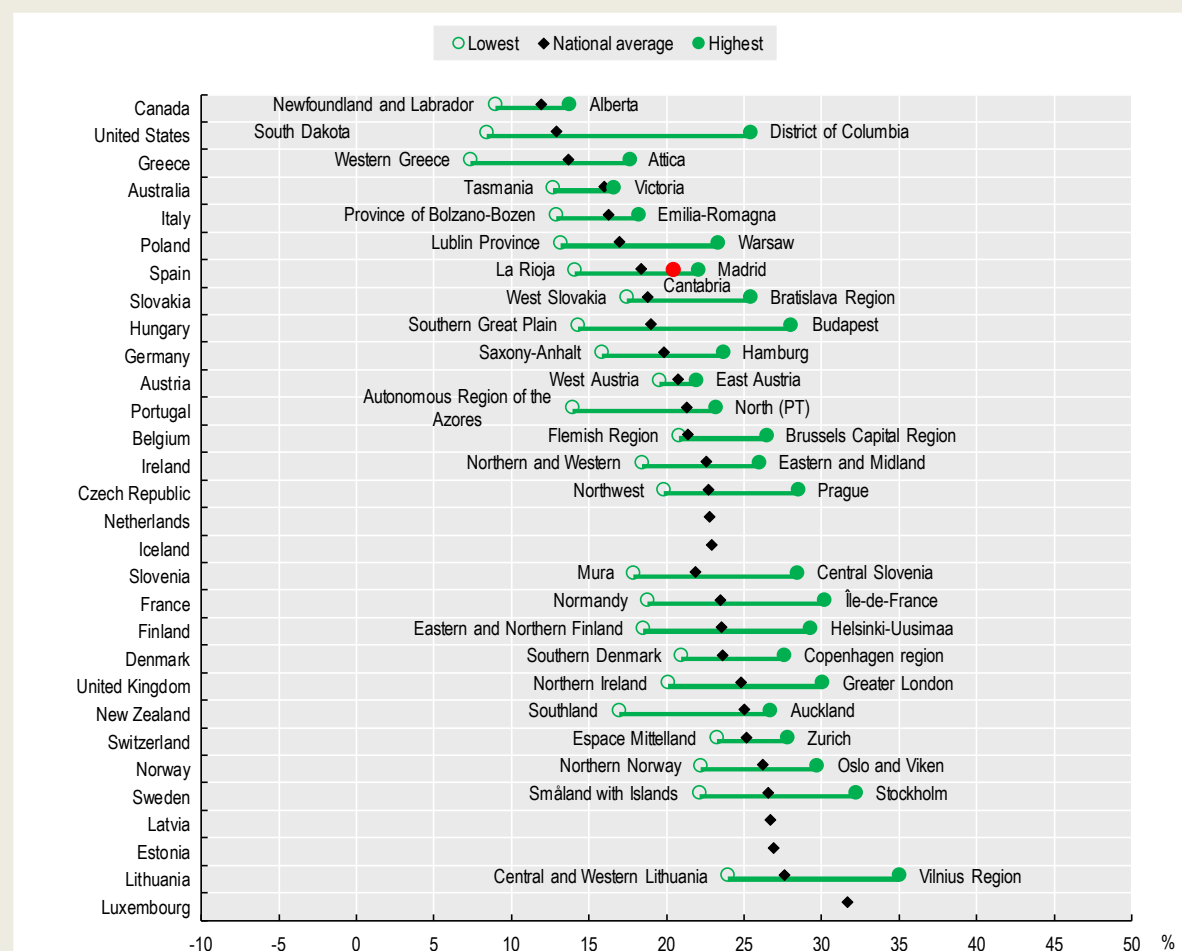
The lack of awareness of energy issues in Cantabria's agri-food sector means that workers with skills related to the renewable energy transition are in short supply. Though Cantabria has good basic education and university systems, several interviewees mentioned that technical education is lacking (OECD, 2022^[4]). Technical skills, such as installing solar panels or retrofitting old buildings for greater energy efficiency, are crucial for advancing the renewable energy sector. However, technical education is frequently undervalued, including in Cantabria. The result is that students are not exposed to 'green' technical jobs. Despite this, about 20.5% of Cantabria's workers are employed in jobs with a significant share of 'green' tasks that contribute to environmental objectives, such as solar panels installers or recyclable material collectors (Box 1.1). Cantabria is the region with the second highest share of green-task jobs in Spain after Madrid (22.1%). This highlights Cantabria's potential for green jobs. Yet over 16% of Cantabrian workers are employed in 'polluting' jobs in emission intensive sectors. This has slightly increased since 2011 and is higher than the Spanish average of 13.5% and OECD average of 11.7%. These workers will need to be retrained.

OECD interviews with local stakeholders indicated that traditional Cantabrian agri-food companies also lack digital competencies (OECD, 2022^[4]). One of the challenges for small companies is the high cost of training and upskilling their employees. The Cantabrian Regional Government's Directorate General for Fisheries and Agri-food is currently conducting a study to identify skills shortages, including 'green' and digital skills, to develop training and upskilling programmes to help agri-food companies in their industrial transition.

Box 1. 'Green' versus 'polluting' jobs in OECD member countries and in Spain

Across OECD countries, the leading regions currently have employment shares in green-task jobs of around 30%, while in regions at the bottom, green-task jobs account for less than 10% of employment (Figure 1).

Figure 1. Share of 'green' jobs across regions in the OECD

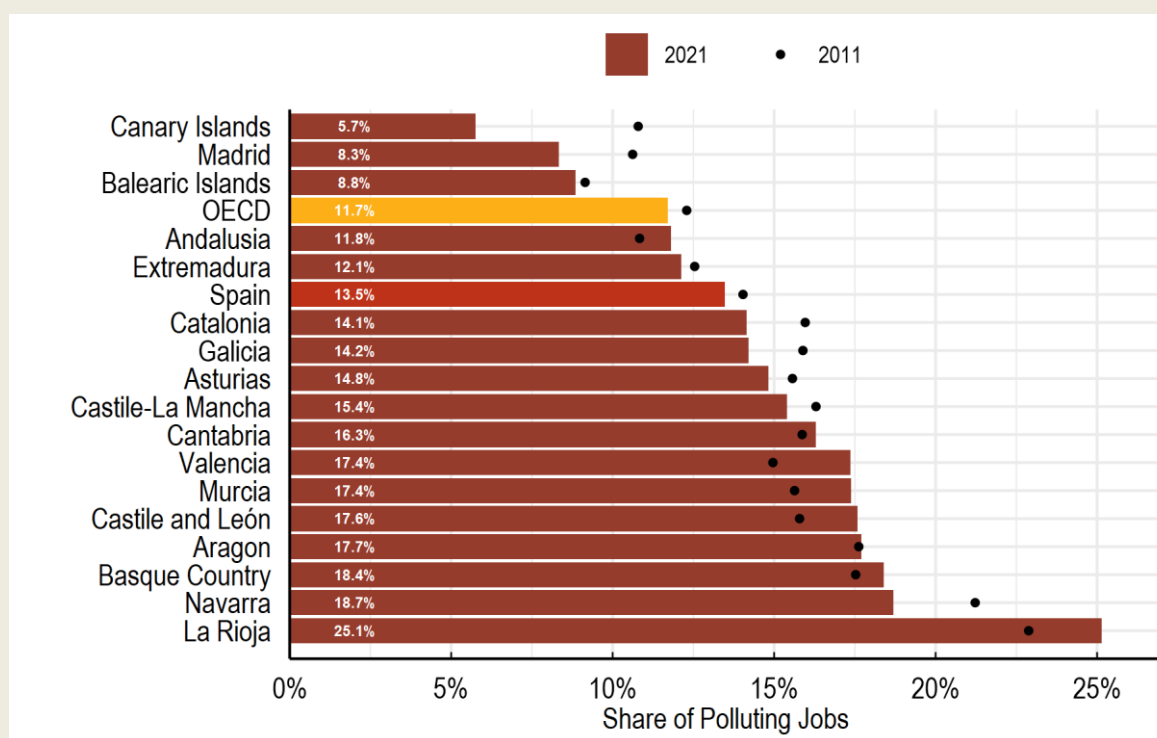


Note: Last available year. 2019 for the UK. 2020 for Iceland. 2021 for Australia, Canada, EU countries, Norway, New Zealand, Switzerland and the US.

Source: (OECD, 2023⁽¹⁹⁾) OECD calculations based on EU LFS, Canadian LFS (StatCan), OEWS (U.S. Bureau of Labor Statistics), Table EQ08 (Australian Bureau of Statistics), HLFS (Stats NZ), Slovenian LFS (Statistical Office of the Republic of Slovenia) and Polish LFS (Statistics Poland).

In Spain, specifically, the differences in the percentage of workers in 'polluting jobs' varies significantly by region. Furthermore, while there has been an overall decline in the number of such jobs since 2011, in eight out of 18 Spanish Autonomous Communities this figure has remained the same or increased to varying degrees since 2011 (Figure 2). Regions with a high share of 'polluting' jobs that are unable to shift out of these, risk being left behind in the green transition.

Figure 2. Share of 'polluting' jobs in Spanish regions



Source: OECD calculations based on EU LFS.

Source of box: Spain country profile in (OECD, 2023^[5]).

There is a small and potentially shrinking workforce, given the isolation of rural areas in Cantabria, and the outward migration of youth

Cantabria is both a coastal and mountainous region. Agri-food companies are located both on the coast (e.g. fisheries and canning businesses) and in more remote, mountainous or rural areas (e.g. beverage and dairy producers). This makes Cantabria's industrial transition challenges particularly place-based within the region itself, and more isolated areas could be left behind. Sparsely populated areas make it difficult to provide services and can lack sufficient infrastructure and job opportunities to retain people, especially younger generations.

Moreover, many businesses in mountainous and rural areas are small family businesses that offer low pay and have difficult working conditions (e.g. long days, limited possibility for holidays, seasonal employment, etc.). The result is that young people are often reluctant to take over their family's business, preferring to move to urban areas or other regions (OECD, 2022^[4]). This can result in limited growth for Cantabria's small businesses and affect their viability in the medium and long term.

Small companies have limited capacity to engage with potential funding sources for innovation, due to limited knowledge and resources

There are several grants from the national and regional governments for the agri-food sector, but many small businesses are not aware of them, do not know how to write a project proposal, do not understand the administrative language, or find the paperwork too burdensome (OECD, 2022^[4]). Moreover, if only two

or three people work in a company, this can severely limit their time and human resources to apply for grants.

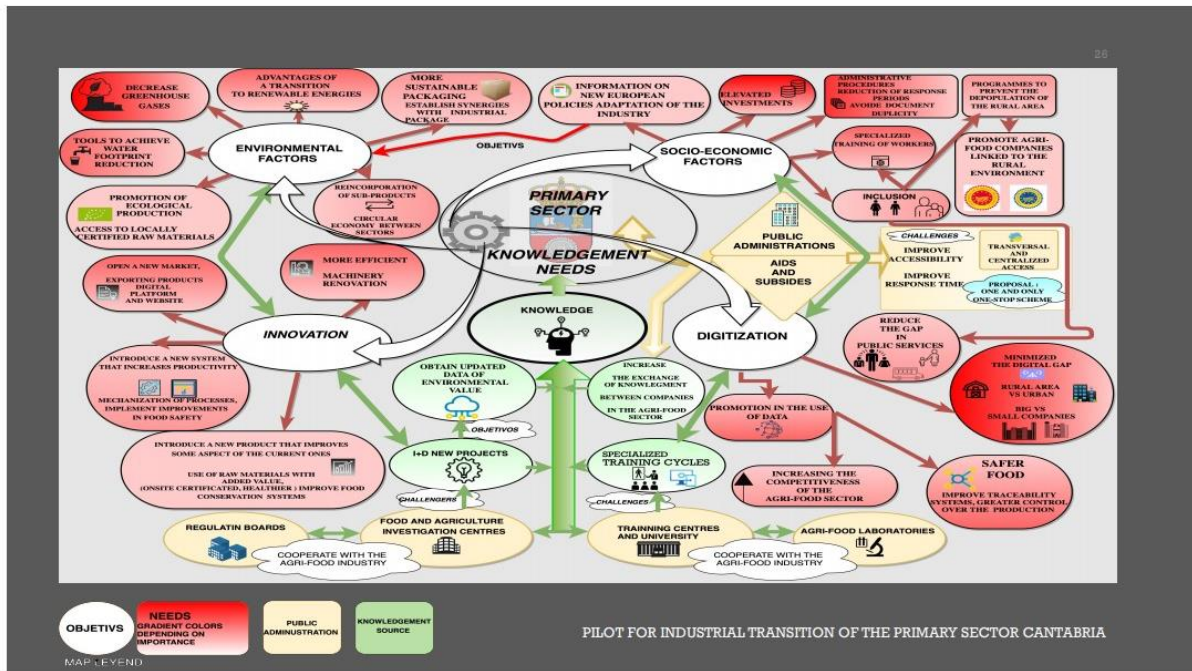
Cantabria's HIA

Cantabria's HIA was designed to address large societal challenges, such as climate change and digitalisation, by promoting societal innovation. It focused specifically on building demand for and support the use of renewable energy, digitalisation technologies and promoting social inclusion in the agri-food sector. The HIA supported three different but complementary projects (Teican, Kibus and Solabria). These projects reached about 20 local companies, all in rural areas. They were struggling to retain workers, had labour-intensive production processes, and staff that required upskilling. The HIA helped these small, traditional agri-food companies address cost obstacles associated with the green and digital transitions. It also helped build awareness of the benefits associated with such transitions and the relative level of skills needed. By supporting small businesses in isolated, rural areas, the HIA not only contributed to generating social inclusion in such areas, it also helped firms mitigate the risk of being left behind in the industrial transition.

Implemented activities

To help select HIA participants and projects, the Cantabrian Regional Government's Directorate General for Innovation, Technological Development and Industrial Entrepreneurship (henceforth the Innovation Directorate) – which led the HIA – developed a repository of agri-food companies it could potentially support to help advance Cantabria's industrial transition. The Regional Government identified companies with the potential to develop innovative sustainability, digitalisation or social projects in the agri-food sector to test solutions for Cantabria's industrial transition challenges (Figure 3). The repository also provided a comprehensive picture of the Cantabrian agri-food sector.

Figure 3. Brainstorming exercise on addressing Cantabria's industrial transition challenges in the agri-food sector



Source: (Regional Government of Cantabria, n.d.[6]).

The Teican project

Teican, an environmental engineering company specialised in energy efficiency and the installation of renewable energy solutions, helped a local cider producer (Sidra Somarroza) in reaching carbon neutrality. Teican analysed Somarroza's energy consumption and proposed improvements in the production process to increase sustainability and reduce costs, including by installing solar panels and transforming the company's combustion engine fleet of vehicles into electric ones. Teican also trained the company's employees in energy efficiency and renewable use: adapting work schedules to coincide with periods when the photovoltaic system is most efficient, solar panel maintenance, etc.

The Solabria project

Solabria is a non-profit energy co-operative that promotes the use of renewable energy and energy efficiency among Cantabria's small rural businesses. It aims to help companies advance towards low-carbon production models and create energy co-operatives to produce and share energy among participating companies. For instance, companies that produce an excess of energy at a certain time could share it with other companies. This would reduce costs and increase small business competitiveness, as well as sustainable energy consumption. It could also create new business and employment opportunities, thus retaining people in rural areas.

For the HIA, Solabria helped four companies improve their energy efficiency. It carried out energy audits to identify possible areas of improvement and trained the employers and employees in energy efficiency (for example, shifting some of the company's production during off-peak hours when electricity is cheaper). More generally, the audits also indicated how to reduce all types of environmental impacts.

The Kibus project

The Kibus project developed an online platform that allows local canned food and dairy producers to market their products. This opened up new channels of commercialisation for local producers who had not previously thought of selling online. The Kibus platform collaborates with social entities, such as a food bank, to provide job opportunities to workers who are struggling to stay in the job market.

Training course on addressing Cantabria's industrial transition challenges

To raise awareness and get wider support to address Cantabria's industrial transition challenges beyond the Teican, Solabria and Kibus projects, the Innovation Directorate organised a training course for other Directorates of the Regional Government, local governments, interested companies, university centres, researchers, groups of employees at risk of exclusion from the labour market, etc. The course focused on the transition to a low carbon economy, digitalisation's importance, innovation and corresponding upskilling and reskilling needs.

Governance and management of the HIA

Day-to-day implementation of the HIA was the responsibility of the Innovation Directorate. The financial support associated with the HIA allowed Cantabria to hire a dedicated project coordinator who was able to mobilise the stakeholders, co-ordinate the project, identify opportunities, and bring various parties together to maintain dialogue among various stakeholders.

To select the Teican, Solabria and Kibus projects and develop the repository of Cantabrian agri-food companies, the Innovation Directorate hired a Cantabrian agri-food sector expert through a public call. The expert and the Innovation Directorate approached 100 companies with a questionnaire and interviewed 47 of them in person. Three final companies were selected – Teican, Solabria and Kibus – and each received EUR 40 000 to carry out their pilot projects.

The Innovation Directorate mobilised and consulted many regional and local stakeholders around innovation, sustainability, rural development and digitalisation. For example:

- The Directorates General for Fisheries and Food, for Industry, Energy and Mining, and for Social Policy were all involved in helping the Teican, Solabria and Kibus projects.
- The Cantabria Rural Development Network, a non-profit association with a strong network in the rural business environment, helped establish links with small rural companies. The Rural Network approached many small businesses, explained the HIA initiative, helped them develop project proposals and assisted in completing necessary paperwork.
- The Santander International Entrepreneurship Centre (CISE) helped the Innovation Directorate better understand the Cantabrian innovation ecosystem.
- Other stakeholders included local governments, the Cantabria Chamber of Commerce, regional business associations, regional trade unions, the University of Cantabria and regional scientific and technology centres.

The Innovation Directorate communicated about the HIA initiative and consulted as many stakeholders as possible through seminars, workshops, media interviews and social networks.

HIA's responses to industrial transition challenges

The HIA addressed some of Cantabria's industrial transition challenges through concrete actions.

Helping small businesses in isolated and rural areas, which tend to be at higher risk of being left behind in the industrial transition.

The energy efficiency improvements introduced by Teican and Solabria for small agri-food businesses reduce costs and increase competitiveness. In general, companies could also use the newfound sustainability of their production process as a marketing argument, which could open doors to exports, especially to European Union countries. Kibus, the online marketplace, explores new selling channels for local agri-food producers and increases their visibility. To 2022, 16 local producers had joined the Kibus platform and some have started to sell their products beyond the Cantabria borders (OECD, 2022^[4]), thus boosting their growth and increasing job opportunities, which contributes to easing the rural exodus.

Strengthening Cantabria's innovation ecosystem by fostering stakeholder collaboration.

In the process of conducting interviews with agri-food companies, the team identified potential synergies or complementarities among companies or activities. The Innovation Directorate brought this to the attention of the relevant companies. For example, one interviewee mentioned that a cheese producer in a rural area opened a hotel on the same premises, and what used to be a simple visit to the shop to buy cheese can now be a weekend stay where clients visit the company, learn how to make cheese and enjoy the countryside (OECD, 2022^[4]). Another cheese producer started using a beer producer's waste, in a circular fashion, which allowed it to save on production costs. Furthermore, several rural companies are now grouping their raw material purchases and product sales to get better deals and share transportation costs to selling points, respectively.

OECD stakeholder interviews indicated that the HIA also established new links between the Regional Government, local agri-food companies and regional and local stakeholders who were not previously interacting (e.g. different Directorates of the Regional Government, universities, and research and technology centres), but whose interaction, if pursued and nurtured, could help strengthen the region's innovation ecosystem (OECD, 2022^[4]).

The HIA addressed the lack of awareness among small, traditional agri-food companies of the potential benefits of the renewable energy and digital transitions, as well as the related skill needs.

The Teican and Solabria projects trained small agri-food employees in energy efficiency and renewable use and, in the process, increased their awareness of the environmental impact of their businesses.

Some of the proposed solutions could also directly contribute to the renewable energy transition. Sidra Somarroza, the local cider producer that Teican supported, has an annual electricity consumption of about 30 700 kWh per year. The solar panels Teican might install could produce 31 500 kWh annually, so Sidra Somarroza could be self-sufficient in terms of electricity consumption (Regional Government of Cantabria, 2022^[3]).

The HIA's financial support would cover part of Sidra Somarroza's costs to switch to solar energy, which is one of the main obstacles for small firms as the initial outlay can be particularly onerous. Similarly, for Solabria the HIA's grant allowed it to carry out energy audits and train the employees of four companies in three months – a process that usually takes years since Solabria only relies on volunteer work (OECD, 2022^[4]).

The Kibus project increased the level of digitalisation and digital competencies among local agri-food producers, allowing them to sell their products online.

Lastly, the repository of agri-food companies and interviews conducted with local businesses provided a comprehensive understanding of the Cantabrian agri-food sector, its strengths, weaknesses and opportunities regarding industrial transition. For instance, the Innovation Directorate found that only 7% of consulted companies are ready for the 'green' and digital transitions. The training course organised for staff of other Directorates of the Regional Government and relevant stakeholders pointed to similar challenges: raising awareness of the importance of the low-carbon and digital transitions and corresponding skill needs.

The HIA helped small companies with the burdensome red tape associated with obtaining innovation funds.

Teican, Solabria and the Cantabria Rural Development Network (which supported the Regional Government to get in touch with small rural companies, see above) helped in explaining the HIA to Sidra Somarroza and to the other supported companies. This included the writing of the project proposals and help with other paperwork. Small rural companies are otherwise not aware of this type of initiatives or grants, and do not have the time, human resources and skills to apply.

The HIA's challenges, experimental nature and scalability

Cantabria's HIA faced two main challenges: the COVID-19 pandemic and the initial reluctance of rural businesses to participate in the initiative.

The HIA's original plan was different. Rather than supporting specific pilot projects, the aim was to develop a strategy for rural innovation hubs that would provide training opportunities, mentoring programmes, and knowledge exchange and networking opportunities to support new businesses in rural areas. However, the COVID-19 pandemic halted this undertaking and the HIA shifted from supporting the rural innovation and entrepreneurship ecosystem in general to supporting specific companies. It is the HIA's experimental nature that facilitated this shift, which is a particularly salient illustration of why an experimental approach can be the right approach (Box 2).

Box 2. What is experimentation about?

Experimenting means trying something new and doing things in a different way. This implies several things:

- One does not necessarily have to stick to the original plan.
- Failure is not an issue and is part of the process to find solutions.
- Experimenting is a learning-by-doing process.

Experimenting with public policy is important, especially for new challenges such as industrial transition, the low-carbon transition and digitalisation of the economy.

Once the HIA shifted to supporting specific companies, it was initially difficult to get businesses on board (OECD, 2022^[4]). They were hard to reach physically because many are located in isolated mountainous areas, and in practical terms, they did not see how the initiative could benefit them. For example, the cider manufacturer, Sidra Somarroza, had never considered installing solar panels because they had no problem paying their electricity bill. The companies also did not believe the promise that the energy co-operative, Solabria, would not make any profits from the energy community if they joined.

To gain the trust of small and rural companies, the Innovation Directorate tested a new model of stakeholder engagement by conducting interviews to assemble the repository of agri-food companies. The face-to-face interaction and interest in the work and challenges of these businesses expressed by the Innovation Directorate during the interviews was key in generating interest and support for the HIA among the companies (OECD, 2022^[4]). Moreover, having one dedicated expert leading this process and looking at all the companies with fresh eyes allowed it to identify synergies between companies or activities, which were not taking place before. For example, as mentioned above the expert made a cheese producer realise it could reduce costs by recycling a beer producer's 'waste' instead of buying a similar product to produce cheese, and the beer producer realised it could reduce recycling costs. Once companies started seeing the concrete benefits of collaboration, their adherence to the initiative increased. As several stakeholders

noted, the involvement of the Cantabria Rural Development Network and local governments also increased trust and participation in the initiative as rural business owners already had a relationship with them (OECD, 2022^[4]).

It is the HIA's financial support and a dedicated project co-ordinator following the initiative that contributed to its success, as it created space to go beyond day-to-day work routines and approaches within the Innovation Directorate (OECD, 2022^[4]).

Continuity and scalability of the HIA

As a result of the policy lessons the HIA generated, the Innovation Directorate would like to further advance industrial transition support. It aims to continue with the type of activities the HIA tested, including with dedicated staff and engaging more companies in similar pilot projects in the agri-food sector, as well as in other industry sectors (e.g. the metal mechanic industry) (OECD, 2022^[4]). Concretely, the Innovation Directorate plans to work on four lines of activity:

1. **Identify new ideas on how to address industrial transition challenges.** The Regional Government is considering organising an ideas contest on how to address Cantabria's industrial transition challenges and award the best ideas with a prize and some resources to carry out their projects.
2. **Support other pilot projects like those of the HIA in all five sectoral priorities of Cantabria's 2021-2027 S3.** These sectors are industrial digitalisation; the health system; the blue economy; the agri-food sector; and the culture industry/sustainable tourism. Each pilot would receive EUR 12 000. The Innovation Directorate mentioned that future pilots will aim to be more participative, with relevant stakeholders and even the general public co-creating the projects.
3. **Develop a formal monitoring and evaluation system** to track the progress of the pilot actions and their success. This includes, for example, the environmental impact of companies, their competitiveness, the development of digital skills among employees, etc. This monitoring would then help transfer best practices across companies and industry sectors.
4. **Strengthen the innovation ecosystem in rural areas.** The Innovation Directorate is considering resuming the work on the HIA's original idea of developing rural innovation hubs that would provide training opportunities, mentoring programmes, and knowledge exchange and networking opportunities to support new businesses in rural areas. This would ensure that not all efforts are concentrated in Santander, Cantabria's capital.

To accomplish these activities, the Innovation Directorate intends to hire one or two experts with a similar role as the HIA expert who developed the repository of agri-food companies, orienting these new repositories to different sectors (OECD, 2022^[4]).

Policy lessons from the HIA to advance industrial transition

Cantabria's HIA confirmed and deepened a set of insights about innovation and the low-carbon and digital transitions in the region, and particularly in its rural areas. It also highlighted some policy lessons that will be valuable to the Innovation Directorate's desire to scale up the initiative and to enable other regions to design initiatives to advance their industrial transition. Among these are:

- **Appointing a dedicated staff member with expertise in the targeted transition sector is a contributing factor to success.** The Innovation Directorate's hiring of an expert who was familiar not only with the region's agri-food industry but also with how regional governments work was key to help refine the HIA's design and implementation (OECD, 2022^[4]). This expert was well placed to approach local companies in the HIA's research phase, generate interest in the HIA, select the

right pilot projects, facilitate dialogue between the Regional Government and companies taking into account the needs of both parties, and help companies take advantage of synergies.

- **Using a variety of mechanisms to foster an innovation culture may be required.** Innovation inherently requires interaction and can depend on the social capital of actors, which can be difficult to generate in remote areas and in business environments or sectors where working together is the exception and not the norm. Cantabria's HIA and its implementation technique helped establish or reinforce relationships with and among a diverse set of stakeholders (e.g. different Directorates of the Regional Government, local companies, universities, and research and technology centres). These relationships centred on the theme of societal innovation through the 'green' and digital transitions in the agri-food sector (OECD, 2022^[4]). In doing so, it began to build the necessary levels of trust among actors to consider collaboration that could generate different forms of innovation. The support of local organisations on the ground, ones that already have established relationships with rural businesses in this case, was helpful, as was the leadership and commitment of the Regional Government.
- **An institutional co-ordinator is necessary to establish and maintain cross-sector collaboration.** Ensuring that this co-ordination role is clear and sufficiently well-developed can help foster a more collaborative culture for innovation and industrial transition within a regional government for example, as well as with a broader set of stakeholders. In Cantabria, the Innovation Directorate served as the HIA's co-ordinator overall. For example, the project co-ordinator hired by the Innovation Directorate contacted all the companies and mobilised the various stakeholders.
- **The Regional Government could think about additional policy levers to increase company awareness of innovation, renewable energies and digitalisation's benefits, such as information and outreach campaigns or additional financial incentives and support, especially in rural and remote areas, and provide some capacity building and training programmes.** With relatively little help – mainly introducing companies to the right contacts and some small financial support – rural companies and projects like Teican, Solabria and Kibus have started to address some industrial transition challenges, such as using energy more efficiently, switching to renewables or selling products online, thus overcoming rural areas' isolation.
- **Limiting administrative burden and simplifying administrative procedures can attract more participants in industrial transition initiatives.** Offering support in project design, working through administrative requirements and understanding the funding available and how to access them (as well as, ideally, simplifying these) can attract a broad range of potential project beneficiaries. Often, simplifying access to funds is what is necessary, rather than increasing financial aid (OECD, 2022^[4]). Furthermore, many businesses, including small rural ones, as seen in Cantabria, do not understand complex administrative language and lack the time and staff necessary to dedicate to cumbersome administrative paperwork, thus preventing them from applying for grants to innovate (OECD, 2022^[4]). Where the public administration does not have the capacity or human resources to reach out individually to small rural businesses, it could engage more with trusted networks of rural businesses that would be able to reach out directly to isolated businesses that would not seek government support on their own.

The HIA also fed into Cantabria's Smart Specialisation Strategy (S3) for the 2021-2027 period. For instance, some of the HIA's stakeholders were involved in the S3's Entrepreneurial Discovery Process. Moreover, the Regional Government is thinking about including pilot projects, like those of the HIA, in the new S3's action plan. Finally, the inclusion of the agri-food sector as one of the S3's five sectoral priorities is one consequence of the work on the HIA (OECD, 2022^[4]).

Conclusion

Cantabria's HIA is a policy experiment that supported small, traditional agri-food companies advance their industrial transition. The HIA helped these businesses build awareness of the potential benefits of the renewable energy and digital transitions, develop the related skills to harness these transitions, and facilitate administrative processes, which are usually a bottleneck when it comes to obtaining innovation funds. By supporting small businesses in isolated, rural areas, the HIA not only contributed to generating social inclusion in such areas, but it also helped these firms mitigate the risk of being left behind in the industrial transition.

Moreover, the HIA tested a new model for stakeholder engagement that 1) identified synergies and promoted collaboration among traditional agri-food companies that had not collaborated in the past, and 2) promoted industrial transition by establishing new links among regional and local stakeholders who had previously not interacted (e.g. between different Directorates of the Regional Government, universities, and research and technology centres). Thus, the HIA contributed to strengthening Cantabria's innovation ecosystem.

The set of insights into innovation and the low-carbon and digital transitions in the region, particularly in its rural areas, as well as the various policy lessons that can be derived from Cantabria's HIA, could support the scalability of similar initiatives in other industry sectors or regions.

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Annex: The EC-OECD Pilot Action on Regions in Industrial Transition

In 2018, the European Commission/DG REGIO with support from the OECD launched the pilot action *Regions in Industrial Transition* to support ten regions and two countries¹ in industrial transition prepare their Smart Specialisation Strategies (S3) and innovation policies for the 2021-2027 period. The pilot action was designed in two phases. The OECD supported the first phase with a series of five thematic workshops held with two cohorts of participants, each including five regions and one country. The findings from these workshops were collated into an OECD synthesis report, *Regions in Industrial Transition: Policies for People and Places*.

As part of the project, eight of the original regions and the two countries received a EUR 300 000 grant from DG REGIO as well as tailored advisory services to design an HIA that could support their industrial transition strategies.

The OECD is supporting the European Commission with an assessment of each HIA. The aim is to take stock of the potential benefits of different types of HIAs on industrial transition and of the policies that support them. Each assessment considers the actual or expected results of individual HIAs through an understanding of their objectives, activities, governance mechanisms and experimental nature. The in-depth analysis also explores how each pilot region/country expects their individual HIA to contribute to their industrial transition and advance their Smart Specialisation Strategies and governance.

¹ The regions are Cantabria (Spain), Centre-Val de Loire (France), East North Finland (Finland), Grand Est (France), Greater Manchester (UK), Hauts-de-France (France), North Middle Sweden (Sweden), Piedmont (Italy), Saxony (Germany) and Wallonia (Belgium). The countries are Lithuania and Slovenia.

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