

## How can innovation contribute to socio-economic development?

Innovation can play a critical role in addressing socio-economic objectives, which are affected by the following factors.

- **Economic growth and employment.** (see [Contributions to growth and jobs](#) [1]). Neoclassical growth models consider knowledge accumulation and technological progress as the only way to achieve long-run growth to reduce effect of diminishing returns to capital. Advances in growth theory have recognised the endogeneity of the accumulation of knowledge capital and human capital: human and knowledge capital derive from investment decisions of individuals and firms in response to economic incentives and therefore to policies and institutions. Innovation is also often associated with setting up new enterprises to provide the market with new offerings and create new jobs. At the same time, innovation can lead to firm closures and job destruction if products or services become obsolete or are displaced by more competitive offerings. Aggregate employment effects will depend on the nature and effectiveness of labour reallocations.
- **Environmental challenges.** (see [Addressing environmental challenges](#) [2]). Innovation is increasingly perceived as crucial for tackling environmental challenges like limiting climate change and global greenhouse gas emissions and maintaining biodiversity. Innovation can contribute to addressing environmental challenges through the introduction of new technologies and non-technological innovations. These non-technological innovations—in particular, organisation innovation—are needed to make environmental technological innovation effective. For example, evidence shows that innovation in climate change mitigation technologies is accelerating and that in recent years manufacturing companies have also been upgrading their efforts towards sustainable manufacturing, from introducing pollution prevention to designing integrated approaches that take into account product lifecycles and wider impacts.
- **Social challenges.** (see [Addressing social challenges](#) [3]) Innovation can help alleviate social challenges, which encompass health and demographic challenges, and social exclusion and inequalities, among others. As an example, innovation can help elderly individuals remain healthier, live independently longer, and counteract the diminishing of physical capabilities that become more prevalent with age. Innovation can also provide more personal, predictive and preventive health care products that improve the quality of human health. In addition, frugal or inclusive innovations that basically are cheaper and simplified versions of existing goods help reduce differences in living standards between groups in society. In addition to innovation addressing social exclusion social benefits arise by creating employment opportunities and addressing particular challenges faced by lower income groups.

### What are specific contributions of innovative entrepreneurship?

Innovative entrepreneurship can contribute to socio-economic challenges by:

- **Formalising the informal sector** (see [Formalising the informal sector](#) [4]). The creation and development of innovative enterprises can lead to reductions in the informal sector, in several ways. First, innovative new ventures are less likely to operate in the informal economy, as they have higher returns from operating in the official economy (e.g. by partnering with financial institutions and co-operating with established firms). Second, they

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may provide employment opportunities and innovations that encourage people and businesses to move from the informal sector to the formal sector.

## References

- OECD (2010), "Addressing global and social challenges through innovation", in The OECD Innovation Strategy: Getting a Head Start on Tomorrow, OECD Publishing. doi: 10.1787/9789264083479-8-en
- OCDE (2012), "Innovating for global and societal challenges", in OECD Science, Technology and Industry Outlook 2012, OECD, Paris. doi: 10.1787/sti\_outlook-2012-en

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[1] <https://www.innovationpolicyplatform.org/content/contributions-growth-and-jobs?topic-filters=12084>

[2] <https://www.innovationpolicyplatform.org/content/addressing-environmental-challenges?topic-filters=12241>

[3] <https://www.innovationpolicyplatform.org/content/addressing-social-challenges?topic-filters=12081>

[4] <https://www.innovationpolicyplatform.org/content/formalising-informal-sector?topic-filters=12082>