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DIAGNOSIS OF DIGITAL CONNECTIVITY IN RURAL SPAIN

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ACRONYMS

AI	Artificial Intelligence
APL	Arranjos Productivos Locais (Local Productive Arrangements)
B2B	Business-to-Business
B2C	Business-to-Consumer
EU	European Union
FTTH	Fibre to the Home
GDP	Gross Domestic Product
ICT	Information and Communication Technology
LTE	Long Term Evolution
NPM	New Public Management
OECD	Organisation for Economic Co-operation and Development
PPP	Private Public Partnerships
UN	United Nations
VR	Virtual Reality

Abstract

España Vacuada and the Digital Divide are two phenomena that have significant impacts on the sustainability and well-being of Spain's rural areas. The former, which describes the phenomenon of empty interior regions, resulting from the concentration of population in a limited number of areas, has felt the negative repercussions of the unequal distribution of broadband connectivity which continues to punish its rural areas in the form of digital under-connectivity.

Literature has extensively captured the increasingly prominent role of digitalisation in the lives of individuals and businesses as a facilitator of everyday tasks, both small and large scale. The widespread adoption of digital technologies has radically impacted daily life and altered the way that society produces, consumes, communicates and innovates. Without a doubt, it has opened a door of endless opportunities by granting businesses and individuals with unprecedented access to information and reach.

However, society's overdependence on digital technologies was exposed by the COVID-19 pandemic, when digital became the default as opposed to an option; the closure of schools, businesses and a general societal stand-still made virtual interactions the only viable option. Whilst appreciating the key role of digital infrastructure in supporting the surge in demand for digital services like streaming or online education platforms, it is impossible to ignore the victims of the Digital Divide who are excluded from full digital access.

The thesis uses Kernel Density estimates to examine the distribution of broadband connectivity in Spain and identifies the patterns of connectivity, exposing how the Digital Divide exacerbates existing inequalities, particularly in rural municipalities. It contests that addressing the Digital Divide requires an approach that considers both the supply and demand of digital infrastructure.

After conducting this research, the findings suggest that public investment must be allocated where demand for digital infrastructure can be stimulated the most, on the basis that the supply of digital infrastructure will be most effective where there is underlying demand for it.

Key words: broadband, depopulation, digitalisation, digital divide, market failure

Resumen

España Vacuada y la Brecha Digital son dos fenómenos que tienen importantes repercusiones en la sostenibilidad y el bienestar de las zonas rurales españolas. El primero, que describe el fenómeno de las regiones interiores vacías resultante de la concentración de población en pocas zonas, ha sentido las repercusiones negativas de la desigual distribución de la conectividad de banda ancha, que sigue castigando a sus zonas rurales en forma de infra-conectividad digital.

La literatura ha recogido ampliamente el papel cada vez más destacado de la digitalización en la vida de personas y empresas como facilitadora de las tareas cotidianas, tanto a pequeña como a gran escala. La adopción generalizada de las tecnologías digitales ha tenido un impacto radical en la vida cotidiana, abriendo una puerta de oportunidades al conceder a empresas y particulares un acceso y un alcance sin precedentes.

Sin embargo, la excesiva dependencia de la sociedad respecto a las tecnologías digitales quedó al descubierto con la pandemia, cuando lo digital se convirtió en la opción por defecto en lugar de una opción; el cierre de escuelas, empresas y un estancamiento general de la sociedad convirtieron las interacciones virtuales en la única opción viable. Aunque se valora el papel clave de la infraestructura digital para apoyar el aumento de la demanda de servicios digitales como el streaming o las plataformas de educación en línea, es imposible ignorar a las víctimas de la Brecha Digital que están excluidas del pleno acceso digital.

La tesis utiliza estimaciones de Densidad Kernel para examinar la distribución de la conectividad de banda ancha en España e identifica los patrones de conectividad, exponiendo que la Brecha Digital exagera las desigualdades existentes, particularmente en los municipios rurales. Sostiene que abordar la Brecha Digital requiere un enfoque que considere tanto la oferta como la demanda de infraestructura digital.

Tras llevar a cabo esta investigación, las conclusiones sugieren que la inversión pública debe asignarse allí donde pueda estimularse más la demanda de infraestructura digital, partiendo de la base de que la oferta de infraestructura digital será más eficaz allí donde exista una demanda subyacente de la misma.

Palabras clave: banda ancha, despoblación, digitalización, brecha digital, fallos del mercado

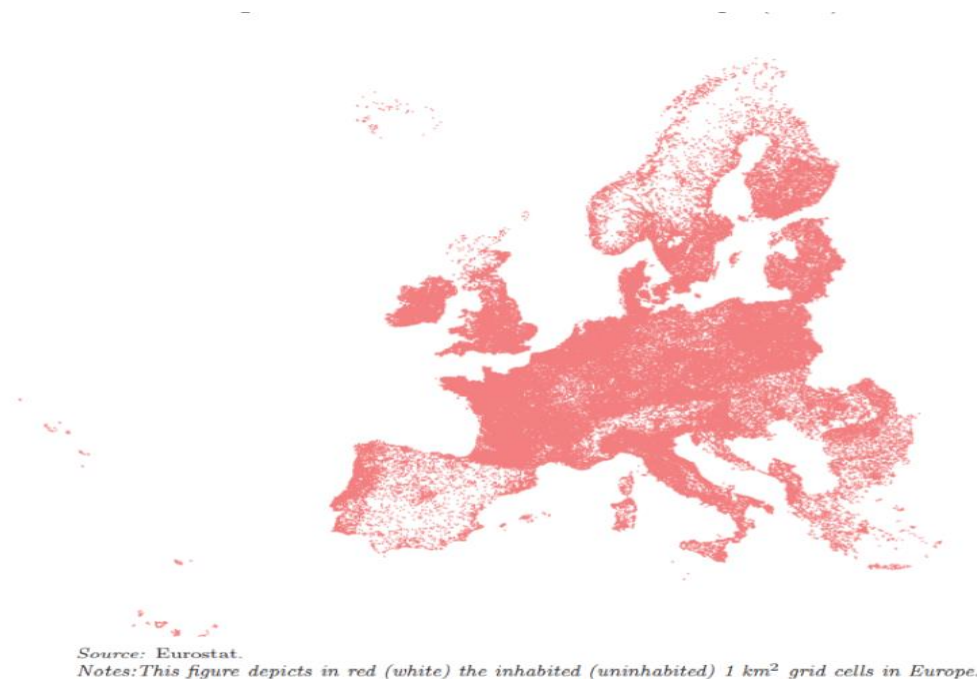
1. Introduction

1.1 Motivation

The main inspiration for this thesis is a map, which depicts a snapshot (Figure 1) of inhabited Europe (Eurostat, 2020) in which each red dot represents a km² of inhabited land while white areas reflect the bare parts, those uninhabited. It reveals that the only areas of land in Europe with comparably low population density are the Alps and Scandinavian countries. The phenomenon of *España Vacuada* - “Empty Spain” - has been at the front and centre of Spain’s demographic challenges and refers to the depopulation and abandonment of Spain's rural areas and the associated loss in economic activity of those interior regions.

As the map depicts, Spain’s population and its corresponding wealth is instead highly concentrated in few areas, those being its main cities like Madrid, Barcelona and the Balearic Islands which benefit from a high foreign population given their popularity as an expat destination. In essence, agglomeration economies like these enhance the productivity of firms and workers in dense urban environments, who vacate rural areas in the process.

Figure 1. Map of Uninhabited Europe



Source: Eurostat (2020)

Data captured by the National Statistics Institution (INE) reflects the declining population of Spain's rural areas which has been shrinking at a rate of 0.7% annually since 2015 and growing urban populations (0.5% annual average increase) – contributing to the struggles of the former and success of the latter (INE, 2020). These movements are manifested in macroeconomic indicators like higher unemployment rates, lower income level and limited access to social services; the combination of which fosters a vicious cycle of increasing deprivation. This cycle works on the simple basis that the fewer resources (e.g., human capital) that exist in an area, the less effective (hence less attractive) it will be for new resources to be invested in it. One of the best examples for this is education since it is apparent that limited access to good education is bound to push talented individuals to seek elsewhere for opportunities, which can be found in main cities like Madrid or Barcelona. As young people flee to urban hubs, the incentive for private organisations to set up schools without support from the state declines due to a shrinking addressable market (fewer students) that implies lower profitability.

This thesis chooses to explore this demographic challenge in the context of the Digital Divide since digitalisation has defined the last 20 years in terms of socioeconomic evolution and will continue to do so, catalysed by the unprecedented investment in innovation and improvement of existing technologies (AI, VR, 5G, 3D printing...to name a few). I chose to evaluate how this transition plays out in Spain which is already marked by structural demographic challenges. Its skewed population distribution highlights a major hurdle for equal opportunity across the country and incites a preference for urban hubs over rural areas. Understanding the role of this demography in promoting the persistence of inequality is crucial to analyse the opportunity for digitalisation to narrow the inequalities and its danger of exacerbating them. Coupling the phenomena of *Digital Divide* and *España Vacía* (inspired by Figure 1) brings into question whether the spread of digital access in Spain displays a similar pattern of heterogeneity as the spread of its population. The emptiness of rural interior regions seems to be both a symptom and cause of their low population density since a lack of connectivity hinders their economic growth opportunities. Over time, urban-rural disparities become magnified as cities are quick to adopt new technologies while rural areas struggle to catch up, leading to a widening gap.

Whilst the map of inhabited Europe reveals the phenomenon of *España Vacía*, the COVID-19 pandemic exposed the vitality of digitalisation as a tool of adaption and resilience. As national lockdowns came into effect across Europe – lasting from 28 days in

the case of Germany and 99 days in Spain – the everyday of many was forced to transition into virtual mode. Leaning on technology so heavily for work, education, communication and entertainment exposed the extent of our dependence on access to digital services; from online classes to streaming entertainment. However, this extensive use of technology was possible based on two factors: (i) access to a digital device (ii) access to connectivity of sufficient reliability and speed to withstand those activities almost seamlessly or with minimum disruptions.

However, this was not the reality for much of the world. Over a third of children – 463 million globally – were not able to access remote learning when COVID-19 shuttered their schools (UNICEF, 2020). This scale of school closures shed light on the gap in digital devices, training and connectivity which set back participating in what the rest of the world labelled a “new normal” (Fineberg et al., 2021). For example, households who did not benefit from a 1:1 device-to-person ratio during lockdown were forced to prioritise device-usage for the income-generating activities – jobs - over children’s studies. Organisations like *Ayuda en Accion*, in Spain, struggled to support families and teachers with the difficulty of their online transition in areas like Virxe da Cela de Monfero (A Coruña), worsening their despair over inability to download documents, interact using digital resources, multimedia or even join a Zoom call (Ayuda en Accion, 2020).

1.2 Objectives

The ultimate objective of this paper is to add value by proposing a solutions framework based on criteria that might guide an adequate allocation of government resources towards digital infrastructure. By accounting for the real limitations that the state may face, the framework suggested will aspire to present a potential approach to confront the Digital Divide in Spain.

Prior to the introduction of a solutions framework, the thesis aims to underpin the causes of the depopulation of Spain’s interior regions which is symptomatic of a widening rural-urban divide, whilst recognising that these large areas of liveable territory present an opportunity that is unmatched in Europe. This includes identifying the most prominent demographic trends that are shaping the characteristics of Spain's population going forward.

Secondly, the project will deliver an accurate picture of connectivity in Spain to reflect the existence of the digital divide and draw conclusions on the distribution of broadband

coverage using empirical data. The analysis, using Kernel Density estimates, will be used to produce a diagnosis of Spain's state in terms of connectivity, identifying strengths and weaknesses.

1.3 Investigation question

This thesis concentrates on responding to the following investigation question:

To what extent does the Digital Divide manifest rural-urban disparities in Spain in the context of *España Vacuada*?

1.4 Justification

The commitment of this thesis to the Digital Divide in the context of the depopulation of rural areas in Spain is justified on various grounds.

Foremost, the topic combines two of Spain's most pressing challenges to date; *España Vacuada* and the *Digital Divide*. The new digital context invites further rural-urban inequalities, despite its potential for opportunity. Although the Digital Divide is a challenge faced by nations across the world, Spain's demographic structure makes it especially vulnerable to the inequalities that digitalisation creates in its wake. This puts in question the real risk for Spain's existing inequalities to become endemic as a result of the Digital Divide.

In particular, the role of digitalisation and its positive relationship to economic growth explore topics encountered throughout my university studies in the modules of International Economics and Microeconomics, as well as a more personal interest in macroeconomic trends, inspired by Hans Rosling. In this field, the paper goes beyond the learnings of these modules by applying the theoretical concepts acquired (Market Failure, Multiplier and Accelerator effects) to a real scenario. By using both qualitative and quantitative analysis of empirical data, the paper puts into practice the theory at hand.

With the aim of building a framework, this paper is an opportunity to put forward a viable template for public sector action based on a diagnosis of Spain's connectivity as a contributor to municipal disparities. From the interpretation of historical data to the proposal

of a basic model, this dissertation will consolidate existing skills and foster new of competencies in data interpretation.

On balance, the theme of this thesis is meaningful and enriching to the larger effort in fighting the Digital Divide and in favour of an inclusive future for Spain's rural areas.

1.5 Methodology & Structure

This thesis is comprised by four main chapters. **The first chapter** is an analysis of existing literature from previous authors surrounding the theme of *España Vacuada*, the urban-rural divide and demographic trends. Beginning with literature on the political and demographic context of Spain, this first section will highlight the implication of the two in promoting an unequal distribution of resources and population across the country. The second will investigate further into the arrangement of Spain's territory by type of municipalities (urban, rural intermediate and rural small) according to the National Statistics Institute (INE) classifications. The third part of this literature section focuses on extracting conclusions based on the information and data of previous authors on global and national demographic trends, using the publications of organisations such as *OECD* papers and *European Commission* publications to offer insight into what features characterise Spain's population. Essentially, the first body of this paper seeks to identify the forces driving heterogeneity between Spain's rural and urban areas. The analysis aspires to extract an empirically founded interpretation of *España Vacuada*.

The second chapter consists of a literature review on digitalisation in order to introduce the concepts of digitalisation and the Digital Divide, as well as explore its association to economic growth and resilience. In its first section, Chapter 2 gathers readings from key authors in the field of digitalisation and sources such as the *European Commission* publications on the matter to gather an understanding of how digitalisation has been defined in previous works. Secondly, it will focus on the positive relationship between GDP and digitalisation that has been studied so far, identifying the main ways in which digitalisation translates to socioeconomic growth as well as the factors that hinder it. Thirdly, the chapter will look at the undersupply of digital infrastructure in rural areas in the economic framework of a market failure. Overall, this section establishes a sound understanding of the concepts that will be analysed in the following sections and consolidates the relevance of addressing the Digital Divide.

The third chapter will be an empirical analysis of the Digital Divide in Spain, founded on the patterns identified in the first and second literature analyses. The aim of this section will be to produce a diagnosis of Spain's Digital Divide by applying the understanding of *España Vacuada* in the context of the investigation question. In suit, an analysis will be carried out on the digital inequalities that exist in Spain, which will be measured across broadband data sourced from the Spanish government database for *Broadband Coverage in Spain time series (2013-2020)* according to municipalities, provinces, autonomous communities and nationally. The data will be synthesised for the purpose of this study, to create a smaller database comprised of the municipal level data coverage across four technologies: Fibre to the Home (FTTH), LTE (4G), Internet speed (Cob>100Mbps) and 5G. Before carrying forward the analysis, the main broadband technologies (FTTH and LTE) will be explained in terms of their rollout in Spain since their maturity of deployment will be relevant when understanding their distribution. Using the selected data, the distribution of coverage (as a % of coverage) will be illustrated for each indicator via Kernel Density estimates. The four resulting graphs will be analysed in terms of the disparities between high and low connected groups to understand the current spread of broadband infrastructure in Spain. While it would be interesting to study the evolution of these indicators over time, the paper will use the latest available figures (June 2020) for its Kernel Density estimates in order to diagnose Spain's *current* situation.

The fourth chapter is an inductive approach founded on the observations made from the literature reviews and the empirical analysis of the Digital Divide in Spain. This final chapter will proceed to establish a solutions framework to address the Digital Divide based on the economic theory of supply and demand, as well as considering the importance of a feasible and sustainable approach. The paper will establish three conditions on which to assess the level of existing or potential demand for digital infrastructure, deduced from earlier observations and analysis. Under this inductive methodology, the paper will address the potential role of small cities as mini-hubs in bridging the Digital Divide and explore empirical cases of this model in other economies.

Finally, the thesis will gather the main conclusions deduced from the investigation carried out throughout the thesis.

2. Context of “España Vacía”

“We will cherish and preserve our rural areas and invest in their future. They are a core part of our identity and our economic potential.”

- *Ursula von der Leyen, President of the European Commission*

2.1 Demographic Context

The recent increase in urbanization in the Spanish economy has been accompanied by a new phase of rural depopulation in Spain, known as *España Vacía* as highlighted by Gutiérrez et al. (2020a) which has surfaced the discussion on the inequality between rural and urban areas, as reported by the central bank of Spain (Banco de España, 2021). To understand the regional or municipal disparities of Spain, it is important to understand the political and demographic context of the country. This chapter lays out the implications of Spain’s political structure on how the country implements public policy and, more importantly, delves into the underlying trends of its demography which serve to interpret how inequalities may manifest themselves. Instead of providing a snapshot of the current situation, the main demographic trends are telling of the direction in which the population is headed. This way, one can foresee the potential risks that the country may face and implement proactive policies to minimise the pitfalls by adapting to the evolving population features.

At the same time, depopulated areas offer an unprecedented opportunity; Spain’s atypically uninhabited areas empty areas are liveable, such that they could offer an environment as good, or even better, than other empty parts of Europe. As earlier mentioned, when mapped, Spain’s vast areas of empty land are as unpopulated as the Northern part of Scandinavia (Figure 1). However, in Scandinavia the vacancy of empty zones is explained by survivability; they present harsh climate zones of unfertile land, difficult mountainous terrain and dark winters. Over time, limited access to resources and poor crops leading to starvation, created large swaths of sparsely populated land (Roto, 2012). In contrast, it is harder to understand what lies behind Spain’s emptiness given its geographical proximity to other European countries and Africa, and generally moderate climate - hot summers and cold winters in the interior regions, and mild summers and cool winters on the coastal zones.

Surely, this loads Spain with the opportunity to receive people and set up production facilities, particularly appealing for those requiring large areas of affordable land.

2.11 Political Structure of Spain

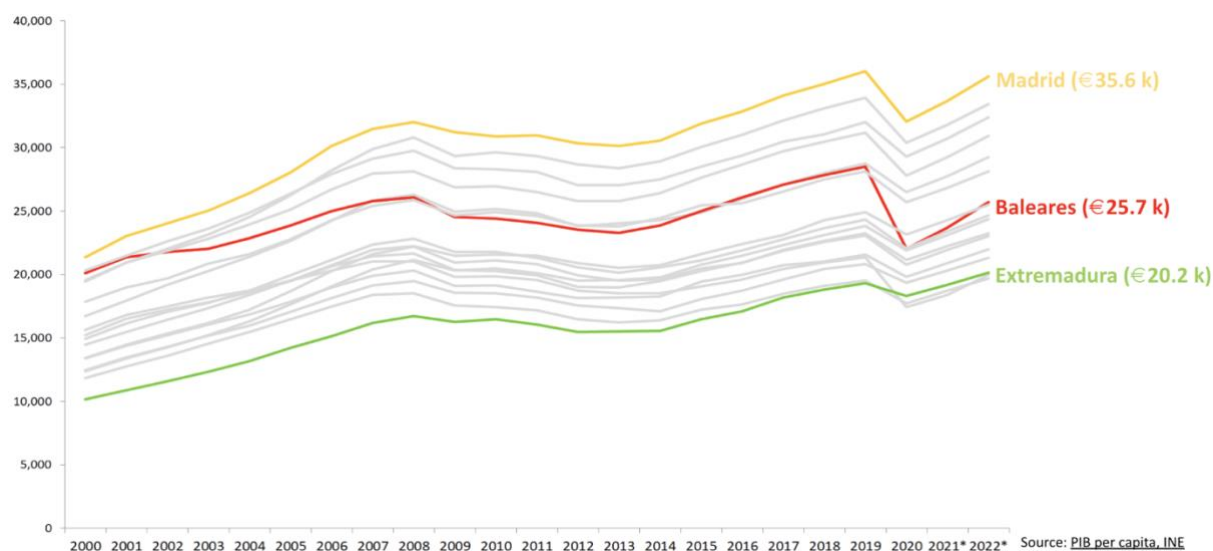
Spain's political structure is extremely relevant to understanding its interregional differences. The country is made up of 17 regions referred to as Autonomous Communities ("Comunidades Autonomas") which characterise the way in which the country is run. Although, the country was highly centralised during the dictatorship, Spain's constitution (adopted in 1978) created the state of autonomies under a pact that confirmed Spain as a multinational and multilingual state (Rabanal, 2020). Each of these communities has, as implied by the name, its own *autonomous* executive and legislative powers such that there are three layers of governance; central, regional and local (Art.137 of the Constitution). The initial aim of this decentralisation was to promote solidarity among people by leveraging economically privileged regions as drivers for development in less fortunate communities.

However, despite the Constitution's attempt to address inequalities through this principle, the persistence of imbalances becomes evident when various indicators such as economic, social, and demographic factors are analysed – beginning with the unequal distribution of economic resources. The period from the 1960s, marked by the urban-industrial revolution, saw the emergence of significant urban-rural inequalities, as well as between industrial and tourist regions compared to agricultural ones. Following the economic crisis of the 1970s, the tertiary sector saw unprecedented growth, known as "*terciarización*" (Roura, 2016) as employment in the service sector surged; from representing 36.5% of total employment in 1970, to accounting for 76.2% of all jobs in Spain by 2015. This exacerbated inequalities between regions that were better suited for tourism or hospitality, such as the Mediterranean coastal regions, and others like Asturias who instead saw their industries decline (Cuadrado-Roura and Maroto-Sánchez, 2012).

The distribution of Gross Domestic Product (GDP) per capita serves as a reflection of economic imbalances between regions. The gap in income per capita has increased in the last 20 years as the differences between highest and lowest income regions have widened with time (Figure 2) with Madrid maintaining a top position throughout. Comparing Spain's interregional disparities to those in the United Kingdom (once London is excluded as an anomaly), one will find that the poorest 11 of 17 Spanish regions fall below the UK's lowest by the measures of GDP per capita. In this context, the imbalance of Spain's autonomous

communities underscores the challenge of levelling up and equality, including digital equality.

Figure 2. Regional GDP per Capita in Spain



Source: INE, own elaboration

2.12 Demographic Structure of Spain

Spain's national demography forms part of the broader geographic context of Europe and reproduces much of the demographic patterns observed in the continent. Although rural and remote rural areas comprise 83% of the total EU territory (European Commission, 2021), they are inhabited by a declining proportion of the population (30.6%) that is typically older than the population residing in urban areas.

To capture the public's "Long Term Vision of Rural Areas", the Commission held a public consultation, in the style of a survey, to collect the input of 2,326 citizens across all EU Member States with the aim of identifying priorities for policymaking. The overriding opinion was that basic infrastructure was the most critical need for rural areas, which was voted by 50% of participants as the top priority (European Commission, 2021). The survey revealed that restricted access to services (like banks and post offices), coupled with insufficient broadband connectivity, exacerbates depopulation, out-migration, ageing, educational deficits, lack of skills, and gender-based employment disparities in rural and remote regions – leading to a higher risk of social exclusion in rural areas (European Commission, 2021a).

The difference in accessibility to services between rural and urban areas is present across Europe. Out of its European peers, however, Spain is marked by particularly acute differences in the access that its rural and urban populations have to different services, with analysis demonstrating that rural municipalities in Spain exhibit a lower level of accessibility to services when compared to other European countries. In terms of accessibility to services in urban areas, Spain is similar to other European countries, however this does not hold for its rural areas.

Rural provinces in Spain show reduced access to local services in comparison to their European counterparts, when measured in terms of distance to the nearest service - with the average citizen located 12.4 km from the nearest service, as opposed to 4.8 km, 7.6 km, and 4.7 km in the rural regions of Europe (Alloza, 2022). Municipal level analysis of Spain reveals a significant shortfall in the accessibility to services in rural areas; for example, citizens of rural municipalities compared to urban ones, find themselves 20 km further away from the nearest local services like schools, primary healthcare centres, post offices, small shops or sports centres. This disparity can be partially attributed to the geographical isolation of rural municipalities, which often results in greater difficulties and costs in providing specific services.

This is consolidated in data gathered by Kompil et al. (2019) which concluded that cities enjoy greater access to services due to the presence of agglomeration economies (Duranton and Puga, 2020). The term suggests that enhanced physical proximity leads to better interaction between companies and employees and the provision of services at a more cost-effective rate due to shared infrastructure (Bolter and Robey, 2020). This is supported by the fact that Madrid and Barcelona have the best accessibility to services, with an average distance of 1.5 km and 1.6 km, respectively. On the other hand, predominantly rural provinces such as Teruel, Zamora and Cuenca are at the lower end of the spectrum, with their inhabitants having to travel far greater distances, an average of 15-20 km, to access a local service, exceeding the EU average of 4 km several times over.

2.2 Rural Spain

Although there are varying definitions for the term “rural”, this paper will focus on Spain’s official definition by the National Institute of Statistics (INE) as the primary source of statistics for the country. In its glossary, INE splits territorial areas under two main

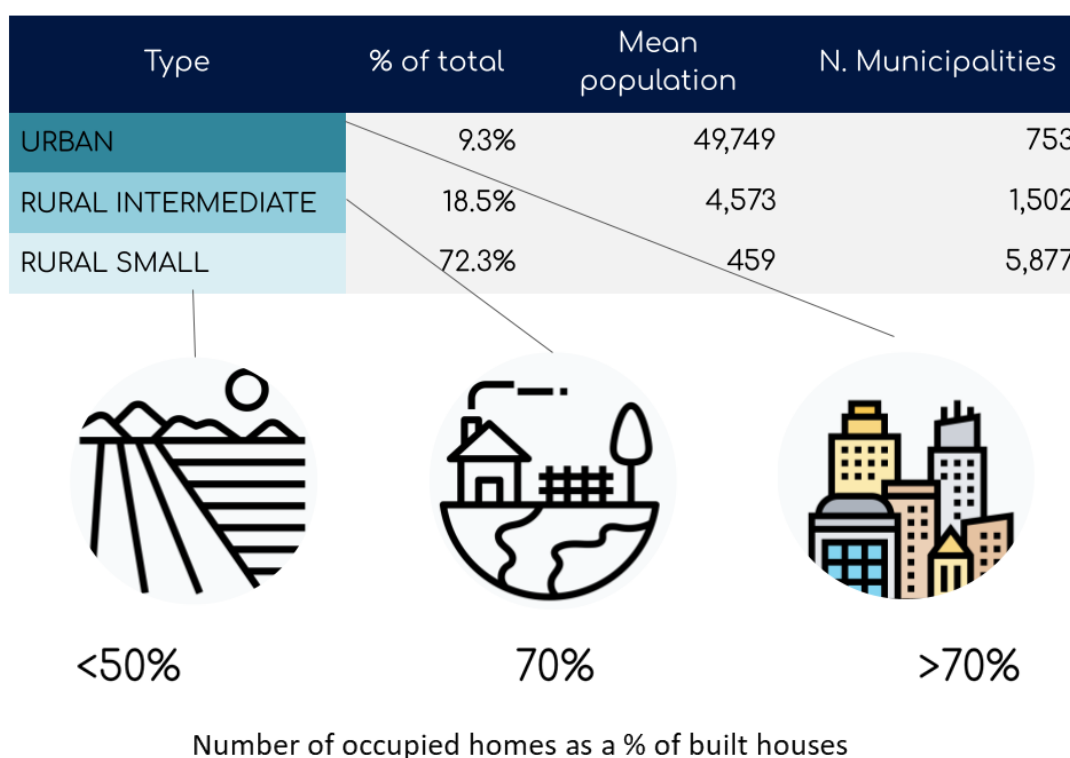
classifications of “urban” or “rural”, and subclassifies the latter into rural “intermediate rural” and “small rural”. The difference between intermediate and small rural areas is significant because they present different development in terms of resources, both skilled human capital, financial capital and physical infrastructure (schools, hospitals, ...) thus are not equipped equally to adopt digitalisation. It is worth noting these varying degrees of ruralism when considering potential solutions to address the rural-urban divide. Foremost, it is important to note that starting from a point of basic infrastructure, some skilled human capital and sufficient financial capital, may require a different policy approach and resources to those required digitalise a region from scratch.

According to the official definition for municipalities by the National Institute of Statistics (INE) in 2020:

- *Urban municipalities are those with more than 10,000 inhabitants*
- *Rural municipalities lie below the 10,000 threshold:*
 - *Rural intermediate (2,000-10,000 inhabitants.)*
 - *Rural small (up to 2.000 inhabitants).*

Classifying Spain's 8,132 municipalities using the INE (2020) categorizations of urban, intermediate rural, and small rural municipalities reveals a disparity in the populations of the country's municipalities. The majority (72%) of Spain's municipalities, without considering their size in km², fall under the category of small rural, while only 9% are urban and hold populations above 10,000 (Figure 3). Despite a population threshold of under 2,000 inhabitants to classify as small rural, the mean population size of small rural areas in Spain stands at 459 inhabitants, such that the reality is that small rural areas are much smaller than the threshold allows for. They have plenty of margin (1,641 people) before they could classify as rural intermediate. This disparity is exemplified by the contrast between the smallest municipality (Illán de Vacas) with only three inhabitants versus Madrid, with a population of three million.

Figure 3. Classification of Municipalities in Spain (2020)



Source: INE, own elaboration

Examining the emptiness of rural towns reveals a correlation between the level of urbanization and the occupation of homes for urban, rural intermediate and rural small (>70%; around 70%; <50%, respectively) which indicated that only half of the available houses are inhabited in small rural areas. The more urban an area, the higher the occupancy of its buildings, which highlights two key characteristics. Firstly, it acknowledges the high density – defined as the consequence of urban evolutions (Duranton and Puga, 2020) - of cities and the strain it puts on infrastructure such as the number of homes built. Urban areas are 73.6% occupied, a figure that has some room for growth given the over construction that took place in Spain prior to the 2008 Global Financial Crisis. On the other hand, the occupancy rate in rural areas is under half which reflects the population drainage that rural areas have suffered, despite their capacity to accommodate double their current population.

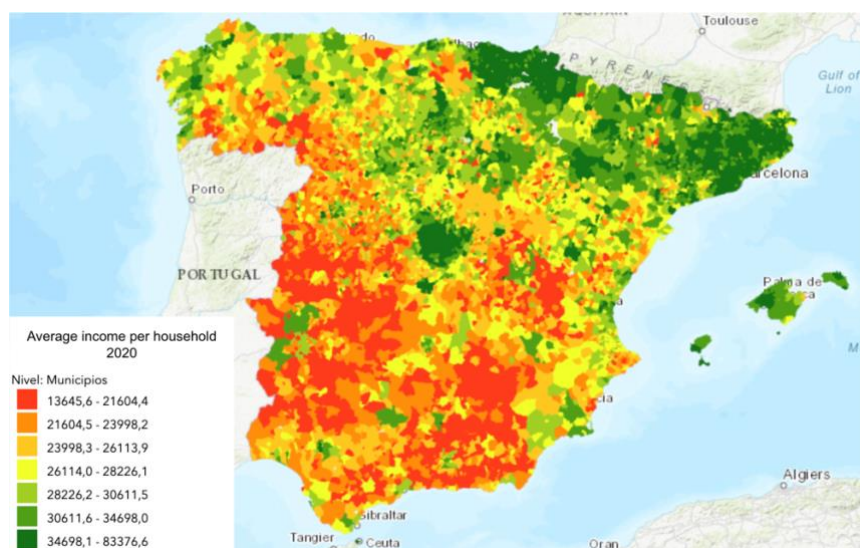
Housing occupancy is another indicator of the extreme concentration of the population in urban centres (those with over 10,000 inhabitants) and the decline of rural areas. At the extreme end of the spectrum are ghost towns, abandoned settlements, which usually contain substantial visible remains of buildings (Chuah, 2020). The concept of ghost towns dates to the 19th and early 20th century, when pioneers in the American West establishing many small

towns and abandoned these areas once resources and economic opportunities declined, leaving behind desolate abandoned towns.

A very tangible way of measuring inter-municipal inequalities, is using “cost of housing” as a percentage of income since it accounts for the rent price differentials across the country and instead focuses on the real impact of income on purchasing power. A report named *“Income Inequality between North and South in Spain: A Study of Rent as a Percentage of Income”* (Cinco Dias, 2022) extracted data from the Ministry of Transport and Mobility to examine this indicator. It located the regions where rent was a disproportionately larger portion of income for households, revealing that the highest relative cost of housing corresponded to areas of high population density, including the Balearic Islands and Madrid (visible in Figure 1) where rent occupied an alarming 36%-40% of monthly income for families.

Figure 4 visually confirms existing North-South divide in terms of wealth, with Southern households being comparatively poorer. The map depicts a concentration of red areas in the southern interior regions of the country for which average household income stood in the €13,645 to €21,604 band in 2020, reflecting similar lows to those in Figure 2 (GDP per capita). This poses a difference significant with municipalities closer to main cities like Madrid and Barcelona concentrating high income areas (where annual household incomes were on average superior to €30,611).

Figure 4. Mean Income per Household (2020)



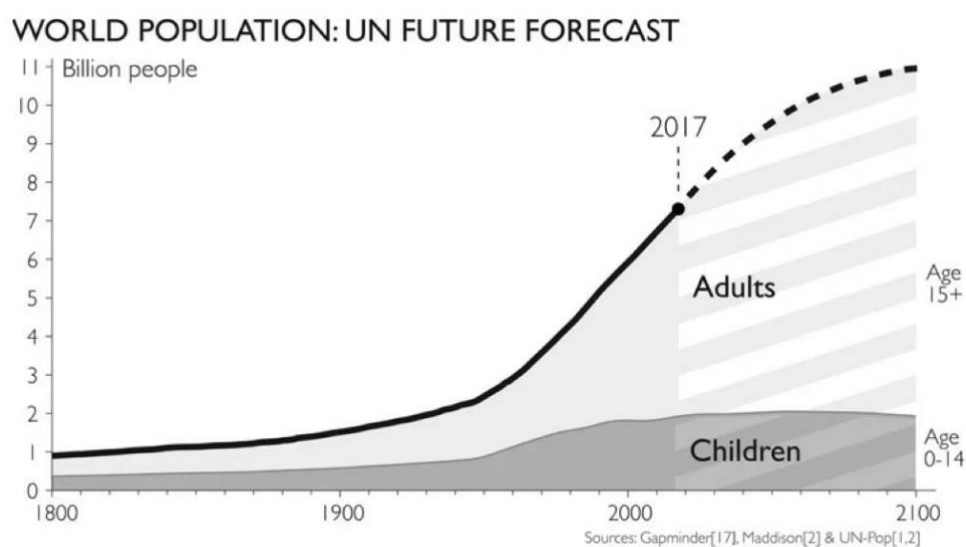
Source: INE

2.3 Demographic Trends

2.31 Ageing Population

Spain is no exception to the phenomenon of an aging population, as the global population continues to grow but at a slower rate than before. According to United Nations' projections, the slowdown in population growth will continue and the population will eventually plateau at around 10 to 20 billion people by the end of the century (United Nations, 2017). However, the composition of the population is also an important factor to consider. Although the overall population is expected to grow, the number of children is hardly expected to increase (see Figure 5), pulling up the average age of the population. Instead, as today's youth grow into adulthood, the number of adults will increase by one billion by 2045.

Figure 5. World population Forecast



Source: Gapminder using UN forecast, 2017

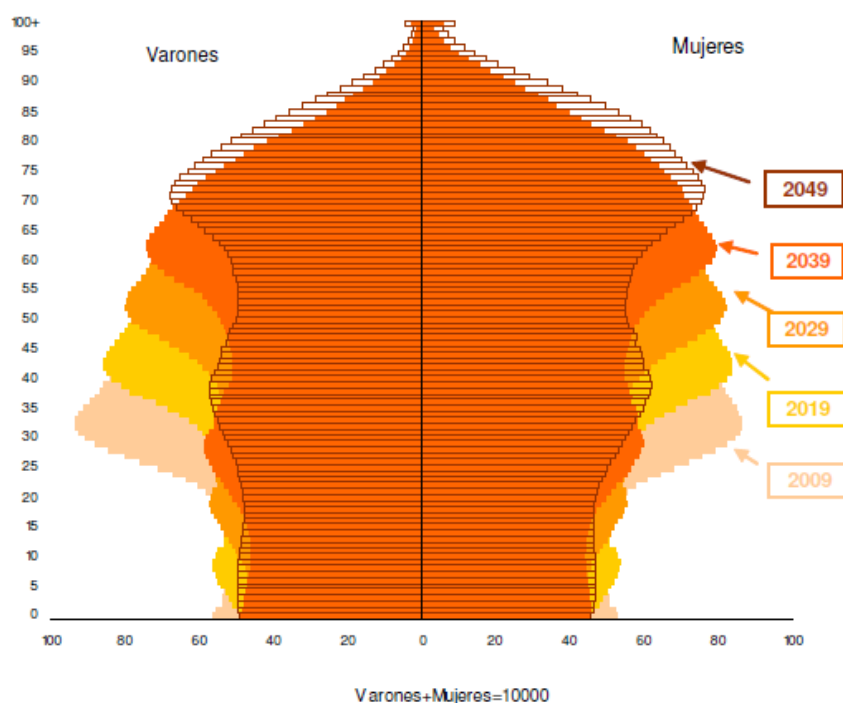
This pattern will repeat three times over, with these adults becoming part of the 45-to-60 year old group, and eventually reaching the 60-to-75 year old group by 2060. For society, this implies a growing dependency ratio, which measures the economically dependent population as a proportion of the economically productive population (World Health Organisation, 2022). Currently at 30% (Idescat, 2021), the dependency ratio in Spain has been steadily increasing for the past 20 years and is projected to reach 80% by 2050 (OECD,

2021), such that for every 10 working individuals there would be 8 non-working dependent ones, as graphically demonstrated in a top-heavy population pyramid (Figure 6).

The ageing population is felt most acutely in rural regions, 8% of which have a median age of 60+ years (Cano, 2020) such that a municipality could be entirely dependent if its few inhabitants depend on benefits, pensions or incomes of others, such as children who may work in urban areas. Across the world, the natural demographic pattern is for older population to live in urban areas for a variety of reasons; from enjoying more peaceful surroundings, to a lower cost of living and the reduced need to live near cities for work.

Between 2015 to 2020, Europe has shown faster growth of the elderly population in rural areas of 1.8% annually, compared to 1.6% in urban ones (Eurostat, 2023). In contrast, the number of working-age people and younger people in rural regions declined by an average of 0.6% and 0.7% each year, respectively, while predominantly urban regions saw growth of 0.1% and 0.3% each year for these same groups, indicating that they likely left rural areas to pursue education or employment opportunities.

Figure 6: Population Pyramid of Spain



Source: INE, 2019

2.32 Low Fertility Rate

Standing at 1.2, which is well below the replacement rate of 2.1, the fertility rate in Spain is one of the lowest in the world (Defensor del Pueblo, 2018) and has unlikely prospects of becoming higher in the future. As a result, Spain's population growth will depend heavily on immigration in order to prop up its working age population. There was a rapid increase in the percentage of immigrants living in Spain from 3% in 1998 up to 15% in 2009 when it plateaued, yet the contribution of immigrants to the working population remains vital to sustaining the rising dependent population (INE 2020). In practice, Madrid is one of the largest receptor regions for immigration in Spain, so much so that one in four people living in Madrid were not actually born in Spain.

2.33 Low Child Mortality & High Life Expectancy

Both the extremely low child mortality rate of 0.2% and remarkable increase in life expectancy of 84 years in Spain (Macrotrends, 2023) accompany the ageing characteristic of the population. Over the last century, the average lifespan in Spain has surged by a substantial 40 years, which is a noteworthy achievement. As a result, the elder population aged 80 years and above accounted for 6% of the total population; a figure at par with Germany's and only surpassed by Italy where this group accounts for 7% (2018). It is also worth highlighting that the survival rate has increased exponentially, from a mere 33% in 1910 to above 90% (2018) and expectations that in 2050, 95 out of every 100 new-borns will reach the onset of old age.

3. Literature Review: the Role of Digitalisation

“Digitalisation increases productivity, money-making capacity and entrepreneurship, which are all so important to growth”

- David Malpass, President, World Bank Group

3.1 Defining digitalisation

The current era of digitalization is defined as a "global engine for constructing dynamic, sustainable, and innovative economies" (World Economic Forum, 2023). The widespread use of digital technologies such as the internet, smartphones and social media has significantly impacted daily life and altered the way we produce, distribute, consume, and innovate.

In basic terms, digitalisation makes doing things simpler and more efficient. However, it goes without saying that its implications are revolutionary for society. Peter Thiel, who co-founded PayPal in 1998, alongside Elon Musk and Yu Pan, has described the impact of technology as a “Zero to One” progress for society. In fact, he argues that progress can manifest in one of two modes; horizontal or vertical. Horizontal progress means improving existing tools or applying them in new contexts (i.e. using them in new sectors or countries) which translates to incremental improvements. Conversely, vertical progress involves addressing a problem in an innovative manner, by presenting an entirely new way of doing things. As such, Thiel emphasises that technology (vertical progress) has never been an automatic feature of history (Thiel, 2014) since it is more challenging to envision since it involves venturing into uncharted territory to create new technology. This resonates with the infamous phrase of Henry Ford, when following the launch of the Model T in 1908 which thanks to its affordability introduced a new mode of transport for the masses, claimed that had he asked people what they wanted “they would have said faster horses” (horizontal progress) as opposed to a new form of travel (vertical progress).

That said, it is vital to distinguish digitalisation and technology, beginning with the fact that the two are tightly intertwined. Their relationship is best defined as one of mutual facilitators. Technology refers to the tools, methods, and systems used to produce goods or

provide services; examples might include cars, printers and the devices that we use day-to-day to connect. Digitalisation is the *integration* of digital technology (European Commission, 2018) into society in everyday processes – whether it be working, making payments, voting, paying bills or communicating. Hence, digitalisation involves using technology to automate, streamline, and optimize processes, with the goal of making them faster, more efficient, and more accessible. Therefore, the concept introduced earlier (Zero to One) defining the importance of technology is relevant for digitalisation, since technology provides the means to achieve digitalization in a world where it has become increasingly indispensable for humans.

3.2 Economic impact of digitalisation

Measuring digitalisation and its impacts is challenging, given the fast pace of the digital transformation and the breadth of its implications for society, as well as the endless questions surrounding its impact. How might one monitor the digital revolution's progress across all sectors of the economy? How can one measure the disturbance of established business models and the emergence of new ones? How should policies' effects on the digital economy be tracked and evaluated? What occupations and economic activities will emerge in the future? How will digital transformations impact the well-being of society and its citizens at large?

3.21 Measures of economic impact

Whilst there are countless proxies to measure economic impact, the most obvious one to capture digitalisation's effect on economic growth is Real Gross Domestic Product (GDP) which is the standard inflation-adapted measure of the value of final goods and services produced by a country during a period (OECD, 2009). Evidence continues to mount regarding the positive correlation between real GDP and digitalisation. Studies across the board argue that digitalisation contributes positively to the economy and is often treated it as a catalyst for economic growth. Overall, organisations share the common belief that digitalisation boosts growth, despite quantifying the impact of digitalisation on growth differently. One study found that digital technologies have the potential to add \$2.2 trillion to \$6.7 trillion in annual GDP growth globally by 2025 via “online talent platforms, big data analytics, and the Internet of Things” (McKinsey & Company, 2018) whilst the World

Development Report on Digital Dividends (World Bank, 2016) estimated that a 10% increase in high-speed internet penetration can lead to a 1.3% increase in GDP growth in developing countries. The European Commission's report on the Digital Single Market (European Commission, May 2015) even found that the EU could increase its GDP by 4.8% by 2020, if it increases the digital adoption and use of digital technologies by citizens and businesses. To break down the levers in which digitalisation adds economic value, one can look at various income sources that contribute to a country's economic prosperity. For the purpose of this paper, the selected factors were productivity, job creation, investment and globalisation which encompass the impact of digitalisation on both consumers and producers.

I. Productivity: Productivity measures the efficiency with which inputs are transformed into outputs (SurrIDGE and Wolinski, 2016). As a classic proxy for economic growth, a rise in productivity has been associated with digitalisation, with a study conducted by the McKinsey Global Institute finding that digital technologies have the potential to increase productivity by as much as 25% (McKinsey, 2012). Additionally, a study by the Productivity Commission in Australia found that the use of digital technologies in the country's economy led to a 1.5% annual increase in productivity between 2004 and 2014. On a global level, OECD research also offered insight into the fact that countries disposing of higher levels of digitalisation also demonstrated higher productivity levels, attributing this to the potential of digital technologies to enhance communication, collaboration, and the information sharing:

- *Automation of tasks*: reduction in time taken to complete tasks and more accurate completion.
- *Improved access to information*: faster access to better information, leading to better informed decisions.
- *Data driven decision-making*: using algorithms to make decisions save human time and freeing up time for workers to employ in other production tasks.
- *Streamlining communication*: virtual communication encourages higher reachability between employees.

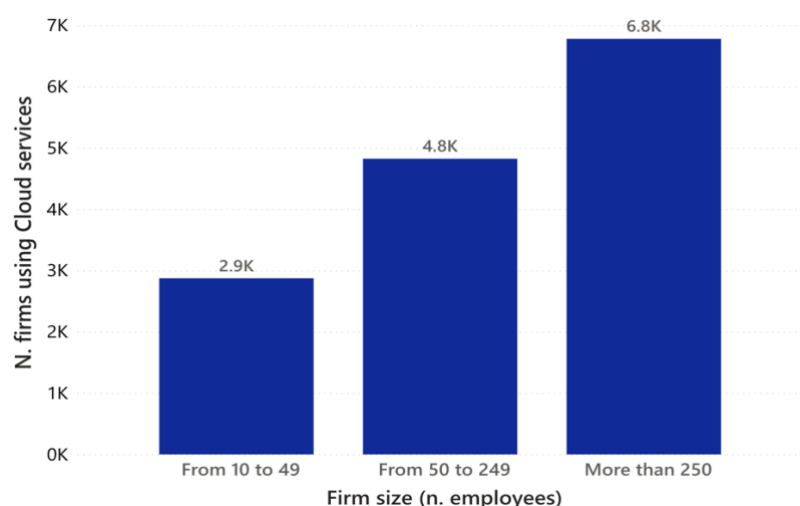
II. Job creation: One of key way in which digitalization promotes socioeconomic growth is through the creation of new jobs. The development and implementation of new

technology often requires a skilled workforce, leading to the creation of jobs in fields such as software development, data analysis, and digital marketing. As new jobs are created, unemployment falls, resulting in a greater pool of consumers with increased purchasing power which renders higher consumption levels. To meet the rising aggregate demand for goods and services, derived demand for workers increases which continues the cycle. An excellent study estimated the impact on GDP growth and job creation in the German economy of investment in during its 2014 National Broadband Strategy (L. Katz et al. 2010). Between 2010 and 2014, the government envisioned the direct creation of 304,000 jobs, mainly in construction, telecommunications and electronics. However, the spill over effects of derived demand generated another 71,000 jobs for affected sectors such as distribution (The Impact of Broadband on Jobs and the German Economy, Table 5). It also discovered that the externalities of infrastructure investments in highly penetrated areas were higher than in the *Landkreise* (Germany's rural regions) but argued in favour of the higher potential of rural areas which must be unlocked by continued investment in bridging the Digital Divide (Katz, 2010). The other side of coin is that the digitalisation and automation of processes can lead to job destruction which has also been captured in literature (e.g. Arntz et al., 2016; Balsmeier & Woerter, 2019). Evidence gathered on the case of Switzerland found that digitalisation favoured creation of high skilled employment but reduced employment for low-skill jobs which are at higher risk of being substituted by advanced technology (Yu et al., 2022). However, this idea has been challenged by organisations such as the OECD which argued that despite 9% of jobs being automatable, workers would simply be required for other tasks as opposed to being replaced (Arntz et al., 2016). The question that remains in debate is whether digitalisation has a net positive effect on employment, meaning that the gains to employment offset any job destruction that it may incur.

III. Investment in ICT: Investment, which refers to expenditure undertaken by firms to increase their capital stock, plays a crucial role in determining a country's GDP. The injection of investment into the economy results in an immediate increase in GDP which is the function of consumption, investment, government spending and net exports. However, the effect derived from the initial investment is proportionally larger due to two phenomena; the multiplier effect and the accelerator effect. A paper on the case of the Multiplier–Accelerator Effect (Mourao and Popescu, 2022) revisits these macroeconomic concepts which have been observed for over two centuries and are

based on the relationship between investment and overall spending. As communities become wealthier and their economies expand, they tend to increase their spending on housing, public structures, and infrastructure. Today, spending by firms largely focuses on investments in ICT (information and communication technology) which the World Bank observed during the pandemic, when it studied 25,000 businesses across 28 countries (World Bank Springs Meeting, April 2022). Results showed that digital investments surged across all firm types, with medium-to-large firms exhibiting a larger increase of 34% and 45% respectively, while micro-to-small firms saw a milder increase of 15% to 25%. Remote working also gained traction in enterprises and forced them to fast-track their transition to cloud-based systems which facilitate collaboration efficiency (Mihalec, 2020) – meaning easier access and sharing of files. By moving to the cloud, businesses can reduce their physical space requirements while ensuring that all company information is readily available to the entire workforce in a “flexible and scalable” manner (Forbes, 2020). In Spain, the percentage of firms whose operations embrace cloud services is increasing, however efforts in this transition are more popular among larger firms (Figure 7) because their scale implies higher costs and there are greater benefits of using cloud services to scale up and streamline work.

Figure 7. Investment in Cloud services in Spanish Firms by Size



Source: INE, own elaboration

IV. Globalisation & E-commerce: As previously discussed, the relationship between digitalisation and globalisation is one of mutual reinforcement since digitalisation has facilitated globalisation and vice-versa. One of the predominant forms in which digitalisation has enabled globalisation for the trade of goods is e-commerce, which is

broadly defined as “the sale or purchase of goods or services...through electronic transactions conducted via the internet” (Eurostat, 2023). Its value creation can be understood on two dimensions; (i) the scope of use and (ii) the type of e-commerce use B2B/B2C (Kraemer et al, 2005). In its early stages, when online retail had yet to gain a foothold, online sales stood at a meagre \$5.0 billion. Two decades later, e-commerce sales have skyrocketed past the \$800 billion mark (ARTS, 2021), catalysed by the first year of the pandemic, in which e-commerce sales rose dramatically to \$815.4 billion in 2020 (43% increase from 2019). In the early 2000s, the University of California conducted a study (Kraemer et al, 2005) that validated this correlation between globalization and e-commerce on a global scale. Its first hypothesis (H1) stated that the extent of e-commerce utilization would be greater in firms that have undergone globalization, and this was supported by the results, as globalized firms demonstrated a higher degree of e-commerce usage ($b = .13, p < .001$), even after accounting for effects of size, industry, and country. It verified that digitalisation has become crucial to competitiveness, especially for small businesses to compete more effectively with larger companies.

3.22 Digitalisation as a Resilience Tool

Although there is extensive research on digitalisation as a driver of long run economic growth and innovation (Dabla-Norris et al., forthcoming), its role as a tool of economic resilience during downturns is less studied (Copestake et al., 2022). So far, the argument in favour of digitalisation has pointed to its capacity to unlock potential by streamlining processes across the economy and result in higher GDP. However, the utilization of digital technologies has also proved instrumental in assisting societies to cope with the adverse consequences of lockdowns, by enabling individuals to perform activities such as working, studying, socializing, and seeking medical aid remotely.

Furthermore, as the world has grappled with the challenges brought on by the pandemic, emerging markets have recognized the significant importance of digitalization in their efforts to surmount the crisis, recover in a sustainable manner, and establish a sturdy foundation to counteract any future shocks (OECD, 2021). Moreover, more digitalised firms showed more robust balance sheets during economic crises with lower losses, as captured by the World Bank Development indicators (2020 vs. 2019) of 24,000 businesses across 75 countries. Therefore, solid digital connectivity has proved valuable to enhance the resilience

of its existing resources to withstand economic turmoil and encourage a robust recovery for its businesses.

3.3 Digital Divide

We have mentioned the broader benefits of digitalisation in an economy, however the benefits and opportunities generated by digitalisation are not homogeneously distributed across the world or within societies. At subnational level, there is a surprising amount of heterogeneity as some regions fail to reap the full benefits of digitalisation for a variety of reasons, including their infrastructure, income level and geography. The growing inequality between the digitalisation of regions, has been defined as the Digital Divide; the gap between individuals, areas, or even countries in terms of opportunity to access IT and internet. It is important to flag that this gap – also called a “digital abyss” (Molinari, 2014) – should consider the differences in the *quality* of access that these regions have to digital services. Essentially, it reflects the inequalities that digitalisation often intensifies in our society as well as new inequalities that it brings about.

The concept of a “divide” depicts digital inequality as a gap between the digitalised versus the non-digitalised population – the connected versus the unconnected. Albeit this definition does not do justice to the complexity of what the Digital Divide really is. One of its first mentions was in 1995 which used the term in reference to the inequalities arising from the popularisation of personal computers (PCs) as Americans dialled into the information age (NTIA, 1995). The report suggested that the digital divide was the by-product of the “have” and “have-nots” of PCs which made the concept dichotomous; individuals either owned or did not own a personal computer. In the 21st century, this would be like dividing the world’s population into two groups of either “wealthy” or “poor”, when in practice the majority find themselves in the middle-income levels. In his book *Factfulness* (Rosling, 2018), the Swedish statistician Hans Rosling labelled this the “Gap misconception” which he defined as our bias to think of the world as polarised/dichotomous. By surveying millions, Rosling captured the consistent bias of people – regardless of their background, gender or field - towards thinking that the world population can be fit into either low income or high-income groups.

Applying this to digital connectivity helps to better understand that there is very little of the world that is not connected at all. Therefore, the Digital Divide is more accurately defined as the difference between those with access to *good quality* of digital access, and those underserved, which are an estimated 2.9bn people (World Economic Forum, 2022). This recognises that areas below a given threshold of connectivity are under-connected and therefore victims of the Digital Divide, such that it is possible to be both connected and suffer digital inequality. Empirically this holds true, since despite the fact that 95% of the world population resides within range of mobile networks (World Economic Forum, 2022), frankly only 53% of the world has access to *high-speed* broadband connection (the requirement to work, study and communicate virtually).

3.31 Factors affecting the Digital Divide

The rise of the Digital Divide can be attributed to numerous factors and whilst digitalisation can reduce inequalities, it also has the capacity to amplify them. The ability of an area to adopt digitalisation is dictated by the access that it has to resources; from its access to capital to invest in digital devices to its existing broadband infrastructure and the digital capabilities of its people. By playing a key role in the success of digital adoption, factors like these indicate the potential of an area to enjoy the full advantages of digitalisation earlier discussed. When it comes to the Digital Divide, the key characteristics that have proven to affect the degree of digitalisation in an area are the long-standing differences in income level, geography and gender, which often hinder “the accumulation of digital competences ...and technology” (Ragnedda, 2019). Studies suggest that low-income individuals, women and rural citizens are disproportionately affected by the Digital Divide and are thus most susceptible to suffering its consequences (Diop, 2022).

- I. **Income level:** Income level strongly correlates with internet adoption and usage, with 33% of households without home broadband quoting subscription costs as the main reason for not having a connection and 37% citing device costs as the main cause (Horrigan and Duggan, 2015). In essence, low-income level areas face a significant cost barrier in terms of digital access, forcing them to be excluded from digital participation. This is owed to the fact that devices and subscriptions are, in relative terms, more expensive for low-income households as they represent a higher proportion of their disposable income. This results in particularly low connectivity rates among some

households, especially those dependent on state grants through schemes such as the Minimum Vital Income in Spain or Universal Income in United Kingdom. Moreover, these households are also more likely to depend exclusively on smartphones as their sole form of access to the internet at home and while some see mobile broadband as a way to bridge this gap, there is rising concern that it may limit users' ability to access important online services (Fallows, 2005).

- II. Geographic factors: The digital divide between urban and rural areas in terms of internet access is well-established and is further perpetuated by the tendency of rural areas to be on the lower end of the income spectrum. Despite efforts to standardize pricing and quality of internet access, costs are still higher, quality is lower; the inadequacy of technology in rural areas poses a significant concern as residents of rural areas receive an internet connection that is over 30% lower than the speed enjoyed by urban areas (Ainsworth, 2022). Conversely, main cities and highly industrialized regions exhibit internet access that is twice as high as in rural areas (ITU, 2020) which is accredited to the presence of more technologically advanced businesses in leading areas, promoting a higher uptake and usage of new technologies.
- III. Education: The relationship between educational attainment and income is a strong one, with income playing a major role in explaining the differences in ICT uptake. Investigation points to the fact that individuals with higher levels of education are more likely to have access to and use digital technologies (Bullen et al., 2015). This disparity in access is also seen between individuals with tertiary education and those with the lowest levels of education. The latter group is growing in access to ICTs, but from a low starting point. Nevertheless, the increase in access and usage is an important step towards bridging the gap between those with different levels of education and income, which are paramount to ensuring a more equal and inclusive digital landscape.
- IV. Age: The adoption of technology and internet connection, has also shown age-based differences as younger generations benefit from the advantage of growing up with technology so much that digital skills have become almost intrinsic to their education. Overall, PC penetration and internet access tends to be lower among older individuals, of which 20% use the internet at least occasionally, versus 98% of 16–29-year-olds (FRA, 2020). Early integration of technology in education is growing at fast pace, as

reflected by the fourfold growth in sales of digitalised textbooks between 2008-2009 (Allen, 2023) with countries like Japan aiming for 100% digitalisation of core subject textbooks by 2024 (Japan Times, 2022). The drawback of this is that it leads to a widening gap between the skills of the younger and older in society, adding onto the inertia of some of the older generations to replacing face-to-face services with digital ones.

- V. Gender: Gender differences in terms of digital access are almost negligible in developed countries like the United States where Internet use by men and women were statistically the same (Fallows, 2005), with a few exceptions such as Japan where men are responsible for almost twice as much internet usage than women (OECD, 2018). In these exceptions, cultural norms often curtail the opportunity for women and girls to engage in the digital world, due to reduced access to devices and education which is crucial to equip them with the adequate skills. On the topic, the OECD emphasises that “acting now to reverse these trends can pay off: the reports finds that greater inclusion of women in the digital economy and increased diversity bring value, both social and economic” (Wyckoff et al. 2018).

3.32 Digitalisation as a Market Failure

The inadequate connectivity of sparsely populated regions represents a market failure. The socioeconomic benefits of digitalisation qualify it as a merit good since it enhances social welfare, yet rural areas are often shunned from its provision. Despite the positive externalities of digitalisation discussed earlier in the chapter, this severe under provision of digital access is mainly owed to the fact that it is uneconomical for investors (Wallace, 2016). Deploying broadband infrastructure in low-density areas presents a significant expense and yields minimal profitability making the commercial appeal of less populated regions low in comparison to urban ones.

A similar market failure occurred in the initial stages of America’s electrification in the early 20th century, where extending electrical infrastructure to remote areas was deemed financially impractical for private investors (Pietrzak, 2020). Following a study which identified a clear concentration of the population in the East, private companies ruled out 94% of the population on the basis that electrifying areas with population density as low as

a few individuals per square mile was unprofitable (NRECA, 2013). By 1932, merely 10% of rural America had access to electricity, and approximately 50% of those individuals had to procure their own power generators for residential use. This divergence in electrification status between urban and rural regions exacerbated the discrepancy in living standards, as rural areas of America found themselves in an electricity abyss until the Electrification Act (1936) which unlocked millions of federal dollars under government intervention. Cases like this reflect that when left to work on its own, the market turns a cold shoulder to rural areas given their low profitability, which in Europe has left a gap of 40% of rural-inhabitant Europeans without access to fast broadband connection (European Parliamentary Research Service, 2022).

3.33 Digitalisation in rural areas as a merit good

The potential of digitalization for rural areas is transformative, since it offers unprecedented opportunities in avenues that were previously unavailable, making it a merit good thanks to the positive externalities it generates, some of which are not captured in GDP measures (European Parliament, 2021). Online services have opened the door for businesses to engage with consumers outside of their geographic scope and likewise granted customers almost unlimited access to e-services by bridging distance barriers. Moreover, digital provision allows for delocalisation, which refers to the decoupling of service provision from specific locations, that may be a lever to revitalising rural areas (European Commission, 2018) by reversing the pattern of rural-to-urban migration mentioned in Chapter 2. As jobs that were once tied to urban cities are delocalised, workers have the freedom to work remotely from other areas for which rural areas might offer an appealing lifestyle.

However, this is only feasible with the provision of reliable connectivity. The consensus of the Eurobarometer (2021) reflected that digital connectivity and access to e-services were voted the most important factors in ensuring the future attractiveness of rural areas by 93% and 94% of participants respectively. In addition to investments in physical infrastructure for broadband connection, the successful adoption of emerging technologies demands for digital training, upskilling, and capacity building at local level. Unfortunately, most rural areas lack sufficient connectivity and are held back by their limited digital literacy, which can preclude citizens from accessing remote learning, new markets and increasing their productive potential. Paradoxically, if rural areas are not able to seize the opportunities

created by digitalisation, the urban-rural disparities are exacerbated as opposed to narrowed (European Commission, 2021).

For rural communities, digital exclusion is a huge disadvantage, which economist Aleph Molinari (2014) compared to a “new illiteracy” when addressing a Ted Talk to the local community of San Miguel de Allende on the importance of bridging the Digital Divide. As discussed, the vitality of digital access in everyday business today is as essential as reading and writing since it is in essence a new way to interpret the world, live in it and progress in it. Molinari’s understanding of the profound urgency to change this reality for under-served communities, drove him to launch the *Learning and Innovation Network* to empower those without access via education across Mexico.

With distance from the nearest hub is too far to be realistic as a daily commute, rural dwellers often *move* to these areas of higher economic activity and better connectivity (Duranton and Puga, 2020). This loss of people is translated into an economic loss of value as talent leaving the regions reduces the income level of that region as a result of the brain drain. In turn, investments in those areas are less appealing with a shrinking population meaning shrinking demand for services – from healthcare, education, supermarkets - hindering future growth of those regions. In this situation, the multiplier-accelerator phenomena (Mourao and Popescu, 2022), is dampened due to insufficient resources on which to anchor investments.

4. Empirical Analysis: Digital Divide in Spain

"The more we use digital technologies, the more we should make sure that every citizen has the knowledge and skills to seize the opportunities provided by the technologies,"

- Gabriel Lim, "Bridging the Digital Divide" Forum (2018)

Rural and peripheral areas in Europe have historically lagged behind urban and peri-urban areas in terms of connectivity. In 2015, the European Digital Single Market Strategy was implemented to bridge this gap, resulting in an improvement in network coverage as reflected in the percentage of households with access to high-speed broadband of at least 30 Mbps (Desira, 2020). The digital divide persists, with 40% of rural dwellers lacking access to fast broadband connections, as noted by Ursula von der Leyen, the President of the European Commission, during her State of the Union address (September 2022).

Digital skills, another vital aspect of the digital transformation process, also remains a concern in rural areas, where digital capabilities among adults are lowest. In Europe as only 48% of rural inhabitants possess basic or above-basic digital skills, compared to 55% in towns and suburbs, and 62% in cities (Eurostat, 2019). Given the importance of digital skills for global competitiveness, the digital skills gap in rural areas highlights socio-economic disparities between rural and urban areas, deepening the digital rural-urban divide.

4.1 Digital inequalities in Spain

Across Spain, the heterogeneity in broadband connectivity between municipalities is marked by two main patterns. The first pattern is that the highest connectivity levels can be found in and *around* the areas of highest population density: Madrid, Barcelona and along the coastline. For reference, the city of Madrid has a population density of 5,337 inhabitants/km² meaning that its 3.35 million inhabitants are concentrated in 604km² of land (World Population Review, 2023) which is explicative for the high deployment of digital infrastructure in the area.

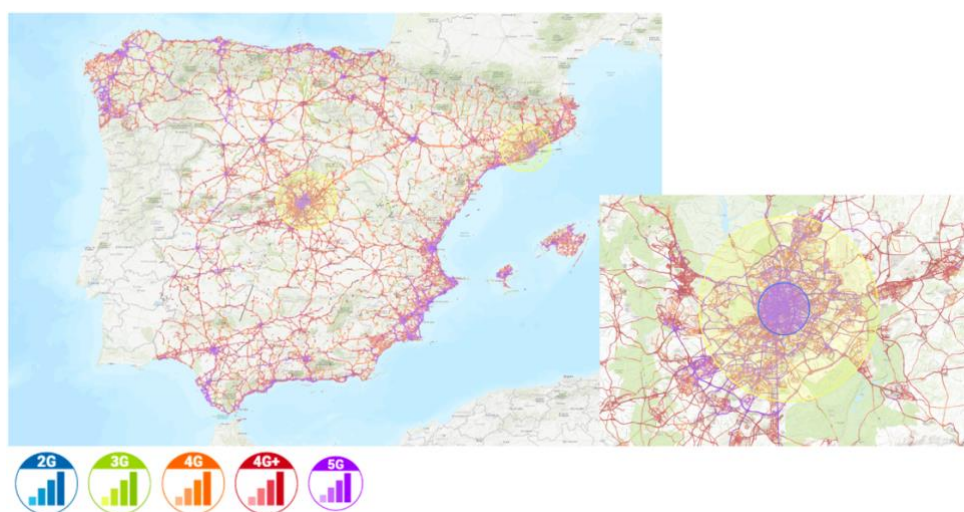
It is worth noticing that the municipalities surrounding these hubs are well connected given their proximity to economically active cities, illustrated by the 40 municipalities surrounding Madrid, many of which were formerly rural areas (Figure 8). This is endorsed

by municipal-level data which shows that surrounding municipalities are accounting for an increasing proportion of the region's population, whilst the city holds 49.2% in 2020 versus 57% in 1996 (INE, 2020). This suggests a second round of metropolitan growth (Giraldo, 2021) parallel to the first round of the 1960s when municipalities like Mostoles or Alcorcon transformed from rural agricultural towns to suburban hubs thanks to the economic activity generated in Madrid centre.

The second pattern is that the voids in connectivity left in the interior areas of Spain acknowledge the fact that they are too far from an economic hub to benefit from its activity. The lack of broadband infrastructure in interior regions is in tune with the lack of people that inhabit them, drawing on the phenomenon of *España Vacuada* that this paper explores. The combined effect of depopulated rural areas with their digital exclusion produces a real risk of Spain's rural areas becoming economically illiterate and their emptiness becoming endemic.

The following section will assess the level of digital connectivity in Spain via four key indicators, to determine the extent to which digitalization is contributing to or alleviating existing inequalities. With most of Spain's municipalities falling under the "rural" category (19% rural intermediate; 72% small rural), there is a question of how feasible it is to work and live in these areas in a technologically advanced and connected world. The connectivity indicators that the paper will examine are FTTH, LTE (4G), Internet speed (Cob>100Mbps) and 5G, which should together shape a good understanding of the connectivity across Spain's municipalities and are explained below.

Figure 8. Deployment of Mobile Broadband Infrastructure in Spain by Orange (2022)



Source: nPerf

4.11 Fiberoptics (FTTH)

“Fibre to the Home” is the fastest, and ultimately, most reliable fibre optic connection, which entails using fibre optic cables to deliver digital communication signals from operators’ switching equipment to homes. Optical fibre is a broadband technology with virtually unlimited bandwidth potential, made from optically pure glass as thin as a human hair. Its high capacity is demonstrated by the fact that a single fibre can simultaneously carry millions of phone conversations or over 2,000 HDTV digital TV channels. To transmit information, it converts sound, text, or pictures into digital electric pulses, which are then transformed into light pulses by a laser diode. These pulses are then guided through the fibre to a receiving diode on the other end, where they are converted back into their original form. There are two main forms for the FTTH technology to operate:

- *Point-to-Point (P2P) fibre network*: optical fibre paths connect a communication node to a single premise, and the optical paths are exclusively dedicated to traffic to and from that location.
- *Point-to-Multipoint (PON) or Passive Optical Networks fibre network* provides branching optical fibre paths from a communication node to multiple premises, where a portion of the optical paths are shared by traffic to and from multiple premises. This branching is typically achieved through power or wavelength splitters.

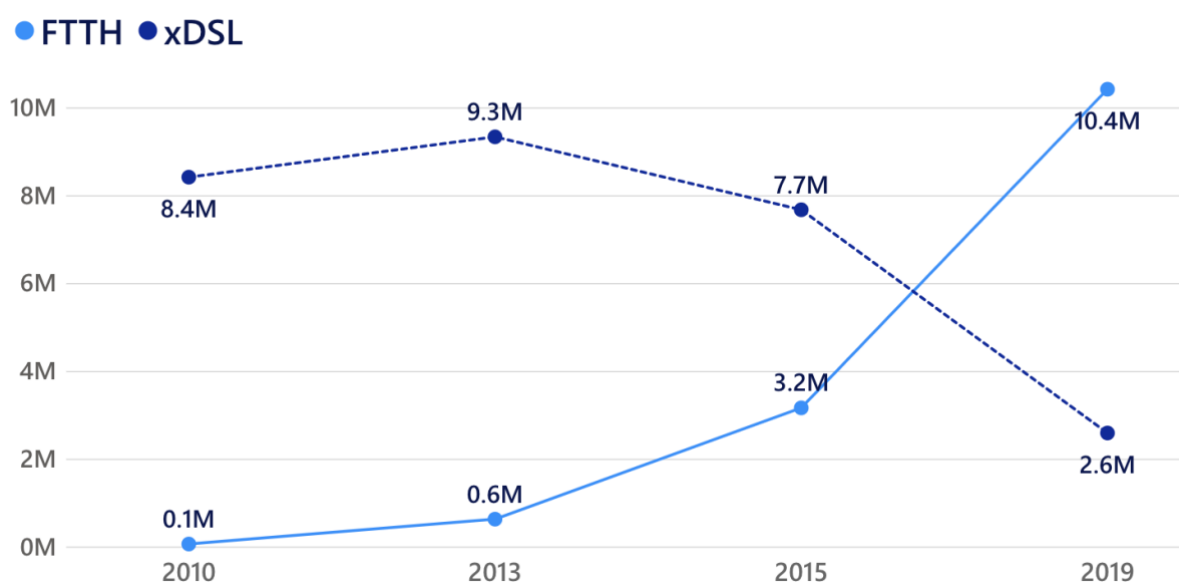
Figure 9: FTTH Rollout timeline



The telecommunications industry in Spain underwent a significant structural shift with the introduction of Fibre to the Home (FTTH) technology. Prior to its rollout in 2010, copper

was the primary means of transmission in almost all service lines, with ADSL (the most common xDSL technology) accounting for over 90% of home connectivity in Spain (see Figure 10). However, the emergence of FTTH proved pivotal in 2011 when it already serviced 60,000 homes. This technology saw explosive growth by 2013, in large part owed to Telefonica's investment in key cities, yet ADSL still held a dominant market position. By 2019, FTTH had achieved a significant milestone, surpassing xDSL by fourfold and reaching 10 million households as Spain's Ministry of Economics focused its efforts on the rollout of FTTH via its program PEBA-NGA (*Programa de Extensión de la Banda Ancha de Nueva Generación*). The program, launched in 2019, is co-financed by the European Regional Development Fund (ERDF) and follows a clear agenda of providing high-speed broadband to white spots and improving connectivity in grey areas.

Figure 10. Number of Households using FTTH vs. XDSL in Spain



Source: Perfi-tel, own elaboration

4.12 LTE (4G)

LTE stands for Long Term Evolution, and it is a cellular technology that enables the fourth generation of mobile networks (preceded by 1G, 2G and 3G) that enables voice calls, text messages and mobile data on devices that are 4G LTE compatible. The “G” stands for generation, of which 1G was the old analogue system, 2G was digital which is a speed of 10-200 kbps (for reference, the first iPhone was 2G!), 3G much faster digital system of

384kbps+, 4G started at 5Mbps and 5G has been introduced to some degree and presents the future of opportunity for the integration of virtual reality and artificial intelligence.

The LTE technology essentially connects a user's device to an external network and consists of two main components: the base station (eNodeB) and the core network. The former communicated with the mobile devices over the air, via signals in a Multiple Input Multiple Output (MIMO) technology, which uses multiple antennas on both the transmitter and receiver side to improve the signal quality and increase the data throughput to the core network which provides services like authentication, billing and data routing. As a device moves from one base station to another, the LTE network itself provides what is called a "handover" which transfers the connection without interruption to the nearest base station without interrupting the connection. This seamless handover of base stations explains why, as users, we are unaware to changes between base stations when moving from one place to another.

Figure 11. LTE (4G) Rollout timeline



In 2005 Spain began to issue licences for 3G networks and, eventually, 4G networks allowing internet connection on mobile phones. Shortly after, in June 2006, these networks were upgraded to HSDPA (High Speed Downlink Packet Access) which increased the navigation speed substantially. The first 4G network in Spain was launched in 2011 by Telefonica, Spain's largest telecom, and was swiftly followed by Orange and Vodafone who introduced their own networks one year later. The government also subsidised SMEs (small-to-medium size enterprises) investing in 4G networks in connection-deprived areas, as well as auctioning off €1.65 billion of spectrum licenses for 4G networks. The revenue generated from the auction was in turn used to fund other initiatives aimed at promoting digital infrastructure and connectivity in the country. By 2014, 4G coverage existed for major cities including Madrid, Barcelona, Valencia, Seville and Malaga. Between 2017-18,

Europe experienced a boom in mobile data, channelled by the concept of “free roaming” which came into effect in 2017 (European Commission 2017). It enabled mobile network users to use mobile data (like 4G) on their domestic contract from anywhere in the EU – that is to say, free of additional charges. That year, Spain also began testing the waters of 5G in select cities, envisioning future high-speed mobile connectivity as Telefonica announced its plans to upgrade its existing 4G network and initiate 5G trials. Meanwhile, the government announced €20 million subsidies to incentivise telecoms to deploy 5G networks in rural areas and even allocated a portion of spectrum named the Digital Dividend (approved in RD 805/2014) specifically for regional governments. 2020 saw significant investments in the roll out of 5G networks; the largest four telecoms (Telefonica, Vodaphone, Orange, MásMovil) planned a combined total investment of €5.5 billion between 2020 and 2025 (CNMC, 2021) to upgrade existing infrastructure, purchase new equipment and deploy 5G base stations.

4.2 Kernel Density Estimates

Upon examination of Spain's national level connectivity, the country appears to be advanced and well-connected, with almost total connectivity observed in its most connected areas. However, a closer look reveals the existence of sparsely connected areas, commonly referred to as *white spots*, which represent areas that are circumscribed. These white spots are indicative of the absence of fibreoptic or LTE infrastructure, which has yet to be installed in various Spanish municipalities. The urban-rural divide in connectivity highlights the disparities between the well-connected and those who lack connectivity in terms of availability and quality, which are the result of an unjust distribution guided by the private sector. Despite the public sector's efforts in collaboration with the private sector through mechanisms such as subsidies and public policy mentioned above, the divide remains significant.

The study below explores the distribution of connectivity indicators across municipalities in Spain to identify the existence of the Digital Divide and its characteristics. To achieve this, this section aggregates the data of all municipalities in Spain to generate the distribution for each connectivity indicator (FTTH, LTE, COB>1000Mbps), in order to determine where and how the Digital Divide crops up. The Kernel Density Estimation (KDE) method functions the distribution as a continuous replacement for the discrete histogram and was

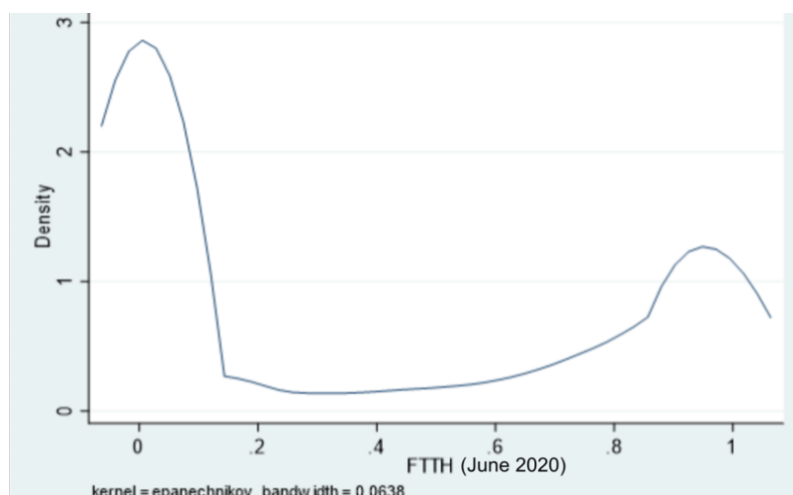
employed below to graphically present the distribution of each indicator, with the area below the line representing 100% of the distribution (Pruim, 2011).

This methodology focuses on the level of connectivity regardless of size of municipality, which is a known constraint of the KDE generated, since they do not differentiate between largely and sparsely populated areas. Despite this limitation, the study sheds light on the Digital Divide in Spain and demonstrates that each connectivity indicator works on a different timeline, with distribution depending on the progress of the broadband technology. The findings of this study help to reveal the significant scale of the Digital Divide in Spain and the phenomenon of the "catch up effect" as newer technologies (5G in Figure 12c) have a longer way to go before they are distributed to most municipalities.

4.21 FTTH Distribution

The distribution of FTTH, provides an outstanding example of the disparity between rural and urban connectivity levels (Figure 12a), taking on a bimodal distribution that clearly identifies two distinct groups. The first group (right) represents the areas with the highest FTTH connectivity levels, with a high mean. However, the second group (left) displays a shockingly high density of areas with below 20% coverage, increasing as connectivity approaches 0, indicating a significant number of municipalities lacking in fibreoptic connectivity. This distribution reveals a structural issue characterized by a high number of under-connected and unconnected zones. Considering this, it is crucial to identify the areas that can be targeted for improvement. Based on the findings of this project, one can assume that the lower tail of the distribution (left) represents the areas that need to be addressed. Perhaps the lack of profitability in deploying FTTH results in a market failure or gap in these areas, resulting in the observed disparity.

Figure 12a. Kernel Density estimate (FTTH)

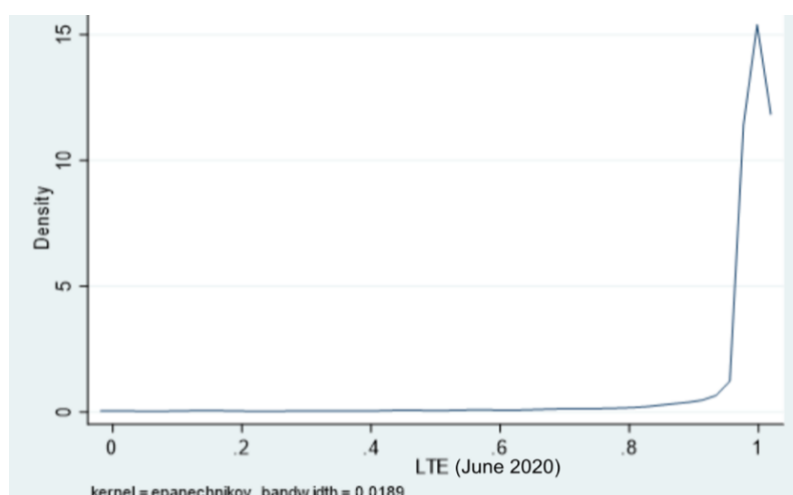


Source: Mineco, own elaboration using Stata

4.22 LTE (4G) Distribution

In examining the distribution of 4G connectivity (Figure 12b) across Spain's municipalities, it becomes apparent that it is markedly dissimilar to that of FTTH. It is characterized by a right-skewed distribution that reflects the country's successful efforts over the past two decades to deploy 4G technology, which has reached almost all areas of the country. This is evidenced by the graph showing municipalities tending towards a mean connectivity of around 98%, with a significant proportion having achieved full 100% coverage (density of 12.5 approximately). Additionally, a small spread is visible, indicated by a low standard deviation, which suggests that the distribution is relatively homogeneous. These observations are consistent with the historical rollout of 4G, which has been ongoing since 2005, and the significant government efforts to address under-connected areas through subsidies and allocation of spectrum.

Figure 12b. Kernel Density estimate (LTE)

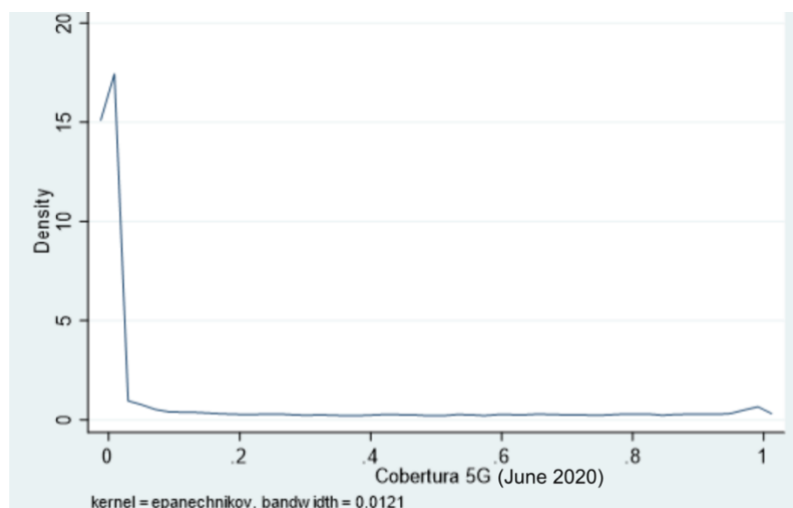


Source: Mineco, own elaboration using Stata

4.23 5G Distribution

In terms of municipal distribution, the adoption of 5G is highly left-skewed (Figure 12c) indicating that only a few regions have embraced this technology, which is still relatively new compared to its predecessor, 4G - conversely, 4G adoption was almost evenly distributed. Currently, most municipalities fall within the 0-5% connectivity window (left peak) indicating that 5G is practically non-existent in these areas. However, a small group of high-density urban areas, such as Madrid, Barcelona, and Valencia, who were first to benefit from the deployment of 5G networks, exhibit a high level of 5G coverage with 96.91%, 98.99%, and 99.44%, respectively (Mineco, 2021). This distribution highlights how new technologies can reintroduce disparities since as 5G becomes more widely available, this shape will transition in to two groups - those receiving the benefit of ongoing public and private investment, and those left behind unconnected. It is expected to form two groups: the connected and the non-connected, more like the distribution of internet speeds, eventually covering almost all areas of the country, as observed with the adoption of 4G in Figure 12b.

Figure 12c. Kernel Distribution estimate (5G)



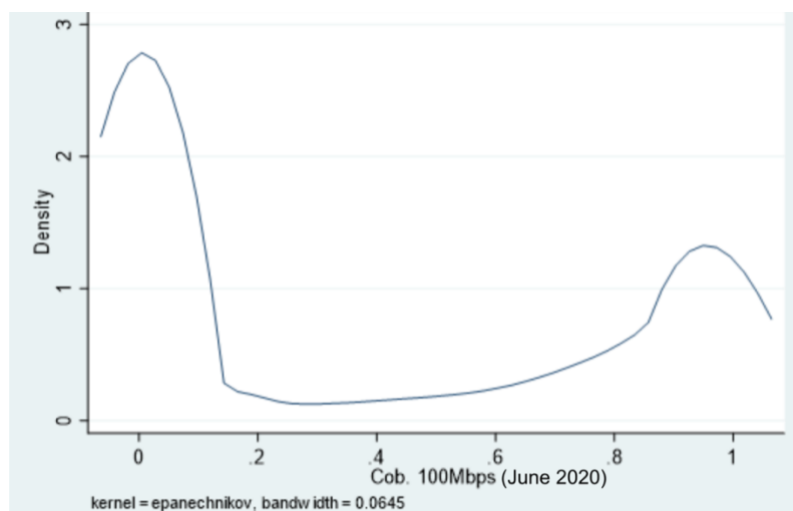
Source: Mineco, own elaboration using Stata

3.44 Internet Speed distribution (Cob>100Mbps)

Among all the indicators considered, the one that is most surprising is that of internet speed, as it speaks to the quality of digital access that municipalities are exposed to. Put into

perspective, an internet speed of 100 Mbps is fast enough for a household of up to four people if to stream videos in HD, participate in video chat meetings over Skype or Zoom, and playing multiplayer online games (Hoslin, 2023). The shape of this distribution accurately reflects the demographic structure of Spain, whereby the population is heavily concentrated in a few areas, as indicated by those found on the right side of the graph, which, thanks to incentives for private companies to set up connectivity there, enjoy high-speed connection with a coverage of 80% or more. However, the lower tail of the distribution corresponds to the essence of this thesis, which is to identify the disparities in terms of connectivity in Spain, revealing that many, or more accurately, most areas suffer from underconnectivity. Ultimately, the distribution speaks to the quality of internet, as measured by speed, to which they have access. This diagnosis proves that, besides successful deployment of the infrastructure for connectivity, ultimately the internet speed that it offers is a better measure of the extent to which a municipality can use digitalisation to their economic and social advantage.

Figure 12d. Kernel Distribution estimate (Cob>100Mbps)



Source: Mineco, own elaboration using Stata

4.3 Diagnosis of connectivity in Spain

Following the examination of connectivity distributions across Spain and the mapping of the disparities between municipalities, it has become clear that certain areas are inhibited from reaching their full potential due to an absence of digital access. In practice, this means that within a single province, some households enjoy a level of digital connectivity that

would suffice for a medium sized family to access digital services as part of their daily, while in proximity others may lack any form of connectivity whatsoever.

The process of enhancing broadband connectivity in regions that are currently lacking requires several things: from identifying hurdles, to mobilization of public and private investment, improvement of public information systems and strengthening demand for digital services via education. This costly endeavour is complicated by the escalating cost of network deployments in areas with insufficient coverage, as the coverage of regions lacking adequate broadband availability involves. Over time, this generates disparities and, more importantly, growing ones. Identifying the position from which Spain affronts the digital divide, implies identifying the strengths that it can leverage, as well as recognising its weaker points where it may face hurdles.

Figure 13. Connectivity diagnosis summary



Source: own elaboration

4.31 Strengths

Prepared telecommunication companies:

- Know-how in the roll out of fibre optic networks, laying digital and physical network infrastructures and manage investments expeditiously (Rodil, 2022).
- Experience with areas of complex orography which is the case for some parts of Spain.

Investment-friendly regulation:

- Adequate competitive and regulatory conditions have contributed to promoting connectivity in rural areas (Telefonica, 2022).
- Effective public attention on rural areas and the need to incentivise the private sector to invest in the provision of broadband connection (Pedros and Sivakumaran, 2019).

Ecosystem of operators:

- Specialized ecosystem of providers surrounding the deployment of networks has been created in the last 20 years with major equipment manufacturers having established their headquarters and presence in Spain (Mineco, 2020).

Strategic geographic position:

- Iberian Peninsula's privileged geographical position is strong and strategic to its role as a central hub for Europe.
- High connectivity and security capacities of its networks, agility of expansion and capillarity in fixed and mobile broadband (Mineco, 2019).
- Ability to generate electricity free of emissions from renewable sources.

4.32 Weaknesses

Challenges in Mobilizing Investment

- Incentive programs used so far are insufficient to mobilize investment from operators in residual areas.
- New sources of information should be incorporated into the decision-making process for public policies.

Improving Public Information Systems

- Information systems are not sufficiently developed to take full advantage of available data.
- Ongoing need for improved information systems: leveraging technologies like Big Data and Artificial Intelligence to identifying areas with inadequate coverage, enabling better targeted public aid, and facilitating private investment (Mineco, 2020).

Weak Demand for Digital Services

- Low operating income due to low population density and low adoption of digital services.
- Deployment of networks and provision of services in certain rural areas are unprofitable (NRECA, 2013).

4.33 The Role of Public Policy

Ultimately the Digital Divide as a market failure is born from the under provision of digital access in the free market, such that public intervention is necessary (Randall et al., 2020) and the following chapter will propose a solutions framework that appreciates the role of the government as a driver of investments and a facilitator for private investment. Since the 1980s, public policy has been mainly driven by the New Public Management (NPM) reforms, which were prompted by the rising budgetary constraints, escalating infrastructure costs, and the influence of the private sector (Turner et al., 2015).

As a result, governments gradually shifted away from directly providing public services and to unlocking private sector investments and collaboration through incentives. Therefore, the public sector has taken on a co-production role (Bovaird et al., 2015) with an instrument most known as Private Public Partnerships (PPP). PPP mode is positioned between entirely public and fully privatized, and it is associated with the partnership between public and private stakeholders for the development of infrastructure based on shared risks, responsibilities, costs, and benefits (Grimsey & Lewis, 2007; Koppenjan, 2005).

In the case of Spain, PPP are crucial to address the digital divide from a supply and demand perspective, for which the support of the private sector (both telecommunications companies and other businesses) is necessary, although this must be coordinated at European and National level. Chapter 5 will focus on building a framework to approach the best allocation of public funds to deliver a feasible long term and, eventually, sustainable solution to address the Digital Divide in Spain.

5. Solutions Framework

“Digital transformation requires changes to processes and thinking – changes that span your internal organizational silos.”

- George Westerman, Founder of the Global Opportunity Initiative

5.1 Approach for a solution

Any potential solution to address the Digital Divide must consider both the demand and supply of digital infrastructure as the foundation to determine where resources can be best allocated to alleviate inequalities. The demand side involves identifying the areas in which demand for digital infrastructure can be most stimulated by investment, determining where supply is best allotted (Kader, 2022). Rolling out digital infrastructure without understanding where demand already exists or where it can be created, could lead to the misallocation of resources (Chang-tai and Klenow, 2009) since the capital invested will fail to maximise its socioeconomic benefits. The IMF quantified inefficiencies in public investment at 30% (the value of output forgone as a percentage of the public capital invested), revealing that the economic and social impact of public investment critically depends on its efficiency (IMF, 2015).

Therefore, this paper contests that before constructing the supply-side of any solution, one must first map out the areas in which investment has justified prospects of fostering demand for digital infrastructure. This approach reflects the earlier example (Chapter 3) of the first stages of electrification (Pietrzak, 2020), which began by conducting research with the objective of locating the areas where impact would be greatest – using the criteria of population density and level of existing industry. Similarly, the framework suggested by this thesis works on establishing the necessary conditions for an area respond efficiently to the injection of resources into its digital infrastructure, measurable by indicators like the PIE (Public Investment Efficiency).

Diagnosing the situation of an area and the strength of its demand for digital infrastructure is crucial to understanding the level of government funding that deploying infrastructure truly requires. For example, areas with a good foundation of existing demand exhibit a good

prognostic to permeate a supply-side investment in digital infrastructure. Establishing what these areas might look like, means choosing the criteria that make a municipality attractive receptor of investment.

5.11 Conditions for digital demand

In line with the discussion in the previous chapters, the level of digital demand in an area is guided by the existing resources in that area, as part of the cycle which leads more concentrated areas in terms of businesses and people, to be more economically prosperous, earlier referred to as *agglomeration economies* (Duranton and Puga, 2020). On these grounds, the paper will establish the following conditions (first mentioned in Chapter 1) to locate the best allocation of public/private funds:

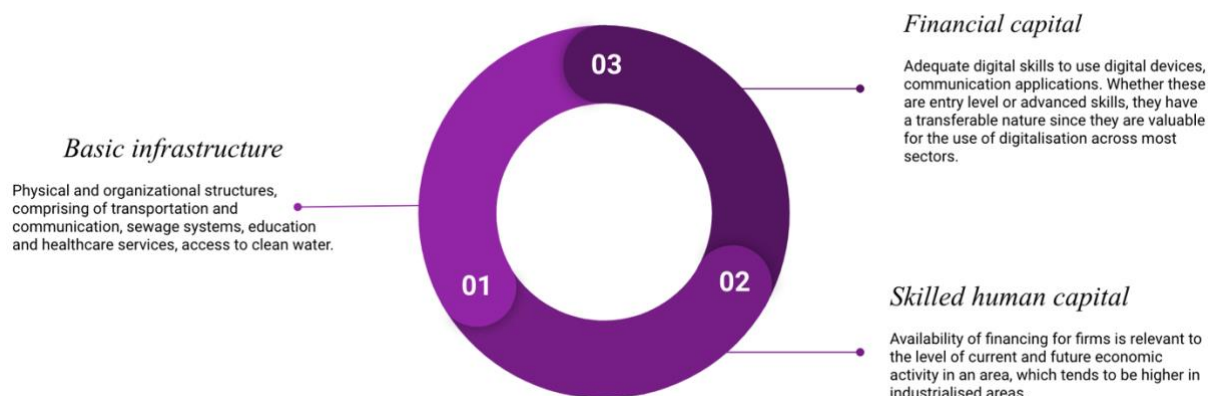
- (1) *Basic infrastructure*: both physical and organizational structures, comprising of transportation and communication, sewage systems, education and healthcare services, access to clean water.
- (2) *Skilled human capital*: sufficient workforce with adequate digital skills to use digital devices, communication applications, and networks to access and manage information (UNESCO, 2018). Whether these are entry level or advanced skills, they have a transferable nature since they are valuable for the use of digitalisation across most sectors.
- (3) *Financial capital*: availability of financing for firms is relevant to the level of current and future economic activity in an area (Kent, 2017). Availability of financial capital tends to be higher where some industry has already been established.

By anchoring in these, public spending can be channelled effectively into boosting existing resources to create solid demand for digital infrastructure and as a result ensure that its supply yields a high impact thanks to the level of adoption or “readiness”. However, as noted above in the classification of municipalities (Figure 3), there are degrees of ruralism which imply that the beginning conditions can vary considerably in terms of infrastructure, skilled human capital and financial capital. This will likely determine how well an investment in digital infrastructure yields – under the hypothesis that the better the position

of the region under the three conditions, the more effective an investment in digital infrastructure supply will be.

Building on the argument that bridging the Digital Divide is a key tool to protect social cohesion and avoid the risks of an endemic depopulation of Spain's interior regions, the points of action for the government need to be well-targeted to maximise the return on investment in rural regions. From a practical perspective, areas of different degrees of ruralism must be dealt with differently because their starting point.

Figure 14. Approach to solutions framework



Source: own elaboration

5.12 Different starting points of Intermediate and Small Rural

Intermediate rural areas that dispose of some skilled human and financial capital as well as the basic infrastructure to operate a business efficiently, present a better prognostic than smaller less developed rural regions. Those that have already established some level of industry, already have a source of demand for digital infrastructure since they benefit from a structure in which digitalisation can be integrated in order to improve productivity. Investment in these areas could thus be targeted at scaling up the size of its existing businesses, as a way of increasing their demand for digital infrastructure, a process which leverages their existing business model, operations system, equipment and skills.

On the other hand, small rural areas present an entirely different case in terms of investment type and magnitude. For “small” deeply rural areas that do not count with basic

infrastructure, some skilled human capital nor sufficient financial capital, satisfying the three conditions means that these conditions need to be *built*. As opposed to focusing solely on the supply of digital infrastructure, the government would first have to create the conditions for its success by addressing the demand-side factors.

Investing in building basic infrastructure such as healthcare or education centres incurs a costly expense, in absolute and relative terms, whilst generating a low-level impact in terms of job creation – the number of staff needed for a small population is minor. The requirement for some skilled human capital would involve education to integrate digital capabilities in the population with a long-term horizon. However, closing this gap in the short-term would mean importing skilled individuals or teams, via incentive mechanisms such as generous tax breaks or subsidies to make the move from a more urban area appealing – to facilitate their relocation. Likewise, importing financial capital into deep rural Spain calls for sizeable grants to compete with its alternative allocation in other areas of the country.

In order to approach the deployment of digital infrastructure in a gradual manner, the public sector would first take advantage of the points in which demand for digital infrastructure can be best stimulated, namely small cities or intermediate rural areas, before targeting small rural areas for which the necessary conditions (Figure 14) would have to be created from scratch. The following section will delve into the potential role of small cities as hubs in order to generate positive economic repercussions of agglomeration in the digitalisation and growth of rural areas in their scope of influence.

5.2 Empirical cases: opportunity for small cities

Currently, the major hubs for Spain are few but have a large area of influence, such as Madrid for which the economic prosperity created initially in the capital, has a sizeable radius of repercussion (discussed in Chapter 3, Figure 8). The effects of economic activity derive from the high quality of infrastructure, skilled human capital (both domestic and foreign) and concentration of available financial capital thanks to its half a million companies (Comunidad de Madrid, 2019). The combination of these generates strong demand for digital infrastructure and the investment in technologies, including 5G are employed to maximise results.

As earlier established, municipalities surrounding Madrid benefit from the economic activity and private investment as it reproduces, and generates second round effects on two

levels: firstly, because they are able to benefit from the availability of jobs or capital to set up their own businesses, and secondly, as the city of Madrid grows, companies relocate slightly further out and bring further prosperity and population to these areas. However, interior rural areas of Spain are often excluded from the positive network effects of economic growth in “mega-cities” (de la Torre, 2022) since commuting to them is unrealistic, resulting in a closing retroactive circle.

In this sense, mega-cities do not have sufficient capillarity to reach small interior regions. However small and medium sized cities have the potential, based on the conditions above, to create similar second round effects for their surrounding areas. Since their starting point provides the adequate infrastructure, skilled human capital and some financial capital, they are an attractive target for public provision of digital infrastructure because they already have a certain level of demand for it, which can be stimulated via investment. Cases of successful agglomeration, also referred to as *clusters*, can be observed in within Spain, Europe and other countries which have focused public investment in areas that will generate the most significant spill overs, in turn benefiting the economies of the rural areas that they encompass.

5.21 In Spain: the case of Malaga

Mid-sized cities like Malaga have been incredibly successful in embodying this framework which led to its rise as a prominent tech hub for Europe and nucleus of digital activity. Like many others in Spain, the city’s economy was traditionally founded on tourism but took a pivotal turn in the early 1990s with the launch of its *Technology Park* which identified the importance of digitalisation as a driver of economic growth (discussed in Chapter 3). This initiated a movement of turning Malaga into a hub of activity (Fiter, 2022) by leveraging its existing conditions to attract businesses and individuals alike. Applying the “Approach to solutions framework” suggested by this thesis, the case of Malaga founded its success on the following conditions:

- (1) *Basic infrastructure*: basic infrastructure was crucial in stimulating demand for digital infrastructure since it meant that the city could accommodate for businesses and individuals to live and work in and around the area. This includes the availability of schools, universities, healthcare and, crucially, a solid transport network including an airport – features that made accessing the region both feasible and attractive for

incomers to settle. Moreover, the availability of schools and universities created a level of demand for digital infrastructure which could be further fostered by investments in boosting the digital capabilities of students.

- (2) *Skilled human capital*: existing human capital in the area and entrepreneurial culture, fostered by its education systems, encouraged the development in areas like technology such that the boosted by a strong focus on education and innovation, thanks to the quality of its universities, reducing the need to import skilled human capital thanks to institutions like the University of Malaga (UMA) which acts as a source of skilled human capital (Esteban, 2022).
- (3) *Financial capital*: this was initially generated by the hospitality sector via tourism and, as the city transitioned into a technology hub, the source of financial capital has become the network of incoming technology firms, alongside European funding: a combination which has incentivised the concentration of private sector companies.

Malaga leveraged these conditions, in addition to its cultural appeal, to attract more individuals and businesses. Its success in becoming a hub is mirrored by its 32% population growth of since 2000 (with a total population of 1.7 million in 2021) and forecast to reach 2 million by 2037. This translates to double the pace of population growth than the rest of Spain (INE, 2022) given the inflow of foreign and domestic migrations. Foreigners, as a result of international corporations setting up production in the city, contribute to the quality of skilled human capital – with as many as 31,814 having moved to Malaga in 2021 (INE, 2022). Domestic migrations are another source of Malaga's growing population thanks to its attractive labour opportunities, accommodating climate and infrastructure, with a net migration flow of 4,983 Spaniards in 2021.

5.22 In Europe: the case of Germany

Germany presents an empirical case for a successful hub-model in a country of demographic and socioeconomic similarities to Spain. Whilst it has a slightly larger population of 83 million and smaller territory (358 km²) than Spain's 47 million and 505km² respectively, Germany is a comparable profile to Spain in Europe. Common features beyond their

location and membership in the EU include their average living costs, positions as receptors of international tourism and strategic automotive sectors which accounts for 12% of Spain's GDP (World Data, 2022). Structurally, Germany is also organised in a decentralised manner comprised of 16 federal states – similar to Spain's autonomous communities.

The German economy endorses a hub model, making it home to a number of regional and national clusters which are best understood as “self-sufficient networks” of industry, research and public-private organisations (Gleicke, 2015). The government has promoted this model through *cluster policies* and initiatives like the Leading-Edge Cluster Competition to foster the formation of efficient cluster structures (Rothgang et al, 2021). As such, Germany has leveraged the role of its medium cities, which are fairly spread across the country to create clusters of innovation, with examples like Dresden – informally known as the Silicon Saxony cluster - which is specialised in electronics and home to companies like Siemens.

The strategy has generated positive externalities for surrounding rural areas like Lichtenberg with a population of 1,600 inhabitants, thanks to its commutable proximity (46.6km) from Dresden, which the European Commission cited as a “key factor in the effectiveness of innovation” (European Commission, 2006, p. 7). The collaboration and knowledge spill over from nearby economic activity are accessible for inhabitants of Lichtenberg, resulting in employment opportunities, digital training and availability of financial capital (Martinidis, 2021).

5.23 Globally: the case of Brazil

However, this approach can also be found in countries like Brazil. In the last 40 years, Brazil has developed economic clusters as growth points to boost its competitiveness, with the configuration of over 744 official *Arranjos Productivos Locais* (LPA - Local Productive Arrangements) (Pires, 2013). These LPAs – the Brazilian version of a cluster – act by concentrating small and medium sized enterprises (SMEs) in mid-sized cities to attract suppliers and workers (Alderete and Bacic, 2020). So far, the development of hubs in Brazil has been led by the federal government, which has identified key locations for hubs to be established where there is already sufficient infrastructure, similar to the conditions proposed by this paper (section 5.11).

These loci aim to attract private investment and foster a ring of economic growth around them, particularly in underserved or marginalised areas so that they also benefit from the innovation and growth of sector activity. Like Spain, Brazil suffers from intermunicipal heterogeneity in terms of employment and income, such that the objective (*2004 LPA Pluriannual Plan*) was for every municipality, including rural ones, to be supported by at least one LPA (Alderete, 2016).

Public investment has nurtured these hubs by funding firms within target areas, building technology centers with the right digital infrastructure for SMEs, setting up Special Economic Zones (SEZs) which offer incentives for foreign capital and attractive tax credits for innovation (Parente and Piccinetti, 2012). This demonstrates the stimulation of economic growth by proximity (Moretti, 2021) by leveraging the existing infrastructure in certain areas (such as airport or transport corridors) to generate positive spill overs for surrounding rural municipalities.

5.3 Proposed framework: Mini-hub Model

Based on the initial study of Spain's demography (Chapter 2), the role of digitalisation (Chapter 3), and the empirical cases, the thesis is conducive to a solution based on mini-hubs, which would be selected on the grounds of the starting initial conditions. This implies replicating the model of big cities on a gradually smaller scale such that all rural regions are encompassed by a "mini-hub".

Feasibility is a crucial aspect of the proposed solution framework, which takes into consideration real limitations of public spending. It acknowledges the relative urgency of addressing the widening disparities of the Digital Divide and emphasizes the importance of feasibility of any proposal. Real limitations for public spending, such as time and budget, must be taken into consideration when investing in digital infrastructure. The implementation of the proposed solution framework incurs costs that require supervision and measurement of effectiveness. It is important to take a long-term horizon and focus on public investments that justify the attraction of funding to rural areas (Medeiros, 2022) for the private sector to unlock further economic growth and development.

The injection of well-targeted investment may be a one-off expense, while areas that require more profound investment may not be self-sustaining. The framework aims to identify areas with a good foundation for demand for digital infrastructure, as shown in Figure 14, and

invest accordingly. For example, setting up basic infrastructure such as healthcare or schools by the state will become an operating expense for the public sector that is not offset by the returns and does not appeal to private investment.

5.31 Mini-hub model

The literature readings, research and inductive methodology, conduces to the solution of replicating these small-scale hubs that have already worked in big cities, as means to cover the entire terrain of Spain. Establishing smaller, yet more frequent points of strong connectivity, would be the next step in extrapolating the empirical successes of the model in countries like as Germany, Brazil or in Spanish cities like Madrid or Malaga. By increasing capillarity, rural areas would gain proximity to a connectivity nucleus by making it a feasible commute – less than 100km is defined as half of a long-distance commute (Öhman and Lindgren, 2005).

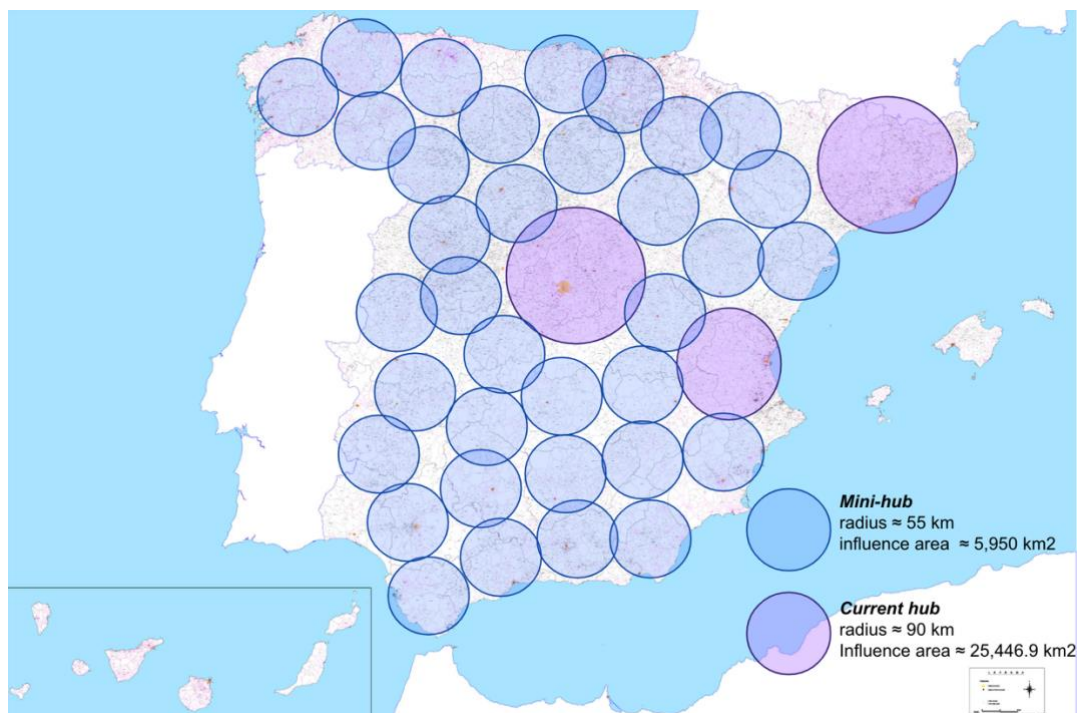
The hypothesis that an initial investment in an area which meets these three conditions (Figure 14) is better targeted and has broader positive externalities than starting from scratch, would allow us to filter those municipalities that display a good prognostic. Focusing on the areas that meet the necessary conditions for solid demand of digital infrastructure, the method suggests that medium-to-small cities or intermediate rural areas should be priority candidates for public investment, in line with Medeiros and Rauhut (2018) who support the vision of medium towns as crucial anchors in achieving territorial cohesion.

In practice this means identifying which areas cover these conditions, as long as their combined areas of influence (i.e. the radius) cover the entire span of Spain as drawn up in Figure 15. Looking forward, the next steps would be to use the criteria (Figure 14) to identify municipalities where demand for digital infrastructure can be stimulated most effectively. That is to say, listing the areas in which €1 of public spending will foster the greatest impact to demand for digital infrastructure. As demonstrated in Figure 15, reducing the size and increasing the number of hubs results in greater capillarity and proximity of rural areas or “growth points” as Dubyna (2021) suggested and is exhibited in the previous empirical cases of Malaga, Germany and Brazil.

An example, For example, Huelva is a small-city found in the southern region of Spain with a rising yet small-scale industry and population of 144,000. Like Malaga, compared to

Madrid or Barcelona, the city is relatively small yet already home to 7,500 companies most of which are industrials, including the oil refinery CEPSA (Aiqbe, 2022). Within a 50km vicinity of Huelva, there are numerous remote municipalities like El Almendro (47.1km) which has a population of 848 (Andalucia Statistics Institute, 2022). Due to its deeply rural location, the area is unconnected in terms of most indicators, relying solely on LTE (4G) as its form of broadband connectivity (0% connectivity in fibreoptics, 5G and coverage below 100Mbps). However, it lies within the area of influence of Huelva such than an investment in Huelva is likely to create opportunity for El Almendro's population in terms of employment, access to skills and access to capital. As Huelva's concentration of business and population intensifies, there will be increased incentive to grow the city further out. This has already happened for Malaga as manifested in rise in housing costs which now occupy an average of 43% of disposable income (mentioned in Chapter 2), which encourages the movement outwards to its area of influence.

Figure 15. Mini-hub model



Source: own elaboration

6. Conclusions

Based on the diagnosis of *España Vacuada*, this thesis first exhibits Spain's abnormal population density concentrations in a limited number of areas, resulting in empty interior regions and an increase in urban-rural disparities across indicators such as income. The consequences of this trend are manifold, including the risk of further migration towards central hubs such as Madrid or Barcelona, exacerbating inequalities (European Commission, 2021) and threatening the sustainability of these urban centres.

Furthermore, the diagnostic of Spain's broadband connectivity, using Kernel Density estimates, revealed the existence of the digital divide in Spain since a significant number of municipalities suffer from under-connectivity (Figure 12). This observation suggests that there is a risk of further exacerbating the disparities between urban and rural areas, as individuals and businesses may be forced to relocate to areas with better connectivity, further depopulating areas with lower connectivity. Combined with the phenomenon of *España Vacuada*, unequal access to digital connectivity exacerbates existing inequalities, particularly punishing rural municipalities, which are found on the lower end of the distribution.

Conclusion 1. The first conclusion drawn from the thesis is that addressing the digital divide requires a comprehensive approach that considers both the supply and demand of digital infrastructure. It argues that the demand for digital infrastructure must be the first consideration in order to identify where resources are best allocated to foster economic growth and alleviate digital inequalities. For this, it is crucial to identify the areas where investment can stimulate demand, for which the proposed framework emphasizes the importance identifying the criteria that make a region a good potential receptor of public investment in digital infrastructure. Following the initial research, the study deduces that installing digital infrastructure alone is not a sufficient condition for an area to reap the benefits of digitalisation. In order to capture the full benefits of digitalisation, there are three criteria on which digital demand can be anchored to provide a solid foundation to use digital infrastructure: (1) basic infrastructure (2) availability of some skilled human capital (3) availability of financial capital. In summary, it contends that identifying areas that meet these conditions to some degree, is the first step that should be taken before progressing with supply-side action.

Conclusion 2. Secondly, the thesis concludes that rolling out digital infrastructure *without* understanding where demand can be created is cost inefficient. In turn, this would lead to a misallocation of resources (Chang-tai and Klenow, 2009), since government funding since find itself underemployed in areas of low digital demand. This led to distinguishing the starting points of small rural areas and those slightly more advanced areas which are better equipped in terms of basic skilled human capital, financial capital and infrastructure. Whilst understanding that all areas, including the deeply rural areas of Spain, such as El Almendro, need to be served in terms of digital connectivity, this conclusion recognises that the investment required to successfully employ digital infrastructure in an area of negligible demand for digital infrastructure would need to create this demand before rolling out supply. Creating conditions for receptive digital demand entails an investment of a different scale altogether because it would have to invest in consolidating these three conditions before private investment can thrive.

Conclusion 3. An inductive study found examples of where anchoring public investments on the existing resources and capabilities of a region have created second-round effects of economic growth on surrounding municipalities (Giraldo, 2021). As attested by the gradual growth of its surrounding municipalities in terms of people and capital, Madrid offers a good example of this model in Spain, as well as other successful cases like the Basque Country, Barcelona and Germany. Malaga's embodiment of the same model at a smaller scale offers encouragement for the opportunity of small cities to become hubs with sufficient proximity to rural areas to encompass them within a given radius of influence and therefore narrow the digital divide.

Conclusion 4. The final outcome from the study's findings is an early/primary prototype that applies the successful model of main cities on a smaller scale like Malaga, such that the entirety of Spain's territory is influenced by a mini-hub. These areas would not look to be as large as Madrid or Barcelona, but instead they would offer a smaller area of influence for the rural areas in their proximity. In order to further this model, the next consideration would be to select candidate municipalities, such as Huelva (mentioned above) to shortlist the municipalities around Spain that could serve as mini-hubs with the right investment as a function of their current availability of skilled human capital, financial capital and basic infrastructure. The next phase would require detailed topographic studies to contemplate the optimum distance of these hubs from each other, and the total number of mini-hubs needed to cover the Spanish terrain.

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7. Appendix

ANNEX I.

Table 1. Classification of Municipalities in Spain from INE (2022)

<i>Type of municipality</i>	<i>N. municipalities</i>	<i>Mean Population</i>
URBAN	753	49749
RURAL INTERMEDIATE	1502	4575
RURAL SMALL	5877	459

Table 2. Mean Coverage (%) of Broadband technologies per type of Municipality

<i>Type of municipality</i>	<i>FTTH (junio 2020)</i>	<i>Cob. 100Mbps (junio 2020)</i>	<i>LTE (junio 2020)</i>
URBAN	83,02%	87,78%	99,98%
RURAL INTERMEDIATE	69,35%	73,11%	99,89%
RURAL SMALL	21,72%	21,90%	95,23%

Table 3. Investment in ICT Cloud Services by Firm Size in Spain from INE (2021)

<i>Total Empresas</i>	<i>Total</i>	<i>De 10 a 49</i>	<i>De 50 a 249</i>	<i>De 250 y más</i>
<i>F.1 % de empresas que compran algún servicio de cloud computing usado a través de Internet (1)</i>	32,41	28,73	48,23	67,79

Table with columns: MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020), MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020). Rows include municipalities like Abasco, Abellera, Abenda, etc.

Table with columns: MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020), MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020). Rows include municipalities like Abellera, Abenda, Abenda, etc.

Table with columns: MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020), MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020). Rows include municipalities like Abellera, Abenda, Abenda, etc.

Table with columns: MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020), MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020). Rows include municipalities like Abellera, Abenda, Abenda, etc.

Table with columns: MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020), MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020). Rows include municipalities like Abellera, Abenda, Abenda, etc.

Table with columns: MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020), MUNICIPIO, HABITANTES, P777 (000 2020), COC. VOTOSES (000 2020), ICI (000 2020). Rows include municipalities like Abellera, Abenda, Abenda, etc.

Nombre	10.00	11.00	12.00	13.00	14.00	15.00	16.00	17.00	18.00	19.00	20.00	21.00	22.00	23.00	24.00	25.00	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00	36.00	37.00	38.00	39.00	40.00	41.00	42.00	43.00	44.00	45.00	46.00	47.00	48.00	49.00	50.00	51.00	52.00	53.00	54.00	55.00	56.00	57.00	58.00	59.00	60.00	61.00	62.00	63.00	64.00	65.00	66.00	67.00	68.00	69.00	70.00	71.00	72.00	73.00	74.00	75.00	76.00	77.00	78.00	79.00	80.00	81.00	82.00	83.00	84.00	85.00	86.00	87.00	88.00	89.00	90.00	91.00	92.00	93.00	94.00	95.00	96.00	97.00	98.00	99.00	100.00
Alto de las Vigas	10.00	11.00	12.00	13.00	14.00	15.00	16.00	17.00	18.00	19.00	20.00	21.00	22.00	23.00	24.00	25.00	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00	36.00	37.00	38.00	39.00	40.00	41.00	42.00	43.00	44.00	45.00	46.00	47.00	48.00	49.00	50.00	51.00	52.00	53.00	54.00	55.00	56.00	57.00	58.00	59.00	60.00	61.00	62.00	63.00	64.00	65.00	66.00	67.00	68.00	69.00	70.00	71.00	72.00	73.00	74.00	75.00	76.00	77.00	78.00	79.00	80.00	81.00	82.00	83.00	84.00	85.00	86.00	87.00	88.00	89.00	90.00	91.00	92.00	93.00	94.00	95.00	96.00	97.00	98.00	99.00	100.00
Alto de las Vigas	10.00	11.00	12.00	13.00	14.00	15.00	16.00	17.00	18.00	19.00	20.00	21.00	22.00	23.00	24.00	25.00	26.00	27.00	28.00	29.00	30.00	31.00	32.00	33.00	34.00	35.00	36.00	37.00	38.00	39.00	40.00	41.00	42.00	43.00	44.00	45.00	46.00	47.00	48.00	49.00	50.00	51.00	52.00	53.00	54.00	55.00	56.00	57.00	58.00	59.00	60.00	61.00	62.00	63.00	64.00	65.00	66.00	67.00	68.00	69.00	70.00	71.00	72.00	73.00	74.00	75.00	76.00	77.00	78.00	79.00	80.00	81.00	82.00	83.00	84.00	85.00	86.00	87.00	88.00	89.00	90.00	91.00	92.00	93.00	94.00	95.00	96.00	97.00	98.00	99.00	100.00

