



Social capital and job creation in rural Europe



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Foreword

Rural areas are very diverse across Europe, especially after enlargement, in terms of living conditions, economic prosperity, infrastructure and educational levels, with certain areas doing quite well in comparison with others. In the poorer countries of the EU, however, rural areas tend to be characterised by out-migration of the population, in particular young and better educated people, demographic ageing, a workforce with a lower level of educational attainment, lower average labour productivity, unattractiveness of the region as a business location, poor infrastructure and provision of public services, and high unemployment.

The traditional public policy approach focused exclusively on the agricultural sector, a key example being the European Common Agricultural Policy (CAP), in existence since the early 1950s. Over the past 20 years, however, the focus has shifted to take a more territorial approach, with rural development viewed in a wider context and involving sectors such as forestry and tourism, as well as other service industries. The shift from sectoral policies to 'location-based' policies has resulted in a transfer of responsibilities from central governments to regional and local ones; it also led to an emphasis on 'bottom-up' approaches – of involving local actors (social partners, NGOs, companies and local citizens) in decision-making. Given the diversity of different rural areas, it has been recognised that tailored policy approaches are needed to meet these regions' differing needs.

Against this background, the European Foundation for the Improvement of Living and Working Conditions launched a project aimed at documenting the relationship between social capital and economic development, with a specific focus on job creation in rural areas. The research set out to identify examples of how local and regional authorities, social partners and NGOs in selected countries developed initiatives to foster job creation and make policy recommendations at local, regional, national and EU level on the basis of these findings. The research covered five countries of the EU15 (Finland, France, Germany, Portugal and Spain), three of the 10 NMS which joined the EU in 2004 (Latvia, Poland and Slovakia) and the two NMS which joined the EU in 2007 (Bulgaria and Romania). This report outlines the policy background to the research and makes a number of policy recommendations in terms of good practice in promoting job creation in rural areas.

In the report 'social capital' is understood as 'the interaction of individuals within formal and informal networks that builds trust, communication, participation and a cultural dimension'. The findings show that involvement in social networks positively affects economic development, leading to entrepreneurship and consequent economic growth, employment and social inclusion. Building on this resource of social capital is therefore a key element when seeking to develop policies to foster rural economic development and job creation.

Based on good practice examples, this report has policy recommendations for the many levels involved, such as government authorities, social partners and NGOs. We hope that the findings can stimulate debate at EU, national, regional and local levels.

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Director

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Country codes

BG	Bulgaria
DE	Germany
ES	Spain
FI	Finland
FR	France
LV	Latvia
PL	Poland
PT	Portugal
RO	Romania
SK	Slovakia

Abbreviations

EU27	27 EU Member States, after January 2007
EU25	25 EU Member States, after May 2004
EU15	15 EU Member States, prior to May 2004
NMS 2004	10 New Member States that joined EU in May 2004 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia)
NMS 2007	2 New Member States that joined EU in January 2007 (Bulgaria and Romania)

Contents

Foreword	v
Introduction	1
European policy background	1
Research approach	3
1 – Rural areas in Europe	7
Defining rural areas	7
General characteristics of rural areas	9
Labour market problems in disadvantaged rural areas	16
2 – The role of social capital in fostering job creation	19
Evolution of rural development policy	19
Attitudes towards social capital	22
3 – Overview of measures and initiatives	25
Main actors and strategies	25
Coordination of key actors	30
4 – Types and examples of specific activities: case studies	33
Partnerships between authorities for joint policy development	34
Public-private partnerships for joint policy development	36
Public-private partnerships for empowering rural enterprises	39
Creation and/or support of traditional business clusters	43
Creation and/or support of business networks for the joint distribution of rural products	47
Creation and/or support of business networks focusing on local unique selling propositions	49
Creation and/or support of business networks for strengthening local tourism	52
Creation and/or support of business networks promoting employment in the area	54
Creation and/or support of networks targeting the labour market integration of the local population	55
5 – Conclusions	63
Policy recommendations	68
Bibliography	77
Appendix 1: Overview of case studies	79
Appendix 2: Research team	80

Introduction

European policy background

In the public perception, 'rural' is often equated with economic backwardness. This is attributable to a combination of various factors, such as a dominance of the primary sector (i.e. agriculture), which is characterised by an increasing efficiency and productivity, resulting, among other things, in a loss of employment opportunities in farming. Furthermore, the population in rural areas tends to be unduly affected by the demographic shift towards an ageing society due to out-migration of young people and an in-migration of retirees. Finally, many rural areas have difficulties in establishing the necessary critical mass of facilities, producer services and investments to support economic development and, thus, to attract entrepreneurial activity (OECD, 2004 and 2006).

It has been recognised, however, that rural areas appear to be very heterogeneous regarding their economic development and level of welfare. Many rural regions have seized opportunities and built on their existing assets, such as their location, natural and cultural amenities, or social capital. This has resulted in a dynamic economic development and job creation (Dax, 2002; OECD, 2006), being in some cases even more favourable than for urban districts, as indicated in the recent report by Shucksmith *et al* (2006). This report is based on the First European Quality of Life Survey (EQLS), launched in 2003 by the European Foundation for the Improvement of Living and Working Conditions (hereafter 'the Foundation') to analyse key aspects of quality of life in the EU Member States (including Romania and Bulgaria) and in Turkey. Shucksmith *et al*'s report explores urban-rural differences, focusing on income and deprivation; housing and the local environment; employment and education; work-life balance; access to work, school, family, friends and services; and subjective well-being.

Traditionally, public policy dealing with rural areas mainly took a sectoral approach focusing on agriculture, as, for example, reflected in the EU's Common Agricultural Policy (CAP) introduced in the late 1950s. During the 1980s, it was recognised that problems faced by declining rural areas cannot be sufficiently addressed by dealing solely with agriculture. Thus, a shift in emphasis of EU policy began. Reforms of the CAP, in combination with changes in the Structural Funds and the introduction of the LEADER programme at the end of the 1990s and early 2000s, took into account a more territorialised approach. These give more importance to rural development in terms of a wider perspective, such as also considering tourism or other service industries gaining in importance in many rural areas. Three main reasons for this development have been identified (Spiezia, 2003):

- higher integration driven by institutional processes (e.g. EU) and economic trends (e.g. globalisation) erode national borders and promote competition along regional lines in the world market;
- persisting disparities among regions challenge countries' capacity for economic growth, while ensuring social cohesion;
- economic growth should be increasingly driven by the higher productivity of companies and employees being concentrated around a small number of regional poles.

The shift from traditional sectoral policies to place-based policies results in a transfer of policy responsibilities from central governments to regional and local ones (OECD, 2004). Tailor-made policy approaches seem to be more than justified in view of the heterogeneity among individual rural areas with regard to such characteristics, among others, as the topography, prevalent economic sectors and the population.

At European level, the relevance of employment-related policy aims is, for example, reflected in one of the conclusions of the Agriculture Council of July 2003, calling for an in-depth assessment of employment prospects of rural areas. This emphasis is not too surprising bearing in mind the fact that a considerable share of the total EU population, particularly in Central and Eastern European countries, lives in rural communities.

The changing concept of regional/rural policy still faces important challenges to maintain and strengthen the business location 'rural community'. Undoubtedly, there exists a wide range of different strategic options. However, due to the patterns described above, investment focusing solely on physical or human capital in rural areas may not be sufficiently effective. For example, educational efforts could result in an increased level of rural 'brain-drain' instead of an increased level of job placements. When considering specific strategies for rural areas, full advantage of local resources and capabilities should therefore be taken into account.

One of the important resources of rural areas is the availability and extent of social capital, in terms of interaction of individuals within formal or informal networks, communication, participation, involving social trust and often a cultural dimension. Such interactions may occur in the context of work relations, industrial relations and in the business sphere, as well as in the social and public sphere (finding its formal expression, for example, in voluntary and/or civil society organisations). Among others, these interactions facilitate communication and the sharing of cultural values, such as norms and standards. Valentinov (2003) has shown that strengthening such relations positively affects 'hard economic facts' – such as the level of entrepreneurship and, consequently, economic growth, employment and social inclusion – but also that building social capital is more difficult than building economic capital. As regards the New Member States of 2004 and 2007, Valentinov finds that social capital is a critical determinant of socio-economic welfare of rural communities going through the transition towards a market-oriented economy. When comparing social capital in rural and urban areas, a widespread view is that companionship and shared norms and values, as well as mutual trust, are still more prevalent in rural regions than in the more anonymous surroundings of larger cities. This is, for example, reflected in the, on average, higher engagement in voluntary activities in rural areas compared to urban ones. Nevertheless, for economic purposes, social capital seems to be employed to a lower extent in rural than in urban areas. This is due to the fact that cities may provide more opportunities for networking within the local community and with other regions since, for example, agencies (governmental or others) can be found more often in urban areas than in rural areas.

Therefore, any efforts aimed at fostering economic development and job creation in rural areas can benefit from initiatives helping the latent potential of social capital to materialise. At European level, the Cork Declaration of November 1996 highlighted the need for an integrated rural development policy, applying 'improved mechanisms' for planning, managing and financing rural development at the local level. At the heart of these 'improved mechanisms' stands the promotion of 'local development partnerships', defined as 'systems of formalised cooperation, grounded in legally binding arrangements or in formal undertakings, cooperative working relationships and mutually adopted plans among a number of institutions'. They typically include governments, authorities and government agencies, businesses, professional associations and voluntary and community organisations (OECD, 1990).

Throughout Europe, such local partnerships serving rural development have been actively promoted by national governments, but also at transnational level (e.g. in the framework of Territorial Employment Pacts or within various projects of the Local Agenda 21). By far the most important supranational initiative in this regard has been the focus on networking within rural regions (and, therefore, building on social capital in the widest sense) introduced in 1991 with the Community Initiative LEADER (*Liaison entre Actions de Développement de l'Economie Rurale*), by now LEADER+. The LEADER programme aims at establishing local action groups, raising their awareness for rural development action and initiating a long-term learning process. Thereby, a strong 'bottom-up' community-based approach to EU support for rural development has been introduced (Shucksmith *et al*, 2006).

However, little is known of initiatives addressing the social capital aspect at national, regional and local level in the EU Member States, in particular as regards the identity and strategic alignment of key actors and their coordination, the forms of approaches, the availability and specific design of individual measures, the impacts they have as well as the necessary conditions for them to be effective or successful. An analysis is of particular interest for the New Member States of 2004 and 2007, for which the accession to the European Union also includes the possibility of benefiting from the European structural and regional policy. For this purpose, however, these countries are obliged to create an institutionalised system of regional planning and development, satisfying EU standards. It is assumed that such is only possible by establishing networks including (governmental) authorities and social partners, as well as actors in the private industry sector – i.e., by creating and building on social capital (Baum and Weingarten, 2004).

It is, therefore, consistent that the Foundation examines how social capital initiatives in the EU Member States support job creation and employment.

Research approach

To gain an insight into the relationship between social capital and the creation of jobs in European rural areas, this consolidated report focuses on qualitative information on relevant initiatives implemented so far by European, national or regional/local (public) actors in selected European countries.

The aims of the research were to:

- document the relationship between social capital and economic development, with a specific focus on job creation in rural areas;
- identify and describing examples of how local and regional (governmental) authorities, social partners, NGOs, etc. in rural areas have developed initiatives to create social capital and employment;
- elaborate, on the basis of the findings, future-oriented policy recommendations at local, regional, national and EU level.

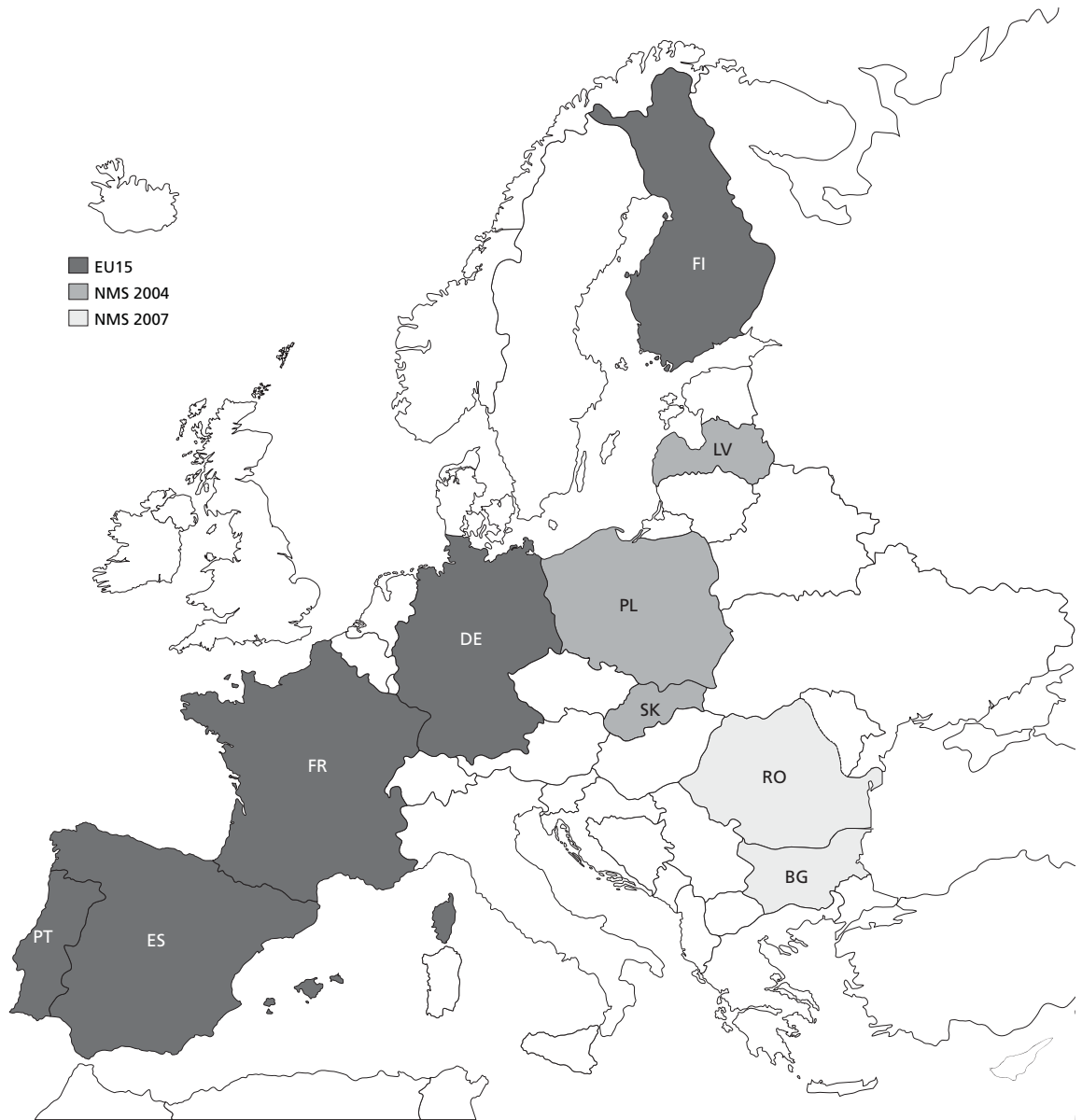
The countries covered in the study (shown in Figure 1) are:

- 5 of the original EU15 Member States – Finland, France, Germany, Portugal and Spain;

- 3 of the 10 New Member States joining in 2004 – Latvia, Poland and Slovakia;
- the 2 latest EU Member States, joining in 2007 – Bulgaria and Romania.

The selection of countries to be analysed was conducted in such a way as to ensure a comprehensive picture of the European situation (even if focusing the detailed investigations on a limited number of countries). This was done by orientating on a good balance of different aspects, such as the geographical location (i.e. north/south, east/west), the size of the country, the importance and characteristics of rural areas within the country, the economic development, the situation and development of the labour market, and the existence of interesting initiatives for fostering job creation in rural areas, taking into account the importance of social capital.

Figure 1 Countries covered in the study



Source: Austrian Institute for SME Research

The information for the study was gathered during September and October 2006 at national level by a team of experts in socio-economic research in the fields of employment and labour market, as well as regional development (see Appendix 2) under the lead of the Austrian Institute for SME Research (KMU Forschung Austria) and with the assistance of consulting experts in the field of rural development, namely IAMO (Leibniz-Institute of Agricultural Development in Central and Eastern Europe) and AEIDL (European Association for Information on Local Development). This consolidated report constitutes a synthesis of the national reports (which are available on request from the Foundation) and aims at highlighting the role of building social capital for job creation in rural areas.

In a first research step of the project, a context analysis was conducted at European and national level to provide the thematic reference framework for the main aim of the project, namely the identification and presentation of case studies of strategies, initiatives or measures illustrating how forming social capital in rural areas has been used to support economic development and job creation. Some quantitative key facts on European rural areas are provided in Chapter 1. A more qualitative analysis has been included in Chapter 2 and 3, dealing with the general position of social capital in rural development policy.

The next step of the research involved the elaboration of case studies of how local and regional authorities, social partners and NGOs in rural communities support job creation by developing and generating different forms of social capital. For this purpose, the national research partners provided a list of almost 60 potential examples of good practice, from which 20 were selected to be analysed in-depth. An overview of the analysed case studies is given in Appendix 1 and a summary of the cases is given in Chapter 4. The selection of 20 case studies cannot claim to fully cover the spectrum of possible forms of social capital or the approaches to support its evolvement. The examples may not necessarily be representative of what happens in a specific country and, therefore, do not allow for direct comparison of the strengths and weaknesses between the individual Member States.

Finally, the last step of the research was to consolidate the results obtained and derive future-oriented recommendations for local, regional, national and European organisations on possibilities to fully exploit the potential of social capital for rural economies and labour markets.

Defining rural areas

Rural areas across Europe, but also within individual countries, are physically, socially and culturally diverse. This diversity is due to geographic and topographic factors (e.g. distance to cities, size of plots, plot fragmentation, soil quality, mountains, forests) and characteristic features of the population (e.g. age structure, traditions, attitudes). The problems, needs and development potentials vary from place to place, not least because of their different histories and circumstances, and therefore programmes to address these issues need to be locally sensitive.

Although rural areas have been subject to research efforts and policy intervention for decades, there does not exist one single accepted definition of 'rural'. The understanding of the concept varies among private and public entities dealing with this issue (particularly statistical institutes or policy-makers). The main reasons for this are (European Commission, 2006):

- diverging perceptions of what is 'rural' and of the elements to characterise 'rurality' (e.g. economic situation, cultural background, geographic location, natural resources);
- the need to have a tailor-made definition according to the area analysed or policy concerned due to the heterogeneity among rural regions;
- difficulties in collecting relevant data at the level of basic geographical units (e.g. administrative unit, grid cell, plot).

A widespread definition for statistical purposes refers to rural areas as being characterised by a low population density, for example, excluding towns with more than 15,000 inhabitants. This threshold varies, however, considerably among countries, ranging, for example, from 'less than 5,000 inhabitants' in Slovakia to 'less than 30,000 inhabitants' in Bulgaria. Indeed, in the case of Finland two definitions exist: a narrow one defining rural as all settlements with less than 500 inhabitants, and a wider one referring to rural as territories with less than 30,000 inhabitants.

Also, the guidelines for the LEADER+ programme use population density as the main criterion for areas to be eligible: the territories' population must not exceed 100,000 in the most densely populated area (120 inhabitants/km²) and must not number less than 10,000 (European Commission, 2000). However, the problem may arise that – as is the case in Romania – cities exist with a lower population density than some of the villages. Thus, strictly focusing on the population density does not seem sufficient to define the 'rural' milieu.

The OECD follows a more operationalised approach and orients its 'Regional Typology' on three criteria: population density, percentage of people living in rural communities and size of urban centres. Consequently, the following classification has been devised (OECD, 2005):

- Predominantly rural regions: More than 50% of the population live in communities with a population density below 150 inhabitants per km².
- Significantly rural/intermediate regions: Between 15% and 50% of the population live in communities with a population density below 150 inhabitants per km², or the classification of 'predominantly rural' is to be applied but there exists an urban centre of more than 200,000 inhabitants representing no less than 25% of the regional population.
- Predominantly urban regions: Less than 15% of the population live in communities with a population density below 150 inhabitants per km², or the classification of 'significantly

rural/intermediate' is to be applied but there exists an urban centre of more than 500,000 inhabitants representing no less than 25% of the regional population.

On the basis of this definition, Slovakia, for example, consists of one predominantly urban region (Bratislava), two significantly rural regions and five predominantly rural regions (at NUTS-3 level).

Other suppliers of regional statistics include other criteria in their definitions, such as the density of infrastructure (e.g. number of buildings, roads, education or healthcare facilities) or the level of remoteness/geographic dispersion (i.e. distance to larger towns).

Thus, rural areas are defined differently in each country. For example:

- In Slovakia, rural areas are referred to as territories with low population density, being distant from cities and having only weak ties to them in terms of infrastructure networks and public transport.
- In Portugal, areas that according to the OECD definition mentioned above would be classified as predominantly urban are considered as significantly rural/intermediate if they are located in less favoured areas.
- In Finland, an individual typology system for categorising areas has been developed, resulting in four types of regions: sparsely inhabited rural areas, core-rural areas, city-related rural areas and cities.
- France uses a typology oriented on economic dynamism and attraction. The countryside close to towns refers to the outlying suburbs on the perimeters of large or medium-sized cities, being characterised by a dynamic population development, high population density and highly mobile inhabitants. The very fragile countryside, in contrast, shows a low population density, a declining economic specialisation and decreasing populations with modest incomes. Then, there exists a 'new countryside' in terms of typically residential, tourist or entrepreneurial property developments; they show the greatest net migration rate to rural zones and have a very positive dynamism in terms of employment.

Thus, considering the diversity of prevalent definitions and conceptualisation of 'rural', as well as the different characteristics of the various countries under consideration, there is no particularly strict definition applied throughout this study. Rather, for the operational work in the framework of the project, especially the case studies, a common understanding of the global underlying principle of 'rural' is established, taking into account the following aspects:

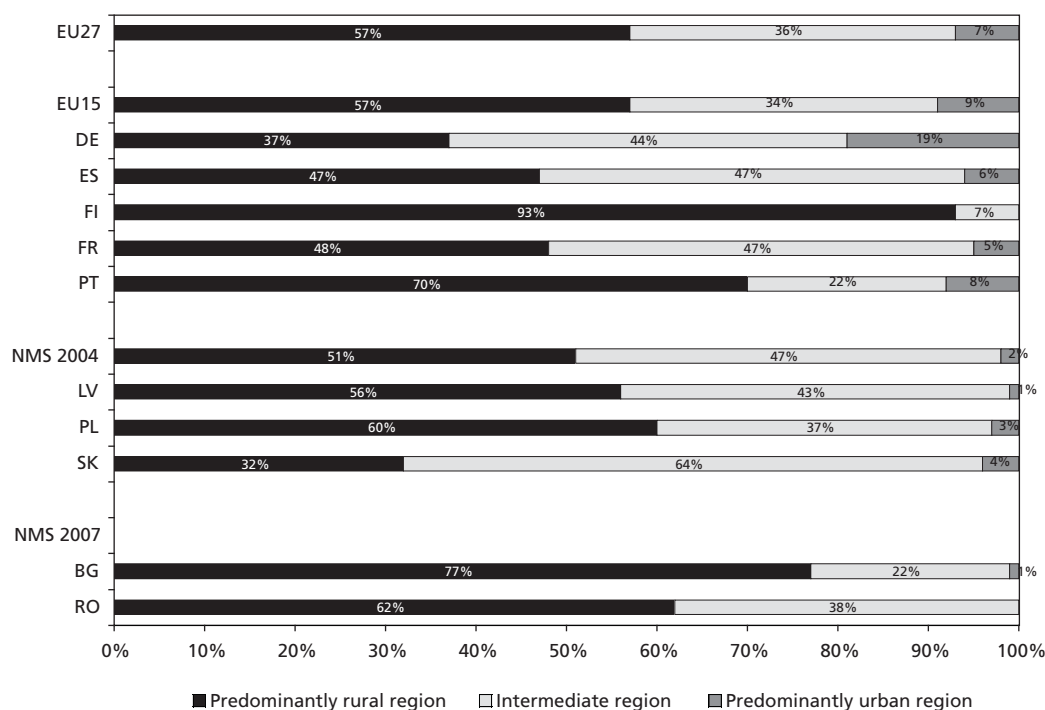
- 'Rural' should always be considered in comparison to 'urban' against the specific national background, as considerable differences among countries are assumed (e.g. different situations/framework conditions of Finland and France). So, for some qualitative analyses, national definitions are taken into account (e.g. from programmatic documents).
- Rural areas are characterised by a lower density of population, housing and companies within a specified geographical region and often dispose of a lower availability of infrastructure in the widest sense (e.g. roads, public transport, healthcare or childcare facilities, education centres).
- Rural areas are not necessarily characterised by a dominance of agriculture (i.e. areas dominated by other industries may also be rural) and need not be economically 'backward' or disadvantaged regions.

- Those areas situated comparatively close to urban regions forming a kind of ‘wider economic region’ with the city (e.g. high share of commuters for working in town) are not regarded as rural in the context of this study, i.e. rural areas are characterised by a certain degree of geographical remoteness from the main centres of employment and population (no ‘satellites’ or ‘edge cities’).

General characteristics of rural areas

The following overview provides information on the characteristics of rural areas in statistical terms. Central data sources from the European Commission, using the OECD definition (see above), are referred to in order to enable cross-country comparisons. It must be said, however, that such data – due to the limitations of their compilation – may show a rather ‘over-simplified’ picture of rural areas, not entirely taking account of their diversity and different natures. Furthermore, for some indicators (particularly in the field of employment/unemployment) other data from national sources deliver different results and figures than central sources do.

Figure 2 Distribution of the territory by regional typology and country (NUTS-3 level), 2003



Note: The total for France, and therefore the European aggregates, includes the overseas departments.

Source: European Commission, 2006

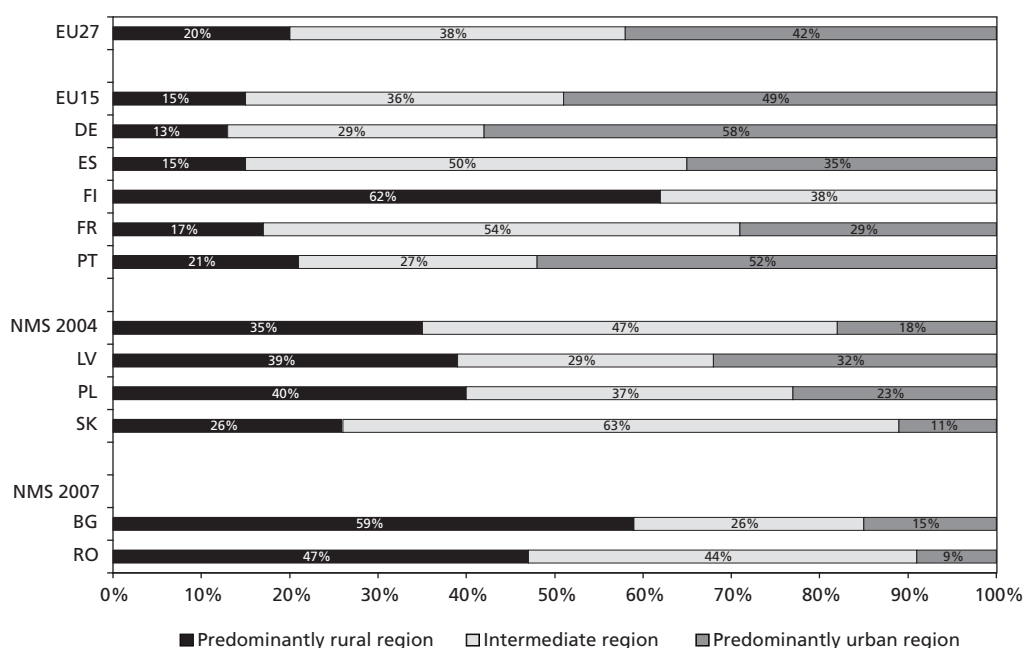
In the EU27, predominantly rural areas, according to the OECD definition, represent 57% of the territory (see Figure 2) and 20% of the population (see Figure 3). Rural areas are, therefore, particularly important in terms of territory. Among the ten countries analysed, Finland, Portugal, Bulgaria, Romania and Poland in particular are dominated by rural areas with respect to territory. So, although the new Member States (including Romania and Bulgaria) are, on average, characterised by a higher share of rural territory, there are also EU15 countries in which rural areas are of major relevance. Only in Germany is the share of predominantly rural areas in the total territory

(37%) far below the EU27 average. Generally, urban areas constitute few poles, while rural areas cover widespread geographic areas (e.g. the whole coastal strip of Portugal). Scattered settlements make the provision of infrastructure more difficult and costly.

One-fifth (20%) of the population in the EU27 lives in predominantly rural areas (see Figure 3). Considerable differences can be observed in the countries studied. With the exception of Finland, a comparatively low proportion of the population in the EU15 resides in predominantly rural areas, whereas the share rises to about 50%–60% in Bulgaria and Romania, and to about 30%–40% in the New Member States of 2004.

Rural areas are, by definition, characterised by low population density. Within the EU27, the population density varies from 41 inhabitants/km² in predominantly rural areas to 639 inhabitants/km² in predominantly urban regions. Whereas in France, Spain, Portugal and Latvia, the population density in predominantly rural regions ranges between 25–35 inhabitants/km², more than 80 inhabitants/km² live in predominantly rural areas in Germany, Poland and Slovakia (European Commission, 2006). Important differences, however, can also be found within countries. For example, the Slovakian region of Banská Bystrica is characterised by a population density of 69.9 inhabitants/km², while this value extends to 88 in the Prešov region.

Figure 3 Distribution of the population by regional typology and country (NUTS-3 level), 2003



Note: The total for France, and therefore the European aggregates, includes the overseas departments.

Source: European Commission, 2006

According to the OECD (2006), the average population growth during the period 1996-2001 was much higher in intermediate and predominantly urban regions than in predominantly rural regions. For some of the countries analysed, the situation is as follows:

- During the last 25 years, rural areas in Finland have lost a significant number of inhabitants due to an increasing tendency of out-migration of rural-born young people (15-29 years) to the cities.
- In Bulgaria, the decline of the registered rate of rural population is higher than the respective decline in urban areas.
- The Census in Portugal mentions a fall in the rural population of 1.4% between 1991 and 2001.
- National statistics from Latvia show that a significant number of inhabitants of rural areas relocate to the capital, Riga, each year, while the majority of people leaving Riga move to its surroundings, resulting in a severe population decrease of the rural areas located far away from Riga.
- Although French rural areas experienced a population decrease up to the 1980s, they are characterised today by a growth in population due to the significant share of people who are moving from cities to rural areas, even to those located far away from urban centres.
- The 2001 Census of Spain shows that the share of the rural population has halved between the 1950s and 2001. Nevertheless, rural municipalities with more than 2,000 inhabitants are experiencing a population growth, which might be attributed to a 'rural renaissance', i.e. a trend towards second residences in rural areas close to the cities and to an in-migration from smaller rural municipalities. Furthermore, it is found that rural areas are attractive for immigrants looking for seasonal jobs in Spain.
- During the 1990s, Germany experienced a general population growth (mainly triggered by immigration), having been most dynamic in significantly rural areas and slowest in predominantly urban regions.

For the countries selected for this study, the UN Food and Agriculture Organisation (FAO) reports that the last decades were characterised by a declining share of rural population and this tendency is projected to continue in the future. The European Commission (2007) identifies two large-scale processes of demographic change taking place in Europe:

- a long established 'urbanisation' trend, drawing population and economic activity out of remote rural areas into urban and accessible areas;
- a 'counter-urbanisation' trend, in terms of a flow out of urban areas into accessible rural areas (see also the 'rural renaissance' trend mentioned for Spain, above).

Nevertheless, experts assess that predominantly rural areas, particularly the more remote ones, are still being depleted of population and economic activity (European Commission, 2007).

Overall, the age structure of the population does not vary significantly between different types of areas, even if the proportion of older people (65 years and over) is often slightly higher in predominantly rural regions (notably, for example, in Portugal, Spain and France). An exception is Romania, where the share of people aged 65+ in rural areas lies about 7.5 percentage points above that share in urban regions (Source: Romanian Human Development Report). However, when comparing country aggregates, differences in age structure at national level have to be taken into account. Countries with large urban populations and high average age (EU15) and countries with large rural populations and lower average age balance out urban-rural differences at aggregate level (European Commission, 2006).

The various experts interviewed in the course of this study note that the demographic shift towards an ageing society is comparatively more significant in rural areas. Differences in demographic and age structures between rural and urban regions have an important influence on the economic dynamism and growth of rural areas, as well as on living standards and the provision of social services (e.g. higher demand for health services, while childcare facilities are less utilised). Consequently, the ageing of the farming population and the participation of young people in the rural economy has been identified as one of the major challenges for the future of rural employment in the Agricultural Council of July 2003 (European Commission, 2007).

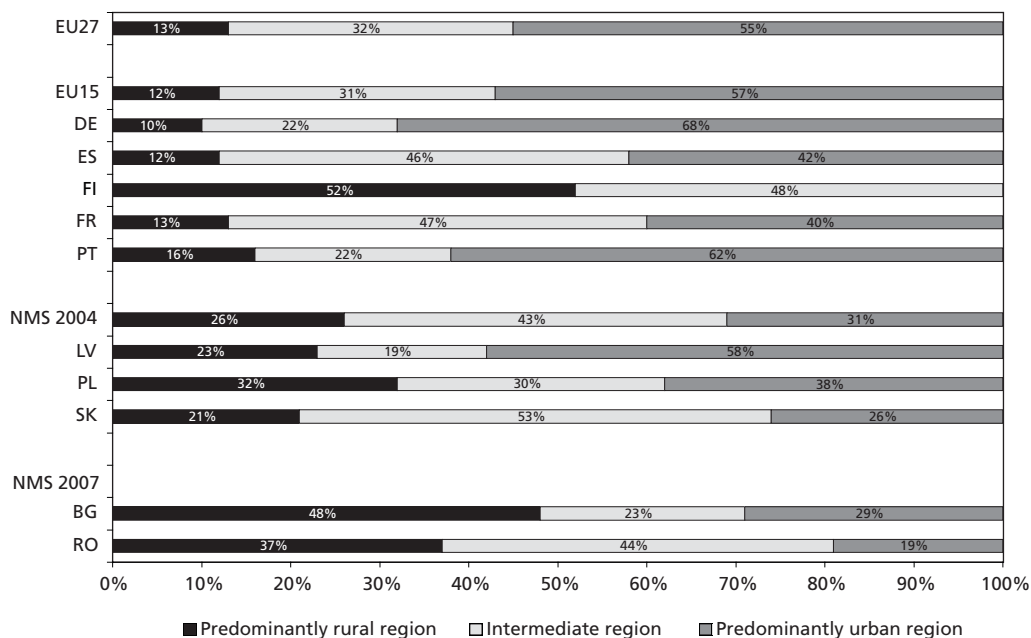
The role of human capital for economic development and growth points to the particular relevance of education. In the EU27, 70% of adults have reached a medium or higher level of education. There are, however, large variations among the countries studied. For example, in Germany, Latvia and Slovakia, more than 80% of adults have reached medium and high educational levels, whereas this is the case for less than 50% of adults in Spain and Portugal. Indeed, in some rural municipalities in Portugal, the illiteracy rate is over 25% (Correia *et al*, 2006). In Poland, only about 40% of the rural population has completed primary education and only about 4% has reached higher education (Ministry of Agriculture and Rural Development (Poland), 2006; Klodziński, 2006). In Bulgaria and Romania, the proportion of adults with a medium or higher education level amounts to 72% (European Commission, 2006). According to Shucksmith *et al* (2006), the educational level is generally slightly lower in rural areas than in urban areas, particularly in Spain, France, Poland, Portugal and Romania. Besides the age structure, this could be attributed to the lower availability of education and training facilities in rural areas and/or the lack of orientation concerning the local labour market needs. Inhabitants of rural areas are, therefore, often confronted with higher transport costs to secondary schools and universities, and there is often a lack of encouragement to go for higher education on the part of parents who have lower educational attainments. Furthermore, there is a tendency that people who migrate to study in urban areas do not return to their rural place of origin. Lower educational attainments, in turn, are seen to result in lower innovativeness, in problems with finding non-farm jobs and, consequently, lower income (see below).

Shucksmith *et al* (2006) note that use of the Internet has become an important aspect in relation to education over the last decades. It provides multiple information sources and possibilities to access current developments, news and other activities. Use of the Internet is linked to the economic development of a country. Data indicate, however, that broadband Internet infrastructure and take-up by the population are significantly lower in rural areas than in urban areas (European Commission, 2006). Shucksmith *et al* (2006) observed that the gap between the urban and rural populations using the Internet is largest in Bulgaria and Romania; only one-tenth of Bulgarian and Romanian respondents living in the countryside reported using the Internet at all.

In the EU27, predominantly rural areas generate 13% of the overall Gross Value Added (GVA)¹ (see Figure 4). In the NMS 2004, the share, on average, is 2 times higher, while in the NMS 2007 it is 3 times higher. In Finland, predominantly rural areas account for more than half of the national GVA. If output is related to population, many rural areas rate low with respect to this economic performance indicator. Rural GDP per capita is less than half of the country's average in, for example, Portugal, Bulgaria or Latvia.

¹ Gross Value Added is a measure of overall production or output. It is the net result of output valued at basic prices less intermediate consumption valued at purchasers' prices. It is calculated before consumption of fixed capital and is equal to the difference between output and intermediate consumption (European Commission, 2006).

Figure 4 Distribution of the Gross Value Added by regional typology and country (NUTS-3 level), 2002



Note: The total for France, and therefore the European aggregates, includes the overseas departments.

Source: European Commission, 2006

In the EU27, the primary sector (i.e. agriculture, hunting, forestry and fishing) generates 6% of GVA in predominantly rural regions. Considerable differences can be observed in the countries studied. Thus, for example, in predominantly rural regions in Latvia and Portugal, more than 10% of GVA is generated by the primary sector, while in Bulgaria and Romania the figure is about 20%. In Portugal, agricultural production is ill-adapted to market needs and the majority of rural areas suffer from low productivity and depressed prices (GRE, 2005). Due to the decreasing economic importance of agriculture across Europe (a high share of farms may be considered 'subsistence farming', only covering the necessities of the peasant household), even in rural areas the vast majority of economic activity depends on the services sector, particularly on personal services. However, the relevance of the tertiary sector is still lower in rural areas than in urban areas in many Member States. At EU27 level, services represent 63% of the economic activity in predominantly rural areas, in comparison to 74% in predominantly urban areas (European Commission, 2006).

Against this background of decreasing areas of agricultural land and number of farms, tourism is one of the key opportunities in terms of potential growth for rural areas. Three-quarters of bed places in the EU27 are located in rural areas (predominantly rural and intermediate regions). However, throughout Europe the tourism sector is characterised by an increasing degree of competition, resulting in it becoming harder for individual tourism destinations to attract visitors and continue growth.

As regards innovative activity, urban regions appear to provide a more fertile ground than rural ones. Only 5% of OECD patents are filed by applicants located in predominantly rural regions. In Germany, Spain and Portugal, rural regions are responsible for less than 10% of innovative activity, whereas rural areas in Poland and Finland account for about 40% of total patents (OECD, 2005).

As mentioned above, predominantly rural areas in the EU27 generate 13% of the GVA (see Figure 4) and account for 19% of the employment (see Figure 5). The primary sector still plays an important role in rural areas, even if this is more in terms of employment than in terms of economic output. In predominantly rural areas, the primary sector accounts for 14% of the employment at EU27 level. However, this share is larger in the NMS 2004 (especially in Latvia and Poland) and in Bulgaria than in the EU15 (except in Portugal). In the rural areas of the EU27, the services sector accounts for the highest share of employment. According to Shucksmith *et al* (2006), rural areas have shared in the shift to the service-based economy and, with the exception of Bulgaria and Romania, agriculture today plays a very limited role in rural employment.

The labour productivity of farming differs considerably across the EU, particularly between the EU15 ('old' Member States) and the NMS. On average, for the period 2002–2004, labour productivity in the EU15 was about 50% higher than the EU25 average, whereas it was five times lower in the NMS 2004 (European Commission, 2006). During the last decade, a continued decline in productivity growth in the EU's rural areas could be observed. This can at least partially be explained by a re-entry of a significant number of low-skilled workers, a low level of business investment, a slowdown in the rate of technological process and innovation, and a relatively slow diffusion of information and communication technologies (European Commission, 2007).

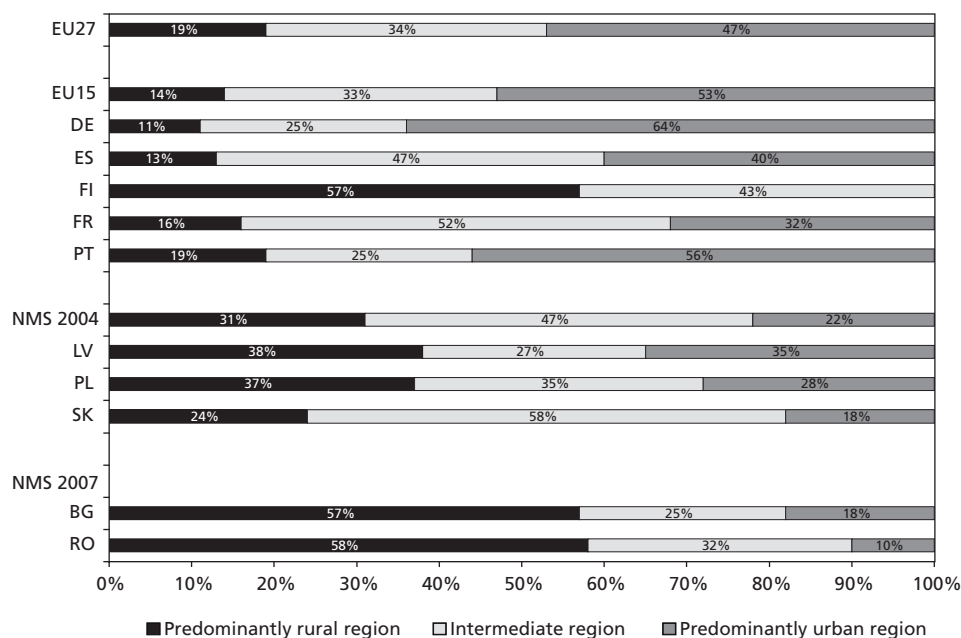
The employment rate is slightly lower in rural areas (60%) than in urban areas (65%) for the EU27. National data, however, partly show more severe differences. Thus, for example, employment rates ranging from about 67% in Riga to below 55% in Latgale (a rural area) have been registered for Latvia in 2003 (Source: Central Statistical Bureau of Latvia).

Furthermore, on average, over the period 1996–2001, employment growth in OECD rural regions has been lower than in urban and intermediate regions. Rural employment patterns have changed, with declines in both agricultural and industrial employment (OECD, 2005). Consequently, a widening in the urban-rural employment rate gap can be observed (European Commission, 2007).

Generally, wage rates tend also to be much lower in rural areas than in urban areas, which may be attributed to the higher share of agriculture in rural areas, being one of the economic sectors with the lowest wage rates. Particularly low wage rates can be found in Romania and Bulgaria (OECD, 2005). Nevertheless, national data show, for example, that in Spain too, income levels of both individuals and households are about 18% lower among the rural population compared to the urban population (Ministry of Agriculture, Fisheries and Food (Spain), 2002), even if this gap has narrowed during the last 30 years.

Consequently, at EU27 level, the income per inhabitant is about one-quarter lower in rural areas and generally increases with a higher urban character of the region. The situation is accentuated in the NMS 2004 since the general level of income is about half of the EU15 average (European Commission, 2006). Alternative income sources in rural areas are expected to emerge from the tourism sector, followed by manufacturing, specialist food and drink, and IT. With the growing importance of off-farm income, the income gap between rural and urban areas should narrow – a tendency that is already observable in Spain, for example.

Figure 5 Distribution of employment by regional typology and country (NUTS-3 level)¹, 2002



¹ Only NUTS-2 data is available for the Netherlands (included in EU average) and Romania.

Note: The total for France, and therefore the European aggregates, includes the overseas departments.

Source: European Commission, 2006

In line with the lower employment rate, the unemployment rate (including long-term unemployment) is, in general, higher in rural areas than in urban ones. A few exceptions do exist, such as in France where the opposite situation is observed.² In contrast, the variation is particularly high in Slovakia. Urban-rural differences in the unemployment rate are pronounced in countries with a generally higher unemployment rate (European Commission, 2007). Furthermore, while the unemployment rate of predominantly rural areas in the EU15 has experienced a decline between 1999 and 2004, it has been growing in the NMS 2004.

It must be borne in mind, however, that unemployment rates have to be analysed carefully because they do not always reveal the total number of people seeking work. 'Hidden unemployment' may exist, particularly in rural areas, because people who have no right to benefits or who do not register because there are no job opportunities are not included in the statistics.³ Female activity rates in particular are lower in rural areas because females working on farms are not always counted in the labour force (European Commission, 2007). Thus, when looking at the inactive population (i.e. people neither in employment nor unemployed), it is found that in Spain, for example, the share is 5 percentage points higher in rural areas than in urban areas, the difference being even higher for women (see Table 1).

² Also for Latvia, European Commission data show a lower unemployment rate for predominantly rural regions compared to intermediate or predominantly urban ones. However, national data show a different picture: in some rural areas of Latvia, the unemployment rate is 20% or higher, whereas Riga shows an unemployment rate of less than 5% (Source: Central Statistical Bureau of Latvia, 2006).

³ 'Hidden unemployment' refers to unemployment that does not appear in official statistics, either due to placement in training measures or due to placement in jobs that, from an economic point of view, would not be necessary, e.g. employing family members (not necessarily against payment) on farms to protect them from unemployment even if the labour force is not required to fulfil the tasks in hand.

**Table 1 Unemployment rate by regional typology and country¹
(NUTS-3 level), in % of active population, 2004**

	Predominantly rural region	Intermediate region	Predominantly urban region
EU27 ²	11.0	10.6	8.5
EU15 ²	8.5	9.4	7.8
ES	12.7	12.0	9.0
FI	10.0	7.2	–
FR	8.1	9.2	11.2
NMS 2004	15.8	13.9	12.5
LV	9.6	11.7	10.3
PL	19.4	20.2	16.3
SK	23.4	18.1	8.3
NMS 2007	15.8	13.9	12.5
BG	12.5	13.0	10.0
RO	7.4	9.0	7.5

¹ No categorised data available for Germany and Portugal.

² Excluding Belgium, Germany, Greece, Austria, Portugal and the United Kingdom.

Note: The total for France, and therefore the European aggregates, includes the overseas departments.

Source: European Commission, 2006

Labour market problems in disadvantaged rural areas

Notwithstanding the fact that rural areas are diverse in many respects, including economic performance and development, many of these areas still suffer from structural conditions that make them economically disadvantaged in comparison to urban communities and often result in a labour market situation that is less favourable (Baum and Weingarten, 2004). These ‘specifics of rurality’ may be seen as interdependent aspects influencing each other and, thereby, forming a kind of ‘vicious circle’ with self-enforcing power (see Figure 6). The most important of these factors are discussed below. It should be noted, however, that not all rural areas are confronted with them to the same extent and some do not have to cope with them at all.

As previously mentioned, many rural areas are characterised by out-migration. This trend particularly concerns higher educated people (Gramzow, 2005), but also holds true for young people and women, who are often confronted with a lack of training infrastructure or appropriate childcare facilities (European Commission, 2007). This is especially the case in countries such as Bulgaria, Romania, Latvia or Lithuania, where land property proved to be an important safety net for elderly people (and, therefore, younger ones have less commitment to rural areas). In contrast, in comparatively ‘richer’ countries, people are supported by formal security systems (pensions) to a higher extent (Macours, 2005). Furthermore, the NMS may still be confronted with the challenge of workforce migration to the EU15 in the years to come, induced by higher wage levels, particularly where the rural population is concerned. However, it is worth noting that the Nordic countries are also increasingly characterised by out-migration from rural areas (Ecotec, 2005).

In the NMS, rural areas are more affected than urban regions by problems of economic transformation towards a market economy, resulting in a higher level of emigration of younger and

better educated people into the EU15. Consequently, many rural communities experience a decrease of the average educational level and a demographic shift towards an ageing society (European Commission, 2000 and 2007; OECD, 2006). This aspect is dealt with in Chapter 1 of this report, under 'General characteristics of European rural areas'.

This, in turn, results in a lower average labour productivity, leading, on the one hand, to a lower per capita income of the population (Gramzow, 2005) and, on the other, to a lower attractiveness for companies to settle in the region. This disadvantage adds to location deficits, such as a greater distance from main centres of business activities, and therefore from supply of intermediate inputs and demand, and to a less entrepreneurial culture among the inhabitants (Ecotec, 2005; OECD, 2006). This latter aspect is reflected in national data from Romania: the Romanian Public Opinion Barometer of the Open Society Foundation (1998 and 1999) characterises more than 70% of the rural population as 'non-entrepreneurial', compared to about 60% in urban regions.

This implies limited employment opportunities outside of agriculture, where labour demand has been continuously decreasing, and/or a high level of unemployment, often hidden.⁴ At the same time and despite high unemployment, some entrepreneurs in many rural areas are encountering difficulties in finding employees since, due to the deteriorating quality of the labour force, the skill needs of enterprises cannot be satisfied (Hautamäki, 2000).

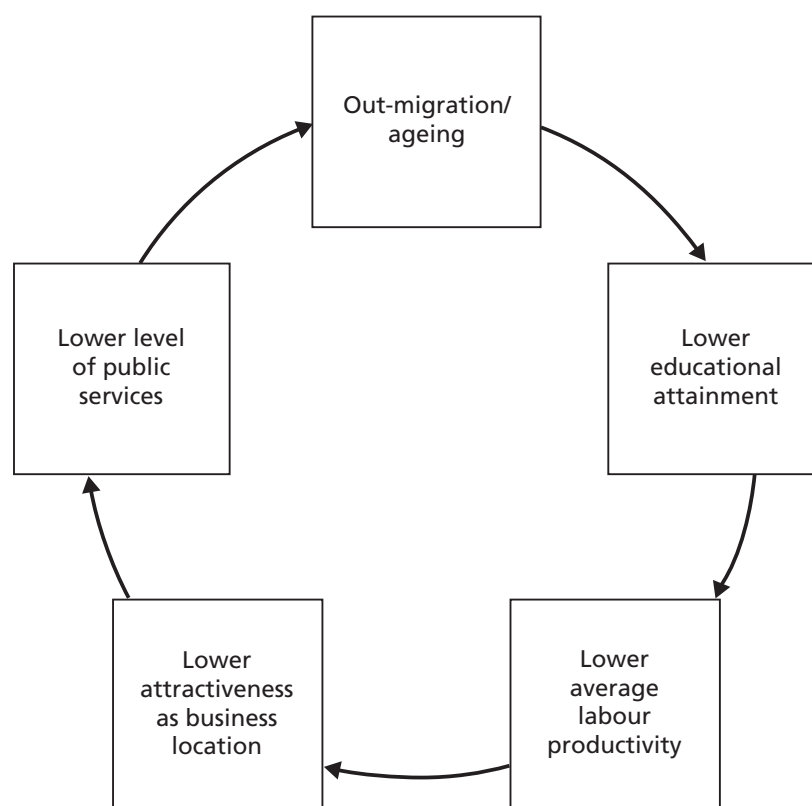
Demographic and economic downward trends in disadvantaged rural areas are then accompanied by a minimum level of public services and infrastructure: roads, public transport, facilities for childcare, health and education, as well as leisure and recreational opportunities, are all affected. In addition, the costs for a better endowment cannot be covered by tax revenues incurred by the low number of inhabitants and enterprises (Ecotec, 2005; Gramzow, 2005). In Poland, for example, only about 13% of villages have access to common sewage systems, 35% to common water pipes and only 15% to the Internet (Ministry of Agriculture and Rural Development (Poland), 2006). Similarly, the Latvian Rural Development National Strategy Plan mentions that weak infrastructure (in terms of inferior quality roads, restricting the mobility of country people and hindering the development of businesses) constitutes a factor impeding rural development.

This combination of a lack of infrastructure and job opportunities, and the comparatively lower income levels, results in a mobile workforce leaving these disadvantaged rural areas and taking up education and/or employment in urban centres, where a higher quality of life and job opportunity may be assumed (Ecotec, 2005; OECD, 2004).

On the other hand, it is observable in several Member States that easier commuting over long distances has expanded the sphere of influence of urban areas, enabling people to live in rural areas while working in the cities, but also to attract to rural areas permanent investments and workers. These factors have contributed to a reversal of the rural out-migration trend in France (where rural areas also seem to have a better image than in many of the other countries analysed), as well as in the UK and the Netherlands (OECD, 2006)

⁴ Hidden unemployment, however, also includes people (particularly women) spending their time (instead of paid employment) performing some kind of voluntary and informal activities, which are important for the social and economic cohesion of the rural area.

Figure 6 'Vicious circle' of labour market problems in disadvantaged rural areas



Source: Austrian Institute for SME Research

Against this background, it becomes obvious that specific attention should be given to labour market policy and, more generally, to economic policy in rural areas in order to retain both their comparative competitiveness and their quality of life.

The role of social capital in fostering job creation

Evolution of rural development policy

Traditionally, one of the most influential policies on rural development in the EU has been the Common Agricultural Policy (CAP), originating in the late 1950s and nowadays being financed through the European Agricultural Guidance and Guarantee Fund (EAGGF). The CAP's aims were to increase farm productivity, provide a fair standard of living for farmers, stabilise the markets for agricultural outcome, ensure supplies of goods and ensure that consumers paid a 'fair' price (Shucksmith *et al*, 2006). Therefore, the policy 'equated' rural with agriculture and took a rather sectoral and centralised approach for fostering rural development.

In the late 1980s, it was recognised, however, that the problems faced by declining rural areas could not be addressed solely by focusing on agriculture and a shift in emphasis of EU policy began. Against the background of the declining economic importance of agriculture, the relevance of creating income and employment opportunities outside the primary sector was acknowledged (Baum and Weingarten, 2004). This can be achieved by fostering entrepreneurial spirit (including incentives such as tax subsidies) and enhancing framework conditions (e.g. provision of necessary infrastructure and qualified human resources) for doing business outside of the primary sector.

Consequently, and following Agenda 2000, aimed at decentralising policy-making and introducing flexibility to react to the specific needs of each region, the CAP was reformed in 1999 and 2003 (still targeting farmers) to put more focus on these new fields of action. At the same time and following the same objective, changes in the Structural Funds and the LEADER programme (introduced in 1991) were realised (Shucksmith *et al*, 2006; Ecotec, 2005).

Some key elements of the altered approach to rural development policy include (OECD, 2004 and 2006):

- Improving the competitiveness of rural areas by taking into account their diversity and providing grants that are flexible to adapt to the diverse and varying needs of rural areas.
- Assigning more importance/responsibility in the field of policy-making and implementation to authorities at local level, as well as involving local NGOs and the population in the design and realisation of strategies and instruments targeted at their specific needs (i.e. the 'bottom-up' approach).
- Coordinating the activities of policy-makers to ensure coherence of policy action.
- Creating new enterprises and, by investing in public infrastructure, human resources and social capital, thereby aiming at a sectoral diversification instead of focusing on agriculture.

Accordingly, in a communication from the European Commissioner for Agriculture and Rural Development of September 2006 in the context of announcing the annual Rural Development budget for the EU Member States for the period 2007–2013, it was highlighted that the respective funds can be used for increasing the competitiveness of agriculture and forestry, but also outside of the traditional farming industry to create enterprises and jobs in rural areas.

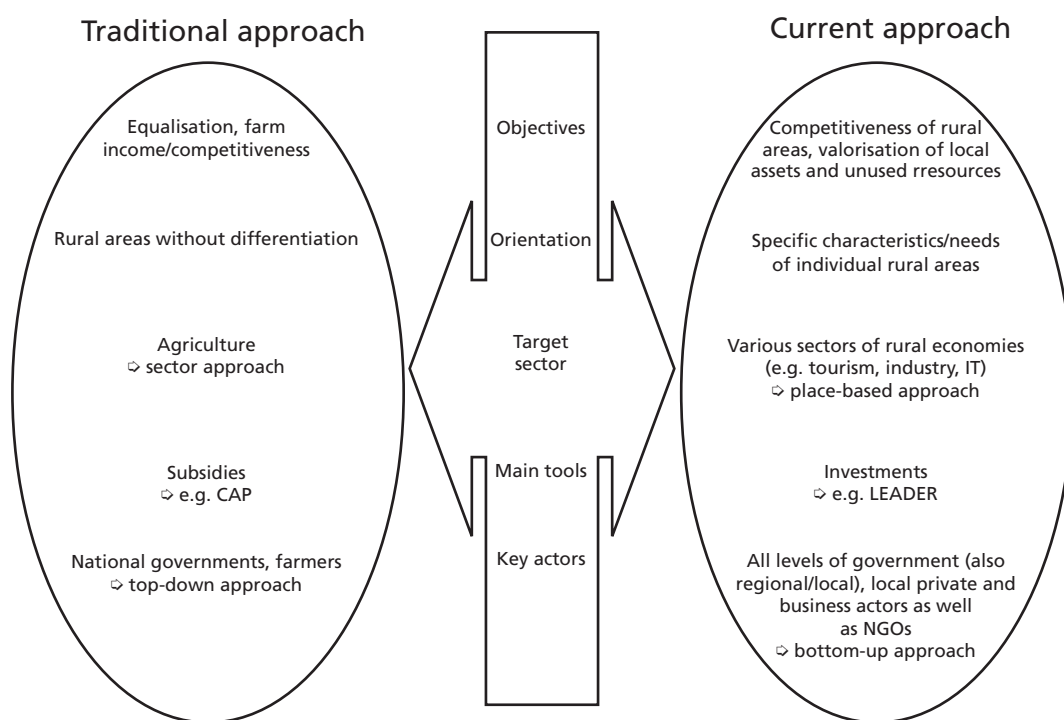
The recent establishment of a single instrument to finance rural development policy – the European Agricultural Fund for Rural Development (EAFRD) – is in line with the new policy paradigm. The

EAFRD aims at promoting sustainable rural development by providing financial support, starting from 1 January 2007, particularly for small-scale infrastructure, small-capacity accommodation or ad hoc training courses linked to projects. (Larger investments are better placed with the Structural Funds.) EAFRD finances only expenditure managed jointly by the Member States and the European Commission, i.e. rural development programmes aimed at the improvement of the competitiveness of agriculture and forestry by means of support for restructuring, the improvement of the environment/countryside by means of support for land management, and the improvement of the quality of life in rural areas and the diversification of economic activity. EAFRD assistance will be implemented by close partnerships between the Commission and the individual Member State, i.e. involvement of the most representative, competent regional, local authorities and other public authorities, the economic and social partners, and any other appropriate body representing civil society/NGOs.

This shift in policy orientation reflects the changed perception of the general public towards rural areas. ‘Rural renaissance’ today is seen in terms of taking advantage of the natural resources and cultural heritage of some rural areas by developing tourism, as well as the increasing tendency for people to own second residences in rural areas in peri-urban regions.⁵ Thus, ‘rural’ is seen in relation to economic activities other than agriculture.

In summary, the main differences between the traditional and current approach to rural development policy are illustrated in Figure 7.

Figure 7 Comparison of rural policy approaches over time



Source: Austrian Institute for SME Research, following OECD, 2006

⁵ It should be noted that particularly peri-urban regions, the main local administrative centres and tourism areas benefit from these positive trends, while other areas are still challenged by survival problems in the future.

The European Rural Development Policy 2007–2013 focuses on three thematic axes: improving the competitiveness of farming and forestry, environment and countryside; improving quality of life; and diversification of the rural economy. These are supplemented by a fourth axis – the LEADER programme, which reflects this ‘new territorial approach’ by introducing possibilities for locally based, bottom-up approaches to rural development. LEADER has as its stated objective the encouragement of innovative and locally sensitive solutions to problems of rural areas, while taking into account the opportunities for (inter)national networking and cooperation (i.e. considering the importance of local social capital). Consequently, this initiative – being a method rather than a list of measures and applicable to the other three axes of rural development policy – aims to exploit all the potential of the local economy rather than one specific sector. It does so by supporting active participation of the local population, enterprises and authorities in the form of Local Action Groups (European Commission, 2000; Ecotec, 2005).

Policies in NMS 2004 and 2007

As regards rural development policy in individual Member States, it appears that in the Central and Eastern European countries rural areas have hardly been an object of specific strategies in the last decades. During the Communist period, regional policy and local authorities were of minor importance. Since 1990, particular attention was devoted to urban areas since they were assessed as being more relevant for attracting foreign direct investment during the transformation process (which, in turn, is due not least to their better endowment with infrastructure, see above). Consequently, disparities between rural and urban areas have increased in these countries (Baum and Weingarten, 2004). General processes related to economic restructuring, high unemployment and transformation of the social systems are hiding the specific problem of rural areas, where these challenges are of comparatively more immediate importance.

Among politicians and the general public, rural development is not considered high priority. For example, in the media, rural areas are in most cases only an issue in relation to necessary adjustments to qualify for EU funds or when talking about poverty in remote areas. Latvia is an exception: here, the countryside and its problems receive disproportionate high attention in the national media and in political rhetoric. This is most probably due to the fact that in rural areas the share of ethnic Latvians is comparatively higher than in Riga, where the majority of inhabitants have Russian backgrounds.

To support sustainable agricultural and rural development in the Central and Eastern European countries, the EU initiative SAPARD was introduced during the pre-accession period (from January 2000 to the end of 2006). Romania created SAPARD offices at the level of all development regions and advertised the available funds through the County Offices of the Ministry of Agriculture, whose main purpose was consultancy and dissemination of funds to rural areas. Bulgaria also has a governmental National Agricultural Advisory Service, with territorial offices for provision of specialised information and consultancy free of charge to agricultural producers.

With the similar aim of reducing poverty and social exclusion in the most disadvantaged areas, the three-year programme RPP (Rural Partnership Programme for Sustainable Rural Livelihoods) for Estonia, Latvia and Lithuania was financed by the UK Department for International Development. The aim was to have local people work in partnership with national, regional and local authorities to identify local needs, prioritise actions and manage strategies (Ecotec, 2005).

Policies in EU15

In the EU15, rural development seems to have a higher level of priority in public and policy debate. In France, for example, the President made rural development a priority of his current five-year term, starting in 2002, not least due to the recognition of the potential contribution from rural areas in the fields of renewable energy and natural as well as cultural heritage, particularly in combination with (soft) tourism. In Spain, rural development policies date back to the 1960s and '70s, while in Portugal the first policy initiatives aimed at promoting rural development started in the early 1980s.

As at European level, these mainly top-down strategies have focused on agriculture, as well as on the improvement of infrastructure, and have gained considerable momentum with access to EU funds (e.g. for Spain with its accession in 1986). In line with this, the EU15's rural development policies (as well as those of the NMS 2004 and 2007) follow the European orientations adapted to national needs and requirements, and are, therefore, also characterised by the shift towards the territorial and bottom-up approach (i.e. integrating local actors and taking into account the diversity of rural areas). In Germany, for example, rural development nowadays has a regionally focused, cross-sectoral, partnered, learning and long-term approach, with the aim of integrating different sectors in one joint development strategy (Federal Ministry of Food, Agriculture and Consumer Protection (Germany), 2005). Although it is commonly accepted that sector-oriented programmes will not solve rural development problems, a certain 'bias' towards agriculture can still be observed in practice.

Attitudes towards social capital

In the context of the shift of emphasis of rural development policy towards the local level, as well as the joint development of support strategies and instruments by multifarious actors, the importance of creating so-called social capital in fostering economic progress and employment in rural areas becomes evident. The role and contribution of social capital is, for example, emphasised in the framework of the LEADER programme.

Since the 1990s, there has been widespread discussion on the notion of social capital among the academic and policy community, resulting in a variety of different approaches to the concept and heterogeneity regarding its definition. (An overview on the development of this discussion, as well as a broader spectrum of different definitions, may be found in the Productivity Commission's 2003 report *Social Capital: Reviewing the concept and its policy implications*.)

Examples of the definition of social capital include:

- Parissaki and Humphreys (2005) understand social capital as 'interaction of individuals within formal networks concerning social trust, communication and participation as well as the cultural dimension'. Three different types of links between people are mentioned: 'bonding' refers to relationships within the narrow social environment (family, friends, neighbours) and includes interpersonal trust among familiars; 'bridging' takes place in networks of horizontal associations, related to interpersonal trust among strangers; and 'linking' relates to vertical ties ('power relationships') and is linked to institutional trust in public and private institutions (see also Woolcock, 1998).
- Coleman (1988) defines social capital as networks, norms and trust that facilitate cooperation and sharing. He understands it as a group property that exists in the structure of relationships

between and among actors. This is a rather similar definition to that of Parissaki and Humphreys (2005).

- The European Commission generally shares Coleman's definition of networks, norms and social trust. It supplements the expected outcome of the application of social capital (i.e. the facilitation of coordination and cooperation) with the claim to end up in mutual benefit for the involved parties (see www.ec.europa.eu/employment_social/evaluation/final_report_part_1_en.pdf).
- Bourdieu (1983) stresses that social capital does not refer to persons, but to the relationship among them. According to him, social capital is an individual property. He also highlights the importance of social capital for finding jobs or training opportunities.
- A similar concept can be found in the meta-societal definition of the World Bank, which refers to social capital as the institutions, relationships and norms that shape the quality and quantity of a society's social interactions. Consequently, social capital is not only the sum of the institutions underpinning a society, but also the linkage holding them together.
- Falk and Kilpatrick (2000) go a little beyond this last definition, by adding a geographical dimension when referring to social capital as the accumulation of micro social interactions of individuals who are embedded in the macro social order of the community.
- Miller (1992) and Calhoun (1988) also take account of this regional aspect. Calhoun also states that social capital is always a snapshot since it is not simply handed down across generations, but is continually changed through consensus in practical, everyday social activity.
- Lin (2001) defines social capital at the level of the individual rather than at the network level. For him, social capital are the resources mobilising social relationships. These resources may only be obtained by investing in social relationships.
- Fafchamps and Minten (1998) introduce the aspect of emotions by seeing social capital as a stock of emotional attachment to a group or society.

Social capital is said to have several characteristics that may cause it to be underprovided or mal-distributed if left to private efforts alone (Productivity Commission, 2003).⁶ Hence, national, regional, local and supranational policy-makers, together with other public authorities and NGOs, are active in designing and implementing strategies, programmes and measures for fostering rural employment through the formation of social capital. However, since the social capital concept is highly vague and most measures do not explicitly mention the term in their programme documentation, these strategies are rather elusive and can hardly be catalogued in a standardised way.

Thus, a more policy-oriented and practically applicable concept is called for when investigating how social capital is actually utilised and addressed in the context of rural development policy in Europe, and what kind of initiatives are in place to encourage the building of social capital.

⁶ However, social capital can also undermine social harmony and impair economic performance, for example, if lock-in effects occur, hindering the further (economic) development of the area (OECD, 2004). Social capital seems to be more prevalent in rural areas than in cities due to the often closer relationships between social life and business/labour market issues; also the negative effects may occur more often in rural than in urban areas.

Starting from the definitions described above, the working concept guiding this study would include the following characteristic elements:

- Networking, or the establishment of horizontal and vertical relationships and/or partnerships, is of major importance since social capital may only develop where people interact in terms of participation in the specific purpose of the network (from voluntary groups to more formal alliances) and in bi-/multilateral communication and exchange of information, knowledge or experience ('bonding', 'bridging', 'linking').
- In principle, both more formal and more informal networking is considered. However, any policy initiative will first require a certain degree of formality of the process and the outcome; highly informal networks, partnerships or linkages are hardly visible and therefore difficult to identify. Consequently, the main focus of investigation will implicitly lie on more formal social capital activities.
- In this context, and particularly for rural areas, interactions with and within the 'community' are not to be neglected, being characterised and influenced by the inherent cultural dimension (establishment of norms and values, centred on emotions and social trust).
- The question why anybody should engage in such networking to build up social capital leads to the claim that these interactions lead to (economic) benefits for the involved parties and the community that could not be realised in another way or only with much more effort.

In the following chapters, an attempt is made to give an illustrative overview of relevant measures and initiatives, and their initiators in the countries analysed for this study. It cannot be claimed to cover the entire spectrum of possible forms of social capital or approaches to support its evolution. Rather, it is aimed at presenting a diversity of measures to serve as examples of 'what is and can be done' and so to make this strand of policy action more tangible.

Main actors and strategies

Following the tendency of decentralisation for the design and implementation of labour market policy in rural areas, a multitude of different key actors are active in the field of job creation at national, regional and local level.

Central government ministries

Generally, central government ministries are involved in the process by being responsible for designing strategies, elaborating implementation plans and providing infrastructure for the operative handling of instruments, programmes and measures. In most cases, it is the Ministry of Agriculture that is in charge of establishing rural development programmes, mainly based on a National Strategic Plan for Rural Development, which constitutes a precondition for accessing the European Agricultural Guidance and Guarantee Fund (EAGGF) or other supranational budgets. In some countries, a separate department has been established for these purposes, as with Portugal's Institute for Rural Development and Hydraulics (IDRHa). These central ministries have a general focus, in vertical terms, on agriculture, the food-processing industry, forestry and rural (agro-) tourism and other service industries, and also, in horizontal terms, on the improvement of physical infrastructure, as well as on the quality of life, environmental protection and job creation, taking into account the diversification of the economy.

In Spain, the PRODER programme (Pluriregional Programme for the Economic Development and Diversification of Rural Areas) deals with rural areas not covered by the LEADER initiative. PRODER's flexibility ensures its adaptability to local problems and needs by involving local actors. Its activities cover agrarian support and diversification of economic activities (e.g. tourism, artisan activities). These support the enlargement of employment and income opportunities, as well as the renewal and development of villages (protection of rural heritage, including nature preservation) and infrastructure.

A territorial and bottom-up approach is achieved in the German programmes promoting rural development. For example:

- The Joint Task Force for the Improvement of the Regional Economic Structure aims at the integration of structurally weak regions into the general economy and the securing of sustainable employment opportunities in these areas by supporting local small and medium-sized enterprises (SMEs) and improving infrastructure.
- The pilot project 'Active Regions – Shaping Rural Futures' has an emphasis on regional marketing, renewable resources and tourism.
- The Joint Task Force for the Improvement of Agricultural Structures and Coastal Protection deals with the improvement of infrastructure, production and marketing structures, as well as sustainable agriculture.

In Latvia, the Rural Development Programme for the years after 2003 also sets as a priority the establishment of a consultation system for rural areas. This initiative has been implemented by the Rural Consulting and Education Centre of Latvia, dealing with advice and consultancy for enterprises on business issues, providing a network of experts and supporting economic development (and thereby job creation). The intended aim of increasing companies' capacities should result in an

adjustment of farms to EU standards on environment protection, hygiene and animal welfare, as well as the development of software for supervision of the farm, planning forage provision and better access to information about economically sustainable farming. Similarly, in the most recent Rural Development – National Strategy Plan 2007-2013, the purpose of the National Rural Network initiative is to provide farmers and rural entrepreneurs with advisory and education support services, and to enhance the development of cooperation among local actors with the goal of information exchange and experience transfer among institutions, bodies and public organisations involved in rural development.

In contrast, in Portugal the programmes run by the Ministry of Agriculture, Rural Development and Fisheries seem to have a clear sectoral focus on agriculture. For example, the Ministry's RURIS programme deals with agro-environmental measures, income subsidies for farmers, early retirement of farmers and the forestation of rural land; its AGRIS and AGRO programmes provide financial support in the form of subsidies or grants to farmers. The only territorial approach taken is the implementation of the LEADER initiative.

In the NMS 2004 and 2007, the baseline strategies are supplemented by strategy documents in the framework of the pre-accession programme SAPARD⁷ (see above) and the Sectoral Operational Programme Agriculture and Rural Development (SOP A-RD), drawing funds from the EAGGF and Financial Instrument for Fisheries Guidance (FIFG) and focusing on supporting productive agriculture and sustainable rural development, including active labour market and social inclusion policy.

In some countries, laws exist relating to the development of rural areas. In France, for example, the law relating to the development of rural territories (La loi relative au développement des territoires ruraux or LDTR) is aimed at supporting economic development and employment in rural areas (e.g. by supporting multiple job holding or the sharing of certain jobs between different employers), the provision of better infrastructure (e.g. health and social services, public transportation) and the preservation of fragile environmental areas. A similar plan is expected in Spain with the passing of the Law for Sustainable Rural Development, which pursues economic goals (maintenance and increase of economic activities), social goals (maintenance and increase of social welfare) and environmental goals (recovery and preservation of environmental and cultural heritage).

The National Employment Plans of Member States are also concerned with rural labour market policy. They are mainly elaborated by the Ministries for Labour and Social Affairs (the Ministry of Welfare in Latvia). However, it is noted that in Romania until 2005 no policies existed for employment in agriculture or for professional conversion specifically targeting the rural population. Also, in the other countries analysed, a specific 'rural focus' is rarely to be found in national employment strategies, unless rural is equated with disadvantaged regions or regions with high unemployment or other severe labour market problems.

Other government ministries are also involved in rural policy with regard to specific issues. Thus, for example, in Latvia the Ministry of Science and Education is also responsible for educational aspects of the employment policy concerning specific activities for rural areas, such as the provision of hardware and software to rural regions with a similar quality to that provided in urban areas.

⁷ In Romania and Bulgaria, for example, implemented by the Payment Agencies.

Regional or local administrative bodies

In line with the increasing importance of the bottom-up approach, regional or local administrative bodies are of relevance in rural policy-making. Depending on the general political set-up of a country, these authorities have varying levels of autonomy and competencies in rural area development. In decentralised countries such as Spain, for example, the 17 Autonomous Communities have a high level of decision-making power and are 'only' obliged to orient their strategies and programmes on the general framework of the European and national guidelines. This principle of subsidiarity (i.e. accomplishment of as many tasks as possible by the lowest possible political level) also holds for Germany, where regional and rural policy is the responsibility of the 16 Federal States, which prioritise their areas of activity, coordinate the various political fields and fulfil the process with their own resources. Consequently, it is less the Ministries at federal state level than the authorities at commune, district and administrative district level that conduct the planning and implementation of projects targeting rural areas.

In contrast, in Bulgaria regional self-governance hardly exists. Policy measures are centrally designed and there are limited possibilities for their adjustment and alignment to regional needs and priorities. This is due to a lack of democratic tradition over past decades, limited national resources, limited regional and local capacities, and a centrally managed process of transformation to the market economy.

Next to regional and local authorities, the regional employment services may be seen as the most important public actors intervening on the regional labour market (i.e. matching at local level). In Portugal, for example, the Institute for Employment and Professional Training, as part of the Ministry for Labour and Social Solidarity, has 171 local centres that provide a range of services, including regionally adapted training and employment programmes (e.g. subsidies for professional traineeship programmes); support for employment and enterprise creation (e.g. financial support of company foundations by unemployed persons); social labour market activities (e.g. financial support for the creation of jobs for long-term and other disadvantaged unemployed persons); and other programmes (e.g. regional employment plans for regions with above-average unemployment rates). However, due to low budget availability, hardly any substantial impact has been shown so far.

In Poland, 16 regional labour offices exist and 338 district labour offices, working in a total of 379 NUTS-4 districts. While the overall labour market policy is set at central level, regional and district labour offices have autonomy to adjust the strategies to local problems. A law obliges them to cooperate with NGOs (e.g. by subcontracting, mutual sharing of information, consulting policy and regulatory drafts, or creating joint advisory teams) in order to make their work more effective. About 80% of the regional offices in 2002 (latest data available) had an employee responsible for these networking activities. However, in practice, cooperation is still lacking.

Social partners

The role of social partners (i.e. obligatory and/or voluntary representatives of entrepreneurs and employees) differs by country. They are actively involved in the process of rural labour market policies mainly by representing the interest of their associates in the form of social dialogue or a consultation process. However, this primarily happens at national level. Some social partners also provide services to their members, such as training, counselling and assistance in bureaucratic procedures before public authorities. Some sectoral organisations have a clear agrarian focus and,

therefore, do not have exactly the same objectives as other actors following a more territorial approach. Pro Agraria in Finland is an example of such a sectoral organisation, consisting of different kind of cooperatives and associations related to rural life (e.g. various breeding associations). Other Finnish examples for employer organisations are the Employer Organisation for Rural Areas (MTL) and the Central Union of Agricultural Producers and Forest Owners (MTK). There are similar employer organisation in Spain, including the Agrarian Association of Young Farmers (ASAJA) and the Union of Small Farmers and Stockbreeders (UPA), while trade unions like the Spanish CCOO and UGT are also active in the field of defending the interests of their associated agrarian workers. However, in some countries the participation of social partners in rural development is very rare: Portugal is a case in point, while in Romania social partners are almost non-existent except in certain isolated local associations.

Non-governmental organisations (NGOs)

A diverse picture is found across countries for NGOs engaging in the field of job creation and social capital in European rural areas. In Slovakia, for example, NGOs are of considerable importance since they are the main drivers for networking, improving living conditions and creating jobs at regional level by representing local people's interests when dealing with central government. This is due mainly to a lack of financial means at governmental level and to the NGOs' better familiarity with local needs and requirements. In France, too, NGOs are of great importance. It has been observed that in a context in which the diversity of the rural environment and rural locations has been confirmed and in which public authorities often appear to be the best placed to manage specific issues, it should be ensured that the role of local expertise is fully restored and can be utilised (e.g. by contracting local NGOs).

In Poland, NGOs, such as the Rural Development Foundation (RDF) or the Polish Environmental Partnership Foundation, play an important role in the provision of financial means (micro credits), in empowering rural inhabitants or farmers for self-solution of local problems (including increasing economic diversity) and in the improvement of IT literacy in rural areas. The latter is, for example, targeted by the programme 'Active village. Information Society Building – e-Vita', operated by the RDF; its goal is to stimulate and support civil and economic activity in rural areas by facilitating the creation of rural information communities based on IT. Target groups are local government representatives, entrepreneurs, farmers, NGOs and youths. e-Vita's main activities include the implementation of IT infrastructure, training on IT-related knowledge and the dissemination of respective information via the Internet. Since 2004, local governments are obliged to prepare annual plans for cooperation with NGOs. However, a significant share of authorities still do not draw up such plans and only in some of those cases does cooperation takes place without the plan. Coordination among NGOs is rare or infrequent due to a certain competitiveness among them for financial funds. This can be seen as a particular problem since some NGOs act in the same area and on the same topic, which does not allow for effective use of resources.

In Bulgaria, a positive trend is observable in the institutionalisation of the civil sector's participation in policy formulation and implementation. NGOs have proved to be very instrumental in providing and developing social services at local level, hence ensuring access to education, healthcare and the labour market, and at the same time having good insight into local requirements. However, NGOs still do not have adequate capacity to influence public policies since they lack substantial financial backing (being heavily dependent on foreign donor programmes) and strategic thinking.

Despite some outstanding examples, it must be noted that many of the small culturally and socially oriented associations and other NGOs working in rural areas are of comparatively minor importance since they are not well organised at higher levels. In countries where the public administration is better equipped financially, as in Germany, this becomes even more obvious. In Romania, too, only a few NGOs exist that could be considered viable partners. One positive example is the Centre for Rural Assistance from Timisoara, an initiative of the Open Society Institute of Romania: this NGO has created a network of 150 facilitators in rural areas who conduct a series of training sessions on writing project proposals and on rural consultancy. Generally, many NGOs active in rural areas face the challenge of finding sources of funding (often they apply to local governments), the lack of which limits their scope of action.

A range of consortia or groupings of NGOs also exists in some countries. These entities work together jointly on economic development and employment issues in rural areas. In Spain, for example, the Network for Rural Development (REDR) unifies more than 200 rural development groups, while the State Network for Rural Development (REDER) comprises associations for rural development and experts. Both of these consortia have been developed under the LEADER initiative and represent the interests of the development groups in the policy-making process.

Another approach has been taken in Finland, where the three Ministries of Trade and Industry, Agriculture and Forestry, and Labour have combined their regional forces to create Employment and Economic Development Centres (T&E Centres). These provide advisory and developmental services for SMEs and private individuals at regional level. The promotion and development of farming and rural enterprise activity, as well as the general participation in regional development, are mentioned as specific tasks.

In France, consortia between government ministries are also formed, but more on a single-event basis. In 2003, for example, an interministerial committee for country planning and development (CIADT) was held, the outcome of which was a shared agreement on relevant fields of activity for fostering rural areas. These included renewing and reinforcing the intervention measures in rural revitalisation zones, improving access in rural areas to new technologies (which was particularly emphasised), taking actions on employment (e.g. attracting workforce to rural areas) and supporting rural projects.

Expert groups

Finland was the only country where an official expert group could be identified. The Rural Policy Committee was appointed by Government in 1988 and cooperates with the national government, local municipalities, companies and their representatives. It consists of more than 500 participants, organised in 10-15 thematic groups covering different fields of expertise. Its aims are, among others, the promotion of cooperation in rural policy; the provision of assistance to government on the elaboration of a specific rural development programme and the promotion of this programme; the improvement of rural entrepreneurship and employment; and the creation and running of network projects.

Coordination of key actors

Thus, against the background of this wide spectrum of key actors, the question arises whether their activities are coordinated in any way. Some examples will illustrate the situation in some of the countries studied:

- In Slovakia, the relevant government ministries appear to act independently of each other nor does any expert group or consortium exist to bring the various actors together. Consequently, activities have been rather fragmented until the Agency for Rural Development was established by the Ministry of Agriculture with the aim of coordinating the activities of institutions. These include central and local governments, administrative bodies, NGOs and enterprises dealing with job creation in rural areas.
- In Latvia, too, it seems there is a lack of policy coordination due to the fact that traditionally rural policy has been scattered among several government ministries (Tisenkopfs and Sumane, 2004). This situation is reported to constitute a main barrier to communication and partnerships in rural areas. Presently, things are improving due to the need for unified priorities in order to access EU funds (e.g. the introduction of the National Development Plan).
- In Germany, exchange takes place between various government ministries within and between the Federal States, although there is potential for improvement.
- In Finland, interministerial coordination takes the form of the jointly run Employment and Economic Development Centres (T&E Centres) and of contracts regulating the knowledge transfer between the employer organisations of MTK and Pro Agria (see above). Furthermore, a joint Internet platform has been established and the above-mentioned organisations are also consulted as experts by government authorities in the planning of policy or development programmes.
- In Bulgaria, structures for coordination and consultation on policy formation, implementation, monitoring and evaluation have been established in the adaptation process towards EU standards (see also below). With a specific focus on rural, the National Rural Network is presently being established. It will be structured in line with the objectives of the National Strategy Plan for Rural Development and link, among others, farmers' associations, chambers of agriculture, producer group associations and associations of cooperatives in agriculture and forestry, local NGOs, research institutes, vocational training organisations and rural tourism organisations, as well as Local Action Groups and their (informal) network. Nevertheless, the use of partnerships in planning regional and local development, and programming of the structural funds remains poor, unless they are the result of donor projects covering individual municipalities or regions (Source: National Human Development Plan).
- Poland, Romania and Slovakia, together with Hungary and Ukraine (referred to as the 'Carpathian Euroregion'), are all involved in a cross-national coordination of rural development activities, achieved by the establishment of such multinational entities as the Carpathian Foundation. Its Integrated Rural Community Development (IRCD) programme is focused on the bottom-up approach within micro regions, promoting inter-ethnic cooperation, mutual understanding and building confidence between different nations and ethnic groups, while designing and implementing rural development strategies.

In general, the issue of 'social capital' is hardly ever explicitly mentioned in the policy strategies or initiatives fostering job creation in rural areas. Taking into consideration the abstract concept, this

is not too surprising. Consequently, 'loop ways' indirectly pinpointing the relevance of social capital (e.g. highlighting the importance of involving local actors through networking activities) can be seen as an indicator for the acceptance of social capital's contribution to economic and labour market objectives. For example, this is reflected in the strategies of France (in LDTR law), Spain (in PRODER programme) and Finland (in the POMO+ programme, which aims to increase the attractiveness of rural areas as business locations by fostering cooperation and networking). In Bulgaria, public forums are particularly important for the development of social capital: more than 30 public forums have been organised since 2000 throughout the country by the Balkan Assist Association, financially supported by the Swiss Agency for Development and Cooperation. Forums are a series of discussions with the participation of different local stakeholders on important issues related to community development. Through forums, new public initiatives and concrete projects targeted at solving identified problems have been formulated. In all countries, the important role of networking and building mutual trust is highlighted in various Community Initiatives (e.g. LEADER and EQUAL).

In rural development policies in Poland, building social capital is not much emphasised in the context of employment creation and activating local communities. Nevertheless, some policy documents (such as the National Strategy of Employment Growth and Development of Human Resources 2000-2006, also focusing on rural areas) mention that active participation of rural actors should result in sustainable positive effects.

In Romania, the rural environment is characterised by a low rate of trust in formal institutions. Therefore, neither policies nor agrarian legislation in general have focused on creating new jobs in rural areas through the formation of social capital. Rather, financial incentives such as subsidies or grants are provided. However, in some of the programmes, like the 'Farmer' programme, the credit applicant has to fulfil some administrative procedures, indirectly resulting in networking activities and (hopefully) a higher level of trust towards official institutions. The 'Romanian Villages' project links producers from different regions of Romania.

In Bulgaria, legislation in the areas of employment (e.g. the Employment Promotion Act) and economic development policy (e.g. the Regional Development Law, adopted in 2004) clearly stipulates the partnership principle as regards the design, implementation and monitoring of the instruments. This is linked to efforts to adapt structures and procedures to EU standards, with a particular focus on creating capacities for implementing the LEADER initiative. Partnership is not only seen as a key instrument for integrating the various policy strands into a unified framework, but also as a tool reflecting the opinion of various stakeholders at all levels. The assumption that the benefits of social capital are generally anchored in policy-makers' awareness is supported by the availability of programmes such as the project 'Generating Social Capital in Small Communities in Disadvantaged Positions' (2003-2004), financed by the World Bank/JSDF. The project aimed at encouraging civic participation in the process of local development in 10 municipalities (mainly rural) by testing new models of active participation in the realisation of projects of local communities and by capacity building of communities. However, in practice the lack of capacity in both administration and civil society hampers building effective partnerships.

In some of the countries analysed, some governmental programmatic documents even include elements counteracting the development and/or use of social capital. This is, for example, the case in Slovakia where the standard approaches are assessed to be not flexible enough to be adapted to

the specific problems of individual rural areas. Also in Portugal, it was found that the available programmes (with the exemption of the implemented Community Initiatives) lack mechanisms to encourage the use of social capital for development purposes, but rather share some features hampering this. Firstly, they are directed at single beneficiaries (organisations or individuals), therefore not promoting cooperation between potential applicants. Secondly, they lack built-in mechanisms to enable the creation of partnerships and alliances during the duration of the project and are somewhat inflexible, thus not fostering the interdisciplinarity of the initiatives they are supporting.

Types and examples of specific activities: case studies

The concept of social capital is relatively new, multifaceted and imprecise (Productivity Commission, 2003). Specific social capital initiatives for fostering job creation in rural areas are rarely implemented or introduced at the strategic (national) policy or programme level, but rather are realised in the form of concrete projects or measures at local level.

In the framework of this study, an attempt has been made to identify a comparatively broad set of diverse initiatives in order to give an insight into the different approaches taken by regional or local actors, and how they have utilised social capital for job creation in rural areas.

The working concept developed in Chapter 2 serves as a guideline. Since the initiatives presented in the following pages all carry a policy element, their character is almost by definition formal rather than informal, although in principle social capital can be of a highly informal nature as well. It should also be recognised and understood that building social capital in most cases is only a component of a broader development initiative pursuing aims beyond the creation of social capital itself. Thus, it is always connected to and dependent on specific development objectives, subject areas and target groups. It is more often used as a policy method than being a policy aim in itself.

The social capital initiatives identified can be grouped into the following types, some of which are characterised by cross-regional or cross-national cooperation:

- partnerships between authorities (government, social partners, NGOs) of different administrative levels for joint policy development;
- public-private partnerships for joint policy development;⁸
- public-private partnerships for empowering rural enterprises;
- creation and/or support of traditional business clusters, particularly in rural areas where companies refrain from cooperation;
- creation and/or support of business networks for the joint distribution of rural products;
- creation and/or support of business networks focusing on local unique selling propositions⁹, i.e. building on local production/service traditions;
- creation and/or support of business networks for strengthening the local tourism sector, i.e. building on natural and/or cultural assets;
- creation and/or support of business networks promoting employment in the area, particularly with a specific focus on individual target groups;
- creation and/or support of networks targeting the labour market integration of the local population, particularly with a specific focus on individual target groups.

⁸ When referring to public-private partnerships, it needs to be acknowledged that the meaning of 'private' is ambiguous since many 'private actors' (particularly NGOs) are funded by public money.

⁹ Unique Selling Proposition (USP) refers to an inimitable competitive advantage (e.g. best quality, lowest price).

What all these different types of initiatives have in common is the setting up or use of social networks as a tool to carry out collective actions for the benefit of the individual local community. This takes into account the fact that social capital only exists when it is shared by different people/actors and, then, can contribute to a more efficient use of other types of resources.

Partnerships between authorities for joint policy development

Social capital can be taken advantage of in the framework of elaborating development or employment plans. This may refer to central national plans involving governments at different levels, social partners, NGOs and other actors. However, due to the complexity inherent in such a procedure, triggered not least by the high number of potentially interested parties, such participation will most probably 'only' take the form of public consulting or tripartite systems (as described briefly in Chapter 2). More importantly, the policy development may also be conducted in a 'real' joint elaboration effort and take place at the level of the rural region. Then, naturally, a comparatively smaller group of participants will be involved in order to ensure an efficient and effective work process. Sometimes this is done rather informally, sometimes in the form of an officially registered association linking all relevant actors (national and local governments, NGOs, social partners, enterprises, private individuals) or in the form of permanent or temporary working groups based on specific topics.

The higher degree of involvement of different kinds of actors fosters a better orientation on the actual problems, needs and requirements of the target groups. This is particularly true if the population can be mobilised to participate and communicate their immediate viewpoints. Furthermore, building on regional identity and raising awareness, while participating people are empowered as regards their capabilities for problem-solving, may constitute drivers for the local population's willingness to get involved. However, it has to be recognised that participatory procedures are time-consuming and it may take years to develop broadly accepted concepts and project plans. At the same time, early results from the activities seem imperative in order to motivate and commit people.

Another crucial point is to safeguard the commitment of the local government to take into account the opinions of other actors instead of just orienting its policy on the national guidelines. This can be supported by involving external advisors to provide objective advice and consultancy on what may be the 'best' decisions against the prevalent framework conditions. These external advisors may also serve as a kind of mediator between different rural areas and may thus foster networking. Furthermore, individual communes need to be equipped with a sufficient 'budgetary cushion' to be flexible enough to work on their own account.

Of course, such joint policy development rarely results directly in job creation in rural areas. However, the broad involvement of local actors certainly results in a better 'regional climate', in that actors are encouraged to express their needs and opinions, and realise that they really can change things. This fosters self-confidence, motivation and general activity, which indirectly may lead to labour market effects in various ways (e.g. enterprise creation, higher innovativeness and competitiveness, higher productivity of the labour force). Furthermore, the important effect of familiarising actors, and companies in particular, with cooperation and networking (and the potentially resulting employment effect) must not be neglected. Importantly, the risk of people getting caught in concentrating only on externally funded projects has to be avoided in order to arrive at sustainable effects.

CASE STUDY 1: Altmark Region, Germany

An example of such joint policy development constitutes the successful set-up decided for in the German region of Altmark.

Background and framework conditions

Historically and particularly during the time of the division of Germany, the Altmark Region used to be a remote border area. It is classified as 'predominantly rural' according to the OECD classification (see Chapter 1). There exists a strong primary sector and SMEs in the secondary sector (particularly vehicle supplying industries, metal processing and cellulose production). The tertiary sector is dominated by tourism, but services in the field of information and communication technology are growing rapidly. The region is characterised by a relatively weak infrastructure endowment (e.g. no connection to the highway network), a low population density due to out-migration since the German unification, a rapidly rising share of the elderly, a low birth rate and high unemployment (20%). However, within the region there also exists a strong regional identity and consensus among the population, and political and economic actors in uniting voices in promoting their assets.

Against this background, applying a participatory approach (i.e. involving the local population) for territorial (instead of sectoral) policy formulation was seen to constitute a 'natural consequence'.

Characteristics of the initiative

In 1994, the two districts of the Altmark Region agreed to collaborate in drafting a joint regional development concept by involving the local community; the economic, social, cultural and nature conservation associations; and the political parties. More than 1,000 statements, suggestions and proposals were considered before the policy was finally adopted in 1996. This high degree of civic participation is not least to be attributed to the outlook of gaining access to additional budgets since the financial situation of the individual actors was rather desolate.

Since then, all regional planning activities (e.g. various rural development planning documents adopted the Integrated Rural Development Concept in 2005) are based on joint discussion, planning and decision-making processes. Responsibility for the coordination of these joint efforts lies with the Regional Planning Unit Altmark, which was officially established in 2001 after years of informal meetings. Its 47 members are representatives of the region's communes, entrepreneurs, farmers, consumers and environmental protection associations, as well as interested private individuals. It also employs 8 staff members, who are responsible for informing potential project implementing groups (e.g. companies, associations, local governments) about the various programmes available for supporting the preparation and implementation of projects, as well as for coordinating and linking these individual projects with each other. Similarly, the staff is active in setting up and coaching regional networks and groups focusing on specific topics, which might go well beyond the objective of implementing projects supported by external funds. From the start of the initiative, an external consultant has been involved in order to advice, backstop and moderate all planning and implementing steps. This person has strong experience in regional planning, has good contacts with officials of the various ministries at Federal State level and is respected as a 'neutral' and knowledgeable advisor.

The participation of the population was ensured from the start in two ways. public meetings were organised at commune level and round-table discussions were held with representatives of all

associations and political parties active in the region, regardless of their objectives. These round-table discussions have been continued on a regular basis, particularly with the representatives of the various associations and political parties who discuss the issues among their own members.

The high participation rate of the population is to be explained by the strong regional identity and by the realisation of early success. The regional actors understood that, although individual projects are helpful, a more long-term oriented collaboration is more important. Not only specific (externally co-funded) projects are discussed, but also options for more direct collaboration within the region. In this way, the various actors get to know each other better and build up a mutual trust.

Impact of the initiative

Over the last decade, it can be seen that the self-confidence of the regional actors has grown rapidly. Whereas in the beginning, the outline of the regional and rural development programmes was given by the various ministries of the Federal State, more responsibility has now been delegated to the region. Today, regional actors are discussing and prioritising the regional needs and plans first and they expect the State ministries to link these to the federal planning process.

Although little data is available, there is general consensus that the variety of projects stemming from the joint policy-making process has resulted particularly in secured employment. In some cases, new jobs have been created, for example, more than 50 with the programme 'Local Capital for Social Purposes'. In the established networks, people come together and get to know each other, which otherwise would not take place. In connection with the joint project work, people have the chance to build up reciprocal trust.

Future issues

For the period 2007–2013, a specific focus will lie on a sustainable strengthening of the human, research and development potential and on a broadening of economic capacity, also in terms of diversification of the rural economy and the improvement of living conditions, as well as on environmental protection and nature conservation. In addition, cooperation and coordination is being actively sought with the neighbouring districts within Saxony-Anhalt, as well as with the neighbouring federal states. Successful first steps have been taken in the Altmark Region initiative.

Public-private partnerships for joint policy development

Strategic alliances for policy development need not necessarily be focused on (semi-) public actors. They may also involve private businesses and individuals, resulting in public-private partnerships active in rural development policy-making at local level. This can be seen to be of particular relevance if individual local initiatives are not acting independently but multilaterally cooperate with each other.

In this regard, a kind of 'step-by-step' model can be identified. First, local partnerships define their individual strategies according to local needs and requirements. Secondly, exchange of information on the individual programmes takes place with the aim of highlighting those aspects included in many, or even all, areas, as well as those important for only a few regions. Finally, these aligned results are communicated to the higher level (e.g. regional or national government), to be taken into account in the overall policy design. This stresses the importance of the network's outside links, not only in horizontal but also in vertical terms.

CASE STUDY 2: Rural Parliament (*Vidiecky Parlament*), Slovakia

An example of such an initiative is the Slovakian Rural Parliament which, although comparatively young, has already been proven to work effectively. This case study also illustrates that such initiatives face the challenge of organisational change and of finding appropriate organisational structures as they develop and become mature. Employment effects are mainly of an indirect nature and materialise primarily through upgrading people's skills.

Background and framework conditions

During the 1990s, Slovakia's economy was characterised by privatisation and restructuring, resulting in a high number of new entrepreneurs unable to manage their companies and ensure their competitiveness. Traditional markets were lost, leading to bankruptcies. The subsequent employment losses could not be compensated by the creation of new jobs in the restructured parts of the economy. These processes negatively influenced mainly rural areas with undeveloped infrastructure. In 2001, the unemployment rate in rural regions was more than 20%. State support for the development of rural areas was considered to be unsatisfactory in terms of quantity and quality due to bad targeting and usage.

Against this background, the Rural Parliament was established in 2001, financially supported by the Carpathian Foundation (see above). It is a voluntary, non-governmental and non-profit organisation of individuals and organisations, registered at the Ministry of the Interior, with the mission of improving the quality of life in rural Slovakia. Its aims are to collect, process and disseminate information to and from rural areas; to formulate collective opinions and advocate for good rural policies; to encourage experience and knowledge exchange among civic local development groups; to promote rural areas both in Slovakia and abroad; and to link activities with international structures and networks.

Characteristics of the initiative

The Rural Parliament brings together all rural municipalities and activists in order to effectively exploit the local potential for job creation and for economic, social, environmental and cultural development. It exerts pressure on the Government, Parliament and State administration to provide resources for rural development and to get effective planning and implementing of European support from Structural Funds for these purposes.

Being a national entity, the Rural Parliament has five regional structures (two further ones are being prepared) to move coordination of rural development activities from central to regional level and to partner with regional governments. The main task of the regional structures is to provide assistance, education and networking to rural initiatives. Furthermore, they represent the rural areas within the region; advocate and force the interests of the rural areas at regional level; coordinate activities of rural associations and micro regions; participate in the elaboration of regional plans and development documents, based on a regional mapping; and manage the information exchange among members.

Micro regional public-private partnerships ensure the implementation of the mission and aims of the Rural Parliament at local level. These partnerships consist of municipalities, private businesses and NGOs. They are the basic building blocks for the programming, planning and performing of rural development initiatives at local level. In detail, they coordinate the cooperation of all sectors in the territory of the micro region; organise activities to elaborate development programmes for the

micro region; establish their own communication centres for rural development; ensure information exchange between regional and local levels; cooperate with neighbouring micro regions on common development projects; and create networks of rural development.

There are two types of activities specific to the Rural Parliament. First, it is oriented towards the State administration and international partners by presenting the acute needs of rural areas and also the activities of local communities in solving their problems. It provides State institutions with suggestions on appropriate forms of State support and also on cooperation for implementation. Secondly, the Rural Parliament is oriented toward its members by executing such important activities as support for participation in European initiatives; matching NGOs and municipalities for implementing Structural Fund programmes; and training members and people from rural regions to be able to create and realise projects. Currently, there are activities to prepare people trained for the implementation of the LEADER+ programme, which Slovakia will join during the 2007-2014 period.

Impact of the initiative

The participants in training measures gained new knowledge, experiences and qualifications that helped them to be employed by municipalities in their home communities. Furthermore, during the training, contacts were created that will enable future cooperation for both individual and community purposes.

Future issues

After five years of existence, the Rural Parliament faces the challenge of becoming a strong organisation able to fulfil its mission of improving the quality of life for the rural inhabitants of Slovakia. It has to increase its credibility and expertise in order to be able to advocate effectively for the needs and interests of rural areas. Therefore, it needs an appropriate organisational structure and support tools. It has to continue to organise and network its structures and to improve the information level.

CASE STUDY 3: Local Action Group for Sustainable Development of the Municipality of Tran, Bulgaria

Respective partnerships do not necessarily need to be formal, but may also have been formed in an informal way. However, experience from the case studies analysed shows that, at a certain point, the informal network – either due to its growing size or as public funds are intended to be accessed – is transformed into a formal one. For the design of public policies, it has proved advantageous to conduct a thorough analysis of the rural area at the outset in order to gain substantial insight into ‘what is needed’. This has been done, for example, by the Local Action Group for Sustainable Development of the Municipality of Tran in Bulgaria. The job impact was mainly in the form of commonly established new service activities, however still related to existing economic activities.

Background and framework conditions

The Municipality of Tran is a remote rural area bordering with Serbia (south-west Bulgaria). The municipality has one of the lowest population densities in the country. Due to high levels of unemployment and poverty, the municipality is depopulated. Tourism and agriculture are identified as priorities for local economic development. The local infrastructure (e.g. roads, accommodation and catering facilities) is in poor condition, despite some progress during the last five or six years.

The Local Action Group (LAG) for Sustainable Development of the Municipality of Tran was created in May 2003 in the framework of the Project Sustainable Development of Rural Areas (MAF/UNDP). The establishment of the LAG aimed at mobilising the local potential and resources, involving the local community in strategy planning, and drafting and implementing local development projects. The long-term goals are to contribute to good local governance, build social capital and reduce poverty.

Characteristics of the initiative

LAG Tran consists of 25 members who represent different social interests, including representatives of local authorities, managers of municipal and private companies (mainly in forestry and tourism), professional associations, NGOs and key local public opinion leaders. The LAG has a local scope of activity and is one of the few NGOs in the municipality.

The implementation of the project started with the organisation of public forums in the municipality. These were organised through personal invitations to local key stakeholders and written announcements in public places. During the forums, the general public was able to exchange ideas and visions about the development of the municipality in relation to agriculture, forestry and the environment. Thus, local people got to know each other, to interact and to feel involved.

The LAG was formed initially as an informal group out of these public forums. A SWOT analysis was made from information gathered at the public meetings and, on the basis of this, the LAG drafted the 'Strategy for Local Development'. Pilot projects were selected from a range of proposals addressing the identified priorities – for example, the promotion of alternative employment through sustainable ways of agricultural production and tourism; the improvement of workforce quality; an inventory and revival of the cultural heritage of the region; and making use of forest resources.

The LAG became a catalyst of useful initiatives and projects, which were monitored and to a certain extent managed by the LAG. Among those initiatives and projects that contributed mostly to the creation of jobs were the establishment of a tourist information centre, the creation of a network of accommodation providers and the improvement of communication opportunities by establishing an Internet centre.

Impact of the initiative

In the frame of the project, about 30 jobs were created in the municipalities, out of which 8 are permanent. The realisation of the project proved that building social capital is a long-term, resource-demanding process which requires as a starting point the education of local stakeholders in order to be motivated to continue and extend partnership after the external intervention is over. Public forums provided people with the opportunity to communicate and exchange ideas, which were then taken into consideration in the process of drawing up a local strategy and drafting/evaluating local projects. Slowly, the municipal administration came to understand that it was not possible, or necessary, to take decisions alone or always to be the leading partner in the realisation of projects.

Public-private partnerships for empowering rural enterprises

Public-private partnerships may also be to empower enterprises to access public funds, provided by either national or supranational (EU) sources. This is of particular importance in rural areas dominated by small and medium-sized enterprises (SMEs), which have a need for financial means

in order to develop further (e.g. expansion, product or process innovation, internationalisation), but which lack experience on how to approach public sources and how to fulfil the administrative requirements.

Initiatives may be able to provide companies with the skills and capabilities needed to apply for external funds (e.g. information on the availability and eligibility criteria of funds, modes of application, filing of proposals). They may also act as a network platform for linking potential project partners in order to combine their individual competitive advantages and small scales to result in a project partnership with a greater chance of being awarded with grants. Such networking activities may also take the form of linking a potential project team with an awarding authority and/or coaches/consultants, who will support the elaboration of the proposal or the execution of the project if awarded.

Access to public support programmes is highly relevant in rural areas striving for economic diversification and wanting to boost innovative activity. In such development phases, investment is required, but returns are only realised after a certain time period. This may cause considerable problems for rural SMEs due to their limited resources. For cooperation in terms of a joint filing of proposals, however, it is vital that the partners share common goals and visions, and that there exists a certain degree of mutual trust on which to build. Also for collaboration in the form of coaching/consulting, trust plays an important role since, for an effective outcome, comparatively detailed information on the company or project has to be revealed. For the consultant, the establishment of good client-coach relations is of relevance since involvement in a higher number of projects results in a better familiarity with different situations.

CASE STUDY 4: Partnership Group 'Heather Land' (*Grupa Partnerska 'Wrzosowa Kraina'*), Poland

For the social capital initiatives discussed so far, hardly any direct employment effects in rural areas may be derived from such partnerships. Rather, a sustainable impact is to be expected if the initiative is successful and local enterprises get access to public funds in order to realise their business ideas and thereby contribute to rural economic development. This illustrates that for social capital initiatives the creation of additional jobs eventually depends on the creation of new businesses and opportunities. An example of such an initiative is given by the Partnership Group 'Heather Land', operating in a rural area of Poland.

Background and framework conditions

The Polish Partnership Group 'Heather Land' was set up in September 2004, based on the awareness of local governments, businesses and other organisations about the local problems concerning ecological, social and economic factors, and the recognition that their cooperation will have positive effects on the regions' development (the Partnership Group is operating in four NUTS-5 communes). The first meeting of the Partnership Group was initiated by the ecological foundation *Zielona Akcja* (Green Action) and a mayor of one of the communes. They wanted to create a partnership that would use and develop interests of local inhabitants, their knowledge and a vision of development. Initially, very few organisations were interested in such cooperation, but after the first successful projects, the idea gained popularity and encouraged further participants to get involved.

The four rural communes covered by the Partnership Group are characterised by an unemployment rate similar to the national average in rural areas. However, hidden unemployment is assessed to be

considerably higher. Less than 50% of farmers produce for the market and less than the national average perceive their farms to be developing and promising. The relative remoteness from large cities makes it difficult to find investors and off-farm employment, while business opportunities are limited due to the existence of nature preservation zones (e.g. Landscape Park).

Characteristics of the initiative

At the beginning of its activity, the Partnership Group mainly focused on spreading information and promoting its ideas. Simultaneously, it was implementing small projects. Currently, most of its time and effort is devoted to working on projects, with less time for information meetings. As a result, information is widespread among interested parties, while less active people have only partial knowledge of the Group's actions.

As a rule, there are a few very active people who are engaged in most of the activities and who encourage the remaining partners to join them. These active individuals constitute the Board of Directors of the ecological foundation *Zielona Akcja* (Green Action), having been founded in the framework of the LEADER+ programme. The other partners cooperate only if they find certain projects interesting or useful for their organisations.

One of the initiators of the Partnership Group, the Green Action foundation, teaches smaller and less experienced partners about how to apply for funds and coordinates combining similar projects into larger ones. Over time, all the partners have become more professional and experienced.

Information concerning projects, competitions and other news is usually exchanged through an e-mailing list, which has about 20 permanent users. Information is also exchanged with other partnership groups in Poland and with other local action groups participating in the LEADER+ programme. In addition, there is a well-organised website, which provides information on who is dealing with particular issues and how certain problems can be solved.

Impact of the initiative

The initiative started in an environment of mutual distrust and unwillingness to cooperate. Local actors did not want to participate because they did not see the usefulness of such an activity. However, a small group of very engaged people wanted to overcome this sceptical attitude and they implemented some short-term projects. These quickly showed success and this encouraged more people to join the Partnership Group. After some time, a higher level of regional identity and mutual trust could be observed.

However, as the work for the Partnership Group is conducted on a voluntary basis, the lack of time for looking for public funds and preparing proposals somewhat limits the operational scope of the initiative.

A very positive outcome of the initiative is the day-to-day cooperation of local governments, NGOs and enterprises, which is not common in Poland.

Future issues

After having realised the first success, it is now important to make local people self-reliant and active. It is evident that local partners have become more mature with the continuation of the initiative and

that their concerns have moved from single, ad hoc topics (such as building a sewage system) to broader ones (such as improving social and economic development, civic activeness and a sense of identity). They have learnt how to look at their own land more objectively. The Partnership Group wants local inhabitants to become a strong civil society.

CASE STUDY 5: ADEFPAT, France

A similar approach has been taken by ADEFPAT in France. This initiative was launched more than 20 years ago and has proven beneficial economic and employment effects.

Background and framework conditions

The four departments of Aveyron, Lot, Tarn and Tarn & Garonne are part of the Midi-Pyrénées Region in the French south-west. With about one million inhabitants, this rural area has a low population density of between 40-70 inhabitants per km², while the French average is 108. Unemployment rates are lower than the French total: during the second quarter of 2006, the national rate was 9%, but only 5.7% for Aveyron, 8.2% for Lot and 10.3% for both Tarn and Tarn & Garonne.

Characteristic of the initiative

ADEFPAT is a French non-profit organisation with the goal of helping to launch projects in rural areas by providing project management assistance to people. The organisation was established in 1983 with the gathering of 8 local non-profit associations in reaction to a project of the European Social Fund. It does not provide any financial help or specific training. Its function is to link the project leader, external consultant and local administration supporting the local project. Basically, people with a project assisted by ADEFPAT will meet a coach-consultant once a month for about a year. This coach-consultant will help the project leader to develop the ideas and project. All of the consultants are independent, with specific competencies.

Impact of the initiative

During the 2000–2006 period, about 400 projects have been initiated, with an average budget of €6,738 per project. At the same time, 270 jobs have been created and 741 maintained. These latter jobs were ones that would have been lost due to company difficulties if ADEFPAT had not intervened.

ADEFPAT can be seen as a successful organisation. About 3 out of 4 projects assisted by ADEFPAT still exist today and the initiative has made a considerable contribution to the economic diversification of this rural area of France.

CASE STUDY 6: Integrated support system for the farmers and associations in Calarasi county for efficient cultivation of agricultural plots, Romania

Public-private partnerships may also serve to empower rural companies with professional knowledge, as illustrated by the following case study in Romania. In this regard, training sessions need to be oriented to the specific requirements of the target group. Thus, for example, classroom-like teaching methods may be less effective than a multilateral exchange of knowledge within the rural community, for which a comparatively high level of trust will be seen to constitute an important precondition. Furthermore, practice-oriented aspects are particularly valuable (e.g. how to cultivate land, see below) since they directly show to the target group potential types of action and their positive outcome.

Background and framework conditions

Initiated in 2003 by the Fundulea Institute for Agricultural Research and Development (ICDA) in Romania, the project was financed by the Unit for Project Management of the Ministry of Agriculture, which is funded by the World Bank. The objectives of this project were to improve the theoretical and experimental knowledge concerning ecological agriculture, to improve farmers' ability to initiate projects and to stimulate the associative component in order to become compatible with the European Union.

Characteristics of the initiative

The project has seven areas of activity, including the following aspects: knowledge transfer; exchanges with specialists from Germany; promoting ecological cultures of maize and corn; creating formal and informal associations; and forming consortia. Three regional centres coordinate activities and implementation of projects.

In the first stage, the initiators of the project used flyers for promotional purposes and organised meetings with farmers. Later on, a website was developed, which was updated each day and contained important information about the agricultural domain. Training sessions were offered to farmers, dealing with cultivation of corn, maize, barley and sunflower, and methods of mixing fertilizers, together with entrepreneurial and soft skills. This training, which was well-received by the farmers, was followed by presenting demonstrative plots to farmers in order to convince them to follow the proposed recipe. In addition, farmers were familiarised with the possibilities of accessing public funds (e.g. EU grants for small entrepreneurs).

Impact of the initiative

Three commercial societies were created as a result of the project. Each of these associations has 5 employees. Furthermore, 3 SAPARD programmes have been initiated, each of which has created 3 new jobs. A further 40 trained farmers got jobs in Spain (where training also took place).

Due to the project, farmers have realised that they have a better chance of success if they cooperate in associations rather than working alone on their own small farms. Potential access to public funds was another important realisation.

Creation and/or support of traditional business clusters

In spite of the emphasised bottom-up approach in policy-making, the types of social capital initiatives described above are not as widespread as those focusing on getting private market players to join forces in production or in selling their goods. Although concepts like business clusters have a long tradition and instruments like business incubators or consultancy networks have become more common, a large number of companies still exist that are not aware of the benefits of cooperation nor do they want to engage in alliances out of fear of letting their competitors know their 'trade secrets'.

Consequently, initiatives for creating and/or supporting networking opportunities among entrepreneurs, which might foster multilateral (or at least bilateral) acquaintance and exchange, seem to be required in order to overcome such barriers and encourage the creation of entrepreneurial networks. The benefits of such networks can include higher levels of innovation, knowledge, backlog, expansion and easier access to capital or markets, thus having a positive influence on the demand for labour in the medium to long term.

In the framework of this study, many instruments targeting the establishment and smooth running of business alliances could be identified. These varied, however, in their sectoral orientation, operational approach and design of the networking activities.

Probably the most traditional approach is the establishment of business clusters, concentrating on a certain product or product group, while incorporating the whole value chain involved in the production process in the wider sense. The linking of related industries (but also enterprises at the same level of the production chain) has the advantage of a holistic supply chain management in which all individual steps are adjusted to each other. This is beneficial for all participants since cost savings and better capacity planning and utilisation are attained. Furthermore, the potentially higher levels of innovation and knowledge, as well as the easier access to capital and/or markets for local manufacturers, may affect their competitiveness in a positive way.

In rural areas, the formation of traditional business clusters can contribute to the diversification of the economy and the provision of off-farm income opportunities, particularly if these are based on natural resources. Such clusters would be particularly relevant in the supply chains of forestry and agricultural products, such as the furniture manufacturing business or food processing. Nevertheless, in practice it turns out that even if being established as a sectoral cluster, there is a need for a second level of auxiliary enterprises (e.g. training, consulting, financial intermediaries and R&D institutes). This, however, takes time and often needs public intervention, particularly in the start-up period, whereas afterwards cooperative actions shared across the enterprise sector take place on the initiative of the partners because a higher degree of mutual trust and self-initiative has been achieved. In addition, the case studies show that business networks, especially in rural areas, need linkages outside the region in order to tap into specialised service providers and agencies, not available inside the area. This helps to avoid lock-in effects.

CASE STUDY 7: Local production system of Lucena (Córdoba), Spain

The establishment of an entrepreneurial alliance can lead not only to a higher attractiveness of the rural region for additional business entities, but also to a higher degree of commitment by the local people, particularly if the products are sold using a common trademark linked to the area. This is the case for the Spanish region of Lucena, which cultivates its image as 'Furniture Town' by promoting the region's products with the slogan '*Lucena, la Ciudad del Mueble*'.

Background and framework conditions

Lucena is a medium-sized municipality, set in a rural area in the south of Córdoba Province in the Autonomous Community of Andalusia. In comparison to the rest of the province, Lucena has a highly dynamic industrial base, predominantly made up of small and medium-sized enterprises.

The manufacture of wooden furniture began in the area in the mid-1960s, closely linked to the demand coming from the tourism boom experienced in the adjacent Costa del Sol. Since then, the sector has experienced remarkable growth and has given way to the building up of an important network of enterprises, both in the same sector and in other economically related manufacturing and tertiary activities.

Characteristics of the initiative

Currently, the local system is engaged in a process of specialisation, characterised by the increasing importance of subcontracting relations, in particular phases of the production processes and of auxiliary industries.

The local enterprise is well organised around a number of enterprise representative associations, such as the Association of Córdoba Wood Manufacturing Employers (Unión de Empresarios de la Madera de Córdoba) and the Association of Commercial Enterprises of Lucena (Asociación de Comerciantes y Empresarios de Lucena), integrated by local retailers and manufacturers of Lucena.

In addition to this business network, enterprises and public institutions have been involved for the last few years in a number of cooperative collective actions in order to encourage competitiveness of the local production system. Among these are the Centre of Innovation and Technology of Wood and Furniture of Andalusia (Centro de Innovación y Tecnología de la Madera y el Mueble de Andalucía), the 'Strategic Plan of Wood and Furniture of Córdoba', and Rimacor, a private enterprise owned by about 100 local wood furniture manufacturers of Lucena and managing all the waste produced by the local producers.

The local production system of Lucena is composed of a complex network of interactions and relationships among entrepreneurs and also among entrepreneurs and public actors (both at national, regional and local level), all encouraging multilateral exchange.

Impact of the initiative

These entrepreneurial networks have resulted in a higher level of innovation, knowledge and easier access to capital and markets for the local manufacturers, affecting their competitiveness in a very positive way. Indeed, a feeling of collective identity among the involved parties, together with confidence and social trust, facilitates this high degree of networking – resulting in communication, participation and the readiness of local people to work together towards a common objective.

The impact of this initiative on job creation has been very positive. The local area is characterised by a high social and economic dynamism, which is reflected in aspects such as a positive demographic evolution, lower unemployment rates in comparison to the rest of the province and higher per capita income levels. Caravaca *et al* (2003) and other authors report that the success of the Lucena production system is due not only to the increasing number and diversification of the actors involved, but also to the increasing level of connectivity among them. Interestingly, the majority of the actors belong to a supra-municipal level, which means that members of the local community are capable of being included in external networks also.

Future issues

Looking to the future, a planned initiative is to be implemented on the development of a common purchasing unit for jointly accessing raw materials at better economic rates. There is also a project designed to exploit the tourism possibilities of the local system –the so-called *Ruta del Mueble* or 'Furniture Route' – which is intended to join the traditional tourist attractions of the area with visits to emblematic local enterprises.

In addition, if the network partners share a global vision for the future development of the region, they may also, acting as a joint force, have enough power to influence rural policy-making (e.g. in the framework of public-private partnerships, see above).

CASE STUDY 8: Producer Association in Vatra Dornei, Romania

Despite the well-known advantages of business clusters, their creation or further development sometimes does not take place on its own, impairing economic opportunities for both the involved parties and the location. Taking this into account, a large number of public initiatives fostering business clusters has evolved over the last decades (see, for example, ENSR/KPMG, 2002). However, the specific characteristics of rural areas are hardly taken into account; nor is the situation where the region is characterised by such a high level of mutual distrust that fruitful cooperation among local actors does not take place at all.

Such was the case in the Romanian rural area of Vatra Dornei. Even if the producer association in this case study does not necessarily constitute a business cluster in the strict sense, the example highlights an interesting possibility of mobilising farmers to cooperate with each other by providing target group-oriented incentives. The case study again confirms that job effects are also based on upgrading skills, an aspect especially relevant for rural areas with low educational levels.

Background and framework conditions

In 1993, the Producer Association in Vatra Dornei was established with financial support from the German Ministry for Economic Cooperation and Development (BMZ). Vatra Dornei is a mountainous region in northern Romania. The main occupation of the workforce is the raising of cows and sheep. In the 1990s, Romanian agriculture was characterised by a large share of small enterprises being in a difficult financial position because public benefits were mainly given to large, formerly collectively owned farms. Frequently, production resources were of an inferior quality and exaggerated price, and small enterprises were not in a position to provide the necessary collateral to receive bank credits to pre-finance production.

The initiative was started by a former State Secretary who was deeply engaged in the issue of agriculture and who had made 'field studies' of agricultural models in Austria and Germany.

Characteristics of the initiative

In order to induce farmers to participate in the Producer Association, the initiator provided them with an incentive: Scythes were donated to the Association and it then sold them, for a low price, to interested farmers under the condition that they become members of the Association. In this way, almost 2,500 farmers were motivated to participate in the project and, at the same time, the Association succeeded in assembling a significant number of members sharing the same interest.

A similar strategy was implemented in 2005 with the 'Carpathian Project', which was proposed and financed by the Heiffer Foundation in the USA after it had heard about the Producer Association in the framework of an animal exposition. In the Carpathian Project, individual farmers are given 10 sheep and a ram under the condition that they donate, in three years' time, another 10 lambs and a ram to another farmer in the village. The transfer is conducted during a social event. The formal network was designed to provide assistance to its members and defend their interests on the local

and international markets. This was achieved by jointly developing more productive activities and by creating a network of shops selling woollen articles and traditional egg painting.

With the help of public grants, almost 340 members of the Producer Association interested in engaging in rural tourism or cattle farming were sent to Germany to attend 6-month training sessions. This not only provided them with modern agriculture knowledge, but also with international contacts and business opportunities for the farming cluster. After their training, many of the participants started a business, each of which creating at least two jobs.

The annual strategy of the Producer Association is derived in the form of a joint decision-making process, which is characterised by a high degree of participation by the members.

Impact of the initiative

Before the Producer Association was formed, the rural economy was in a bad state. This has been considerably ameliorated due to the Association's efforts. The Vatra Dornei region has been awarded an important contract by the Government and the training sessions, mentioned above, have resulted in the creation of businesses and employment, including rural tourist facilities, all of which have greatly benefited the region in economic terms.

Creation and/or support of business networks for the joint distribution of rural products

In recent years, the idea of marketing communities, particularly in rural areas, taking advantage of regional trademarks or quality labels has become popular. Such initiatives only work effectively if a 'critical mass' of economic entities is willing to apply the trademark, including not only local manufacturers and traders, but also restaurants and hotels, and even the municipality itself. It is recommendable to develop and implement these types of initiative in the form of a partnership between local actors. A formal 'sign of rural identity' (such as a shared logo or slogan) need not necessarily be developed. Rather, and more generally, the focus of the partnership lies in the joint distribution of rural products.

Such initiatives are among the most difficult to establish because they are automatically linked to a certain degree of competition among the involved vendors. However, connecting local producers and mobilising them to jointly tender their goods may well increase the profits of all the participants since a wider sales network can be established as a group and distribution costs can be shared. Furthermore, it must not be forgotten that rural production results in a variety of different goods related to and complementing each other, so that a value-added element can be achieved by supplying packages of regional goods.

CASE STUDY 9: Local sales network – Northern Karelia, Finland

An interesting example of a rural sales network in the area of nutrition can be found in the Finnish region of Northern Karelia. The project is well structured and organised, without burdening participants with a high degree of administrative obligations or too rigid orientations. It also shows, however, the difficulty in achieving sustainability once policy support, funds in particular, ends.

Background and framework conditions

Northern Karelia is a province in the eastern part of Finland, economically based on forestry and a dynamically growing plastics and metal industry. The project was initiated in 2002 by a public institute for vocational education for adults, having had prior experience in project management in cooperation with a range of different local actors. The project finished, successfully, in 2005. Funds came from the T&E Centres (see above), the European Union and participating companies and municipalities.

The main motivation to implement the project was the necessity of producers and entrepreneurs in the food-processing industry to develop their business actions and their income by selling their products, especially in their local areas.

Characteristics of the initiative

One of the most important objectives of the project was networking in terms of developing the cooperation of local food manufacturers and refiners so that they would be able to market their products to institutional kitchens and restaurants. The quantitative and qualitative targets set included:

- to maintain or renew 10 current jobs related to the groceries or catering/restaurant industries (5 men and 5 women, 4 of them under 30 years of age);
- to establish 2 new enterprises in the tourism and/or groceries industries (one should be established by a woman and the other should be farm-related);
- to create a common network among institutional catering/kitchens and groceries refinement;
- to increase the level of cooperation between project personnel and different actors of the province.

A full-time project manager was hired for the project, with responsibility for operational management, resource allocation and follow-up of project targets. A guidance group was also established for the project; it supplied valuable input and supported the follow-up of the project's implementation activities.

In a planning meeting, entrepreneurs had the opportunity of communicating their needs and requirements. On the basis of this information, various educational activities were conducted (targeted at the project coordinator, entrepreneurs, kitchen personnel and partly regular customers), as well as events and seminars (sometimes organised in cooperation with other ongoing projects) and consulting. Topics were related to hygiene, cooking, marketing/commercialisation of products, leadership/management, teamwork, pricing, financing and computers.

In addition, local entrepreneurs and representatives of the institutional kitchens participated in study trips to local tourism and food-related companies. Often these trips created new opportunities for cooperation between the participants and the companies visited.

In 2005, an 'own shop' was established, acting as both a wholesale and retail outlet. Institutional kitchens place their orders with this shop, which is presently served by 22 local manufacturers and is also cooperating with local tourism companies. The local products have also been jointly promoted in local supermarkets via campaigns. Within the project, relationships with local wholesalers were built up and at present these distribute the products of 11 entrepreneurs participating in the initiative.

Consultancy was also provided to the entrepreneurs on questions arising in the course of business. Advice was given either by the project coordinator or, if she did not have enough knowledge on the issue, local experts. As a result, a consultancy network emerged.

Impact of the initiative

The targets set for the project (see above) had a fair degree of success. The initiative resulted in the creation of employment opportunities for 10.5 full-time equivalents (5 for women, 5.5 for men, 2 for people aged under 30). Furthermore, 17 jobs were renewed. One new enterprise was created and a higher than anticipated number of companies participated in the project. The intended number of involved farms was not reached, however.

The value of the products increased through product development actions. Also, several new products were created, resulting in an expanded product portfolio of the participating enterprises. Cooperation with other actors made it possible to execute more operations than planned. New marketing materials were produced and marketing channels became more versatile.

The project personnel gained greatly in knowledge from the educational activities undertaken, while a wide range of companies benefited from the consultancy network. The information disseminated led to a satisfactory degree of visibility and publicity for the project.

Future issues

Although the project finished in 2005, its effects are still sustainable. Entrepreneurs can utilise the promotional materials (brochures, etc) produced during this initiative since they are accessible in paper and electronic form. The networks, sales channels and contacts that were established during the project are still taken advantage of in the day-to-day business of the participating enterprises. During the life of the project, the marketing skills of the entrepreneurs increased; however, the quality of their products still needs to be raised. Also, the regional image and marketing materials need to be developed further. A new project related to these issues is under construction, but details of timeframes and other decisions have yet to be made.

Creation and/or support of business networks focusing on local unique selling propositions

As seen in the previous case studies, business networks in rural areas may be even more effective when focusing on local unique selling propositions (USPs), such as natural or cultural resources. USPs refer to an inimitable competitive advantage, such as best quality or lowest price. On the basis of specific products popular in the individual area, entrepreneurial alliances may be built to achieve synergy effects (e.g. saving of costs due to economies of scale in shared production or marketing, better access to suppliers or markets, including cross-border activities). In this sense, social capital can be strengthened by building not only on mutual trust between business partners, but also on the shared values and norms of people with a high commitment to the rural area in which they live. In this regard, the mutual relationships should not necessarily be limited to private business entities, but can also include local education/training centres and/or R&D institutes.

CASE STUDY 10: LIFE Micovaldorba Project, Spain

The Spanish LIFE Micovaldorba project constitutes a very structured and holistic concept. The project delivered an impressive economic and labour market effect. It also shows that development processes are facilitated when existing structures form the starting point.

Background and framework conditions

The area of Valdorba is a valley located in the region of Navarre in Spain. It might be referred to as 'very rural' and characterised by serious demographic decline, emigration and a subsidised agriculture-based economy. The area suffered from great difficulties during the 1970s and '80s in the service and management of the local villages and their natural resources. A wide variety of wild mushrooms and truffles flourish in Valdorba. The collection of these fungi constitutes an important economic resource and is considered to have great potential for rural economic development, as well as a high commitment from the local people. Both these factors made the LIFE Micovaldorba project possible.

The project was presented to the European Commission by the City Council of Leoz in 2000. It was approved in 2001 and lasted 3 years. Nevertheless, the activities of this project still continue and are co-financed by public money (32% of the budget is funded by the Government of Navarre and 19% by the Local Council of Leoz) and private national sources, 22% coming from the private enterprise, Energía Hidroeléctrica de Navarra (EHN). EHN has played an important role in generating income for the area since it installed a windmill park in 1997, creating extra income which was used for several initiatives intended to foster the economic recovery of the area.

The aim of the LIFE Micovaldorba project was to develop and implement an integrated system for the sustainable management of wild mushroom-producing forest ecosystems in the Valdorba area. This had been lacking, leading to conflicts between land-owners and mushroom collectors, as well as among mushroom collectors themselves, besides having detrimental effects on the mushrooms' habitat. Therefore, the objective of the project was to foster good management and commercialisation of the existing local mushrooms as a tool for the local economic and social recovery of the area.

Characteristics of the initiative

The project partnership consisted of local and regional public authorities, public education institutes and private/public enterprises – in total, 14 members. Before the start of the project, the members jointly set up the Valdorba Development Association to promote the social and regional development of the local rural area. Furthermore, Orbalan (a local job creation public company) was established in 1999, on the initiative of EHN and Leoz District Council, to generate employment and encourage the integration of disadvantaged groups on the labour market. The existence of this well-defined and already set-up structure for social and economic development is seen as one of the key elements for the success of the LIFE Micovaldorba project.

As a starting point, a study was commissioned by the Leoz District Council and carried out by a multidisciplinary team of local experts and universities. This study investigated the ecological and socio-economic characteristics of the Valdorba area and it established the following priorities:

- integrated development of the Valdorba district;
- population settlement in the area;

- job creation;
- proper management and planning of forestry ecosystems to enable them to be conserved and used rationally.

Subsequently, action models were designed on such issues as mushroom producer replanting, the handling of forests and paths, sustainable mycological usage plans, specific treatment in sites and protocols for the ecological certification of mushrooms and truffles. For this purpose, 250 land-owners were informed through seminars, courses and visits.

In order to get people involved, an assembly framework was established whereby meetings were held on a regular basis for discussion and agreement on actions and activities to be carried out. The collaboration and mutual trust between all the members involved in the project made it possible to elaborate new initiatives and reach consensus, contributing to the rural development of the area. In this sense, local political conflicts and resistance to change from local inhabitants were overcome by applying awareness-building, training and information policies, basically through speeches, conferences and activities to involve local people in the practice.

Throughout the process, the University of Valladolid and the Technological Forest Centre of Catalonia played an important role in terms of acting as specialist technicians for the LIFE project. Without this expertise, the project would not have been such a success because the specific knowledge was not available in the area.

Impact of the initiative

The development of the Micovaldorba project has brought several positive impacts to the area, including:

- Valdorba has developed a rural eco-tourism sector specifically linked to the mushroom activity. Some estimations suggest that the LIFE Micovaldorba project has resulted in a 30% increase in rural hotel occupation during the last few years, making the area the one in Navarre with the greatest occupation in rural hotels during 2003 and 2004.
- Truffle producers have been organised to sell their goods at a market where they are integrated with the rest of the exquisite products from the region and from Navarra, so they can obtain a price of 30% above normal levels. In this way, a product gains further value, people come to visit the area and a differentiated tourist offer is generated (by the integration of production and tourism).
- The area has experienced great progress in providing basic services that were unthinkable only 15 years ago. These include water supplies, rubbish collection, paved streets, infrastructure, social and cultural services, telephone lines and the Internet. In addition, the area has experienced demographic growth and there is hardly any unemployment. Other achievements include the setting up of an assembly of leaders, rural agents interested in the development of Valdorba and local representatives.

Future issues

Micovaldorba has become a well-known trademark and the name is becoming increasingly associated with the general economic development of the area. A new initiative is now being

developed in order to foster the tourism possibilities in relation to Romanic and Medieval Art, which is very important in the area and has great development opportunities. For this purpose, a local tourism office is expected to be created in 2007 and guided visits are being organised.

Creation and/or support of business networks for strengthening local tourism

Creating or supporting business networks focusing on rural unique selling propositions (USPs) may also relate to strengthening the local tourism sector. Forms of tourism support include the improvement of the rural area's connectivity to large national and international centres, or carrying out marketing activities in the widest sense to raise consumers' awareness of the amenities of the region.

Whatever form the support may take, networking among the local economy can contribute to tourism development by offering comprehensive 'packages' to visitors. Such activities will most probably be based on the natural and/or cultural assets of the region, such as mountains (for hiking, skiing or the like), beaches or historical buildings. Creating such combined or comprehensive offers for tourism frequently results in a diversification of the local economy.

In the majority of such networking initiatives, not only local enterprises but also public authorities will be involved in the process of improving the information flow between local actors, promoting the rural area as a tourism location and coordinating particular activities ('building the packages'). NGOs may also be included in, for example, taking care of environmental and/or cultural preservation, i.e. safeguarding 'soft' tourism by not destroying the natural assets, but directing parts of the revenues towards their maintenance.

CASE STUDY 11: Network of Taverns in Alto Tâmega (*Rede de Tabernas do Alto Tâmega*), Portugal

Portugal provides an example of such an initiative in the Network of Taverns in Alto Tâmega, aimed at attracting visitors by taking advantage of the local cuisine. The project shows, however, that networking and combining products and services can result in new business opportunities *only* if the quality standards of the individual partners are sufficient. This may constitute a challenge, especially in less developed rural areas.

Background and framework conditions

Alto Tâmega is a rural area in northern Portugal. The population is concentrated in small towns, with a steadily decreasing number of inhabitants. Road connections within the region are poor, but have been substantially improved in recent years.

The activity rate in the region is low and much of the workforce (54%) is predominantly employed in the services sector. In spite of a decreasing trend, the share of workers involved in agriculture is still more than 20% of the active population (one of the highest rates in the country).

Besides its high-quality environmental values and pristine scenery, the region features a rich gastronomy and many traditional craft products. The combination of these assets into an integrated offer has not yet been tackled extensively by commercial tourist operations in the area.

In 2004, a network of taverns was initiated by ADRAT, a local development association including municipalities and parishes, chambers of commerce, agro cooperatives, farmers' associations and other local institutions. About 88% of the initiative is funded by the LEADER programme. Since its inception in 1990, ADRAT has been involved in many initiatives as a facilitator of inter-institutional cooperation in the region. Thus, the idea of exploiting the synergistic elements between the regional gastronomy and the promotion of local products (including agro-food items and crafts) could be realised by launching a novel offer within the restaurant sector in the region, based on a network of small taverns run by local families.

Characteristics of the initiative

The initiative sets out to combine the traditional cuisine of the region with the ambience and cultural assets of the region, thereby providing a genuine and unique experience to the visitor. To accomplish these objectives, ADRAT selected taverns and families according to strict criteria – architectural value of the building, quality of the surrounding environment and landscape, capabilities of the owners in traditional cooking, availability of local products with good quality standards and, finally, willingness of the owners to embark on cooperation within a network of similar taverns.

It was expected that the local networking activities within the tourism sector would result in the development of new entrepreneurial ideas, the creation of jobs and an increase in regional income. In order to achieve this, ADRAT not only applied a careful selection process for the taverns, but also prepared planning documents, developed quality control systems and involved local organisations, such as town councils, parishes, local training and employment services, and cultural associations.

The project started by recruiting seven families who owned taverns in the region and providing them with financial assistance (through LEADER II) to renovate and refurbish the rooms to be used and to buy furniture, equipment and utensils as needed. Subsequently, ADRAT developed a training/coaching programme and a marketing plan under which a cooperative promotional plan was implemented, bringing a distinct and unique image to the network of taverns.

Besides their restaurant business, the tavern owners also promote and sell local products and crafts, thus inducing the creation of additional jobs in neighbouring areas.

Impact of the initiative

The initiative was a success. The franchise-like operating mode, combined with the quality and differentiation of the service, ensured that satisfied clients promoted the network of taverns by word of mouth and personal referral (about 60% of the clients reside in the Oporto metropolitan area, 150km from the project area of Alto Tâmega, and some 30% are from urban areas of Spain).

Some of the taverns have become the dynamic centres of their small villages and the exchange of information within the network, and between the network and surrounding communities, is prompting new initiatives and projects. For example, the reintroduction of certain crops that had been abandoned due to lack of demand (such as some forest fruits, mushrooms and cranberries) is now being considered by local farmers. Thus, in addition so far to the seven full-time equivalent jobs created by the network (one per tavern), there is the distinct possibility of creating additional jobs in the villages involved in the project.

Future issues

ADRAT is now 'weaning' the network or forcing it to become a self-regulated, self-funded formal association. New members will be recruited and selected by their peers, joint promotional activities will be decided upon and implemented on a collaborative basis and an independent evaluation of the network is to be drafted and commissioned by the members themselves. ADRAT will pass on the IP rights on the brand of the network to the new association.

Another association, CORANE, which covers 4 different counties (Braganza, Miranda do Douro, Vimioso and Vinhais) of a neighbouring region, is also initiating a project based on the ADRAT approach.

Creation and/or support of business networks promoting employment in the area

Besides joining forces to create new commercial opportunities, business networks in rural areas can also be formed to manage the workforce efficiently, to acquire the necessary skills and to promote employment. The majority of rural businesses (as in the European economy as a whole) constitute small and medium-sized enterprises, focused on the local or regional market. This approach has a relatively limited market potential. For extended business activities, additional human resources are necessary. These, however, are costly because of non-wage labour costs and the time-consuming administrative efforts required. Nevertheless, employing qualified staff in the quantity needed and at the time the workload arises can be seen as an important precondition for rural business development.

Although farm employment is generally characterised by a decline over time, it is still of relevance in rural areas. One of the major specifics of such jobs is their seasonality, i.e. the demand for the workforce varies considerably throughout the year. This is also the case in manufacturing, tourism and other personal or business service industries.

Against this background, the problem arises that permanent staff cannot be used to full capacity all the time, while sometimes even higher capacities are needed. This leads to higher average costs and companies refrain from employing additional people. This may be counteracted by job-sharing models between enterprises, whereby an employee works in different companies according to their workloads. This secures full-time employment for the individual and cost-efficiency for the companies involved since they can share labour costs and adapt their staff volume to the volume of work. In addition, the specialist knowledge of the staff involved is further increased by working in different businesses and, therefore, service quality to the enterprises is continuously improved.

CASE STUDY 12: Job sharing between rural enterprises – Quali 23, France

An example of such a job-sharing initiative is the French project Quali 23, a network of small rural enterprises sharing employees in order to be able to expand their business activities.

Background and framework conditions

The rural Limousin region in France is characterised by a low population density, a high share of elderly people and a very good labour market integration of women (the female employment rate is 60%, i.e. above French and European averages). The region has diversified industry, with a network

of small companies and a few large enhancing sectors. The development of the business services sector partly compensates for the decline of manufacturing industry. Traditional activities are subject to an exacerbated competition, whereby dynamic companies are struggling to organise themselves into networks.

Local companies are mainly small and scattered throughout the region. They face financial difficulties in accessing qualified personnel who, overall, are not needed on a full-time basis. Consequently, in 1996, Quali 23 was set up as a grouping of industrial employers in the rural milieu, specialised in quality standards. Its aim was to provide its member companies (currently about 20) with the possibility of sharing two full-time employees competent in the area of establishing and implementing quality standards.

Characteristics of the initiative

Quali 23 was created with the support of elected representatives from the industry commission of the Chamber of Commerce and Industry (CCI). At the beginning, four employers jointly hired a salaried worker and the CCI carried out the administrative tasks. Since then, Quali 23 has been officially hiring the employees (currently 2) and the administrative and book-keeping tasks are outsourced to an accountancy company.

In 1996, when procedures were set up, employees on average worked one day a week in the individual company. Later on, the 'follow-up' could be conducted in about one day every three months per company. High flexibility exists in the system, which is beneficial for the adaptation of staff endowment to each company's needs. Sometimes it is difficult to manage the reconciliation process among enterprises since the volume of work differs between them. This problem is aggravated by the geographic distance between workplaces (i.e. travel time between employers).

The member companies of Quali 23 have few obligations other than participating in annual or intermediate feedback meetings.

Impact of the initiative

Participating companies welcome the flexibility of the concept, while also realising reduced labour costs. They see the need for a continuing investment in quality standards and assess the involvement of a 'third party' in the enterprise as an interesting form of mediation with other employees and as a rich source of new ideas.

From the perspective of Quali 23's salaried workers, they say that their varied activities and their autonomy are the main benefits of the job (although in the beginning they were not looking for a job that entailed this kind of activity or organisation). However, they share the opinion that the companies sometimes forget that they are virtually employing this workforce and rather consider them as external service providers in terms of being somewhat irresponsible towards their 'external' employees.

Creation and/or support of networks targeting the labour market integration of the local population

Rural employment may also be fostered by a wider network (or a set of interlinked networks) of different actors, such as enterprises, public authorities, social partners and NGOs, targeting the

labour market integration of the local population. The need for this approach may arise particularly in regions characterised by a weak labour market and a high risk of poverty, while being comparatively well equipped with a (potential) labour force (e.g. rather young and/or qualified inhabitants, availability of skills and capabilities oriented on the needs of local enterprises).

CASE STUDY 13: Rural Partnership Programme (*Lauku partnerības programma*), Latvia

The following example of the Rural Partnership Programme in Latvia shows that, following a joint vision by all relevant actors, vital aspects that influence the success of such programmes include local characteristics, entrepreneurs' labour force requirements and dissemination of information about the initiative. Furthermore, it is important to have a well-established coordinator who is in a position to convince individuals and institutional actors to participate and to realise first results quickly in order to ensure participants' confidence. The case study also reveals that activities need not necessarily be limited to an individual rural area, but may also extend to a cross-regional, or even cross-border, setting.

This case study confirms that building social capital takes time and that the involvement of parties is a step-by-step process. It may be easy to engage those who have participated in some way or other before, but it is more difficult to activate people who may be excluded or living in poverty.

Background and framework conditions

The Rural Partnership Programme (RPP) was established in 2000 in order to make a contribution to the reduction of poverty and social exclusion in the Baltic States through improved rural and regional development and also to enhance the capacity of local communities to improve rural livelihoods on a sustainable basis.

The objectives of the RPP were to facilitate economic activity and to improve people's business skills. This was to be achieved by:

- creating and testing a model for the delivery of integrated (improved) rural development;
- providing training and on-the-job experience in bottom-up rural development strategies;
- proposing a framework for the continuation and extension of partnership-based local rural development across the three countries.

Characteristics of the initiative

The RPP was implemented in 2000–2003 in the three Baltic countries of Estonia, Latvia and Lithuania, and initially supported by the UK Department for International Development. It was an explicit attempt to develop social capital in the rural areas of Latvia. After 2003, NGOs were established to ensure the sustainability of the project after its official end. It is supported, however, by local authorities as well as with national (Latvian Integration Foundation and SEB Unibank) and international funds (e.g. European Commission, World Bank/UNDP).

From the beginning, the RPP involved people from local communities and local governments, and worked closely with institutions at district, regional and national level (e.g. various ministries, Union of Local and Regional Governments, Regional Fund (Latvia), State Chancellery).

Representatives from local government, organisations promoting development, communities and NGOs, as well as service providers, were involved in three partnerships within Latvia. A coordinator was established on a volunteer basis: his role was to create or activate communities and ensure the development of community opinions and representation in local development planning. This involved, among other things, the recruitment of local people, the support of the formation of a community group, the identification of priority issues, the development of a work plan and engagement with statutory, community and voluntary agencies (including handling of conflicts within the network). In order to perform these duties, the coordinator had to be a permanent resident of the district and active in its community life; he also had to possess a certain degree of leadership and communication skills (including problem-solving and conflict-resolution capabilities), together with a willingness to improve upon these skills. He also had to participate in a training programme and then transfer the skills and knowledge gained to the community.

Each of the three partnerships defined the group that it was going to target by implementing local strategies (it had to involve socially excluded groups in rural areas). One partnership, for example, identified as its main field of activity youth (particularly those with special needs), ethnic minorities and long-term unemployed people.

The key activities of the RPP were:

- to establish community centres or a network of communities in order to bring people together, e.g. by organising events or initiating shared activities;
- to establish meeting facilities for community groups to provide them with the possibility of coming together, working, discussing important issues and organising community actions;
- to implement training and education courses.

The development of the partnership of rural communities was characterised by several important processes:

- Communities involved in the discussion and development of strategies for reducing poverty and social exclusion. It was discussed whether the strategies sufficiently met the needs and solved the problems of the community.
- Communities involved in applications for projects and submitting them in order to get funding.
- Community facilitators involved in training, organised by the RPP.
- Community facilitators maintained regular communication and flow of information among the participating actors.

The training activities also resulted in the creation of a community leader network, which helped in exchange of information and expertise. However, the strength of this network diminished once the training was completed.

The involvement of the local society necessitated a step-by-step approach because there was little understanding of the partnership concept beforehand. One approach to inform people about the RPP was to use local, regional and national media. Another approach was to arrange seminars to present the programme. Two of the partnership centres established their own websites. In spite of all

these activities, acceptance of the rural partnership concept was not, and still is not, distributed evenly among social groups. It was relatively easy to attract social groups who were already active, but it was especially difficult to involve the poor and the socially excluded, who were, of course, the main target groups of the RPP.

Impact of the initiative

More than 1,000 people from local communities were directly involved in the activities of the RPP, as well as local governments and institutions at district, regional and national level. To combat poverty and social exclusion, the RPP empowered local communities to express their needs to be included in locally focused strategies and in projects to be implemented by local communities themselves, in partnership with local governments, service-providing institutions and business partners.

Within the RPP, the partnerships developed and implemented area-based strategies. Furthermore, local communities have learned to identify and secure support from other funds for their projects. Local actors have been empowered in defining strategies and developing distinct programmes to activate socially excluded groups, such as disabled people, unemployed people, children from families with no regular incomes and young people who are neither in education nor working.

Future issues

After the termination of the RPP, the established partnerships are now operating as NGOs, accessing other public funds to finance their activities.

Some weaknesses do exist that need to be overcome in order to guarantee the future efficient development of the programme. First, people's sceptical attitudes towards innovations need to be altered to make them participate in new instruments for labour market integration. This goes together with raising awareness of the programme's benefits for the individual. Secondly, insufficient infrastructure (poor roads, no telephones, lack of access to Internet) hinders communications and time constraints limit the operative implementation (since work is fully voluntary). Furthermore, partnerships are becoming less and less transparent, and information about their activities is becoming less available; considering the weaknesses outlined above, this is not a good sign.

Labour market integration for specific groups

Social capital initiatives may be targeted at labour market integration or job creation for specific groups. For rural areas characterised by a comparatively high share of elderly people, activities fostering employment of the older generation can be developed. Models where older, experienced people transfer knowledge to younger, inexperienced people are particularly effective in rural economies, which often require specific skills or capabilities that are not provided by the (local) training sector. Networking supply and demand of 'know-how' can serve all parties involved: the older ones can generate income and feel valued in the society; the younger ones can achieve a higher qualification level and income; the enterprises are supplied with the qualifications they require; and the society benefits by a lesser burden on public funds. Initiatives based on this type of social capital may take the form of joint employment of elderly experts or an external expert network of experienced specialists (in the style of business 'angels' but without financial endowment) can be established, coordinating activities among each other and providing joint services to the local economy.

Another potential target group for this type of initiative is the female rural population. Due to traditional role models and poor endowment of many rural areas with infrastructure (e.g. childcare facilities), it can be assumed that women are relatively more affected by hidden unemployment than men. Against the background of often limited employment opportunities in rural areas and the need for diversification of the economy in order to realise growth potentials, initiatives targeted at improving the entrepreneurial attitude, skills and capabilities of women in rural areas have good prospects. In this context, social capital is utilised in terms of female business networks, tutoring/coaching models or alliances of female entrepreneurs, taking into consideration the challenges characteristic for this group (e.g. childcare facilities).

Some European rural areas are characterised by an above-average share of migrants or ethnic minorities. Social capital initiatives can be used to empower these groups with a view to labour market integration, as well as raising local actors' awareness of their particular skills (e.g. multicultural know-how, familiarity with cross-cultural norms and values, language skills). Empowerment can refer to professional skills or, more globally, to the development of competencies in solving one's problems and raising self-confidence. This has been done, for example, in the Slovakian case study called 'Our common home' (see below). Measures to raise awareness could address the general society/community, enterprises and public authorities (e.g. the local offices of public employment services). With this kind of social capital initiative, information dissemination is seen to be of particular importance (not only among potential participants but also in the overall rural community) since general commitment or 'good will' (e.g. in terms of overcoming prevalent prejudices) is vital for the sustainable success of the practice.

CASE STUDY 14: The Svinka Watershed – 'Our Common Home' (*Povodie Svinky – 'Náš spoločný domov'*), Slovakia

Background and framework conditions

The Svinka valley has the advantage of being close to the important regional cities of Prešov and Košice in Slovakia. About a quarter of the inhabitants are Roma. The region's natural heritage provides potential for rural tourism in the form of winter sports, mineral springs and archaeological sites. However, the region is characterised by economic stagnation and high unemployment rates. A slow but steady decline in population is occurring in the rural areas of Svinka: craftsmen are leaving for towns to find jobs or for longer work stays, while young people leave to attend schools and rarely return after graduation. There is a loss of identity and the intimate relationship of local owners to the land. Consequently, there is low motivation for people to address their own problems and a general loss of pride in the villages and region. The poor involvement of Roma citizens in public matters results in bad relations with the other citizens.

Characteristics of the initiative

The project 'Our Common Home' was designed by 23 village mayors, 7 local non-profit organisations and 10 volunteers. It ran during the period 2002–2005. The goal of the project was to enhance the quality of life in the Svinka watershed region and to achieve sustainable use of natural resources. Aims include the prevention of floods in the region, environmental protection and the revitalizing of land damaged by agriculture and forestry.

To achieve these goals, it was necessary to attract other regional players (e.g. municipalities) and a large proportion of citizens. This led to broadening the project to provide complex solutions for the

region, including improving the quality of life and increasing living standards for all citizens, including the Roma population.

Some specific goals were set, such as the establishment of an Evening Rural School, the establishment of a proper information system for the region, the implementation of pilot projects and, above all, the elaboration of a sophisticated Regional Development Plan. To reduce the high unemployment levels, several projects were planned, such as an agenda to deal with Roma issues, setting up a House of Handicrafts and the building of water farms for alternative energy.

An important part of the project was to overcome prejudices between the Roma population and other citizens. The key to this was to include Roma people in as many activities as possible and create measures specifically designed to improve their working skills.

Impact of the initiative

The project results were in three essential fields: improvement of the education and skills of inhabitants, dissemination of information and the implementation of pilot projects. As regards the latter, the aim was to achieve a more active approach and make it the responsibility of all parties involved (local governments, civic associations, Church, businessmen and civic leaders).

Organisers realised that reaching a higher level of citizens' participation could possibly mean solving more of the existing regional problems. It can be concluded that the project orientation – of building social capital from the start in order to achieve broader project aims – was the main factor in accomplishing the goals. During the project, 26 temporary jobs and 3 permanent jobs were created. Many activities are continuing despite the end of the project in 2005 and this is generating additional jobs. Experience gained by the project's participants is being utilised in the preparation of new projects for regional development, financed from EU Structural Funds. The basis for these activities is the Regional Development Plan, created during the project.

Future issues

The wide range of the project's goals and activities has sometimes caused confusion, especially when combined with the problems of communication within the larger group of partners. There is thus a need to continue to improve communication and regular information exchange is needed among the villages of the Svinka watershed region and between Svinka and its partners.

The project has certainly seen a large number of unusual achievements. This success is due to an enthusiastic team and its persuasive efforts to get the partners to work together more effectively. The challenge was to complete presented plans, to build on what had been done and to help put into action a realistic micro-development plan.

CASE STUDY 15: Improving the social environment in the Municipality of Strumyani, Bulgaria

Young people constitute another important target group for rural development and labour market policy. The majority of European rural areas are faced with depopulation as young adults migrate to the cities to access higher qualifications and employment opportunities. This has become an economic and social problem for most rural areas. Consequently, initiatives are needed to induce youth to stay in, or return to, their rural home and to strengthen regional identity. For example, young

people are involved in community activities, thereby also taking advantage of their energy, motivation and ideas, which may at the same time contribute to avoid 'lock-in' effects.

A social capital initiative targeting both young people and ethnic minorities (in this case Roma) – and partly also the older generation and women – has been implemented in the Bulgarian municipality of Strumyani.

Background and framework conditions

Strumyani is a mountainous territory located in south-west Bulgaria, with a low population density. About one-eighth of the population are Roma, Unemployment in the region is higher than the national average.

Since 2002, the Municipality of Strumyani has been one of 10 pilot rural areas involved in the 'Improving Social Environment' programme, financed by the Charles Stewart Mott Foundation and managed by the Foundation for Local Government Reform. The main goal of this initiative is the social inclusion of disadvantaged groups by improving the communication and partnership models between citizens and local authorities. One focus lies in the capacity building of local citizen groups for solving social problems by using local resources.

Characteristics of the initiative

In the framework of meetings and public debates with representatives of the local community, different initiatives for improving the social environment and living conditions were generated. Among others, the following may be mentioned:

- Youth initiative for Strumyani (establishment of a youth association): According to a survey conducted in 2005, 60% of the rural young people have a high commitment to the region, making them the most active potential partners and drivers for change at local level. The establishment of a youth association was seen as a working mechanism for youth participation in local life and mobilisation of the potential of young people. The youths were involved in the establishment process in the form of informal meetings and discussions between representatives of young people, local institutions, businesses and the media, taking place at the local school. The first steps taken by the youth association were the initiation of a series of public debates among the young people on future issues of the rural area. Furthermore, local development policies were discussed and two representatives of the youth association take part in the regular sessions of the Municipal Council, thus ensuring access to information and representation of the interests of young people at institutional level.
- Day care centre for old people (improving social services): Old people living alone in the small mountain villages of the municipality are given opportunities for active communication in order to overcome their isolation. A pensioners' club was opened in the Municipal Centre, where social services are also provided.
- Child day care centre, 'I can': The day care centre is open to children aged 7-15 years and provides them with the opportunity of developing their creative skills and organising their spare time while their parents fulfil their occupational tasks.
- Integration and socialisation of Roma children in Mikrevo village school: The project has several aims for the Roma population – to integrate and socialise Roma children in Mikrevo village by

including them in municipal activities, to improve the social environment for children of Roma origin and to incorporate their parents in the process of school education.

Impact of the initiative

The youth association that was established has resulted in organised efforts among the young people through interactive work, capacity building for project development and implementation. Through their new organisation, the young people in the municipality are able to realise their initiatives and take an active part in public life in the Municipality of Strumyani.

The pensioners' club provides new leisure opportunities for the elderly, as well as increasing their self-esteem and improving communications among them.

The project on integrating and socialising Roma children has contributed to ethnic integration in the village by decreasing the potential for Roma youths to 'drop out of the system' and develop criminal behaviour. Teachers learned how to approach Roma parents to motivate them to send their children to school, thus giving the children a better chance to acquire qualifications (illiteracy is the major reason for Roma unemployment). Furthermore, the project helped in overcoming prejudices about the reliability of Roma people as workers.

The success of these initiatives is mainly based on the fact that they were well targeted and met the needs of the local community. This was only possible by involving the target group in the design of the project. Another success factor was the support of the local authorities. This was provided in two ways: provision of finance and the acceptance of representatives of the youth association in the work of the Municipal Council's commissions.

The lack of financial independence of the Municipality of Strumyani may be considered as the major constraint for the development of the local community.

Lock-in effects

In order to avoid the potential of a lock-in effect, always inherent in applying social capital concepts, many of the public initiatives identified in the framework of this study realised that measures need not be limited to the rural area itself, but may also include 'cross-border' elements (i.e. going beyond the region or even beyond the country). In such cases, however, a strong coordinating unit needs to be implemented and the intended initiative must be suitable for the involved regions, or at least flexible enough to be adjusted to individual local needs and circumstances. Furthermore, potential problems arising from cultural and/or language differences must not be neglected.

Moreover, it has been observed that although rural areas are, on average, worse equipped with new technologies compared to cities, many of the social capital initiatives analysed here took advantage of IT, particularly for the dissemination of project-relevant information.

Rural areas constitute an important part of the overall EU territory. Although urban areas account, on average, for higher shares in terms of population and contribution to the economy, rural areas must not be neglected, not least because their basic resources provide a valuable competitive advantage for the entire economy.

In public and policy discussion, as well as in statistical analyses, rural areas are often considered as a homogeneous category of regions. However, in practice the spectrum of rural areas is very heterogeneous and a high degree of diversity can be found not only between countries, but also among different regions within a country. These differences are obviously due to natural and topographic characteristics, but also the cultural norms and attitudes of the inhabitants influence a region's social environment and economic situation and development. In spite of the still widespread belief, 'rural' cannot be equated with economic backwardness. Some European rural areas have experienced dynamic development during recent years, contributing to the macro-economic performance of the whole national economy. Furthermore, rural areas must not be equated to agricultural areas. While, naturally, the major part of agricultural activity is conducted in rural areas, the reverse is not true. Many rural areas have with an economic structure dominated by other industrial sectors, such as tourism or manufacturing.

Given this diversity among rural areas and the blurring of rural-urban boundaries, the general question arises as to whether 'rural' can still be understood as a meaningful spatial or social category. Also, the design and implementation of standard 'rural policies' (even if adaptable) becomes questionable. It is clear that orienting policy-making on the discrete and implicit differentiation of individual kinds of rural zones according to their characteristics and requirements is the best approach (see also Shucksmith *et al*, 2006).

From this perspective, the current shift in rural policy-making is an important contribution to the appreciation of the 'individuality of rurality'. Whereas traditionally 'rural' was often limited to agriculture, the last 10–15 years have seen a declining economic importance of this primary sector and an increasing role of personal and business services in rural areas. This has been acknowledged by policy makers at all levels and a shift of policy emphasis from a sectoral to a territorial or region-based approach in rural development has taken place. Also, the policy-making process has changed from a top-down approach to a bottom-up strategy, attributing more responsibility and scope of action to local and regional administrations, and strengthening the involvement of local social partners, NGOs and the inhabitants themselves.

This strategy implies, on the one hand, that differences among individual rural areas can best be dealt with by policies elaborated 'on-site', therefore taking advantage of the insight of local experts and the immediate feedback from the target groups concerned. On the other hand, the greater self-responsibility at local level results in the application of new methods for both policy-making and specific initiatives.

One of these 'new methods' is social capital, to be understood as a resource residing in the relationships within and among groups. It can lower transaction costs, increase creativity and innovation, and improve the welfare of individuals and communities. Building on social capital is seen to be particularly important where limited financial means are available to foster economic and labour market development. It is rural areas especially that often lack availability of public funds.

However, social capital can also undermine social harmony and impair economic performance, for example, when networks are used to pursue narrow group interests (OECD, 2004). Social capital seems to be more prevalent in rural areas than in urban areas: affective networks (i.e. the prevalence of mutual trust) are in many cases anchored in the local social life, which also influences business and/or labour market relationships. But negative effects of social capital, particularly with regard to possible lock-in effects, may occur more often in rural than in urban areas. In cities, cooperation tends to take place on a 'single event' basis on a 'spot market', with immediate reciprocity of services rendered. In other words, the building of mutual trust and sustainable relationships is of minor importance in urban areas when compared to rural areas.

This study aimed, first, at investigating how local and regional actors have developed initiatives to create social capital with a view to improving the rural employment situation and, second, at learning about the relationship between social capital, economic development and job creation. In the policy context, however, social capital remains a vague and abstract concept and there are no 'social capital building programmes' as such. By analysing initiatives in 10 European countries (5 EU15 countries, 3 New Member States of 2004 and the 2 New Member States of 2007), a comparatively wide spectrum of possible fields of action is uncovered. All of them deal with some kind of networking activity, in terms of making public or private local actors 'participate' in a joint strategy. These initiatives result in building up or taking advantage of social capital. In the majority of cases, this starts as an informal process, becoming more formalised in later stages if the network grows or if public funds are to be accessed.

The social capital initiatives analysed in this study can be roughly classified as follows:

- **By type of actors involved**
 - partnerships among public entities (i.e. governmental authorities);
 - partnerships among private entities (i.e. businesses, NGOs, individuals);
 - public-private partnerships.
- **By target group**
 - local businesses (as a total or specific sectors, size classes);
 - local inhabitants (as a total or specific sub-groups with regard to age, gender, ethnicity, etc).
- **By geographic spread or administrative level** (in terms of location of involved parties)
 - local/regional;
 - cross-regional/national;
 - international.
- **By content**
 - policy development (only indirectly resulting in labour market effects);
 - empowering local actors (public authorities, NGOs, enterprises, individuals) for active participation in designing and implementing policies in terms of both professional knowledge ('hard skills') and informal knowledge ('soft skills' with regard to willingness and self-confidence to become involved);
 - attracting businesses to the rural area and/or revitalisation of the rural economy;
 - empowering enterprises and/or their employees for a better market cultivation (e.g. consultancy, training), including joint marketing efforts;
 - job creation by job sharing at supra-enterprise level;

- labour market integration of the local population or specific sub-groups (e.g. young people, women, ethnic minorities).

The numerous combinations that are possible among these different classification criteria show the great variety of social capital initiatives available for job creation in rural areas. The classification criteria help to find and design those types of measures that are best suited to the local framework conditions.

In any case, almost no initiative is a pure social capital measure. Regularly, networking or creating links is only one part or one method used in a broader and more comprehensive rural or local development initiative, used together with other activities, such as physical investments, training, consulting or marketing efforts. Social capital formation is interlinked and interwoven with these other activities. Also, networking efforts are always geared towards a specific thematic aim or purpose; social capital is not built as an end in itself.

For the majority of initiatives, however, this purpose does not explicitly refer to job creation or the rural labour market. Rather, the aim is to focus on the general empowerment (in terms of ability and willingness) of local actors to stand up for their needs, to improve the social environment or to promote the rural area as a business location. Impacts on job creation are, therefore, mostly indirect and, in comprehensive rural development initiatives, the effect of networking efforts is difficult to isolate from that of other activities. In general, the extent of the employment impact of individual programmes is heavily linked with the balance of measures adopted at the regional level (European Commission, 2007).

The case studies given in this report show that sustainable job effects are achieved mainly where social capital leads or contributes to the creation of new business opportunities and businesses. This includes, for example, the joint development of new products and services, or combining existing offers into regional 'packages' of products, which reflect the innovation capacity inherent in social interaction. However, the low economic diversification of many rural areas allows business networks to comprise only a limited number of sectors and therefore appears to hamper the development of alternative commercial possibilities. Furthermore, the case studies reveal that such strategies necessarily require high-quality standards of products or services from each network partner.

Indirect employment effects have been reported in those initiatives where networking was used as a mechanism for upgrading skills. Low education and skills levels constitute a key problem in many rural areas and cause high unemployment, while at the same time enterprises face a lack of skilled labour. Social capital initiatives have proven to function as a vehicle to encourage knowledge transfer and qualifications, and consequently successful job placements.¹⁰ This is not only limited to technical and occupational skills, but also holds true for the empowerment of the rural population in terms of self-confidence and personal responsibility. The case studies show that social capital measures can succeed in equipping people with the courage and initiative to engage in community issues (e.g. taking political initiative to link the region to the public road system or to provide childcare facilities).

¹⁰ Also the employment effects of the LEADER II programme are rather indirect where the Local Action Group (LAG) focused on training, qualification, networking and concentration. Direct jobs were created through innovative business start-ups, mainly micro businesses and often run by women (European Commission, 2007).

Following on from these considerations, it becomes obvious that social capital, if used effectively, can be a valuable precondition for fostering job creation in rural areas, while bearing in mind that it is no guarantee for enhanced employment. Although fostering social capital can provide a foundation for creating additional employment in rural areas, such initiatives still face serious challenges in practical implementation. These include:

- **Broad inclusion vs. quick results:** The case studies show that successful social capital initiatives mostly do not start from scratch, but are normally based on some existing structures; they are also driven by a limited number of actors and are motivated by a rather narrow purpose. Many initiatives thus face the challenge of activating and integrating a wide array of different groups, all with different interests, in order to ensure a broad commitment to the plans and full exploitation of the regional potential. However, activation, as well as integrating and coordinating different interests, is a time-consuming process that can go on for years and may be accompanied by excessive bureaucratic procedures.

On the other hand, getting quick results from activities is imperative to keep people on board and to attract the interest of other parties. Also, working on concrete projects and tasks is necessary for participants to develop active interests and identify with the project. This, however, may lead to people getting caught up in realising short-term, ad hoc goals or being involved in problem-solving that is only weakly related to the wider strategy or interests of all parties.

- **Resistance to change:** In certain rural areas, resistance to change and innovation is stronger than in urban centres. The value of tradition is often stronger and age structure plays a role as well. This makes it more difficult to activate people to participate in development processes and to take advantage of opportunities created. In addition, there is the 'threat' that an initiative may be driven by a small group only. In rural areas with a small population, the power of such individual groupings can be particularly strong and this can hinder other parties from getting involved and voicing their interests and opinions.
- **Outside linkages:** Many rural areas are insufficiently diversified in economic terms, lack public services and have a shortage of specific business expertise in various fields. Thus, establishing linkages (e.g. to knowledge sources, governmental bodies or companies outside the inner rural networks) is key to developing innovative ideas and new business opportunities. In this way, the threat of lock-in effects can be reduced and knowledge transfer can be secured. Also, the use of dedicated external advisors or moderators may help in accelerating processes and in balancing the divergent interests of the various parties. In any case, especially in rural areas, taking advantage of potential new business and job opportunities requires an upgrading of skills among the rural workforce.
- **Diversification vs. concentration of activities:** Building social capital entails creating linkages among the different actors and developing, in common, new opportunities. The case studies show how innovative activities have emerged through interaction. This can involve extending the initiative to as many groups and fields of action as possible in order to unlock all potentials. However, in some cases, this may lead to confusion and serious management problems, resulting in no concrete achievements. Thus, extending an initiative should be done in a gradual way, with thorough consideration given to the intended outcome.
- **External public support and sustainability:** Most of the social capital initiatives analysed use public funds to support their activities. Easy access to public support programmes is essential,

especially for rural areas where businesses and institutions are small and lack capacity and expertise to cope with complex bureaucratic procedures. However, some case studies show that the risk involved with public support of an initiative is that people focus on externally/publicly funded projects while not paying attention to options and potentials inherent in direct cooperation within the region. In other words, the network is being used mainly as a vehicle to tap project funds. Thus, the challenge for many initiatives is to achieve self-sustainability once support schemes end. This again underlines the fact that long-term job creation requires the development of viable business opportunities. Jobs implemented only to administer and organise the initiative itself are not sufficient.

- **Organisational change:** As the initiative and network extends to include additional actors and activities, organisational structures have to be adapted. This involves a shift towards more formal structures, changed decision-making processes and the like. Initiatives in rural areas may fail to adjust their structures adequately due to insufficient management capacity and specific expertise.
- **(Financial) independence of the community:** The political competencies, and therefore degree of independence, at the level of regional or local authorities influences the possibilities of social capital initiatives to freely and appropriately design their activities. Certain case studies show that highly centralised systems, as in Bulgaria, can be a disadvantage in this respect.

Bearing in mind these challenges, there are at least three structural disadvantages that hamper job creation in rural areas through social capital initiatives, namely:

- the comparatively low education and skills levels;
- the low sectoral diversification of the rural economy;
- a lack of specialised public and business services, specific knowledge sources and expertise.

In many social capital initiatives, social partners and NGOs play an important role. Especially in business-related networks in the EU15 Member States, employer associations function as coordinators or even initiators. In countries with established and strong social partners, they often step into rural development initiatives at the very beginning. (However, in some cases, too-powerful sectoral organisations can be detrimental to a local, inclusive approach.) In contrast, in the New Member States, the social partner systems are often comparably weak and consequently their relevance in local social capital initiatives is low. However, several international NGOs with financial means are engaged in a number of initiatives in some New Member States, often filling the gap created by a lack of financial means at state level. In the EU15, small locally based NGOs are often only created in the course of an initiative.

Governmental authorities are sometimes reluctant to cooperate with NGOs because it may make decision-making processes more complex. Consequently, in some countries local authorities are encouraged, even obliged, to cooperate with local NGOs in regional initiatives.

The role of national and EU-level policy in rural social capital initiatives is primarily to set the overall framework (i.e. the top-down approach). In many cases, responsibility for rural development policy lies with the national Ministries of Agriculture, thereby usually setting a sectoral policy approach rather than a territorial one. Ministries of Labour and National Employment Strategies are rarely focused on rural areas and rural development. The degree of coordination between national Government departments varies by country. Improving this coordination and cooperation would help to achieve a more comprehensive approach to employment issues in rural areas.

General policy documents and guidelines, such as rural development plans, in most cases do not specifically outline possible ways of building social capital. In the New Member States, the partnership and networking concepts have been introduced in policies only in the course of adaptation to EU standards. Even for the EU15, however, stronger emphasis on this method of intervention (including the enhanced promotion of mutual contacts, particularly between actors at different administrative levels) could give the building of social capital a more prominent role in rural development policies and support a more professional and intentional application by actors at local level.

Among the roles of supra-regional policy (national as well as EU) could be the creation of ‘outside linkages’ (see above) of initiatives in rural areas, i.e. to interlink initiatives of different rural regions or involve experts or institutions at national level. Social partner organisations with national umbrella associations can also take on this function. Steering and monitoring of initiatives, as well as development of competencies and guidelines for managers and coordinators, could also be provided at supra-regional level.

In contrast to these types of high-level policies, determining the specific aims and features of initiatives should lie mainly with the local actors themselves (i.e. the bottom-up strategy). Social capital initiatives evolve gradually, step-by-step, and outcomes sometimes emerge at points where they have not necessarily been expected. National and EU funding instruments should, however, be designed in a way that self-sustainability is aimed at and achieved by the supported measures.

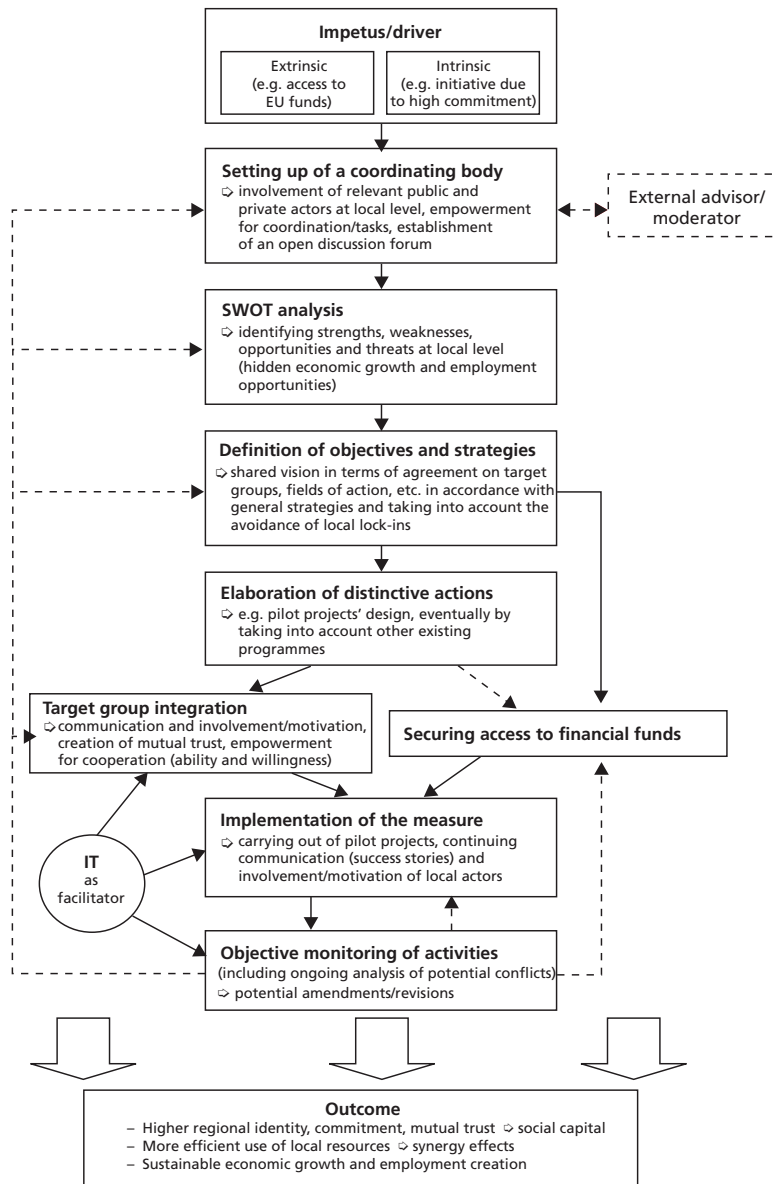
Based on the challenges outlined above for social capital initiatives, Figure 8 presents a concept for relevant management tasks.

Policy recommendations

The case studies of social capital initiatives detailed in Chapter 3 highlight that both the motivation and the concrete design of such strategies/measures are strongly triggered by the background of the programme, i.e. the individual local rural framework conditions. The transferability of ‘good practice’ is given to a limited extent only. Nevertheless, this study provides a good overview of ‘what can be done’ and, despite the heterogeneity of European rural areas and the identified types of social capital initiatives, the comparative analysis of the various approaches allows for the elaboration of some general recommendations to be followed when engaging in rural development policy design based on social capital.

Firstly, some kind of impetus or driving factor needs to exist for the establishment of any action. This may be intrinsic in terms of originating from local actors (e.g. organisations, institutions or individuals) due to their realisation that ‘something has to be done’ and their eagerness to be the ones who ‘do it’ because of their high commitment to the rural area (‘regional identity’). However, such engaged and active actors are not always available. Then, an external incentive set by a public authority (e.g. access to national or international funds) may be the triggering factor needed to make local actors participate in an initiative. It is also necessary to empower local actors (authorities as well as individuals) for their involvement in policy design and implementation.

Figure 8 Flow chart for social capital initiatives in rural areas



Source: Austrian Institute for SME Research

The establishment of a coordination unit is highly recommended in order to avoid overlapping activities and to benefit from the synergy effects of coordinated activities of the various involved parties. Depending on the scope of the planned initiative, this may be an individual person or a group of people representing public and private actors at local level.¹¹

If the coordinator is set up as a group of people, it is essential to define clear communication and coordination structures (the importance of these increases with the number of involved partners).

¹¹ In the following discussion, ‘coordinator’ refers to an individual person or a group of people, depending on the individual setting.

Information flow is often insufficient, particularly when local and national governments are involved (sometimes caused by political differences) and this can constitute an important barrier in the rural development process – one that needs to be tackled.

The coordinator should be of 'good standing' within the local rural community (i.e. have the role of a formal or informal leader, without giving the impression that they are only conducting self-centred actions). They should also have a high familiarity with the specifics of the rural area and the issues under consideration (i.e. the 'content' of the programme, whether it be rural tourism, agriculture or the food industry) in order to be able to mobilise the target group to participate.

Attention should be paid to the involvement of the female population within the region. In many cases, women are under-represented in formal rural or regional leadership positions, despite the fact that they play an important role in the 'informal' community. Many women would also be interested in assuming more active service and leadership roles. Their involvement is advantageous from several perspectives. Firstly, women can bring valuable new insights to local development issues since they are often more familiar with 'what is going on' in the community (Ross and McCartney, 2005). Secondly, in their role of informal leaders, it is recommended to have them 'on one's side' to avoid their conscious, or unconscious, counteracting of the planned efforts. Thirdly, the involvement of women in 'responsible positions' may encourage the rest of the female population to engage in the planned activities. They not only act as role models, thus stimulating other women's self-confidence, but may also contribute to designing framework conditions favourable for women's participation (e.g. the establishment of childcare facilities).

Since the success of the initiative largely depends on the coordinator's ability to involve local actors, the person, or group, needs to be carefully chosen. This is seen to be more important in rural areas than in urban ones since in the former 'peer pressure' is probably greater due to the relatively 'tighter' relationships among the community. On the other hand, it has to be taken into account that in many cases the 'drivers' of the initiative act on a voluntary basis, at least in the beginning or when the rural network is of a rather informal character. Against this background, not taking advantage of voluntarily offered services (even if this is combined with 'imperfect' capabilities or qualifications) will most probably result in negative attitudes, leading to resistance towards the initiative. Such resistance can spread quickly among other inhabitants, bearing in mind the importance of informal relationships and 'word-of-mouth' in rural areas.

The various case studies of social capital initiatives show that the coordinator should already possess project management experience. Furthermore, they should have the necessary skills and capabilities for fulfilling the coordination and steering tasks involved, or at least be willing and able to participate in developing competencies to deliver on these tasks. The 'necessary skills and capabilities' also includes a sufficient level of self-confidence, which can be seen as one of the major constraints to higher active participation of rural populations (Ross and McCartney, 2005). Hence, instruments to empower local actors with both formal (since this influences self-confidence) and tacit knowledge ('hard' and 'soft' skills) constitutes an important field of action.

One of the important tasks of the coordinator is the establishment of an open discussion forum, providing everyone with the opportunity of expressing their opinions on specific issues. This is seen as a major success factor for the working of social capital initiatives in rural areas because it constitutes an important precondition for the acceptance of the intended programme by local actors.

In some cases, it can be beneficial if an external advisor is approached by the coordinator in the framework of the starting phase of the initiative and/or throughout the duration of the project. An advisor can bring objectivity to the proceedings since they are not directly concerned by the outcome. Furthermore, they can provide specific expert knowledge in crisis situations and can also act as a moderator if conflicts arise. However, it must be ensured that the advisor is acquainted with the peculiarities of the specific rural area, as well as that the costs arising from their involvement can be justified and covered.

After having been established, the coordinator (if applicable, in cooperation with the external advisor) should conduct a detailed analysis of the rural area under consideration. This is of particular importance because, due to the heterogeneity of rural areas, the specific (labour market) problems – and hence the needs and requirements, as well as the appropriate instruments (e.g. in terms of acceptance by the target group) – may differ considerably. Direct access to good information and understanding of the complex factors underlying social, economic and policy changes in the individual rural area are assessed to be a critical starting point for the activities of communities (Forth and Howell, 2005).

In detail, a SWOT analysis (analysing strengths, weaknesses¹², opportunities and threats inherent in the region with regard to the economic situation and the labour market) is recommended. An analysis of the social dimension should also be conducted in order to identify the already available social capital; this involves examining the social network in terms of identifying the roles and positions of the individual players. Depending on the coordinator's educational and occupational background and the involvement of an external advisor, such analyses can be conducted by the coordinator or can be outsourced to professional researchers with methodological expertise. If the latter option is chosen, financial means will naturally have to be acquired (e.g. from local governments).

Once the coordination unit has gained detailed insight into the situation and potentials of the rural area in question, specific objectives have to be set, on the basis of which strategies to achieve them are elaborated. In this step, it is of vital importance to reach general consensus among all parties involved (public authorities, social partners, NGOs, enterprises, individuals) in order to ensure their commitment and acceptance in the steps to follow. The objectives should be realistic and neither too broad nor too narrow to be operationally followed. Furthermore, they need to be clear-cut in order to avoid confusion among the parties involved and to decrease the potential for conflicts among the coordination unit. The objectives and strategies should also be oriented on a long-term perspective – experience shows that social capital takes time to evolve (in some of the case studies analysed, even periods of 4-6 years were assessed not to be enough).

The efforts needed in setting objectives and strategies must not be underestimated: not only the potentially varying viewpoints of the local actors have to be taken into account, but also the national (or EU) policy orientations. Although the objectives and strategies should be tailor-made to the individual rural area to best serve its specific situation, they should be designed in a way that assures openness and flexibility. Otherwise, on the one hand, this may result in lock-in effects hindering economic development in the long term. On the other hand, synergy effects with other programmes

¹² Naturally, identified weaknesses should be removed as far as possible (e.g. counteract legal regulations concerning community groups, hindering the creation or growth of social capital).

and/or regions may be realised if a wider view is taken ('looking beyond one's nose'). Furthermore, linking micro regions with similar situations results in an exchange of experience, as well as a bundling of knowledge and resources, and can therefore have positive effects for small rural areas with low financial endowment. However, it should be remembered that larger networks are more difficult to manage and that the heterogeneity of interests increases with the number of participants. Furthermore, there is often no central contact point for the dissemination of information on ongoing projects or experiences gained. Finally, it is often difficult for rural inhabitants and companies, as well as NGOs and public actors, to identify starting points for cooperation with other initiatives. With cross-border projects, other challenges arise; for example, it is more difficult to build up mutual trust if different languages are involved and translators are essential for meaningful discussions.

Due to all these complexities, it is highly recommended that sufficient time be devoted to this step of setting the objectives and strategies for rural development/labour market policy-making. Advantage should be taken of experts or actors who already have gained experience in this area.

On the basis of the objectives and strategies devised, the next step is to design individual actions tailored to the characteristics of the target group. Measures, for example, aimed at farmers must not be restricted to full-time farmers if the majority of farmers are working only part-time; in areas where very small farms are dominant, the measure must not require a minimum farm size; the application procedure must not be too sophisticated if the population has a low educational level; provision of education programmes must be scheduled to fit in with the routine of rural entrepreneurs (e.g. evening or weekend classes, distance learning). The demarcation of the target group also needs to be considered. In some of the case studies analysed, it turned out that measures generally open to 'everybody' to some extent resulted in a loss of motivation to participate. If some kind of selection criteria are in place, participants get an 'elite image' that might result in a higher commitment to the project. This can be true particularly for initiatives targeting innovative, growth- or development-oriented, and/or dynamic rural enterprises.

Project design should not only refer to content-related subjects (e.g. how training will be conducted to empower the target group according to the needs of the rural economy), but also cover issues such as how to best approach the target group or how information about the measure should be spread. Here again, all parties should be involved and open discussion guaranteed.

An important aspect involves the financing of activities agreed upon. As in the majority of case studies, the earnings of the project itself (e.g. membership fees, participants' contribution) will not suffice; public or private funds will have to be acquired. Experience from the case studies shows that in those cases where the search for funds was only started after the design of the pilot project, the whole process came to a halt (and sometimes was never continued) if financial means were denied by the first source approached. It is therefore recommended that access to the necessary financial means be secured at a much earlier stage in the project (e.g. after setting the objectives and strategies). The search for potential donors or investors may even already have been included in the SWOT analysis process. Knowing the funds available also acts as a motivating factor for the coordination unit, besides concentrating the mind on the design of the pilot project since its extent is dependent on the budget available.

A crucial part of social capital initiatives is the approach towards the target group. For rural areas characterised by a comparatively high level of out-migration, it is highly recommended to focus

specifically on the juvenile population in order to integrate them in community issues. This could contribute positively to their commitment to the local area and hence influence their decision to move to urban areas. In this regard and against the background of the general tendency of declining opportunities for agricultural employment, the creation of off-farm jobs is particularly important in influencing young people's decision not to migrate to more urbanised areas (European Commission, 2007). Next to the tourism sector, which is assessed to develop dynamically, the field of environmental protection is seen to provide future employment potential, of particular interest to young people.

Similarly, the importance of the female rural population as a target group must not be neglected. Women often play an essential role in the community's social life and influence the emergence of social capital by being involved in informal local networks (e.g. in the framework of voluntary community work or various thematic associations). For many women in rural areas, rural life integrates family, enterprise (either farming or other business activity) and community dimensions. Hence, contributing more attention to women may also be beneficial for transcending the stereotypes of 'rural as agricultural' and 'agricultural as male' (Ross and McCartney, 2005).

Other potential target groups often neglected are elderly people or disabled persons, who are characterised by specific requirements with regard to employment opportunities. For them, off-farm jobs seem to be particularly appropriate. This, again, highlights the necessity for economic diversification in rural areas, which may, for example, be triggered by social capital initiatives aimed at creating regional products or services combining different goods and/or steps in the value chain.

From a more content-related viewpoint, social capital initiatives for fostering job creation in rural areas should not only be focused on agriculture. Rather, the services industry seems to be characterised by a growth potential in rural regions, particularly when related to an area's unique selling proposition (USP)¹³, such as tourism.

It is essential that clear, transparent and substantial information on the project is available from the start, so that people in the target group have a good idea of the aims and objectives, as well as the operational procedures, in order to avoid later disappointment. Some of the case studies show that one of the main reasons for the local rural population not participating in the initiative was that not enough information was made available at the outset.

Communications need to be oriented to the characteristics of the target group. For example, promotion via the Internet will be of limited use if the majority of potential participants do not have access to new technologies. Using the local media is obviously the most advantageous way of getting across a message, as well as personal information events and communication via local institutions (e.g. village administration, local schools, churches, cultural centres, shops, labour offices).

The target group needs to be convinced of the advantages of participation in order to motivate them to become involved. If they feel pressurised, they most probably will not engage in the activities. In this regard, it is also important to remember that in rural areas people are often characterised by a higher level of mutual influence than in urban centres due to closely knit social networks.

¹³ Unique Selling Proposition (USP) refers to an inimitable competitive advantage (e.g. best quality, lowest price).

Consequently, an ‘important player’ in the community (in terms of informal leadership) who shows a negative attitude towards the planned initiative may suffice to undermine the success of the project. Such people have to be specifically involved and convinced on the potential benefits since only in this way will they act, either consciously or otherwise, as multipliers or mediators.

When devising an approach to the target group, it is important to create a situation of mutual trust (again highlighting the important role of the coordinator as a leader in the rural community). This is particularly relevant when approaching local entrepreneurs, who are not really interested in networking since they want to remain independent for fear of giving away their ‘trade secrets’ to competitors. In such a situation, particular attention needs to be devoted to measures that raise awareness.

Furthermore, the target group needs to be empowered to participate in the project. This involves not only ability (e.g. via training courses on team work), but also willingness.

Finally, the operational part of the social capital initiative can be started – implementing the individual measures agreed upon for the pilot projects. As mentioned in Chapter 3, the use of information technologies (IT) may greatly facilitate the process of approaching the target group, implementing the measures and monitoring the process (see below). Websites and e-mail are particularly effective. The general increase of IT literacy and usage in rural areas will contribute to the lowering of transaction and information costs. In addition, the use of IT is beneficial for direct employment initiatives. For example, the offer of teleworking could link a rural workforce with employers not necessarily situated in the area and reduce the necessity of the rural population having to commute to urban centres.

During the implementation phase, it is important that the coordinator (and/or the external advisor) supports the participants when needed and provides for ongoing communication and/or discussion opportunities, particularly if drawbacks occur. Another important aspect relates to the administrative burden incorporated in participating in the project. A high level of bureaucracy may constitute a major barrier to individuals and small enterprises.

The case studies show that it is vital for the sustainable success of the project that quick results are realised and disseminated among participants, as well as among uninvolved people in the target group, in order to motivate them to ‘continue the good work’.

A final vital aspect refers to the objective monitoring and evaluation of all activities. As rural areas and their inhabitants can be seen as a self-developing environment, it is necessary to keep a constant watch on the framework of the social capital initiative so that potential changes are spotted as soon as possible and remedial action taken in amending the initiative. Essential items to monitor on an ongoing basis include the composition and cooperation among the coordination unit and with the external advisor; the development of the rural area (SWOT analysis) and the target group; the suitability of the set objectives, strategies and individual actions; and the available financial means. Furthermore, external evaluation also ensures that the coordinator refrains from pushing ‘favourite projects’, ignoring the more global objectives or local requirements.

Taking into account the specific character of social capital initiatives in terms of the involved importance of mutual trust and shared visions, norms and values, particular attention should be

given to the identification and counteraction of potential conflicts, either within the coordination unit, within the group of participants or within the rural area itself. In order to avoid any bias in spotting or analysing such situations, an independent observer, such as an academic, should investigate (rather than the coordinator).

Furthermore, in order to avoid the potential negative effects of 'too much' social capital (i.e. lock-in effects) and fully benefit from its advantages, it is also important that the coordinator and/or external advisor is aware of and fulfils the task of 'change agent' for the rural area. Development can only take place in an environment where change is accepted and actively pursued. This may not be realised automatically in rural areas characterised by a considerable focus on local tradition. The ongoing monitoring process also needs to take into account the potential of retaining traditional processes or procedures without questioning whether they are still optimal. In this context (and to qualify the previous paragraph), it is reckoned that a 'healthy degree' of conflict is a good thing since avoiding conflict in the majority of cases results in a freezing of the system.

One aspect not to be neglected in the framework of the accompanying monitoring process is the fact that it is very difficult to identify and define verifiable indicators in order to measure the outcome of the individual steps described above.

If an effective and efficient implementation is realised, most probably a higher level of regional identity, commitment and mutual trust – hence social capital – is accomplished, resulting in a kind of 'self-enforcing power' of the whole process. Local resources can be used more efficiently and synergy effects arise. Social capital can therefore be considered as an important ingredient for economic development and job creation in rural areas. It must not, however, be understood as the single solution to solve all the problems related to 'rurality'.

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Appendix 1:

Overview of case studies

Country	Name of initiative	Type
Bulgaria	Improving the Social Environment in the Municipality of Strumyani	Creation and/or support of networks targeting the labour market integration of the local population, particularly with a specific focus on individual target groups.
	Local Action Group for Sustainable Development of the Municipality of Tran	Public-private partnerships for joint policy development.
Germany	Altmark Region	Partnerships between authorities (government, social partners, NGOs) of different administrative levels for joint policy development.
	Local Action Group: Initiative for an Active District Tirschenreuth 'Association for Regional Development'	Public-private partnerships for joint policy development.
Spain	LIFE Micovaldorba Project	Creation and/or support of business networks focusing on local unique selling propositions, i.e. building on local production/service traditions.
	Local Production System of Lucena, Córdoba	Creation and/or support of traditional business clusters.
Finland	Northern Karelia as a producer and developer of local food to restaurants and institutional kitchens project	Creation and/or support of business networks for the joint distribution of rural products.
	WEERA (Women for Entrepreneurship and Employment in the Rural Areas of Upper and North-eastern Savo) project	Public-private partnerships for empowering rural enterprises.
France	Quali 23	Creation and/or support of business networks promoting employment in the area, particularly with a specific focus on individual target groups.
	ADEFPAT	Public-private partnerships for empowering rural enterprises.
Latvia	Rural Partnership Programme (RPP)	Creation and/or support of networks targeting the labour market integration of the local population, particularly with a specific focus on individual target groups.
	Rural Traveller	Creation and/or support of business networks for strengthening the local tourism sector, i.e. building on natural and/or cultural assets.
Poland	Partnership Group 'Heather Land'	Public-private partnerships for empowering rural enterprises.
	Partnership Group 'Flintstone Circle'	Creation and/or support of business networks for strengthening the local tourism sector, i.e. building on natural and/or cultural assets.
Portugal	Network of Taverns in Alto Tâmega	Creation and/or support of business networks for strengthening the local tourism sector, i.e. building on natural and/or cultural assets.
	Glocal	Public-private partnerships for empowering rural enterprises.
Romania	Producer Association in Vatra Dornei	Creation and/or support of traditional business clusters.
	Integrated support system for the farmers and associations in Calarasi county for an efficient cultivation of agricultural plots	Public-private partnerships for empowering rural enterprises.
Slovakia	Rural Parliament	Public-private partnerships for joint policy development.
	'Our Common Home'	Public-private partnerships for joint policy development.

Appendix 2: Research team

Country	Organisation	Contact
Austria (project coordination)	Austrian Institute for SME Research	Irene Mandl Céline Dörflinger Thomas Oberholzner
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Following recent enlargement of the EU, the regional diversity in relation to living conditions, economic prosperity, infrastructure and educational levels of rural areas has become even more accentuated. Rural areas in the poorer countries tend to be characterised by a less educated workforce, lower average labour productivity, poor infrastructure and provision of public services, and high unemployment. This report documents the relationship between social capital and economic development, with a specific focus on job creation in rural areas. Based on research carried out in 10 EU Member States, including five of the new Member States, the report gives examples of initiatives developed by local and regional authorities, social partners and NGOs to boost employment levels in rural areas. The findings show that involvement in social networks positively affects economic development, leading to entrepreneurship and consequent economic growth, employment and social inclusion.

The European Foundation for the Improvement of Living and Working Conditions is a tripartite EU body, whose role is to provide key actors in social policymaking with findings, knowledge and advice drawn from comparative research. The Foundation was established in 1975 by Council Regulation EEC No. 1365/75 of 26 May 1975.



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