

## Local development through social and territorial innovation: A case study of Puka Region

Dr. ALDONA MINGA<sup>1</sup>

University of "Fan S Noli" Korçë

Prof. assoc. Dr. ETLÉVA MUÇA (DASHI)

Agricultural University of Tirana, Albania

Msc. KOZETA JANA

Agricultural University of Tirana, Albania

### Abstract:

*In the present economic scenario, intangible assets and innovativeness – the capacity to generate, disseminate and exploit new scientific, technological, and organizational knowledge - are key factors for development. Understanding the phenomenon of innovation and its vast scope is, therefore, indispensable for the development of public policies and/or interventions aimed at promoting territorial economic development. In the new 'knowledge economy' approach, innovation is conditioned by several factors, of both a socio-cultural and technical-economical nature, which can affect the various stages of the process, ranging from the production of new knowledge to its practical application and commercialization.*

*Spatial innovation systems consist of a network of local participants and the relationship which forms the production system and through which joint forces for learning are created. In networks, economic, social, political, and institutional participants possess specific ways of rule organization and a unique culture. Territorial innovation systems increase productivity, direct investments and innovation activities stimulate the development of new business forms and affect the expansion of the existing economic structure.*

**Keywords:** Innovation, territory, social, Agropuka, productivity

JEL Codes: J43, J54

### INTRODUCTION

Innovation is one of the main causes of economic growth, and the social entrepreneur is the main driver of social innovation in modern economies. The emergence of social actors' initiatives to satisfy specific social needs and offer solutions to different problems derives mostly from the employment crisis and the reshaping of State interventions (Bouchard, 2006). In this context, social innovation plays a central role in solving new societal problems. A growing number of institutions and local entities have adopted social innovation as an instrument of political action concerning employment, intergenerational population stability, economic development and sustainability, and other social issues. These new strategies are pursued at the local level not only by domestic governments and local authorities (largely supported by European funds) but also by not-for-profit and private organizations through initiatives of corporate social responsibility. The approach developed focuses largely on local problems, where

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<sup>1</sup> Lector at University "Fan S. Noli" of Korçë, Albania; email: amrruku@yahoo.it

proximity is a critical factor to identify and evaluate these problems and improve efficiency in the actions taken. These actions relate to the dynamism of the social system, the vitality of the formal and informal local social ecosystem, and the emergence of new forms of intervention adopted by local organizations. To the best of our knowledge, however, academic research on the role of social innovation in local development is scant. Therefore, the analyses of paradigmatic case studies by academics at the operational level could enhance our knowledge base to enable us to better understand the mechanisms of social innovation in underdeveloped regions. Based on the social and territorial innovation model's framework, this investigation uses in-depth case study analysis to examine how social innovation that arose from the territory has contributed to local development. In this context, several benefits can be drawn from this research.

## CONCEPTUAL FRAMEWORK OF THE IDEA

### Concept of territory

The territory is defined in different ways by different disciplines. The following concepts are mainly used in its definition:

1. *Spatial*, political definitions: territory as a space with defined limits / certain institutionalized space.
2. *Anthropological and geographical* definitions: territory as a cultural, social space and grouping of individuals with the same cultural identity / a group of individuals under the control of a certain administrative division.
3. *An economic* definition that conceives the territory as a space of production and market.

FAO (2003) defines territory as a legal, social, and cultural context and as a space where people live. However, in any definition of territory, we encounter the issue of borders, the territory can be on a small, meso, and large scale, and the territories can also overlap with each other depending on the political authority, the type of local group, depending on the subject that defines it. While the Francophone definition refers to a new concept of territory that of terroir. According to this concept "terroir" is a community of natural and human resources, which are created due to a group of people with special characteristics who have contributed to its creation. So this definition does not separate man from the territory. On the other hand, we see the territory as a large construct and a group of people closer to the English-speaking concept.

*What most definitions of territory have in common is an aspect of subjectivity – territory is not simply geographical space and physical resources, but space and resources on which some social group depends and exercises some form of control or authority. Implicit in this, is the idea of social identification with geographical space and the social construction of territory, which may in turn involve the concrete development of political authority, economic relations and cultural symbolism and modes of communication.*

### The role of the territory

The territory becomes a crucial factor in determining the innovative capacity of enterprises and organizations, in terms of both knowledge heritage and accumulated know-how, and as "interactive relational" areas. The basic idea is that it is the variables in localized knowledge, "localized cognitive capital", which can guarantee, at a time of increasing globalization and standardization of production processes, long-term

competitive advantage. Moreover, "the more this localized knowledge is specific, not transferable to other contexts and uncodified, the more difficult it is to trigger imitative processes that can erode this advantage". The creation, dissemination, regeneration, and use of this localized cognitive capital are achieved through complex processes of collective and interactive learning that are triggered by two specific conditions: the geographical and relational proximity of the various actors involved in the process (companies, public institutions, suppliers, etc.) The organization of fully fledged territorial innovation systems (TIS) is seen as an effective way of metabolizing these processes by different schools of thought that have analyzed the relationships existing between knowledge, territory, and innovation (especially schools of thought linked to the concepts of milieu innovators, regional innovation systems and learning regions) Indeed it is simplistic to think that the production and dissemination of knowledge spillovers come about through "purely probabilistic contact mechanisms". The factors that determine the greater innovativeness of one area compared to another, are, in fact, much more complex. *To the concept of physical proximity we must add cultural proximity, that is a sense of belonging to an area, capacity for interaction with others, and shared common values, which, in short, determine relational capital* (Dedeire & Minga 2021). And it is precisely relational capital, consisting of various forms.

### **Territorial Development Approaches**

Territorial innovation systems include mutually connected enterprises in certain sectors, together with appropriate suppliers and the service sector, as well as a series of supporting institutions. Territorial innovation systems have a threefold role in the economy: - they increase productivity, - they spread enterprise innovation on certain territories, and - they stimulate the appearance of new innovation-oriented enterprises. In the economic literature, far more has been written about clusters as a form of territorial innovation systems. In insufficiently developed economies, the promotion of clusters is founded on cheap labor, natural resources, etc., whereas adversely, in developed economies, cluster organization is primarily based on new technologies, specialization, infrastructure, etc. competition, especially in less developed areas. This is the reason why specific activities, oriented towards raising innovation in less developed areas, are faced with additional risks and problems.

### **Characteristics of spatial innovation systems**

There are certain characteristics of spatial innovation systems that make them a good basis for innovations. These characteristics are: networking, specialization, facilitated entrance and exit, and resource mobility. Innovation is a phenomenon that is transferred by a system of more intermediaries, which implies a high level of integration among companies. The model we took in this study shows that companies mostly do not do business in isolation, but they tend to attract other companies and ideas, information and service, and collaboration between actors. As long as they do so, closely related groups of people that work in the same field, and are located close to one another, can enable the growth of networking. Closeness stimulates the development of business communities where different professions meet their equivalents all the time in other companies and in this way they allow knowledge to circulate with the help of common experience which in turn provides each company with access to a much wider range of information.

Although it was believed that most companies could be great innovators, based on the fact that they have the potential needed for obtaining innovations, there is

increasing evidence that confirms the claim that small companies are the best for the development of innovations. Why? Primarily, because they do not contain the load of old technology. Secondly, in small companies decisions are made fast and quickly, while in big companies, which have a higher level of management, it is much more difficult. Finally, knowledge circulates much faster in small companies. Therefore, since groups have the tradition of young enterprises combined with facilities that greatly facilitate beginnings, they can provide the best conditions for the formation and generating innovations.

Resource mobility, especially human resources, is a common characteristic of many enterprise groups. Several studies on this topic have shown that groups are often characterized by a high level of labor force mobility. Mobility encourages innovations in several ways. If people move, the ideas will move too. A high rate of mobility implies the existence of an active market for certain abilities. Under these conditions, awards present the most accurate indicator of an individual's abilities.

Innovation is the central initiator of economic growth, development, and the creation of better jobs. It is the key that enables companies to successfully compete in the global or local market and the process which searches for solutions for social and economic challenges, from climate change to the battle against deadly diseases. It is the source of improvement in our everyday lives. The innovation environment has significantly evolved in recent years. *First*, change has occurred in the geography of innovations. Trends in economic growth and forms of investment in education and research and development encourage the development of a multipolar innovation horizon.

Companies in undeveloped countries (lower-income countries) are not only passive technology implementers of the developed ones but also enterprises from economies that are developing (middle-income economies) are rapidly appearing on the international innovation scene. *Secondly*, the complexity of the way from an idea to a commercial realization is more intensely recognized, which brings about the spreading of our understanding of innovation. Non-technological forms of innovation, such as new organizational forms, new marketing approaches, successful design, etc. – are now seen as vital elements of an innovative environment. Innovation capacity is also the ability to exploit both new and incremental technological innovations. *Thirdly*, the innovation process nowadays is more open, collaborative, and internationalized than ever. It is important to emphasize that in the new global environment, innovation as the initiator of economic growth is not only the prerogative of only highly developed countries. Opportunities for innovation can and should be used by everyone.

Territorial innovation systems represent one form of expression in establishing economic stability and economic progress of many countries, that is their regions. They include mutually connected enterprises in certain areas, together with appropriate suppliers and the service sector, as a series of institutions, including universities, institutes, services, laboratories, branch associations, agencies, etc. In the strategy of improving the competitive advantage of a country, territorial innovation systems have a threefold role: - they increase productivity since the specialization in a certain economic activity enables the growth of productivity, - they specify long-term development directions, which directs investments and innovation activities, - they stimulate the development of new business forms and affect the spreading of the existing economic structure. A successful territorial innovation system can create the needed basis for cooperation among companies and specialization, improve the private-public dialog, encourage external stakeholders (suppliers, buyers, etc.) and accelerate

innovation. Regional and territorial development are essential for improvement of the socio-economic conditions of the entire country (Kozak & Muca 2020). Owing to the closeness, both the geographical and in activities, members of the spatial innovation system obtain certain economic benefits and advantages. These advantages include access to human resources and suppliers, professional knowledge, pressure for better business because of direct competition, and learning from close cooperation with specialized consumers and suppliers.

### **Methodology**

We generally perceive the local community as a more or less homogenous group made up of people who assert a certain form of identity given by the consciousness of a past or a common origin. This identity (often assimilated to the local specific city) is equally built by members of that community, which in this case we refer to Puka Region. This fact that we can call consciousness is grounded on some relatively objective criteria, such as the place, institutions, or cultural traits containing aspirations and joint activities.)

From the above-mentioned elements of territorial innovation, we will choose to analyze Social Capital and innovation in the framework of territory development. This study will be illustrated using a local organization in Puka, named AgroPuka. As we will see, the organization has a special dynamic within the territory and the methodology we have used for this study is based on data gathered from a questionnaire used by World Bank to analyze social capital in developed countries. However, we used the questionnaire to study social capital in a developing country, such as Agropuka in Puka Region. Through this questionnaire, there are analyzed different indicators of social capital, such as demographic data, general information about the territory, their engagement in community life, cooperation between actors, and measurement of trust level and cooperation.

Our study focuses on the social capital of members of a local community in the Puka Region. From our point of view, it refers to different aspects of social capital. Social capital is very close to civic virtue, a virtue that calls for mutual social relations. Regardless of the different aspects of its definition, a common tendency is preserved by the idea of resources available to the individual or a social formation. In this respect, it was studied the availability and the involvement degree of community members, taking into consideration the AgroPuka case, in the implementation of initiatives of community interest proposed by local authorities, central authorities, international institutions, as well as the reliable people from the community, by contacting them directly.

### **Preparing the case**

Puka is a mountainous region in northern Albania covering 1,000 square meters. The region includes the municipal districts of Puka and Fushe-Arrez. Together, the two municipalities have 33,000 inhabitants, with 20,000 of those living in rural villages. The Puka district is a resource-rich area, including forests and forestry products (berries, medical herbs, etc.), livestock such as goats and sheep, water resources, minerals, and beautiful landscapes. Some challenges in the area include limited arable land, fragmented plots of land, immigration of inhabitants to urban areas, and a narrow-minded mentality regarding gender equality and women's participation. In the area operates the AgroPuka association which is founded in August 2001 as a non-profit organization/association of agriculture and livestock producers in the Puka district

(Northern Albania). Since then, the association has increased its membership and has expanded its activities and services to meet the needs of its members and community in general.

During 2001-2009, Agropuka implemented the “Promoting Agriculture in the District of Puka” project that is funded by the Swiss Development Cooperation. The project started with the orientation phase followed by two implementation phases (2002-2005 and 2005-2008) and concluded with the consolidation phase (June 2008-May 2009). The project has been the only comprehensive project supporting the development of agriculture and livestock in the Puka district and addressing the needs of Puka farmers. In the framework of this project, AP supported the local farmers to market their products, collected and marketed typical local products, and funded mini self-help projects focusing on mechanization and infrastructure.

The achievements of this project are significant. It has supported the planting of more than 10.000 fruit trees, 22.000 vines, the repairing of 50 irrigation structures, the procurement of 6 tractors, 3 motor cultivators, 32 irrigation pumps, the construction of 12 access roads and bridges, the establishment of 7 processing centers, cultivation of over 150 ha wasteland with fruit trees, breed improvement of goats through the introduction of 40 pure male Alpine goats, etc. Puka farmers have also been supported with training and advice.

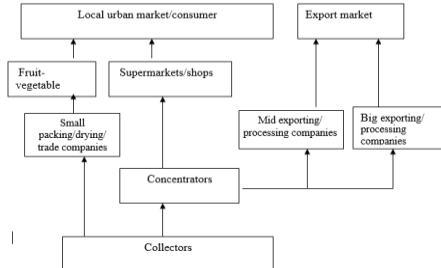
Since 2011, AP is implementing the We Effect-SCC (Sweden) funded “To Contribute to the Sustainable Improvement of the Livelihood of People in Puka Rural Areas” project. It is in its second phase (2014-2016; the first phase has been implemented during 2011-2013) and aims at contributing to the sustainable improvement of the livelihood of people in Puka rural areas by increasing the incomes of small farmers as well as through promoting local democracy and participation.

Agropuka is managed based on principles of good non-profit governance. It is governed by a Directing Board and the Chair that are elected by the Assembly. The Directing Board appoints the Executive Director that manages the everyday activity and reports periodically as well as upon request to the Directing Board.

On the other hand, Puka area is rich in different types of medicinal and aromatic plants including oregano (*Origanum vulgare*), balm flower (*Hypericum perforatum*), **red juniper** (*Juniperus oxycedris*), **bee bar** (*Melissa officinalis*), wild rose (*Rosa canina*), **sage** (*Salvia officinalis*), **savory** (*Satureja montana*), **elder** (*Sambucus nigra*), etc.

Puka inhabitants have traditionally collected and used the medicinal and aromatic plants. According to the interviews made with local farmers we developed the value chain of medicinal and aromatic plants in Puka.

Diagram 1: Value chain of medicinal and aromatic plants in Puka region



Source: Questionnaires

Agropuka has already created her brand on their local products and distributes them in the regional and local markets. The collected products are selected and packed to the Agropuka agro-processing center. Traditional and regional food are key elements in the promotion of cultural heritage and is important to direct them toward GI (Geographic Indicators) products (Muca et al 2021).

### **Development and construction of an empirical work**

Social capital is one of many forms of essential capital, along with financial, environment and institutional ones. It is becoming a tool for understanding roles played by non-economic factors in economic life, such as norms, values, trust, social sensitivity, networks, and such.

From the research, a five-dimensional instrument for measuring social capital was used, and it includes engagement in community life, cooperation between actors, trust and solidarity, collective action and cooperation. The results of the study are empirical research which are presented in this case study shows a high level of interests of people in becoming members of groups and networks, in professional ones, and those that are formed in other areas of social life in a community.

A relatively high degree of trust as an important dimension of social capital was also determined, and this may be a significant element for socio-economic growth in Puka Region. Namely, research results show that, in Puka, people show a higher degree of trust towards their community, but as they go deeper in their personal things, radius of trust becomes shorter and shorter. This is also reflected in their attitude towards material pay offs. These results have multiple significance and are helpful with the question of social capital and its positive implication on socio-economic development.

When we consider research results in the field of cooperation between actors, it is significant that the distance in interpersonal relations is significantly high, even though in principle they understand the importance of meeting and discussing with each other.

Considering the presented research results, we may say that the status in the field of groups and networks, trust and solidarity, collective action and cooperation, as key dimensions of social capital, is quite satisfactory, which limits the significance of social capital on socio-economic development of Puka Region. In that context, government, enterprises, decision-makers, and creators of socio-economic politics, and such, should work on raising awareness about the positive significance of social capital for social and economic development in general; emphasize various economic and social implications of social capital, and especially on its significance on the development of SMEs and territory development.

The results of theoretical and empirical research show the complexity of the phenomenon of social capital, but they also show extraordinary potential in the context of the socio-economic development of Puka region as a territory taken in this study. The increase of the social capital has shows its results as well in the increase of the sales of the Agropuka markets (sales volume is increased with environ 50% and the product prices with 15%).

Governments need the trust of their people to successfully address current and future policy challenges, and to be able to convince the public about the efficacy and necessity of certain policy choices. Inter-personal trust is an important factor for economic growth and development. The loss of trust might then explain the enduring economic crisis in some regions. The trust might well be damaged persistently for generations, even after economic recovery.

However, we need better measures of trust, at higher frequencies, with better geographic coverage, and based on more representative samples to analyze how trust is affected by shocks, how it can be preserved, and how relevant policies can restore and reinforce it.

## CONCLUSIONS

In the past twenty years in finding factors that decisively contribute to the economic growth of a region, a significant place belongs to the innovation complex. Although it is a very heterogeneous group of interpretations of economic development, on the one hand, and the fact that these explanations are very frequently intertwined with different forms of endogenous theory of economic development, on the other hand, it is a fact that the phenomenon of spatial innovation systems is based on the concentration of several highly-innovative companies which invest directly in the development of new technologies and new products and services, such as AgroPuka case in Puka Region.

For much of the latter part of the 20th century, rural and urban development have been conducted in separate spheres by both donor agencies and developing countries, albeit with common, interlinked objectives of achieving economic prosperity and reducing poverty. In rural development, approaches have evolved and fashions have changed over time.

We observe that individuals who are exposed to social problems are usually drivers in the creation of new social ventures. The contribution of AgroPuka to affect the local unemployment problem was to develop a new business model based on local products sold outside the village and entering Regional markets, helping to create direct and indirect employment in a small rural village and thus preventing the exit of young local people to urban areas or emigrating. Although each social venture focuses on a range of social issues, its social consequences are broader than this range, as it may have an impact in other social areas not explicitly recognized in its mission statements, such as social exclusion, civic cohesion, civil rights, promotion of human dignity and poverty. In the case of the Cooperative AgroPuka, the innovative response occurs from different activities: the combination of existing local (natural) resources in an innovative way to protect the environment and increase tourism; the identification of new sources of revenue; and the partnerships with other institutions (public or private) that share common cultural and social values. The desire to innovate is not the result of one instance of creativity but is the way of operating social entrepreneurs. A particular characteristic of the AgroPuka case is that its managers have a deep knowledge of the existent social problems in the community. This awareness allows them to adopt an integrated and holistic approach to the problems faced by the citizens. The actions taken try to maximize the resources available to obtain synergies and expand the process of social value creation. The strong involvement of the main stakeholders leads to the adoption of a response model that accommodates the characteristics of the target population and of the rural territory where they live. Most of the solutions mentioned above are not radical social innovations but rather derive from the knowledge of the reality of the situation and the combination of pre-existing elements (i.e., incremental innovation).

The creation of this organization is in line with the specificities of the region and is based on three pillars:

- (i) the social dimension;
- (ii) the economic dimension; and



(iii) the cultural and/or environmental dimension.

A virtuous combination of these three bottom lines, which reinforce each other, is possible due to the deep local knowledge and the powerful motivation of their respective players to find a satisfactory and lasting solution for local development. The case study illustrates how social entrepreneurs' innovation capabilities could facilitate the transformation of a social problem (triggered by the characteristics of the territory) into an opportunity to create social and economic value sustainably.

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