Territory and solidarity: the European Union territorial cohesion policy and the role of local institutions

Fátima Ferreiro

Sérgio Lagoa

Licínio Pina

2012

WP n.º 2012/07

DOCUMENTO DE TRABALHO

WORKING PAPER

DINAMIA'CET
CENTRO DE ESTUDOS SOBRE A MUDANÇA SOCIOECONÓMICA E O TERRITÓRIO
ISCTE-IUL

FCT
Fundação para a Ciência e a Tecnologia

Territory and solidarity: the European Union territorial cohesion policy and the role of local institutions

Fátima Ferreiro ♣

Sérgio Lagoa ♣♣

Licínio Pina ♣♣♣

WP n.º 2012/07

♣ Instituto Universitário de Lisboa (ISCTE-IUL), DINÂMIA'CET-IUL, Lisboa, Portugal.

♣♣ Instituto Universitário de Lisboa (ISCTE-IUL), DINÂMIA'CET-IUL, Lisboa, Portugal.

♣♣♣ Crédito Agrícola.

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

Territory and solidarity: the European Union territorial cohesion policy and the role of local institutions

Abstract

This paper analyses the evolution of the notion of territorial cohesion in the European Union, with an emphasis on the importance given to the processes of participation and to the specificities of local realities. Despite space and territory has always received attention from the economic theories of development, only recently the territorial dimension was considered fundamental by the European Union. Even though the European Rural Development Policy has always had a greater territorial focus than other European policies, the real relevance of participatory models and the involvement of local actors within this policy has been questioned and must be scrutinized. The reference to a Portuguese cooperative financial institution illustrates this assessment by providing evidence on the role that a local institution can play in rural development.

Key words: territorial cohesion, rural development, rural development policy, crédito agrícola, cooperative financial institutions.

1. Introduction

In this paper it is argued that the concern of the European Union (EU) with the territorial dimension of its policies and with the territorial cohesion relates to the notion of solidarity. The appeal to a place-based approach in the design and implementation of policies highlights some nuclear aspects of Solidarity Economics, like the attention to local specificities/identities and the centrality of participatory models of governance and decision-making. The creation of more solidary territories depends on doing policies connected with them, on the respect and valorisation of their specificities, on democratic participation, and on ensuring sustainability.

Only recently the territorial dimension was taken as fundamental in European policies, including in policies not territorially oriented. This fact can be interpreted as an indicator of the distance between policies and scientific thinking. Indeed, and in the case of Economics, there are many perspectives that, from very early, consider the territory as fundamental in the analysis of development processes.

In this paper our concern is to understand how the concept of territorial cohesion has evolved within the EU, highlighting local communities participation, namely in relation to rural development policy. Regarding this, we analyse the role of a financial cooperative institution - *Crédito Agrícola* (CA) - in the strengthening of territorial cohesion, attending to its territorial and institutional characteristics.

In Section 1 we present a very brief review of how the concept of territory has been approached in the disciplinary field of Economics; Section 2 identifies the key defining moments of the EU territorial cohesion's policy; in Section 3, a special focus is put on a territorial based policy, rural development, assessing its potentialities regarding some of the fundamental proposals of territorial cohesion presented in the previous section; Section 5 scrutinizes the role of CA in Portuguese rural development.

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

2. Territory and development: a brief disciplinary approach

The presence of territory in the reflection about development processes can be illustrated through the disciplinary field of economics. In fact, some of the fundamental contributions to the emergence of this scientific domain are 'territorially rooted'. The Physiocrats' approach ('Les Economistes', as they present themselves), for instance, conceive land as the only source of wealth in a reaction to the French mercantilist policies that privileged manufactures. In turn, the presence of land in classical Political Economy is mainly related with the contribution of factors of production and social classes to the development of industrial capitalism. Landlords are often negatively perceived by Classical Economists (e.g., Adam Smith, John Stuart-Mill) considering, namely, the contradiction between the economic importance of the productive forces controlled by this social group, and their frequent negligent behaviour regarding land exploitation and care.

Despite Economics territorial roots, and according to Capello, "[...] in the history of economics, analysts have devoted most of their attention and efforts to determine the quantities of resources to be used for various purposes; they have concerned themselves with where those resources and activities are located or where they will be located only in the recent past. Analytical precedence and priority has thus been given to the temporal dimension over the spatial one" (Capello, 2011: 2).

Regional economics is the branch of Economics that incorporates the dimension 'space' into the analysis of market working (*Idem*: 1). It is possible to identify two large groups of theories in regional economics: "location theory, the oldest branch of regional economics, first developed in the early 1900, which deals with the economic mechanisms that distribute activities in space"; and "regional growth (and development) theory, which focuses on spatial aspects of economic growth and the territorial distribution of income" (*Idem*: 2). Among the founders of location theories one should mention Marshall, von Thunen, Weber, Christaller, and Losch.

The territorial approach, which emerged in the 1970s within regional economics, involves the redefinition of the conception of 'space'. This concerns now to specific and concrete realities and not to homogenous space-distance ("a simple geographical container"). This new conception of space has several implications, including the consideration of the relational dimension of economic and social phenomena and the vision of development as endogenous, that is:

> "[E]embedded in socio-economic and cultural systems whose components determine the success of the local economy: entrepreneurial ability, local production factors (...), relational skills of local actors generating cumulative knowledge-acquisition and, moreover, a decision-making capacity which enables local economic and social actors to

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

> guide the development process, support it when undergoing change and innovation, and enrich it with the external information and knowledge required to harness it to the general process of growth, and to the social, technological and cultural transformation of the world economy"(*Idem*: 14).

During the 1970s and the 1980s, this new perspective was carried out by some neo-Marshallian theorists, like Giacomo Bacattini ('theory of the industrial district'), Walter Sthor ('bottom-up development'), Reinhart Wetmann ('indigenous potential'), Bernardo Secchi and Gioacchino Garofoli ('system areas'), Claude Courlet-Benard Pecqueur and Bernard Ganne ('localized industrial system') (*Idem*: 14-15).

These non-orthodox theories consider some central aspects envisaged by the territorial cohesion approach that presented in the next section and summarized by Capelllo: "[...] we argue that these theories have enriched economic analysis by identifying the intangible elements (knowledge, learning, relationality, and social capital) which come together to form local competitiveness. Far from being of scant economic significance, these elements should be valued and appreciated for their contribution to knowledge on local development processes" (Capello, 2011: 15).

3. Solidarity and territory in the European Union: territorial cohesion

This section presents the fundamental moments of the institutional consideration of territory in EU policies, which culminates with the "Territorial Agenda for the EU 2020". We will consider the main moments and the terms in which territorial cohesion was presented, emphasizing what we named a solidarity vision of the territory (Table 1).

The theme of territorial cohesion has been debated in Europe since the years 1990s, mainly among politics involved in territorial planning. In 1999, this debate originated the *European Perspective of Spatial Development*, which in turn originated programmes of transnational cooperation in the context of INTERREG and led to the creation of the European Spatial Planning Observation Network (ESPON) (Camagni, 2007: 5).

According with Camagni (2007), the concept of territorial cohesion was "authoritatively" introduced by the *Third Cohesion Report* (European Commission, 2004). A reference to territorial cohesion can still be found in Article 36 of the *Charter of Fundamental Human Rights* (2000) ("services of general economic interests")(Faludi, 2006: 669).

A more developed presentation of the concept of territorial cohesion was given by the Directorate General of Regions in the *Interim Territorial Cohesion Report*, which used the results of the ESPON and other European Commission (EC) studies (Camagni, 2007: 5).

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

According to the report, territorial cohesion is complementary to economic and social cohesion, and corresponds to "a balanced distribution of human activities within the EU space."

Table 1 – Main steps in the introduction of territorial cohesion in EU policies

Document	Main innovation
European Perspective of Spatial Development (1999)	Programme for transnational cooperation (INTERREG). ESPON
Third Cohesion Report and European Constitution (2004)	Introduction of territorial cohesion as a EU's goal.
Interim Territorial Cohesion Report (2004) and Community Strategic Guidelines for Cohesion (2006)	Developed presentation of the concept of territorial cohesion during the 1970s and 1980s. Complementarities between economic, social and territorial cohesion.
Towards a Stronger European Territorial Cohesion in the Light of the Lisbon and Gothenburg Ambitions (2005)	The concept acquires a practical sense. Concept of Territorial Capital.
Lisbon Treaty (2007- signature, 2009 - entry into force)	The concept acquires legal status in EU primary law.
Green Paper on Territorial Cohesion (2008)	New territorial partnerships
Barca Report (2009)	Place-based policies
The Fifth Report on Economic, Social and Territorial Cohesion (2010)	Territorial cohesion's role in the Europe 2020 goal of smart, inclusive and sustainable growth.
Territorial Agenda for the European Union 2020 (2011)	Integrated development, territorial connectivity and territorial coordination of policies

The importance of territorial cohesion in the EU context was further underlined by the *Community Strategic Guidelines for Cohesion* adopted by the Council in 2006, which stated that: "the promotion of territorial cohesion should be part of the effort to ensure that all European territory has the opportunity to contribute to the agenda of growth and employment "(EC, 2008). This message on territorial cohesion is also present in the *Lisbon Strategy*.

The 2005 informal ministerial meeting on territorial cohesion and regional policy in Luxembourg produced the document *Towards a Stronger European Territorial Cohesion in the Light of the Lisbon and Gothenburg Ambitions*, which incorporates the analytical basis of ESPON. The concept of territorial cohesion acquires here a practical sense (Camagni, 2007: 5-6): "territorial capital" should be considered by development policies of the territory as part of

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

the efforts to increase European competitiveness. The priorities presented are the increase in 'polycentrism' and partnership between urban and rural areas, the promotion of 'clusters' of innovative and competitive activities, strengthening trans-European networks and risk management, and the advancement of ecological structures and cultural resources (Faludi, 2006: 670). Concerns and policies associating the "classics" themes of European regional policy, more related with distributive purposes, were combined with issues of competitiveness, endogenous development, sustainability and good governance (*Ibidem*).

In this direction, Camagni introduces the concept of territorial cohesion as follows: "In my opinion, if the concept of Territorial Cohesion has to add to the content of economic and social cohesion, it must necessarily link the sustainability issue. In a word, territorial cohesion may be seen as the territorial dimension of sustainability"(Camagni, 2007: 6). The concept incorporates three dimensions: territorial quality (e.g., quality of living and working conditions, access to services and knowledge; territorial efficiency, including the efficient use of energy, land and natural resources, and economic competitiveness), and territorial identity (e.g., presence of 'social capital', and developing shared visions about the future) (*Idem*: 6-7).

The notion of sustainability imposes itself in territorial cohesion documents. In the *Green Paper on Territorial Cohesion* (EC, 2008) it is presented as a harmonious development of the territory, transforming diversity into an asset that enables sustainable development of the EU. Among the several issues presented for debate, it is the concept of "new territorial partnerships", that is, the participation of economic and social actors (e.g. non-profit institutions, local stakeholders, voluntary organizations and NGOs) in the definition and implementation of policies.

The so-called 'Barca Report' corresponds to a fundamental moment in the defence of the "place-based" strategy in the definition and implementation of Community policies: "[A] place-based policy is a long-term strategy aimed at tackling persistent underutilisation of potential and reducing persistent social exclusion in specific places through external interventions and multilevel governance. It promotes the supply of integrated goods and services tailored to contexts, and it triggers institutional changes "(Barca, 2009: VII). The "place-based" perspective is also presented as the best way to meet the challenges and expectations of the EU (efficiency, social inclusion, strengthening solidarity within the Union, and the peace and welfare purposes of the EU [1]). In short, it is proposed that the "territorialized social agenda" should be focused on people, taking into account that their well-being and the effectiveness of any intervention depends on where they live (*Ibidem*: XIII).

[1] In this context, the Economic and Monetary Union is a mean to achieve that goals and not an end in itself.

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

Given the purposes of this paper, it should be considered here one of the topics listed in the governance section of the *Barca Report*, "The Strategic and more effective governance", which is related with the importance of participation mentioned above: the "mobilization of local actors". It is understood that, and among other things, this mobilization depends crucially on the capacity to transmit at the European level views, assessments, and contributions of local public institutions and private actors: "[T] he opening up of debate on the progress and achievements of the policy should also allow the views of sub-regional public actors and interest groups - such as economic and social partners, NGO's, environmental, voluntary and equality bodies, other representatives of civil society - to be made known"(*Idem*: 179).

In the Commission Communication *Europe 2020*, *The Strategy for Smart, Sustainable and Inclusive Growth* (2010), the reference to "inclusive growth" includes social and territorial cohesion. It is understood therefore that growth should be extended to the entire European territory, including its most remote regions, increasing territorial cohesion (EC, 2010: 17). This Communication is one of the documents present in the *Territorial Agenda for the European Union 2020*. The word 'solidarity' arises in this context related to territorial cohesion. It is stated that "territorial cohesion complements the mechanisms of solidarity with a qualitative approach and clarifies that development opportunities should be designed according to the specificities of each area" (EU, 2011: 3). It is then defended that a "place-based" approach in the definition of policies contributes to territorial cohesion (*Idem*: 4). One of the "territorial priorities for the development of the European Union", it is precisely the "increase in the integrated development of cities and rural areas”. The identification of mechanisms of governance and implementation of territorial cohesion involves various aspects, including the "territorial coordination of policies." Both Rural Development and Cohesion Policies emerge as key elements in this process of finding a balanced territorial development of the EU.

The *Fifth Report on Economic, Social and Territorial Cohesion* (EC, 2010) was the first to be done after the *Lisbon Treaty*, which presents territorial cohesion as one goal of EU. This report includes a policy vision that encompasses much of the evolution in territorial policies described above. It argues that territorial cohesion may contribute to the general EU goal of a more smart, inclusive and sustainable growth path.

According with the Report, while economic and social cohesion is more concerned with economic convergence of regions and the social exclusion of social groups, territorial cohesion is focused in a balanced access across the territory to quality services and infrastructures, in a sustainable development, and in the respect for territorial and cultural specificities. The access to services of general interest includes, namely, the access to education, health care, business and financial services. Sustainable development policies emphasize the environmental dimension. Adding the territorial dimension to cohesion, it implies also more attention to the role of cities and to specific areas with demographic and social problems.

The search of territorial cohesion implies a concern with the territorial impact of policies. It is mentioned that all EU policies should take into account their effects on economic, social and territorial cohesion.

In the 2000s, disparities between European regions in terms of economic, social and environmental indicators have decreased. The main explanation for growth in all EU regions is related with productivity growth, either inside sectors (related with innovation) or due to employment movements to higher value added sectors.

It is recognized that innovation is one of the main factors of regional convergence. In regions that are not main centres of innovation, the concern should be to absorb innovations rather than to do radical innovations. It is considered that less developed regions should have infrastructures, institutions and human resources that support innovation. While the digital infrastructure is growing in importance in the distribution of products online, transport infrastructures are still very important to guarantee the access to markets, which will spur the effects of innovation on development. Due to this, cohesion policy continues to finance public investment in less developed regions, namely transportation networks.

Innovation promotes growth, which creates jobs. The creation of employment is rather important for improving the living conditions of populations, especially in regions of high unemployment.

The Cohesion policy has evolved to consider some important dimensions, some of them related with the territory: the importance of loans and venture capital, the relevance of involving regional and local actors, the efficacy of the local development model for some programmes, and the special place of rural areas on the promotion of territorial balance.

Firstly, it is argued that the impact of Cohesion policy will be improved by moving from simple grants to loans and venture capital. The access of SMEs to finance is a key element to promote an innovation culture, distinct from the subsidy culture. Non-financial support in terms of consulting, networking and clustering is also seen as a valuable policy instrument. The expected effect of this more proactive policy is an increase in productivity, rather a simple increase in employment. In a similar direction, National cohesion policies emphasized growingly endogenous development by supporting regions in areas where they are competitive, instead of compensating lagging regions by their disadvantages.

Secondly, it is defended that "one-size-fit-all" policies should be avoided, giving to regions the possibility to design and deliver policies according with their needs. The EU recognizes that involving regional and local communities, stakeholders, and social partners, in the policy design up to the implementation phase contributed to a better impact of Cohesion

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

Policy in the period 2000-2006. It is stated that partnerships mobilize the knowledge of actors that are interested in programmes' success, and that such mobilization should be reinforced in the future. The creation of partnerships has not been easy due to the lack of experience in many countries, the difficulty in identifying partners and the reduced knowledge that partners have of Cohesion Policy. In general, the involvement of partners has been larger in the creation of strategies and the design of programmes than in the implementation phase.

Thirdly, the Report recognizes that the local development model can be applied in a variety of policy programmes. This model involves actions in small and delineated areas, close partnerships with local actors, and an integrated approach to several improvements in the targeted area. An example of the application of this approach is the Leader Initiative. The Report recognizes, however, that the local development model needs further improvements, being necessary a larger involvement of local partners and a larger delegation of responsibilities to local authorities.

Finally, the EU ascertains that rural areas are central for promoting sustainable development and territorial balance. Due to the wide variety existing in rural areas across the EU, it is recognized that policies have to be designed attending to the specificities of each area, and using the local development model where possible. Key elements in the development of rural areas include: maintain economic activity, guarantee the offer of social services and infrastructures, and respect the rural character of such areas. This ensures the improvement of living conditions in rural areas, promoting social cohesion at the national level. The support to rural areas has been done by the European Social Fund (ESF), supporting human capital, by the European Agricultural Guidance and Guarantee Fund (EAGGF) – Guidance Section, promoting farming activities in specific regions, and by the European Regional Development Fund (ERDF) in a broad range of areas, including transport and the promotion of the diversification of economic activities. The rural development pillar of CAP, financed by the European Agricultural Fund for Rural Development, also supports rural areas, through the promotion of structural changes in farms' businesses and using the Leader Initiative for rural development.

In synthesis, the European debate about territorial cohesion introduces fundamental aspects in a solidarity approach to the territory. In this approach the goal is to attain a *result* of larger equity in the territory, but at the same time the emphasis is also on the *process* of attaining such result: attention to the specificity of territories, sustainability and participatory governance mechanisms. All these things are present in the notion of place-based policies.

The next section considers rural development policy in close articulation with aspects of the Cohesion Policy that point to a solidarity vision of the territory, namely to the consideration of local specificities and the involvement of local economic and social actors in policies' implementation.

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

4. EU Rural development policy and territorial cohesion

Despite its territorial vocation, the rural development policy was in certain moments criticized by its highly sector nature, without a linkage with territories and their needs. This nature is connected with the working model of the Common Agricultural Policy (CAP), which aims the stabilization of markets and the support of farmers' income, without an anchor in the territory. It is true that some measures and programmes, as is the case of aid within the 'Less Favoured Areas' framework, incorporated central considerations to the territory, but such measures remained marginal in the context of the CAP.

The absence of the territory in rural development policy was referred in the Cork Conference in 1996. Commissioner Fischler mentioned the need to change the focus of the agricultural policy towards a policy of rural development tailored to local needs by providing a 'sustainable and integrated rural development'. The statement that emerged from the conference presented a set of guiding principles: "sustainability particularly of the natural and cultural resources; a multisectorial and territorial approach, the need of defining integrated and multi-year programmes, the importance of the private and community capacity building at each site that should be used in the decentralization of the design and implementation of policies, and the need for monitoring and evaluating with the participation of stakeholders"(Dwyer et al, 2007: 874). This approach was reaffirmed in the CAP reforms of 2003 and 2004.

The assessment of the level of decentralization and "territorial responsibility" of rural development policy between 2000-06 was presented by Dwyer, Ward, Lowe and Baldock (2007). The authors' conclusion is that the final result is less than was promised. The policy reveals a "conservatism" and to that extent a difficulty in applying a territorialized approach, decentralized and participated. Among the factors pointed to explain the trend of "institutional predisposition toward conservatism", are: i) the centralizing nature of the Guidance Section of the Structural Fund dedicated to agriculture (EAGGF); ii) the fact that the financial management remained the responsibility of institutions dedicated to the agricultural sector (the Guarantee Section of the EAGGF); iii) the inconsistency between the two pillars of the CAP; iv) the lack of institutional familiarity with territorialized approaches by entities with a centralized culture (Dwyer et al, 2007: 880). The authors show optimism about the 'new' Rural Development Regulation and the design and implementation of the Rural Development Policy in 2007-13: "[O]n a more positive note, although the European Agricultural Fund for Rural Development [...] Regulation, agreed in September 2005[2], differs relatively little from Regulation 1257/1999 in its collection of measures and overall scope, it contains new provisions aimed at the

[2] Reg. 1698/2005 (20 September). The creation of the European Fund to the support of Rural Development was created through the Reg. 1290/2005 (21 June).

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

strengthening of strategic aspects of rural development planning and programming, as well as the setting up of national and EU-wide observatories to help exchange best practice "(*Idem*: 886). Another aspect pointed out as positive in the assessment of the design of the Rural Development Programme (RDP) relates to the consideration of axes, including the creation of Axis 4 on the Community Initiative Leader. This initiative is indeed seen as one of the factors of innovation in the implementation of the RDP under review, against the dominant conservative logic. For Dwyer et al, "EU Structural Fund Programmes and Community Initiatives have placed emphasis upon the importance of cross-sectorial and multi-institutional partnership in designing and delivering policies to help rural areas adjust to change" (*Ibidem*: 883).

Leader Initiative emerges as an exemplary initiative in terms of a territorialized design of policies and an example of 'good practice' in pursuing the implementation of territorial solidarity within the terms set forth in the preceding paragraphs of this article.

The EU Rural Development Regulation is the base of national Rural Development Plans (RDP). In what follows we describe the Portuguese RDP (2007-13) because we will describe below the contribution of a Portuguese local organization to rural development. That plan has four axes: Axis One focus the improving of competitiveness of the primary sector (agriculture and forestry), Axis Two is mainly concerned with improving the environment and countryside, Axis Three is dedicated to improving the quality of life in rural areas and the diversification of the rural economy, and Axis Four is the Leader Initiative. This initiative aims the valorisation of the potential of local development and governance. Leader includes the following vectors: territorial strategies of rural development (Vector 1); support to cooperation between rural territories (Vector 2); and building networks involving all the rural areas of the EU (Vector 3). This bottom-up initiative uses local partnerships to promote rural development in an integrated approach (economic, social, cultural and environmental). Local Action Groups (LAG) are the entities responsible for the implementation and management of local projects integrated in Leader. They should correspond to a balanced and representative expression of territorial socioeconomic diversity.

The philosophy of involvement and partnership of local actors in the identification, design and implementation of rural development initiatives through Leader is here presented as an example of local development governance considering the involvement of local actors: a bottom-up approach. It is important to refer that the proposal of Regulation for the period 2014-2020 related with Structural Funds recommends the enlargement of the Leader methodology to all the programmes, with a compulsory nature to the Rural Development Fund and an optional nature to the other programmes. The current debate about the CAP after-2013 ('The CAP within the horizon of 2020') includes the reference to the territorial balance as a main goal to pursue. Among the measures related with this objective is the support to rural employment and the

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

preservation of social tissue in rural areas (Cordovil, 2012). The involvement of local actors in the strategy of territorial development is also stressed within the framework of territorial cohesion. In fact, the issue 'New territorial partnerships' (*Green Paper of Territorial Cohesion*) states that: "[T]he pursuit of territorial cohesion may also imply wider participation in the design and implementation of policies" (EC, 2008: 12).

5. Rural development and local institutions: the case of *Crédito Agrícola*

In this section we present evidence that the Portuguese cooperative bank *Crédito Agrícola* (CA) plays an important role in rural development in articulation with the Portuguese RDP.

In 2011, CA made one hundred years, and actually is the only co-operative bank operating in Portugal. This bank has a historical connection to agriculture, but today is a universal bank. CA is a financial group that occupies the seventh position in the Portuguese domestic market, with a market share in 2010 of around 3% on loans and 5% on deposits. However, its presence is disproportionally large in rural regions, with a branches' market share of more than 30% in some regions.

CA group is composed by a centralized body, *Caixa Central*, and several local banks, *Caixas*, with both of them having the legal form of a cooperative and a legal status different from standard commercial banks. The *Caixas* are small local banks, with autonomy of management and decision, with *Caixa Central* acting as a guide, regulator and representative of the Group.

During the past three decades, there was an evolution in the legal framework of CA and today almost everyone can be an associate of the *Caixas*, not being necessary to develop activities connected to the primary sector, as it was in the past. This means that today CA lends to all economic sectors and households, offering a complete set of financial products similar to a standard commercial bank. Despite this, credit to the primary sector is still much more important in CA than in other banks (Ferreiro et al, 2012).

Like other European cooperative banks, CA has some features distinct from commercial banks (Barradas *et al*, 2011). CA is more dedicated to the development of rural regions, as we will see below in more detail. CA main strength is the knowledge and presence in local economies, decision centres closer to local needs and the trust of clients. To be a client of CA is almost similar to be a client of a local bank. The more than 400 thousand members can have a word to say in an organization managed according with democratic cooperative principles. Additionally, the bank follows a more conservative business approach, which involves less risk, more capital and a larger specialization in retail banking. CA is also more focused than other banks in the credit to firms, meaning that it plays a more significant role in the expansion of

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

productive capacity. Despite being focused on maximizing members/customers' welfare and not being exclusively focused on profits, its profitability is quite good, with the Return-on-Assets being larger than the average of the banking sector. This is partially grounded in a large market share in local deposits markets. The good financial performance, allowed the bank, during the period of crisis of 2008-10, to follow an anti-cyclical lending behaviour, characteristic of a co-operative bank.

The role of the bank in local development can be systematised around four points: 1) the bank has a large presence in all the territory and a close involvement with local communities (proximity); 2) CA has a governance model that promotes the economic sustainability of local communities (governance); 3) CA is consulted in the formulation of the rural development plan, participates in its financing and in local partnerships (partnerships); and 4) CA finances partially projects that involve also European and National public funding (Commitment and trust). In what follows we present in more detail each one of these points.

Regarding proximity and governance, CA is more committed than commercial banks in the development of poor and rural regions. Firstly, being a cooperative bank, CA is more concerned with the long-term wellbeing of customers and local economies where it is present. Secondly, since local *Caixas* have autonomy, the decision centre is closer to clients in CA than in other banks. This closeness is also evident in the fact that the CA's branch network is, in relative terms, very large comparatively to other banks and it is more present in rural areas. In 250 small villages, CA's branch is the only point of contact that populations have with the financial system. At NUTS3 level, the correlation between the number of CA branches per capita and the GDP per capita is much smaller than the correlation between the number of branches of commercial banks per capita and GDP per capita (Ferreiro et al, 2012). The same occurs for the amount of credit per capita. Moreover, CA is more specialized in credit to firms than the average of the banking sector. Credit to firms has a larger effect on regional potential output than credit to households. Typically the CA's clients are SMEs, which in general have larger difficulty in obtaining external finance.

The proximity with the local community is also expressed in terms of the bank's human resources policy, which prefers to recruit workers living in the region of influence of each *Caixa*. The local *Caixas* also invest profits locally, buy products from local suppliers, pay their taxes locally, and contribute to the building of local business networks.

The larger presence of CA in rural and poor regions contributes to facilitate the access of populations and firms to financial services. This is a contribution to territorial cohesion as it was defined in previous sections. Also by financing new businesses and households and by its direct effect on aggregate demand, CA contributes to the economic convergence of poor regions, to

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

the decrease of unemployment and to counteract human desertification. And the support to these regions continues in periods of crisis, since CA has a countercyclical lending policy.

The theory of industrial clusters highlights the importance of related industries in the development of firms' competitive advantages. The existence of local suppliers is important not only for the easy and speed of access to inputs, but also, and most importantly, because of the possibility of cooperation between suppliers and firms. This reasoning can be applied to financial capital. If banks are closer to firms they may easily exchange information, understand the needs of firms, and undertake common projects.

The existence of banks in certain regions may be especially important if capital is not perfectly mobile across regions, as concluded by Amos and Wingender (1993). The regional dimension of informational costs may also justify the relevance of the regional level of financial development for economic growth (Samolyk, 1994). In such circumstances, local banks may have a more significant role in promoting regional economic growth than national banks (Collender and Shaffer, 2003; Usai and Vannini, 2005; and Hakenes et al., 2009). In the Portuguese case, econometric evidence indicates that the presence of CA has a positive effect on economic growth, with this effect being stronger than the effect of other banks (Ferreiro et al, 2012).

Apart from the strictly business relationship with local firms and households, CA has a committed policy of social responsibility. Between 2006 and 2009, the bank distributed 3.2% of total profits, i.e., €12.5 million, to social institutions (*Crédito Agrícola*, 2010). The money supports local initiatives in social, cultural and sport areas (e.g., kindergartens, schools, fire stations, health centres, cultural associations, conservation of heritage, environmental education).

Other contribution of CA to development is related with its participation, at various levels, in the Portuguese RDP. Firstly, CA was one of the partners consulted for the design of the Plan. Secondly, the day-to-day CA's financing also contributes to promote some goals of the Programme: increase of production's quality, investment and diversification of local economy. The RDP includes a sub-axis on financial tools, with an emphasis on risk management. It is acknowledge that agricultural firms should have more access to financial tools adequate to their needs, the access to external financing should be improved, and the creation of new and innovative firms should be encouraged. On all these issues, a bank with the sectorial focus of CA may play an important role. Take as an example the case of crop insurance offered by the bank. However, note that, due to its more conservative approach to banking, CA may be more reluctant in financing innovative projects.

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

Thirdly, CA also offers some supporting services in the context of the RDP, as it is responsible for the transference of financial supports paid by the CAP to farmers and it gives support to farmers in the elaboration of applications to CAP programmes.

Lastly, CA is also an important partner in many of the partnerships in the context of the Leader Initiative: CA is present in 24 of the 47 Local Action Groups (LAG). As an example, four local *Caixas* were at the foundation and are in the administration of one of the LAG, the Rural Development Association of Serra da Estrela (ADRUSE). This association main goal is to support firms, professional training and the improvement of infrastructures. More generally, CA loans are also one of the main private financing sources of Leader Initiative: from the 253.7 million euros of total financing, 68.7 million are private, with around 50% of it being financed by CA's loans.

Outside the Leader Initiative, another example of CA involvement in partnerships aiming at the development of rural areas is the Real Estate Fund *Floresta Atlântica*. Created in 2007, this fund is owned by private investors with the participation of National and European public institutions. The fund's main goals are the acquisition of real estate for the development of forest production, tourism, hunting and other activities compatible with forestry. The initiative includes the North and Centre of Portugal and aims also to develop diverse forest species.

Another example of partnership of CA with local actors is the creation of a Foundation by a local *Caixa* (*Caixa Agrícola do Noroeste* Foundation). The Foundation includes eight local councils and also regional higher education Institutions, and its main goal is to support cultural actions and activities for the young people.

Finally, another example of CA's collaborative initiatives was the creation of an enterprise (Naturar) undertaken by three *Caixas* (Póvoa, Noroeste, and Baixo Mondego). The bank's objective is to support the restructuration of small and medium size farms dedicated to milk production into more viable productions, with an emphasis on the access to commercial networks.

From what we said, CA acts in articulation with the EU cohesion policy and the Portuguese RDP, being aligned with their main principles and goals (Table 2). In fact, the institution promotes endogenously employment and innovation by granting loans, with a focus on rural areas, participates in partnerships with local actors in the context of EU policies, and contributes to economic and territorial cohesion.

In conclusion, CA promotion of local development is characterized by a variety of partnerships and activities, in articulation with the main public policies directed to the development of rural territories.

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

Table 2 – Contribution of CA to the Rural Development Policy goals

Rural Development Policy goals	Contribution of CA
- Economic, social and territorial cohesion: - Innovation and employment - Importance of rural areas	- Financing activity - Strong presence in local economies
- Move from subsidy to loans and venture capital	- Financing activity
- Involvement of regional and local actors - Local development model	- Strong presence in local economies - Participation in partnerships

Conclusion

It was argued that the concept of territorial cohesion in EU policies can be related with that of solidarity. The increasing centrality of place-based strategies and, therefore, of a participatory approach to territory is the result of a process with political, economic and social dimensions. Despite its presence in the studies of economic development, it was only recently that the territory appeared as a decisive variable in the design and implementation of EU policies. Even in policies with an evident territorial dimension, like the Common Agricultural Policy, the sectorial focus still prevails.

The reference to territorial cohesion provided the analytical framework to consider rural development policy, which is conceived as a paradigmatic territorial-based policy. Nevertheless, this policy presents some critical aspects regarding the interface with territory. The integration of Leader in the current Normative Regulation of the Rural Development Policy appears as an opportunity to overcome what was considered in the period 2000-06 the 'conservative' nature of this policy.

The presentation of the activity of a local institution – *Crédito Agrícola (CA)* – illustrates the bottom-up approach of rural development policy. The participation of CA in the process of rural development is manifold: it finances households and SMEs in rural areas, including projects co-financed by National and European funds; it is consulted in the formulation of the Portuguese RDP, participates in its financing and in local partnerships; and it has a large presence in all territory and a close involvement with local economies. In fact, it may be that are the CA cooperative specificities that explain its role in local development, especially in the RDP.

The CA's case shows that local institutions may play an important role in promoting rural development, thus validating the evolution in EU cohesion policy of favouring the involvement of local actors and the local development model.

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

References

AMOS, O. M. and Wingender, J. R. (1993). "A model of the interaction between regional financial markets and regional growth", Regional Science and Urban Economics 23, 85–110.

BARCA, Fabrizio (2009). An Agenda for a Reformed Cohesion Policy, a place-based approach to meeting European Union challenges and expectations, Independent, Report prepared at the request of Danuta Hubner, Commissioner for Regional Policy.

BARRADAS, R., Lagoa, S., Leão, E. (2012). "The Non-for-profit Banks in Portugal: Specificities, Social Role and Evolution", Review of Solidarity Economics, forthcoming.

CAMAGNI, Roberto (2007). "The rationale for territorial cohesion and the place of territorial development policies in the European Model of society", in A. Faludi (ed.), Territorial Cohesion and the European Model of Society, Lincoln Institute of Land Policy.

CAPELLO, Roberta (2011). "Locational, Regional Growth and Local Development Theories", in AESTIMUM 58, 1-25.

CORDOVIL, Francisco (2012), Política Agrícola Comum e Desenvolvimento Rural, perspectivas para o pós 2013 (diapositivos de sessão apresentada em Abril, disponibilizados pelo autor), ISCTE-IUL.

CRÉDITO AGRÍCOLA (2010). Sustainability Report – Crédito Agrícola, Lisboa.

COLLENDER, R. N. and Shaffer, S. (2003). "Local bank office ownership, deposit control, market structure and economic growth", Journal of Banking and Finance 27, 27–57.

DWYER, Janet, Neil Ward, Philip Lowe and David Baldock (2007). "European Rural Development under the Common Agricultural Policy's 'Second Pillar': Institutional Conservatism and Innovation", Regional Studies, vol.41.7, 873-887.

EUROPEAN COMMISSION (2004). A New Partnership for Cohesion: The Third Report on Economic and Social Cohesion, Luxembourg.

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/

EUROPEAN COMMISSION (2008). Green Paper on Territorial Cohesion: Turning Territorial diversity into strength, Communication from the Commission to the Council, the European Parliament, the Committee of the Regional and the European Economic and Social Committee.

EUROPEAN COMMISSION (2010). Europe 2020, a Strategy for smart, sustainable and inclusive growth, Communication from the Commission.

EUROPEAN COMMISSION (2010). Investing in Europe's Future: The Fifth Report on Economic, Social and Territorial Cohesion, Luxembourg.

EUROPEAN UNION (2005). The Territorial State and Perspectives of the European Union, Towards a Stronger European Territorial cohesion in the Light of the Lisbon and Gothenburg Ambitions, Based on the Scoping Document discussed by Ministers at their informal Ministerial Meeting in Luxembourg, May.

EUROPEAN UNION (2011). Territorial Agenda of the European Union 2020, Towards an Inclusive, Smart and Sustainable Europe of Diverse Regions, agreed at the informal Ministerial Meeting of Ministers responsible for Spatial Planning and Territorial Development.

FALUDI, Andreas (2006). "From European Spatial Development to Territorial Cohesion Policy", in Regional Studies, vol. 40.6, 667-678.

FERREIRO, F., Lagoa, S., Lima, L. (2012). "Cooperative Financial Institutions and Regional and Rural Development: The Portuguese Case". Paper presented in the conference Cooperative Responses to Global Challenges, 2012, Berlin.

HAKENES, H., Schmidt, R and Xie, R. (2009). " Regional Banks and Economic Development: Evidence from German Saving Banks". Mimeo.

MINISTÉRIO DA AGRICULTURA (2007) do Desenvolvimento Rural e das Pescas. Programa de Desenvolvimento Rural, Continente 2007-2013.

SAMOLYK, K.A. (1994). "Banking conditions and regional economic performance. Evidence of a regional credit channel," Journal of Monetary Economics 34, 259–278.

USAI, F. and Vannini, M. (2005). "Banking structure and regional economic growth: lessons from Italy", Annals of Regional Science 39, 691–714.

DINÂMIA'CET – IUL, Centro de Estudos sobre a Mudança Socioeconómica e o Território
ISCTE-IUL – Av. das Forças Armadas, 1649-026 Lisboa, PORTUGAL
Tel. 217938638 Fax. 217940042 E-mail: dinamia@iscte.pt http://dinamiacet.iscte-iul.pt/