

## DRIVING TERRITORIAL ECONOMIC DEVELOPMENT: THE ROLE OF SOCIAL CAPITAL IN THE RURAL ALBANIA

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### Abstract

Territorial economic development in the rural areas of Albania, particularly in the Berat region, is a key aspect for the transformation of economy and improvement of the quality of life. This study examines the interaction between entrepreneurship and social capital towards approaching to sustainable development. Berat is a region traditionally oriented to agriculture. It has entered a period of economic diversification, characterized by rapid development in the sectors of tourism, handicrafts, and agro-processing. Social capital, including trust and social networking, has proven as crucial in fostering cooperation between entrepreneurs and local institutions, hence generating new chances for economic growth. However, as the main obstacles remain the lack of adequate infrastructure (both physical and social), and the need for professional education and training. This study also summarizes the impact of the EU investments and national support projects on the growth of enterprises and diversification of employment. Performed study uses both qualitative and quantitative methods. It comprises the interviews with one hundred farmers who are simultaneously running a business and agricultural farm, analyzing official data from the Albanian Institute of Statistics, the Ministry of Agriculture and Rural Development of Albania, Berat region and the Berat municipality. In order to achieve the preset goals, it is necessary to investigate the relations that exist between entrepreneurship, available social capital, and sustainable rural development in the Berat region. Derived results suggest that, despite challenges, the region has already achieved steady progress, transforming into a model optimal for development of other rural regions in Albania.

**Key words:** Territorial development, economic transformation, social capital, Berat region.

**JEL<sup>2</sup>:** O18, O35, L26

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## Introduction

Economic territorial development in the rural areas of Albania is a key component for the country's modernization, and the growth of its economic potential. In rural Albania, approximately 65% of the population is engaged in agricultural activities, while only 12% of enterprises operate in non-agricultural sectors, such as tourism, handicrafts, and food processing (INSTAT, 2023b). Comparative study performed by the World Bank (WB, 2023) confirms that Albania is among the Western Balkans countries with the lowest levels of rural economic diversification. Hence, the high dependency of the rural economy in Albania on the sector of agriculture is its major feature. These social and economic developments differ among the regions, while several of them demonstrate strong trends in diversification based on the available local natural and human capital. The Berat is one of the leading regions, while entirely relevant for identification of key trends, drivers, and actions needed.

In this context, the Berat region serves as an important case study for analyzing the interaction between entrepreneurship, social capital management, and sustainable territorial development. With a rich cultural heritage and abundant natural resources, Berat represents an example where the impact of these factors can be clearly observed (Dauti, 2017). Paper aims to examine the role of social capital in the territorial economic development of the Berat region in Albania based on performed entrepreneurship initiatives. Paper has been analyzing the transition of region from a traditionally agricultural economy to those characterized by economic diversification towards tourism, handicrafts, and agro-processing. The key factors that have contributed to the region's economic transformation are considered. Besides, the impact of the EU and national support measures are also observed. Mentioned highlights the main challenges in achieving the sustainable economic development.

## Literature Review

Territorial economic development prioritizes endogenous growth tactics, highlighting local resources, social networks, and governance frameworks (Pike et al., 2016). Local territorial economic development is also substantially influenced by exogenous factors and strategies, including adequate policies, and global market trends (Barca et al., 2012). Concepts such as clusters (Porter, Porter, 1998), smart specialization (Foray, 2016), the role of institutions (Rodríguez Pose, 2013), and innovations (Torre, 2025) in territorial development highlight the importance of place-based strategies. Therefore, the successful transformation represents contingent upon the mobilization of local knowledge, skills, and institutional support, rather than an investment. Social capital is the primary determinant of territorial economic growth at the regional, or

local level (Gerke, Dalla Pria, 2025). Social capital, as a theoretical concept, refers to networking, norms, and mutual trust that facilitate cooperation and collective action (Putnam, 1993; Bourdieu, 2011). Meanwhile, Coleman (1990) underlines how social capital supports educational and economic outcomes.

In post-communist countries such as Albania, the legacy of centralized administration, fragile institutions, and informal networks has influenced the functioning of social capital. In Albania, the post-communist transition led to fragmented trust in institutions and reliance on informal networks (Shaqiri, 2013). Besides, Muça and associates (2020) have also indicated that the levels of trust are suboptimal in Albania. It is evident that trust could be considered as missing factor in relations among stakeholders at the local level. While some scholars argue that Albania's traditional kinship structures support economic resilience (Gërxhani, 2006), others highlight that weak institutional trust and corruption hinder broader economic cooperation and development (Gjeloshi, Boshnjaku, 2024). A comprehensive examination is required to understand how these historical and social factors influence economic development. Recent studies on Albania's transition highlight the importance of social capital in shaping trust, governance, and economic resilience. Nevertheless, its specific impact on rural development remains largely unexamined. Conversely, data indicates that strategic efforts focused on digital development, especially those fostering trust, providing digital skills training, and implementing digital literacy programs, may enhance social capital among population and certain groups (Kozak, Muça, 2020; Kokthi et al., 2023). A research is required to examine the impact of informal networks, institutional trust, and local collaboration on economic prospects in rural regions. Designing the successful development policies requires the facilitation and encouragement of entrepreneurial activity and community-driven growth. Detailed examination of the effects of historical and social factors on economic development is required. Current literature on Albania's economic transition highlights the importance of social capital in affecting the trust, governance, and economic resilience, but its specific impact on rural development is quite unknown.

Social capital has been for a long time a subject of interest for many authors, resulting in a range of definitions, moving from broad to more specific concepts. Bowles and Gintis (2002) state that social capital refers to the trust or concern for collaborators, or other community members, as well as the willingness to live according to community's norms, while to punish those who violate these norms.

Coleman (1999) describes social capital as a collection of diverse entities, all characterized by their foundation in social institutions and their role in reducing the transaction costs associated with collaboration. This broad definition has been criticized (Castle, 1998) for its vagueness and lack of comparability, potentially

compromising the analytical validity of the term. Putnam (2001) clarifies the concept by defining social capital as the whole of relationships among individuals, and the norms of trust and reciprocity that are developed between them. Improvement of the social capital enhances people's quality of life (Woolcock, Narayan, 2000).

Strategic initiatives aimed at digital development, particularly those that enhance trust, offer digital skills training, and establish digital literacy programs, can significantly bolster social capital among individuals and communities (Kozak, Muça, 2020; Kokthi et al., 2023). Consequently, investigating the influence of informal networks, institutional trust, and local collaboration on economic prospects in rural regions is essential for formulating effective development policies that facilitate and promote entrepreneurial endeavors, and community-led progress.

### ***Context of the study***

Albania has an area of 28,748 km<sup>2</sup>, with a population density of 100 people per km<sup>2</sup>. The country is divided into 12 regions (NUTS 3) and 61 municipalities (LAU 2), where the new territorial administrative division was implemented in 2015. Administrative reform seeks to improve the efficiency of local government and to bolster the nation's economic and social growth. The definition of rural regions is crucial to mentioned procedure, since the national government has used the Eurostat categorization. According to this classification, 2/3 of the Albania's NUTS 3 regions are predominantly rural (MARD, 2022).

The Berat region is one of them. It is located in south part of the country with an area of 1,798 km<sup>2</sup> and population of 140,956 inhabitants (INSTAT, 2023a). Region specific local advantage is that the city of Berat has been recognized as the UNESCO World Heritage Site. The Berat's designation as a UNESCO World Heritage Site is attributed to its meticulously maintained Ottoman architecture, distinctive historical districts (notably Mangalem and Gorica), and its enduring heritage of religious and cultural harmony. City has an impressive array of antique structures, whitewashed hillside residences, Byzantine churches, mosques, and for a centuries-old fortress. All mentioned are enhancing its extraordinary, worldwide significance (UNESCO, 2005).

Traditionally agricultural region, the best known for its production of fruits and vegetables, after 2013 the Berat has undergone incremental changes towards diversification of economic activities, expanding into tourism, handicrafts, and small non-agricultural businesses, such as Agroturizem Pupa, Kantina Çobo, Bujtina Nurellari, etc. The region's economy has experienced significant growth in entrepreneurship, particularly in non-agricultural sectors such as services, trade and agro-processing. It has been gradually transforming into an economic and

cultural hub. This shift has been supported by adequate policies and governmental investments, mainly in road infrastructure and promotion of cultural heritage (Berat is a city listed as a UNESCO World Heritage Site). In this process social capital plays a key role, fostering the collaboration between entrepreneurs and institutions.

### **Methodological Framework**

Methodology applied in performed research integrates both secondary data analysis and primary data collection (through survey) in order to examine the subject matter (in this case, the diversification of economic activities and entrepreneurial development in Berat during the period 2013-2023). Initially, secondary sources such as academic papers, institutional reports, and existing databases were reviewed to gather a foundational understanding of the thematic context.

This study aims to examine the correlation between entrepreneurship, social capital, and sustainable rural development in the Berat region in Albania during the period 2013-2023. Tested hypothesis is that higher levels of social capital (trust, social networks, and cooperation) are positively associated with increased entrepreneurial activity and economic diversification in the Berat region. Previously prepared survey was sent to a selected group of participants, guaranteeing a representative sample relevant to the study goals. The survey data was then evaluated using both qualitative and descriptive methods to derive pertinent findings. The amalgamation of secondary data with primary survey answers allowed an exhaustive examination of the study subject.

The survey was based on a questionnaire consisting of 36 questions, of which 28 were close-ended, while 8 were open-ended. Questionnaire was distributed to 100 participants, who were simultaneously farmers and business owners, covering various business categories such as services, agro-processing, trade, and agritourism (all of them were classified as small and medium-sized businesses). The questionnaire was distributed to a representative group of respondents across all five municipalities of the Berat region, providing representation for the entire area (34 questionnaires in Berat, 22 in Kucova, 19 in Dimal, 14 in Polican, and 11 in Skrapar). Examined group of farmers (100 respondents), who also run certain businesses, has been representative both in terms of geographical distribution and the weight it holds within this category of farmers who simultaneously manage farm and certain business.

This study employs a technique that integrate secondary data analysis with primary data collecting, investigating the diversification of economic activities, social capital and entrepreneurial growth in the Berat region (for the period 2013-2023). The research has started with examination of secondary resources, including scholarly

articles, institutional reports, and pre-existing databases, in order to provide a comprehensive grasp of the subject framework.

Additionally, primary data was gathered through survey based on questionnaire that involves 100 farmers who concurrently manage certain businesses. Established questionnaire contains both open and closed questions. There are 28 closed questions that represent the quantitative method, providing the data of number of employees at the farm, number and types of grown animals, volume of production, etc. Meanwhile, there are 8 open questions that aim to gather qualitative information from respondents regarding the reasons for starting the businesses at the farm, the main directions of business activities, as well as the drivers or factors that hinder or develop social capital in observed region. For example, some of the questions included in questionnaire were: i) Have you participated in business training courses?, ii) What kind of consultancy do you need for your business?, iii) Do you run the farm and the business by yourself?, or iv) What are the factors hindering the development of your business?

## Results and Discussion

The number of enterprises in Berat County has increased from 1,500 in 2013 to 2,315 in 2023 (INSTAT, 2023b). This could suggest to improvement in the economic environment and better opportunities for business establishment. Meanwhile, number of employees in non-agricultural sectors has increased from 2,000 in 2013 to 3,200 in 2023, marking a 60% growth over this period (INSTAT, 2023b). Individually, tourism sector has experienced the most significant growth (for 25%) during the period 2013-2023, representing the key economic driver (INSTAT, 2022). In 2022, tourism has generated 4.8 million EUR, or 15% increase compared to 2020 (INSTAT, 2022). Additionally, local handicrafts such as stone carving, handmade jewelry and leather products, woodwork, etc., have contributed with 1.2 million EUR to the local economy, employing 320 people (70% of them were women), (INSTAT, 2023b). Mentioned highlights their role in preserving traditional crafts. As a part of infrastructural advancements in the Berat county, within the period 2018-2023, more than 50 solar systems were installed on farms and public buildings (INSTAT, 2023b).

Utilization of the EU pre-accession funds and national programs has been significantly supported the entrepreneurship in the Berat region. From 2014 to 2023, through the IPARD II program are invested over 130 million EUR in rural businesses in Albania, where 20% of funds were reallocated to the Berat region (AZHBR, 2024; MARD, 2025). Good examples are Nurellari winery and Pupa agritourism. Local organizations, backed by the UNDP, formed 55 interest groups that have boosted traditional product



exports for 40%, expanding into EU markets, like as Germany and Italy. Some of the products that are usually produced and exported are figs, raki (traditional fruit brandy), wine, olives, cheeses, etc. (UNDP, 2023). Between 2018 and 2023, through the more than 60% of government funded and international collaborative projects, 1,500 jobs were created, while strengthening available social capital for sustainable development (UNDP, 2023). The construction of roads between the Berat city and surrounding villages during the period 2015-2023 has decreased required transportation time for over 30% (Bashkia Berat, 2024). However, challenges such as inadequate physical infrastructure (e.g., roads, water supply systems as communal infrastructure, or some agricultural infrastructure such as water irrigation systems, etc.), limited market access, and lack of vocational trainings hinder the pathway of this development to be sustainable. Addressing these issues through targeted policies is essential for the region's continued economic growth.

The data collected from the survey clearly show that farmers who have access to consultancy networks, professional advice, and training are more likely to be engaged in various economic activities, thus diversifying their sources of income beyond traditional agriculture. Specifically, even though participation in courses and training is low (only 17% of respondents have attended business training), this minority represents the most active segment, open to innovation and change. This indicates that occurrence of social capital has a positive impact. However, due to its limited spread, its overall effects remain partial.

Furthermore, the lack of institutional support turns out to be one of the main obstacles to economic diversification. According to the obtained data, 80% of the surveyed farmers have not received any type of support from local authorities. Meanwhile, demand for market consultancy is very high (60% of respondents consider it necessary). This gap in institutional support, which is a key component of social capital, significantly limits the opportunities to develop new economic activities.

Existence of the "black market" is mentioned as the main competitor by 50% of respondents, also has a negative impact on economic diversification. Such business environment shows a lack of cooperation and functional social capital, making it more difficult for farmers to undertake new initiatives or collaborate on new economic activities.

Finally, the management of businesses and farms lies almost entirely in the hands of the owners themselves, with no involvement from the family members, or the wider community. This practice indicates a low level of social capital and trust, and limited opportunities for knowledge sharing, assistance, or cooperation, which negatively affects the further expansion and diversification of economic activities.

In 2023, the GIZ reports results from the intensive training programs in project management, digital technology, and marketing undertaken in the region (GIZ, 2023). Besides, the improved skills and qualifications of employees and entrepreneurs, trainings have also strengthened local social capital through increased trust within the local community, establishment of cooperative networks between businesses and institutions, and the utilization of collective resources to address economic challenges. Good example could be the project PROSEED performed by GIZ, which has supported young people from rural areas who had innovative ideas for business development during 2020. According to gained data, 70% of participants involved in mentioned training programs have improved their business productivity by 25-30%, diversifying their offerings in the sectors such as cultural tourism and handicrafts (WB, 2023). Furthermore, human capital has been advanced through training programs due to circular economy and waste management, reducing the production losses for 20% (INSTAT, 2023a). These initiatives have contributed to the creation of “innovative ecosystem”, wherein small businesses establish connections with universities and research centers. The establishment of the Business Improvement District (BID) in the Berat region, initiated by the Albanian-American Development Foundation (AADF) in collaboration with the municipality and local businesses, has cultivated an innovative ecosystem. BID in Berat has facilitated connections between small businesses and educational and research institutions, emphasizing entrepreneurship, infrastructure, and tourism, thereby fostering new opportunities for collaboration and growth.

Meanwhile, the work on improving the quality of social capital (participation in networks, training, or institutional support) is relatively low among respondents, and as a result, the majority have limited economic diversification. It has to be underlined that existence of improved and skillful social capital (access to training, counseling, information networks), leads to greater likelihood of economic diversification. The lack of cooperation with institutions and the dominance of individual management reflect to weak social capital, limiting the opportunities for expanding economic activities.

In general hypothesis has been partially verified through the analysis of field data, practical examples, and relevant literature sources, providing strong indices that social capital plays a crucial role in promoting entrepreneurship and the sustainable development of the Berat region.



## Conclusion

The core of the sustainable economic development in rural Albania, as was demonstrated by the Berat region, is lying in promotion of entrepreneurship and effective managing of social capital. Economic diversification, particularly via non-agricultural pursuits, as like tourism and handicrafts, has reduced dependence on agriculture and produced supplementary revenue for the local population. The UNESCO World Heritage designation of Berat has enhanced tourist growth, positively impacting the region's GDP. Fortifying the connection between the tourism and cultural heritage may serve to amplify economic benefits. Social capital is essential for linking local producers to local, regional, and global markets, cultivating trust, and promoting cooperation. The EU assets have been essential in supporting both agricultural and non-agricultural initiatives. Nonetheless, obstacles such as restricted digital technology adoption and insufficient infrastructure in rural regions still persists.

In the Berat region, the EU funds have been instrumented in promoting agricultural and non-agricultural initiatives, directly responding to identified local development needs. Established programs, like is IPARD, have enabled investments in modernization of agricultural systems, the promotion of agritourism, and the assistance of small rural entrepreneurs. Significant achievements include the creation of cooperative processing facilities (for olive oil and fruit), with efforts to improve local tourist infrastructure. Contrary to accomplishments, survey findings indicate certain obstacles as are limited use of digital technologies or inadequate infrastructure in rural regions, highlighting the need for focused assistance in forthcoming financing period (MARD, 2025).

The Berat region represents a successful model of rural territorial development, where the interaction between natural resources, cultural heritage, and social capital has enabled economic diversification. This model can serve as a valuable reference for development policies and practices in other rural areas of Albania. Region has significant natural resources, including fertile agricultural land, huge olive groves and vineyards, a diverse array of flora and fauna, and substantial water supplies from the Osum and Tomorr rivers. The region's extensive cultural heritage is evident as the UNESCO-listed architecture, ancient religious monuments, traditional crafts, and lively folklore. Additionally, strong social capital is showcased through active community organizations, intergenerational transfer of available knowledge, and collaborative networks that foster local entrepreneurship and participatory governance.

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