Evaluating RD Policies for Social and Human Capital Development

L'évaluation de la politique de développement rural en termes de développement du capital social et humain
Die Evaluation von Politikmaßnahmen zur Entwicklung des ländlichen Raums zur Entwicklung von Sozial- und Humankapital

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Building both social capital and human capital are now recognised as key to the process of rural development. In Europe activities in these areas are incorporated into the CAP's Pillar II, though other EU and national policies are important, including actions for regional cohesion and education and skills training. Here authors consider the issues associated with the evaluation of government-supported schemes to invest in these forms of capital. Two cases are examined – the LEADER programme in the EU and the encouragement of entrepreneurship in the US.

Social capital – the EU's LEADER Programme

Experience of the EU's LEADER Programme since the 1990s has shown that social capital influences outputs and outcomes of rural development policy. It is one of the key factors in sustaining endogenous economic growth in small rural societies. While the importance of building social capital is acknowledged there is little agreement on how progress in this area can be assessed (Dwyer and Findeis, 2008). Despite this, EU rural development policy continues to aspire to 'building social capital'.

The role of social capital in rural development is fundamentally about fostering human interrelationships and networks which can generate benefits for rural households and communities. It is built on shared trust, norms and values and their consequent effects on expectations and behaviour. Just like physical capital, the 'stock' of social capital changes over time and may experience 'progressive destruction'. Such destruction is evidenced by a decline in community-level volunteering as in the case of Ireland (Donoghue, 2002) or that highlighted in the USA by Putnam (1995).

> "Les deux cas présentés ici ont en commun le manque de données pour établir les indicateurs pertinents dont les évaluateurs ont besoin."

There are three recognised forms of social capital, namely bonding, bridging and linking. Each has overlapping but distinct roles in rural development. 'Bonding' capital involves people working together at the local level to address needs and issues identified as being personally important. Identity and trust are integral parts of this form of social capital. 'Bridging' capital connects local groups in ways that allow them to share experiences as well as to exert greater political and economic influence through collective action. 'Linking' capital relates to connections between local groups and public and private institutions through vertical ties or power relationships. Such links make it possible for communities to have a voice in, and ultimately to influence policy decisions that affect them. Local development groups under the EU LEADER programme provide evidence of the three forms of capital contributing towards social and economic goals of rural development.

LEADER

The EU's LEADER initiative for rural development in territories across Europe is recognised for its ability to deliver a diverse range of projects to address local priorities which draw in multiple levels of governance. It grew from LEADER 1, involving 217 Local Action Groups (LAGs) in the early 1990s, to the LEADER+ Programme which operated through 1,157 LAGs up to 2006, its approach subsequently having been 'mainstreamed' as Axis 4 of the current round of Rural Development Programmes (2007–13). These initiatives have provided the conditions for innovative actions to emerge that bring together indigenous financial and cultural resources to contribute towards sustainable rural development. Typical actions include the 'Golden Mile' Project in Ireland, where local people come together voluntarily to renew and preserve the built and natural environment along a one mile stretch of road in rural areas. Another is the 'Area Label' Project in Italy, which involves local stakeholders in a collective territorial valorisation system (enhancement of area-based perceived value) that covers public administrations, restaurants, social services, handicraft enterprises and food stores. The result is a set of programmes which have been identified as having a significant beneficial impact relative to the resources committed to them and which also address issues of social cohesion (Farrell and Thirion, 2005). Through innovative projects, LEADER has gone beyond the stated objectives of generating new products and economic diversification in rural areas and helped to create wider networks and deeper social relations between communities and different institutions (Dargan and Shucksmith, 2008).

Evaluation issues

To evaluate how RD policy measures contribute to change in the stock of social capital requires the development and application of a 'basket of indicators' that reflects its different forms. For *bonding social capital* this relates to trust, identity and reciprocity, all of which can be measured and tracked through attitudinal surveys. With *bridging social capital* the indicators include: extent and quality of networking; communication and exchange of knowledge; and cooperation in local actions. *Linking social capital* reflects the quantity and quality of engagement between communities, public agencies and the private sector that results in new actions for development. While the appropriateness of indicators is influenced by the socio-economic context and the policy measure in question, it is possible to suggest a set which, when taken in combination with others, acts as a proxy for the nature and extent of social capital at a given time. Such indicators include:

- *Identity* – the extent that people associate with their locality and choose to invest resources such as time or money into local development enterprise;
- *Voluntarism* – the existence of active organisations of volunteers that contribute to development goals;
- *Knowledge exchange* – the extent to which lessons and experiences are shared as well as the presence of activities associated with active networking;
- *Participation in local decision-making* – the existence of a community voice in decision-making which yields new actions for development; and
- *Engagement of public agencies with voluntary organisations* – changes in institutional arrangements to deliver rural development objectives.

Stocks of social capital ebb and flow over time in response to changing contexts, hence the need to assess changes in the different forms of social capital over time. The construction of a baseline is a key starting point. This should involve specific and realistic indicators that are agreed to from the outset. Such indicators can be established through participatory processes such as consultations through 'panels of stakeholders' that debate and define realistic and specific measurements.

Poor interaction between different disciplines with interests in evaluation remains a major challenge when it comes to evaluating social capital. In the absence of clarity and agreement on concepts and methods of measurement there is a tendency to default to conventional development outcome indicators. LEADER offers a good example of this dilemma. Indicators used to assess LEADER in Ireland for the period 2000–06 included: 'numbers of new jobs created', 'numbers of new businesses established', and 'numbers of people trained'. This dependency on measuring the 'end products' of rural development fails to recognise the creation of processes which are of themselves important in rural development. Weak institutional capabilities, particularly in their data systems on social capital, remains a major challenge.

Addressing the challenges

Addressing these challenges begins with developing individual and institutional capabilities to collect and analyse the mix of qualitative and quantitative data that reflect shifts in

the different forms of social capital relevant to the goals of rural development. While EU policymakers and administrators may claim to recognise the importance of social capital in delivering the rural development agenda, the measures delivered have 'sold themselves short' by emphasising progress mainly in terms of quantifiable economic indicators. Convincing politicians and the general public of the worth of investment in social capital that may not yield tangible benefits in the short term will be a difficult task. However the continued failure to integrate indicators of trust, identity and reciprocity will seriously undermine public support and confidence by EU citizens in the rural development agenda. The principle of subsidiarity, integral to the legal framework of the EU, suggests that constructive and robust social capital which broadens participation and deepens democracy is at the very heart of the evolving project that is the European Union.

Human capital – US programmes to foster entrepreneurship

Human capital can be thought of as the enhanced earning ability of individuals brought about by investment in their training and education and embedded in them. The acquisition of greater business skills is one form of this. While sharing many of the characteristics of physical capital, such as being associated with greater productivity but also being subject to obsolescence, embedded human capital is not directly capable of transfer between individuals.

> “Die beiden hier vorgestellten Fälle verbindet das Problem, dass sie eine für Evaluatoren nicht ausreichende Datenmenge im Hinblick auf relevante Indikatoren aufweisen.”

In the United States, federal funding of human capital formation in support of rural entrepreneurship is limited. While basic programmes exist to help nascent business owners, they tend to be uncoordinated and distributed across numerous federal agencies. Federal programmes are predominantly couched in terms of small business development or innovation research. Funding for training for entrepreneurship is measured in millions of dollars, while business loans and loan guarantees are measured in billions. The US Small Business Administration (SBA), which provides 'Programs and services to help you start, grow and succeed',[1] offers some entrepreneurship education, while the SCORE (Service Corps of Retired Executives) programme is staffed by volunteers who counsel small business owners. Also within this agency, Small Business Development Centres provide 'marketing, financial and business planning services through counselling and training.' However, a Government Accountability Office (GAO) review found that SBA spent only a fraction of its budget on technical assistance during 2002–04, and none of this was in rural areas.

The Economic Development Administration (EDA) leads 'the federal development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy'. It gives priority to development applications that seek to promote entrepreneurship, focusing predominantly on the community rather than individuals. Likewise, the Appalachian Regional Commission (ARC) assists rural entrepreneurs and small businesses. The ARC has invested nearly US$ 43 million since 1997 in entrepreneurship, an effort that was recently evaluated: three basic findings are that the entrepreneurial pipeline (see below for further discussion on this concept) in the region has expanded; entrepreneurs have more information and greater skills; and the ARC region has 1,787 more firms and 12,178 jobs as a result of these investments. Also, entirely new sectors have emerged, including the 'sustainable wood products industry'.

Another major actor is this area, the US Department of Agriculture's Small Business Innovation Research (SBIR) programme, awards competitive grants 'to qualified small businesses to support high quality, advanced concepts research related to important scientific problems and opportunities in agriculture that could lead to significant public benefit if successful'. Despite its name, during 2002–04 nearly 90 per cent of these funds were spent in urban rather than rural areas. The Rural Business Enterprise Grants (RBEG) programme 'provides grants for rural projects that finance and facilitate development of small and emerging rural businesses [and] help fund distance learning networks.' In 2002–04 about half of US$ 143 million in RBEG funds was spent in rural areas. Opportunities exist for increased coordination across federal agencies working in rural areas. GAO (2008) reported that '…collaboration between SBA and Rural Development to date has been sporadic and mostly self-initiated by officials in field offices'.

Thus existing federal efforts provide a mixture of financial support to entrepreneurs to engage in high-risk research to establish new ventures and create technologies, basic business and marketing skills, and loans or loan guarantees. These efforts have had successes as is documented in stories posted on websites. However, additional systematic analysis is needed to shed light on how, where, and why some of these efforts have succeeded, and how successful ones might be replicated elsewhere. Additional opportunities to create public benefits may arise by providing further education on topics such as intellectual property rights, business support systems, networks, and infrastructure, as well as general entrepreneurial training. It is critical, though, to examine whether such activities lead to net gains in economic activity or merely a reallocation from elsewhere.

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In addition, private–public partnerships are emerging around the US to help communities become more entrepreneur-friendly. The idea of entrepreneurial pipelines was first proposed by Lichtenstein and Lyons (2006). Entrepreneurs enter the pipeline at one end, and grow (or fail) as they move through it, coached by more experienced local entrepreneurs. This idea has a built-in evaluation facility because it tracks businesses over time. It has been adopted in the form of so-called Entrepreneurial Development Systems (EDS), which develop and expand the pipeline of entrepreneurs, build institutional and other support systems (including coaching, access to capital and market information), and influence state and local policies as well as communities to enhance local entrepreneurship. Assessing the Kellogg Foundation's investment in six EDSs across the rural US, Edgcomb *et al.* (2008) reported that the projects increased understanding of and appreciation for entrepreneurship. A state-wide approach was recognised to be more effective than one focusing only on rural areas. Further, the efforts served as demonstration projects for how firm genesis and growth could be accelerated in a region. Entrepreneurship education was better integrated into college curricula and policymakers were educated on the need for appropriate policy. Finally, solutions were developed that could ensure the sustainability of these systems over time, if implemented.

Evaluation issues

OECD (2008) provides various measures of entrepreneurial success, including birth, death and survival rates (both for establishments and jobs), innovativeness, and export performance. Surprisingly, with the exception of one (value-added), these do not include measures that can be interpreted as returns to entrepreneurial human capital. If rural areas are to thrive, it is essential not only to create jobs but also to raise incomes through higher productivity.

Data on firm formation are becoming available from secondary sources that could be used in more systematic impact assessments of EDSs, such as the Kellogg Foundation's initiatives. The objective would be to measure, at the level of rural counties, how indicators such as self-employment earnings or numbers of small new firms that are locally owned change over time in response to a treatment. That treatment could be federal training and loan guarantees, measures to promote public and private partnerships, or programmes designed to improve entrepreneurial human capital. To truly isolate the effect of the public intervention (treatment), other potential causes of change must be isolated. As more data become available, and through the use of increasingly sophisticated statistical analyses, this is feasible.

An analysis of the SBA's programmes, including consideration of the effect of the financing (dollar amount, interest rate and maturity, or length of loan) on sales and employment growth, concluded that SBA financing failed to boost firm performance. In fact, growth was higher *prior* to the receipt of financing. Anticipation of and preparation for the loan application may have triggered a positive response – or perhaps 'healthier' firms were more predisposed to apply for funding. This kind of 'selection bias' needs to be addressed very carefully. In the case of one programme, agricultural and mining firms experienced more rapid sales and employment growth than did firms in other industries. Since such firms are more prevalent in rural areas, further investigations may prove fruitful. Finally, the opportunity costs of any federal investments need to be considered systematically. For example, would more jobs have been created if the SBA had simply written cheques to the population in the region, or by making other investments?

To conclude, the evaluations of schemes to promote social capital and to foster entrepreneurship both face particular problems. However, the two cases presented here share the characteristic of a lack of data on relevant indicators that evaluators need in order to reach sound judgements. For investment in EU social capital it is the lack of information on social characteristics and in the US it is the gap on the economic return to entrepreneurship human capital. Both underline the importance of the design of the rural data system to evaluation, including the ability of scheme monitoring mechanisms to collect data not only on resource use and outputs but also on what is relevant to the outcomes of policy interventions.

Note

1 All material appearing in quotes is from the websites of the respective agencies.

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summary

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In the EU, building social capital and developing human capital are increasingly seen as key to development in rural areas. Social capital is fundamentally about human interrelationships and networks. Evaluation of policy initiatives to promote social capital needs to go beyond indicators of conventional economic outcome measures such as jobs created and income generated and to encompass growth in the processes by which social capital works. Human capital in the form of education and skills possessed by individuals is linked with productivity and incomes. In the US, federal funding of human capital formation in support of rural entrepreneurship has been limited, fragmented and uncoordinated but activities in this area hold promise. The evaluation of entrepreneurial programmes needs to overcome many statistical problems such as selection bias regarding which firms received 'treatment' and how to identify causality. In particular there is a lack of indicators on the returns to investment in entrepreneurship. While the two case studies face their own sets of particular problems, they share the characteristic of a lack of data on relevant indicators that evaluators need in order to reach sound judgements. This points to the importance to evaluation of the design of the rural data system and scheme monitoring mechanisms.

Dans l'Union européenne, la construction d'un capital social et le développement du capital humain sont de plus en plus considérés comme des éléments-clé du développement des zones rurales. Le capital social est fondamentalement une question de relations humaines et de réseaux. L'évaluation des politiques de promotion du capital social doit aller au-delà des indicateurs de mesure des résultats économiques conventionnels comme les emplois créés et les revenus générés. Elle doit prendre en compte la croissance des processus par lesquels le capital social fonctionne. Le capital humain, en termes d'éducation et de capacité des individus, est lié à la productivité et aux revenus. Aux États-Unis, les fonds fédéraux pour la formation du capital humain en soutien à l'entreprenariat rural ont été limités, fragmentés et non coordonnés mais les activités dans ce domaine sont prometteuses. L'évaluation des programmes en faveur de l'entreprenariat doivent venir à bout de nombreux problèmes statistiques comme le biais de sélection par rapport aux entreprises qui sont concernées et l'identification de la causalité. Il existe en particulier un manque d'indicateurs sur les retours sur investissement dans l'entreprenariat. Les deux études de cas ont leur propre type de problèmes particuliers mais ils ont en commun le manque de données pour établir les indicateurs pertinents dont les évaluateurs ont besoin pour former un jugement sérieux. Ceci indique qu'il est important pour l'évaluation de concevoir des systèmes de données rurales et des mécanismes de suivi des programmes.

In der EU werden der Aufbau von Sozialkapital und die Entwicklung von Humankapital zunehmend als entscheidende Größe bei der Entwicklung des ländlichen Raums betrachtet. Beim Sozialkapital geht es hauptsächlich um die wechselseitigen Beziehungen und Netzwerke zwischen Menschen. Die Evaluation politischer Initiativen mit dem Ziel, den Aufbau von Sozialkapital zu fördern, muss auch Indikatoren berücksichtigen, die über die herkömmlichen wirtschaftlichen Zielkriterien hinaus gehen, wie z.B. neu geschaffene Arbeitsplätze und erwirtschaftetes Einkommen, und muss zudem das Wachstum in jenen Prozessen erfassen, die vom Anteil am Sozialkapital abhängen. Das Humankapital, das sich Menschen in Form von Bildung und Kompetenzen aneignen, trägt zu Produktivität und Einkommen bei. In den USA ist die öffentliche Förderung der Bildung von Humankapital durch Unterstützung des Unternehmertums im ländlichen Raum begrenzt, fragmentiert und unkoordiniert – Aktivitäten in diesem Bereich sind jedoch viel versprechend. Die Evaluation von Programmen zur Unternehmensförderung muss zahlreiche statistische Probleme überwinden: Es müssen die Unternehmen identifiziert werden, die von den Maßnahmen betroffen wurden. Weiterhin ist die Kausalität zu klären. Insbesondere besteht ein Mangel an Indikatoren für die Verzinsung von Investitionen in Unternehmertum. Die beiden Fallstudien haben zwar ihre ganz eigenen Probleme, haben aber gemeinsam das Problem, dass sie eine für Evaluatoren nicht ausreichende Datenmenge im Hinblick auf relevante Indikatoren aufweisen. Aussagekräftige Beurteilungen sind daher nicht möglich. Hierdurch wird unterstrichen, wie wichtig die Ausgestaltung von Datenerfassungssystemen im ländlichen Raum und von Mechanismen zur Überwachung der Programme für die Evaluation ist.

summary