

**Coping Strategies and Regional Policies**  
**– Social Capital in the Nordic Peripheries –**  
**Country report Faroe Islands**

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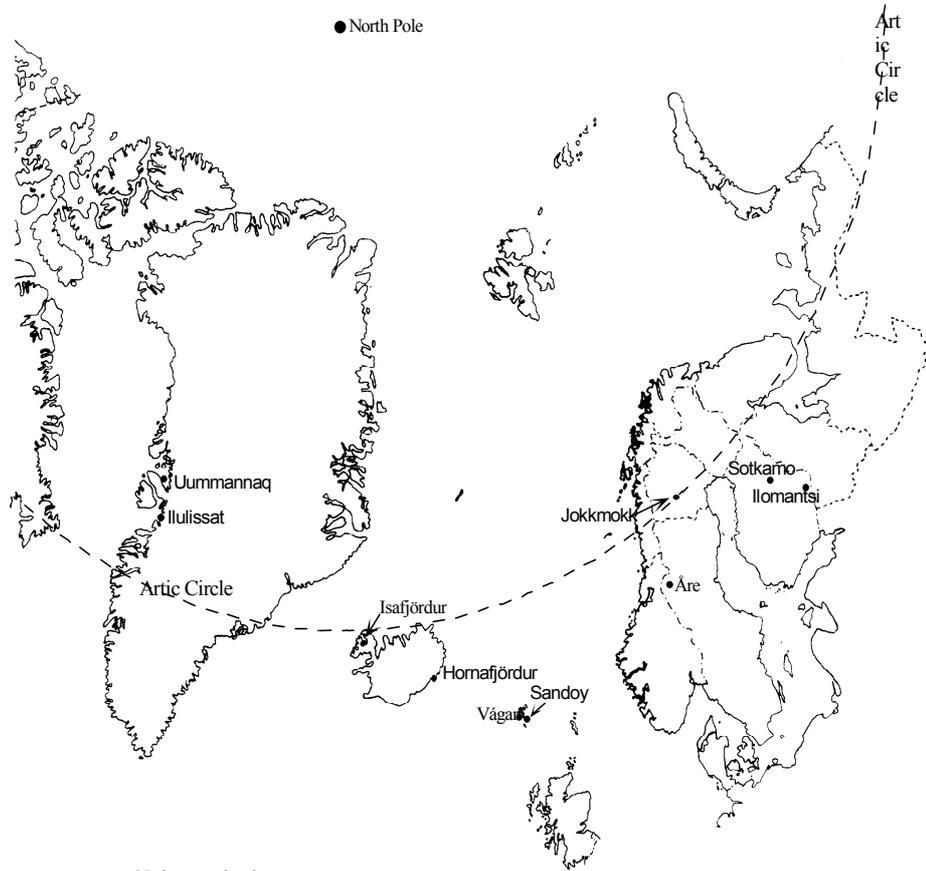
## **Preface**

This country report is one of five country reports (Nordregio working papers) of the research project *Coping Strategies and Regional Policies, Social Capital in Nordic Peripheries*. The research includes fieldwork during 2001 in Greenland, Iceland, the Faroe Islands, Sweden and Finland, two localities per country, two projects per locality. The project was co-operatively conducted by researchers from the University of Iceland (Reykjavik), the Research Centre on Local and Regional Development (Klaksvík, Faroes), the Swedish Agricultural University (Uppsala), the University of Joensuu (Finland) and Roskilde University (Denmark). Researchers from these institutions are responsible for the five country reports. A comparative report written by Jørgen Ole Bærenholdt summarizes the country reports

The project is part of the Nordic research programme *Future Challenges and Institutional Preconditions for Regional Development Policy*. The programme is commissioned by The Nordic Council of Ministers / Nordic Senior Officials Committee for Regional Policy (NÄRP). A pilot phase of the programme was reported in 2000 (Nordregio Report 2000:1). This report is one of eight studies in the 2000-2002 phase of the programme. A final phase will start in 2002 and end in 2004.

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Stockholm, August 2002



--- Nation-state borders  
 ..... Region/province borders

0 500 km

Coping Strategies and Regional Policies  
 Social Capital in Nordic Peripheries.  
 Localities studied, NORDREGIO - project 2000-2001.

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## **Introduction**

### **Analytical perspective**

The claim of this paper is that a “networking economy” is slowly emerging on the Faroes. It is a network-economy founded on small, locally embedded companies that manage to emerge and survive by means of distinct coping strategies. These strategies are based on a long-standing tradition of community entrepreneurship and locally derived supporting structures, but they are supplemented and strengthened with direct and multifaceted global linkages. In between this local-global reach there is regional policy, and the specific question to be discussed is how, and to what extent, regional policy supports the emergence of these small businesses in general, and their network practices in particular. The discussion will be founded on the analytical construction of local coping strategies (Bærenholdt and Aarsæther 1998; Hovgaard 2001; Hovgaard 1998), and, in particular, the connections between social capital and regional policy will be examined.

In this part of the paper, the Faroese context will be presented, while the question of what should be understood as regional policy and its state of affairs will be discussed in the second part of the paper. Then, in the third part, four different business initiatives will be presented from the perspective of coping strategies. Part four will provide an interpretation of social capital and of regional policy.

### **The Faroese context**

To understand regional policy in a Faroese context, a few general points need to be stressed.

In 1948, The Faroes moved from being a county in the Danish Realm to being a Home Rule entity. In principal, this meant that the Faroes attained a far more elevated status than ordinary counties. Home Rule confers the right to handle political, economic and cultural affairs usually under the jurisdiction of the state, e.g. legislative competence in fisheries policy, trade policy, labour market policy, and the like. The Faroese parliament is, within defined areas, entitled to make its own laws, collect taxes and to have its own government and public administration. Over the years, more and more areas have come under Faroese jurisdiction. On the other hand, dependence on transfers from the Danish government has continued to grow. Today these transfers constitute a considerable part of the public budget. Faroese development, including regional policies, must be understood with respect to this peculiar institutional connection between the national (Danish) state and the local (home-rule) state.

The Faroes is, in the cultural meaning of the word, a nation of its own. It is a micro-society of only 47 000 people living on the 17 inhabited islands. About 18 000 inhabitants live in the capital city Tórshavn, and 4 700 in the biggest town, Klaksvík. In the larger towns of Runavík, Fuglafjørður, Tvøroyri, Vágur and Vestmanna, there are between 1 000 and 2 600 inhabitants, while the rest of the population live in 40 villages, most of which have less than 200 inhabitants. Cultural life is rich, as evidenced by the surprising number of high-quality writers, artists, and musicians. A very important aspect of cultural life is a strong local identity and “sense of place” which strongly influences the ways in which political, economic and cultural life

works. One important dimension of this fact is rooted in the national electoral system, which strongly supports local interests.

A third vital component resides in the significance of fisheries. Fisheries – including aquaculture as the upcoming industry – is by far the most important source of work, and accounts for more than 90 percent of Faroese export value. Even though the Faroes is a highly modernised welfare society, with a relatively large and growing service sector, dependence on a single resource base is high<sup>1</sup>. This dependence makes the economy extremely vulnerable to fluctuations.

How the institutional structure, local identities and the importance of the fisheries sector are intertwined within “regional policy” will be further discussed in part two of this paper.

### ***The regional and local contexts***

The concrete cases in this paper are taken from two different islands on the Faroes, Vágoy and Sandoy respectively. The two islands also constitute what, in Faroese terms, would be a region (see Figure one).

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<sup>1</sup> Within a short period we will know whether there is any oil to be found in the Faroese subsurface, which may dramatically affect the three dimensions currently important for regional policy.



*Figure 1: Map of the Faroes with the capital Tórshavn and the villages on Vágoy and Sandoy emphasised.*

The largest village on Sandoy island is Sandur (in the south), with Skopun (in the north) being the second largest. While Sandur is an old farmers' community, Skopun is an outlying village which dates back to the beginning of the nineteenth century. These two villages have been continual competitors in the industrialisation of Sandoy. In both villages, traditional fish processing was done in industrial plants, beginning in the 1970s. Both places made heavy investments in local infrastructure, particularly in their harbours. On the eastern side of the island, there are three smaller villages – Dalur, Húsavík, and Skálavík – all three of them old farmers' communities. All villages constitute their own municipalities, except for Húsavík and Dalur, which together form one municipality. Road connections exist among all the villages, and the ferry connection is 20 minutes to the main island, Streymoy.

Historically speaking, the two islands have a rather similar point of departure. Neither of the islands had the best natural conditions needed for commercial activities in the transformation from a farmers society into classical commercialism around the turn of

twentieth century. Therefore, the two islands are both latecomers as regards the industrialisation of the Faroes.

In Vágoy, there are three larger settlements (Sørvágur, Miðvágur and Sandavágur) and two smaller ones (Bøur and Gásadalur). The larger settlements are independent municipalities, while Bøur and Gásadalur constitute one municipality. Sørvágur and Miðvágur have had their own fresh fish processing plants, which were crucial for the modernisation of the island. Sandavágur did not have an industrial processing plant of its own, but since the late 1970s, a small factory has been producing canned food from fish roe and liver. Vágoy has the only airport on the Faroes, which is of great importance for work conditions and opportunities. The airport was first constructed by British forces during the second world war, and today, it is probably the most vital link for Faroese communication with the outside world. There is a 15 minute ferry connection to the main island, Streymoy, but within a few years a subsea tunnel, which is under construction, will permanently connect Vágoy to the Faroese mainland.

The role of the airport underlines the most distinct difference between the two islands, though the coming subsea tunnel will undoubtedly in part at least redress the balance which in itself makes for quite an interesting case. Sandoy is an interesting comparative case, because these relatively similar regions will take different developmental paths.

Extensive investment during the second main transformation period – the 1970s – helped to build up a larger industrial sector based on mass production of semi-manufactured fish products. The industrial and financial sectors on the Faroes fell into a deep recession however at the beginning of the 1990s. The downturn hit both regions very hard. There was no activity in the fishing industry in Sandoy for nearly five years, and only one of the two fillet plants in Vágoy reopened. Both areas faced high rates of unemployment, emigration and high municipal debt loads. Relatively speaking, both islands have lost people during the post-war period, a fact that is connected to the expansion of the capital area. On the other hand, both areas have almost managed to maintain their total number of inhabitants over that same period. By contrast, Suðuroy, the most southerly island, has experienced a dramatic loss in its total number of people

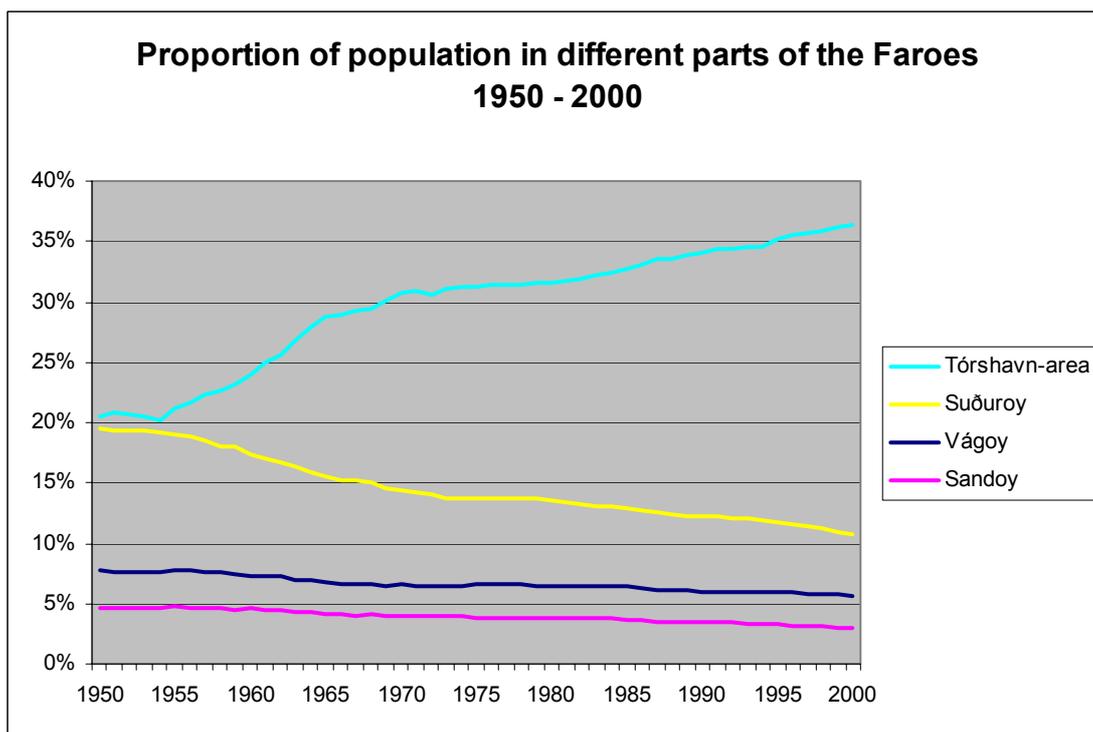


Figure 2: Population trends in the Faroes 1950-2000  
 (Source: Hagstova Føroya, Landsfólkayvirlitið and Centre for Local and Regional Development)

The situation on both islands today is more optimistic than that of only a few short years ago, though it must still be regarded as critical. However, the nature of the problems have definitively changed. They are not so much quantitative in nature; for instance, work opportunities are good, the fisheries sector has substantially recovered, the population decline has stopped and debt rates are going down<sup>2</sup>. Rather, the problems are more qualitative in nature. There are jobs to be found, but probably not the jobs that the young, or the educated, are looking for. The demographic profile is distorted, with a relatively high level of elderly people and falling birth rates, something that is indicated by the following population pyramids.

<sup>2</sup> However, the level of municipal debt is still high in some places.

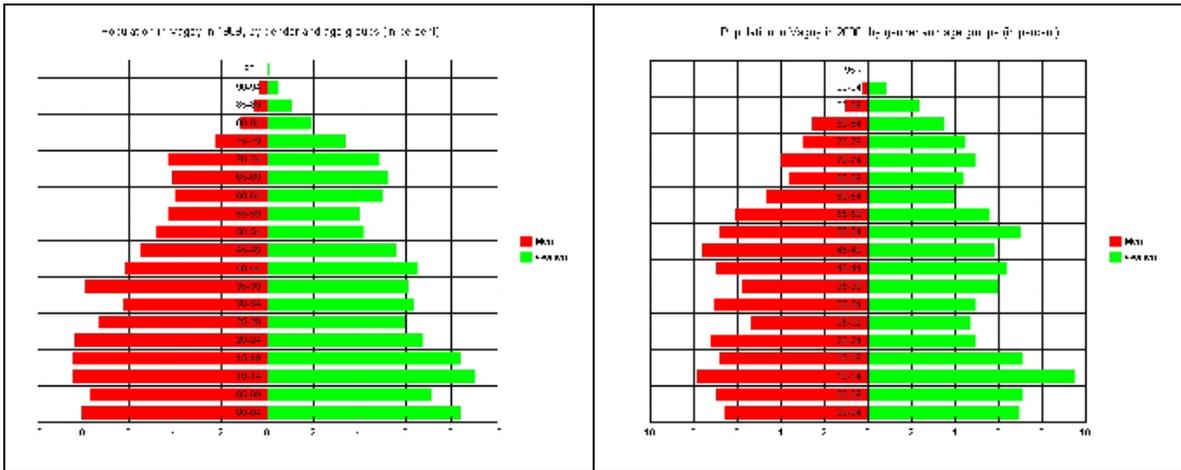


Figure 3: Population pyramids for Vágoy 1989 and 2000  
 (Source: Hagstova Føroya 2001 and Center for Local and Regional Development.)

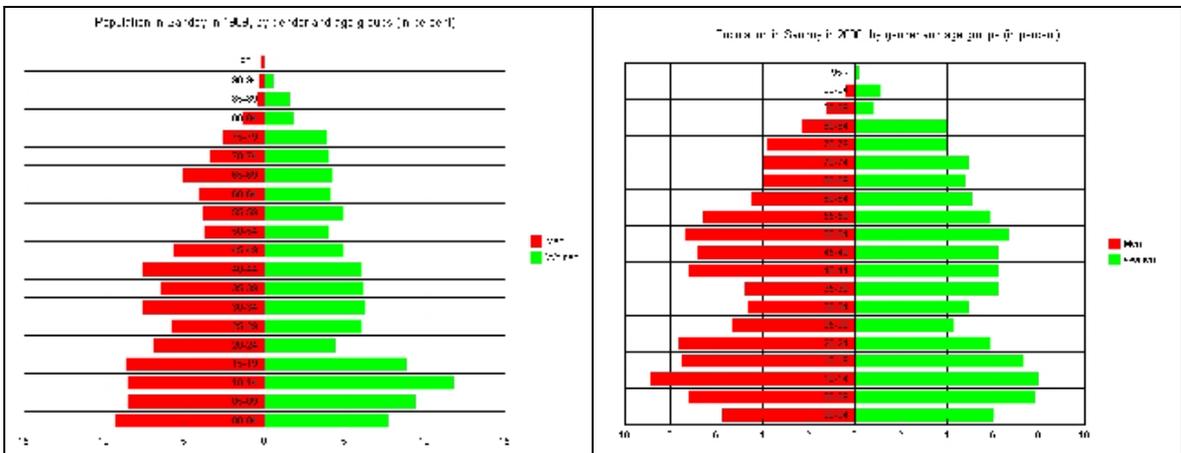


Figure 4: Population pyramids for Sandoy 1989 and 2000.  
 (Source: Hagstova Føroya 2001 and Centre for Local and Regional Development.)

Longterm strategies for economic and social development have still not been integrated into the institutional structure of the Faroes, but the situation in these and in other regions of the Faroes indicates that long term policies are greatly needed. Regional policy is an important part of such strategic public action, and in this respect there are important experiences to be drawn upon.

## **Regional policy – a historical institutional interpretation**

### **Regional Policy**

Regarding regional policy, it is possible to distinguish between different phases in Faroese post-war history. The first phase extends from the establishment of Faroese home rule in 1948 up to the mid 1970s. The second phase runs from the mid-seventies until approximately 1990, when the Faroese economy actually collapsed, and regional policy disappeared from the political agenda. The third phase is the present one in which the concept of “økismenning” has replaced the old agenda of “bygdamenning”. In this part of the paper, the distinguishing features of these phases will be outlined, arguing that regional policy should predominantly be seen as subordinated to, and as an effect of, ”top-down” oriented sector politics, though it is still an issue embedded in most policy discourses.

#### ***The 1945-1975 period***

In the first years after the second world war, the Faroese home rule system was established. At that time, huge private investments were made in buying up an old fleet of British and Danish vessels, which were however unable to produce a profit when other countries renewed their fleets. When the downturn in international markets came in the late 1940s, the Faroese fisheries fleet and its main financial provider, the Faroese owned bank, “Sjóvinnubankin”, collapsed. A major recession set in, which arrested modernisation for some years. During the late 1950s and the 1960s however the economy gradually recovered. This recovery had much to do with regionally oriented policy intrusions by the Danish state.

In the 1950s the Home Rule government and Faroese municipalities were permitted to take out loans in the Danish capital market, and there was a system of reimbursement implemented. In the mid-1960s, an investment fund for the Faroes was created by the Danish state, which mainly provided loans for infrastructural investments. These institutional arrangements were important mainly in terms of the extension of “hard” infrastructure to the Faroes, which was considerably improved in this period.

New roads and harbours were established, the first tunnels drilled, and the supply of electricity substantially improved. In this heyday of the welfare state, even the social infrastructure was greatly improved. The most obvious example of this was the erection of a new, very modern hospital in the capital, Tórshavn, in 1968.

In the 1960s, a major transition also occurred in the Faroese fishing fleet. Taught by experience with investments in old vessels, the Faroese created a new fleet of modern vessels, particularly steel longliners (Kallsberg 1968:119). This renewal was partly made possible by the founding of the credit institution, “Færøernes Realkreditinstitut”, in 1955. It was created with support from the Marshall plan, and it considerably improved opportunities for investment, as it provided loans of up to 50 percent for building new ships. In this period, the Danish Fisheries Bank was also permitted to provide loans in the Faroes, and Faroese companies could take advantage of the Danish law on “area-development” (Kallsberg 1968:129ff; Ølgaard 1968:162).

Even though things were more complicated in reality, it is fair to say that the Faroese home-rule government mainly took care of the conditions of production, while the

Danish state took care of the conditions of re-production. In keeping with the Home Rule Act, the Faroese authorities assumed responsibility for commercial areas in particular, as early as 1948 (Ølgaard 1968:176). Work in the Faroese parliament was mainly concerned with the extension of “hard” infrastructure and with the renewal of the means of production. Health care, schools and social services were both administered and funded by the Danish state and, as such, were a part of broader system of Danish welfare policies.

Therefore, “regional policy” at that time was mainly a question of the international relations between the Danish and Faroese authorities, but not ordinary regional policy. Instead, support was legitimated by *the historically conditioned responsibility of Danish society towards the Faroese* (Ølgaard 1968:169f). Nevertheless, it is clear that a considerable centralisation of people took place, particularly in the capital, Tórshavn. This occurred due to the aforementioned investments made in that particular area, and to the growing role of the new central administration that was built up on the Faroes. Furthermore, a regional centralisation occurred in places like Klaksvík and the southern part of Eysturoy. Another regional trend was that a considerable net migration took place from the Faroes to Denmark. This emigration mostly affected younger people, especially young women (Kallsberg 1968:130 ff). More and more attention therefore was devoted to intra-national (i.e. internal Faroese) imbalances in local and regional distribution, thus also changing the direction of “regional policy”.

#### ***The 1975-1990 period***

At the beginning of the 1970s, the Faroese economy had finally recovered from the mistakes of the 1950s. Self-confidence in managing economic affairs became stronger. This was particularly manifested by the new government coalition established in late 1974. Modernisation came to the centre of the political agenda, and three new main directions were developed in the institutional arrangements of Faroese society.

The first was that the Faroese home rule authorities took over responsibility for the *administration* of social reproduction, i.e. health, schools and social services. Faroese administration of the large welfare sectors was a shift in the practices of the Home Rule Act, which until then had been based on the principle that the authority which decided was also the one which paid for these main welfare areas. A system of reimbursement from the state to the Faroese government was adopted. In principal, about 50 percent of the expenses were covered, but, in practice, the proportion could be even higher (Hovgaard and Johansen 1994).

The second direction was the breakthrough of “Faroese Fordism”, by which is meant the strategic component in industrial development became that of mass production (Hovgaard 2001). Attention turned towards developing the fresh fish plants, of which only a few were operating at the beginning of the 1970s. By 1980 there were 20, by which time, the old modes of production (salt fish, split cod, and dried fish) had nearly disappeared (Hovgaard and Thomassen 1999). As the basic foundation for the Fordist factory is stable processing of raw material, the equivalent at sea became the “fresh fish” or “ice fish” trawler. In the period from 1973 until 1983, the Faroese ice fish fleet grew from one trawler to 85, of which nearly half were new ones (Hovgaard and Thomassen 1999). In this system of “Faroese Fordism”, policy, finance and

commerce formed a corporate pattern dominated by strong sector interests (Haldrup and Hoydal 1994; Hovgaard and Johansen 1994; Mørkøre 1993; 1991).

The third direction was a forceful focus on the issue of “bygdamenning”. Bygdamenning can be seen as the internal Faroese method of making “regional policy”, but directly translated it would be more appropriate to say, “policy of village development”. It can be seen as a declaration of intent that the modernisation of the Faroese community had to be for the benefit of all parts of the country, somewhat like the Norwegian policy of the “preservation of the settlement pattern” (“bevarelse av bosetningsmønstrer”) (Hovgaard 1997). Nevertheless, and somewhat different from the Norwegian experience, the policy of bygdamenning never did obtain concrete political substance, but became in fact a philosophy or symbol enabling territorial interests to claim their share of industrial modernisation.

The three directions in which Faroese society was modernised expanded from the mid-seventies onwards. A power balance between sector and territorial interests occurred, which could only be maintained by economic expansion (Hovgaard 2001:161ff)<sup>3</sup>. Despite the fact that every warning signal was given, nothing serious was done to deal with the situation. The industrial, the financial and the public sectors were characterised by a simple logic of “destructive competition”, i.e. an extended race between sector and territorial interests to promote their sets of interests. This race continued until around 1989/1990, but did not prevent the collapse of the Faroese economy in late 1992.

In the period following the collapse, the financial sector was saved by intervention from the Danish government, and the fisheries sector was restructured on the basis of Danish government demands. In fact, the Faroese public sector was put under Danish administrative control for a number of years. Furthermore, it still suffers from the debts that were incurred<sup>4</sup>. Left behind, and to a large extent proclaimed as the cause of the recession, was the policy of “bygdamenning”. One reason for this was that social reality once again had overtaken policy. Bygdamenning was a kind of regional/local policy principally based on the industrial modernisation of the Faroese villages, a strategy that did not integrate the need to renew local institutions (e.g. the municipal levels) nor was it adapted to socio-cultural changes in the wake of the educational revolution.

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<sup>3</sup> Investment in heavy, expensive equipment such as trawlers was rather easy since capital was easy to obtain, and the government provided guarantees against bankruptcy. What was left to ordinary competition in the fisheries sector was the amount of raw material, and the simple logic to manage this was through the expansion of physical capacity. This was a logic of “destructive competition”, in which an overabundance of capital in the financial sector inflated the economy. Faroese banks, Danish credit institutions and the Faroese government poured credits into the fisheries sector, the building sector and public infrastructure. The financial system was organized in such a way that speculation was a safe activity, and the possibilities for interest speculation were particularly good (Christiansen 1990:70ff; Lyck 1993). The fisheries sector only managed however through extensive public support (Hagstova Føroya 1991:121).

<sup>4</sup> Nearly all private debt was actually converted into public debt (Haldrup and Hoydal 1994:184f)

### *The present period*

Today, the Faroese economy once again seems to have recovered, and the expectations over oil in the Faroese national zone creates further optimism. Public debt has declined more dramatically than one could have expected only a few years ago. One reason for the economic recovery is that the fisheries sector has been very robust and the international markets positive. Another explanation is that over the last 10 years, many things have changed in the functioning of the political/administrative system.

First, it has been possible to restructure the fisheries sector in a more profit-making direction. A system of “fishing days” somewhat different from an ITQ system has been implemented, which in general seems to work satisfactorily. To some extent it also prevents centralisation and a total dominance of large scale fishing. Public support for the transportation of fish makes it possible for distant fish factories to compete more equally on the fishery markets that have been created in the 1990s. In addition to this, fisheries policy is mainly sector politics without any specific regional considerations.

Second, the governance of the public finances and the functioning of the private financial sector have been improved and professionalised<sup>5</sup>. This also includes the public regulatory framework in general, even though it can still be criticised for its expansive and centralising logic (Hovgaard and Thomassen 1995).

Third, there is a growing realization of the importance of innovation and differentiation in the business system. This can be observed in a recent government report (Vinnumálastýrið 1999) and by the establishment of new offices supporting the development of technology oriented businesses. For the business system as a whole the role of the business fund “Framtaksgrunnurin”, is probably of most importance. With net capital of around 200 million kroner, it has become a major actor in the business structure on the Faroes. Besides this, there are other minor funds/institutions which are obliged to support business development.

The institutional changes in the fisheries sector, the financial sector and the business sector generally mean that business development is now much more separated from direct political influence and involvement. Characteristic of these initiatives, with a few exceptions, is the fact that they do not have any specific regional obligations. Neither has the strengthening of sectors been followed up by any explicit regional policy strategy or territorial planning. Furthermore, many municipalities are still heavily indebted, which will prevent them from taking advantage of a further upturn in the economy.

Notwithstanding all of this however regional issues have returned to the political agenda, though now they can be found under the heading of “økismenning”. Økismenning was strongly proclaimed by the present government coalition, and two government reports have focussed on different geographical aspects of the regional problem (Økismenningarnevdin 2001; Útoyggjanevdin 2001). Until now, only some scattered direct regional policy initiatives have been undertaken e.g., placing a

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<sup>5</sup> The boom over the last few years has clearly put a pressure on the public sector to invest, particularly in the improvement of basic infrastructure.

social service school on Suðuroy and locating Ships Inspection on the island of Vágoy.

Even though no direct measures have been taken, it is obvious that the most profound regional effects are to be found in the distribution of the public service sector, i.e. social services, education and health. It is also in this respect that the word “økismenning” (regional development) gives meaning to “bygdamenning” (locality development). The locus of økismenning is not equally distributed “industrial development”; its locus is the regional distribution of the public sector. Moving public institutions out from the capital area to the regions is one strategy that finds broad support in the political system. In any case, the point is that there is still no declared regional policy or implementation strategy.

Another aspect of regional policy is the role of the municipalities. In the 1980s, many municipalities engaged heavily in industrial modernisation, and became deeply indebted. This may be the reason that the recently implemented law on the municipalities prevents the municipalities from direct engagement in economic affairs, and leaves business initiatives to private entrepreneurs only. This clearly has weakened the role of the municipalities in socio-economic development. Instead of discussing premises and conditions for the role of municipalities in socio economic development, rights and obligations have been reduced considerably.

A third part of regional policy is still manifest under the rubric of international relations, as the bloc grant from Denmark is still a considerable, though declining part of the public budget. A recent trend is the extended emphasis on international and inter-nordic cooperation, manifested by Nordic funds like NORA, the West Nordic Fund and programmes such as the Northern Periphery. These forms of international relations clearly have become more important in Faroese regional development.

To sum up, the present state of regional policy on the Faroes is – as always – a blurred one. Internal regional policy, which is the main objective of this paper, is only weakly embedded in existing sector policies, but strong in political discourse. This fact puts the focus on how regional policy intersects with recent local socio-economic development, and what kind of regional policy is important.

## Four cases of coping strategies

### Introduction

To see how regional policy intersects with recent socio economic development, this part of the paper presents four different local business initiatives, two each from Sandoy and Vágoy. They represent important examples of the diversification of the business structure on the Faroes. In this sense, they also represent innovative cases, in which both new ways of formal organization and networking as well as informal relations, play a crucial role. More concretely, the questions to be emphasized are , how did the initiatives came about, how were they implemented (i.e. their network practises), and what role has regional policy played in this?

### *LIDO Seafood*

LIDO Seafood is a recently built fish processing plant on the Faroes. It was erected in the village of Skálavík in 1997<sup>6</sup>, several years after the initial idea had germinated. The founder of the company is a true local, Linjon Jacobsen, now in his late 40s. He was born and grew up in the village, and as with many other children at that time, he chose to become a fisherman. He began his career as a coastal fisherman, but now has wide experience as a trawler captain.

His present job as a trawler captain in Royal Greenland is only his main occupation. The “two months on board and two months home” shift makes it possible to live in the village, to be its mayor for more than 10 years, and to become a local entrepreneur.

The idea behind LIDO-Seafood was the notion that fish-processing on the Faroes in the 1980s was a matter of semi-manufactured mass products. This plant is based on the need for diversified manufacturing of end-products. To do this, they combine more traditional industrial production, i.e. fillet-cutting, with the production of ready-made food. The idea of producing ready-made food is not new on the Faroes, but in practice there have only been a few scattered initiatives. LIDO Seafood intends to have a wider range of ready-made products, such as fish cakes and different fish soups. The reason behind the combination of traditional industrial fillet-cutting and diversified end-products are twofold. First, the cutting of fillets is the most valuable end-product available. Second, fillet-cutting generates much ”waste” (i.e. other parts of the fish not able to be turned into fillets). The remains from fillet-cutting are excellent for the

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<sup>6</sup> LIDO Seafood is located in the village of Skálavík on the eastern part of Sandoy. Skálavík is one of the older farmers’ villages which became a fisheries-dependent village in the first “transformation” after the turn of the last century. Most men in the village make a living as fishermen but, as in every Faroese village, people typically own a small plot of land on which they can have some sheep, cultivate potatoes and the like. Skálavík was hit hard by the 1992 crisis, and many families left the village to make a living abroad, particularly in Denmark. About 17 houses in the village were left empty. Today, the situation has been reversed. The general situation on the Faroes is better, and it also seems clear that the construction of Lido Seafood has created a new hope and self-confidence in the village. There are plans to construct a smolt station, and two younger families are working hard to revitalise agriculture in the village. Skálavík seems to be one of the places that manages, even though the situation may still be regarded as difficult.

production of ready-made food, so by combining these two forms of production, it is possible to utilize most parts of the fish. In fact, you have two factories within the same building which are physically separated in order to meet the highest standards of industrial production.

The construction of LIDO Seafood is an excellent example of how local and global linkages may intersect and supplement each other. The founder of the company clearly used his experience in the global market to see what he regarded as the mistakes of industrial production on the Faroes, and to create the idea of diversified end-production. Furthermore, knowledge of, and relations with, the international business community, have been crucial in establishing the company's connections to international markets. The founder's own personal and business relations were just as crucial for implementation. For example he had a friend, a construction engineer living in Denmark, who planned the construction of the building<sup>7</sup>. The erection of the building is a story of its own, as it was done "the old Faroese way". The old Faroese way is that people in the village joined together, and constructed the building as a group project. In this way, labour costs were kept to a minimum.

The main obstacle in the process of starting up this business was obtaining the finance needed, and this is the main reason that production began only in 2001.

Today, a Nordic fund – Útnorðurgrunnurin – finances the building, while a Faroese fund for developing the onshore fishing industry finances 30 percent of "recently invented" machinery, and a savings bank provides other loans and credits. An overall financial solution has however been extremely difficult to reach, and on several occasions net capital has had to be raised to meet new demands. The main obstacle centres on the fact that the banking system does not appear keen to finance projects in a relatively remote places like Skálavík, because as they are often regarded as simply too risky. The Faroese Investment Fund (Framtaksgrunnurin), which is the only bigger financial provider outside the banking system, also turned down an application from LIDO. The most disappointing part of this rejection was that this decision probably also prevented others, i.e. international investors, for coming in.

### ***Sandoy Seafood***

After having been closed down for five years, the two fish factories on Sandoy reopened in 1997. The reopening of these factories had a tremendous significance for the island, which clearly had been one of the most badly affected by the recession. The two factories reopened as one company, Sandoy Seafood. The division of labor is that the factory in the village of Skopun produces fresh fish products, while the factory in the village of Sandur produces salt fish. The reopening of these factories is part of a bigger and rather interesting story, which clearly represents a new way of thinking about industrial development on the Faroes.

The main initiators behind Sandoy Seafood are three individuals from Suðuroy, who in 1995 opened a small salt fish plant there – Delta Seafood (Holm and Mortensen forthcoming). They saw their opportunities in further development in Suðuroy as being exhausted, so, with advice, they started to look for opportunities in other areas on the Faroes. The share capital in the new company came from the initiators, a local investment fund in the village of Sandur, the labour unions in Skopun and the largest

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<sup>7</sup> The friend later became a partner in the project.

timber store on the Faroes, Havnar Timburhandil (HT)<sup>8</sup>. The last, and main part of the investment capital came from a pool, explicitly created by the Faroese parliament for development initiatives on Sandoy.

The most interesting story about Sandoy Seafood is not its production, as it is based on more traditional industrial forms. The traditional way to build a business on the Faroes has been through single industry companies, which typically are predominantly locally based, without any regional division of labour or networking. This was also the case on Sandoy during the 1970s and 1980s, as is illustrated by the strong competition between Skopun and Sandur to extend the base for their specific industries (Levinsen 1992). The organisation that Sandoy Seafood is part of is very different, as it was created by “outsiders”, and is part of an innovative “network concern” that touches several parts of the Faroes, though it remains a vital part of the regional business structure on Sandoy.

Being part of a national “network of companies” means that they are developing along multiple lines, with the first company – Delta – as the lead company. The production base is in traditional processing, i.e. salt fish and fillets, and they invest in vessels that operate from the localities in which they have their industrial operations. Within the context of this more traditional form of production, co-operation with other companies, for instance to buy fish, has become a normal procedure. Delta and Sandoy Seafood plan however to diversify into the aquaculture business as a way of extending their business and minimising risks. Further, they intend to innovate by focussing on the value of fish remaining from the traditional filleting process e.g., through biochemical production. They have started a number of research-oriented projects, for which they have managed to attain limited financial support, but otherwise finance by using their own credits or assets. Networking is a crucial element in their innovative practices. For instance, they cooperate with coastal fishermen and a fillet plant on the northern islands in order to find practical ways in which to prepare fish entrails for industrial production.

The Delta organization, in cooperation with others, started a company in the village of Lórvík, in the northeastern part of the Faroes, drying the heads and backbones of the fish remaining from the filleting process for export to African countries, particularly Nigeria. A recent initiative is the foundation of a new company for micro-biological production, in which the Delta-concern is a main initiator. This is a project that also involves international actors. On the other hand, Delta is now also an international investor, as they recently invested in an Icelandic industrial plant.

In sum, the Delta structure makes for a complicated organisational scheme that over the last few years has nevertheless managed to span most parts of the Faroes. Characteristic of this structure is the organisation in smaller relatively independent units structured in a network of companies. One interesting characteristic is that all of the people involved have had undergone higher education, which is in actual fact a new element in Faroese industrial production. As such, one should note that the knowledge of each others existence, both through their educational links and their

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<sup>8</sup> HT also had a branch in Sandoy, and were therefore clearly interested in getting the local economy going again. They have however now sold their shares to the first promoters.

practical experience of working in the Faroese semi-periphery, are not altogether unimportant for their choice of action.

The story of Sandoy Seafood cannot be understood unless it is connected to the more general strategy of Delta Seafood. But the establishment of Sandoy Seafood is also closely connected to one direct policy initiative, which is the pool made of development initiatives on Sandoy. What the story of Sandoy Seafood actually shows is that capital is merely an input that needs to be activated by strategic social action to be productive<sup>9</sup>. For three years, the pool for investments in Sandoy was left untouched until these entrepreneurs entered the marketplace. Despite being outsiders, the promoters were immediately accepted, something that can partially be explained by the total stagnation of Sandoy. But, from the beginning, the promoters also emphasized the importance of having local support for the project. They have cooperated with the labor unions, municipal authorities and other local interests, a move that has clearly been productive for all parties concerned. What the story of Sandoy Seafood also shows is that though they were a nationally oriented company, with strong international linkages, this can clearly be united with local embedding.

One obvious strength seems to be that the network of companies makes Sandoy Seafood both an “independent” unit, i.e. with its own decision making structures, but also a part of a larger, innovative structure. Locally, this means that you attain acceptance and legitimacy, while it is still possible to extend operations nationally. One reason seems to be that you do not drain resources (fish or assets) out of the company and the region, but instead concentrates on opportunities in other fields and other parts of the Faroes.

### ***Oilwind***

The Oilwind company in the village of Miðvágur has a long and very interesting history of development. A local blacksmith began the company in 1910, and together with his son, they slowly improved their small scale business. The beginning of the present modernised, innovative company started in 1957, when the son of the blacksmith and his own son, started a new company, focussing mainly on developing and manufacturing equipment and machinery for the fishing industry on the Faroes. Over the years, they have slowly but steadily improved their operations, both on the Faroese market and internationally. Today they operate in many parts of the world.

In 1973 a large building was constructed in the home village of Miðvágur, which is still the operating centre of the company. The company has a wide variety of products, illustrated in one of their posters as a company that produces everything from “from spades ... to high technology computerized equipment”.

Even though it is not their main activity, the best known product from Oilwind is the jigging machine. The jigging machine was their first successful innovation back in 1957. At that time, they were able to make a competitive, though traditional product. In the 1960s they improved the machine with oil pressure, and in 1980 they were able to provide the first fully automatised jigging machine. This machine has improved greatly over the years, and today it is a highly computerised, fully automatic fishing

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<sup>9</sup> Also in this case the transport refund was seen as an important policy tool for the company’s ability to be competitive at the fishery markets.

tool, driven by electricity. The Oilwind jigging machine is sold today to Alaska, the US west coast, Chile, Russia and around the North Atlantic.

The development of the first jigging machine, particularly the experiences with oil pressure, made it possible to expand into other areas of the fishing industry: winches, windlashes, net drums, hydraulic systems, and the like. Producing and installing different types of hydraulic systems is their main activity, and they make all the parts of the systems themselves: From the drawing board, to the engineering shop and thence to installation

The flexible organisation of the company is reflected in the great variety of products, which again is a clear advantage in handling market changes. As a very innovative company, they not only manage to improve existing products, but have also expanded into other areas. Another example of the first type of innovation is the development of an automatic feeding system for the emerging aquacultural industry on the Faroes. An example of the second type of innovation is a computerised control system linking trawl and winches, which makes the towing and hauling process – and thereby also the catches - more efficient.

The success of this family company cannot to be explained by any single factor, but a few main explanations are conspicuous. Important to note is the significance of learning capabilities within the company. Repair and maintenance were the main activities from the very start in 1910, and the company has managed to utilise these activities to build up and accumulate impressive expertise, both within the fishing industry, and elsewhere. One main reason for this is that the company has had the advantage of having both an entrepreneur and an inventor in one and the same person, a heritage that seems to have been passed on from generation to generation. Another advantage is that the potential of the company makes it an exciting workplace, thus making it relatively easy to recruit stable and knowledgeable personnel. This is clearly another precondition for its internal flexibility and product variety.

The local milieu also plays an important role in the evolution of the company. Normally, a micro-society such as the Faroes experiences a small home market as a disadvantage, as products cannot be fully tested locally before they enter the international marketplace. This is not the case here. The fisheries sector is the main occupation on the Faroes, and the diversity of small scale and large scale operations, as well as variations in the kinds of fisheries and in the style and size of company, produce a large, diversified home market for a company such as Oilwind. In particular, the local fishermen have been an important source of knowledge in improving and testing products before they go out internationally. They can test products, criticize them, and provide information on their improvement, as has been the case with the jigging reel.

Co-operation with other Faroese companies is now a further alternative for improving products and product variety. Several companies on the Faroes have become highly specialised in other segments within the fisheries sector. This can provide a basis for the supply not only of single products, but of concepts as well. One such example of this are the cooperative plans to offer as packages, complete and ultra-modern concepts for small scale fishing boats, plans that also involve international partners. Another example is the cooperation with other service companies on the Faroes to

provide total solutions for the repair of ships, for instance a combination of painting, trawls, electrical and hydraulic repair, solutions which the single companies can not provide themselves, but clearly, grouped together, they may find it easier to obtain contracts. These kinds of national and international networking have evolved over the last decade, and in these kinds of networking there is clearly a potential for furthering innovation.

Does regional policy play a role in the success of this company? In the broadest sense of the word it clearly does. The extension of infrastructure and the policy of “bygdmenning” clearly made a decentralized industrial structure possible. And this decentralization is a precondition for a company like Oilwind, which is very much dependent on local knowledge. This fact was recognisable during the crisis in the 1990s, with closures in the industry, and boats forced to leave the area. During this period of course work and knowledge also left. Direct regional policy does not play a role in the development of the company and, generally speaking, they miss more public attention on developing the knowledge structure of the Faroes. In 1993 Oilwind started to cooperate with the development institution “Menningarstovan”, whose work is oriented towards marketing campaigns and the like. They have also had some minor support from an industrial development fund. Otherwise, the financing of research and development has come mainly from their own assets or credit.

### ***Kovin***

In 1980, Kovin was started in the village of Sandavágur. The aim was to produce canned food from fish remains, such as roe and liver. It started as a village company in cooperation with the export company, Faroe Seafood. But the company has had difficulties from its inception. It went bankrupt in 1985, and reorganised in 1986. It had to be restructured again in 1993, and from this period on, has been fully owned by the locally based timber store, “Sandavágs Timburhandil”. The timber store is owned by a local entrepreneur who became interested in making Kovin into a profitable business. The years since have been difficult, but over a longer period, they have now managed to have stable work for seven workers over at least three quarters of the year.

Today, their most important product is canned shrimp, while cod roe comes second. They also produce canned salmon, and since the situation is more stable now, they have plans to innovate with production by starting the production of patés. Since all fisheries production on the Faroes is about cold processing, and Kovin’s processing is about warming up the meat, Kovin does not feel they have any natural business partner on the Faroes.

The main problem for the company is a lack of theoretical knowledge, for instance a lack of biochemical expertise. This fact, and the international markets they are operating in, make international business relations important for their survival. Contacts with Iceland have been particularly promising. In cooperation with one Icelandic contact and another more traditional Faroese fish processing company, they have initiated a project to have a factory for canned liver aboard a fishing boat. Sales go through the company, “Iceland Water”, but over the last two or three years, Kovin has also made their own contract with the German ALDI concern.

They do not have many national ties, but support from the national office for biological analysis, Heilsufrøðiliga Starvsstovan, has helped improve shrimp products. In the mid-nineties, they also managed to attain support from a national fund which supports new forms of production, for a new line of canned shrimps. In addition, they received a percentage refund on wages paid for three years of shrimp production.

The role of “regional policy” for Kovin’s development was minimal. Though they have however benefitted somewhat from the transport refund that makes distance a less competitive element in industrial production. In general, they do not have much contact with the national institutional system. On the other hand, they do appreciate the support given by the local municipality.

### **Summing up**

The four cases described above are all interesting coping strategies in their own respect, but together they illustrate two central aspects of modern economic life in the Faroese semi-periphery. First, they are illustrations of how local companies with relatively scarce conventional assets use social assets such as networking and traditional “rural” lifestyles as a way to overcome obstacles in building up their companies in the face of global competition. Networking is not a new phenomenon, but its recent importance as a strategic component in industrial development is striking. It is telling that all of the companies described here have relatively clear strategies for their own survival, product differentiation, innovation, and their own marketing, which are elements quite different from the industrial structure on the Faroes only a decade ago. With the exception of Oilwind, these companies have either been established after the 1992 economic crisis, or are older small businesses which have moved towards diversification. Other research into Faroese business structures indicates that these kinds of innovative network practises connecting the local and global, with a focus on organisational and product innovations, are of recent vintage (Apostle et. al. forthcoming).

Second, with a few exceptions, the cases illustrate that direct regional policy is not a crucial issue for the development of these companies. This is not to argue that regional policy does not play a role at all. What it means is that regional policy in a broad sense, has had a positive influence on Faroese business structures, as we can now see that this policy has clearly been a precondition for modernising territorial life on the Faroes. It shows that territorial contexts are crucial assets for business development, as is argued in much of the international business literature (Stohr 1992; Storper 1997).

It is still difficult to say whether the cases described in this and other work at the Centre for Local and Regional Development, illustrate the birth of a really new paradigm. However, it is striking how much networking beyond the localities means for company strategies. At the same time, local contexts maintain their strategic importance. The remaining question therefore is what kind of networking – or social capital building - is important for these businesses to develop, and in particular what role regional policy could play in this. These questions are the focus of the last part of this paper.

## **Discussion: The new business sector, social capital and regional policy**

### **Introduction**

The small scale initiatives outlined in this paper can be seen as cases of "coping-strategies", as they are all instances of innovation, networking and the creation of tradition and identity in the local contexts under study. Network activities, which we particularly emphasize here, are crucial to the creation of social capital, as social capital is

"... the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition."  
(Bourdieu and Wacquant, 1992: 119)

All the cases described in this paper show that the network activities of individuals and groups involved in these coping-strategies are of special relevance to their success. Social capital, hence network activities, does not necessarily produce a positive outcome (Woolcock, 1998), but these cases exemplify the fact that the disadvantages of marginality can be forestalled by using specific forms of networking. Networking, therefore, is crucial for regional development.

The main issue to be discussed in this section is whether, how and why regional policy supports the emergence of a small scale business sector on the Faroes. In particular, we will look at the kind of networking activities that are important for the initiatives described. The closing section briefly discusses some of the policy implications that can be learned from these cases.

### **The "new" business sector, social capital and regional policy**

The emerging network economy on the Faroes can be witnessed by the fact that all the companies in this investigation, besides their local linkages, attach considerable importance to both global and national networking. I will briefly discuss the main threads in these three forms of networking.

In all of the selected cases local networking is of crucial importance. These networks are "free" assets which the companies can use as a "comparative advantage" in the creation of their strategies. This ranges from Oilwind's reliance on local knowledge to the mobilisation of a whole village to construct an industrial plant for LIDO. Some people may expect a job or a working contract, and the municipality may expect an extended taxbase, but they do not expect benefits as a direct return. This is precisely the power of reciprocal interaction, which in these cases is very much based on shared local experiences (i.e. tradition). Local networking is thus an important source in creating local economic activity (Hovgaard 2001).

All four of the companies in this investigation place significant emphasis on developing direct linkages with other companies in the Faroes as a way of diversifying production. In other words, there seems to be a growing emphasis on creating "national networks" between companies, a trend also seen in other investigations of the Faroese economy (Apostle et. al., forthcoming). These networks seem to be crucial for both organisational and product innovations, particularly as exemplified in the cases of Oilwind and Sandoy Seafood. The strength of these

networks is that they create new specialised production, which a single company is not able to undertake by itself. These networks also create a flow or a structure of knowledge among the companies, which provides vital information for their business strategies.

International or global networks are vital in at least three ways. The first being contact with markets, and the second being specialised knowledge. Conspicuous in these forms of networking is the fact that they typically appear as the result of personal contacts and experiences, which the entrepreneurs themselves have built up as a part of their own life-trajectory: their education, their work in international companies and the like. All four companies in this investigation have benefited from experiences like this, and they see these linkages as vital for their own strategic performance. The third aspect is the role of Nordic institutions, as they seem to have had a significant importance for the development of these companies, which in itself indicates the growing importance of cross border regional policies.

The networking processes described here can be seen as instances of social capital, and these processes are vital to the creation of innovative changes in the social economy of the Faroes. Interestingly, the local contexts remain crucial, particularly the interrelations between the entrepreneur(s) and the local community, though the strategic importance of outside partners, references or actors has clearly risen in importance nonetheless.

One significant difference in the kinds of networks is that between so-called “formal” and “informal” linkages, and it is very clear that informal linkages and “weak ties” remain crucial for the survival of modern businesses. At the local level, these linkages are crucial for the daily running of these businesses, but also for the creation of a common identity inside the companies. The national network initiatives have typically also emerged through informal and reciprocal interaction among different parties. At the national level, a much needed professionalisation of institutional structures can be identified but, to some extent, the formal logic of these structures conflict with the different value systems and more informal logic that the small businesses represent. How these different kinds of logic will integrate in the future, and how the national supporting structures – or National System of Innovation – will evolve is of crucial importance for the future of a diversified business structure on the Faroes. We will not dwell on this issue here, but instead discuss how these forms of networking intersect with regional policies.

As shown in part two, regional issues on the discursive level play a crucial role in Faroese politics, and therefore they are difficult to separate concretely from sectoral policies. The policy of bygdmenning and the extension of the welfare state, both of which attempted to create equal forms of livelihood around the country, clearly have had a significant impact on the maintenance of a scattered settlement pattern. But these policies were embedded in a specific institutional structure, as was also shown in part two. The regional aspect of this kind of policy, therefore has been dependent on the capacity of certain interests to promote their locality/region on the national political scene. This is one aspect of “social capital”, but one in which the spatial distribution of wealth and resources was made possible by the “strong” influence from sectoral and local interests in a “weak” parliamentary structure (Schmid 1993).

Despite its obvious weaknesses, it is also clear that the regional “philosophy” has had a significant impact on the evolution of these companies. At the discursive level, it has been very difficult to distinguish between regional policy and the more traditional sector policy motives of political initiatives. But it is clear that the philosophy behind the policy of “bygdamenning” was, first of all, top-down oriented industrial modernisation. It is also clear that the new “philosophy” of økismenning, as was “bygdamenning”, is a top-down oriented policy for the distribution of public institutions. The problem is that neither of these kind of policies directly support the forms of social capital building that are the focus of this paper.

The kind of regional policies that could support these kinds of innovative businesses and their networking activities would typically be direct ones, but only two single initiatives in that direction have been detected in this work.

### **Some policy implications**

The last question that needs to be touched upon here is how regional policy can meet and support the processes of “social capital” building which are crucial for the evolution of a more diversified Faroese economy. This question can be further elaborated by outlining some of the problems in running the businesses discussed above.

First, there is a need to strengthen the national system of innovation. All of the companies concerned clearly had a need to improve their technological skills and knowledge of markets. Even though some national support structures of this kind exist, and the companies try to take advantage of them, they often find that the national system of innovation on the Faroes is rather weak (Jónsson 1995). Some of the companies have obtained support from different national sources, but these are relatively scattered, and only come with short-term goals in mind. There are as such no definitive conclusions available here in the context of the limited material available, though there is still a need to investigate further how the use and distribution of technology and knowledge can be further improved.

Another important issue is the financial structure on the Faroes. The financial structure is based on a conventional bank system, which makes only the central area (i.e. the capital area) an attractive place to obtain loans and credits at a reasonable level. This occurs despite the relatively small size of the country, and is something all the companies in this investigation have experienced, though in different ways. One obvious problem is that no development institutions exist for the direct support of new initiatives towards diversification. This is a problem that intensifies the further beyond the capital area one goes. This fact has made the two local savings banks on the Faroes crucial for local development in their respective areas (Mørkøre, Riabova and Skaptadóttir 1999; Hovgaard 2001). In Sandoy and Vágoy no such local provider of capital exists, and a solution to this problem is an important aspect of the further diversification of the Faroese economy.

The two islands of Vágoy and Sandoy are now growing again, as is the Faroese economy in general. Much of this is due to the application of local power, i.e. the ways in which local networks or supporting structures, informal as well as formal, have been crucial for their development. These structures extend from Oilwind’s relations with the local fishermen (who furnish them with the vital knowledge needed

to improve their products), to the willingness of the municipalities to meet the basic needs of these companies (basic infrastructure), and to the mobilisation involved in constructing a company such as LIDO. But it is clear that these internal structures are also constantly reformulated in a complicated interconnection with the outside connections. This mix of structures can be more or less dynamic, though there is clearly a need to further understand exactly how this process creates innovative practices, and to use these learning capabilities as a means to stimulate further coping strategies. This is *the* crucial challenge for further research and policy in this area.

## **Abstract**

This paper investigates the relationship between regional policy and local coping strategies in a Faroese context, and its main argument is that a networking economy is emerging on the Faroes. After a severe crisis at the beginning of the 1990s, local and regional development disappeared from the political agenda. But over the last 3 to 4 years, the old, locally-focussed philosophy of “bygdamenning” (locality development) has increasingly been replaced by an emerging “philosophy” of “økismenning” (regional development). I call these “philosophies”, as there is no defined regional policy on the Faroes. Nevertheless, local and regional issues are embedded in nearly all political decision making processes. The paper argues that local business initiatives are made workable through the recently evolving network practices (social capital building) of locally embedded firms, however these practices are only weakly embedded in national policy institutions. This tenuous connection raises fundamental questions over the intersection between social capital and national policy.

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